

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-**

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**DATE:** November 27, 2019

**TO:** Adam J. Teitzman, Commission Clerk, Office of Commission Clerk

**FROM:** John Hightower, Public Utility Analyst II, Division of Accounting & Finance 

**RE:** Docket No. 20190125-WS Application for staff-assisted rate case by The Woods Utility Company.

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Please file the attached Staff Report in the above referenced docket.

Thank you for assistance in this matter.

Attachments

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CLERK

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State of Florida



## Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

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**DATE:** November 27, 2019

**TO:** Mark A. Cicchetti, Chief of Finance, Tax & Cost Recovery, Division of Accounting & Finance

**FROM:** Division of Accounting and Finance (Hightower, D. Buys, Richards)  
Division of Economics (Bethea, Hudson)  
Division of Engineering (Ellis, Phillips, Thompson)  
Office of the General Counsel (Weisenfeld)

**RE:** Docket No. 20190125-WS – Application for staff-assisted rate case in Sumter County by The Woods Utility Company.

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**-STAFF REPORT--**

**This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting scheduled for December 18, 2019.**

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## Case Background

The Woods Utility Company (The Woods or Utility) is a Class C utility serving approximately 58 residential customers, 1 general service water customer, and 52 wastewater customers in Sumter County. The service area is located in the Southwest Florida Water Management District, which has enacted district wide irrigation restrictions. According to the Utility's 2018 Annual Report, total gross revenues were \$74,135, and total operating expenses were \$91,368, resulting in a net operating loss of \$17,232.

The Woods was purchased from Aqua Utilities Florida, Inc. (AUF) in March 2013. The transfer was approved by the Florida Public Service Commission in Order No. PSC-2014-0300-PAA-WS, issued June 11, 2014, in Docket No. 20130171-WS.<sup>1</sup> The rate base was last established in that Order.

The Utility filed for a Staff Assisted Rate Case (SARC) on September 21, 2015, in Docket Number 20150209-WS. The SARC application was withdrawn on February 24, 2016.<sup>2</sup> An audit was completed for 12 months ended July 31, 2015, but rate base was not established.<sup>3</sup>

The Woods was previously grouped in "Rate Bands" under the prior owner AUF, in a Commission approved rate structure. The Woods no longer receives these "Rate Bands" grouping subsidies or benefits.

At the time of filing, The Woods was under a Consent Order (DEP OGC File No.: 17-1067) with the Florida Department of Environmental Protection (DEP), due to exceedances in disinfectant byproducts that have persisted since before the 2014 transfer. The Utility has since completed work on a pro forma water treatment plant rehabilitation and filter retrofit to address the disinfectant byproduct issue as well as overall water quality issues. The Woods has received a report from DEP indicating that the Utility is in compliance based on a July 25, 2019, inspection.<sup>4</sup>

This staff report is a **preliminary** analysis of the Utility, prepared by Commission staff, to give the Utility's customers and the Utility an advanced look at what staff may be proposing. The final recommendation to the Commission (currently scheduled to be filed February 20, 2020, for the March 3, 2020, Commission Conference) will be revised as necessary using updated information and the results of customer quality of service or other relevant comments received at the December 18, 2019, customer meeting. The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.081, 367.0812, 367.0814, 367.091, and 367.121, Florida Statutes (F.S.).

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<sup>1</sup>Order No. PSC-2014-0300-PAA-WS, issued June 11, 2014, in Docket No. 20130171-WS, *In re: Application for approval of transfer of certain water and wastewater facilities and Certificate Nos. 507-W and 441-S of Aqua Utilities Florida, Inc. to The Woods Utility Company in Sumter County.*

<sup>2</sup>Document No. 01005-2016 filed February 24, 2016, in Docket No. 20150209-WS, *In re: Application for staff-assisted rate case in Sumter County by The Woods Utility Company.*

<sup>3</sup>Document No. 00709-2016 filed February 4, 2016, in Docket No. 20150209-WS, *In re: Application for staff-assisted rate case in Sumter County by The Woods Utility Company.*

<sup>4</sup>Document No. 08415-2019 filed August 26, 2019, in Docket No. 20190125-WS, *In re: Application for staff-assisted rate case in Sumter County by The Woods Utility Company.*

## Discussion of Issues

**Issue 1:** Is the quality of service provided by The Woods satisfactory?

**Preliminary Recommendation:** Staff's recommendation regarding quality of service will not be finalized until after the customer meeting to be held on December 18, 2019. (Phillips)

**Staff Analysis:** Pursuant to Section 367.081(2)(a)1, F.S., and Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in water and wastewater rate cases, the Commission shall determine the overall quality of service provided by the utility. This determination is made from an evaluation of the quality of the utility's product (water), and the utility's attempt to address customer satisfaction (water and wastewater). The Rule further states that the most recent chemical analyses for the water system, outstanding citations, violations, and consent orders on file with the DEP and the county health department, and any DEP and county health department officials' testimony concerning quality of service shall be considered. In addition, any customer testimony, comments, or complaints received by the Commission are also reviewed. The operating condition of the water and wastewater system is addressed in Issue 2.

### Quality of the Utility's Product

In evaluation of The Woods product quality, staff reviewed the Utility's compliance with the DEP primary and secondary drinking water standards. Primary standards protect public health while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water. In 2017, The Woods entered a consent order with the DEP regarding high levels of iron in the water. In the past the Utility would use free chlorine to oxidize the iron in the water; however, due to the amount of chlorine required, the chemicals would combine with matter in the drinking water creating disinfection byproducts (DBPs). The DBP issue originally surfaced in 2007 while the Utility was operated by its previous owners. The DBP issue is the reason the DEP made the Utility enter into a Consent Order. In order to comply with the DEP Consent Order, the Utility replaced and updated the filtration system to remove the iron from the raw water before distribution. The Utility has also added auto-flushers throughout the distribution system and periodically flushes the system to remove residual iron. With the changes implemented, The Woods has become compliant with all the DEP standards. Staff reviewed the chemical analysis of samples dated February 8, 2018. All of the contaminants were below the maximum contaminant level set by the DEP.

### The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the Commission's Consumer Activity Tracking System records from April 1, 2014, through March 31, 2019, and found nine complaints in total. One complaint addressed a water outage caused by Hurricane Irma. On September 21, 2017, leaks were discovered and repaired, resolving this complaint. Four of the complaints filed during this time frame involved water quality. The Utility recently replaced the filtration system and added several auto-flushers throughout the system to fix this problem. Three of the remaining complaints were billing related, and resolved by the Utility. The final complaint was the result of a leak in a pipe beyond the meter.

Staff requested all complaints received by the Utility during the test year and four years prior. The Utility received a total of four customer complaints during this timeframe. Three of the



complaints involved water quality and one was another inquiry about the water outage caused by Hurricane Irma.

Staff also requested all complaints received by the DEP for The Woods during the test year and four years prior. The DEP received two complaints during this timeframe, both water quality issues. The two complaints were duplicates of complaints previously filed with the Utility.

**Conclusion**

Staff's recommendation regarding quality of service will not be finalized until after the customer meeting to be held on December 18, 2019.

**Issue 2:** Are the infrastructure and operating conditions of The Woods water and wastewater systems in compliance with DEP regulations?

