

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: April 23, 2020

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Engineering (Doehling, Lewis) *TB*
Division of Accounting and Finance (Norris, Sowards) *AM*
Division of Economics (Bruce, Hudson) *JGH*
Office of the General Counsel (Murphy) *TLT*

RE: Docket No. 20190080-WS – Application for limited proceeding rate increase in Brevard County, by Aquarina Utilities, Inc.

AGENDA: 05/05/20 – Regular Agenda – Proposed Agency Action, Except for Issues 4 and 5
- Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Fay

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

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Case Background

Aquarina Utilities, Inc., (Aquarina or Utility) is a Class B utility providing water and wastewater services in Brevard County to 320 potable water, 119 non-potable water, and 342 wastewater customers. In its 2019 Annual Report, Aquarina reported operating revenues of \$192,312 for potable water, \$256,822 for non-potable water, and \$190,777 for wastewater service. The Utility's rates were last set in 2019.¹

On April 1, 2019, Aquarina filed a request for a limited proceeding rate increase. The minimum filing requirements were met, and the official filing date was established as July 31, 2019. Aquarina is seeking to recover the revenue it lost as a result of Aquarina Golf, Inc., an irrigation customer, leaving the system in August 2019. In addition, the Utility is seeking recognition of capital improvements that have taken place since the last rate case.

A customer meeting was scheduled for March 26, 2020, in Melbourne Beach, Florida. However, due to travel restrictions implemented by the Department of Management Services (DMS), the customer meeting was cancelled.² All customers were notified of the meeting cancellation and were advised that they may provide comments via letter, email, phone, fax, or through the Commission's website. Customers also received a form for mailing in written comments and the Rate Case Overview that would have been distributed at the customer meeting. Of the eighteen customers that submitted comments, as of April 16, 2020, sixteen expressed concern regarding the proposed rate increase.

On April 3, 2020, the Office of Public Counsel (OPC) filed a Motion to Reschedule the Customer Meeting and Continue the Docket (Motion). In its Motion, OPC asked the Commission to reschedule all remaining docket dates until a customer meeting could be held, or in the alternative, to reschedule the customer meeting to occur via videoconference prior to staff filing its recommendation.³ On April 6, 2020, Aquarina filed its Response in Opposition of OPC's Motion.⁴ By Order No. PSC-2020-0109-PCO-WS, issued April 16, 2020, the Prehearing Officer denied OPC's Motion.

This recommendation addresses Aquarina's requested water and wastewater rates. The Commission has jurisdiction pursuant to Sections 367.081 and 367.0822, Florida Statutes (F.S.).

¹ Order No. PSC-2019-0139-PAA-WS, issued April 22, 2019, in Docket No. 20150010-WS, *In re: Application for staff-assisted rate case in Brevard County by Aquarina Utilities, Inc.*, Order approving Phase II rates for potable water and wastewater.

² Department of Management Services, Travel Guidance for Employees of the State Personnel System, posted March 1, 2020, https://www.dms.myflorida.com/content/download/148251/989599/Travel_Guidance_for_Employees_of_the_State_Personnel_System.pdf

³ Document No. 01765-2020, filed April 3, 2020.

⁴ Document No. 01770-2020, filed April 6, 2020.

Discussion of Issues

Issue 1: Should the Commission approve Aquarina's request for a limited proceeding?

Recommendation: Yes. The Commission should approve the Utility's request for a limited proceeding rate increase as modified by staff. Aquarina should be allowed an annual increase of \$2,560 or 1.54 percent, for potable water, resulting in an adjusted revenue requirement of \$168,365. Regarding non-potable water, the Utility should be allowed an annual increase of \$2,108, or 0.85 percent, resulting in an adjusted revenue requirement of \$248,891. For wastewater, the Utility should be allowed an annual increase of \$1,387, or 0.77 percent, resulting in an adjusted revenue requirement of \$182,016. The adjusted revenue requirements are reflected on Schedule Nos. 3-A, 3-B, and 3-C. (Doehling, Lewis, Sowards)

Staff Analysis: Limited proceedings generally address specific or significant changes that would adversely affect the normal operating income of the utility and are usually narrow in scope. Staff believes that Aquarina's case is sufficiently narrow in scope to qualify for a limited proceeding. Aquarina has also met all minimum filing requirements as set forth in Rule 25-30.445, Florida Administrative Code (F.A.C.).

Secondary Water Quality Standards

Pursuant to Rule 25-30.445(4)(o), F.A.C., utilities are required to provide the Commission with a copy of all customer complaints received by the utility regarding the Florida Department of Environmental Protection (DEP) secondary water quality standards during the past five years as well as a copy of the utility's most recent secondary water quality standards test results. Within the past five years, the Utility received four complaints⁵ concerning grey discolored water. The Utility responded to these complaints stating the discoloration was due to a "slight increase in chlorine residual in the system." Test results provided by Aquarina, dated October 24, 2018, indicated that the Utility is meeting the DEP's secondary standards.⁶

Staff also reviewed complaints received by the Commission and the DEP for the same five-year period. None of the complaints received by the Commission addressed the DEP's secondary water quality standards. However, the DEP received two complaints in February 2016 addressing secondary standards. The first of these complaints concerned cloudy water, which Aquarina stated was caused by air in the water. The second complaint raised concerns which were addressed in the prior rate case. The DEP conducted a sanitary survey on November 1, 2019, and determined the system to be in compliance with the DEP's rules and regulations.

As addressed in the Case Background, a customer meeting was scheduled for March 26, 2020, in Melbourne Beach, Florida, but was cancelled due to travel restrictions implemented by the DMS. Customers received instructions on how to provide comments via letter, email, phone, fax, or through the Commission's website. Of the eighteen customers that submitted comments, as of April 16, 2020, sixteen expressed concern regarding the proposed rate increase and not water quality.

⁵ March 2019.

⁶ Document No. 03431-2019, p. 69.

Aquarina has provided the necessary information to comply with Rule 25-30.445(4)(o), F.A.C. Based on review of the information provided by the Utility, as well as supplemental information gathered throughout the course of this docket, staff does not believe any actions need to be taken with respect to secondary standards.

Rate Base

Since its last rate case, the Utility made capital improvements to its potable and non-potable water systems, as well as its wastewater system, and requested that they be included in rate base as a part of this proceeding. The plant additions, as well as recommended adjustments to accumulated depreciation, depreciation expense, non-used and useful (U&U), and taxes other than income (TOTI) are reflected below.⁷ As Aquarina no longer provides service to the golf course, staff believes an adjustment is necessary based upon what staff recommends is a “forced abandonment” of plant items dedicated solely to the golf course.⁸ Additionally, as a result of recommended changes to operating expenses, the Utility’s working capital allowance should be updated. Staff’s calculations are reflected below.

