

State of Florida



# Public Service Commission

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

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**DATE:** December 22, 2023

**TO:** Curtis M. Mouring, Chief of Finance, Tax & Cost Recovery, Division of Accounting & Finance

**FROM:** Division of Accounting & Finance (Richards) *CRR*  
Division of Economics (Sibley)  
Division of Engineering (Thompson)  
Office of the General Counsel (Imig, Harper)

**RE:** Docket No. 20230071-WU – Application for staff-assisted rate case in Polk County by Pinecrest Utilities, LLC.

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**-STAFF REPORT-**

**This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the Customer Meeting scheduled for January 23, 2024.**

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## Case Background

Pinecrest Utilities, LLC (Pinecrest or Utility) is a Class C water utility serving approximately 138 residential customers in Polk County. The Utility was transferred to the present operator in 2012.<sup>1</sup> Pinecrest's rates and charges were approved in its last staff-assisted rate case (SARC) in 2013.<sup>2</sup>

According to the Utility's 2022 Annual Report, total gross revenue was \$59,184, and total operating expense was \$82,431.

On May 26, 2023, the Utility filed an application for a SARC.<sup>3</sup> A test year ended December 31, 2022, has been established for the purposes of interim and final rates.

This Staff Report is a preliminary analysis of the Utility's books and records prepared by Commission staff to give customers and the Utility an initial understanding of potential staff recommendations. Staff's final recommendation to the Commission is currently scheduled to be filed on March 21, 2024, for consideration at the April 2, 2024 Commission Conference. The preliminary recommendation will be revised as necessary using any relevant new or updated information, responses from pending data requests, and the results of customer quality of service concerns (if any) or other pertinent information received at the January 23, 2024 Customer Meeting.

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

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<sup>1</sup>Order No. PSC-2012-0475-PAA-WU, issued on September 18, 2012, in Docket No. 110311-WU, *In re: Application for transfer of Certificate No. 588-W from Pinecrest Ranches, Inc., in Polk County, to Pinecrest Utilities, LLC.*

<sup>2</sup>Order No. PSC-2013-0320-PAA-WU, issued on July 12, 2013, in Docket No.120269-WU, *In re: Application for a staff-assisted rate case in Polk County by Pinecrest Utilities, LLC.*

<sup>3</sup>Document No. 03388-2023, filed on May 26, 2023.

## Discussion of Issues

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

**Preliminary Recommendation:** Staff's recommendation regarding quality of service will not be finalized until after the January 23, 2024 Customer Meeting (Thompson)

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

### Quality of the Utility's Product

In evaluation of Pinecrest's product quality, staff reviewed the Utility's compliance with the DEP's primary and secondary drinking water standards. Primary standards protect public health while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water. In the DEP's last Sanitary Survey Report dated March 20, 2023, no chemical or bacteriological exceedances were noted, and the Utility was determined to be in compliance with DEP standards. Staff also reviewed the DEP's triennial Safe Drinking Water Program chemical analysis of samples taken at the point of entry on June 14, 2021, and all of the contaminants were in compliance with DEP standards, with the exception of a small exceedance in iron. In response to Staff's Second Data Request,<sup>4</sup> the Utility explained that this exceedance was due to iron being a part of the ground water makeup at the well. As a result, the Utility treats the water with Aqua Mag, which is used for iron sequestration.

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

Staff reviewed the Commission's Consumer Activity Tracking System (CATS) records, and discovered one complaint recorded during the test year and four years prior for Pinecrest. The complaint was received September 21, 2022, and was regarding improper disconnection due to a water shutoff. A representative from Pinecrest contacted the customer to explain that the shutoff was due to planned maintenance, which customers had been noticed of in advance, and stated that the customer understood. The complaint was then closed.

Staff requested all complaints received by Pinecrest during the test year and four years prior, and the Utility provided 21 complaints received during this timeframe, one of which was duplicative of the complaint received through the CATS. Table 1-1 shows the number of complaints, by subject, received by the Utility during the specified timeframe.

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<sup>4</sup>Document No. 05912-2023, filed November 1, 2023, in Docket No. 20230071-WU, *In re: Application for staff-assisted rate case in Polk County by Pinecrest Utilities, LLC.*

**Table 1-1**  
**Number of Utility Complaints by Subject**

<b>Subject of Complaint</b>	<b>Total</b>
Leaking Water Meters	4
Unannounced Water Shutoffs	4
Billing	4
Water Odor	4
Noise	2
Water Color	1
Incorrect Meter Read	1
Improper Disconnection	<u>1</u>
<b>Total</b>	<u><b>21</b></u>

Source: Utility responses to staff data requests.

Staff also requested all complaints received by the DEP during the test year and four years prior. The DEP responded that it did not receive any complaints for Pinecrest during this timeframe.

**Conclusion**

Staff's recommendation regarding quality of service will not be finalized until after the January 23, 2024 Customer Meeting.

**Issue 2:** Are the infrastructure and operating conditions of Pinecrest's water system in compliance with DEP regulations?

**Preliminary Recommendation:** Staff's recommendation regarding DEP compliance will not be finalized until after the January 23, 2024 Customer Meeting. (Thompson)

**Staff Analysis:** Rule 25-30.225(2), F.A.C., requires each water utility to maintain and operate its plant and facilities by employing qualified operators in accordance with DEP rules. 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, citations, violations, consent orders issued to the utility, customer testimony, comments, complaints, utility testimony and any responses to the aforementioned items.

### **Water System Operating Conditions**

Pinecrest's water system has a permitted capacity of 150,000 gallons per day (gpd). This water system has two wells with pumping capacities of 200 gallons per minute (gpm) and 90 gpm, respectively, and one hydropneumatic storage tank with a capacity of 5,000 gallons. Groundwater from the wells is treated through hypochlorination. Staff reviewed Pinecrest's most recent Sanitary Survey Report conducted by the DEP to determine the Utility's overall water facility compliance. A review of the Report dated March 20, 2023, indicated that Pinecrest's water treatment facility is in compliance with the DEP's rules and regulations.

### **Conclusion**

Staff's recommendation regarding DEP compliance will not be finalized until after the January 23, 2024 Customer Meeting.

