

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: February 18, 2021

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Engineering (Buys, King, Kistner, Ramos) *TB*
Division of Accounting and Finance (Cicchetti, D. Brown, Richards) *ALM*
Division of Economics (Sibley, Hudson) *JGH*
Office of the General Counsel (Murphy) *TLT*

RE: Docket No. 20200169-WS – Application for staff-assisted rate case in Lake County, and request for interim rate increase, by Lake Yale Utilities, LLC.

AGENDA: 03/02/21 – Regular Agenda – Proposed Agency Action Except for Issue Nos. 14, 15, 16 - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brown

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

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Case Background

Lake Yale Utilities, LLC (Lake Yale or Utility) is a Class C utility providing water and wastewater services to approximately 298 residential customers and one general service customer in Lake County. The Utility also provides irrigation service to 88 of its residential customers. The service area is located in the Southwest Florida Water Management District. The Utility's rates were last set by the Florida Public Service Commission (Commission) in an original certificate proceeding in 1994.¹ This is the Utility's first staff-assisted rate case; however, its rates have been amended through eight price index rate increases. The Utility was transferred to the present operator in 2018.² According to Lake Yale's 2019 Annual Report, total gross water revenue was \$68,906, total gross wastewater revenue was \$55,021, total water operating expense was \$62,611, and total wastewater operating expense was \$64,539.

On June 19, 2020, Lake Yale filed its application for a staff-assisted rate case and interim rate relief. Staff selected the test year ended December 31, 2019, for the instant case. By Order, dated September 14, 2020, the Commission approved an interim rate increase of \$9,966 (18.11 percent) for the Utility's wastewater system.³ Due to the COVID-19 pandemic, Commission staff conducted a virtual customer meeting on December 16, 2020. Two representatives spoke on behalf of the customers of the Lake Yale Estates and Sandpiper Manor subdivisions. Representatives from the Utility and Office of Public Counsel (OPC) were also in attendance.

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

¹Order No. PSC-94-0171-FOF-WS, issued February 10, 1994, in Docket No. 19930133-WS, *In re: Application for Water and Wastewater Certificates in Lake County by LAKE YALE CORPORATION d/b/a LAKE YALE UTILITY COMPANY*.

²Order No. PSC-2018-0554-PAA-WS, issued November 20, 2018, in Docket No. 20170220-WS, *In re: Application for approval of transfer of Lake Yale Treatments Associates, Inc. water and wastewater systems and Certificate Nos. 560-W and 488-S in Lake County to Lake Yale Utilities, LLC*.

³Order No. PSC-2020-0310-PCO-WS, issued September 14, 2020, in Docket No. 20200169-WS, *In re: Application for staff-assisted rate case in Lake County, and request for interim rate increase, by Lake Yale Utilities, LLC*.

Discussion of Issues

Issue 1: Is the quality of service provided by Lake Yale satisfactory?

Recommendation: Yes. The Utility is passing all Department of Environmental Protection (DEP) primary and secondary standards and has been responsive to its customer complaints. Therefore, the quality of service provided by Lake Yale should be considered satisfactory. (Kistner)

Staff Analysis: Pursuant to Section 367.081(2)(a)1, F.S., and Rule 25-30.433(1), Florida Administrative Code (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 requires that the most recent chemical analyses, outstanding citations, violations, and consent orders on file with the 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. The operating condition of the water and wastewater systems are addressed in Issue 2.

Quality of Utility's Product

In evaluating Lake Yale's product quality, staff reviewed the Utility's compliance with the DEP primary and secondary drinking water standards. Primary standards protect public health, while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water. The most recent comprehensive chemical analyses were performed in October 2018 and additional primary standard testing was done in June 2019 and March 2020 for both systems, Lake Yale Estates and Sandpiper. All results were in compliance with the DEP's standards.

The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the complaints filed in the Commission's Consumer Activity Tracking System (CATS) for the test year and four years prior. The Commission received seven complaints from the Utility's customers: four were made in December 2020, one in June 2019, one in September 2018, and one in December 2017. The four complaints filed in December 2020 included the following issues: replacement of damaged fences, low water pressure, wastewater facility smell, poor customer service, poor secondary water quality standards, and excess foliage in the retention pond. The complaint from June 2019 raises similar issues to the four December 2020 complaints. The complaints from September 2018 and December 2017 are in regard to the now repaired fences that were damaged by a hurricane. The Utility provided responses to these identified customer complaints in CATS and these complaints have been closed.

DEP received no complaints during the test year and four years prior regarding Lake Yale. Additionally, staff requested all complaints received by the Utility for the same time period. The Utility received a total of 20 customer complaints during this timeframe. Most of the complaints were related to meter leaks or customer questions on meter accuracy. None of these complaints make reference to poor water quality. One complaint references low water pressure, the cause was found to be due to a smashed valve that was repaired the next day. The Utility also responded to these customer complaints. Table 1-1 summarizes the number of complaints by source and subject for the test year and four years prior.

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

Subject of Complaint	CATS Records	DEP Records	Utility Records	Total
Water Quality	5	-	-	5
Wastewater Facility Noise	1	-	-	1
Wastewater Facility Odor	3	-	-	3
Facility Fencing	7	-	-	7
Pond Maintenance	3	-	-	3
Water pressure	3	-	1	4
Meter Leak	-	-	8	8
Meter Accuracy	-	-	2	2
Billing	-	-	1	1
Other	-	-	8	8
Total*	22	-	20	42

*A single customer complaint may be counted multiple times if it fits into multiple categories.

Due to the ongoing COVID-19 pandemic, staff held a virtual customer meeting on December 16, 2020. Representatives from the Utility and OPC were in attendance. Two customers spoke representing the two communities (Lake Yale Estates and Sandpiper). Comments included their dissatisfaction with the water taste and smell, water pressure, retention pond maintenance, wastewater treatment facility smell and noise, customer service, and installation of a chain link fence instead of a vinyl fence. The video recording of the meeting, which includes a brief presentation of the SARC process by staff, was placed in the docket file. The Commission has received correspondence from 65 customers in the instant docket. The majority of these comments were regarding the overall rate increase, dissatisfaction with the water product taste and smell, and the smell from the wastewater treatment plant.

Staff sent the Utility a data request asking how customer concerns were addressed. The fencing, retention pond, wastewater treatment facility smell, and noise complaints will be addressed in Issue 2. In regard to complaints on secondary water quality standards, the Utility states that this may be related to the change from gas to liquid chlorine for disinfection. As previously stated, the Utility is passing DEP's primary and secondary drinking water standards and has only received one water quality complaint prior to this rate case. As for low water pressure the Utility states that during times of routine maintenance, there can be low water pressure otherwise it has only been noted once before this rate case.

Conclusion

Based on the above, the quality of service provided by Lake Yale should be considered satisfactory. The Utility is passing all DEP primary and secondary standards and has been responsive to its customer complains. Therefore, the quality of service provided by Lake Yale should be considered satisfactory.

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

Recommendation: Yes. The Utility’s water and wastewater treatment facilities are currently in compliance with DEP regulations. (Kistner)

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

Water and Wastewater System Operating Conditions

Lake Yale’s water system has a permitted design capacity of 468,000 gallons per day (gpd) for Lake Yale Estates and 162,000 gpd for Sandpiper. The Utility’s water system has three wells, two for Lake Yale Estates and one for Sandpiper with a combined pumping capacity of 663 gallons per minute (gpm), and two hydropneumatic storage tanks with a combined 15,000 gallon capacity. Staff reviewed the sanitary surveys conducted by the DEP for both systems to determine the Utility’s overall water facility compliance. A review of the surveys conducted on May 13, 2018, and August 30, 2018, indicated that Lake Yale Estates’ water treatment facility was missing permitting for a change in its disinfection process and for a permanent interconnection between the two systems. In addition, on October 16, 2019, the DEP issued a Consent Order which determined that the drinking water facility at Lake Yale Estates had inadequate security for its wellheads and pumping facilities and required that they be enclosed by lockable access. This Consent Order was based on three inspections where the Utility failed to correct these issues. Based on the Consent Order’s case closure letter, dated February 26, 2020, and the recent November 16, 2020 sanitary survey, these issues have since been resolved. The Utility also paid a fine of \$6,349 for failure to timely correct the previously discussed deficiencies for the Utility’s water system and the deficiencies discussed below for the Utility’s wastewater system. This DEP fine will not be recovered through rates. Both Lake Yale Estates’ and Sandpiper’s water systems are currently in compliance with the DEP’s rules and regulations.

Lake Yale’s wastewater system is a 55,000 gpd design capacity extended aeration domestic wastewater treatment plant (WWTP). Staff reviewed the Utility’s compliance evaluation inspections conducted by the DEP to determine the Utility’s overall wastewater facility compliance. A review of the inspection conducted on June 22, 2018, and the October 16, 2019 Consent Order, indicated that Lake Yale’s wastewater treatment facility was not in compliance with the DEP’s rules and regulations. DEP found excess vegetation growth in the rapid infiltration basins and excessive noise coming from the WWTP. This Consent Order was based on three inspections where the Utility failed to correct the issues, as discussed above for the Utility’s water system. The Consent Order’s case closure letter dated February 26, 2020, indicated that the wastewater facility was then in compliance and, as discussed above, a fine of

\$6,349 was paid for failure to timely correct the noted deficiencies and will not be recovered through rates. However, on November 16, 2020, DEP conducted another inspection of the WWTP and found that there was excess vegetation growth in the rapid infiltration basins. The Utility quickly fixed this issue and submitted proof of the corrective action to DEP. During these recent inspections, DEP found no violations in regard to facility fencing, smell, or noise.

Conclusion

Based on the above, Lake Yale's water and wastewater treatment facilities are in compliance with DEP regulations.

