

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: December 22, 2025

TO: Devlin Higgins, Chief of Finance, Tax, and Cost Recovery, Division of Accounting and Finance

FROM: Division of Accounting and Finance (Cohn, G. Kelley)
Division of Economics (Bruce, Hudson, Sibley)
Division of Engineering (Ramirez-Abundez, Ramos, Smith II)
Office of the General Counsel (Marquez, Imig)

RE: Docket No. 20250088-WU – Application for staff-assisted rate case in Lake County by Sun Communities Finance, LLC d/b/a Water Oak Utility.

-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 21, 2026.

Table of Contents

Issue	Description	Page
	Case Background.....	3
1	Quality of Service.....	4
2	Infrastructure and Operating Conditions	5
3	Used and Useful	6
4	Average Test Year Rate Base.....	8
5	Rate of Return.....	11
6	Test Year Revenues.....	12
7	Operating Expenses	13
8	Operating Ratio Methodology.....	16
9	Appropriate Revenue Requirement	17
10	Appropriate Rate Structure.....	18
11	Four-Year Rate Reduction.....	20
12	Temporary Rates	21
	Schedule No. 1-A	23
	Schedule No. 1-B.....	24
	Schedule No. 2.....	25
	Schedule No. 3-A	26
	Schedule No. 3-B.....	27
	Schedule No. 3-C.....	28
	Schedule No. 4.....	29

Case Background

Sun Communities Finance, LLC d/b/a Water Oak Utility (Water Oak or Utility) is a Class C utility providing water service to 1,265 residential customers and 17 general service customers in Lake County. The Utility is a wholly-owned subsidiary of Asset Investors Operating Partnership, LP.

Commission Order No. PSC-1997-0034-FOF-WS, issued January 7, 1997, in Docket No. 960040-WS, established the Utility's rate base as of November 30, 1993.¹ This order also transferred the Utility's water and wastewater certificates to Sun Communities Finance Limited Partnership from the seller. In 2000, the Utility changed the name on its certificate to Sun Communities Finance, LLC d/b/a Water Oak Utility. On March 12, 2020, the Utility's wastewater certificate was cancelled by Order No. PSC-2020-0074-PAA-WS.²

On October 16, 2023, Water Oak filed an application for a staff-assisted rate case (SARC) which was assigned Docket No. 20230119-WU.³ This application was withdrawn on June 5, 2024.⁴

On June 23, 2025, the Utility filed an application for a SARC.⁵ Staff selected the test year ended December 31, 2024. According to the Utility's 2024 Annual Reports, total gross revenues were \$179,227 and its operating expenses were \$342,931.

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 staff's potential recommendations. The final recommendation is scheduled to be filed on March 19, 2026, for the April 7, 2026 Agenda Conference. The preliminary recommendation will be revised as necessary using any new or updated information and the results of customer quality of service or other relevant comments, if any, received at the customer meeting scheduled for January 21, 2026.

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

¹Order No. PSC-1997-0034-FOF-WS, issued January 7, 1997, in Docket No. 19960040-WS, *In re: Application for transfer of Certificates Nos. 454-W and 388-S in Lake County from Water Oak Utilities Co., Inc. to Sun Communities Finance Limited Partnership.*

²Order No. PSC-2020-0074-PAA-WS, issued March 12, 2020, in Docket No. 20200010-WS, *In re: Request for cancellation of Certificate No. 388-S by Sun Communities Finance, LLC. d/b/a Water Oak Utility.*

³Document No. 05692-2023, filed on October 16, 2023.

⁴Document No. 04603-2024, filed on June 5, 2024.

⁵Document No. 05141-2025, filed on June 23, 2025.

Discussion of Issues

Issue 1: Is the quality of service provided by Water Oak Utility satisfactory?

Preliminary Recommendation: Staff's recommendation regarding quality of service will not be finalized until after the customer meeting scheduled for January 21, 2026. (Ramirez-Abundez)

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 officials' 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 Water Oak'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 14, 2023, no chemical or bacteriological exceedances were noted for the previous 12 months, and the Utility was determined to be in compliance with the DEP standards. In the Utility's last Consumer Confidence Report dated June 26, 2025, no violations of contaminant levels were noted for the testing period.

