

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: March 19, 2020

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Engineering (Knoblauch, K. Johnson, M. Watts)
Division of Accounting and Finance (D. Brown, T. Brown, Wilson)
Division of Economics (Hudson, Sibley)
Office of the General Counsel (Weisenfeld)

Handwritten initials and signatures:
MK, CR, ME, TS, EK, KA, ALM, ESD, JSH, JH, JH

RE: Docket No. 20190071-WS – Application for staff-assisted rate case in Polk County by Deer Creek RV Golf & Country Club, Inc.

AGENDA: 03/31/20 – Regular Agenda – Proposed Agency Action Except for Issue Nos. 13, 14, and 15 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Polmann

CRITICAL DATES: 08/13/2020 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

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Case Background

Deer Creek RV Golf & Country Club, Inc. (Deer Creek or Utility) is a Class C utility providing water and wastewater service to approximately 752 residential and 39 commercial customers in Polk County. Deer Creek is part of a Development of Regional Impact (DRI), which was established in the early 1980s.¹ Under the DRI, several contiguous mobile home communities and commercial properties were developed. The ownership of the developments has changed hands several times and several different agreements were made as to how utility service would be managed and billed. On December 5, 2013, Deer Creek acquired the recreational facilities, amenities, and other property exclusively serving several of the communities. The Florida Public Service Commission (Commission) granted original Certificate Nos. 670-W and 572-S to Deer Creek on November 17, 2017, to provide water and wastewater service.² The Utility's rates were also approved in the original certificate proceeding.

On March 25, 2019, Deer Creek filed an application for a staff-assisted rate case (SARC). Pursuant to Section 367.0814(2), Florida Statutes, (F.S.), the official filing date of the SARC has been determined to be May 13, 2019. Staff selected the test year ended December 31, 2018, for the instant case. According to the Utility's 2018 Annual Report, it reported total operating revenues of \$132,542 for water and \$194,307 for wastewater, and a net operating loss of \$124,265 for water and \$81,798 for wastewater.

The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.081, 367.0812, 367.0814, 367.091, and 367.121, F.S.

¹ Pursuant to Section 380.06(1), F.S., a Development of Regional Impact is defined as "any development that, because of its character, magnitude or location, would have a substantial effect upon the health, safety, or welfare of citizens of more than one county."

² Order No. PSC-2017-0440-FOF-WS, issued November 17, 2017, in Docket No. 20160248-WS, *In re: Application for original certificates to provide water and wastewater service in Polk County by Deer Creek RV Golf & Country Club, Inc.*

Discussion of Issues

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

Recommendation: Yes. Staff recommends that the overall quality of service provided by Deer Creek be considered satisfactory. (Knoblauch)

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

Quality of the Utility's Product (Water)

Deer Creek does not have its own wells or water treatment facilities. It provides water to its customers by purchasing bulk water from Polk County; therefore, the Utility only maintains its distribution system. As a reseller of water, Deer Creek is not subject to the DEP's secondary water standards which regulate contaminants that may impact the taste, odor, and color of drinking water. The chemical analyses required within Deer Creek's distribution system include microbiological, disinfection byproducts, as well as lead and copper. Staff reviewed the Utility's most recent results for the distribution system, and all results were in compliance with the DEP's rules and regulations which protect public health.

Staff held a customer meeting on December 17, 2019, to receive customer comments regarding the quality of service. At the meeting, ten customers spoke, two of whom provided comments on the water quality. One customer remarked positively about the water. The second customer stated that they recently had to replace their water filter after three months, and that the filter was rust colored. The other customer comments that were made at the customer meeting are discussed below.

Deer Creek has no outstanding citations, violations, or consent orders on file with the DEP. Additionally, there have been no complaints regarding the quality of the Utility's product filed with the Utility, the Commission, or the DEP, over the last five years.

The Utility's Attempt to Address Customer Satisfaction (Water & Wastewater)

Table 1-1 shows a summary of the complaints received at the customer meeting, as well as complaints received by the Commission's complaint tracking system, the DEP, and Deer Creek over the past five years.

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

Complaint Type	Customer Meeting	Commission Records	DEP Records	Utility Records
Water Quality	2	0	0	0
Leaks	2	0	0	0
Infrastructure	4	0	0	0
Non-Utility Customers	3	0	0	0
Rate Increase	7	0	0	0
Wastewater	0	0	0	0
Billing	4	1	0	3
Total	22	1	0	3

*A single customer complaint may be counted more than once if it fits into multiple categories.

Customer Meeting

At the customer meeting, the majority of the customers spoke about the magnitude of the rate increase, the proposed rate structure, and the uncompensated use of Deer Creek’s distribution and collection lines by non-Utility customers. Two customers also voiced concerns about the number of water line breaks and outages that they had experienced. In response, the Utility provided staff with details for all leaks and repairs that had occurred since 2018, the year it began retaining such records. The data showed that these occurrences were largely related to small service line leaks. Additionally, the Utility provided staff with all precautionary boil water alerts that were issued since receiving its certificates in 2017. Two alerts were issued in 2018 due to water main breaks, and one alert was issued in 2019 when water was shut off from Polk County, the Utility’s water provider.

Deer Creek shares its customers’ concerns regarding the uncompensated use of its distribution and collection lines by non-Utility customers, which includes a community of approximately 180 residential customers and a commercial strip of businesses. These non-Utility customers receive water and wastewater service from Polk County, but utilize a portion of Deer Creek’s distribution and collection systems. Deer Creek met with staff on June 12, 2019, to discuss whether the Commission could suggest a mechanism to obtain payment for the use of its distribution and collection mains. Staff advised during the meeting that because the entities in question are not customers of record, staff could not recommend a means of compensation.

Complaints

As noted above, there were no complaints on the quality of the Utility’s product over the last five years; however, four non-water quality complaints were found. A review of the Commission’s complaint tracking system revealed one billing complaint in the previous five-year period. The complaint was forwarded to the Utility for resolution and was subsequently closed. In response to staff’s first data request asking for complaints received during the test year and four years prior, Deer Creek provided three. All of the complaints were concerning billing, with one of the complaints relating to the previously discussed Commission-received complaint. Of the two remaining complaints, one was resolved with a meter test performed by the Utility, and the other was resolved after the customer’s meter was replaced. In addition, staff contacted the DEP

requesting complaints regarding Deer Creek for the prior five years, and there were no complaints on file with the DEP.

Conclusion

The Utility's water quality is in compliance with DEP rules and regulations. Additionally, the majority of the concerns raised by customers were related to the rate increase, and not Deer Creek's quality of service. Therefore, staff recommends that the overall quality of service provided by Deer Creek be considered satisfactory.

Issue 2: Are the infrastructure and operating conditions of Deer Creek’s water and wastewater systems in compliance with DEP regulations?

Recommendation: Yes. Deer Creek’s water and wastewater systems are currently in compliance with DEP regulations. (Knoblauch, M. Watts)

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, compliance evaluation inspections, citations, violations, and consent orders issued to the utility, customer testimony, comments, and complaints, and utility testimony and responses to the aforementioned items.

Deer Creek does not have its own wells, water treatment facilities, or wastewater treatment facilities. It provides water and wastewater service to its customers by purchasing bulk water and wastewater treatment service from Polk County; therefore, the Utility maintains its distribution and collection systems. Systems that purchase bulk water and/or wastewater treatment are referred to as “consecutive” systems. The most recent inspection report from the DEP, dated May 15, 2019, indicated that the Utility was in compliance with its regulations and requirements except that the Utility had no testing records of the distribution system’s backflow prevention devices. The Utility stated that the deficiency was corrected on May 31, 2019, and provided documentation of the test results for its backflow devices. Additionally, Deer Creek has no outstanding citations, violations, or consent orders on file with the DEP.

Conclusion

Deer Creek’s water and wastewater systems are currently in compliance with DEP regulations.

Issue 3: What are the used and useful (U&U) percentages for Deer Creek’s water distribution system and wastewater collection system?

Recommendation: Staff recommends that the water distribution system and the wastewater collection system be considered 100 percent U&U. A 20.6 percent excessive unaccounted for water (EUW) adjustment should be made to purchased water expense and purchased wastewater expense to reflect excessive water loss. Staff is unable to calculate inflow and infiltration (I&I) due to the nature of the Utility’s provision of wastewater service. Therefore, no adjustment to operating expenses is recommended for I&I. (M. Watts)

Staff Analysis: As discussed in Issue 2, Deer Creek does not have its own wells or water and wastewater treatment plants. The Utility’s water distribution system consists of polyvinyl chloride (PVC) pipe and 21 fire hydrants. The wastewater collection system is composed of PVC pipe, 110 manholes, and a lift station. A summary of Deer Creek’s distribution and collection system is provided in Table 2-1.

