

State of Florida



Public Service Commission

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

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

DATE: January 25, 2024

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Engineering (P. Buys, King, Ramos) *TB*
Division of Accounting and Finance (Higgins, Kelley, Richards) *ALM*
Division of Economics (Bruce, Hudson) *JP*
Office of the General Counsel (Stiller) *JSC*

RE: Docket No. 20230081-WS – Application for increase in water and wastewater rates in Broward County by Royal Waterworks, Inc.

AGENDA: 02/06/24 – Regular Agenda – Proposed Agency Action All Issues, Except for Issues 18, 19, and 20, - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: La Rosa

CRITICAL DATES: 02/20/24 (5-Month Effective Date – PAA Rate Case)

SPECIAL INSTRUCTIONS: None

Table of Contents

Issue	Description	Page
	Case Background.....	2
Issue 1 –	Quality of Service.....	4
Issue 2 –	Infrastructure and Operating Conditions.....	6
Issue 3 –	Used and Useful Percentage.....	7
Issue 4 –	Adjustments to Rate Base.....	10
Issue 5 –	Pro Forma Adjustments.....	11
Issue 6 –	Rate Base.....	17
Issue 7 –	Return on Equity.....	18
Issue 8 –	Cost of Capital.....	19
Issue 9 –	Test Year Revenues.....	20
Issue 10 –	Operation & Maintenance Expense.....	21
Issue 11 –	Adjustments to Operating Expense.....	24
Issue 12 –	Operating Expense.....	25
Issue 13 –	Revenue Requirement.....	26
Issue 14 –	Rate Structures and Rates.....	27
Issue 15 –	Customer Deposits.....	31
Issue 16 –	Revenue Charge.....	32
Issue 17 –	Miscellaneous Service Charges.....	33
Issue 18 –	Rate Case Expense Reduction.....	35
Issue 19 –	Interim Refund.....	36
Issue 20 –	Proof of Adjustments.....	37
Issue 21 –	Docket Closure.....	38
Schedule No. 1-A –	Water Rate Base.....	39
Schedule No. 1-B –	Wastewater Rate Base.....	40
Schedule No. 1-C –	Adjustments to Rate Base.....	41
Schedule No. 2 –	Capital Structure.....	42
Schedule No. 3-A –	Water Operating Income.....	43
Schedule No. 3-B –	Wastewater Operating Income.....	44
Schedule No. 3-C –	Adjustments to Net Operating Income.....	45
Schedule No. 3-D –	Water O&M Expense.....	47
Schedule No. 3-E –	Wastewater O&M Expense.....	48
Schedule No. 4-A –	Monthly Water Rates.....	49
Schedule No. 4-B –	Wastewater Rates.....	50

Case Background

Royal Waterworks, Inc. (Royal or Utility) is a Class B water and wastewater utility providing service to approximately 410 residential and 111 general service water customers in Broward County. Royal is located in the South Florida Water Management District. The Utility's initial rates were established in 1983 in Docket No. 19820237-WS.¹ At that time, the Utility was owned by University Utility Corporation and subsequently underwent two transfers.²

In 2022, the Utility recorded total company operating revenues of \$704,462 and \$713,819 for water and wastewater, respectively. Royal reported a net operating income for 2022 of \$12,515 for water and \$201,311 for wastewater.

On August 14, 2023, Royal filed an application for increased interim and final water and wastewater rates.³ However, on August 22, 2023, the Utility withdrew its request for interim rates due to calculation errors.⁴

The Utility requested that its application be processed using the Proposed Agency Action (PAA) procedure. Royal's application for increased final water and wastewater rates is based on the historical test year ended May 31, 2023. The requested final rates include adjustments for seven pro forma plant addition projects (five water additions and two wastewater additions) and five pro forma additions to operations and maintenance expenses.

Royal requested final rates designed to generate revenues of \$837,140 for water operations, and \$805,685 for wastewater operations. This represents a revenue increase of \$66,835, or 8.7 percent, for water and \$53,757, or 7.3 percent, for wastewater.

By letter, dated September 13, 2023, staff advised the Utility that its Minimum Filing Requirements (MFRs) had deficiencies.⁵ Royal responded to that letter, correcting some of the deficiencies, on September 15, 2023.⁶ Staff sent a second deficiency letter on September 20, 2023.⁷ On the same day, the Utility provided responses to the second deficiency letter.⁸ Royal corrected its deficiencies and the official filing date is September 20, 2023.⁹

¹Order No. 12170, issued June 24, 1983, in Docket No. 19820237-WS, *In re: Application of University Utility Corporation for an increase in its rates to its customers in Broward County, Florida*.

²Order No. 19867, issued August 22, 1988, in Docket No. 19880557-WS, *In re: Application of Royal Utility Company for transfer of Certifications Nos. 259-W and 199-S from University Utility Corporation*; and Order No. PSC-2020-0458-PAA-WS, issued November 23, 2020, in Docket No. 20190170-WS, *In re: Application for transfer of facilities and Certificate Nos. 259-W and 199-S in Broward County from Royal Utility Company to Royal Waterworks, Inc.*

³Document No. 04709-2023, filed August 14, 2023.

⁴Document No. 04917-2023, filed August 22, 2023.

⁵Document No. 05199-2023, filed September 13, 2023.

⁶Document No. 05222-2023, filed September 15, 2023.

⁷Document No. 05292-2023, filed September 20, 2023.

⁸Document No. 05293-2023, filed September 20, 2023.

⁹Document No. 05363-2023, filed September 25, 2023.

Docket No. 20230081-WS

Date: January 25, 2024

By Order No. PSC-2023-0307-PCO-WS, the Commission suspended final rates proposed by the Utility to allow staff sufficient time to process this case.¹⁰ The Office of Public Counsel (OPC) intervened in this docket on November 14, 2023. The intervention of the OPC was acknowledged by Order No. PSC-2023-0356-PCO-WS, issued on November 28, 2023. Staff conducted a virtual customer meeting on December 11, 2023. The customer comments filed in this docket are discussed in Issue 1.

The Commission has jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes (F.S.).

¹⁰Order No. PSC-2023-0307-PCO-WS, issued October 16, 2023, in Docket No. 20230081-WS, *In re: Application for increase in water and wastewater rates in Broward County, by Royal Waterworks, Inc.*

Discussion of Issues

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

Recommendation: Yes. Royal is meeting all Department of Environmental Protection (DEP) primary and secondary standards and has been responsive to customer complaints. Therefore, the quality of service provided by Royal should be considered satisfactory. (P. Buys)

Staff Analysis: Pursuant to Section 367.081(2)(a)1., F.S., and 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 the utility's product (water) and the utility's attempt to address customer satisfaction (water and wastewater). The rule requires 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. The operating condition of the water and wastewater systems are addressed in Issue 2.

Quality of Utility's Product

In evaluation of Royal's product, 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 comprehensive chemical analyses was performed on September 6, 2023, and all results were found to be in compliance with DEP regulations.

The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the complaints filed in the Commission's Consumer Activity Tracking System (CATS), complaints filed with the DEP, and complaints received by the Utility from January 1, 2018, through December 31, 2023. During this time period, there were 15 complaints filed in CATS, which were regarding quality of service, water pressure, water quality, and improper bills. There were 29 complaints received by the DEP stating that the water is cloudy, brown or yellow in color, has odor, tastes bad, and has hardness. There was one complaint filed with the DEP in 2021 concerning the smell of the wastewater collection system. Over this same time period, the Utility received 45 complaints. The majority of these complaints were regarding its water system and reported low water pressure, no water, and leaks. The Utility responded to the complaints by testing the meters, conducting testing for leaks, and flushing to improve the water quality.

A virtual customer meeting was held on Monday December 11, 2023, where one customer expressed concerns regarding the Utility's reason for its requested rate increase and the potential effects it could have on customers. That customer also provided a petition with 91 signatures opposing the rate increase.¹¹ Five written comments were submitted that stated the rate increase is unreasonable, and also reported sediment in the water, poor customer service, and stated that boil water notices (BWN) were not timely received. Staff also performed a supplemental review of the complaints filed in CATS following the December 11, 2023 customer meeting through

¹¹Document No. 00142-2024, dated January 10, 2024.

January 22, 2024. One additional customer complaint was added to CATS; however, this complaint was derived from the customer’s comment submitted to the docket file concerning the overall rate increase, BWN timeliness, and a broken shut-off valve. In response to this complaint, the Utility issued a service order to inspect the customer’s shut-off valve and explained that a BWN was issued due to a power failure. The Utility also stated that the BWN was issued in accordance with DEP Rules and was subsequently rescinded. Table 1-1 shows the number of complaints, categorized by complaint type and source. It appears that the Utility has responded to customers when a complaint was received. Additionally, staff’s review of the above information determined that Royal’s customer complaints have decreased since the Utility’s transfer in 2019. Therefore, staff believes that Royal has satisfactorily attempted to address its customer’s concerns.

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

Subject	CATS	Correspondence / Customer Meeting	DEP	Utility	Total
Water Pressure	2			8	10
Water Quality	8	1	29	2	40
Customer Service		2			2
BWN not timely		1			1
No Water	3			6	9
Condition of Meter	1			5	6
Broken Valve		1			1
Billing	1			5	6
Leaks				19	19
Rate Increase		7			7
Total*	15	12	29	45	101

*A single customer complaint may be counted multiple times if it fits into multiple categories, was reported to multiple agencies, or was reported multiple times.

Conclusion

Royal is meeting all DEP primary and secondary standards, and has been responsive to customer complaints. Therefore, the quality of service provided by Royal should be considered satisfactory.

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

Recommendation: Yes. On September 29, 2023, the DEP deemed Royal’s water facilities to be in compliance with its rules and regulations. (P. Buys)

Staff Analysis: Rule 25-30.225(2), F.A.C., requires each water and wastewater 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 testimony of the DEP and county health department officials, sanitary surveys for water systems, compliance evaluation inspections for wastewater systems, citations, violations, consent orders issued to the utility, customer testimony, comments, complaints, and utility testimony and responses to the aforementioned items.