The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the complaints filed in the Commission's Consumer Activity Tracking System (CATS), received by the Utility, and filed with the DEP for the test year and four years prior. There was one complaint filed in CATS regarding improper billing and quality of service due to an incorrectly installed water meter. The Utility reported that it did not receive any complaints during this timeframe. The DEP responded that it received one complaint during this timeframe regarding the quantity of Boil Water Notices the Utility issued. A review of the customer complaints indicates the Utility has resolved all of the complaints filed with the Commission and with the DEP.

Conclusion

Staff's recommendation regarding quality of service will not be finalized until after the customer meeting scheduled January 21, 2026.

Issue 2: Are the infrastructure and operating conditions of Water Oak Utility in compliance with DEP regulations?

Preliminary Recommendation: Staff's recommendation regarding DEP compliance will not be finalized until after the customer meeting scheduled for January 21, 2026. (Ramirez-Abundez)

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

Water System Operating Conditions

Water Oak's water system has a permitted capacity of 334,000 gallons per day (gpd). The Utility's water system has two 10-inch diameter wells and four hydropneumatic storage tanks. Well No. 1 has a pumping capacity of 1,000 gallons per minute (gpm). Well No. 2 has a pumping capacity of 750 gpm. Two of the hydropneumatic storage tanks have a capacity of 20,000 gallons each and two additional hydropneumatic storage tanks have a capacity of 25,000 gallons each. Groundwater is treated through hypochlorination. The DEP conducted an inspection of Water Oak's water treatment plant (WTP) on March 2, 2023. The resulting Sanitary Survey Report indicated the facility was in compliance with the DEP's rules and regulations.

Conclusion

Staff's recommendation regarding DEP compliance will not be finalized until after the customer meeting scheduled for January 21, 2026.

Issue 3: What are the used and useful (U&U) percentages of Water Oak Utility's water treatment plant (WTP) and water distribution system?

Preliminary Recommendation: Water Oak's WTP and water distribution system should both be considered 100 percent U&U. Staff recommends that there is 32.3 percent excessive unaccounted for water (EUW). However, no adjustment for EUW is being recommended at this time since these are preliminary determinations and are subject to change. (Ramirez-Abundez)

Staff Analysis: As stated in Issue 2, Water Oak's water system is served by two 10-inch diameter wells rated at 1,000 gpm and 750 gpm. The Utility is permitted by DEP to withdraw an average of 334,000 gpd. The distribution system is a composite network of 2- to 3-inch Cross Linked Polyethylene pipe and 4- to 8-inch Polyvinyl Chloride (PVC) pipe. The distribution system has 15 fire hydrants.

Used and Useful Percentages

Rule 25-30.4325, F.A.C., addresses the method by which the U&U percentage of a water system is determined. Rule 25-30.4325(4), F.A.C., states that a water treatment system is considered 100 percent U&U if the service territory the system is designed to serve is built out and there is no apparent potential for expansion of the service territory or the system is served by a single well. Based on a review of Water Oak's service territory and annual report, the service territory appears to be built out. In its last limited proceeding increase and overearning investigation, the water distribution system and storage were found to be 100 percent U&U.⁶ Therefore, the U&U percentage for Water Oak's WTP, storage, and distribution system should be considered 100 percent.

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 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 the gallons pumped and purchased. The amount in excess of 10 percent, if any, is the EUW percentage.

A review of the Utility's 2024 monthly operating reports on file with the DEP indicates that Water Oak produced 117,276,285 gallons of water during the test year. In response to staff's data requests, the Utility indicated that it purchases no water and did not provide other water uses during the test year.⁷ An examination of the Utility's billing records indicated 67,673,649 gallons of treated water was sold to its customers. The calculation $(117,276,285 + 0 - 67,673,649 - 0) /$

⁶Order No. PSC-00-1165-PAA-WS, issued June 27, 2000, in Docket No. 19990243-WS, *In re: Application for limited proceeding increase and restructuring of water rates by Sun Communities Finance Limited Partnership in Lake County, and overearnings investigation.*

⁷Document No. 09283-2025, filed September 8, 2025 and Document No. 14962-2025, filed November 6, 2025.

Date: December 22, 2025

(117,276,285 + 0) results in 42.3 percent unaccounted for water. The Rule allows a 10 percent margin; therefore, there is 32.3 percent EUW.

Conclusion

Water Oak's WTP and water distribution system should both be considered 100 percent U&U. Staff recommends that there is 32.3 percent EUW. However, no adjustment for EUW is being recommended at this time since these are preliminary determinations and are subject to change.

Issue 4: What is the appropriate average test year rate base for Water Oak Utility?

