

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

July 19, 2021

IN RE:)	
)	
PETITION OF ATMOS ENERGY CORPORATION)	DOCKET NO.
FOR APPROVAL OF ITS 2021 ANNUAL RATE)	21-00019
REVIEW FILING PURSUANT TO TENN. CODE)	
ANN. § 65-5-103(d)(6))	

ORDER APPROVING STIPULATION AND SETTLEMENT AGREEMENT

This matter came before Chairman Kenneth C. Hill, Commissioner Robin L. Morrison, and Commissioner David F. Jones of the Tennessee Public Utility Commission (“TPUC” or the “Commission”), the voting panel assigned to this docket, at a regularly scheduled Commission Conference held on May 19, 2021, for consideration of the *Stipulation and Settlement Agreement* (“Settlement Agreement”) filed by Atmos Energy Corporation (“Atmos”, “Atmos Energy”, or the “Company”) and the Consumer Advocate Unit in the Financial Division of the Office of the Tennessee Attorney General (“Consumer Advocate”). The *Settlement Agreement* is intended to resolve any disputes concerning the *2021 Tennessee Annual Rate Review Filing* (“*Petition*”), filed on February 1, 2021 by Atmos.

BACKGROUND

In Docket No. 14-00146, the Commission approved a *Stipulation and Settlement Agreement* between Atmos and the Consumer Advocate implementing an Annual Rate Review

Mechanism (“ARM”) pursuant to Tenn. Code Ann. § 65-5-103(d)(6) for Atmos.¹ This mechanism allows for annual rate reviews by the Commission in lieu of a general rate case.² Pursuant to the *Order Approving Settlement* in Docket No. 14-00146, the twelve-month period ending September 30th of each year prior to the annual ARM filing date of February 1st was to be used as the test year, with rates to be established based on a forward-looking test year for the twelve-month period ending May 31st of each following year.³ Additionally, the Company was required to use the authorized return on equity as established in Docket No. 14-00146 or any subsequent general rate case.⁴

In addition to the annual rate review filing by no later than February 1st of each year, a second step of the ARM also required the Company to file an Annual Reconciliation to the authorized return on equity by September 1st of each year.⁵ This filing was required to reconcile actual amounts to the Company’s authorized return on equity for the forward-looking test year that immediately completed, inclusive of interest at the overall cost of capital compounded for two years.⁶ The resulting rates would be effective on bills rendered on or after June 1st.⁷

As the Commission considered the Company’s 2018 ARM Filing in Docket No. 18-00067, in response to formal Commission Staff questions regarding potential changes and/or modifications to Atmos’ existing ARM, both parties stated a willingness to explore options for replacing the two-step budget and reconciliation process and replacing it with a more efficient and

¹ See *In re: Petition of Atmos Energy Corporation for a General Rate Increase under T.C.A. 65-5-103(a) and Adoption of an Annual Rate Review Mechanism Under T.C.A. 65-5-103(d)(6)*, Docket No. 14-00146, *Order Approving Settlement* (November 4, 2015) (hereinafter *Atmos Rate Case*, Docket No. 14-00146, *Order Approving Settlement*).

² Tenn. Code Ann. § 65-5-103(d)(6).

³ *Atmos Rate Case*, Docket No. 14-00146, *Order Approving Settlement*, pp. 5-6 (November 4, 2015).

⁴ *Id.*

⁵ *Id.* at 5.

⁶ *Id.*

⁷ *Id.* at 7.

transparent one-step annual review process.⁸

While agreeing to explore a one-step process, however, the parties indicated different views as to the overall plan and tariff modifications necessary to implement a one-step process. As a result, in its *Final Order* in Docket No. 18-00067, the Commission ordered that a new docket be opened to examine and consider a one-step approach for Atmos Energy Corporation's annual rate review mechanism.⁹

Docket No. 18-00112 was opened to explore modifications of the Company's ARM and included the participation of the Consumer Advocate and Commission Party Staff ("Party Staff"). The Company, Consumer Advocate, and the Party Staff reached an agreement in Docket No. 18-00112 and filed the *Stipulation and Settlement Agreement* on October 2, 2019. The Commission approved the settlement and found that the terms and procedures of the modified ARM were reasonable and consistent with the provisions of Tenn. Code Ann. § 65-5-103(d)(6), and that the transition schedule from two annual filings to a single filing was reasonable and appropriate.¹⁰ In addition, the Commission found that the modified ARM continues to be in the public interest and will allow Atmos to timely recover its investment and operating expenses, while continuing to provide safe and reliable service to its customers.¹¹

THE PETITION

In accordance with modifications and deadlines set in the *Stipulation and Settlement Agreement* in Docket No. 18-00112, on February 1, 2021, Atmos submitted the *Petition*, including the pre-filed direct testimony of William D. Matthews, Manager of Rates and Regulatory Affairs.

⁸ *In re: Atmos Energy Corporation's 2018 ARM Filing*, Docket No. 18-00067, *Order Approving 2018 Annual Rate Review Filing*, p. 7 (December 4, 2018).

⁹ *Id.* at 10.

¹⁰ *In re: Docket to Investigate and Consider Modifications to Atmos Energy Corporation's Annual Rate Review Mechanism Under Tenn. Code Ann. § 65-5-103(d)(6)*, Docket No. 18-00112, *Order Approving Stipulation and Settlement Agreement*, pp. 9-10 (December 16, 2019).

¹¹ *Id.*

Mr. Matthews presented the Company's calculations for the Historic Test Period ending September 30, 2020, and the resulting revenue requirement needed in order for the Company to earn its authorized return on equity ("ROE") for the Historic Test Period ending September 30, 2020.¹²

Mr. Matthews attested that the Revenue Requirement Models (Schedules 1-11) were made in accordance with approved methodologies and that the Company's total cost of service for the historic test period ended September 30, 2020 is \$145,826,135.¹³ The Company's revenue, using its previously approved rates and actual historical normalized billing determinants, is \$137,505,439, resulting in a revenue deficiency of \$8,320,696 for the historic period ending September 30, 2020.¹⁴

After comparing the actual cost of service, less gas cost, from the historic period with the actual gross margin from the same period, the Company claimed there is a revenue deficiency of \$5,632,416. Mr. Matthews asserted this includes the net revenue deficiency of \$713,614 as approved by the Commission in TPUC Docket No. 19-00076 and the expense credit of \$6,056,542 for the amortization of excess deferred income tax as determined and in accordance with a settlement approved by the Commission in Docket No. 18-00034.¹⁵

Mr. Matthews confirmed there are no adjustments due to the impact of the Coronavirus and the ARM remains in the public interest as determined by the Commission in Docket No. 18-00112.¹⁶ Mr. Matthews affirmed the methodologies utilized in this filing are consistent with those approved by this Commission and requests approval of the Company's 2021 ARM filing and the

¹² William D. Matthews, Pre-Filed Direct Testimony, p. 3 (February 1, 2021).

¹³ *Id.*

¹⁴ *Id.*

¹⁵ *See In re: Response of Atmos Energy Corporation to the Commission's Order Opening an Investigation and Requiring Deferred Accounting*, Docket No. 18-00034, *Order Approving November 2020 Stipulation and Settlement Agreement* (April 22, 2021).

¹⁶ William D. Matthews, Pre-Filed Direct Testimony, pp. 4-6 (February 1, 2021).

calculated revenue requirement.¹⁷

In response to a data request from the Consumer Advocate, the Company filed revised calculations and schedules in the docket and supplemental testimony on March 11, 2021. According to the revised schedules the Company is now requesting to recover a revenue deficiency of \$11,108,072.¹⁸ In supplemental testimony, Mr. Matthews explained the revisions and supplemental exhibits. Mr. Matthews attests to the following three changes from the original filing:

1. Change the excess deferred income tax (“EDIT”) calculations from March 2021 rather than June 2021, resulting in an additional deficiency of \$56,255;
2. Include account Allowance of Funds Used During Construction (“AFUDC”) account 4191 which had been omitted in the original filing; and
3. The previous two changes necessitated an update in the proposed rates previously used to determine net revenue at present rates.

Mr. Matthews asserted the two corrections resulted in a modification in the proposed rates contained in the original *Petition*.¹⁹

POSITION OF THE CONSUMER ADVOCATE

On behalf of the Consumer Advocate, Mr. David N. Dittmore submitted pre-filed direct testimony, which indicated the Consumer Advocate’s concurrence with the Company’s revisions made as a result of its recognition of AFUDC.²⁰ Based upon Mr. Dittmore’s conclusions and calculations, the Consumer Advocate asserted Atmos’ ARM should increase revenues by \$10,329,808 rather than \$11,108,071 as proposed by the Company.²¹

¹⁷ *Id.* at 12-13.

¹⁸ Atmos Revised Schedule 1 (March 5, 2021).

¹⁹ William D. Matthews, Pre-Filed Supplemental Testimony, pp. 2-4 (March 11, 2021).

²⁰ David N. Dittmore, Pre-Filed Direct Testimony, pp. 3-4 (April 1, 2021).

²¹ *Id.*

Mr. Dittmore made one adjustment increasing revenues to \$116,381²² and five adjustments to operation and maintenance (“O&M”) expense excluding costs of \$304,390 (\$164,936 + \$39,051 + \$16,542 + \$68,860 + \$15,000).²³ After making these adjustments, the total income tax liability decreased \$1,614²⁴ and carrying costs decreased \$49,259.²⁵

Mr. Dittmore noted Atmos closed two sales of assets during the test period as the basis for his revenue adjustment of \$116,381 above the line for ratemaking purposes. The sale of over two acres of land in Maury County, Tennessee and the sale of a service center in Morrison, Tennessee. He asserted the gain on the sale of Atmos Energy’s service center should be included in the revenue amount used to determine the ARM based on the theory that shareholders have been compensated by ratepayers for the cost of the service center and therefore any gain should be given to those ratepayers.²⁶ The Consumer Advocate noted prior Commission decisions supporting this ratemaking theory.²⁷

Mr. Dittmore removed \$164,936 from O&M for the supplemental retirement benefits included by the Company representing pension costs above the base level pension available for non-executive employees and classified as Statement of Financial Accounting Standard (87) (“FAS”) costs.²⁸ Similar costs were excluded in the approved settlement in Commission Docket No. 14-00146, which established the initial ARM. Mr. Dittmore asserted there is no rationale for adopting a cash-basis pension calculation for non-executive employees and then permitting the recovery of an accrual pension expense for supplemental executive retirement costs.²⁹

²² *Id.* at Schedule 2.

²³ *Id.* at Schedule CA-4.

²⁴ *Id.* at Schedule CA-8.

²⁵ *Id.* at Schedule 9.

²⁶ *Id.* at 10-11.

²⁷ *Id.* at 12-13.

²⁸ *Id.* at 13-14.

²⁹ *Id.* at 13-16.

Mr. Dittmore removed \$39,051 from O&M costs related to the Variable Pay and Management Incentive Plans. Based upon the Consumer Advocate's review of the Company's workpapers, the Company excluded some amounts from its September 2020 month activity in sub-account 7452 resulting in an incorrect disallowance credit.³⁰ Based on the Company's response to the Consumer Advocate Data Requests, Mr. Dittmore removed an additional \$16,542 from O&M costs because they were either incorrectly allocated or should not be included in the revenue requirement.³¹

The Consumer Advocate made additional adjustments to the Company's legal fees, finding that \$68,860 were for services performed during the months of July, August, and September 2019, which are outside of the test period (October 2019 through September 2020).³² Finally, Mr. Dittmore removed \$15,000 from O&M costs for dues paid to the Northeast Tennessee Regional Economic Partnership Inc. The Consumer Advocate contended such costs are charitable contributions promoting economic development and not the type of costs that should be recovered from ratepayers. Mr. Dittmore asserted the Commission has previously found in Commission Docket No. 14-00121 that such costs do not satisfy the necessity requirement and they do not provide any benefit to ratepayers and should therefore not be allowed for recovery.³³

With respect to rate design, Mr. Dittmore prepared and presented an across the board increase to each rate class and to each individual rate of 14.35% to recover the additional \$10,329,807 in needed revenue.³⁴ Mr. Dittmore notes the Company's proposed rate design did not carry forward Transportation Demand Volume revenue of \$334,984 when calculating the proof

³⁰ *Id.* at 16-17.

³¹ *Id.* at 17.

³² *Id.* at 18-19.

³³ *Id.* at 19-20.

³⁴ *Id.* at 21.

of revenue. He asserted the omission of this revenue results in other rates being higher which is unjustified. Therefore, Mr. Dittmore requested the Company be directed to include this revenue in its proof of revenue calculation.³⁵

The Consumer Advocate also addressed changes to how future ARMs are calculated. Mr. Dittmore requested a modification in future dockets for the calculation of the Company's Cash Working Capital. He asserted non-cash items such as depreciation, federal and state income taxes, and return on equity are assigned a zero lag when calculating weighted expense lag days while they are included in the denominator when calculating net expense lead days resulting in inaccuracies in Cash Working Capital. Mr. Dittmore asserted this method is inconsistent with the regulatory theory supporting Cash Working Capital and should be removed completely when computing the net expense lead days.³⁶ Mr. Dittmore noted that one could claim this issue was previously "settled" or resolved; however, Mr. Dittmore submitted that the public interest dictates the need to continually evaluate the reasonableness and accuracy of the ARM calculations.³⁷

Mr. Dittmore concluded his pre-filed direct testimony with the cost per installed service line of \$3,639 which he asserted is extremely high and in excess of the costs during the 2015-2017 timeframe. The Consumer Advocate recommended this cost be monitored going forward.³⁸

REBUTTAL TESTIMONY OF THE COMPANY

In pre-filed rebuttal testimony filed on April 16, 2021, Mr. Matthews agreed conceptually with the Consumer Advocate that Supplemental Executive Costs ("SERP") should be in the same category as other FAS 87 expenses. As such, the Company removed the SERP expense of

³⁵ *Id.* at 21-22.

³⁶ *Id.* at 23.

³⁷ *Id.* at 24.

³⁸ *Id.*

\$164,936 from O&M Expenses.³⁹ The Company further noted the removal of \$16,542 from O&M expenses as expressed in responses to data requests in the docket.⁴⁰ With respect to rate design, the Company agrees that Transportation Demand Volumes should be included, although Mr. Matthews asserted that the Company followed the approved method of allocation.⁴¹

The Company disagreed with several of the proposed adjustments of the Consumer Advocate, including increasing revenues by \$116,381 to recognize the gain on sale of the service center, removing incentive compensation of \$39,051, removing out of period costs of \$68,860 from O&M expenses, and removal of \$15,000 in Association dues.⁴² He asserted these dues were paid to an industry Association and not a charitable contribution as the Consumer Advocate asserts.⁴³ The Company opposed the Consumer Advocate's prospective recommendation to revise the methodology used in determining cash working capital in future ARM filings. Mr. Matthews claimed there are sound ratemaking reasons for the current methodology and changing the approved methodology should only be considered within a rate case proceeding.⁴⁴

Mr. Matthews noted that the COVID-19 pandemic had no material impact on the Company's operating results. The Company claimed the Consumer Advocate's analysis of construction metrics in determining average cost is at a high level and asserted it does not have much meaning when determining specific construction cost.⁴⁵

STIPULATION AND SETTLEMENT AGREEMENT

On the same day the Company filed its rebuttal testimony on April 16, 2021, the parties filed the *Settlement Agreement*. In the *Settlement Agreement*, the parties agreed to a Revenue

³⁹ William D. Matthews, Pre-Filed Rebuttal Testimony, pp. 3-4 (April 16, 2021).

⁴⁰ *Id.* at 4.

⁴¹ *Id.* at 5.

⁴² *Id.* at 6-8.

⁴³ *Id.* at 8.

⁴⁴ *Id.* at 9.

⁴⁵ *Id.* at 10.

Deficiency of \$12,315,693, Amortization of EDIT \$6,112,798, and a True-Up Total of \$4,264,868.⁴⁶ This results in a Total Revenue Deficiency of \$10,467,763 to be recovered from ratepayers with the individual agreed upon adjustments below:

Beginning True-Up Adjustment	\$4,664,356
Gain on Sale of Service Center	(116,381)
Removal of SERP	(164,936)
Removal of allocated legal expense	(16,542)
Removal of out of period costs	(43,195)
Removal of Association dues	(15,000)
Carrying Costs	(43,434)
True-Up Total	\$4,264,868

The adjustments reflected in the *Settlement Agreement* reduce the requested recovery amount of \$11,108,072 sought by the Company to \$10,467,763.

The *Settlement Agreement* included an agreed-upon rate design that allocated the total revenue deficiency, inclusive of the amortization of EDIT and the annual true-up, among the rate classes proportionate to the current margin of each class, and proportionate to the current base and volumetric components within each class. The proposed rate design allocated 51.95% of the needed revenue increase to the residential class and further splits this revenue increase to residential rates to 72% in fixed charges and 28% to commodity rates, thus maintaining the current margin for the residential class.⁴⁷ This allocation method for the revenue increase is also used for all other customer rate classes. This rate design methodology was initially adopted for the Company in its original ARM filing in Docket No. 14-00146 and has been used in each subsequent ARM filing. Of note, the fixed monthly rates for residential service will increase from \$15.65 in summer months to \$18.00 and from \$17.65 in winter months to \$20.00.⁴⁸

⁴⁶ *Stipulation and Settlement Agreement*, p. 4 (April 16, 2021).

⁴⁷ *Id.* at Exhibit A.

⁴⁸ *Id.*

On May 5, 2021, Mr. Brannon C. Taylor submitted pre-filed testimony on behalf of the Company adopting the previous pre-filed testimony of Mr. William D. Matthews and also outlining the major adjustments made in the *Settlement Agreement*.⁴⁹

THE HEARING

The hearing on the *Settlement Agreement* was noticed by the Commission on May 10, 2021, and held during the regularly scheduled Commission Conference on May 19, 2021.

Appearances were made by the following:

Atmos Energy Corporation. – Erik Lybeck Esq., Neal & Harwell, 1201 Demonbreun Street, Suite 1000 Nashville, Tennessee 37203.

Consumer Advocate Unit – Karen Stachowski, Esq. Financial Division of the Office of the Tennessee Attorney General and Reporter, Post Office Box 20207, Nashville, Tennessee, 37219.

The *Settlement Agreement* was presented to the Hearing Panel. The Hearing Panel heard testimony by Mr. Brannon Taylor in support of the *Settlement Agreement*. Members of the public were given an opportunity to offer comments, but no one sought recognition to do so.

FINDINGS & CONCLUSIONS

After reviewing the evidentiary record, the Hearing Panel found the calculations contained in Atmos Energy's *Petition*, as revised, to be consistent with the methodologies approved in Commission Docket No. 14-00146 and subsequent Commission Orders regarding Atmos Energy's Annual Rate Review Mechanism. Further, after review of the *Settlement Agreement* filed by the parties on April 16, 2021, including the agreed-upon adjustments to the Company's calculated revenue deficiency, the Hearing Panel found unanimously that the final revenue requirement contained in the *Settlement Agreement* of \$10,467,763, which includes the amortization of Excess Deferred Income Taxes and the true-up increase, to be reasonable. The Hearing Panel further

⁴⁹ Brannon C. Taylor, Pre-Filed Direct Testimony (May 5, 2021).

found the rate design attached to the *Settlement Agreement* to be reasonable and consistent with the approved methodologies set forth in Atmos Energy's approved tariffs.

Finally, the Hearing Panel found that the Annual Rate Review Mechanism continues to be in the public interest and allows Atmos Energy to timely recover its investment and operating expenses, while continuing to provide safe and reliable service to its customers. Therefore, the Hearing Panel voted unanimously to approve the *Settlement Agreement* as filed.

IT IS THEREFORE ORDERED THAT:

1. The *Stipulation and Settlement Agreement* filed by Atmos Energy Corporation and the Tennessee Attorney General and Reporter, through the Consumer Advocate Unit of the Financial Division on April 16, 2021, is approved, adopted, and incorporated herein as Exhibit I.
2. Atmos Energy Corporation shall file tariffs reflecting this decision.
3. Any party aggrieved by the Commission's decision in this matter may file a Petition for Reconsideration with the Commission within fifteen days from the date of this Order.
4. Any party aggrieved by the Commission's decision in this matter has the right to judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty days from the date of this Order.

FOR THE TENNESSEE PUBLIC UTILITY COMMISSION:

**Chairman Kenneth C. Hill
Commissioner Robin L. Morrison, and
Commissioner David F. Jones concurring.**

None dissenting.

ATTEST:

A handwritten signature in cursive script that reads "Earl Taylor".

Earl R. Taylor, Executive Director

EXHIBIT 1

**IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE**

IN RE:)	
)	
ATMOS ENERGY CORPORATION)	DOCKET NO. 21-00019
FOR APPROVAL OF ITS 2021 ANNUAL RATE)	
REVIEW FILING PURSUANT TO TENN.)	
CODE ANN. § 65-5-103(d)(6))	
)	

STIPULATION AND SETTLEMENT AGREEMENT

In a compromise and settlement of the outstanding issues in this matter, Tennessee Public Utility Commission (“TPUC” or “Commission”) Docket No. 21-00019, The Consumer Advocate Unit of the Financial Division of the Office of the Tennessee Attorney General (the “Consumer Advocate”), by and through counsel, and Atmos Energy Company (“Atmos Energy” or the “Company”) (collectively, the “Parties”), respectfully submit this Stipulation and Settlement Agreement (“Settlement Agreement”).

BACKGROUND

1. On February 1, 2021, the Company filed the *Petition of Atmos Energy Corporation for Approval of its 2021 Annual Rate Review Filing Pursuant to Tenn. Code Ann. § 65-5-103(d)(6)* seeking approval of new rates pursuant to its alternative ratemaking mechanism as approved in TPUC Docket No. 14-00146 and as modified in TPUC Docket No. 18-00112.
2. On April 1, 2021, the Consumer Advocate filed the *Direct Testimony of David N. Dittmore* (the “Consumer Advocate’s testimony”), which raised certain objections to portions of the calculations accompanying the Company’s Petition.
3. On April 16, 2021, the Company filed the *Rebuttal Testimony of William Matthews* in response to the issues raised by the Consumer Advocate’s testimony.

II. SETTLEMENT AGREEMENT TERMS

4. The Parties to this Settlement Agreement have undertaken discussions to resolve the remaining disputed issues in this case. As a result of the information obtained during the discussions between the Parties, and for the purpose of avoiding further litigation and resolving this matter upon acceptable terms, the Parties have reached this Settlement Agreement. Subject to the TPUC's approval, in furtherance of this Settlement Agreement, the Parties have agreed to the settlement terms set forth below:

5. The Parties agree to increase the Company's Operating Revenue by \$116,381 to recognize a gain on sale as shown on Schedule CA-A to the Consumer Advocate's testimony. This increase has been agreed to solely for purposes of resolving this matter without litigation, and inclusion of this provision in this Settlement Agreement does not reflect the adoption of any methodology regarding gains or losses on sale by the Parties in future ARM filings. Notwithstanding the inclusion of this provision in this Settlement Agreement, the Parties reserve their respective rights regarding this issue in future ARM proceedings.

6. The Parties agree to remove Supplemental Executive Retirement Program ("SERP") expenses as shown on Schedule CA-B in the Consumer Advocate's testimony from FAS 87 accrual in this proceeding and future ARM proceedings and will treat in accordance with other FAS 87 accrual items as expressed in the Settlement Agreement to Docket No. 14-00146.

7. The Parties agree to reduce the Company's O&M costs by \$16,542 as shown on Schedule CA-D to the Consumer Advocate's testimony.

8. The Parties agree to reduce the Company's O&M costs by \$43,195 for O&M costs incurred in the months of July and August as labeled on Schedule CA-E to the Consumer Advocate's testimony. This O&M reduction is specifically in relation to the stub period caused

by the Company's shift from two ARM filings per year to one ARM filing per year and pursuant to the terms of the Commission's Order in Docket No. 18-00112. This reduction has been agreed to solely for purposes of resolving this matter without litigation, and inclusion of this provision does not reflect the adoption of any methodology regarding timing of recoverable O&M costs by the Parties in future ARM filings. Notwithstanding the inclusion of this provision in this Settlement Agreement, the Parties reserve their respective rights regarding this issue in future ARM proceedings.

9. The Parties agree to reduce the Company's O&M costs by \$15,000 for Association dues paid to the Northeast Tennessee Regional Economic Partnership Inc. This reduction has been agreed to solely for purposes of resolving this matter without litigation, and inclusion of this provision does not reflect the adoption of any methodology regarding the recoverability of such dues by the Parties in future ARM filings. Notwithstanding the inclusion of this provision in this Settlement Agreement, the Parties reserve their respective rights regarding this issue in future ARM proceedings.

10. The Parties agree to update the Company's rate design allocation as shown on Schedule 11-3 attached to this Settlement Agreement as Exhibit A.

11. Removing these filings from the Company's request, as updated in the Company's Supplemental Response to DR 1-08 of the Consumer Advocate's First Discovery Request, reduces the revenue requirement and true-up increase from \$11,108,071 to \$10,467,763. The table below shows the impact of the items listed in Paragraphs 4-9 above on the revenue requirement and true-up:

	<u>Sch 1</u>	<u>Sch 1R</u>
Total Revenue Deficiency (Sufficiency)	\$ 12,556,513	\$ 4,664,356
CAU Adjustment #1 Gain on the Sale of Utility Assets	-	(116,381)
CAU Adjustment #2 Supplemental Exec. Retirement	(164,936)	(164,936)
CAU Adjustment #4 Certain Legal Costs	(16,542)	(16,542)
CAU Adjustment #5 Remove Out of Period Costs (July-Aug)	(43,195)	(43,195)
CAU Adjustment #6 Economic Development Association Dues	(15,000)	(15,000)
Flow Through Adjustments/Carrying Costs	(1,147)	(43,434)
Subtotal	\$ 12,315,693	\$ 4,264,868
Amortization of EDITL	(6,112,798)	
True-up Total	4,264,868	
Settlement Offer	\$ 10,467,763	

12. The Settlement Agreement does not address any other issues or adjustments raised by the Consumer Advocate’s testimony except those expressly agreed upon within this Settlement Agreement. Any issues or adjustments not expressly addressed in this Settlement Agreement are reserved by both Parties to be raised in future ARM proceedings.

13. All pre-filed discovery (formal and informal), testimony and exhibits of the Parties will be introduced into evidence without objection, and the Parties waive their right to cross-examine all witnesses with respect to all such pre-filed testimony. If, however, questions should be asked by any person, including a Commissioner, the Parties may present testimony and exhibits to respond to such questions and may cross-examine any witnesses with respect to such testimony and exhibits. The Parties would ask to permit any out-of-town witnesses to be available by telephone or video conference to reduce the costs associated with such appearance.

14. After the filing of this Settlement Agreement, the Parties agree to support this Settlement Agreement before the TPUC and in any hearing, proposed order, or brief conducted or filed in this Docket. The provisions in this Settlement Agreement do not necessarily reflect the positions asserted by any Party. None of the Parties to this Settlement Agreement shall

be deemed to have acquiesced in or agreed to any ratemaking or accounting methodology or procedural principle except for the limited extent necessary to implement the provisions hereof and to the extent expressly stated above.

15. This Settlement Agreement shall not have any precedential effect in any future proceeding or be binding on any of the Parties in this or any other jurisdiction except to the limited extent necessary for the enforcement and implementation of the provisions hereof and to the extent expressly stated above.

16. The Parties request the Commission to order that the settlement of any issue pursuant to this Settlement Agreement shall not be cited by the Parties or any other entity as binding precedent in any other proceeding before TPUC, or any court, state or federal, except to the limited extent necessary to implement the provisions hereof and for the limited purpose of enforcement should it become necessary.

17. The terms of this Settlement Agreement have resulted from extensive negotiations between the signatories and the terms hereof are interdependent. The Parties jointly recommend that TPUC issue an order adopting this Settlement Agreement in its entirety without modification.

18. If the Commission does not accept the settlement in whole, the Parties are not bound by any position or term set forth in this Settlement Agreement. In the event that TPUC does not approve this Settlement Agreement in its entirety, each of the signatories to this Settlement Agreement retains the right to terminate this Settlement Agreement by giving notice of the exercise of such right within 15 business days of the date of such action by TPUC; provided, however, that the signatories to this Settlement Agreement could, by unanimous consent, elect to modify this Settlement Agreement to address any modification required by,

or issues raised by, TPUC within the same time frame. Should this Settlement Agreement terminate, it would be considered void and have no binding precedential effect, and the signatories to this Settlement Agreement would reserve their rights to fully participate in all relevant proceedings notwithstanding their agreement to the terms of this Settlement Agreement.

19. By agreeing to this Settlement Agreement, no Party waives any right to continue litigating this matter should this Settlement Agreement not be approved by TPUC in whole or in part.

20. No provision of this Settlement Agreement shall be deemed an admission of any Party. No provision of this Settlement Agreement shall be deemed a waiver of any position asserted by a Party in these two Dockets or any other docket.

21. The Consumer Advocate's agreement to this Settlement Agreement is expressly premised upon the truthfulness, accuracy and completeness of the information provided by Atmos Energy to TPUC and the Consumer Advocate throughout the course of this Docket, which information was relied upon by the Consumer Advocate in negotiating and agreeing to the terms and conditions of this Settlement Agreement.

22. The acceptance of this Settlement Agreement by the Attorney General shall not be deemed approval by the Attorney General of any of Atmos Energy's acts or practices.

23. Each signatory to this Settlement Agreement represents and warrants that it/he/she has informed, advised and otherwise consulted with the Party for whom it/he/she signs regarding the contents and significance of this Settlement Agreement and has obtained authority to sign on behalf of such Party, and based upon those communications, each signatory represents and warrants that it/he/she is authorized to execute this Settlement

Agreement on behalf of its/his/her respecting Party.

24. This Settlement Agreement shall be governed by and construed under the laws of the State of Tennessee, Tennessee choice of law rules notwithstanding.

25. Nothing herein limits or alters the Sovereign Immunity of the State of Tennessee or any of its entities or subdivisions.

26. The Parties agree that approval of the Settlement Agreement will become effective upon the oral decision of TPUC.

The foregoing is agreed and stipulated to this 16th day of April, 2021.

[Parties' signature pages follow – remainder of page intentionally left blank]

Stipulation and Settlement Agreement
Tennessee Public Utility Commission Docket No. 21-00019
Atmos Energy Corporation Signature Page

ATMOS ENERGY CORPORATION.

HAVE SEEN AND AGREED.

BY: 
ERIK C. LYBECK, (BPR # 35233)
Neal & Harwell, PLC
1201 Demonbreun Street, Ste. 1000
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[additional signature page follows – remainder of page intentionally left blank]

Stipulation and Settlement Agreement
Tennessee Public Utility Commission Docket No. 21-00019
Attorney General's Signature Page

FINANCIAL DIVISION, CONSUMER ADVOCATE UNIT

HAVE SEEN AND AGREED.

