

State of Florida



Public Service Commission

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

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

DATE: September 28, 2018

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Economics (Bruce) *SA PD 9/27/18 Me*
Division of Accounting and Finance (Galloway) *ALM*
Division of Engineering (Mtenga) *MMU*
Office of the General Counsel (DuVal, Dziechciarz) *DD CM & La By*

RE: Docket No. 20170219-WS – Application for staff-assisted rate case in Polk County by River Ranch Water Management, L.L.C.

AGENDA: 10/11/18 – Regular Agenda – Proposed Agency Action – Except Issue Nos. 13, 14, and 15 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Clark

CRITICAL DATES: 03/11/19 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

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Case Background

River Ranch Water Management, L.L.C. (River Ranch or utility) is a Class C water and wastewater utility located in Polk County in the South Florida Water Management District (SFWMD). The utility provides water and wastewater service to a luxury glamping resort which includes single family residential homes, recreational vehicle, condominiums, and other commercial resort properties. According to the utility's 2017 Annual Report, total gross revenues were \$135,440 for water and \$133,626 for wastewater, and total operating expenses were \$151,826 for water and \$221,210 for wastewater.

The utility has been providing service since 1973. In 1996, Polk County transferred its jurisdiction over the privately-owned water and wastewater facilities to the Commission. In September 1997, New River Ranch, L.C. d/b/a River Ranch filed an application for grandfather certificates. Effective February 1999, the utility was granted Certificate Nos. 603-W and 519-S.¹ In 2003, the certificates were transferred to River Ranch.² The utility's last Commission-approved rate increase was in a staff assisted rate case (SARC) in 2003.³ The Commission approved flat water and wastewater rates at that time because not all water usage was metered. In addition, the Commission ordered the utility to install meters for all customers and file a rate restructuring case to implement metered rates. While the utility installed meters and filed for a SARC in 2011, the case was withdrawn without rates being restructured. The utility had two price indexes in 2007 and 2008. The utility filed for the SARC in the instant docket on October 10, 2017. A test year ended September 30, 2017, was selected.

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

¹Order No. PSC-99-0254-FOF-WS, issued February 9, 1999, in Docket No. 19971185-WS, *In re: Application for original certificates for an existing utility providing water and wastewater service in Polk County by New River Ranch, L.C. d/b/a River Ranch.*

²Order No. PSC-03-0518-FOF-WS, issued April 18, 2003, in Docket No. 20020382-WS, *In re: Application for transfer of facilities and Certificate Nos. 603-W and 519-S in Polk County from New River Ranch L.C. d/b/a River Ranch to River Ranch Water Management, LLC.*

³Order No. PSC-03-0740-PAA-WS, issued June 23, 2003, in Docket No. 20021067-WS, *In re: Application for staff-assisted rate case in Polk County by River Ranch Water Management, L.L.C.*

Discussion of Issues

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

Recommendation: Yes. Staff recommends that the overall quality of service provided by River Ranch is satisfactory. (Mtenga)

Staff Analysis: Pursuant to Section 367.081(2)(a)1., F.S., in water and wastewater rate cases, the Commission shall consider the overall quality of service provided by the utility. Rule 25-30.433(1), Florida Administrative Code (F.A.C.), provides for the evaluation of three separate components of the utility's operations.⁴ The components are: (1) the quality of the utility's product; (2) the operating conditions of the utility's plant and facilities; and (3) the utility's attempt to address customer satisfaction. The Rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP) and the county health department over the preceding three-year period shall be considered. Additionally, Section 367.0812(1), F.S., requires the Commission to consider the extent to which the utility provides water service that meets secondary water quality standards as established by the DEP.

Quality of the Utility's Product

In the evaluation of River Ranch's product quality, staff reviewed the utility's compliance with the DEP's primary and secondary drinking water standards. Primary standards protect public health, while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water. On June 21, 2018, testing for the DEP standards were conducted at River Ranch and the utility was deemed in compliance with primary and secondary water standards. Chemical analyses are performed every three years; therefore, the next scheduled analysis should occur in 2021.

The utility's operation of its wastewater treatment system is subject to various environmental requirements such as permitting, testing, and discharge monitoring under the jurisdiction of the DEP. The DEP has no violations or corrective orders pending against River Ranch concerning the treatment and disposal of domestic wastewater.

Operating Conditions of the Utility's Plant and Facilities

River Ranch's service area is located near Lake Wales, Florida, in Polk County, and is within the SFWMD. The raw water source is ground water which is obtained from two wells in the service area and is treated. The utility was issued a notice of violation by the DEP on June 16, 2015. It indicated that after inspection, both of the water tanks were in overall poor condition. The utility replaced the water tanks in 2016. Staff conducted a site visit on June 20, 2018.

The DEP conducted its most recent sanitary survey inspection of the facility on December 12, 2017, and found five deficiencies. These deficiencies included: a cross-connection between the point of entry tap and irrigation system, an unprotected hydropneumatic tank, partial fence down around the water plant, Well No. 2 not properly protected, and threaded raw tap on Well No. 1.

⁴Rule 25-30.433(1), F.A.C., was amended effective July 11, 2018. Staff's analysis is based on the rule at the time of the utility's filing.

The DEP conducted a follow-up inspection at River Ranch's water facility on April 6, 2018, and found that the utility was in compliance with the DEP rules.

River Ranch also operates an activated sludge wastewater treatment plant (WWTP), with a permitted capacity of 95,000 gallons per day (gpd) based on a three-month rolling average daily flow (TMRADF). The plant consists of one surge tank, three aeration basins, two clarifiers, two chlorine contact chambers, and one digester. Treated effluent is discharged into groundwater via a pond. River Ranch's WWTP was inspected by the DEP on March 27, 2018, and the facility was rated as in-compliance.

The Utility's Attempt to Address Customer Satisfaction

A customer meeting was held in Lake Wales, Florida at the River Ranch facility on June 20, 2018, at which approximately 50 customers attended and six customers spoke. Representatives attended from the single family residential homes, Westgate Properties, the Long Hammock Property Owners Association (Long Hammock POA), and the River Ranch RV Park. The primary concern expressed by the customers was that residents would have higher rates because the Westgate Properties' water usage was not properly accounted for. Customers believe that the rates would be lower than proposed in the staff report if Westgate Properties were properly metered. Staff notes that the utility addressed this concern by installing meters to previously unmetered locations within the Westgate Properties as will be discussed in Issue 3.

Staff reviewed the Commission's complaints and correspondence records from October 1, 2012, through August 31, 2018. The Commission received seven letters from customers after the June 7, 2018, staff report was issued, including two letters from the Long Hammock POA.⁵ The letters addressed the same concern as the customers discussed at the customer meeting. Only one letter received indicated that a customer had experienced bad taste and odor in their water. However, staff notes that the utility is passing all of the DEP's primary and secondary water standards. River Ranch indicated in response to staff's second data request that they had not received any complaints in the past five years. The DEP also indicated that they had not received any complaints regarding River Ranch in the past five years as well.

Summary

Staff recommends that the overall quality of service provided by River Ranch is satisfactory.

⁵The staff report was issued on June 7, 2018, Document No. 04115-2018, in Docket No. 20170219-WS.

Issue 2: What are the used and useful (U&U) percentages of River Ranch's water treatment plant (WTP), water distribution system, water storage, WWTP, and wastewater collection system?

Recommendation: Staff recommends that River Ranch's WTP, water distribution system, water storage, WWTP, and wastewater collection system should be considered 100 percent U&U. Staff does not recommend an adjustment to chemicals and purchased power for excessive unaccounted for water (EUW) or excessive inflow and infiltration (I&I). (Mtenga)

Staff Analysis: River Ranch's WTP has two wells rated at 300 gallons per minute (gpm) and 250 gpm. Storage consists of a 200,000 gallon concrete storage tank with aeration and a 1,000 gallon steel hydropneumatic tank. A hypochlorination system is used for disinfection, and water from the tanks is pumped into the water distribution system. The distribution system is a composite network of approximately 16,317 linear feet of 2 inch polyvinyl chloride (PVC) pipe, 5,090 linear feet of 3 inch PVC pipe, 400 linear feet of 4 inch PVC pipe, and 33,330 linear feet of 5 inch PVC pipe. According to the utility, there are 35 fire hydrants in its service area.

The WWTP is a 95,000 gpd extended aeration activated sludge facility. The WWTP consists of one surge tank, three aeration basins, two clarifiers, two chlorine contact chambers, and one digester. The collection system is a composite network of force mains, collecting mains, and six lift stations. The force mains consist of approximately 1,860 linear feet of 3 inch PVC pipe, 17,370 linear feet of 8 inch PVC pipe, and 256 linear feet of 10 inch PVC pipe. The collecting mains consist of approximately 4,330 linear feet of 4 inch PVC pipe, 4,510 linear feet of 6 inch PVC pipe, 13,982 linear feet of 8 inch PVC pipe, and 80 linear feet of 8 inch clay pipe. According to the utility there are 43 manholes.

WTP and WWTP Used & Useful Determination

Based on the utility's annual reports and the staff site visit, the utility appears to be built out and zero growth for the community is expected. Considering there has been minimal growth in the utility's service area in the past five years, and there appears to be no apparent potential for new developments, staff considers the utility built out. Rule 25-30.4325(4), F.A.C., provides that a water treatment system is considered 100 percent U&U if the service territory the system is designed to serve is built out and there is no apparent potential for expansion of the service territory. Rule 25-30.432, F.A.C., requires the Commission to consider the extent to which a service is built out when determining the U&U of a utility's WWTP. Because the utility is built out, staff recommends that River Ranch's WTP, water distribution system, WWTP and wastewater collection system should be considered 100 percent U&U.

