

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in
Duval County by Neighborhood Utilities, Inc.

DOCKET NO. 150181-WU
ORDER NO. PSC-16-0537-PAA-WU
ISSUED: November 23, 2016

The following Commissioners participated in the disposition of this matter:

JULIE I. BROWN, Chairman
LISA POLAK EDGAR
ART GRAHAM
RONALD A. BRISÉ
JIMMY PATRONIS

NOTICE OF PROPOSED AGENCY ACTION ORDER
APPROVING RATE INCREASE FOR NEIGHBORHOOD UTILITIES, INC.
AND
FINAL ORDER ON RECOVERY OF RATE CASE EXPENSES,
TEMPORARY RATES AND ACCOUNTING ADJUSTMENTS

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission (Commission) that the actions discussed herein, except for the granting of temporary rates in the event of protest, the four year rate reduction, and proof of adjustment of books and records, are preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.). The granting of temporary rates in the event of a protest, the four year rate reduction, and the proof of adjustment of books and records are final agency actions and subject to reconsideration and appeal as described below under the heading, "NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW."

BACKGROUND

Neighborhood Utilities, Inc. (Neighborhood or Utility) is a Class C utility providing service to approximately 441 water customers in Duval County, and is located within the St. Johns River Water Management District (SJRWMD). Neighborhood was granted Certificate No. 430-W in 1984.¹ Neighborhood's rates and charges were last approved in a staff-assisted rate case (SARC) in 2010.² In 2014, Neighborhood's rates were reduced to reflect the expiration of rate case expense approved in its 2010 SARC. In addition, Neighborhood's index application was approved in 2014.

¹ Order No. 13723, issued September 28, 1984, in Docket No. 840063-WU, *In re: Application of Neighborhood Utilities, Inc. for a certificate to operate a water utility in Duval County, Florida.*

² Order No. PSC-10-0024-PAA-WU, issued January 11, 2010, in Docket No. 090060-WU, *In re: Application for staff-assisted rate case in Duval County by Neighborhood Utilities.*

On August 10, 2015, Neighborhood filed its application for a SARC, in accordance with a payment plan negotiated with our staff for the payment of delinquent regulatory assessment fees (RAFs) owed by the Utility. The test year ending June 30, 2015, was selected for the instant docket. According to Neighborhood's 2015 annual report, its total gross revenues were \$138,830 and total operating expenses were \$137,980.

We have jurisdiction in this case pursuant to Sections 367.0812, 367.0814, and 367.091, Florida Statutes, (F.S.).

DECISION

Quality of Service

Pursuant to Rule 25-30.433(1), F.A.C., we must determine the overall quality of service provided by a utility in water and wastewater rate cases. In determining overall quality of service, we must evaluate three separate components of a utility's operations: (1) the quality of the utility's product; (2) the operating conditions of the utility's plant and facilities; and (3) the utility's attempt to address customer satisfaction. Rule 25-30.433, F.A.C., further provides that we consider sanitary surveys, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP) and the county health department over the preceding three-year period. Input from DEP, health department officials, and customer comments or complaints are also considered. Additionally, Section 367.0812(1)(c), F.S., requires that we consider the extent to which the utility provides water service that meets secondary water quality standards as established by the DEP.

In Neighborhood's 2010 rate case, we found its quality of service to be marginal due to its failure to provide routine maintenance on plant facilities, problems related to maintaining chlorine residuals, and customers not receiving boil water notices. On May 27, 2016, the Office of Public Counsel (OPC) submitted a letter,³ outlining specific concerns regarding information in our staff's preliminary review of Neighborhood's requested increase (Staff Report). In its letter, OPC asserted that Neighborhood continues to provide marginal quality of service due to the deferral of maintenance on the plant and poor customer service. In our analysis below, we consider our decision in Neighborhood's previous rate case, as well as OPC's concerns.

Quality of the Utility's Product

Our evaluation of Neighborhood's product quality consisted of a review of the Utility's compliance with the DEP primary and secondary drinking water standards and customer complaints regarding the water quality. Primary standards protect public health, while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water. We also considered the Utility's compliance with local health departments.

³ Document No. 03247-16

Our review of the recent chemical analyses of samples dated June 4, 2012, and June 17, 2015, indicate that the Utility's results comply with the DEP primary and secondary water quality standards. These chemical analyses are performed every three years, with the next scheduled analysis to be completed in 2018.

At the time of our order in Neighborhood's previous rate case, the Utility was in compliance with DEP rules and regulations. We did note, however, that Neighborhood was experiencing sporadic compliance problems related to maintaining chlorine residuals at points furthest from the water treatment plant. We reviewed DEP records to determine if the compliance problems described in Neighborhood's last rate case remained an issue today, and we did not find any issues of non-compliance since the last rate case in 2010. Therefore, we find that Neighborhood took steps to address the issues identified in its last rate case, such as replacing the chlorine pump and supply feed lines.

Our analysis also considered input from customers regarding the quality of Neighborhood's product. A review of this Commission's complaint records found that Neighborhood had no quality of service complaints since January 1, 2010.

We also requested complaints filed with the DEP since January 1, 2010. DEP responded with two complaints, one in 2015 and one in 2016. Both DEP complaints were made by the same individual, and expressed concern regarding hydrogen sulfide odor due to low chlorine residual. Neighborhood claimed that it had chlorine feed equipment problems at the time of the customer's complaint. Neighborhood's chlorine levels did not fall below DEP's minimum requirements; however, they did fall to a level that customers noticed a sulfur odor. In both instances, the Utility resolved/repaired the issues with the chlorine feed equipment within two days. After each repair, Neighborhood flushed the water lines to eliminate the sulfur smell.

Lastly, we reviewed customer complaints filed with Neighborhood since January 1, 2010. There were 16 complaints made with Neighborhood concerning its quality of service. The complaints addressed low pressure, water quality, and the water smelling like sulfur. There were two complaints in 2011, three in 2012, four in 2013, two in 2014, one in 2015, and four in 2016. Neighborhood responded to the complaints by testing water pressure, which was at normal levels, and flushing and repairing the chlorine feed equipment.

Based on our review, giving consideration to Neighborhood's current compliance with DEP standards, improvement since its last rate case, as well as the low number of complaints over a period greater than 5 years, we find that the quality of Neighborhood's product to be considered satisfactory.

Operating Condition of the Utility's Plant and Facilities

Our evaluation of Neighborhood's facilities included a review of the Utility's compliance standards of operation as well as a site visit by our staff. Neighborhood's water treatment system has one well rated at 350 gallons per minute (gpm). The raw water is treated with liquid chlorine for disinfection purposes. Neighborhood's water system has three storage tanks totaling 62,000 gallons. The distribution system is a composite mix of PVC pipes of varying sizes.

Neighborhood's last two DEP Sanitary Survey Reports, dated September 29, 2011, and January 24, 2014, each identified multiple deficiencies. The most recent report identified the following deficiencies, three of which are repeat deficiencies:

- Well casings corroded (repeat);
- Aerator screens not cleaned;
- Tank inspections not performed by licensed engineer;
- Ground storage tank corroded (repeat); and
- No Operation & Maintenance manual (repeat).

Neighborhood corrected four of the five deficiencies by August 2014. The one deficiency that has not yet been corrected is the tank inspection. Neighborhood noted that it had not corrected this deficiency due to insufficient funds from declining revenues and requested that the tank inspection be included as a pro forma project.

In its last rate case, we stated that Neighborhood's deferred maintenance to its water treatment plant and distribution system had caused sporadic substandard service to its customers.⁴ We further stated that the quality of Neighborhood's product and the operating condition of its water plant were marginal based on Neighborhood's failure to perform routine maintenance of its facilities.⁵

In its May 27, 2016 letter, OPC asserted that the Utility is still deferring maintenance, which is impacting its quality of service. OPC expressed its belief that the uncured deficiency (the tank inspection identified by DEP) is an important deficiency. OPC additionally asserted that the numerous pro forma plant (Rate Base) and expense (Operating Expenses) items requested appear to reflect neglected maintenance items. We will address OPC's concerns regarding these items in the respective sections below.

We agree with OPC that the deferral of maintenance can ultimately affect the quality of a utility's service and can result in additional costs. In this instance, however, Neighborhood corrected the majority of deficiencies identified by DEP, and requested funds to cure the remaining deficiency. Once Neighborhood performs the tank inspection, it should be in compliance with DEP requirements. We also note that DEP has neither issued a Consent Order against Neighborhood, nor assessed any fines for failing to correct the outstanding deficiency.

For the reasons outlined above, we find that no financial adjustments shall be made to the Neighborhood's return on equity (ROE) or officer's salaries to reflect the operating condition of Neighborhood's water treatment plant and facilities.

⁴ Order No. PSC-10-0024-PAA-WU.

⁵ *Id.*

The Utility's Attempt to Address Customer Satisfaction

As part of our evaluation of customer satisfaction, a customer meeting was held on May 18, 2016, to receive customer comments concerning Neighborhood's quality of service. Six customers attended the meeting with three customers speaking. The concerns raised during the customer meeting addressed customers not receiving boil water notices, estimated bills, customer service, water quality, and broken equipment.

In Neighborhood's previous rate case, several customers expressed concern regarding how the Utility delivered boil water notices. As a result, we ordered Neighborhood to provide us with boil water notices for one year after our Order was issued;⁶ however, Neighborhood did not have any boil water notices during that one year period. Neighborhood did have a boil water notice in 2012, which was after the ordered reporting period. Our prior order also stated that hand delivered notices often fall off mailboxes onto the ground, that some customers may never become aware of the situation, and that follow-up notifications rescinding the boil water notices, rarely occurred.

At the customer meeting in the instant matter, a customer had an issue with not being promptly informed of service interruptions. To this point, Neighborhood responded that field personnel hand deliver boil water notices to the customers and place them at the customer's front door rather than the mailbox when service interruptions are being investigated and repaired, which complies with DEP requirements. Neighborhood also made changes to its website to address these customer concerns. Specifically, Neighborhood now posts messages regarding boil water notices and rescission notices, as well as messages when a service interruption occurs and when the repair is fixed. Based on these actions, it appears Neighborhood is actively taking steps to address concerns regarding boil water notifications. Only one customer, in contrast to six in the prior rate case, voiced concern on this issue.

In Neighborhood's prior rate case, we also stated that customers shall have reasonable access to contact the Utility during normal business hours, as well as an emergency, after-hours contact.⁷ In its letter, OPC recommended that Neighborhood be required to establish an emergency contact number for emergency situations. However, Neighborhood provided us with a copy of a customer bill, which contained the Utility's office and emergency contact numbers where customers could easily locate the numbers. We find this to be a reasonable means of providing the Utility's contact information to customers.

At the customer meeting, one customer questioned whether Neighborhood's service personnel were qualified to perform the requisite utility services. Neighborhood contracts with an outside company, U.S. Water, whose employees are qualified and properly licensed to manage and operate the water systems and treatment facilities.

Another customer had concerns with broken meters. Neighborhood acknowledged the broken meters, noted its plans to replace the meters, and confirmed that some usage for locations with broken meters was estimated. The same customer addressed issues with broken and leaking

⁶ *Id.*

⁷ *Id.*

service connections. Neighborhood claims that one reason for this issue is that customers drive over and/or park on the meters and boxes. Neighborhood has requested to replace the plastic meter boxes and lids in this customer's subdivision with fiberglass concrete boxes and lids. The request to replace meters is discussed more fully in "*Operating & Maintenance (O&M) Expenses*" section of this Order.

The same customer also stated that customers "get a run around" when calling the utility's office. Neighborhood explained that when a problem is reported to its office, the appropriate person investigates the issue and determines the solution. Neighborhood calls the customer back with a report of its findings and repair plans. Neighborhood asserts that emergency problems are handled immediately, and confirmed the emergency telephone number, as well as the office telephone number, are shown on every bill.