Water System Operating Condition

Royal’s water system consists of three wells, each with a capacity of 350 gallons per minute (gpm) for a total permitted design capacity of 1,050 gpm. The Utility also has three storage units: two ground water storage tanks with a capacity of 500,000 gallons and 80,000 gallons, and a 10,000 gallon hydropneumatic tank. Royal uses gas and liquid chlorine to treat the raw water. Staff reviewed Royal’s sanitary surveys conducted by the DEP to determine the Utility’s overall water facility compliance. A sanitary survey was conducted on May 19, 2023, indicating that Royal’s water treatment facility was not in compliance with the DEP’s rules and regulations and there were deficiencies.¹² The Utility corrected the deficiencies and notified the DEP of the correction on June 14, 2023.¹³ On September 29, 2023, the DEP deemed Royal’s water facilities to be in compliance with its rules and regulations.¹⁴ Royal does not have a wastewater treatment plant, and purchases wastewater treatment from Broward County.

Conclusion

Based on the above, Royal’s water system is currently in compliance with DEP regulations.

¹²The deficiencies included leaky valves at the wells, a threaded raw water tap, corrosion on the wells, the aerator needed to be cleaned, and the high service pump was leaking. Document No. 04720-2023, filed August 14, 2023.

¹³*Id.*

¹⁴Document No. 05708-2023, filed October 18, 2023.

Issue 3: What are the used and useful (U&U) percentages of Royal’s water treatment plant (WTP), storage, water distribution system, and wastewater collection system?

Recommendation: Staff recommends that Royal’s water treatment, storage, and distribution systems, as well as its wastewater collection system, be considered 100 percent U&U. Additionally, staff recommends no adjustments to purchased power and chemical expenses be made for excessive unaccounted for water (EUW) and infiltration and inflow (I&I). (P. Buys)

Staff Analysis: Rule 25-30.4325, F.A.C., provides factors to be considered in determining U&U and EUW calculations. As stated in Issue 2, Royal’s water system is comprised of three wells with a permitted design capacity of 1,512,000 gpd, and three water tanks with a capacity of 590,000 gallons. Royal’s U&U percentages were last determined by the Commission in Docket No. 19820237-WS.¹⁵

Used and Useful Percentages

Water Treatment Plant

Rule 25-30.4325(5), F.A.C., states that WTP U&U is calculated by dividing the peak demand, which is based on the highest daily usage, by the firm reliable capacity, which is the capacity of all wells excluding the single largest well. Pursuant to Rule 25-30.4325(6)(b), F.A.C., 16 hours of pumping should be used for the calculation when the system has storage. The Utility calculated peak demand to be 679,000 gallons per day (gpd), and firm reliable capacity to be 672,000 gpd. Royal calculated no EUW and a fire flow allowance of 120,000 gpd. In addition, the Utility calculated no growth as the system is built out. The result $([679,000 - 0 + 120,000 + 0]/672,000)$ is greater than 100 percent U&U. Staff agrees with these calculations, and recommends that the water treatment system is 100 percent U&U.

Water Storage

Rule 25-30.4325, F.A.C., states that water storage U&U is calculated by dividing the peak demand by usable storage. A ground storage tank shall be considered 90 percent usable and a hydropneumatic storage tank is considered zero percent usable. As noted in Issue 2, Royal has two ground storage tanks with a total capacity of 580,000 gallons and one hydropneumatic tank with a capacity of 10,000 gallons. The Utility calculated the water storage system to be 470 percent U&U based on a usable storage capacity of 170,000 gallons. Staff’s review removed the hydrodynamic tank from the calculation of usable storage, and using 90 percent usable storage for the ground storage tanks, staff calculated the usable storage value to be 522,000 gallons. The peak demand is 679,000 gallons. Rule 25-30.4325(8), F.A.C., states that if storage capacity is less than the peak demand, the U&U should be considered 100 percent. Therefore, staff recommends the water storage system is 100 percent U&U.

¹⁵Order No. 12170, issued June 24, 1983, in Docket No. 19820237-WS, *In re: Application of University Utility Corporation for an increase in its rates to its customers in Broward County, Florida*.

Water Distribution and Wastewater Collection System

The water distribution and wastewater collection systems are evaluated based on equivalent residential connections (ERCs) consisting of growth, customer demand, and system capacity. There are 410 residential customers and 111 general service customers. The Utility provided system maps that indicated all lots are connected to its water and wastewater systems. Royal considers the service territory to be built out and does not anticipate any additional growth. Considering all of the water mains and wastewater collection systems are required to adequately serve the existing customers, and consistent with prior Commission practice, staff recommends the water distribution and the wastewater collection system be considered 100 percent U&U.

Excessive Unaccounted for Water

Rule 25-30.4325, F.A.C., provides factors to be considered in determining whether adjustments to operating expenses are necessary for EUW. EUW is defined 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. Royal estimated no EUW based on producing 132,841,000 gallons, an estimated total sales of 118,679,000 gallons, and 19,750,000 gallons used for other uses, such as flushing, and to back wash the sand filters at the water treatment plant during the test year.¹⁶ Staff’s review confirmed the values for water produced and other uses, and based on the audit report and staff’s review, the actual gallons sold during the test year were 117,540,000 gallons. The resulting calculation $([132,841,000 - 117,540,000 - 19,750,000] / 132,841,000)$ for unaccounted for water is less than zero percent; therefore, the Utility does not have any EUW. Staff recommends no adjustments should be made to purchased power and chemical expenses for EUW and that the EUW is zero percent.

Infiltration and Inflow (I&I)

Infiltration typically results from groundwater entering a wastewater collection system through broken or defective pipes and joints; whereas, inflow results from water entering a wastewater collection system through manholes or lift stations. By convention, the allowance for infiltration is 500 gpd per inch diameter pipe per mile, and an additional 10 percent of residential water billed is allowed for inflow.¹⁷ Rule 25-30.432, F.A.C., provides that in determining the WWTP amount of U&U, the Commission will consider I&I.

Since all wastewater collection systems experience I&I the conventions noted above provide guidance for determining whether the I&I experienced is excessive. Staff calculates the allowable infiltration based on system parameters, and calculates the allowable inflow based on water billed to customers. The sum of these amounts is the allowable I&I. Staff next calculates the estimated amount of wastewater returned from customers. The estimated return is determined by summing 80 percent of the water billed to residential customers with 96 percent of the water billed to non-residential customers. Adding the estimated return to the allowable I&I yields the maximum amount of wastewater that should be treated by the wastewater system without incurring adjustments to operating expenses. If this amount exceeds the actual amount treated, no

¹⁶See Document No. 05708-2023, filed October 18, 2023.

¹⁷See Order No. PSC-16-0525-PAA-WS issued November 21, 2016 in Docket No. 20160030-WS, *In re: Application for increase in water rates in Lee County and wastewater rates in Pasco County by Ni. Florida, LLC.* and Order No. PSC-15-0208-PAA-WS issued May 26, 2015 in Docket No. 20140135-WS, *In re: Application for increase in water/wastewater rates in Pasco County by Labrador Utilities, Inc.*

adjustment is made. If it is less than the gallons treated, then the difference is the excessive amount of I&I.

Royal calculated the allowance for infiltration as 10,965,347 gallons and the allowance for inflow as 11,867,900 gallons; therefore, the total I&I allowance was calculated as 22,833,247 gallons. Based on staff's audit and review, the total water billed to residential customers was 50,447,000 gallons, and the total water billed to general service customers was 67,093,000. Therefore, the estimated amount of wastewater returned from customers was calculated as 104,766,880 gallons. Summing the estimated return and the allowable I&I results in a maximum of 127,486,227 gallons of wastewater that should be treated by the wastewater system without incurring adjustments to operating expenses. As stated in Issue 2, Royal does not have a wastewater treatment plant and purchases wastewater treatment from Broward County. The Utility purchased 90,835,000 gallons. Based on the calculation (90,835,000 – 127,486,227), there is no excessive I&I and no adjustment to purchased power and chemicals are recommended.

Conclusion

Staff recommends that Royal's water treatment, storage, and distribution systems, as well as its wastewater collection system should be considered 100 percent U&U. Additionally, staff recommends no adjustments to purchased power and chemical expenses be made for EUW and I&I.

Issue 4: Should any adjustments be made to the Utility's water and wastewater test year rate base?

Recommendation: Yes. The Utility's test year rate base should be decreased by \$1,463 for water and \$2,420 for wastewater. (Richards)

Staff Analysis: Staff made adjustments to the Utility's reported test year working capital. Those adjustments are detailed below.

In MFR Schedule A-17, the Utility recorded a test year working capital balance of \$75,159 for water and \$72,205 for wastewater. In this calculation, the Utility incorrectly included \$3,117 of pro forma expense related to operation and maintenance (O&M) Account 757 during the test year. As discussed in Issue 12, staff recommends a total test year O&M balance of \$589,570 for water and \$558,281 for wastewater. Section 367.081(9), F.S., prohibits a utility from earning a return on the unamortized balance of rate case expense (RCE). Neither the Utility nor staff included RCE in the test year totals. Based on this, staff calculated test year working capital expense of \$73,696 ($\$589,570 \div 8$) for water and \$69,785 ($\$558,281 \div 8$) for wastewater. This resulted in a decrease to the Utility's test year working capital expense of \$1,463 ($\$75,159 - \$73,696$) for water and \$2,420 ($\$72,205 - \$69,785$) for wastewater.

Pro forma adjustments to Royal's Utility Plant in Service (UPIS) and accumulated depreciation are detailed in Issue 5.

Conclusion

Staff recommends reducing the Utility's test year rate base by \$1,463 for water and \$2,420 for wastewater.

Issue 5: Should any adjustments be made to the Utility's requested pro forma?

Recommendation: Yes. Pro forma plant should be increased by \$19,981 for water and decreased by \$28,798 for wastewater. Pro forma accumulated depreciation should be increased by \$469 for water and decreased by \$799 for wastewater. Depreciation expense should also be increased by \$469 for water and decreased by \$799 for wastewater. Additionally, property tax on pro forma plant should be decreased by \$553 for water and \$5,189 for wastewater. Pro forma O&M expenses should be decreased by \$25,443 for water and increased by \$3,086 for wastewater. (P. Buys, Richards)

Staff Analysis: The Utility requested five pro forma plant additions totaling \$85,451 for water, and two pro forma plant additions totaling \$69,065 for wastewater. With these pro forma additions, the Utility requested pro forma accumulated depreciation of \$1,764 for water and \$1,918 for wastewater. These additions are reflected in revised MFR Schedule A-3. The Utility also requested five pro forma additions to O&M expenses totaling \$25,751 for water and \$79,836 for wastewater. These additions are reflected in revised MFR Schedules B-5 and B-6. Each of the Utility's requested pro forma adjustments are discussed below.