**Preliminary Recommendation:** Staff's recommendation regarding DEP compliance will not be finalized until after the customer meeting to be held on December 18, 2019. (Thompson)

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

### **Water and Wastewater System Operating Conditions**

The Woods water system has a permitted design capacity of 63,500 gallons per day (gpd). The Utility's water system has one well with a pumping capacity of 100 gallons per minute, a hydro-pneumatic storage tank with a 2,500 gallon capacity, and a ground storage tank with a 5,000 gallon capacity. As discussed in Issue 1, The Woods recently upgraded its filtration system to address the exceedances noted in the DEP Consent Order.<sup>5</sup> Based on the case closure letter from the DEP dated June, 14, 2019, the Utility has addressed the requirements of the Consent Order to the DEP's satisfaction, and the case has been closed. Staff reviewed The Woods sanitary surveys conducted by the DEP to determine the Utility's overall water facility compliance. A review of the inspection conducted on July 25, 2019, indicated that The Woods water treatment facility was in compliance with the DEP's rules and regulations.

The Woods wastewater system is a permitted 15,000 gpd Three-Month Rolling Daily Average Flow design capacity extended aeration domestic wastewater treatment plant (WWTP). Staff reviewed the Utility's compliance evaluation inspections conducted by the DEP to determine the Utility's overall wastewater facility compliance. A review of the inspection conducted on August 22, 2018, indicated that The Woods wastewater treatment facility was in compliance with the DEP's rules and regulations.

### **Conclusion**

Staff's recommendation regarding DEP compliance will not be finalized until after the customer meeting to be held on December 18, 2019.

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<sup>5</sup>Document No. 04753-2019, filed June 6, 2019, in Docket No. 20190125-WS, *In re: Application for staff-assisted rate case in Sumter County by The Woods Utility Company.*



**Issue 3:** What are the used and useful (U&U) percentages of The Woods Utility's water treatment plant (WTP), storage, wastewater treatment plant (WWTP), water distribution system, and wastewater collection system?

**Preliminary Recommendation:** The Woods WTP, water storage, and WWTP should be considered 100 percent U&U. The Utility's water distribution system should be considered 76 percent U&U, and its wastewater collection system should be considered 71 percent U&U. Additionally, staff recommends no adjustment to purchased power and chemicals should be made for excessive unaccounted for water (EUW) or excessive infiltration and inflow (I&I) at this time. These are preliminary determinations and are subject to change. (Thompson)

**Staff Analysis:** The Woods water and wastewater systems began operations in 1988. As stated in Issue 2, the Utility's water system has one well with a pumping capacity of 100 gallons per minute, a hydro-pneumatic storage tank with a 2,500 gallon capacity, and a ground storage tank with a 5,000 gallon capacity. The Woods water distribution system is composed of 393 feet of 3/4 inch polyvinyl chloride (PVC) pipe, 2,063 feet of 1 inch PVC pipe, 1,414 feet of 2 inch PVC pipe, 1,103 feet of 2.5 inch PVC pipe, and 3,314 feet of 3 inch PVC pipe.

The Woods wastewater collection system is composed of PVC pipes, and there is one lift station in the service area. The Utility's wastewater collection system comprises 477 feet of 4 inch PVC force mains, and 4,850 feet of 8 inch PVC collecting mains. There are approximately 14 manholes in the service area.

### **Used and Useful Percentages**

Rule 25-30.432, F.A.C., addresses the method by which the U&U of a wastewater system is determined, and Rule 25-30.4325, F.A.C., addresses the method by which the U&U of a water system is determined. The Woods U&U percentages were last determined in Docket No. 20100330-WS.<sup>6</sup> In that docket, the Commission determined the Utility's WTP, water storage, and WWTP to be 100 percent U&U. The Utility's water distribution system was determined to be 76 percent U&U, and its wastewater collection system was determined to be 71 percent U&U.

As noted above, the Commission previously found The Woods WTP, water storage, and WWTP to be 100 percent U&U. The Utility has not increased the capacity of its WTP or WWTP or increased its water storage capacity since rates were last established. Therefore, consistent with the Commission's previous decision, staff recommends the Utility's WTP, water storage, and WWTP be considered 100 percent U&U.

As previously stated, during the prior rate case, the Utility's water distribution system was determined to be 76 percent U&U, and its wastewater collection system was determined to be 71 percent U&U. The water and wastewater service areas have not had any increase in average growth for the past five years. Staff is currently in the process of verifying the connection capacity of The Woods water distribution and wastewater collection systems. However, for staff

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<sup>6</sup>Order No. PSC-2012-0102-FOF-WS, issued March 5, 2012, in Docket No. 20100330-WS, *In re: Application for increase in water/wastewater rates in Alachua, Brevard, DeSoto, Hardee, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.*



report purposes, and for consistency with the Commission's previous decision, staff recommends the Utility's water distribution system be considered 76 percent U&U, and its wastewater collection system be considered 71 percent U&U.

### **Excessive Unaccounted for Water**

Rule 25-30.4325, F.A.C., additionally provides factors to be considered in determining whether adjustments to operating expenses are necessary for EUW. EUW is defined as "unaccounted for water in excess of 10 percent of the amount produced." Unaccounted for water is all water produced that is not sold, metered, or accounted for in the records of the Utility.

EUW is calculated by subtracting both the gallons sold to customers and the gallons used for other services, such as flushing, from the total gallons pumped for the test year. Based on monthly operating reports, The Woods produced 4,317,293 gallons of water from April 1, 2018, to March 31, 2019. Per the audit completed by staff, the Utility sold 2,563,000 gallons of water to customers. The Utility documented 1,533,655 gallons of water usage for line flushing. The resulting calculation  $([4,317,293 - 2,563,000 - 1,533,655] / 4,317,293)$  for unaccounted for water is 5.1 percent; therefore, there is no EUW. Staff recommends no adjustments should be made to purchased power and chemicals at this time.

### **Infiltration and Inflow**

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

Since all wastewater collection systems experience I&I, the conventions noted above provide guidance for determining whether the I&I experienced at a WWTP is excessive. Staff calculates the allowable infiltration based on system parameters, and calculates the allowable inflow based on water sold to customers. The sum of these amounts is the allowable I&I. Staff next calculates the estimated amount of wastewater returned from customers. The estimated return is determined by summing 80 percent of the water sold to residential customers with 90 percent of the water sold to non-residential customers. Adding the estimated return to the allowable I&I yields the maximum amount of wastewater that should be treated by the wastewater system without incurring adjustments to operating expenses. If this amount exceeds the actual amount treated, no adjustment is made. If it is less than the gallons treated, then the difference is the excessive amount of I&I.

From April 1, 2018, through March 31, 2019, the allowance for infiltration was calculated as 1,407,047 gallons, and the allowance for inflow was calculated as 198,300 gallons; therefore, the total I&I allowance was calculated as 1,605,347 gallons. Based on staff's audit, the total water sold to residential customers was 1,983,000 gallons. The Utility does not have any non-residential wastewater customers; therefore, the estimated amount of wastewater returned from customers was calculated as 1,586,400 gallons. Summing the estimated return and the allowable I&I results in a maximum of 3,191,747 gallons of wastewater that should be treated by the

wastewater system without incurring adjustments to operating expenses. Based on the Utility's discharge monitoring reports, the actual amount of wastewater treated was 3,354,900 gallons from April 1, 2018, through March 31, 2019. Therefore, the excessive I&I is 163,153 gallons, or 4.9 percent. However, for staff report purposes, staff is not recommending an adjustment to purchased power and chemicals at this time. Further investigation will be conducted regarding this issue.

**Conclusion**

The Woods WTP, water storage, and WWTP should be considered 100 percent U&U. The Utility's water distribution system should be considered 76 percent U&U, and its wastewater collection system should be considered 71 percent U&U. Additionally, staff recommends no adjustment to purchased power and chemicals should be made for EUW or excessive I&I at this time. These are preliminary determinations and are subject to change.