Storage Used & Useful

Pursuant to Rule 25-30.4325(8), F.A.C., for water systems with storage, if the storage capacity is less than the peak day demand, the storage system should be considered 100 percent U&U. River Ranch has a 200,000 gallon ground storage tank and one hydropneumatic tank rated at 1,000 gallons. Per the rule, the hydropneumatic tank is not included in the U&U calculation. Since the storage capacity of 200,000 gallons is less than the peak day demand of 301,133 gallons, the storage system should be considered 100 percent U&U.

Excessive Unaccounted for Water

Rule 25-30.4325, F.A.C., describes EUW as unaccounted for water in excess of 10 percent of the amount produced. The Commission recognizes that some uses of the water are readily measurable and others are not. Unaccounted for water is all water that is produced that is not sold, metered, or accounted for in the records of the utility. The Rule provides that to determine whether adjustments to plant and operating expenses, such as purchased electrical power and chemical costs, are necessary, the Commission 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 unaccounted for water is 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.

While staff was able to obtain River Ranch's monthly operation reports to determine the gallons produced, the utility was unable to provide specific gallons sold because some properties were unmetered or did not have properly functioning meters. As such, because of the lack of metered data, staff does not recommend an adjustment to chemicals and purchased power for EUW.

Inflow & Infiltration

Infiltration occurs from groundwater entering a wastewater collection system through broken or defective pipes and joints; whereas inflow results from water entering a wastewater collection system through manholes or lift stations. The allowance for infiltration is 500 gpd, per inch diameter pipe per mile and an additional 10 percent of water sold is allowed for inflow.

As with the EUW determination, staff was able to obtain River Ranch's discharge monitoring reports. However, the utility was unable to provide specific gallons sold because of the lack of metered data. Because of the lack of metered data, staff does not recommend an adjustment to chemicals and purchased power for I&I.

Summary

Staff recommends that River Ranch's WTP, water distribution system, water storage, WWTP and wastewater collection system should be considered 100 percent U&U. Staff does not recommend an adjustment to chemicals and purchased power for EUW or excessive I&I.

Issue 3: What is the appropriate average test year water rate base and wastewater rate base for River Ranch?

Recommendation: The appropriate average test year water rate base for River Ranch is \$639,343 and the appropriate average test year wastewater rate base is \$375,275. (Galloway, Mtenga)

Staff Analysis: The appropriate components of the utility's rate base include utility plant in service (UPIS), land, contributions-in-aid-of-construction (CIAC), accumulated depreciation, amortization of CIAC, and working capital. Rate base was last established for the River Ranch water and wastewater systems as of June 2003.⁶ The test year ending September 30, 2017, was used for the instant case. A summary of each water and wastewater rate base component, and staff's recommended adjustments are discussed below.

Utility Plant in Service

The utility recorded UPIS balances of \$1,824,134 for water and \$1,925,109 for wastewater. Staff reduced water UPIS by \$90,893 and reduced wastewater UPIS by \$398,076 (\$351,311 + \$46,765) to reflect appropriate plant balances as identified in the audit. Most of the adjustments identified in the audit report were made to UPIS due to lack of supporting documentation and unrecorded retirements. However, one adjustment included in the \$398,076 reduction to wastewater plant is \$46,765, which represents plant that was reclassified to property held for future use in the utility's last rate case.⁷

At the time of the utility's last rate case, the utility maintained that it planned to use the old WWTP as part of a future expansion of the wastewater plant. However, during the plant tour for the current docket, the utility's representative stated that the old wastewater plant has been decommissioned and would be disposed of in the future. Staff believes that under this scenario, the old wastewater plant no longer qualifies as property held for future use. This amount was not reflected in the utility's books and records as having been removed from UPIS, nor was it recorded as property held for future use. Therefore, staff reduced wastewater plant and the corresponding accumulated depreciation by \$46,765 to reflect the decommissioned WWTP.

Additionally, the audit identified 24 invoices associated with substantial water plant improvements made by the utility between 2013 and 2016 that totaled \$881,703. All of these invoices were recorded by the utility during the test year and were recorded in one account, Account 330 – Distribution Reservoirs and Standpipes. According to the utility's general ledger, while all of the invoices were recorded, no retirements associated with these additions were made. Staff determined that not all of the additions represented by the invoices should be included in UPIS, and not all of the additions should be recorded in one account.

Of the 24 invoices, eight invoices totaling \$47,980 were associated with a proposed wastewater expansion project. The utility obtained a permit from the DEP but failed to provide documentation that the expansion was a DEP requirement. Based on conversations with the

⁶Order No. PSC-03-0740-PAA-WS, issued June 23, 2003, in Docket No. 20021067-WS, *In re: Application for staff-assisted rate case in Polk County by River Ranch Water Management, LLC.*

⁷Order No. PSC-03-0740-PAA-WS.

utility, it appears the utility elected to expand the wastewater plant on its own. However, the wastewater plant expansion has not begun and in response to staff's data requests the utility indicated that it does not know when or if it will expand the wastewater plant. Therefore, staff recommends that the \$47,980 should be excluded from UPIS at this time.

In the DEP's 2012 sanitary survey report, it was indicated that parts of the water tank were corroding. By 2013 the roof on the water tank had corroded and, as indicated in its permit for construction issued in July 2013, the utility chose to construct a new water tank as the best solution. Preliminary work for the construction of the water tank began in 2013. This included permitting and other site work for approximately \$32,000. The preliminary work, which did not have a bidding process, was conducted by contractors known and previously used by the utility. For the construction of the water tank itself, three bids were received by the utility ranging in cost from \$647,000 to \$663,036. The utility chose Wayne Automatic Fire Sprinklers, Inc., the lowest cost provider at approximately \$647,000 to construct the water tank. During the course of construction, three change orders were submitted that totaled approximately \$113,000. The change orders were for upsizing the tank, fixing leaking pipes, and tying in a tank. The utility provided invoices for the preliminary work, construction of the water tank, and change orders, totaling \$792,267. The water tank construction was required by the DEP. In addition, the utility obtained three bids and chose the lowest cost provider. Therefore, staff recommends that this amount should be included in UPIS.

Also, included in these invoices was one invoice associated with a fire hydrant and fire line. The fire hydrant was installed by Vincent Plumbing between the Skeet House and the newly constructed glamping tents that are farther from the main attractions of the Westgate Properties. Because of the distance from the rest of the Westgate Properties, 760 feet of fire line had to be included in the installation of the fire hydrant. Because of the relatively isolated location of River Ranch, Vincent Plumbing is the utility's preferred provider and has been used by the utility for other projects. The utility recorded \$42,640 to reflect this cost. However, the invoice included a line item for work that was not completed; therefore, staff determined the appropriate amount to be included in Account No. 335, Hydrants, is \$34,140. Based on the above, staff has reduced this account by \$8,500. Therefore, regarding the 24 invoices, staff removed \$56,480 (\$47,980 + \$8,500), as not related to the water plant or fire hydrant.

Finally, regarding the 24 invoices and the above conclusions, staff determined which invoices should include a retirement, and calculated the related retirement in accordance with Commission practice. It is Commission practice to use 75 percent of the cost of the replacement as the retirement value when the original cost is not known. It is also Commission practice to limit the retirement to the account balance if the 75 percent retirement exceeds the plant balance. As such, staff reduced UPIS in the amount of \$424,657 to reflect retirements associated with the water tank project, Account 330, and \$25,605 to reflect the retirement associated with the fire hydrant, Account 335.

Pro Forma

The utility requested \$39,815 for a pro forma meter replacement and installation program. The list of the meters in the meter replacement and installation program is provided in Table 3-1 below.

**Table 3-1
 Meter Replacement and Installation Program**

Size	Number of Meters	Cost of Meter	Total Cost of Meters	Retirement Amount
2"	6	\$1,788.20	\$10,729.20	\$0.00
¾"	3	\$656.40	\$1,969.20	\$0.00
¾"	12	\$656.40	\$7,876.80	\$5,907.60
6"	1	\$19,239.74	\$19,239.74	\$14,429.81
Total	22		39,814.94	\$20,337.41

Source: Utility's Response to Staff's Fifth Data Request

As stated in Issue 2, the utility lacked metering data during the test year. During staff's site visit, the utility noted locations on the Westgate Properties where water was being used but was not being metered, including recently installed recreational areas. The utility has since installed 10 new meters to account for the previously unmetered locations. In addition to the new meters, the utility replaced broken meters at residential sites and the master meter for the RV park that had been struck by lightning. The utility contracted with Vincent Plumbing for the installation of the meters as they are a preferred vendor for the utility. The utility submitted invoices for five of the 2 inch meters and staff was able to extrapolate the cost of the sixth meter. The utility submitted invoices for all the ¾ inch meters and the 6 inch meter. The utility also replaced a 1 inch meter, however, failed to provide an invoice or a bid for the 1 inch meter; therefore, staff recommends that recovery of this cost should not be considered at this time. Based on documentation provided by the utility, staff recommends that \$39,815 be included in UPIS to reflect the pro forma meter replacement and installation program, with a corresponding total retirement of the replaced meters in the amount of \$20,337.