Pro Forma Plant Addition Projects

Repaving of Water Treatment Plant (WTP) Parking Lot

Royal requested recovery of costs associated with repaving its WTP parking lot. The Utility stated the WTP parking lot and driveway were in disrepair and there were several areas where the asphalt had been compromised. The repaving project was completed on August 18, 2023. Royal received two quotes for this project, one for \$22,443 and the other for \$52,222. Staff inquired as to why only two quotes were obtained, and Royal stated that it was difficult to get additional quotes for the following reasons: (1) if contractors believed that they would not be awarded the project they would refrain from bidding; (2) supply chain shortages; (3) contractors are not interested in bidding for smaller projects; and (4) employee shortages. There is no retirement associated with this project since the existing pavement was repaved. The Utility provided an invoice for the project totaling \$24,687, which included the cost of the project (\$22,443) and a 10 percent overhead markup by U.S. Water Services Corporation (U.S. Water) for its contractual services. The Utility recorded a cost of \$22,443 for paving the WTP parking lot. Staff recommends increasing plant account 304 by \$2,244 (\$24,687- \$22,443) to cover the full cost of this project.¹⁸

Refurbish WTP Control Panel

Royal refurbished its WTP Control Panel in July 2023 due to faulty alarm signals and the overall poor condition of the panel. The WTP Control Panel monitors and controls various components of the WTP; such as, monitoring the water levels in the tanks and operating the high service pumps, wells, and valves. Royal explained that the refurbished panel provides reliable real-time monitoring. In addition, the new interface allows the operator to control pumps and settings through a digital screen display instead of requiring system changes be completed physically through an analog system. This new control panel will be used with the new Supervisory Control and Data Acquisition (SCADA) system that is being installed at the WTP. Royal received one

¹⁸See Document Nos. 05492-2023, filed October 4, 2023, and 05708-2023, filed October 18, 2023.

quote for this project and repeated the same reasons listed above to explain why three quotes were not obtained for this project. In addition, Royal pointed out that this is a complex and specialized project and not many contractors do this type of work. In its MFRs, the Utility did not request retirement for this project. However, through discovery, Royal agrees with past Commission practice of retiring 75 percent of the new cost; therefore, the retirement amount is \$35,085. The invoice provided by the Utility showed a total project cost of \$46,780, which included the cost of the project (\$42,527) and a 10 percent overhead markup by U.S. Water. The Utility recorded a cost of \$49,500 for refurbishing the WTP control panel. Staff recommends decreasing plant account 320 by \$2,720 (\$49,500 - \$46,780).¹⁹

Influent Meter Replacement

The Utility requested cost recovery for an influent meter replacement. The manufacture of Royal's existing influent meter was discontinued several years ago and replacement parts are no longer available. Royal received one quote for this project for \$4,568, but was unable to obtain two additional quotes for the same reasons previously stated. The new meter was ordered and installed in June 2023. The Utility recorded \$4,600 for the replacement of the influent meter. Based on past Commission practice, equipment retirement is calculated based on 75 percent of the new equipment's cost.²⁰ As such, staff and the Utility agree that the appropriate retirement amount is \$3,426; however, the Utility did not record any retirement in its MFRs. Staff recommends decreasing plant account 309 by \$32 (\$4,600 - \$4,568) to cover the replacement cost of the influent meter.²¹

Generator Radiator Repair

In July 2023, an emergency repair was completed on Royal's main generator that provides back-up power to the WTP, as required by DEP. When the generator was routinely being tested, a leak in the radiator was discovered. The contractor was unable to repair the leak and the radiator had to be refurbished (re-cored), which consists of removing the old leaky core and replacing it with a new clean core. As this was an emergency repair, the Utility only contacted one contractor. The contractor charged \$628 for the first attempt to repair the radiator and \$7,470 to re-core the radiator. U.S. Water billed Royal for this emergency repair with a 10 percent markup, consistent with its operations contract, for a total of \$8,908, which was the total recorded by the Utility for this project. There is no retirement associated with this project as it was a repair to the Utility's existing main generator. Staff recommends no adjustment to the Utility's requested amount for plant account 310.²²

¹⁹See Document Nos. 05492-2023, filed October 4, 2023, 05708-2023, filed October 18, 2023, and 06521-2023, filed December 8, 2023.

²⁰Order Nos. PSC-16-0525-PAA-WS, issued November 21, 2016, in Docket No. 20160030-WS, *In re: Application for increase in water rates in Lee County and wastewater rates in Pasco County by Ni Florida, LLC.*; PSC-13-0187-PAA-WS, issued May 2, 2013, in Docket No. 20120152-WS, *In re: Applications for increase in water and wastewater rates in Orange County by Pluris Wedgefield, Inc.*; and PSC-11-0587-PAA-SU, issued December 2011, in Docket No. 20110153-SU, *In re: Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge.*

²¹See Document Nos. 05492-2023, filed October 4, 2023 and 05708-2023, filed October 18, 2023.

²²*Id.*

SCADA for WTP

The Utility requested cost recovery for installing SCADA at the WTP. In its MFRs, Royal erroneously included the amount to install the SCADA for the WTP within the Lift Station Control Panel project, which is a separate SCADA project, and is discussed in greater detail below. Royal explained that SCADA systems are focused on control-system operations and have a huge capacity for data collection. The SCADA records the parameters needed to determine how efficiently the system is operating. The WTP SCADA project was completed December 6, 2023. Royal did not acquire three quotes due to the fact that this project is complex and specialized. The cost of the project is \$59,000. There is no retirement for this project as this is a new SCADA system. Staff recommends that \$59,000 should be added to account 320 for this pro forma plant addition.²³

Lift Station Control Panel

The Utility requested cost recovery for installing SCADA at its four lift stations, which was completed the week of December 1, 2023. The SCADA system at the master lift station will communicate with the three smaller lift stations to prevent overflows. Royal did not acquire three quotes due to the fact that this project is complex and specialized. For this project, the Utility recorded a total of \$61,500; however, the quoted price is \$40,267. There is no retirement for this project as this is a new SCADA system. Therefore, staff recommends decreasing plant account 371 by \$21,233 (\$61,500 - \$40,267) for this pro forma plant addition.²⁴

Wire Harness Replacement- Master Lift Station

Royal replaced a wire harness at its master lift station as an emergency repair in order to keep the bypass pump operational to avoid a sewage overflow. The project was completed on May 31, 2023, and Royal received an invoice for \$7,565, which was the total amount recorded by the Utility for this project. The Utility utilized the manufacturer of the bypass pump to complete this repair. Staff does not recommend pro forma cost recovery of this project since it was completed during the test year.²⁵

Tables 5-1 and 5-2 compare the Utility's requested and staff's recommended pro forma cost recovery for each of the Utility's six pro forma projects discussed above. Staff recommends increasing the Utility's adjustments to its pro forma plant additions by \$19,981 for water and decreasing the Utility's adjustment to its pro forma plant by \$28,798 for wastewater. Additionally, Table 5-3 compares the Utility's requested and staff's recommended retirement amounts for the Utility's three applicable projects.

²³See Document Nos. 05492-2023, filed October 4, 2023, and 05708-2023, filed October 18, 2023.

²⁴*Id.*

²⁵*Id.*

**Table 5-1
 Pro Forma Plant Addition Projects – Water System**

Plant Account Number	Project Name	Utility Requested*	Staff Recommendation	Difference
304	Paving of WTP Parking Lot	\$22,443	\$24,687	\$2,244
320	Refurbish WTP Control Panel	\$49,500	\$46,780	(\$2,720)
309	Influent Meter Replacement	\$4,600	\$4,568	(\$32)
310	Generator Radiator Repair	\$8,908	\$8,908	\$0
320	SCADA for WTP	\$0	\$59,000	\$59,000
Total Water Pro Forma Project		\$85,451	\$143,943	\$58,492

Source: Document Nos. 05492-2023, filed October 4, 2023, 05708-2023, filed October 18, 2023, and 06521-2023, filed December 8, 2023

*Utility requested amounts are based on the Utility’s revised A-3 MFR Schedule

**Table 5-2
 Pro Forma Plant Addition Projects – Wastewater System**

Plant Account Number	Project Name	Utility Requested*	Staff Recommendation	Difference
371	Wire Harness Replacement at Master Lift Station**	\$7,565	\$0	(\$7,565)
371	Lift Station Control Panel	\$61,500	\$40,267	(\$21,233)
Total Wastewater Pro Forma Projects		\$69,065	\$40,267	(\$28,798)

Source: Document Nos. 05492-2023, filed October 4, 2023, 05708-2023, filed October 18, 2023, and 06521-2023, filed December 8, 2023

*Utility requested amounts are based on the Utility’s revised A-3 MFR Schedule

**Project completed during test year

**Table 5-3
 Pro Forma Plant Addition Retirements**

Project Name	Utility Requested*	Staff Recommendation
Refurbish WTP Control Panel	\$35,085	\$35,085
Influent Meter Replacement	\$3,450	\$3,426
Wire Harness Replacement at Master List Station**	\$0	\$0

Source: Document Nos. 05492-2023, filed October 4, 2023, 05708-2023, filed October 18, 2023, and 06521-2023, filed December 8, 2023

*Utility requested amounts are based on the Utility’s revised A-3 MFR Schedule

**Project completed during test year

Pro Forma Accumulated Depreciation

Based on the Utility's requested pro forma plant projects described above, Royal recorded \$1,765 in accumulated depreciation for water and \$1,918 for wastewater. With staff's adjustments to pro forma additions above, staff increased accumulated depreciation by \$469 for water and decreased accumulated depreciation for wastewater by \$799.