**Issue 4:** What are the appropriate average test year water and wastewater rate bases for The Woods Utility?

**Preliminary Recommendation:** The appropriate average test year rate base is \$178,297 for water and \$41,968 for wastewater. (Hightower, Thompson)

**Staff Analysis:** The appropriate components of the Utility's rate base include utility plant in service (UPIS), land & land rights, accumulated depreciation, contribution-in-aid-of-construction (CIAC), accumulated amortization of CIAC, a negative acquisition adjustment, and working capital. The last full rate preceding that established balances for rate base for The Woods was Docket No. 20100330-WS.<sup>7</sup> Commission audit staff determined that the Utility's books and records are in compliance with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA). The Utility recorded a water rate base of \$135,625 and a wastewater rate base of \$52,622. Staff recommends an increase of \$42,672 to the water rate base and decrease of \$10,624 to the wastewater rate base. A summary of each component and the recommended adjustments follows.

#### **Utility Plant In Service (UPIS)**

The Utility recorded \$531,468 in UPIS for water and \$198,798 in UPIS for wastewater. Staff identified several adjustments resulting in a net increase to UPIS of \$45,760 for water and a decrease of \$15,810 to wastewater. First, staff decreased UPIS by \$9,238 for water and decreased UPIS by \$2,350 for wastewater to reflect an averaging adjustment. Staff decreased UPIS for wastewater by \$1,500 to remove organizational expenses that were determined to be in the wrong account by the audit. Staff further reduced UPIS by \$13,778 for water and \$11,960 for wastewater to reflect non-used and useful adjustments. Staff made an adjustment increasing water UPIS by \$68,776 (\$70,544 - \$1,768) to reflect two pro forma plant additions net of retirements. No pro forma adjustments were made to wastewater. Therefore, staff recommends an average UPIS balance of \$577,228 (\$531,468 - \$9,238 - \$13,778 + \$68,776) for water and \$182,988 (\$198,798 - \$2,350 - \$1,500 - \$11,960) for wastewater.

#### **Pro Forma Plant Additions**

Table 4-1 shows The Woods requested pro forma plant project. As is Commission practice, staff requested that three bids be provided for the pro forma project. According to the Utility, the pro forma project was related to the projects completed to comply with the DEP Consent Order. Therefore, the same vendor that completed those upgrades completed this project as well. The Utility stated that it did not request bid proposals for upgrades completed related to the DEP Consent Order as it was highly specialized work completed under its operation and maintenance contract with U.S. Water Services Corporation. Staff will provide a recommendation as to whether or not the project cost is appropriate in the final recommendation.

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<sup>7</sup>Docket No. 20100330-WS, *In re: Application for increase in water/wastewater rates in Alachua, Brevard, DeSoto, Hardee, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.*



**Table 4-1  
 Pro-Forma Plant Items**

<b>Project</b>	<b>Acct. No.</b>	<b>Description</b>	<b>Amount</b>
WTP Filter Rehabilitation	320	WTP Filter retrofit and rehabilitation	\$68,187
Power Pole Replacement	304	New power pole and control panel install at the water treatment plant	\$2,357
Power Pole Replacement	304	Retirement	<u>(\$1,768)</u>
<b>Total</b>			<u>\$68,776</u>

Source: Responses to staff data requests.

**Land & Land Rights**

The Utility recorded a test year land value of \$3,500 for water and \$7,500 for wastewater. Staff made no adjustments to this account.

**Used and Useful**

As discussed in Issue 3, during the prior rate case, the Utility’s water distribution system was determined to be 76 percent U&U, and its wastewater collection system was determined to be 71 percent U&U. The water and wastewater service areas have not had any increase in average growth for the past five years.

**Accumulated Depreciation**

The Utility recorded an accumulated depreciation balance of \$280,549 for water and \$117,112 for wastewater. Staff calculated accumulated depreciation to be \$268,995 for water and \$112,802 for wastewater, resulting in a decrease of \$11,554 for water and a decrease of \$4,310 for wastewater. Staff decreased accumulated depreciation by \$1,096 for water and \$230 for wastewater per the audit. Staff made an adjustment of \$2,726 for water and \$2,197 for wastewater to decrease accumulated depreciation to reflect the non-used and useful portions of UPIS. Staff also made an averaging adjustment to accumulated depreciation that resulted in a decrease of \$9,997 for water and \$1,883 for wastewater. Further, staff made corresponding adjustments to accumulated depreciation based on the pro forma plant additions and retirements resulting in an increase for water of \$2,265. Accordingly, staff recommends adjustments that result in an accumulated depreciation balance of \$268,995 (\$280,549 - \$1,096 - \$2,726 - \$9,997 + \$2,265) for water and \$112,802 (\$117,112 - \$230 - \$2,197 - \$1,883) for wastewater.

**Contributions in Aid of Construction (CIAC)**

The Utility recorded a CIAC balance of \$92,939 for water and \$69,065 for wastewater. Staff made an adjustment of \$2,167 for water and \$4,237 for wastewater to reflect a reduction of the non-used & useful portions of CIAC. Therefore, staff recommends a CIAC balance of \$90,772 (\$92,939 - \$2,167) for water and \$64,828 (\$69,065 - \$4,237) for wastewater.

**Accumulated Amortization of CIAC**

The Utility recorded accumulated amortization of CIAC of \$90,784 for water and \$65,409 for wastewater. Staff recalculated accumulated amortization per the audit to include a decrease of

\$16 for water and an increase of \$31 for wastewater per the audit. Staff made corresponding adjustments to reflect the non used & useful portion which resulted in a decrease of \$2,115 for water and \$4,011 for wastewater. Staff also made an adjustment to reflect an averaging adjustment creating a decrease of \$48 to water and \$26 to wastewater. Staff recommends an accumulated amortization of CIAC balance of \$88,605 ( $\$90,784 - \$16 - \$2,115 - \$48$ ) for water and \$61,403 ( $\$65,409 + \$31 - \$4,011 - \$26$ ) for wastewater.

### **Acquisition Adjustment (AA) Net of Accumulated Amortization of AA**

The Utility recorded a negative acquisition adjustment of \$116,639 for water and \$32,908 for wastewater based on Order No. PSC-2014-0300-PAA-WS, issued June 11, 2014. Staff calculated the accumulated amortization of the acquisition adjustment in accordance with Rule 25-30.0371(4)(b)2 and recommends that the related test year amortization should be \$21,746 for water and \$6,247 for wastewater. Staff decreased water by \$3,221 and wastewater by \$2,404 to reflect the non-used and useful portion of the acquisition adjustment. Therefore, staff recommends a negative acquisition adjustment of \$135,164 ( $\$116,639 + \$21,746 - \$3,221$ ) for water and \$36,751 ( $\$32,908 + \$6,247 - \$2,404$ ) for wastewater.

### **Working Capital Allowance**

Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses. Consistent with Rule 25-30.433(3), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Section 367.081(9), F.S., prohibits a utility from earning a return on the unamortized balance of rate case expense. As such, staff removed the rate case expense balance of \$216 for water and \$205 for wastewater for this calculation resulting in an adjusted O&M expense balance of \$31,154 ( $\$31,370 - \$216$ ) for water and \$35,661 ( $\$35,866 - \$205$ ) for wastewater. Applying this formula approach to the adjusted O&M expense balance, staff recommends a working capital allowance of \$3,894 ( $\$31,154 \div 8$ ) for water and \$4,458 ( $\$35,661 \div 8$ ) for wastewater.

