

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: October 27, 2023

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

FROM: Donna D. Brown, Chief of Auditing, Office of Auditing and Performance Analysis *DB*

RE: Docket No.: 20230081-WS
Company Name: Royal Waterworks, Inc.
Company Code: WS984
Audit Purpose: A1f: File and Suspend Rate Case
Audit Control No.: 2023-227-2-1

Attached is the final audit report for the Utility stated above. I am sending the Utility a copy of this memo and the audit report. If the Utility desires to file a response to the audit report, it should send a response to the Office of the Commission Clerk. There are no confidential work papers associated with this audit.

Attachment: Audit Report

Cc: Office of Auditing and Performance Analysis File.

State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing

Auditor's Report

Royal Waterworks, Inc.
File and Suspend Rate Case Audit

Twelve Months Ended May 31, 2023

Docket No. 20230081-WS
Audit Control No. 2023-227-2-1
October 27, 2023

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the objectives set forth by the Division of Accounting & Finance in its audit service request dated August 15, 2023. We have applied these procedures to the attached schedules prepared by Royal Waterworks, Inc. in support of its filing for rate relief in Docket No. 20230081-WS.

The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

Utility refers to Royal Waterworks, Inc.

Test year refers to the twelve months ended May 31, 2023.

NARUC refers to the National Association of Regulatory Utility Commissioners.

USOA refers to the NARUC Uniform System of Accounts as adopted by Commission Rule 25-30.115 – Uniform System of Accounts for Water and Wastewater Utilities, Florida Administrative Code (F.A.C.).

Background

Royal Waterworks, Inc. (Royal) is a Class B utility serving approximately 931 water and 526 wastewater customers in Broward County.

Royal acquired the water and the wastewater systems in 2019. Prior to Royal's acquisition, the Utility's rates were last established in a previous rate case by Order No. 12170, issued June 24, 1983. At that time, the utility was owned by University Utility Corporation. According to the Utility's 2022 Annual Report, total gross revenue for water was \$704,462 and total gross revenue for wastewater was \$713,819.

Balances were established in this docket as of July 1, 2019. Amendatory Order PSC-2021-0114-PAA-WS, issued on March 22, 2021, recalculated the utility plant in service and net book value.

Utility Books and Records

Objective: The objective was to determine whether the Utility maintains its books and records in conformity with the NARUC USOA.

Procedures: We reviewed the Utility's accounting system by examining the records provided for this proceeding and determined that the Utility's books are in substantial compliance with the NARUC USOA. No exception were noted.

Analytical Review

Objectives: The objective is to determine any material changes or inconsistencies in the Utility's plant, capital, revenues, and expenses from year to year.

Procedures: Audit staff developed a two-year analytical review that compared the annual percentage changes from 2020 through 2022 for Common Equity, Long-Term Debt, Customer Deposits, O&M revenues and O&M expenses. In addition, we compared the percentage changes from May 2021 to May 2023 for Utility Plant in Service, Land, Accumulated Depreciation,

Contributions-in-Aid-of-Construction, and Accumulated Amortization of Contributions-in-Aid-of-Construction. We requested explanations from the Utility for any significant changes for depreciable assets, amortizable assets, revenues, and expenses. The Utility provided explanations that were sufficient, and further follow-up was not required.

Rate Base

Utility Plant in Service

Objectives: The objectives were to determine whether utility plant in service (UPIS): 1) Consists of property that exists and is owned by the Utility, 2) Additions are recorded at original cost, 3) Retirements are made when a replacement asset is put into service, and 4) Adjustments required in the Utility's last rate proceeding are recorded in its books and records.

Procedures: We reconciled the beginning balances of UPIS for water and wastewater as of July 01, 2019 to May 31, 2023. We reconciled the beginning balances, including ordered adjustments, in the general ledger to the Order issued in the prior rate case. We verified that Commission-ordered adjustments were posted to the general ledger. We scheduled utility additions and retirements since the last rate proceeding to determine the UPIS balance as of May 23, 2023. We requested support for the Utility's adjustments and traced them to the filing. We traced all additions and retirements from the Utility's plant in service schedule to source documentation and we verified that additions were recorded at original cost and that retirements were properly posted. No exceptions were noted.

Land & Land Rights

Objectives: The objectives were to determine whether utility land is: 1) Recorded at original cost, 2) Owned or secured under a long-term lease, and 3) Adjusted to reflect Commission-ordered adjustments and recorded in its general ledger.