Preliminary Recommendation: The appropriate average test year rate base for Water Oak is \$1,638,156. (Cohn)

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, 2024, for the instant rate case. A summary of each component and the recommended adjustments are discussed below.

Utility Plant in Service

The Utility recorded UPIS of \$2,925,041. Based on invoices provided in response to Staff's Third Data Request, staff increased plant by \$70,365 to reclassify plant additions identified as "Site work – Grading, Fence, Restoration, Driveway" from Account 303 – Land and Land Rights to Account 304 – Structures and Improvements.⁸ Staff further increased UPIS by \$211,131 to reflect pro forma additions. Staff then made subsequent adjustments to reflect pro forma retirements, reducing UPIS by \$158,348. Additionally, staff reduced this amount by \$570,871 to reflect averaging adjustments, resulting in a net reduction to UPIS of \$447,723. Therefore, staff recommends an average UPIS of \$2,477,318.

Pro Forma Plant Additions

When evaluating a utility's requested pro forma plant additions, the Commission considers, among other things: (1) need; (2) reasonableness; (3) cost; (4) in-service date(s); and (5) alternatives, as it relates to each project. Additionally, it is Commission practice for staff to evaluate whether a minimum of three bids were solicited for each project or the Utility's reasoning as to why three could not be obtained. Table 4-1 shows Water Oak's five requested pro forma plant projects. Currently, only one bid has been provided for each project. However, staff is continuing to investigate these projects. Each of the Utility's request pro forma projects are described below.

⁸Document No. 15081-2025, filed November 14, 2025.

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

	Project	In-Service Date	Account Number	Amount	Retirement
1.	Generator and Automatic Transfer Switch Installation	September 2025	310	\$148,330	\$111,248
2.	24 – 5/8 by 3/4 inch Meters and Transmitters	December 2025	334	\$7,545	\$5,659
3.	Water Main Leak – 10 feet (ft.) of pipe replacement	March 2025	309	\$5,500	\$4,125
4.	Water Main Leak – 15 ft. of pipe replacement	April 2025	309	\$13,260	\$9,945
5.	New 100 Horse Power (HP) Well Pump Replacement	March 2025	311	\$36,496	\$27,372
	Total			\$211,131	\$158,348

Source: Responses to staff's data requests.

Project 1 – Generator and Automatic Transfer Switch Installation

Project 1 is the installation of a new 250kW, 480V, diesel driven Generac generator and automatic transfer switch. In response to Staff's Second Data Request, the Utility stated the generator and switch are necessary to ensure uninterrupted operation of the water treatment plant during power outages or electrical interruptions. Water Oak stated that this project was necessary because the previous backup system was outdated, undersized, and no longer capable of supporting the facility's full electrical load.

Project 2 - 24 - 5/8 by 3/4 Inch Meters and Transmitters

Project 2 is for the purchase of 24 - 5/8 by 3/4 Accustream meters and end point transmitters. As mentioned above, the Utility only provided one bid and staff is still investigating this pro forma project with the Utility.

Project 3 - Water Main Leak – 10 ft. of Pipe Replacement

Project 3 is the replacement of 10 feet of C900 pipe and two 8-inch mechanical joints. This project was to repair a water main break and was needed to maintain water service to the customers.

Project 4 – Water Main Leak – 15 ft. of Pipe Replacement

Project 4 is the replacement of 15 feet of PVC pipe and fittings. This project was to repair a water main break and was needed to maintain water service to the customers. The leak was located under a driveway, and therefore, this project includes concrete repairs to that driveway.

Project 5 - New 100 HP Well Pump Replacement

Project 5 is the installation of a new 100HP pump with rebuilt head and packing box. In response to Staff's Second Data Request, the Utility stated that the existing pump had reached the end of its useful service life and was no longer operating at optimal efficiency. Water Oak stated that

this has led to high repair costs, as well as frequent maintenance and performance issues causing poor system reliability due to increased downtime.

Land and Land Rights

The Utility recorded a test year land and land rights balance of \$73,415. Staff reclassified \$70,365 from Account 303 – Land and Land Rights to Account 304 – Structures and Improvements to reflect the invoiced amounts provided in Staff’s Third Data Request, which identified the costs as “Site Work – Grading, Fence, Restoration, Driveway.”⁹ Therefore, staff recommends a land and land rights balance of \$3,050.

