

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: February 20, 2020

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Economics (Bruce, Hudson)

Division of Accounting and Finance (Wilson, T. Brown)

Division of Engineering (Knoblauch, Lewis)

Office of the General Counsel (DuVal)

Handwritten initials and signatures: EJD, SH, [Signature], 924, MC, ALM, EK, CKL, PS, [Signature], MD, [Signature]

RE: Docket No. 20190114-WU – Application for staff-assisted rate case in Alachua County, and request for interim rate increase by Gator Waterworks, Inc.

AGENDA: 03/03/20 – Regular Agenda – Proposed Agency Action Except Issue Nos. 14, 15, and 16 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Clark

CRITICAL DATES: 10/12/20 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

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Case Background

Gator Waterworks, Inc. (Gator or utility) is a Class C utility serving approximately 331 residential water customers and 4 general service customers in Alachua County. The utility has never had a staff-assisted rate case before the Commission. According to Gator's 2018 annual report, total gross revenue was \$47,041 and total operating expense was \$80,178.

The utility began providing water service in 1965 under the name Kincaid Hills Water Company. On June 30, 1992, the Alachua County Board of County Commissioners adopted a resolution, which gave jurisdiction over the regulation of privately-owned water and wastewater utilities to this Commission. On November 18, 1992, Kincaid filed its application for an original certificate to provide water service in Alachua County under grandfather rights and Certificate No. 555-W was granted by Order No. PSC-93-1027-FOF-WU.¹ The utility's rates and charges were last approved in the grandfather certificate proceeding. However, the utility's rates have been amended through three price index increases.

Gator purchased Kincaid Hills Water Company on February 23, 2018, and filed an application for Transfer of Facilities and Certificate on March 12, 2018. By Order No. PSC-2018-0587-PAA-WU, (transfer order) the Commission approved the transfer.² On May 13, 2019, Gator filed its application for a staff-assisted rate case (SARC). In its application, the utility requested a test year ended March 31, 2019, for interim and final rate purposes. The Commission approved interim rates designed to generate a revenue increase of 37.42 percent.³

The Commission has jurisdiction pursuant to Sections 367.011, 367.081, 367.0812, 367.0814, 367.091 and 367.121, Florida Statutes (F.S.).

¹Order No. PSC-93-1027-FOF-WU, issued July 13, 1993, in Docket No. 19921195-WU, *In re: Application for certificate to provide water service in Alachua County under grandfather rights by Kincaid Hills Water Company.*

²Order No. PSC-2018-0587-PAA-WU, issued December 17, 2018, in Docket No. 20180066-WU; *In re: Application for transfer of facilities of Kincaid Hills Water Company and Water Certificate No. 555-W to Gator Waterworks, Inc.*

³Order No. PSC-2019-0307-PCO-WU, issued July 29, 2019, in Docket No. 20190114-WU, *In re: Application for staff-assisted rate case in Alachua County, and request for interim rate increase by Gator Waterworks, Inc.*

Discussion of Issues

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

Recommendation: Yes. The utility is in-compliance with the Department of Environmental Protection (DEP) and has been responsive to its customer complaints. Therefore, the quality of service provided by Gator should be considered satisfactory. (Lewis, Knoblauch)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission, in every rate case, shall make a determination of the quality of service provided by the utility by evaluating the quality of utility's product (water) and the utility's attempt to address customer satisfaction (water and wastewater). The Rule states that the most recent chemical analyses, outstanding citations, violations, and consent orders on file with the DEP and the county health department, along with any DEP and county health department officials' testimony concerning quality of service shall be considered. In addition, any customer testimony, comments, or complaints shall also be considered.

Quality of Utility's Product

In evaluation of Gator's product quality, staff reviewed the utility's compliance with the DEP 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. The most recent chemical analyses were performed on October 3, 2018, and the results were in-compliance with the DEP's standards. These chemical analyses are performed every three years; therefore, the next scheduled analysis should be completed in 2021.

The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the Commission's complaint records from January 2014 through January 2020. The Commission received six complaints from 2014 to 2017 while the utility was known as Kincaid Hills Water Company. During this time, DEP also received a total of four complaints with two occurring in 2014 and two occurring in 2017. In July 2014, the DEP received two complaints regarding low water pressure and chlorine residue. Both complaints were investigated and closed with no further action. One of the DEP complaints received in 2017 concerned lawn maintenance at the water treatment plant with the other concerning the placement of a meter on customer property. All of these complaints were received prior to the utility's transfer to Gator in December 2018. There have been no customer complaints received against the utility from 2018 through January 2020.

Gator reported that it had received 89 customer complaints from 2014 through 2019. The utility stated that the majority of the calls were concerning low pressure or no water due to line breaks. The low pressure calls were prior to the completion of the water plant rehabilitation projects. The water treatment plant, wells, and tanks were deteriorated and needed to be replaced. In addition, numerous complaints concerned line breaks, which have been repaired. As a result of these repairs, the utility states that the water pressure issues have subsided.

Staff held a customer meeting on November 13, 2019 at the Headquarters Branch Library. Four customers attended and three spoke. One customer acknowledged his satisfaction with the decrease in service outages while two customers were dissatisfied with the proposed increase in

the water rates. The Commission has not received any additional customer complaints or concerns through January 31, 2020.

Conclusion:

The utility is in-compliance with DEP and has been responsive to its customer complaints. Therefore, the quality of service provided by Gator should be considered satisfactory.

Issue 2: Are the infrastructure and operating conditions of Gator's water system in compliance with DEP regulations?

Recommendation: Yes. The utility's water treatment facility is currently in-compliance with DEP regulations. (Knoblauch, Lewis)

Staff Analysis: Rule 25-30.225(2), F.A.C., requires each water utility to maintain and operate its plant and facilities by employing qualified operators in accordance with the rules of the DEP. Rule 25-30.433(2), F.A.C., requires consideration of whether the infrastructure and operating conditions of the plant and facilities are in compliance with Rule 25-30.225, F.A.C. In making this determination, the Commission must consider any testimony of the DEP and county health department officials, sanitary surveys, citations, violations, and consent orders issued to the utility, customer testimony, comments, and complaints, and utility testimony and responses to the aforementioned items.

Water System Operating Conditions

Gator's water system has a design capacity of 236,400 gallons per day (gpd). The utility's water system has two wells with a combined pumping capacity of 400 gallons per minute (gpm). On October 3, 2018, the utility was issued a permit from the DEP for removal of the existing storage and hydro-pneumatic tanks, and installation of a new 5,000 gallon capacity hydro-pneumatic tank. Additionally, the site piping and appurtenances were replaced, along with the utility's emergency generator. Staff reviewed Gator's sanitary surveys conducted by the DEP to determine the utility's overall water facility compliance. A review of the inspection conducted on July 24, 2019, indicated that Gator's water treatment facility was in compliance with the DEP's rules and regulations.

Conclusion

Gator's water treatment facility is currently in compliance with DEP regulations.

Issue 3: What are the used and useful (U&U) percentages of Gator's water treatment plant (WTP) and water distribution system?

Recommendation: Staff recommends that Gator's WTP and water distribution system be considered 100 percent U&U. There appears to be no excessive unaccounted for water (EUW); therefore, staff recommends that no adjustment be made to operating expenses for chemicals and purchased power. (Knoblauch, Lewis)

Staff Analysis: Gator's WTP has two wells rated at a combined 400 gpm. The utility's water system does not have a storage tank, but has one hydro-pneumatic tank totaling 5,000 gallons in capacity. The distribution system is composed of varying sizes, from 2 to 6 inch, polyvinyl chloride (PVC) and asbestos cement (AC) pipes.

Water Treatment Plant Used and Useful

This is the utility's first staff-assisted rate case since receiving its grandfather certificate in 1993.⁴ Therefore, this is the first determination of used and useful percentages by the Commission.