Procedures: We obtained Page 5 of Order No. PSC-2020-0458-PAA-WS, issued November 23, 2020, which established the value of land for water and wastewater. We also obtained the records of the properties owned by the Utility from the County Property Appraisal website. No exceptions were noted.

Accumulated Depreciation

Objectives: The objectives were to determine whether: 1) Adjustments to accumulated depreciation in the Utility's last rate case proceeding were recorded in its general ledger, 2) Accumulated depreciation accruals are properly recorded in compliance with Commission Rule 25-30.140-Depreciation, Florida Administrative Code (F.A.C.) and the NARUC USOA, 3) Depreciation expense accruals are calculated using the Commission's authorized rates, and 4) Retirements are properly recorded when an asset is replaced.

Procedures: We reconciled the accumulated depreciation accounts presented in the filing to the general ledger. We reconciled the beginning balances, including ordered adjustments, in the general ledger to the Order issued in the prior rate case. We verified whether the Utility included the Commission adjustments from the Order. We scheduled utility accruals and retirements since the last rate proceeding to determine the accumulated depreciation balance as of May 31,

2023. We calculated accumulated depreciation accruals from the Utility's schedule for accumulated depreciation using the rates authorized in Rule 25-30.140 – Depreciation, F.A.C. and compared our balances to the balances in the Utility's schedule for accumulated depreciation. No exceptions were noted.

Contributions-in-Aid-of-Construction

Objectives: The objectives were to determine whether: 1) contributions-in-aid-of-construction (CIAC) is properly recorded in compliance with Commission rules and the NARUC USOA, 2) Donated property is properly accounted for and recorded as CIAC, and 3) Adjustments to CIAC in the Utility's last rate case proceeding were recorded in its general ledger.

Procedures: We reconciled the CIAC accounts presented in the filing to the general ledger. We reconciled the beginning balances, including ordered adjustments, in the general ledger to the Order issued in the prior rate case. We verified whether the Utility included the Commission adjustments from the order. We scheduled utility additions and retirements since the last rate proceeding to determine the CIAC balance as of May 23, 2023. We inquired about new agreements, developer agreements, and donated property. No exceptions were noted.

Accumulated Amortization of CIAC

Objectives: The objectives were to determine whether: 1) Accruals to accumulated amortization of CIAC are properly recorded in compliance with Commission Rule 25-30.140, F.A.C., 2) Retirements are recorded when a contributed asset was replaced, 3) Adjustments to accumulated amortization of CIAC in the Utility's last rate case proceeding were recorded in its general ledger.

Procedures: We reconciled the accumulated depreciation accounts presented in the filing to the general ledger. We reconciled the beginning balances, including ordered adjustments, in the general ledger to the Order issued in the prior rate case. We verified whether the Utility included the Commission adjustments from the order. We scheduled utility accruals and retirements since the last rate proceeding to determine the accumulated depreciation balance as of May 23, 2023. We calculated accumulated depreciation accruals from the Utility's CIAC schedule using the rates authorized in Rule 25-30.140 – Depreciation, F.A.C. and compared our balances to the balances in the Utility's CIAC schedule and the filing. No exceptions were noted.

Working Capital

Objectives: The objective was to determine the working capital adjustment to be included in the Utility's rate base per Commission Rule 25-30.433(3), F.A.C.

Procedures: We reconciled the Utility's MFR Schedule A-17 for water and wastewater to the general ledger, the rate base schedules, and the rate base adjustments schedules. Finding 1 discusses our recommended adjustment to working capital.

Capital Structure

Objectives: The objectives were to determine the: 1) Components of the Utility's capital structure, 2) Cost rate for each class of capital, 3) Overall weighted cost of capital, and that 4) Components are properly recorded in compliance with the NARUC USOA.

Procedures: We reconciled common equity to the general ledger. We reconciled the long-term debt, short-term debt and customer deposits to the general ledger. We verified the cost rates used in the computation of the Utility's capital structure. We recalculated the weighted cost rates used in the computation of the Utility's capital structure. No exceptions were noted.

Net Operating Income

Operating Revenue

Objectives: The objectives were 1) to determine that revenues are representative of the test year by identifying rates for Utility services, miscellaneous service charges and other charges imposed by the Utility, and 2) determine that the Utility charges are calculated using Commission-approved tariffs.