Neighborhood provided us with customer contacts from January 1, 2010, through May 20, 2016. As shown in the table below, there were 163 customer contacts: 121 were related to billing issues (high bills, payment arrangement, meter readings, and receiving no bills); 16 were quality of service related complaints; and 26 were other issues (equipment repair, leaks, and property damage). Neighborhood investigated and followed up with the customers in each instance, usually within one day.

Customer Contacts

Subject of Complaint	Commission Records (CATS) (01/01/2010 - 06/01/2016)	Utility Records (01/01/2010 - 05/20/2016)	DEP (01/01/2010 - 06/13/2016)	Customer Meeting*
Billing Related	7	121		2
Opposing Rate Increase				
Quality of Service		16	2	2
Other**		26		
Total	7	163	2	4

* Note: Customers spoke on multiple issues.

** Note: Other Includes: Equipment Repair, Leaks, Property Damage, Illegal Usage

We also requested complaints against Neighborhood filed with the DEP for the period of January 1, 2010, through June 13, 2016. DEP responded with two complaints, one in 2015 and one in 2016. Both complaints were made by the same individual, and expressed concern regarding hydrogen sulfide odor due to low chlorine residual. These complaints were discussed in the "Quality of Utility Product" section above. Finally, we reviewed our complaint records from January 1, 2010, through June 1, 2016, and found seven complaints. All complaints concerned improper bills and were resolved. We note that no customer correspondence has been filed in the instant docket.

Based on Neighborhood's responses to customer concerns expressed at the customer meeting, complaints filed with this Commission, and complaints filed with the DEP, find that Neighborhood's attempt to address customer satisfaction to be considered satisfactory. Additionally, we find that Neighborhood has adequately addressed the concerns outlined in our prior order.

Quality of Service Summary

Neighborhood is in compliance with DEP chemical standards and the last enforcement issue with DEP was a warning letter in 2009. Neighborhood corrected all but one deficiency from its last DEP survey and requested pro forma items to maintain its plant facilities and to correct the last deficiency. Neighborhood also corrected the issues with notifying customers of boil water notices and addressing customer satisfaction. For the reasons outlined above, we find Neighborhood's quality of product, condition of facilities, and attempt to address customer satisfaction to be satisfactory. Therefore, we find that Neighborhood's overall quality of service to be satisfactory.

Used & Useful (U&U)

Neighborhood's water treatment system has one well rated at 350 gpm. The raw water is treated with liquid chlorine for disinfection purposes. Neighborhood's water system has three storage tanks totaling 62,000 gallons. Neighborhood is also interconnected with JEA for emergency situations. There are 24 fire hydrants located throughout the Utility's service area and its distribution system is a composite mix of PVC pipes of varying sizes. In Neighborhood's last rate case, we found that both Neighborhood's water treatment plant (WTP) and distribution system were 100 percent U&U.⁸

As noted above, both Neighborhood's WTP and distribution system were deemed 100 percent U&U during its previous rate case.⁹ Since Neighborhood's last rate case, there has been no change in circumstances. Therefore, consistent with our prior decision, we find that Neighborhood's WTP and distribution system 100 percent U&U.

Excessive Unaccounted for Water (EUW)

Rule 25-30.4325, F.A.C., describes EUW as unaccounted for water in excess of 10 percent of the amount produced. When establishing the Rule, we recognized that some uses of water are readily measurable and others are not.¹⁰ Unaccounted for water is all water that is produced that is not sold, metered or accounted for in the records of the utility. The unaccounted for water is

⁸ Order No. PSC-10-0024-PAA-WU

⁹ *Id.*

¹⁰ Order No. PSC-93-0455-NOR-WS, issued on March 24, 1993, in Docket No. 911082-WS, *In re: Proposed revisions to Rules 25-22.0406, 25-30.020, 25-30.025, 25-30.030, 25-30.032 through 25-30.037, 25-30.060, 25-30.110, 25-30.111, 25-30.135, 25-30.255, 25-30.320, 25-30.335, 25-30.360, 25-30.430, 25-30.436, 25-30.437, 25-30.443, 25-30.455, 25-30.515, 25-30.565; adoption of Rules 25-22.0407, 25-22.0408, 25-22.0371, 25-30.038, 25-30.039, 25-30.090, 25-30.117, 25-30.432 through 25-30.435, 25-30.4385, 25-30.4415, 25-30.456, 25-30.460, 25-30.465, 25-30.470, 25-30.475; and repeal of Rule 25-30.441, F.A.C., pertaining to water and wastewater regulation*, at p. 102

calculated by subtracting both the gallons used for other purposes, such as flushing, and the gallons sold to customers from the total gallons pumped for the test year. Rule 25-30.4325, F.A.C., also provides that to determine whether adjustments to plant and operating expenses, such as purchased electrical power and chemical costs, are necessary, we will consider all relevant factors as to the reason for EUW, solutions implemented to correct the problem, or whether a proposed solution is economically feasible.

The Monthly Operating Reports that the Utility files with the DEP indicate that Neighborhood treated 28,132,000 gallons during the test year. Neighborhood's annual reports indicate that it purchased 361,000 gallons of water and used 180,000 gallons for other uses during the test year. According to our staff audit report, Neighborhood sold 27,167,355 gallons of water for the test year. Based on the values above, Neighborhood's unaccounted for water is only 4 percent. Therefore, we do not find any adjustment to operating expenses for chemicals and purchase power due to EUW.

Rate Base

Neighborhood's rate base was last established in its 2009 SARC, by Order No. PSC-10-0024-PAA-WU.¹¹ In the instant docket, the test year ended June 30, 2015 was used. A summary of each rate base component and recommended adjustments are discussed below.

Utility Plant in Service (UPIS)

Neighborhood recorded UPIS of \$646,773. Our audit identified several adjustments, resulting in a net increase to UPIS of \$21,591 to reflect the appropriate balances, Commission-ordered adjustments, and additions that were not booked. These adjustments are shown in the table below. We also made an averaging adjustment to decrease UPIS by \$188.

Commission Audit Adjustments

Acct.	Description	Adjustments
302	Franchise	(\$243)
304	Structures & Improvements	7,447
307	Wells & Springs	7,695
309	Supply Mains	1,680
311	Pumping Equip.	674
320	Water Treatment Equip.	1,242
330	Distribution Reservoirs	2,522
331	T&D Mains	(2,570)
333	Services	3,880
334	Meters & Meter Installations	(1,036)
335	Tools, Shop, & Garage Equip.	<u>300</u>
	Total Adjustments	\$21,591

¹¹ Order No. PSC-10-0024-PAA-WU, issued January 11, 2010, in Docket No. 090060-WU, *In re: Application for staff-assisted rate case in Duval County by Neighborhood Utilities.*

Pro Forma Plant

We find a net adjustment increase of \$3,640 to UPIS for pro forma plant addition items. We note that Neighborhood only provided one bid for each pro forma project item despite several requests by our staff for multiple bids and/or quotes for each item. Neighborhood claimed that it had difficulty finding companies or persons to provide quotes and perform the specific jobs. We find that the pro forma projects are warranted based on the condition of the Utility's plant observed by our staff during the site visit of the Utility. Although multiple bids were not provided as is customary, we find the pro forma plant additions are prudent and reasonable.

Therefore, we find an average UPIS balance of \$671,816 (\$646,773 + \$21,591 - \$188 + \$3,640). Our net adjustment of \$3,640 for pro forma plant addition items are outlined in the table below and the details of each pro forma item are discussed below.

Pro-Forma Plant Items

Project	Description	Amount
Electric Panel Repairs	Rewire and replace the electric panel	\$14,250
	Associated Retirement	(5,209)
High Service Pump #1	Replace and upgrade a high service pump	3,977
	Associated Retirement	(2,271)
Pump House Roof	Replace the pump house roof	945
	Associated Retirement	(347)
Check Valve	Install new check valve	4,111
	Associated Retirement	(3,083)
Flushing Valve	Install a 2-inch flushing valve	4,700
Meter and Meter Boxes	Reflect meter and meter box retirements	(13,433)
	Net Adjustment	<u>\$3,640</u>

Electric Panel Repairs, including Water Level Controls Replacement

Neighborhood requested \$14,250 to rewire and replace the electric panel, because the electric panel does not work consistently. A 2016 U.S. Water proposal reflects that the existing electrical panel should be replaced. The bid noted, "The existing panel is very outdated and has had multiple problems." This installation would require special disposal as the existing electric panel contains mercury. The bid includes a line item for "Materials and Labor to Complete Scope of Service." Also, the bid "as quoted represents labor, material, and project management specific to items listed" in the description of the project. The retirement associated with this project is \$5,209.

High Service Pump #1

Neighborhood requested \$3,977 to replace and upgrade a high service pump. Neighborhood asserts that the pump upgrade to 450 gallons per minute will increase fire flow capacity. U.S. Water provided a proposal to perform work associated with this project. The proposal includes “Materials and Labor to Complete Scope of Service” at \$1,000. The proposal stated the utility will supply the 20hp motor, seals, and gaskets. Neighborhood provided documentation from the USA BlueBook that shows the cost for the motor, seals, and gaskets at \$2,977. The retirement associated with this project is \$2,271.

Pump House Roof

Neighborhood asserts that the pump house roof is 33 years old and leaks, which could cause problems with the electric control panel. The proposal by Florida Residential to replace the pump house roof is \$945. The proposal includes removing existing shingles and felt (\$120), replacing any wood rot that is needed (no price), and installing new drip edge and shingles (\$350). Materials are \$400 and a Dump fee is \$75. The retirement associated with this project is \$347.

Check Valve

Neighborhood requested \$4,111 to replace a check valve at the water treatment plant. Neighborhood explained that the check valve will not shut after use which results in water flowing back through the pump. This action could cause damage to the pump and motor. The check valve has been temporarily isolated, and service has been switched to another pump. Neighborhood received a 2016 proposal from U.S. Water to replace the valve, which includes material and labor to complete the task. The retirement associated with this project is \$3,083.

Flushing Valve

Neighborhood requested \$4,700 to install a two-inch flushing valve at the corner of Rothbury Drive South and Blair Road. A customer at this location complained about odors and installing a flushing valve could help resolve this complaint. Neighborhood reported that the nearest flushing source is a fire hydrant 450 feet away. U.S. Water provided a proposal to complete this work. The proposal is to dig up and install a new flushing valve on the existing 8-inch water main. There is no retirement associated with this project.

Meters and Meter Box Retirements

As discussed in the “*O&M Expense*” Section below, we are ordering a meter replacement program and the replacement of 50 meter boxes. The appropriate retirement associated with this project is \$13,433.

Land & Land Rights

Neighborhood recorded a test year land value of \$1,000. We make no adjustments to this account.

Accumulated Depreciation

Neighborhood recorded an Accumulated Depreciation balance of \$462,169 on its 2014 Annual Report. Our audit staff calculated Accumulated Depreciation to be \$459,458 as of June 30, 2015, resulting in a decrease of \$2,711. This balance included our prior-ordered adjustments that the Utility did not make. We also made an averaging adjustment to Accumulated Depreciation that resulted in a decrease of \$10,320. Further, we made adjustments based on pro forma plant additions and retirements, resulting in a net decrease of \$22,986. Our total adjustments result in an Accumulated Depreciation balance of \$426,152 ($\$462,169 - \$2,711 - \$10,320 - \$22,986$).