Rule 25-30.4325, F.A.C., addresses the method by which the U&U of a water system is determined. The formula for calculating U&U for the WTP is given by $[2 \times (\text{Maximum Day Peak Demand} - \text{EUW}) / 1,440 + \text{Fire Flow} + \text{Growth}] / \text{Firm Reliable Capacity}$. Peak demand is based on a peak hour for a water treatment system with no storage capacity. The formula for calculating peak hour demand is given by $[(\text{SMD} - \text{EUW}) / 1,440] \times 2$, where SMD is the single maximum day in the test year where there is no unusual occurrence on that day, such as a fire or line break. Based on the Monthly Operating Reports that the utility files with the DEP, the SMD in the test year was 191,150 gpd. As discussed below, there appears to be no EUW. Therefore, the peak hour demand is calculated to be 265 gpm $[(191,150 \text{ gpd} - 0) / 1,440] \times 2$.

The utility does not currently own any fire hydrants; consequently, there is no Fire Flow.⁵ Growth allowance is based on the requirements outlined in Rule 25-30.431, F.A.C., which states that a linear regression analysis using average equivalent residential connections (ERCs) for the last 5 years should be used to determine growth. Staff attempted to obtain ERC data for the period of 2014-2018; however, no data was available for 2017. Instead, staff utilized data from 2013-2016 and 2018 to perform a linear regression over 5 years, and the growth was calculated to be 14 gpm. Firm Reliable Capacity assumes loss of the largest capacity well (250 gpm) and is therefore 150 gpm. This calculation results in a U&U greater than 100 percent; as such, staff recommends the WTP be considered 100 percent U&U.

Excessive Unaccounted for Water

Rule 25-30.4325, F.A.C., defines EUW as "unaccounted for water in excess of 10 percent of the amount produced." Unaccounted for water is all water produced that is not sold, metered, or accounted for in the records of the utility. In determining whether adjustments to plant and operating expenses are necessary in accordance with Rule 25-30.4325(10), F.A.C., staff considers several factors. These include (1) the causes of EUW, (2) any corrective action taken, or (3) the economical feasibility of a proposed solution. EUW is calculated by subtracting both

⁴Order No. PSC-93-1027-FOF-WU, issued July 13, 1993, in Docket No. 19921195-WU, *In re: Application for certificate to provide water service in Alachua County under grandfather rights by Kincaid Hills Water Company.*

⁵New fire hydrants discussed in Issue 4.

the gallons sold to customers and the gallons used for other services, such as flushing, from the total gallons pumped for the test year.

The Monthly Operating Reports indicate that the utility pumped 39,264,456 gallons during the test year. In response to a staff data request, the utility indicated that it purchased no water and estimated 9,637,134 gallons for other uses, such as flushing or water line breaks, during the test year. According to the billing data, the utility sold 25,735,000 gallons of water for the test year. When both the gallons sold and water used for other uses is subtracted from the total gallons pumped, 3,892,322 gallons are unaccounted for. The formula for unaccounted for water is given by [gallons of unaccounted for water / (total gallons pumped + gallons purchased)]. The resulting unaccounted for water is 9.9 percent; therefore, there is no excessive unaccounted for water. Accordingly, staff recommends no adjustment to purchased power and chemical expenses due to EUW.

Water Distribution System Used and Useful

The water distribution system is evaluated based on ERCs consisting of growth, customer demand, and system capacity. The customer demand is 335 ERCs for the test year and the system capacity is 365 ERCs, resulting in a U&U percentage of 92 percent for the distribution system. However, the utility provided that there are only four vacant lots in the service territory; thus, the system is virtually built out. Considering all of the water mains are required to adequately serve the existing customers, and consistent with prior Commission practice, staff recommends the distribution system be considered 100 percent U&U.⁶

Conclusion

Staff recommends that Gator's WTP and water distribution system be considered 100 percent U&U. There appears to be no EUW; therefore, staff recommends that no adjustment be made to operating expenses for chemicals and purchased power.

⁶Order No. PSC-98-1269-FOF-WS, issued September 24, 1998, in Docket No. 19971401-WS, *In re: Application for staff-assisted rate case in Bay County by Bayside Utilities, Inc.*
Order No. PSC-11-0345-PAA-WS, issued August 16, 2011, in Docket No. 20100359-WS, *In re: Application for staff-assisted rate case in Volusia County by Tymber Creek Utilities, Incorporated.*

Issue 4: Should the Commission approve a year-end rate base for Gator and if so, what is the appropriate year-end rate base?

Recommendation: Yes. The Commission should approve a year-end rate base for Gator. The appropriate year-end test year rate base is \$548,722. (Wilson, T. Brown, Knoblauch)

Staff Analysis: The appropriate components of a utility's rate base include utility plant in service, contributions in aid of construction (CIAC), accumulated depreciation, amortization of CIAC, and working capital. This utility has never had a SARC before the Commission. The utility's rates, charges, and customer deposits were approved in the original grandfather certificate in 1993.⁷ The rates were subsequently amended through three price index increases. The utility requested the test year ended March 31, 2019, for the instant case. Commission audit staff determined that the utility's books and records are in compliance with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA). A summary of each component of rate base and staff's 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 significant capital improvements that were made during the test year to install a new well and make additional plant improvements to address water quality concerns. In the transfer order, the Commission approved net utility plant in service in the amount of \$92,804, and total rate base of \$63,321. In the utility's 2018 annual report, Gator reported total plant in service of \$466,889 and net plant of \$205,755. This represents an increase in net plant in service of more than 120 percent. Subsequent to the acquisition of the utility, Gator made substantial improvements to the water system. The utility repaired numerous water main breaks over the past year totaling over \$67,000 to date. In addition, during 2018, Gator replaced over 250 meters that were inoperable at a cost of over \$40,000. If an average rate base is used, the utility will not be afforded the opportunity to recover its allowed rate of return on the new investment and will 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. Following the recent transfer of the utility, Gator stated that the water system was in immediate need of repairs. A complete rehabilitation of the existing WTP was completed, which included a new hydro-pneumatic tank, generator, well pump, disinfection system, disinfection shed, storage unit, and supply mains. The year-end rate base will provide the utility with an opportunity to recover the investment made to improve water quality and provide for compensatory rates for this utility in this rate case. The Commission has previously authorized

⁷Order No. PSC-93-1027-FOF-WU, issued July 13, 1993, in Docket No. 19921195-WU, *In re: Application for certificate to provide water service in Alachua County under grandfather rights by Kincaid Hills Water Company.*

⁸*See, Citizens of Florida v. Hawkins*, 356 So. 2d 254, (Fla 1978).; also *Miami V. Florida Public Service Commission*, 208 So. 2d 249 (Fla. 1968).

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 rate base for Gator.

Utility Plant in Service (UPIS)

The utility recorded a test year UPIS balance of \$468,703. Based on audit staff's review of the utility's books and records, no adjustments were necessary to reflect the appropriate UPIS test year balances. However, the utility also filed three separate requests for consideration of pro forma plant in this docket. The first project, included with the utility's initial filing, totaled \$158,790 for a rehabilitation and replacement project of the water treatment plant. The utility provided staff with invoices. The second, filed on July 29, 2019, was for the replacement of water mains on two of the streets in the service territory that have experienced a high number of leaks and the addition of three new fire hydrants for added fire protection for the customers. The utility received three bid proposals for the project, and the bid with the lowest cost of \$204,650 was selected. The third request, dated September 23, 2019, was for \$13,204 related to emergency repairs. The utility provided staff with invoices for the repairs. In total, Gator has requested recovery of \$376,644 (\$158,790 + \$204,650 + \$13,204) in pro forma plant in this docket.

Staff calculated pro forma plant retirements based on Commission practice that a factor of 75 percent of replacement cost be used for retirements. Staff believes the amount of retirement to plant in service and accumulated depreciation reflected in the adjusted test year should be calculated based on either the 75 percent methodology or on the actual balance in the impacted plant in service account as of March 31, 2019, if that balance would be negative as a result of the 75 percent methodology. Therefore, when a retirement results in a negative plant balance, staff limited the retirement amount to the test year plant balance so there would be no negative plant. This situation occurred in five plant accounts in this docket, as reflected in Table 4-1 on the following page.