Based on the above, staff recommends adjustments to UPIS that result in a net decrease of \$578,158 (-\$90,893 - \$424,657 - \$25,605 - \$56,480 + \$39,815 - \$20,337) to water UPIS, and a net decrease of \$407,179 (-\$351,311 - \$46,765 - \$9,103) which includes an averaging adjustment of \$9,103, to wastewater UPIS. These adjustments result in staff recommending a UPIS balance of \$1,245,976 for water and \$1,517,930 for wastewater.

Land and Land Rights

The utility recorded land of \$160 for water and \$500 for wastewater. Staff verified that the land is owned by the utility and determined there have been no changes to the utility's cost of land since rate base was last established, therefore, no adjustments are necessary. Staff recommends a land and land rights balance of \$160 for water and \$500 for wastewater.

Contributions In Aid of Construction (CIAC)

The utility recorded test year CIAC of \$524,938 for water and \$665,542 for wastewater. The recorded CIAC is consistent with the utility's prior rate case as well as its approved tariff and customer base. Further, because no activity occurred during the test year, no averaging adjustments are necessary for ratemaking purposes. Therefore, staff recommends CIAC balances of \$524,938 for water, and \$665,542 for wastewater.

Accumulated Depreciation

According to the utility's general ledger, the accumulated depreciation balance for River Ranch's water system was \$718,063, and for the wastewater system was \$1,281,819, as of September 30, 2017. Staff recalculated accumulated depreciation and depreciation expense using the appropriate UPIS balances and the depreciation rates established by Rule 25-30.140(2), F.A.C. Staff increased this account by \$50,085 for water and decreased this account by \$244,793 for wastewater to reflect the appropriate balances. In addition, staff reduced accumulated depreciation by \$171,649 (\$146,044 + \$25,605) to reflect the unrecorded retirements for water, as discussed above in the UPIS section. A further reduction was made to water accumulated depreciation in the amount of \$20,910, to reflect the retirements associated with the pro forma meters. Finally, staff reduced accumulated depreciation to reflect an averaging adjustment of \$20,062 for water and \$17,356 for wastewater. The result of these adjustments is a decrease to accumulated depreciation of \$162,537 (\$50,085 - \$171,649 - \$20,910 - \$20,062) for water, and a decrease of \$262,149 (\$244,793 + \$17,356) for wastewater. Therefore, staff's recommended accumulated depreciation is \$555,526 for water and a balance of \$1,019,670 for wastewater.

Accumulated Amortization of CIAC

River Ranch recorded test year amortization of CIAC balances of \$464,260 for water and \$526,382 for wastewater. Staff calculated amortization of CIAC and the depreciation rates established by Rule 25-30.140(2), F.A.C., and made no adjustments. The recorded amortization of CIAC is consistent with Commission practice. Therefore, staff recommends amortization of CIAC balances of \$464,260 and \$526,382 for water and wastewater, respectively.

Working Capital Allowance

Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses of the utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Staff also removed rate case expense of \$784 for water and \$590 for wastewater pursuant to Section 367.081(9), F.S.⁸ Applying this formula, staff recommends a working capital allowance of \$9,410 (\$75,284/8) for water, based on the adjusted O&M expense of \$75,284 (\$76,068 - \$784). Further, staff recommends a working capital allowance of \$15,675 (\$125,398/8) for wastewater, based on the adjusted O&M expense of \$125,398 (\$125,988 - \$590).

⁸Section 367.081(9), F.S., states, "A utility may not earn a return on the unamortized balance of the rate case expense. Any unamortized balance of rate case expense shall be excluded in calculating the utility's rate base. Therefore, staff excluded rate case expense from the working capital calculations. The unamortized balance of rate case expense is reflected in Issue 6 and in Schedule Nos. 3-D and 3-E.

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base for water is \$639,343 and the appropriate average test year rate base for wastewater is \$375,275, as shown in Schedule Nos. 1-A and 1-B. The related adjustments are shown on Schedule No. 1-C.

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

Recommendation: The appropriate return on equity (ROE) is 8.11 percent with a range of 7.11 percent to 9.11 percent. The appropriate overall rate of return is 8.11 percent. (Galloway)

Staff Analysis: According to the staff audit report, the River Ranch test year capital structure consisted of additional paid in capital, member's equity, retained earnings, and related-party debt. River Ranch is a subsidiary of Central Florida Investments (CFI) and its operations. Any utility earnings (losses) roll forward to, and are consolidated within, CFI's federal tax return. The utility's capital structure in its 2016 annual report reflects an equity balance of \$578,573 and a long term debt balance of \$244,724, and no customer deposits.

The long term debt balance has existed unchanged since 2004 and is an obligation to CFI, a related party. It is Commission practice that, regarding related-party debt, when no interest or scheduled payments for principal are being made, the debt is considered common equity.⁹ Staff has adjusted the utility's capital structure to reflect the related-party debt as common equity pursuant to Commission practice.

The utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE for the utility is 8.11 percent based upon the Commission-approved leverage formula currently in effect.¹⁰ Staff recommends an ROE of 8.11 percent, with a range of 7.11 percent to 9.11 percent, and an overall rate of return of 8.11 percent. The ROE and overall rate of return are shown on Schedule No. 2.

⁹Order Nos. PSC-13-0140-PAA-WU, issued March 25, 2013, in Docket No. 20120183-WU, *In re: Application for staff-assisted rate case in Lake County by TLP Water, Inc.*; PSC-12-0410-PAA-SU, issued August 13, 2012, in Docket No. 110165-SU, *In re: Application for staff-assisted rate case in Highlands County by Utility Corporation of Florida, Inc.*; and PSC-10-0681-PAA-WU, issued November 15, 2010, in Docket No. 20090414-WU, *In re: Application for staff-assisted rate case in Polk County by Pinecrest Ranches, Inc.*

¹⁰Order No. PSC-2018-0327-PAA-WS, issued June 26, 2018, in Docket No. 20180006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*

Issue 5: What are the appropriate amounts of test year revenues for the water and wastewater systems?

Recommendation: The appropriate test year revenues are \$137,305 for the water system and \$167,826 for the wastewater system. (Bruce)

Staff Analysis: River Ranch recorded total revenues of \$135,486 for water and \$165,612 for wastewater, which consists of only service revenues. During the test year, the utility did not bill nine residential customers; therefore, staff recommends that the service revenues should be increased by \$1,819 for water and \$2,214 for wastewater to reflect the imputed revenues associated with those customers. Therefore, the appropriate test year revenues are \$137,305 for the water system and \$167,826 for the wastewater system.

Issue 6: What is the appropriate amount of operating expenses for River Ranch?

Recommendation: The appropriate amounts of operating expenses are \$119,229 for water and \$197,694 for wastewater. (Galloway, Mtenga)

Staff Analysis: River Ranch recorded operating expense of \$145,442 for water and \$222,926 for wastewater for the test year ended September 30, 2017. The test year O&M expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. Staff's adjustments to the utility's operating expenses are summarized below.

Salaries and Wages - Employees (601/701)

The utility recorded employee salaries and wages expense of \$24,655 for water and \$24,655 for wastewater for the test year. This amount represents one full-time employee who served as the utility operator. Staff determined that the actual salaries paid during the test year were \$21,561 for water and \$21,561 for wastewater for the test year which is a reduction of \$3,094 for water and \$3,094 for wastewater.

During a conference call with utility representatives in April 2018, and through subsequent data requests, staff learned that the full-time utility employee is no longer with the utility, and no full-time replacement has been hired. However, the duties that were performed by this employee are now being performed by a Westgate Resorts' employee, on an as-needed basis. The utility submitted a list of duties and responsibilities that are presently being performed by the shared employee. Staff reviewed the list of responsibilities and believes that most of the duties are duplicative, especially when compared to the jobs being carried out by various contractors that are retained by the utility. Due to these duplications, staff further reduced this account by \$16,017 for water and \$16,017 for wastewater.

The utility recorded no salary associated with office/administrative work. As stated above, through data requests, etc., staff learned that approximately 10 hours per week are being spent by Westgate Resorts staff who are performing various utility functions such as bookkeeping, data entry, billing, and customer service. While staff is reducing the salaries associated with the operator's position, staff believes an allowance should be included to reflect unrecorded salaries expense associated with the shared office staff. Staff has increased the salaries and wages expense account by \$4,680 for water and \$4,680 for wastewater to reflect an allowance for the office/administrative work done by the Westgate Resorts staff.

The resulting total adjustments are a reduction in the amount of \$14,431 (-\$3,094 - \$16,017 + \$4,680) for the water system, and a reduction in the amount of \$14,431 (-\$3,094 - \$16,017 + \$4,680) for the wastewater system. Therefore, staff recommends salaries and wages - employees' expense in the amount of \$10,224 for water and \$10,224 for wastewater.

Employee Pensions and Benefits (604/704)

The utility recorded employee pensions and benefits expense of \$2,970 for water and \$2,970 for wastewater for the test year. Similar to employee salaries and wages expense, staff reviewed the actual 2016 W-2 form, which reflected an amount of \$3,088 for each system. Staff increased this account by \$118 for each system to reflect the appropriate amount shown on the actual 2016 W-2 form. Staff reduced the account for both water and wastewater each by \$1,401 to reflect the

actual employee pensions and benefits resulting from the adjustments made to the salaries and wages expense account. These adjustments result in a net decrease of \$1,283 (\$118 - \$1,401) for each system. Staff's recommended employee pensions and benefits expense is \$1,687 for water and \$1,687 for wastewater.