Table 2-1
Water Distribution System and Wastewater Collection System Mains

Diameter of Pipe	No. of Feet of Pipe	
	Water Mains	Wastewater Collecting Mains
4-inch	5,430	
6-inch	10,810	
8-inch	10,247	15,841
10-inch	580	6,011

Source: Deer Creek RV Golf & Country Club, Inc. 2018 Annual Report.

Water Distribution and Wastewater Collection System Used & Useful

Deer Creek serves several contiguous mobile home communities and commercial properties that were developed in the 1980s. The service territory is built out, with no growth occurring over the past five years and no prospect for further growth. Therefore, the U&U for the water distribution system and the wastewater collection system should be considered 100 percent.

Excessive Unaccounted for Water

Rule 25-30.4325(1)(e), 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 operating expenses (such as purchased water in the case of a consecutive system) 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 purchased for the test year.

Prior to filing its application for a SARC, the Utility was aware that it had a high level of unaccounted for water, and hired a firm to do a leak detection survey on its distribution system. The firm did not find any leaks within the system. However, it did identify two gate valves that are inoperable and in an unknown position. If they are open, they could allow for uncompensated water flow that could bypass the master meters for two residential communities. The Utility is seeking bids to repair or replace the gate valves.

Additionally, during on-site discussions between Polk County Utilities and Deer Creek over the water loss issue, it was discovered that a business entity within its certificated territory had been receiving potable water from Deer Creek without paying for it for an unknown period of time. Deer Creek serves the tenants of a commercial business center called Deer Creek Crossing (DCC). The tenants are metered and billed separately, but DCC provides for irrigation of the common areas around the building. The irrigation system is designed to use a surface water well for irrigation, with a metered connection to Deer Creek's distribution system as a backup when the surface water well does not provide a sufficient quantity of water. The current owners of Deer Creek were unaware of this connection and had not billed DCC for service. Upon investigation, Deer Creek determined that the last time the meter was read was in December 2017. In the 21-month period from December 2017 to September 2019 (when Deer Creek found and read the meter), DCC consumed 2,954,500 gallons of uncompensated potable water, or an average of 140,690 gallons per month. Thus, during the test year, DCC used an estimated 1,692,880 gallons of water. Deer Creek is seeking compensation from DCC, and offered to have DCC become a customer of record. DCC refused to become a customer of record, and Deer Creek subsequently removed the meter and connection to its distribution system.

The Utility's bills from Polk County show that it purchased 25,929,000 gallons. According to its billing records, the Utility sold 16,304,762 gallons of water during the test year. The Utility reported that it flushes the system once per year, using a minimal volume of water, and so it did not record any water for other uses. As stated above, the Utility was able to account for approximately 1,692,880 gallons of water provided to DCC. Adding the water sold to the water provided to DCC, and subtracting the sum from the amount produced yields an unaccounted for water total of 7,931,358 gallons, or 30.6 percent, yielding an EUW of 20.6 percent. Since Polk County bills the Utility for wastewater based on the number of gallons of water sold to the Utility, unaccounted for water affects the amount it is charged for wastewater. Therefore, staff recommends that a 20.6 percent adjustment be made to purchased water expense and purchased wastewater expense due to EUW.

Infiltration and Inflow

Typically infiltration 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. Because the amount of wastewater treated by Polk County on behalf of Deer Creek is not measured separately, staff is unable to calculate whether there is excessive I&I and thus no adjustment is recommended.

Conclusion

Staff recommends that the water distribution system and the wastewater collection system be considered 100 percent U&U. A 20.6 percent EUW adjustment should be made to purchased

water expense and purchased wastewater expense to reflect excessive water loss. Staff is unable to calculate I&I due to the nature of the Utility's provision of wastewater service. Therefore, no adjustment to operating expenses is recommended for I&I.

Issue 4: What is the appropriate average test year water rate base and wastewater rate base for Deer Creek?

Recommendation: The appropriate average test year rate base for Deer Creek is \$58,509 for water and \$110,351 for wastewater. (D. Brown, T. Brown)

Staff Analysis: The appropriate components of a Utility's rate base include utility plant in service, land, contributions in aid of construction (CIAC), accumulated depreciation, amortization of CIAC, and working capital. Rate base has not previously been established for Deer Creek, but the Commission approved the Utility's existing rates in its original certificate docket.³ The test year ended December 31, 2018, was used for the instant case. Deer Creek operated at an operating loss in 2017 and 2018 based on the Utility's Annual Reports. Commission audit staff determined that the Utility's books and records are in compliance with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA). A summary of each water rate base and wastewater rate base component, and recommended adjustments, are discussed below.

Utility Plant in Service (UPIS)

The Utility recorded UPIS of \$44,553 for water and \$95,948 for wastewater. The Utility does not operate a water treatment facility or a wastewater facility. Deer Creek's utility plant consists of a water distribution system, water meters, and a wastewater collection system with a master lift station. Water is purchased from Polk County via a single master meter. Effluent from the lift station is transferred to Polk County for treatment and disposal. Staff decreased UPIS by \$11,034 for water and \$6,900 for wastewater to reflect averaging adjustments. Therefore, staff recommends a UPIS balance of \$33,519 for water and \$89,048 for wastewater.

Land and Land Rights

The Utility recorded no land for water and wastewater. Audit staff verified that the Utility has no land deeds and determined that there have been no changes to land since the Utility was acquired on December 5, 2013. The lift station is on common property owned by the Utility's parent. Audit staff did not determine the value of land, nor was a cost assigned to the Utility. Accordingly, no adjustments are necessary. Staff recommends a land and land rights balance of \$0 for water and wastewater.

Non-Used and Useful Plant

As discussed in Issue 3, Deer Creek's water distribution system and wastewater collection system are considered 100 percent U&U. Therefore, no U&U adjustments are necessary.

Contributions In Aid of Construction

The Utility does not collect any CIAC and had none recorded for water or wastewater; therefore, no adjustments are necessary. As such, staff's recommended CIAC balances are \$0 for water and wastewater.

³ Order No. PSC-2017-0440-FOF-WS, issued November 17, 2017, in Docket No. 20160248-WS, *In re: Application for original certificates to provide water and wastewater service in Polk County by Deer Creek RV Golf & Country Club, Inc.*

Accumulated Depreciation

According to the Utility's general ledger, the accumulated depreciation balances for water and wastewater were \$1,651 and \$7,171, respectively, as of December 31, 2018. Staff recalculated accumulated depreciation and depreciation expense using the audited UPIS balances and the depreciation rates established by Rule 25-30.140(2), F.A.C. Staff decreased this account by \$7 for water and \$37 for wastewater to reflect the audited balances. In addition, staff decreased accumulated depreciation by \$670 for water and \$2,421 for wastewater, to reflect an averaging adjustment. Staff's adjustments to this account result in accumulated depreciation balances of \$974 ($\$1,651 - \$7 - \670) for water and \$4,714 ($\$7,171 - \$37 - \$2,421$) for wastewater.

Accumulated Amortization of CIAC

As mentioned previously, the Utility does not collect any CIAC and there is no CIAC to amortize; therefore, no adjustments are necessary. As such, staff's recommended accumulated amortization of CIAC balances are \$0 for water and wastewater.

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(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. Staff also removed the unamortized balance of rate case expense of \$947 for water and \$947 for wastewater pursuant to Section 367.081(9), F.S.⁴ Applying this formula, staff recommends a working capital allowance of \$25,964 ($\$207,709 / 8$) for water, based on the adjusted O&M expense of \$207,709 ($\$208,657 - \947). Further, staff recommends a working capital allowance of \$26,016 ($\$208,130 / 8$) for wastewater, based on the adjusted O&M expense of \$208,130 ($\$209,077 - \947).

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base is \$58,509 for water and \$110,351 for wastewater. Water and wastewater rate bases are shown on Schedule Nos. 1-A and 1-B, respectively. The related adjustments are shown on Schedule No. 1-C.

⁴ Section 367.081(9), F.S., which became effective July 1, 2016, 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." The unamortized balance of rate case expense is reflected in Issue 7 and in Schedule Nos. 3-D and 3-E.

Issue 5: What is the appropriate return on equity and overall rate of return for Deer Creek?