Plant Additions

Potable Water System

Aquarina provided an invoice in the amount of \$16,500 for replacement of the water treatment plant’s roof. The Utility stated the roof was in disrepair and needed to be replaced. In response to staff’s first data request,⁹ the Utility noted that the old roof was installed in 2004 and that flat asphalt roofs do not last long on the island. Staff recommends approval of the request and the resulting net addition is \$4,125 after retirement.

In the prior rate case, the Commission approved Aquarina’s request to replace its reverse osmosis (RO) water treatment equipment due to the age and unavailability of parts for its existing equipment. Prior to the installation of the new RO equipment in December 2018, the RO service pump required a repair in June 2017 and was subsequently replaced in October 2017. The Utility provided invoices for the repair of the pump and associated fittings, along with the invoice for the new pump. Staff believes the purchases were prudent and notes that these additions were not included in the prior rate case. The total requested was \$12,976, resulting in a net addition of \$6,121 after retirements.

Non-Potable Water System

The Utility provided invoices in the amount of \$26,013 for repairs and replacement of pumps that primarily serve the golf course operations. A review of the invoices shows the costs were incurred in 2017. Staff agrees these costs were prudent as the costs were incurred before the golf course discontinued service in August 2019. As discussed below, staff believes the plant additions dedicated solely to the golf course should be considered a forced abandonment and amortized. Staff believes the remaining purchases were prudent, resulting in a net addition of \$1,248 after retirements.

⁷ Aquarina’s U&U percentages were set in Order No. PSC 16-0583-PAA-WS, issued December 29, 2016, in Docket No. 20150010-WS, *In re: Application for staff-assisted rate case in Brevard County by Aquarina Utilities, Inc.*

⁸ The concept of forced abandonment is discussed in more detail below under a separate heading.

⁹ Document No. 04267-2019.

Wastewater System

The Utility submitted invoices totaling \$19,369 for repairs and replacements of two electrical panels, electrical equipment, and pump. These repairs were needed due to rust and corrosion. The Utility noted that the lift station is on a barrier island and is exposed to corrosive elements. Staff recommends the costs were prudent, resulting in a net addition of \$4,842 after retirements.

Plant Additions Summary

In total, staff is recommending a net increase of \$10,246 (\$4,125 + \$6,121) for potable water system additions, \$1,248 for non-potable water system additions, and \$4,842 for wastewater system additions. Staff notes the Utility submitted final invoices only for the requested additions. No other bids were obtained due to the limited availability of local vendors. The adjustments for the additions and associated retirements are reflected in Schedule No. 1-D. The non-potable water system additions are discussed in the Forced Abandonment section below.

Based on the recommended plant additions, staff believes the following corresponding adjustments should also be made, as seen in Table 1-1.

**Table 1-1
 Corresponding Adjustments**

System	Accumulated Depreciation	Depreciation Expense	Non-U&U	TOTI
Potable Water	\$18,233	\$349	(\$1,757)	\$134
Non-Potable Water	\$3,555	\$62	\$0	\$20
Wastewater	\$13,720	\$269	\$0	\$78

Staff's adjustments to accumulated depreciation and non-U&U are shown in Schedule No. 1-D, and adjustments for depreciation expense and TOTI are shown in Schedule No. 3-D. Staff notes that the recommended potable water TOTI balance of \$134 consists of two adjustments, an increase of \$165 to recognize additional property taxes, and a decrease of \$31 to recognize the application of non-U&U to TOTI.

Forced Abandonment

As discussed above, Aquarina requested \$10,384 in plant additions for the non-potable water system, of which \$1,248 staff has included as pro forma in the recommended rate base. While staff believes the remaining non-potable water additions were prudent at this time, they were associated exclusively with the golf course that the Utility is no longer serving. Staff believes the plant additions should be considered a forced abandonment as the Utility is no longer serving the golf course and the associated costs should be amortized as described below. Staff also believes adjustments are necessary to recognize additional depreciation as it has been two years since the plant additions were put into service. Staff has made an adjustment to reduce the plant additions by \$456, to account for an additional year of accumulated depreciation.

In response to staff's third data request, Aquarina stated that it reviewed its records and concluded that no additional plant items were dedicated solely to the golf course. As additional plant items cannot be attributed to the golf course, staff believes the total amount of plant to be used in the calculation of the loss on abandonment is \$8,679 (\$10,384 - \$1,248 - \$456).

Rule 25-30.433(10), F.A.C., prescribes the calculation for determining the appropriate amortization period of forced abandonment or the prudent retirement of plant assets prior to the end of their depreciable life. Staff has calculated the amortization period and expense as established in the rule. Staff recommends an annual amortization expense of \$774 over 11.21 years. To calculate the amortization period, staff divided the net book value of \$8,679 by the annual amortization expense of \$774. Staff's calculations are summarized in Table 1-2.

Table 1-2
Forced Abandonment

Net Book Value	<u>\$8,679</u>
Rate of Return	<u>3.66%</u>
Return on Net Book Value	\$318
Depreciation Expense	<u>\$456</u>
Annual Amortization Expense	<u>\$774</u>
Annual Amortization Period	<u>11.21 Years</u>

Working Capital Allowance

Working capital is defined as the short-term, investor-supplied funds that are necessary to meet operating expenses of the utility. Following the same methodology used in the last rate case, staff has calculated increases of \$122 for potable water, \$123 for non-potable water, and \$122 for wastewater. Based on the above, staff recommends a working capital allowance of \$15,661 for potable water, \$23,914 for non-potable water, and \$19,058 for wastewater.

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate rate base is \$249,211 for potable water, \$177,513 for non-potable water, and \$63,569 for wastewater. Rate base is shown on Schedule Nos. 1-A, 1-B, and 1-C, and the related adjustments are shown on Schedule No. 1-D.

Rate of Return

The capital structure used to determine the cost of capital in this docket is consistent with the capital structure used in the Utility's last rate case. Rule 25-30.445(4)(e), F.A.C., requires that the weighted average cost of capital be calculated based on the most recent 12-month period and include all the appropriate capital structure components. Staff used the equity cost rate of 10.55 percent from the Utility's last rate case. Staff notes that the capital structure reflects a negative retained earnings balance of \$505,064. In the Utility's last rate case, staff identified the existence of negative retained earnings and removed the negative balance from its calculations. Consistent

with the last rate case, staff has removed the negative retained earnings balance of \$505,064 for purposes of calculating the Utility's rate of return.