Contributions In Aid of Construction (CIAC)

Neighborhood recorded a CIAC balance of \$786,998 as of June 30, 2015. Neighborhood was unable to provide sufficient documentation to support this CIAC amount. As such, we find it necessary to impute CIAC, pursuant to Rule 25-30.570, F.A.C., which states:

If the amount of CIAC has not been recorded on the utility's books and the utility does not submit competent substantial evidence as to the amount of CIAC, the amount of CIAC shall be imputed to be the amount of plant costs charged to the cost of land sales for tax purposes if available, or the proportion of the cost of the facilities and plant attributable to the water transmission and distribution system and the sewage collection system.

Pursuant to this Rule, we included \$243,607 which is the balance in Account 331 T&D Mains. We also recalculated the appropriate amount of meter installation fees and plant capacity charges based on the Utility's tariff. This resulted in an increase to CIAC of \$39,402 for the meter installation fees and \$421,465 for plant capacity charges. Additionally, we reduced CIAC by \$421,465 to retire the plant capacity fees that were fully amortized. Further, we reduced CIAC by \$13,433 to reflect meter retirements associated with pro forma meter replacements. Therefore, we find the appropriate CIAC balance to be \$269,576 ($\$243,607 + \$39,402 + \$421,465 - \$421,465 - \$13,433$), which results in a net decrease of \$517,422 ($\$786,998 - \$269,576$).

Accumulated Amortization of CIAC

Neighborhood recorded Accumulated Amortization of CIAC of \$567,803 on its 2014 Annual Report. We recalculated this amount based on the imputed balances for CIAC. Based on our calculations, the appropriate components of Accumulated Amortization of CIAC are \$145,438 for the T&D Mains, \$33,357 for the Meter Installation Fees, and \$421,465 for the Plant Capacity Fees. We also reduced Accumulated Amortization of CIAC by \$421,465 to retire the fully amortized plant capacity fees and \$13,433 associated with pro forma meter retirements. Therefore, we find the Accumulated Amortization of CIAC balance to be \$165,362 ($\$145,438 + \$33,357 + \$421,465 - \$421,465 - \$13,433$), which results in a net decrease of \$402,441 ($\$567,803 - \$165,362$).

Working Capital Allowance

Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses. Consistent with Rule 25-30.433(2), F.A.C., we used the one-eighth of the operation and maintenance expense formula approach for calculating the working capital allowance. Applying this formula, we find a working capital allowance of \$18,390.

Rate Base Summary

Based on the foregoing, we find that the appropriate average test year rate base for Neighborhood to be \$160,840. Rate base is shown on Schedule No. 1-A attached hereto, and the related adjustments are shown on Schedule No. 1-B.

Rate of Return

Neighborhood's test year capital structure reflected negative common equity of \$622,743, customer deposits of \$7,995, and a long-term debt balance of \$178,919. In accordance with our practice, we set the negative common equity to zero.¹² We increased customer deposits by \$1,338 to reflect the amount on the Utility's deposit log, and decreased customer deposits by \$1,783 to reflect an averaging adjustment. This results in a net decrease of \$445 in customer deposits. Therefore, we find a customer deposit balance of \$7,550 (\$7,995 - \$445).

We reduced long-term debt by \$89,769 to remove two amounts on the Utility's books that Neighborhood stated were already paid. We also reduced long-term debt by \$82,078 to remove two additional debts that were on the Utility's books. Neighborhood's President informed our audit staff that these debts were unenforceable. Further, we increased long-term debt by \$95,068 to include two promissory notes that were not on the Utility's books. We also increased long-term debt by \$1,307 to reflect an averaging adjustment. Thus, we find a long-term debt balance of \$103,447 (\$178,919 - \$89,769 - \$82,078 + \$95,068 + \$1,307).

Neighborhood's capital structure has been reconciled with our approved rate base. The appropriate return on equity (ROE) for Neighborhood is 11.16 percent, based upon the Commission-approved leverage formula currently in effect.¹³ Therefore, we find an ROE of 11.16 percent, with a range of 10.16 percent to 12.16 percent, and an overall rate of return of 6.62 percent. The approved ROE and overall rate of return are shown on Schedule No. 2 attached hereto.

¹² Order No. PSC-15-0535-PAA-WU, issued November 19, 2015, p. 6, in Docket No. 140217-WU, *In re: Application for staff-assisted rate case in Sumter County by Cedar Acres, Inc.*; and Order No. PSC-13-0140-PAA-WU, issued March 25, 2013, p. 6, in Docket No. 120183-WU, *In re: Application for staff-assisted rate case in Lake County by TLP Water, Inc.*

¹³ Order No. PSC-16-0254-PAA-WS, issued June 29, 2016, in Docket No. 160006-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.*

Test Year Revenues

Neighborhood recorded total test year revenues of \$135,972. The water revenues included \$134,866 of service revenues and \$1,106 of miscellaneous revenues. Based on our review of Neighborhood's billing determinants and the service rates that were in effect during the test year, we find the test year service revenues to be \$132,143. This results in a decrease of \$2,723 (\$134,866-\$132,143) to service revenues for water.

U.S. Water provides disconnect and reconnection services to Neighborhood on a contractual basis. In order to recover its cost, Neighborhood charged customers \$20, which is more than what was approved in its tariff and not in compliance with our Rules and Florida Statutes. As discussed in the "*Miscellaneous Service Charges*" Section herein, we find it appropriate to increase Neighborhood's existing miscellaneous service charges, as well as permit collection of a late payment charge. As a result, we find that miscellaneous revenues shall be increased to reflect the incremental increase of the miscellaneous service charges and the addition of a late payment charge. Based on our review of the number of miscellaneous service occurrences during the test year and the Utility's recommended miscellaneous service charges, we find Neighborhood's miscellaneous revenues to be \$9,777, on a going forward basis. This results in an increase of \$8,761 (\$9,777-\$1,106) to miscellaneous revenues for water. Therefore, we find the appropriate test year revenues for Neighborhood's water system are \$141,920 (\$132,143+\$9,777).

Although Neighborhood charged more than its approved violation reconnection charge, we do not believe Neighborhood "willfully" disregarded this Commission's rules or statutes. As outlined above, the disconnection service is provided on a contractual basis and Neighborhood was attempting to pass the cost to the cost causer. As discussed in the "*Miscellaneous Service Charges*" Section, we are authorizing violation reconnection charges of \$30 and \$32, for normal and after hours, respectively, which are more than Neighborhood's current tariff charges (\$10 normal hours and \$15 after hours), and an unauthorized charge of \$20.

The purpose of these miscellaneous service charges is to place the cost burden on the cost causers and not by the general body of ratepayers. Neighborhood's current violation reconnection charge results in subsidization from the general body of ratepayers because it does not cover the costs associated with service disconnections. For the reasons outlined above, we find that no enforcement action by the Commission is warranted at this time. However, Neighborhood is put on notice that, in the future, it may be subject to a show cause proceeding by this Commission, including penalties, if Neighborhood charges amounts other than those approved by this Commission.

Operating Expenses

Neighborhood recorded operating expense of \$157,952. We reviewed the test year Operation and Maintenance Expenses, including invoices, canceled checks, and other supporting documentation, and made several adjustments to Neighborhood's operating expenses as summarized below.

Operation and Maintenance Expenses (O&M)

Salaries and Wages – Employees (601)

Neighborhood recorded Salaries and Wages – Employees expense of \$17,777. We increased this account by \$223 to reflect the actual Salaries and Wages expense paid by the Utility. We used Cedar Acres, Inc., a similarly-situated utility, which recently had a rate case¹⁴ for comparison purposes in this case. Both are Class C utilities, have a President, an office manager, and use contractors for meter reading, operating the utility, and various repairs. In the Cedar Acres, Inc. rate case, Docket No. 140217-WU, we approved a combined amount (before reductions for unsatisfactory Quality of Service) of \$43,080 (\$38,938 + \$4,142) for Salaries and Wages – Employees and Salaries and Wages – Officers.¹⁵ This equates to \$135 (\$43,080 / 319) per customer annually. In this case, the combined recommended Salaries and Wages – Employees and Salaries and Wages – Officers is \$44,400 (\$18,000 + \$26,400), which equates to \$101 (\$44,400 / 441) per customer. Given the similarities in duties and responsibilities for the president and the office manager of each utility, we find this expense reasonable. Therefore, we find the appropriate Salaries and Wages – Employees expense for Neighborhood to be \$18,000 (\$17,777 + \$223).

Salaries and Wages – Officers (603)

Neighborhood recorded Salaries and Wages – Officers expense of \$26,400. In Neighborhood's last rate case, we approved an expense of \$24,000 for this account. We indexed this amount, using our approved index factors from 2010 to 2015, which resulted in an amount of \$26,178. Because the difference is only \$222, and in light of the analysis of total salaries above, we find Neighborhood's recorded amount to be reasonable. Therefore, we find the appropriate Salaries and Wages expenses – Officers expense for Neighborhood to be \$26,400.

Purchased Power (615)

Neighborhood recorded Purchased Power expense of \$5,261. We increased Purchased Power expense by \$187 to reflect the actual amount incurred. Neighborhood did not record any Purchased Power expense related to its office. We use our approved amount (\$1,572) for a utility with a similarly-sized customer base and indexed that amount to 2015.¹⁶ This results in an increase to Purchased Power expense of \$1,705. Therefore, we find the appropriate Purchased Power expense for Neighborhood to be \$7,153 (\$5,261 + \$187 + \$1,705).

Chemicals (618)

Neighborhood recorded Chemicals expense of \$5,339. We decreased Chemicals expense by \$635 to remove a transaction that was outside the test year. Therefore, we find the appropriate Chemicals expense for Neighborhood to be \$4,704 (\$5,339 - \$635).

¹⁴ Order No. PSC-15-0535-PAA-WU, issued November 19, 2015, in Docket No. 140217-WU, *In re: Application for staff-assisted rate case in Sumter County by Cedar Acres, Inc.*

¹⁵ *Id.*, at p. 7.

¹⁶ Order No. PSC-11-0436-PAA-WS, p. 8, issued September 29, 2011, in Docket No. 100472-WS, *In re: Application for staff-assisted rate case in Manatee County by Heather Hills Estates Utilities LLC.*

Contractual Services – Billing (630)

Neighborhood recorded Contractual Services – Billing expense of \$4,912. We reduced Contractual Services – Billing expense by \$1,123 to remove several bills that were outside the test year. Therefore, we find the appropriate Contractual Services – Billing expense for Neighborhood to be \$3,789 ($\$4,912 - \$1,123$).

Contractual Services – Testing (635)

Neighborhood recorded Contractual Services – Testing expense of \$2,632. We reduced Contractual Services – Testing expense by \$39 to remove unsupported expenses. Further, we increased Contractual Services – Testing expense by \$485 to reflect an annualized amount related to DEP required tri-annual contaminants testing that was not performed during the test year. Therefore, we find the appropriate Contractual Services – Testing expense for Neighborhood to be \$3,078 ($\$2,632 - \$39 + \485).

Contractual Services – Other (636)

Neighborhood recorded Contractual Services – Other expense of \$19,774, which includes the expense related to U.S. Water for operating the system, meter reading and turn offs, as well as various repairs. The expense also includes payment to Merchant Services for generating customer bills. We increased Contractual Services – Other expense by \$1,560 to reflect the cost of lawn maintenance. Consistent with Rule 25-30.433(8), F.A.C., we reduced this account by \$2,685 to remove and amortize various non-recurring repair expenses. Further, we increased Contractual Services – Other expense by \$25,027 to reflect pro forma expenses as discussed and reflected in the “*Pro Forma Expense*” section and table below. Therefore, we find the appropriate Contractual Services – Other expense for Neighborhood to be \$43,676 ($\$19,774 + \$1,560 - \$2,685 + \$25,027$).