Pro Forma Depreciation Expense

Staff made corresponding adjustments to pro forma depreciation expense based on the accumulated depreciation adjustments above. Therefore, staff recommends increasing pro forma depreciation expense by \$469 for water and decreasing pro forma depreciation expense for wastewater by \$799.

Property Taxes Associated With Pro Forma Projects

On MFR Schedule B-15, the Utility recorded property tax on pro forma plant as \$2,570 for water and \$5,954 for wastewater. Based on staff's recommended adjustments above, staff recommends reducing taxes other than income (TOTI) by \$553 for water and \$5,189 for wastewater to reflect the appropriate property taxes associated with pro forma plant.

Pro Forma O&M Expenses

The Utility recorded pro forma O&M expense of \$25,751 for water and \$79,836 for wastewater, respectively. These pro forma expenses included an increase in the U.S. Water contract cost, an increased cost of purchased sewage treatment, an increase in insurance premiums, rate case expense, and the removal of lime for the water system. Staff made no adjustments to the U.S. Water contract or purchased sewage treatment costs.

Insurance Expense

The Utility recorded insurance expense of \$3,117 for wastewater during the test year. This amount reflects an increase in the insurance premium going forward, so it should be included as pro forma, not during the test year. Staff made a test year adjustment decreasing the wastewater insurance expense by \$3,117 and increasing wastewater pro forma expense by \$3,117. Staff made no adjustments to the water system, as the \$3,117 insurance premium increase was correctly recorded as pro forma by the Utility.

Rate Case Expense

Staff recalculated rate case expense (RCE) and allocated the costs between the water and wastewater systems based on the number of customers. As such, staff increased RCE by \$526 for water and decreased RCE by \$31 for wastewater.

Miscellaneous Expense

Royal cleans its discharge ponds to remove lime buildup on an as-needed basis or approximately every two years based on the water quality and water demand. The Utility provided three quotes for the cleaning service. The first quote of \$43,247 is based on the removal of 1,444 cubic yards (Cu/Yd) of lime at \$24.95 per Cu/Yd and a 20 percent allowance for overages. The second quote consists of \$6,000 plus a price per Cu/Yd of \$24.90 for the removed lime. The third quote is a flat amount of \$70,550 to complete the work. The Utility chose the second contractor to

complete the work. That contractor removed 2,244 Cu/Yd of lime. The project was completed on August 18, 2023, and the invoice was for \$68,063 which includes a 10 percent markup for the contractual services of U.S. Water. The Utility recorded a cost of \$60,000 for this project. Staff recommends an expense of \$68,063, which covers the full cost of the lime removal. The Utility did not amortize this amount; however, both the Utility and staff agree that this amount should be amortized over a two-year period, equaling \$34,031 ($\$68,063 \div 2$).²⁶ Therefore, staff decreased miscellaneous expense for water by \$25,969 ($\$60,000 - \$34,031$).

Conclusion

Staff increased UPIS by \$58,492 for water, which was partially offset by a retirement of \$38,511, resulting in a net increase of \$19,981 ($\$58,492 - \$38,511$). Staff decreased UPIS by \$28,798 for wastewater to reflect pro forma adjustments. Also, staff increased accumulated depreciation by \$469 for water, and decreased accumulated depreciation for wastewater by \$799. Corresponding adjustments were also made increasing depreciation expense by \$469 for water; and decreasing depreciation expense for wastewater by \$799. Additionally, staff decreased property taxes associated with pro forma by \$553 for water and \$5,189 for wastewater. Finally, staff decreased pro forma O&M expenses by \$25,443 for water and increased pro forma expenses by \$3,086 for wastewater.

²⁶Document Nos. 05492-2023, filed October 4, 2023; 05708-2023, filed October 18, 2023; 06042-2023, filed November 10, 2023; and 06521-2023, filed December 8, 2023.

Issue 6: What is the appropriate rate base for the test year ended May 31, 2023?

Recommendation: Consistent with staff's recommended adjustments, the appropriate rate base for the test year ended May 31, 2023, is \$1,097,810 for water and \$485,348 for wastewater. (Richards)

Staff Analysis: In its MFRs, the Utility requested a rate base of \$1,083,114 for water and \$515,481 for wastewater. Based on staff's previously recommended adjustments, the resulting rate base is \$1,097,810 for water and \$485,348 for wastewater. The rate base schedules are attached as Schedule Nos. 1-A and 1-B for water and wastewater, respectively. Adjustments to rate base are shown on Schedule No. 1-C.

Issue 7: What is the appropriate return on equity (ROE)?

Recommendation: Based on the Commission's leverage formula currently in effect, the appropriate ROE for the Utility is 9.71 percent. (Richards)

Staff Analysis: The ROE included in the Utility's MFR Schedule D-1 is 9.70 percent. Based on the current leverage formula in effect, and the Utility's equity ratio of 54.11 percent, the appropriate ROE is 9.71 percent.²⁷ Staff recommends an allowed range of plus or minus 100 basis points be recognized for earnings purposes.

Conclusion

The appropriate ROE for the Utility is 9.71 percent.

²⁷Order No. PSC-2023-0189-PAA-WS, issued June 28, 2023, in Docket No. 20230006-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 8: What is the appropriate weighted average cost of capital based on the proper components, amounts, and cost rates associated with the capital structure for the test year ended May 31, 2023?

Recommendation: The appropriate weighted average cost of capital for the test year ended May 31, 2023, is 6.74 percent. (Richards)

Staff Analysis: In its filing, the Utility requested an overall cost of capital of 6.74 percent. The Utility's capital structure consists of long-term debt, common equity, and customer deposits. Based upon the proper components, amounts, and cost rates associated with the capital structure, staff recommends a weighted average cost of capital of 6.74 percent. Schedule No. 2 details staff's recommended overall cost of capital.

Conclusion

The appropriate weighted average cost of capital for the test year ended May 31, 2023, is 6.74 percent.

Issue 9: What are the appropriate amounts of test year operating revenues for Royal's water and wastewater systems?

Recommendation: The appropriate amount of test year operating revenues for Royal's systems are \$770,246 for water and \$751,928 for wastewater. (Bruce)

Staff Analysis: In its revised MFRs, Royal's test year operating revenues were \$734,186 for water and \$761,470 for wastewater. The water revenues included \$727,552 of service revenues and \$6,635 of miscellaneous revenues. The wastewater revenues consisted of service revenues of \$761,470. The Utility was approved for a price index increase effective June 3, 2023. Therefore, staff annualized test year operating revenues by applying the number of billing determinants for water and wastewater. As a result, staff determined that service revenues for water should be \$763,998, which is an increase of \$36,446 ($\$763,998 - \$727,552$). The service revenues for wastewater should be \$751,928, which is a decrease of \$9,542 ($\$761,470 - \$751,928$).

For miscellaneous revenues, staff determined the appropriate amount to be \$6,248 based on the number of miscellaneous occurrences during the test year. Staff reduced miscellaneous revenues by \$387 ($\$6,635 - \$6,248$). Based on the above, the appropriate test year revenues for the Utility's water system, including miscellaneous revenues, are \$770,246 ($\$763,998 + \$6,248$) and \$751,928 for the wastewater system.

Issue 10: Should any adjustments be made to the Utility’s water and wastewater O&M expenses?

Recommendation: Yes. O&M expenses should be decreased by \$37,144 for water and \$16,277 for wastewater. (Richards)

Staff Analysis: Based on its review of the Utility’s O&M expenses, staff recommends several adjustments as summarized below.

Salaries & Wages – Officers (603/703)

In its filing, the Utility recorded officer’s salaries and wages of \$30,000 for water and \$28,000 for wastewater. Using 2022 Annual Reports, OPC, in a letter sent to the Commission Clerk and included in the docket file, stated that the President’s collective salary was \$205,850 for 52 percent of time spent on Florida Community Water Systems, Inc., Sunny Hills Utility Company, Seminole Waterworks Inc., Royal Waterworks, Inc. and HC Waterworks, Inc. At 100 percent time spent, an effective annual salary would equate to \$395,865. Furthermore, OPC noted that assuming 10 percent of the President’s time spent is on the remaining systems there would be 38 percent of time remaining to devote to other positions. These positions include serving as the Chief Executive Officer of the US Water Services Corporation as well as upper management in 10 other companies.

In response to OPC’s concerns, Royal argued the salary is much less when you take into consideration items that are a responsibility of the Officer, but not included in their salary, such as insurance, tax, retirement benefits, and expenses while on the job. Also, the Utility noted that geographical location should be considered, as the service territory of Royal and its sister utilities span as far north as Okaloosa County down to Broward County. Furthermore, Royal argued that OPC’s suggested salary of \$6,244 and \$7,551 is unrealistic and would make it impossible to hire a qualified President like Mr. Deremer.

OPC suggested that any recommended salary amount be allocated “based on the number of customers or ERCs of Royal and its sister jurisdictional and non-jurisdictional companies.”²⁸ In response to Staff’s Fourth Data Request, the Utility stated the total number of ERCs under U.S. Water ownership is 12,643.²⁹ This amount reflects both jurisdictional (11,280.5) and non-jurisdictional (1,362.5) companies. Royal is the largest of all U.S. Water-affiliated companies, either jurisdictional or non-jurisdictional, and makes up 18.95 percent of the total ERCs. Of that, 59.83 percent are allocated to water, and 40.17 percent are allocated to wastewater.

To remain consistent with prior Commission-approved salaries for U.S. Water-affiliated systems, staff used the most recent U.S. Water-affiliated rate case, which involved LP Waterworks, Inc. (LP).³⁰ In that rate case, the Commission approved an owner’s salary of \$6,300. Staff notes that in that rate case, only the water system was included. The water system for LP makes up 56.27 percent of the entire utility. Therefore, staff calculated a total owner’s salary for LP of \$11,196

²⁸Document No. 06694-2023, filed December 20, 2023.

²⁹Document No. 06645-2023, filed December 18, 2023.

³⁰Order No. PSC-2023-0101-PAA-WS, issued February 28, 2023, in Docket No. 20220099-WS, *In re: Application for staff-assisted rate case in Highlands County by LP Waterworks, Inc.*

Date: January 25, 2024

(\$6,300 ÷ 56.27 percent) based on the Commission-approved amount in 2023. According to the Utility's response to Staff's Fourth Data Request, LP comprises 7.04 percent of all U.S. Water-affiliated companies.