**Issue 3:** What are the used and useful (U&U) percentages of Pinecrest’s water treatment plant (WTP) and water distribution system?

**Preliminary Recommendation:** Pinecrest’s WTP and water distribution system should be considered 100 percent U&U. No adjustment is recommended for excessive unaccounted for water (EUW) at this time. These are preliminary determinations and are subject to change. (Thompson)

**Staff Analysis:** As stated in Issue 2, Pinecrest’s water system has two wells with pumping capacities of 200 gpm and 90 gpm, respectively, and one hydropneumatic storage tank with a capacity of 5,000 gallons. Pinecrest’s water distribution system is composed of 500 feet of 2-inch polyvinyl chloride (PVC) pipe, 6,300 feet of 3-inch PVC pipe, 3,210 feet of 4-inch PVC pipe, and 5,025 feet of 6-inch PVC pipe. There are nine fire hydrants throughout the water distribution system.

### **Used and Useful Percentages**

Rule 25-30.4325, F.A.C., addresses the method by which the U&U of a water system is determined. In its last SARC, Pinecrest’s WTP and water distribution system were found to be 100 percent U&U.<sup>5</sup> The Utility has not increased the capacity of its WTP since rates were last established. The Utility’s water distribution system continues to only provide service to existing customers, the service area remains built out, and there continues to be no potential for expansion of the service area. Therefore, consistent with the Commission’s previous decision, staff recommends that the Utility’s WTP and water distribution system 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 and purchased for the test year, and dividing by the sum of gallons pumped and purchased. The amount in excess of 10 percent, if any, is the EUW percentage.

Based on monthly operating reports, Pinecrest produced 12,493,332 gallons of water from January 1, 2022, through December 31, 2022. No water was purchased during the test year. From the audit completed by staff, the Utility sold 5,110,332 gallons of water to customers. The Utility estimated 7,383,000 gallons of water usage for line flushing. The calculation ( $[(12,493,332 + 0 - 5,110,332 - 7,383,000) / (12,493,332 + 0)]$ ) results in no unaccounted for water. Therefore, there is no EUW based on this preliminary analysis. Staff recommends that no adjustment be made to purchased power and chemicals at this time.

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<sup>5</sup>Order No. PSC-13-0320-PAA-WU, issued July 12, 2013, in Docket No. 20120269-WU, *In re: Application for staff-assisted rate case in Polk County by Pinecrest Utilities, LLC*.

**Conclusion**

Pinecrest's WTP and water distribution system should be considered 100 percent U&U. No adjustment is recommended for EUW at this time. These are preliminary determinations and are subject to change.



**Issue 4:** What is the appropriate average test year rate base amount for Pinecrest?

**Preliminary Recommendation:** The appropriate average test year rate base for Pinecrest is \$91,881. (Richards, Thompson)

**Staff Analysis:** The appropriate components of the Utility's rate base include utility plant in service (UPIS), land and land rights, accumulated depreciation, contributions-in-aid of construction (CIAC), accumulated amortization of CIAC, and working capital. Staff selected the test year ended December 31, 2022, 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 are discussed below.

### **Utility Plant in Service**

The Utility recorded UPIS of \$257,345. Audit staff reduced this amount by \$3,896 as part of Audit Finding 1. Based on the Utility's response to the Audit Report, staff increased UPIS by \$489.<sup>6</sup> Additionally, staff reduced UPIS by \$3,511 to reflect an averaging adjustment.

### **Pro Forma Plant Additions**

Table 4-1 shows Pinecrest's three requested pro forma plant projects: 1) a meter replacement/retrofit project; 2) a flow meter replacement; and 3) a lawn mower replacement. Pinecrest explained that its meter replacement/retrofit project is the same as the meter replacement program approved for Leighton Estates Utilities, LLC (Leighton) in its last SARC as Pinecrest will be using the same software and meters.<sup>7</sup> As such, Pinecrest will also be transitioning its current residential meters to Advanced Meter Infrastructure (AMI) meters for compatibility with the Beacon Software approved by the Commission in the Leighton SARC for use by all of the Florida Utility Services 1 (FUS1) water systems. Pinecrest asserted that AMI meters will allow the Utility to electronically obtain meter readings, provide real-time data accessibility, and reduce customer service-related calls and associated work order trips. The cost allocated to Pinecrest for use of the Beacon Software is \$346, which is included in the total meter replacement/retrofit project cost in Table 4-1.<sup>8</sup> The Utility intends to replace 82 and retrofit 62 residential meters. The Utility provided a bid reflecting the current costs for new meters and meter retrofits from the Beacon Software vendor, Badger Meter, for compatibility with the approved software. In response to Staff's Third Data Request, the Utility estimated that labor would cost approximately \$22 for each meter replacement and retrofit, which is preliminarily included in the total cost identified in Table 4-1 for the meter replacement/retrofit project.<sup>9</sup>

The flow meter replacement pro forma project is a result of Pinecrest's current flow meter failing. The Utility stated that it has purchased a new flow meter, and plans to install it upon

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<sup>6</sup>Document No. 06125-2023, filed on November 20, 2023.

<sup>7</sup>Order No. PSC-2022-0435-PAA-WU, issued December 22, 2022, in Docket No. 20220026-WU, *In re: Application for staff-assisted rate case in Marion County, and request for interim rate increase, by Leighton Estates Utilities, LLC.*

<sup>8</sup>Document No. 04414-2022, filed July 1, 2022, in Docket No. 20220026-WU, *In re: Application for staff-assisted rate case in Marion County, and request for interim rate increase, by Leighton Estates Utilities, LLC.*

<sup>9</sup>Document No. 06130-2023, filed November 20, 2023, in Docket No. 20230071-WU, *In re: Application for staff-assisted rate case in Polk County by Pinecrest Utilities, LLC.*

arrival. In response to Staff’s Third Data Request, the Utility explained that the new flow meter was purchased from the same vendor used for the meter replacement/retrofit project for compatibility with the Beacon Software. The Utility indicated that it intends to purchase all residential and flow meters from this this vendor on a going-forward basis for this reason. The total cost of this project is included in Table 4-1.