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

Recommendation: Lake Yale's WTP, WWTP, water distribution system, and wastewater collection system should be considered 100 percent U&U. Additionally, staff recommends no adjustment to purchased power and chemicals should be made for excessive unaccounted for water (EUW) or excessive infiltration and inflow (I&I). (P. Buys)

Staff Analysis: Lake Yale's water treatment system consists of two water plants, Lake Yale Estates and Sandpiper. Both water plants are interconnected and work with virtual telemetry to control the lead/lag alternating setup. Together, there are three wells with pumping capacities of 451, 156, and 56 gpm and two hydro-pneumatic storage tanks with 10,000 and 5,000 gallon capacities. Lake Yale's water distribution system is composed of 1,110 feet of 2-inch polyvinyl chloride (PVC) pipe, 32,934 feet of 4-inch PVC pipe, 4,085 feet of 6-inch PVC pipe, and 5,364 feet of 8-inch PVC pipe.

Lake Yale's wastewater treatment system has a permitted capacity of 55,000 gpd. The wastewater collection system is composed of PVC pipes and four lift stations. The Utility's wastewater collection system comprises 600 feet of 3-inch PVC force mains, 2,712 feet of 4-inch PVC force mains, 600 feet of 6-inch PVC force mains, 2,009 feet of 4-inch PVC collecting mains, 2,210 feet of 6-inch PVC collecting mains, and 6,287 feet of 8-inch PVC collecting mains. There are approximately 29 manholes in the service area.

Water Treatment Plant Used and Useful

Lake Yale's rates were last set in its original certificate Docket No. 19930133-WS; however, the U&U percentages were not determined in that docket. Rule 25-30.4325, F.A.C., addresses the method by which the U&U of a water system is determined. The formula for calculating U&U for the WTP is given by $[2 \times (\text{Maximum Day Peak Demand} - \text{EUW}) + \text{Fire Flow} + \text{Growth}] / \text{Firm Reliable Capacity}$. This calculation is based on a water treatment system with no storage, as hydropneumatic storage tanks are not considered usable pursuant to Rule 25-30.4325(8), F.A.C. The maximum day peak demand is the single maximum day in the test year where there is no unusual occurrence, such as a fire or line break. Based on Lake Yale's Monthly Operating Reports, the maximum day peak demand during the test year was 173,000 gpd or 120 gpm, which occurred in July 2019. As discussed below, there appears to be no EUW. The Utility has 12 fire hydrants and the fire flow is 650 gpm. Growth allowance is based on the requirements outlined in Rule 25-30.431, F.A.C., which requires the Commission to consider the rate of growth in equivalent residential connections (ERCs), in its determination of U&U. Based on staff's review, the growth for the WTP is approximately 1 gpm. Firm reliable capacity assumes loss of the largest capacity well (451 gpm) and is therefore 212 gpm. This calculation results in a U&U greater than 100 percent, as such, staff recommends the WTP be considered 100 percent U&U.

Wastewater Treatment Plant Used and Useful

Rule 25-30.432, F.A.C., addresses the method by which the U&U of a wastewater system is determined. The formula for calculating U&U for the WWTP is given by (Customer Demand Flow – I&I + Growth)/ Permitted Capacity. In this calculation, customer demand is measured on the same basis as permitted capacity. The permitted capacity for the WWTP is 55,000 gpd annual average daily flow (AADF). The customer demand AADF for 2019 was 6,000 gpd. As discussed below, there appears to be no I&I. Based on staff's review, the growth for the WWTP is 30 gpd. This calculation results in a U&U less than 100 percent. However, the Utility indicated that only 16 vacant lots remain with facilities in place to serve new customers.⁴ Additionally, the historical customer counts appear to be constant for the past 5 years. Due to the few vacant lots remaining, minimal growth of 30 gpd, and stable customer count, staff recommends the Utility's system be considered built-out. This is consistent with Rule 25-30.432, F.A.C., which states that the Commission will also consider other factors such as the extent to which the area served by the plant is built out when determining the U&U of a wastewater system. Based on the above, staff recommends the WWTP be considered 100 percent U&U.

Water Distribution and Wastewater Collection Systems Used and Useful

The water distribution and wastewater collection systems are evaluated based on ERCs consisting of growth, customer demand, and system capacity. The growth for the water distribution system is 3 ERCs and the growth for the wastewater collection system is 2 ERCs. The Utility served an average of 300 ERCs during the test year. The Utility's transmission and distribution lines were constructed to serve 318 ERCs. This results in 95 percent U&U for the water distribution system and 94 percent U&U for the wastewater collection system. However, based on the discussion above, staff recommends the system is built-out. Therefore, staff also recommends the Utility's distribution and collection systems be considered 100 percent U&U.

Excessive Unaccounted for Water

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

EUW is calculated by subtracting both the gallons sold to customers and the gallons used for other services, such as flushing, from the total gallons pumped for the test year. Based on staff's review, Lake Yale produced 13,190,000 gallons of water for 2019. Per the audit completed by staff, the Utility sold 10,537,411 gallons of water to customers. The Utility documented 2,114,000 gallons of water usage for other uses in its 2019 annual report. The resulting calculation ($[13,190,000 - 10,537,411 - 2,114,000] / 13,190,000$) for unaccounted for water is 4.1 percent; therefore, there is no EUW. Staff recommends no adjustments should be made to purchased power and chemicals.

⁴Document Nos. 11735-2020, filed on November 4, 2020, and 13030-2020, filed on December 1, 2020.

Infiltration and Inflow

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

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

For 2019, the allowance for infiltration was calculated as 3,036,136 gallons, and the allowance for inflow was calculated as 655,813 gallons; therefore, the total I&I allowance was calculated as 3,691,950 gallons. Based on staff's audit, the total water sold to residential customers was 6,547,754 gallons. The Utility also sold 10,380 gallons to its one general service customer. Therefore, the estimated amount of wastewater returned from customers was calculated as 5,247,545 $([6,547,754 * 0.8] + [10,380 * 0.9])$ gallons. Summing the estimated return and the allowable I&I results in a maximum of 8,939,495 $(3,691,950 + 5,247,545)$ gallons of wastewater that should be treated by the wastewater system without incurring adjustments to operating expenses. Based on the Utility's discharge monitoring reports, the actual amount of wastewater treated was 2,187,000 gallons for 2019. Therefore, the excessive I&I is -6,752,495 gallons, or 0 percent. Staff is not recommending an adjustment to purchased power and chemicals.

Conclusion

Lake Yale's WTP, WWTP, water distribution system and wastewater collection system should be considered 100 percent U&U. Additionally, staff recommends no adjustment to purchased power and chemicals should be made for EUW or excessive I&I.

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

Recommendation: The appropriate average test year rate bases for Lake Yale are \$117,040 for water and \$34,494 for wastewater. (Richards, P. Buys)

Staff Analysis: The appropriate components of the Utility's rate base include utility plant in service (UPIS), land, accumulated amortization, contributions-in-aid-of-construction (CIAC), accumulated amortization of CIAC, and working capital. The Utility's net book value was established as part of its transfer proceeding in Docket No. 20170220-WS.⁵ Staff selected the test year ended December 31, 2019, for the instant rate case. 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 component and the recommended adjustments follows.

Utility Plant in Service (UPIS)

The Utility recorded \$396,485 and \$438,790 for water and wastewater, respectively, for UPIS. Staff made several adjustments described below resulting in a net increase of \$6,030 for water and \$9,827 for wastewater.

The Utility did not record a balance in UPIS accounts 341 and 391 – Transportation Equipment to reflect the allocated portion of vehicles owned by Florida Utility Services 1, LLC (FUS1) and used by the Utility. The Utility submitted documentation supporting five vehicles with a cost of \$87,904.⁶ After Lake Yale's 12 percent allocation, staff increased UPIS by \$10,548 to correctly reflect the amount of Transportation Equipment. Staff split the amount between water and wastewater, thereby increasing UPIS by \$5,274 for water and \$5,274 for wastewater. Since these vehicles were purchased prior to the start of the test year, staff did not include an averaging adjustment to these amounts.

The Utility stated that old wooden fences surrounding the Sandpiper water plant and the Lake Yale wastewater plant were destroyed in a storm. Staff increased UPIS by \$2,577 for water and \$527 for wastewater to reflect replacement of the fences originally expensed to accounts 620 and 720. The Utility originally booked these costs as expenses, but staff believes these items should be capitalized. In addition, the Utility requested \$848 for labor to repair the fences. Since the individuals performing the fence repairs are paid employees of FUS1, staff did not include any additional amount for labor.⁷

Table 4-1 shows Lake Yale's requested pro forma plant additions. Lake Yale requested three projects as pro forma, as the projects were completed outside the test year. The Utility added a second lift station pump on March 31, 2020 as there was only one operating pump⁸ and made

⁵Order No. PSC-2018-0554-PAA-WS, issued November 20, 2018, in Docket No. 20170220-WS, *In re: Application for approval of transfer of Lake Yale Treatments Associates, Inc. water and wastewater systems and Certificate Nos. 560-W and 488-S in Lake County to Lake Yale Utilities, LLC.*

⁶Document No. 11980-2020, filed on November 13, 2020.

⁷Document No. 00534-2021, filed on January 6, 2021.

⁸Document Nos. 13030-2020, filed on December 1, 2020, and 11735-2020, filed on November 4, 2020.

emergency repairs to another lift station on December 21, 2020 to install new starters and a new phase monitor module.⁹ Lake Yale also replaced the master flow meter at the Sandpiper water treatment plant on October 19, 2020 as the master flow meter was not registering water pumping through the system.¹⁰ The aforementioned pro forma plant additions were necessary and time-sensitive. Due to the nature and completion of these additions, staff did not require the Utility to provide bids; however, staff did reviewed paid invoices from the Utility for the above projects. In addition to the three projects, FUS1 purchased a vehicle on September 29, 2020, which is outside the test year.¹¹ The vehicle cost was \$31,142 and the 12 percent allocation to Lake Yale is \$3,737. Staff allocated half of the vehicle cost to water and half to wastewater. Staff recommends the approval of the pro forma plant additions identified in Table 4-1.

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

Project	Acct. No.	Description	Amount
Lift Station Pump	360	To replace a lift station pump	\$5,959
Lift Station Pump	360	Retirement	(\$4,469)
Repairs to Lift Station	360	Emergency repairs to a lift station	\$1,725
Repairs to Lift Station	360	Retirement	(\$1,294)
Master Flow Meter	309	To replace the master flow meter at the Sandpiper WTP	\$2,065
Master Flow Meter	309	Retirement	(\$1,549)
Vehicle	341	2020 Ford Transit Connect allocation	\$1,869
Vehicle	391	2020 Ford Transit Connect allocation	\$1,869

Source: Responses to staff's data requests.