### **Rate Base Summary**

Based on the foregoing, staff recommends an average test year rate base is \$178,297 for water and \$41,968 for wastewater. Rate base is shown on Schedule No. 1-A for water and Schedule No. 1-B for wastewater. The related adjustments are shown on Schedule No. 1-C.

**Issue 5:** What is the appropriate return on equity and overall rate of return for The Woods?

**Preliminary Recommendation:** The appropriate return on equity (ROE) is 7.85 percent with a range of 6.85 percent to 8.85 percent. The appropriate overall rate of return is 7.64 percent. (Hightower)

**Staff Analysis:** According to staff's audit, The Woods test year capital structure consisted of 100 percent common equity. The Woods is a subsidiary of U.S. Water Services Corp. and its operations, and any Utility earnings (losses) roll forward to and are consolidated within the parent's tax return. The Utility's capital structure for the test year ending March 31, 2019, has an equity balance of \$275,788 with \$7,817 in customer deposits.

The Utility's proposed capital structure has been reconciled with staff's preliminary recommended rate base. The appropriate ROE for the Utility is 7.85 percent based upon the Commission-approved leverage formula currently in effect.<sup>8</sup> Staff recommends an ROE of 7.85 percent, with a range of 6.85 percent to 8.85 percent, and an overall rate of return of 7.64 percent. The ROE and overall rate of return are shown on Schedule No. 2.

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<sup>8</sup>Order No. PSC-2019-0267-PAA-WS, issued July 1, 2019, in Docket No. 20190006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4) (f), F.S.*



**Issue 6:** What are the appropriate amounts of test year revenues for the water and wastewater systems?

**Preliminary Recommendation:** The appropriate test year revenues are \$41,346 for the water system and \$38,681 for the wastewater system. (Bethea)

**Staff Analysis:** The Woods recorded total test year revenues of \$39,312 for water and \$35,951 for wastewater. The water revenues included \$32,931 of service revenues and \$6,361 of miscellaneous revenues. The wastewater revenues included \$35,951 of service revenues and no miscellaneous revenues. The Utility had a rate increase during the test year as well as subsequent to the test year as a result of price index and pass through adjustments. Staff annualized revenues to reflect those changes in rates.

Based on staff's review of the Utility's billing determinants and the rates that were in effect subsequent to the test year, staff determined service revenues to be \$34,965 for water and \$38,681 for wastewater. This results in an increase of \$2,034 ( $\$34,965 - \$32,931$ ) for water and \$2,730 ( $\$38,681 - \$35,951$ ) for wastewater to reflect annualized test year service revenues.<sup>9</sup> Staff also made adjustments to miscellaneous revenues for water; no miscellaneous revenues were recorded for wastewater. This results in miscellaneous revenues of \$6,381 ( $\$6,361 + \$20$ ) for water. Based on the above, the appropriate test year revenues for The Woods are \$41,346 ( $\$34,965 + \$6,381$ ) for water, and \$38,681 ( $\$38,681 + \$0$ ) for wastewater.

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<sup>9</sup>The utility filed a 2019 Index that became effective on June 17, 2019.

**Issue 7:** What are the appropriate amount of operating expenses for The Woods Utility?

**Preliminary Recommendation:** The appropriate amounts of operating expenses are \$37,748 for the water system and \$36,165 for the wastewater system. (Hightower)

**Staff Analysis:** The Woods recorded operating expenses of \$32,886 for water and \$34,423 for wastewater for the test year ended March 31, 2019. The test year operations and maintenance expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. Staff has made several preliminary adjustments to the Utility's operating expenses as summarized below.

### **Operation & Maintenance Expense**

#### ***Chemicals (618/718)***

The Utility recorded chemicals expense of \$1,864 for water and \$1,040 for wastewater for the test year. Staff increased this account by \$72 for wastewater to reflect the amounts included in the invoices that were incurred, but not recorded in the test year. Therefore, staff recommends a chemicals expense of \$1,864 for water, and \$1,112 ( $\$1,040 + \$72$ ) for wastewater.

#### ***Contractual Services – Accounting (632/732)***

The Utility recorded accounting expenses of \$400 for water and \$0 for wastewater in this account for the test year ended March 31, 2019. Staff reallocated 50 percent of the accounting fees from water to wastewater. Staff reallocated 50 percent of the professional fee from miscellaneous expense to these accounts. The total invoice for the preparation of the annual report to the State of Florida is \$150 to be allocated equally to water and wastewater. Therefore, staff recommends contractual services – accounting expenses of \$275 ( $\$400 - \$200 + \$75$ ) for water and \$275 ( $\$0 + \$200 + \$75$ ) for wastewater.

#### ***Insurance Expense (655/755)***

The Utility recorded a test year insurance expense of \$1,442 for water. Staff allocated this amount equally between water and wastewater. This policy relates to both the water and wastewater systems. Therefore, staff recommends an Insurance Expense of \$721 ( $\$1,442 \div 2$ ) for water and \$721 ( $\$1,442 \div 2$ ) for wastewater.

#### ***Rate Case Expense (665/765)***

The Utility did not record a rate case expense in this account. Staff recommends a rate case expense of \$216 for water and \$205 for wastewater.

#### ***Filing Fees and Customer Notices***

The Utility is required by Rule 25-22.0407, F.A.C., to provide notices of the customer meeting and notices of final rates in this case to its customers. For noticing, staff estimated \$97 for postage expense, \$59 for printing expense, and \$9 for envelopes. This results in \$165 in expense for the noticing requirement for both water and wastewater. The Utility paid a \$1,000 rate case filing fee to be allocated 50 percent to water and 50 percent to wastewater.



**Travel Expenses**

The Utility did not record travel expenses in the test year filing therefore staff has allocated mileage reimbursement of \$69 for travel to attend the customer meeting, as well as mileage reimbursement of \$248 and \$200 for lodging expense for travel to attend the to attend the Commission Conference, for a total of \$517 (\$69 + \$248 + \$200) for rate case travel expenses.

**Rate Case Expense Amortization**

Based on the above, staff recommends total rate case expense of \$862 (\$362 + \$500) for water, and \$819 (\$319 + \$500) for wastewater, both to be amortized over four years. In this docket, staff believes it is appropriate to follow Commission practice and allocate rate case expense based on the appropriate level of ERCs for water (59) and wastewater (52). Staff’s adjustments to these accounts, described above, results in an increase of \$216 (\$862 ÷ 4) for water and an increase of \$205 (\$819 ÷ 4) for wastewater. Staff recommends Regulatory Commission Expense of \$216 (\$0 + \$216) for water and \$205 (\$0 + \$205) for wastewater. Rate Case Expense is delineated in Table 7-1.

**Table 7-1  
 Rate Case Expense**

Item	Staff		
	Recommended	Water	Wastewater
Filing Fee	\$1,000	\$500	\$500
Travel – Customer Meeting	68	36	32
Travel – Agenda Conference	448	238	210
Notices – Customer Meeting	72	38	34
Notices – Final Rates	47	25	22
Notices – Four-Year Rate Reduction	47	25	22
Total Rate Case Expense	<u>\$1,682</u>	<u>\$862</u>	<u>\$820</u>
Annual Rate Case Expense	<u>\$421</u>	<u>\$216</u>	<u>\$205</u>

Source: Responses to staff data requests.

**Miscellaneous Expenses (675/775)**

The Utility recorded a test year miscellaneous expense of \$871 for water. Staff reduced this account by \$150, for fees for preparation of the annual report to the State of Florida. Accordingly, staff reclassified \$150 to contractual services - accounting to remove the fees for preparation of the annual report to the State of Florida. Therefore, staff recommends a miscellaneous expense of \$721 (\$871 - \$150) for water.