Last, the Utility is requesting a lawn mower replacement due to the current lawn mower reaching the end of its useful life. As is Commission practice, staff requested that three bids be provided for this pro forma project. However, the Utility explained that it was only able to obtain bids from two vendors within a reasonable distance as the tractor will have to be taken to the vendor to have the mower deck and attaching equipment installed. Of the two bids provided, staff preliminarily included the cost from the lowest cost bid in Table 4-1 until the vendor the Utility intends to select is confirmed for this project. Staff’s recommendation regarding the appropriateness of the pro forma project costs will be provided in the final recommendation

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

<u>Project</u>	<u>Additions</u>	<u>Retirements</u>
Acct. 334 – Meter Replacement	\$5,536	(\$819)
Acct. 334 – New Flow Meter	1,862	(1,397)
Acct. 343 – New Mower Deck	4,066	(3,050)
Total Pro Forma	<u>\$11,464</u>	<u>(\$5,265)</u>

Source: Utility responses to staff data requests.

As detailed above in Table 4-1, staff increased UPIS by \$11,464. This amount was offset by retirements of \$5,265. Table 4-2 below summarizes staff’s adjustments to UPIS.

**Table 4-2  
 Staff Adjustments to UPIS**

<u>Description</u>	<u>Adjustment</u>
To reflect auditing adjustments.	(\$3,896)
To reflect adjustments made from Utility’s audit response.	489
To reflect an averaging adjustment.	(3,511)
To reflect pro forma additions.	11,464
To reflect associated pro forma retirements.	<u>(5,265)</u>
Net adjustment to UPIS	<u>(\$719)</u>

Source: Staff calculations.

As described above and summarized in Table 4-2, staff’s adjustments to UPIS result in a decrease of \$719. Therefore, staff recommends an average UPIS balance of \$256,626 (\$257,345 - \$719).

### Used and Useful

As discussed in Issue 3, the Utility's system is considered 100 percent U&U. Therefore, no U&U adjustment is necessary.

### Accumulated Depreciation

The Utility recorded accumulated depreciation of \$192,282. Audit staff reduced this amount by \$3,895. Based on the Utility's response to the Audit Report, staff increased accumulated depreciation by \$106. Additionally, staff decreased accumulated depreciation by \$4,565 to reflect an averaging adjustment. Staff further decreased accumulated depreciation by \$4,892 for pro forma additions. Staff's adjustments are summarized below in Table 4-3.

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

<u>Description</u>	<u>Adjustment</u>
To reflect auditing adjustments.	(\$3,895)
To reflect adjustments made from the Utility's Audit response.	106
To reflect an averaging adjustment.	(4,565)
To reflect pro forma adjustments.	(4,892)
Total adjustments to accumulated depreciation.	(\$13,246)

Source: Staff calculations.

As described above and summarized in Table 4-3, staff's adjustments to accumulated depreciation result in a decrease of \$13,246. Therefore, staff recommends an average accumulated depreciation balance of \$179,036 (\$192,282 - \$13,246).

### Contributions-in-aid of Construction

The Utility recorded CIAC of \$100,352. Staff made no adjustments to CIAC, and therefore recommends an average CIAC balance of \$100,352.

### Accumulated Amortization of CIAC

The Utility recorded accumulated amortization of CIAC of \$100,352. The accumulated amortization of CIAC balance at the beginning of the test year was \$97,541. As such, staff made an averaging adjustment to reduce accumulated amortization of CIAC by \$1,406. Therefore, staff recommends an accumulated amortization of CIAC balance of \$98,947 (\$100,352 - \$1,406).

### Working Capital Allowance

Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses. Consistent with Rule 25-30.433(3), F.A.C., staff used the one-eighth 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, for this calculation staff removed the rate case expense of \$759. This resulted in an adjusted O&M expense balance of \$73,566 (\$74,325 - \$759). Applying this formula, staff recommends a working capital allowance of \$9,196 (\$73,566 ÷ 8).

**Rate Base Summary**

Based on the foregoing, staff recommends that the appropriate average test year rate base is \$91,881. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

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

**Preliminary Recommendation:** The appropriate return on equity (ROE) is 8.49 percent with a range of 7.49 percent to 9.49 percent. The appropriate overall rate of return is 8.21 percent. (Richards)

**Staff Analysis:** The Utility's capital structure consist of long-term debt, common equity, and customer deposits. The Utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE is 8.49 percent based on the Commission-approved leverage formula currently in effect.<sup>10</sup> Staff recommends an ROE of 8.49 percent with a range of 7.49 percent to 9.49 percent, and an overall rate of return of 8.21 percent. The ROE and overall rate of return are shown on Schedule No. 2.

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<sup>10</sup>Order No. PSC-2023-0189-PAA-WS, issued on June 28, 2023, in Docket No. 20230006-WS; *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*

**Issue 6:** What is the appropriate test year operating revenue for Pinecrest?

**Preliminary Recommendation:** The appropriate test year operating revenue for Pinecrest's water system is \$64,743. (Sibley)

**Staff Analysis:** The Utility recorded test year operating revenue of \$59,185, which included service revenues of \$57,145 and miscellaneous revenues of \$2,040. A review of the Utility's billing register indicated 64 bills related to vacant properties. Staff removed the bills to determine the appropriate billing determinants. The Utility also had a price index that became effective on June 1, 2023. To determine the appropriate service revenues, staff annualized service revenue by applying the adjusted number of billing determinants to the most recent rates in effect. As a result, staff determined that the service revenues should be \$62,635, which is an increase of \$5,490 ( $\$62,635 - \$57,145$ ). Furthermore, staff increased miscellaneous revenues by \$68 to adjust for customer deposit interest that was incorrectly recorded as miscellaneous revenues. This results in miscellaneous revenues of \$2,108 ( $\$2,040 + \$68$ ) during the test year. Therefore, staff recommends that the appropriate test year operating revenue for Pinecrest's water system is \$64,743 ( $\$62,635 + \$2,108$ ).

**Issue 7:** What is the appropriate operating expense for Pinecrest?

**Preliminary Recommendation:** The appropriate amount of operating expense for Pinecrest is \$86,182. (Richards)

**Staff Analysis:** The Utility recorded operating expense of \$79,621. 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 expense as described below.