By:

Herbert H. Slatery III by Jilt Slatery
HERBERT H. SLATERY III (BPR # 09077)
Attorney General and Reporter
State of Tennessee

Karen H. Stachowski
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Vance L. Broemel by permission
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EXHIBIT A

Schedule 11-3

Tennessee Distribution System
 Proof of Revenues and Calculation of Rates
 Rate Design for Rate Effective Year
 Twelve Months Ended September 30, 2020

Additional Revenue: 10,467,763

Line No.	Description	Rates effective Sep.18		Adjusted Base Court	Adjusted Volumes Mcf	Total Adjusted Margin Rev	Cust Charge Rev	Commodity Charge Rev	Cust Charge %	Commodity Charge %	% of Total Rev	Allocated Amount of Increase	Proposed Cust Charge	Proposed Commodity Charge	Proposed Cust Rev	Proposed Commodity Rev	Total	Cust Charge %	Commodity Charge %	% of Total Rev
		Monthly Customer chg	Commodity Charge/Mcf																	
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)	
1	Rate Schedule 210/225																			
2	210/225 SUMMER	\$15.65	\$1.214	674,823	1,183,317	\$12,009,878	\$10,560,980	\$1,448,899					18.00	1.409	\$12,146,814	\$1,680,952	13,827,766			
3	210/225 WINTER (weather sensitive)	\$17.65	\$1.214	937,384	7,287,282	25,383,495	\$18,544,828	\$6,848,667					20.00	1.409	\$18,747,680	\$10,265,143	29,012,823			
4	210/225 SR CIT	\$0.00	\$1.214	1,012	4,218	5,159	\$0	\$5,159					0.00	1.409	\$0	\$5,985	5,985			
5	Total 210/225			1,613,219	8,484,818	37,408,533	27,105,808	10,302,826	72%	28%	51.95%	5,437,941			30,884,494	11,952,000	42,846,574	72%	28%	51.95%
7	Rate Schedule 211																			
8	211 HVAC	\$14.75	\$0.751	3	34	70	\$44	\$26	63%	37%	0.00%	10	16.75	0.872	\$50	\$30	80	63%	37%	0.00%
10	Rate Schedule 220																			
11	220 Commercial / Industrial Gas Service	\$38.75	\$2.458	209,386	6,227,998	23,004,735	\$7,884,936	\$15,309,800	33%	67%			42.00	2.818	\$8,784,212	\$17,558,075	26,352,287	33%	67%	
12	220 Transportation	\$425.00	\$2.458	122	117,684	341,143	\$51,850	\$289,293	15%	85%			485.00	2.818	\$58,510	\$331,776	387,286	14%	86%	
13	Total 220			209,508	6,345,682	23,345,878	7,746,786	15,599,093	33%	67%	32.42%	3,383,695			8,840,722	17,889,851	26,738,573	33%	67%	32.42%
15	Rate Schedule 221																			
16	221 Experimental School Gas Service	\$38.75	\$1.195	36	23,978	29,981	\$1,323	\$28,658	4%	96%	0.04%	4,358	42.00	1.383	\$1,512	\$32,827	34,339	4%	96%	0.04%
18	Rate Schedule 230																			
19	230 Large Commercial / Industrial Gas Service	\$405.00	\$2.151	87	83,384	214,569	\$35,235	\$179,334	16%	84%			455.00	2.475	\$39,585	\$206,359	245,944	16%	84%	
20	230 Transportation	\$425.00	\$2.151	537	1,471,941	3,393,931	\$228,225	\$3,165,706	7%	93%			485.00	2.475	\$244,335	\$3,642,774	3,887,109	6%	94%	
21	Total 230			624	1,555,324	3,608,500	263,460	3,345,040	7%	93%	5.01%	524,553			283,920	3,849,133	4,133,053	7%	93%	5.01%
23	Rate Schedule 240/250/260/292/293																			
24	240 Demand/Commodity Gas Service	\$425.00		60		25,500	\$25,500						455.00		\$27,300		27,300			
25	Block 1 Volumes		\$1.206		120,308	145,104		\$145,104						1.206		\$166,694		166,694		
26	Block 2 Volumes		\$0.799		282,460	209,653		\$209,653						0.918		\$240,834		240,834		
27	Block 3 Volumes		\$0.370		0	0		\$0						0.425		\$0		0		
28	Demand Volumes		\$16.283		20,573	334,984		\$334,984						16.500		\$389,851		389,851		
29	250 Interruptible Gas Service	\$425.00		858		385,075	\$365,075						485.00		\$390,845		390,845			
30	Block 1 Volumes		\$1.206		1,466,886	1,769,212		\$1,769,212						1.388		\$2,032,445		2,032,445		
31	Block 2 Volumes		\$0.799		5,728,833	4,576,191		\$4,576,191						0.918		\$5,256,777		5,256,777		
32	Block 3 Volumes		\$0.370		332,133	122,902		\$122,902						0.425		\$141,181		141,181		
33	260 EGON DEV - OPT GS	\$425.00		12		5,100	\$5,100						455.00		\$5,460		5,460			
34	Block 1 Volumes		\$1.206		0	0		\$0						1.388		\$0		0		
35	Block 1 Volumes @ Discount Rate		\$0.905		24,000	21,710		\$21,710						1.030		\$24,940		24,940		
36	Block 2 Volumes		\$0.799		0	0		\$0						0.918		\$0		0		
37	Block 2 Volumes @ Discount Rate		\$0.589		29,204	17,496		\$17,496						0.688		\$20,098		20,098		
38	Block 3 Volumes		\$0.370		0	0		\$0						0.425		\$0		0		
39	Block 3 Volumes @ Discount Rate		\$0.28		0	0		\$0						0.319		\$0		0		
40	292 Cogeneration, CHG, Prime Movers Service	\$38.75		12		441	\$441						42.00		\$504		504			
41	Block 1 Volumes		\$1.206		3,048	3,676		\$3,676						1.388		\$4,223		4,223		
42	Block 2 Volumes		\$0.799		0	0		\$0						0.918		\$0		0		
43	Block 3 Volumes		\$0.370		0	0		\$0						0.425		\$0		0		
44	293 Large Tonnage Air Conditioning Gas Service	\$38.75		12		441	\$441						42.00		\$504		504			
45	Block 1 Volumes		\$1.206		12,983	15,658		\$15,658						1.388		\$17,988		17,988		
46	Block 2 Volumes		\$0.799		4,430	3,538		\$3,538						0.918		\$4,065		4,065		
47	Block 3 Volumes		\$0.370		0	0		\$0						0.425		\$0		0		
48	Total 240/250/260/292/293			955	8,004,858	7,816,883	396,567	7,220,125	5%	95%	10.58%	1,107,306			\$424,613	\$8,299,095	8,723,708	5%	95%	10.58%
50	TOTALS			1,824,345	24,414,724	72,009,745	35,513,877	36,495,767	49%	51%	100.00%	10,467,763			40,454,311	42,023,018	82,477,327	49%	51%	100.00%

STATE CORPORATION COMMISSION

AT RICHMOND, MARCH 11, 2019

SCC-CLERK'S OFFICE
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APPLICATION OF

ATMOS ENERGY CORPORATION

CASE NO. PUR-2018-00014

For a general increase in rates

FINAL ORDER

On June 1, 2018, Atmos Energy Corporation ("Atmos" or "Company") filed an application with the State Corporation Commission ("Commission") for a general increase in rates together with direct testimony, exhibits, and schedules ("Application") as prescribed by the Commission's Rules Governing Utility Rate Applications and Annual Informational Filings, 20 VAC 5-201-10 *et seq.* In its Application, the Company proposed to increase its annual base rate revenues by approximately \$605,475.¹ Atmos stated that the requested increase in revenues represents an overall revenue increase of approximately 5.3% based on a return on equity ("ROE") of 11.15%.² In its Application, the Company proposed that its increase in rates take effect on an interim basis and subject to refund for service rendered on and after October 29, 2018.³

On June 22, 2018, the Commission entered an Order for Notice and Hearing that, among other things, directed the Company to provide notice of its Application; provided the opportunity for interested persons to comment on the Application and to participate in this case; set the matter for hearing before a Hearing Examiner; directed the Staff of the Commission ("Staff") to investigate the Application; and found that Atmos had satisfied the requirements for placing its

¹ Exhibit 2 (Application) at 3.

² *Id.*

³ *Id.* at 5.

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proposed rates in effect on an interim basis and subject to refund for service rendered on and after October 29, 2018.⁴

No one filed a notice of participation in this proceeding. No written comments were filed in the proceeding.

On November 8, 2018, the Company and Staff filed a Joint Motion to Accept Partial Stipulation. In the Partial Stipulation, Atmos and Staff represented that a black box settlement had been reached that resolved all issues with the sole exception of the proper ROE.⁵ Among other things, the Partial Stipulation provided that (1) the Company's base rates would be reduced by a maximum of \$400,000 for service rendered on and after 30 days following the Commission's entry of a Final Order in this case; (2) the Stipulating Parties agree that the Commission's approval of an ROE above 9.20% would reduce the \$400,000 annual revenue reduction by \$3,600 per basis point increase; (3) the Company agreed, on a prospective basis, that accumulated deferred income tax will be netted with deferred gas when computing carrying costs in all future actual cost adjustments; (4) Staff agrees with the Company's proposed calculation and refund methodology for the regulatory liability that the Commission directed Atmos to accrue in the Tax Order, and the Company will continue to accrue the regulatory liability until rates are changed in this case, and that a one-time bill credit refund will be issued within 90 days following implementation of the new base rates approved in this case; (5) Atmos agrees to use Staff's calculation of the jurisdictional excess accumulated deferred income tax ("EDIT") balance of \$5,090,053 (equating to an EDIT regulatory liability of \$6,595,952 after tax gross-up) and begin amortization, subject to the true-up mentioned in Paragraph (6) of the Partial

⁴ The Partial Stipulation, discussed herein, clarifies that Atmos did not implement interim rates. Ex. 12 (Partial Stipulation) at 1.

⁵ See Ex. 12 (Partial Stipulation).

Stipulation, using the Company's proposed amortization; (6) the Stipulating Parties agree to resolve the issue involving the EDIT amortization period associated with the repairs deduction through the Private Letter Ruling ("PLR") process at the Internal Revenue Service ("IRS"); (7) the Company will contribute \$6,970 annually in GTI membership dues for the Virginia jurisdiction until Atmos's next base rate case; and (8) the Company will utilize the March 31, 2018, capital structure as shown on Schedule 3 of Staff witness Gleason's prefiled direct testimony for any future Steps to Advance Virginia's Energy Plan filings (subject to the five-year limitation set forth in § 56-603 of the Code of Virginia) until the Company's next base rate case.

A hearing was convened on November 14, 2018. No public witnesses appeared at the hearing. The Hearing Examiner allowed post-hearing briefs limited to the issue of ROE. Atmos and Staff filed post-hearing briefs on December 5, 2018.

On January 4, 2019, the Hearing Examiner filed her report in this case ("Hearing Examiner's Report"). The Hearing Examiner recommended that the Commission grant the Joint Motion; accept the Partial Stipulation; approve an ROE of 9.20%; and approve an annual base rate revenue requirement reduction of \$400,000.⁶ On January 25, 2019, Atmos and Staff filed comments to the Hearing Examiner's Report.

NOW THE COMMISSION, upon consideration of this matter, is of the opinion and finds as follows.

Partial Stipulation

The record supports the adoption of the proposed Partial Stipulation. The Partial Stipulation balances the interests of both the Company and consumers and is fair, reasonable, and in the public interest.

⁶ Hearing Examiner's Report at 19.

The Partial Stipulation requires the Company to request a PLR from the IRS on the proper EDIT amortization period. We find this is a reasonable way to proceed. If the IRS declines to address the issue, the Commission may reopen this docket for the limited purpose of determining this issue. The Company will accrue a reserve for the revenue requirement impact until either the IRS or the Commission addresses the issue.⁷ If the Company's position prevails, then no base rate change will be necessary, and the reserve entry can be reversed.⁸ If Staff's position prevails, Atmos will work collaboratively with Staff to determine how to reflect the accrued reserve on customer's bills in an efficient manner, lower base rates on a prospective basis, and adjust the amortization going forward to synchronize with rates being charged to the customer.⁹

Return on Equity

The proposed ROE is the one contested issue remaining after approval of the Partial Stipulation. Atmos originally requested an ROE of 11.15%, which included several adjustments to the calculated common cost of equity.¹⁰ In rebuttal testimony, Atmos updated its weighted cost of capital based on an investor-required ROE of 10.40% and acceptance of Staff's proposed capital structure.¹¹ Staff recommended an ROE range of 8.70%-9.70%, with a 9.20% mid-point

⁷ Ex. 12 (Partial Stipulation) at 2.

⁸ *Id.*

⁹ *Id.* at 2-3.

¹⁰ *See* Ex. 7 (D'Ascendis Direct).

¹¹ *See* Ex. 16 (D'Ascendis Rebuttal).

based on longstanding methodology.¹² As the Hearing Examiner summarized, the data and assumptions employed varied significantly between Staff and Atmos.¹³

One important variable was the use of average projected interest rates through 2029 by Atmos.¹⁴ In contrast, Staff used actual interest rates through August 2018 (the time of the Staff analysis).¹⁵ We have consistently rejected the use of projected interest rates in prior cases, recognizing that the inclusion of such projected interest rates inflates the results of a utility's risk premium analysis.¹⁶ Additionally, the use of a historic average relies on observable and verified data. We agree with the Hearing Examiner that Atmos has failed to produce evidence of a sustained upward shift in future interest rates to warrant changes to the information considered by Staff in its ROE analysis.¹⁷

The Company's use of non-regulated companies when determining its ROE is likewise not supported by the evidence. As properly noted by Staff, non-regulated companies do not exhibit comparable risk to Atmos because such companies do not have "a monopoly on a government-protected, franchised service territory for an essential product."¹⁸ Thus, the use of

¹² See Ex. 10 (Gleason Direct).

¹³ Hearing Examiner's Report at 16.

¹⁴ *Id.* at 17.

¹⁵ *Id.*

¹⁶ *Application of Virginia Electric and Power Company, For the determination of the fair rate of return on common equity to be applied to its rate adjustment clauses*, 2017 S.C.C. Ann. Rept. 475, 476, Case No. PUR-2017-00038, Final Order (Nov. 27, 2017). See also *Application of Appalachian Power Company, For the determination of the fair rate of return on common equity to be applied to its rate adjustment clauses*, Case No. PUR-2018-00048, Doc. Con. Cen. No. 181120212, Final Order (Nov. 7, 2018).

¹⁷ Hearing Examiner's Report at 17.

¹⁸ *Id.* at 19 (quoting Ex. 10 (Gleason Direct) at 21).

non-regulated companies as part of an ROE determination for a regulated company is not appropriate.

The Company does not provide evidence supporting its contention that it requires an ROE of 10.40% to attract capital. Based on the entire record in this case, we find that a 9.20% ROE is appropriate and affords Atmos an opportunity to earn a reasonable return. Applying a 9.20% ROE allows for the maximum \$400,000 reduction to the Company's currently approved annual revenue requirement.

Accordingly, IT IS ORDERED THAT:

- (1) The findings and recommendations of the Hearing Examiner's Report hereby are adopted.
- (2) The Company forthwith shall file revised rates and terms and conditions of service conforming to the new rates, effective for service rendered on and after thirty days from this Order.
- (3) The Company's proposed EDIT amortization should be used going forward, pending a final determination by the IRS. The Company shall request, in a timely manner and with the assistance of Staff, a PLR from the IRS addressing the proper EDIT amortization period.
- (4) Within 90 days of the new rates from this case being implemented, the Company shall implement a one-time bill credit refund for the regulatory liability associated with the federal tax rate change that the Commission directed the Company to accrue in Case No. PUR-2018-00005.¹⁹
- (5) This matter is dismissed.

¹⁹ *Commonwealth of Virginia, ex rel. State Corporation Commission, Ex Parte: Regulatory Accounting related to the Federal Tax Cuts and Jobs Act of 2017*, Case No. PUR-2018-00005, Doc. Con. Cen. No. 180110073, Order (Jan. 8, 2018).

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AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to:

A. Christopher Alderman, Esquire, Lonnie D. Nunley III, Esquire, and Timothy E. Biller, Esquire, Hunton Andrews Kurth, LLP, 951 East Byrd Street, Richmond, Virginia 23219-4074; and C. Meade Browder, Jr., Senior Assistant Attorney General, Division of Consumer Counsel, Office of the Attorney General, 202 N. 9th Street, 8th Floor, Richmond, Virginia 23219. A copy also shall be delivered to the Commission's Office of General Counsel and Divisions of Utility Accounting and Finance, and Public Utility Regulation.

CHRISTI CRADDICK, *CHAIRMAN*
RYAN SITTON, *COMMISSIONER*
WAYNE CHRISTIAN, *COMMISSIONER*



DANA AVANT LEWIS, *DIRECTOR*

RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

December 12, 2018

TO: All Parties of Record

RE: **GUD No. 10743**, *Statement of Intent Filed by Atmos Energy Corporation (Atmos) to Change Gas Utility Rates Within the Unincorporated Areas of its West Texas Division*

HEARINGS LETTER NO. 16

Final Order

Enclosed is a copy of the Final Order, with attachment, signed at the December 11, 2018 conference.

Sincerely,

A handwritten signature in blue ink, appearing to be "JD", with a long horizontal line extending to the right.

John Dodson
Administrative Law Judge

Attachment

cc: Service List

Service List

GUD No. 10743

Statement of Intent Filed by Atmos Energy Corporation (Atmos) to Change Gas Utility Rates Within the Unincorporated Areas of its West Texas Division

Administrative Law Judge: John Dodson
Technical Examiners: James Currier and Rose Ruiz

Atmos Energy Corporation (Applicant)

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**Railroad Commission Staff
(Intervenor)**

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Via Courtesy Email

16 TEX. ADMIN. CODE § 1.7 (Ex Parte Communications):

- (a) *Ex parte communications are prohibited in contested cases as provided in the APA and other applicable rules including the Texas Disciplinary Rules of Professional Conduct.*
- (b) *Each party shall provide all other parties with a copy of all documents submitted to an examiner.*
 - (1) *The attachment of a certificate of service stating that a document was served on a party creates a rebuttable presumption that the named party was provided a copy.*
 - (2) *Failure to provide a copy to all other parties may result in rejection and return of the document without consideration.*

GUD NO. 10743

STATEMENT OF INTENT FILED BY	§	BEFORE THE
ATMOS ENERGY CORP. TO CHANGE	§	
GAS UTILITY RATES WITHIN THE	§	RAILROAD COMMISSION
UNINCORPORATED AREAS SERVED	§	
BY ITS WEST TEXAS DIVISION	§	OF TEXAS

FINAL ORDER

Notice of Open Meeting to consider this Order was duly posted with the Secretary of State within the time period provided by law pursuant to Tex. Gov't Code Chapter 551, *et seq.* (West 2017 & Supp. 2018). The Railroad Commission of Texas adopts the following findings of fact and conclusions of law and orders as follows:

FINDINGS OF FACT

1. Atmos Energy Corp., West Texas Division ("Atmos"), is a gas utility as that term is defined in the Texas Utilities Code and is subject to the jurisdiction of the Railroad Commission of Texas (the "Commission").
2. On June 29, 2018, Atmos Energy filed a Statement of Intent to change gas utility rates within the unincorporated areas of its West Texas Division (the "SOI") with the Commission. That filing was docketed as GUD No. 10743.
3. On August 21, 2018, the Commission timely suspended the implementation of Atmos's proposed rates for 150 days.
4. For all customers located in unincorporated or environs areas, Atmos provided direct mail notice of its SOI to all affected customers in accordance with Tex. Util. Code § 104.103(a) (West 2007 & Supp. 2017) and 16 Tex. Admin. Code §§ 7.230 and 7.235 (2018).
5. The publication of notice meets the statutory and rule requirements of notice and provides sufficient information to ratepayers about the proposed rate change in the SOI, in accordance with Tex. Util. Code § 104.103(a) (West 2007 & Supp. 2017) and 16 Tex. Admin. Code §§ 7.230 and 7.235 (2018).
6. On July 5, 2018, Staff of the Railroad Commission ("Staff") moved to intervene as a party, and the motion subsequently was granted.
7. On September 14, 2018, Atmos notified the presiding Administrative Law Judge ("ALJ") that the parties had reached a settlement in principle and requested an abatement of Staff's testimony deadline. The motion was granted on September 18, 2018.
8. On October 9, 2018, the parties filed the Unanimous Settlement Agreement ("Settlement"), which resolved all issues and no issues were preserved for further litigation.

9. Atmos established that it maintains its books and records in accordance with the Federal Energy Regulatory Commission's ("FERC") Uniform System of Accounts ("USOA") prescribed for natural gas companies.
10. Atmos established that it has fully complied with the books and records requirements of Commission Rule § 7.310, and the amounts included therein are therefore entitled to the presumption in Commission Rule § 7.503 that these amounts are reasonable and necessary.
11. The test-year in this filing is based upon the financial data for the twelve-month period ending December 31, 2017, adjusted for known and measurable changes.
12. In the SOI, Atmos initially requested an apportioned revenue requirement decrease of approximately \$484,804 for the unincorporated areas of its West Texas Division, calculated based on a decrease of approximately \$5,500,484, as adjusted for excess Accumulated Deferred Income Taxes, for the West Texas Division.
13. The Settlement provides for an apportioned decrease of approximately \$866,090 for the unincorporated areas of its West Texas Division, calculated based on a decrease of approximately \$9,024,921, as adjusted for excess Accumulated Deferred Income Taxes, for the West Texas Division.
14. The Settlement includes a reduction of the corporate income tax rate from 35% to 21% to recognize changes to the Federal Tax Code due to the Tax Cuts and Jobs Act of 2017 (the "Tax Cuts and Jobs Act").
15. The parties have established that the proposed revenue decrease of \$866,090 from current unincorporated revenues is just and reasonable.
16. The proposed division-wide rates will affect the following classes of customers within the unincorporated areas of the West Texas Division: Residential, Commercial Sales, Industrial and Transportation, and Public Authority.
17. The rates reflected in the Settlement, attached to this Order as Attachment 1, and the customer charges set forth therein, are just and reasonable for customers within the unincorporated areas of the West Texas Division.

Rate Schedule	Customer Charge	Consumption Charge (per Ccf)
Residential Gas Service	\$16.10	\$0.21224
Commercial Gas Service	\$43.25	\$0.11722
Industrial / Transportation Gas Service	\$409.00	\$0.06895
Public Authority Gas Service	\$122.25	\$0.09518

18. The following capital structure, cost of debt, cost of equity, weighted cost of capital, overall rate of return, and pre-tax return included in the Settlement for the West Texas Division are just and reasonable.

Class of Capital	Percent	Cost	Weighted Cost of Capital	Pre-Tax Return
Long-Term Debt	39.82%	5.20%	2.07%	2.07%
Common Equity	60.18%	9.80%	5.90%	7.47%
Weighted Average Cost of Capital	100.00%		7.97%	9.54%

19. Consistent with the Settlement, it is just and reasonable that any future interim rate adjustment ("IRA") filings affecting the unincorporated areas of the West Texas Division, pursuant to Tex. Util. Code § 104.301 (West 2007 & Supp. 2017), shall use the following factors until changed by a subsequent rate proceeding:

- a. The capital structure and related components as shown in Finding of Fact No. 18.
- b. For any initial IRA filing, the beginning ad valorem tax rate at a West Texas Division level is 1.02% and the Shared Services Ad Valorem Tax Rate is 0.72%. For subsequent IRA filings, the Ad Valorem Tax Rates will be updated annually to include the actual taxes paid in the calculation of the tax rate.
- c. For any initial IRA filing, the system-wide net plant in service amount in the West Texas Division shall be \$631,037,126 as presented in Exhibit C to the Settlement.
- d. For any initial IRA filing and for any subsequent IRA filings, the depreciation rate for each account shall be those approved in GUD No. 10174 as presented in Exhibit C to the Settlement.
- e. For any initial IRA filing, the customer charges and consumption charges as shown in Finding of Fact No. 17 above will be the starting rates to which any IRA adjustment is applied.
- f. Federal income taxes will be calculated using a 21% rate, unless the federal income tax rate is changed, in which case the new rate will be applied.
- g. The base rate revenue allocation factors to spread any change in IRA increase/decrease to the appropriate customer classes are as follows:

	Percentage
Residential Gas Service	75.13%
Commercial Gas Service	18.39%
Industrial / Transportation Gas Service	2.16%
Public Authority Gas Service	4.32%

20. Atmos may pursue recovery of a deferred benefit regulatory asset or liability pursuant to Tex. Util. Code § 104.059 (West 2007 & Supp. 2017) in a future filing. The following amounts are established as the base-year levels to track changes in pension-related and other post-employment benefits:

Entity	Pension Account Plan	Post-Employment Benefit Plan	Supplemental Executive Benefit Plan	Total
SSU Allocated to West Texas	\$272,401	\$180,397	\$0	\$ 452,798
West Texas Direct	\$721,710	\$507,762	\$102,033	\$1,331,505
Total	\$994,111	\$688,159	\$102,033	\$1,784,303

21. It is reasonable to continue the use of the depreciation rates established in GUD No. 10174 as presented in Exhibit C to the Settlement.
22. It is reasonable that the revenue requirement includes a reduction of the corporate income tax rate from 35% to 21% to recognize changes due to the Tax Cuts and Jobs Act.
23. It is reasonable that the revenue requirement includes an adjustment to federal income tax expense for excess deferred income taxes ("EDIT") resulting from the Tax Cuts and Jobs Act and for this amount to be computed based on the Reverse South Georgia Method for those amounts required under Internal Revenue Service ("IRS") normalization rules.
24. It is reasonable for Atmos's protected EDIT liabilities to be amortized over a 24-year period as determined by the Reverse South Georgia Method.
25. It is reasonable for Atmos's unprotected EDIT to be amortized over a 24-year period because this balance is a net asset on Atmos's books and the use of this amortization period rather than a shorter amortization period benefits ratepayers by extending the period over which that balance must be repaid to Atmos.
26. It is reasonable for State Institution customers to be subject to Atmos's Public Authority Gas Service tariff.
27. No expenses associated with the payment of administrative penalties related to the operation of the West Texas Division system or the amortization of any related insurance deductible are included in the base revenue requirement.
28. Insurance services required by Atmos are acquired from Blueflame, a wholly owned subsidiary of Atmos Energy that provides insurance for all of Atmos Energy's divisions.

29. All of the Atmos Energy West Texas Division property, plant, and equipment are covered through property insurance provided by Blueflame.
30. Insurance services provided by Blueflame are at cost and without markup.
31. The cost of insurance coverage is allocated among the Atmos Energy divisions and subsidiaries based upon the annual plant balance.
32. The rate of insurance was \$0.070 per \$100 of gross plant through February 28, 2017, and \$0.065 per \$100 of gross plant through December 31, 2017, which is lower than the previously approved rates that the Commission determined to be reasonable and necessary in GUD No. 10170 and consistent with Tex. Util. Code § 104.055(b)(1).
33. Atmos has established that the system-wide expenses for Blueflame in the amount of \$174,299.43 are (a) reasonable and necessary and (b) the price charged to Atmos is not higher than the prices charged by Blueflame to other affiliates or divisions of Atmos Energy or to a non-affiliated person for the same item or class of items.
34. Atmos has established that the actual and estimated rate case expenses totaling \$48,009.08 are just and reasonable and that the expenses do not include any charges for luxury items and Atmos did not incur any excessive airline, lodging, or meal expenses.
35. Atmos has established that the amount of work done and the time and labor required to accomplish the work was reasonable given the nature of the issues addressed.
36. It is reasonable that the recovery of \$48,009.08 in total rate case expenses be over an approximate twelve (12) month period with the surcharge separately stated on each bill.
37. It is reasonable that Atmos submit to Staff invoices reflecting actual rate case expenses with sufficient detail so that Staff can accurately audit such invoices for the purposes of reconciling estimated rate case expenses to actual rate case expenses. In no case shall the total actual rate case expenses exceed the actual expenses submitted to the Commission as of August 31, 2018, plus the approved estimated expenses of \$15,000.00.
38. It is reasonable that Atmos file an annual Rate Case Expense Compliance Filing with Staff detailing the balance of actual plus estimated rate case expenses at the beginning of the annual period, the amount collected by customer class, and the ending or remaining balance within ninety (90) days after each calendar year end until and including the calendar year end in which rate case expenses are fully recovered.
39. The tariffs attached to this Order are just and reasonable.

CONCLUSIONS OF LAW

1. Atmos is a gas utility as defined in Tex. Util. Code §§ 101.003(7) and 121.001 (West 2007 & Supp. 2017) and is therefore subject to the jurisdiction of the Commission.
2. Under Tex. Util. Code § 102.001 (West 2007 & Supp. 2017), the Commission has exclusive original jurisdiction over the rates and services of a gas utility that distributes natural gas in areas outside of a municipality and over the rates and services of a gas utility that transmits, transports, delivers, or sells natural gas to a gas utility that distributes the gas to the public.
3. The Commission has jurisdiction over Atmos's SOI under Tex. Util. Code §§ 102.001, 104.001, and 104.201 (West 2007 & Supp. 2017).
4. This proceeding was conducted in accordance with the requirements of GURA §§ 101.001 *et seq.*, (West 2007 & Supp. 2017) and the Administrative Procedure Act, Tex. Gov't Code §§ 2001.001 *et seq.* (West 2017 & Supp. 2018).
5. Tex. Util. Code § 104.107 (West 2007 & Supp. 2017) provides the Commission's authority to suspend the operation of the schedule of proposed rates for 150 days from the date the schedule would otherwise go into effect.
6. In accordance with Tex. Util. Code § 104.103 (West 2007 & Supp. 2017) and 16 Tex. Admin. Code §§ 7.230 and 7.235, adequate notice was properly provided.
7. Atmos filed its SOI in accordance with Tex. Util. Code § 104.102 (West 2007 & Supp. 2017) and 16 Tex. Admin. Code §§ 7.205 and 7.210.
8. Atmos has established that its books and records conform with 16 Tex. Admin. Code § 7.310, and thus Atmos is entitled to the presumption that the amounts included therein are reasonable and necessary in accordance with 16 Tex. Admin. Code § 7.503.
9. The revenue, rates, rate design, and service charges identified in the schedules attached to this Order are just and reasonable, are not unreasonably preferential, prejudicial, or discriminatory, and are sufficient, equitable, and consistent in application to each class of consumer, as required by Tex. Util. Code §§ 101.002, *et seq.* (West 2007 & Supp. 2017).
10. The overall revenues as established by the findings of fact and attached schedules are reasonable; fix an overall level of revenues for Atmos that will permit it a reasonable opportunity to earn a reasonable return on its invested capital used and useful in providing service to the public over and above its reasonable and necessary operating expenses, as required by Tex. Util. Code

- § 104.051 (West 2007 & Supp. 2017); and otherwise comply with Chapter 104 of the Texas Utilities Code.
11. The revenue, rates, rate design, and service charges proposed will not yield to Atmos more than a fair return on the adjusted value of the invested capital used and useful in rendering service to the public, as required by Tex. Util. Code § 104.052 (West 2007 & Supp. 2017).
 12. The rates established in this docket comport with the requirements of Tex. Util. Code § 104.053 (West 2007 & Supp. 2017) and are based upon the adjusted value of invested capital used and useful, where the adjusted value is a reasonable balance between the original cost less depreciation and current cost less an adjustment for present age and condition.
 13. The test-year level of pension-related and other post-employment benefits expenses are consistent with Tex. Util. Code § 104.059 (West 2007 & Supp. 2017).
 14. The rates established in this case comply with the affiliate transaction standard set out in Tex. Util. Code § 104.055 (West 2007 & Supp. 2017).
 15. Atmos has fully complied with all requirements set forth in the Gas Utilities Accounting Order, signed on February 27, 2018, and related Order Nunc Pro Tunc, signed on March 20, 2018, issued in GUD No. 10695.
 16. Capital investment made through December 31, 2017, was reasonable and prudent and consistent with Tex. Util. Code, Chapter 104 and Commission Rule § 7.7101.
 17. A rate base amount totaling \$506,954,294 for the West Texas Division is just and reasonable.
 18. A rate of return of 7.97 percent, including the components specified in this Order, is consistent with the requirements of Tex. Util. Code § 104.052 (West 2007 & Supp. 2017).
 19. An overall base revenue requirement of \$11,587,977 for the unincorporated areas and a system-wide base revenue requirement of \$119,820,735 for the West Texas Division is just and reasonable and permits Atmos a reasonable opportunity to earn a reasonable return on Atmos Energy's invested capital used and useful in providing service to the public in excess of its reasonable and necessary operating expenses.
 20. Actual rate case expenses not to exceed the amount of \$48,009.08 are reasonable, necessary, and consistent with the requirements of 16 Tex. Admin. Code § 7.5530(a).
 21. In accordance with 16 Tex. Admin. Code § 7.7101, Atmos may adjust its revenue in future IRA filings based on the difference between values of the

investment amounts only by the constant factors set in this docket for: return on investment; depreciation expenses, for those individual rates for each FERC account; ad valorem taxes; revenue related taxes; and federal income tax.

22. The rate schedules and tariffs reflected in this Order are consistent with applicable statutory and Commission requirements.
23. Atmos is required by 16 Tex. Admin. Code § 7.315 to file electronic tariffs incorporating rates consistent with this Order within thirty days of the date of this Order.

IT IS THEREFORE ORDERED that the Settlement attached to this Order as Attachment 1 is hereby **APPROVED**.

IT IS FURTHER ORDERED that the rates, rate design, and service charges established in the findings of fact, conclusions of law, and as shown on the attached tariffs for Atmos are **APPROVED**.

IT IS FURTHER ORDERED that the factors established for future Interim Rate Adjustments in Finding of Fact No. 19 are **APPROVED**.

IT IS FURTHER ORDERED that Atmos file an annual Rate Case Expense Compliance Filing with Staff detailing recovery of rate case expenses as described in Finding of Fact Nos. 34-37 within ninety (90) days after each calendar year end until the calendar year end until and including the calendar year end in which the rate case expenses are fully recovered.

IT IS FURTHER ORDERED that within thirty (30) days of this Order, in accordance with 16 Tex. Admin. Code § 7.315, Atmos shall electronically file its rate schedules in proper form that accurately reflect the rates approved in this Order.

IT IS FURTHER ORDERED that any incremental change in rates approved in this Order and implemented by Atmos shall be subject to refund unless and until Atmos's tariffs are electronically filed and accepted by the Gas Services Department in accordance with 16 Tex. Admin. Code § 7.315.

IT IS FURTHER ORDERED that all proposed findings of fact and conclusions of law not specifically adopted in this Order are hereby **DENIED**.

IT IS FURTHER ORDERED that all pending motions and requests for relief not previously granted or granted herein are hereby **DENIED**.

IT IS FURTHER ORDERED that this Order will not be final and effective until 25 days after the date this Order is signed. If a timely motion for rehearing is filed by any party of interest, this Order shall not become final and effective until such motion is overruled, or if such motion is granted, this Order shall be subject to further action by the Commission. The time allotted for Commission action on a motion for rehearing in this case prior to its being overruled by operation of law is hereby extended until 100 days from the date this Order is signed.

SIGNED this 11th day of December, 2018.

RAILROAD COMMISSION OF TEXAS



CHAIRMAN CHRISTI CRADDICK





COMMISSIONER RYAN SITTON



COMMISSIONER WAYNE CHRISTIAN

ATTEST:

SECRETARY

Final Order
GUD No. 10743

ATTACHMENT 1

Settlement Agreement (without Exhibit E)

-and-

"Rider SUR-Surcharge" Tariff

-and-

Quality of Service Rules

GUD NO. 10743

STATEMENT OF INTENT FILED BY	§	BEFORE THE
ATMOS ENERGY CORP. TO CHANGE	§	
GAS UTILITY RATES WITHIN THE	§	RAILROAD COMMISSION
UNINCORPORATED AREAS SERVED	§	
BY ITS WEST TEXAS DIVISION	§	OF TEXAS

UNANIMOUS SETTLEMENT AGREEMENT

This Unanimous Settlement Agreement is entered into by and between Atmos Energy Corp., West Texas Division (Atmos Energy) and the Staff of the Railroad Commission of Texas (Staff), (collectively, the “Signatories”).