Staff decreased UPIS by \$4,206 for water and increased UPIS by \$236 for wastewater to reflect an averaging adjustment. Staff further made an adjustment increasing UPIS by \$3,934 for water and \$9,553 for wastewater to reflect pro forma plant additions offset by a decrease of \$1,549 for water and \$5,763 for wastewater to reflect pro forma plant retirements.

As described above, and summarized in Table 4-2, staff's adjustments to UPIS result in an increase of \$6,030 (\$5,274 + \$2,577 - \$4,206 + \$3,934 - \$1,549) for water and an increase of \$9,827 (\$5,274 + \$527 + \$236 + \$9,553 - \$5,763) for wastewater. Therefore, staff recommends an average UPIS balance of \$402,515 (\$396,485 + 6,030) for water and \$448,617 (\$438,790 + \$9,827) for wastewater.

⁹Document No. 13806-2020, filed December 30, 2020.

¹⁰Document Nos. 11552-2020, filed October 27, 2020, and 11735-2020, filed on November 4, 2020.

¹¹Document No. 11980-2020, filed on November 13, 2020.

**Table 4-2
 Adjustments to UPIS**

Adjustment	Water	Wastewater
To reflect allocated amount for vehicles.	\$5,274	\$5,274
To reflect adjustment from O&M accts 620 & 720 for fence repairs.	\$2,577	\$527
To reflect an averaging adjustment.	(\$4,206)	\$236
To reflect pro forma additions.	\$3,934	\$9,553
To reflect pro forma retirements.	(\$1,549)	(\$5,763)
Total adjustments to UPIS.	\$6,030	\$9,827

Source: Utility response to staff data requests.

Land and Land Rights

The Utility does not own any land. In the 2017 transfer docket, the seller and the Utility entered into an assignment and assumption of agreements as of June 28, 2017. This document includes a 99-year lease dated January 1, 1999, for land associated with the Utility’s water and wastewater treatment plants, its water transmission and distribution system, and its wastewater collection system. Therefore, the land balance as of June 30, 2017, is \$0.¹² There have been no additions to land since the transfer; therefore, no adjustments are necessary.

Used and Useful

As discussed in Issue 3, Lake Yale’s WTP and distribution system, as well as its WWTP and collection system are considered 100 percent U&U. Therefore, no U&U adjustments are necessary.

Accumulated Depreciation

Lake Yale recorded a test year accumulated depreciation balance of \$279,366 for water and \$409,804 for wastewater. Audit staff made an adjustment decreasing accumulated depreciation by \$3,430 and \$4,538 for water and wastewater, respectively. Staff increased accumulated depreciation using the prescribed depreciation rates set forth in Rule 25-30.140(2), F.A.C., associated with plant additions during the test year. These additions reflect the inclusion of the allocated portion of vehicles used by FUS1, representing an increase of \$1,656 to accumulated depreciation for both water and wastewater. Staff also increased accumulated depreciation by \$95 for water and \$53 for wastewater due to the fence repairs.

Staff decreased accumulated depreciation by \$5,954 for water and \$5,006 for wastewater to reflect an averaging adjustment. Further, staff decreased accumulated depreciation by \$1,221 for water and \$5,380 for wastewater to reflect net pro forma additions and retirements.

As shown in Table 4-3, staff’s adjustments result in a net decrease to accumulated depreciation of \$8,854 (\$3,430 - \$1,656 - \$95 + \$5,954 + \$1,221) for water and a net decrease of \$13,215 (\$4,538 - \$1,656 - \$53 + \$5,006 + \$5,380) for wastewater. Therefore, staff recommends an

¹²Order No. PSC-2018-0554-PAA-WS, issued November 20, 2018, in Docket No. 20170220-WS, *In re: Application for approval of transfer of Lake Yale Treatments Associates, Inc. water and wastewater systems and Certificate Nos. 560-W and 488-S in Lake County to Lake Yale Utilities, LLC.*

average accumulated depreciation balance of \$270,512 (\$279,366 - \$8,854) for water and \$396,589 (\$409,804 - \$13,215) for wastewater.

**Table 4-3
 Adjustments to Accumulated Depreciation**

Adjustments	Water	Wastewater
To reflect an auditing adjustment.	\$3,430	\$4,538
To reflect allocated amount for vehicles.	(\$1,656)	(\$1,656)
To reflect fence repairs.	(\$95)	(\$53)
To reflect an averaging adjustment.	\$5,954	\$5,006
To reflect pro forma adjustments.	<u>\$1,221</u>	<u>\$5,380</u>
Total adjustments to accumulated depreciation.	<u>\$8,854</u>	<u>\$13,215</u>

Source: Utility response to staff data requests.

Contributions in Aid of Construction (CIAC)

The Utility recorded a test year CIAC balance of \$132,607 for water and \$121,125 for wastewater. Staff believes that a \$125 meter installation charge for the water system, and plant capacity charges of \$250 and \$425 in the water and wastewater systems, respectively, was incorrectly recorded as miscellaneous revenue. Based on staff's review, these amounts should be recorded as CIAC. Staff increased CIAC by \$375 (\$125 + \$250) for water and \$425 for wastewater to reflect these adjustments. Additionally, staff decreased CIAC by \$188 and \$213 to reflect averaging adjustments for water and wastewater, respectively. Therefore, staff recommends appropriate CIAC balances of \$132,795 (\$132,607 + \$375 - \$188) for water and \$121,338 (\$121,125 + \$425 - \$213) for wastewater.

Accumulated Amortization of Contributions in Aid of Construction

Lake Yale recorded \$111,539 of accumulated amortization of CIAC for water and \$96,300 for wastewater. Staff increased accumulated amortization of CIAC by \$16 for water to reflect the meter installation charge and plant capacity charge in accordance with Rule 25-30.140(2), F.A.C. Staff also increased accumulated amortization of CIAC by \$16 for wastewater to reflect the plant capacity charge. Additionally, staff decreased accumulated amortization of CIAC by \$1,936 and \$1,522 to reflect an averaging adjustment for water and wastewater, respectively. Therefore, staff recommends an accumulated amortization of CIAC balance of \$109,620 (\$111,539 + \$16 - \$1,936) for water and \$94,794 (\$96,300 + \$16 - \$1,522) for wastewater.

Working Capital Allowance

Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses. Consistent with Rule 25-30.433(3), F.A.C., staff used one-eighth of the operation and maintenance (O&M) expense (less rate case expense) formula for calculating the working capital allowance. Section 367.081(9), F.S., prohibits a utility from earning a return on the unamortized balance of rate case expense. As such, staff removed the unamortized balance of rate case expense of \$377 for water and \$252 for wastewater. Staff recommends a working capital allowance of \$8,212 (\$65,696 ÷ 8) for water based on the adjusted O&M expense of \$65,696 (\$66,073 - \$377). Further, staff recommends a working capital allowance of \$9,009 (\$72,070 ÷ 8) for wastewater based on the adjusted O&M expense of \$72,070 (\$72,322 - \$252).

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base is \$117,040 for water and \$34,494 for wastewater. Rate base is shown on Schedule Nos. 1-A and 1-B. The related adjustments are shown on Schedule No. 1-C.

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

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 6.85 percent. The traditional rate of return does not apply to the Utility's wastewater system in this docket. The Operating Ratio method is employed due to rate base being less than 125 percent of O&M expenses. (Richards)

Staff Analysis: The Utility has \$135,124 in long-term debt, \$31,619 in equity, and \$50 in customer deposits. In response to an email by staff, the Utility stated its equity consists of \$368 paid in capital, \$65,277 in negative retained earnings, and related party debt totaling \$96,528.¹³ It is Commission practice to treat related party debt as equity when no interest or scheduled payments for principal are being made.¹⁴ As such, staff adjusted the utility's capital structure to reflect the related-party debt as common equity. Therefore, the total equity balance for Lake Yale is \$31,619 (\$368 - \$65,277 + \$96,528).

The Utility's capital structure has been reconciled with staff's recommended water and wastewater rate bases. The appropriate ROE for the Utility is 10.55 percent based upon the Commission-approved leverage formula currently in effect.¹⁵ 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 6.85 percent. The ROE and overall rate of return are shown on Schedule No. 2. The traditional rate of return does not apply to the Utility's wastewater system in this docket. The Operating Ratio method is employed due to rate base being less than 125 percent of O&M expenses.

¹³Document No. 13282-2020, filed on December 9, 2020.

¹⁴Order No. PSC-2013-0140-PAA-WS, issued March 25, 2013, in Docket No. 20120183-WU, *In re: Application for staff-assisted rate case in Lake County by TLP Water, Inc.*; Order No. PSC-2014-0195-PAA-WS, issued May 1, 2014, in Docket No. 20130211-WS, *In re: Application for staff-assisted rate case in Polk County by S.V. Utilities, Ltd.*; Order No. PSC-2016-0583-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.*; Order No. PSC-2018-0549-PAA-WS, issued November 19, 2018, in Docket No. 20170219-WS, *In re: Application for staff-assisted rate case in Polk County by River Ranch Water Management, LLC.*

¹⁵Order No. PSC-2020-0222-PAA-WS, issued June 29, 2020, in Docket No. 20200006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utility pursuant to Section 367.081(4)(f), F.S.*

Issue 6: Should the Commission approve an Allowance for Funds Used During Construction (AFUDC) rate for Lake Yale?

Recommendation: Yes. The appropriate AFUDC rate for Lake Yale is 6.85 percent. The appropriate monthly compounding rate to maintain an annual rate of 6.85 percent is 0.553265 percent. (Cicchetti, Richards)

Staff Analysis: On November 12, 2020, Lake Yale submitted a request that the Commission establish an AFUDC rate in this proceeding. In its request, the Utility stated “FUS1 plans to file a petition for approval of Capital Project Improvement Plans for a majority of its systems with the Commission.”¹⁶ According to the Utility, FUS1 has engaged the engineering services of Florida Rural Water Association (FRWA) to prepare an analysis report evaluating each of its systems and recommend corrective actions along with funding sources. The Utility further stated that it believes “most, if not all, of the proposed capital projects will qualify for AFUDC treatment as authorized by Rule 25-30.116, F.A.C.”¹⁷ Lake Yale is not currently authorized to accrue AFUDC and does not have a Commission-approved AFUDC cost rate. Staff believes it is appropriate to establish an AFUDC rate for this Utility.