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*; 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.*, and Order No. PSC-2018-0553-PAA-WU, issued November 19, 2018, in Docket No. 20180021-WU, *In re: Application for staff-assisted rate case in Highlands County by Country Walk Utilities, Inc.*

**Table 4-1
 Capped Pro Forma Plant Retirements**

Plant Account	Staff Calculated Retirement	TY Plant Balance	Difference
304	\$35,566	\$12,500	(\$23,066)
309	\$28,325	\$1,500	(\$26,825)
310	\$27,427	\$18,300	(\$9,127)
330	\$25,990	\$24,905	(\$1,085)
333	\$62,187	\$5,716	(\$56,471)

Source: Audit Report and staff calculations.

Table 4-2 reflects staff's recommended UPIS adjustments, by account.

**Table 4-2
 Pro Forma UPIS Adjustments**

Account	Pro Forma Plant	Pro Forma Retirement
304	\$47,422	\$12,500
307	1,980	1,485
309	37,766	1,500
310	36,569	18,300
311	639	479
320	400	300
330	34,653	24,905
331	123,893	92,920
333	82,916	5,716
334	656	492
335	<u>9,750</u>	<u>0</u>
Total	<u>\$376,644</u>	<u>\$158,597</u>

Staff also made corresponding adjustments to accumulated depreciation (elsewhere in this issue), while depreciation expense and TOTI adjustments for taxes related to pro forma plant are discussed in Issue 7. Staff's adjustments to UPIS result in a net increase of \$218,047 (\$376,644 - \$158,597). Therefore, staff recommends a UPIS balance of \$686,750 (\$468,703 + \$218,047).

Land & Land Rights

The utility recorded a test year land balance of \$8,000. The Commission approved a land balance of \$8,000 in the utility's 2018 transfer docket.¹⁰ There have been no additions to land since the

¹⁰Order No. PSC-2018-0587-PAA-WU, issued December 17, 2018, in Docket No. 20180066-WU, *In re: Application for transfer of facilities of Kincaid Hills Water Company and Water Certificate No. 555-W to Gator Waterworks, Inc.*

transfer; therefore, no adjustments are necessary. Staff recommends a land and land rights balance of \$8,000.

Used & Useful

As discussed in Issue 3, Gator’s WTP and distribution system are considered 100 percent U&U. Therefore, no U&U adjustments are necessary.

Accumulated Depreciation

Gator recorded a test year accumulated depreciation balance of \$265,341. Staff increased accumulated depreciation by \$167 to reflect depreciation pursuant to Rule 25-30.140, F.A.C. In addition, staff made adjustments to accumulated depreciation based on the pro forma plant recommended in UPIS. Like the capped retirements discussed above, staff believes pro forma accumulated depreciation adjustments should be limited to the actual account balance when the adjustment would exceed the accumulated depreciation balance as of March 31, 2019. This situation impacted the same five accounts discussed above, as reflected in Table 4-3 below.

**Table 4-3
 Capped Pro Forma Acc. Depreciation Adjustments**

Account	Staff Calculated Acc. Dep. Adj.	TY Acc. Dep. Balance
304	\$35,566	\$6,497
309	\$28,325	\$316
310	\$27,427	\$18,300
330	\$25,990	\$20,984
333	\$62,187	\$82

Source: Audit Report and staff calculations.

Table 4-4 reflects staff’s recommended accumulated depreciation adjustments, by account.

**Table 4-4
 Pro Forma Acc. Depreciation Adjustments**

Account	Recommended Acc. Dep. Adj.
304	\$6,497
307	1,485
309	316
310	18,300
311	479
320	300
330	20,984
331	92,920
333	82
334	492
335	(244)
Total	<u>\$141,611</u>

Staff's adjustments to accumulated depreciation result in a net decrease of \$141,444 (-\$167 + \$141,611). Therefore, staff recommends an accumulated depreciation balance of \$123,897 (\$265,341 - \$141,444).

Contribution in Aid of Construction (CIAC)

The utility recorded a test year CIAC balance of \$165,685. Based on staff's review, no adjustment is necessary. Therefore, staff recommends that the appropriate balance is \$165,685.

Accumulated Amortization of CIAC

The utility recorded a test year accumulated amortization of CIAC balance of \$134,990. Based on staff's review, accumulated amortization of CIAC should be reduced by \$686. Therefore, staff recommends that the appropriate balance is \$134,304 (\$134,990 - \$686).

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(3), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Section 367.081(9), F.S., prohibits a utility from earning a return on the unamortized balance of rate case expense. As such, staff removed the rate case expense balance of \$661 for this calculation resulting in an adjusted O&M expense balance of \$73,997 (\$74,658 - \$661). Applying this formula approach to the adjusted O&M expense balance, staff recommends a working capital allowance of \$9,250 (\$73,997/8).

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate year-end test year rate base is \$548,722. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

Issue 5: What is the appropriate return of equity and overall rate of return for Gator?

Recommendation: The appropriate return on equity (ROE) is 7.85 percent with a range of 6.85 percent to 8.85 percent. The appropriate overall rate of return is 7.85 percent. (Wilson, T. Brown)

Staff Analysis: Gator's capital structure consists of \$356,836 in common equity. The utility has no customer deposits. Audit staff determined that no test year adjustments were necessary. The utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE is 7.85 percent based upon the Commission-approved leverage formula currently in effect.¹¹ Staff recommends a ROE of 7.85 percent, with a range of 6.85 percent to 8.85 percent, and an overall rate of return of 7.85 percent. The ROE and overall rate of return are shown on Schedule No. 2.

¹¹Order No. PSC-2019-0267-PAA-WS, issued July 1, 2019, in Docket No. 20190006-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 6: What are the appropriate amounts of test year revenues for Gator's water system?

Recommendation: The appropriate test year revenues for Gator's water system are \$56,781. (Bruce)

Staff Analysis: Gator recorded test year revenues of \$56,351. The water revenues included \$51,833 of service revenues and \$4,518 of miscellaneous revenues. In order to determine the appropriate test year revenues, staff applied the number of billing determinants by the rates in effect as of January 4, 2019. As a result, staff determined that service revenues should be \$52,255, which is an increase of \$422.

Staff also made an adjustment to the miscellaneous revenues. During the test year, the utility incorrectly recorded the number of late payments. Therefore, staff increased miscellaneous revenues by \$8 for late payment charges to reflect miscellaneous revenues of \$4,526. Based on the above, the appropriate test year revenues for Gator's water system, including miscellaneous revenues are \$56,781 (\$52,255 + \$4,526).

Issue 7: What is the appropriate amount of operating expense for Gator?

Recommendation: The appropriate amount of operating expense for Gator is \$112,971. (Wilson, T. Brown, Knoblauch)

Staff Analysis: Gator recorded operating expense of \$89,965 for the test year ended March 31, 2019. The test year O&M expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. Staff has made a few adjustments to the utility's operating expenses as summarized below.

Operation & Maintenance Expense

Salaries and Wages – Officers (603)

The utility recorded salaries and wages – officers expense of \$5,000 in the test year to reflect the president's monthly salary of \$417. According to the utility's 2018 annual report, Gator's officers also include an accounting manager who does not receive a salary included in this amount. In addition, the utility indicated in audit work papers that the president only receives compensation through distribution of retained earnings if there are any net operating profits from operations that are not used for continuing operations or capital improvements. Staff made no adjustments to this account. As such, staff recommends salaries and wages – officers expense for the test year of \$5,000.

Purchased Power (615)

The utility recorded purchased power expense of \$12,923 in the test year. Supporting documentation confirming the purchased power expense was provided. Staff made no adjustments to this account. As such, staff recommends purchased power expense for the test year of \$12,293.