Pro Forma Expenses

Neighborhood has requested several pro forma expense items, which are summarized in the table below. We note that our staff requested Neighborhood provide several bids and/or quotes for each pro forma project several times, yet was only provided with one bid. Neighborhood indicated that it had difficulty finding companies or persons to provide quotes and perform specific jobs. During the site visit of the Utility, our staff observed the condition of Neighborhood’s plant and we find the pro forma projects are warranted. Although multiple bids were not provided, we find these pro forma expenses to be reasonable based on the analysis of each item below. Pursuant to Rule 25-30.433(8), F.A.C., non-recurring expenses shall be amortized over a 5-year period unless a shorter or longer period of time can be justified.

Meter Reading

As part of the pro forma adjustments, we increased this account by \$6,092 to reflect the going-forward expense associated with meter reading services through U.S. Water, a non-related, third party. Neighborhood submitted a quote from U.S. Water on June 1, 2016, that reflected meter reading services for up to 500 meters for an annual amount of \$16,200, or \$3.06 per meter per month. Since Neighborhood currently has 441 meters, and within a year should have installed 60 touch read meters, we reduced this amount to reflect 381 meters. This reduction results in an annual amount of \$12,344 (381 x \$3.06 x 12), which represents an increase of \$6,092 over the current contract. In the Cedar Acres, Inc. Docket No. 140217-WU, we approved an amount equal to \$6.30 per meter read.¹⁷ Therefore, we find a \$3.06 per meter reading charge to be reasonable. We note, however, that Neighborhood is currently seeking to negotiate a lower contract amount with U.S. Water, as well as exploring alternatives.

Tank Inspection

Neighborhood requested \$3,850 for a tank inspection. Neighborhood originally provide a 2014 quote from U.S. Water for \$6,926. When asked for a current quote, Neighborhood provided a 2016 proposal from American Tank Maintenance, LLC for \$3,850. The proposal includes tank cleaning, inspections, and disinfection. The proposed inspection is a five-year inspection required by DEP and is currently overdue by 18 months. DEP did note this as a deficiency on Neighborhood's last sanitary survey. Neighborhood has indicated that the tank inspection has not been completed due to insufficient revenues. The adjustment to O&M Expenses would be \$770 (\$3,850 over five years).

Fire Hydrant Service

Neighborhood requested \$5,400 for fire hydrant service. The 2016 proposal from Bob's Backflow and Plumbing Services states that the annual testing of the hydrants would include inspecting, operating, flushing, and greasing the ports of each hydrant. The proposal quoted \$225 per hydrant. There are 24 hydrants in the distribution system. The adjustment to O&M Expenses would be an increase of \$2,700 (\$225 per fire hydrant over two years).

Valves

Neighborhood requested \$3,650 to clean and exercise valves. Neighborhood received a 2016 proposal from U.S. Water who would locate, exercise, and cleanout all the valves. The adjustment to O&M Expenses would be an increase of \$730 (\$3,650 over five years).

¹⁷ Order No. PSC-15-0535-PAA-WU.

Generator Switch Gear

Neighborhood requested \$2,181 to diagnosis and repair the generator switch gear. Neighborhood reports that currently the switch gear works intermittently and needs troubleshooting and repair. Neighborhood received a 2016 quote from Premier Power Systems. Premier Power Systems recommends its full major service, which includes oil, oil filter, air filter, coolant filter, coolant system flush and refill, belts and hoses replaced, diesel fuel tested cleaned and treated, full system test, and two hour load bank test. The adjustment to O&M Expenses would be \$435 (\$2,181 over five years).

Line Break

On January 12, 2016, U.S. Water repaired a line break. U.S. Water located the line break on the water main through the woods “in the middle of a swamp”. Neighborhood provided an invoice from U.S. Water, dated February 15, 2016. The cost for location, labor, and materials is \$4,147. The adjustment to O&M Expenses would be \$829 (\$4,147 over five years).

Meter Replacements

Neighborhood requested \$90,280 to replace approximately 441 meters, which is the estimated cost for the meter replacement project is based on a 2016 U.S. Water proposal. During the Utility’s last rate case, we approved pro forma expense to replace 40 meters per year at \$5,255. Since then, Neighborhood only replaced 57 meters. Neighborhood stated that water use and revenues have declined since the last rate case; therefore, there were insufficient funds to pay for new meters. Neighborhood stated that all the meters would be replaced, even the 57 meters previously replaced, due to the fact those meters are not touch read meters.

We find that funds for the meter replacement program shall be collected in an escrow account at the rate of \$12,360 (\$206 per meter for 60 meters per year). We find the implementation of such an escrow program will provide extra protection to the customers and ensure the completion of the meter replacement program by Neighborhood. The retirement associated with this project is \$9,270. We approved a meter replacement plan for Little Gasparilla Water Utility, Inc. in 2014.¹⁸ The meter replacement plan equated to \$249.15 per meter.¹⁹

Meter Boxes and Lids Replacement

Neighborhood requested \$5,550 to replace 50 meter boxes and lids at an estimated \$111 per meter. Based upon a 2015 Ferguson Enterprises, Inc. proposal submitted by Neighborhood, the cost breakdown is: meter boxes \$47, lids \$34, and installation \$30. Neighborhood would like to replace the plastic boxes and lids with fiberglass concrete boxes and lids. This replacement would take place in the Cherokee Cove subdivision only. Accordingly, this cost should be amortized over five years, which equates to \$1,110.

¹⁸ Order No, PSC-14-0626-PAA-WU, issued October 29, 2014, in Docket No. 130265-WU, *In re: Application for staff-assisted rate case in Charlotte County by Little Gasparilla Water Utility, Inc.*

¹⁹ *Id.* at p. 7.

Pro Forma Expenses Summary

We approve the following total pro forma expenses for Neighborhood:

Pro-Forma Expenses Items		
Project	Description	Amount
Meter Reading	To reflect going-forward meter reading expense	\$6,092
Tank Inspection	To inspect storage tank per DEP requirements	770
Fire Hydrant Service	To annually test and service fire hydrants	2,700
Valves	To clean and exercise the valves	730
Generator Switch Repair	To replace switch in generator	435
Line Break Repair	To repair line break	829
Meter Replacement	To replace 60 meters per year	12,360
Meter Boxes	To replace 50 meter boxes	1,110
	Total	\$25,027

Rental of Building/Property (640)

Neighborhood did not record any Rental of Building/Property expense. Neighborhood is currently using an office, with no lease agreement, free of charge. The business that originally provided the office space to Neighborhood has since been sold and the Utility has been asked to move out of the space. Neighborhood's President indicated that he has not signed a lease because Neighborhood does not currently have the money. In addition, the President stated that he is awaiting the outcome of this rate case before signing a lease.

We note that in Neighborhood's last rate case, we approved rent expense in the amount of \$8,222. We indexed this amount from 2010 to 2015, using our approved index factors, which resulted in an amount of \$8,968. Neighborhood submitted a quote, from a non-related, third party for an 800 square foot office at \$13.50 per square foot, on a yearly basis, which equates to an annual rent expense of \$10,800. Prior to the customer meeting, our staff performed an analysis of 11 suitably-sized office spaces in the Jacksonville area. Specifically, in an effort to test the reasonableness of this quote, our staff used a commercial real estate website to calculate an average annual per square foot price of \$14.64, which resulted in an amount of \$11,715 (800 x \$14.64).

We find that rent expense is a necessary cost of providing service that should be included in Neighborhood's revenue requirement. Based on our staff's analysis of average annual office rentals in the Jacksonville area and the indexed amount from the previous rate case, we find Neighborhood's quote from the non-related, to be reasonable. Therefore, we find the appropriate Rental of Building expense for Neighborhood to be \$10,800.

Neighborhood shall be required to file an affidavit with this Commission, no later than 90 days from the date this Order becomes final, attesting that it leased office space and provide a copy of the lease. In the event Neighborhood is unable to procure office space within 90 days of this Order becoming final, Neighborhood shall file a letter at least seven (7) days prior to deadline, stating the reason(s) for the delay. Our staff is given administrative authority to evaluate the circumstances and file a recommendation to this Commission addressing the appropriate action to be taken.

Transportation Expense (650)

Neighborhood recorded Transportation expense of \$6,746. The main vehicle used by Neighborhood is a 1998 Honda Accord. The title to this vehicle is in the name of the spouse of Neighborhood's President. There are no lease payments associated with this vehicle. Neighborhood pays for all gas and maintenance on the vehicle. In addition to the Honda Accord, Neighborhood occasionally uses a 2001 Lexus that is also the personal vehicle of Neighborhood's President. There are no lease payments associated with this vehicle either, however Neighborhood pays for the gasoline in exchange for the use of that vehicle. We increased Transportation expense by \$632 to reflect supported expenses. We also reduced this account by \$2,411 to remove a non-utility payment. Therefore, we find the appropriate Transportation expense for Neighborhood to be \$4,967 ($\$6,746 + \$632 - \$2,411$).

Insurance Expense (655)

Neighborhood recorded Insurance expense of \$4,164. We increased this expense by \$1,344 to reflect actual expenses that are supported by documentation. We also reduced this account by \$3,346 to remove payments for a life insurance policy on Neighborhood's President. According to the NARUC Uniform System of Accounts, these payments should be recorded below the line. Therefore, we find the appropriate Insurance expense for Neighborhood to be \$2,162 ($\$4,164 + \$1,344 - \$3,346$).

Regulatory Commission Expense (665)

Neighborhood did not record any Regulatory Commission expense. By Rule 25-22.0407, F.A.C., Neighborhood is required to mail notices of the customer meeting and notices of final rates in this case to its customers. For these notices, we estimated \$431 for postage, \$308 for printing, and \$44 for envelopes. Additionally, Neighborhood paid a \$1,000 rate case filing fee. Based on the above, we find the appropriate total rate case expense for Neighborhood to be \$1,783, which amortized over four years results in a Regulatory Commission expense of \$446 ($\$1,783 / 4$).

Bad Debt (670)

Neighborhood recorded Bad Debt expense of \$387, however, this amount was removed by the auditors due to lack of support. To establish an appropriate amount of Bad Debt expense for the test year, we calculated a 3-year average using annual reports filed for the years 2013, 2014, and 2015. The 3-year average is consistent with our practice.²⁰ Using the 3-year average, we decreased this account by \$71. Therefore, we find the appropriate Bad Debt expense for Neighborhood to be \$316 ($\$387 - \71).

²⁰ Order No. PSC-15-0335-PAA-WS, issued August 20, 2015, in Docket No. 140147-WS, *In re: Application for staff-assisted rate case in Sumter County by Jumper Creek Utility Company*, p. 9; and Order No. PSC-16-0013-PAA-SU, issued January 6, 2016, in Docket No. 150102-SU, *In re: Application for increase in wastewater rates in Charlotte County by Utilities, Inc. of Sandalhaven*, p. 23.

Miscellaneous Expense (675)

Neighborhood recorded Miscellaneous expense of \$32,085. We decreased Miscellaneous expense by \$11,795 to remove expenses that were outside the test year. We also decreased Miscellaneous expense by \$7,895 to remove expenses that had no supporting documentation. We increased Miscellaneous expense by \$5,032 to include expenses that were not recorded on Neighborhood's books. We decreased this account by \$128 to reclassify and capitalize expenses to UPIS. Further, we reduced this account by \$897 to reflect the going-forward cost of telephone service. Finally, we reduced this account by \$2,307 to remove non-utility expenses. Therefore, we find the appropriate Miscellaneous expense for Neighborhood to be \$14,095 ($\$32,085 - \$11,795 - \$7,895 + \$5,032 - \$128 - \$897 - \$2,307$).