**Operations and Maintenance Summary**

Based on the above adjustments, O&M expense should be decreased by \$780 for water and increased by \$1,273 for wastewater, resulting in total O&M expense of \$31,370 for water and \$35,866 for wastewater as shown in Schedule Nos. 3-A through 3-E.

**Depreciation Expense**

The Utility’s records reflect test year depreciation expenses of \$22,025 for water and \$4,278 for wastewater. Staff increased the water depreciation expense by \$4,033 to reflect the Utility’s water treatment plant additions. Staff recalculated depreciation expenses using the prescribed rates set forth in Rule 25-30.140, F.A.C., and decreased depreciation expenses by \$575 for water



and by \$38 for wastewater. Staff recommends adjustments to water of \$410 and wastewater of \$338 to reflect a reduction of non used and useful portions of the depreciation expense. Therefore, staff recommends a depreciation expense of \$25,073 ( $\$22,025 + \$4,033 - \$410 - \$575$ ) for water and \$3,902 ( $\$4,278 - \$338 - \$38$ ) for wastewater.

### **Amortization CIAC**

The Utility recorded CIAC Amortization expense of \$88 for water and \$82 for wastewater. Staff Agrees with the Utility's amount and recommends no adjustment.

### **Negative Acquisition Amount**

The Utility recorded acquisition amortization expense of negative \$24,790 for water and negative \$6,665 for wastewater for the test year ended March 31, 2019. Staff calculated the amortization expense for the acquisition adjustment per PSC Order No. PSC-2004-0300-PAA-WS which is in accordance with Rule 25-30.0371(4)(b)2, F.A.C. and determined that the related test year amortization expense should be a negative \$24,996 for water and a negative \$6,637 for wastewater. Staff recommends an adjustment to decrease the water amortization expense by \$206 and increase the wastewater amortization expense by \$28. Staff also recommends a corresponding adjustment to reflect the non used & useful adjustment, decreasing the negative acquisition adjustment by \$583 for water and \$407 for wastewater.

### **Hydro Tank Coating**

The amortization included in Account 407-3 – Hydro Tank Amortization by the Utility of \$1,197 reflects 8 months of amortization. Staff recalculated the amortization for the 12 months to be \$1,792 in accordance with Rule 25-30.433(9), F.A.C. Staff recommends that Amortization Expense should be increase by \$595 to reflect 12 months of amortization in the test year.

### **Taxes Other Than Income**

The Utility recorded taxes other than income (TOTI) of \$2,392 for water and \$2,299 for wastewater for the test year ending March 31, 2019. Staff increased water by \$288 and wastewater by \$295 to reflect increased property and tangible property taxes. Property taxes are calculated at the current 2019 millage rate. Staff increased water by \$28 and wastewater by \$118 to reflect increased RAFs due to the recommended rate increase. Staff decreased water by \$22 and wastewater by \$61 to reflect the non-used and useful portions of property and tangible property tax. Staff increased the total by \$792 for water to reflect the property tax increase for the pro forma plant addition. The result is \$3,564 ( $\$2,392 + \$288 + \$86 + \$28 - \$22 + \$792$ ) for water and \$2,679 ( $\$2,299 + \$28 + \$118 + \$295 - \$61$ ) for wastewater.

In addition, as discussed in Issue 8, revenues have been increased by \$10,028 for water and \$591 for wastewater to reflect the change in revenue required to cover expenses and allow the recommended operating margin. As a result, TOTI should be increased by \$451 for water and \$31 for wastewater to reflect RAFs of 4.5 percent on the change in revenues. Therefore, staff recommends TOTI expense of \$4,015 ( $\$3,564 + \$451$ ) for water and \$2,710 ( $\$2,679 + \$31$ ) for wastewater.

**Income Tax**

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

**Operating Expenses Summary**

Staff recommends amounts of operating expenses are \$37,748 for the water system and \$36,165 for the wastewater system. Operating expenses are shown on Schedule No. 3-A and Schedule No. 3-B. The related adjustments are shown on Schedule No. 3-C.

**Issue 8:** What is the appropriate revenue requirement?

**Preliminary Recommendation:** The appropriate revenue requirement is \$51,374 for water and \$39,373 for wastewater, resulting in an annual increase of \$10,028 for water and \$691 for wastewater (7.64 percent). (Hightower)

**Staff Analysis:** The Woods should be allowed an annual increase of \$10,028 for water and \$691 for wastewater (7.64 percent). The calculations are shown in Table 8-1 for water and 8-2 for wastewater.

**Table 8-1  
 Revenue Requirement - Water**

Adjusted Rate Base	\$178,297
Rate of Return	<u>7.64%</u>
Return on Rate Base	13,626
Adjusted O&M Expense	31,370
Depreciation Expense	25,073
Amortization	(22,709)
Taxes Other Than Income	4,015
Income Taxes	<u>0</u>
Revenue Requirement	\$51,374
Less Test Year Revenues	<u>\$41,346</u>
Annual Increase / (Decrease)	<u>\$10,028</u>
Percent Increase / (Decrease)	<u>24.25%</u>

Source: Responses to staff data requests.

**Table 8-2  
 Revenue Requirement - Wastewater**

Adjusted Rate Base	\$41,968
Rate of Return	<u>7.64%</u>
Return on Rate Base	3,207
Adjusted O&M Expense	35,866
Depreciation Expense	3,901
Amortization	(6,312)
Taxes Other Than Income	2,710
Income Taxes	<u>0</u>
Revenue Requirement	\$39,372
Less Test Year Revenues	<u>\$38,681</u>
Annual Increase / (Decrease)	<u>\$691</u>
Percent Increase / (Decrease)	<u>1.79%</u>

Source: Responses to staff data requests.



**Issue 9:** What is the appropriate rate structure and rates for The Woods water and wastewater systems?

**Preliminary 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 sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of this notice. (Bethea)

**Staff Analysis:**

**Water Rates**

The Utility is located in Sumter County within the Southwest Florida Water Management District (SWFWMD). The Woods provides water service to approximately 58 residential customers and 1 general service customer. Typically, staff evaluates the seasonality of Utility customers based on the percentage of bills at zero gallons, which is 16 percent. Staff then evaluated the seasonality based on the percentage of bills at the 1,000 gallon level, which is 37 percent. As a result, it appears that the customer base is somewhat seasonal. The average residential water demand is 3,607 gallons per month. The average water demand excluding zero gallon bills is 4,272 gallons per month. The Utility's current water system rate structure for residential service consists of a monthly base facility charge (BFC) based on meter size with a three tier gallonage charge: (1) 0-6,000 gallons; (2) 6,001-12,000 gallons; and (3) all usage in excess of 12,001 gallons per month. General Service customers are billed a monthly BFC based on meter size and a uniform gallonage charge.

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

In this case, staff recommends that 35 percent of the water revenues should be generated from the BFC, which will provide sufficient revenues to design gallonage charges that send pricing signals to customers using above the non-discretionary level. The average people per household served by the water system is two and a half; therefore, based on the number of people per household, 50 gallons per day per person, and the number of days per month, the non-discretionary usage threshold should be 4,000 gallons per month. Staff recommends a BFC and a three-tier inclining block rate structure, which includes separate gallonage charges for discretionary and non-discretionary usage for residential water customers. The rate staff recommended blocks are: (1) 0-4,000 gallons; (2) 4,001-12,000 gallons; and (3) all usage in excess of 12,000 gallons per month. This rate structure sends the appropriate pricing signals because it targets customers with high consumption levels and minimizes price increases for customers at non-discretionary levels. In addition, the third tier provides an additional pricing

signal to customers using in excess of 12,000 gallons of water per month, which includes approximately 13 percent of the demand. General Service customers should be billed a BFC and uniform gallonage charge.