## **Operation and Maintenance Expenses**

### **Salaries and Wages – Employees (601)**

The Utility recorded salaries and wages – employees expense of \$16,421. The Utility submitted a request for a pro forma salary increase intended to attract and retain qualified employees in the current economic climate.<sup>11</sup> After thorough review of the Utility's request, staff increased this account by \$3,463. Therefore, staff recommends salaries and wages – employees expense of \$19,884 (\$16,421 + \$3,463).

### **Salaries and Wages – Officers and Directors (603)**

The Utility recorded salaries and wages – officers and directors expense of \$3,201. In its request for pro forma salary increases dated October 27, 2023, the Utility identified the need for a new Salary & Benefits Administrator to assume some of the payroll responsibilities of the Chief Financial Officer. After thorough review of the Utility's request, staff increased this account by \$795. Therefore, staff recommends salaries and wages – officers and directors expense of \$3,996 (\$3,201 + \$795).

### **Employee Pensions and Benefits (604)**

The Utility recorded employee pensions and benefits expense of \$4. In its pro forma salaries request, the Utility stated it desires to provide its employees a retirement benefit beginning in 2023. The parent company of the Utility, FUS1 believes that the addition of this employee benefit is necessary to attract and retain future qualified employees to serve its existing and future base of customers, and therefore proposes to establish a "Simple IRA Plan" as defined under Section 408(b) of the Internal Revenue Code. After a thorough review of the Utility's request, staff increased this account by \$402. Therefore, staff recommends employee pensions and benefits expense of \$406 (\$4 + \$402).

### **Contractual Services – Other (636)**

The Utility recorded contractual services other expense of \$8,908. During the audit, it was found that a cost of \$1,093 for the replacement of a control box for the Utility's pumping equipment was recorded in this account. Staff does not believe this is a recurring expense and the replacement was necessary for the pumping equipment to operate. Based on this, staff decreased contractual services – other expense by \$1,093 and capitalized the amount in Plant Account 311 as part of Audit Finding 1. Therefore, staff recommends contractual services – other expense of \$7,815 (\$8,908 - \$1,093).

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<sup>11</sup>Document No. 05861-2023, filed on October 27, 2023.

### **Regulatory Commission Expense (665)**

The Utility recorded a regulatory commission expense of \$816 as a deferred cost from its previous limited alternative rate increase.<sup>12</sup> The Utility did not record any rate case expense for the instant docket. The Utility is required by Rule 25-22.0407, F.A.C., to mail notices of the rate case overview, interim rates, final rates, and four-year rate reduction. Staff calculated noticing costs to be \$558. Staff calculated the distance from the Utility to Tallahassee as 214 miles. Based on the 2023 IRS business mileage rate of \$0.655, staff calculated round-trip travel and lodging expense to the Commission Conference of \$480.<sup>13</sup> The Utility retained consulting services of OCBOA Consulting LLC, and staff has estimated consulting fees of \$1,000. Additionally, the Utility paid a filing fee of \$1,000.<sup>14</sup>

Staff recommends a total rate case expense, consisting of noticing costs, travel and lodging expenses, consulting fees, and filing fee of \$3,038 (\$558 + \$480 + \$1,000 + \$1,000), which amortized over four years is \$759 ( $\$3,038 \div 4$  years). Therefore, staff recommends total regulatory commission expense of \$1,575 ( $\$816 + \$759$ ).

### **Bad Debt Expense (670)**

The Utility recorded bad debt expense of \$763. Staff notes that it is Commission practice to calculate bad debt expense using a three-year average when the information is available.<sup>15</sup> In its three most recent Annual Reports (2020, 2021, and 2022), the Utility recorded bad debt expenses of \$743, \$2,357, and \$763, respectively. Staff calculated the average bad debt expense for these previous three years to be \$1,288 ( $(\$743 + \$2,357 + \$763) \div 3$ ) which represents an increase of \$525. Therefore, staff recommends bad debt expense of \$1,288 ( $\$763 + \$525$ ).

### **Operation and Maintenance Expense Summary**

The Utility recorded test year O&M expense of \$69,474. Based on the above adjustments, staff recommends O&M expense be increased by \$4,851. This results in a total O&M expense of \$74,325 ( $\$69,474 + \$4,851$ ). Staff's recommended adjustments to O&M are shown on Schedule No. 3-C.

### **Depreciation Expense**

The Utility recorded depreciation expense of \$9,020. Using the depreciation rates prescribed in Rule 25-30.140, F.A.C., audit staff increased this amount by \$869. Staff made adjustments decreasing depreciation expense by \$1,356 to prevent over depreciation of plant accounts. Additionally, staff increased depreciation expense by \$373 due to pro forma adjustments. These

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<sup>12</sup>Order 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.*

<sup>13</sup><https://www.irs.gov/newsroom/irs-issues-standard-mileage-rates-for-2023-business-use-increases-3-cents-per-mile>

<sup>14</sup>Document No. 03753-2023, filed on June 22, 2023.

<sup>15</sup>Order No. PSC-2022-0043-PAA-WU, issued on January 26, 2022, in Docket No. 20210055-WU, *In re: Application for staff-assisted rate case in Lake County by Brendenwood Waterworks, Inc.*; Order No. PSC-2021-0106-PAA-WS, issued on March 17, 2021, 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.*; Order No. PSC-2021-0107-PAA-WU, issued on March 19, 2021, in Docket No. 20200168-WU, *In re: Application for staff-assisted rate case in Polk County, and request for interim rate increase, by McLeod Gardens Utilities, LLC.*



adjustments result in a net decrease of \$114 ( $\$869 - \$1,356 + \$373$ ). Therefore, staff recommends depreciation expense of \$8,906.

### **Amortization of CIAC**

The Utility recorded amortization of CIAC of \$2,811. Staff made no adjustments and therefore recommends amortization of CIAC of \$2,811.