Procedures: We reconciled the water and wastewater revenue accounts presented in the MFR filing to the general ledger. We reviewed the Utility's authorized tariff rates for residential customers, general service customers, miscellaneous service charges, and private fire protection service. We recalculated the Utility's E-2W and E-2S MFR Schedules to determine if the Utility is using the correct rates, before and after the rate changes on July 17, 2022 for water and wastewater and before and after the rate changes on October 07, 2022 for wastewater only. We recalculated the water and wastewater revenues for the twelve months ended May 31, 2023, based on the correct tariffs, on the correct dates. We determined that the Utility's filing and the revenues in its general ledger reflect the correct tariff rates.

We audited the billing analysis for each service class by meter size, and reconciled to the MFR E-14 schedule. We scheduled all customers who were billed or served by the Utility in the test year by class and meter size. We also took a statistically-valid sample of customer bills to verify that the Utility billed customers using the correct tariffs. No exceptions were noted.

Operation and Maintenance Expense

Objectives: The objectives were to determine whether O&M expense is: 1) Representative of the Utility's ongoing operations for the test year, 2) Properly recorded in the appropriate period for the correct amount, and 3) Recorded in compliance with NARUC USOA and Commission rules.

Procedures: We reviewed all invoices for water and wastewater O&M expense accounts for the test year. We traced each invoice to the detailed general ledger. We reviewed invoices for proper amount, period, classification, NARUC account, and whether recurring in nature. We verified each expense against the invoice and supporting documentation. We reviewed payroll expense and the current allocation. Finding 1 discusses our recommended adjustments to O&M expenses.

Depreciation and CIAC Amortization Expense

Objectives: The objectives were to determine whether depreciation and CIAC amortization expenses are properly recorded in compliance with Commission rules and that they accurately represent the depreciation of UPIS assets and the amortization of CIAC from ongoing utility operations.

Procedures: We recalculated depreciation expense for water and wastewater for the test year ended May 31, 2023, by using the rates established by Commission Rule 25-30.140, F.A.C. CIAC has been fully amortized.

Taxes Other than Income

Objectives: The objectives were to determine whether taxes other than income (TOTI) expenses are: 1) Properly recorded in compliance with Commission rules, 2) Reasonable for ongoing utility operations, and 3) Recorded in compliance with the NARUC USOA.

Procedures: We reviewed the Utility's MFR Schedule B-15 and traced the components of TOTI to the general ledger. We reviewed the RAF forms filed by the Utility and recalculated the RAFs using the proper rates. We verified the real estate and tangible property taxes incurred by the Utility for the test year, and ensured that all property tax expenses reflect the maximum discounts available. We adjusted the revenues for the amounts used to calculate the Regulatory Assessment Fees. No exceptions were noted.

Audit Findings

Finding 1: Operations and Maintenance Expense and Working Capital

Audit Analysis: Audit staff reviewed all of the transactions included in O&M expense accounts. We tested these transactions to determine whether they were adequately supported by documentation, in compliance with the Uniform System of Accounts, in the proper amount, utility-related, and recurring. During our review, we discovered many of the accounts had variances between the documentation and the MFR schedules, and certain transactions were not in compliance with our testing criteria. See Tables 1-1 and 1-2 for detailed information on the specific water and wastewater accounts. Audit Staff recommends the following actions:

- Decreased Account 603 – Salaries – Officers, Directors by \$30,000 for there was no supporting documentation provided, and the expenses were accrued but never paid out.
- Decreased Account 632 – Accounting Fees by \$200 for the Utility charged an invoice and monthly accruals for the same expense.
- Decreased Account 633 – Legal Fees by \$200 for the Utility charged an invoice and monthly accruals for the same expense.
- Reclassified \$26 from Account 636 – Other to Account 736 – Other. This transaction was a wastewater expense, not water.
- Increased Account 657 – Insurance by \$358 for the sum of the monthly accruals were less than the invoice for the year.
- Reclassified \$336 from Account 757 – Insurance to Account 657 – Insurance. These transactions were for storage tank insurance and should have been 100% allocated to water.
- Decreased Account 675 – Miscellaneous by \$60,000 for the Utility included adjustments in the Test Year Adjustments on MFR Schedules B-5 and B-6 that were supposed to be recorded in the Pro Forma Adjustments column.
- Decreased Account 703 – Salaries – Officers, Directors by \$28,000 for there was no supporting documentation provided and the expenses were accrued but never paid out.
- Decreased Account 732 – Accounting Fees by \$200 for the Utility charged an invoice and monthly accruals for the same expense.
- Decreased Account 733 – Legal Fees by \$200 for the Utility charged an invoice and monthly accruals for the same expense.
- Increased Account 757 – Insurance by \$358 for the sum of the monthly accruals were less than the invoice for the year.
- Decreased Account 757 – Insurance by \$3,117 for the Utility included adjustments in the Test Year Adjustments on MFR Schedules B-5 and B-6 that were supposed to be recorded in the Pro Forma Adjustments column.