The Utility's capital structure has been reconciled with staff's recommended rate base. Staff recommends a return on equity of 10.55 percent, with a range of 9.55 percent to 11.55 percent, and an overall rate of return of 3.66 percent. The return on equity and overall rate of return are shown on Schedule No. 2.

Operating Expenses

The Utility has requested recovery of rate case expense. Staff is also recommending an adjustment to TOTI. Staff's adjustments are discussed below.

Rate Case Expense

Aquarina initially submitted \$28,296 in rate case expense, with an annual amortization expense of \$7,074. In response to staff's second and fourth data requests, the Utility provided updated rate case expenses. The updates reflected actual expenses of \$4,841 for legal and \$3,518 for the Utility's rate case consultant through December 2019, with an additional \$10,443 in estimated rate case expense. The breakdown of fees is shown below.

**Table 1-3
 Rate Case Expense**

Expense	Utility Actual	Utility Estimated	Total Actual & Est. Rate Case Expense
Legal Services & Fees (Dean Mead)	\$4,841	\$9,163	\$14,004
Consulting Services (OCBOA)	3,518	380	3,898
Noticing	<u>0</u>	<u>900</u>	<u>900</u>
Total	<u>\$8,359</u>	<u>\$10,443</u>	<u>\$18,802</u>

Pursuant to Section 376.081(7), F.S., the Commission shall determine the reasonableness of rate case expense and shall disallow all expenses determined to be unreasonable. Staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current case. Based on its review, staff believes adjustments are necessary to the Utility's proposed rate case expense.

Legal Services

Aquarina requested \$14,004 in legal fees and costs. This amount included a \$1,200 filing fee. The Utility provided invoices from Dean, Mead, Egerton, Bloodworth, Capouano & Bozarth, P.A. (Dean Mead) through December 2019, showing actual expenses associated with the rate case totaling \$4,841, and estimated an additional \$9,163 to complete. According to invoices, Dean Mead identified and billed the Utility \$532 related to the correction of deficiencies. The Commission has previously disallowed rate case expense associated with correcting deficiencies,

as it is duplicative of costs included in the filing fees.¹⁰ As such, staff recommends an adjustment to reduce actual legal fees by \$532.

By letter dated March 13, 2020, staff informed the Utility that its customer meeting had been cancelled.¹¹ Dean Mead's estimate to complete included six hours for travel time and attendance of the customer meeting. As the customer meeting was cancelled, staff believes that the six hours, or \$2,280 (\$380 x 6) should be removed from the estimate to complete. Dean Mead's estimate to complete also included 10 hours for travel time and attendance at the Commission Conference. The Commission Conference was changed to a teleconference format in response to COVID-19, and all public participation must be telephonic or by written comment. Staff believes four hours is a more appropriate amount of time to prepare and participate in the Commission Conference telephonically. As such, staff recommends reducing the request by an additional six hours, or \$2,280, to remove travel time. Additionally, Dean Mead included \$658 in travel expenses for the firm to attend the customer meeting and Commission Conference, as well as \$525 for Utility expenses to attend the Commission Conference. Staff believes these expenses should be removed as well. Accordingly, staff believes that the appropriate amount of legal fees is \$7,729, which represents a total reduction of \$6,275 (\$532 + \$2,280 + \$2,280 + \$658 + \$525).

Consulting Services

The Utility requested actual consulting services expense of \$3,518 for services rendered by OCBOA Consulting, LLC through December 2019, and an additional \$380 in estimated costs to complete. However, staff only received invoices supporting \$2,710 of actual costs incurred. As such, staff recommends a reduction of \$808 to actual consulting fees but believes the additional \$380 for the estimated costs to complete is appropriate. Accordingly, staff believes that the appropriate amount of consulting services fees is \$3,090.

Noticing Costs

Aquarina included estimated noticing costs of \$900 in its request for rate case expense. The Utility is required by Rule 25-30.446, F.A.C., to provide notices of the customer meeting and of final rates in this case to its customers. Staff is also recommending that the Utility be required to provide notice of the rate reduction to its customers when the rates are reduced to remove the amortized rate case expense. Staff has reviewed the Utility's estimated costs and believes the Utility's estimate is reasonable and should be approved. Accordingly, staff recommends that the appropriate amount of noticing costs is \$900.

Rate Case Expense Summary

Based on the above, staff believes that Aquarina's total rate case expense should be decreased by \$7,083 (\$6,275 + \$808). Given these adjustments, the appropriate rate case expense should be \$11,719 and should be amortized over a four-year period at \$2,930 per year, pursuant to Section 367.081(8), F.S., as the Utility did not request or justify a longer amortization period. Consistent with the last rate case, staff has allocated one-third of the annual rate case expense to each of the potable water, non-potable water, and wastewater. This results in annual rate case expense of

¹⁰ Order No. PSC-17-0091-FOF-SU, issued March 13, 2017, Docket No. 20150071-SU, *In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*, p. 54.

¹¹ Document No. 01413-2020.

\$977 for potable water, non-potable water, and wastewater. A breakdown of rate case expense is shown on Table 1-4.

**Table 1-4
 Recommended Rate Case Expense**

Expense	Utility Actual and Est	Staff Adjustments	Recommended Total Rate Case Expense
Legal Services & Fees (Dean Mead)	\$14,004	(\$6,275)	\$7,729
Consulting Services (OCBOA)	3,898	(808)	3,090
Noticing	<u>900</u>	<u>0</u>	<u>900</u>
Total	<u>\$18,802</u>	<u>(\$7,083)</u>	<u>\$11,719</u>

Taxes Other Than Income

As discussed above, staff has recommended corresponding adjustments of \$134 for potable water, \$20 for non-potable water, and \$78 for wastewater related to an increase of property taxes for pro forma plant. In addition to these adjustments staff recommends further adjustments to regulatory assessment fees (RAFs) to reflect the changes in revenue as discussed below. As such, staff recommends that RAFs be increased by \$115 for potable water, \$95 for non-potable water, and \$62 for wastewater, to reflect RAFs of 4.5 percent on the change in revenues. Based on these adjustments, staff recommends TOTI expenses of \$21,205 for potable water, \$26,026 for non-potable water, and \$23,072 wastewater.