Operation & Maintenance Expenses Summary

Based on the above discussion, we find the appropriate O&M expenses Neighborhood to be \$147,120, which is \$334 per customer. Using the 2014 Annual Reports, our staff performed an analysis of Class C utilities and calculated that the average O&M expenses, indexed to 2016, were \$331 per customer. Therefore, we find the O&M expenses to be reasonable. Our approved adjustments to O&M expenses are shown on Schedule Nos. 3-B and 3-C.

Depreciation Expense

Neighborhood recorded Depreciation expense of \$13,390 for the test year. Our audit staff recalculated Depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. and found that Depreciation expense was understated by \$9,422. We increased Depreciation expense by \$849 associated with pro forma plant additions. Based on the above, we find the appropriate test year Depreciation expense for Neighborhood to be \$23,661 ($\$13,390 + \$9,422 + \849).

CIAC Amortization Expense

Neighborhood did not record any CIAC Amortization expense for the test year. We calculated CIAC Amortization expense for the test year to be \$9,118. We decreased this expense by \$1,179 to reflect retirements related to pro forma meter installations. Based on our calculations, we find the appropriate CIAC Amortization expense for Neighborhood to be \$7,938 ($\$9,118 - \$1,179$).

Taxes Other Than Income (TOTI)

Neighborhood recorded TOTI of \$11,550. We reduced this amount by \$195 to reflect the appropriate test year property taxes. We increased TOTI by \$2,023 to reflect RAFs associated with the revenue increase. It should be also noted that although it is not included in the revenue requirement, Neighborhood applies ten percent and five percent to customer's bills for a public service tax and a right of way tax for Duval County. The public service tax and right of way tax are self-reporting, which means it is Neighborhood's responsibility to report and pay the county tax collector. Therefore, we find the appropriate TOTI for Neighborhood to be \$13,378 ($\$11,550 - \$195 + \$2,023$).

Income Tax

Neighborhood did not record any income tax expense for the test year. Neighborhood has shown a net loss for the last several years in its annual reports and income tax returns. This tax loss carry forward is in excess of the income tax provision on a going-forward basis, and is expected to continue to be so for at least the next 10 years. In this instance, it is our practice to allow no provision for income tax.²¹ Therefore, we find no income tax provision for Neighborhood.

Operating Expenses Summary

The application of our adjustments to Neighborhood's test year operating expenses result in operating expenses of \$176,221. Our approved operating expenses are shown on Schedule Nos. 3-A, attached hereto, and the related adjustments are shown on Schedule No. 3-B.

In addition, Neighborhood is required to file an affidavit no later than 90 days from the date this Order becomes final, attesting that it leased office space and provide a copy of the lease. In the event Neighborhood is unable to procure office space within 90 days of this Order becoming, Neighborhood shall file a letter at least seven (7) days prior to deadline, stating the reason(s) for the delay. Our staff is given administrative authority to evaluate the circumstances and file a recommendation to this Commission addressing the appropriate action to be taken.

Meter Replacement Program Escrow Account

As discussed above in "*O&M Expenses*," we approved a meter replacement program for Neighborhood. The meter replacement program includes replacing 60 meters per year, resulting in a total annual cost of \$12,360. In order to assure that the meters are replaced and the customers are protected, we find that Neighborhood shall be required to escrow \$1,030 monthly. Further, in order for approval of funds to be released, Neighborhood must submit support documentation of installation of meters and associated costs. The meter replacement program is expected to be completed within eight years.

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

- 1) The Commission Clerk, or his or her designee, must be a signatory to the escrow agreement;
- 2) No monies in the escrow account may be withdrawn by the utility without the prior written authorization of the Commission Clerk, or his or her designee;
- 3) The escrow account shall be an interest bearing account;
- 4) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;

²¹ Order No. PSC-15-0535-PAA-WU, p. 11, issued November 19, 2015, in Docket No. 140217-WU, *In re: Application for staff-assisted rate case in Sumter County by Cedar Acres, Inc.*; and Order No. PSC-10-0124-PAA-WU, p. 9, issued March 1, 2010, in Docket No. 090244-WU, *In re: Application for staff-assisted rate case in Lake County by TLP Water, Inc.*

- 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; and
- 9) The account must specify by whom and on whose behalf such monies were paid.

Neighborhood is required to maintain a record of the amount escrowed, and the amount of revenues that are subject to refund.

Revenue Requirement

We find Neighborhood shall be allowed an annual increase of \$44,949 (or 31.67 percent), which will allow the Utility the opportunity to recover its expenses and earn a 6.62 percent return on its water system. The calculations are shown in the table below.

Revenue Requirement

Adjusted Rate Base	\$160,840
Rate of Return	<u>6.62%</u>
Return on Rate Base	\$10,648
Adjusted O&M Expense	147,120
Depreciation Expense (Net)	15,723
Taxes Other Than Income	13,378
Income Taxes	<u>0</u>
Revenue Requirement	\$186,869
Less Adjusted Test Year Revenues	<u>(141,920)</u>
Annual Increase	<u>\$44,949</u>
Percent Increase	31.67%

Rates and Rate Structure

Neighborhood is located in Duval County within the SJRWMD and provides water service to approximately 437 residential and 4 general service customers. Approximately one 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 5,065 gallons per month. Neighborhood's current water system rate structure for residential customers consists of a base facility charge (BFC) and a three-tier inclining block rate structure. The rate blocks are: (1) 0-6,000 gallons; (2) 6,001-12,000 gallons; and (3) all usage in excess of 12,000 gallons per month. The general service rate structure includes a BFC based on meter size and a uniform gallonage charge.

We performed an analysis of the Neighborhood'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; and 3) implement, where appropriate, water conserving rate structures consistent with Commission practice.

Currently, Neighborhood's BFC generates approximately 43 percent of the test year revenues. In order to design gallonage charges that will send the appropriate pricing signals to target non-discretionary usage, we find that 30 percent of the revenue requirement shall be recovered through the BFC. At the 30 percent BFC allocation, the percentage increase in price increases as consumption increases, which is one of the rate design goals. In addition, the average number of people per household served by the water system is three. Therefore, based on the number of persons per household, 50 gallons per day per person, and the number of days per month, the non-discretionary usage threshold shall be 5,000 gallons per month, instead of 6,000 gallons.

We also find that shifting the third tier to 10,000 gallons and over, rather than 12,000 gallons and over, will provide a greater pricing signal for usage in excess of 10,000 gallons per month. Therefore, we find a BFC and a three-tier gallonage charge rate structure, which includes a gallonage charge for non-discretionary usage for residential water customers, to be appropriate. The rate tiers shall be: (1) 0-5,000 gallons (non-discretionary); (2) 5,001-10,000 gallons; and (3) all usage in excess of 10,000 gallons per month. We find a BFC and uniform gallonage charge rate structure to be appropriate for general service water customers.

Further, based on the approved revenue increase of approximately 31.7 percent, the residential consumption can be expected to decline by 1,537,000 gallons resulting in anticipated average residential demand of 4,771 gallons per month. Thus, we approve a 5.8 percent reduction in total test year residential gallons for rate setting purposes and corresponding reductions of \$405 for purchased power, \$266 for chemical expense, and \$32 for RAFs to reflect the anticipated repression. These adjustments result in a post repression revenue requirement of \$176,390.

The approved rate structure and monthly water rates are shown on Schedule No. 4 attached hereto. Neighborhood shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. The approved rates shall 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 shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers. Neighborhood shall provide proof of the date notice was given within 10 days of the date of the notice.

4-Year Rate Reduction

Section 367.0816, F.S., requires that rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction shall reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for RAFs. The total reduction for Neighborhood shall be \$471.

Neighborhood's water rates shall be reduced to remove rate case expense grossed-up for RAFs and amortized over a four-year period, as shown on Schedule No. 4, attached hereto. The decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Neighborhood is 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 Neighborhood files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall 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.

Temporary Rates

This Order approves an increase in water rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than Neighborhood, the approved rates are approved as temporary rates. Neighborhood shall file revised tariff sheets and a proposed customer notice to reflect the 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 our staff has approved the proposed notice, and the notice has been received by the customers. The approved rates collected by Neighborhood shall be subject to the refund provisions discussed below.

Neighborhood is authorized to collect the temporary rates upon our staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security shall be in the form of a bond or letter of credit in the amount of \$29,966. Alternatively, Neighborhood may establish an escrow agreement with an independent financial institution.

If Neighborhood chooses a bond as security, the bond shall 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 Neighborhood chooses a letter of credit as a security, it shall 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 shall be part of the agreement:

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

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

Neighborhood shall 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., Neighborhood shall 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 shall also indicate the status of the security being used to guarantee repayment of any potential refund.

Miscellaneous Service Charges

Neighborhood's current initial connection, normal reconnection, premises visit, and violation reconnection charges were last established on September 28, 1984.²² Section 367.091, F.S., authorizes us to establish, increase, or change a rate or charge other than monthly rates or service availability charges. Neighborhood's request to revise its miscellaneous charges was accompanied by its reason for requesting the charge, as well as the cost justification required by Section 367.091(6), F.S.

Initial Connection Charge

Currently, Neighborhood's initial connection charges are \$10 and \$15, for normal and after hours, respectively. The initial connection charge is levied for service initiation at a location where service did not exist previously. A utility representative makes one trip when performing the service of an initial connection. Based on labor and transportation to and from the service territory, we find the appropriate initial connection charges for Neighborhood to be \$19 and \$21 for normal and after hours, respectively. Our calculation is shown in the table below.

Initial Connection Charge Calculation

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$8.65/hr x 1/4 hr)	\$2.16	Labor (Administrative) (\$8.65/hr x 1/4 hr)	\$2.16
Labor (Field) (\$12.69/hr x 1/3 hr)	\$4.23	Labor (Field) (\$19.03/hr x 1/3hr)	\$6.34
Transportation (\$.54/mile x 24 miles-to/from)	<u>\$12.96</u>	Transportation (\$.54/mile x 24 miles-to/from)	<u>\$12.96</u>
Total	\$19.35	Total	\$21.46

Normal Reconnection Charge

Neighborhood's current normal reconnection charges are \$10 and \$15 for normal and after hours. The normal reconnection charge is levied for the transfer of service to a new customer account at a previously served location or reconnection 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 at a later date.

²² Order No. 13723, issued September 28, 1984, in Docket No. 840063-WU, *Application of Neighborhood Utilities, Inc., for a certificate to operate a water utility in Duval County.*

Based on labor and transportation to and from the service territory, we find the appropriate normal reconnection charges for Neighborhood to be \$34 and \$38 for normal and after hours, respectively for water service. Our calculations are shown in the table below.

Normal Reconnection Charge Calculation

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$8.65/hr x 1/4 hr)	\$2.16	Labor (Administrative) (\$8.65/hr x 1/4 hr)	\$2.16
Labor (Field) (\$12.69/hr x 1/4 hr x 2)	\$6.35	Labor (Field) (\$19.03/hr x 1/4 hr x 2)	\$9.52
Transportation (\$.54/mile x 24 miles-to/from x 2)	<u>\$25.92</u>	Transportation (\$.54/mile x 24 miles-to/from x 2)	<u>\$25.92</u>
Total	\$34.43	Total	\$37.60

Violation Reconnection Charge

Neighborhood's current violation reconnection charges are \$10 and \$15 for normal and after hours. 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. Neighborhood contracted with U.S. Water for turn-offs when there is a violation. U.S. Water's first billed hour is for one to five turn-offs, and an additional charge for fuel. The same billing methodology would apply for turn-ons, as well. Neighborhood averages approximately 20 turn-offs per request made for turn-offs. However, Neighborhood may not be able to avoid having only one turn-on at any given time. In order to minimize the cost of turn-ons, Neighborhood has opted to perform this service when a violation has been remedied.