### **Taxes Other Than Income (TOTI)**

The Utility recorded TOTI of \$3,938. Staff increased TOTI by \$250 to reflect the appropriate regulatory assessment fees (RAFs) based on corrected Utility test year revenues. Additionally, staff increased TOTI by \$270 to reflect the pro forma payroll taxes associated with the pro forma increase in salaries explained previously in O&M accounts 301 and 303. Those adjustments result in a test year TOTI increase of \$520 ( $\$250 + \$270$ ).

As discussed in Issue 9, staff recommends revenues be increased by \$28,982 in order to reflect the change in revenue required to cover expenses and allow an opportunity to earn the recommended rate of return. As a result, TOTI should be increased by \$1,304 to reflect RAFs of 4.5 percent of the change in revenues. Therefore, staff recommends TOTI of \$5,762 ( $\$3,938 + \$520 + \$1,304$ ).

### **Operating Expense Summary**

The Utility recorded operating expenses of \$79,621. The application of staff's recommended adjustments to the Utility's recommended operating expense results in a total operating expense of \$86,182. Operating expenses are shown on Schedule No. 3-A, and the related adjustments are shown on Schedule No. 3-B.

**Issue 8:** Does Pinecrest meet the criteria for application of the operating ratio methodology?

**Preliminary Recommendation:** No, Pinecrest does not meet the requirement for application of the operating ratio methodology for calculating the revenue requirement. (Richards)

**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 its rate base is not greater than 125 percent of O&M expenses, less regulatory commission expense, and the use of the operating ratio methodology does not change the Utility's qualification for a SARC.

With respect to Pinecrest, staff has recommended a rate base of \$91,881. After removal of rate case expense, staff has calculated an O&M expense of \$72,750 (\$74,325 - \$1,575). Based on staff's preliminary recommended amounts, the Utility's rate base is 126.30 percent of its adjusted O&M expense. Based on this, the Utility does not qualify for application of the operating ratio methodology.

**Issue 9:** What is the appropriate revenue requirement for Pinecrest?

**Preliminary Recommendation:** The appropriate revenue requirement is \$93,724, resulting in an annual increase of \$28,982 (44.76 percent). (Richards)

**Staff Analysis:** Pinecrest should be allowed an annual increase of \$28,982 (44.76 percent). This should allow the Utility the opportunity to recover expenses and earn an 8.21 percent return on rate base. The calculations for revenue requirement are shown on Table 9-1.

**Table 9-1**  
**Revenue Requirement**

Water Rate Base	\$91,881
Rate of Return	<u>8.21%</u>
Return on Rate Base	<u>\$7,542</u>
Water O&M Expense	74,325
Depreciation Expense	8,906
Amortization of CIAC	(2,811)
Taxes Other Than Income	<u>5,762</u>
Revenue Requirement	<u>\$93,724</u>
Less Test Year Revenues	\$64,742
Annual Increase	\$28,982
Percent Increase	44.76%

Source: Staff calculations.

**Issue 10:** What are the appropriate rate structure and rates for Pinecrest?

**Preliminary Recommendation:** The recommended rate structure and monthly water rates are shown on Schedule No. 4. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice. (Sibley)

**Staff Analysis:** Pinecrest is located in Polk County within the Southwest Florida Water Management District. The Utility provides water service to 138 residential customers and there are no general service customers. Approximately 19 percent of the residential customer bills during the test year had zero gallons, indicating a non-seasonal customer base. The average residential water demand is 3,094 gallons per month. Currently, the Utility's water rate structure consists of a monthly base facility charge (BFC) and a charge per 1,000 gallons for 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 water customers. The goal of the evaluation was to select the rate design parameters that: (1) produce the recommended revenue requirement; (2) equitably distribute cost recovery among the Utility's customers; (3) establish the appropriate non-discretionary usage threshold for restricting repression; and (4) implement, where appropriate, water conserving rate structures consistent with Commission practice.

For this case, staff recommends that 40 percent of the water revenues be generated from the BFC, which will provide sufficient revenues to design gallonage charges that send pricing signals to customers using above the non-discretionary level. The average people per household served by the water system is 2.77; 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. Staff's review of the billing data indicates that discretionary usage above 5,000 gallons represents approximately 18 percent of the bills, which accounts for approximately 24 percent of water demand. This indicates that there is moderate amount of discretionary usage above 5,000 gallons.

Staff recommends a two-tier inclining block rate structure, which includes separate gallonage charges for discretionary and non-discretionary usage for residential water rates. The rate blocks are: 1) 0-5,000 gallons and 2) all usage in excess of 5,000 gallons per month. Due to the moderate usage above 5,000 gallons per month staff believes that it is appropriate in this case to recommend a rate factor of 1.25 in the second tier because it will target those customers with higher levels of consumption. General Service customers should continue to be billed a BFC and uniform gallonage charge.

Based on staff's recommended revenue increase of 46.30 percent, which excludes miscellaneous revenues, the residential consumption can be expected to decline by 364,000 gallons resulting in

anticipated average residential demand of 2,873 gallons per month. Staff recommends a 7.10 percent reduction in test year residential gallons for rate setting purposes. As a result, the corresponding reductions for purchased power expense is \$595, \$348 for chemicals expense, and \$44 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$89,863.

The recommended rate structures and monthly water rates are shown on Schedule No. 4. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice.

**Issue 11:** What are the appropriate initial customer deposits for Pinecrest?

**Recommendation:** The appropriate initial customer deposit for the residential 5/8 inch x 3/4 inch meter size should be \$106. 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 residential 5/8 inch x 3/4 inch meter size is \$67 for water. This amount does not cover two months' average bills based on staff's recommended rates. The Utility's anticipated post-repression average monthly residential usage is 2,873 gallons per customer. Therefore, the average residential monthly bill based on staff's recommended rates is approximately \$52.96.

Staff recommends the appropriate initial customer deposit for the residential 5/8 inch x 3/4 inch meter size should be \$106. 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 12:** What are the appropriate miscellaneous service charges?

**Recommendation:** The Utility’s appropriate miscellaneous service charges are shown on Table 12-4 and should be approved. The Utility should be required to file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective 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 charge should not be implemented until staff has approved the proposed customer notice and the notice has been received by customers. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Sibley)

**Staff Analysis:** The Utility is requesting to revise its existing miscellaneous service charges. Section 367.091, F.S., authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or service availability charges. The Utility’s requested miscellaneous charges were accompanied by its reason for requesting the charges, as well as the cost justification required by Section 367.091(6), F.S. The Utility’s existing and requested miscellaneous service charges are shown below.