Operating Expense Summary

Staff’s recommended adjustments result in operating expenses of \$159,246 for potable water, \$242,394 for non-potable water, and \$172,015 for wastewater. Operating expenses are shown on Schedule Nos. 3-A, 3-B, and 3-C. The adjustments are shown on Schedule No. 3-D.

Revenue Requirement

The appropriate revenue requirement for potable water is \$168,365, resulting in an annual increase of \$2,560, or 1.54 percent. The appropriate revenue requirement for non-potable water is \$248,891, resulting in an annual increase of \$2,108, or 0.85 percent.

Staff notes that in the last rate case the operating ratio methodology was applied to the wastewater system. Aquarina was granted an increase of \$10,000. Commission practice at the time was to allow an operating margin of 10 percent, but capped increases to \$10,000. Consistent with that decision, staff has calculated a revenue requirement of \$182,016 for wastewater, resulting in an annual increase of \$1,387, or 0.77 percent. Staff’s revenue requirement calculations are shown in Table 1-5, Table 1-6, and Table 1-7.

**Table 1-5
 Potable Water Revenue Requirement**

Adjusted Rate Base	\$249,211
Rate of Return	<u>x 3.66%</u>
Return on Rate Base	\$9,119
Adjusted O&M Expense	125,287
Net Depreciation Expense	12,754
Taxes Other Than Income	<u>21,205</u>
Revenue Requirement	\$168,365
Less Adjusted Test Year Revenues	<u>165,805</u>
Annual Increase	<u>\$2,560</u>
Percent Increase	<u>1.54%</u>

**Table 1-6
 Non-Potable Water Revenue Requirement**

Adjusted Rate Base	\$177,513
Rate of Return	<u>x 3.66%</u>
Return on Rate Base	\$6,497
Adjusted O&M Expense	191,309
Net Depreciation Expense	24,285
Amortization	774
Taxes Other Than Income	<u>26,026</u>
Revenue Requirement	\$248,891
Less Adjusted Test Year Revenues	<u>246,783</u>
Annual Increase	<u>\$2,108</u>
Percent Increase	<u>0.85%</u>

Table 1-7
Wastewater Revenue Requirement

Adjusted O&M	\$152,466
Operating Margin (%)	<u>x 6.56%</u>
Operating Margin (\$10,000 Cap)	\$10,000
Adjusted O&M Expense	152,466
Net Depreciation Expense	(3,523)
Taxes Other Than Income	<u>23,072</u>
Revenue Requirement	\$182,016
Less Adjusted Test Year Revenues	<u>180,628</u>
Annual Increase	<u>\$1,387</u>
Percent Increase	<u>0.77%</u>

Issue 2: What are the appropriate water and wastewater rates?

Recommendation: The appropriate rates for Aquarina 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. (Hudson, Bruce)

Staff Analysis:

Non-Potable Water Rates

The Utility's non-potable system provides water for irrigation as well as for hydrants located throughout the Utility's service area. In its 2015 rate case, the Utility was concerned that the non-potable water rates were set too high such that it would contribute to customers like the golf course, as well as other large users, seeking an alternative water supply for irrigation. In addition, the Utility indicated that the Commission-approved non-potable water rates for irrigation, which are based on a separate revenue requirement, gave no consideration to the fact that the non-potable system provides water to fire hydrants. In 2019, the golf course constructed its own source of water supply for irrigation and disconnected from the Utility's non-potable water system. Because the fire protection benefits all customers, the Utility indicated that some of the non-potable water revenues should be shifted to the other services. The Utility is seeking to recover lost non-potable water revenues due to the loss of the golf course irrigation customer.

Staff recognizes the additional burden that will be placed on the remaining non-potable water customers due to the loss of the golf course as a customer. Staff also recognizes the Utility's ongoing concern about the level of non-potable water rates. As discussed previously, the non-potable water system is also the fire flow system. The Commission determined in prior dockets that the non-potable water distribution system is first and foremost a fire protection system and benefits all customers.¹² If customers were to continue leaving the non-potable water system and find other irrigation sources, then the purpose of the non-potable water system would be just for fire flow and the cost would be ultimately borne by the general body of ratepayers.

Staff believes it is important to find a balance in terms of cost recovery for the non-potable water system. Because the system functions also as fire protection and benefits the general body of ratepayers, staff believes it is appropriate to allocate a portion of the non-potable water revenue requirement to the other services. In addition, the non-potable water rates should be restructured to account for the loss of the golf course and associated billing determinants.

Staff's recommended non-potable water revenue requirement is \$248,891, which is an incremental increase above the Phase II revenue requirement approved in the Utility's last rate

¹² Order Nos. PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 20021228-WS, *In re: Application for staff-assisted rate case by Service Management Systems, Inc.*, p. 20; and PSC-95-1417-FOF-WS, issued November 21, 1995, in Docket No. 19941234-WS, *In re: Application for staff-assisted rate case in Brevard County by Aquarina Developments, Inc.*, p. 22.

case. The incremental increase represents pro forma items and rate case expense for the instant docket. However, subsequent to approval of the Phase II revenue requirement, the Utility had a price index increase in 2018 for the non-potable water system, which is not accounted for in the recommended revenue requirement. In past dockets relating to rate restructuring because of a loss in billing determinants, the Commission approved restructured rates that allowed the Utility to recover a prior approved revenue requirement and any additional revenue increases as a result of an index or pass-through adjustment.¹³ The incremental increase for the 2018 price index was \$2,457. Therefore, the non-potable water revenue requirement for purposes of restructuring the non-potable water rates should be adjusted to \$251,348 (\$248,891 + \$2,457).

The appropriate billing determinants for restructuring the non-potable water rates are the 2019 billing determinants, which are 5,160 equivalent residential connections (based on the number of metered irrigation customers) and 86,496,944 gallons. Based on 2019 billing determinants, excluding the golf course, the existing rates, and 2019 miscellaneous revenues of \$769, staff determined non-potable water revenues to be \$194,852. This is \$56,496 (\$251,348 - \$194,852) less than the adjusted revenue requirement for restructuring the non-potable water rates. Staff believes the non-potable water rates should be restructured with revenues of \$194,852, excluding miscellaneous revenues. The revenue difference of \$56,496 should be equally distributed between the potable water and wastewater services to recognize that the non-potable water system benefits all customers because of fire flow and to try to minimize any additional customer loss due to the level of non-potable water rates.