To calculate a total amount of owner's salary for all U.S. Water-affiliated systems, staff set 7.04 percent of the amount at \$11,196. This calculation provided an owner's salary for all U.S. Water-affiliated systems of \$159,034 ($\$11,196 \div 7.04$ percent). As stated earlier, Royal represents 18.95 percent of U.S. Water, calculating to an owner's salary for Royal of \$30,137 ($\$159,034 \times 18.95$ percent). Split between water (59.83 percent) and wastewater (40.17 percent), staff recommends owner's salary of \$18,031 for water and \$12,106 for wastewater. Staff's recommended amounts result in a decrease of \$11,969 for water, and a decrease of \$15,894 for wastewater.

Contractual Services – Accounting (632/732)

In its filing, the Utility recorded contractual services – accounting expenses of \$450 for water and \$450 for wastewater. As part of Audit Finding 1, staff determined the Utility had duplicative charges in the amount of \$200 for each system. Based on this, staff decreased contractual services – accounting by \$200 for water, and \$200 for wastewater. Staff recommends contractual services – accounting expense of \$250 for water and \$250 for wastewater.

Contractual Services – Legal (633/733)

In its filing, the Utility recorded contractual services – legal expenses of \$350 for water and \$350 for wastewater. As part of Audit Finding 1, staff determined the Utility had duplicative charges in the amount of \$200 for each system. Based on this, staff decreased contractual services – legal by \$200 for water, and \$200 for wastewater. Staff recommends contractual services – legal expense of \$150 for water and \$150 for wastewater.

Contractual Services – Other (636/736)

In its filing, the Utility recorded contractual services – other expenses of \$396,688 for water and \$213,700 for wastewater. As part of Audit Finding 1, staff determined \$26 was erroneously recorded in water, when it should have been recorded to wastewater. Staff decreased contractual services – other by \$26 for water and increased contractual services – other by \$26 for wastewater.

Insurance Expense (657/757)

In its filing, the utility recorded insurance expenses of \$7,796 for water and \$7,796 for wastewater. As part of Audit Finding 1, staff determined the Utility's recorded amount was understated by \$358 for each system. Staff determined \$336 for storage tank insurance was erroneously recorded for wastewater, when it should have been recorded to water. Additionally, as discussed in Issue 7, the Utility recorded \$3,117 during the test year for a wastewater insurance premium increase. This amount should be recorded as a pro forma expense. Therefore, staff decreased O&M Account 758 by \$3,117 during the test year and reclassified it as pro forma. In total, staff increased insurance expense by \$694 ($\$358 + \336) for water and decreased insurance expense by \$3,095 ($\$358 - \$336 - \$3,117$) for wastewater.

Test Year O&M Adjustments

As described above and summarized in Table 10-1, staff recommends a decrease of \$11,701 for water, and a decrease of \$19,363 for wastewater.

Table 10-1
Staff Adjustments to O&M

<u>Account</u>	<u>Water</u>	<u>Wastewater</u>
Salaries & Wages – Officers	(\$11,969)	(\$15,894)
Contractual Services – Accounting	(200)	(200)
Contractual Services – Legal	(200)	(200)
Contractual Services – Other	(26)	26
Insurance Expense	694	(3,095)
Total Test Year O&M Adjustments	<u>(\$11,701)</u>	<u>(\$19,363)</u>

Source: Staff's calculations.

Pro Forma O&M Expenses

As discussed in Issue 5, staff decreased pro forma O&M expenses by \$25,443 for water and increased pro forma O&M expenses by \$3,086 for wastewater.

Conclusion

Based on the above adjustments, staff recommends an O&M decrease of \$37,144 (\$11,701 + \$25,443) for water and a decrease of \$16,277 (\$19,363 - \$3,086) for wastewater.

Issue 11: Should further adjustments be made to the Utility's operating expense?

Recommendation: Yes. The Utility's operating expenses should be further increased by \$1,313 for water and further decreased by \$3,277 for wastewater. (Richards)

Staff Analysis: Staff made several adjustments to the Utility's operating expenses which are detailed below.

Net Depreciation Expense

In its filing, the Utility recorded test year net depreciation expense of \$71,194 for water and \$45,560 for wastewater.³¹ Staff increased this amount by \$91 for water and \$1,371 for wastewater to reflect the appropriate test year depreciation expense. As discussed in Issue 5, staff further increased depreciation expense by \$469 for water while decreasing depreciation expense by \$799 for wastewater to reflect the appropriate depreciation expense associated with pro forma additions. Therefore, staff increased net depreciation expense by \$560 ($\$91 + \469) for water and \$572 ($\$1,371 - \799) for wastewater.

Taxes Other Than Income

In MFR Schedule B-15, the Utility recorded property taxes of \$28,272 for water and \$31,656 for wastewater. These amounts included property taxes associated with pro forma. As discussed in Issue 5, staff decreased property taxes associated with pro forma by \$553 for water and \$5,189 for wastewater. In addition to property taxes, the Utility recorded Regulatory Assessment Fees (RAFs) on test year revenues of \$34,664 for water and \$33,837 for wastewater. As discussed in Issue 9, staff made an adjustment decreasing test year revenues by \$59 for water. To reflect this decrease, staff reduced RAFs on the test year revenues by \$3. No adjustment was made to wastewater revenues. These adjustments resulted in a net decrease of \$556 ($\$553 + \3) for water, and \$5,189 for wastewater.

Additionally, as discussed in Issue 13, staff recommends revenues be increased by \$29,099 for water and \$29,778 for wastewater in order to reflect the change in revenue required to cover expenses and allow an opportunity to earn the recommended rate of return. As a result, TOTI should be increased by \$1,309 for water and \$1,340 for wastewater to reflect RAFs of 4.5 percent on the recommended change in revenues.

Conclusion

Based on the adjustments above, staff recommends further increasing the Utility's test year operating expenses by \$1,313 ($\$560 - \$556 + \$1,309$) for water and further decreasing operating expenses by \$3,277 ($\$572 - \$5,189 + \$1,340$) for wastewater.

³¹Net depreciation expense for the water system included \$71,266 for depreciation and (\$72) for amortization of Contribution-in-Aid of Construction (CIAC).

Issue 12: What are the appropriate operating expenses for the test year ended May 31, 2023?

Recommendation: Consistent with staff's recommended adjustments, the appropriate operating expenses for the test year ended May 31, 2023, are \$725,319 for water and \$748,979 for wastewater. (Richards)

Staff Analysis: In its MFRs, the Utility recorded operating expenses of \$761,150 for water and \$768,533 for wastewater. Based on staff's previously recommended adjustments, the appropriate operating expenses are \$725,319 for water and \$748,979 for wastewater. Water and wastewater operating expenses are shown on Schedule Nos. 3-A and 3-B, respectively. Adjustments to operating expenses are shown on Schedule No. 3-C.

Conclusion

The appropriate operating expenses for the test year ended May 31, 2023, are \$725,319 for water and \$748,979 for wastewater.

Date: January 25, 2024

Issue 13: What are the appropriate revenue requirements for the test year ended May 31, 2023?

Recommendation: Staff recommends a revenue requirement of \$799,345 be approved for water, and \$781,706 be approved for wastewater. (Richards)

**Table 13-1
Staff’s Recommended Revenue Requirement – Water**

<u>Test Year</u> <u>Revenue</u>	<u>\$ Increase</u>	<u>Revenue</u> <u>Requirement</u>	<u>% Increase</u>
\$770,246	\$29,099	\$799,345	3.78%

Source: Staff’s calculations.

**Table 13-2
Staff’s Recommended Revenue Requirement – Wastewater**

<u>Test Year</u> <u>Revenue</u>	<u>\$ Increase</u>	<u>Revenue</u> <u>Requirement</u>	<u>% Increase</u>
\$751,928	\$29,778	\$781,706	3.96%

Source: Staff’s calculations.

Staff Analysis: In its filing, the Utility requested an annual revenue requirement of \$837,140 for water and \$805,685 for wastewater. These requested revenues represent an increase of \$66,835 (or 8.68 percent) for water and \$53,757 (or 7.15 percent) for wastewater. Consistent with its recommendations concerning rate base, cost of capital, and operating income issues, staff recommends a revenue requirement of \$799,345 for water and \$781,706 for wastewater.

Conclusion

Staff recommends a revenue requirement of \$799,345 for water and \$781,706 for wastewater be approved for the test year ended May 31, 2023.

Issue 14: What are the appropriate rate structures and rates for Royal's water and wastewater systems?

Recommendation: The recommended rate structure and monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice. (Bruce)

Staff Analysis: Royal Waterworks is located in Broward County within the South Florida Water Management District. The Utility provides water service to 410 residential customers with 400 of the customers having a separate meter for irrigation. There are 111 general service customers, which consists of multi-family customers, gas stations, banks, restaurants, beauty parlors, dentists, and other various businesses. According to the billing data, approximately 29 percent of the residential customer bills during the test year had zero gallons, indicating a seasonal customer base. The average residential water demand is 5,210 gallons. The average residential water demand excluding zero gallon bills is 7,369 gallons per month. Currently, the Utility's water rate structure for the residential and general service classes consist of a traditional monthly base facility charge (BFC) and uniform gallonage charge. In addition, the utility has private fire protection rates.

Staff performed an analysis of the Utility's billing 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.

For this case, staff recommends that 35 percent of the water revenues be generated from the BFC, which will provide sufficient revenues to design gallonage charges that sends the appropriate pricing signals to the customers using above the non-discretionary level. The average people per household served by the water system is 2.6;³² 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 4,000 gallons per month. Staff's review of the billing data indicates that discretionary usage above 4,000 gallons represents approximately 34 percent of the bills, which account for approximately 56 percent of water demand. This indicates that there is a significant amount of discretionary usage above 4,000 gallons.