Staff used the capital structure proposed in Issue 5 to calculate the annual AFUDC rate and monthly compounding rate for Lake Yale. Based on its review, staff believes an AFUDC rate of 6.85 percent is appropriate and recommends Commission approval. Staff also recommends a monthly compounding rate of 0.553265 percent to achieve an annual AFUDC rate of 6.85 percent.

¹⁶Document No. 11980-2020, filed on November 13, 2020.

¹⁷Ibid

Issue 7: What are the appropriate amounts of test year revenues for Lake Yale?

Recommendation: The appropriate test year revenues for Lake Yale are \$68,461 for water and \$57,090 for wastewater. (Sibley)

Staff Analysis: The Utility recorded total test year revenues of \$68,906 for water and \$55,021 for wastewater. The water revenues included \$66,875 of service revenues and \$2,031 of miscellaneous revenues. The wastewater revenues included \$55,021 of service revenues and no miscellaneous revenues.

Subsequent to the test year, Lake Yale was approved for a price index rate adjustment, which was effective June 5, 2020. As a result, staff annualized the test year revenues. Based on staff's review of the Utility's billing determinants and the service rates in effect as of June 5, 2020, staff determined test year service revenues should be \$67,846 for water and \$56,474 for wastewater. This results in test year revenue increases of \$971 ($\$67,846 - \$66,875$) for water and \$1,453 ($\$56,474 - \$55,021$) for wastewater.

Staff also made adjustments to the miscellaneous revenues for water and wastewater. Staff decreased Lake Yale's water miscellaneous revenues by \$800 to remove water and wastewater service availability charges that were erroneously reflected in miscellaneous revenues. This results in miscellaneous revenues of \$1,231 ($\$2,031 - \800). The Utility recorded all miscellaneous revenues to the water system. When both water and wastewater services are provided, only a single miscellaneous service charge is appropriate. Since the customers are the same for both water and wastewater, staff allocated the miscellaneous revenues equally between the two systems. Therefore, staff determined miscellaneous revenues to be \$615 for the water system and \$616 for the wastewater system.

Based on the above, the appropriate test year revenues for Lake Yale are \$68,461 ($\$67,846 + \615) for water and \$57,090 ($\$56,474 + \616) for wastewater.

Issue 8: What are the appropriate amounts of operating expenses for Lake Yale Utility?

Recommendation: The appropriate amounts of operating expenses are \$81,646 for water and \$90,079 for wastewater. (Richards, P. Buys)

Staff Analysis: The Utility recorded operating expense of \$79,501 for water and \$81,871 for wastewater. The test year O&M expenses have been reviewed by staff, including invoices and other supporting documentation. Staff has made several adjustments to the Utility's operating expenses as discussed below.

Operation and Maintenance Expense

Previously, the Commission approved common O&M expenses be shared by all utilities operating under the parent company, FUS1.¹⁸ O&M common costs are allocated among all of the utilities in the FUS1 system based on each utility's number of customers relative to the total number of customers receiving service under FUS1. Based on the number of customers for Lake Yale, the allocation of FUS1 common costs for this Utility is 12 percent. Those costs are then split evenly between Lake Yale's water and wastewater systems, resulting in an allocation of 6 percent for water and 6 percent for wastewater.

Salaries and Wages – Employees (601 / 701)

The Utility recorded salaries and wages expense for employees of \$21,682 for water and \$21,682 for wastewater. Staff increased this amount by \$4,443 for both water and wastewater to reflect the Utility's allocated portion of a \$74,046 increase approved in Docket No. 20200152-WS.¹⁹ This amount included salary increases for eight positions and the addition of one new Compliance Technician position. Therefore, staff's recommendation for salaries and wages expense for the test year is \$26,125 (\$21,682 + \$4,443) for water and \$26,125 (\$21,682 + \$4,443) for wastewater.

Salaries and Wages – Officers and Directors (603 / 703)

The Utility recorded salaries and wages expense for officers and directors of \$4,800 for both water and wastewater. Staff made no adjustments to salaries and wages for officers and directors. Therefore, staff recommends salaries and wages expense for officers and directors of \$4,800 for water and \$4,800 for wastewater.

Employees' Pension and Benefits (604 / 704)

The Utility recorded employee pension and benefits of \$1,080 for both water and wastewater. Staff made no adjustment to employee pension and benefits. Therefore, staff recommends employee pension and benefits of \$1,080 for water and \$1,080 for wastewater.

¹⁸Order No. PSC-2019-0503-PAA-SU, issued November 25, 2019, in Docket No. 20180202-SU, *In re: Application for staff-assisted rate case in Polk County by West Lakeland Wastewater, LLC.*

¹⁹Order No. PSC-2020-0396-PAA-WS, issued on October 22, 2020, in Docket No. 20200152-WS, *In re: Application for a limited alternative rate increase proceeding in Polk and Marion Counties, by Alturas Water, LLC. Sunrise Water, LLC. Pinecrest Utilities, LLC. and East Marion Utilities, LLC.*

Sludge Removal Expense (711)

The Utility recorded sludge removal expense of \$4,686 for wastewater. Staff made no adjustments, and therefore recommends sludge removal expense of \$4,686 for wastewater.

Purchased Power (615 / 715)

The Utility recorded purchased power expense of \$3,355 for water and \$7,095 for wastewater. Staff increased purchased power for water by \$152 to reflect the actual amount spent during the test year, less any reimbursements. Additionally, staff increased purchased power for wastewater by \$1,304 to reflect an increase in energy usage due to the installation of a second pump for the lift station. Therefore, staff recommends purchased power expense of \$3,507 (\$3,355 + \$152) for water and \$8,399 (\$7,095 + \$1,304) for wastewater.

Chemicals (618 / 718)

The Utility recorded chemicals expense of \$3,892 for water and \$2,594 for wastewater. Staff reviewed the Utility's chemicals expense during the test year and found that the Utility purchased an average of \$541 in chemicals per month. However, during October of the test year, the Utility purchased \$857 in chemicals. In response to staff's second data request, the Utility indicated that the increase in purchased chemicals for the month of October was at the request of the plant operator.²⁰ The Utility also confirmed with staff that the monthly chemicals expense is typically not that high. Staff believes October was an anomaly, and is recommending an adjustment of \$268 to chemicals. This adjustment reduces the chemicals expense for October 2019 from \$857 to \$590. Staff reduced the chemicals expense for this month to \$590, to reflect the second highest monthly chemicals expense (December 2019) recorded during the test year, to account for a portion of the increase, and normalize the anomaly in the chemicals O&M expense recommended for the Utility on a prospective basis. Because chemicals expense is allocated 60 percent to water and 40 percent to wastewater, staff recommends reducing chemicals expense by \$161 (\$267 x 60 percent) for water and \$107 (\$267 x 40 percent) for wastewater. Therefore, staff recommends chemicals expense of \$3,731 (\$3,892 - \$161) for water and \$2,487 (\$2,594 - \$107) for wastewater.

Materials and Supplies (620 / 720)

The Utility recorded materials and supplies expense of \$5,794 for water and \$2,683 for wastewater. Staff decreased materials and supplies expense by \$2,577 for water and \$527 for wastewater to reclassify and capitalize to Accounts 304 and 354, the costs to repair the fences around the water plant and wastewater plant that had been destroyed in a storm.

In June 2019, the Utility entered into a service contract with Aquatic Systems Inc. to perform weed and grass management around three ponds located at Lake Yale Utilities. Due to weed and grass management now being handled by Aquatic Systems, Inc., staff removed \$39 from both water and wastewater, which the Utility incurred prior to entering the contract as "spray for ponds."

Further, staff reduced materials and supplies by \$864 for water and \$402 for wastewater to reflect the five-year amortization of certain non-recurring expenses. In total, staff reduced materials and supplies for water by \$3,480 (\$2,577 + \$39 + \$864) and \$968 (\$527 + \$39 + \$402)

²⁰Document No. 11735-2020, filed on November 4, 2020.

for wastewater. Therefore, staff recommends materials and supplies expense of \$2,314 (\$5,794 - \$3,480) for water and \$1,715 (\$2,683 - \$968) for wastewater.

Contractual Services – Professional (631 / 731)

The Utility recorded contractual services – professional expense of \$1,256 for water and \$835 for wastewater. Staff made no adjustments, and therefore recommends contractual services – professional expense of \$1,256 for water and \$835 for wastewater.

Contractual Services – Testing (635 / 735)

The Utility recorded contractual services – testing expense of \$3,493 for water and \$3,180 for wastewater. Audit staff made an adjustment reducing contractual services – testing for wastewater by \$15 because an invoice was overstated in the general ledger. Additionally, the Utility incorrectly recorded \$195 for sewer phosphorus analysis in February 2019, when the actual cost was \$90.²¹ Staff made an adjustment decreasing contractual services – testing for wastewater of \$105 (\$195 - \$90) to reflect the correct cost of the phosphorus analysis. Staff made no adjustments for water. Therefore, staff recommends contractual services – testing expense of \$3,493 for water and \$3,060 (\$3,180 - \$15 - \$105) for wastewater.

Contractual Services – Other (636 / 736)

The Utility recorded contractual services – other expense of \$6,511 for water and \$5,583 for wastewater. Staff increased this amount by \$80 for both water and wastewater to reflect the allocated portion of replacing an air conditioning system at FUS1's New Port Richey office. The total cost for the system was \$6,650. The Commission approved the expense of the air conditioning system in Docket No. 20200152-WS, and determined that the cost should be amortized over five years.²² As such, staff increased contractual services – other for all FUS1 systems by \$1,330 ($\$6,650 \div 5$ years). The allocated portion attributable to Lake Yale is \$80 each for water and wastewater.

During January and February of the test year, the Utility recorded a water operations expense of \$377.50 each month. Beginning in March, the amount recorded was \$385, reflecting an increase of \$7.50 for monthly plant inspections. Staff increased contractual services – other expense for water by \$15 to capture the on-going increase in water operations.