Potable Water and Wastewater Rates

As discussed above, staff's recommended revenue requirements are incremental increases to the Commission-approved Phase II revenue requirements. Subsequent to the implementation of Phase II rates, the Utility had a price index adjustment for the potable water and wastewater systems, which is not reflected in the Phase II revenue requirement calculations. As a result, staff believes the Phase II rates should be used as the basis for determining the incremental increase to be added to the Utility's current rates. Since the implementation of Phase I rates, the Utility's potable water system has been overearning and being netted against the wastewater system's revenues.

When there are overearnings for a water and wastewater system, it has been Commission practice to avoid decreasing water rates by netting the revenues of the water and wastewater systems if the customer bases are similar. Decreasing the potable water rates undermines conservation efforts. Due to the minimal difference between potable water and wastewater customers, the Commission approved netting the potable water overearnings with the wastewater system increase in order to avoid decreasing potable water rates. Therefore, for Phase I, the potable water rates remained unchanged. The netting was also done with the Phase II revenues since the potable water was still overearning, but not as much as with Phase I. When Phase II rates were designed, some of the wastewater revenues that were netted with the potable water system in Phase I were shifted back to the wastewater system.

¹³ Order Nos. PSC-17-0108-PAA-WU, issued March 27, 2017, in Docket No. 20160145-WU, *In re: Application for limited proceeding in St. Johns County, by Camachee Island Company, Inc. d/b/a Camachee Cove Yacht Harbor Utility.*; and PSC- 13-0647-PAA-WU, issued December 5, 2013, in Docket No. 20130155-WU, *In re: Application for limited proceeding increase in rates in Escambia county by Peoples Water Service Company of Florida, Inc.*

As discussed above, potable water and wastewater revenues should each be increased by revenues of \$28,248 (\$56,496/2) to reflect the reallocation of non-potable water revenues. Staff's recommended revenue requirement of \$168,365 for potable water is less than the revenues of \$170,848 generated by the Phase II potable water rates. With the reallocation of non-potable water revenues, the potable water system has an increase of \$25,765 (\$28,248 - \$2,483) and does not show an overearnings or a need for netting revenues with the wastewater system. For the wastewater system, the increase should be \$34,679, which is the \$5,043 returned from potable water system, the \$1,387 for the limited proceeding incremental increase, and the \$28,248 allocated from the non-potable water system. Table 2-1 reflects the revenues staff used for designing rates.

**Table 2-1
 Commission-Approved Phase II and
 Staff Recommended Revenue Requirements for Rate Setting**

		Phase II		Limited Proceeding	
		Potable Water	Wastewater	Potable Water	Wastewater
A	Commission-Approved/Staff Recommended Revenue Requirement	\$165,805	\$180,628	\$168,365	\$182,016
B	Revenue generated from rates	\$170,848	\$167,070	\$170,848	\$175,585
C	Revenue Increase/Decrease (A - B)	(\$5,043)	\$13,558	(\$2,483)	\$6,431
D	Netting	\$5,043	(\$5,043)	--	--
E	Reallocation of Non-Potable Revenues	--	--	\$28,248	\$28,248
F	Total Revenue Increase (C + E)	\$0	\$8,515	\$25,765	\$34,679
G	Percent Increase to Rates (F / B)	0%	5.10%	15.08%	19.75%
H	Revenue Requirement for Rate Setting (B + F)	\$170,848	\$175,585	\$196,613	\$210,264

For the limited proceeding, an allocation of non-potable water revenues to the potable water system results in an increase of 15.08 percent for the potable water system. The revenue increase of \$25,765, excluding miscellaneous revenues of \$3,413, results in 15.39 percent increase. For wastewater rates, an allocation of non-potable water revenues and return of revenues from potable water system results in an increase of 19.75 percent for the wastewater system. The revenue increase of \$34,679, excluding miscellaneous revenues of \$655, results in a 19.82 percent increase. The 15.39 percent increase for potable water and the 19.82 percent for wastewater should be applied as an across-the-board increase to the Phase II rates (excluding the 2018 index).

Subsequent to the implementation of the Phase II rates, the Utility was approved for a 2019 price index increase effective August 9, 2019. In order to maintain the price index increase, staff recommends that the incremental difference between the Phase II (excluding the 2018 index) and limited proceeding rates be added to the Utility's current potable water and wastewater rates.

The appropriate rates for Aquarina 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.

Issue 3: What are the appropriate initial customer deposits for Aquarina's water and wastewater service?

Recommendation: The appropriate initial customer deposits for the residential 5/8 inch x 3/4 inch meter should be \$82 for water and \$87 for wastewater. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water and wastewater. The approved initial customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The Utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding. (Bruce)

Staff Analysis: Rule 25-30.311, F.A.C., provides the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the Utility and, ultimately, the general body of ratepayers. An initial customer deposit ensures that the cost of providing service is recovered from the cost causer. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill.¹⁴ Currently, the Utility's initial deposit for residential water is \$68 for the 5/8 inch x 3/4 inch meter size and two times the estimated bill for the general service meter sizes. For wastewater, the Utility's initial deposit for residential wastewater is \$62 for the 5/8 inch x 3/4 inch meter size and two times the estimated bill for the general service meter sizes. However, these amounts do not cover two months' average bills based on staff's recommended rates. The Utility's average monthly residential water usage is 2,236 gallons per customer. The Utility's average monthly residential wastewater usage is 2,217 gallons per customer. Therefore, the average residential monthly bill based on staff's recommended rates is approximately \$41.20 for water and \$43.65 for wastewater.

Staff recommends the appropriate initial customer deposits for the residential 5/8 inch x 3/4 inch meter should be \$82 for water and \$87 for wastewater. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water and wastewater. The approved initial customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The Utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding.

¹⁴ Order Nos. PSC-2017-0428-PAA-WS, issued November 7, 2017, in Docket No. 20160195-WS, *In re: Application for staff-assisted rate case in Lake County by Lakeside Waterworks, Inc.* and PSC-17-0113-PAA-WS, issued March 28, 2017, in Docket No. 20130105-WS, *In re: Application for certificates to provide water and wastewater service in Hendry and Collier Counties, by Consolidated Services of Hendry & Collier, LLC.*

Issue 4: What is the appropriate amount by which rates should be reduced to reflect the removal of the amortized rate case expense?