Table 1-1

Account	Description	MFR Balance	Audit Balance	Variance
601	Salaries & Wages - Employees	\$ -	\$ -	\$ -
603	Salaries & Wages - Officers	\$ 30,000	\$ -	\$ 30,000
604	Employee Pensions & Benefits	\$ -	\$ -	\$ -
610	Purchased Water	\$ -	\$ -	\$ -
615	Purchased Power	\$ 43,117	\$ 43,117	\$ -
616	Fuel for Purchased Power	\$ -	\$ -	\$ -
618	Chemicals	\$ 72,541	\$ 72,541	\$ -
620	Materials & Supplies	\$ -	\$ -	\$ -
631	Contractual Services - Engineering	\$ -	\$ -	\$ -
632	Contractual Services - Accounting	\$ 450	\$ 250	\$ 200
633	Contractual Services - Legal	\$ 350	\$ 150	\$ 200
634	Contractual Services - Mgmt. Fees	\$ -	\$ -	\$ -
635	Contractual Services - Testing	\$ -	\$ -	\$ -
636	Contractual Services - Other	\$ 374,916	\$ 374,889	\$ 26
641	Rental of Building/Real Prop.	\$ -	\$ -	\$ -
642	Rental of Equipment	\$ -	\$ -	\$ -
650	Transportation Expenses	\$ -	\$ -	\$ -
656	Insurance - Vehicle	\$ -	\$ -	\$ -
657	Insurance - General Liability	\$ 4,679	\$ 5,372	\$ (693)
658	Insurance - Workman's Comp.	\$ -	\$ -	\$ -
659	Insurance - Other	\$ -	\$ -	\$ -
660	Advertising Expense	\$ -	\$ -	\$ -
666	Reg. Comm. Exp. - Rate Case Amort.	\$ -	\$ -	\$ -
667	Reg. Comm. Exp. - Rate Case Other	\$ -	\$ -	\$ -
670	Bad Debt Expense	\$ -	\$ -	\$ -
675	Miscellaneous Expense	\$ 75,218	\$ 15,218	\$ 60,000
	O&M Expenses Before Pro Forma	\$ 601,270	\$ 511,536	\$ 89,734
	Pro Forma Adjustments	\$ 25,750	\$ -	\$ 25,750
	Total O&M Expenses	\$ 627,020	\$ 511,536	\$ 115,484
	1/8 of O&M Working Capital	\$ 78,378	\$ 63,942	\$ 14,435

Table 1-2

Account	Description	MFR Balance	Audit Balance	Variance
701	Salaries & Wages - Employees	\$ -	\$ -	\$ -
703	Salaries & Wages - Officers, Etc.	\$ 28,000	\$ -	\$ 28,000
704	Employee Pension & Benefits	\$ -	\$ -	\$ -
710	Purchased Sewer Treatment	\$ 326,403	\$ 326,403	\$ -
711	Sludge Removal Expense	\$ -	\$ -	\$ -
715	Purchased Power	\$ 9,831	\$ 9,831	\$ -
716	Fuel for Power Purchased	\$ -	\$ -	\$ -
718	Chemicals	\$ -	\$ -	\$ -
720	Materials & Supplies	\$ -	\$ -	\$ -
731	Contractual Services - Engineering	\$ -	\$ -	\$ -
732	Contractual Services - Acct.	\$ 450	\$ 250	\$ 200
733	Contractual Services - Legal	\$ 350	\$ 150	\$ 200
734	Contractual Services - Mgmt. Fees	\$ -	\$ -	\$ -
735	Contractual Services - Testing	\$ -	\$ -	\$ -
736	Contractual Services - Other	\$ 201,944	\$ 201,970	\$ (26)
741	Rental of Building/Real Property	\$ -	\$ -	\$ -
742	Rental of Equipment	\$ -	\$ -	\$ -
750	Transportation Expenses	\$ -	\$ -	\$ -
756	Insurance - Vehicle	\$ -	\$ -	\$ -
757	Insurance - General Liability	\$ 7,796	\$ 4,699	\$ 3,097
758	Insurance - Worker's Comp.	\$ -	\$ -	\$ -
759	Insurance - Other	\$ -	\$ -	\$ -
760	Advertising Expense	\$ -	\$ -	\$ -
766	Reg. Comm. Exp. - Rate Case Amort.	\$ -	\$ -	\$ -
767	Reg. Comm. Exp. - Other	\$ -	\$ -	\$ -
770	Bad Debt Expense	\$ -	\$ -	\$ -
775	Miscellaneous Expenses	\$ 2,870	\$ 2,870	\$ -
	O&M Expenses Before Pro Forma	\$ 577,643	\$ 546,172	\$ 31,471
	Pro Forma Adjustments	\$ 79,836	\$ -	\$ 79,836
	Total O&M Expenses	\$ 657,479	\$ 546,172	\$ 111,307
	1/8 of O&M Working Capital	\$ 82,185	\$ 68,272	\$ 13,913