In its MFRs, the Utility proposed a continuation of the monthly traditional BFC and uniform gallonage charge for its residential and general service classes. As indicated in Issue 13, staff's recommended revenue requirement increase is 3.78 percent. Typically, when the revenue

³²Average person per household was obtained from website: www.census.gov/quickfacts/Browardcountyflorida.

requirement is less than 20 percent, staff does an across-the-board increase to the existing rates. However, in this case, staff is recommending redesigning the rates because Royal’s meter equivalents are incorrect. The meter equivalents for Royal’s existing rates are not based on the American Water Works Association (AWWA) meter equivalents, which are contained in Rule 25-30.055, F.A.C., and used by the Commission when designing rates. Also, the Utility’s proposed final water rates are consistent with the AWWA meter equivalents.

The meter equivalents assign the demand on a system as well as cost recovery by meter size in terms of equivalent residential connections (ERCs). In comparison to the AWWA meter equivalents, Royal’s meter equivalents for larger meter sizes are significantly higher than the AWWA. Redesigning rates based on the AWWA meter equivalents distributes the cost recovery to the appropriate meter sizes. If this proceeding were a revenue-neutral rate restructuring to fix the meter equivalents, using the Utility’s existing BFC and gallonage revenue recovery percentages would result in a BFC of \$22.06 for the 5/8 inch x 3/4 inch meter size (compared to the existing BFC of \$13.29). Absent this correction to the meter equivalents, the customers at the larger meter sizes would continue to subsidize the customers at the 5/8 inch x 3/4 inch meter size. Although the overall revenue increase is 3.78 percent, correcting the meter equivalents creates a higher percentage increase to the overall bill for customers with 5/8 inch x 3/4 inch meter sizes. The table below shows a comparison of the AWWA meter equivalents to Royal’s existing meter equivalents.

**Table 14-1
 Comparison of ERCs**

Meter Sizes	AWWA	Royal
5/8” x 3/4”	1	1
1”	2.5	6.8
1-1/2”	5	13.6
2”	8	21.8
3”	15	43.6

Source: Rule 25-30.055, F.A.C., and Royal’s tariff rates

In addition to correcting the meter equivalents, staff evaluated designing an inclining block rate structure due to high discretionary usage. Staff assumed that a three-tier inclining block was appropriate. However, a three-tier inclining block rate structure resulted in lower percentage price increases at discretionary levels of consumption, which is contrary to the Commission’s rate design goals due to staff’s recommended low revenue requirement increase. For this reason, staff recommends a two-tier inclining block rate structure, which includes separate gallonage charges for non-discretionary and discretionary usage for residential water rates. The rate blocks are: (1) 0 - 4,000 gallons; and (2) all usage in excess of 4,000 gallons per month. Staff’s recommended rate structure will target those customers with higher levels of consumption. General service customers should continue to be billed a BFC and uniform gallonage charge. Under Rule 25-30.465, F.A.C., private fire protection customers should be billed one-twelfth of the BFC for the respective meter size.

Based on staff's recommended revenue increase of 3.8 percent, which excludes miscellaneous revenues,³³ the residential consumption can be expected to decline by 3,156 gallons resulting in an anticipated average residential demand of 4,884 gallons per month. Staff recommends a 6.3 percent reduction in test year residential gallons for ratesetting purposes. As a result, the corresponding reductions for purchased power expense is \$1,158, \$1,948 for chemicals expense, and \$146 for RAFs to reflect the anticipated repression, which results in a post-repression revenue requirement of \$788,910.

Wastewater Rates

The Utility provides wastewater service to 410 residential customers and 111 general service customers. As mentioned earlier, the general service customers consists of various types of businesses. Currently, the residential wastewater rate structure consists of a uniform BFC for all meter sizes and a gallonage charge with a 10,000 gallon cap. The general service rate structure consists of a uniform BFC for all meter sizes and a gallonage charge that is 1.2 times higher than the residential gallonage charge.

Staff performed an analysis of the Utility's billing data to evaluate various BFC cost recovery percentages and gallonage caps for the residential 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; and (3) if appropriate, implement a gallonage cap that considers approximately the amount of water that may return to the wastewater system.

Similarly to the water rates, the meter equivalents are not based on the AWWA meter equivalents for the wastewater rates. If this proceeding were a revenue neutral-rate restructuring to fix the meter equivalents, using the Utility's existing BFC and gallonage revenue recovery percentages would result in a BFC of \$26.33 for the 5/8 inch x 3/4 inch meter size (compared to its existing \$13.45). Therefore, staff redesigned the wastewater rates to be consistent with the AWWA meter equivalents. Also, the Utility's proposed final wastewater rates are consistent with the AWWA meter equivalents.

Consistent with Commission practice, staff allocated 50 percent of the wastewater revenue to the BFC due to the capital intensive nature of wastewater plants. The Utility's current wastewater gallonage cap is set at 10,000 gallons per month. The wastewater gallonage cap recognizes that not all water used by the residential customers is returned to the wastewater system. It is Commission practice to set the wastewater cap at approximately 80 percent of residential water sold, which typically results in gallonage caps of 6,000, 8,000, or 10,000. Based on staff's review of the billing analysis, 85 percent of the gallons are captured at the 8,000 gallon consumption level. Therefore, staff recommends that the gallonage cap for residential customers be reduced to 8,000 gallons. Staff also recommends that the general service gallonage charge continue to be 1.2 times greater than the residential gallonage charge, which is consistent with Commission practice.

³³For ratesetting purposes, staff increased miscellaneous revenues to reflect the recommended change to miscellaneous service charges in Issue 17.

In addition, wastewater rates are calculated on customers' water demand; If those customers' water demand is expected to decline due to repression; then the billing determinants used to calculate wastewater rates should be adjusted accordingly. In determining the number of wastewater gallons subject to repression, staff uses the gallons between the non-discretionary threshold and the wastewater gallonage cap and applies the percentage reduction in water gallons. In this case, the result is a .29 percent reduction to the wastewater gallons for ratesetting purposes, which is de minimis.

Conclusion

Based on the above, the recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice.

Issue 15: What are the appropriate initial customer deposits for Royal's water and wastewater systems?

Recommendation: The appropriate initial customer deposits for the residential 5/8 inch x 3/4 inch meter size should be \$76 for water and \$111 for wastewater. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill. The approved initial customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The Utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding. (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. Currently, the Utility's initial customer deposit for the 5/8 inch x 3/4 inch meter size is \$62.26 for water and \$79.08 for wastewater. However, these amounts do not cover two months' average bills based on staff's recommended rates. The Utility's anticipated post-repression average monthly residential usage is 4,884 gallons per customer. Therefore, the average residential monthly bill is approximately \$38.22 for water and \$55.54 for wastewater service based on staff's recommended rates.

Conclusion

Staff recommends the appropriate initial customer deposits for the residential 5/8 inch x 3/4 inch meter size should be \$76 for water and \$111 for wastewater. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill. The approved initial customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The Utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding.

Issue 16: Should the Commission discontinue Royal's guaranteed revenue charge?

Recommendation: Yes. The Commission should discontinue Royal's guaranteed revenue charge. (Bruce)

Staff Analysis: According to its tariff, Royal currently has a guaranteed revenue charge, which was approved prior to 1983. A guaranteed revenue charge is designed to help the Utility recover a portion of its cost from the time capacity is reserved until a customer begins to pay monthly service charges. However, the service area is built out; therefore, the charge is obsolete. For this reason, staff recommends that this charge be discontinued.

Issue 17: Should Royal’s miscellaneous service charges be revised to conform to amended Rule 25-30.460, F.A.C.?

Recommendation: The miscellaneous service charges should be revised to conform to the recent amendment to Rule 25-30.460, F.A.C. The tariff should be revised to reflect the removal of initial connection and normal reconnection charges. The Utility should be required to file a proposed customer notice to reflect the Commission-approved charges. The approved charges 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: Effective June 24, 2021, Rule 25-30.460, F.A.C., was amended to remove initial connection and normal reconnection charges.³⁴ The definitions for initial connection charges and normal reconnection charges were subsumed in the definition of the premises visit charge. The Utility’s existing miscellaneous service charges consist of initial connection and normal reconnection charges.³⁵ The normal reconnection charge is more than the premises visit charge. Since the premises visit entails a broader range of tasks, staff believes the premises visit should reflect the amount of the normal reconnection charge of \$60.50 for normal hours. Therefore, staff recommends that the initial connection and normal reconnection charges be removed, the premises visit should be revised to \$60.50 for normal hours, and the definition for the premises visit charge be updated to comply with amended Rule 25-30.460, F.A.C. This recommended change to miscellaneous service charges results in an increase in miscellaneous revenues of \$936 on a prospective basis, which results in total miscellaneous revenues of \$7,184. The Utility’s existing and staff’s recommended miscellaneous service charges are shown below in Tables 17-1 and 17-2.

Table 17-1
Utility’s Existing Miscellaneous Service Charges

	<u>Normal Hours</u>	<u>After Hours</u>
Initial Connection Charge	\$32.96	\$38.36
Normal Reconnection Charge	\$60.50	\$68.56
Violation Reconnection Charge - Water	\$60.50	\$68.56
Violation Reconnection Charge - Wastewater	Actual Cost	Actual Cost
Premises Visit Charge (in lieu of disconnection)	\$32.96	\$38.36

Source: The Utility’s current tariffs.

³⁴Order No. PSC-2021-0201-FOF-WS, issued June 4, 2021, in Docket No. 20200240-WS, *In re: Proposed amendment of Rule 25-30.460, F.A.C., Application for Miscellaneous Service Charges.*

³⁵Per the Utility’s current tariff, the after-hours miscellaneous service charges for the water system are incorrect due to scrivener’s error. The after-hour charges shown in Table 17-1 have been updated to reflect the correct amounts.

Table 17-2
Staff Recommended Miscellaneous Service Charges

	<u>Normal Hours</u>	<u>After Hours</u>
Violation Reconnection Charge - Water	\$60.50	\$68.56
Violation Reconnection Charge - Wastewater	Actual Cost	Actual Cost
Premise Visit Charge	\$60.50	\$68.56

Conclusion

Based on the above, staff recommends the miscellaneous service charges be revised to conform to the recent amendment to Rule 25-30.460, F.A.C. The tariff should be revised to reflect the removal of initial connection and normal reconnection charges. The Utility should be required to file a proposed customer notice to reflect the Commission-approved charges. The approved charges 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 charges 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 within 10 days of the date of the notice. The Utility should be required to charge the approved miscellaneous service charges until authorized to change them by the Commission in a subsequent proceeding

Issue 18: What is the appropriate amount by which rates should be reduced to reflect the removal of amortized rate case expense for water and wastewater, as required by Section 367.081(8), F.S.?