Accumulated Depreciation

The Utility recorded accumulated depreciation of \$1,092,623. Audit staff determined that the Utility used incorrect depreciation rates for accounts 301, 304, 307, 311, and 330. Additionally, the Utility did not include the net salvage percentage in account 341. As such, audit staff reduced accumulated depreciation by \$11,585 to reflect the use of the correct depreciation rates per Rule 25-30.140, F.A.C., and to include the net salvage percentage. Staff decreased accumulated depreciation by \$155,373 to reflect pro forma additions and retirements. Additionally, staff decreased accumulated depreciation by \$60,070 to reflect averaging adjustments. Staff’s adjustments result in a total decrease to accumulated depreciation of \$227,028. Therefore, staff recommends an average accumulated depreciation balance of \$865,595.

Contributions In Aid of Construction (CIAC)

The Utility recorded CIAC of \$174,916. Staff made no adjustments to CIAC, and therefore recommends an average CIAC balance of \$174,916.

Accumulated Amortization of CIAC

The Utility recorded accumulated amortization of CIAC of \$174,916. Staff made no adjustments, and therefore, staff recommends an average accumulated amortization of CIAC balance of \$174,916.

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.¹⁰ As such, staff removed the rate case expense of \$1,594. This resulted in an adjusted O&M expense balance of \$187,071. Applying this formula, staff recommends a working capital allowance of \$23,384.

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base is \$1,638,156. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

⁹*Id.*

¹⁰Order No. PSC-2025-0359-PAA-WU, issued September 24, 2025, in Docket No. 20240168-WU, *In re: Application for staff-assisted rate case in Highlands County, by Country Walk Utilities, Inc.*

Issue 5: What is the appropriate return on equity and overall rate of return for Water Oak Utility?

Preliminary Recommendation: The appropriate return on equity (ROE) is 8.51 percent with a range of 7.51 percent to 9.51 percent. The appropriate overall rate of return is 8.51 percent. (Cohn)

Staff Analysis: The Utility's capital structure consists of common equity. The Utility's capital structure has been reconciled to staff's recommended rate base. The ROE is 8.51 percent based on the Commission-approved leverage formula currently in effect.¹¹

Staff recommends an ROE of 8.51 percent with a range of 7.51 percent to 9.51 percent, and an overall rate of return of 8.51 percent. The ROE and overall rate of return are shown on Schedule No. 2.

¹¹Order No. PSC-2025-0213-PAA-WS, issued on June 18, 2025, in Docket No. 20250006-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)(j), F.S.*

Issue 6: What are the appropriate amount of test year operating revenues for Water Oak Utility?

Preliminary Recommendation: The appropriate test year operating revenues for Water Oak's water system are \$167,632. (Sibley)

Staff Analysis: The Utility recorded total test year operating revenues of \$191,134 for water. The water revenues included \$191,134 of service revenues and no miscellaneous revenues. Staff's review of the audit indicated that the Utility's general ledger consisted of duplicate bills for the residential class. Staff removed the duplicate bills and adjusted the billing data to reflect the appropriate billing determinants for residential. In addition, the Utility did not bill 17 general service customers during the test year. To determine the appropriate service revenues, staff applied the adjusted billing determinants for both residential and general service classes to the Utility's tariff rates. As a result, staff determined test year operating revenues should be \$167,632 for water. This results in a decrease to service revenues of \$23,502 (\$191,134 - \$167,632) for water.

Based on the above, the appropriate test year operating revenues for Water Oak's water system are \$167,632.

Issue 7: What is the appropriate amount of operating expense for Water Oak Utility?

Preliminary Recommendation: The appropriate amount of operating expense for Water Oak is \$334,291. (Cohn)

Staff Analysis: The Utility recorded an operating expense of \$342,547. 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 described below.

Operation and Maintenance Expenses

Salaries and Wages – Employees (601)

The Utility recorded salaries and wages – employees expense of \$51,843, which included payroll tax. Staff reduced this account by \$3,669 to reclassify payroll taxes to Taxes Other Than Income. Therefore, staff recommends salaries and wages – employees expense of \$48,174.

Purchased Power (615)

The Utility recorded a purchased power expense of \$13,574. Audit staff increased this amount by \$529 to correct a formula error in the Utility's supporting documentation. Therefore, staff recommends purchased power expense of \$14,103. Staff notes that in Issue 3, the Utility reported an EUW of 32.3 percent.

Materials and Supplies (620)

The Utility recorded materials and supplies expense of \$294. Audit staff reduced this amount by \$60 due to a lack of supporting documentation. Therefore, staff recommends a materials and supplies expense of \$234.