Recommendation: The appropriate return on equity (ROE) is 10.55 percent with a range of 9.55 percent to 11.55 percent. The appropriate overall rate of return is 4.86 percent. (D. Brown, T. Brown)

Staff Analysis: Deer Creek's capital structure consists of long-term debt and customer deposits. Audit staff determined that common equity for the Utility resulted in a negative balance. As such, common equity was set to zero consistent with Commission practice. The Utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE for the Utility is 10.55 percent based upon the Commission-approved leverage formula currently in effect.⁵ Staff recommends an ROE of 10.55 percent, with a range of 9.55 percent to 11.55 percent, and an overall rate of return of 4.86 percent. The ROE and overall rate of return are shown on Schedule No. 2.

⁵ 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.*

Date: March 19, 2020

Issue 6: What are the appropriate test year revenues for Deer Creek?

Recommendation: The appropriate test year revenues are \$120,048 for the water system and \$197,354 for the wastewater system. (Sibley)

Staff Analysis: The Utility recorded total test year revenues of \$132,542 for water and \$194,307 for wastewater. The water revenues included \$128,765 of service revenues and \$3,777 of miscellaneous revenues. The wastewater revenues included \$194,307 of service revenues and no miscellaneous revenues.

Based on staff's review of the Utility's billing determinants and the service rates that were in effect during the test year, staff determined test year service revenues should be \$118,162 for water and \$195,467 for wastewater. This results in a decrease of \$10,603 (\$128,765 - \$118,162) for water and an increase of \$1,160 (\$195,467 - \$194,307) for wastewater test year service revenues. The decrease in water service revenues is attributable to revenues collected for a Polk County tax which is non-jurisdictional. The increase in wastewater service revenues is due to the Utility incorrectly billing its approved tariffed rates; staff recalculated the revenues based on the appropriate billing determinants from the billing register.

Staff also made adjustments to miscellaneous revenues for water and wastewater. Staff decreased the Utility's water miscellaneous revenues by \$4 to reflect the appropriate miscellaneous revenues based on the number of test year occurrences and the approved miscellaneous service charges. In addition, miscellaneous revenues were reallocated equally between the water and wastewater systems. Therefore, staff recommends miscellaneous revenues of \$1,886 for the water system and \$1,887 for the wastewater system.

Based on the above, the appropriate test year revenues are \$120,048 (\$118,162 + \$1,886) for the water system and \$197,354 (\$195,467 + \$1,887) for the wastewater system.

Issue 7: What is the appropriate amount of operating expenses for Deer Creek?

Recommendation: The appropriate amount of operating expenses for Deer Creek are \$222,823 for water and \$225,982 for wastewater. (D. Brown, T. Brown)

Staff Analysis: Deer Creek recorded operating expenses of \$254,463 for water and \$276,106 for wastewater for the test year ended December 31, 2018. The test year O&M expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. Staff made several adjustments to the Utility's operating expenses as summarized below.

Salaries and Wages - Employees (601/701)

The Utility recorded salaries and wages – employees expense of \$36,793 for water and \$26,701 for wastewater during the test year. There are two parent company employees assigned to the Utility. The parent company, Deer Creek Corp., charges 100 percent of the employees' time plus overhead to Utility operations. There is no pension and benefit expense recorded by the Utility. Deer Creek Corp. recovers these types of costs from the Utility by means of a corporate overhead calculation applied to the bi-weekly salary charged for the Utility's employees. The overhead rates are set by Deer Creek Corp.'s property management company, Artemis Lifestyle Services (ALS). ALS is the property management company contracted to provide administrative services. These administrative services consist of: management, payroll, insurance, financial accounting, and human resource services. The 41 percent and 37 percent overhead rates are the estimated cost for ALS to provide these services to all properties that ALS services.⁶ Staff believes the overhead rates are appropriate. Therefore, staff recommends salaries and wages-employees expense for the test year of \$36,793 for water and \$26,701 for wastewater.

Purchased Water (610)

Deer Creek recorded purchased water expense of \$175,431 in the test year. Supporting documentation confirming the purchased water expense was provided. In December 2019, the Utility also requested consideration of a pro forma increase to purchased water to reflect a Polk County rate increase that went into effect on October 1, 2019.⁷ Staff recommends the increase be included because it is known, measurable, and already in effect. As a result, staff increased purchased water by \$6,969 to reflect annualized purchased water using the new rates, which results in purchased water expense of \$182,400 (\$175,431 + \$6,969). As discussed in Issue 3, staff is also recommending an EUW adjustment of 20.6 percent. Therefore, staff reduced purchased water by \$37,574 (\$182,400 x .206) to reflect the 20.6 percent EUW adjustment. As such, staff recommends purchased water expense for the test year of \$144,826 (\$175,431 + \$6,969 - \$37,574).

Purchased Sewage Treatment (710)

The Utility recorded purchased wastewater expense of \$202,710 in the test year. Supporting documentation confirming the purchased wastewater expense was provided. As discussed in Issue 3, staff is also recommending an EUW adjustment of 20.6 percent. Therefore, staff reduced purchased wastewater expense by \$41,758 (\$202,710 x .206) to reflect the 20.6 percent EUW

⁶ There are two overhead rates; 41 percent, and 37 percent. The 41 percent overhead rate is for field employees, and the 37 percent rate is for office employees.

⁷ Document No. 11317-2019, filed December 13, 2019.

adjustment. Staff is making an EUW adjustment, instead of an infiltration and inflow adjustment, in the instant docket as Polk County uses the purchased water gallonage to determine the gallonage billed for treatment, and excess unaccounted-for water results in higher wastewater charges for customers. As such, staff recommends purchased wastewater expense for the test year of \$160,952 (\$202,710 - \$41,758).

Purchased Power (615/715)

Deer Creek recorded purchased power expense of \$2,059 for wastewater for the test year. No purchased power expense was recorded for water. Supporting documentation confirming the purchased power expense was provided by the Utility. Staff made no adjustments to this account. Therefore, staff recommends purchased power expense of \$2,059 for wastewater.

Materials and Supplies (620/720)

The Utility recorded materials and supplies expense of \$1,079 for water. No materials and supplies expense was recorded for wastewater during the test year.⁸ Staff made no adjustments to this account. Accordingly, staff recommends materials and supplies expense for the test year of \$1,079 for water.

Contractual Services - Billing (630/730)

Deer Creek recorded billing expense of \$600 for water and \$600 for wastewater for the test year. Staff made no adjustments to this account for either system. Accordingly, staff recommends contractual services – billing expense for the test year of \$600 for water and \$600 for wastewater.

Contractual Services - Professional (631/731)

Deer Creek recorded contractual services – professional expense of \$15,190 for water and \$15,190 for wastewater for the test year. Contractual services – professional expense was comprised of the following:

**Table 7-1
Test Year Contractual Services – Professional**

Description	Water	Wastewater
Saxon Gilmore (Legal)	\$9,509	\$9,509
OCBOA (Accounting)	3,491	3,491
Copley (Training)	278	278
Def. Asset	<u>1,913</u>	<u>1,913</u>
Total	<u>\$15,190</u>	<u>\$15,190</u>

Source: Audit Report and audit work papers.

⁸ The materials and supplies balance was \$0 for both 2017 and 2018 according to the Utility’s Annual Reports for each of those years.

The bulk of the expense, \$13,000 for water and \$13,000 for wastewater, was related to legal and accounting consulting services. Staff noted that the amount for consulting services appeared excessive, especially since the Utility is a reseller. This could have been a result of the Utility being newly certificated, so staff requested the Utility’s consulting expense for 2019. The updated consulting expense was comprised of the following:

**Table 7-2
 2019 Consulting Expense**

Description	Recurring	Rate Case	Irrigation Meter (Non-recurring)
Saxon Gilmore (Legal)	\$2,162	\$1,032	\$4,806
OCBOA (Accounting)	<u>2,574</u>	<u>2,593</u>	<u>812</u>
Total	<u>\$4,736</u>	<u>\$3,625</u>	<u>\$5,618</u>

Source: Document No. 00534-2020, filed January 24, 2020.

The 2019 consulting expense totaled \$13,979 (\$4,736 + \$3,625 + \$5,618), or \$6,989 for water and \$6,989 for wastewater.

Staff made no adjustments to the recurring expense reflected in Table 7-2 as it was utility related. As such, legal recurring expense should be allocated equally between the water and wastewater systems, \$1,081 ($\$2,162 / 2$) per system and accounting recurring should be allocated equally between the water and wastewater systems, \$1,287 ($\$2,574 / 2$) per system.

As for the rate case portion, staff removed \$3,137 for professional consulting expenses that were incurred by the Utility prior to the Staff Report filing date of November 18, 2019, as required by Section 367.0814(3), F.S. As such, staff recommends the \$488 recommended for consultant rate case expense for 2019 should be reassigned to regulatory commission expense (Account 665 / 765) and split evenly between each system.