Based on labor and transportation to and from the service territory, the cost to turnoff service by U.S. Water, and the average cost to restore service either during normal business hours or after hours by the Utility, we find the appropriate water violation reconnection charges for Neighborhood to be \$30 and \$32 for normal and after hours, respectively. Our calculations for the water violation reconnection charges are shown in the table below.

Violation Reconnection Charge Calculation – Turn Off

Activity	Normal and After Hours Cost
Labor – (Administrative - utility) (\$8.65/hr x 1/4hr)	\$2.16
Labor – (outside contractor)	\$11.58
Transportation (outside contractor)	<u>\$.62</u>
Total	\$14.36

Violation Reconnection Charge Calculation – Turn On

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Field) (\$12.69/hr x 1/4 hr)	\$3.17	Labor (Field) (\$19.03/hr x 1/4 hr)	\$4.76
Transportation (\$.54/mile x 24 miles-to/from)	\$12.96	Transportation (\$.54/mile x 24 miles-to/from)	\$12.96
Total	\$16.13	Total	\$17.72

Premises Visit Charge

Neighborhood's current premises visit charge is \$8 during regular business hours. The premises visit charge is levied when a service representative visits a premises at the customer's request for complaint resolution and the problem is found to be the customer's responsibility. In addition, the premises visit 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, we find the appropriate premises visit charges for Neighborhood to be \$19 and \$21 for normal and after hours. Our calculations are shown in the table below.

Premises Visit Charge Calculation

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$8.65/hr x 1/4hr)	\$2.16	Labor (Administrative) (\$8.65/hr x 1/4hr)	\$2.16
Labor (Field) (\$12.69/hr x 1/3 hr)	\$4.23	Labor (Field) (\$19.03/hr x 1/3 hr)	\$6.34
Transportation (\$.54/mile x 24 miles-to/from)	\$12.96	Transportation (\$.54/mile x 24 miles-to/from)	\$12.96
Total	\$19.35	Total	\$21.46

Miscellaneous Service Charges Summary

For the reasons outlined above, we find it appropriate to revise Neighborhood's current miscellaneous service charges. The approved charges are shown on the table below.

Approved Miscellaneous Service Charges

Miscellaneous Service Charges	During Hours	After Hours
Initial Connection Charge	\$19	\$21
Normal Reconnection Charge	\$34	\$38
Violation Reconnection Charge	\$30	\$32
Premises Visit Charge (in lieu of Disconnection)	\$19	\$21

The charges shall 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 shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers. Neighborhood shall provide proof of the date notice was given within 10 days of the date of the notice.

Late Payment Charges

Section 367.091(6), F.S., authorizes us to establish, increase, or change a rate or charge other than monthly rates or service availability charges. Neighborhood requested a \$5.00 late payment charge to recover the cost of supplies and labor associated with processing late payment notices, and its request was accompanied by its reason for requesting the charge, as well as the cost justification required by Section 367.091(6), F.S. We find the appropriate late payment charge for Neighborhood to be \$4.30.

Neighborhood indicated that approximately 35 percent or 150 (35% x 430) of its bills are delinquent on a monthly basis. Neighborhood indicated that it processes six late payment charges an hour. Neighborhood's cost justification included labor cost of \$4.17, which was based on salary of \$25 per hour. We determined, however, that the appropriate combine labor for the clerical and administrative employees is \$21 per hour. Based on the labor and six late payment notices per hour, we determined labor cost of \$3.50 (\$21/6). Neighborhood provided a cost justification for a late payment charge of \$4.93. The cost basis for Neighborhood's requested charge and our approved late payment charge, including labor, is shown in the table below.

Late Payment Charge Calculation

	Utility's Proposed	Commission Approved
Labor	\$4.17	\$3.50
Printing	0.20	0.20
Postage	<u>0.56</u>	<u>0.56</u>
Total	\$4.93	\$4.26*

* Note: Our approved late-payment charge of \$4.30 was rounded to the nearest tenth.

Based on our research, since the late 1990s, we have approved late payment charges ranging from \$2.00 to \$7.00.²³ 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. For the reasons outlined, we approve Neighborhood's request to implement a late payment charge and approve a late payment charge of \$4.30. Neighborhood shall be required to file a proposed customer notice to reflect the approved charge. The approved charge shall be effective for services 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 charge shall not be implemented until our staff has approved the proposed customer notice. Neighborhood shall provide proof of the date notice was given no less than 10 days after the date of the notice.

Non-Sufficient Funds Charges (NSF)

Section 367.091, F.S., requires rates, charges, and customer service policies to be approved by the Commission. We have authority to establish, increase, or change a rate or charge. We find that Neighborhood shall 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 Section 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,
- (4) or five percent of the face amount of the check, whichever is greater.

Approval of NSF charges is consistent with our prior decisions.²⁴ 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, Neighborhood shall be authorized to collect NSF charges for its water system. Neighborhood shall revise its tariff sheet to reflect the NSF charges currently set forth in Section 68.065, F.S. The NSF charges shall be effective on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1),

²³ Order No. PSC-14-0335-PAA-WS, in Docket No. 130243-WS, issued June 30, 2014, *In re: Application for staff-assisted rate case in Highlands County by Lake Placid Utilities Inc.*; Order No. PSC-14-0105-TRF-WS, in Docket No. 130288-WS, issued February 20, 2014, *In re: Request for approval of late payment charge in Brevard County by Aquarina Utilities, Inc.*; Order No. PSC-13-0177-PAA-WU, in Docket No. 130052-WU, issued April 29, 2013, *In re: Application for grandfather certificate to operate water utility in Charlotte County by Little Gasparilla Water Utility, Inc.*; Order No. PSC-10-0257-TRF-WU, in Docket No. 090429-WU, issued April 26, 2010, *In re: Request for approval of imposition of miscellaneous service charges, delinquent payment charge and meter tampering charge in Lake County, by Pine Harbour Water Utilities, LLC.*; and Order No. PSC-11-0204-TRF-SU, in Docket No. 100413-SU, issued April 25, 2011, *In re: Request for approval of tariff amendment to include a late fee of \$14.00 in Polk County by West Lakeland Wastewater.*

²⁴ Order No. PSC-14-0198-TRF-SU, issued May 2, 2014, in Docket No. 140030-SU, *In re: Request for approval to amend Miscellaneous Service charges to include all NSF charges by Environmental Protection Systems of Pine Island, Inc.*; and Order No. PSC-13-0646-PAA-WU, issued December 5, 2013, in Docket No. 130025-WU, *In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.*

F.A.C. Furthermore, the NSF charges shall not be implemented until our staff has approved the proposed customer notice. Neighborhood shall provide proof of the date the notice was given within 10 days of the date of the notice.

Initial Customer Deposits

Rule 25-30.311, F.A.C., contains the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the utility and, ultimately, the general body of ratepayers. Historically, we have set initial customer deposits equal to two times the average estimated bill.²⁵ Currently, Neighborhood's initial customer deposits for residential and general service are \$39 for 5/8" x 3/4", \$54 for one inch, \$78 for the one and one half inch, and \$108 for two inch and over meter sizes. Based on the water rates and post repression average residential demand adjustment we have approved herein, the appropriate initial customer deposit for Neighborhood shall be \$58 for water, to reflect an average residential customer bill for two months.

Pursuant to Rule 25-30.311(5), F.A.C., after a customer has established a satisfactory payment record and has had continuous service for a period of 23 months, a utility shall refund the residential customer's deposit. Neighborhood applies interest and refunds deposits in January of each year if the rule requirement has been met in the prior year. Neighborhood is currently holding 35 deposits of customers who have met the requirement of the Rule; however, based Neighborhood's existing policy, the deposits will not be refunded until January of 2017.

Rule 25-30.311(4)(b), F.A.C., requires that deposit interest shall be simple interest in all cases and settlement shall be made annually. It is not appropriate to refund customer deposits only once per year, in January, when the rule requirement has been met. Therefore, Neighborhood shall refund the customer deposits that have met the Rule requirement. The refunds shall be made within 60 days of a Consummating Order being issued in this matter. We note that Neighborhood is hereby put on notice that it may be subject to a show cause proceeding by this Commission, including penalties, if customers deposits are not refunded pursuant to Rule 25-30.311, F.A.C.

Therefore, we find the appropriate water initial customer deposit for Neighborhood to be \$58 for the residential 5/8" x 3/4" meter size based on the rates approved herein. The initial customer deposits for all other residential meter sizes and all general service meter sizes shall be two times the average estimated bill for water service. The approved initial customer deposits shall be effective for connections made on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475, F.A.C. Neighborhood shall refund those deposits that have met the requirement pursuant to Rule 25-30.311(5), F.A.C., within 60 days of the issuance of a Consummating Order in this matter. Neighborhood is required to file a refund report within in 30 days of completing the customer deposit refunds.

²⁵ Order No. PSC-13-0611-PAA-WS, issued November 19, 2013, in Docket No. 130010-WS, *In re: Application for increase in water rates in Lee County and wastewater rates in Pasco County by Ni Florida, LLC*; and Order No. PSC-14-0016-TRF-WU, issued January 6, 2014, in Docket No. 130251-WU, *In re: Application for approval of miscellaneous service charges in Pasco County, by Crestridge Utility Corporation*.

Meter Installation Charges

A meter installation charge is designed to recover the cost of the meter and the installation. Neighborhood's current meter installation charges were approved on September 28, 1984,²⁶ and are currently \$90 for the 5/8" x 3/4" meter, \$110.00 for the 1" meter, \$202 for the 1 1/2" meter, \$338 for the 2" meter, and actual cost for meter sizes over 2". As discussed in the "Rate Base" section above, we approved a meter replacement program to replace Neighborhood's existing meters with remote read meters. Based on the cost justification provided for the meter replacement program, find it appropriate to update Neighborhood's existing meter installation charges and find the requested meter installation charge reasonable.

Neighborhood's appropriate meter installation charges of \$206 for the 5/8" x 3/4 meters and all other meter sizes shall be at actual cost. The meter installation charge shall be collected only from new connections to Neighborhood's water system. The approved meter installation charges shall be effective for service rendered on or after the stamped approval date of the tariff pursuant to Rule 25-30.475, F.A.C.

Estimated Bills

As discussed previously, in Neighborhood's last rate case, we approved pro forma for the replacement of meters. However, according to Neighborhood's, due to declining revenues it was unable to maintain its meter replacement program. As a result, Neighborhood estimates demand for those meters which are inoperable or unreadable. We received copies of a customer's bills, which a designation of "E" when the bill was estimated. Pursuant to Rule 25-30.335(2), F.A.C., if a utility estimates a bill, the bill statement shall prominently show the word "Estimated" on the face of the bill. In addition, the utility is obligated to timely correct any problems within the utility's control causing the need to estimate bills. Further, in no event shall a utility provide an estimated bill to any one customer more than four times in any 12-month period due to circumstances that are within the utility's control and service obligations.

Although Neighborhood had a designation of "E" and not "Estimated" on the customer bill, which does not comply with Rule 25-30.335, F.A.C., we do find that Neighborhood "willfully" disregarded Commission rules or statutes. Neighborhood estimates approximately 20 percent of its bills, of which 5 percent is due to inoperable or unreadable meters. Until the inoperable or unreadable meters are replaced, Neighborhood will continue to have estimated bills. When undertaking the meter replacement program, Neighborhood shall prioritize the meter replacements such that the inoperable or unreadable meters are replaced first in order to avoid continued noncompliance with our Rule. We find that Neighborhood is proactive in its efforts to resolve the estimated bill issue because of its request for the meter replacements. Therefore, we do not find that enforcement action is warranted at this time. However, Neighborhood is put on that it may be subject to a show cause proceeding by this Commission, including penalties, in the future if Neighborhood continues to fail to comply with Rule 25-30.335, F.A.C.