Purchased Power (615/715)

River Ranch recorded purchased power expense of \$12,367 for water and \$21,794 for wastewater for the test year. Staff increased this account by \$5,438 for water and decreased this account by \$1,811 for wastewater to reflect the actual purchased power expense incurred during the test year. Staff recommends purchased power expense of \$17,805 for water and \$19,983 for wastewater.

Chemicals (618/718)

The utility recorded chemicals expense of \$33,036 for water and \$32,623 for wastewater for the test year. Staff reduced this account by \$17,691 for water and increased this account by \$19,619 for wastewater. Some chemical expenses had been improperly recorded in water instead of wastewater. A significant portion of the wastewater expenses, \$33,306, can be attributed to enzymes added to reduce the amount of sludge produced. Staff believes these adjustments are appropriate. Therefore, staff recommends chemicals expense of \$15,345 for water and \$52,242 for wastewater.

Materials and Supplies (620/720)

The utility recorded materials and supplies expense of \$236 for water and \$168 for wastewater for the test year. Staff decreased the water and wastewater account by \$168 each to remove Florida Rural Water Association dues. The appropriate account for these dues is miscellaneous expense, Account No. 675/775. Accordingly, staff has reclassified \$168 for both water and wastewater to the appropriate account. Therefore, staff's recommendation for materials and supplies expense is \$68 for water and \$0 for wastewater.

Contractual Services - Professional (631/731)

The utility inadvertently recorded outside accounting fees for water and wastewater in an improper Class B account. Staff reclassified and removed the recorded amount of \$5,700 each for both water and wastewater to the proper Class C account, Contractual Services – Professional, Account No. 631/731. The appropriate amount of outside accounting fees based on invoices provided by the utility is \$3,600 for water and \$3,600 for wastewater. The resulting net adjustment for water and wastewater is a reduction of \$2,100 (\$5,700 - \$3,600) each. Therefore, staff recommends contractual services – professional expense for the test year of \$3,600 for water and \$3,600 for wastewater.

Contractual Services - Testing (635/735)

The utility recorded testing expense of \$1,847 for water and \$2,750 for wastewater in this account. Staff made no adjustments to this account for water and wastewater based on actual invoices provided by the utility. Therefore, staff recommends contractual services – testing expense for the test year of \$1,847 for water and \$2,750 for wastewater.

Contractual Services - Other (636/736)

The utility recorded contractual services – other expense of \$21,554 for water and \$33,883 for wastewater. Included in this account are expenses associated with a monthly operations contractor, a billing and printing contractor, repairs and service calls company, and monthly retention pond services. Staff decreased this account by \$2,508 for water and \$3,433 for wastewater to reflect the invoices provided by the utility. Staff recommends \$19,046 for water and \$30,450 for wastewater for contractual services – other expense.

Rent Expense (640/740)

The utility recorded an out of period equipment rental invoice in the amount of \$4,445 for water and the same amount for wastewater. This amount was inadvertently recorded by the utility in a Class B account. Staff removed this amount from rent expense. Additionally, the Commission approved an allowance for office rent, \$1,800 for water, and \$1,800 for wastewater pursuant to Order No. PSC-03-0740-PAA-WS. Staff believes it is appropriate to apply a composite index factor to the amount approved in 2003. This application results in an increase from \$1,800 to \$2,617. Net adjustments to rent expense are a decrease of \$1,828 ($-\$4,445 + \$2,617$) for both water and wastewater. Therefore, staff's recommendation for rent expense is \$2,617 for water and \$2,617 for wastewater.

Transportation Expense (650/750)

For transportation expense, the utility recorded \$153 for water and the same amount for wastewater. Staff increased this account by \$12 for water and \$12 for wastewater to reflect the invoices provided by the utility. Therefore, staff is recommending transportation expense of \$165 for water and \$165 for wastewater.

Insurance Expense (655/755)

The utility inadvertently recorded insurance expense in improper Class B accounts. Staff reclassified the improper recordings to this account. Staff made adjustments to reflect unrecorded liability insurance allowed in Order No. PSC-03-0740-PAA-WS, vehicle insurance that was improperly recorded in Class B account 656, and a workers compensation fee also improperly recorded in Class B account 658.

Staff believes the appropriate insurance expense for both water and wastewater should include unrecorded liability insurance of \$1,200, reclassified vehicle insurance of \$792, and a workers compensation fee of \$448. The result is total insurance expense of \$2,440 ($\$1,200 + \$792 + \448) for both systems combined, or \$1,220 for each system. Accordingly, staff has increased this account by \$600 for each system. Staff's recommendation for insurance expense is \$1,220 for water, and \$1,220 for wastewater.

Regulatory Commission Expense (665/765)

The utility recorded regulatory commission expense of \$6,095 and \$7,456 for water and wastewater, respectively, for the test year. These amounts actually reflected the 2016 regulatory assessment fees that the utility paid in 2017. Regulatory assessment fees should be recorded as Taxes Other than Income. For that reason, staff reclassified these amounts to the Taxes Other Than Income account.

Generally, the regulatory commission expense account includes expenses incurred by the utility in connection with formal cases before regulatory commissions such as noticing costs and filing fees. The utility is required by Rule 25-22.0407, F.A.C., to provide notices of the customer meeting and notices of final rates in this case to its customers. Staff is recommending that the utility also be required to provide notice of the four-year rate reduction to its customers when the rates are reduced to remove the amortized rate case expense. For noticing, staff estimated \$105 for postage expense, \$70 for printing expense, and \$10 for envelopes. This results in \$185 (\$105 + \$70 + \$10) for the noticing requirement. The utility paid a total of \$2,000 in rate case filing fees (\$1,000 for water and \$1,000 for wastewater). The utility has incurred rate case expense associated with attorney's fees in the amount of \$3,309. Staff has reviewed these costs and determined them to be reasonable. Based on the above, staff recommends total rate case expense of \$5,494 (\$185 + \$2,000 + \$3,309), which amortized over four years is \$1,374. Staff allocated the annual rate case expense to the water and wastewater systems based on equivalent residential connections (ERCs), resulting in annual rate case expense of \$784 for water and \$590 for wastewater.

Bad Debt Expense (670/770)

River Ranch recorded bad debt expense of \$265 for water and \$265 for wastewater in its general ledger for the test year. Staff has calculated bad debt expense by averaging the amount recorded by the utility in its last three Annual Reports. As a result, staff has reduced this account by \$221 each for water and wastewater. Based on this calculation, the appropriate amount of bad debt expense is \$44 for water and \$44 for wastewater.

Miscellaneous Expense (675/775)

The utility recorded test year miscellaneous expense of \$1,532 for water and \$332 for wastewater. Staff increased the water and wastewater accounts by \$85 each to reflect the dues paid to the Florida Rural Water Association. The utility initially recorded the total dues to water and to wastewater in materials and supplies, accounts 620/720. As discussed above, staff reclassified the dues to this account, and split the total amount equally between water and wastewater. As a result, for the test year, staff recommends miscellaneous expense of \$1,617 for water and \$417 for wastewater.

Operation and Maintenance Expense (O&M Summary)

Based on the above adjustments, O&M expense should be decreased by \$39,407 for water and by \$11,826 for wastewater, resulting in total O&M expense of \$76,068 for water and \$125,988 for wastewater. Staff's recommended adjustments to O&M expense are shown on Schedule Nos. 3-A through 3-E.

Depreciation Expense

The utility's records reflect test year water depreciation expense of \$30,269 and test year wastewater depreciation expense of \$86,506. Staff recalculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C., and the plant adjustments discussed in Issue 3. As a result, staff increased water depreciation expense by \$9,856 and decreased wastewater depreciation expense by \$15,162 to reflect the appropriate test year depreciation expense. Staff also increased depreciation expense by \$573 for water to reflect the depreciation expense associated with the addition of pro forma meters.

Based on the above, staff's net adjustment to depreciation expense is an increase of \$10,429 (\$9,856 + \$573) for water, and a decrease of \$15,162 for wastewater. Therefore, staff recommends net depreciation expense of \$40,698 for water and \$71,344 for wastewater.

Amortization of CIAC

The utility's records reflect test year CIAC amortization expense of \$8,634 for water and \$10,880 for wastewater. Staff calculated amortization expense using audited CIAC balances and the depreciation rates established by Rule 25-30.140(2), F.A.C. No adjustments were made to amortization of CIAC. Therefore, the appropriate amortization of CIAC is \$8,634 for water and \$10,880 for wastewater.

Taxes Other Than Income (TOTI)

River Ranch recorded TOTI of \$8,330 for water and \$9,486 for wastewater for the test year. The utility recorded property tax accruals of \$387 for water and \$183 for wastewater. Staff decreased these accounts by \$262 for water and \$101 for wastewater to reflect the appropriate test year property taxes.

The utility did not record a tangible tax. However, the utility paid tangible taxes of \$8,616 for water. To reflect the unrecorded retirements associated with the water plant project, staff reduced this amount by \$6,519 resulting in a net increase of \$2,097 ($\$8,616 - \$6,519$) for water.

The utility recorded \$6,096 for water and \$7,456 for wastewater for regulatory assessment fees (RAFs). Based on staff's recommended test year revenues of \$137,305 for water and \$167,826 for wastewater, the utility's RAFs should be \$6,179 and \$7,552, respectively. Therefore, staff increased this account by \$83 ($\$6,179 - \$6,096$) for water and \$96 ($\$7,552 - \$7,456$) for wastewater to reflect the appropriate RAFs.