**Table 7-3
 Consultant Expense Related to Rate Case**

Description	Rate Case	Adjustment	Staff Recom.
Saxon Gilmore (Legal)	\$1,032	(\$782)	\$250
OCBOA (Accounting)	<u>2,593</u>	<u>(2,355)</u>	<u>238</u>
Total	<u>\$3,625</u>	<u>(\$3,137)</u>	<u>\$488</u>

Source: Document No. 00534-2020 and staff calculations.

Regarding the non-recurring consulting expense related to the irrigation meter, Deer Creek has requested Commission approval to create a deferred regulatory asset account that would be used to record attorney fees and other related cost associated with the Utility’s effort to recover the uncompensated service revenues from the alleged unauthorized use of water for irrigation. This

is more fully discussed in Issue 10. As referenced in Table 7-2, the Utility has already incurred \$5,618 of legal and consulting fees related to this matter, as of December 31, 2019. Staff did not include the expense in its rate case expense calculations in the instant docket. Staff recommends that upon completion of the Utility’s legal matters, the Commission determine the appropriate accounting and recovery methodology for these costs that may result from the anticipated legal matter.

Staff also made an adjustment to training, related to office training on a new system. In its test year, the Utility included \$278 for water and \$278 for wastewater to provide Quick Books training for the Utility Supervisor at start-up. Staff believes that the training is a one-time expense that should be amortized over five years, or \$56 (\$278 / 5 years) per year for each system.⁹

The annual amortization amount of \$1,913, to water and wastewater services is for non-recurring legal fees that were incurred by the Utility. These fees were not related to the Utility’s certificate application. These fees included legal matters with Polk County, development and passage of the Utility’s backflow prevention plan, the cancelation and procurement of a new billing system vendor, and other various legal matters that were deemed as non-recurring by the Utility. Staff made no adjustments to the deferred asset allocated to both the water and wastewater systems.

Staff’s recommended contractual services – professional expense and adjustments for water and wastewater appear in Table 7-4 and Table 7-5, respectively.

Table 7-4
Recommended Professional Expense for Water

Description	As Filed	Staff Rec.	Adj.
Saxon Gilmore (Legal)	\$9,509	\$1,081	(\$8,428)
OCBOA (Accounting)	3,491	1,287	(2,204)
Copley (Training)	278	56	(222)
Def. Asset	<u>1,913</u>	<u>1,913</u>	<u>0</u>
Total	<u>\$15,190</u>	<u>\$4,336</u>	<u>(\$10,854)</u>

Source: Audit work papers, Utility responses to data requests, staff calculations.

Table 7-5
Recommended Professional Expense for Wastewater

Description	As Filed	Staff Rec.	Adj.
Saxon Gilmore (Legal)	\$9,509	\$1,081	(\$8,428)
OCBOA (Accounting)	3,491	1,287	(2,204)
Copley (Training)	278	56	(222)
Def. Asset	<u>1,913</u>	<u>1,913</u>	<u>0</u>
Total	<u>\$15,190</u>	<u>\$4,336</u>	<u>(\$10,854)</u>

Source: Audit work papers, Utility responses to data requests, staff calculations.

⁹ Per Rule 25-30.433(9), F.A.C.

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Staff recommends contractual services – professional expense for the test year of \$4,336 (\$15,190 - \$10,854) for water and \$4,336 (\$15,190 - \$10,854) for wastewater.

Contractual Services - Testing (635/735)

The Utility recorded testing expense of \$6,110 for water only. No testing expense was reflected for wastewater. Staff decreased water testing by \$3,030 to reflect the testing expense supported by actual invoices.¹⁰ Staff recommends that the \$3,030 should be reassigned to contractual services – other, since it relates to monthly contract operations. Based on the above, staff recommends contractual services – testing expense for the test year of \$3,080 (\$6,110 - \$3,030) for water.

Contractual Services - Other (636/736)

The Utility recorded contractual services – other expense of \$1,051 for water and \$3,945 for wastewater. As discussed in Issue 3, Deer Creek recorded a significant amount of unaccounted for water during the test year. In order to determine the source of the unaccounted for water, the Utility requested bids for a leak detection survey project. Three bids were received, and Deer Creek stated that the lowest bid of \$20,400 was selected. The Utility requested recovery of expenses related to the leak detection project, which was completed in August 2019.¹¹ The leak detection survey was unable to identify the source of the unaccounted for water; however, as stated in Issue 3, the Utility recently become aware of a customer that was receiving unbilled water from Deer Creek. Based on the documentation provided, staff recommends an amount of \$20,400 for the leak detection survey project be included in contractual services – other. Staff also recommends recovery of this project should be amortized over five years, or \$4,080 (\$20,400 / 5 years) per year.¹² In addition, staff has increased water contractual services – other by \$3,030 to reflect the monthly contractual service amount removed from contractual services – testing. Staff made no adjustments to wastewater contractual services – other expense. Based on the discussion above, staff recommends contractual services – other expense for the test year of \$8,161 (\$1,051 + \$4,080 + \$3,030) for water and \$3,945 for wastewater.

Rent Expense (640/740)

Deer Creek recorded rent expense of \$3,600 for water and \$3,600 for wastewater. According to the Utility, the lease amount was determined based on the square footage occupied by the Utility Supervisor's office. The price per square foot was determined by using an existing lease between Deer Creek's parent and a non-related third-party lessee, Oaks Realty, which is located in the same building. In addition to the lease amount of \$600 per month, there is a \$300 per month allocation for office supplies and the use of office equipment such as facsimile, printers, scanners, copiers, telephones, etcetera. This includes use of common areas such as the bathroom, kitchen, and conference room. Utilities are also included in rent. The \$300 per month for office supplies is split between water and wastewater and is included in the miscellaneous expense balances discussed below. Total rent for the test year is \$7,200 (\$600 x 12 months), which is then split between water and wastewater. The Utility provided staff with a copy of the lease in

¹⁰ Document No. 09174-2019, filed on October 3, 2019.

¹¹ The Utility initially requested recovery of four pro forma projects, but later withdrew all but one of the pro forma projects. Deer Creek indicated that it anticipates addressing the additional pro forma projects in a separate proceeding at the conclusion of this SARC. Document No. 09174-2019, filed October 3, 2019.

¹² Per Rule 25-30.433(9), F.A.C.

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response to staff's third data request.¹³ Staff made no adjustments to this account. Therefore, staff recommends rent expense for the test year of \$3,600 for water and \$3,600 for wastewater.

Regulatory Commission Expense (665/765)

The Utility did not record any regulatory commission expense in this account. Staff recommends that the Utility's original certificate application filing fee should be included in the instant docket since it has not been recovered to date.¹⁴ Rule 25-30.433(9), F.A.C., requires that non-recurring expenses be amortized over a five-year period unless a shorter or longer period of time can be justified. As such, staff increased water by \$300 ($\$1,500 / 5$) and wastewater by \$300 ($\$1,500 / 5$) to reflect the five-year amortization of the Utility's original certificate application filing fee.

Regarding the instant case, the Utility is required by Rule 25-22.0407, F.A.C., to provide notices of the customer meeting and notices of final rates in this case to its customers. Staff is also recommending that the Utility 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 \$1,305 for postage expense, \$712 for printing expense, and \$119 for envelopes. This results in \$2,136 ($\$1,305 + \$712 + \119) 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) in this docket. Staff has also reallocated \$488 from contractual services - professional expense to regulatory commission expense because it relates to the instant rate case. This amount was limited to those professional consulting expenses that were incurred by the Utility after the Staff Report was filed on November 18, 2019, as required by Section 367.0814(3), F.S.

On March 4, 2020, the Utility also provided additional consultant expense incurred through February 2020, estimated expense to complete the rate case, and travel expense to attend the Commission Conference.¹⁵ The Utility requested \$1,449 for accounting expense in January and February 2020 related to the current rate case. The amount was based on a total of 15.25 hours at \$95 per hour. The majority of the hours were associated with responding to staff requests for information. Staff made no adjustments to the consultant expense incurred through February 2020. The Utility also estimated seven additional hours of accounting consultant expense, or \$665 (7 hours x \$95 / hour), would be necessary to complete the rate case. This amount includes responding to additional formal and informal data requests, review of the staff recommendation, discussing the recommendation with the Utility, and preparing for and attending the Commission Conference. Staff believes that \$665 for seven hours is reasonable for the services outlined in the Utility's request.

Finally, the Utility estimated \$842 of travel expense for the accounting consultant and a Utility representative to attend the Commission Conference. The estimated travel expense was comprised a total of \$40 for meals, \$230 for hotel ($\$115 / \text{room} \times 2 \text{ rooms}$), and \$572 for mileage based on one person traveling from Orlando and one traveling from Davenport round trip. The mileage was based on Florida Department of Transportation official mileage and the 2020 IRS

¹³ Document No. 09174-2019, filed October 3, 2019.