Contractual Services – Professional (631)

The Utility recorded contractual services – professional expense of \$95,324. Audit staff reduced this amount by \$15,870 to remove expenses related to the Utility's 2023 SARC. In addition, staff reduced this amount by \$8,574 to amortize non-reoccurring U.S. Environmental Protection Agency (EPA)-related expenses over five years pursuant to Rule 25-30.433(9), F.A.C. Staff's adjustments result in a total reduction to contractual services – professional of \$24,444. Therefore, staff recommends contractual services – professional expense of \$70,880.

Contractual Services – Other (636)

The Utility recorded contractual services – other expense of \$24,421. Audit staff removed \$2,175 of non-recoverable wastewater-related expenses. Therefore, staff recommends contractual services – other expense of \$22,246.

Regulatory Commission Expense (665)

The Utility did not record a rate case expense for this 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 \$4,848. Staff calculated the distance from the Utility to Tallahassee as 234 miles. Based on the 2025 Internal Revenue Service (IRS) business

mileage rate of \$0.70, staff calculated round-trip travel and lodging expenses to the Commission Conference of \$528.¹² Additionally, the Utility paid a filing fee of \$1,000.¹³

Staff recommends a total current rate case expense, consisting of noticing costs, travel costs, and a filing fee, of \$6,375, which amortized over four years is \$1,594. Therefore, staff recommends a total rate case expense of \$1,594.

Bad Debt Expense (670)

The Utility recorded \$0 of bad debt expense. Staff notes that it is Commission practice to calculate bad debt expense using a three-year average when the information is available.¹⁴ In its three most-recent Annual Reports (2022, 2023, and 2024), the Utility recorded bad debt expenses of \$0 for all three years. In response to Staff's Third Data Request, the Utility confirmed that it recorded no bad debt and that any uncollectible accounts are handled and absorbed by the parent company.¹⁵ Therefore, staff recommends a bad debt expense of \$0.

Operation and Maintenance Expense Summary

The Utility recorded a test year O&M expense of \$216,890. Based on the above adjustments, staff recommends that O&M expenses be reduced by \$28,226. This results in a total O&M expense of \$188,664. Staff's recommended adjustments to O&M are shown on Schedule No. 3-C.

Depreciation Expense

The Utility recorded depreciation expense of \$107,275. Using the depreciation rates prescribed in Rule 25-30.140, F.A.C., staff decreased this amount by \$39. Additionally, staff increased this amount by \$2,976 to reflect the addition of pro forma items. Therefore, staff recommends a depreciation expense of \$110,212.

Taxes Other Than Income (TOTI)

The Utility recorded TOTI of \$18,382, which includes payroll tax, property tax, and regulatory assessment fees. Audit staff increased this amount by \$3,669 to reflect the reclassification of payroll tax expense that had been recorded to Account 601 – Salaries and Wages. Additionally, staff increased TOTI by \$651 to reflect property taxes associated with pro forma plant additions.

Based on revenues discussed in Issue 6, TOTI should be decreased by \$1,058 to reflect a RAF rate of 4.5 percent applied to the change in test year revenues. As such, staff recommends the appropriate amount of test year RAFs is \$7,543.

As discussed later in Issue 9, staff recommends revenues be increased by \$306,017 in order to reflect the change in revenue required to cover expenses and allow an opportunity to earn the

¹²<https://www.irs.gov/newsroom/irs-increases-the-standard-mileage-rate-for-business-use-in-2025-key-rate-increases-3-cents-to-70-cents-per-mile>.

¹³Document No. 06730-2025, filed on July 22, 2025.

¹⁴Order Nos. PSC-2025-0285-PAA-WU, issued July 22, 2025, in Docket No. 20240119-WU, *In re: Application for staff-assisted rate case in Polk County, by Alturas Water, LLC*; and PSC-2025-0284-PAA-SU, issued July 22, 2025, in Docket No. 20250105-SU, *In re: Application for staff-assisted rate case in Polk County, by West Lakeland Wastewater, LLC*.

¹⁵Document No. 15081-2025, filed November 14, 2025.

recommended rate of return. As a result, TOTI should be increased by \$13,771 to reflect RAFs of 4.5 percent of the change in revenues. Therefore, staff recommends a test year TOTI of \$35,415.