After converting the well at Lake Yale from gas chlorine to liquid chlorine, the Utility was required by DEP to obtain permits for doing so. In response to staff's first data request, the Utility provided an invoice dated June 18, 2019, from Florida Rural Water Association for \$500 to obtain the permit and final certification packages for the conversion.²³ In addition to the \$500 for the permit, the Utility provided an invoice dated July 23, 2018, in the amount of \$431 for the necessary map to be drawn. As these are non-recurring expenses, staff has amortized both costs over five years. Therefore, staff recommends an increase in contractual services – other of \$100 ($\$500 \div 5$ years) to water for the permits and \$86 ($\$431 \div 5$ years) to water for the maps.

²¹Document No. 11735-2020, filed on November 4, 2020.

²²Order No. PSC-2020-0396-PAA-WS, issued October 22, 2020, in Docket No. 20200152-WS, *In re: Application for a limited alternative rate increase proceeding in Polk and Marion Counties, by Alturas Water, LLC. Sunrise Water, LLC. Pinecrest Utilities, LLC. and East Marion Utilities, LLC.*

²³Document No. 05043-2020, filed on August 25, 2020.

The Utility contracts with Aquatic Services, Inc. which provides algae and aquatic weed management, shoreline grass management to the water’s edge, and management reporting for Lake Yale’s wastewater treatment plant rapid infiltration basins (RIBs). The Utility entered into this contract beginning June 1, 2019, at a rate of \$122 per month, which totaled \$854 (\$122 x 7 months). Beginning January 1, 2020, the monthly rate for the contract increased to \$126 per month, which totals \$1,512 (\$126 x 12) annually. As the services provided by Aquatic Services, Inc., help the Utility manage the vegetation at the RIBs, staff believes the necessity and cost of the contract are appropriate. Therefore, staff increased contractual services – other for wastewater by \$658 (\$1,512 - \$854) to reflect a twelve-month period at the increased contract price.

As described above and summarized in Table 8-1 below, staff’s adjustments to contractual services – other result in an increase of \$281 (\$80 + \$15 + \$100 + \$86) for water and an increase of \$738 (\$80 + \$658) for wastewater. Therefore, staff recommends contractual services – other expense of \$6,791 (\$6,511 + \$281) for water and \$6,320 (\$5,583 + \$738) for wastewater.

Table 8-1
Adjustments to Contractual Services - Other

Adjustment	Water	Wastewater
Allocated portion of air conditioning unit.	\$80	\$80
Increase in water operations.	\$15	\$0
Five-year amortization of well conversion permits.	\$100	\$0
Five-year amortization of map for permits.	\$86	\$0
Increase in monthly pond maintenance contract.	\$0	\$658
Total increase for Contractual Services - Other	\$281	\$738

Source: Utility response to staff data requests.

Rents (640 / 740)

The Utility recorded rent expense of \$1,944 for both water and wastewater. Staff made no adjustment to rent expense. Therefore, staff recommends rent expense of \$1,944 for water and \$1,944 for wastewater.

Transportation Expense (650 / 750)

The Utility recorded transportation expense of \$2,313 for both water and wastewater. Staff made no adjustment to transportation expense. Therefore, staff recommends transportation expense of \$2,313 for water and \$2,313 for wastewater.

Insurance Expense (655 / 755)

The Utility recorded insurance expense of \$3,082 for water and \$3,082 for wastewater. Staff increased insurance expense by \$428 for both water and wastewater to reflect the allocated portion of a \$7,130 increase approved by the Commission in Docket No. 20200152-WS.²⁴ This increase covers auto insurance based on the premium for the policy period November 2019 through November 2020, as reflected in support documentation in that docket. The amount also

²⁴Order No. PSC-2020-0396-PAA-WS, issued October 22, 2020, in Docket No. 20200152-WS, *In re: Application for a limited alternative rate increase proceeding in Polk and Marion Counties, by Alturas Water, LLC. Sunrise Water, LLC. Pinecrest Utilities, LLC. and East Marion Utilities, LLC.*

includes a \$200 increase for workman's compensation insurance for November 2019 to November 2020.

During the test year, the Utility was covered under a commercial insurance policy through Philadelphia Indemnity, which was recorded to water in the amount of \$1,921 and wastewater in the amount of \$1,921. Effective October 23, 2020, the cost of that policy was reduced to \$1,882 for each system.²⁵ Staff decreased insurance expense by \$39 (\$1,921 - \$1,882) for both water and wastewater to reflect the reduction in price. Therefore, staff recommends an insurance expense of \$3,471 (\$3,082 + \$428 - \$39) for water and \$3,471 (\$3,082 + \$428 - \$39) for wastewater.

Regulatory Commission Expense (665 / 765)

Lake Yale recorded regulatory commission expense of \$843 for both water and wastewater, to reflect the four-year amortization of regulatory commission expense incurred as part of the 2018 transfer.²⁶ Staff believes that the amounts should be included in the instant docket since they have not been recovered in rates to date. The Utility did not record any additional rate case expense.

Regarding the instant case, the Utility is required by Rule 25-22.0407, F.A.C., to mail notices of the rate case overview, the interim rates as approved by Order No. PSC-2020-0310-PCO-WS, final rates, and four-year rate reduction. Staff calculated noticing costs to be \$1,016, which should be split evenly between water and wastewater. Staff did not include any travel expense, as the customer meeting was held remotely, and the Commission Conference is currently scheduled to be held remotely. Additionally, the Utility paid a \$1,000 filing fee for water and a \$500 filing fee for wastewater.²⁷ Staff recommends noticing costs and filing fee for water of \$1,508 (\$508 + \$1,000), which amortized over four years is \$377 ($\$1,508 \div 4$ years). Additionally, staff recommends noticing costs and filing fee for wastewater of \$1,008 (\$508 + \$500), which amortized over four years is \$252 ($\$1,008 \div 4$ years). Therefore, staff recommends regulatory commission expense of \$1,220 (\$843 + \$377) for water and \$1,095 (\$843 + \$252) for wastewater.

Bad Debt Expense (670 / 770)

The Utility recorded bad debt expense of \$391 for water and \$0 for wastewater. In response to staff's second data request, the Utility updated the bad debt expense for 2018, 2019, and 2020 as detailed in Table 8-2.²⁸ Bad debt expense for 2020 was further clarified by the Utility in response to staff's fourth data request.²⁹ It is Commission practice to calculate bad debt expense using a three-year average, which staff calculated as \$94 for water and \$94 for wastewater. Using the three-year average, staff decreased bad debt expense for water by \$297 (\$391 - \$94), and

²⁵Document No. 11185-2020, filed on October 14, 2020.

²⁶Order No. PSC-2018-0554-PAA-WS, issued November 20, 2018, in Docket No. 20170220-WS, *In re: Application for approval of transfer of Lake Yale Treatments Associates, Inc. water and wastewater systems and Certificate Nos. 560-W and 488-S in Lake County to Lake Yale Utilities, LLC.*

²⁷Document No. 04296-2020, filed on August 7, 2020.

²⁸Document No. 11552-2020, filed on October 27, 2020.

²⁹Document No. 00470-2021, filed on January 5, 2021.

increased bad debt expense for wastewater by \$94. Therefore, staff recommends bad debt expense of \$94 (\$391 - \$297) for water and \$94 for wastewater.

Table 8-2
Three-year Average Bad Debt Expense

Year	Water	Wastewater
2018	\$70	\$70
2019	\$196	\$196
2020	\$14	\$14
3-Year Avg	\$94	\$94

Source: Utility response to staff data requests

Miscellaneous Expense (675 / 775)

The Utility recorded miscellaneous expense of \$3,935 for water and \$3,899 for wastewater. Staff made no adjustments, and therefore recommends miscellaneous expense of \$3,935 for water and \$3,899 for wastewater.

Operation and Maintenance Expense Summary

The Utility recorded O&M expenses of \$64,371 for water and \$66,299 for wastewater for the test year. Based on the above adjustments, staff recommends that the O&M expense balance be increased by \$1,703 and \$6,024 for water and wastewater, respectively. This increase results in a total O&M expense of \$66,074 (\$64,371 + \$1,703) for water and \$72,323 (\$66,299 + 6,024) for wastewater.

Depreciation Expense

The Utility recorded depreciation expense of \$11,530 for water and \$13,045 for wastewater. Using the prescribed rates set forth in Rule 25-30.140, F.A.C., staff increased depreciation expense for both water and wastewater by \$879 to reflect depreciation on the allocated portion of vehicles owned by FUS1 used by the Utility. Staff further increased depreciation expense by \$95 for water and \$53 for wastewater to reflect the depreciation in the fence repairs to the water and wastewater plants. Additionally, staff increased depreciation expense by \$328 for water and \$383 for wastewater to reflect pro forma additions. In total, staff increased depreciation expense for water by \$1,302 (\$879 + \$95 + \$328) for water and \$1,315 (\$879 + \$53 + \$383) for wastewater. Therefore, staff recommends depreciation expense of \$12,832 (\$11,530 + \$1,302) for water and \$14,360 (\$13,045 + \$1,315) for wastewater.

Amortization Expense

The Utility recorded amortization expense of \$2,056 for water and \$2,504 for wastewater. As a result of the staff audit, increases of \$1,801 and \$1,097 were made to water and wastewater amortization expense, respectively. Additionally, staff increased both water and wastewater by \$16 to reflect the CIAC adjustments previously discussed in Issue 4. Therefore, staff recommends an amortization expense of \$3,873 (\$2,056 + \$1,801 + \$16) for water and \$3,617 (\$2,504 + \$1,097 + \$16) for wastewater.

Taxes Other Than Income (TOTI)

The Utility recorded TOTI of \$5,657 for water and \$5,032 for wastewater. As a result of the staff audit, an adjustment was made to decrease the water amount by \$25 and increase the wastewater

amount by \$21. Staff further decreased TOTI by \$14 for water and increased TOTI by \$53 for wastewater to reflect the appropriate Regulatory Assessment Fees (RAFs) based on corrected Utility test year revenues. Additionally, staff increased TOTI by \$35 for water and \$7 for wastewater to reflect the appropriate property taxes on the new fences surrounding the water and wastewater plants. Staff also increased TOTI by \$7 for water and \$26 for wastewater to reflect the appropriate taxes associated with pro forma plant additions. These adjustments by staff total an increase in TOTI of \$3 ($\$35 + \$7 - \$25 - \14) for water and an increase in TOTI of \$107 ($\$7 + \$26 + \$21 + \53) for wastewater.