WHEREAS, on June 29, 2018, Atmos Energy filed its Statement of Intent to Change Gas Utility Rates within the Unincorporated Areas with the Railroad Commission of Texas (Commission); and

WHEREAS, the Commission docketed the rate request as GUD No. 10743; and

WHEREAS, Commission Staff sought intervention and were granted party status in GUD No. 10743; and

WHEREAS, the Company has filed direct testimony and errata to its Statement of Intent; and

WHEREAS, the parties have engaged in discovery regarding the issues in dispute; and

WHEREAS, Staff direct testimony was due on September 28, 2018, but Staff did not file direct testimony in reliance on this Unanimous Settlement Agreement; and

WHEREAS, the Signatories agree that resolution of this docket by unanimous settlement agreement will significantly reduce the amount of reimbursable rate case expenses associated with this docket;

NOW, THEREFORE, in consideration of the mutual agreements and covenants established herein, the Signatories, through their undersigned representatives, agree to and recommend for approval by the Commission the following Settlement Terms as a means of concluding the above-referenced docket filed by Atmos Energy without the need for prolonged litigation:

Settlement Terms

1. As a product of compromise and for the purposes of settlement, the Signatories agree to the rates, terms and conditions reflected in the tariffs attached to this Unanimous Settlement Agreement as Exhibit A. The tariffs attached as Exhibit A replace and supersede those tariffs currently in effect for the unincorporated areas of the West Texas Division. These tariffs are premised on a decrease of \$(866,090) in current annual revenues from the

unincorporated areas as illustrated in the proof of revenues attached as part of Exhibit B to this Unanimous Settlement Agreement. Except as specifically provided herein, the Signatories agree that the \$(866,090) revenue decrease for the unincorporated areas, as adjusted for Accumulated Deferred Income Tax, is not tied to any specific expense in the underlying cost of service within Atmos Energy’s West Texas Division. The agreed upon system-wide decrease, as adjusted for excess Accumulated Deferred Income Taxes, is \$(9,024,921). The agreed upon system-wide net revenue requirement is \$119,820,735 as reflected in Exhibit F. The Signatories further agree that the rates, terms and conditions reflected in Exhibit A to this Unanimous Settlement Agreement comply with the rate-setting requirements of Chapter 104 of the Texas Utilities Code. The gas rates, terms and conditions established by this Unanimous Settlement Agreement shall be effective upon approval by the Commission.

2. Signatories agree that the revenue requirement in paragraph 1 includes expenses associated with services acquired by Blueflame, a wholly-owned subsidiary of Atmos Energy that provides insurance for all of the Company’s divisions. The rate of insurance included in the Company’s filing was \$0.070 per \$100 of gross plant through February 28, 2017, and \$0.065 per \$100 of gross plant through December 31, 2017, which is lower than the previously approved rates that the Commission determined to be reasonable and necessary in GUD No. 10170 and consistent with Tex. Util. Code § 104.055(b)(1).
3. Signatories agree that the system-wide expenses associated with services acquired by Blueflame in the amount of \$174,299.43 are (a) reasonable and necessary and (b) the price charged to Atmos Energy’s West Texas Division is not higher than the prices charged by the supplying affiliate to its other affiliates or division or to a non-affiliated person for the same item or class of items as required by Section 104.055 of the Gas Utility Regulatory Act.
4. Signatories agree that the net base revenue requirement in paragraph 1 excludes all expenses associated with the payment of administrative penalties related to the operation of the West Texas Division system, as well as the amortization of any related insurance deductible.
5. The Signatories agree to the following customer charges and consumption charges. These rates are based on test year-end customer count and are reflected in the rate schedules attached as Exhibit A.

Rate Schedule	Customer Charge	Consumption Charge (per Ccf)
Residential Gas Service	\$16.10	\$0.21224
Commercial Gas Service	\$43.25	\$0.11722
Industrial / Transportation Gas Service	\$409.00	\$0.06895
Public Authority Gas Service	\$122.25	\$0.09518

6. The Signatories agree to use of the following capital structure and weighted cost of capital, including the after-tax return, in future Interim Rate Adjustment (IRA) filings, as shown below.

Class of Capital	Percent	Cost	Weighted Cost of Capital	Pre-Tax Return
Long-Term Debt	39.82%	5.20%	2.07%	2.07%
Common Equity	60.18%	9.80%	5.90%	7.47%
Weighted Average Cost of Capital	100.00%		7.97%	9.54%

7. The Signatories agree that the interim rate adjustments made in 2013, 2014, 2015, 2016, and 2017 pursuant to Texas Utilities Code § 104.301 were just and reasonable.

8. The Signatories agree that any IRA filing in Atmos Energy’s West Texas Division pursuant to Texas Utilities Code § 104.301 shall use the following factors until changed by a subsequent general rate proceeding:

- a. The capital structure and related components as shown above in Paragraph 6.
- b. For any initial IRA filing, the beginning ad valorem tax rate at a West Texas Division level is 1.02% and the Shared Services Ad Valorem Tax Rate is 0.72%. For subsequent IRA filings, the Ad Valorem Tax Rates will be updated annually to include the actual taxes paid in the calculation of the tax rate.
- c. For any initial IRA filing, the system-wide net plant in service amount in the West Texas Division shall be \$631,037,126 as presented in Exhibit C.
- d. For any initial IRA filing and for any subsequent IRA filings, the depreciation rate for each account shall be those approved in GUD No. 10174 as presented in Exhibit C.
- e. For any initial IRA filing, the customer charges and consumption charges as shown in Paragraph 5 above will be the starting rates to which any IRA adjustment is applied.
- f. Federal income taxes will be calculated using a 21% rate, unless the federal income tax rate changed, in which case the new rate will be applied.
- g. The base rate revenue allocation factors to spread any change in IRA increase/decrease to the appropriate customer classes are as follows:

	Percentage
Residential Gas Service	75.13%
Commercial Gas Service	18.39%
Industrial / Transportation Gas Service	2.16%
Public Authority Gas Service	4.32%

9. The Signatories agree that the following amounts are reasonable to establish the base-year levels to track changes in pension-related and other post-employment benefits:

Entity	Pension Account Plan	Post-Employment Benefit Plan	Supplemental Executive Benefit Plan	Total
SSU Allocated to West Texas	\$272,401	\$180,397	\$0	\$ 452,798
West Texas Direct	\$721,710	\$507,762	\$102,033	\$1,331,505
Total	\$994,111	\$688,159	\$102,033	\$1,784,303

10. The Signatories agree that the decrease amount and net base revenue requirement in Paragraph 1 include a reduction of the corporate income tax rate from 35% to 21% to recognize changes to the Federal Tax Code due to the Tax Cuts and Jobs Act of 2017.

The Signatories further agree that the decrease amount and net base revenue requirement in Paragraph 1 reflect an adjustment to federal income tax expense for excess deferred income taxes (EDIT) resulting from the Tax Cuts and Jobs Act of 2017. The EDIT adjustment has been computed based on the Reverse South Georgia Method for those amounts required under Internal Revenue Service (IRS) normalization rules.

Signatories agree that it is reasonable to amortize the Company’s protected EDIT liabilities over a 24 year period as determined by the RSG method and shown on Exhibit D. The Signatories further agree that the Company’s unprotected EDIT should be amortized over the same 24 year period as shown on Exhibit D. The Signatories have agreed to a 24 year amortization of the Company’s unprotected EDIT because this balance is a net asset on the Company’s books and the use of this amortization period rather than a shorter amortization period benefits ratepayers by extending the period over which that balance must be repaid to the Company.

11. The Signatories further agree that Atmos Energy has fully complied with all requirements set forth in the Gas Utilities Accounting Order (Feb. 27, 2018) and Order Nunc Pro Tunc (March 20, 2018) issued in GUD No. 10695.
12. The Signatories agree that it is reasonable for State Institution customers to be subject to Atmos Energy’s Public Authority Gas Service tariff.
13. Atmos Energy represents that its reasonable rate case expenses incurred through August 2018, and estimated rate case expenses incurred through completion of this case, are as follows:

	Required Regulatory Expenses	Litigation Expenses	Estimate to Completion	Total
Atmos Energy	\$27,201.08, less \$109, totals \$27,092.08	\$5,917.00	\$15,000	\$48,009.08

14. Atmos Energy has attached as Exhibit E an affidavit and invoices in support of these amounts and will supplement with additional invoices as they are processed. The Signatories agree that the amounts represented above are reasonable and recoverable pursuant to Texas Utilities Code § 104.051. The Signatories agree that the recovery period for the applicable surcharge to recover rate-case expenses shall be twelve (12) months. The Signatories intend and advocate that the Commission authorize recovery of the rate case expenses recited above in the same proceeding and at the same time as it approves this Unanimous Settlement Agreement.
15. Atmos Energy shall file annually, due on or before April 1, a rate case expense recovery compliance filing with the Railroad Commission of Texas, Oversight and Safety Division, referencing GUD No. 10743. The Signatories agree to and propose the inclusion of the following Findings of Fact and Ordering Paragraph in the Final Order in this docket:
 - a. Finding of Fact: It is reasonable that Atmos Energy submit to Staff invoices reflecting actual rate case expenses with sufficient detail so that Staff can accurately audit such invoices for the purposes of reconciling estimated rate case expenses to actual rate case expenses. In no case shall the total actual expenses exceed the actual expenses submitted to the Commission as of August 31, 2018, plus the approved estimated expenses of \$15,000.00.
 - b. Finding of Fact: It is reasonable that Atmos Energy file an annual Rate Case Expense Compliance Filing with Staff detailing the balance of actual plus estimated rate case expenses at the beginning of the annual period, the amount collected by customer class, and the ending or remaining balance within ninety (90) days after each calendar year end until and including the calendar year end in which the rate case expenses are fully recovered.
 - c. Ordering Paragraph: IT IS FURTHER ORDERED that Atmos Energy file an annual Rate Case Expense Compliance Filing with Staff detailing recovery of rate case expenses as described in proposed Finding of Fact 37 within ninety (90) days after each calendar year end until the calendar year end until and including the calendar year end in which the rate case expenses are fully recovered.
16. The Signatories agree to and propose the inclusion of the following Ordering Paragraphs in the Final Order in this docket:
 - a. Ordering Paragraph: IT IS FURTHER ORDERED that within thirty (30) days of this Final Order, in accordance with 16 Tex. Admin. Code § 7.315, Atmos Energy SHALL electronically file its rate schedules in proper form that accurately reflect the rates in Exhibit A approved in this Final Order.
 - b. Ordering Paragraph: IT IS FURTHER ORDERED that any incremental change in rates approved by this Final Order and implemented by Atmos Energy shall be subject to refund unless and until Atmos Energy's tariffs are electronically filed and accepted by the Gas Services Department in accordance with 16 Tex. Admin. Code § 7.315.

17. The classes and number of customers affected by this Unanimous Settlement Agreement include approximately 20,327 Residential, 2,367 Commercial, 106 Industrial and Transportation, 156 Public Authority, and 37 State Institution customers.
18. The Signatories agree to support and seek Commission approval of this Unanimous Settlement Agreement. The Signatories further agree to make all efforts to present the Commission with this Unanimous Settlement Agreement on or before November 13, 2018.
19. Except as may be allowed under Rule 408 of the Texas Rules of Evidence, the Signatories agree that all negotiations, discussions, and conferences related to the Unanimous Settlement Agreement are privileged and inadmissible to prove the validity or invalidity of any issue raised by or presented in the Statement of Intent to Change Gas Utility Rates within the Unincorporated Areas filed on June 29, 2018.
20. The Signatories agree that neither this Unanimous Settlement Agreement nor any oral or written statements made during the course of settlement negotiations may be used for any purpose other than as necessary to support the entry by the Commission of an order approving this Unanimous Settlement Agreement.
21. The Signatories agree that the terms of the Unanimous Settlement Agreement are interdependent and indivisible, and that if the Commission intends to enter an order that is inconsistent with this Unanimous Settlement Agreement, then any Signatory may withdraw without being deemed to have waived any procedural right or to have taken any substantive position on any fact or issue by virtue of that Signatory's entry into the Unanimous Settlement Agreement or its subsequent withdrawal and further agrees that Atmos Energy's application to increase rates will be remanded for hearings.
22. The Signatories agree that this Unanimous Settlement Agreement is binding on each Signatory only for the purpose of settling the issues set forth herein and for no other purposes. The matters resolved herein are resolved on the basis of a compromise and settlement. Except to the extent the Unanimous Settlement Agreement governs a Signatory's rights and obligations for future periods, this Unanimous Settlement Agreement shall not be binding or precedential upon a Signatory outside this proceeding. Each Signatory acknowledges that a Signatory's support of the matters contained in this Stipulation may differ from the position taken or testimony presented by it in other dockets or other jurisdictions. To the extent that there is a difference, a Signatory does not waive its position in any of those other dockets or jurisdictions. Because this is a stipulated resolution, no Signatory is under any obligation to take the same positions as set out in this Stipulation in other dockets or jurisdictions, regardless of whether other dockets present the same or a different set of circumstances, except as otherwise may be explicitly provided by this Stipulation. Agreement by the Signatories to any provision in this Stipulation will not be used against any Signatory in any future proceeding with respect to different positions that may be taken by that Signatory.
23. The provisions of this Stipulation are intended to relate to only the specific matters referred to herein. By agreeing to this Stipulation, no Signatory waives any claim it may otherwise have with respect to issues not expressly provided for herein. The Signatories further

have with respect to issues not expressly provided for herein. The Signatories further understand and agree that this Stipulation represents a negotiated settlement of all issues in this proceeding.

24. The Signatories agree that this Unanimous Settlement Agreement may be executed in multiple counterparts and may be filed with facsimile signatures.

Agreed to this 9th day of October 2018.

ATMOS ENERGY CORP., WEST TEXAS DIVISION


By:


Ann M. Coffin

Attorney for Atmos Energy Corp., West Texas Division

STAFF OF THE RAILROAD COMMISSION OF TEXAS

By:


Natalie Dubiel

Attorney for Staff of the Railroad Commission of Texas

**WEST TEXAS DIVISION
ATMOS ENERGY CORPORATION**

EXHIBIT A
Page 1 of 6

RATE SCHEDULE:	RESIDENTIAL GAS SERVICE	
APPLICABLE TO:	ALL UNINCORPORATED AREAS IN THE WEST TEXAS DIVISION	
EFFECTIVE DATE:		

This schedule is applicable to general use by Residential customers for heating, cooking, refrigeration, water heating and other similar type uses. This schedule is not available for service to premises with an alternative supply of natural gas.

Monthly Rate

Charge	Amount
Customer Charge	\$ 16.10
Consumption Charge per Ccf	\$ 0.21224

The West Texas Division Gas Cost Adjustment Rider applies to this schedule.

The West Texas Division Weather Normalization Adjustment Rider applies to this schedule.

Miscellaneous Charges: Plus an amount for miscellaneous charges calculated in accordance with the applicable rider(s).

**WEST TEXAS DIVISION
ATMOS ENERGY CORPORATION**

EXHIBIT A
Page 2 of 6

RATE SCHEDULE:	COMMERCIAL GAS SERVICE	
APPLICABLE TO:	ALL UNINCORPORATED AREAS IN THE WEST TEXAS DIVISION	
EFFECTIVE DATE:		

Availability

This schedule is applicable to Commercial customers, including hospitals and churches, for heating, cooking, refrigeration, water heating and other similar type uses. This schedule is not available for service to premises with an alternative supply of natural gas.

Monthly Rate

Charge	Amount
Customer Charge	\$ 43.25
Consumption Charge per Ccf	\$ 0.11722

The West Texas Division Gas Cost Adjustment Rider applies to this schedule.

The West Texas Division Weather Normalization Adjustment Rider applies to this schedule.

Miscellaneous Charges: Plus an amount for miscellaneous charges calculated in accordance with the applicable rider(s).

**WEST TEXAS DIVISION
ATMOS ENERGY CORPORATION**

EXHIBIT A
Page 3 of 6

RATE SCHEDULE:	INDUSTRIAL GAS SERVICE	
APPLICABLE TO:	ALL UNINCORPORATED AREAS IN THE WEST TEXAS DIVISION	
EFFECTIVE DATE:		

Availability

This schedule is applicable to the sales to any industrial or commercial customer whose predominant use of natural gas is other than space heating, cooking, water heating or other similar type uses. Service under this schedule is available to eligible customers following execution of a contract specifying the maximum hourly load. This schedule is not available for service to premises with an alternative supply of natural gas.

Monthly Rate

Charge	Amount
Customer Charge	\$ 409.00
Consumption Charge per Ccf	\$ 0.06895

The West Texas Division Gas Cost Adjustment Rider applies to this schedule.

Miscellaneous Charges: Plus an amount for miscellaneous charges calculated in accordance with the applicable rider(s).

**WEST TEXAS DIVISION
ATMOS ENERGY CORPORATION**

EXHIBIT A
Page 4 of 6

RATE SCHEDULE:	PUBLIC AUTHORITY GAS SERVICE	
APPLICABLE TO:	ALL UNINCORPORATED AREAS IN THE WEST TEXAS DIVISION	
EFFECTIVE DATE:		

Availability

This schedule is applicable to general use by Public Authority type customers, including public schools and state institutions, for heating, cooking, refrigeration, water heating and other similar type uses. This schedule is not available for service to premises with an alternative supply of natural gas.

Monthly Rate

Charge	Amount
Customer Charge	\$ 122.25
Consumption Charge per Ccf	\$ 0.09518

The West Texas Division Gas Cost Adjustment Rider applies to this schedule.

The West Texas Division Weather Normalization Adjustment Rider applies to this schedule.

Miscellaneous Charges: Plus an amount for miscellaneous charges calculated in accordance with the applicable rider(s).

**WEST TEXAS DIVISION
 ATMOS ENERGY CORPORATION**

EXHIBIT A
 Page 5 of 6

RATE SCHEDULE:	TRANSPORTATION SERVICE	
APPLICABLE TO:	ALL UNINCORPORATED AREAS IN THE WEST TEXAS DIVISION	
EFFECTIVE DATE:		

Application

Applicable, in the event that Company has entered into a Transportation Agreement, to a customer directly connected to the Atmos Energy Corp., West Texas Division Distribution System for the transportation of all natural gas supplied by Customer or Customer's agent at one Point of Delivery for use in Customer's facility with an estimated annual usage greater than 100,000 Ccf per meter.

Type of Service

Where service of the type desired by Customer is not already available at the Point of Delivery, additional charges and special contract arrangements between Company and Customer may be required prior to service being furnished.

Monthly Rate

Customer's bill will be calculated by adding the following Customer and Ccf charges to the amounts and quantities due under the riders listed below:

Charge	Amount
Customer Charge per Meter	\$ 409.00
Consumption Charge per Ccf	\$ 0.06895

Upstream Transportation Cost Recovery: The customer is responsible for all upstream transportation costs.

Retention Adjustment: Plus a quantity of gas equal to the Company's most recently calculated financial L&U percentage for the twelve months ended September multiplied by the gas received into Atmos Energy Corporation's West Texas Division for transportation to the customer.

Surcharges: Plus an amount for surcharges calculated in accordance with the applicable rider(s).

**WEST TEXAS DIVISION
ATMOS ENERGY CORPORATION**

EXHIBIT A
Page 6 of 6

RATE SCHEDULE:	TRANSPORTATION SERVICE	
APPLICABLE TO:	ALL UNINCORPORATED AREAS IN THE WEST TEXAS DIVISION	
EFFECTIVE DATE:		

Miscellaneous Charges: Plus an amount for miscellaneous charges calculated in accordance with the applicable rider(s).

Conversions: Units may be converted from Ccf to Mcf or Mmbtu as necessary to comply with the underlying transportation agreement.

Imbalance Fees

All fees charged to Customer under this Rate Schedule will be charged based on the quantities determined under the applicable Transportation Agreement and quantities will not be aggregated for any Customer with multiple Transportation Agreements for the purposes of such fees.

Monthly Imbalance Fees

Customer shall pay Company a monthly imbalance fee at the end of each month as defined in the applicable Transportation Agreement,

Curtailed Overpull Fee

Upon notification by Company of an event of curtailment or interruption of Customer's deliveries, Customer will, for each MMBtu delivered in excess of the stated level of curtailment or interruption, pay Company 200% of the "Index" price reported for the month of delivery in Inside FERC's Gas Market Report under the heading "West Texas Waha".

Replacement Index

In the event the "Index" price reported for the month of delivery in Inside FERC's Gas Market Report under the heading "West Texas Waha" is no longer published, Company will calculate the applicable imbalance fees utilizing a daily price index recognized as authoritative by the natural gas industry and most closely approximating the applicable index.

Agreement

A transportation agreement is required.

Notice

Service hereunder and the rates for services provided are subject to the orders of regulatory bodies having jurisdiction and to the Company's Tariff for Gas Service.

Special Conditions

In order to receive transportation service under this tariff, customer must have the type of meter, instrumentation, and communication required by Company. Customer must pay Company all costs associated with the acquisition and installation of the required equipment.

ATMOS ENERGY CORPORATION
WEST TEXAS UNINCORPORATED AREAS STATEMENT OF INTENT
PROOF OF REVENUES
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	Description (a)	Current Revenue (b)	Proposed Revenue (c)	Total Change (d)	Percent Change (e)
1	RESIDENTIAL				
2	Rate Characteristics:				
3	Customer Charge	\$ 22.64	\$ 16.10		
4	Consumption Charge (Ccf)				
5	West Texas	\$ 0.16221	\$ 0.21224		
6	Amarillo	\$ 0.07184	\$ 0.21224		
7	Lubbock	\$ 0.08729	\$ 0.21224		
8					
9	Rider GCA (Ccf)	\$ 0.39117	\$ 0.39117		
10					
11	Number of Bills	243,923	243,923		
12	Volumes (Ccf)				
13	West Texas	8,786,841	8,786,841		
14	Amarillo	2,305,411	2,305,411		
15	Lubbock	3,583,583	3,583,583		
16	Total Volumes	<u>14,675,835</u>	<u>14,675,835</u>		
17					
18	Revenue:				
19	Customer Charge	\$ 5,522,408	\$ 3,927,154		
20	Consumption Charge (Ccf)				
21	West Texas	1,425,313	1,864,919		
22	Amarillo	165,621	489,300		
23	Lubbock	312,811	760,580		
24	Total Margin Revenue	<u>\$ 7,426,154</u>	<u>\$ 7,041,954</u>		
25	Gas Cost	5,740,697	5,740,697		
26	Total Residential Revenue	<u>\$ 13,166,851</u>	<u>\$ 12,782,651</u>	\$ (384,200)	-2.92%
27					

ATMOS ENERGY CORPORATION
WEST TEXAS UNINCORPORATED AREAS STATEMENT OF INTENT
PROOF OF REVENUES
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	Description	Current Revenue	Proposed Revenue	Total Change	Percent Change
	(a)	(b)	(c)	(d)	(e)
28	COMMERCIAL				
29	Rate Characteristics:				
30	Customer Charge	\$ 55.60	\$ 43.25		
31	Consumption Charge (Ccf)				
32	West Texas	\$ 0.10770	\$ 0.11722		
33	Amarillo	\$ 0.09310	\$ 0.11722		
34	Lubbock	\$ 0.08598	\$ 0.11722		
35					
36	Rider GCA (Ccf)	\$ 0.39117	\$ 0.39117		
37					
38	Number of Bills	28,410	28,410		
39	Volumes (Ccf)				
40	West Texas	10,825,945	10,825,945		
41	Amarillo	1,379,640	1,379,640		
42	Lubbock	678,952	678,952		
43	Total Volumes	<u>12,884,538</u>	<u>12,884,538</u>		
44					
45	Revenue:				
46	Customer Charge	\$ 1,579,610	\$ 1,228,743		
47	Consumption Charge (Ccf)				
48	West Texas	1,165,954	1,269,017		
49	Amarillo	128,445	161,721		
50	Lubbock	58,376	79,587		
51	Total Margin Revenue	<u>\$ 2,932,385</u>	<u>\$ 2,739,069</u>		
52	Gas Cost	<u>5,040,002</u>	<u>5,040,002</u>		
53	Total Commercial Revenue	<u>\$ 7,972,387</u>	<u>\$ 7,779,070</u>	\$ (193,316)	-2.42%
54					

ATMOS ENERGY CORPORATION
WEST TEXAS UNINCORPORATED AREAS STATEMENT OF INTENT
PROOF OF REVENUES
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	Description	Current Revenue	Proposed Revenue	Total Change	Percent Change
	(a)	(b)	(c)	(d)	(e)
55	INDUSTRIAL				
56	Rate Characteristics:				
57	Customer Charge	\$ 606.18	\$ 409.00		
58	Consumption Charge (Ccf)				
59	West Texas	\$ 0.05790	\$ 0.06895		
60	Amarillo	\$ 0.10716	\$ 0.06895		
61	Lubbock	\$ 0.07037	\$ 0.06895		
62					
63	Rider GCA (Ccf)	\$ 0.39117	\$ 0.39117		
64					
65	Number of Bills	1,031	1,031		
66	Volumes (Ccf)				
67	West Texas	3,398,711	3,398,711		
68	Amarillo	9,084	9,084		
69	Lubbock	906,227	906,227		
70	Total Volumes	<u>4,314,022</u>	<u>4,314,022</u>		
71					
72	Revenue:				
73	Customer Charge	\$ 624,972	\$ 421,679		
74	Consumption Charge (Ccf)				
75	West Texas	196,785	234,341		
76	Amarillo	973	626		
77	Lubbock	63,771	62,484		
78	Total Margin Revenue	<u>\$ 886,502</u>	<u>\$ 719,131</u>		
79	Gas Cost	1,687,502	1,687,502		
80	Total Industrial Revenue	<u>\$ 2,574,003</u>	<u>\$ 2,406,633</u>	\$ (167,371)	-6.50%
81					

ATMOS ENERGY CORPORATION
WEST TEXAS UNINCORPORATED AREAS STATEMENT OF INTENT
PROOF OF REVENUES
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	Description	Current Revenue	Proposed Revenue	Total Change	Percent Change
	(a)	(b)	(c)	(d)	(e)
82	TRANSPORTATION				
83	Rate Characteristics:				
84	Customer Charge	\$ 606.18	\$ 409.00		
85	Consumption Charge (Ccf)				
86	West Texas	\$ 0.05790	\$ 0.06895		
87	Amarillo	\$ 0.10716	\$ 0.06895		
88	Lubbock	\$ 0.07037	\$ 0.06895		
89					
90	Rider GCA (Ccf) ¹	\$ -	\$ -		
91					
92	Number of Bills	240	240		
93	Volumes (Ccf)				
94	West Texas	4,025,100	4,025,100		
95	Amarillo	317,500	317,500		
96	Lubbock	-	-		
97	Total Volumes	<u>4,342,600</u>	<u>4,342,600</u>		
98					
99	Revenue:				
100	Customer Charge	\$ 145,483	\$ 98,160		
101	Consumption Charge (Ccf)				
102	West Texas	233,053	277,531		
103	Amarillo	34,023	21,892		
104	Lubbock	-	-		
105	Total Margin Revenue	<u>\$ 412,560</u>	<u>\$ 397,582</u>		
106	Gas Cost	-	-		
107	Total Transportation Revenue	<u>\$ 412,560</u>	<u>\$ 397,582</u>	\$ (14,978)	-3.63%
108					

ATMOS ENERGY CORPORATION
WEST TEXAS UNINCORPORATED AREAS STATEMENT OF INTENT
PROOF OF REVENUES
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	Description	Current Revenue	Proposed Revenue	Total Change	Percent Change
	(a)	(b)	(c)	(d)	(e)
109	PUBLIC AUTHORITY				
110	Rate Characteristics:				
111	Customer Charge	\$ 151.49	\$ 122.25		
112	Consumption Charge (Ccf)				
113	West Texas	\$ 0.09579	\$ 0.09518		
114	Amarillo	\$ 0.10113	\$ 0.09518		
115	Lubbock	\$ 0.12341	\$ 0.09518		
116					
117	Rider GCA (Ccf)	\$ 0.39117	\$ 0.39117		
118					
119	Number of Bills	1,875	1,875		
120	Volumes (Ccf)				
121	West Texas	1,195,029	1,195,029		
122	Amarillo	1,738,885	1,738,885		
123	Lubbock	749,202	749,202		
124	Total Volumes	<u>3,683,116</u>	<u>3,683,116</u>		
125					
126	Revenue:				
127	Customer Charge	\$ 283,976	\$ 229,164		
128	Consumption Charge (Ccf)				
129	West Texas	114,472	113,743		
130	Amarillo	175,853	165,507		
131	Lubbock	92,459	71,309		
132	Total Margin Revenue	<u>\$ 666,760</u>	<u>\$ 579,723</u>		
133	Gas Cost	<u>1,440,712</u>	<u>1,440,712</u>		
134	Total Public Authority Revenue	<u>\$ 2,107,472</u>	<u>\$ 2,020,435</u>	\$ (87,037)	-4.13%
135					

ATMOS ENERGY CORPORATION
WEST TEXAS UNINCORPORATED AREAS STATEMENT OF INTENT
PROOF OF REVENUES
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	Description	Current Revenue	Proposed Revenue	Total Change	Percent Change
	(a)	(b)	(c)	(d)	(e)
136	STATE INSTITUTION				
137	Rate Characteristics:				
138	Customer Charge	\$ 147.86	\$ 122.25		
139	Consumption Charge (Ccf)				
140	West Texas	\$ 0.12883	\$ 0.09518		
141	Lubbock	\$ 0.10567	\$ 0.09518		
142					
143	Rider GCA (Ccf)	\$ 0.39117	\$ 0.39117		
144					
145	Number of Bills	448	448		
146	Volumes (Ccf)				
147	West Texas	67,800	67,800		
148	Lubbock	517,942	517,942		
149	Total Volumes	<u>585,743</u>	<u>585,743</u>		
150					
151	Revenue:				
152	Customer Charge	\$ 66,241	\$ 54,768		
153	Consumption Charge (Ccf)				
154	West Texas	8,735	6,453		
155	Lubbock	54,731	49,298		
156	Total Margin Revenue	<u>\$ 129,707</u>	<u>\$ 110,519</u>		
157	Gas Cost	<u>229,123</u>	<u>229,123</u>		
158	Total State Institution Revenue	<u>\$ 358,830</u>	<u>\$ 339,642</u>	\$ (19,188)	-5.35%
159					
160	Total Gas Revenue	<u>\$ 26,592,103</u>	<u>\$ 25,726,013</u>	\$ (866,090)	-3.26%
161					
162	Note:				
163	1. Rider GCA does not apply to customers under the Transportation tariff.				