Recommendation: The water and wastewater rates should be reduced, as shown in Schedule Nos. 4-A and 4-B respectively, to remove the annual amortization of rate case expense grossed-up for RAFs. The decrease in rates should become effective immediately following the expiration of the rate case expense recovery period. Royal 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, Richards)

Staff Analysis: The water and wastewater rates should be reduced, as shown in Schedule Nos. 4-A and 4-B respectively, to remove the annual amortization of rate case expense grossed-up for RAFs. The decrease in rates should become effective immediately following the expiration of the rate case expense recovery period. Royal should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Issue 19: Should any portion of the interim water or wastewater revenue increases granted be refunded?

Recommendation: No interim revenue increases were granted in this rate case; therefore, no refund of interim rates is appropriate. (Richards)

Staff Analysis: No. Interim revenue increases were granted in this rate case. On August 22, 2023, the Utility withdrew its request for interim rate relief.³⁶ Therefore, no refund of interim rates is appropriate.

³⁶Document No. 04917-2023, filed August 22, 2023.

Issue 20: Should the Utility be required to notify, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Commissioners Uniform System of Accounts (NARUC USOA) associated with the Commission-approved adjustments?

Recommendation: Yes. The Utility should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Royal should submit a letter within 90 days of the final order of this docket, confirming that the adjustments to all the applicable NARUC USOA accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. (Richards)

Staff Analysis: The Utility should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Royal should submit a letter within 90 days of the final order of this docket, confirming that the adjustments to all the applicable NARUC USOA accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days.

Issue 21: 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. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, and the Utility has provided staff with proof that the adjustments for all applicable NARUC USOA accounts have been made. Once these actions are complete, this docket should be closed administratively. (Stiller)

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. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, and the Utility has provided staff with proof that the adjustments for all applicable NARUC USOA accounts have been made. Once these actions are complete, this docket should be closed administratively.

ROYAL WATERWORKS, INC. TEST YEAR ENDED MAY 31, 2023 SCHEDULE OF WATER RATE BASE				SCHEDULE NO. 1-A DOCKET NO. 20230081-WS		
Description	Test Year Per Utility	Pro Forma Per Utility	Total Per Utility	Staff Adj. To Test Year	Staff Adj. To Pro Forma	Total Per Staff
1. UTILITY PLANT IN SERVICE	\$3,591,705	\$85,451	\$3,677,156	\$0	\$19,981	\$3,697,137
2. LAND AND LAND RIGHTS	76,123	0	76,123	0	0	76,123
3. NON-USED AND USEFUL	0	0	0	0	0	0
4. ACCUMULATED DEPRECIATION	(2,743,508)	(1,765)	(2,745,273)	0	(469)	(2,745,742)
5. CIAC	(575,123)	0	(575,123)	0	0	(575,123)
6. ACCUMULATED AMORTIZATION OF CIAC	571,853	0	571,853	0	0	571,853
7. WORKING CAPITAL ALLOWANCE	<u>75,159</u>	<u>3,219</u>	<u>78,378</u>	<u>(1,463)</u>	<u>(3,354)</u>	<u>73,561</u>
8. TOTAL WATER RATE BASE	<u>\$996,209</u>	<u>\$86,905</u>	<u>\$1,083,114</u>	<u>(\$1,463)</u>	<u>\$16,159</u>	<u>\$1,097,810</u>

ROYAL WATERWORKS, INC.				SCHEDULE NO. 1-B		
TEST YEAR ENDED MAY 31, 2023				DOCKET NO. 20230081-WS		
SCHEDULE OF WASTEWATER RATE BASE						
Description	Test Year Per Utility	Pro Forma Per Utility	Total Per Utility	Staff Adj. To Test Year	Staff Adj. To Pro Forma	Total Per Staff
1. UTILITY PLANT IN SERVICE	\$1,919,789	\$69,065	\$1,988,854	\$0	(\$28,798)	\$1,960,056
2. LAND AND LAND RIGHTS	71,802	0	71,802	0	0	71,802
3. NON-USED AND USEFUL	0	0	0	0	0	0
4. ACCUMULATED DEPRECIATION	(1,625,442)	(1,918)	(1,627,360)	0	799	(1,626,561)
5. CIAC	(238,921)	0	(238,921)	0	0	(238,921)
6. ACCUMULATED AMORTIZATION OF CIAC	238,921	0	238,921	0	0	238,921
7. WORKING CAPITAL ALLOWANCE	<u>72,206</u>	<u>9,980</u>	<u>82,185</u>	<u>(2,420)</u>	<u>287</u>	<u>80,052</u>
8. TOTAL WASTEWATER RATE BASE	<u>\$438,355</u>	<u>\$77,127</u>	<u>\$515,481</u>	<u>(\$2,420)</u>	<u>(\$27,712)</u>	<u>\$485,348</u>

ROYAL WATERWORKS, INC.	SCHEDULE NO. 1-C	
TEST YEAR ENDED MAY 31, 2023	DOCKET NO. 20230081-WS	
SCHEDULE OF ADJUSTMENTS TO RATE BASE		
	<u>Water</u>	<u>Wastewater</u>
UTILITY PLANT IN SERVICE		
To reflect appropriate pro forma additions.	\$58,492	(\$28,798)
To reflect appropriate pro forma retirements.	<u>(38,511)</u>	<u>0</u>
Subtotal	<u>\$19,981</u>	<u>(\$28,798)</u>
ACCUMULATED DEPRECIATION		
To reflect appropriate pro forma additions.	<u>(\$469)</u>	<u>\$799</u>
WORKING CAPITAL ALLOWANCE		
To reflect 1/8 test year O&M expense less RCE.	(\$1,463)	(\$2,420)
To reflect 1/8 pro forma O&M expense less RCE.	<u>(3,354)</u>	<u>287</u>
Subtotal	<u>(\$4,816)</u>	<u>(\$2,133)</u>
TOTAL ADJUSTMENTS TO RATE BASE	<u>\$14,696</u>	<u>(\$30,133)</u>

ROYAL WATERWORKS, INC.						SCHEDULE NO. 2		
TEST YEAR ENDED MAY 31, 2023						DOCKET NO. 20230081-WS		
SCHEDULE OF CAPITAL STRUCTURE								
<u>Capital Component</u>	<u>Total Capital</u>	<u>Specific Adjustments</u>	<u>Balance After Adjustments</u>	<u>Pro Rata Adjustments</u>	<u>Capital Reconciled To Rate Base</u>	<u>Percent Of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
<u>PER UTILITY</u>								
1. LONG-TERM DEBT	\$1,118,106	\$0	\$1,118,106	(\$389,816)	\$728,290	45.56%	3.25%	1.48%
2. COMMON EQUITY	1,327,999	0	1,327,999	(462,993)	865,006	54.11%	9.70%	5.25%
3. CUSTOMER DEPOSITS	<u>8,129</u>	<u>0</u>	<u>8,129</u>	<u>(2,834)</u>	<u>5,295</u>	<u>0.33%</u>	2.00%	<u>0.01%</u>
4. TOTAL CAPITAL	<u>\$2,454,234</u>	<u>\$0</u>	<u>\$2,454,234</u>	<u>(\$855,643)</u>	<u>\$1,598,591</u>	<u>100.00%</u>		<u>6.74%</u>
<u>PER STAFF</u>								
1. LONG-TERM DEBT	\$1,118,106	\$0	\$1,118,106	(\$396,847)	\$721,259	45.56%	3.25%	1.48%
2. COMMON EQUITY	1,327,999	0	1,327,999	(471,344)	856,655	54.11%	9.71%	5.26%
3. CUSTOMER DEPOSITS	<u>8,129</u>	<u>0</u>	<u>8,129</u>	<u>(2,885)</u>	<u>5,244</u>	<u>0.33%</u>	2.00%	<u>0.01%</u>
4. TOTAL CAPITAL	<u>\$2,454,234</u>	<u>\$0</u>	<u>\$2,454,234</u>	<u>(\$871,076)</u>	<u>\$1,583,158</u>	<u>100.00%</u>		<u>6.74%</u>
RANGE OF REASONABLENESS							LOW	HIGH
RETURN ON EQUITY							8.71%	10.71%
OVERALL RATE OF RETURN							6.20%	7.28%

ROYAL WATERWORKS, INC.			SCHEDULE NO. 3-A		
TEST YEAR ENDED MAY 31, 2023			DOCKET NO. 20230081-WS		
SCHEDULE OF WATER OPERATING INCOME					
	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1. Operating Revenues	\$770,305	(\$59)	\$770,246	\$29,099 3.78%	\$799,345
2. Operating Expenses					
Operation & Maintenance	\$627,020	(\$37,144)	\$589,876	\$0	\$589,876
Net Depreciation Expense	71,194	560	71,754	0	71,754
Taxes Other Than Income	62,936	(556)	62,380	1,309	63,689
Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
3. Total Operating Expense	<u>\$761,150</u>	<u>(\$37,140)</u>	<u>\$724,010</u>	<u>\$1,309</u>	<u>\$725,319</u>
4. Operating Income	\$9,155		\$46,236		\$74,025
5. Rate Base	\$1,083,114				\$1,097,810
6. Rate of Return					6.74%

ROYAL WATERWORKS, INC.			SCHEDULE NO. 3-B		
TEST YEAR ENDED MAY 31, 2023			DOCKET NO. 20230081-WS		
SCHEDULE OF WASTEWATER OPERATING INCOME					
	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1. Operating Revenues	\$751,928	\$0	\$751,928	\$29,778 3.96%	\$781,706
2. Operating Expenses					
Operation & Maintenance	\$657,480	(\$16,277)	\$641,203	\$0	\$641,203
Net Depreciation Expense	45,560	572	46,132	0	46,132
Taxes Other Than Income	65,493	(5,189)	60,304	1,340	61,644
Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
3. Total Operating Expense	<u>\$768,533</u>	<u>(\$20,894)</u>	<u>\$747,639</u>	<u>\$1,340</u>	<u>\$748,979</u>
4. Operating Income	(\$16,605)		\$4,289		\$32,727
5. Rate Base	\$515,481				\$485,348
6. Rate of Return					6.74%