¹⁴ Docket No. 20160248-WS, *In re: Application for original certificates to provide water and wastewater service in Polk County by Deer Creek RV Golf & Country Club, Inc.*

¹⁵ Document No. 01273-2020, filed on March 4, 2020.

mileage rate. As such, staff believes the estimated travel expense of \$842 is reasonable for two people to attend the Commission Conference.

Based on the above, staff recommends the following total rate case expense:

**Table 7-6
Rate Case Expense**

Item	Staff Recommended
Noticing (includes four-year rate reduction notice)	\$2,136
Filing Fee	2,000
Expense from Contractual Services – Professional (631/731)	488
Actual accountant expense (January-February 2020)	1,449
Estimated expense to complete	665
Travel	<u>842</u>
Total	<u>\$7,580</u>
Annual Rate Case Expense (\$7,580 / 4 years)	<u>\$1,895</u>

Source: Utility filings, responses to staff data requests, staff calculations.

Staff allocated the annual rate case expense to the water and wastewater systems equally, resulting in annual rate case expense of \$947 for water and \$947 for wastewater. Therefore, staff recommends regulatory commission expense for the test year of \$1,247 (\$300 + \$947) for water and \$1,247 (\$300 + \$947) for wastewater.

Bad Debt Expense (670/770)

Deer Creek recorded \$57 in bad debt expense for water and no bad debt expense for wastewater. Staff notes that no bad debt expense was included in the Utility's 2017 or 2018 Annual Reports. Staff recommends bad debt expense for the test year of \$57 for water and \$0 for wastewater.

Miscellaneous Expense (675/775)

The Utility recorded test year miscellaneous expense of \$4,878 for water and \$5,997 for wastewater. Staff decreased the wastewater account by \$360 to remove past due amounts from the test year balance. Staff made no adjustments to water. As mentioned previously, there is a \$300 per month allocation for office supplies and the use of office equipment such as facsimile, printers, scanners, copiers, telephones, etcetera included as part of the Utility's lease. The amount is split between each system, \$150 for water and \$150 for wastewater on a monthly basis. The amounts are included in the recorded amounts reflected above. As such, staff recommends miscellaneous expense for the test year of \$4,878 for water and \$5,637 (\$5,997 - \$360) for wastewater.

Operation and Maintenance Expense (O&M Summary)

Based on the above adjustments, O&M expense should be decreased by \$36,132 for water and by \$51,725 for wastewater, resulting in total O&M expense of \$208,657 for water and \$209,077 for wastewater. Staff's recommended adjustments to O&M expense are shown on Schedule Nos. 3-A through 3-C.

Depreciation Expense (Net of Amortization of CIAC)

The Utility's records reflect test year depreciation expense of \$1,340 for water and \$4,841 for wastewater. Staff calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C., and found that no adjustments were necessary. As mentioned in Issue 4, Deer Creek does not collect any CIAC and there is no CIAC to amortize; therefore, no adjustments are necessary. As such, staff's recommended CIAC amortization expense balances should be \$0 for water and wastewater. Therefore, staff recommends net depreciation expense of \$1,340 for water and \$4,841 for wastewater.

Taxes Other Than Income (TOTI)

Deer Creek recorded TOTI of \$8,334 for water and \$10,463 for wastewater for the test year. Staff decreased water by \$477 and increased wastewater by \$53 to reflect the appropriate test year Regulatory Assessment Fees (RAFs).

As discussed in Issue 9, revenues have been increased by \$110,435 for water and \$34,403 for wastewater to reflect the change in revenue required to cover expenses and allow an opportunity to recover the operating margin on water and wastewater. As a result, TOTI should be increased by \$4,970 for water and \$1,548 for wastewater to reflect RAFs of 4.5 percent of the change in revenues. Therefore, staff recommends TOTI of \$12,827 for water and \$12,064 for wastewater.

Operating Expenses Summary

The application of staff's recommended adjustments to Deer Creek's test year operating expenses results in operating expenses of \$222,823 for water and \$225,982 for wastewater. Operating expenses are shown on Schedules No. 3-A and 3-B. The adjustments are shown on Schedule No. 3-C.

Issue 8: Does Deer Creek meet the criteria for the application of the Operating Ratio Methodology?

Recommendation: Yes. The Utility meets the requirement for application of the operating ratio methodology for calculating the revenue requirement for Deer Creek. The margin should be 12 percent of O&M expenses. (D. Brown, T. Brown)

Staff Analysis: Rule 25-30.4575(2), F.A.C., provides that, in rate cases processed under Rule 25-30.455 F.A.C., the Commission will use the operating ratio methodology to establish the utility's revenue requirement when the utility's rate base is no greater than 125 percent of O&M expenses and the use of the operating ratio methodology does not change the utility's qualification for a SARC. Under the operating ratio methodology, instead of calculating the utility's revenue requirement based on a rate of return on the utility's rate base, the revenue requirement is calculated using a margin of 12 percent of O&M expenses, not to exceed \$15,000. Purchased water and wastewater must be removed from O&M expenses prior to calculating the margin of 12 percent.

As discussed in Issues 4 and 7, staff has recommended a rate base of \$58,509 for water and \$110,351 for wastewater and O&M expenses of \$208,657 for water and \$209,077 for wastewater. Based on these recommended amounts, Deer Creek's water and wastewater rate bases are only 28 percent and 53 percent of its O&M expenses, respectively. Based on a margin of 12 percent, the operating margin for Deer Creek is \$7,660 for water and \$5,775 for wastewater, which do not exceed \$15,000. Furthermore, the application of the operating ratio methodology does not change the Utility's qualification for a SARC. As such, Deer Creek meets the criteria for the operating ratio methodology established in Rule 25-30.4575(2), F.A.C. Therefore, staff recommends the application of the operating ratio methodology at a margin of 12 percent of O&M expense for determining the revenue requirement for both the water and wastewater systems.

Issue 9: What is the appropriate revenue requirement for Deer Creek?

Recommendation: The appropriate revenue requirement is \$230,483 for water and \$231,757 for wastewater, resulting in an annual increase of \$110,435 for water (91.99 percent) and \$34,403 for wastewater (17.43 percent). (D. Brown, T. Brown)

Staff Analysis: Deer Creek should be allowed an annual increase of \$110,435 for water (91.99 percent) and \$34,403 for wastewater (17.43 percent). This will allow the Utility the opportunity to recover its expenses and a 12 percent margin on O&M expenses for its water and wastewater systems.¹⁶ The calculations are shown below, in Tables 9-1 and 9-2 for water and wastewater, respectively:

**Table 9-1
 Water Revenue Requirement**

Adjusted O&M Expense (less Purchased Water)	\$63,831
Operating Margin (%)	x 12.00%
Operating Margin (\$15,000 Cap)	\$7,660
Adjusted O&M Expense	208,657
Depreciation Expense (Net)	1,340
Taxes Other Than Income	7,857
Test Year RAFs	4,970
Revenue Requirement	\$230,483
Less Adjusted Test Year Revenues	120,048
Annual Increase	<u>\$110,435</u>
Percent Increase	91.99%

¹⁶ For utilities that are resellers, purchased water and purchased wastewater expenses are removed from operation and maintenance expense before the 12 percent margin is applied.

Table 9-2
Wastewater Revenue Requirement

Adjusted O&M Expense (less Purchased Wastewater)	\$48,125
Operating Margin (%)	x 12.00%
Operating Margin (\$15,000 Cap)	\$5,775
Adjusted O&M Expense	209,077
Depreciation Expense (Net)	4,841
Taxes Other Than Income	10,516
Test Year RAFs	1,548
Revenue Requirement	\$231,757
Less Adjusted Test Year Revenues	197,354
Annual Increase	<u>\$34,403</u>
Percent Increase	17.43%

Issue 10: Should the Commission approve Deer Creek’s request to defer legal fees and other related costs associated with the recovery of uncompensated service revenues from a business entity in its certificated service area?