ATMOS ENERGY CORPORATION
WEST TEXAS UNINCORPORATED AREAS STATEMENT OF INTENT
INTERIM RATE ADJUSTMENT NET INVESTMENT AND RATE BASE ADJUSTMENTS
PER TEXAS UTILITIES CODE SECTION 104.301
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	Utility Account	Account Description	Plant Balance	Accumulated Depreciation	Net Plant	Depreciation Rate
	(a)	(b)	(c)	(d)	(e) = (c) - (d)	(f)
1	<u>West Texas Direct:</u>					
2	<u>Distribution Plant</u>					
3	374.01	Land	\$ 117,348	\$ -	\$ 117,348	0.00%
4	374.02	Land Rights	255,606	144,272	111,334	1.56%
5	375.00	Structures & Improvements	321,035	207,389	113,647	3.05%
6	375.01	Structures - Frame	6,154	6,154	-	3.05%
7	375.02	Structures - Land Rights	2,740	2,740	-	3.05%
8	375.03	Improvements	23,347	23,347	-	3.05%
9	376.00	Mains - Cathodic Protection	55,371,886	17,913,206	37,458,680	2.68%
10	376.01	Mains - Steel	129,842,578	29,943,969	99,898,609	2.68%
11	376.02	Mains - Plastic	241,218,242	34,231,235	206,987,007	2.68%
12	377.00	Compressor Station Equipment	217,930	217,930	-	3.33%
13	378.00	M&R Station Equipment - General	18,192,084	3,613,576	14,578,508	2.65%
14	379.00	M&R Station Equipment - City Gate	4,034,888	419,266	3,615,622	3.92%
15	380.00	Services	141,621,097	41,529,713	100,091,384	3.55%
16	381.00	Meters	55,624,669	16,466,789	39,157,880	5.97%
17	382.00	Meter installations	54,599,151	(13,098,614)	67,697,766	6.62%
18	383.00	House Regulators	10,648,065	2,982,298	7,665,767	5.89%
19	384.00	House Regulator Installations	1,168,265	1,273,445	(105,181)	5.54%
20	385.00	Industrial M&R Station Equipment	2,159,398	1,583,617	575,781	4.04%
21	386.00	Other Property on Customers' Premises	24,218	24,218	-	1.82%
22	387.00	Other Equipment	1,595,475	765,129	830,346	4.15%
23	Total WTX Distribution Plant (Sum Ln 3 through Ln 22)		\$ 717,044,176	\$ 138,249,678	\$ 578,794,499	
24						

ATMOS ENERGY CORPORATION
WEST TEXAS UNINCORPORATED AREAS STATEMENT OF INTENT
INTERIM RATE ADJUSTMENT NET INVESTMENT AND RATE BASE ADJUSTMENTS
PER TEXAS UTILITIES CODE SECTION 104.301
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	Utility Account	Account Description	Plant Balance	Accumulated Depreciation	Net Plant	Depreciation Rate
	(a)	(b)	(c)	(d)	(e) = (c) - (d)	(f)
25	<u>General Plant</u>					
26	302.00	Franchises & Consents	\$ 4,264	1,474	\$ 2,790	0.00%
27	389.00	Land & Land Rights	1,993,192	(1,225)	1,994,417	0.00%
28	390.00	Structures & Improvements	8,625,900	1,185,508	7,440,392	3.36%
29	390.01	Structures - Frame	5,867,180	691,997	5,175,183	3.36%
30	390.02	Structures - Brick	2,629,111	736,634	1,892,477	3.36%
31	390.03	Improvements	704,906	140,484	564,422	3.36%
32	390.04	Air Conditioning Equipment	52,092	39,000	13,093	3.36%
33	390.09	Improvements to Leased Premises	1,776,970	1,326,188	450,783	2.67%
34	391.00	Office Furniture & Equipment	1,786,021	788,877	997,144	8.28%
35	392.00	Transportation Equipment	375,666	45,899	329,767	3.10%
36	393.00	Stores Equipment	14,209	1,146	13,063	2.86%
37	394.00	Tools, Shop, and Garage Equipment	6,061,750	1,915,422	4,146,328	7.07%
38	395.00	Laboratory Equipment	-	-	-	6.04%
39	396.00	Power Operated Equipment	914,237	517,401	396,836	8.84%
40	396.03	Ditchers	-	-	-	8.84%
41	396.04	Backhoes	111,262	75,330	35,932	8.84%
42	396.05	Welders	40,594	36,985	3,609	8.84%
43	397.00	Communication Equipment	123,780	(6,530)	130,310	19.12%
44	397.05	Telemetry Equipment	-	(850)	850	19.12%
45	398.00	Miscellaneous Equipment	5,722,429	1,802,726	3,919,703	10.45%
46	399.06	PC Hardware	2,558,662	2,292,575	266,087	19.62%
47	399.07	PC Software	161,117	161,117	-	23.19%
48	RWIP	Retirement Work in Progress	-	(364,694)	364,694	
49		Total WTX General Plant (Sum Ln 26 through Ln 48)	\$ 39,523,342	\$ 11,385,465	\$ 28,137,877	
50						

ATMOS ENERGY CORPORATION
WEST TEXAS UNINCORPORATED AREAS STATEMENT OF INTENT
INTERIM RATE ADJUSTMENT NET INVESTMENT AND RATE BASE ADJUSTMENTS
PER TEXAS UTILITIES CODE SECTION 104.301
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	Utility Account (a)	Account Description (b)	Plant Balance (c)	Accumulated Depreciation (d)	Net Plant (e) = (c) - (d)	Depreciation Rate (f)
51	<u>WTX General Office (Div 010):</u>					
52	<u>General Plant</u>					
53	389.00	Land & Land Rights	\$ 497,241	\$ -	\$ 497,241	0.00%
54	390.00	Structures & Improvements	4,641,728	458,057	4,183,671	3.36%
55	391.00	Office Furniture & Equipment	548,742	112,039	436,704	8.28%
56	392.00	Transportation Equipment	44,217	16,893	27,323	3.10%
57	394.00	Tools, Shop, and Garage Equipment	385,752	9,288	376,465	7.07%
58	397.00	Communication Equipment	249,461	110,569	138,892	19.12%
59	397.01	Mobile Radios	32,950	17,325	15,625	19.12%
60	397.02	Fixed Radios	-	-	-	19.12%
61	397.05	Telemetry Equipment	9,238	1,325	7,913	19.12%
62	398.00	Miscellaneous Equipment	1,325,523	405,426	920,097	10.45%
63	399.01	Servers Hardware	20,153	(34,060)	54,214	18.62%
64	399.03	Network Hardware	138,539	34,897	103,642	14.29%
65	399.06	PC Hardware	3,118,369	420,123	2,698,246	19.62%
66	399.07	PC Software	490,320	308,182	182,138	23.19%
67	RWIP	Retirement Work in Progress	-	47,755	(47,755)	
68		Total WTX General Office (Sum Ln 53 through Ln 67)	<u>\$ 11,502,233</u>	<u>\$ 1,907,818</u>	<u>\$ 9,594,416</u>	
69						
70		Total West Texas Direct (Ln 23 + Ln 49 + Ln 68)	<u>\$ 768,069,752</u>	<u>\$ 151,542,960</u>	<u>\$ 616,526,792</u>	
71						
72	<u>SSU General Office (Div 002):</u>					
73	<u>General Plant</u>					
74	390.00	Structures & Improvements	\$ 88,809	\$ 29,619	\$ 59,190	3.34%
75	390.09	Improvements to Leased Premises	555,873	555,873	-	4.06%
76	391.00	Office Furniture & Equipment	305,895	105,967	199,928	4.03%
77	392.00	Transportation Equipment	448	320	129	10.32%
78	394.00	Tools, Shop, and Garage Equipment	4,787	1,856	2,931	8.88%
79	397.00	Communication Equipment	65,398	31,813	33,585	5.54%
80	398.00	Miscellaneous Equipment	8,590	2,686	5,903	1.72%

ATMOS ENERGY CORPORATION
WEST TEXAS UNINCORPORATED AREAS STATEMENT OF INTENT
INTERIM RATE ADJUSTMENT NET INVESTMENT AND RATE BASE ADJUSTMENTS
PER TEXAS UTILITIES CODE SECTION 104.301
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	Utility Account	Account Description	Plant Balance	Accumulated Depreciation	Net Plant	Depreciation Rate
(a)	(b)		(c)	(d)	(e) = (c) - (d)	(f)
81	399.00	Other Tangible Property	10,210	10,217	(7)	13.84%
82	399.01	Servers Hardware	2,328,390	1,249,248	1,079,142	8.62%
83	399.02	Servers Software	1,195,883	1,044,918	150,965	8.78%
84	399.03	Network Hardware	223,310	150,526	72,784	8.72%
85	399.06	PC Hardware	154,658	62,480	92,178	8.78%
86	399.07	PC Software	92,702	12,551	80,151	6.64%
87	399.08	Application Software	4,175,365	1,929,624	2,245,742	6.57%
88	399.09	System Software	2,470	2,735	(266)	10.32%
89		Total SSU General Office (Sum Ln 74 through Ln 88)	<u>\$ 9,212,788</u>	<u>\$ 5,190,433</u>	<u>\$ 4,022,355</u>	
90						
91		<u>SSU Greenville Data Center (Div 002):</u>				
92		<u>General Plant</u>				
93	390.05	Structures & Improvements	\$ 255,311	\$ 96,388	\$ 158,923	3.34%
94	391.04	Office Furniture & Equipment	1,771	839	932	4.03%
95		Total SSU Greenville Data Center (Sum Ln 93 through Ln 94)	<u>\$ 257,082</u>	<u>\$ 97,227</u>	<u>\$ 159,855</u>	
96						
97		<u>SSU Distribution & Marketing (Div 002):</u>				
98		<u>General Plant</u>				
99	390.20	Structures & Improvements	\$ -	\$ -	\$ -	3.34%
100	390.29	Improvements to Leased Premises	-	-	-	4.06%
101	391.20	Office Furniture & Equipment	17,443	7,412	10,031	4.03%
102	394.20	Tools, Shop, and Garage Equipment	-	36	(36)	8.88%
103	397.20	Communication Equipment	818	326	492	5.54%
104	398.20	Miscellaneous Equipment	685	65	620	1.72%
105	399.21	Servers Hardware	151,078	101,764	49,314	8.62%
106	399.22	Servers Software	89,155	39,938	49,217	8.78%
107	399.23	Network Hardware	5,581	3,832	1,749	8.72%
108	399.26	PC Hardware	29,158	3,765	25,393	8.78%
109	399.28	Application Software	1,917,660	1,100,666	816,994	6.57%
110		Total SSU Distribution & Marketing (Sum Ln 99 through Ln 109)	<u>\$ 2,211,579</u>	<u>\$ 1,257,805</u>	<u>\$ 953,774</u>	
111						

ATMOS ENERGY CORPORATION
WEST TEXAS UNINCORPORATED AREAS STATEMENT OF INTENT
INTERIM RATE ADJUSTMENT NET INVESTMENT AND RATE BASE ADJUSTMENTS
PER TEXAS UTILITIES CODE SECTION 104.301
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	Utility Account	Account Description	Plant Balance	Accumulated Depreciation	Net Plant	Depreciation Rate
(a)	(b)		(c)	(d)	(e) = (c) - (d)	(f)
112	<u>SSU Align Pipe Project (Div 002):</u>					
113	<u>General Plant</u>					
114	399.31	Servers Hardware	\$ -	\$ -	\$ -	8.62%
115	399.32	Servers Software	-	-	-	8.78%
116	399.38	Application Software	-	-	-	6.57%
117	Total SSU Align Pipe Project (Sum Ln 114 through Ln 116)		\$ -	\$ -	\$ -	
118						
119	<u>SSU Customer Support (Div 012):</u>					
120	<u>General Plant</u>					
121	389.00	Land & Land Rights	\$ 277,672	\$ -	\$ 277,672	0.00%
122	390.00	Structures & Improvements	1,223,918	156,847	1,067,070	3.34%
123	390.09	Improvements to Leased Premises	271,732	154,211	117,521	4.06%
124	391.00	Office Furniture & Equipment	224,411	73,760	150,651	4.03%
125	397.00	Communication Equipment	184,821	94,623	90,198	5.54%
126	398.00	Miscellaneous Equipment	5,090	825	4,264	1.72%
127	399.00	Other Tangible Property	60,782	40,373	20,409	13.84%
128	399.01	Servers Hardware	999,233	418,430	580,803	8.62%
129	399.02	Servers Software	195,527	102,330	93,197	8.78%
130	399.03	Network Hardware	60,788	31,525	29,262	8.72%
131	399.06	PC Hardware	96,590	46,756	49,834	8.78%
132	399.07	PC Software	18,379	12,041	6,338	6.64%
133	399.08	Application Software	8,707,666	2,509,093	6,198,573	6.57%
134	Total SSU Customer Support (Sum Ln 121 through Ln 133)		\$ 12,326,609	\$ 3,640,815	\$ 8,685,794	
135						

ATMOS ENERGY CORPORATION
WEST TEXAS UNINCORPORATED AREAS STATEMENT OF INTENT
INTERIM RATE ADJUSTMENT NET INVESTMENT AND RATE BASE ADJUSTMENTS
PER TEXAS UTILITIES CODE SECTION 104.301
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	Utility Account (a)	Account Description (b)	Plant Balance (c)	Accumulated Depreciation (d)	Net Plant (e) = (c) - (d)	Depreciation Rate (f)
136	<u>SSU CKV Training Center (Div 012):</u>					
137		<u>General Plant</u>				
138	389.10	Land & Land Rights	\$ 99,083	\$ -	\$ 99,083	0.00%
139	390.10	Structures & Improvements	646,349	134,363	511,986	3.34%
140	391.10	Office Furniture & Equipment	20,000	1,697	18,303	4.03%
141	392.10	Transportation Equipment	5,058	4,836	222	10.32%
142	394.10	Tools, Shop, and Garage Equipment	20,004	4,270	15,734	8.88%
143	395.10	Laboratory Equipment	1,241	746	495	10.32%
144	397.10	Communication Equipment	15,311	7,510	7,801	5.54%
145	398.10	Miscellaneous Equipment	26,749	6,841	19,908	1.72%
146	399.10	Other Tangible Property	17,840	6,883	10,957	13.84%
147	399.16	PC Hardware	13,514	11,815	1,699	8.78%
148	399.17	PC Software	5,457	3,658	1,799	6.64%
149	399.18	Application Software	1,080	509	570	6.57%
150		Total SSU CKV Center (Sum Ln 138 through Ln 149)	<u>\$ 871,685</u>	<u>\$ 183,128</u>	<u>\$ 688,557</u>	
151						
152		Total Allocated SSU Plant (Sum Lns 89, 95, 110, 117, 134, 150)	<u>\$ 24,879,743</u>	<u>\$ 10,369,408</u>	<u>\$ 14,510,335</u>	
153						
154		Total West Texas Net Plant (Ln 70 + Ln 152)	<u>\$ 792,949,495</u>	<u>\$ 161,912,369</u>	<u>\$ 631,037,126</u>	
155						
156		Rate Base Adjustments			<u>\$ 1,336,719</u>	

Note:

1. The WTX General Office and SSU Plant Balances and Accumulated Depreciation reflect allocated amounts to West Texas.

ATMOS ENERGY CORPORATION
WEST TEXAS UNINCORPORATED AREAS STATEMENT OF INTENT
AMORTIZATION OF PROTECTED REGULATORY LIABILITY
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	Year Ended Dec. 31	Beginning of Year Rate Base Adjustment Amount	Annual Amortization (1)	End of Year Rate Base Adjustment Amount	Balance as of December 31, 2017 (2)
	(a)	(b)	(c)	(d)	(e)
1	2017			\$ 58,425,230	\$ 58,425,230
2	2018	\$ 58,425,230	\$ 2,434,385	55,990,846	
3	2019	55,990,846	2,434,385	53,556,461	
4	2020	53,556,461	2,434,385	51,122,076	
5	2021	51,122,076	2,434,385	48,687,692	
6	2022	48,687,692	2,434,385	46,253,307	
7	2023	46,253,307	2,434,385	43,818,923	
8	2024	43,818,923	2,434,385	41,384,538	
9	2025	41,384,538	2,434,385	38,950,153	
10	2026	38,950,153	2,434,385	36,515,769	
11	2027	36,515,769	2,434,385	34,081,384	
12	2028	34,081,384	2,434,385	31,647,000	
13	2029	31,647,000	2,434,385	29,212,615	
14	2030	29,212,615	2,434,385	26,778,231	
15	2031	26,778,231	2,434,385	24,343,846	
16	2032	24,343,846	2,434,385	21,909,461	
17	2033	21,909,461	2,434,385	19,475,077	
18	2034	19,475,077	2,434,385	17,040,692	
19	2035	17,040,692	2,434,385	14,606,308	
20	2036	14,606,308	2,434,385	12,171,923	
21	2037	12,171,923	2,434,385	9,737,538	
22	2038	9,737,538	2,434,385	7,303,154	
23	2039	7,303,154	2,434,385	4,868,769	
24	2040	4,868,769	2,434,385	2,434,385	
25	2041	2,434,385	2,434,385	(0)	

26
27 Notes:

- 28 1. The annual amortization of a 24 year recovery period is based on the Reverse South Georgia Method.
- 29 2. An adjustment to the December 2017 balance for Account 253 Subaccount 27909 was recorded in March 2018. This balance has been utilized in the filing.

ATMOS ENERGY CORPORATION
WEST TEXAS UNINCORPORATED AREAS STATEMENT OF INTENT
RATE DESIGN
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	(a)	(b)	(c)	(d)	(e)	(f)
1	Proposed Base Revenue Requirement		\$ 122,255,119			
2	Less: Amortization of Excess ADIT		(2,434,385)			
3	Net Proposed Base Revenue Requirement		<u>\$ 119,820,735</u>			
4						
5		GUD 10174 COS		Allocation of		
6		Revenue Requirement	Allocations	Change in Rates		
7	Residential	\$ 65,538,316	75.13%	\$ 90,017,993		
8	Commercial	16,044,436	18.39%	22,037,305		
9	Industrial and Transportation	1,882,613	2.16%	2,585,801		
10	Public Authority	3,771,075	4.32%	5,179,635		
11		<u>\$ 87,236,439</u>		<u>\$ 119,820,735</u>		
12						
13						
14				Industrial &		
15		<u>Residential</u>	<u>Commercial</u>	<u>Transportation</u>	<u>Public Authority¹</u>	
16						
17	Total Margin Per Class	\$ 90,017,993	22,037,305	2,585,801	5,179,635	
18						
19	Proposed Customer Charge	\$ 16.10	\$ 43.25	\$ 409.00	\$ 122.25	
20	Annual Number of Bills	3,318,518	288,804	2,477	24,914	
21	Total Customer Charge Revenue	<u>\$ 53,428,140</u>	<u>\$ 12,490,773</u>	<u>\$ 1,013,093</u>	<u>\$ 3,045,737</u>	<u>\$ 69,977,742</u>
22						
23	Proposed Consumption Charge	\$ 0.21224	\$ 0.11722	\$ 0.06895	\$ 0.09518	
24	Total Volumes	172,395,190	81,442,324	22,809,914	22,419,458	
25	Total Consumption Charge Revenue	<u>\$ 36,589,155</u>	<u>\$ 9,546,669</u>	<u>\$ 1,572,744</u>	<u>\$ 2,133,884</u>	<u>\$ 49,842,452</u>
26						
27	Total Proposed Revenue	<u>\$ 90,017,295</u>	<u>\$ 22,037,442</u>	<u>\$ 2,585,837</u>	<u>\$ 5,179,621</u>	<u>\$ 119,820,194</u>

Note:

¹ The state institution customers have been combined with public authority.

**WEST TEXAS DIVISION
 ATMOS ENERGY CORPORATION**

RIDER:	SUR – SURCHARGES	
APPLICABLE TO:	UNINCORPORATED AREAS	
EFFECTIVE DATE:	BILLS RENDERED ON OR AFTER	PAGE:

Applicability

The Rate Case Expense Surcharge (RCE) rate as set forth below is pursuant to the Final Order in GUD No. 10743. This monthly rate shall apply to residential, commercial, industrial / transportation, and public authority rate classes of Atmos Energy Corporation's West Texas Division in the rate area and amounts shown below. The fixed-price surcharge rate will be in effect for approximately 12 months until all approved and expended rate case expenses are recovered from the applicable customer classes as documented in the Final Order in GUD No.10743. This rider is subject to all applicable laws and orders, and the Company's rules and regulations on file with the regulatory authority.

Monthly Calculation

Surcharges will be the fixed-price rate shown in the table below:

Rate Schedule	Unincorporated Areas
Residential	\$0.15
Commercial	\$0.31
Industrial / Transportation	\$0.82
Public Authority	\$0.89

**WEST TEXAS DIVISION
 ATMOS ENERGY CORPORATION**

RATE SCHEDULE:	QUALITY OF SERVICE	
APPLICABLE TO:	WEST TEXAS SERVICE AREA	
EFFECTIVE DATE:		

The following minimum service standards are applicable to residential, commercial, public authority and industrial sales customers residing in the unincorporated areas of Atmos Energy Corporation, West Texas Division's ("Atmos Energy, West Texas Division") service territory. These minimum service standards are applicable to residential, commercial, public authority and industrial customers residing in the incorporated areas only to the extent that the minimum service standards do not conflict with standards lawfully established by a particular municipality for Atmos Energy, West Texas Division.

1. Continuity of Service

(A) Service Interruptions.

(i) Atmos Energy, West Texas Division will make all reasonable efforts to prevent interruptions of service. When interruptions occur, Atmos Energy, West Texas Division will reestablish service within the shortest possible time consistent with prudent operating principles so that the smallest numbers of customers are affected.

(ii) Atmos Energy, West Texas Division will make reasonable efforts to meet emergencies resulting from interruptions of service, and will issue instructions to its employees covering procedures to be followed in the event of an emergency in order to prevent or mitigate interruption or impairment of service.

(iii) In the event of national emergency or local disaster resulting in disruption of normal service, Atmos Energy, West Texas Division may, in the public interest, interrupt service to other customers to provide necessary service to civil defense or other emergency service agencies on a temporary basis until normal service to these agencies can be restored.

(iv) Curtailment of gas service will be done in accordance with the utility's curtailment program as authorized by the appropriate regulatory body. When notified by the utility, the customer will curtail gas service. In the event of any curtailment, utility personnel may physically turn off or restrict gas deliveries and only utility personnel will thereafter be permitted to restore gas service. The customer assumes any and all risk and will indemnify the utility against all damages, losses and expenses resulting from a curtailment of gas service under the utility's authorized curtailment program, except to the extent such damages, losses and expenses result from the gross negligence of the utility.

(B) Record of interruption. Except for momentary interruptions which do not cause a major disruption of service, Atmos Energy, West Texas Division will keep a complete record of all interruptions, both emergency and scheduled. This record will show the cause of interruptions, date, time duration, location, approximate number of customers affected, and, in cases of emergency interruptions, the remedy and steps taken to prevent recurrence.

(C) Report to Commission. Atmos Energy, West Texas Division will notify the Railroad Commission in writing within 48 hours of interruptions in service affecting the entire system or any major division thereof, lasting more than four hours. The notice will also state the cause of such interruptions. If any service interruption is otherwise reported to the Commission (for example, as curtailment report or safety report), such other report will be intended to be sufficient to comply with the terms of this paragraph.

**WEST TEXAS DIVISION
ATMOS ENERGY CORPORATION**

RATE SCHEDULE:	QUALITY OF SERVICE	
APPLICABLE TO:	WEST TEXAS SERVICE AREA	
EFFECTIVE DATE:		

2. Customer Relations

(A) Information to customers. Atmos Energy, West Texas Division will:

- (i) maintain a current set of maps showing the physical locations of its facilities. All distribution facilities will be labeled to indicate the size and any pertinent information which will accurately describe the utility's facilities. These maps, or such other maps as may be required by the regulatory authority, will be kept by Atmos Energy, West Texas Division in a central location and will be available for inspection by the regulatory authority during normal working hours. Each business office or service center will have available up-to-date maps, or records of its immediate area, with other such information as may be necessary to enable Atmos Energy, West Texas Division to advise applicants and others entitled to the information as to the facilities available for serving the locality;
- (ii) assist the customer or applicant in selecting the most economical rate schedule;
- (iii) in compliance with applicable law or regulations, notify customers affected by a change in rates or schedule or classification;
- (iv) post a notice in a conspicuous place in each business office of Atmos Energy, West Texas Division where applications for service are received informing the public that copies of the rate schedules and rules relating to the service of the utility as filed with the Commission are available for inspection;
- (v) upon request, inform its customers as to the method of reading meters;
- (vi) provide to new customers, at the time service is initiated or as an insert in the first billing, a pamphlet or information packet containing the following information, in English and Spanish:
 - (1) the customer's right to information concerning rates and services and the customer's right to inspect or obtain at reproduction cost a copy of the applicable tariffs and service rules;
 - (2) the customer's right to have his or her meter checked without charge under Section (7) of this Rule, if applicable;
 - (3) the time allowed to pay outstanding bills;
 - (4) grounds for termination of service;
 - (5) the steps Atmos Energy, West Texas Division must take before terminating service;
 - (6) how the Customer can resolve billing disputes with Atmos Energy, West Texas Division and how disputes and health emergencies may affect termination of service;

**WEST TEXAS DIVISION
 ATMOS ENERGY CORPORATION**

RATE SCHEDULE:	QUALITY OF SERVICE	
APPLICABLE TO:	WEST TEXAS SERVICE AREA	
EFFECTIVE DATE:		

2. Customer Relations (continued)

(7) information on alternative payment plans, if any, offered by Atmos Energy, West Texas Division;

(8) the steps necessary to have service reconnected after involuntary termination;

(9) the appropriate regulatory authority with whom to register a complaint and how to contact such authority;

(10) the hours, addresses, and telephone numbers of utility offices where bills may be paid and information may be obtained; and

(11) the customer's right to be instructed by Atmos Energy, West Texas Division how to read his or her meter.

(vii) at least once each calendar year, notify each customer that information is available upon request, at no charge to the customer, concerning the items listed in paragraph (vi) (1-11) of this subsection. This notice may be accomplished by use of a billing insert or a printed statement upon the bill itself.

(B) Customer complaints. Upon complaint to Atmos Energy, West Texas Division by residential, commercial, public authority or industrial sales customers either at its office, by letter, or by telephone, Atmos Energy, West Texas Division will promptly make a suitable investigation and advise the complainant of the results thereof. Atmos Energy, West Texas Division will keep a record of all complaints which will show the name and address of the complainant, the date and nature of the complaint, and the adjustment or disposition thereof for a period of one year subsequent to the final disposition of the complaint.

(C) Utility response. Upon receipt of a complaint, either by letter or by telephone, from the regulatory authority on behalf of a customer, Atmos Energy, West Texas Division will promptly make a suitable investigation and advise the regulatory authority and complainant of the results thereof. An initial response will be made by the next working day. Unless additional reply time is granted by the regulatory authority, Atmos Energy, West Texas Division will make a final and complete response within 15 days. The Commission encourages all customer complaints to be made in writing to assist the regulatory authority in maintaining records of the quality of service of each utility; however, telephone communications will be acceptable.

(D) Deferred payment plan. If a deferred payment plan for delinquent residential accounts is offered, it will conform to the following guidelines:

(i) Every deferred payment plan entered into due to the customer's inability to pay the outstanding bill in full must provide that service will not be discontinued if the customer pays current bills and a reasonable amount of the outstanding bill and agrees to pay the balance in reasonable installments until the bill is paid.

**WEST TEXAS DIVISION
ATMOS ENERGY CORPORATION**

RATE SCHEDULE:	QUALITY OF SERVICE	
APPLICABLE TO:	WEST TEXAS SERVICE AREA	
EFFECTIVE DATE:		

2. Customer Relations (continued)

(ii) For purposes of determining reasonableness under these rules, the following shall be considered: size of delinquent account; customer's ability to pay; customer's payment history; time that the debt has been outstanding; reasons why debt has been outstanding; and other relevant factors concerning the circumstances of the customer.

(iii) A deferred payment plan, if reduced to writing, offered by Atmos Energy, West Texas Division will state, immediately preceding the space provided for the customer's signature and in bold-face print at least two sizes larger than any other used, that: "If you are not satisfied with this agreement, do not sign. If you are satisfied with this agreement, you give up your right to dispute the amount due under the agreement except for the utility's failure or refusal to comply with the terms of this agreement."

(iv) A deferred payment plan if offered at all, may include a one-time 5.0% penalty for late payment on the gross amount of the outstanding bill with no prompt payment discount allowed except in cases where the outstanding bill is unusually high as a result of the utility's error (such as an inaccurately estimated bill or an incorrectly read meter). A deferred payment plan will not include a finance charge.

(v) If a customer for utility service has not fulfilled terms of a deferred payment agreement or refuses to sign the same if it is reduced to writing, Atmos Energy, West Texas Division will have the right to disconnect pursuant to disconnection rules herein, and under such circumstances, it shall not be required to offer a subsequent negotiation of a deferred payment agreement prior to disconnection.

(vi) Any utility which institutes a deferred payment plan shall not refuse a customer participation in such a program on the basis of race, color, creed, sex, marital status, age, or any other form of discrimination prohibited by law.

(E) Delayed payment of bills by elderly persons to residential customers.

(i) Applicability. This subparagraph applies only to:

(1) a utility that assesses late payment charges to residential customers and that suspends service before the 26th day after the date of the bill for which collection action is taken;

(2) utility bills issued on or after August 30, 1993; and

(3) an elderly person, as defined in clause (ii) of this subparagraph, who is a residential customer and who occupies the entire premises for which a delay is requested.

(ii) Definitions.

(1) Elderly person – A person who is 60 years of age or older

(2) Utility – A gas utility or municipally owned utility as defined in Texas Utilities Code, 101.003(7), 101.003(8), and 121.001 – 121.006.

(iii) An elderly person may request that the utility implement the delay for either the most recent utility bill or for the most recent utility bill and each subsequent utility bill.

**WEST TEXAS DIVISION
ATMOS ENERGY CORPORATION**

RATE SCHEDULE:	QUALITY OF SERVICE	
APPLICABLE TO:	WEST TEXAS SERVICE AREA	
EFFECTIVE DATE:		

(iv) On request of an elderly person, a utility shall delay without penalty the payment date of a bill for providing utility services to that person until the 25th day after the date on which the bill is issued.

(v) Atmos Energy, West Texas Division may require the requesting person to present reasonable proof that the person is 60 years of age or older.

(vi) Every utility shall notify its customers of this delayed payment option no less often than yearly. A utility may include this notice with other information provided pursuant to subparagraph (A) of this paragraph.

(F) Budget Billing - The Company offers an optional budget billing plan to moderate seasonal differences in customer bills. The details of the plan are published on the Company's website

**WEST TEXAS DIVISION
 ATMOS ENERGY CORPORATION**

RATE SCHEDULE:	QUALITY OF SERVICE	
APPLICABLE TO:	WEST TEXAS SERVICE AREA	
EFFECTIVE DATE:		

3. Refusal of Service

(A) Compliance by applicant. Atmos Energy, West Texas Division may decline to serve an applicant for whom service is available from previously installed facilities until such applicant has complied with applicable state and municipal regulations and approved rules and regulations and tariff provisions of Atmos Energy, West Texas Division on file with the Commission governing the service applied for or for any of the following reasons:

- (i) Applicant's facilities inadequate. If the applicant's installation, equipment or possible misuse of gas service is believed to be hazardous or of such character that satisfactory service cannot be given.
- (ii) For indebtedness. If the applicant is indebted to any utility for the same kind of service as that applied for; provided, however, that in the event the indebtedness of the applicant for service is in dispute, the applicant shall be served upon complying with the applicable deposit requirement.
- (iii) Refusal to make deposit. For refusal to make a deposit if applicant is required to make a deposit under these rules.

(B) Applicant's recourse. In the event that Atmos Energy, West Texas Division refuses to serve an applicant under the provisions of these rules, Atmos Energy, West Texas Division will inform the applicant of the basis of its refusal and that the applicant may file a complaint with the municipal regulatory authority or commission, whichever is appropriate.

(C) Insufficient grounds for refusal to serve. The following do not constitute sufficient cause for refusal of service to a present customer or applicant:

- (i) Delinquency in payment for service by a previous occupant of the premises to be served.
- (ii) Failure to pay for merchandise or charges for non-utility service purchased from Atmos West Texas.
- (iii) Failure to pay a bill to correct previous under billing due to misapplication of rates more than six months prior to the date of application;
- (iv) Violation of Atmos Energy, West Texas Division' rules pertaining to operating of nonstandard equipment or unauthorized attachments which interfere with the service of others unless the customer has first been notified and been afforded reasonable opportunity to comply with these rules. [Please see 4(D)(ii) below]
- (v) Failure to pay a bill of another customer as guarantor thereof unless the guaranty was made in writing to the utility as a condition precedent to service.
- (vi) Failure to pay the bill of another customer at the same address except where the change of customer identity is made to avoid or evade payment of a utility bill.

**WEST TEXAS DIVISION
ATMOS ENERGY CORPORATION**

RATE SCHEDULE:	QUALITY OF SERVICE	
APPLICABLE TO:	WEST TEXAS SERVICE AREA	
EFFECTIVE DATE:		

4. Discontinuance of Service

(A) The due date of the bill for utility service will not be less than 15 days after issuance, or such other period of time as may be provided by order of the regulatory authority. A bill for utility service is delinquent if unpaid by the due date.

(B) Atmos Energy, West Texas Division may offer an inducement for prompt payment of bills to residential and commercial customers by allowing a discount in the amount of five percent (or such other amount as allowed by the appropriate regulatory authority) for payment of bills within 10 days after their issuance. This provision shall not apply where it conflicts with existing orders or ordinances of the appropriate regulatory authority.

(C) A customer's utility service may be disconnected if the bill has not been paid or a deferred payment plan pursuant to (2) (D) above has not been entered into within five working days after the bill has become delinquent and proper notice has been given. Proper notice consists of a deposit in the United States mail, postage prepaid, or hand delivery to the customer at least five working days prior to the stated date of disconnection, with the words "Termination Notice" or similar language prominently displayed on the notice. The notice will be provided in English and Spanish as necessary to adequately inform the customer, and will include the date of termination, the hours, address, and telephone number where payment may be made, and a statement that if a health or other emergency exists, Atmos Energy, West Texas Division may be contacted concerning the nature of the emergency and the relief available, if any, to meet such emergency.

(D) Utility service may be disconnected for any of the following reasons:

(i) Failure to pay a delinquent account or failure to comply with the terms of a deferred payment plan for installment payment of a delinquent account.

(ii) Violation of Atmos Energy, West Texas Division' rules pertaining to the use of service or in a manner which interfered with the service of others or the operation of nonstandard equipment, if a reasonable attempt has been made to notify the customer and the customer is provided with a reasonable opportunity to remedy the situation.

(iii) Failure to comply with the deposit or guarantee arrangements required by paragraph (5) of this subsection.

(iv) Without notice where a known dangerous condition exists, for as long as the condition exists.

(v) Tampering with Atmos Energy, West Texas Division' meter or equipment or bypassing the same.

**WEST TEXAS DIVISION
ATMOS ENERGY CORPORATION**

RATE SCHEDULE:	QUALITY OF SERVICE	
APPLICABLE TO:	WEST TEXAS SERVICE AREA	
EFFECTIVE DATE:		

4. Discontinuance of Service (continued)

(E) Utility service may not be disconnected for any of the following reasons:

- (i) Delinquency in payment for service by a previous occupant of the premises.
- (ii) Failure to pay for merchandise or charges for non-utility service by Atmos Energy, West Texas Division.
- (iii) Failure to pay for a different type or class of utility service unless fee for such service is or could have been included on same bill.
- (iv) Failure to pay the account of another customer as guarantor thereof, unless the utility has in writing the guarantee as a condition precedent to service.
- (v) Failure to pay charges arising from an under billing occurring due to any misapplication of rates more than six months prior to the current billings.
- (vi) Failure to pay charges arising from an under billing due to any faulty metering, unless the meter has been tampered with or unless such under billing charges are due.
- (vii) Failure to pay an estimated bill other than a bill rendered pursuant to an approved meter reading plan, unless Atmos Energy, West Texas Division was unable to read the meter due to circumstances beyond its control.