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on the Filing: Audit staff recommends a total decrease to O&M expenses in the amount of \$89,734 for water and \$31,471 for wastewater. In addition, audit staff recommends that working capital for both water and wastewater be reduced by \$14,435 and \$13,913 respectively.

Exhibits

Exhibit 1: Rate Base

PG. 4 Schedule of Water Rate Base

Florida Public Service Commission

Royal Waterworks, Inc.
 Docket No. 20230081-WS
 Historical Test Year Ending May 31, 2023
 Historical & Pro Forma

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Schedule: A-1
 Page: 1 of 1
 Preparer: W T Rendell

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use. If method other than formula approach (1/8 O & M) is used to determine working capital, provide additional schedule showing detail calculation.

Line No.	Description	(1)	Historical Test Year		(5) Supporting Schedules	
			(2) Average Balance Per Books	(3) Adjustments		(4) Adjusted Average Balance
1	Utility Plant in Service		3,591,703	85,451	3,677,154	A-5
2	Utility Land & Land Rights		76,123	0	76,123	A-5
3	Less: Non-Used & Useful Components		0	0	0	A-7
4	Construction Work in Progress		0	0	0	
5	Less: Accumulated Depreciation		(2,743,510)	(1,764)	(2,745,274)	A-9
6	Less: CIAC		(575,123)	0	(575,123)	A-12
7	Accumulated Amortization of CIAC		571,853	0	571,853	A-14
8	Acquisition Adjustments		521,449	(521,449)	0	
9	Less: Accum. Amort. of Acq. Adjustments		(85,320)	85,320	0	
10	Less: Advances For Construction		0	0	0	A-16
11	Working Capital Allowance		0	78,378	78,378	A-17
12	Total Rate Base		1,357,174	(274,064)	1,083,110	

Exhibit 1: Rate Base (Cont'd)

PG. 5 Schedule of Wastewater Rate Base

Florida Public Service Commission

Royal Waterworks, Inc.
 Docket No. 20230081-WS
 Historical Test Year Ending May 31, 2023
 Historical & Pro Forma

**REVISED
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Schedule: A-2
 Page: 1 of 1
 Preparer: W T Rendell

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use. If method other than formula approach (1/8 O & M) is used to determine working capital, provide additional schedule showing detail calculation.

Line No.	Description	(1)	Historical Test Year		(5) Supporting Schedules
		(2) Average Balance Per Books	(3) Adjustments	(4) Adjusted Average Balance	
1	Utility Plant in Service	1,919,789	69,065	1,988,854	A-6
2	Utility Land & Land Rights	71,802	0	71,802	A-6
3	Less: Non-Used & Useful Components	0	0	0	A-7
4	Construction Work in Progress	0	0	0	
5	Less: Accumulated Depreciation	(1,625,441)	(1,918)	(1,627,360)	A-10
6	Less: CIAC	(238,921)	0	(238,921)	A-12
7	Accumulated Amortization of CIAC	238,921	0	238,921	A-14
8	Acquisition Adjustments	286,064	(286,064)	0	
9	Less: Accum. Amort. of Acq. Adjustments	(45,997)	45,997	0	
10	Less: Advances For Construction		0	0	A-16
11	Working Capital Allowance	0	82,185	82,185	A-17
12	Total Rate Base	606,217	(90,735)	515,481	

Exhibit 2: Capital Structure

PG. 45 Schedule of Requested Cost of Capital

Average balance

Royal Waterworks, Inc.