Recommendation: Yes. The Commission should approve the request by Deer Creek to defer the legal fees and other related costs associated with the recovery of uncompensated service revenues from a business entity in its certificated service area pending a final determination of whether any prudent costs incurred should be capitalized, amortized, or expensed. (D. Brown, T. Brown)

Staff Analysis: On March 2, 2020, Deer Creek filed a letter related to the Utility’s efforts to recover uncompensated service revenues (as discussed in Issue 3) from a business entity in its certificated service area. In the letter, Deer Creek requested Commission approval to create a deferred regulatory asset account that would be used to record legal fees and other related cost associated with the Utility’s effort to recover the uncompensated service revenues. The Utility had previously updated the Commission on its efforts to recover the uncompensated service revenues in letters filed on October 22, 2019,¹⁷ and January 13, 2020.¹⁸ The Utility estimated a consolidated bill of \$44,561 for the 12-month period from October 2018 through September 2019. The Utility also requested a customer deposit of \$7,427, and indicated that it may pursue an additional payment of \$33,421 for potable water service for another 9-month period based on Rule 25.30-351, F.A.C.¹⁹

In the January 13, 2020 update, the Utility noted that a demand for payment was authorized by the Board of Directors for Deer Creek RV Golf & Country Club, Inc. in a board meeting held in December 2019. The demand letter was sent by the Utility’s attorney on January 7, 2020. As of March 3, 2020, there has been no contact or response from the business entity or their legal counsel on this matter. Given the lack of response, the Utility is considering legal action to recover the uncompensated service revenues at issue from the commercial property owner. As of December 31, 2019, the Utility has incurred \$5,618, of legal and consulting fees for this matter.²⁰ Staff notes that the Commission previously approved the creation of a similar account for “legal expenses and other costs associated with the resolution of land rights issues involving the utility’s ponds and spray fields” in a 2016 decision.²¹ In that decision, West Lakeland had already incurred some legal expenses and additional expenses were anticipated going forward.

The concept of deferral accounting allows companies to defer costs due to events beyond their control and seek recovery through rates at a later time. The alternative would be for the company to seek a rate case each time it experiences an exogenous event. The costs in the instant docket relate to legal fees incurred by the Utility in trying to recover uncompensated service revenues from a business entity in its certificated service area. Since this situation is still ongoing,

¹⁷ Document No. 09523-2019, filed October 22, 2019.

¹⁸ Document No. 00282-2020, filed January 14, 2020.

¹⁹ Document No. 09523-2019, filed October 22, 2019.

²⁰ Document No. 01201-2020, filed March 2, 2020.

²¹ Order No. PSC-16-0030-PAA-SU, issued January 19, 2016, in Docket No. 20150137-SU, *In re: Petition for approval to defer legal expenses associated with the resolution of land use issues for utility treatment facilities that are located in Polk County by West Lakeland Wastewater, Inc.*

allowing recovery of a regulatory asset is not possible at this time. Upon completion of the legal matters, the Commission can determine the appropriate accounting and recovery methodology for these costs in a future proceeding. Therefore, staff recommends the Commission approve the request by Deer Creek to defer the legal fees associated with the uncompensated service revenues, pending a final determination of whether any prudent costs incurred should be capitalized, amortized, or expensed.

Issue 11: What are the appropriate rate structure and rates for Deer Creek?

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

Staff Analysis: Deer Creek is located in Polk County within the Southwest Florida Water Management District. The Utility provides water service to approximately 752 residential customers and 39 general service customers. Approximately 28 percent of the residential customer bills during the test year had zero gallons, indicating a seasonal customer base. The average residential water demand is 1,431 gallons per month. The average residential water demand excluding zero gallon bills is 1,997 gallons per month. The Utility's current water system rate structure for residential and general service customers consists of a base facility charge (BFC) and a four-tier inclining block rate structure. The rate blocks are: (1) 0-2,400 gallons; (2) 2,401-4,700 gallons; (3) 4,700-9,500 gallons; and (4) all usage in excess of 9,500 gallons per month.

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.

The Utility is currently generating approximately 17 percent of its revenues from the BFC. Due to the seasonal nature of the customer base, a 17 percent cost recovery could lead to revenue shortfalls during months when customers are out of residence. Therefore, staff recommends that 40 percent of the water revenues be generated from the BFC to provide some revenue stability. In addition, it allows for sufficient revenues to design gallonage charges that send pricing signals to customers consuming water above the non-discretionary level.

The Utility's existing four-tier rate structure is patterned after Polk County's rates from which the Utility purchases water. As mentioned previously, this customer base is seasonal and has low average consumption. Consequently, a four-tier rate structure is too aggressive for the usage characteristics of the customer base. The average people per household served by the water system is two; 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 3,000 gallons per month.²² Staff recommends a BFC and a two-tier inclining block rate structure, which includes separate gallonage charges for discretionary and non-discretionary usage for

²² Average person per household was researched via www.census.gov/quickfacts/polkcountyflorida.

residential water customers. The rate blocks are: (1) 0-3,000 gallons; and (2) all usage in excess of 3,000 gallons per month. Staff notes that the rate structure changes create higher bill increases for seasonal customers and customers with low consumption levels. However, this rate structure is consistent with Commission practice in determining the appropriate BFC cost recovery and tiers. General service customers should be billed a BFC based on meter size and a uniform gallonage charge.

Based on a recommended revenue increase of 93.5 percent, which excludes miscellaneous revenues, residential consumption can be expected to decline by 1,132,000 gallons resulting in anticipated average residential demand of 1,306 gallons per month. Staff recommends an 8.77 percent reduction in test year residential gallons for ratesetting purposes, a corresponding reduction of \$10,055 for purchased water and \$474 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$218,068.

Wastewater Rates

The Utility provides wastewater service to 752 residential customers and 39 general service customers. Currently, the residential wastewater rate structure consists of a uniform BFC for all meter sizes and a gallonage charge without a gallonage cap. The general service rate structure consists of a uniform BFC for all meter sizes and a gallonage charge which is the same as the residential gallonage charge.

Staff performed an analysis of the Utility's billing data to evaluate various BFC cost recovery percentages and gallonage caps for the residential customers. The goal of the evaluation was to select the rate design parameters that: (1) produce the recommended revenue requirement; (2) equitably distribute cost recovery among the Utility's customers; and (3) if appropriate, implement a gallonage cap that considers approximately the amount of water that may return to the wastewater system.

Consistent with Commission practice, staff allocated 50 percent of the wastewater revenue to the BFC due to the capital intensive nature of wastewater plants. The Utility does not have a gallonage cap for residential customers because the Utility purchases water and wastewater treatment from Polk County and is billed wastewater treatment on all water gallons purchased. As a result, staff recommends a continuation of no residential wastewater gallonage cap. Staff recommends a continuation of the existing wastewater rate structure for residential service customers, which consists of a uniform BFC for all meter sizes and a gallonage charge with no gallonage cap. For general service customers, staff recommends a rate structure which consists of a BFC by meter size and a gallonage charge that is the same as residential to better capture the costs of general service customers that have different meter sizes.

In addition, based on the expected reduction in water demand described above, staff recommends that a repression adjustment also be made for wastewater. Because wastewater rates are calculated based on customers' water demand, if those customers' water demand is expected to decline, then the billing determinants used to calculate wastewater rates should also be adjusted. Based on the billing analysis for the wastewater system, staff recommends that a repression adjustment of 1,132,000 gallons to reflect the anticipated reduction in water demand be used to calculate wastewater rates. Staff recommends an 8.77 percent reduction in total residential

consumption and corresponding reductions of \$14,113 for purchased wastewater treatment and \$635 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$215,122.

Conclusion

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

Issue 12: What are the appropriate initial customer deposits for Deer Creek?

Recommendation: The appropriate initial customer deposits should be \$40 for the single family residential 5/8 inch x 3/4 inch meter size for water and remains \$44 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. 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. (Sibley)

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.²³ Currently, the Utility's initial deposit for single family residential water customers is \$16 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 \$44 for the 5/8 inch x 3/4 inch meter size and two times the average estimated bill for the general service customers.

The existing water initial customer deposit does not cover two months' average bills based on staff's recommended rates. The post-repression average monthly residential usage is approximately 1,306 gallons per customer. Therefore, the average residential monthly bill based on staff's recommended rates is approximately \$19.95. The existing wastewater customer deposit is sufficient and should remain at \$44.

Staff recommends that the appropriate initial customer deposits for the residential 5/8 inch x 3/4 inch meter size is \$40 for water and remains \$44 for wastewater. The initial customer deposit for all other residential meter sizes and all general service meter sizes should be two times the average estimated quarterly bill for water. 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 initial customer deposits until authorized to change them by the Commission in a subsequent proceeding.

²³ Order No. PSC-15-0142-PAA-SU, issued March 26, 2015, in Docket No. 20130178-SU, *In re: Application for staff-assisted rate case in Polk County by Crooked Lake Park Sewerage Company*.

Date: March 19, 2020

Issue 13: What is the appropriate amount by which 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 rates should be reduced as shown on Schedule No. 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 rate case expense recovery period, pursuant to Section 367.081(8), F.S. Deer Creek 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. (Procedural Agency Action) (Sibley, D. Brown, T. Brown)

Staff Analysis: Section 367.081(8), F.S., requires that the rates be reduced immediately following the expiration of the recovery period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense and the gross-up for RAFs. The total reduction is \$992 for each system.