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

Staff Analysis: The water rates should be reduced, as shown on Schedule Nos. 4-A and 4-B, to remove the annual amortization of rate case expense grossed-up for RAFs. The decrease in rates should become effective immediately following the expiration of the rate case expense recovery period, pursuant to Section 367.081(8), F.S. Aquarina 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 5: Should the recommended rates be approved for Aquarina on a temporary basis, subject to refund, in the event of a protest filed by a substantially affected person or party?

Recommendation: Yes. The recommended rates should be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a substantially affected person or party. Aquarina 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 Aquarina should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission Clerk's office no later than the 20th of every month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Procedural Agency Action) (Sewards)

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 367.081(2), F.S., which requires the Commission to "fix rates which are just, reasonable, compensatory, and not unfairly discriminatory," and consistent with prior Commission orders,¹⁵ in the event of a protest filed by a party other than the utility, staff recommends that the recommended rates be approved as temporary rates. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. The recommended rates collected by the Utility should be subject to the refund provisions discussed below.

The Utility should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$4,915. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

¹⁵ Order No. PSC-16-0505-PAA-WS, issued October 31, 2016, in Docket No. 20150269-WS, *In re: Application for a limited proceeding water rate increase in Marion, Pasco, and Seminole Counties, by Utilities, Inc. of Florida*; Order No. PSC-09-0651-PAA-SU, issued September 28, 2009, in Docket No. 20090121-SU, *In re: Application for limited proceeding rate increase in Seminole County by Alafaya Utilities, Inc.*; and Order No. PSC-10-0682-PAA-WS, issued November 15, 2010, in Docket No. 20090349-WS, *In re: Application for limited proceeding rate increase in Polk County by Cypress Lakes Utilities, Inc.*

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

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

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

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

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

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

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

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

Issue 6: Should this docket be closed?

Recommendation: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Once these actions are complete, this docket should be closed administratively. (Murphy)

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

AQUARINA UTILITIES, INC.		SCHEDULE NO. 1-A		
SCHEDULE OF POTABLE WATER RATE BASE		DOCKET NO. 20190080-WS		
DESCRIPTION	BALANCE PER 2015 SARC Phase II	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF	
1. UTILITY PLANT IN SERVICE	\$1,462,628	\$10,246	\$1,472,874	
2. LAND & LAND RIGHTS	37,582	0	37,582	
3. NON-USED AND USEFUL COMPONENT	(68,910)	(1,757)	(70,667)	
4. ACCUMULATED DEPRECIATION	(1,035,947)	18,233	(1,017,714)	
5. CIAC	(337,868)	0	(337,868)	
6. AMORTIZATION OF CIAC	149,343	0	149,343	
7. WORKING CAPITAL ALLOWANCE	<u>15,539</u>	<u>122</u>	<u>15,661</u>	
8. WATER RATE BASE	<u>\$222,367</u>	<u>\$26,844</u>	<u>\$249,211</u>	

AQUARINA UTILITIES, INC.		SCHEDULE NO. 1-B		
SCHEDULE OF NON-POTABLE WATER RATE BASE		DOCKET NO. 20190080-WS		
DESCRIPTION	BALANCE PER 2015 SARC Phase II	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF	
1. UTILITY PLANT IN SERVICE	\$945,345	\$1,248	\$946,593	
2. LAND & LAND RIGHTS	24,498	0	24,498	
3. NON-USED AND USEFUL COMPONENT	0	0	0	
4. ACCUMULATED DEPRECIATION	(805,374)	3,555	(801,818)	
5. CIAC	(35,785)	0	(35,785)	
6. AMORTIZATION OF CIAC	20,111	0	20,111	
7. WORKING CAPITAL ALLOWANCE	<u>23,791</u>	<u>123</u>	<u>23,914</u>	
8. WATER RATE BASE	<u>\$172,587</u>	<u>\$4,926</u>	<u>\$177,513</u>	

AQUARINA UTILITIES, INC.		SCHEDULE NO. 1-C		
SCHEDULE OF WASTEWATER RATE BASE		DOCKET NO. 20190080-WS		
DESCRIPTION	BALANCE PER 2015 SARC Phase II	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF	
1. UTILITY PLANT IN SERVICE	\$1,625,299	\$4,842	\$1,630,142	
2. LAND & LAND RIGHTS	33,680	0	33,680	
3. NON-USED AND USEFUL COMPONENT	(65,542)	0	(65,542)	
4. ACCUMULATED DEPRECIATION	(1,320,255)	13,720	(1,306,535)	
5. CIAC	(597,343)	0	(597,343)	
6. AMORTIZATION OF CIAC	350,109	0	350,109	
7. WORKING CAPITAL ALLOWANCE	<u>18,936</u>	<u>122</u>	<u>19,058</u>	
8. WASTEWATER RATE BASE	<u>\$44,885</u>	<u>\$18,684</u>	<u>\$63,569</u>	

AQUARINA UTILITIES, INC.		SCHEDULE NO. 1-D		
ADJUSTMENTS TO RATE BASE		DOCKET NO. 20190080-WS		
		POTABLE WATER	NON- POTABLE WATER	WASTEWATER
<u>UTILITY PLANT IN SERVICE</u>				
1.	To reflect appropriate pro forma plant additions.	\$29,476	\$4,990	\$19,369
2.	To reflect retirement associated with pro forma plant additions.	<u>(19,230)</u>	<u>(3,743)</u>	<u>(14,527)</u>
	Total	<u>\$10,246</u>	<u>\$1,248</u>	<u>\$4,842</u>
<u>ACCUMULATED DEPRECIATION</u>				
1.	To reflect pro forma plant additions.	(\$997)	(\$187)	(\$807)
2.	To reflect retirement associated with pro forma plant additions.	<u>19,230</u>	<u>3,743</u>	<u>14,527</u>
	Total	<u>\$18,233</u>	<u>\$3,555</u>	<u>\$13,720</u>
<u>NON-USED AND USEFUL</u>				
1.	To reflect the appropriate Non-U&U UPIS.	(\$1,947)	\$0	\$0
2.	To reflect the appropriate Non-U&U Accumulated Depreciation.	<u>189</u>	<u>0</u>	<u>0</u>
	Total	<u>(\$1,757)</u>	<u>\$0</u>	<u>\$0</u>
<u>WORKING CAPITAL ALLOWANCE</u>				
	To reflect 1/8 of test year O & M expenses.	<u>\$122</u>	<u>\$123</u>	<u>\$122</u>