(F) Unless a dangerous or potentially fraudulent condition exists, or unless the customer request disconnection, service will not be disconnected on a day, or on a day immediately preceding a day, when Atmos Energy, West Texas Division personnel are not available to the public for the purpose of making collections and reconnecting service.

(G) Atmos Energy, West Texas Division may not abandon a residential or commercial customer without written approval from the regulatory authority.

(H) Atmos Energy, West Texas Division will not discontinue service to a delinquent residential customer permanently residing in an individually metered dwelling unit when that customer established that discontinuance of service will result in some person residing at that residence becoming seriously ill if service is discontinued. Any customer seeking to avoid termination of service under this section must make a written request supported by a written statement from a licensed physician. Both the request and the statement must be received by Atmos Energy, West Texas Division not more than five working days after the date of delinquency of the bill. The prohibition against service termination provided by this section will last twenty days from the date of receipt by Atmos Energy, West Texas Division of the request and statement or such lesser period as may be agreed upon by Atmos Energy, West Texas Division and the customer. The customer who makes such request shall sign an installment agreement which provides for such service contingent upon timely payment for subsequent monthly billings.

**WEST TEXAS DIVISION
 ATMOS ENERGY CORPORATION**

RATE SCHEDULE:	QUALITY OF SERVICE	
APPLICABLE TO:	WEST TEXAS SERVICE AREA	
EFFECTIVE DATE:		

4. Discontinuance of Service (continued)

(I) Suspension of Gas Utility Service Disconnection during an Extreme Weather Emergency

(A) Applicability and scope. This rule applies to gas utilities, as defined in Texas Utilities Code, §101.003(7) and §121.001, and to owners, operators, and managers of mobile home parks or apartment houses who purchase natural gas through a master meter for delivery to a dwelling unit in a mobile home park or apartment house, pursuant to Texas Utilities Code, §§124.001-124.002, within the jurisdiction of the Railroad Commission pursuant to Texas Utilities Code, §102.001. For purposes of this section, all such gas utilities and owners, operators and managers of master meter systems shall be referred to as "providers." Providers shall comply with the following service standards. A gas distribution utility shall file amended service rules incorporating these standards with the Railroad Commission in the manner prescribed by law.

(B) Disconnection prohibited. Except where there is a known dangerous condition or a use of natural gas service in a manner that is dangerous or unreasonably interferes with service to others, a provider shall not disconnect natural gas service to:

- (1) a delinquent residential customer during an extreme weather emergency. An extreme weather emergency means a day when the previous day's highest temperature did not exceed 32 degrees Fahrenheit and the temperature is predicted to remain at or below that level for the next 24 hours according to the nearest National Weather Station for the county where the customer takes service.
- (2) a delinquent residential customer for a billing period in which the provider receives a written pledge, letter of intent, purchase order, or other written notification from an energy assistance provider that it is forwarding sufficient payment to continue service; or
- (3) a delinquent residential customer on a weekend day, unless personnel or agents of the provider are available for the purpose of receiving payment or making collections and reconnecting service.

(C) Payment plans. Providers shall defer collection of the full payment of bills that are due during an extreme weather emergency until after the emergency is over, and shall work with customers to establish a payment schedule for deferred bills as set forth in paragraph (2)(D) of §7.45 of this title, relating to Quality of Service.

(D) Notice. Beginning in the September or October billing periods utilities and owners, operators, or managers of master metered systems shall give notice as follows:

- (1) Each utility shall provide a copy of this rule to the social services agencies that distribute funds from the Low Income Home Energy Assistance Program within the utility's service area.
- (2) Each utility shall provide a copy of this rule to any other social service agency of which the provider is aware that provides financial assistance to low income customers in the utility's service area.

**WEST TEXAS DIVISION
ATMOS ENERGY CORPORATION**

RATE SCHEDULE:	QUALITY OF SERVICE	
APPLICABLE TO:	WEST TEXAS SERVICE AREA	
EFFECTIVE DATE:		

4. Discontinuance of Service (continued)

(3) Each utility shall provide a copy of this rule to all residential customers of the utility and customers who are owners, operators, or managers of master metered systems.

(4) Owners, operators, or managers of master metered systems shall provide a copy of this rule to all of their customers.

(E) In addition to the minimum standards specified in this section, providers may adopt additional or alternative requirements if the provider files a tariff with the Commission pursuant to §7.315 of this title (relating to Filing of Tariffs). The Commission shall review the tariff to ensure that at least the minimum standards of this section are met.

**WEST TEXAS DIVISION
ATMOS ENERGY CORPORATION**

RATE SCHEDULE:	QUALITY OF SERVICE	
APPLICABLE TO:	WEST TEXAS SERVICE AREA	
EFFECTIVE DATE:		

5. Applicant Deposit

(A) Establishment of credit for residential applicants. Atmos Energy, West Texas Division may require a residential applicant for service to satisfactorily establish credit but such establishment of credit shall not relieve the customer from complying with rules for prompt payment of bills. Subject to these rules, a residential applicant will not be required to pay a deposit:

(i) if the residential applicant has been a customer of any utility for the same kind of service within the last two years and is not delinquent in payment of any such utility service account and during the last 12 consecutive months of service did not have more than one occasion in which a bill for such utility service was paid after becoming delinquent and never had service disconnected for nonpayment.

(ii) if the residential applicant furnishes in writing a satisfactory guarantee to secure payment of bills for other service required; or

(iii) if the residential applicant furnishes in writing a satisfactory credit rating by appropriate means, including but not limited to the production of generally acceptable credit cards, letters of credit reference, the names of credit references which may be quickly and inexpensively contacted by Atmos Energy, West Texas Division, or ownership of substantial equity.

(B) Reestablishment of credit. Every applicant who has previously been a customer of Atmos Energy, West Texas Division and whose service has been discontinued for nonpayment of bills shall be required before service is rendered to pay all amounts owed to Atmos Energy, West Texas Division by the customer or execute a written deferred payment agreement, if offered, and reestablish credit as provided in subparagraph (A) of this part.

(C) Amount of deposit and interest for residential service, and exemption from deposit.

(i) The required deposit will not exceed an amount equivalent to 1/6 of the estimated annual billings. However, if actual use is at least twice the amount of the estimated billings, a new deposit requirement may be calculated and an additional deposit may be required within two days. If such additional deposit is not made, Atmos Energy, West Texas Division may disconnect service under the standard disconnection procedure for failure to comply with deposit requirements. In the absence of billing history, the default deposit amount is \$90.00.

(ii) All applicants for residential service who are 65 years of age or older will be considered as having established credit if such applicant does not have an outstanding account balance with Atmos Energy, West Texas Division or another utility for the same utility service which accrued within the last two years. No cash deposit shall be required of such applicant under these conditions.

**WEST TEXAS DIVISION
ATMOS ENERGY CORPORATION**

RATE SCHEDULE:	QUALITY OF SERVICE	
APPLICABLE TO:	WEST TEXAS SERVICE AREA	
EFFECTIVE DATE:		

5. Applicant Deposit (continued)

(iii) Atmos Energy, West Texas Division will pay a minimum interest on such deposits according to the rate as established by law. If refund of deposit is made within 30 days of receipt of deposit, no interest payment is required. If the utility retains the deposit more than 30 days, payment of interest shall be made retroactive to the date of deposit.

(1) Payment of interest to the customer will be annually or at the time the deposit is returned or credited to the customer's account.

(2) The deposit shall cease to draw interest on the date it is returned or credited to the customers account.

(iv) Atmos Energy, West Texas Division shall waive any deposit requirement for residential service for an applicant who has been determined to be a victim of family violence as defined in Texas Family Code, §71.004, by a family violence center, by treating medical personnel, by law enforcement agency personnel, or by a designee of the Attorney General in the Crime Victim Services Division of the Office of the Attorney General. This determination shall be evidenced by the applicant's submission of a certification letter developed by the Texas Council on Family Violence and made available on its web site.

(D) Atmos Energy, West Texas Division may require a deposit from commercial or industrial customer sufficient to reasonably protect it against the risk exposure, provided such a policy is applied in a uniform and nondiscriminatory manner.

(E) Records of deposits.

(i) Atmos Energy, West Texas Division shall keep records to show:

- (1) the name and address of each depositor;
- (2) the amount and date of the deposit; and
- (3) each transaction concerning the deposit.

(ii) Atmos Energy, West Texas Division will issue a receipt of deposit to each applicant from whom a deposit is received and shall provide means whereby a depositor may establish claim if the receipt is lost.

(iii) A record of each unclaimed deposit will be maintained for at least four years, during which time Atmos Energy, West Texas Division will make a reasonable effort to return the deposit.

**WEST TEXAS DIVISION
ATMOS ENERGY CORPORATION**

RATE SCHEDULE:	QUALITY OF SERVICE	
APPLICABLE TO:	WEST TEXAS SERVICE AREA	
EFFECTIVE DATE:		

5. Applicant Deposit (continued)

(F) Refund of deposit.

(i) If service is not connected or after disconnection of service, Atmos Energy, West Texas Division will promptly and automatically refund the customer's deposit plus accrued interest or the balance, if any, in excess of the unpaid bills for service furnished. The transfer of service from one premise to another within Atmos Energy, West Texas Division' service area will not be deemed a disconnection within the meaning of these rules, and no additional deposit may be demanded unless permitted by these rules.

(ii) When the customer has paid bills for 12 consecutive residential bills without having service disconnected for nonpayment of bill and without having more than two occasions in which a bill was delinquent and when the customer is not delinquent in the payment of the current bill, Atmos Energy, West Texas Division will promptly and automatically refund the deposit plus accrued interest to the customer in the form of cash or credit to a customer's account.

(G) Upon sale or transfer of utility or company. Atmos Energy, West Texas Division will comply with Railroad Commission regulations which provide that upon the sale or transfer of any public utility or operating units thereof, the seller shall file with the Commission under oath, in addition to other information, a list showing the names and addresses of all customers served by such utility or units thereof who have to their credit a deposit, the date such deposit was made, the amount thereof, and the unpaid interest thereon.

(H) Complaint by applicant or customer. Atmos Energy, West Texas Division will direct its personnel engaged in initial contact with customer or applicant for service seeking to establish or reestablish credit under the provisions of these rules to inform the customer, if dissatisfaction is expressed with the utility's decision, of the customer's right to file a complaint with the regulatory authority.

**WEST TEXAS DIVISION
ATMOS ENERGY CORPORATION**

RATE SCHEDULE:	QUALITY OF SERVICE	
APPLICABLE TO:	WEST TEXAS SERVICE AREA	
EFFECTIVE DATE:		

6. Billing

(A) Bills for gas service will be rendered monthly, unless otherwise authorized or unless service is rendered for a period less than a month. Bills will be rendered as promptly as possible following the reading meters.

(B) The customer's bill will show all the following information. The information will be arranged and displayed in such a manner as to allow the customer to compute his bill with the applicable rate schedule. The applicable rate schedule will be mailed to the customer on request of the customer.

- (i) If the meter is read by Atmos Energy, West Texas Division, the date and reading of the meter at the beginning and end of the period for which rendered.
- (ii) The number and kind of units billed.
- (iii) The applicable rate schedule title or code.
- (iv) The total base bill.
- (v) The total of any adjustments to the base bill and the amount of adjustments per billing unit.
- (vi) The date by which the customer must pay the bill to get prompt payment discount.
- (vii) The total amount due before and after any discount for prompt payment within a designated period.
- (viii) A distinct marking to identify an estimated bill.

(C) Where there is a good reason for doing so, estimated bills may be submitted, provided that an actual meter reading is taken at least every six months, if possible. For the second consecutive month in which the meter reader is unable to gain access to the premises to read the meter on regular meter reading trips, or in months where meters are not read otherwise, Atmos Energy, West Texas Division will provide the customers with a postcard and request that the customer read the meter and return the card to Atmos Energy, West Texas Division if the meter is of a type that can be read by the customer without significant inconvenience or special tools or equipment. If such a postcard is not received by Atmos Energy, West Texas Division in time for billing, Atmos Energy, West Texas Division may estimate the meter reading and render the bill accordingly.

**WEST TEXAS DIVISION
ATMOS ENERGY CORPORATION**

RATE SCHEDULE:	QUALITY OF SERVICE	
APPLICABLE TO:	WEST TEXAS SERVICE AREA	
EFFECTIVE DATE:		

6. Billing (continued)

(D) Disputed bills.

(i) In the event of a dispute between the customer and Atmos Energy, West Texas Division regarding the bill, Atmos Energy, West Texas Division will make such investigation as is required by the particular case and report the results to the customer. If the customer wishes to obtain the benefits of subsection (ii) hereunder, notification of the dispute must be given to Atmos Energy, West Texas Division before the date the bill becomes delinquent. In the event the dispute is not resolved, Atmos Energy, West Texas Division will inform the customer of the complaint procedures of the appropriate regulatory authority.

(ii) Notwithstanding any other subsection of this section, the customer will not be required to pay the disputed portion of the bill which exceeds the amount of that customer's average usage for the billing period at current rates until the earlier of the following: (1) resolution of the dispute, (2) the expiration of the sixty day period beginning on the day the disputed bill is issued. For purposes of this section only, the customer's average usage for the billing period shall be the average of the customer's usage for the same billing period during the preceding two years. Where no previous usage history exists, the average usage shall be estimated on the basis of usage levels of similar customers and under similar conditions.

**WEST TEXAS DIVISION
ATMOS ENERGY CORPORATION**

RATE SCHEDULE:	QUALITY OF SERVICE	
APPLICABLE TO:	WEST TEXAS SERVICE AREA	
EFFECTIVE DATE:		

7. Meters

(A) Meter requirements.

(i) Use of meter. All gas sold by Atmos Energy, West Texas Division will be charged for by meter measurements, except where otherwise provided for by applicable law, regulation of the regulatory authority, or tariff.

(ii) Installation by utility. Unless otherwise authorized by the regulatory authority, Atmos Energy, West Texas Division will provide, install and continue to own and maintain all meters necessary for measurement of gas delivered to its residential and commercial customers.

(iii) Standard type. Atmos Energy, West Texas Division will not furnish, set up, or put in use any meter which is not reliable and of a standard type which meets generally accepted industry standards; provided, however, special meters not necessarily conforming to such standard types may be used for investigation, testing, or experimental purposes.

(iv) Access to premises and access to company owned meters and service lines. Atmos Energy, West Texas Division' representatives shall have the right at all reasonable hours to enter upon the premises and property of a customer to read a company owned meter, to remove, to inspect, or to make necessary repairs and adjustments to, or replacements of, service lines, meter loop, and any property of the utility located thereon, and for any other purpose connected with the utility's operation. The Atmos Energy, West Texas Division representative shall have the right at all time to enter upon the premises and property of the customer in emergencies pertaining to the company's service. All animals which might hinder the performance of such operations on the customer's property shall be kept away from such operations by the customer upon notice by Atmos Energy, West Texas Division' representatives of their intention to enter upon the customer's premises.

(B) Meter records. Atmos Energy, West Texas Division will keep the following records:

(i) Meter equipment records. Atmos Energy, West Texas Division will keep a record of all of its meters, showing the customer's address and the date of the last test.

(ii) Records of meter tests. All meter tests will be properly referenced to the meter record provided for therein. The record of each test made on request of a customer will show the identifying number and constants of the meter, the standard meter and other measuring devices used, the date and kind of test made, by whom made, the error (or percentage of accuracy) at each load tested, and sufficient data to permit verification of all calculations.

(iii) Meter units of service. In general, each meter will indicate clearly the units of service for which charge is made to the customer.

(iv) Meter tests on request of customer.

**WEST TEXAS DIVISION
ATMOS ENERGY CORPORATION**

RATE SCHEDULE:	QUALITY OF SERVICE	
APPLICABLE TO:	WEST TEXAS SERVICE AREA	
EFFECTIVE DATE:		

7. Meters (continued)

(I) Upon request of a customer, Atmos Energy, West Texas Division will make a test of the accuracy of the meter serving that customer. Atmos Energy, West Texas Division will advise the customer that they may be present at the time and place of the test and arrange a schedule to permit the customer or his authorized representative to witness the test if the customer so desires. If no such test has been performed within the previous four years for the same customer at the same location, the test is to be performed without charge. If such a test has been performed for the same customer at the same location within the previous four years, Atmos Energy, West Texas Division may charge a fee for the test not to exceed \$15 or such other fee for the testing of meters as may be set forth in the utility's tariff properly on file with the regulatory authority. The customer will be informed of the result of any test on a meter that serves him or her.

(II) Notwithstanding sub clause (I) of this clause, if the meter is found to be more than normally defective, to either the customer's or Atmos Energy, West Texas Division' disadvantage, any fee charged for the meter test will be refunded to the customer. More than nominally defective means a deviation of more than 2.0% from accurate registration for residential and commercial customers and 1% for industrial customers.

(V) Bill adjustments due to meter error.

(I) If any meter test reveals a meter to be more than nominally defective, Atmos Energy, West Texas Division must correct previous readings consistent with the inaccuracy found in the meter for the period of either:

(a) the last six months; or

(b) the time since the last test of the meter, whichever is shorter. Any resulting under billings or over billings is to be corrected in subsequent bills, unless service is terminated in which event a monetary adjustments to be made. This requirement for a correction may be foregone by Atmos Energy, West Texas Division if the error is to the utility's disadvantage.

(II) If a meter is found not to register for any period of time, Atmos Energy, West Texas Division may make a charge for units used but not metered for a period not to exceed three months previous to the time the meter is found not to be registering. The determination of amounts used but not metered is to be based on consumption during other like periods by the same customer at the same location, when available, and on consumption under similar conditions at the same location or of other similarly situated customers, when not available.

**WEST TEXAS DIVISION
ATMOS ENERGY CORPORATION**

RATE SCHEDULE:	QUALITY OF SERVICE	
APPLICABLE TO:	WEST TEXAS SERVICE AREA	
EFFECTIVE DATE:		

8. New Construction

(A) Standards of construction. Atmos Energy, West Texas Division will endeavor to construct, install, operate, and maintain its plant, structures, equipment, and lines in accordance with the provisions of such codes and standards as are generally accepted by the industry, as modified by rule or regulation of the regulatory authority or otherwise by law and in such manner to best accommodate the public and to prevent interference with service furnished by other public utilities insofar as practical.

(B) Line extension and construction charge policy. In the absence of a line extension policy specific to a city franchise agreement, the following policy shall apply. Atmos Energy, West Texas Division may require, on a consistent and non-discriminatory basis, pre-payment, reimbursement, or adequate security for all costs (including, but not limited to, materials, labor, allocated overhead, permit costs and right-of-way acquisition costs) of extending its existing pipeline system to serve a new customer to the extent that extension would exceed 75 feet. The applicable provisions of city franchise agreements, which set forth line extension and construction charge policies that differ from the above policy are on file with the applicable municipality and the Railroad Commission of Texas.

Atmos Energy, West Texas Division reserves the sole discretion to designate the routes of all new extensions and the construction materials and manner of fabrication and installation. Atmos Energy, West Texas Division may, on a consistent and non-discriminatory basis, provide for refunds, credits or security releases based upon factors such as additional customers subsequently attaching, the level of sales experienced through the new facility, or other criteria chosen by Atmos Energy, West Texas Division. Atmos Energy, West Texas Division may apply similar cost responsibility and arrangements to a customer requesting an increase in the capacity of existing Atmos Energy, West Texas Division facilities to accommodate an increase in the customer's service requirements. In no event will contribution in aid of construction be required of any residential customer unless provided for in this extension policy.

(C) Response to request for service. Atmos Energy, West Texas Division will endeavor to serve each qualified applicant for residential or commercial service within its service area as rapidly as practical. As a general policy, those applications not involving line extensions or new facilities should be filled within seven working days. Those applications for individual residential service requiring line extensions should be filled within 90 days unless unavailability of materials or other causes beyond the control of Atmos Energy, West Texas Division result in unavoidable delays. In the event that residential service is delayed in excess of 90 days after an applicant has met credit requirements and made satisfactory arrangements for payment of any required construction charges, a report will be made to the regulatory authority listing the name of the applicant, location, and cause for delay. If such delays are due to causes which are reasonably beyond the control of Atmos Energy, West Texas Division, a delay in excess of 90 days will not constitute a refusal to serve.

**WEST TEXAS DIVISION
ATMOS ENERGY CORPORATION**

RATE SCHEDULE:	QUALITY OF SERVICE	
APPLICABLE TO:	WEST TEXAS SERVICE AREA	
EFFECTIVE DATE:		

9. Non-Liability

(A) **Furnishing of Gas.** The Company shall not be liable for any loss or damage caused by variation in gas pressure, defects in pipes, connections and appliances, escape or leakage of gas, sticking of valves or regulators, or for any other loss or damage not caused by the Company's negligence arising out of or incident to the furnishing of gas to any Consumer.

(B) **After Point of Delivery.** Company shall not be liable for any damage or injury resulting from gas or its use after such gas leaves the point of delivery other than damage caused by the fault of the Company in the manner of installation of the service lines, in the manner in which such service lines are repaired by the Company, and in the negligence of the Company in maintaining its meter loop. All other risks after the gas left the point of delivery shall be assumed by the Consumer, his agents, servants, employees, or other persons.

(C) **Reasonable Diligence.** The Company agrees to use reasonable diligence in rendering continuous gas service to all Consumers, but the Company does not guarantee such service and shall not be liable for damages resulting from any interruption to such service.

(D) **Force Majeure.** Company shall not be liable for any damage or loss caused by stoppage or curtailment of the gas supply pursuant to order of a governmental agency having jurisdiction over Company or Company's suppliers, or caused by an event of force majeure. The term "force majeure" as employed herein means acts of God; strikes, lockouts, or other industrial disturbances; acts of the public enemy; wars; blockades; insurrections; riots; epidemics; landslides; lightning; earthquakes; fires; storms; floods; washouts; arrests and restraints of the government, either federal or state, civil or military; civil disturbances; explosions; breakage or accident to machinery or lines of pipe; freezing of wells or lines of pipe; shortage of gas supply, whether resulting from inability or failure of a supplier to deliver gas; partial or entire failure of natural gas wells or gas supply; depletion of gas reserves; and any other causes, whether of the kind herein enumerated or otherwise.

Case No. 2021-00214
Atmos Energy Corporation, Kentucky Division
AG DR Set No. 1
Question No. 1-64
Page 1 of 1

REQUEST:

Provide the amount, coupon, and maturity of each long-term debt instrument issued by Atmos Energy over the last 10 years.

RESPONSE:

Please see Attachment 1.

ATTACHMENT:

ATTACHMENT 1 - AG_1-64_Att1 - LTD Instruments.xls, 1 Page.

Respondent: Joe Christian

Atmos Energy Corporation
Case No. 2021-00214
Data Request 64

S&P Capital IQ PRO

Atmos Energy Corporation | Detailed Offerings
NYSE:ATO (MI Key: 4057157; SPCIQ Key: 252684)

Funding Type: Senior Debt
Transaction Status: Priced, Terminated/Withdrawn
Date Range: 10 Years
Date Criteria: Announcement Date
Include Offering Features: None
Issue Currency: U.S. Dollar
Offering Size (Issued Currency): Any
Include Transactions From: Subsidiaries from time of acquisition
Subsidiaries: No special treatment

Senior Debt									
Transaction ID	Issuer Name	Announce Date	Transaction Status	Private Placement?	Coupon (%)	Maturity Date	YTM	CUR	Offering Size (000)
SPTRO2349032	Atmos Energy Corporation	3/4/2021	Priced 3/4/2021	No	Variable	3/9/2023	NA	\$	1,100,000
SPTRO2348998	Atmos Energy Corporation	3/4/2021	Priced 3/4/2021	No	0.6250	3/9/2023	0.627	\$	1,100,000
SPTRO2211234	Atmos Energy Corporation	9/23/2020	Priced 9/23/2020	No	1.5000	1/15/2031	1.546	\$	600,000
SPTRO1757193	Atmos Energy Corporation	9/25/2019	Priced 9/25/2019	No	2.6250	9/15/2029	2.632	\$	300,000
SPTRO1757162	Atmos Energy Corporation	9/25/2019	Priced 9/25/2019	No	3.3750	9/15/2049	3.379	\$	500,000
SPTRO1381524	Atmos Energy Corporation	2/26/2019	Priced 2/25/2019	No	4.1250	3/15/2049	4.148	\$	450,000
SPTRO1175353	Atmos Energy Corporation	10/1/2018	Priced 10/1/2018	No	4.3000	10/1/2048	4.330	\$	600,000
SPTRO237919	Atmos Energy Corporation	6/5/2017	Priced 6/5/2017	No	3.0000	6/15/2027	3.032	\$	500,000
SPTRO237916	Atmos Energy Corporation	6/5/2017	Priced 6/5/2017	No	4.1250	10/15/2044	3.889	\$	250,000
SPTRO196481	Atmos Energy Corporation	10/6/2014	Priced 10/6/2014	No	4.1250	10/15/2044	4.136	\$	500,000
SPTRO143380	Atmos Energy Corporation	1/8/2013	Priced 1/8/2013	No	4.1500	1/15/2043	4.161	\$	500,000

Historical Equity Pricing Data supplied by Interactive Data Pricing and Reference Data LLC



Case No. 2021-00214
Atmos Energy Corporation, Kentucky Division
AG DR Set No. 1
Question No. 1-65
Page 1 of 1

REQUEST:

Provide the actual capital structure for Atmos Energy for the last five calendar years. Include the average amount of short-term debt in the capital structure for each year. Provide the amounts, percentages, and cost of long-term and short-term debt in the calculation. Provide all supporting work papers and documentation.

RESPONSE:

Please see the Company response to Staff DR No. 1-20.

Respondent: Joe Christian

Case No. 2021-00214
Atmos Energy Corporation, Kentucky Division
AG DR Set No. 1
Question No. 1-66
Page 1 of 2

REQUEST:

Refer to Mr. D'Ascendis' discussion of the Predictive Risk Premium Model ("PRPM") beginning on page 20 of his Direct Testimony:

- a. Aside from Mr. D'Ascendis, provide the names of all other colleagues or rate of return witnesses who have presented the PRPM in proceedings to estimate the risk premium rate of return for regulated utilities. Include in the response the case number, regulatory jurisdiction, and year.
- b. Provide the proceedings of which Mr. D'Ascendis is aware in which regulatory commissions have accepted or rejected the PRPM. Include in the response the case number, year and a copy of the Commission's Order.
- c. Provide evidence that the PRPM method is widely used and accepted by investors to estimate their required return on equity for regulated utilities.

RESPONSE:

- a. While Mr. D'Ascendis has not performed an exhaustive review of all past regulatory proposals of the PRPM, he understands that Pauline M. Ahern, Frank J. Hanley, Robert B. Hevert, and John Perkins have similarly included PRPM analyses in cases for which they provided testimony.
- b. The North Carolina Utilities Commission accepted the PRPM, in part, as shown in Attachment 1, the Public Service Commission of South Carolina accepted the PRPM, as presented in this proceeding, as shown in Attachment 2, and the Florida Public Service Commission rejected the PRPM as shown in Attachment 3.
- c. As discussed in Mr. D'Ascendis' Direct Testimony, the PRPM is based on the research of Dr. Robert F. Engle, dating back to the early 1980s. Dr. Engle discovered that the volatility of market prices, returns, and risk premiums clusters over time, making prices, returns, and risk premiums highly predictable. In 2003, he shared the Nobel Prize in Economics for this work, characterized as "methods of analyzing economic time series with time-varying volatility ("ARCH").² Dr. Engle³ noted that relative to volatility, "the standard tools have become the ARCH/GARCH⁴ models." Hence, the methodology is not exclusively used by Mr. D'Ascendis.

In addition, the GARCH methodology has been well tested by academia since Engle's, et al. research was originally published in 1982, 39 years ago. Mr. D'Ascendis uses the well-established GARCH methodology to estimate the PRPM model using a standard commercial and relatively inexpensive statistical package, EvIEWS,⁵ to develop a means by which to estimate a predicted ERP which, when added to a bond yield, results in a cost of common equity.

² www.nobelprize.org.

³ Robert Engle, *GARCH 101: The Use of ARCH/GARCH Models in Applied Econometrics*, *Journal of Economic Perspectives*, Volume 15, No. 4, Fall 2001, at 157-168.

⁴ Autoregressive Conditional Heteroskedasticity/Generalized Autoregressive Conditional Heteroskedasticity.

⁵ In addition to EvIEWS,[®] the GARCH methodology can be applied and the PRPM derived using other standard statistical software packages such as SAS, RATS, S-Plus and JMulti, which are not cost-prohibitive. The software that I used in this proceeding, EvIEWS,[®] currently costs \$600 - \$700 for a single

Case No. 2021-00214
Atmos Energy Corporation, Kentucky Division
AG DR Set No. 1
Question No. 1-66
Page 2 of 2

Also, the PRPM is in the public domain, having been published six times in academically peer-reviewed journals: *Journal of Economics and Business* (June 2011 and April 2015),⁶ *The Journal of Regulatory Economics* (December 2011),⁷ *The Electricity Journal* (May 2013 and March 2020),⁸ and *Energy Policy* (April 2019).⁹ Notably, none of these articles have been rebutted in the academic literature.

Additionally, the PRPM was presented to a number of utility industry/regulatory/academic groups including the following: The Edison Electric Institute Cost of Capital Working Group; The NARUC Staff Subcommittee on Accounting and Finance; The National Association of Electric Companies Finance/Accounting/Taxation and Rates and Regulations Committees; the NARUC Electric Committee; The Wall Street Utility Group; the Indiana Utility Regulatory Commission Cost of Capital Task Force; the Financial Research Institute of the University of Missouri Hot Topic Hotline Webinar; and the Center for Research and Regulated Industries Annual Eastern Conference on two occasions.

ATTACHMENTS:

ATTACHMENT 1 - AG_1-66_Att1 - North Carolina Order.pdf, 128 Pages.

ATTACHMENT 2 - AG_1-66_Att2 - South Carolina Order.pdf, 47 Pages.

ATTACHMENT 3 - AG_1-66_Att3 - Florida Order.pdf, 145 Pages.

Respondent: Dylan D'Ascendis

user commercial license. In addition, JMulti is a free downloadable software with GARCH estimation applications.

⁶ Eugene A. Pilotte and Richard A. Michelfelder, *Treasury Bond Risk and Return, the Implications for the Hedging of Consumption and Lessons for Asset Pricing*, *Journal of Economics and Business*, June 2011, 582-604. and Richard A. Michelfelder, *Empirical Analysis of the Generalized Consumption Asset Pricing Model: Estimating the Cost of Capital*, *Journal of Economics and Business*, April 2015, 37-50.

⁷ Pauline M. Ahern, Frank J. Hanley, and Richard A. Michelfelder, *New Approach to Estimating the Equity Risk Premium for Public Utilities*, *The Journal of Regulatory Economics*, December 2011, at 40:261-278.

⁸ Richard A. Michelfelder, Pauline M. Ahern, Dylan W. D'Ascendis, and Frank J. Hanley, *Comparative Evaluation of the Predictive Risk Premium Model, the Discounted Cash Flow Model and the Capital Asset Pricing Model for Estimating the Cost of Common Equity*, *The Electricity Journal*, April 2013, at 84-89; and Richard A. Michelfelder, Pauline M. Ahern, and Dylan W. D'Ascendis, *Decoupling, Risk Impacts and the Cost of Capital*, *The Electricity Journal*, January 2020.

⁹ Richard A. Michelfelder, Pauline M. Ahern, and Dylan W. D'Ascendis, *Decoupling Impact and Public Utility Conservation Investment*, *Energy Policy*, April 2019, 311-319.