ROYAL WATERWORKS, INC.	SCHEDULE NO. 3-C	
TEST YEAR ENDED MAY 31, 2023	DOCKET NO. 20230081-WS	
ADJUSTMENTS TO NET OPERATING INCOME	PAGE 1 OF 2	
	<u>Water</u>	<u>Wastewater</u>
OPERATING REVENUES		
To reflect an adjustment to service revenues.	\$328	\$0
To reflect an adjustment to miscellaneous revenues.	<u>(387)</u>	<u>0</u>
Total	<u>(\$59)</u>	<u>\$0</u>
OPERATION & MAINTENANCE EXPENSE		
Salaries and Wages - Officers (603/703)		
To reflect salaries based on allocated ERC's.	<u>(\$11,969)</u>	<u>(\$15,894)</u>
Contractual Services - Accounting (632/732)		
To remove duplicative charges per Audit Finding 1.	<u>(\$200)</u>	<u>(\$200)</u>
Contractual Services - Legal (633/733)		
To remove duplicative charges per Audit Finding 1.	<u>(\$200)</u>	<u>(\$200)</u>
Contractual Services - Other (636/736)		
To reclassify expense from water to wastewater.	<u>(\$26)</u>	<u>\$26</u>
Insurance Expense (657/757)		
a. To remove pro forma expense from test year.	\$0	(\$3,117)
b. To reflect appropriate insurance expense per Audit Finding 1.	358	358
c. To reclassify expense from wastewater to water.	336	(336)
d. To reclassify expense from test year to pro forma.	<u>0</u>	<u>3,117</u>
Subtotal	<u>\$694</u>	<u>\$22</u>
Rate Case Expense (666/766)		
To reflect appropriate rate case expense amortized over 4 years.	<u>\$526</u>	<u>(\$31)</u>
Miscellaneous Expense (675/775)		
To reflect cost of lime removal amortized over 2 years.	<u>(\$25,969)</u>	<u>\$0</u>
TOTAL OPERATION & MAINTENANCE EXPENSE	<u>(\$37,144)</u>	<u>(\$16,277)</u>

ROYAL WATERWORKS, INC.
TEST YEAR ENDED MAY 31, 2023
ADJUSTMENTS TO NET OPERATING INCOME

SCHEDULE NO. 3-C
DOCKET NO. 20230081-WS
PAGE 2 OF 2

	<u>Water</u>	<u>Wastewater</u>
DEPRECIATION EXPENSE		
a. To reflect appropriate test year depreciation expense.	\$91	\$1,371
b. To reflect appropriate pro forma depreciation expense.	<u>469</u>	<u>(799)</u>
Total	<u>\$560</u>	<u>\$572</u>
TAXES OTHER THAN INCOME		
a. To reflect property taxes associated with pro forma projects.	(\$553)	(\$5,189)
b. To reflect appropriate test year TOTL.	<u>(3)</u>	<u>0</u>
Total	<u>(\$556)</u>	<u>(\$5,189)</u>
TOTAL ADJUSTMENTS TO OPERATING EXPENSES	<u>(\$37,140)</u>	<u>(\$20,894)</u>

ROYAL WATERWORKS, INC.		SCHEDULE NO. 3-D					
TEST YEAR ENDED MAY 31, 2023		DOCKET NO. 20230081-WS					
SCHEDULE OF WATER O&M EXPENSE							
Acct.	Description	Test Year Per Utility	Pro Forma Per Utility	Total Per Utility	Staff Adj. To Test Year	Staff Adj. To Pro Forma	Total Per Staff
603	Salaries & Wages - Officers	\$30,000	\$0	\$30,000	(\$11,969)	\$0	\$18,031
615	Purchased Power	43,117	0	43,117	0	0	43,117
618	Chemicals	72,541	0	72,541	0	0	72,541
632	Contractual Services - Accounting	450	0	450	(200)	0	250
633	Contractual Services - Legal	350	0	350	(200)	0	150
636	Contractual Services - Other	374,916	21,773	396,689	(26)	0	396,663
657	Insurance	4,679	3,117	7,796	694	0	8,490
666	Rate Case Expense	0	861	861	0	526	1,387
670	Bad Debt Expense	0	0	0	0	0	0
675	Miscellaneous Expense	<u>75,218</u>	<u>0</u>	<u>75,218</u>	<u>0</u>	<u>(25,969)</u>	<u>49,249</u>
	Total Water O&M Expense	<u>\$601,271</u>	<u>\$25,751</u>	<u>\$627,022</u>	<u>(\$11,701)</u>	<u>(\$25,443)</u>	<u>\$589,878</u>
	Working Capital is 1/8 O&M Expense less RCE						\$73,561

ROYAL WATERWORKS, INC.				SCHEDULE NO. 3-E			
TEST YEAR ENDED MAY 31, 2023				DOCKET NO. 20230081-WS			
SCHEDULE OF WASTEWATER O&M EXPENSE							
Acct.	Description	Test Year Per Utility	Pro Forma Per Utility	Total Per Utility	Staff Adj. To Test Year	Staff Adj. To Pro Forma	Total Per Staff
703	Salaries & Wages - Officers	\$28,000	\$0	\$28,000	(\$15,894)	\$0	\$12,106
710	Purchased Sewage Treatment	326,403	67,260	393,663	0	0	393,663
715	Purchased Power	9,831	0	9,831	0	0	9,831
732	Contractual Services - Accounting	450	0	450	(200)	0	250
733	Contractual Services - Legal	350	0	350	(200)	0	150
736	Contractual Services - Other	201,944	11,756	213,700	26	0	213,726
757	Insurance	7,796	0	7,796	(3,095)	3,117	7,818
766	Rate Case Expense	0	820	820	0	(31)	789
770	Bad Debt Expense	0	0	0	0	0	0
775	Miscellaneous Expense	<u>2,870</u>	<u>0</u>	<u>2,870</u>	<u>0</u>	<u>0</u>	<u>2,870</u>
	Total Wastewater O&M Expense	<u>\$577,644</u>	<u>\$79,836</u>	<u>\$657,480</u>	<u>(\$19,363)</u>	<u>\$3,086</u>	<u>\$641,203</u>
	Working Capital is 1/8 O&M Expense less RCE						\$80,052

ROYAL WATERWORKS, INC.		SCHEDULE NO. 4-A		
TEST YEAR ENDED MAY 31, 2023		DOCKET NO. 20230081-WS		
MONTHLY WATER RATES				
	UTILITY'S EXISTING RATES	UTILITY'S PROPOSED RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential Service and General Service</u>				
Base Facility Charge by Meter Size				
5/8" x 3/4"	\$13.29	\$25.31	\$16.83	\$0.02
3/4"	N/A	\$37.97	\$25.25	\$0.03
1"	\$90.54	\$63.28	\$42.08	\$0.05
1-1/2"	\$180.95	\$126.55	\$84.15	\$0.10
2"	\$290.04	\$202.48	\$134.64	\$0.15
3"	\$579.10	\$404.96	\$269.28	\$0.31
4"	N/A	\$632.75	\$420.75	\$0.48
6"	N/A	\$1,265.50	\$841.50	\$0.96
8"	N/A	\$2,024.80	\$1,346.40	\$1.54
10"	N/A	\$2,910.65	\$1,935.45	\$2.21
Charge per 1,000 gallons - Residential Service and General Service	\$3.42	\$3.54	N/A	N/A
Charge per 1,000 gallons - Residential Service				
0-4,000 gallons	N/A	N/A	\$4.38	\$0.01
Over 4,000 gallons	N/A	N/A	\$4.57	\$0.01
Charge per 1,000 gallons - General Service	N/A	N/A	\$4.48	\$0.01
<u>Private Fire Protection</u>				
2"	N/A	\$16.87	\$11.22	\$0.01
3"	N/A	\$33.75	\$22.44	\$0.03
4"	\$27.69	\$52.73	\$35.06	\$0.04
6"	\$55.37	\$105.46	\$70.13	\$0.08
8"	N/A	\$168.73	\$112.20	\$0.13
10"	N/A	\$242.55	\$161.29	\$0.18
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
2,000 Gallons	\$20.13	\$32.39	\$25.59	
5,000 Gallons	\$30.39	\$43.01	\$38.92	
10,000 Gallons	\$47.49	\$60.71	\$61.77	

ROYAL WATERWORKS, INC.		SCHEDULE NO. 4-B		
TEST YEAR ENDED MAY 31, 2023		DOCKET NO. 20230081-WS		
MONTHLY WASTEWATER RATES				
	UTILITY'S EXISTING RATES	UTILITY'S PROPOSED RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential</u>				
Base Facility Charge - All Meter Sizes	\$13.45	\$53.31	\$37.03	\$0.04
Charge Per 1,000 gallons				
10,000 gallon cap	\$5.21	\$2.32	N/A	N/A
Charge Per 1,000 gallons				
8,000 gallon cap	N/A	N/A	\$3.80	\$0.00
<u>General Service</u>				
5/8" x 3/4"	\$13.45	\$53.31	\$37.03	\$0.04
3/4"	N/A	\$79.96	\$55.55	\$0.06
1"	\$95.69	\$133.26	\$92.58	\$0.10
1-1/2"	\$191.56	\$266.53	\$185.15	\$0.20
2"	\$306.19	\$426.44	\$296.24	\$0.31
3"	\$612.48	\$852.88	\$592.48	\$0.63
4"	N/A	\$1,332.63	\$925.75	\$0.98
6"	N/A	\$2,665.26	\$1,851.50	\$1.96
8"	N/A	\$4,264.42	\$2,962.40	\$3.13
10"	N/A	\$6,130.10	\$4,258.45	\$4.50
Charge per 1,000 gallons - General Service	\$5.22	\$2.78	\$4.56	\$0.00
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
2,000 Gallons	\$23.87	\$57.95	\$44.63	
6,000 Gallons	\$44.71	\$67.23	\$59.83	
8,000 Gallons	\$55.13	\$71.87	\$67.43	