Operating Expense Summary

The Utility recorded an operating expense of \$342,547. The application of staff's recommended adjustments to the Utility's operating expense results in a total operating expense of \$334,291. Operating expenses are shown on Schedule No. 3-A, and the related adjustments are shown on Schedule No. 3-B.

Issue 8: Does Water Oak Utility meet the criteria for application of the operating ratio methodology?

Preliminary Recommendation: No, Water Oak does not meet the criteria for application of the operating ratio methodology for calculating the revenue requirement. (Cohn)

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 Water Oak, staff has recommended a rate base of \$1,638,156. After removal of rate case expense, staff has calculated an adjusted O&M expense of \$187,071. Based on staff's preliminary recommended amounts, the Utility's rate base is 875.69 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 Water Oak Utility?

Preliminary Recommendation: The appropriate revenue requirement is \$473,649, resulting in an annual increase of \$306,017 (182.55 percent). (Cohn)

Staff Analysis: Water Oak should be allowed an annual increase of \$306,017 (182.55 percent). This should allow the Utility the opportunity to recover expenses and earn an 8.51 percent return on its rate base. The calculations of revenue requirement are shown on Table 9-1 below.¹⁶

Table 9-1
Water Revenue Requirement

Water Rate Base	\$1,638,156
Rate of Return	× 8.51%
Return on Rate Base	<u>\$139,358</u>
Water O&M Expense	\$188,664
Depreciation Expense	110,212
Taxes Other Than Income	<u>35,415</u>
Revenue Requirement	<u>\$473,649</u>
Less Test Year Revenues	\$167,632
Annual Increase	\$306,017
Percent Increase	182.55%

Source: Staff calculations.

¹⁶Staff notes the calculations presented in Table 9-1 may not sum due to rounding.

Issue 10: What are the appropriate rate structure and rates for Water Oak Utility?

Preliminary Recommendation: The recommended rate structure and monthly water rates are shown on Schedule No. 4. The Utility's proposal to phase-in rates should be denied. 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 by affidavit within 10 days of the date of the notice. (Sibley)

Staff Analysis: Water Oak is located in Lake County within the St. Johns River Water Management District. The Utility provides water service to 1,265 residential customers and 17 general service customers.

A review of the billing data indicates approximately 13 percent of the residential customer bills during the test year had zero gallons, which reflects a non-seasonal customer base. The average residential water demand was 4,540 gallons per month during the test period. Currently, the rate structure for the residential class consists of a base facility charge (BFC) and a three-tier inclining block gallonage charge. The general service class consists of a BFC and uniform gallonage charge.

Staff performed an analysis of the Utility's billing 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 discretionary usage threshold for restricting repression; and (4) implement, where appropriate, water conserving rate structures consistent with Commission practice.

For this case, due to the non-seasonal customer base, staff recommends that 30 percent of the water revenues be generated from the BFC, which will provide sufficient revenues to design gallonage charges that will send the appropriate pricing signals to customers using above the non-discretionary level. The average number of people per household is 1.87,¹⁷ therefore, based on the number of people per household, 50 gallons per day, per person, and the number of days per month, the discretionary usage threshold should be 3,000 gallons per month. Staff's review of the billing data indicates that discretionary usage above 3,000 gallons represents approximately 46 percent of the bills, which accounts for approximately 57 percent of water demand. This indicates that there is some high discretionary usage above 3,000 gallons.

Staff recommends a continuation of the three-tier inclining block rate structure, which includes separate gallonage charges for non-discretionary and discretionary usage for residential water rates. Due to the fairly high usage above 3,000 gallons per month, staff believes that it is appropriate in this case to recommend rate factors of 1.50 in the second tier and 1.75 in the third

¹⁷Average persons per household data may be found at the following:
<https://data.census.gov/table/ACSDP5Y2023.DP02?q=Lady+Lake+town,+Florida+dp02>

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 182.55 percent, which excludes miscellaneous revenues, the residential consumption can be expected to decline by 34,914,000 gallons resulting in an anticipated average residential demand of 2,191 gallons per month. Staff recommends a 51.7 percent reduction in test year residential gallons for ratesetting purposes. As a result, the corresponding reductions for purchased power expense is \$7,276, \$8,264 for chemicals expense, and \$732 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$457,445.