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-354, SUB 363
DOCKET NO. W-354, SUB 364
DOCKET NO. W-354, SUB 365

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-354, SUB 363)
)
In the Matter of)
Application by Carolina Water Service, Inc.)
of North Carolina, 4944 Parkway Plaza)
Boulevard, Suite 375, Charlotte, North)
Carolina, 28217, for an Accounting Order to)
Defer Incremental Storm Damage Expenses)
Incurred as a Result of Hurricane Florence)
)
DOCKET NO. W-354, SUB 364)
)
In the Matter of)
Application by Carolina Water Service, Inc.)
of North Carolina, 4944 Parkway Plaza)
Boulevard, Suite 375, Charlotte, North)
Carolina, 28217, for Authority to Adjust and)
Increase Rates for Water and Sewer Utility)
Service in All of its Service Areas in North)
Carolina)
)
DOCKET NO. W-354, SUB 365)
)
In the Matter of)
Application by Carolina Water Service, Inc.)
of North Carolina, 4944 Parkway Plaza)
Boulevard, Suite 375, Charlotte, North)
Carolina, 28217, for an Accounting Order to)
Defer Post-In-Service Depreciation and)
Financing Costs Related to Major New)
Projects That Are or Will Be In-Service Prior)
to the Date of An Order in Petitioner's)
Pending Base Rate Case)

ORDER GRANTING PARTIAL
RATE INCREASE AND
REQUIRING CUSTOMER NOTICE

HEARD: Thursday, September 5, 2019, at 7:00 p.m., in Courtroom 5350, Mecklenburg County Courthouse, 832 East 4th Street, Charlotte, North Carolina

Tuesday, September 10, 2019, at 7:00 p.m., in Courtroom A, Dare County Courthouse, 962 Marshall C. Collins Drive, Manteo, North Carolina

Tuesday, October 8, 2019, at 7:00 p.m., in Courtroom #1, Watauga County Courthouse, 842 W. King Street, Boone, North Carolina

Wednesday, October 9, 2019, at 7:00 p.m., in Courtroom 1A, Buncombe County Courthouse, 60 Court Plaza, Asheville, North Carolina

Monday, October 14, 2019, at 7:00 p.m., in Commission Hearing Room 2115, Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina

Tuesday, October 22, 2019, at 7:00 p.m., in the Superior Courtroom, Onslow County Courthouse, 625 Court Street, Jacksonville, North Carolina

Monday, December 2, 2019, at 2:00 p.m., in Commission Hearing Room 2115, Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina

BEFORE: Commissioner ToNola D. Brown-Bland, Presiding; Chair Charlotte A. Mitchell; and Commissioners Lyons Gray, Daniel G. Clodfelter, Kimberly W. Duffley, and Jeffrey A. Hughes

APPEARANCES:

For Carolina Water Service, Inc. of North Carolina:

Jo Anne Sanford, Sanford Law Office, PLLC, Post Office Box 28085, Raleigh, North Carolina 27611

Robert H. Bennink, Jr., Bennink Law Office, 130 Murphy Drive, Cary, North Carolina 27513

Mark R. Alson, Ice Miller LLP, One American Square, Suite 290, Indianapolis, Indiana 46282-0200

Christina D. Cress, Nichols, Choi & Lee, PLLC, 4700 Homewood Court, Suite 220, Raleigh, North Carolina 27609

For Corolla Light Community Association, Inc.:

Brady W. Allen, The Allen Law Offices, PLLC, 1514 Glenwood Ave.,
Suite 200, Raleigh, North Carolina 27608

For the Using and Consuming Public:

Gina C. Holt, William E. Grantmyre, John Little, and William E. H. Creech,
Staff Attorneys, Public Staff – North Carolina Utilities Commission,
4326 Mail Service Center, Raleigh, North Carolina 27699

BY THE COMMISSION: On January 17, 2019, in Docket No. W-354, Sub 363 (Sub 363) Carolina Water Service, Inc., of North Carolina (CWSNC or Company) filed a Petition for an Accounting Order to Defer Unplanned Incremental Hurricane Florence Storm Damage Expenses, Capital Investments, and Revenue Loss.

On May 24, 2019, pursuant to Commission Rule R1-17(a), CWSNC submitted notice of its intent to file a general rate case application in Docket No. W-354, Sub 364 (Sub 364).

On June 6, 2019, the Commission entered an order consolidating Sub 363 and Sub 364.

On June 28, 2019, CWSNC filed its verified application for a general rate increase (Application) in Sub 364 seeking authority to: (1) increase and adjust its rates for water and sewer utility service in all of its service areas in North Carolina, including the service areas of Riverbend Estates and Pace Utilities Group, Inc., which have been recently transferred to CWSNC; (2) consolidate rates for the Corolla Light/Monteray Shores (CLMS) service area with the Uniform Sewer Rate Division rates; and (3) pass through any increases in purchased bulk water rates and any increased costs of wastewater treatment performed by third parties and billed to CWSNC, all subject to CWSNC providing sufficient proof of such increases. In addition, the Company included as part of its rate case filing certain information and data required by NCUC Form W-1.

As part of the its Application CWSNC filed direct testimony of the following witnesses: Catherine E. Heigel, President of CWSNC, Tennessee Water Service, Inc., and Blue Granite Water Company;¹ Dante M. DeStefano, Director of Financial Planning and Analysis for CWSNC; Gordon R. Barefoot, President and CEO of Corix Infrastructure, Inc.;² J. Bryce Mendenhall, Vice President of Operations for CWSNC; Anthony Gray,

¹ On November 1, 2019, CWSNC filed notice that Donald H. Denton would adopt the prefiled direct testimony of Catherine E. Heigel.

² On November 8, 2019, CWSNC filed notice that Shawn EliceGUI would adopt the prefiled direct testimony of Gordon R. Barefoot.

Senior Financial and Regulatory Analyst, CWSNC; and Dylan W. D'Ascendis, Director at ScottMadden, Inc.

The Company stated in its Application that it presently has approximately 34,915 water customers and 21,403 sewer customers in North Carolina (including water and sewer availability customers).³ The present rates for water and sewer service have been in effect since February 21, 2019, pursuant to the Commission's Order Approving Joint Partial Settlement Agreement and Stipulation, Granting Partial Rate Increase and Requiring Customer Notice issued in CWSNC's last general rate case in Docket No. W-354, Sub 360 (Sub 360 Order).

On June 28, 2019, in Docket No. W-354, Sub 365 (Sub 365), CWSNC also filed a Petition for an Accounting Order to Defer Post-In-Service Depreciation and Financing Costs Relating to Major New Projects.

On July 15, 2019, the Commission issued an Order Establishing General Rate Case and Suspending Rates. By that order, the Commission declared the matter to be a general rate case pursuant to N.C. Gen. Stat. § 62-137, suspended the proposed new rates for up to 270 days pursuant to N.C.G.S. § 62-134, and established the test year period for this case as the 12-month period ending March 31, 2019.

On August 2, 2019, the Commission issued an Order Scheduling Hearings and Requiring Customer Notice (Scheduling Order) which required the parties to prefile testimony and exhibits, scheduled the matter for hearing, and required notice to all affected customers. That order scheduled customer hearings to be held in Charlotte, Manteo, Boone, Asheville, Raleigh, and Jacksonville, North Carolina, and set the expert witness hearing to be held in Raleigh, North Carolina.

Also on August 2, 2019, CWSNC witness DeStefano filed supplemental testimony, and on August 23, 2019, CWSNC filed an amended exhibit to witness DeStefano's supplemental testimony.

On August 21, 2019, CWSNC filed a certificate of service demonstrating that the Company provided notice of this general rate case proceeding to customers as required by the Commission's Scheduling Order.

On August 22, 2019, Corolla Light Community Association, Inc. (CLCA), filed a Petition to Intervene, which the Commission granted by order dated September 5, 2019.

³ The Company did not indicate the specific date related to its present number of customers stated in the Application. The number of customers presented in Finding of Fact No. 13 herein is based on the detailed billing analysis prepared by Public Staff witness Casselberry for the 12-month period ended March 31, 2019, and is not disputed by the Company.

The Public Staff – North Carolina Utilities Commission’s (Public Staff) participation in this proceeding is recognized pursuant to N.C.G.S. § 62-15(d) and Commission Rule R1-19(e).

Public witness hearings were held as scheduled. A total of 23 Company customers testified as public witnesses at the public witness hearings held in this proceeding.

CWSNC responded to public witness testimony by its filings of September 25 (combined Charlotte and Manteo), October 24 (combined Boone and Asheville), October 30 (Raleigh), and November 8, 2019 (Jacksonville).

On October 4, 2019, CWSNC filed its rate case updates, schedules, and supporting data as required by Ordering Paragraph No. 6 of the Commission’s Scheduling Order.

The Public Staff filed its direct testimony on November 4, 2019, consisting of testimony and exhibits of Public Staff witnesses Gina Y. Casselberry, Utilities Engineer, Water, Sewer, and Telephone Division; Charles M. Junis, Utilities Engineer, Water, Sewer, and Telephone Division; Lindsey Q. Darden, Utilities Engineer, Water, Sewer, and Telephone Division; Windley E. Henry, Manager, Water, Sewer, and Telephone Section, Accounting Division; Michelle M. Boswell, Staff Accountant, Accounting Division; Lynn L. Feasel, Staff Accountant, Accounting Division; and John R. Hinton, Director, Economic Research Division.

The Public Staff filed the supplemental testimony of witness Casselberry on November 15, 2019.

On November 15, 2019, the Company filed a request to consolidate Sub 365 with this rate case. The Commission issued an order consolidating Sub 364 and Sub 365 on November 19, 2019.

The Public Staff filed revised exhibits of Public Staff witnesses Feasel and Henry on November 18, 2019.

On November 18, 2019, CWSNC withdrew its request for consideration of the Company’s proposed Consumption Adjustment Mechanism and Conservation Rate Pilot Program proposed for The Point Subdivision.

CWSNC filed the rebuttal testimony of Company witnesses DeStefano, Mendenhall, and D’Ascendis on November 20, 2019.

On November 26, 2019, Public Staff witness Hinton filed supplemental testimony and exhibits, revising his recommended rate of return on common equity and updating four exhibits filed with his testimony on November 4, 2019.

On November 27, 2019, CWSNC and the Public Staff (Stipulating Parties) filed a Joint Partial Settlement Agreement and Stipulation (Stipulation). On that date, the Public Staff also filed exhibits and supporting schedules for the Stipulation.

On December 2, 2019, CLCA filed a resolution opposing CWSNC's rate increase Application but requesting that CLMS' rates be set as part of CWSNC's uniform rate division.

The expert witness hearing was held as scheduled beginning on December 2, 2019. All prefiled testimony and exhibits filed in the consolidated dockets were admitted into evidence without objection. All parties agreed to waive cross-examination on all prefiled direct testimony with respect to the issues the parties resolved by Stipulation.

During the hearing the Commissioners requested certain additional information in the form of late-filed exhibits. The Public Staff filed the late-filed exhibits of Public Staff witnesses Casselberry and Henry on December 9 and 11, 2019, respectively. CWSNC filed the late-filed exhibits of Company witnesses DeStefano, D'Ascendis, and Mendenhall on December 13, 2019.

On January 10, 2020, CWSNC filed the affidavit of its Financial Planning and Analysis Manager, Matthew Schellinger, providing the updated amount of regulatory commission expense agreed to by CWSNC and the Public Staff.

On January 13, 2020, the Public Staff filed Revised Settlement Exhibits I and II providing the final expense information of CWSNC and the Public Staff's final revised recommendation.

Based upon the foregoing, including the verified Application and accompanying NCUC Form W-1, the testimony and exhibits of the public witnesses appearing at the hearings, the testimony and exhibits of the expert witnesses received into evidence, the Stipulation, and the entire record herein, the Commission makes the following:

FINDINGS OF FACT

General Matters

1. CWSNC is a corporation duly organized under the laws of and is authorized to do business in the State of North Carolina. It is a franchised public utility providing water and sewer utility service to customers in 38 counties in North Carolina. CWSNC is

a wholly-owned subsidiary of Corix Regulated Utilities, Inc. (Corix),⁴ previously known as Utilities, Inc.

2. CWSNC is properly before the Commission pursuant to Chapter 62 of the North Carolina General Statutes for a determination of the justness and reasonableness of its proposed rates and charges for the water and sewer utility service it provides to customers in North Carolina.

3. The appropriate test year for use in this proceeding is the 12-month period ending March 31, 2019, updated for known and measurable changes through the close of the expert witness hearing.

4. CWSNC's present rates for water and sewer service have been in effect since February 21, 2019, pursuant to the Commission's Sub 360 Order.

The Stipulation

5. On November 27, 2019, the Stipulating Parties filed the Stipulation, resolving all but two of the contested issues between CWSNC and the Public Staff in this matter.

6. The Stipulation is the product of give-and-take in negotiations between the Stipulating Parties, is material evidence in this proceeding, and is entitled to be given appropriate weight in this case along with the other evidence of record, including that submitted by the Company, the Public Staff, and the public witnesses who testified at the public witness hearings.

7. The Stipulation is a settlement of matters in controversy in this proceeding as between the Stipulating Parties and was not joined in nor objected to by CLCA, the other party to the proceeding.

8. The two remaining contested issues (Unsettled Issues) which were not resolved by the Stipulation between CWSNC and the Public Staff are:

- a. Rate of return on common equity; and
- b. CWSNC's request for deferred accounting treatment of certain costs related to the Automatic Meter Reading (AMR) meter installation projects in the Fairfield Mountain and Connestee Falls systems.

⁴ Pursuant to the Articles of Amendment filed with the Illinois Secretary of State, Department of Business Services on July 25, 2019, Utilities Inc, changed its corporate name to Corix Regulated Utilities, Inc. Corix owns regulated utilities which provide water and sewer utility service to approximately 190,000 customers in 17 states, with primary service areas in Florida, North Carolina, South Carolina, Louisiana, and Nevada.

Acceptance of Stipulation

9. The Stipulation will provide CWSNC and its ratepayers just and reasonable rates when combined with the rate effects of the Commission's decisions regarding the Unsettled Issues in this proceeding.

10. The provisions of the Stipulation are just and reasonable to all parties to this proceeding, as well as the CWSNC ratepaying customers, and serve the public interest.

11. It is appropriate to approve the Stipulation in its entirety.

Customer Concerns and Service

12. As of the 12-month period ended March 31, 2019, CWSNC served approximately 30,724 water customers and 20,105 wastewater customers, including CLMS. For the same period, CWSNC also had 3,532 water availability customers in Carolina Forest, Woodrun, Linville Ridge, Sapphire Valley, Connestee Falls, and Fairfield Harbour; and 1,274 sewer availability customers in Sapphire Valley, Connestee Falls, and Fairfield Harbour. CWSNC operates 96 water utility systems and 37 sewer utility systems.

13. A total of 23 witnesses testified at the six public witness hearings held for the purpose of receiving customer testimony.⁵ In general, public witness testimony at those hearings primarily dealt with objections to the rate increase with some customers raising concerns about quality of service, including, but not limited to, old equipment, delays in attention to meter repair, hardness of the water, digital meter boxes installed below the water table, boil water notices (including incidents and related communication), sewer spills in the lake at Connestee Falls, fluoride in the water, the ratio of base to fixed charges, response time to some inquiries, mineral content, the proposed Consumption Adjustment Mechanism, and the requirement of paying sewer charges while a home was unoccupied due to hurricane damage.

14. As of November 15, 2019, the Public Staff had received approximately 316 written customer statements of position from CWSNC customers. The service areas represented by those submitting such statements are: Belvedere (1), Brandywine Bay (2), Carolina Pines (1), Carolina Trace (11), Corolla Light/Monteray Shores (1), Connestee Falls (48), Fairfield Harbour (33), Kings Grant (1), Sapphire Valley (2), The Point (161), Treasure Cove (1), Ski Mountain (1) Waterglyn, (1) Woodhaven (1), and unspecified service areas (51).⁶ All of the customers objected to the magnitude and frequency of the

⁵ As noted above in the procedural history, there were no witnesses in Manteo, four in Charlotte, none in Boone, nine in Asheville, four in Raleigh, and six in Jacksonville.

⁶ Approximately 80% of the customer statements came from four subdivisions or systems. Public Staff witness Casselberry testified that nearly all of the customers in The Point Subdivision opposed CWSNC's proposed Pilot Program.

Company's rate increases. Their primary concern was that CWSNC's request for another rate increase was so soon after the most recent increase was granted in February 2019. Customers were also concerned about the rate of return on common equity requested, the increase in rates compared to inflation, the impact of recent federal corporate income tax reductions, and the ratio of the base facility charge to volumetric charges. The majority of the customers in The Point Subdivision opposed CWSNC's proposed Pilot Program.⁷

15. CWSNC filed four verified reports with the Commission addressing the service-related concerns and other comments by witnesses who testified at the public witness hearings. The reports described each of the witnesses' specific service-related concerns and comments, the Company's response, and how each concern and comment was resolved or addressed, if applicable.

16. The Company's customers in the Bradfield Farms Subdivision, Brandywine Bay, and the Fairfield Harbour Service Area testified to hardness of the water and unpleasant taste, conditions that are not regulated by the North Carolina Department of Environmental Quality (DEQ).

17. It is appropriate for CWSNC to provide an estimate of the cost of installing a central water filter system for Bradfield Farms Subdivision and the Fairfield Harbour Service Area, for the homeowners' association's consideration, within 60 days of the final order in this case, as recommended by the Public Staff.⁸

18. CWSNC has continued its course of increased attention to the communications component of service to customers since the Company's last rate case, with a positive emphasis on more proactive communications and the expansion of several social media platforms.

19. The Public Staff's description of the quality of service provided by CWSNC as "good" is supported by the record in this case.

20. The overall quality of service provided by CWSNC is adequate.

⁷ Public Staff witness Casselberry testified that the primary objections of customers at The Point Subdivision were that: (1) customers in The Point Subdivision were being penalized and that the block rates should apply to all CWSNC customers, (2) the average consumption did not take into account customers who live on the lake and use lake water for irrigation, (3) the covenants do not allow individual wells for irrigation, and (4) the conditions and rules for landscaping would increase the average bill by approximately 30% if the block tiered rates were approved.

⁸ Public Staff witness Casselberry testified that in CWSNC's previous rate case, Sub 360, filed in 2018, the Public Staff investigated whether installing a central water filter system for Fairfield Harbour was a prudent investment. In that proceeding the Public Staff determined it was not a prudent investment because most customers had individual water softeners and filter systems in their homes and the cost in 2011 to install the system was approaching \$1 million dollars. However, since it still remains an issue with customers at Fairfield Harbour and Bradfield Farms, the Public Staff recommended that if the majority of homeowners want a central water filter system, a monthly surcharge could be added to customer bills in those service areas to recover the costs for the systems.

Rate Base

21. The appropriate level of rate base used and useful in providing service is \$132,897,368 for CWSNC’s combined operations, itemized as follows:

Item	Amount
Plant in service	\$238,212,084
Accumulated depreciation	<u>(57,897,943)</u>
Net plant in service	180,314,141
Cash working capital	2,404,800
Contributions in aid of construction	(40,270,675)
Advances in aid of construction	(32,940)
Accumulated deferred income taxes	(5,995,444)
Customer deposits	(315,447)
Inventory	271,956
Gain on sale and flow back taxes	(417,811)
Plant acquisition adjustment	(837,878)
Excess book value	(0)
Cost-free capital	(261,499)
Average tax accruals	(143,198)
Regulatory liability for excess deferred taxes	(3,941,344)
Deferred charges	2,122,707
Pro forma plant	<u>0</u>
Original cost rate base	<u>\$132,897,368</u>

Operating Revenues

22. The appropriate level of operating revenues under present rates for use in this proceeding is \$33,968,582, consisting of service revenues of \$33,852,232 and miscellaneous revenues of \$387,492, reduced by uncollectibles of \$271,142.

Maintenance and General Expense

23. The appropriate level of maintenance expense and general expense for combined operations for use in this proceeding is \$14,897,501 and \$6,560,142, respectively.

24. It is appropriate for CWSNC to recover total rate case expenses of \$519,416 related to the current proceeding and \$649,806 of unamortized rate case costs related to the prior proceedings in Docket Nos. W-354, Sub 356 (Sub 356) and W-354, Sub 360 (Sub 360).

25. It is appropriate to amortize the total rate case costs for the current and prior proceedings over five years and to include an annual level of costs in the amount of

\$73,911 related to miscellaneous regulatory matters, resulting in an annual level of rate case expense of \$307,755, as agreed to by the Stipulating Parties.

Storm Reserve Fund and Normalized Storm Damage Expense

26. It is reasonable and appropriate for CWSNC to include in rates an annualized level of storm expenses in its maintenance and repair expense, based on a ten-year average of the Company's actual storm costs. This is the first general rate case proceeding in which CWSNC has sought Commission approval of a normalized level of storm expenses to be included in base rates. As part of the Stipulation CWSNC and the Public Staff agreed that CWSNC would rescind its request for a storm reserve fund and that the calculation of normalized storm damage expense would be based on a ten-year average of the Company's actual storm costs rather than utilizing the Company's requested three-year average.

27. The appropriate annual amount of normalized storm costs that should be included in the Company's rates in this case is \$34,567, as set out in the Stipulation.

Hurricane Florence Expense

28. It is reasonable and appropriate for CWSNC to include in rates the incremental operating and maintenance (O&M) costs amounting to \$146,773 incurred by the Company related to Hurricane Florence.

29. The Company and the Public Staff have agreed to use deferral accounting treatment for Hurricane Florence storm-related expenses, which will be amortized over three years.

30. It is appropriate to include in the Company's maintenance and repair expense Hurricane Florence storm-related costs in the amount of \$48,924, as set out in the Stipulation.

Deferral of Wastewater Treatment Plant and AMR Meter Installation Projects

31. In its Petition for an Accounting Order to Defer Post-In-Service Depreciation and Financing Costs Relating to Major New Projects in Sub 365 CWSNC requested deferral accounting treatment for post-in-service depreciation expense and financing costs (carrying costs) related to the Connestee Falls wastewater treatment plant (WWTP) project in Buncombe County; the Nags Head WWTP project in Dare County; the Fairfield Mountain AMR meter installation project in Transylvania County; and the Connestee Falls AMR meter installation project, also in Buncombe County.

32. During the test year for this rate case CWSNC earned a return on equity per books of 1.63% on a consolidated basis. The Company's current rates were set in the Sub 360 rate case effective for service rendered on and after February 21, 2019, based upon an authorized rate of return on common equity of 9.75%. CWSNC invested

approximately \$22 million of additional capital in its North Carolina water and sewer systems since the Sub 360 rate case, which served to depress its post-test year earned rate of return on common equity.

33. Each of the four capital projects covered by the Petition requesting deferral accounting treatment was completed and placed in service prior to the expert witness hearing in these proceedings. As evidenced by the Stipulation, CWSNC and the Public Staff agreed to the Company's deferral of incremental post-in-service depreciation expense and financing costs of the two WWTP projects and to the amount of the costs to be included in the rate case.

34. The Public Staff did not agree to deferral accounting treatment for the incremental post-in-service depreciation expense and return on capital expenditures relating to the two AMR meter installation projects.

35. In this case the two WWTP projects subject to the Company's deferral request were prudent and necessary to the provision of service, and the costs for each of those projects were reasonable and prudently incurred. CWSNC and the Public Staff agree that the Company should be authorized to defer post-in-service costs of \$1,098,778 for the two WWTP projects (\$520,144 for Connestee Falls and \$578,634 for Nags Head). CWSNC and the Public Staff also agree that the rate of return on common equity impact is 434 basis points for the Uniform Sewer Rate Division.

36. The project costs for each of the two WWTP projects, considered both collectively and singularly, are unusual or extraordinary in that they represent major capital investments in the Company's infrastructure; they are non-routine projects which are of considerable complexity and major significance; and they are necessary to CWSNC's provision of safe, adequate, reliable, and affordable utility service in this state. The WWTP costs are of a magnitude that would have an adverse material impact on the Company's financial condition if they are not afforded deferral accounting treatment.

37. It is reasonable and appropriate for CWSNC to receive deferral accounting treatment for the post-in-service depreciation expense and carrying costs related to the Company's capital investments in the WWTPs placed in service at Nags Head and Connestee Falls during the pendency of this proceeding.

38. The Company should be authorized to defer and amortize post-in-service depreciation expense and carrying costs in the amount of \$1,098,778 related to its capital investments in the Nags Head and Connestee Falls WWTPs for the ten- and eight-month periods, respectively, from their in-service dates until the projects are included for recovery in base rates, as stipulated between CWSNC and the Public Staff. These costs should be amortized over a period of five years.

39. CWSNC expects significant ongoing capital needs at levels comparable to the \$22 million additional capital it invested in its North Carolina water and sewer systems since the Sub 360 rate case. Deferral accounting treatment for the post-in-service costs

related to the two WWTPs is appropriate to support the Company's ability to earn its authorized return and, as a result, could impact CWSNC's ability to finance needed investments on reasonable terms. Accordingly, deferral accounting treatment for the two WWTP costs will have a favorable impact on CWSNC's earnings and financial standing in general thereby enhancing the Company's ability to access and obtain capital on favorable terms and such results will accrue to the benefit of the Company's customers as well as to its investors.

40. The two AMR meter installation projects included in CWSNC's deferral accounting request were prudent and the costs for the installation were reasonable and prudently incurred. CWSNC and the Public Staff agree that the rate of return on common equity impact is 24 basis points for the Uniform Water Rate Division.⁹ CWSNC and the Public Staff also agree that the requested cost deferral amount related to the AMR meter installation costs is \$64,736 for the eight-month period from their in-service dates until the projects are included for recovery in base rates in this case.

41. The two AMR meter installation projects in the Fairfield Mountain and Connestee Falls service areas are not unusual or extraordinary, and thus the incremental post-in-service depreciation expense and carrying costs related to the two projects are not appropriate for deferral accounting treatment.

Depreciation and Amortization Expense

42. The appropriate level of depreciation and amortization expense for combined operations for use in this proceeding is \$5,026,554.

Franchise, Property, Payroll, and Other Taxes

43. The appropriate level of franchise, property, payroll, and other taxes for use in this proceeding is \$795,507 for combined operations, consisting of (\$655) for franchise and other taxes, \$268,734 for property taxes, and \$527,428 for payroll taxes.

Regulatory Fee and Income Taxes

44. It is reasonable and appropriate to calculate regulatory fee expense using the regulatory fee rate of 0.13% effective July 1, 2019, pursuant to the Commission's June 18, 2019 Order issued in Docket No. M-100, Sub 142. The appropriate level of regulatory fee for use in this proceeding is \$44,159.

⁹ Calculated on a rate division basis, per Public Staff DeStefano Cross-Examination Exhibit 2. The total company ROE impact is 13 basis points as shown on Public Staff witness Henry Late-Filed Exhibit 4, Line 9.

45. It is reasonable and appropriate to use the current North Carolina corporate income tax rate of 2.50% to calculate CWSNC's revenue requirement. The appropriate level of state income taxes for use in this proceeding is \$75,474.

46. It is reasonable and appropriate to use the federal corporate income tax rate of 21.00% to calculate CWSNC's revenue requirement. The appropriate level of federal income taxes for use in this proceeding is \$618,133.

47. It is appropriate to calculate income taxes for ratemaking purposes based on the adjusted level of revenues and expenses and the tax rates for utility operations.

The Federal Tax Cuts and Jobs Act

48. CWSNC's federal protected EDIT should continue to be flowed back in accordance with the Reverse South Georgia Method (RSGM) as ordered by the Commission in the Sub 360 Order.

49. It is reasonable and appropriate, for purposes of this proceeding, for CWSNC to refund its remaining federal unprotected EDIT balances over 24 months instead of the remaining 35 months as originally ordered by the Commission in the Sub 360 Order.

50. CWSNC's North Carolina EDIT recorded pursuant to the Commission's May 13, 2014 Order Addressing the Impacts of HB 998 on North Carolina Public Utilities issued in Docket No. M-100, Sub 138 should continue to be amortized in accordance with the Commission's Sub 356 Order.

Capital Structure, Cost of Capital, and Overall Rate of Return

51. The cost of capital and revenue increase approved in this order is intended to provide CWSNC, through sound management, the opportunity to earn an overall rate of return of 7.39%. This overall rate of return is derived from applying an embedded cost of debt of 5.36%, and a rate of return on common equity of 9.50%, to a capital structure consisting of 50.90% long-term debt and 49.10% common equity.

52. A 9.50% rate of return on common equity for CWSNC is just and reasonable in this general rate case.

53. A 49.10% equity and 50.90% debt ratio is a reasonable and appropriate capital structure for CWSNC in this case.

54. A 5.36% cost of debt for CWSNC is reasonable and appropriate for the purpose of this case.

55. Any increase in the Company’s rate for service will be difficult for some of CWSNC’s customers to pay, in particular for those considered to be low-income customers.

56. Continuous safe, adequate, reliable, and affordable water and wastewater utility service by CWSNC is essential to CWSNC’s customers.

57. The rate of return on common equity and capital structure approved by the Commission appropriately balances the benefits received by CWSNC’s customers from CWSNC’s provision of safe, adequate, and reliable water and wastewater utility service with the difficulties that some of CWSNC’s customers will experience in paying the Company’s increased rates.

58. The 9.50% rate of return on common equity and the 49.10% equity capital structure approved by the Commission balance CWSNC’s need to obtain equity and debt financing with its customers’ need to pay the lowest possible rates.

59. The authorized levels of overall rate of return and rate of return on common equity set forth above are supported by competent, material, and substantial record evidence; are consistent with the requirements of N.C.G.S. § 62-133; and are fair to CWSNC’s customers generally and in light of the impact of changing economic conditions.

Revenue Requirement

60. CWSNC’s rates should be changed by amounts which, after all pro forma adjustments, will produce the following increases in revenues:

<u>Item</u>	<u>Amount</u>
CWSNC Uniform Water	\$ 1,778,015
CWSNC Uniform Sewer	2,929,386
BF/FH/TC Water	96,561
BF/FH Sewer	141,797
Total	<u>\$4,945,759</u>

These increases will allow CWSNC the opportunity to earn a 7.39% overall rate of return, which the Commission has found to be reasonable upon consideration of the findings in this order.

Rate Design

61. Regarding the CLMS sewer service area, CWSNC has maintained the CLMS system at the same rates for the last four general rate cases (Docket No. W-354, Subs 336, 344, 356, and 360) in order to allow the remainder of the Uniform Sewer Rate Division to move toward parity with the CLMS sewer rates. In this proceeding the Company proposes to consolidate the CLMS sewer service area rates with the Uniform

Sewer Rate Division rates, as the total Uniform Sewer revenue requirement is currently sufficient to allow for such consolidation of rate structures. It is reasonable and appropriate at this time to consolidate the CLMS sewer service area rates with the Company's Uniform Sewer rates. This rate design is supported by both the Public Staff and CLCA.

62. It is reasonable and appropriate for CWSNC's rate design for water utility service for its Uniform Water and Bradfield Farms/Fairfield Harbour/Treasure Cove (BF/FH/TC) Water residential customers to be based on a 50/50 ratio of base charge to usage charge, and to use an 80/20 ratio of base charge to usage charge for CWSNC's Uniform Sewer residential customers, as set out in the Stipulation.

63. The rates and charges included in Appendices A-1 and A-2, and the Schedules of Connection Fees for Uniform Water and Uniform Sewer, attached hereto as Appendices B-1 and B-2, are just and reasonable and should be approved.

Water and Sewer System Improvement Charges

64. Consistent with Commission Rules R7-39(k) and R10-36(k), CWSNC's WSIC and SSIC surcharges will reset to zero as of the effective date of the approved rates in this proceeding.

65. Pursuant to N.C.G.S. § 62-133.12, the cumulative maximum charges that the Company can recover between rate cases cannot exceed 5% of the total service revenues approved by the Commission in this rate case.

Recommendations of the Public Staff

66. It is reasonable and appropriate for the Company, in its next general rate case filing, to ensure that its NCUC Form W-1, Item 26 has been carefully reviewed so that the filing does not include double bills, that the Company accounts for multi-unit customers, and that other bills produced, such as final bills, late notices, re-bills, or other miscellaneous bills, are not included in the filing.

67. It is reasonable to approve an increase in the Company's reconnection fee from \$27.00 to \$42.00.

68. The connection charge of \$1,080 for water and \$1,400 for sewer for Winston Pointe Subdivision, Phase IA, recommended by the Public Staff is reasonable and appropriate.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 1–4

General Matters

The evidence supporting these findings of fact is found in the verified Application and the accompanying NCUC Form W-1, the testimony and exhibits of the witnesses, and the entire record in this proceeding. These findings are informational, procedural, and jurisdictional in nature and are not contested by any party.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 5–11

The Stipulation and Acceptance of Stipulation

The evidence supporting these findings of fact is found in the Stipulation, the testimony of both CWSNC's and the Public Staff's witnesses, the affidavit of Matthew Schellinger, and Revised Settlement Exhibits I and II.

On November 27, 2019, CWSNC and the Public Staff entered into and filed a Partial Settlement Agreement and Stipulation, which memorializes their agreements on some of the issues in this proceeding. Attached to the Stipulation is Settlement Exhibit 1, which demonstrates the impact of the Stipulating Parties' agreements on the calculation of CWSNC's gross revenue for the test year ended March 31, 2019. Thus, the Stipulation is based upon the same test period as the Company's Application, adjusted for certain changes in plant, revenues, and costs that were not known at the time the case was filed, but are based upon circumstances occurring or becoming known through the close of the expert witness hearing. In addition to the Stipulating Parties' agreements on some of the issues in this proceeding, the Stipulation provides that CWSNC and the Public Staff agree that the Stipulation reflects a give-and-take partial settlement of contested issues, and that the provisions of the Stipulation do not reflect any position asserted by either CWSNC or the Public Staff, but instead reflect compromise and settlement between them. The Stipulation provides that it is binding as between CWSNC and the Public Staff, and that it is conditioned upon the Commission's acceptance of the Stipulation in its entirety. No party filed a formal statement or presented testimony indicating opposition to the Stipulation. During the expert witness hearing in response to a question from the Commission, CLCA indicated that it has no objection to the Stipulation. Tr. vol. 9, 200–01. There are no other parties to this proceeding.

The key aspects of the Stipulation are as follows:

- **Tariff Rate Design** – The Stipulating Parties agree that rate design in this case should be based on a 50/50 ratio of fixed/volumetric revenues for the Uniform Water and BF/FH/TC Water residential customers and an 80/20 ratio of fixed/volumetric revenues for the Uniform Sewer residential customers.