Staff recommends that the rates should be reduced as shown on Schedule No. 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 rate case expense recovery period, pursuant to Section 367.081(8), F.S., Deer Creek 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 14: Should the recommended rates be approved for Deer Creek on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility?

Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the Utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility. Deer Creek 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. (Procedural Agency Action) (D. Brown, T. Brown)

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. Deer Creek 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.

Deer Creek 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 \$97,589. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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

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

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

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

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

- 1) The Commission Clerk, or his or her designee, must be a signatory to the escrow agreement;
- 2) No monies in the escrow account may be withdrawn by the Utility without the express approval of the Commission 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, Deer Creek 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 15: Should Deer Creek be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision?

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

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

Issue 16: Should Deer Creek's request for a cross connection control and backflow prevention tariff sheet be approved?

Recommendation: Yes. The tariff outlining Deer Creek's cross connection prevention policy tariff should be approved. The approved tariff should be effective for service rendered on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. (Sibley)

Staff Analysis: The Utility requested a cross connection control and backflow prevention tariff to provide a single source that clarifies the rights and obligations of Deer Creek and its customers. The DEP requires customers with cross connections into the water system to install a backflow prevention assembly on the potable water line and for the Utility to furnish a Cross Connection Control and Backflow Prevention (CCCBP) plan. A cross connection is any temporary or permanent connection between a public water system or consumer's potable water system and any source or system containing non-potable water or other substances. An example of a non-potable water system is an irrigation system. The backflow preventer is responsible for preventing an undesirable reversal of flow of non-potable water or other substances through a cross connection and into the piping of a public water or consumer's potable water system. It is the customer's responsibility to ensure a backflow prevention device is properly installed, repaired, and annually field tested by a certified inspector.

Staff notes that if the Utility has reason to believe a cross connection exists, the customer shall allow the Utility onto the premises for an inspection pursuant to Rule 25-30.320(2)(f), F.A.C. Failure by the customer to install, inspect, repair or replace the backflow prevention device will result in disconnection of service after reasonable notice is given. The requested tariff provision, which is an abridged copy of the Utility's CCCBP, explains what customers are responsible for in regard to the CCCBP plan. Staff recommends that the tariff is reasonable and consistent with Rule 25-30.320, F.A.C., which allows the discontinuance of service if needed, when a customer fails to install or maintain a backflow preventer to eliminate cross connections.

Staff recommends that Deer Creek's cross connection prevention policy tariff should be approved. The approved tariff should be effective for service rendered on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C.

Issue 17: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the Proposed Agency Action Order, a Consummating Order should be issued. 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. Also, the docket should remain open to allow the Utility to provide the recommended reporting information. Once these actions are complete, this docket should be closed administratively. (Weisenfeld)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the Proposed Agency Action Order, a Consummating Order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Also, the docket should remain open to allow the Utility to provide the recommended reporting information. Once these actions are complete, this docket should be closed administratively.

DEER CREEK RV GOLF & COUNTRY CLUB, INC.		SCHEDULE NO. 1-A	
TEST YEAR ENDED DECEMBER 31, 2018		DOCKET NO. 20190071-WS	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$44,553	(\$11,034)	\$33,519
LAND & LAND RIGHTS	0	0	0
NON-USED AND USEFUL	0	0	0
CIAC	0	0	0
ACCUMULATED DEPRECIATION	(1,651)	677	(974)
AMORTIZATION OF CIAC	0	0	0
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>25,964</u>	<u>25,964</u>
WATER RATE BASE	<u>\$42,902</u>	<u>\$15,607</u>	<u>\$58,509</u>

DEER CREEK RV GOLF & COUNTRY CLUB, INC.		SCHEDULE NO. 1-B	
TEST YEAR ENDED DECEMBER 31, 2018		DOCKET NO. 20190071-WS	
SCHEDULE OF WASTEWATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$95,948	(\$6,900)	\$89,048
LAND & LAND RIGHTS	0	0	0
NON-USED AND USEFUL	0	0	0
CIAC	0	0	0
ACCUMULATED DEPRECIATION	(7,171)	2,458	(4,714)
AMORTIZATION OF CIAC	0	0	0
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>26,016</u>	<u>26,016</u>
WASTEWATER RATE BASE	<u>\$88,777</u>	<u>\$21,574</u>	<u>\$110,351</u>

DEER CREEK RV GOLF & COUNTRY CLUB, INC.	SCHEDULE NO. 1-C	
TEST YEAR ENDED DECEMBER 31, 2018	DOCKET NO. 20190071-WS	
ADJUSTMENTS TO RATE BASE	PAGE 1 OF 1	
	<u>WATER</u>	<u>WASTEWATER</u>
<u>UTILITY PLANT IN SERVICE</u>		
To reflect an averaging adjustment.	<u>(\$11,034)</u>	<u>(\$6,900)</u>
<u>ACCUMULATED DEPRECIATION</u>		
1. To reflect appropriate accumulated depreciation.	\$7	\$37
2. To reflect an averaging adjustment.	<u>670</u>	<u>2,421</u>
Total	<u>\$677</u>	<u>\$2,458</u>
<u>WORKING CAPITAL ALLOWANCE</u>		
To reflect 1/8 of test year O&M expenses.	<u>\$25,964</u>	<u>\$26,016</u>

DEER CREEK RV GOLF & COUNTRY CLUB, INC.							SCHEDULE NO. 2		
TEST YEAR ENDED DECEMBER 31, 2018							DOCKET NO. 20190071-WS		
SCHEDULE OF CAPITAL STRUCTURE									
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	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	\$0	\$0	\$0	0	\$0				
2. RETAINED EARNINGS	0	0	0	0	0				
3. PAID IN CAPITAL	0	0	0	0	0				
4. OTHER COMMON EQUITY	<u>0</u>	\$0	<u>0</u>	<u>0</u>	<u>0</u>				
TOTAL COMMON EQUITY	\$0	\$0	\$0	\$0	\$0	0.00%	10.55%	0.00%	
5. LONG-TERM DEBT	\$175,987	\$0	\$175,987	(\$11,088)	164,899	97.65%	4.90%	4.78%	
6. SHORT-TERM DEBT	1,409	0	1,409	(89)	1,320	0.78%	6.07%	0.05%	
7. PREFERRED STOCK	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	
TOTAL DEBT	\$177,396	\$0	\$177,396	(\$11,177)	\$166,219	98.44%	10.97%	4.83%	
8. CUSTOMER DEPOSITS	<u>2,640</u>	<u>0</u>	<u>2,640</u>	<u>0</u>	<u>2,640</u>	<u>1.56%</u>	2.00%	<u>0.03%</u>	
9. TOTAL	<u>\$180,036</u>	<u>\$0</u>	<u>\$180,036</u>	<u>(\$11,177)</u>	<u>\$168,859</u>	<u>100.00%</u>		<u>4.86%</u>	
RANGE OF REASONABLENESS						LOW	HIGH		
RETURN ON EQUITY						<u>9.55%</u>	<u>11.55%</u>		
OVERALL RATE OF RETURN						<u>4.86%</u>	<u>4.86%</u>		

DEER CREEK RV GOLF & COUNTRY CLUB, INC.			SCHEDULE NO. 3-A		
TEST YEAR ENDED DECEMBER 31, 2018			DOCKET NO. 20190071-WS		
SCHEDULE OF WATER OPERATING INCOME					
	BALANCE PER UTILITY	STAFF ADJUSTMENTS	BALANCE PER STAFF	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$132,542</u>	<u>(\$12,494)</u>	<u>\$120,048</u>	<u>\$110,435</u> 91.99%	<u>\$230,483</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$244,789	(\$36,132)	\$208,657	\$0	\$208,657
3. DEPRECIATION (NET)	1,340	0	1,340	0	1,340
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	8,334	(477)	7,857	4,970	12,827
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$254,463</u>	<u>(\$36,609)</u>	<u>\$217,854</u>	<u>\$4,970</u>	<u>\$222,823</u>
8. OPERATING INCOME/(LOSS)	<u>(\$121,921)</u>		<u>(\$97,806)</u>		<u>\$7,660</u>
9. WATER RATE BASE	<u>\$42,902</u>		<u>\$58,509</u>		<u>\$58,509</u>
10. OPERATING MARGIN					<u>12.00%</u>