Furthermore, in its application, Water Oak indicated a preference to implement rates in three phases but "reserve[d] the right to implement full compensatory rates . . . in its sole discretion. . ." Staff concluded that a rate phase-in was not needed in this docket. Furthermore, pursuant to Section 367.081(1), "a utility may only charge rates and charges that have been approved by the [C]ommission," except as provided in Subsections (4) and (6). Those Subsections deal with price adjustment indices and the file-and-suspend provision, respectively. Therefore, the Utility may only charge the rates approved by the Commission unless otherwise expressly authorized by law.

Based on the above, staff's recommended rate structure and monthly water rates are shown on Schedule No. 4. The Utility's proposal to phase-in rates should be denied. 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 by affidavit within 10 days of the date of the notice.

Issue 11: 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?

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. Water Oak 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. (Cohn)

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. 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 \$1,669.

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. Water Oak 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 12: Should the recommended rates be approved for Water Oak Utility on 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. Water Oak 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. (Cohn)

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. Water Oak 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.

Water Oak 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 either a bond or letter of credit in the amount of \$209,289. 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.

WATER OAK UTILITY TEST YEAR ENDED 12/31/2024 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 20250088-WU		
DESCRIPTION		BALANCE PER UTILITY	STAFF ADJ.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE		\$2,925,041	(\$447,723)	\$2,477,318
2. LAND & LAND RIGHTS		73,415	(70,365)	3,050
3. ACCUMULATED DEPRECIATION		(1,092,623)	227,028	(865,595)
4. CIAC		(174,916)	0	(174,916)
5. ACCUM. AMORT. CIAC		174,916	0	174,916
6. WORKING CAPITAL ALLOWANCE		0	<u>23,384</u>	<u>23,384</u>
WATER RATE BASE		<u>\$1,905,833</u>	<u>(\$267,677)</u>	<u>\$1,638,156</u>

WATER OAK UTILITY TEST YEAR ENDED 12/31/2024 ADJUSTMENTS TO RATE BASE	SCHEDULE NO. 1-B DOCKET NO. 20250088-WU
	WATER
UTILITY PLANT IN SERVICE	
1. To reflect the reclassification of plant additions.	\$70,365
2. To reflect pro forma additions.	211,131
3. To reflect pro forma retirements.	(158,348)
4. To reflect averaging adjustments.	<u>(570,871)</u>
Total	<u>(\$447,723)</u>
LAND & LAND RIGHTS	
1. To reflect reclassification of plant additions.	<u>(\$70,365)</u>
ACCUM. DEPRECIATION	
1. To reflect auditing adjustments.	\$11,585
2. To reflect pro forma adjustments.	155,373
3. To reflect averaging adjustments.	<u>60,070</u>
Total	<u>\$227,028</u>
WORKING CAPITAL ALLOWANCE	
To reflect 1/8 of test year O&M expenses (less RCE).	<u>\$23,384</u>

WATER OAK UTILITY TEST YEAR ENDED 12/31/2024 SCHEDULE OF CAPITAL STRUCTURE				SCHEDULE NO. 2 DOCKET NO. 20250088-WU		
CAPITAL COMPONENT	PER UTILITY	PRO RATA ADJ.	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON EQUITY	<u>\$1,905,833</u>	<u>(\$267,677)</u>	<u>\$1,638,156</u>	<u>100.00%</u>	<u>8.51%</u>	<u>8.51%</u>
TOTAL CAPITAL	<u>\$1,905,833</u>	<u>(\$267,677)</u>	<u>\$1,638,156</u>	<u>100.00%</u>	<u>8.51%</u>	<u>8.51%</u>
RANGE OF REASONABLENESS				LOW	HIGH	
RETURN ON EQUITY				7.51%	9.51%	
OVERALL RATE OF RETURN				7.51%	9.51%	

WATER OAK UTILITY TEST YEAR ENDED 12/31/2024 SCHEDULE OF WATER OPERATING INCOME				SCHEDULE NO. 3-A DOCKET NO. 20250088-WU	
	TEST YEAR PER UTILITY	STAFF ADJUST- MENTS	STAFF ADJUSTED TEST YEAR	ADJUST FOR TEST YEAR INCREASE	REVENUE REQUIREMENT
1. TOTAL OPERATING REVENUES	\$191,134	(\$23,502)	\$167,632	\$306,017 182.55%	\$473,649
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$216,890	(\$28,226)	\$188,664		\$188,664
3. DEPRECIATION (NET)	\$107,275	\$2,937	\$110,212		\$110,212
4. AMORTIZATION	\$0	\$0	\$0		\$0
5. TAXES OTHER THAN INCOME	\$18,382	\$3,263	\$21,645	\$13,771	\$35,415
6. INCOME TAXES	\$0		\$0		\$0
TOTAL OPERATING EXPENSES	\$342,547	(\$22,026)	\$320,521		\$334,291
7. OPERATING INCOME / (LOSS)	(\$151,413)		(\$152,889)		\$139,358
8. WATER RATE BASE	\$1,905,833	(\$267,677)	\$1,638,156		\$1,638,156
9. RATE OF RETURN					8.51%