The utility recorded payroll taxes in the amount of \$1,847 each for water and wastewater. In order to reflect the reductions made to salaries earlier in this issue, and the appropriate payroll taxes for water and wastewater, staff reduced TOTI by \$953 each for water and wastewater.

Staff also increased property tax for water by \$282 to reflect the appropriate taxes associated with pro forma meters. Staff's adjustments result in a net increase of \$1,247 ($-\$262 + \$2,097 + \$83 - \$953 + \282) for water and a decrease of \$958 ($-\$101 + \$96 - \953) to wastewater.

Finally, as discussed in Issue 7, revenues have been increased by \$33,775 for water and \$60,303 for wastewater to reflect the change in revenue required to cover expenses and allow an opportunity to recover the recommended rate of return. As a result, TOTI should be increased by \$1,520 for water and \$2,714 for wastewater to reflect RAFs of 4.5 percent of the change in revenues. Therefore, staff recommends TOTI of \$11,097 for water and \$11,242 for wastewater.

Operating Expenses Summary

The application of staff's recommended adjustments to River Ranch's test year operating expenses results in operating expenses of \$119,229 for water and \$197,694 for wastewater. Operating expenses are shown on Schedule Nos. 3-A and 3-B. The adjustments are shown on Schedule No. 3-C.

Issue 7: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirements are \$171,080 for water and \$228,129 for wastewater, resulting in an annual increase of \$33,775 for water (24.60 percent) and \$60,303 for wastewater (35.93 percent). (Galloway)

Staff Analysis: River Ranch should be allowed an annual increase of \$33,775 for water (24.60 percent) and \$60,303 for wastewater (35.93 percent). This will allow the utility the opportunity to recover its expenses and earn an 8.11 percent return on rate base for its water and wastewater systems. The calculations are shown below, in Tables 7-1 and 7-2 for water and wastewater, respectively:

**Table 7-1
 Water Revenue Requirement**

Adjusted Rate Base	\$639,343
Allowed Rate of Return (%)	x 8.11%
Return on Rate Base	\$51,851
Adjusted O&M Expense	76,068
Depreciation Expense (Net)	32,064
Taxes Other Than Income	11,097
Revenue Requirement	\$171,080
Less Adjusted Test Year Revenues	137,305
Annual Increase	<u>\$33,775</u>
Percent Increase	24.60%

**Table 7-2
Wastewater Revenue Requirement**

Adjusted Rate Base	\$375,275
Allowed Rate of Return (%)	x 8.11%
Return on Rate Base	\$30,435
Adjusted O&M Expense	125,988
Depreciation Expense (Net)	60,464
Taxes Other Than Income	11,242
Revenue Requirement	\$228,129
Less Adjusted Test Year Revenues	167,826
Annual Increase	<u>\$60,303</u>
Percent Increase	35.93%

Issue 8: What are the appropriate rate structures and rates for River Ranch's water and wastewater systems?

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

Staff Analysis: River Ranch is located in Polk County within the SFWMD. The utility provides water and wastewater service to single family residential homes and several general service customers, including River Ranch Chapel, other Westgate Properties, Long Hammock POA, River Ranch Condominiums, and a recreational vehicle park (River Ranch RV park). The utility also provides irrigation service to two general service customers.

The utility's current water, irrigation, and wastewater rates are flat rates that were approved in 2003.¹¹ The flat rate for Westgate Properties was a bulk rate. The approved rates for Long Hammock POA, River Ranch Condominiums, and River Ranch RV park were per unit or per ERC rates. In addition, flat irrigation rates were approved for Long Hammock POA and the River Ranch RV park. At that time, the Commission also ordered the utility to individually meter all general service customers and file a rate restructuring case to implement metered rates. The utility continued its progress in fulfilling the requirements of the order and installed the meters by the time it filed for a SARC in 2011.

The utility provided metered data to staff for the test year of October 1, 2016, to September 30, 2017. For the preliminary staff report, staff designed rates to reflect the estimated demand the various customers place on the system. This was based on DEP monthly operating reports showing the amount of water pumped and the metered data collected by the utility for those customers that were metered during the test year. However, at the customer meeting and site visit, staff discovered that numerous properties were not metered (approximately 70 percent of the water demand) and the meters that were installed had not all been properly calibrated. Therefore, staff was not able to rely on the metered data for estimating demand.

Due to the lack of customer usage data, staff believes that flat rates should be designed consistent with the methodology used when the rates were designed in 2003, which was based on ERCs. In the utility's 2003 rate case, the water rates were calculated based on .8 of an ERC for each condominium, mobile home, and RV site that existed at that time. The single family homes and other existing facilities were considered one ERC each. For wastewater, all units were considered one ERC. Since the last rate case, there has been significant growth, particularly within the Westgate Properties, and now the service area is built out as discussed in Issue 2.

¹¹Id.

In the instant docket, staff updated the ERCs from the 2003 rate case to include the properties that were subsequently added. As a result, staff calculated 9,132 ERCs for water and 10,098 ERCs for wastewater as shown on Tables 8-1 and 8-2.

**Table 8-1
 Staff's Calculated ERCs**

Water	Number of Units	Number of ERCS
<u>Residential</u>		
Single Family Residential Homes	65	65.0
<u>General Service</u>		
River Ranch Chapel	1	2.5
Westgate Properties	46	88.5
Long Hammock POA	120	96.0
River Ranch Condominiums	204	170.4
River Ranch RV Park	368	298.6
<u>Irrigation Service</u>		
Long Hammock POA		7.0
River Ranch RV Park		33.0
Monthly Total	804.0	761.0
Annual Total	9,648.0	9,132.0

**Table 8-2
 Staff's Calculated ERCs**

Wastewater	Number of Units	Number of ERCs
<u>Residential</u>		
Single Family Residential Homes	65	65.0
<u>General Service</u>		
River Ranch Chapel	1	1.0
Westgate Properties	45	80.5
Long Hammock POA	120	120.0
River Ranch Condominiums	203	203.0
River Ranch RV Park	368	372.0
Monthly Total	802.0	841.5
Annual Total	9,624.0	10,098.0

Staff's recommended flat rates are shown on Schedule Nos. 4-A and 4-B. Because a single bill is sent to Long Hammock POA, River Ranch Condominiums, and River Ranch RV park, staff recommended bulk flat rates for those customers based on their respective ERCs, including the irrigation demand.

Staff believes that it is important to implement metered rates in order to encourage water conservation. Staff recommends that the utility meter all water connections and confirm that all meters have been properly calibrated by December 31, 2018, and provide an affidavit within 10 days of completion. Further, the utility should be ordered to provide actual monthly usage data by customer class and meter size on a quarterly basis for a 12-month period beginning January 1, 2019. The utility should also be required to file the quarterly reports by the 20th day of the month subsequent to the end of the quarter. In addition, the utility should be ordered to provide the monthly meter readings to each customer to make sure they are aware of their usage patterns. Upon completion of the 12 months, staff will evaluate the data for purposes of recommending a base facility charge and gallonage charge rate structure to the Commission at a subsequent agenda.

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

Furthermore, the utility should provide the additional monthly usage reporting and notification requirements.

Issue 9: What are the appropriate initial customer deposits for River Ranch's water and wastewater systems?

Recommendation: The appropriate initial customer deposits should be \$37 for the single family residential 5/8 inch x 3/4 inch meter size for water and \$45 for the single family residential 5/8 inch x 3/4 inch meter size for wastewater. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water and wastewater. The approved initial customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding. (Bruce)

Staff Analysis: Rule 25-30.311, F.A.C., provides the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the utility and, ultimately, the general body of ratepayers. An initial customer deposit ensures that the cost of providing service is recovered from the cost causer. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill.¹² Currently, the utility's initial deposit for single family residential water customers is \$30.54 for the 5/8 inch x 3/4 inch meter size and two times the average estimated bill for the general service customers. For wastewater, the utility's initial deposit for single family residential service is \$32.60 for the 5/8 inch x 3/4 inch meter size and two times the average estimated bill for the general service customers. However, this amount does not cover two months' average bills based on staff's recommended rates. The average monthly bills based on staff's recommended rates are \$18.73 for water and \$22.59 for wastewater.

Staff recommends the appropriate initial customer deposits should be \$37 for the single family residential 5/8 inch x 3/4 inch meter size for water and \$45 for the single family residential 5/8 inch x 3/4 inch meter size for wastewater. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water and wastewater. The approved initial customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding.

¹²Order No. PSC-2018-0446-FOF-SU, issued September 4, 2018, in Docket No. 20170141-SU, *In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*

Issue 10: Should River Ranch be authorized to collect Non-Sufficient Funds (NSF) charges?

Recommendation: Yes. However, River Ranch's request to implement a \$26 NSF charge should be denied. River Ranch should be authorized to collect NSF charges set forth in Section 68.065, F.S. The NSF charges should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. Furthermore, the charges should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date the notice was given within 10 days of the date of the notice. (Bruce)

Staff Analysis: Section 367.091, F.S., requires that rates, charges, and customer service policies be approved by the Commission. The Commission has authority to establish, increase, or change a rate or charge. The utility provided cost justification to implement a \$26 NSF charge. Typically, an NSF charge does not require cost justification because the charges are pursuant to Section 68.065, F.S. Staff believes that River Ranch should be authorized to collect NSF charges consistent with Section 68.065, F.S., which allows for the assessment of charges for the collection of worthless checks, drafts, orders of payment, debit card order, or electronic funds transfer. 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 5 percent of the face amount of the payment instrument, whichever is greater.