Chemicals Expense (618)

The utility recorded chemicals expense of \$669 in the test year. Supporting documentation confirming the chemicals expense was provided. Staff made no adjustments to this account. As such, staff recommends chemicals expense for the test year of \$669.

Contractual Services – Accounting (632)

The utility recorded contractual services – accounting expense of \$400. Supporting documentation confirming the accounting expense was used for preparing and filing the corporate tax preparation was provided. Staff made no adjustments to accounting expense. Therefore, staff recommends contractual services – accounting expense for the test year of \$400.

Contractual Services – Legal (633)

The utility recorded contractual services – legal expense of \$300 in the test year. Supporting documentation confirming the legal expense was provided. Staff made no adjustments to this account. As such, staff recommends contractual services – legal expense for the test year of \$300.

Contractual Services – Testing Expense (635)

The utility recorded contractual services – testing expense of \$157 in the test year. This expense only included notices for two boil water notices. Normal testing is included in the operations contract with U.S. Water Services Corporation (USWSC or U.S. Water). As a result, staff made

no adjustments. Staff recommends contractual services – testing expense for the test year of \$157.

Contractual Services - Other Expense (636)

During the test year, the utility recorded contractual services - other expense of \$49,732. Gator receives all of its operational and administrative services under a contract with an affiliated company, USWSC. Pursuant to the contract, Gator employed the services of USWSC to perform various functions: administrative management, operations, maintenance, and billing/collection for the utility. These include management and financial oversight, water system operations, maintenance, and customer service. The USWSC contract dated February 24, 2018, was originally in the amount of \$49,732. According to the utility, this contract amount has increased to \$50,906 as a result of an index increase.¹² This represents a known and measurable increase of \$1,174 (\$50,906 - \$49,732) over the amount included in the test year.

On August 9, 2019, Gator submitted documentation containing additional information related to its outside contractual services agreement with USWSC.¹³ According to Gator, USWSC currently operates in 60 of Florida's 67 counties, providing service to over 1,000 utility systems and services to over 1,000,000 customers daily. USWSC's president and majority shareholder has been in the water and wastewater utility management and operations industry for over 30 years. Gator contracts with USWSC for the following services:

1. Water Operations
2. Meter Reading
3. System Maintenance and Repairs
4. Billing and Collections
5. Customer Service
6. Regulatory Affairs
7. Testing
8. Accounting
9. Office Space and Equipment

According to Gator, each of the service contracts that USWSC enters into with a utility "are different and are priced differently depending on numerous factors."¹⁴ These factors include the number of employees needed and the number of hours required per system for successful operation. Additional considerations include whether USWSC provides chemicals, power, offices, vehicles, etc., or if these items are provided by the utility.

Staff notes that similar relationships currently exist for three other regulated utilities in Marion County; BFF Corp. (BFF), C.F.A.T. H2O, Inc. (CFAT), and Tradewinds Utilities, Inc. (Tradewinds). All have contractual service agreements with MIRA International, Inc. (MIRA). Their respective agreements cover similar services to those included in the agreement between Gator and USWSC. In addition to a relationship established by their contractual service agreements, the same individuals own the three utilities listed above and MIRA. As such, the relationship is similar to that of Gator and USWSC.

¹²Document No. 07317-2019, filed August 9, 2019, pg. 5.

¹³Document No. 07317-2019.

¹⁴Document No. 07317-2019, pg. 7.

As detailed in Table 7-1 below, based on the three most recent annual reports, CFAT has an average O&M expense of \$267.92 per ERC, and Tradewinds has an average O&M expense of \$215.60 per ERC. BFF is a wastewater only utility and is not included in staff's comparison below. Gator was not included in the table because only the 2018 Annual Report was available due to a recent change in ownership.

**Table 7-1
Comparable Water O&M Expense Per ERC**

Annual Report Year	CFAT (227 ERCs)	Tradewinds¹⁵ (616 ERCs)
2016	\$222.31	\$197.94
2017	\$278.85	\$239.02
2018	\$302.61	\$209.84
3-Year Average	\$267.92	\$215.60

Source: CFAT and Tradewinds 2016-2018 Annual Reports, staff calculations.

Under staff's proposed revenue requirement, Gator's O&M expense is \$213.31 per ERC. This proposed expense is 20.38 percent less than that of CFAT and 1.06 percent less than Tradewinds.

Additional support offered by Gator included the "2016 American Water Works Association Benchmarking Performance Indicators for Water and Wastewater" (AWWA Benchmark) and an independent third-party contract and benchmarking review commissioned by the Florida Governmental Utility Authority (FGUA), which was issued in 2013. According to the AWWA Benchmark, the median O&M expense per account of the 44 water companies surveyed is \$430.71, including customer service costs. This figure is 101.92 percent higher than the per ERC O&M expense (\$213.31) staff is recommending for Gator.

The contract and benchmarking review commissioned by FGUA was undertaken to review charges by USWSC in comparison to similar water and wastewater utilities throughout the United States. The FGUA study concluded that the USWSC costs on a per account basis fell within the top quartile (lower cost) of other utilities.¹⁶ These were charges to FGUA by USWSC. While the utility has represented that there was a flaw in the data presented in the 2013 study, staff's greater concern is the age of some of the underlying data, which can be tied to AWWA's 2011 Benchmarking Performance Indicators. As such, staff believes that the 2016 Benchmarking Performance Indicators are a more appropriate reference point.

In its filing, Gator asserted that if it was required to establish a stand-alone utility with personnel for maintenance, customer service, accounting, regulatory compliance, etc., the cost would exceed that of the current USWSC contract.¹⁷ As the utility noted in its supplemental filing, O&M expenses would be incurred regardless of the size of the customer base. In regard to the appropriateness of utility contracts with affiliated companies, the utility cited *GTE v. Deason*, 642 So. 2d 545 (Fla. 1994), in which the Florida Supreme Court stated:

The mere fact that a utility is doing business with an affiliate does not mean that unfair or excess profits are being generated, without more. Charles F. Phillips, Jr., *The Regulation of Public Utilities* 254-255 (1988). We believe the standard must

¹⁵Tradewinds is a Class B utility.

¹⁶Document No. 07317-2019, pg. 36.

¹⁷Document No. 07317-2019, pg. 7.

be whether the transactions exceed the going market rate or are otherwise inherently unfair . . . [i]f the answer is “no,” then the PSC may not reject the utility’s position.¹⁸

Staff compared Gator to six “sister” water utilities that had rate cases approved in the last five years, by calculating a three-year average O&M expense per ERC using information contained in each utility’s 2016, 2017, and 2018 Annual Reports.¹⁹ Staff then compared Gator to five non-U.S. Water affiliated water utilities using the same criteria. Based on that criteria, the average O&M expense per ERC of the sister utilities was \$331.47. The average O&M expense per ERC for the non-U.S. Water utilities was \$486.71. Gator would have O&M expense of \$213.31 per ERC under staff’s recommended revenue requirement. Table 7-2 reflects the O&M expense per ERC for Gator, and the average O&M expense per ERC for its U.S. Water sister utilities, and non-U.S. Water utilities.

Table 7-2
Water O&M Expense Per ERC

Utility	O&M Exp./ERC
U.S. Water Sister Utilities (3-Yr. Avg.)	\$331.47
Non-U.S. Water Utilities (3-Yr. Avg.)	\$486.71
Gator (Staff Recommended)	\$213.31

Source: 2016-2018 Annual Reports and staff calculations.

Based on staff’s review, Gator’s proposed expense is 35.65 percent less than that of the sister utilities and 56.17 percent less than that of the non-U.S. Water utilities.

Staff notes that the Commission has previously approved similar USWSC agreements and related costs in prior cases involving nine of Gator’s sister utilities during eleven rate case proceedings.²⁰ Two sister utilities, LP Waterworks, Inc. and Lakeside Waterworks, Inc., each had two SARCs in which this Commission reviewed and approved expenses related to USWSC

¹⁸Document No. 07317-2019, pg. 8.