**Table 12-1**  
**Pinecrest’s Existing and Requested Miscellaneous Service Charges**

	<u>Existing</u>	<u>Requested</u>
Initial Connection Charge	\$15.00	Actual Cost
Normal Reconnection Charge	\$15.00	\$34.50
Violation Reconnection Charge	\$15.00	\$34.50
Premises Visit Charge (in lieu of disconnection)	\$10.00	\$34.50
Late Payment Charge	\$5.50	\$7.00

Source: Utility’s responses to staff’s data requests.

### **Premises Visit and Violation Reconnection Charge**

As shown on Table 12-1, Pinecrest’s request consists of several miscellaneous service charges. However, effective June 24, 2021, Rule 25-30.460, F.A.C., was amended to remove initial connection and normal reconnection charges.<sup>16</sup> The definitions for initial connection charges and normal reconnection charges were subsumed in the definition of the premises visit charge. As a result, the Utility’s requested initial connection and normal reconnection charges are obsolete.

The Utility’s calculation for the premises visit charge and violation reconnection are shown on Table 12-2. The Utility provided cost justification of \$34.50 for both the premises visit and violation reconnection charges which represents the cost of a trip to perform a specified service. Staff believes the cost justification is reasonable and defrays the cost to the cost causer. However, the violation reconnection charge should account for the discontinuance of service and the subsequent reconnection of service. Therefore, the violation reconnection charge should account for both services at a charge of \$69.00 (\$34.50 x 2). Based on the amended rule, staff recommends that the initial connection and normal reconnection charges be removed. Staff

<sup>16</sup>Order No. PSC-2021-0201-FOF-WS, issued June 4, 2021, in Docket No. 20200240-WS, *In re: Proposed amendment of Rule 25-30.460, F.A.C., Application for Miscellaneous Service Charges.*

recommends that the Utility’s requested premises visit charge of \$34.50 and a violation reconnection charge of \$69.00 should be approved. Staff also recommends that the definition for the premises visit charge be updated to comply with amended Rule 25-30.460, F.A.C.

**Table 12-2**  
**Calculation for Premises Visit and Violation Reconnection Charge**

Activity	Cost
Mileage (\$0.67 per mile x 2/3 hour x 11)	\$7.37
Administrative Labor (\$26.10 per hour x 1/3 hour)	7.83
Field Labor (\$26.10 per hour x 1/2 hour)	13.05
CSM Labor (\$25.30 per hour x 1/4 hour)	6.33
Total	<u>\$34.58</u>

Source: Utility’s cost justification documentation.

**Late Payment Charge**

The Utility currently has a \$5.50 late payment charge. The Utility is requesting a \$7.00 late payment charge to recover the cost of labor, supplies, and postage associated with processing late payment notices. The purpose of this charge is not only to provide an incentive for customers to make timely payment, thereby reducing the number of delinquent accounts, but also to place the cost burden of processing delinquent accounts solely upon those who are cost causers.

The Utility calculated the actual costs for its late payment charges to be \$7.07. The Utility indicated that it will take approximately 15 minutes per account to research, compile, and produce late notices. The delinquent customer accounts will be processed by the administrative employee, which results in labor cost of \$6.33 (\$25.30 x 0.25hr). In addition, the Utility included material cost of \$0.74 for paper, envelopes, and postage, which results in total costs of \$7.07 (\$6.33 + \$0.74). This is consistent with prior Commission decisions where the Commission has allowed 5-15 minutes per account per month for the administrative labor associated with processing delinquent customer accounts.<sup>17</sup> The Utility’s calculation for its costs associated with a late payment charge is shown on Table 12-3. Staff recommends the requested late payment charge of \$7.00 be approved.

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<sup>17</sup>Order Nos. PSC-2016-0041-TRF-WU, issued January 25, 2016, in Docket No. 20150215-WU, *In re: Request for approval of tariff amendment to include miscellaneous service charges for the Earlene and Ray Keen Subdivisions, the Ellison Park Subdivision and the Lake Region Paradise Island Subdivision in Polk County, by Keen Sales, and Utilities, Inc.* and PSC-2015-0569-PAA-WS, issued December 16, 2015, in Docket No. 20140239-WS, *In re: Application for staff-assisted rate case in Polk County by Orchid Springs Development Corporation.*



**Table 12-3**  
**Late Payment Charge Cost Justification**

<u>Category</u>	<u>Cost</u>
Labor	\$6.33
Materials	0.08
Postage	<u>0.66</u>
Total Cost	<u>\$7.07</u>

Source: Utility's cost justification documentation.

### **Meter Tampering Charge**

The Utility currently has a \$50 Meter Tampering Charge. Rule 25-30.320(2)(i), F.A.C., provides that a customer's service may be discontinued without notice in the event of tampering with the meter or other facilities furnished or owned by the Utility. In addition, Rule 25-30.320(2)(j), F.A.C., provides that a customer's service may be discontinued in the event of an unauthorized or fraudulent use of service. The rule allows Pinecrest to require the customer to reimburse the Utility for all changes in piping or equipment necessary to eliminate the illegal use and to pay an amount reasonably estimated as the deficiency in revenue resulting from the customer's fraudulent use before restoring service.

Based on the above, the Utility's requested meter tampering charge of actual cost should be approved. The approved charge should be effective for service rendered on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. Pinecrest should be required to charge the approved charge until authorized to change it by the Commission in a subsequent proceeding. Staff's recommended miscellaneous service charges are shown below in Table 12-4.

**Table 12-4**  
**Staff Recommended Miscellaneous Service Charges**

	<u>All Hours</u>
Violation Reconnection Charge	\$69.00
Premises Visit Charge	\$34.50
Late Payment Charge	\$7.00
Meter Tampering Charge	Actual

Source: Staff Calculations.