Based on a recommended revenue increase of 28.7 percent, which excludes \$6,381 of miscellaneous revenues, the residential consumption can be expected to decline by 163,000 gallons resulting in anticipated average residential demand of 3,374 gallons per month. Staff recommends a 6.9 percent reduction in test year residential gallons for rate setting purposes and corresponding reductions of \$101 for purchased power, \$119 for chemicals, and \$10 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$44,759.

### **Wastewater Rates**

The Utility provides service to 52 residential customers and no general service customer. Currently, the residential wastewater rate structure consists of a uniform BFC for all meter sizes and a gallonage charge with a 6,000 gallon cap per month. The general service rate structure consists of a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge. Due to the relatively low revenue requirement increase (1.79 percent), staff recommends a continuation of the existing rate structure and the percentage increase be applied as an across-the-board increase to existing service rates.

The rates, as shown on Schedule Nos. 4-A and 4-B, 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. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. 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 that notice was given within 10 days of the date of the notice.



**Issue 10:** What is the appropriate amount by which rates should be reduced in four years after the published effective date to reflect the removal of the amortized rate case expense?

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

**Staff Analysis:** Section 367.081(8), F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense and the gross-up for RAFs. This results in a reduction of \$226 for water and \$215 for wastewater.

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

**Issue 11:** Should the recommended rates be approved for The Woods on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility?

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

**Staff Analysis:** This recommendation proposes an increase in water and wastewater 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 Woods 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 Woods 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 \$6,757 for water and \$468 for wastewater. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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

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

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



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

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

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

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

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

**Issue 12:** Should The Woods be required to notify the Commission within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) associated with the Commission approved adjustments?

**Preliminary Recommendation:** Yes. The Utility should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. The Woods should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable National Association of Regulatory Utility 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. (Hightower)

**Staff Analysis:** The Utility should be required to notify the Commission, in writing that it has adjusted its books in accordance with the Commission's decision. The Woods 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 deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days.



<b>THE WOODS UTILITY COMPANY, INC.</b> <b>TEST YEAR ENDED 03/31/2019</b> <b>SCHEDULE OF WATER RATE BASE</b>		<b>SCHEDULE NO. 1-A</b> <b>DOCKET NO. 20190125-WS</b>	
<b>DESCRIPTION</b>	<b>BALANCE PER UTILTY</b>	<b>STAFF ADJUST.</b>	<b>BALANCE PER STAFF</b>
1. UTILITY PLANT IN SERVICE	\$531,468	\$45,760	\$577,228
2. LAND & LAND RIGHTS	3,500	0	3,500
3. ACCUMULATED DEPRECIATION	(280,549)	11,554	(268,995)
4. CIAC	(92,939)	2,167	(90,772)
5. ACCUMULATED AMORTIZATION OF CIAC	90,784	(2,179)	88,605
6. ACQUISITION ADJUSTMENT	(116,639)	(18,525)	(135,164)
7. WORKING CAPITAL ALLOWNACE	<u>0</u>	<u>3,894</u>	<u>3,894</u>
8. WATER RATE BASE	<u>\$135,625</u>	<u>\$42,672</u>	<u>\$178,297</u>

<b>THE WOODS UTILITY COMPANY, INC.</b> <b>TEST YEAR ENDED 03/31/2019</b> <b>SCHEDULE OF WASTEWATER RATE</b> <b>BASE</b>		<b>SCHEDULE NO. 1-B</b> <b>DOCKET NO. 20190125-WS</b>	
DESCRIPTION	BALANCE PER UTILTY	STAFF ADJUST.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$198,798	(\$15,810)	\$182,988
2. LAND & LAND RIGHTS	7,500	0	7,500
3. ACCUMULATED DEPRECIATION	(117,112)	4,310	(112,802)
4. CIAC	(69,065)	4,237	(64,828)
5. ACCUMULATED AMORTIZATION OF CIAC	65,409	(4,006)	61,403
6. ACQUISITION ADJUSTMENT	(32,908)	(3,843)	(36,751)
7. WORKING CAPITAL ALLOWNACE	<u>\$0</u>	<u>\$4,458</u>	<u>\$4,458</u>
8. WASTEWATER RATE BASE	<u>\$52,622</u>	<u>(\$10,654)</u>	<u>\$41,968</u>

<b>THE WOODS UTILITY COMPANY, INC.</b>	<b>SCHEDULE NO. 1-C</b>	
<b>TEST YEAR ENDED 03/31/2019</b>	<b>DOCKET NO. 20190125-WS</b>	
<b>ADJUSTMENTS TO RATE BASE</b>	<b><u>WATER</u></b>	<b><u>WASTEWATER</u></b>
<b><u>UTILITY PLANT IN SERVICE</u></b>		
1. To reflect audit finding No. 1, removal of org. expenses.	\$0	(\$1,500)
2. To reflect non-used and useful adjustment.	(13,778)	(11,960)
3. To reflect an averaging adjustment.	(9,238)	(2,350)
4. To reflect pro forma additions.	70,544	0
5. To reflect pro forma retirement.	<u>(1,768)</u>	<u>0</u>
Total	<u>\$45,760</u>	<u>(\$15,810)</u>
<b><u>ACCUMULATED DEPRECIATION</u></b>		
1. To reflect audit staff recalculation of accumulated depreciation.	\$1,096	\$230
2. To reflect non-used and useful adjustment.	2,726	2,197
3. To reflect an averaging adjustment.	9,997	1,883
4. To reflect pro forma adjustment.	<u>(2,265)</u>	<u>0</u>
Total	<u>\$11,554</u>	<u>\$4,310</u>
<b><u>CIAC</u></b>		
1. To reflect non-used and useful adjustment.	\$2,167	\$4,237
2. To reflect an averaging adjustment.	<u>0</u>	<u>0</u>
Total	<u>\$2,167</u>	<u>\$4,237</u>
<b><u>ACCUMULATED AMORTIZATION OF CIAC</u></b>		
1. To reflect staff recalculation to accumulated depreciation.	(\$16)	\$31
2. To reflect non-used and useful adjustment.	(2,115)	(4,011)
3. To reflect an averaging adjustment.	<u>(48)</u>	<u>(26)</u>
Total	<u>(\$2,179)</u>	<u>(\$4,006)</u>
<b><u>ACQUISITION ADJUSTMENT</u></b>		
1. To reflect accumulated acquisition adjustment. (AF2)	(\$21,746)	(\$6,247)
2. To reflect an adj. to acquisition adjustment for non-U&U.	3,221	2,404
Total	<u>(\$18,525)</u>	<u>(\$3,843)</u>
<b><u>WORKING CAPITAL ALLOWANCE</u></b>		
To reflect 1/8 of test year O&M expenses.	<u>\$3,894</u>	<u>\$4,458</u>