WATER OAK UTILITY TEST YEAR ENDED 12/31/2024 ADJUSTMENTS TO OPERATING INCOME		SCHEDULE NO. 3-B DOCKET NO. 20250088-WU
		WATER
OPERATING REVENUES		
1. To reflect an adjustment to Service Revenues.		<u>(\$23,502)</u>
OPERATION & MAINTENANCE EXPENSE		
1. Salaries and Wages – Employees (601) To separate payroll tax from salaries.		<u>(\$3,669)</u>
2. Purchased Power (615) To reflect an auditing adjustment.		<u>\$529</u>
3. Materials and Supplies (620) To reflect an auditing adjustment.		<u>(\$60)</u>
4. Contractual Services – Professional (631) To reflect an auditing adjustment. To include amortized EPA costs.		<u>(\$15,870)</u> <u>(8,574)</u> <u>(\$24,444)</u>
5. Contractual Services – Other (636) To reflect an auditing adjustment.		<u>(\$2,175)</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS		<u>(\$28,226)</u>
DEPRECIATION EXPENSE		
1. To reflect an auditing adjustment. 2. To reflect pro forma additions.		<u>(\$39)</u> <u>2,976</u> <u>(\$2,937)</u>
TAXES OTHER THAN INCOME		
1. To reflect an adjustment to RAFs due to the revenue adjustments. 2. To reflect appropriate tangible and property taxes. 3. To reflect property taxes associated with pro forma additions. 4. To reflect appropriate RAFs on revenue requirement increase.		<u>(\$1,058)</u> <u>3,669</u> <u>651</u> <u>13,771</u> <u>(\$17,033)</u>
TOTAL OPERATING EXPENSE ADJUSTMENTS		<u>(\$8,255)</u>

WATER OAK UTILITY TEST YEAR ENDED 12/31/2024 ANALYSIS OF WATER O&M EXPENSES		SCHEDULE NO. 3-C DOCKET NO. 20250088-WU		
ACCT.#	DESCRIPTION	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
601	Salaries and Wages – Employees	\$51,843	(\$3,669)	\$48,174
615	Purchased Power	13,574	529	14,103
618	Chemicals	16,019	0	16,019
620	Materials and Supplies	294	(60)	234
630	Contractual Services – Billing	10,785	0	10,785
631	Contractual Services – Professional	95,324	(24,444)	70,880
635	Contractual Services – Testing	3,629	0	3,629
636	Contractual Services – Other	24,421	(2,175)	22,246
665	Rate Case Expense	0	1,594	1,594
675	Miscellaneous Expenses	<u>1,001</u>	<u>0</u>	<u>1,001</u>
Total O&M Expense		<u>\$216,890</u>	<u>(\$28,226)</u>	<u>\$188,664</u>
Working Capital is 1/8 of O&M less RCE				\$23,384

WATER OAK UTILITY TEST YEAR ENDED 12/31/2024 MONTHLY WATER RATES		SCHEDULE NO. 4 DOCKET NO. 20250088-WU		
		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"		\$5.74	\$9.11	\$0.03
3/4"		\$8.61	\$13.67	\$0.05
1"		\$14.35	\$22.78	\$0.08
1-1/2"		\$28.70	\$45.55	\$0.16
2"		\$45.92	\$72.88	\$0.26
3"		\$91.84	\$145.76	\$0.52
4"		\$143.50	\$227.75	\$0.82
6"		\$287.00	\$455.50	\$1.64
Charge per 1,000 gallons – Residential Service				
0 - 3,000 gallons		\$1.07	\$9.30	\$0.03
3,001 - 6,000 gallons		\$1.11	\$13.95	\$0.05
Over 6,000 gallons		\$1.43	\$16.28	\$0.06
Charge per 1,000 gallons – General Service				
		\$1.17	\$9.77	\$0.04
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
3,000 Gallons		\$8.95	\$37.01	
6,000 Gallons		\$12.28	\$78.86	
8,000 Gallons		\$15.14	\$111.42	