Approval of NSF charges is consistent with prior Commission decisions.¹³ Furthermore, NSF charges place the cost on the cost causer, rather than allowing the costs associated with returned checks to be spread across the general body of ratepayers.

Staff recommends that River Ranch's request to implement a \$26 NSF charge should be denied. River Ranch should be authorized to collect NSF charges set forth in Section 68.065, F.S. The NSF charges should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. Furthermore, the charges should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date the notice was given within 10 days of the date of the notice.

¹³Order No. PSC-2018-0109-TRF-WS, issued February 27, 2018, in Docket No. 20170255-WS, *In re: Request for approval of amendment to tariff to charge miscellaneous service charges and to collect customer deposits in Polk County, by Deer Creek RV Golf & Country Club, Inc.*

Issue 11: Should River Ranch's request to implement a \$6.00 late payment charge be approved?

Recommendation: Yes. River Ranch's request to implement a \$6.00 late payment charge should be approved. The utility should be required to file a proposed customer notice to reflect the Commission-approved charge. The approved charge should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved charge should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given within 10 days after the date of the notice. (Bruce)

Staff Analysis: The utility requested a \$6.00 late payment charge to recover the cost of labor, supplies, and RAFs associated with processing late payment notices. River Ranch's request for a late payment charge was accompanied by its reasons for requesting the charge as well as the cost justification required by Section 367.091(6), F.S. 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 the cost-causers. Section 367.091, F.S., authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or service availability charges.

River Ranch calculated the actual costs for its late payment charges to be \$6.00. The utility indicated it will take approximately 15 minutes per account to research, compile, and produce late notices. This is consistent with prior Commission decisions where the Commission has allowed 10-15 minutes per account per month for the administrative labor associated with processing delinquent customer accounts.¹⁴ The delinquent customer accounts will be processed by the administrative employee, which results in labor cost of \$5.00 (\$20.00 x 0.25hr) per account. Additionally, the utility requested recovery of the costs of supplies, postage, and RAFs associated with processing delinquent accounts. The utility's calculation for its requested late payment charge is shown in Table 11-1.

**Table 11-1
Late Payment Charge**

Labor	\$5.00
Supplies	\$0.22
Postage	\$0.49
Markup for RAFs	\$0.29
Total Cost	\$6.00

Source: Utility's Cost Justification

¹⁴Order No. PSC-2018-0109-TRF-WS, issued February 27, 2018, in Docket No. 20170255-WS, *In re: Request for approval of amendment to tariff to charge miscellaneous service charges and to collect customer deposits in Polk County, by Deer Creek RV Golf & Country Club, Inc.*

Based on the above, River Ranch's request to implement a \$6.00 late payment charge should be approved. The utility should be required to file a proposed customer notice to reflect the Commission-approved charge. The approved charge should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved charge should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given within 10 days after the date of the notice.

Issue 12: What are the appropriate miscellaneous service charges for River Ranch?

Recommendation: The miscellaneous service charges identified in Table 12-5 are appropriate and should be approved. The charges should be effective on or after the stamped approval date on the tariffs pursuant to Rule 25-30.475, F.A.C. In addition, the approved charges should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days of the date of the notice. (Bruce)

Staff Analysis: River Ranch’s current miscellaneous service charges were approved on April 18, 2003.¹⁵ Section 367.091, F.S., authorizes the Commission to change miscellaneous service charges. The utility’s request to revise its miscellaneous charges was accompanied by its cost justification as required by Section 367.091(6), F.S. The utility’s requested miscellaneous service charges reflect the hourly salaries of the administrative and field employees and the average distance traveled by the field employee to administer miscellaneous services during normal and after hours. In its cost justification, the utility indicated that the administrative cost will not be performed after hours. Therefore, the administrative costs after hours will remain the same as normal hours. The calculations for utility’s recommended charges for miscellaneous services are shown in Tables 12-1 through 12-4. Staff’s recommended miscellaneous service charges are rounded upward to the nearest ten cents and are summarized in Table 12-5.

Initial Connection Charge

The initial connection charge is levied for service initiation at a location where service did not exist previously. A utility representative makes one trip when performing the service of an initial connection. Based on labor and transportation to and from the service territory, staff recommends initial connection charges of \$13.20 for normal hours and \$15.90 for after hours. The utility’s calculations are shown in Table 12-1.

**Table 12-1
 Initial Connection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Administrative Labor \$20.00/hr x 1/4hr	\$5.00	Administrative Labor \$20.00/hr x 1/4hr	\$5.00
Field Labor \$16.22/hr x 1/3hr	\$5.41	Field Labor \$24.33/hr x 1/3hr	\$8.11
Transportation (\$0.54/mile x 5 miles-to/from)	\$2.70	Transportation \$0.54/mile x 5 miles-to/from	\$2.70
Total	\$13.11	Total	\$15.81

Source: Utility’s cost justification documentation

¹⁵Order No. PSC-03-0518-FOF-WS, issued April 18, 2003, in Docket No. 20020382-WS, *In re: Application for transfer of facilities and Certificate Nos. 603-W and 519-S in Polk County from New River Ranch L.C. d/b/a River Ranch to River Ranch Water Management, LLC.*

Normal Reconnection Charge

A normal reconnection charge is levied for the transfer of service subsequent to a customer requested disconnection. A normal reconnection requires two trips, which includes one to turn service off and the other to turn service on. Based on labor and transportation to and from the premises, staff recommends that the normal reconnection charge should be \$23.60 for normal hours and \$27.60 for after hours. The utility’s calculations are shown in Table 12-2.

**Table 12-2
 Normal Reconnection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Administrative Labor \$20.00/hr x 1/4hr x 2	\$10.00	Administrative Labor \$20.00/hr x 1/4hr x 2	\$10.00
Field Labor \$16.22/hr x 1/4hr x 2	\$8.11	Field Labor \$24.33/hr x 1/4hr x 2	\$12.17
Transportation \$0.54/mile x 5 miles-to/from x 2	\$5.40	Transportation \$0.54/mile x 5 miles-to/from x 2	\$5.40
Total	\$23.51	Total	\$27.57

Source: Utility’s cost justification documentation

Violation Reconnection Charge Calculation

The violation reconnection charge is levied prior to reconnection of an existing customer after discontinuance of service for cause. The service performed for violation reconnection requires two trips, which includes one trip to turn off service and a subsequent trip to turn on service once the violation has been remedied. Based on labor and transportation to and from the service territory, staff recommends violation reconnection charges for River Ranch’s water system of \$23.60 for normal hours and \$27.60 for after hours. The violation reconnection charges for the wastewater system should be actual cost, pursuant to Rule 25-30.460(1)(c), F.A.C. The utility’s calculations are shown in Table 12-3.

**Table 12-3
 Violation Reconnection Charge**

Activity	Normal Hours Cost	Activity	After Hours Cost
Administrative Labor \$20.00/hr x 1/4hr x 2	\$10.00	Administrative Labor \$20.00/hr x 1/4hr x 2	\$10.00
Field Labor \$16.22/hr x 1/4hr x 2	\$8.11	Field Labor \$24.33/hr x 1/4hr x 2	\$12.17
Transportation \$0.54/mile x 5 miles-to/from x 2	\$5.40	Transportation \$0.54/mile x 5 miles-to/from x 2	\$5.40
Total	\$23.51	Total	\$27.57

Source: Utility’s cost justification documentation

Premises Visit Charge

The premises visit charge is levied when a service representative visits premises at the customer’s request for complaint resolution and the problem is found to be the customer’s responsibility. In addition, the premises visit charge can be levied when a service representative visits a premise 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 for payment of the bill. A premises visit requires one trip. Based on labor and transportation to and from the premises, staff recommends a premises visit charge of \$13.20 for normal hours and \$15.90 for after hours. The utility’s calculations are shown in Table 12-4.

**Table 12-4
 Premises Visit Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Administrative Labor \$20.00/hr x 1/4hr	\$5.00	Administrative Labor \$20.00/hr x 1/4hr	\$5.00
Field Labor \$16.22/hr x 1/3hr	\$5.41	Field Labor \$24.33/hr x 1/3hr	\$8.11
Transportation \$0.54/mile x 5 miles-to	\$2.70	Transportation \$0.54/mile x 5 miles-to	\$2.70
Total	\$13.11	Total	\$15.90

Source: Utility’s cost justification documentation

**Table 12-5
 Miscellaneous Service Charges**

	Current	Staff Recommended	
	Normal and After Hours	Normal Hours	After Hours
Initial Connection Charge	\$15.00	\$13.20	\$15.90
Normal Reconnection Charge	\$15.00	\$23.60	\$27.60
Violation Reconnection Charge (Water Only)	\$15.00	\$23.60	\$27.60
Violation Reconnection Charge (Wastewater Only)	Actual Cost	Actual Cost	
Premises Visit Charge	\$10.00	\$13.20	\$15.90

Based on the above, the miscellaneous service charges identified in Table 12-5 are appropriate and should be approved. The charges should be effective on or after the stamped approval date on the tariffs pursuant to Rule 25-30.475, F.A.C. In addition, the approved charges should not be implemented until staff has approved the proposed customer notice and the notice has been

received by the customers. The utility should provide proof of the date notice was given within 10 days of the date of the notice.