DEER CREEK RV GOLF & COUNTRY CLUB, INC.			SCHEDULE NO. 3-B		
TEST YEAR ENDED DECEMBER 31, 2018			DOCKET NO. 20190071-WS		
SCHEDULE OF WASTEWATER OPERATING INCOME					
	BALANCE PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$194,307</u>	<u>\$3,047</u>	<u>\$197,354</u>	<u>\$34,403</u> 17.43%	<u>\$231,757</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$260,802	(\$51,725)	\$209,077	\$0	\$209,077
3. DEPRECIATION (NET)	4,841	0	4,841	0	4,841
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	10,463	53	10,516	1,548	12,064
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$276,106</u>	<u>(\$51,672)</u>	<u>\$224,434</u>	<u>\$1,548</u>	<u>\$225,982</u>
8. OPERATING INCOME/(LOSS)	<u>(\$81,799)</u>		<u>(\$27,080)</u>		<u>\$5,775</u>
9. WASTEWATER RATE BASE	<u>\$88,777</u>		<u>\$110,351</u>		<u>\$110,351</u>
10. OPERATING RATIO					<u>12.00%</u>

DEER CREEK RV GOLF & COUNTRY CLUB, INC.		SCHEDULE NO. 3-C	
TEST YEAR ENDED DECEMBER 31, 2018		DOCKET NO. 20190071-WS	
ADJUSTMENTS TO OPERATING INCOME		Page 1 of 1	
	<u>WATER</u>	<u>WASTEWATER</u>	
OPERATING REVENUES			
1. To reflect audit adjustments.	(\$10,603)	1,160	
2. To reflect appropriate miscellaneous revenues.	<u>(1,891)</u>	<u>1,887</u>	
Subtotal	<u>(\$12,494)</u>	<u>\$3,047</u>	
OPERATION AND MAINTENANCE EXPENSES			
1. Purchased Water/Purchased Sewage Treatment (610/710)			
To reflect Polk County water rate increase.	\$6,969	\$0	
To reflect 20.6% EUW adjustment.	<u>(37,574)</u>	<u>(41,758)</u>	
Subtotal	<u>(\$30,605)</u>	<u>(\$41,758)</u>	
2. Contractual Services – Professional (631/731)			
To reflect appropriate professional expense.	<u>(\$10,854)</u>	<u>(\$10,854)</u>	
3. Contractual Services - Testing (635/735)			
To reflect appropriate testing expense.	<u>(\$3,030)</u>	<u>\$0</u>	
4. Contractual Services - Other (636/736)			
To reflect 5-yr amortization of leak detection project.	\$4,080	\$0	
To reflect expense reassigned from testing.	<u>3,030</u>	<u>0</u>	
Subtotal	<u>\$7,110</u>	<u>\$0</u>	
5. Regulatory Commission Expense (665/765)			
To reflect five-year amortization of original certificate filing fee.	\$300	\$300	
To reflect four-year amortization of rate case expense.	<u>947</u>	<u>947</u>	
Subtotal	<u>\$1,247</u>	<u>\$1,247</u>	
6. Miscellaneous Expense (675/775)			
To reflect removal of bank late payment fees.	<u>\$0</u>	<u>(\$360)</u>	
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>(\$36,132)</u>	<u>(\$51,725)</u>	
TAXES OTHER THAN INCOME			
To reflect audit adjustments.	<u>(\$477)</u>	<u>\$53</u>	

DEER CREEK RV GOLF & COUNTRY CLUB, INC.		SCHEDULE NO. 3-D	
TEST YEAR ENDED DECEMBER 31, 2018		DOCKET NO. 20190071-WS	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$36,793	\$0	\$36,793
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	175,431	(30,605)	144,826
(615) PURCHASED POWER	0	0	0
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	0	0	0
(620) MATERIALS AND SUPPLIES	1,079	0	1,079
(630) CONTRACTUAL SERVICES - BILLING	600	0	600
(631) CONTRACTUAL SERVICES - PROFESSIONAL	15,190	(10,854)	4,336
(635) CONTRACTUAL SERVICES - TESTING	6,110	(3,030)	3,080
(636) CONTRACTUAL SERVICES - OTHER	1,051	7,110	8,161
(640) RENTS	3,600	0	3,600
(650) TRANSPORTATION EXPENSE	0	0	0
(655) INSURANCE EXPENSE	0	0	0
(665) REGULATORY COMMISSION EXPENSE	0	1,247	1,247
(670) BAD DEBT EXPENSE	57	0	57
(675) MISCELLANEOUS EXPENSE	<u>4,878</u>	<u>0</u>	<u>4,878</u>
	<u>\$244,789</u>	<u>(\$36,132)</u>	<u>\$208,657</u>

DEER CREEK RV GOLF & COUNTRY CLUB, INC.		SCHEDULE NO. 3-E	
TEST YEAR ENDED DECEMBER 31, 2018		DOCKET NO. 20190071-WS	
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$26,701	\$0	\$26,701
(703) SALARIES AND WAGES - OFFICERS	0	0	0
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	202,710	(41,758)	160,952
(711) SLUDGE REMOVAL EXPENSE	0	0	0
(715) PURCHASED POWER	2,059	0	2,059
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	0	0	0
(720) MATERIALS AND SUPPLIES	0	0	0
(730) CONTRACTUAL SERVICES - BILLING	600	0	600
(731) CONTRACTUAL SERVICES - PROFESSIONAL	15,190	(10,854)	4,336
(735) CONTRACTUAL SERVICES - TESTING	0	0	0
(736) CONTRACTUAL SERVICES - OTHER	3,945	0	3,945
(740) RENTS	3,600	0	3,600
(750) TRANSPORTATION EXPENSE	0	0	0
(755) INSURANCE EXPENSE	0	0	0
(765) REGULATORY COMMISSION EXPENSES	0	1,247	1,247
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSE	<u>5,997</u>	<u>(360)</u>	<u>5,637</u>
	<u>\$260,802</u>	<u>(\$51,725)</u>	<u>\$209,077</u>

DEER CREEK RV GOLF & COUNTRY CLUB, INC.		SCHEDULE NO. 4-A	
TEST YEAR ENDED DECEMBER 31, 2018		DOCKET NO. 20190071-WS	
MONTHLY WATER RATES			
	UTILITY CURRENT RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge - All Meter Sizes	\$2.45	N/A	N/A
Base Facility Charge by Meter Size			
5/8" X3/4"	N/A	\$8.97	\$0.04
3/4"	N/A	\$13.46	\$0.06
1"	N/A	\$22.43	\$0.10
1-1/2"	N/A	\$44.85	\$0.20
2"	N/A	\$71.76	\$0.32
3"	N/A	\$143.52	\$0.65
4"	N/A	\$224.25	\$1.01
6"	N/A	\$448.50	\$2.02
Charge per 1,000 gallons - Residential and General Service			
0 - 2,400 gallons	\$2.93	N/A	N/A
2,401 - 4,700 gallons	\$5.51	N/A	N/A
4,701 - 9,500 gallons	\$10.70	N/A	N/A
Over 9,500 gallons	\$18.51	N/A	N/A
Charge per 1,000 gallons - Residential Service			
0 - 3,000 gallons	N/A	\$8.41	\$0.04
Over 3,000 gallons	N/A	\$10.26	\$0.05
Charge per 1,000 gallons - General Service			
	N/A	\$8.62	\$0.04
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
2,000 Gallons	\$8.31	\$25.79	
4,000 Gallons	\$18.30	\$44.46	
6,000 Gallons	\$36.07	\$64.98	

DEER CREEK RV GOLF AND COUNTRY CLUB, INC.		SCHEDULE NO. 4-B	
TEST YEAR ENDED DECEMBER 31, 2018		DOCKET NO. 20190071-WS	
MONTHLY WASTEWATER RATES			
	UTILITY CURRENT RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge - All Meter Sizes	\$8.96	N/A	N/A
Charge per 1,000 gallons	\$6.77	N/A	N/A
<u>Residential Service</u>			
Base Facility Charge - All Meter Sizes	N/A	\$12.10	\$0.06
Charge per 1,000 gallons	N/A	\$6.60	\$0.03
<u>General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	N/A	\$12.10	\$0.06
3/4"	N/A	\$18.15	\$0.09
1"	N/A	\$30.25	\$0.15
1-1/2"	N/A	\$60.50	\$0.30
2"	N/A	\$96.80	\$0.48
3"	N/A	\$193.60	\$0.96
4"	N/A	\$302.50	\$1.50
6"	N/A	\$605.00	\$3.00
Charge per 1,000 gallons	N/A	\$6.60	\$0.03
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
2,000 Gallons	\$22.50	\$25.31	
4,000 Gallons	\$36.04	\$38.51	
6,000 Gallons	\$49.58	\$51.72	