<b>THE WOODS UTILITY COMPANY, INC.</b>							<b>SCHEDULE NO. 2</b>		
<b>TEST YEAR ENDED 03/31/2019</b>							<b>DOCKET NO. 20190125-WS</b>		
<b>SCHEDULE OF CAPITAL STRUCTURE</b>									
<u>CAPITAL COMPONENT</u>	<u>PER UTILITY</u>	<u>SPECIFIC ADJUST-MENTS</u>	<u>BALANCE AFTER ADJ.</u>	<u>PRO RATA ADJUST-MENTS</u>	<u>BALANCE PER STAFF</u>	<u>PERCENT OF TOTAL</u>	<u>COST</u>	<u>WEIGHTED COST</u>	
1. COMMON STOCK	\$0	\$0	\$0	\$0	\$0	0.00%			
2. RETAINED EARNINGS	0	0	0	0	0	0.00%			
3. PAID IN CAPITAL	0	0	0	0	0	0.00%			
4. OTHER COMMON EQUITY	<u>\$275,788</u>	<u>\$0</u>	<u>\$275,788</u>	<u>(\$63,341)</u>	<u>\$212,447</u>	96.45%			
TOTAL EQUITY	<u>\$275,788</u>	<u>\$0</u>	<u>\$275,788</u>	<u>(\$63,341)</u>	<u>\$212,447</u>	96.45%	7.85%	7.57%	
5. LONG-TERM DEBT	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	
6. SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%	
7. PREFERRED STOCK	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	0.00%	0.00%	0.00%	
TOTAL DEBT	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>			0.00%	
8. CUSTOMER DEPOSITS	<u>\$7,817</u>	<u>\$0</u>	<u>\$7,817</u>	<u>\$0</u>	<u>\$7,817</u>	3.55%	2.00%	0.07%	
9. DIFERRED INCOME TAXES	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	0.00%		0.00%	
10. TOTAL	<u>\$283,605</u>	<u>\$0</u>	<u>\$283,605</u>	<u>(\$63,341)</u>	<u>\$220,264</u>	100.00%		7.64%	
<b>RANGE OF REASONABLENESS</b>							<b><u>LOW</u></b>	<b><u>HIGH</u></b>	
RETURN ON EQUITY							6.85%	8.85%	
OVERALL RATE OF RETURN							6.68%	8.61%	

<b>THE WOODS UTILITY COMPANY, INC.</b>		<b>SCHEDULE NO. 3-A</b>			
<b>TEST YEAR ENDED 03/31/2019</b>		<b>DOCKET NO. 20190125-WS</b>			
<b>SCHEDULE OF WATER OPERATING INCOME</b>					
	<b>UTILITY</b>		<b>STAFF</b>	<b>ADJ.</b>	
	<b>TEST</b>	<b>STAFF</b>	<b>ADJ. TEST</b>	<b>FOR</b>	<b>REV.</b>
	<b>YEAR</b>	<b>ADJ.</b>	<b>YEAR</b>	<b>INCREASE</b>	<b>REQ.</b>
1. <b>TOTAL OPERATING REVENUES</b>	<u>\$39,229</u>	<u>\$2,117</u>	<u>\$41,346</u>	<u>\$10,028</u> 24.25%	<u>\$51,374</u>
<b>OPERATING EXPENSES:</b>					
2. OPERATION & MAINTENANCE	\$32,150	(\$780)	\$31,370		\$31,370
3. DEPRECIATION (NET)	22,025	3,048	25,073		25,073
4. AMORTIZATION	(23,681)	972	(22,709)		(22,709)
5. TAXES OTHER THAN INCOME	2,392	1,172	3,564	\$451	4,015
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>		<u>0</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>\$32,886</u>	<u>\$4,411</u>	<u>\$37,297</u>		<u>\$37,748</u>
7. <b>OPERATING INCOME / (LOSS)</b>	<u>\$6,343</u>		<u>\$4,049</u>		<u>\$13,626</u>
8. <b>WATER RATE BASE</b>	<u>\$135,625</u>		<u>\$178,297</u>		<u>\$178,297</u>
9. <b>RATE OF RETURN</b>					<u>7.64%</u>



<b>THE WOODS UTILITY COMPANY, INC.</b>		<b>SCHEDULE NO. 3-B</b>			
<b>TEST YEAR ENDED 03/31/2019</b>		<b>DOCKET NO. 20190125-WS</b>			
<b>SCHEDULE OF WASTEWATER OPERATING INCOME</b>					
	<b>UTILITY</b>		<b>STAFF</b>	<b>ADJ.</b>	
	<b>TEST</b>	<b>STAFF</b>	<b>ADJ. TEST</b>	<b>FOR</b>	<b>REV.</b>
	<b>YEAR</b>	<b>ADJ.</b>	<b>YEAR</b>	<b>INCREASE</b>	<b>REQ.</b>
1. <b>TOTAL OPERATING REVENUES</b>	<u>\$35,951</u>	<u>\$2,730</u>	<u>\$38,681</u>	<u>\$691</u> 1.79%	<u>\$39,372</u>
<b>OPERATING EXPENSES:</b>					
2. OPERATION & MAINTENANCE	\$34,593	\$1,273	\$35,866		\$35,866
3. DEPRECIATION (NET)	4,277	(376)	3,901		3,901
4. AMORTIZATION	(6,747)	435	(6,312)		( 6,312)
5. TAXES OTHER THAN INCOME	2,299	380	2,679	\$31	2,710
6. INCOME TAXES	<u>0</u>		<u>0</u>		<u>0</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>\$34,422</u>	<u>\$1,712</u>	<u>\$36,134</u>		<u>\$36,165</u>
7. <b>OPERATING INCOME / (LOSS)</b>	<u>\$1,529</u>		<u>\$2,547</u>		<u>\$3,207</u>
8. <b>WASTEWATER RATE BASE</b>	<u>\$52,622</u>		<u>\$41,968</u>		<u>\$41,968</u>
9. <b>RATE OF RETURN</b>					<u>7.64%</u>

**THE WOODS UTILITY COMPANY, INC.**  
**TEST YEAR ENDED 03/31/2019**  
**ADJUSTMENTS TO OPERATING INCOME**

**SCHEDULE 3-C**  
**DOCKET NO. 20190125-WS**  
**PAGE 1 OF 2**

	<u>WATER</u>	<u>WASTEWATER</u>
<b>OPERATING REVENUES</b>		
1. To reflect an auditing adjustment to Service Revenues	\$1,464	\$98
2. To reflect an auditing adjustment to Misc. Revenues	20	0
3. To reflect the appropriate test year Service Revenues	633	2,632
4. To reflect the appropriate test year Misc. Revenue.	<u>0</u>	<u>0</u>
Total	<u>\$2,117</u>	<u>\$2,730</u>
<b>OPERATION AND MAINTENANCE EXPENSE</b>		
1. Chemicals Expense (618 / 718) To reflect audit finding no. 4.	\$0	\$72
2. Contractual Services - Accounting (632 / 732) To reflect audit adjustment.	(\$125)	\$275
3. Insurance Expense (655 / 755) To reflect an audit adjustment.	(\$721)	\$721
4. Rate Case Expense (665 / 765) To reflect 1/4 Rate Case Expense	\$216	\$205
5. Miscellaneous Expense (675 / 775) To reflect an auditing adjustment.	(\$150)	\$0
<b>TOTAL O&amp;M ADJUSTMENTS</b>	<u>(\$780)</u>	<u>\$1,273</u>
<b>DEPRECIATION EXPENSE</b>		
1. To reflect staff's adjustment to depreciation expense.	(\$575)	(\$38)
2. To reflect non-used and useful adjustment.	(410)	(338)
3. To reflect pro forma additions.	<u>4,033</u>	<u>0</u>
Total	<u>\$3,048</u>	<u>(\$376)</u>