Issue 13: What is the appropriate amount by which the rates should be reduced four years after the published effective date to reflect the removal of the amortized rate case expense as required by Section 367.081(8), F.S.?

Recommendation: The water and wastewater rates for River Ranch should be reduced, as shown on Schedule Nos. 4-A and 4-B, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.081(8), F.S. The utility should be required to file revised tariff sheets 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 River Ranch files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Bruce, Galloway) (Final Agency Action)

Staff Analysis: The water and wastewater rates for River Ranch should be reduced immediately following the expiration of the four-year rate case expense recovery period by the amount of the rate case expense previously included in the rates, pursuant to Section 367.081(8), F.S. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for RAFs which is \$821 for water and \$618 for wastewater. Using the utility's current revenues, expenses, and customer base, the reduction in revenues will result in the rate decrease shown on Schedule Nos. 4-A and 4-B.

The utility should be required to file revised tariff sheets 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 River Ranch files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Issue 14: Should the recommended rates be approved for River Ranch on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility?

Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. Prior to implementation of any temporary rates, the utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the utility should file reports with the Commission Clerk's office no later than the 20th of every month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Galloway) (Final Agency Action)

Staff Analysis: This recommendation proposes an increase in rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the utility, staff recommends that the recommended rates be approved as temporary rates. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. The recommended rates collected by the utility should be subject to the refund provisions discussed below.

The utility should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$63,546. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

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

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

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

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

1. The Commission Clerk, or his or her designee, must be a signatory to the escrow agreement.
2. No monies in the escrow account may be withdrawn by the utility without the 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.
9. The account must specify by whom and on whose behalf such monies were paid.

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

The utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the utility should file reports with the Commission Clerk's office no later than the 20th of every month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

Issue 15: Should the utility be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision?

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

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

Issue 16: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff, and the utility has provided staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. Also, this docket should remain open to allow the utility to provide the recommended reporting information and to allow staff to bring this item back to the Commission for further action upon evaluation of the 12 months of monthly usage data. (DuVal, Dziechciarz)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff, and the utility has provided staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. Also, this docket should remain open to allow the utility to provide the recommended reporting information and to allow staff to bring this item back to the Commission for further action upon evaluation of the 12 months of monthly usage data.

RIVER RANCH WATER MANAGEMENT, L.L.C.		SCHEDULE NO. 1-A	
TEST YEAR ENDED SEPTEMBER 30, 2017		DOCKET NO. 20170219-WS	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$1,824,134	(\$578,158)	\$1,245,976
LAND & LAND RIGHTS	160	0	160
CIAC	(524,938)	0	(524,938)
ACCUMULATED DEPRECIATION	(718,063)	162,537	(555,526)
AMORTIZATION OF CIAC	464,260	0	464,260
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>9,410</u>	<u>9,410</u>
WATER RATE BASE	<u>\$1,045,553</u>	<u>(\$406,210)</u>	<u>\$639,343</u>

RIVER RANCH WATER MANAGEMENT, L.L.C.		SCHEDULE NO. 1-B	
TEST YEAR ENDED SEPTEMBER 30, 2017		DOCKET NO. 20170219-WS	
SCHEDULE OF WASTEWATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$1,925,109	(\$407,179)	\$1,517,930
LAND & LAND RIGHTS	500	0	500
CIAC	(665,542)	0	(665,542)
ACCUMULATED DEPRECIATION	(1,281,819)	262,149	(1,019,670)
AMORTIZATION OF CIAC	526,382	0	526,382
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>15,675</u>	<u>15,675</u>
WASTEWATER RATE BASE	<u>\$504,630</u>	<u>(\$129,355)</u>	<u>\$375,275</u>

RIVER RANCH WATER MANAGEMENT, L.L.C. TEST YEAR ENDED SEPTEMBER 30, 2017 ADJUSTMENTS TO RATE BASE		SCHEDULE NO. 1-C DOCKET NO. 20170219-WS	
	<u>WATER</u>	<u>WASTEWATER</u>	
<u>UTILITY PLANT IN SERVICE</u>			
1. To reflect audit adjustments.	(\$90,893)	(\$351,311)	
2. To remove property held for future use that was recorded in Acct. No. 380.		(\$46,765)	
3. To reflect unrecorded retirements associated with Acct. No. 330.	(\$424,657)		
4. To reflect unrecorded retirements associated with Acct. No. 335.	(25,605)		
5. To remove invoices that are not related to water plant project.	(56,480)		
6. To reflect pro forma meters.	39,815		
7. To reflect retirement associated with pro forma meters.	(20,337)		
8. To reflect an averaging adjustment.	<u>0</u>	<u>(9,103)</u>	
Total	<u>(\$578,158)</u>	<u>(\$407,179)</u>	
<u>ACCUMULATED DEPRECIATION</u>			
1. To reflect appropriate accumulated depreciation.	(\$50,085)	\$244,793	
2. To reflect accumulated depreciation associated with unrecorded retirements to Acct. No. 330.	146,044		
3. To reflect accumulated depreciation associated with unrecorded retirements to Acct. No. 335.	25,605		
4. To reflect the net accumulated depreciation associated with pro forma meters.	20,910		
5. To reflect an averaging adjustment.	<u>20,062</u>	<u>17,356</u>	
Total	<u>\$162,537</u>	<u>\$262,149</u>	
<u>WORKING CAPITAL ALLOWANCE</u>			
To reflect 1/8 of test year O & M expenses.	<u>\$9,410</u>	<u>\$15,675</u>	

RIVER RANCH WATER MANAGEMENT, L.L.C. TEST YEAR ENDED SEPTEMBER 30, 2017 SCHEDULE OF CAPITAL STRUCTURE						SCHEDULE NO. 2 DOCKET NO. 20170219-WS		
CAPITAL COMPONENT	PER UTILITY (YEAR END)	STAFF ADJUSTMENTS	TEST YEAR BALANCE PER STAFF	ADJUSTMENTS TO RECONCILE TO RATE BASE	RECONCILED CAPITAL STRUCTURE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$398,062	\$0	\$398,062	92,503	490,565			
2. CAPITAL STOCK	\$0	0	\$0	0	0			
3. RETAINED EARNINGS	(689,383)	0	(689,383)	(160,201)	(849,584)			
4. OTHER PAID IN CAPITAL	869,894	0	869,894	202,149	1,072,043			
5. OTHER COMMON EQUITY	<u>0</u>	<u>244,724</u>	<u>244,724</u>	<u>56,870</u>	<u>301,594</u>			
TOTAL COMMON EQUITY	\$578,573	\$244,724	\$823,297	\$191,321	\$1,014,618	100.00%	8.11%	8.11%
6. LONG-TERM DEBT	\$244,724	(\$244,724)	\$0	\$0	0	0.00%	4.00%	0.00%
7. SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%
8. PREFERRED STOCK	0	0	0	0	0	0.00%	0.00%	0.00%
TOTAL DEBT	\$244,724	(\$244,724)	\$0	\$0	\$0	0.00%	4.00%	0.00%
9. CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	2.00%	0.00%
10. TOTAL	<u>\$823,297</u>	<u>\$0</u>	<u>\$823,297</u>	<u>\$191,321</u>	<u>\$1,014,618</u>	<u>100.00%</u>		<u>8.11%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>7.11%</u>	<u>9.11%</u>	
OVERALL RATE OF RETURN						<u>7.11%</u>	<u>9.11%</u>	

RIVER RANCH WATER MANAGEMENT, L.L.C. TEST YEAR ENDED SEPTEMBER 30, 2017 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 20170219-WS		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$135,486</u>	<u>\$1,819</u>	<u>\$137,305</u>	<u>\$33,775</u> 24.60%	<u>\$171,080</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$115,475	(\$39,407)	\$76,068	\$0	\$76,068
3. DEPRECIATION	30,269	10,429	40,698	0	40,698
4. AMORTIZATION	(8,634)	0	(8,634)	0	(8,634)
5. TAXES OTHER THAN INCOME	8,330	1,247	9,577	1,520	11,097
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$145,440</u>	<u>(\$27,731)</u>	<u>\$117,709</u>	<u>\$1,520</u>	<u>\$119,229</u>
8. OPERATING INCOME/(LOSS)	<u>(\$9,954)</u>		<u>\$19,596</u>		<u>\$51,851</u>
9. WATER RATE BASE	<u>\$1,045,553</u>		<u>\$639,343</u>		<u>\$639,343</u>
10. RATE OF RETURN	<u>(0.95%)</u>		<u>3.07%</u>		<u>8.11%</u>

RIVER RANCH WATER MANAGEMENT, L.L.C.			SCHEDULE NO. 3-B		
TEST YEAR ENDED SEPTEMBER 30, 2017			DOCKET NO. 20170219-WS		
SCHEDULE OF WASTEWATER OPERATING INCOME					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
OPERATING REVENUES	<u>\$165,612</u>	<u>\$2,214</u>	<u>\$167,826</u>	<u>\$60,303</u> 35.93%	<u>\$228,129</u>
OPERATING EXPENSES:					
OPERATION & MAINTENANCE	\$137,814	(\$11,826)	\$125,988	\$0	\$125,988
DEPRECIATION (NET)	86,506	(15,162)	71,344	0	71,344
AMORTIZATION	(10,880)	0	(10,880)	0	(10,880)
TAXES OTHER THAN INCOME	9,486	(\$958)	8,528	2,714	11,242
INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>\$222,926</u>	<u>(\$27,946)</u>	<u>\$194,980</u>	<u>\$2,714</u>	<u>\$197,694</u>
OPERATING INCOME/(LOSS)	<u>(\$57,314)</u>		<u>(\$27,154)</u>		<u>\$30,435</u>
WASTEWATER RATE BASE	<u>\$504,630</u>		<u>\$375,275</u>		<u>\$375,275</u>
RATE OF RETURN	<u>(11.36%)</u>		<u>(7.24%)</u>		<u>8.11%</u>