As discussed in Issue 7, revenues have been increased by \$21,199 for water and \$41,668 for wastewater to reflect the change in revenue required to cover expenses and allow an opportunity to earn the recommended rate of return for water, and allow an opportunity to recover the operating margin on wastewater. As a result, TOTI should be increased by \$954 for water and \$1,875 for wastewater to reflect RAFs of 4.5 percent of the change in revenues. Therefore, staff recommends TOTI of \$6,614 ($\$5,657 + \$3 + \954) for water and \$7,014 ($\$5,032 + \$107 + \$1,875$) for wastewater.

Income Taxes

Lake Yale is a sole proprietorship, and therefore did not record any income tax expense for the test year. As such, staff recommends no adjustment to income tax expense.

Operating Expenses Summary

The Utility recorded operating expenses of \$79,501 for water and \$81,871 for wastewater. The application of staff's recommended adjustments to the Utility's test year operating expenses result in a total operating expense of \$81,646 for water and \$90,079 for wastewater. Operating expenses are shown on Schedule Nos. 3-A and 3-B for water and wastewater. The related adjustments are shown on Schedule No. 3-C.

Issue 9: Does Lake Yale meet the criteria for the application of the Operating Ratio Methodology?

Recommendation: Yes. Lake Yale meets the requirement for application of the Operating Ratio methodology for calculating the wastewater revenue requirement. The margin should be 12 percent of wastewater O&M expenses. (D. 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 expense, if any, must be removed from O&M expenses prior to calculating the margin of 12 percent.

As discussed in Issues 4 and 8, staff has recommended a rate base of \$117,040 for water and \$34,494 for wastewater, and O&M expense of \$66,073 for water and \$72,322 for wastewater. Based on the recommended amounts, Lake Yale's water rate base exceeds 125 percent of O&M expense, and as a result does not qualify for the Operating Ratio methodology. Wastewater rate base on the other hand is only 47.69 percent of its O&M expense. In addition, the application of the operating ratio methodology does not change the wastewater system's qualification for a SARC. As such, Lake Yale's wastewater system 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 wastewater revenue requirement.

Issue 10: What are the appropriate revenue requirements for Lake Yale?

Recommendation: The appropriate revenue requirements are \$89,660 and \$99,758 for water and wastewater, respectively. These revenue requirements result in annual increases of \$21,199 (30.97 percent) for water and \$41,668 (72.99 percent) for wastewater. (D. Brown)

Staff Analysis: Lake Yale should be allowed annual increases of \$21,199 (30.97 percent) for water and \$41,668 (72.99 percent) for wastewater. This should allow the Utility the opportunity to recover its expenses and earn a 6.85 percent return on its water system investment and a 12.00 percent margin on wastewater O&M. The calculations for water and wastewater are shown in Tables 10-1 and 10-2, respectively:

**Table 10-1
Water Revenue Requirement**

Rate Base	\$117,040
Rate of Return (%)	<u>x 6.85%</u>
Return on Rate Base	\$8,014
O&M Expense	66,073
Depreciation Expense (Net)	8,959
Taxes Other Than Income	<u>6,614</u>
Revenue Requirement	<u>\$89,660</u>
Less Adjusted Test Year Revenues	<u>68,461</u>
Annual Increase	<u>\$21,199</u>
Percent Increase	<u>30.97%</u>

Table 10-2
Wastewater Revenue Requirement

O&M Expense	\$72,322
Operating Margin (%)	<u>x 12.00%</u>
Operating Margin	\$8,679
O&M Expense	72,322
Depreciation Expense (Net)	10,743
Taxes Other Than Income	<u>7,014</u>
Revenue Requirement	<u>\$98,758</u>
Less Adjusted Test Year Revenues	<u>57,090</u>
Annual Increase	<u>\$41,668</u>
Percent Increase	<u>72.99%</u>

Issue 11: What are the appropriate rate structures and rates for Lake Yale?

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

Staff Analysis:

Water Rates

Lake Yale is located in Lake County within the Southwest Florida Water Management District. The Utility provides water service to approximately 298 residential customers of which 88 customers have separate meters for residential irrigation. In addition, Lake Yale has one general service customer. Approximately 44 percent of the residential customer bills during the test year had 1,000 gallons or less, indicating a seasonal customer base. The average residential water demand is 2,279 gallons per month. The average water demand for customer bills greater than 1,000 gallons is 3,947 gallons per month. Currently, the Utility's water rate structure consists of a monthly base facility charge (BFC) and uniform gallonage charge for the residential and general service customers.

Staff performed an analysis of the Utility's billing data in order to evaluate the appropriate rate structure 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; (3) establish the appropriate non-discretionary usage threshold for restricting repression; and (4) implement, where appropriate, water conserving rate structures consistent with Commission practice.

Since the customer base is seasonal coupled with low average consumption, staff recommends that 55 percent of the water revenues be generated from the BFC, which will provide revenue stability and sufficient revenues to design gallonage charges that send pricing signals to customers using above the non-discretionary level. The average people per household served by the water system is 3; 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 5,000 gallons per month.³⁰ Staff recommends a BFC and a two-tier inclining block rate structure, which includes separate gallonage charges for non-discretionary and discretionary usage for residential water customers. The rate blocks are: (1) 0-5,000 gallons and (2) all usage in excess of 5,000 gallons per month. This rate structure sends the appropriate pricing signals because it targets customers with high consumption levels and minimizes price increases for customers at non-discretionary levels. In addition, the second tier provides an additional pricing signal to customers using in excess of 5,000 gallons of water per month, which includes

³⁰Average person per household was obtained from www.census.gov/quickfacts/lakecountyflorida.

approximately 23 percent of the water demand. General service customers should be billed a BFC and uniform gallonage charge.

Based on the customer billing data provided by the Utility, approximately 23 percent of total residential consumption is discretionary and subject to the effects of repression. Customers will typically reduce their discretionary consumption in response to a price increase, while non-discretionary consumption remains relatively unresponsive. Based on a recommended revenue increase of 31.2 percent for water, which excludes miscellaneous revenues, the residential consumption can be expected to decline by 831,000 gallons resulting in anticipated average residential demand of 2,099 gallons per month. Staff recommends a 7.9 percent reduction in test year residential gallons for rate setting purposes and corresponding reductions of \$276 for purchased power, \$294 for chemicals, and \$27 for RAFs to reflect the anticipated repression, which results in a post-repression revenue requirement of \$88,448.

Wastewater Rates

The Utility provides wastewater service to 298 residential customers and 1 general service customer. Currently, the residential wastewater rate structure consists of a uniform BFC for all meter sizes and a gallonage charge with a 10,000 gallonage cap. The general service rate structure consists of a uniform BFC for all meter sizes and a gallonage charge that is 1.2 times higher than 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) 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.³¹ Lake Yale's current residential wastewater cap is 10,000 gallons per month. It is Commission practice to set the wastewater cap at approximately 80 percent of residential water gallons sold, which typically results in gallonage caps of 6,000, 8,000, or 10,000.

The wastewater gallonage cap recognizes that not all water used by the residential customers is returned to the wastewater system. However, due to the seasonality and low average consumption of the Utility's customer base, 80 percent of the total water sold is captured at 3,000 gallons, which is lower than gallonage caps typically approved for wastewater. Although staff typically bases its recommended residential wastewater cap on 80 percent of the total water sold, in this case, it would yield an exceptionally low residential wastewater cap. In addition, staff believes that lowering the gallonage cap below 6,000 gallons would have an adverse effect on the residential gallonage charge and resulting customer bills. Further, since the utility has a separate irrigation meter, a higher percentage of usage measured by its primary meter is returning to the wastewater system. Therefore, staff believes that 6,000 gallons per month is a reasonable residential wastewater cap. Additionally, staff recommends that the general service

³¹Order No. PSC-2020-0119-PAA-WS, issued April 20, 2020, in Docket No. 20190113-WS, *Application for staff-assisted rate case in Manatee County by Heather Hills Utilities, LLC*.

gallage charge be 1.2 times greater than the residential gallage charge which is consistent with Commission practice.

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. However, in this instance, the water demand between 0 and 6,000 gallons, with 5,000 gallons being the non-discretionary usage, includes a significant amount of irrigation usage, which is measured through a separate water meter. This irrigation usage does not return to the wastewater system and is not used as billing determinants to calculate wastewater rates. As a result of the Utility's low average water consumption and the irrigation usage, the repression adjustment in this case would be de minimis. Therefore, staff recommends no repression adjustment for wastewater.

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 this notice.

Issue 12: What are the appropriate initial customer deposits for Lake Yale's water and wastewater systems?

Recommendation: The appropriate initial customer deposits for the residential 5/8 inch x 3/4 inch meter size should be \$37 for water and \$61 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. 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. (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. Currently, the Utility's initial customer deposit for the 5/8 inch x 3/4 inch meter size is \$28 for water and \$33 for wastewater. For the general service meter sizes, initial customer deposits are two times the average estimated bill. However, these amounts do not cover two months' average bills based on staff's recommended rates. The Utility's anticipated post-repression average monthly residential usage is 2,099 gallons per customer. Therefore, the average residential monthly bill is approximately \$18.46 for water and \$30.67 for wastewater service based on the staff's recommended rates.

Staff recommends the appropriate initial customer deposits for the residential 5/8 inch x 3/4 inch meter size should be \$37 for water and \$61 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. 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.

Issue 13: Should Lake Yale be authorized to collect Non-Sufficient Funds (NSF) charges?