<b>THE WOODS UTILITY COMPANY, INC.</b>	<b>SCHEDULE 3-C</b>	
<b>TEST YEAR ENDED 03/31/2019</b>	<b>DOCKET NO. 20190125-WS</b>	
<b>ADJUSTMENTS TO OPERATING INCOME</b>	<b>PAGE 2 OF 2</b>	
	<u><b>WATER</b></u>	<u><b>WASTEWATER</b></u>
<b>AMORTIZATION OF ACQUISITION ADJUSTMENT</b>		
To reflect an auditing adjustment.	\$389	\$28
To reflect non-used and useful adjustment.	<u>583</u>	<u>407</u>
Total	<u>\$972</u>	<u>\$435</u>
<b>TAXES OTHER THAN INCOME</b>		
To reflect an auditing adjustment.	\$86	\$28
To reflect the appropriate test year RAFs.	28	118
To reflect 2019 tangible and property taxes.	288	295
To reflect non-used and useful adjustment.	(22)	(61)
To reflect property taxes associated with pro forma plant additions.	<u>792</u>	<u>0</u>
Total	<u>\$1,172</u>	<u>\$380</u>
<b>TOTAL OPERATING EXPENSE</b>	<u><b>\$4,411</b></u>	<u><b>\$1,712</b></u>

<b>THE WOODS UTILITY COMPANY, INC.</b>		<b>SCHEDULE NO. 3-D</b>		
<b>TEST YEAR ENDED 03/31/2019</b>		<b>DOCKET NO. 20190125-WS</b>		
<b>ANALYSIS OF WATER O&amp;M EXPENSE</b>				
<b>ACCT. #</b>	<b>DESCRIPTION</b>	<b>TOTAL PER UTILITY</b>	<b>STAFF ADJUST- MENT</b>	<b>TOTAL PER STAFF</b>
603	Salaries and Wages - Officers and Directors	\$3,150	\$0	\$3,150
615	Purchased Power	\$1,581	\$0	\$1,581
618	Chemicals	\$1,864	\$0	\$1,864
632	Contractual Services - Accounting	\$400	(\$125)	\$275
633	Contractual Services - Legal	\$150	\$0	\$150
635	Contractual Services - Testing	\$94	\$0	\$94
636	Contractual Services - Other	\$18,560	\$0	\$18,560
655	Insurance Expense	\$1,442	(\$721)	\$721
665	Rate Case Expense	\$0	\$216	\$216
670	Bad Debt Expense	\$4,038	\$0	\$4,038
675	Miscellaneous Expenses	\$871	(\$150)	\$721
	Total O&M Expense	<u>\$32,150</u>	<u>(\$780)</u>	<u>\$31,370</u>
	Working Capital is 1/8 of O&M Less RCE			\$3,894



<b>THE WOODS UTILITY COMPANY, INC.</b>		<b>SCHEDULE NO. 3-E</b>		
<b>TEST YEAR ENDED 03/31/2019</b>		<b>DOCKET NO. 20190125-WS</b>		
<b>ANALYSIS OF WASTEWATER O&amp;M EXPENSE</b>				
<b>ACCT. #</b>	<b>DESCRIPTION</b>	<b>TOTAL PER UTILITY</b>	<b>STAFF ADJUST- MENT</b>	<b>TOTAL PER STAFF</b>
703	Salaries and Wages - Officers and Directors	\$3,150	0	3,150
711	Sludge Removal Expense	580	0	580
715	Purchased Power	3,128	0	3,128
718	Chemicals	1,040	72	1,112
732	Contractual Services - Accounting	0	275	275
733	Contractual Services - Legal	150	0	150
736	Contractual Services - Other	23,665	0	23,665
755	Insurance Expense	0	721	721
765	Rate Case Expense	0	205	205
770	Bad Debt Expense	<u>2,880</u>	<u>0</u>	<u>2,880</u>
	Total O&M Expense	<u>\$34,593</u>	<u>\$1,272</u>	<u>\$35,865</u>
	Working Capital is 1/8 of O&M Less RCE			\$4,458

<b>THE WOODS</b>		<b>SCHEDULE NO. 4-A</b>	
<b>TEST YEAR ENDED MARCH 31, 2019</b>		<b>DOCKET NO. 20190125-WS</b>	
<b>MONTHLY WATER RATES</b>			
	<b>UTILITY CURRENT RATES</b>	<b>STAFF RECOMMENDED RATES</b>	<b>4 YEAR RATE REDUCTION</b>
<b><u>Residential and General Service</u></b>			
Base Facility Charge by Meter Size			
5/8" X 3/4"	\$19.11	\$20.62	\$0.10
3/4"	\$28.67	\$30.93	\$0.15
1"	\$47.78	\$51.55	\$0.25
1-1/2"	\$95.55	\$103.10	\$0.49
2"	\$152.88	\$164.96	\$0.79
3"	\$305.76	\$329.92	\$1.58
4"	\$477.75	\$515.50	\$2.47
6"	\$955.50	\$1,031.00	\$4.95
8"	\$1,528.80	\$1,649.60	\$7.92
10"	\$2,197.65	\$2,371.30	\$11.38
Charge per 1,000 gallons - Residential Service			
0-6,000 gallons	\$6.58	N/A	N/A
6,001-12,000 gallons	\$9.90	N/A	N/A
Over 12,000 gallons	\$13.17	N/A	N/A
Charge per 1,000 gallons - Residential Service			
0-4,000 gallons	N/A	\$10.67	\$0.05
4,001-12,000 gallons	N/A	\$12.53	\$0.06
Over 12,000 gallons	N/A	\$18.80	\$0.09
Charge per 1,000 gallons - General Service			
	\$7.38	\$12.08	\$0.06
<b><u>Private Fire Protection</u></b>			
Base Facility Charge by Meter Size			
2"	\$12.74	\$13.75	
3"	\$25.48	\$27.49	
4"	\$39.81	\$42.96	
6"	\$79.63	\$85.92	
8"	\$127.40	\$137.47	
10"	\$183.14	\$197.61	
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
2,000 Gallons	\$32.27	\$41.96	
4,000 Gallons	\$45.43	\$63.30	
6,000 Gallons	\$58.59	\$95.80	

<b>THE WOODS</b>		<b>SCHEDULE NO. 4-B</b>	
<b>TEST YEAR ENDED MARCH 31, 2019</b>		<b>DOCKET NO. 20190125-WS</b>	
<b>MONTHLY WASTEWATER RATES</b>			
	<b>UTILITY CURRENT RATES</b>	<b>STAFF RECOMMENDED RATES</b>	<b>4 YEAR RATE REDUCTION</b>
<b><u>Residential</u></b>			
Base Facility Charge - All Meter Sizes	\$38.47	\$39.16	\$0.20
Charge Per 1,000 gallons			
6,000 gallon cap	\$9.12	\$9.28	\$0.05
<b><u>General Service</u></b>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$38.47	\$39.16	\$0.20
3/4"	\$57.71	\$58.74	\$0.31
1"	\$96.18	\$97.90	\$0.51
1-1/2"	\$192.35	\$195.80	\$1.02
2"	\$307.76	\$313.28	\$1.63
3"	\$615.52	\$626.56	\$3.26
4"	\$961.75	\$979.00	\$5.10
6"	\$1,923.50	\$1,958.00	\$10.19
8"	\$3,077.60	\$3,132.80	\$16.31
10"	\$4,424.05	\$4,503.40	\$23.45
Charge per 1,000 gallons	\$10.95	\$11.15	\$0.06
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
2,000 Gallons	\$56.71	\$57.72	
4,000 Gallons	\$74.95	\$76.28	
6,000 Gallons	\$93.19	\$94.84	