²⁶ *Id.*

Neighborhood shall handle estimated bills in the manner prescribed in Rule 25-30.335, F.A.C. Neighborhood is required submit a sample bill displaying the appropriate designation for estimated bills within 30 days of a Consummating Order being issued.

Adjustment of Books

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

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Neighborhood Utilities, Inc.'s application for an increase in rates and charges is hereby approved as set forth in the body of this Order. It is further,

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further,

ORDERED that all matters contained in the schedules attached hereto are incorporated by reference. It is further,

ORDERED that the overall quality of service provided by Neighborhood Utilities, Inc. is satisfactory. It is further,

ORDERED that Neighborhood Utilities, Inc.'s water treatment plant and its distribution system is 100 percent Used & Useful. It is further,

ORDERED that, since Neighborhood Utilities, Inc. does not have excessive unaccounted for water, no adjustment is made to Neighborhood Utilities, Inc.'s operating expenses for chemicals and purchased power. It is further,

ORDERED that the appropriate average test year rate base for Neighborhood Utilities, Inc. is \$160,840. It is further,

ORDERED that the appropriate return on equity for Neighborhood Utilities, Inc. 11.16 percent, with a range of 10.16 percent to 12.16 percent. The appropriate overall rate of return is 6.62 percent. It is further,

ORDERED that the appropriate test year revenues for Neighborhood Utilities, Inc.'s water system are \$141,920. It is further,

ORDERED that the appropriate amount of operating expenses for Neighborhood Utilities, Inc. is \$176,221. It is further,

ORDERED that Neighborhood Utilities, Inc. shall implement a meter replacement program and replace 60 meters per year. Neighborhood Utilities, Inc. shall escrow \$1,030 every, \$12,360 annually, to be used to replace meters. It is further

ORDERED that Neighborhood Utilities, Inc. is required to submit support documentation of the installation of meters and associated costs in order for approval of funds to be released from the escrow account. It is further

ORDERED that Neighborhood Utilities, Inc. shall maintain a record of the amount escrowed, and the amount of revenues subject to refund. It is further

ORDERED that Neighborhood Utilities, Inc. shall file an affidavit with this Commission, no later than 90 days from the date this Order becomes final, attesting that it leased office space and provide a copy of the lease. In the event Neighborhood is unable to procure office space within 90 days of this Order becoming, Neighborhood shall file a letter at least seven (7) days prior to deadline, stating the reason(s) for the delay. Our staff is given administrative authority to evaluate the circumstances and file a recommendation to this Commission addressing the appropriate action to be taken. It is further,

ORDERED that the appropriate revenue requirement for Neighborhood Utilities, Inc. is \$186,869, resulting in an annual increase of \$44,949 (or 31.67 percent). It is further,

ORDERED that the approved rate structure and monthly water rates for Neighborhood Utilities, Inc. are shown on Schedule No. 4. Neighborhood Utilities, Inc. shall file revised tariff sheets and a proposed customer notice to reflect the approved rates shown on Schedule 4. The revised tariff sheets shall be approved upon our staff's verification that the tariff sheets are consistent with our decision herein. It is further,

ORDERED that Neighborhood Utilities, Inc.'s approved rates shall 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. It is further,

ORDERED that Neighborhood Utilities, Inc.'s approved rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers as forth in this Order. Neighborhood Utilities, Inc. shall provide documentation to this Commission that the notice was provided to its customers within 10 days of the date of the notice. It is further,

ORDERED that, subject to the conditions set forth in the body of this Order, following the expiration of the four-year rate case expense recovery period, Neighborhood Utilities, Inc.'s rates shall be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for Regulatory Assessment Fees and amortized over a four-year period. It is further,

ORDERED that Neighborhood Utilities, Inc. shall 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. It is further,

ORDERED that, if Neighborhood Utilities, Inc. files this reduction in conjunction with a price index or pass-through rate adjustment, it shall file separate data for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. It is further,

ORDERED that the approved rates shall be approved for Neighborhood Utilities, Inc. on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility, pursuant to Section 367.0814(7), F.S. Neighborhood Utilities, Inc. shall file revised tariff sheets and a proposed customer notice, reflecting the approved temporary rates. The approved temporary rates shall 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. It is further,

ORDERED that prior to implementation of any temporary rates, Neighborhood Utilities, Inc. shall provide appropriate security for the potential refund of \$22,966, as set out in the body of this Order. The temporary rates collected by Neighborhood Utilities, Inc. shall be subject to refund provisions outlined in this Order. Neighborhood Utilities, Inc. may collect the temporary rates upon our staff's approval of an appropriate security for the potential refund and the proposed customer notice. It is further,

ORDERED that, irrespective of the form of the security chosen by Neighborhood Utilities, Inc., the Utility shall maintain an account of all monies received as a result of the rate increase. It is further,

ORDERED that, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., Neighborhood Utilities, Inc. shall file reports with the Office of the 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 shall also indicate the status of the security being used to guarantee repayment of any potential refund. It is further,

ORDERED that Neighborhood Utilities, Inc. shall be allowed to implement initial connection charges of \$19 for normal hours, and \$21 for after hours. Neighborhood Utilities, Inc. shall file a proposed customer notice to reflect the approved charges. The approved charges shall be effective for services rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. It is further

ORDERED that Neighborhood Utilities, Inc. shall be allowed to implement normal reconnection charges of \$34 for normal hours, and \$38 for after hours. Neighborhood Utilities, Inc. shall file a proposed customer notice to reflect the approved charges. The approved charges shall be effective for services rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. It is further

ORDERED that Neighborhood Utilities, Inc. shall be allowed to implement violation reconnection charges of \$30 for normal hours, and \$32 for after hours. Neighborhood Utilities, Inc. shall file a proposed customer notice to reflect the approved charges. The approved charges shall be effective for services rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. It is further

ORDERED that Neighborhood Utilities, Inc. shall be allowed to implement premise visit charges of \$19 for normal hours, and \$21 for after hours. Neighborhood Utilities, Inc. shall file a proposed customer notice to reflect the approved charges. The approved charges shall be effective for services rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. It is further

ORDERED that Neighborhood Utilities, Inc. shall be allowed to implement a late payment charge of \$4.30. Neighborhood Utilities, Inc. shall file a proposed customer notice to reflect the approved charges. The approved charges shall be effective for services rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. It is further

ORDERED that Neighborhood Utilities, Inc. shall be allowed to collect Non-Sufficient Funds (NSF) charges. Neighborhood Utilities, Inc. shall revise its tariff sheets to reflect the NSF charges currently set forth in Sections 68.065, F.S. The approved NSF charges shall be effective on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. It is further

ORDERED that the approved initial connection, normal reconnection, violation reconnection, premise visit, late payment, and NSF charges shall not be implemented until our staff has approved the proposed customer notice and the notice has been provided to the customers. Neighborhood Utilities, Inc. shall provide proof of the date the customer notice was given no less than 10 days after the date of the notice. It is further,

ORDERED that, Neighborhood Utilities, Inc. is required to charge the exact amount of the approved charges until this Commission authorizes it to change them in a subsequent proceeding. Neighborhood Utilities, Inc. is hereby put on notice that it may be subject to a show cause proceeding by this Commission, including penalties, in the future if Neighborhood Utilities, Inc., charges amounts other than those approved by this Commission. It is further

ORDERED that the appropriate initial customer deposit for Neighborhood Utilities, Inc. is \$58 for the residential 5/8" x 3/4" meter size for water. The initial customer deposit for all other residential meter sizes and all general service meter sizes shall be two times the average estimated bill for water. The approved customer deposits shall 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. Neighborhood Utilities, Inc. is required to charge the approved charges until this Commission authorizes it to change them in a subsequent proceeding. It is further,

ORDERED that Neighborhood Utilities, Inc. shall refund those customer deposits that have met the requirement of Rule 25-30.311(5), F.A.C., within 60 days of this Order becoming final. Neighborhood Utilities, Inc. shall file a refund report within 30 days of the completion of the customer deposit refunds. In addition, Neighborhood Utilities, Inc. is hereby put on notice that it may be subject to a show cause proceeding by this Commission, including penalties, in the future if Neighborhood Utilities, Inc. fails to refund customer deposits pursuant Rule 25-30.311, F.A.C. It is further,

ORDERED that the appropriate meter installation charges of \$206 for the 5/8" x 3/4" meters and all other meter sizes for Neighborhood Utilities, Inc. shall be at actual cost. The meter installation charge shall be collected only from new connections to Neighborhood Utilities, Inc.'s water system. The approved meter installation charges shall be effective for service rendered on or after the stamped approval date of the tariff pursuant to Rule 25-30.475, F.A.C. It is further

ORDERED that Neighborhood Utilities, Inc. shall handle estimated bills in the manner prescribed in Rule 25-30.335, F.A.C. Neighborhood Utilities, Inc. is required to submit a sample bill displaying the appropriate designation for estimated bills within 30 days of this Order becoming final. In addition, Neighborhood Utilities, Inc. is hereby put on notice that it may be subject to a show cause proceeding by this Commission, including penalties, in the future if Neighborhood Utilities, Inc. fails to comply with Rule 25-30.335, F.A.C. It is further

ORDERED that Neighborhood Utilities, Inc. is required to notify this Commission in writing, within 90 days of date of this Order becoming final, that it has adjusted its books for all applicable NARUC USOA primary accounts. Our staff has administrative authority to grant Neighborhood Utilities, Inc. an extension, of up to 60 days, upon the Utility providing good cause, in writing, for additional time to complete the adjustments. It is further

ORDERED that, except for the granting of temporary rates in the event of protest, the reduction for rate case expense, and the proof of adjustment of books, which are final agency action, the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, F.A.C., is received by the Office of the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that, if no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a Consummating Order shall be issued. This docket shall remain open for our staff to verify that Neighborhood Utilities, Inc. has: (i) filed the required revised tariff sheets and customer notices and they have been approved by our staff; (ii) filed an affidavit attesting that it leased office space, and provided a copy of the lease; (iii) refunded customer deposits, meeting the requirement of Rule 25-30.311(5), F.A.C., and submitted a refund report documenting the completion of the refunds; (iv) submitted a sample bill, displaying the appropriate designation for estimated bills; and (v) adjusted its books for all the applicable NARUC USOA primary accounts as outlined in this Order. Once these actions are complete, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 23rd day of November, 2016.



HONG WANG
Chief Deputy Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

KFC

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

As identified in the body of this order, the actions proposed herein are preliminary in nature, except the decisions regarding (1) the granting of temporary rates in the event of protest, (2) the reduction for rate case expense, and (3) the proof of adjustment to NARUC USOC accounts, which are final agency action. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on December 14, 2016.