Recommendation: Yes. Lake Yale should be authorized to collect NSF charges. Staff recommends that Lake Yale revise its tariffs to reflect the NSF charges currently set forth in Section 68.065, F.S. The NSF charges should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. Furthermore, the charges should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given within 10 days of the date of the notice. (Sibley)

Staff Analysis: Section 367.091, F.S., requires that rates, charges, and customer service policies be approved by the Commission. The Commission has authority to establish, increase, or change a rate or charge. Staff believes that Lake Yale should be authorized to collect NSF charges consistent with Section 68.065, F.S., which allows for the assessment of charges for the collection of worthless checks, drafts, or orders of payment. As currently set forth in Section 68.065(2), F.S., the following NSF charges may be assessed:

1. \$25, if the face value does not exceed \$50.
2. \$30, if the face value exceeds \$50 but does not exceed \$300.
3. \$40, if the face value exceeds \$300, or 5 percent of the face amount of the check, whichever is greater.

Approval of NSF charges is consistent with prior Commission decisions.³² Furthermore, NSF charges place the cost on the cost-causer, rather than requiring that the costs associated with the return of the NSF checks be spread across the general body of ratepayers. As such, staff recommends that Lake Yale revise its tariffs to reflect the NSF charges currently set forth in Section 68.065, F.S. The NSF charges should be effective after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the NSF charges should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given within 10 days of the date of the notice.

³²Order Nos. PSC-202-0402-PAA-WU, issued October 26, 2020, in Docket No. 20200155-WU, *In re: Application for certificate to operate water utility in Okaloosa County and application for pass through increase of regulatory assessment fees, by Okaloosa Waterworks, Inc.*; and PSC-2020-0086-PAA-WU, issued in Docket No. 20190114-WU, *In re: Application for staff-assisted rate case in Alachua County, and request for interim rate increase by Gator Waterworks, Inc.*

Issue 14: 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?

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. Lake Yale 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, the Utility shall file separate data for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Sibley, D. Brown) (Procedural Agency Action)

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 reductions are \$395 for water and \$264 for wastewater.

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. Lake Yale 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, the Utility shall file separate data for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Issue 15: Should the recommended rates be approved for Lake Yale on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility?

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

Staff Analysis: This recommendation proposes an increase in rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the utility, staff recommends that the recommended rates be approved as temporary rates. Lake Yale 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.

Lake Yale 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 \$14,141 for water and \$27,795 for wastewater. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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

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

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

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

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

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

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

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

Issue 16: Should the Utility be required to notify the Commission in writing that it has adjusted its books in accordance with the Commission's decision?

Recommendation: Yes. Lake Yale should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Lake Yale 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 and Utility Commissioners Uniform System of Accounts (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 not less than seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. (D. Brown) (Procedural Agency Action)

Staff Analysis: Lake Yale should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Lake Yale 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 not less than seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days.

Issue 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. 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 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. Once these actions are complete, this docket should be closed administratively.

LAKE YALE UTILITIES, LLC. TEST YEAR ENDED 12/31/2019 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 20200169-WS		
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJ.	BALANCE PER STAFF	
1. UTILITY PLANT IN SERVICE	\$396,485	\$6,030	\$402,515	
2. LAND & LAND RIGHTS	0	0	0	
3. ACCUMULATED DEPRECIATION	(279,366)	8,854	(270,512)	
4. CIAC	(132,607)	(188)	(132,795)	
5. ACCUMULATED AMORTIZATION OF CIAC	111,539	(1,919)	109,620	
6. ACQUISITION ADJUSTMENT	0	0	0	
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>8,212</u>	<u>8,212</u>	
8. WATER RATE BASE	<u>\$96,051</u>	<u>\$20,989</u>	<u>\$117,040</u>	

LAKE YALE UTILITIES, LLC. TEST YEAR ENDED 12/31/2019 SCHEDULE OF WASTEWATER RATE BASE		SCHEDULE NO. 1-B DOCKET NO. 20200169-WS		
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJ.	BALANCE PER STAFF	
1. UTILITY PLANT IN SERVICE	\$438,790	\$9,827	\$448,617	
2. LAND & LAND RIGHTS	0	0	0	
3. ACCUMULATED DEPRECIATION	(409,804)	13,215	(396,589)	
4. CIAC	(121,125)	(213)	(121,338)	
5. ACCUMULATED AMORTIZATION OF CIAC	96,300	(1,506)	94,794	
6. ACQUISITION ADJUSTMENT	0	0	0	
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>9,009</u>	<u>9,009</u>	
8. WASTEWATER RATE BASE	<u>\$4,161</u>	<u>\$30,333</u>	<u>\$34,494</u>	

LAKE YALE UTILITIES, LLC.		SCHEDULE NO. 1-C	
TEST YEAR ENDED 12/31/2019		DOCKET NO. 20200169-WS	
ADJUSTMENTS TO RATE BASE			
	<u>WATER</u>	<u>WASTEWATER</u>	
<u>UTILITY PLANT IN SERVICE</u>			
1.	To reflect allocated amount for vehicles.	\$5,274	\$5,274
2.	To reflect fence repairs.	2,577	527
3.	To reflect an averaging adjustment.	(4,206)	236
4.	To reflect pro forma addition.	3,934	9,553
5.	To reflect pro forma retirement.	<u>(1,549)</u>	<u>(5,763)</u>
	Total	<u>\$6,030</u>	<u>\$9,827</u>
<u>ACCUMULATED DEPRECIATION</u>			
1.	To reflect an auditing adjustment.	\$3,430	\$4,538
2.	To reflect allocated amount for vehicles.	(1,656)	(1,656)
3.	To reflect fence repairs.	(95)	(53)
4.	To reflect an averaging adjustment.	5,954	5,006
5.	To reflect pro forma adjustments.	<u>1,221</u>	<u>5,380</u>
	Total	<u>\$8,854</u>	<u>\$13,215</u>
<u>CIAC</u>			
1.	To reflect meter installation.	(\$125)	\$0
2.	To reflect plant capacity charge.	(250)	(425)
3.	To reflect an averaging adjustment.	188	213
	Total	<u>(\$188)</u>	<u>(\$213)</u>
<u>ACCUMULATED AMORTIZATION CIAC</u>			
1.	To reflect meter installation.	\$7	\$0
2.	To reflect plant capacity charge.	9	16
3.	To reflect an averaging adjustment.	<u>(1,936)</u>	<u>(1,522)</u>
	Total	<u>(\$1,919)</u>	<u>(\$1,506)</u>
<u>WORKING CAPITAL ALLOWANCE</u>			
	To reflect 1/8 test year O&M expenses.	<u>\$8,212</u>	<u>\$9,009</u>

LAKE YALE UTILITIES, LLC. TEST YEAR ENDED 12/31/2019 SCHEDULE OF CAPITAL STRUCTURE					SCHEDULE NO. 2 DOCKET NO. 20200169-WS		
CAPITAL COMPONENT	BALANCE PER UTILITY	PRO RATA ADJUST- MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST	
1. LONG-TERM DEBT	\$135,124	(\$12,366)	\$122,758	81.01%	5.98%	4.85%	
2. SHORT-TERM DEBT	0	0	0	00.00%	0.00%	0.00%	
3. COMMON EQUITY	31,619	(2,894)	28,725	18.96%	10.55%	2.00%	
4. CUSTOMER DEPOSITS	50	0	50	0.03%	2.00%	0.00%	
5. DEFERRED INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>	
TOTAL CAPITAL	<u>\$166,793</u>	<u>(\$15,260)</u>	<u>\$151,533</u>	<u>100.00%</u>		<u>6.85%</u>	
<u>RANGE OF REASONABLENESS</u>					<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY					<u>9.55%</u>	<u>11.55%</u>	
OVERALL RATE OF RETURN					<u>6.66%</u>	<u>7.04%</u>	

LAKE YALE UTILITIES, LLC. TEST YEAR ENDED 12/31/2019 SCHEDULE OF WATER OPERATING INCOME		SCHEDULE NO. 3-A DOCKET NO. 20200169-WS			
	TEST YEAR PER UTILITY	STAFF ADJUST- MENTS	STAFF ADJ TEST YR	ADJ FOR INC.	REV REQ.
1. TOTAL OPERATING REVENUES	<u>\$68,906</u>	<u>(\$445)</u>	<u>\$68,461</u>	<u>\$21,192</u> 30.97%	<u>\$89,660</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$64,371	\$1,703	\$66,073	\$0	\$66,073
3. DEPRECIATION (NET)	11,530	1,302	12,832	0	12,832
4. AMORTIZATION	(2,056)	(1,817)	(3,873)	0	(3,873)
5. TAXES OTHER THAN INCOME	5,657	3	5,660	954	6,614
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>\$79,501</u>	<u>\$1,191</u>	<u>\$80,692</u>	<u>\$954</u>	<u>\$81,646</u>
7. OPERATING INCOME / LOSS	<u>(\$10,595)</u>		<u>(\$12,231)</u>		<u>\$8,014</u>
8. WATER RATE BASE	<u>\$96,051</u>		<u>\$20,989</u>		<u>\$117,040</u>
9. RATE OF RETURN					<u>6.85%</u>

LAKE YALE UTILITIES, LLC. TEST YEAR ENDED 12/31/2019 SCHEDULE OF WASTEWATER OPERATING INCOME		SCHEDULE NO. 3-B DOCKET NO. 20200169-WS			
	TEST YEAR PER UTILITY	STAFF ADJUST- MENTS	STAFF ADJ TEST YR	ADJ FOR INC.	REV REQ.
1. TOTAL OPERATING REVENUES	<u>\$55,021</u>	<u>\$2,069</u>	<u>\$57,090</u>	<u>\$41,668</u> 72.99%	<u>\$98,758</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$66,299	\$6,024	\$72,322	\$0	\$72,322
3. DEPRECIATION (NET)	13,045	1,315	14,360	0	14,360
4. AMORTIZATION	(2,504)	(1,113)	(3,617)	0	(3,617)
5. TAXES OTHER THAN INCOME	5,032	107	5,139	1,875	7,014
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>\$81,871</u>	<u>\$6,333</u>	<u>\$88,204</u>	<u>\$1,875</u>	<u>\$90,079</u>
7. OPERATING INCOME / LOSS	<u>(\$26,850)</u>		<u>(\$31,114)</u>		<u>\$8,679</u>
8. WASTEWATER RATE BASE	<u>\$4,161</u>		<u>\$30,333</u>		<u>\$34,494</u>
9. OPERATING MARGIN					<u>12.00%</u>