RIVER RANCH WATER MANAGEMENT, L.L.C. TEST YEAR ENDED SEPTEMBER 30, 2017 ADJUSTMENTS TO OPERATING INCOME	Schedule No. 3-C DOCKET NO. 20170219-WS Page 1 of 2	
	<u>WATER</u>	<u>WASTEWATER</u>
OPERATING REVENUES		
1. To reflect the appropriate test year services revenues.	<u>\$1,819</u>	<u>\$2,214</u>
Subtotal	<u>\$1,819</u>	<u>\$2,214</u>
OPERATION AND MAINTENANCE EXPENSES		
1. Salaries and Wages - Employees (601/701)		
a. To reflect appropriate amount of salaries expense	<u>(\$14,431)</u>	<u>(\$14,431)</u>
2. Employee Pensions and Benefits (604/704)		
a. To reflect appropriate amount of benefits as shown on 2016 W-2	<u>(\$1,283)</u>	<u>(\$1,283)</u>
3. Purchased Power (615/715)		
a. To reflect appropriate test year purchased power expense.	<u>\$5,438</u>	<u>(\$1,811)</u>
4. Chemicals (618/718)		
a. To reflect appropriate amount of test year chemicals expense as provided by invoices.	<u>(\$17,691)</u>	<u>\$19,619</u>
5. Materials and Supplies (620/720)		
a. Reclassify Florida Rural Water Association dues to Acct. No. 675.	<u>(\$168)</u>	<u>(\$168)</u>
6. Contractual Services - Professional (631/731)		
a. To reflect reclassification and removal from improper Class B account 632/732 from general ledger.	<u>(\$5,700)</u>	<u>(\$5,700)</u>
b. To reflect appropriate outside accounting expense as provided by invoices.	<u>3,600</u>	<u>3,600</u>
Subtotal	<u>(\$2,100)</u>	<u>(\$2,100)</u>
7. Contractual Services - Other (636/736)		
a. To reflect appropriate amount as provided by invoices and removing unsupported amount.	<u>(\$2,508)</u>	<u>(\$3,433)</u>
8. Rents (640/740)		
a. To reclassify from improper Class B account 642/742 and remove out of period invoice for equipment rental.	<u>(\$4,445)</u>	<u>(\$4,445)</u>
b. To reflect appropriate test year rent expense.	<u>2,617</u>	<u>2,617</u>
Subtotal	<u>(\$1,828)</u>	<u>(\$1,828)</u>
9. Transportation Expense (650/750)		
a. To reflect unrecorded invoice.	<u>\$12</u>	<u>\$12</u>

RIVER RANCH WATER MANAGEMENT, L.L.C.	Schedule No. 3-C	
TEST YEAR ENDED SEPTEMBER 30, 2017	DOCKET NO. 20170219-WS	
ADJUSTMENTS TO OPERATING INCOME	Page 2 of 2	
10. Insurance Expenses (655/755)		
a. To record unrecorded liability insurance that was granted in Order No. PSC-2003-0740-PAA-WS.	<u>\$600</u>	<u>\$600</u>
11. Regulatory Commission Expense (665/765)		
a. To remove and reclassify regulatory assessment fees to taxes other than income.	(\$6,095)	(\$7,456)
b. To reflect appropriate amortized rate case expense.	<u>784</u>	<u>590</u>
Subtotal	<u>(\$5,311)</u>	<u>(\$6,866)</u>
12. Bad Debt Expense (670/770)		
a. To reflect appropriate test year bad debt expense.	<u>(\$221)</u>	<u>(\$221)</u>
13. Miscellaneous Expense (675/775)		
a. To reflect appropriate amount paid for Florida Rural Water Association dues reclassified from Account 620/720.	<u>\$85</u>	<u>\$85</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>(\$39,407)</u>	<u>(\$11,826)</u>
DEPRECIATION EXPENSE		
1. To reflect test year depreciation calculated per Rule 25-30.140, F.A.C.	\$9,856	(\$15,162)
2. To reflect depreciation expense associated with pro forma meters.	<u>573</u>	<u>0</u>
Total	<u>\$10,429</u>	<u>(\$15,162)</u>
TAXES OTHER THAN INCOME		
1. To reflect the appropriate test year utility property taxes.	(\$262)	(\$101)
2. To reflect appropriate test year utility tangible taxes.	2,097	0
3. To reflect appropriate test year regulatory assessment fees (RAFs)	83	96
4. To reflect appropriate test year utility payroll taxes.	(953)	(953)
5. To reflect appropriate taxes associated with pro forma meters.	<u>282</u>	<u>0</u>
Total	<u>\$1,247</u>	<u>(\$958)</u>

RIVER RANCH WATER MANAGEMENT, L.L.C.		SCHEDULE NO. 3-D	
TEST YEAR ENDED SEPTEMBER 30, 2017		DOCKET NO. 20170219-WS	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$24,655	(\$14,431)	\$10,224
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	2,970	(1,283)	1,687
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	12,367	5,438	17,805
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	33,036	(17,691)	15,345
(620) MATERIALS AND SUPPLIES	236	(168)	68
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	5,700	(2,100)	3,600
(635) CONTRACTUAL SERVICES - TESTING	1,847	0	1,847
(636) CONTRACTUAL SERVICES - OTHER	21,554	(2,508)	19,046
(640) RENTS	4,445	(1,828)	2,617
(650) TRANSPORTATION EXPENSE	153	12	165
(655) INSURANCE EXPENSE	620	600	1,220
(665) REGULATORY COMMISSION EXPENSE	6,095	(5,311)	784
(670) BAD DEBT EXPENSE	265	(221)	44
(675) MISCELLANEOUS EXPENSE	<u>1,532</u>	<u>85</u>	<u>1,617</u>
	<u>\$115,475</u>	<u>(\$39,407)</u>	<u>\$76,068</u>

RIVER RANCH WATER MANAGEMENT, L.L.C.		SCHEDULE NO. 3-E	
TEST YEAR ENDED SEPTEMBER 30, 2017		DOCKET NO. 20170219-WS	
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$24,655	(\$14,431)	\$10,224
(703) SALARIES AND WAGES - OFFICERS	0	0	0
(704) EMPLOYEE PENSIONS AND BENEFITS	2,970	(1,283)	1,687
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	0	0	0
(715) PURCHASED POWER	21,794	(1,811)	19,983
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	32,623	19,619	52,242
(720) MATERIALS AND SUPPLIES	168	(168)	0
(730) CONTRACTUAL SERVICES - BILLING	0	0	0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	5,700	(2,100)	3,600
(735) CONTRACTUAL SERVICES - TESTING	2,750	0	2,750
(736) CONTRACTUAL SERVICES - OTHER	33,883	(3,433)	30,450
(740) RENTS	4,445	(1,828)	2,617
(750) TRANSPORTATION EXPENSE	153	12	165
(755) INSURANCE EXPENSE	620	600	1,220
(765) REGULATORY COMMISSION EXPENSES	7,456	(6,866)	590
(770) BAD DEBT EXPENSE	265	(221)	44
(775) MISCELLANEOUS EXPENSE	<u>332</u>	<u>85</u>	<u>417</u>
	<u>\$137,814</u>	<u>(\$11,826)</u>	<u>\$125,988</u>

RIVER RANCH WATER MANAGEMENT, LLC		SCHEDULE NO. 4-A	
TEST YEAR ENDED SEPTEMBER 30, 2017		DOCKET NO. 20170219-WS	
MONTHLY WATER RATES			
	RATES AT TIME OF FILING	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential Flat Rate</u>			
Single Family Residential Homes	\$15.85	\$18.73	\$0.09
<u>General Service Flat Rate</u>			
River Ranch Chapel	\$39.62	\$46.83	\$0.22
Westgate Properties	\$1,141.19	\$1,657.61	\$7.95
Long Hammock POA	\$1,508.92	\$1,929.19	\$9.26
River Ranch Condominiums	\$2,434.56	\$3,191.59	\$15.32
River Ranch RV Park	\$5,287.54	\$6,210.87	\$29.81

RIVER RANCH WATER MANAGEMENT, LLC		SCHEDULE NO. 4-B	
TEST YEAR ENDED SEPTEMBER 30, 2017		DOCKET NO. 20170219-WS	
MONTHLY WASTEWATER RATES			
	RATES AT TIME OF FILING	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential Flat Rate</u>			
Single Family Residential Homes	\$17.16	\$22.59	\$0.06
<u>General Service Flat Rate</u>			
River Ranch Chapel	\$17.16	\$22.59	\$0.06
Westgate Properties	\$1,218.42	\$1,818.50	\$4.93
Long Hammock POA	\$2,042.04	\$2,710.80	\$7.34
River Ranch Condominiums	\$3,294.72	\$4,585.77	\$12.42
River Ranch RV Park	\$6,297.72	\$8,403.48	\$22.76