### **Conclusion**

Based on the above, staff recommends that the appropriate miscellaneous service charges shown on Table 12-4 should be approved. The Utility should be required to file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective 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 charges should not be implemented until staff has approved the proposed customer notice and the notice has been received by customers. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

**Issue 13:** What is the appropriate amount by which rates should be reduced four years after the published effective date to reflect removal of the amortized rate case expense?

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

**Staff Analysis:** Section 367.081(8), F.S., requires that the rates be reduced by the amount of the rate case expense previously included in rates immediately following the expiration of the recovery period. With respect to Pinecrest, the reduction will reflect the removal of revenue associated with the amortization of rate case expense and the gross-up for RAFs. The total reduction is \$795.

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

**Issue 14:** Should the recommended rate be approved for Pinecrest on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility?

**Preliminary Recommendation:** Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the Utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility. Pinecrest should file revised tariff sheets and a proposed customer notice reflecting the Commission-approved rates. The approved rates should be effective for services 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. Further, prior to implementing any temporary rates, the Utility should provide appropriate financial 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 both the current monthly and total amount 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. (Richards)

**Staff Analysis:** This recommendation proposes an increase in rates. A timely protest might delay a 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 proposed rates be approved on a temporary basis. Pinecrest should file revised tariff sheets and a proposed customer notice reflecting 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 it has been received by the customers. The additional revenue produced by staff's recommended rates and collected by the Utility should be subject to the refund provisions discussed below.

Pinecrest should be authorized to initiate the temporary rates upon staff's approval of an appropriate security for the potential refund and cost of the proposed customer notice. Security should be in the form of either a bond or letter of credit in the amount of \$20,009. Alternatively, the Utility may establish an escrow agreement with an independent financial institution.

If the Utility chooses a bond for securing the potential refund, 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 for securing the potential refund, the letter of credit 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.

<b>PINECREST UTILITIES, LLC</b>		<b>SCHEDULE NO. 1-A</b>	
<b>TEST YEAR ENDED 12/31/2022</b>		<b>DOCKET NO. 20230071-WU</b>	
<b>SCHEDULE OF WATER RATE BASE</b>			
<b>DESCRIPTION</b>	<b>BALANCE PER UTILITY</b>	<b>STAFF ADJ.</b>	<b>BALANCE PER STAFF</b>
1. UTILITY PLANT IN SERVICE	\$257,345	(\$719)	\$256,626
2. LAND & LAND RIGHTS	6,500	0	6,500
3. ACCUMULATED DEPRECIATION	(192,282)	13,246	(179,036)
4. CIAC	(100,352)	0	(100,352)
5. ACCUM. AMORT. CIAC	100,352	(1,406)	98,947
6. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>9,196</u>	<u>9,196</u>
<b>WATER RATE BASE</b>	<b><u>\$71,563</u></b>	<b><u>\$20,318</u></b>	<b><u>\$91,881</u></b>

<b>PINECREST UTILITIES, LLC</b>	<b>SCHEDULE NO. 1-B</b>
<b>TEST YEAR ENDED 12/31/2022</b>	<b>DOCKET NO. 20230071-WU</b>
<b>ADJUSTMENTS TO RATE BASE</b>	
	<b>WATER</b>
<b>UTILITY PLANT IN SERVICE</b>	
1. To reflect audit adjustments.	(\$3,896)
2. To reflect adj. made from Utility's Audit response.	489
3. To reflect an averaging adjustment.	(3,511)
4. To reflect pro forma additions.	11,464
5. To reflect pro forma retirements.	<u>(5,265)</u>
Total	<u>(\$719)</u>
<b>ACCUMULATED DEPRECIATION</b>	
1. To reflect audit adjustments.	\$3,895
2. To reflect adj. made from Utility's Audit response.	(106)
3. To reflect an averaging adjustment.	4,565
4. To reflect pro forma adjustments.	<u>4,892</u>
Total	<u>\$13,246</u>
<b>ACCUM. AMORT. CIAC</b>	
To reflect an averaging adjustment.	<u>(\$1,406)</u>
<b>WORKING CAPITAL ALLOWANCE</b>	
To reflect 1/8 of test year O&M expenses.	<u>\$9,196</u>

<b>PINECREST UTILITIES, LLC</b>				<b>SCHEDULE NO. 2</b>		
<b>TEST YEAR ENDED 12/31/2022</b>				<b>DOCKET NO. 20230071-WU</b>		
<b>SCHEDULE OF CAPITAL STRUCTURE</b>						
<b>CAPITAL COMPONENT</b>	<b>PER UTILITY</b>	<b>PRO RATA ADJ.</b>	<b>BALANCE PER STAFF</b>	<b>PERCENT OF TOTAL</b>	<b>COST</b>	<b>WEIGHTED COST</b>
1. LONG-TERM DEBT	\$1,726	(\$130)	\$1,596	1.74%	5.40%	0.09%
2. COMMON EQUITY	94,067	(7,073)	86,994	94.68%	8.49%	8.04%
3. CUSTOMER DEPOSITS	<u>3,558</u>	<u>(268)</u>	<u>3,290</u>	<u>3.58%</u>	2.00%	<u>0.07%</u>
TOTAL CAPITAL	<u>\$99,351</u>	<u>(\$7,470)</u>	<u>\$91,881</u>	<u>100.00%</u>		<u>8.21%</u>
<b>RANGE OF REASONABLENESS</b>					<b>LOW</b>	<b>HIGH</b>
RETURN ON EQUITY					7.49%	9.49%
OVERALL RATE OF RETURN					7.26%	9.16%