If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Any party adversely affected by the Commission's final action in this matter may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Office of Commission Clerk, within fifteen (15) days of the issuance of this Order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Office of Commission Clerk and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this Order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

NEIGHBORHOOD UTILITIES, LLC			SCHEDULE NO. 1-A
TEST YEAR ENDED 06/30/15			DOCKET NO. 150181-WU
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	COMMISSION ADJUSTMENTS TO UTIL. BAL.	BALANCE PER COMMISSION
UTILITY PLANT IN SERVICE	\$646,773	\$25,043	\$671,816
LAND & LAND RIGHTS	1,000	0	1,000
ACCUMULATED DEPRECIATION	(462,169)	36,017	(426,152)
CIAC	(786,998)	517,422	(269,576)
ACCUMULATED AMORTIZATION OF CIAC	567,803	(402,441)	165,362
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>18,390</u>	<u>18,390</u>
WATER RATE BASE	<u>(\$33,591)</u>	<u>\$194,431</u>	<u>\$160,840</u>

NEIGHBORHOOD UTILITIES, LLC	SCHEDULE NO. 1-B
TEST YEAR ENDED 06/30/15	DOCKET NO. 150181-WU
ADJUSTMENTS TO RATE BASE	
	<u>WATER</u>
<u>UTILITY PLANT IN SERVICE</u>	
1. To reflect prior COAs and additions that were not booked.	\$21,591
2. To reflect an averaging adjustment.	(188)
3. To reflect pro forma plant additions.	<u>3,640</u>
Total	<u>\$25,043</u>
	-
<u>ACCUMULATED DEPRECIATION</u>	
1. To reflect the appropriate balance.	\$2,711
2. To reflect an averaging adjustment.	10,320
3. To reflect pro forma plant additions.	<u>22,986</u>
Total	<u>\$36,017</u>
	-
<u>CIAC</u>	
1. To remove CIAC on the Utilities books.	\$786,998
2. To reflect CIAC associated with T&D mains.	(243,607)
3. To reflect CIAC associated with Meter Installation Fees.	(39,402)
4. To reflect CIAC associated with Plant Capacity Fees.	(421,465)
5. To reflect retirement of Plant Capacity Fees.	421,465
6. To reflect retirements associated with Pro Forma Meters.	<u>13,433</u>
Total	<u>\$517,422</u>
	-
<u>ACCUMULATED AMORTIZATION OF CIAC (AA of CIAC)</u>	
1. To remove AA of CIAC on the Utilities books.	(\$567,803)
2. To reflect AA of CIAC associated with T&D mains.	145,438
3. To reflect AA of CIAC associated with Meter Installation Fees.	33,357
4. To reflect AA of CIAC associated with Plant Capacity Fees.	421,465
5. To reflect retirement of Plant Capacity Fees.	(421,465)
6. To reflect retirements associated with Pro Forma Meters.	<u>(13,433)</u>
Total	<u>(\$402,441)</u>
	-
<u>WORKING CAPITAL ALLOWANCE</u>	
To reflect 1/8 of test year O & M expenses.	<u>\$18,390</u>

NEIGHBORHOOD UTILITIES, LLC							SCHEDULE NO. 2		
TEST YEAR ENDED 06/30/15							DOCKET NO. 150181-WU		
SCHEDULE OF CAPITAL STRUCTURE									
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER COMMISSION	PERCENT OF TOTAL	COST	WEIGHTED COST	
1. COMMON STOCK	(\$622,743)	\$622,743	\$0						
2. RETAINED EARNINGS	0	0	0						
3. PAID IN CAPITAL	0	0	0						
4. OTHER COMMON EQUITY	<u>0</u>	<u>0</u>	<u>0</u>						
TOTAL COMMON EQUITY	(\$622,743)	\$622,743	\$0	\$0	\$0	0.00%	11.16%	0.00%	
5. LONG TERM DEBT	\$178,919	(\$75,472)	\$103,447	\$49,843	\$153,290	95.31%	6.85%	6.53%	
6. SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%	
7. PREFERRED STOCK	<u>0</u>	<u>0</u>	0	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	0.00%	
TOTAL LONG TERM DEBT	\$178,919	(\$75,472)	\$103,447	\$49,843	\$153,290	95.31%			
8. CUSTOMER DEPOSITS	<u>\$7,995</u>	<u>(\$445)</u>	<u>\$7,550</u>	<u>\$0</u>	<u>\$7,550</u>	<u>4.69%</u>	2.00%	<u>0.09%</u>	
9. TOTAL	<u>(\$435,829)</u>	<u>\$546,826</u>	<u>\$110,997</u>	<u>\$49,843</u>	<u>\$160,840</u>	<u>100.00%</u>		<u>6.62%</u>	
RANGE OF REASONABLENESS						LOW	HIGH		
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>		
OVERALL RATE OF RETURN						<u>6.62%</u>	<u>6.62%</u>		

NEIGHBORHOOD UTILITIES, LLC			SCHEDULE NO. 3-A		
TEST YEAR ENDED 06/30/15			DOCKET NO. 150181-WU		
SCHEDULE OF WATER OPERATING INCOME					
	TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$135,972</u>	<u>\$5,948</u>	<u>\$141,920</u>	<u>\$44,949</u> 31.67%	<u>\$186,869</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$133,012	\$14,108	\$147,120	\$0	\$147,120
3. DEPRECIATION	13,390	10,271	23,661	0	23,661
4. AMORTIZATION	0	(7,938)	(7,938)	0	(7,938)
5. TAXES OTHER THAN INCOME	11,550	(195)	11,355	2,023	13,378
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$157,952</u>	<u>\$16,246</u>	<u>\$174,198</u>	<u>\$2,023</u>	<u>\$176,221</u>
8. OPERATING INCOME/(LOSS)	<u>(\$21,980)</u>		<u>(\$32,278)</u>	-	<u>\$10,648</u>
9. WATER RATE BASE	<u>(\$33,591)</u>		<u>\$160,840</u>	-	<u>\$160,840</u>
10. RATE OF RETURN	<u>65.43%</u>		<u>-20.07%</u>		<u>6.62%</u>

NEIGHBORHOOD UTILITIES, LLC		SCHEDULE NO. 3-B
TEST YEAR ENDED 06/30/15		DOCKET NO. 150181-WU
ADJUSTMENTS TO OPERATING INCOME		Page 1 of 2
		<u>WATER</u>
OPERATING REVENUES		
1.	To reflect the appropriate test year services revenues.	(\$2,723)
2.	To reflect the appropriate test year miscellaneous service revenues.	<u>8,671</u>
	Subtotal	<u>\$5,948</u>
OPERATION AND MAINTENANCE EXPENSES		
1.	Salaries and Wages - Employees (601)	
	To reflect appropriate employee salaries.	<u>\$223</u>
2.	Purchased Power (615)	-
	a. To reflect actual purchased power expense.	\$187
	b. To include estimate of electric for office.	<u>1,705</u>
	Subtotal	<u>\$1,892</u>
3.	Chemicals (618)	-
	To remove invoice that occurred outside the test year.	<u>(\$635)</u>
4.	Contractual Services - Billing (630)	-
	To remove invoices outside the test year.	<u>(\$1,123)</u>
5.	Contractual Services - Testing (635)	-
	a. To remove unsupported invoices.	(\$39)
	b. To reflect the appropriate testing expense.	<u>485</u>
	Subtotal	<u>\$446</u>
6.	Contractual Services - Other (636)	-
	a. To reflect lawn maintenance.	\$1,560
	b. To remove and amortize non-recurring expenses.	(2,685)
	c. To reflect pro forma expenses.	<u>25,027</u>
	Subtotal	<u>\$23,902</u>
7.	Rents (640)	-
	To include rent expense.	<u>\$10,800</u>

NEIGHBORHOOD UTILITIES, LLC	SCHEDULE NO. 3-B
TEST YEAR ENDED 06/30/15	DOCKET NO. 150181-WU
ADJUSTMENTS TO OPERATING INCOME	Page 2 of 2
8. Transportation Expense (650)	-
a. To reflect supported amount.	\$632
b. To remove loan payment.	<u>(2,411)</u>
Subtotal	<u>(\$1,779)</u>
9. Insurance Expenses (655)	-
a. To reflect supported amounts.	\$1,344
b. To remove Life Insurance Expense.	<u>(3,346)</u>
Subtotal	<u>(\$2,002)</u>
10. Regulatory Commission Expense	-
Allowance for rate case expense amortized over 4 years.	<u>\$446</u>
11. Bad Debt Expense (670)	-
a. To remove undocumented expense. (AF 11)	(\$387)
b. To reflect three year average bad debt expense.	<u>316</u>
Subtotal	<u>(\$71)</u>
12. Miscellaneous Expense (675)	-
a. To removed expenses outside the test year. (AF11)	(\$11,795)
b. To remove expenses due to lack of support. (AF11)	(7,895)
c. To include supported expenses not on utility's books. (AF11)	5,032
d. To reclassify and capitalize to UPIS.	(128)
e. To reflect going-forward cost of phone service.	(897)
f. To remove non-utility expense.	<u>(2,307)</u>
Subtotal	<u>(\$17,990)</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$14,109</u>
DEPRECIATION EXPENSE	-
1. To reflect the appropriate test year depreciation expense. (AF3)	\$9,422
2. To reflect pro forma additions.	<u>849</u>
Total	<u>\$10,271</u>
AMORTIZATION	-
To reflect the appropriate test year amortization expense.	<u>(\$7,938)</u>
TAXES OTHER THAN INCOME	-
To reflect the appropriate test year TOTL.	<u>(\$195)</u>

NEIGHBORHOOD UTILITIES, LLC		SCHEDULE NO. 3-C	
TEST YEAR ENDED 06/30/15		DOCKET NO. 150181-WU	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	COMMISSION ADJUST- MENT	TOTAL PER COMMISSION
(601) SALARIES AND WAGES - EMPLOYEES	\$17,777	\$223	\$18,000
(603) SALARIES AND WAGES - OFFICERS	26,400	0	26,400
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	5,261	1,892	7,153
(618) CHEMICALS	5,339	(635)	4,704
(620) MATERIALS AND SUPPLIES	1,300	0	1,300
(630) CONTRACTUAL SERVICES - BILLING	4,912	(1,123)	3,789
(631) CONTRACTUAL SERVICES - PROFESSIONAL	3,475	0	3,475
(635) CONTRACTUAL SERVICES - TESTING	2,632	446	3,078
(636) CONTRACTUAL SERVICES - OTHER	19,774	23,902	43,676
(640) RENTS	0	10,800	10,800
(650) TRANSPORTATION EXPENSE	6,746	(1,779)	4,967
(655) INSURANCE EXPENSE	4,164	(2,002)	2,162
(656) GENERATOR LEASE	2,760	0	2,760
(665) REGULATORY COMMISSION EXPENSE	0	446	446
(670) BAD DEBT EXPENSE	387	(71)	316
(675) MISCELLANEOUS EXPENSE	<u>32,085</u>	<u>(17,990)</u>	<u>14,095</u>
	<u>\$133,012</u>	<u>\$14,108</u>	<u>\$147,120</u>

NEIGHBORHOOD UTILITIES, INC.		SCHEDULE NO. 4	
TEST YEAR ENDED 06/30/15		DOCKET NO. 150181-WU	
MONTHLY WATER RATES			
	UTILITY CURRENT RATES	COMMISSION APPROVED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8" X3/4"	\$9.17	\$8.46	\$0.02
3/4"	\$13.76	\$12.69	\$0.03
1"	\$22.94	\$21.15	\$0.06
1-1/2"	\$45.86	\$42.30	\$0.11
2"	\$73.39	\$67.68	\$0.18
3"	\$146.77	\$135.36	\$0.37
4"	\$229.33	\$211.50	\$0.57
6"	\$458.67	\$423.00	\$1.14
Charge per 1,000 gallons - Residential			
0 - 6,000 gallons	\$2.40	N/A	N/A
6,001 - 12,000 gallons	\$3.60	N/A	N/A
Over 12,000 gallons	\$4.80	N/A	N/A
0 - 5,000 gallons	N/A	\$4.35	\$0.01
5,001 - 10,000 gallons	N/A	\$5.35	\$0.01
Over 10,000 gallons	N/A	\$8.02	\$0.02
Charge per 1,000 gallons - General Service	\$2.45	\$4.82	\$0.01
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
5,000 Gallons	\$21.17	\$30.21	
10,000 Gallons	\$37.97	\$56.96	
12,000 Gallons	\$52.37	\$84.01	