- **Capital Structure** – The Stipulating Parties agree that the capital structure appropriate for use in this proceeding is a capital structure consisting of 49.10% common equity and 50.90% long-term debt at a cost of 5.36%.
- **Property Insurance Expense** – The Stipulating Parties agree to the Company's rebuttal position of \$279,912.
- **Treatment of Water Service Corporation (WSC) Rent Expense** – The Stipulating Parties agree to the Public Staff's calculation of WSC's rent expense for its Chicago, Illinois office lease as reflected in Revised Feasel Exhibit I, Schedule 3-11.
- **Water Loss Adjustment for Purchased Water Expense** – The Stipulating Parties agree upon a 20% water loss threshold for Whispering Pines, Zemosa Acres, Woodrun, High Vista, and Carolina Forest subdivisions.
- **Purchase Acquisition Adjustment (PAA) Amortization Expense Rates** – The Company agrees to the Public Staff's PAA amortization rates per Revised Feasel Exhibit I, Schedule 3-15.
- **Storm Reserve Fund and Storm Expense** – The Company agrees to rescind its request to implement its proposed Storm Reserve Fund, and to utilize the Public Staff's position per Revised Feasel Exhibit I, Schedule 3-4.
- **Application of Hurricane Florence Insurance Proceeds** – The Public Staff agrees to the Company's rebuttal position removing insurance overpayments to date from the insurer.
- **Accumulated Deferred Income Taxes (ADIT)** - The Company agrees to the Public Staff's proposed calculations of ADIT regarding unamortized rate case expense. The Stipulating Parties agree to revise ADIT for any updates made to rate case expense deferrals.
- **Deferral Accounting for Capital Investments in WWTPs** - The Stipulating Parties agree that deferral accounting treatment for post-in-service depreciation expense and carrying costs related to the Company's capital investments in WWTPs placed in service at Nags Head and Connestee Falls during the pendency of this proceeding is reasonable and appropriate.
- **Regulatory Commission Expense** - The Stipulating Parties agree to a methodology for calculating regulatory commission expense, also known as rate case expense, and agreed to update the number in Settlement Exhibit 1, Line 41, for actual and estimated costs once supporting documentation is provided by the Company. The Stipulating Parties agreed to amortize rate case expenses for a five-year period.

- **Revenue Requirement** – The Stipulating Parties agree to certain other revenue requirement issues designated as “Settled Items” on Settlement Exhibit 1, which was attached to the Stipulation and is incorporated by reference therein.

As the Stipulation has not been adopted by all of the parties to this docket, its acceptance by the Commission is governed by the standards set out by the North Carolina Supreme Court in *State ex rel. Utils. Comm’n v. Carolina Util. Customers Ass’n, Inc.*, 348 N.C. 452, 500 S.E.2d 693 (1998) (*CUCA I*), and *State ex rel. Utils. Comm’n v. Carolina Util. Customers Ass’n, Inc.*, 351 N.C. 223, 524 S.E.2d 10 (2000) (*CUCA II*). In *CUCA I*, the Supreme Court held that:

a stipulation entered into by less than all of the parties as to any facts or issues in a contested case proceeding under Chapter 62 should be accorded full consideration and weighed by the Commission with all other evidence presented by any of the parties in the proceeding. The Commission must consider the nonunanimous stipulation along with all the evidence presented and any other facts the Commission finds relevant to the fair and just determination of the proceeding. The Commission may even adopt the recommendations or provisions of the nonunanimous stipulation as long as the Commission sets forth its reasoning and makes “its own independent conclusion” supported by substantial evidence on the record that the proposal is just and reasonable to all parties in light of all the evidence presented.

348 N.C. at 466, 500 S.E.2d at 703. However, as the Court made clear in *CUCA II*, the fact that fewer than all of the parties have adopted a settlement does not permit the Court to subject the Commission’s order adopting the provisions of a nonunanimous stipulation to a “heightened standard” of review. *CUCA II*, 351 N.C. at 231, 524 S.E.2d at 16. Rather, the Court said that Commission approval of the provisions of a nonunanimous stipulation “requires only that the Commission ma[k]e an independent determination supported by substantial evidence on the record [and] . . . satisf[y] the requirements of [C]hapter 62 by independently considering and analyzing all the evidence and any other facts relevant to a determination that the proposal is just and reasonable to all parties.” *Id.* at 231-32, 524 S.E.2d at 17.

Based upon the foregoing and the entire record herein, the Commission finds that the Stipulation was entered into by the Stipulating Parties after full discovery and extensive negotiations, that the Stipulation is the product of give-and-take in settlement negotiations between CWSNC and the Public Staff, and that the Stipulation represents a reasonable and appropriate resolution of certain specific matters in dispute in this proceeding. In making this finding the Commission gives substantial weight to the testimony of CWSNC witness DeStefano and the testimony and supporting exhibits of Public Staff witnesses Henry and Feasel which support the Stipulation, and notes that no party expressed opposition to the provisions of the Stipulation. In addition when the provisions of the Stipulation are compared to CWSNC’s Application and the recommendations included in the testimony of the Public Staff’s witnesses, the Stipulation

results in a number of downward adjustments to the expenses sought to be recovered by CWSNC, and resolves issues, some of which were more important to CWSNC and, others of which were more important to the Public Staff. Therefore, the Commission further finds that the Stipulation is material evidence to be given appropriate weight in this proceeding, along with all other evidence of record, including that submitted by CWSNC, the Public Staff, CLCA, and the public witnesses who testified at the hearings.

In addition, the Commission finds that the Stipulation is a nonunanimous settlement of matters in controversy in this proceeding and that the Stipulation resolves only some of the disputed issues between CWSNC and the Public Staff. The Stipulation leaves the following Unsettled Issues to be resolved by the Commission: (1) rate of return on common equity; and (2) the deferral of expenses related to the installation of AMR meters in the Company's Fairfield Mountain and Connestee Falls service areas.

After careful consideration the Commission finds that when combined with the rate effects of the Commission's decisions regarding the foregoing Unsettled Issues, the Stipulation strikes a fair balance between the interests of CWSNC to maintain its financial strength at a level that enables it to attract sufficient capital on reasonable terms, on the one hand, and its customers to receive safe, adequate, reliable, and affordable water and sewer service at the lowest reasonably possible rates, on the other. The Commission finds that the resulting rates are just and reasonable to both CWSNC and its ratepayers. In addition, the Commission finds that the provisions of the Stipulation are just and reasonable to all parties to this proceeding and serve the public interest, and that it is appropriate to approve the Stipulation in its entirety.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 12-20

Customer Concerns and Service

The evidence supporting these findings of fact is found in the testimony of the public witnesses appearing at the hearings, in the testimony of Public Staff witness Casselberry, in the testimony and exhibits of CWSNC witnesses DeStefano and Mendenhall, and in the verified reports filed by CWSNC in response to the concerns testified to by the public witnesses at hearings.

On June 28, 2019, CWSNC filed an application for a general rate increase, which was verified by CWSNC's Financial Planning and Analysis Manager. The Application stated that CWSNC presently serves approximately 34,915 water customers and 21,403 sewer customers in North Carolina. The Company's service territory spans 38 counties in North Carolina, from Corolla in Currituck County to Bear Paw in Cherokee County.

The Commission held hearings throughout CWSNC’s service territory for the purpose of receiving testimony from members of the public, and particularly from CWSNC’s water and wastewater customers, as follows:

<u>Hearing Date</u>	<u>Location</u>	<u>Public Witnesses</u>
September 5, 2019	Charlotte	William Colyer, Rachel Fields, William Michael Wade, and James Sylvester
September 10, 2019	Manteo	None
October 8, 2019	Boone	None
October 9, 2019	Asheville	Chuck Van Rens, Jack Zinselmeier, Jeff Geisler, Phil Reitano, Jeannie Moore, Linda Huber, Brian McCarthy, Ron Shuping, and Steve Walker
October 14, 2019	Raleigh	Alfred Rushatz, Vince Roy, Mark Gibson, and David Smoak
October 22, 2019	Jacksonville	Danny Conner, Ralph Tridico, James C. Kraft, John Gumbel, David Stevenson, and Irving Joffe

Public Staff witness Casselberry testified that her investigation included a review of customer complaints, contact with the DEQ Division of Water Resources (DWR) and Public Water Supply Section (PWSS), review of Company records, and analysis of revenues at existing and proposed rates. Tr. vol. 8, 78. Witness Casselberry testified that she contacted the seven regional offices in North Carolina. The PWSS identified four water systems – Riverwood, Meadow Glen, Wood Trace, and Sapphire Valley – which required action by CWSNC; DWR identified three wastewater treatment plants – CLMS, Carolina Trace, and Asheley Hills – which required action by CWSNC. Witness Casselberry investigated each concern and testified that CWSNC has taken the necessary actions and that the Public Staff is satisfied that the concerns reported by PWSS and DWR have been addressed or are in the process of being resolved. Tr. vol. 8, 81.

In addition, witness Casselberry testified that she had reviewed approximately 316 consumer statements of position from CWSNC customers received by the Public Staff as a result of this proceeding. Witness Casselberry stated that the service areas represented by those submitting statements are Belvedere (1), Brandywine Bay (2), Carolina Pines (1), Carolina Trace (11), Corolla Light/Monteray Shores (1), Connestee Falls (48), Fairfield Harbour (33), Kings Grant (1), Sapphire Valley (2), The Point (161), Treasure Cove (1), Ski Mountain (1), Waterglyn (1), Woodhaven (1), and unspecified service areas (51). Tr. vol. 8, 96. She testified that all customers objected to the magnitude of the rate increase. She indicated that public witnesses’ primary concern was

that CWSNC's request for another rate increase was filed just four months after it had been granted an increase in rates in February 2019. Most of the customers in Connestee Falls said there was no justification for such a large increase, that they had to pay the base charge for service when they were not occupying their homes, and that they experienced numerous leaks and boil water advisory notices over the summer. The customers in Fairfield Harbour said that they were still recovering from Hurricane Florence and that they could not afford an increase. They also stated that the water quality was poor and that they had to install individual softeners and filter systems. Nearly all of the customers in The Point Subdivision opposed CWSNC's proposed Pilot Program. Their primary objections were that (1) customers in The Point were being penalized, and that the block rates should apply to all CWSNC customers, (2) the average consumption did not take into account customers who live on the lake and use lake water for irrigation, (3) the covenants do not allow individual wells for irrigation, and (4) the conditions and rules for landscaping would increase the average bill by approximately 30 percent if the block tiered rates were approved. Tr. vol. 8, 96–101. Customer concerns were addressed in Public Staff witness Casselberry's supplemental testimony filed on November 15, 2019.

Witness Casselberry also testified regarding service and water quality complaints registered by customers at each of the five public hearings. Tr. vol. 8, 111. She stated that she had read each of the four reports filed by CWSNC in response to the customer concerns and complaints which were included in testimony at the public hearings. Witness Casselberry testified that there were a few isolated service issues which the Company had addressed or was in the process of resolving.

After reviewing the testimony and complaints of the customers regarding water quality and hardness in the Fairfield Harbour and Bradfield Farms service areas, witness Casselberry stated CWSNC should provide an estimate of the cost of installing a central water filter system for Bradfield Farms Subdivision, Tr. vol. 8, 102–03, and the Fairfield Harbour Service Area, Tr. vol. 8, 109–110, for the homeowners' associations' consideration.

With the exception of her recommendation for Bradfield Farms Subdivision and the Fairfield Harbour Service Area, witness Casselberry had no additional comments or recommendations. Tr. vol. 8, 111. She testified that CWSNC's quality of service is good. Tr. vol. 8, 111. Witness Casselberry also testified that the quality of water meets the standards set forth by the Safe Drinking Water Act and is satisfactory. Tr. vol. 8, 111.

With regard to the concerns expressed by customers about the Company's proposed Pilot Program to test conservation rates in The Point Subdivision, the Commission acknowledges that this matter is no longer an issue in this proceeding because CWSNC withdrew its request for authority to implement its proposed Pilot Program on November 18, 2019. CWSNC stated its withdrawal of the Pilot Program was based on the Public Staff's opposition to CWSNC's proposed Pilot Program in the present case and the existence of the Commission's generic rate design proceeding in Docket No. W-100, Sub 59 (Sub 59). CWSNC noted that the Company will continue to actively

participate in the Commission's Sub 59 generic rate design proceeding to explore and consider rate design proposals that may better achieve the Company's desire for revenue sufficiency and stability, while also sending appropriate signals to consumers that support and encourage water efficiency and conservation.

Additionally, in CWSNC's November 18, 2019 filing, the Company withdrew its request for the consumption adjustment mechanism (CAM) proposed in this proceeding. CWSNC stated its withdrawal for the CAM was prompted by the Commission's initiation of a rulemaking proceeding in Docket No. W-100, Sub 61 on November 14, 2019; the Public Staff's testimony in this matter recommending that the Commission deny CWSNC's request to implement a CAM; and the Company's expectation that other water and wastewater providers will seek to have input on the implementation of any CAM guidelines. CWSNC maintained that the contested issues concerning the requested CAM are more suitable for resolution in the generic proceeding than in this rate case proceeding.

Based upon the foregoing, and after careful review of the testimony of the customers at the public hearings, the Company's reports on customer comments, the Public Staff's engineering and service quality investigation, and the late-filed exhibits submitted by CWSNC and the Public Staff, the Commission concludes that, consistent with the statutory requirements of N.C.G.S. § 62-131(b), the overall quality of service provided by CWSNC is adequate, efficient, and reasonable.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 21

Rate Base

The evidence supporting this finding of fact is found in the verified Application and the accompanying NCUC Form W-1, the testimony of Company witness DeStefano, the testimony of Public Staff witnesses Feasel and Henry, the Stipulation, and Revised Settlement Exhibits I and II.

The following table summarizes the differences between the Company's level of rate base from its Application and the amounts recommended by the Public Staff:

Item	Company Per Application	Difference	Amount Per Public Staff
Plant in service	\$217,460,239	\$20,751,845	\$238,212,084
Accumulated depreciation	(\$55,739,757)	(\$2,158,186)	(\$57,897,943)
Net plant in service	161,720,483	18,593,659	180,314,141
Cash working capital	2,467,676	(62,876)	2,404,800
Contributions in aid of construct.	(40,916,105)	645,430	(40,270,675)
Advances in aid of construction	(32,940)	0	(32,940)
Accum. deferred income taxes	(6,699,939)	704,495	(5,995,444)
Customer deposits	(304,114)	(11,333)	(315,447)
Inventory	271,956	0	271,956
Gain on sale and flow back taxes	(131,695)	(286,116)	(417,811)
Plant acquisition adjustment	(873,734)	35,856	(837,878)
Excess book value	(331)	331	0
Cost-free capital	(261,499)	0	(261,499)
Average tax accruals	125,013	(268,211)	(143,198)
Regulatory liability for EDIT	(3,941,344)	0	(3,941,344)
Deferred charges	2,252,645	(129,938)	2,122,707
Pro forma plant	17,195,228	(17,195,228)	0
Original cost rate base	\$130,871,300	\$2,026,068	\$132,897,368

On the basis of the Stipulation and revisions made by the Public Staff in its Revised Settlement Exhibits I and II, the Company and the Public Staff are in agreement concerning all components of rate base except for the amount of cash working capital. Therefore, the Commission finds that the uncontested adjustments to rate base recommended by the Public Staff are appropriate adjustments to be made in this proceeding.

CWSNC and the Public Staff disagree on the amount of cash working capital to include in rate base for use in this proceeding due to the unsettled issue concerning the deferral accounting treatment of the AMR meter installation projects in Fairfield Mountain and Connestee Falls. Based on the testimony of Company witness DeStefano, CWSNC disagrees with the Public Staff's recommendation to deny deferral accounting treatment for the two AMR meter installation projects. As a result of their differing positions concerning this issue and its effect on their respective recommended level of maintenance and repair expense, CWSNC and the Public Staff recommend different amounts for cash working capital to include in rate base, \$2,406,418 and \$2,404,800, respectively.

Based on the conclusions reached elsewhere in this order concerning the deferral accounting treatment for AMR meter installation projects in Fairfield Mountain and Connestee Falls, the Commission concludes that the appropriate amount for cash

working capital is \$2,404,800. Consequently, the appropriate level of rate base for combined operations for use in this proceeding is as follows:

Item	Amount
Plant in service	\$238,212,084
Accumulated depreciation	(\$57,897,943)
Net plant in service	180,314,141
Cash working capital	2,404,800
Contributions in aid of construction	(40,270,675)
Advances in aid of construction	(32,940)
Accumulated deferred income taxes	(5,995,444)
Customer deposits	(315,447)
Inventory	271,956
Gain on sale and flow back taxes	(417,811)
Plant acquisition adjustment	(837,878)
Excess book value	0
Cost-free capital	(261,499)
Average tax accruals	(143,198)
Regulatory liability for excess deferred taxes	(3,941,344)
Deferred charges	2,122,707
Pro forma plant	0
Original cost rate base	<u>\$132,897,368</u>

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 22

Operating Revenues

The evidence supporting this finding of fact is found in the testimony of Public Staff witnesses Feasel and Casselberry, and Company witness DeStefano. The following table summarizes the differences between the Company's level of operating revenues under present rates from its Application and the amounts recommended by the Public Staff:

Item	Company per Application	Difference	Amount per Public Staff
<u>Operating Revenues:</u>			
Service revenues	\$33,269,517	\$582,715	\$33,852,232
Miscellaneous revenues	353,280	34,212	387,492
Uncollectible accounts	<u>(246,348)</u>	<u>(24,794)</u>	<u>(271,142)</u>
Total operating revenues	<u>\$33,376,449</u>	<u>\$592,133</u>	<u>\$33,968,582</u>

Based on the Stipulation and the revisions made by the Public Staff in its Feasel Revised Exhibits I and II, the Company does not dispute the following Public Staff adjustments to operating revenues under present rates:

Item	Amount
Reflect pro forma level of service revenues	\$582,715
Adjustment to forfeited discounts	10,128
Adjustment to sale of utility property	24,084
Adjustment to uncollectible accounts	<u>(24,794)</u>
Total	<u>\$592,133</u>

For reasons discussed elsewhere in this order, the Commission has found that the adjustments listed above are appropriate adjustments to be made to operating revenues under present rates in this proceeding.

Based on the foregoing, the Commission concludes that the appropriate level of operating revenues under present rates for combined operations for use in this proceeding is as follows:

Item	Amount
Service revenues	\$33,852,232
Miscellaneous revenues	387,492
Uncollectible accounts	<u>(271,142)</u>
Total operating revenues	<u>\$33,968,582</u>

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 23-25

Maintenance and General Expenses

The evidence for these findings of fact is found in the verified Application and the accompanying NCUC Form W-1; the testimony of Public Staff witnesses Feasel, Henry, and Darden; the testimony of Company witnesses DeStefano and Mendenhall; the affidavit of Matthew Schellinger; and the Revised Settlement Exhibits I and II.

The following table summarizes the differences between the Company's requested level of maintenance and general expenses and the amounts recommended by the Public Staff:

<u>Item</u>	<u>Company Per Application</u>	<u>Difference</u>	<u>Amount Per Public Staff</u>
<u>Maintenance Expenses:</u>			
Salaries and wages	\$5,143,430	(\$193,719)	\$4,949,710
Purchased power	2,110,722	(7,679)	2,103,043
Purchased water & sewer	2,171,965	47,278	2,219,243
Maintenance and repair	2,955,315	165,620	3,120,935
Maintenance testing	546,264	(1,832)	544,432
Meter reading	206,176	0	206,176
Chemicals	713,452	(19,856)	693,596
Transportation	539,115	(4,915)	534,200
Operating expenses charged to plant	(615,663)	(49,470)	(665,133)
Outside services - other	1,219,715	(28,417)	1,191,299
Total maintenance expenses	<u>\$14,990,492</u>	<u>(\$92,991)</u>	<u>\$14,897,501</u>
<u>General Expenses:</u>			
Salaries and wages	\$2,386,901	(\$382,491)	\$2,004,409
Office supplies and other office expense	569,400	(536)	568,864
Regulatory commission expense	303,485	4,269	307,754
Pension and other benefits	1,531,096	69,062	1,600,158
Rent	392,552	(62,244)	330,308
Insurance	664,043	118,519	782,562
Office utilities	751,728	(4,058)	747,670
Miscellaneous	355,931	(137,513)	218,417
Total general expenses	<u>\$6,955,135</u>	<u>(\$394,993)</u>	<u>\$6,560,142</u>

Regulatory Commission Expense

In his January 10, 2020 affidavit, Matthew Schellinger provided an amount of \$519,416 for the actual costs incurred to date and the estimated expense to be incurred related to this rate case. Affiant Schellinger requested that the Commission approve total rate case costs of \$1,169,222 to be amortized over five years. He stated that the \$1,169,222 includes \$649,806 for unamortized rate case expense from prior proceedings plus \$519,416 related to this case. Affiant Schellinger commented that the annual amortization expense for rate case costs for this proceeding total \$233,844 (\$1,169,222 amortized over five years). Affiant Schellinger also requested that the Commission include in regulatory commission expense an annual amount of \$73,911 in miscellaneous regulatory costs for filings and compliance type activities not directly related to rate case costs. He maintained that these expenses are a direct cost of service, are not disputed, and were agreed upon between CWSNC and the Public Staff in the Stipulation. In sum, Affiant Schellinger requested that the Commission include a total annual amount of

\$307,755 in regulatory commission expense in this proceeding, consisting of rate case costs of \$233,844 and miscellaneous regulatory costs of \$73,911.

The Public Staff stated that it has reviewed the invoices and other supporting documents along with the rate case expense spreadsheet provided by CWSNC and found that the types of rate case expense in this rate case matched the nature of the expense in prior rate cases and the amount of these expenses in the current proceeding are appropriate and reasonable to be included in this rate case. The Public Staff and the Company are in agreement that the miscellaneous regulatory matters costs in the Company's books as provided in the affidavit of Matthew Schellinger should also be included as regulatory commission expense to be recovered in this rate case as a reasonable cost of service incurred by CWSNC. Therefore, in light of the foregoing the Commission finds that it is appropriate and reasonable to amortize the sum of the total rate case costs of \$519,416 for the current proceeding and the unamortized rate case cost balance of \$649,806 from the prior rate cases over five years and to include an annual level of costs in the amount of \$73,911 related to miscellaneous regulatory matters, resulting in an annual level of regulatory commission expense of \$307,755 to be recovered in this proceeding.

On the basis of the Stipulation and revisions made by the Public Staff in Henry Revised Exhibit I, Feasel Revised Exhibits I and II, and Revised Settlement Exhibits I and II, the Company and the Public Staff are in agreement concerning all adjustments recommended by the Public Staff to maintenance and general expenses except for maintenance and repair expense. Therefore, the Commission finds that the uncontested adjustments to maintenance and general expenses recommended by the Public Staff are appropriate adjustments to be made in this proceeding.

CWSNC and the Public Staff disagree on the amount of maintenance and repair expense to include in maintenance and general expenses in this proceeding due to the unsettled issue concerning the deferral accounting treatment of the AMR meter installation projects in Fairfield Mountain and Connestee Falls. Based on the testimony of Company witness DeStefano, CWSNC disagrees with the Public Staff's recommendation to deny deferral accounting treatment for the two AMR meter installation projects. As a result of their differing positions concerning this issue, CWSNC and the Public Staff recommend differing amounts for maintenance and repair expense, \$3,133,882¹⁰ and \$3,120,935, respectively. The Company included an amount of \$12,947 (\$64,736 amortized over five years) in maintenance and repair expense related to its requested deferral accounting treatment for the two AMR meter installation projects whereas the Public Staff did not.

Based on the conclusions reached elsewhere in this Order concerning the deferral accounting treatment for the AMR meter installation projects in Fairfield Mountain and

¹⁰ See page 160 of the Company's proposed order filed on January 10, 2020, in these dockets which includes the agreed-upon pro forma adjustments per the Stipulation and CWSNC's recommendations concerning the two unsettled issues in this rate case.

Connestee Falls, the Commission concludes that the appropriate level of maintenance and repair expense for combined operations for use in this proceeding is \$3,120,935.

Based upon the foregoing, the Commission concludes that the appropriate level of maintenance and general expenses for combined operations for use in this proceeding are as follows:

<u>Item</u>	<u>Amount</u>
<u>Maintenance Expenses:</u>	
Salaries and wages	\$4,949,710
Purchased power	2,103,043
Purchased sewer	2,219,243
Maintenance and repair	3,120,935
Maintenance testing	544,432
Meter reading	206,176
Chemicals	693,596
Transportation	534,200
Operation exp. charged to plant	(665,133)
Outside services - other	1,191,299
Total maintenance expenses	<u>\$14,897,501</u>
<u>General Expenses:</u>	
Salaries and wages	<u>\$2,004,409</u>
Office supplies and other office expense	568,864
Regulatory commission expense	307,754
Pension and other benefits	1,600,158
Rent	330,308
Insurance	782,562
Office utilities	747,670
Miscellaneous	218,417
Total general expenses	<u>\$6,560,142</u>

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 26-27

Storm Reserve Fund and Normalized Storm Damage Expense

The evidence for these findings of fact is found in the verified Application and the accompanying NCUC Form W-1, the testimony of Public Staff witnesses Feasel and Henry, and the Stipulation and Revised Settlement Exhibits I and II.

In the Company's Application, it requested to establish a storm reserve fund to support extraordinary O&M costs resulting from damages sustained in severe storms such as Hurricane Florence. CWSNC witness DeStefano testified that CWSNC proposes to create a monthly, flat surcharge for each active customer's water and sewer service bill until the reserve threshold of \$250,000 is reached. Witness DeStefano commented that CWSNC proposed to collect a monthly surcharge of \$0.42 per customer per month

based on the threshold of \$250,000. In addition, this is the first general rate case proceeding in which CWSNC seeks Commission approval of a normalized level of storm expenses to be included in base rates. In NCUC Form W-1, Item 10, Schedule 24, the Company used three years (2016–2018) to calculate the average storm cost requested to be recovered in this rate case. Witness DeStefano maintained that the storm reserve fund would only be utilized if the Company’s storm costs for the last 12 months exceed the level of normalized storm expenses included in the base rate revenue requirement.

Public Staff witness Henry testified that in addition to the storm reserve fund, CWSNC applied to include in rates a normalized level of storm expense calculated using a three-year average of actual storm expenses incurred, excluding Hurricane Florence expenses. Witness Henry stated that ten years has historically been used to calculate the average storm cost because a ten-year time period would include some years in which storm costs were high and others in which they were low, resulting in a more reasonable average than that which would result from using only the three most recent years. Additionally, witness Henry stated that using a ten-year time period has been approved by the Commission in prior decisions. For the reasons set forth in his prefiled testimony, witness Henry recommends that the Commission deny CWSNC’s request for a storm reserve fund. In the Stipulation the Company agreed to rescind its request to implement its proposed storm reserve fund and also agreed to the Public Staff’s use of a ten-year average for storm costs. The Stipulating Parties have agreed to a normalized level of storm expenses in the amount of \$34,567, to be included in maintenance and repair expense.

Therefore, in light of the foregoing the Commission concludes that it is appropriate and reasonable to continue its historical practice of using a ten-year time period as the standard for calculating average annualized storm costs to be recovered in the Company’s rates as an ongoing level of expense. Consequently, the appropriate annual level of normalized storm costs that should be included in CWSNC’s rates in this proceeding is \$34,567, as set out in the Stipulation.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 28-30

Hurricane Florence Expense

The evidence supporting these findings of fact is found in the Company’s Petition for Accounting Order in Sub 363, the testimony of Company witness DeStefano, the testimony of Public Staff witnesses Henry and Feasel, the Stipulation, Settlement Exhibit I, and Revised Settlement Exhibits I and II in Sub 364.

On January 17, 2019, CWSNC filed a Petition for an Accounting Order to Defer Unplanned Incremental Hurricane Florence Storm Damage Expenses, Capital Investments, and Revenue Loss in Sub 363 requesting an accounting order authorizing it to establish a regulatory asset and defer until the Company’s next general rate case costs incurred in connection with damage to the Company’s water and wastewater systems resulting from the impacts of Hurricane Florence. Additionally, the Company

sought Commission approval to defer O&M costs, lost revenues, and depreciation expense on its capital investments. According to the Sub 363 Petition, CWSNC's facilities suffered extensive damage due to the storm, particularly in the coastal region of the Company's service territory.

CWSNC stated that it incurred extraordinary, unplanned operating and capital costs, as well as lost revenues from customers who were forced to disconnect their service due to damage to their homes. Additionally, the Company provided invoices to the Public Staff showing that it has incurred, to date, \$146,773 in storm-related incremental O&M expenses, \$582,570 in capital investments, and \$46,320 in estimated revenue loss. In its comments filed on April 4, 2019, the Public Staff did not object to CWSNC's recovery of a substantial portion of its 2018 verified storm O&M costs and deferral accounting treatment for the incremental O&M costs related to Hurricane Florence; however, it opposed CWSNC's request to defer depreciation expense associated with the Company's capital investments and lost revenues. Additionally, the Public Staff recommended that the amortization period begin as of October 2018, the date of the storm, and not begin with the effective date of the Company's next general rate case, which is the instant case, Sub 364, filed on June 28, 2019.

After considering prior cases and the tests applied by the Commission, the Public Staff determined that "the damage to CWSNC's system from Hurricane Florence was greater than that caused by any other storm in the Company's history, which will affect the Company's rate of return on common equity. The Public Staff concluded that this is an exceptional circumstance justifying some deferral of costs." Public Staff's Sub 363 Comments. However, in opposing CWSNC's request to defer depreciation expense associated with the Company's capital costs and lost revenues, the Public Staff cited the Commission's order in the last Duke Energy Progress, LLC. (DEP), general rate case, Docket No. E-2, Sub 1142, where DEP's request for deferral of depreciation expense, return on the undepreciated balance of capital costs, and the carrying costs on the entirety of the deferred costs was denied.

The Public Staff, therefore, recommends the following:

- (a) that the Commission approve a deferral of \$146,773 in 2018 Hurricane Florence storm O&M expenses, but no deferral of CWSNC's depreciation expense or lost revenues;
- (b) that CWSNC be required to amortize the costs deferred over a three-year period beginning in October 2018;
- (c) that upon final determination of the actual amount of costs of Hurricane Florence the Company be required to file a final accounting of said costs with the Commission for review and approval;
- (d) that approval of this accounting procedure is without prejudice to the right of any party to take issue with the amount of or the ratemaking treatment accorded these costs in any future regulatory proceeding; and
- (e) that any applicable insurance proceeds received by CWSNC will be used to offset the deferred O&M expenses.

As shown in Settlement Exhibit I, witness Feasel calculated a total deferral amount of \$146,773 for the incremental O&M costs related to the 2018 storm costs with an amortization period of three years beginning in October 2018, using the procedure recommended by witness Henry. The Company and the Public Staff agree to the amount of Hurricane Florence storm-related costs included in Settlement Exhibit I as noted in the Stipulation.

The Commission finds and concludes that it is just and reasonable for the Company to receive deferral accounting treatment for the incremental O&M costs amounting to \$146,773 in Hurricane Florence storm costs and that these costs should be amortized over three years. Consequently, it is appropriate to include in CWSNC's maintenance and repair expense Hurricane Florence storm-related costs in the amount of \$48,924, as set out in the Stipulation.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 31-41

Deferral of WWTP Projects and AMR Meter Installation Projects

The evidence for these findings of fact is found in the record of Sub 365, including the initial comments of the Public Staff and the reply comments of the Company; the testimony of Company witnesses DeStefano and Mendenhall; the testimony and exhibits of Public Staff witnesses Henry, Feasel, and Junis; the Stipulation, and Revised Settlement Exhibits I and II.

Summary of the Evidence

On June 28, 2019, contemporaneously with the Sub 364 rate case application, the Company filed a Petition for an Accounting Order to Defer Post-In-Service Depreciation and Financing Costs Relating to Major New Projects in Sub 365.

On September 20, 2019, the Public Staff filed comments, and on October 21, 2019, CWSNC filed reply comments. On November 15, 2019, the Company filed a motion to consolidate the Sub 365 docket with the Sub 364 rate case proceeding, which was granted by Commission order dated November 19, 2019.

In its Sub 365 petition, CWSNC describes four major new projects that were in progress and would be placed in service after the close of the test year but during the pendency of this general rate case proceeding. The Company requests authority to defer the incremental post-in-service depreciation expense and financing costs of those projects and then to recover those costs in the rates approved in Sub 364, amortized over a five-year period. The four projects are:

- (a) Connestee Falls WWTP in Buncombe County;
- (b) Nags Head WWTP in Dare County;
- (c) Fairfield Mountain AMR meters installed in Transylvania County; and
- (d) Connestee Falls AMR meters installed in Buncombe County.

CWSNC witness DeStefano's testimony explained that the accounting and cost recovery treatment of these projects would have a material impact on the Company's ability to earn its authorized return from its last rate case. The Company requests deferral of incremental post-in-service depreciation expense and financing costs on these four projects from their respective in-service dates until the projects are included for recovery in base rates in this case.

Company witness Mendenhall described the four projects. He stated that the Connestee Falls WWTP project involved the installation of a "sequencing batch reactors" treatment facility which replaced a 300,000 gallons per day (gpd) concrete plant installed in the early 1970s. He noted that the plant is located in the mountains and exposed to winter weather, including cold, ice, and snow. These conditions led to the serious erosion of exposed areas of concrete, most significantly the above-the-waterline walls and walkways, due to years of "freeze/thaw" cycles. Witness Mendenhall maintained that the concrete deterioration had reached the point of "end of life" of the asset and that the old plant presented a high risk of failure. He stated that the build-out needs of the community require 460,000 gpd of wastewater treatment capacity and that the new plant was built adjacent to the existing plant. He commented that the cost of the project was \$7,177,326 and that it was placed in-service on July 31, 2019.