AQUARINA UTILITIES, INC.							SCHEDULE NO. 2		
SCHEDULE OF CAPITAL STRUCTURE							DOCKET NO. 20190080-WS		
CAPITAL COMPONENT	PER UTILITY	STAFF ADJUSTMENTS	TEST YEAR BALANCE PER STAFF	ADJUSTMENTS TO RECONCILE TO RATE BASE	RECONCILED CAPITAL STRUCTURE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST	
1. COMMON STOCK	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	
2. CAPITAL STOCK	0	0	0	0	0	0.00%	0.00%	0.00%	
3. RETAINED EARNINGS	0	0	0	0	0	0.00%	0.00%	0.00%	
4. OTHER PAID IN CAPITAL	0	0	0	0	0	0.00%	0.00%	0.00%	
5. OTHER COMMON EQUITY	<u>(505,064)</u>	<u>505,064</u>	<u>0</u>	<u>0</u>	<u>0</u>	0.00%	10.55%	0.00%	
TOTAL COMMON EQUITY	<u>(\$505,064)</u>	<u>\$505,064</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	0.00%	10.55%	0.00%	
6. LONG-TERM DEBT	\$446,751	\$0	\$446,751	\$43,381	\$490,132	99.97%	3.66%	3.66%	
7. SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%	
8. 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	\$446,751	\$0	\$446,751	\$43,381	\$490,132	99.97%	3.66%	3.66%	
9. CUSTOMER DEPOSITS	<u>161</u>	<u>0</u>	<u>161</u>	<u>0</u>	<u>161</u>	<u>0.03%</u>	2.00%	<u>0.00%</u>	
10. TOTAL	<u>(\$58,152)</u>	<u>\$505,064</u>	<u>\$446,912</u>	<u>\$43,381</u>	<u>\$490,293</u>	<u>100.00%</u>		<u>3.66%</u>	
RANGE OF REASONABLENESS						LOW	HIGH		
RETURN ON EQUITY						<u>9.55%</u>	<u>11.55%</u>		
OVERALL RATE OF RETURN						<u>3.66%</u>	<u>3.66%</u>		

AQUARINA UTILITIES, INC.		SCHEDULE NO. 3-A				
SCHEDULE OF POTABLE WATER OPERATING INCOME		DOCKET NO. 20190080-WS				
	APPROVED IN 2015 SARC Phase II	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	<u>\$165,805</u>	<u>\$0</u>	<u>\$165,805</u>	<u>\$2,560</u> 1.54%	<u>\$168,365</u>	
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$124,310	\$977	\$125,287	\$0	\$125,287	
3. DEPRECIATION	12,405	349	12,754	0	12,754	
4. AMORTIZATION	0	0	0	0	0	
5. TAXES OTHER THAN INCOME	20,956	134	21,090	115	21,205	
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
7. TOTAL OPERATING EXPENSES	<u>\$157,670</u>	<u>\$1,461</u>	<u>\$159,130</u>	<u>\$115</u>	<u>\$159,246</u>	
8. OPERATING INCOME	<u>\$8,135</u>		<u>\$6,674</u>		<u>\$9,119</u>	
9. WATER RATE BASE	<u>\$222,367</u>		<u>\$249,211</u>		<u>\$249,211</u>	
10. RATE OF RETURN	<u>3.66%</u>				<u>3.66%</u>	

AQUARINA UTILITIES, INC.		SCHEDULE NO. 3-B				
SCHEDULE OF NON-POTABLE WATER OPERATING INCOME		DOCKET NO. 20190080-WS				
	APPROVED IN 2015 SARC Phase II	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	<u>\$246,783</u>	<u>\$0</u>	<u>\$246,783</u>	<u>\$2,108</u> 0.85%	<u>\$248,891</u>	
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$190,332	\$977	\$191,309	\$0	\$191,309	
3. DEPRECIATION	24,222	62	24,285	0	24,285	
4. AMORTIZATION	0	774	774	0	774	
5. TAXES OTHER THAN INCOME	25,911	20	25,931	95	26,026	
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
7. TOTAL OPERATING EXPENSES	<u>\$240,466</u>	<u>\$1,834</u>	<u>\$242,299</u>	<u>\$95</u>	<u>\$242,394</u>	
8. OPERATING INCOME	<u>\$6,317</u>		<u>\$4,483</u>		<u>\$6,497</u>	
9. WATER RATE BASE	<u>\$172,587</u>		<u>\$177,513</u>		<u>\$177,513</u>	
10. RATE OF RETURN	<u>3.66%</u>				<u>3.66%</u>	

AQUARINA UTILITIES, INC.		SCHEDULE NO. 3-C				
SCHEDULE OF WASTEWATER OPERATING INCOME		DOCKET NO. 20190080-WS				
	APPROVED IN 2015 SARC Phase II	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	<u>\$180,628</u>	<u>\$0</u>	<u>\$180,628</u>	<u>\$1,387</u> 0.77%	<u>\$182,016</u>	
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$151,489	\$977	\$152,466	\$0	\$152,466	
3. DEPRECIATION (NET)	(3,792)	269	(3,523)	0	(3,523)	
4. AMORTIZATION	0	0	0	0	0	
5. TAXES OTHER THAN INCOME	22,932	78	23,010	62	23,072	
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
7. TOTAL OPERATING EXPENSES	<u>\$170,628</u>	<u>\$1,324</u>	<u>\$171,953</u>	<u>\$62</u>	<u>\$172,015</u>	
8. OPERATING INCOME	<u>\$10,000</u>		<u>\$8,676</u>		<u>\$10,000</u>	
9. WASTEWATER OPERATING EXPENSES	<u>\$151,489</u>		<u>\$63,569</u>		<u>\$152,466</u>	
10. OPERATING MARGIN	<u>10.00%</u>		<u>13.65%</u>		<u>6.56%</u>	

AQUARINA UTILITIES, INC.		Schedule No. 3-D		
ADJUSTMENTS TO OPERATING INCOME		DOCKET NO. 20190080-WS		
	<u>WATER</u>	<u>NP WATER</u>	<u>WASTEWATER</u>	
OPERATION AND MAINTENANCE EXPENSES				
Regulatory Commission Expense (665/765)				
To reflect appropriate amortized rate case expense.	<u>\$977</u>	<u>\$977</u>	<u>\$977</u>	
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$977</u>	<u>\$977</u>	<u>\$977</u>	
DEPRECIATION EXPENSE				
1. To reflect net depreciation expense associated with pro forma plant additions.	\$431	\$62	\$269	
2. To reflect the appropriate Non-U&U	<u>(82)</u>	<u>0</u>	<u>0</u>	
Total	<u>\$349</u>	<u>\$62</u>	<u>\$269</u>	
AMORTIZATION EXPENSE				
1. To reflect loss on early abandonment	<u>\$0</u>	<u>\$774</u>	<u>\$0</u>	
TAXES OTHER THAN INCOME				
1. To reflect appropriate taxes associated with pro forma plant additions.	\$165	\$20	\$78	
2. To reflect the appropriate Non-U&U	<u>(31)</u>	<u>0</u>	<u>0</u>	
Total	<u>\$134</u>	<u>\$20</u>	<u>\$78</u>	