¹⁹Pine Harbour Waterworks, Inc. was not used in staff’s calculations since three years of annual reports were not available.

²⁰Order 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.*; Order No. PSC-2018-0552-PAA-WU, issued November 19, 2018, in Docket No. 20180022-WU, *In re: Application for staff-assisted rate case in Lake County by Pine Harbour Waterworks, Inc.*; and Order No. PSC-2018-0553-PAA-WU, issued November 19, 2018, in Docket No. 20180021-WU, *In re: Application for staff-assisted rate case in Highlands County by Country Walk Utilities, Inc.*

management services contracts. In addition to this docket, two additional sister utilities with similar contracts have SARCs pending at this time,²¹ and a third has a file and suspend rate case pending.²²

In addition, staff believes that USWSC and its employees bring considerable management and operational experience at a comparably reasonable cost. As a result, staff believes that Gator's customers are realizing operational and cost benefits that might not be realized if the utility operated on a stand-alone basis. Staff notes that the utility, through its contract with USWSC, has made significant plant improvements that should result in improved quality of service.

Based on the discussion above, staff believes Gator's contractual services agreement with USWSC appears reasonable when compared to other utilities with similar agreements. The agreement also appears reasonable when compared to O&M expenses of industry peers as reflected in the AWWA Benchmark. Staff believes that Gator's USWSC contract is appropriate, the adjusted cost is reasonable, and should be included in the utility's proposed rates because it is known, measurable, and already in effect. Therefore, staff recommends contractual services - other expense for the test year of \$50,906

Insurance Expense (655)

The utility recorded insurance expense of \$1,256 in the test year. Staff increased this amount by \$251 to reflect the annualized expense to the utility. Therefore, staff recommends insurance expense for the test year of \$1,507 (\$1,256 + \$251).

Regulatory Commission Expense (665)

The utility did not record any regulatory commission expense in this account. Rule 25-30.433(9), F.A.C., requires that non-recurring expenses be amortized over a five-year period unless a shorter or longer period of time can be justified. Accordingly, staff increased this account by \$300 ($\$1,500 / 5$) to reflect the five-year amortization of the 2018 certificate transfer application filing fee.²³

Regarding the instant case, the utility is required by Rule 25-22.0407, F.A.C., to provide notices of the customer meeting and notices of final rates in this case to its customers. For noticing, staff estimated \$728 for postage expense, \$331 for printing expense, and \$66 for envelopes. This results in \$1,125 ($\$728 + \$331 + \66) for the noticing requirement. The utility paid a \$1,000 rate case filing fee. The utility requested travel and lodging expense of \$250 to attend the customer meeting and \$250 to attend the Commission Conference. Staff increased the utility's customer meeting travel expense by \$137 to reflect mileage and actual lodging cost for two utility employees to attend. This results in travel expense of \$387 ($\$250 + \137) for the customer meeting. Staff also reduced the cost of travel to attend the Commission Conference in order to reflect the actual cost of lodging for one employee and appropriate mileage.²⁴ Staff believes that the travel for the Commission Conference should be shared with Merritt Island Utility Company

²¹Docket No. 20190116-SU, *In re: Application for staff-assisted rate case in Brevard County, and request for interim rate increase by Merritt Island Utility Company*; and Docket No. 20190125-WS, *In re: Application for staff-assisted rate case in Sumter County by The Woods Utility Company*.

²²Docket No. 20190166-WS, *In re: Application for increase in water rates in Highlands County by HC Waterworks, Inc.*

²³Docket No. 20180066-WU, *In re: Application for transfer of facilities of Kincaid Hills Water Company and Water Certificate No. 555-W to Gator Waterworks, Inc.*

²⁴Document No. 00605-2020, filed January 28, 2020.

and The Woods Utility Company. The utilities are sister utilities of Gator which have SARCs scheduled for the same Commission Conference. As such, staff believes it is appropriate to split travel costs to the Commission Conference equally between the three utilities, or \$130 ($\$389 / 3$) per utility. This results in a reduction of \$120 ($\$130 - \250) for Gator's travel expense to the Commission Conference. As such, staff recommends travel expense of \$517 ($\$387 + \130). Staff notes that the Commission previously approved rate case related travel expenses ranging from \$413 to \$1,570 in the nine most recent dockets for Gator's sister utilities. Based on staff's review, the requested travel expense appears reasonable.

Based on the discussion above, staff recommends total rate case expense of \$2,642 ($\$1,125 + \$1,000 + \517), which amortized over four years is \$661. Based on the discussion above, staff's total adjustment to this account is an increase of \$961 ($\$300 + \661). As such, staff's recommendation for regulatory commission expense is \$961.

Bad Debt Expense (670)

The utility recorded \$5,404 in this account for test year bad debt expense, which equals 3.46 percent of staff's recommended revenue requirement. While Commission practice is to calculate bad debt expense using a three-year average, three years of records are not yet available for the current owners. The utility provided staff with updated bad debt expense of \$1,185 for the utility in 2019.²⁵ Generally, the basis for determining bad debt expense has been whether the amount is representative of the bad debt expense to be incurred by the utility. As such, staff believes the utility's updated 2019 bad debt expense is reasonable and is likely to be representative of the utility's expected bad debt expense going forward. This represents a decrease of \$4,219 ($\$1,185 - \$5,404$) over the amount included in the test year. The updated amount equals 0.76 percent of staff's recommended revenue requirement. Therefore, staff recommends bad debt expense for the test year of \$1,185.

Miscellaneous Expense (675)

The utility recorded miscellaneous expense of \$650. Supporting documentation confirming the miscellaneous expense was used for an annual operating license fee through the Florida Department of Environmental Protection and the utility's annual report was provided. Staff made no adjustments to this account. As such, staff recommends miscellaneous expense for the test year of \$650.

Operation & Maintenance Expense Summary

Based on the above adjustments, staff recommends that O&M expense be decreased by \$1,833, resulting in total O&M expense of \$74,658. Staff's recommended adjustments to O&M expense are shown on Schedule No. 3-C.

Depreciation Expense (Net of Amortization of CIAC)

The utility's records reflect test year depreciation of \$16,307 and CIAC amortization of \$6,788, for a net depreciation expense of \$9,519 ($\$16,307 - \$6,788$). Staff calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C., and determined test year depreciation expense to be \$16,334, resulting in an increase to this account of \$27. Staff also increased this account by \$7,106 to reflect the incremental increases in depreciation expense related to several pro forma projects, net of retirements. These projects were previously

²⁵Document No. 00801-2020, filed February 5, 2020.

discussed in Issue 4. Staff's total adjustment to depreciation expense is a net increase of \$7,133 (\$27 + \$7,106). Accordingly, staff recommends depreciation expense of \$23,440 (\$16,307 + \$7,133). In addition, staff calculated test year CIAC amortization expense of \$6,041. Accordingly, staff decreased this account by \$747 (\$6,788 - \$6,041). This results in net depreciation expense of \$17,399 (\$23,440 - \$6,041). Therefore, staff recommends net depreciation expense of \$17,399.

Taxes Other Than Income (TOTI)

Gator recorded a TOTI balance of \$3,955 during the test year, comprised of \$2,705 for Regulatory Assessment Fees (RAFs) and \$1,250 for property taxes. Staff decreased the RAFs by \$150 to reflect the adjusted test year revenues. Staff also decreased this account by \$416 to reflect the appropriate test year property taxes. The utility also requested consideration of pro forma taxes of \$10,032.²⁶ In 2018, Gator's property taxes were \$834 and no tangible taxes were assessed. Based on the utility's 2019 Alachua County tax notices,²⁷ Gator's property taxes will increase and tangible taxes will be applied. Staff increased tax expense by \$8,792 to reflect the appropriate amount of property tax going forward, based on the utility's current tax notices less a four percent discount for early payment. Additionally, staff increased this account by \$4,266 to reflect the incremental increase in property taxes associated with the pro forma projects discussed in Issue 4. This results in a net increase of \$12,492 (-\$150 - \$416 + \$8,792 + \$4,266) to TOTI.