<b>PINECREST UTILITIES, LLC</b> <b>TEST YEAR ENDED 12/31/2022</b> <b>SCHEDULE OF WATER OPERATING INCOME</b>			<b>SCHEDULE NO. 3-A</b> <b>DOCKET NO. 20230071-WU</b>			
	<b>TEST YEAR PER UTILITY</b>	<b>STAFF ADJUST- MENTS</b>	<b>STAFF ADJUSTED TEST YEAR</b>	<b>ADJ. FOR INCREASE</b>	<b>REVENUE REQUIREMENT</b>	
1.	<b>TOTAL OPERATING REVENUES</b>	\$59,184	\$5,558	\$64,743	\$28,982 44.76%	\$93,724
	<b>OPERATING EXPENSES:</b>					
2.	OPERATION & MAINTENANCE	\$69,474	\$4,851	\$74,325	\$0	\$74,325
3.	DEPRECIATION	9,020	(114)	8,906	0	8,906
4.	AMORTIZATION OF CIAC	(2,811)	0	(2,811)	0	(2,811)
5.	TAXES OTHER THAN INCOME	3,938	520	4,458	1,304	5,762
6.	INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<b>TOTAL OPERATING EXPENSES</b>	<u>\$79,621</u>	<u>\$5,256</u>	<u>\$84,878</u>	<u>\$1,304</u>	<u>\$86,182</u>
7.	<b>OPERATING INCOME/(LOSS)</b>	(\$20,437)		(\$20,135)		\$7,542
8.	<b>WATER RATE BASE</b>	\$71,563				\$91,881
9.	<b>RATE OF RETURN</b>					8.21%



<b>PINECREST UTILITIES, LLC                  TEST YEAR ENDED 12/31/2022                  ADJUSTMENTS TO OPERATING INCOME</b>	<b>SCHEDULE NO. 3-B                  DOCKET NO. 20230071-WU</b>
	<b>WATER</b>
<b>OPERATING REVENUES</b>	
1. To reflect appropriate test year Service Revenues.	\$5,490
2. To reflect appropriate test year Miscellaneous Revenues.	<u>68</u>
Total	<u>\$5,558</u>
<b>OPERATION AND MAINTENANCE EXPENSE</b>	
1. Salaries and Wages – Employees (601) To reflect requested pro forma increase.	<u>\$3,463</u>
2. Salaries and Wages – Officers and Directors (603) To reflect requested pro forma increase.	<u>\$795</u>
3. Employee Pensions and Benefits (604) To reflect requested pro forma increase.	<u>\$402</u>
4. Contractual Services Other (636) To reflect capitalization of control box replacement.	<u>(\$1,093)</u>
5. Rate Case Expense (665) To reflect 1/4 rate case expense.	<u>\$759</u>
6. Bad Debt Expense (670) To reflect three-year average bad debt expense.	<u>\$525</u>
<b>TOTAL OPERATION AND MAINTENANCE ADJ.</b>	<u>\$4,851</u>
<b>DEPRECIATION EXPENSE</b>	
1. To reflect audit adjustments.	\$869
2. To reflect adjustments for fully depreciated plant.	(1,356)
3. To reflect pro forma additions.	<u>373</u>
Total	<u>(\$114)</u>
<b>TAXES OTHER THAN INCOME</b>	
1. To reflect appropriate test year RAFs.	\$250
2. To reflect requested pro forma payroll taxes.	<u>270</u>
Total	<u>\$520</u>
<b>TOTAL OPERATING EXPENSE ADJUSTMENTS</b>	<u>\$5,256</u>

<b>PINECREST UTILITIES, LLC</b>		<b>SCHEDULE NO. 3-C</b>		
<b>TEST YEAR ENDED 12/31/2022</b>		<b>DOCKET NO. 20230071-WU</b>		
<b>ANALYSIS OF WATER O&amp;M EXPENSES</b>				
<b>ACCT.#</b>	<b>DESCRIPTION</b>	<b>TOTAL PER UTILITY</b>	<b>STAFF ADJUST- MENT</b>	<b>TOTAL PER STAFF</b>
601	Salaries and Wages – Employees	\$16,421	\$3,463	\$19,884
603	Salaries and Wages – Officers and Directors	3,201	795	3,996
604	Employee Pensions and Benefits	4	402	406
615	Purchased Power	8,350	0	8,350
616	Fuel for Power Production	65	0	65
618	Chemicals	4,887	0	4,887
620	Materials and Supplies	5,421	0	5,421
631	Contractual Services – Professional	1,055	0	1,055
635	Contractual Services – Testing	2,750	0	2,750
636	Contractual Services – Other	8,908	(1,093)	7,815
640	Rents	2,049	0	2,049
650	Transportation Expense	2,561	0	2,561
655	Insurance Expense	8,004	0	8,004
665	Regulatory Commission Expense	816	759	1,575
670	Bad Debt Expense	763	525	1,288
675	Miscellaneous Expenses	<u>4,219</u>	<u>0</u>	<u>4,219</u>
	Total O&M Expense	<u>\$69,474</u>	<u>\$4,851</u>	<u>\$74,325</u>
	Working Capital is 1/8 of O&M less RCE			\$9,196

<b>PINECREST UTILITIES, LLC</b>		<b>SCHEDULE NO. 4</b>		
<b>TEST YEAR ENDED 12/31/2022</b>		<b>DOCKET NO. 20230071-WU</b>		
<b>MONTHLY WATER RATES</b>				
	<b>UTILITY CURRENT RATES</b>	<b>UTILITY INTERIM RATES</b>	<b>STAFF REC. RATES</b>	<b>4-YEAR RATE REDUC.</b>
<b><u>Residential and General Service</u></b>				
Base Facility Charge by Meter Size				
5/8" x 3/4"	\$19.63	\$23.33	\$21.76	\$0.19
3/4"	\$29.45	\$30.74	\$32.64	\$0.29
1"	\$49.08	\$51.23	\$54.40	\$0.48
1-1/2"	\$98.15	\$116.65	\$108.80	\$0.96
2"	\$157.04	\$186.64	\$174.08	\$1.53
3"	\$314.08	\$373.28	\$348.16	\$3.06
4"	\$490.75	\$583.25	\$544.00	\$4.79
6"	\$981.50	\$1,166.50	\$1,088.00	\$9.57
Charge per 1,000 gallons – Residential and General Service	\$5.91	\$7.02	N/A	N/A
0-5,000 gallons	N/A	N/A	\$10.86	\$0.10
Over 5,000 gallons	N/A	N/A	\$13.57	\$0.12
Charge per 1,000 gallons – General Service	\$5.91	N/A	\$11.36	\$0.10
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>				
3,000 gallons	\$37.36	\$44.39	\$54.34	
6,000 gallons	\$55.09	\$65.45	\$89.63	
10,000 gallons	\$78.73	\$93.53	\$143.91	