LAKE YALE UTILITIES, LLC.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 12/31/2019		DOCKET NO. 20200169-WS	
ADJUSTMENTS TO OPERATING INCOME		PAGE 1 OF 2	
		<u>WATER</u>	<u>WASTEWATER</u>
OPERATING REVENUES			
1.	To reflect an auditing adjustment to Service Revenues.	(\$132)	\$893
2.	To reflect the appropriate test year Service Revenues.	1,103	560
3.	To reflect the appropriate test year Miscellaneous Revenues.	<u>(1,416)</u>	<u>616</u>
	Total	<u>(\$445)</u>	<u>\$2,069</u>
OPERATION AND MAINTENANCE EXPENSE			
1.	Salaries and Wages – Employees (601 / 701) To reflect pro forma increase per Docket No. 20200152-WS	<u>\$4,443</u>	<u>\$4,443</u>
2.	Purchased Power (615 / 715)		
	a. To reflect actual amount spent less reimbursement.	\$152	\$0
	b. To reflect an increase in energy usage.	<u>0</u>	<u>1,304</u>
	Subtotal	<u>\$152</u>	<u>\$1,304</u>
3.	Chemicals Expense (618 / 718) To reflect actual amount spent on chemicals.	<u>(\$161)</u>	<u>(\$107)</u>
4.	Materials and Supplies (620 / 720)		
	a. To reflect reassignment of materials for fence repairs.	(\$2,577)	(\$527)
	b. To reflect removal of pond maintenance supplies.	(39)	(39)
	c. To reflect five-year amortization for non-recurring expenses.	<u>(864)</u>	<u>(402)</u>
	Subtotal	<u>(\$3,480)</u>	<u>(\$968)</u>
5.	Contractual Services – Testing (635 / 735)		
	a. To reflect an auditing adjustment.	\$0	(\$15)
	b. To reflect actual testing costs.	<u>0</u>	<u>(105)</u>
	Subtotal	<u>\$0</u>	<u>(\$120)</u>
6.	Contractual Services – Other (636 / 736)		
	a. To reflect pro forma increase per Docket No. 20200152-WS	\$80	\$80
	b. To reflect an increase in water operations.	15	0
	c. To reflect five-year amortization of permit for well conversion.	100	0
	d. To reflect five-year amortization of map for well conversion.	86	0
	e. To reflect increase in monthly pond maintenance contract.	<u>0</u>	<u>658</u>
	Subtotal	<u>\$281</u>	<u>\$738</u>
7.	Insurance Expense (655 / 755)		
	a. To reflect pro forma increase per Docket No. 20200152-WS	\$428	\$428
	b. To reflect decrease in commercial insurance premium.	<u>(39)</u>	<u>(39)</u>
	Subtotal	<u>\$389</u>	<u>\$389</u>
8.	Regulatory Commission Expense (665 / 765) To reflect 1/4 rate case expense.	<u>\$377</u>	<u>\$252</u>
9.	Bad Debt Expense (670/770) To reflect three-year average of bad debt expense.	<u>(\$297)</u>	<u>\$94</u>
TOTAL OPERATION AND MAINTENANCE ADJUSTMENTS		<u>\$1,703</u>	<u>\$6,024</u>

LAKE YALE UTILITIES, LLC.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 12/31/2019		DOCKET NO. 20200169-WS	
ADJUSTMENTS TO OPERATING INCOME		PAGE 2 OF 2	
		<u>WATER</u>	<u>WASTEWATER</u>
DEPRECIATION EXPENSE			
1.	To reflect allocated portion of vehicles.	\$879	\$879
2.	To reflect depreciation for fence repairs.	95	53
3.	To reflect pro forma additions.	<u>328</u>	<u>383</u>
	Total	<u>\$1,302</u>	<u>\$1,315</u>
AMORTIZATION EXPENSE (NET)			
1.	To reflect an auditing adjustment.	(\$1,801)	(\$1,097)
2.	To reflect CIAC adjustment to Service Revenues.	<u>(16)</u>	<u>(16)</u>
	Total	<u>(\$1,817)</u>	<u>(\$1,113)</u>
TAXES OTHER THAN INCOME			
1.	To reflect an auditing adjustment.	(\$25)	\$21
2.	To reflect appropriate test year RAFs.	(14)	53
3.	To reflect 2019 property taxes.	35	7
4.	To reflect property taxes associated with pro forma plant additions.	<u>7</u>	<u>26</u>
	Total	<u>\$3</u>	<u>\$107</u>
TOTAL OPERATING EXPENSE		<u>\$1,191</u>	<u>\$6,333</u>

LAKE YALE UTILITIES, LLC. TEST YEAR ENDED 12/31/2019 ANALYSIS OF WATER O&M EXPENSE		SCHEDULE NO. 3-D DOCKET NO. 20200169-WS		
ACCT. #	DESCRIPTION	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
601	Salaries and Wages – Employees	\$21,682	\$4,443	\$26,125
603	Salaries and Wages – Officers and Directors	4,800	0	4,800
604	Employee Pensions and Benefits	1,080	0	1,080
615	Purchased Power	3,355	152	3,507
618	Chemicals	3,892	(161)	3,731
620	Materials and Supplies	5,794	(3,480)	2,314
631	Contractual Services – Professional	1,256	0	1,256
635	Contractual Services – Testing	3,493	0	3,493
363	Contractual Services – Other	6,511	281	6,791
640	Rents	1,944	0	1,944
650	Transportation Expense	2,313	0	2,313
655	Insurance Expense	3,082	389	3,471
665	Regulatory Commission Expense	843	377	1,220
670	Bad Debt Expense	391	(297)	94
675	Miscellaneous Expense	<u>3,935</u>	<u>0</u>	<u>3,935</u>
	Total O&M Expense	<u>\$64,371</u>	<u>\$1,703</u>	<u>\$66,073</u>
	Working Capital is 1/8 O&M Less RCE			\$8,212

LAKE YALE UTILITIES, LLC. TEST YEAR ENDED 12/31/2019 ANALYSIS OF WASTEWATER O&M EXPENSE		SCHEDULE NO. 3-E DOCKET NO. 20200169-WS		
ACCT. #	DESCRIPTION	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
701	Salaries and Wages – Employees	\$21,682	\$4,443	\$26,125
703	Salaries and Wages – Officers and Directors	4,800	0	4,800
704	Employee Pensions and Benefits	1,080	0	1,080
711	Sludge Removal Expense	4,686	0	4,686
715	Purchased Power	7,095	1,304	8,399
718	Chemicals	2,594	(107)	2,487
720	Materials and Supplies	2,683	(968)	1,715
731	Contractual Services – Professional	835	0	835
735	Contractual Services – Testing	3,180	(120)	3,060
736	Contractual Services – Other	5,583	738	6,320
740	Rents	1,944	0	1,944
750	Transportation Expense	2,313	0	2,313
755	Insurance Expense	3,082	389	3,471
765	Regulatory Commission Expense	843	252	1,095
770	Bad Debt Expense	0	94	94
775	Miscellaneous Expense	<u>3,899</u>	<u>0</u>	<u>3,899</u>
	Total O&M Expense	<u>\$66,299</u>	<u>\$6,024</u>	<u>\$72,322</u>
	Working Capital is 1/8 O&M Less RCE			\$9,009

LAKE YALE UTILITIES, LLC. TEST YEAR ENDED 12/31/2019 MONTHLY WATER RATES		SCHEDULE NO. 4-A DOCKET NO. 20200169-WS	
	UTILITY CURRENT RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8"X3/4"	\$10.35	\$10.50	\$0.05
3/4"	\$15.53	\$15.75	\$0.08
1"	\$25.88	\$26.25	\$0.13
1-1/2"	\$51.75	\$52.50	\$0.25
2"	\$82.80	\$84.00	\$0.40
3"	\$165.60	\$168.00	\$0.80
4"	\$258.75	\$262.50	\$1.25
6"	\$517.50	\$525.00	\$2.50
8"	\$828.00	\$840.00	\$4.00
Charge per 1,000 gallons - Residential Service			
All gallons	\$1.89	N/A	N/A
0 - 5,000 gallons	N/A	\$3.79	\$0.02
Over 5,000 gallons	N/A	\$5.68	\$0.03
Charge per 1,000 gallons - General Service			
	\$1.89	\$4.10	\$0.02
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$16.02	\$21.87	
6,000 Gallons	\$21.69	\$35.13	
8,000 Gallons	\$25.47	\$46.49	

LAKE YALE UTILITIES, LLC		SCHEDULE NO. 4-B		
TEST YEAR ENDED DECEMBER 31, 2019		DOCKET NO. 20200169-WS		
MONTHLY WASTEWATER RATES				
	UTILITY CURRENT RATES	COMMISSION APPROVED INTERIM RATES*	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential Service</u>				
Base Facility Charge - All Meter Sizes	\$10.86	\$12.60	\$13.75	\$0.04
Charge per 1,000 gallons 10,000 gallon cap	\$2.77	\$3.21	N/A	N/A
Charge per 1,000 gallons 6,000 gallon cap	N/A	N/A	\$8.06	\$0.02
<u>General Service</u>				
Base Facility Charge by Meter Size				
5/8"X3/4"	\$10.86	\$12.60	\$13.75	\$0.04
3/4"	\$16.29	\$18.90	\$20.63	\$0.06
1"	\$27.15	\$31.50	\$34.38	\$0.10
1-1/2"	\$54.30	\$63.00	\$68.75	\$0.20
2"	\$86.88	\$100.80	\$110.00	\$0.32
3"	\$173.76	\$201.60	\$220.00	\$0.64
4"	\$271.50	\$315.00	\$343.75	\$1.00
6"	\$543.00	\$630.00	\$687.50	\$2.00
8"	\$868.80	\$1,008.00	\$1,100.00	\$3.20
Charge per 1,000 gallons	\$3.30	\$3.83	\$9.67	\$0.03
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
3,000 Gallons	\$19.17	\$22.23	\$37.93	
6,000 Gallons	\$27.48	\$31.86	\$62.11	
8,000 Gallons	\$33.02	\$38.28	\$62.11	
*Interim rates were implemented January 9, 2021.				