In addition, as discussed in Issue 8, revenues have been increased by \$99,265 to reflect the change in revenue required to cover expenses and allow the recommended operating margin. As a result, TOTI should be increased by \$4,467 to reflect RAFs of 4.5 percent on the change in revenues. Staff's adjustments result in an increase of \$16,959 (\$12,492 + \$4,467). Therefore, staff recommends TOTI of \$20,914 (\$3,955 + \$16,959).

Income Tax

The utility is a Subchapter S Corporation and therefore did not record any income tax expense for the test year. Staff recommends no adjustment to income tax expense.

Operating Expenses Summary

The application of staff's recommended adjustments to Gator's test year operating expenses results in operating expenses of \$112,971. Operating expenses are shown on Schedule No. 3-A. The related adjustments are shown on Schedule Nos. 3-B and 3-C.

²⁶Document No. 08242-2019, filed on August 20, 2019 (2019 Alachua County TRIM Notices).

²⁷Document No. 10753-2019, filed on November 5, 2019 (2019 Alachua County Real Estate and Tangible Taxes Notices).

Issue 8: What is the appropriate revenue requirement for Gator?

Recommendation: The appropriate revenue requirement is \$156,046 resulting in an annual increase of \$99,265 (174.82 percent). (Wilson, T. Brown)

Staff Analysis: Gator should be allowed an annual increase of \$99,265 (174.82 percent). The calculations are shown in Table 8-1:

**Table 8-1
Revenue Requirement**

Adjusted Rate Base	\$548,722
Rate of Return (%)	x 7.85%
Return on Rate Base	\$43,075
Adjusted O&M Expense	74,658
Depreciation Expense (Net)	17,399
Taxes Other Than Income	20,914
Revenue Requirement	\$156,046
Less Adjusted Test Year Revenues	56,781
Annual Increase	<u>\$99,265</u>
Percent Increase	<u>174.82%</u>

Issue 9: What are the appropriate rate structures and rates for Gator's water system?

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

Furthermore, due to the magnitude of the revenue requirement increase, staff believes it is important to monitor whether the customers reduce consumption as expected. Therefore, staff recommends the utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed, and the revenues billed. The utility should also provide the corresponding purchased power invoices. The reports should be filed in the docket file, on a quarterly basis, for a period of twelve months beginning the first billing period after the approved rates go into effect. To the extent the utility makes adjustment to consumption in any month during the reporting period, the utility should be ordered to file a revised monthly report for that month within 30 days of any revision. Staff will monitor and evaluate whether any adjustments to rates are necessary. (Bruce)

Staff Analysis: Gator is located in Alachua County within the St. Johns River Water Management District. This area has been designated as a water use caution area (WUCA). The utility provides water service to approximately 331 residential customers and four general service customers. Approximately 20 percent of the residential customer bills during the test year had zero gallons, indicating a non-seasonal customer base. The average residential water demand is 6,181 gallons per month. The average water demand excluding zero gallon bills is 7,683 gallons per month. Currently, the utility's water rate structure consists of a monthly base facility charge (BFC) and uniform gallonage charge for the residential and general service customers.

Staff performed an analysis of the utility's billing data in order to evaluate the appropriate rate structure for the residential water customers. The goal of the evaluation was to select the rate design parameters that: (1) produce the recommended revenue requirement; (2) equitably distribute cost recovery among the utility's customers; (3) establish the appropriate non-discretionary usage threshold for restricting repression; and (4) implement, where appropriate, water conserving rate structures consistent with Commission practice.

In this case, staff recommends that 33 percent of the water revenues be generated from the BFC, which will provide sufficient revenues to design gallonage charges that send pricing signals to customers using above the non-discretionary level. The average people per household served by the water system is 3; therefore, based on the number of people per household, 50 gallons per day per person, and the number of days per month, the non-discretionary usage threshold should be 5,000 gallons per month.²⁸ Staff's review of the billing analysis indicates that the discretionary usage above 5,000 represents 30 percent of the bills, which account for approximately 53 percent of the water demand. This is considered high discretionary usage for this customer base. Staff also recommends a BFC and a four-tier inclining block rate structure,

²⁸ Average person per household was obtained from www.census.gov/quickfacts/alachuacountyflorida.

which includes separate gallonage charges for discretionary and non-discretionary usage for residential water customers. The rate blocks are: (1) 0-5,000 gallons; (2) 5,001-10,000 gallons; (3) 10,000-15,000 gallons and (4) all usage in excess of 15,000 gallons per month. This rate structure sends the appropriate pricing signals because it targets customers with high consumption levels and minimizes price increases for customers at non-discretionary levels. In addition, the fourth tier provides an additional pricing signal to customers using in excess of 15,000 gallons of water per month, which represents approximately 30 percent of the usage. General service customers should be billed a BFC and uniform gallonage charge.

Based on staff's recommended revenue increase of 190 percent, which excludes miscellaneous revenues, the residential consumption can be expected to decline by 12,681,000 gallons resulting in anticipated average residential demand of 3,065 gallons per month. Staff recommends a 50.4 percent reduction in test year residential gallons for ratesetting purposes. Typically, staff makes corresponding adjustments to variable costs, which are consistent with the percentage reduction in consumption. However, the utility expressed concern that there may not be a direct relationship between the consumption repressed and the adjustments to variable costs. Staff recognizes that the utility may experience a revenue short fall if there is not a direct relationship as anticipated. Therefore, staff recommends only a 25 percent reduction to purchased power and chemical expenses. As a result, the corresponding reductions for purchased power is \$3,184, \$165 for chemicals, and \$158 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$141,739.

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 the notice.

Furthermore, due to the magnitude of the revenue requirement increase, staff believes it is important to monitor whether the customers reduce consumption as expected. Therefore, staff recommends the utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed, and the revenues billed. The utility should also provide the corresponding purchased power invoices. The reports should be filed in the docket file, on a quarterly basis, for a period of twelve months beginning the first billing period after the approved rates go into effect. To the extent the utility makes adjustment to consumption in any month during the reporting period, the utility should be ordered to file a revised monthly report for that month within 30 days of any revision. Staff will monitor and evaluate whether any adjustments to rates are necessary.

Issue 10: What are the appropriate initial customer deposits for Gator's water system?

Recommendation: The appropriate initial customer deposit should be \$66 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 bill for water. 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. (Bruce)

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.²⁹ Currently, the utility's initial deposit for residential water is \$25 for the 5/8 inch x 3/4 inch meter size and two times the average estimated bill for the general service meter sizes. However, this amount does not cover two months' average bills based on staff's recommended rates. The utility's average monthly residential water usage after repression is 3,065 gallons per customer. Therefore, the average residential monthly bill based on staff's recommended rates is approximately \$32.90.

Staff recommends the appropriate initial customer deposits should be \$66 for the residential 5/8 inch x 3/4 inch meter size for water. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water. 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.

²⁹Order No. PSC-15-0142-PAA-SU, issued March 26, 2015, in Docket No. 20130178-SU, *In re: Application for staff-assisted rate case in Polk County by Crooked Lake Park Sewerage Company.*

Issue 11: Should Gator be authorized to collect Non-Sufficient Funds (NSF) charges?

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

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

1. \$25, if the face value does not exceed \$50.
2. \$30, if the face value exceeds \$50 but does not exceed \$300.
3. \$40, if the face value exceeds \$300, or 5 percent of the face amount of the check, whichever is greater.

Approval of NSF charges is consistent with prior Commission decisions.³⁰ Furthermore, NSF charges place the cost on the cost-causer, rather than requiring that the costs associated with the return of the NSF checks be spread across the general body of ratepayers. As such, staff recommends that Gator revise its tariffs to reflect the NSF charges currently set forth in Section 68.065, F.S. The NSF charges should be effective after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the NSF charges should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date the notice was given within 10 days of the date of the notice.