Docket No. 20230081-WS

Historical Test Year Ending May 31, 2023

Historical Projected

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Florida Public Service Commission

Schedule: D-1

Page: 1

Preparer: WT Rendell

Subsidiary or Consolidated

Explanation: Provide a schedule which calculates the requested Cost of Capital on a beginning and end of year average basis. If a year-end basis is used submit an additional schedule reflecting year-end calculations.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Line No.	Class of Capital	Reconciled To Test Yr Rate Base	Ratio	Cost Rate	Weighted Cost Rate	Cost	Supporting Schedules
COMPOSITE WATER & Wastewater							
1	Long-Term Debt	728,290	45.56%	3.25%	1.48%		D-2, D-5
2	Short-Term Debt	0	0.00%	0.00%	0.00%		D-2
3	Preferred Stock	0	0.00%	0.00%	0.00%		D-2
4	Common Equity	865,006	54.11%	9.70%	5.25%		D-2
5	Customer Deposits	5,295	0.33%	2.00%	0.01%		D-2
6	Accumulated Deferred Income Taxes	0	0.00%	0.00%	0.00%		D-2
7							
8	Total	1,598,591	100.00%		6.74%		

Supporting Schedules: D-2

Recap Schedules: A-1,A-2

Exhibit 3: Net Operating Income

PG. 23 Schedule of Water Net Operating Income

Florida Public Service Commission

Royal Waterworks, Inc.
 Docket No. 20230081-WS
 Historical Test Year Ending May 31, 2023
 Historical & Pro Forma

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Schedule: B-1
 Page: 1 of 1
 Preparer: W T Rendell

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

Line No.	(1) Description	(2) Per Books Test Year	(3) Utility Test Year Adjustment	(4) Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues	(7) Supporting Schedules
1	OPERATING REVENUES	734,186	38,119	770,305	66,835	837,140	B-4, E-2
2	Operation & Maintenance	546,552	80,468	627,020	0	627,020	B-5, B-3
3	Depreciation, net of CIAC Amort., U&U	91,994	(20,800)	71,194	0	71,194	B-13, B-3
4	Amortization - Acquis Adjust	35,305	(35,305)	0	0	0	B-3
5	Taxes Other Than Income	58,740	4,198	62,938	3,008	65,943	B-15, B-3
6	Provision for Income Taxes	0	0	0	0	0	C-1, B-3
7	OPERATING EXPENSES	732,592	28,559	761,150	3,008	764,158	
8	NET OPERATING INCOME	1,594	7,560	9,154	63,827	72,981	
9	RATE BASE	1,357,174	(274,084)	1,083,110		1,083,110	A-1
10	RATE OF RETURN	0.12%		0.85%		6.74%	

Exhibit 3: Net Operating Income (Cont'd)

PG. 24 Schedule of Wastewater Net Operating Income

Florida Public Service Commission

Royal Waterworks, Inc.
 Docket No. 20230081-WS
 Historical Test Year Ending May 31, 2023
 Historical & Pro Forma

REVISED
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Schedule: B-2
 Page: 1 of 1
 Preparer: W T Rendell

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

Line No.	(1) Description	(2) Per Books Test Year	(3) Utility Test Year Adjustment	(4) Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues	(7) Supporting Schedules
1	OPERATING REVENUES	761,470	(9,543)	751,928	53,757	805,685	B-4, E-2
2	Operation & Maintenance	549,526	107,953	657,480	0	657,480	B-6, B-3
3	Depreciation, net of CIAC Amort., U&U	43,641	1,918	45,560	0	45,560	B-14, B-3
4	Amortization - Acquis Adjust	19,033	(19,033)	0	0	0	B-3
5	Taxes Other Than Income	59,968	5,525	65,493	2,419	67,912	B-15, B-3
6	Provision for Income Taxes	0	0	0	0	0	C-1, B-3
7	OPERATING EXPENSES	672,169	96,363	768,532	2,419	770,951	
8	NET OPERATING INCOME	89,301	(105,906)	(16,605)	51,338	34,734	
9	RATE BASE	606,217	(50,735)	555,481		515,481	A-2
10	RATE OF RETURN	14.73%		-3.22%		6.74%	