AQUARINA UTILITIES, INC.		SCHEDULE NO. 4-A				
MONTHLY WATER RATES		DOCKET NO. 20190080-WS				
	PHASE II RATES (1)	UTILITY CURRENT RATES	UTILITY REQUESTED FINAL	INCREMENTAL INCREASE (2)	STAFF RECOMMENDED RATES (3)	FOUR YEAR RATE REDUCTION
	[A]	[B]		[C]	[D]	
<u>Residential and General Service</u>						
Base Facility Charge by Meter Size						
5/8" x 3/4"	\$19.16	\$19.80	\$29.97	\$2.95	\$22.75	\$0.12
3/4"	\$28.74	\$29.70	\$44.95	\$5.39	\$34.13	\$0.18
1"	\$47.90	\$49.50	\$74.92	\$8.98	\$56.88	\$0.30
1-1/2"	\$95.79	\$99.00	\$149.84	\$17.96	\$113.75	\$0.60
2"	\$153.27	\$158.40	\$239.74	\$28.73	\$182.00	\$0.96
3"	\$306.55	\$316.80	\$479.49	\$57.45	\$364.00	\$1.92
4"	\$478.96	\$495.00	\$749.20	\$89.79	\$568.75	\$3.00
6"	\$957.93	\$990.00	\$1,498.40	\$179.57	\$1,137.50	\$6.00
Charge per 1,000 gallons - Residential and General S	\$6.95	\$7.18	\$10.87	\$1.07	\$8.25	\$0.04
<u>Irrigation Service - Non-Potable</u>						
Base Facility Charge by Meter Size						
5/8" x 3/4"	\$13.86	\$14.24	\$11.07	N/A	\$11.28	\$0.06
3/4"	\$20.79	\$21.36	\$16.61	N/A	\$16.92	\$0.09
1"	\$34.65	\$35.60	\$27.68	N/A	\$28.20	\$0.15
1-1/2"	\$69.30	\$71.20	\$55.35	N/A	\$56.40	\$0.30
2"	\$110.88	\$113.92	\$88.56	N/A	\$90.24	\$0.48
3"	\$221.76	\$227.84	\$193.73	N/A	\$197.40	\$1.05
4"	\$346.50	\$356.00	\$332.10	N/A	\$282.00	\$1.49
6"	\$693.00	\$712.00	\$691.88	N/A	\$564.00	\$2.99
8"	\$1,108.80	\$1,139.20	\$994.30	N/A	\$1,015.20	\$5.38
Charge per 1,000 gallons - Irrigation Service	\$1.38	\$1.42	\$0.89	N/A	\$1.57	\$0.01
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>						
2,000 Gallons	\$33.06	\$34.16	\$51.71		\$39.25	
6,000 Gallons	\$60.86	\$62.88	\$95.19		\$72.25	
8,000 Gallons	\$74.76	\$77.24	\$116.93		\$88.75	
1) Since the basis of the limited proceeding increase is the Phase II revenue requirement from the Utility's last rate case, the Phase II rates, excluding the 2018 price index should be the basis in determining the appropriate incremental increase to potable rates.						
2) C = A x 15.39						
3) The incremental increase between Phase II and limited proceeding has been added to the utility's current rates, which are the result of a price index effective August 4, 2019. (D = B+C).						

AQUARINA UTILITIES, INC.		SCHEDULE NO. 4-B				
MONTHLY WASTEWATER RATES		DOCKET NO. 20190080-WS				
	PHASE II RATES (1)	UTILITY CURRENT RATES	UTILITY REQUESTED FINAL	INCREMENTAL INCREASE (2)	STAFF RECOMMENDED RATES (3)	FOUR YEAR RATE REDUCTION
	[A]	[B]		[C]	[D]	
<u>Residential</u>						
Base Facility Charge - All Meter Sizes	\$24.00	\$24.75	\$24.75	\$4.76	\$29.51	\$0.14
Charge Per 1,000 gallons 8,000 gallon cap	\$5.19	\$5.35	\$5.35	\$1.03	\$6.38	\$0.03
Flat Rate Service	\$37.61	\$38.79	\$38.79	\$7.45	\$46.24	\$0.23
<u>General Service</u>						
Base Facility Charge by Meter Sizes						
5/8" x 3/4"	\$24.00	\$24.75	\$24.75	\$4.76	\$29.51	\$0.14
3/4"	\$36.01	\$37.13	\$37.13	\$7.14	\$44.27	\$0.21
1"	\$60.01	\$61.88	\$61.88	\$11.90	\$73.78	\$0.35
1-1/2"	\$120.00	\$123.75	\$123.75	\$23.80	\$147.55	\$0.70
2"	\$192.00	\$198.00	\$198.00	\$38.08	\$236.08	\$1.12
3"	\$384.00	\$396.00	\$396.00	\$76.16	\$472.16	\$2.24
4"	\$600.00	\$618.75	\$618.75	\$119.00	\$737.75	\$3.50
6"	\$1,200.00	\$1,237.50	\$1,237.50	\$238.00	\$1,475.50	\$7.00
Charge per 1,000 gallons - General Service	\$6.24	\$6.44	\$6.44	\$1.24	\$7.68	\$0.04
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>						
2,000 Gallons	\$34.38	\$35.45	\$35.45		\$42.27	
6,000 Gallons	\$55.14	\$56.85	\$56.85		\$67.79	
8,000 Gallons	\$65.52	\$67.55	\$67.55		\$80.55	
(1) Since the basis of the limited proceeding increase is the Phase II revenue requirement from the Utility's last rate case, the Phase II rates, excluding the 2018 price index should be the basis in determining the appropriate incremental increase for wastewater rates. (2) C = A x 19.82 percent (3) The incremental increase between Phase II and limited proceeding has been added to the utility's current rates, which are the result of a price index effective August 4, 2019. (D = B+C).						