³⁰Order Nos. PSC-10-0364-TRF-WS, issued June 7, 2010, in Docket No. 100170-WS, *In re: Application for authority to collect non-sufficient funds charges, pursuant to Sections 68.065 and 832.08(5), F.S., by Pluris Wedgefield Inc.*; and PSC-10-0168-PAA-SU, issued March 23, 2010, in Docket No. 090182-SU, *In re: Application for increase in wastewater rates in Pasco County by Ni Florida, LLC.*

Issue 12: Should Gator'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. Gator 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. (Bruce)

Staff Analysis: Gator is requesting a \$6.50 late payment charge to recover the cost of labor, supplies, postage, and RAFs associated with processing late payment notices. Gator's current late payment charge is \$2.00. 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.³¹ 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.

Gator 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.³² However, \$8.07 would be the highest late payment charge amongst all other water and wastewater utilities regulated by the Commission.³³ Therefore, the utility is requesting a charge of \$6.50, consistent with recent Commission decisions. The utility's calculation for its actual costs associated with a late payment charge is shown in Table 12-1.

³¹Order 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.*

³²Order 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.*

³³Order 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 12-1
Late Payment Charge Cost Justification

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

Source: Utility's cost justification documentation

Based on the above, Gator'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 13: Should Gator's miscellaneous service charges be revised?

Recommendation: Yes. The miscellaneous service charges identified in Table 13-5 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. (Bruce)

Staff Analysis: Gator's current miscellaneous service charges were approved on July 13, 1993.³⁴ 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 companies LP and Country Walk.³⁵ The calculations for charges for miscellaneous service charges, shown in the tables below, are rounded to the nearest tenth. The utility's current and staff's recommended miscellaneous service charges are shown in Table 13-5.

Initial Connection Charge

The initial connection charge is levied for service initiation at a location where service did not exist previously. A Gator 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 Gator's water system of \$31.10 for normal hours and \$36.20 for after hours. Staff's calculations are shown below in Table 13-1.

**Table 13-1
 Initial Connection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$28/hr x 1/4hr)	\$7.00	Labor (Administrative) (\$28/hr x 1/4hr)	\$7.00
Labor (Field) (\$30.42/hr x 1/3 hr)	\$10.14	Labor (Field) (\$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

³⁴Order No. PSC-93-1027-FOF-WU, issued July 13, 1993, in Docket No. 921195-WU, *In re: Application for certificate to provide water service in Alachua County under grandfather rights by Kincaid Hills Water Company.*

³⁵Order Nos. PSC-2018-0553-PAA-WU, issued November 19, 2018, in Docket No. 20180021-WU, *In re: Application for staff-assisted rate case in Highlands County by Country Walk Utilities, Inc.*; 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.*

Normal Reconnection Charge

A normal reconnection charge is levied for the transfer of service subsequent to a customer requested disconnection. A normal reconnection requires two trips, which includes one to turn service on and the other to turn service off. Based on labor and transportation to and from the service territory, staff recommends normal reconnection charges for Gator’s water system of \$57.10 for normal hours and \$64.70 for after hours. Staff calculations are shown in Table 13-2.

**Table 13-2
 Normal Reconnection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$28/hr x 1/4hr x 2)	\$14.00	Labor (Administrative) (\$28/hr x 1/4hr)	\$14.00
Labor (Field) (\$30.42/hr x 1/4 hr x 2)	\$15.21	Labor (Field) (\$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

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 Gator’s water system of \$57.10 for normal hours and \$64.70 for after hours. Staff’s calculations are shown in Table 13-3.

**Table 13-3
 Violation Reconnection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$28/hr x 1/4hr x 2)	\$14.00	Labor (Administrative) (\$28/hr x 1/4hr x 2)	\$14.00
Labor (Field) (\$30.42/hr x 1/4 hr x 2)	\$15.21	Labor (Field) (\$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

Premises Visit Charge

The premises visit charge is levied when a service representative visits 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 a 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 charges of \$31.10 for normal hours and \$36.20 for after hours. Staff's calculations are shown in Table 13-4.

**Table 13-4
 Premises Visit Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$28.00/hr x 1/4hr)	\$7.00	Labor (Administrative) (\$28.00/hr x 1/4hr)	\$7.00
Labor (Field) (\$30.42/hr x 1/3 hr)	\$10.14	Labor (Field) (\$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

**Table 13-5
 Miscellaneous Service Charges**

	Current	Staff Recommended	
	Normal and After Hours	Normal Hours	After Hours
Initial Connection Charge	\$15.00	\$31.10	\$36.20
Normal Reconnection Charge	\$15.00	\$57.10	\$64.70
Violation Reconnection Charge	\$15.00	\$57.10	\$64.70
Premises Visit Charge	\$10.00	\$31.10	\$36.20

Conclusion

Based on the above, the miscellaneous service charges identified in Table 13-5 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.

Issue 14: What is the appropriate amount by which the rates should be reduced four years after the published effective date to reflect the removal of the amortized rate case expense?

Recommendation: The rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the rate case expense recovery period, pursuant to Section 367.081(8), F.S. Gator should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Bruce, Wilson, T. Brown) (Procedural Agency Action)

Staff Analysis: Section 367.081(8), F.S., requires that the rates be reduced immediately following the expiration of the recovery 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 and the gross-up for RAFs. The total reduction is \$692.

Staff recommends that the rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the rate case expense recovery period, pursuant to Section 367.081(8), F.S., Gator 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 published effective date to reflect the removal of the amortized rate case expense.

Issue 15: Should the recommended rates be approved for Gator 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. Gator 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. (Wilson, T. Brown) (Procedural Agency Action)

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

Gator should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$66,889. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

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

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

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

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

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

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

Should the recommended rates be approved by the Commission on a temporary basis, Gator 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 16: Should Gator be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision?

Recommendation: Yes. Gator should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Gator should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all applicable National Association of Regulatory Commissioners (NARUC) Uniform System of Accounts (USOA) primary accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice providing good cause should be filed not less than seven days prior to the deadline. Staff should be given administrative authority to grant such an extension for up to 60 days. (Wilson) (Procedural Agency Action)

Staff Analysis: Gator should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Gator should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA primary accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice providing good cause should be filed not less than seven days prior to the deadline. Staff should be given administrative authority to grant such an extension for up to 60 days.

Issue 17: 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 Proposed Agency Action Order, a consummating order should be issued. This docket should remain open for staff's verification that the revised tariff sheets and customer notices have been filed by the utility and approved by staff. Also, the docket should remain open to allow the utility to provide the recommended reporting information. Upon staff's approval of the tariff sheets and customer notices, along with staff's completion of its review of the recommended reporting information, this docket should be closed administratively if no adjustments are necessary. (DuVal)

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 Proposed Agency Action Order, a consummating order should be issued. This docket should remain open for staff's verification that the revised tariff sheets and customer notices have been filed by the utility and approved by staff. Also, the docket should remain open to allow the utility to provide the recommended reporting information. Upon staff's approval of the tariff sheets and customer notices, along with staff's completion of its review of the recommended reporting information, this docket should be closed administratively if no adjustments are necessary.

GATOR WATERWORKS, INC.		SCHEDULE NO. 1-A	
TEST YEAR ENDED 3/31/2019		DOCKET NO. 20190114-WU	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$468,703	\$218,047	\$686,750
LAND & LAND RIGHTS	8,000	0	8,000
NON-USED AND USEFUL COMPONENTS	0	0	0
CIAC	(165,685)	0	(165,685)
ACCUMULATED DEPRECIATION	(265,341)	141,444	(123,897)
AMORTIZATION OF CIAC	134,990	(686)	134,304
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>9,250</u>	<u>9,250</u>
WATER RATE BASE	<u>\$180,667</u>	<u>\$368,055</u>	<u>\$548,722</u>

GATOR WATERWORKS, INC.		SCHEDULE NO. 1-B
TEST YEAR ENDED 3/31/2019		DOCKET NO. 20190114-WU
ADJUSTMENTS TO RATE BASE		PAGE 1 OF 1
		<u>WATER</u>
<u>UTILITY PLANT IN SERVICE</u>		
1.	To reflect pro forma plant additions.	\$376,644
2.	To reflect pro forma plant retirements.	<u>(158,597)</u>
	Total	<u>\$218,047</u>
<u>ACCUMULATED DEPRECIATION</u>		
1.	To reflect audit adjustment to accumulated depreciation.	(\$167)
2.	To reflect pro forma meter replacements.	<u>141,611</u>
	Total	<u>\$141,444</u>
<u>AMORTIZATION OF CIAC</u>		
	To reflect audit adjustment.	<u>(\$686)</u>
<u>WORKING CAPITAL ALLOWANCE</u>		
	To reflect 1/8 of test year O & M expenses.	<u>\$9,250</u>

GATOR WATERWORKS, INC.				SCHEDULE NO. 2			
TEST YEAR ENDED 3/31/2019				DOCKET NO. 20190114-WU			
SCHEDULE OF CAPITAL STRUCTURE							
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	WEIGHTED COST
1. COMMON STOCK	\$122,500	\$0	\$122,500				
2. RETAINED EARNINGS	(33,137)	0	(33,137)				
3. PAID IN CAPITAL	267,473	0	267,473				
4. OTHER COMMON EQUITY	<u>0</u>	<u>0</u>	<u>0</u>				
TOTAL COMMON EQUITY	<u>\$356,836</u>	<u>\$0</u>	<u>356,836</u>	<u>\$191,866</u>	<u>\$548,722</u>	<u>100.00%</u>	7.85%
5. LONG-TERM DEBT	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%
6. SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%
7. PREFERRED STOCK	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>
TOTAL LONG-TERM DEBT	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	
8. CUSTOMER DEPOSITS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	2.00%
9. TOTAL	<u>\$356,836</u>	<u>\$0</u>	<u>\$356,836</u>	<u>\$191,866</u>	<u>\$548,722</u>	<u>100.00%</u>	0.00%
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>
RETURN ON EQUITY						<u>6.85%</u>	<u>8.85%</u>
OVERALL RATE OF RETURN						<u>6.85%</u>	<u>8.85%</u>

GATOR WATERWORKS, INC.			SCHEDULE NO. 3-A		
TEST YEAR ENDED 3/31/2019			DOCKET NO. 20190114-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>\$56,351</u>	<u>\$430</u>	<u>\$56,781</u>	<u>\$99,265</u> 174.82%	<u>\$156,046</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$76,491	(\$1,833)	\$74,658	\$0	\$74,658
3. DEPRECIATION EXPENSE (NET)	16,307	7,133	23,440	0	23,440
4. AMORTIZATION EXPENSE	(6,788)	747	(6,041)	0	(6,041)
5. TAXES OTHER THAN INCOME	3,955	12,492	16,447	4,467	20,914
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$89,965</u>	<u>\$18,539</u>	<u>\$108,504</u>	<u>\$4,467</u>	<u>\$112,971</u>
8. OPERATING INCOME/(LOSS)	<u>(\$33,614)</u>		<u>(\$51,723)</u>		<u>\$43,075</u>
9. WATER RATE BASE	<u>\$180,667</u>		<u>\$548,722</u>		<u>\$548,722</u>
10. RATE OF RETURN	<u>(18.61%)</u>		<u>(9.43%)</u>		<u>7.85%</u>

GATOR WATERWORKS, INC.		SCHEDULE NO. 3-B
TEST YEAR ENDED 3/31/2019		DOCKET NO. 20190114-WU
ADJUSTMENTS TO OPERATING INCOME		Page 1 of 1
		<u>WATER</u>
OPERATING REVENUES		
1.	To reflect test year revenues.	\$422
2.	To reflect miscellaneous revenues.	<u>\$8</u>
	Subtotal	<u>\$430</u>
OPERATION AND MAINTENANCE EXPENSES		
1.	Contractual Services - Other (636)	
	To reflect current USWSC contract amount.	<u>\$1,174</u>
2.	Insurance Expenses (655)	
	To reflect audit adjustment.	<u>\$251</u>
3.	Regulatory Commission Expense (665)	
	a. To reflect 5-year amortization of transfer filing fee.	\$300
	b. To reflect 4-year amortization of rate case expense (\$2,642/4).	<u>661</u>
	Subtotal	<u>\$961</u>
4.	Bad Debt Expense (670)	
	To reflect appropriate bad debt expense.	<u>(\$4,219)</u>
	TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>(\$1,833)</u>
DEPRECIATION EXPENSE		
1.	To reflect audit adjustment per Rule 25-30.140(2).	\$27
2.	To reflect pro forma plant additions (net of retirements).	<u>7,106</u>
	Total	<u>\$7,133</u>
AMORTIZATION		
	To reflect appropriate CIAC amortization expense.	<u>\$747</u>
TAXES OTHER THAN INCOME		
1.	To reflect the appropriate test year RAFs.	(\$150)
2.	To reflect the appropriate test year property taxes.	(416)
3.	To reflect property associated with pro forma plant.	4,266
4.	To reflect pro forma property taxes.	<u>8,792</u>
	Total	<u>\$12,492</u>
	INCOME TAX	<u>\$0</u>

GATOR WATERWORKS, INC.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 3/31/2019		DOCKET NO. 20190114-WU	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(603) SALARIES AND WAGES – OFFICERS	5,000	0	5,000
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	12,923	0	12,923
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	669	0	669
(620) MATERIALS AND SUPPLIES	0	0	0
(632) CONTRACTUAL SERVICES - ACCOUNTING	400	0	400
(633) CONTRACTUAL SERVICES – LEGAL	300	0	300
(635) CONTRACTUAL SERVICES - TESTING	157	0	157
(636) CONTRACTUAL SERVICES – OTHER	49,732	1,174	50,906
(640) RENTS	0	0	0
(650) TRANSPORTATION EXPENSE	0	0	0
(655) INSURANCE EXPENSE	1,256	251	1,507
(665) REGULATORY COMMISSION EXPENSE	0	961	961
(670) BAD DEBT EXPENSE	5,404	(4,219)	1,185
(675) MISCELLANEOUS EXPENSE	<u>650</u>	<u>0</u>	<u>650</u>
	<u>\$76,491</u>	<u>(\$1,833)</u>	<u>\$74,658</u>

GATOR WATERWORKS, INC.		SCHEDULE NO. 4		
TEST YEAR ENDED 3/31/2019		DOCKET NO. 20190114-WU		
MONTHLY WATER RATES				
	RATES AT THE TIME OF FILING	COMMISSION APPROVED INTERIM RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>				
All Meter Sizes	\$6.94	\$9.76		
Base Facility Charge by Meter Size				
5/8" X 3/4"			\$11.36	\$0.06
3/4"			\$17.04	\$0.08
1"			\$28.40	\$0.14
1-1/2"			\$56.80	\$0.28
2"			\$90.88	\$0.45
3"			\$181.76	\$0.89
4"			\$284.00	\$1.39
6"			\$568.00	\$2.78
Charge per 1,000 Gallons - Residential				
0-5,000 gallons			\$7.03	\$0.03
5,001-10,000 gallons			\$8.79	\$0.04
10,000-15,000 gallons			\$10.55	\$0.05
Over 15,000 gallons			\$14.07	\$0.07
Charge per 1,000 gallons - General Service	\$0.92	\$1.29	\$7.27	\$0.04
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
5,000 Gallons	\$11.54	\$16.21	\$46.51	
8,000 Gallons	\$14.30	\$20.08	\$72.88	
10,000 Gallons	\$16.14	\$22.66	\$90.46	