Witness Mendenhall testified that the Nags Head WWTP project consisted of the installation of a new membrane treatment facility to allow for effluent disposal below permitted nitrate levels in groundwater monitoring wells. He explained that the purpose of this project was to modify the existing Aeromod 0.400 million gallon per day (mgd) plant with membrane filtration to provide reuse-quality effluent to meet groundwater nitrate and total dissolved solids (TDS) compliance testing limits. Witness Mendenhall noted that in 2018, the Division of Water Quality, DEQ, issued a Notice of Violation requiring the plant to comply with current groundwater testing limits of 500 mg/L for TDS and 5 mg/L for nitrates. He stated that the previous plant met the wastewater treatment plant effluent limits but was unable to meet the newly imposed groundwater limits for the monitoring wells. Witness Mendenhall maintained that had the new facility not been constructed, the risk of imposition of severe penalties or a consent decree was high. He noted that the cost of the project was \$6,876,116, and it was placed in-service on May 31, 2019.

Witness Mendenhall further stated that in 2019, CWSNC continued to expand its AMR meter footprint in its mountain systems. He commented that approximately 2,500 AMR meters were installed in the Connestee Falls and Fairfield Mountain Subdivisions. Witness Mendenhall testified that benefits of AMR meter technology to customers and the Company include: (1) customer satisfaction with data and billing accuracy; (2) improved customer service; (3) reduction in re-read/re-billing; (4) employee safety, especially during hazardous weather events; (5) replacement of inaccurate meters which can improve non-revenue water percentages; and (6) customer interaction with respect to personal consumption habits and trends. He noted that while AMR technology would be beneficial to CWSNC customers across the state, the mountain area systems, in particular, benefit due to the extreme weather events and related safety hazards that are common in this region. Witness Mendenhall testified that the Connestee Falls and

Fairfield Mountain AMR meter installation projects were completed by July 31, 2019, at a total cost of \$880,209.

At the time this rate case and CWSNC's deferral accounting Petition were filed Company witness DeStefano estimated that implementing these four projects would create a material drag on the consolidated Company's earned rate of return on common equity of 193 basis points. Witness DeStefano testified that the Company included in its rate case filing both a calculation of the deferral balances and proposed amortizations of the deferrals, as well as a pro forma adjustment relating to O&M savings that will result from the implementation of the AMR meter projects¹¹. Public Staff witness Darden confirmed in her testimony that the Company included in this rate case proceeding a pro forma adjustment of \$21,000 to remove the meter reading expense for the Fairfield Mountain and Connestee Falls water systems because AMR meters do not require an operator to read each meter individually.

According to Public Staff witness Henry, all of the foregoing projects were completed and in service as of the date of the expert witness hearing as verified by Public Staff witness Casselberry, and final invoices were reviewed by the Public Staff. Tr. vol. 8, 172.

In its Sub 365 comments, the Public Staff recommended that the requested deferral accounting treatment with respect to the cost of the WWTPs at Nags Head and Connestee Falls be granted and that the requested deferral accounting treatment with respect to the AMR meters installed in Fairfield Mountain and Connestee Falls be denied in its entirety.

The Public Staff commented that in its Order Approving Deferral Accounting with Conditions in Docket No. E-7, Sub 874, the Commission stated:

[T]he Commission has historically treated deferral accounting as a tool to be allowed only as an exception to the general rule, and its use has been allowed sparingly. That is due, in part, to the fact that deferral accounting, typically, provides for the future recovery of costs for utility services provided to ratepayers in the past; and . . . the longer the deferral period, the greater the likelihood that the ratepayers who are ultimately required to pay rates including the deferred charges, which are related to resources consumed by the utility in providing services in earlier periods, may not be the same ratepayers who received the services. The Commission has also been reluctant to allow deferral accounting because it, typically, equates to single-issue ratemaking for the period of deferral, contrary to the well-established, general ratemaking principle that all items of revenue and costs germane to the ratemaking and cost-recovery

¹¹ See NCUC Form W-1, Item 10, Schedules 26 and 34, filed June 28, 2019.

process should be examined in their totality in determining the appropriateness of the utility's existing rates and charges.

Order Approving Deferral Accounting with Conditions, *Petition of Duke Energy Carolinas, LLC, for an Accounting Order to Defer Certain Environmental Compliance Costs and the Incremental Costs Incurred From the Purchase of a Portion of Saluda River's Ownership in the Catawba Nuclear Station*, No. E-7, Sub 874, at 24 (N.C.U.C. Mar. 31, 2009) (DEC Sub 874 Order).

In addition the Public Staff noted that in its Order Approving in Part and Denying in Part Request for Deferral Accounting in Docket No. E-7, Sub 1029, the Commission stated, "In determining whether to allow deferral requests, the Commission has consistently and appropriately based its decision on whether, absent deferral, the costs in question would have a material impact on the company's financial condition, and in particular, the company's achieved level of earnings." Order Approving in Part and Denying in Part Request for Deferral Accounting, *Petition of Duke Energy Carolinas, LLC, for an Accounting Order to Defer Certain Capital and Operating Costs Incurred for the Advanced Clean Coal Cliffside Unit 6 Steam Generating Plant, the Dan River Natural Gas Combined Cycle Generating Plant, and the Capacity-Related Modifications at the McGuire Nuclear Generating Plant*, No. E-7, Sub 1029, at 12-13 (N.C.U.C. Apr. 3, 2013).

Thus, the Public Staff maintained that the Commission's receptivity to deferral requests is not unlimited or without regard for traditional ratemaking principles. Rather, the Public Staff stated that the Commission requires a clear and convincing showing that the costs in question were of an unusual or extraordinary nature and that, absent deferral, the costs for which deferral was requested would have a material impact on the Company's financial condition.

In determining whether to grant a deferral request the Public Staff noted that the Commission analyzes the impact the costs would have on currently achieved earnings of the utility. The Public Staff stated that the appropriate test and criteria are as follows:

The impact on earnings, typically, has been measured and assessed in terms of ROE, considered in conjunction with (1) the return on equity (ROE) realized and (2) the company's currently authorized ROE. Also . . . current economic conditions; the Company's need for new investment capital; and the impact that the Commission decision will have on future availability and cost of such capital are also relevant to the appropriate resolution of matters of this nature. Additionally, whether the company has requested or is contemplating requesting a general rate increase and the timing, or proposed timing, of the filing of such a request is also pertinent.

DEC Sub 874 Order at 26.

The Public Staff stated in its Sub 365 comments that it had evaluated the deferrals requested in CWSNC's petition against the above criteria. Based on these criteria and

other Commission decisions, the Public Staff supported deferral accounting treatment for the costs related to the WWTP projects at Nags Head and Connestee Falls. The Public Staff based its recommendation on the fact that (1) costs for the WWTPs were related to major construction projects that, at the time the Sub 365 comments were filed, were not yet in service but expected to be completed and in operation prior to the date of the expert witness hearing in this general rate case; (2) the deferral accounting request was made contemporaneously with the filing of the rate case application; and (3) the deferral period would not be so long as to cause undue concern that the ratepayers who pay rates including the deferred WWTP costs during the deferral period may not be the same ratepayers who receive service from the WWTPs. Sub 365 Comments at 6–7. Additionally, the Public Staff stated that “the impact of the costs, if not deferred, on the Company’s rate of return on common equity of 9.75% approved in the Sub 360 Rate Case, will be significant. Without deferral, the Company’s earnings can be expected to decline due to the WWTPs becoming plant in service.” *Id.* at 7. Thus, the Public Staff contended that the WWTPs at Nags Head and Connestee Falls presented the kind of circumstances in terms of nature, impact, and timing for which deferral accounting treatment is appropriate.

Moreover, as evidenced by the Stipulation filed on November 27, 2019, the Company and the Public Staff are in agreement that the Company’s request to defer incremental post-in-service depreciation expense and financing costs of the WWTPs at Nags Head and Connestee Falls is appropriate and have agreed that the Company should be authorized to defer its costs of \$1,098,778 related to its WWTPs, and these costs should be amortized over five years, for an annual amount to be included in rates of \$219,756.

With respect to the Public Staff’s recommendation that the Commission deny deferral accounting treatment for the AMR meters installed in Fairfield Mountain and Connestee Falls, the Public Staff stated it used the same criteria for evaluating the Company’s request for deferral of the WWTPs and the AMR meter costs and concluded that CWSNC’s request for deferral of the AMR meter costs should be denied. Witness Henry contended that CWSNC failed to make a clear, complete, and convincing showing, in view of the entire record, that the costs of the AMR meters are of an unusual or extraordinary nature and, absent deferral, will have a material impact on the Company’s financial condition. In his direct testimony, witness Henry referred the Commission to the Public Staff’s initial comments filed on September 20, 2019 in Sub 365.

In its Sub 365 initial comments, the Public Staff contended that meter replacement of any kind (AMR, AMI, traditional, etc.) is not an extraordinary or unusual project but should be considered routine and as part of a properly planned and managed meter replacement program. The Public Staff stated that water meters have an industry recognized 10- to 20-year useful life before degradation of functionality and accuracy necessitate replacement. Additionally, the Public Staff stated that CWSNC has water meters in service that range in age and condition, and that it is not unusual for a water and sewer utility to undertake, during one time period, to replace a large number of aged meters in an entire subdivision or service area because doing so promotes efficiency of

time and cost. Due to the nature of meter replacement being an expected and usual occurrence, the Public Staff stated that the only different or unusual aspect of the Company's replacement project is the increased cost of the new AMR meters over the cost of analog meters. The Public Staff further noted that although the Company stated that the upgraded technology will benefit the Company and the customers, the Company's decision to upgrade does not change the nature of the typical and expected meter replacement project. The Public Staff maintained that the increased cost of AMR meters and the number of meters replaced is the result of management decisions within CWSNC's control and a failure of the Company to implement a systematic and measured meter replacement program.

On cross-examination witness Henry confirmed that the Public Staff's accounting investigation did not raise any prudency issues with respect to the costs incurred by the Company to complete the AMR meter installation projects, that the Public Staff did not recommend any significant disallowance of any part of these costs for ratemaking purposes, that this is the third rate case in which the Company has included costs for AMR meters for its mountain systems, and that the Public Staff did not raise any objections or questions about the prudency of the installations or of the costs of prior AMR meter installations in the previous two cases. He also agreed that deferred accounting is one way to address the issue of regulatory lag faced by a utility.

Further, witness Henry agreed that the \$22 million in additional investment made by the Company since its last rate case is a significant amount of investment of capital for a company the size of CWSNC and that those investments result in regulatory lag, depending on the timing of the investments and when those investments are incorporated for recovery in rates. He also updated his estimate of earnings erosion that would occur if CWSNC's request for deferral of costs related to AMR meter installation projects is denied based upon the Company's updated project costs. He testified that the Company's rate of return on common equity for the Uniform Water Rate Division would be negatively impacted by 24 basis points if the Commission denies deferral accounting treatment for the AMR meter installation projects. Witness Henry testified that he added the AMR meter installation projects to the rate case model that was used to calculate the gross revenue and overall rate of return allowed by the Commission in the Sub 360 Rate Order. Witness Henry stated that by including the AMR meter installation projects in that model for the Uniform Water Rate Division the rate of return on common equity granted in the Sub 360 case was decreased from 9.75% to 9.51%, a decrease of 24 basis points. Tr. vol. 8, 180. Witness Henry maintained that it was appropriate to evaluate the rate of return on common equity impact at the Rate Division level because CWSNC has four separate rate divisions: Uniform Water, Uniform Sewer, BF/FH/TC Water, and BF/FH Sewer. He stated that each of these rate divisions has a separate rate base, revenues, expenses, and rate of return. Tr. vol. 8, 217-18. Witness Henry further stated that rates have not been established on a total company basis in this rate case nor in prior rate cases filed by CWSNC.

Witness Henry agreed that, in addition to the basis point impact on rate of return on common equity, the Commission has considered the actual earned rate of return on

common equity of the utility requesting deferral accounting when addressing whether non-deferral of project costs would have a material negative impact on a company's financial condition. Further, he agreed that the Commission considers deferral requests on a case-by-case basis.

On cross-examination Public Staff witness Junis expanded upon witness Henry's conclusion that the Company's AMR meter installation projects did not meet the Commission's criteria for deferral accounting. He maintained that the projects were not unusual or extraordinary because they were the result of a business choice by the Company to install AMR meter technology. Tr. vol. 8, 191. He stated that the Company could have installed traditional meters rather than AMR meters. Witness Junis testified that meter replacement should be a part of normal business. Further, he stated that AMR meters are not providing service to customers or improving service to customers and thus they are not integral to providing service. Tr. vol. 8, 198. Witness Junis distinguished AMR meters from new electricity generation investments or wastewater treatment plant investments, stating that the latter are integral to providing quality service. *Id.*

Witness Junis discounted CWSNC's claim that the Company is underearning because the underearning took place primarily under previously set rates, before the current rates were established by the last rate order in Sub 360. Tr. vol. 8, 205. Witness Junis contended that for this reason, the test period would not be the "proper window to look at when considering are they under-earning or over-earning" for purposes of the Commission's test to determine whether deferral accounting is appropriate. Tr. vol. 8, 205–06. He testified that the utility decides when it files rate cases; the Company's management decides how much consequence of regulatory lag it can accept and financially tolerate between rate cases. Tr. vol. 8, 195.

On cross-examination, witness Junis acknowledged that the Public Staff's position is that AMR meter installation projects are not eligible for cost recovery in WSIC proceedings because the WSIC statute calls for "in-kind" replacements. Witness Junis testified that the Public Staff does not consider AMR meters as in-kind with regard to differing kinds of meters. Tr. vol. 8, 195–96. He further testified that both deferral accounting and the WSIC and SSIC statute minimize regulatory lag for cost-recovery purposes. He agreed that the fact that the AMR meter installation projects do not qualify for WSIC treatment is worth considering in the context of a deferral accounting request. However, he testified that it should not be a major factor in the determination and ultimately this fact did not change the Public Staff's position that deferral should be denied.

Witness DeStefano presented rebuttal testimony explaining the appropriateness of deferral accounting treatment for the Company's two AMR meter installation projects. First, he testified that major technological upgrades such as the Company's AMR meter projects are the type of projects for which deferral accounting is appropriate. He noted that the Company's AMR meter program involves the mass replacement and technological upgrade of aged analog meters in certain targeted geographical areas, as opposed to the typical individual meter replacements that occur due to aging or damaged

individual meters. He emphasized that this AMR meter program differs dramatically from individual and routine meter replacements in scope, scale, purpose, and financial impact. Witness DeStefano generally testified that the large-scale meter replacement at issue was undertaken to improve service through efficiencies, safety, and advanced technology, and that the project benefitted customers by saving some costs associated with manual meter reading and reducing system water loss. He further testified that the Company would face significant adverse impact if either the four projects subject to the petition to defer or the AMR meter projects alone were not afforded deferral accounting treatment. He explained that the Company's current overall rate of return of 7.75% authorized by the Commission in Sub 360 was not being achieved and that the Company's consolidated actual earned overall return during the test year for the instant rate case was only 3.69%.

Witness DeStefano maintained that the Public Staff's proposed rejection of deferral accounting for the two AMR meter installation projects, as well as the inability of the Company to recover the costs of depreciation and a return on the full investment of AMR meters in a WSIC filing, has the effect of significantly penalizing the Company through denial of timely cost recovery for investments in modernizing its water system operations. Witness DeStefano contended that if the Company's cost recovery for AMR meters is limited solely to a final decision in a general rate case, with no interim deferral accounting, the Company's earnings will be materially affected to its detriment. He reported that other state regulatory commissions have authorized deferral accounting in connection with meter replacement projects although he did not state whether such deferrals related specifically to the deferral of post-in-service depreciation expense and carrying costs from the AMR meter replacement projects in-service dates until the projects are included for recovery in base rates as requested by CWSNC in its petition.

Witness DeStefano urged the Commission to consider the collective financial impact of the four projects, noting that the Commission has previously considered projects on a collective basis when making deferral accounting determinations. Witness DeStefano commented that in the DEC Sub 874 Order, the Commission authorized a utility to use deferred accounting combining costs for two projects, wherein it allowed deferral accounting for both an environmental compliance cost project and the purchase of a portion of a nuclear facility on the grounds that the authorized rate of return on common equity would be eroded due to the rate of return on common equity impact of costs of 114 basis points — 67 for the environmental costs and 47 points for the facility purchase. In its reply comments CWSNC maintained that when considering the four major new projects together, the financial impact to the total Company earnings would be materially adverse, having a rate of return on common equity impact of 187 total basis points.¹²

¹² See updated Schedule 1 attached to CWSNC's reply comments filed on October 21, 2019 in Sub 365. In its Petition filed on June 28, 2019 CWSNC calculated a rate of return on common equity impact of 193 basis points for the four major new projects on a total Company basis.

Finally, witness DeStefano argued that even if the Commission were to evaluate the WWTP and the AMR meter projects separately, the rate of return on common equity impact of the AMR meter costs would still have an adverse material effect on the Company's earnings, and, thus, deferral accounting for the meter projects is merited – particularly given the Company's current underearning position. Witness DeStefano stated that given the Company's size and current underearning status, a 20-basis point AMR meter impact for the Uniform Water Rate Division¹³ is unquestionably material to the Company.

During cross-examination Company witness DeStefano was questioned about Public Staff DeStefano Cross-examination Exhibit 1, which contained witness DeStefano's responses to Public Staff Data Request No. 81. Witness DeStefano confirmed that the Company had sought and received rate recovery in its Docket No. W-354, Sub 344 (Sub 344) rate case for AMR meter installation projects that occurred in 2015 in seven systems. The evidence presented confirmed that the Company's Sub 344 rate increase included the costs of 1,157 AMR meters for a total cost of over \$1.2 million, and in the Company's Sub 356 rate case, CWSNC received rate recovery for AMR meter installation projects in three systems, including 2,440 meters, for a total cost of over \$1.8 million. Tr. vol. 9, 158–59. Witness DeStefano also confirmed that the Company planned to complete eight similar projects over the next four years, including nearly 4,000 AMR meter replacements. Witness DeStefano further confirmed that the Company has already completed ten AMR meter projects, including 3,597 meters at a total capital cost of over \$3 million, prior to the two projects presented in this case at a cost of less than \$900,000.

Upon further questioning by the Public Staff witness DeStefano explained why CWSNC requested deferral accounting for two AMR meter projects at issue, but not for its previous AMR meter projects. He explained that the AMR meter projects currently being made are part of a much larger overall capital investment by the Company. He noted that in prior years overall capital investments made by the Company were in the \$10 million per year range, versus \$20 million invested in the current year. As a result, according to witness DeStefano, the deferral accounting request is due in part to the additional regulatory lag impact being experienced by the Company beyond the impact of the AMR meter projects alone. Additionally, he testified that the two AMR meter installation projects for which deferral accounting treatment is currently requested are larger than every meter system previously installed.¹⁴ He explained that installing AMR meters in these two systems in this one year and trying to gain the efficiencies of completing the projects this year increases the financial implications to the Company and the significance of the projects to the Company. In summary witness DeStefano testified that with the magnitude of the capital spending CWSNC anticipates over the next few

¹³ During the expert witness hearing, witness DeStefano agreed with Public Staff witness Henry's calculation of a 24-basis point negative impact on CWSNC's earned rate of return on common equity for the Uniform Water Rate Division if deferral accounting treatment for the AMR meter projects is not approved by the Commission.

¹⁴ Company witness Mendenhall added that the 2,500 AMR meters at issue represent about 40% of the total AMR meters installed and about 8% of CWSNC's total meters in service in the State.

years to address aging system needs, the Company is looking for ways to mitigate the effect of regulatory lag on earned returns.

Discussion and Conclusions

In its Sub 365 Petition CWSNC has requested that the Commission enter an accounting order allowing the Company to defer certain post-in-service costs that were incurred in connection with two WWTP projects and two AMR meter installation projects. The related costs for which the Company seeks deferral include the incremental post-in-service depreciation expense and cost of capital (financing costs) from their respective in-service dates until the projects are included for recovery in base rates in this case. According to the evidence of record, the amounts of such costs with respect to the WWTP projects and the AMR meter installation projects are \$1,098,778 and \$64,736, respectively. The Company contends that the financial impact of these costs is material and would, absent deferral, equate to a significant basis point reduction in the Company's rate of return on common equity. Evidence submitted by the Public Staff confirmed that such projects when included in plant in service would individually equate to a 434-basis point rate of return on common equity reduction for the WWTPs and a 24-basis point rate of return on common equity reduction for the AMR meter installation projects for the Uniform Sewer Rate Division and the Uniform Water Rate Division, respectively. No party has suggested that either the WWTP projects or the AMR meter installation projects are imprudent in any way. Moreover, the Company and the Public Staff are in agreement regarding the amount of costs included in plant in service in this proceeding for the WWTP projects and the AMR meter installation projects.

Under the Company's proposal the costs in question would not be charged against revenues realized during the accounting period in which the costs were actually incurred. Rather, such costs would be deferred and accumulated in a regulatory asset account. As a result, the deferred costs, in effect, would be specifically reserved for recovery prospectively. The period over which the costs would be accumulated in a regulatory asset account would begin when the assets were placed in service and end on the date the Company is authorized to begin charging rates reflecting the inclusion of the WWTPs and the AMR meter installation projects in CWSNC's water and wastewater cost of service. Consequently, approval of CWSNC's deferral and cost recovery proposal would ultimately result in a level of rates, to be charged prospectively, that would specifically include an allowance providing for the recovery of the present deferred costs. On the other hand, if the request for deferral is denied, the Company would then be required to recognize the costs for which it seeks deferral as items of expense in the period in which they were incurred. In this instance, the Company would then be required to recognize those costs during a period in which it contends it is already significantly under-recovering its Commission-authorized return.

Deferral accounting should only be used sparingly as an exception to the general rule that all items of revenue and costs germane to the ratemaking and cost-recovery process should be examined in their totality in determining the appropriateness of the utility's existing rates and charges. DEC Sub 874 Order at 24. Deferral is not favored, in

part, because deferral accounting typically provides for the future recovery of costs for utility services provided to ratepayers in the past. The Commission has also been reluctant to allow deferral accounting because it typically equates to single-issue ratemaking for the period of deferral. *Id.* The Commission acknowledges that considering an increase in one or a few expense items in isolation, without considering reductions in other costs, brings with it the increased risk of over-recovery. However, the Commission gives significant weight in this instance that the consolidation of the Sub 365 petition for deferral accounting with the Sub 364 general rate case means that the concern regarding single-issue ratemaking and the related risk of such over-recovery should be reduced and of lesser concern because all revenues and expenses will have been examined close in time to any possible deferral.

While deferral accounting must not be used routinely or frequently, the Commission has found that an exception can be made when the costs at issue “were reasonably and prudently incurred, unusual or extraordinary in nature, and of a magnitude that would result in a material impact on the Company’s financial position (level of earnings).” Order Denying Request to Implement Rate Rider and Schedule Hearing to Consider Request for Creation of Regulatory Asset Account, *Application of Duke Energy Carolinas, LLC, for Approval of Rate Rider to Allow Prompt Recovery of Costs Related to Purchases of Capacity Due to Drought Conditions*, No. E-7, Sub 849, at 19 (N.C.U.C. June 2, 2008) The Commission has, over the years, on infrequent but appropriate occasions, approved requests proposing the use of deferral accounting. Such requests, by necessity, must be examined and resolved on a case-by-case fact-specific basis and will be approved only where the Commission is persuaded by clear and convincing evidence that the costs in question are unusual or extraordinary in nature and that, absent deferral, would have a material impact on the utility’s financial condition. *Id.* See also, Order Approving Deferral Accounting with Conditions, *Petition of Duke Energy Carolinas, LLC, for an Accounting Order to Defer Certain Environmental Compliance Costs and the Incremental Costs Incurred From the Purchase of a Portion of Saluda River’s Ownership in the Catawba Nuclear Station*, No. E-7, Sub 874 (N.C.U.C. Mar. 31, 2009); Order Approving Deferral Accounting, *Petition of Duke Energy Carolinas, LLC, for an Accounting Order to Defer Certain Capital and Operating Costs Incurred for the Buck Natural Gas Combined Cycle Generating Plant and the Bridgewater Hydro Generating Plant*, No. E-7, Sub 999 (N.C.U.C. June 20, 2012) (DEC Sub 999 Order); Order Approving Deferral and Amortization, *Request by Duke Power, A Division of Duke Energy Corporation for Approval of Accounting Treatment*, No. E-7, Sub 776 (Dec. 28, 2004).

In determining whether the costs sought to be deferred or the events or circumstances leading to the costs are of such an unusual or extraordinary nature as to justify an exception to the rule against allowing deferral accounting treatment, the Commission historically examines the record for clear and convincing evidence that the costs in question represent major non-routine, infrequent, non-regularly occurring investments of considerable complexity and significance or were beyond the control of the utility such as storm costs or new operating requirements/standards imposed by newly-enacted legislation or other governmental action. See, Order Approving Deferral Accounting, *Petition of Duke Energy Carolinas, LLC, for an Accounting Order to Defer*

Certain Environmental Compliance Costs at Unit 5 of the Cliffside Steam Station, No. E-7, Sub 966 at 10 (N.C.U.C. June 27, 2011); *Order Ruling on Petition*, Petition of Duke Energy Carolinas, LLC, for an Accounting Order to Defer 2009 and 2010 Non-Fuel Energy Costs Excluded from Cost Recovery in the Commission's August 6, 2010 Order in Docket No. E-7, Sub 934, No. E-7, Sub 967, at 14-15 (N.C.U.C. June 14, 2011); *Order Approving in Part and Denying in Part Request for Deferral Accounting*, Petition of Duke Energy Carolinas, LLC for an Accounting Order to Defer Certain Capital and Operating Costs Incurred for the Advanced Clean Coal Cliffside Unit 6 Steam Generating Plant, the Dan River Natural Gas Combined Cycle Generating Plant, and the Capacity-Related Modifications at the McGuire Nuclear Generating Plant, No. E-7, Sub 1029, at 13, 15 (N.C.U.C. April 3, 2013); *Order Adopting and Amending Rules, Rulemaking Proceeding to Implement G.S. 62-110.8*, No. E-100, Sub 150 at 22 (November 16, 2017).

In certain circumstances the Commission may find that the magnitude or level of the costs requested for deferral make the costs major, non-routine, or extraordinary. In some cases, the Commission has looked to determine whether costs were unanticipated, unplanned, beyond the control of the utility, and of an infrequent, non-recurring nature; that is, whether the costs and the circumstances of the costs are sufficiently unusual or extraordinary to warrant deferral accounting treatment – a tool not to be used routinely but sparingly as discussed above. *Order Approving Amended Schedule NS and Denying Deferral Accounting, Application by Virginia Electric and Power Company, d/b/a Dominion North Carolina Power, for Approval of Amended Schedule NS*, No. E-22, Sub 517, at 11–12 (N.C.U.C. Mar. 29, 2016). A finding that the magnitude of the costs supports a determination that they are unusual or extraordinary may not, in some circumstances also support a finding that these costs, if not deferred, will have a material adverse impact on the company's financial condition to warrant deferral accounting treatment. In determining whether deferral or non-deferral will have a material impact on the company's financial condition while the Commission may consider other matters, it often examines whether and to what extent the costs incurred will have a significant impact on the level of company earnings and the company's ability to achieve its currently authorized rate of return on common equity. DEP Sub 874 Order at 25–26. In determining materiality, while the Commission may consider other matters, it often examines whether and to what extent the costs incurred will have a significant impact on the level of company earnings and the company's ability to achieve its currently authorized rate of return on common equity. *Id.*

With regard to the WWTP projects, the Commission is persuaded that the costs are of an unusual, extraordinary nature. Both the Company and the Public Staff also agree that the costs associated with the WWTP projects are unusual or extraordinary in nature, as the Commission has used those terms in previous deferral accounting orders and as those terms are commonly understood. The Commission observes as stated in a previous deferral accounting case, “[t]he costs in question are unusual or extraordinary in the sense that they are associated with the incorporation of the costs of two [WWTP] facilities – representing major investments – into the Company's rate structure; which is not a simple, regularly occurring, inconsequential event, but rather, is a major non-routine matter of considerable complexity and major significance.” DEC Sub 999 Order, at 18. In the present proceeding, the evidence demonstrates that the WWTP projects were not an

everyday, regular occurrence but were in fact non-routine, complex, and of major significance and that the associated costs are similarly unusual or extraordinary. The WWTP projects involved the installation of new treatment facilities that were integral to providing wastewater utility service and that were necessitated by conditions causing the old facilities to present unacceptable risks of failure and inability to comply with environmental requirements exposing the company to the further high risk of severe penalties and imposition of a consent decree. Such circumstances and replacement of such major facilities that are at risk of both functional and environmental compliance failure do not occur on a frequent basis.

The Commission is likewise persuaded that absent deferral, the costs will have a material impact on the Company's financial condition. The evidence demonstrates that the Company is not meeting its currently authorized rate of return on common equity and that even if the Sub 360 rate increase had been in effect for a full year, the rate of return on common equity impact of the costs of the WWTP projects would have an adverse impact on the Company's financial condition. The Commission gives significant weight to the undisputed testimony of witness DeStefano that CWSNC's consolidated actual earned rate of return on common equity during the test year for this rate case (the 12-month period ended March 31, 2019) was 1.63%. The Commission further finds credible the evidence that the rate increase in the last rate case was approximately \$1.1 million, which would not make up the difference from an actual rate of return on common equity of 1.63% to 9.75%, CWSNC's authorized rate of return on common equity granted in the Sub 360 Rate Order. Further, the evidence shows that the WWTP investments of approximately \$14 million would result in a 434-basis point rate of return on common equity reduction for the Uniform Sewer Rate Division. The Commission concludes that if the requested deferral for the WWTP projects is not allowed, it would appear that the Company's already low rate of return on common equity would be further eroded and that the Company would not have a reasonable opportunity to earn its authorized rate of return on common equity.

Furthermore, given the Company's depressed level of current earnings and its expected near-term significant financing needs, the Commission determines that deferral of the WWTP costs as requested by CWSNC will have a favorable impact on CWSNC's earnings and financial standing in general. As such, the deferral will enhance the Company's ability to access and obtain capital on more favorable terms, as it will help assure investor confidence in the Company. Such results will ultimately accrue to the benefit of CWSNC's customers.

Moreover, the Company and the Public Staff have agreed by Stipulation that the Company should be allowed to defer the incremental post-in-service depreciation expense and financing costs of the WWTPs at Nags Head and Connestee Falls as requested by CWSNC because they are both unusual in nature and material to the Company's financial condition. In light of the Commission's having accepted the Stipulation in its entirety and in light of the foregoing independent determination based on the evidence of record that the costs at issue are both unusual, non-routine, and material to the Company's financial well-being, the Commission finds the Company's request to

defer post-in-service depreciation and financing costs for the WWTP projects is just and reasonable and should be approved.

Thus, as provided in the Stipulation, Revised Settlement Exhibits I and II, and the testimony of witness Henry (as revised on the stand) and in Henry Late-Filed Exhibits 2, 3, and 4, the Commission finds and concludes that the Company should be authorized to defer its WWTP costs of \$1,098,778 related to its WWTPs (consisting of incremental post-in-service depreciation expense and financing costs from their respective in-service dates until the WWTPs are included for recovery in base rates in this case), and these costs should be amortized over five years, for an annual amount to be included in rates of \$219,756.

Unlike the deferral accounting request related to the WWTP projects, the Public Staff opposed deferral accounting treatment of the costs associated with the two AMR meter installation projects. The Commission agrees with the Public Staff. The Commission finds that the Company provided insufficient evidence that the projects and their associated costs are unusual or extraordinary such as to warrant deferral accounting. While a mass replacement of meters in an entire subdivision is not an everyday occurrence for CWSNC, the Commission is not convinced that such an event is sufficiently unusual or extraordinary to justify special deferral accounting treatment. The need to replace meters on a planned schedule is an anticipated need of the business and the timing and manner of implementation of such replacement, at least as was the case in this proceeding, is entirely within the control of the Company. Further, the Company did not establish by clear and convincing evidence that the meter installation costs sought to be deferred support a finding that the projects or said costs are unusual or extraordinary. On cross-examination witness DeStefano confirmed that the Company had sought and received rate recovery in its Docket No. W-354, Sub 344 (Sub 344) rate case for AMR meter installation projects that occurred in 2015 in seven systems. The evidence presented confirmed that the Company's Sub 344 rate increase included the costs of 1,157 AMR meters, for a total cost of over \$1.2 million, and in the Company's Sub 356 rate case, CWSNC received rate recovery for AMR meter installation projects in three systems, including 2,440 meters, for a total cost of over \$1.8 million. Considering that since 2015 CWSNC has completed ten AMR meter projects, including 3,597 meters at a total capital cost of over \$3 million, the Commission determines that the two AMR meter installation projects for Fairfield Mountain and Connestee Falls in the amount of \$880,209 are not major non-routine, infrequent, non-regularly occurring investments of considerable complexity and significance for CWSNC. Rather, the Commission finds that the two AMR meter installation projects are routine and regularly occurring and are not unusual or extraordinary in nature.

Having determined that the Company failed to establish that its AMR meter installation project and the related costs were unusual or extraordinary such as to justify allowing exceptional deferral accounting treatment, the Commission does not reach the issue of whether the AMR costs sought to be deferred have a material adverse impact on the Company's financial condition or stability. The determination that this project and its related costs are not unusual or extraordinary is dispositive. Therefore, the Company's

petition to defer these costs is not just and reasonable and is denied. However, the Commission emphasizes that decisions such as this one are made on a case-by-case basis, and this decision should not be construed to suggest that costs relating to a meter project can never be allowed deferral accounting treatment. The Commission acknowledges that every request for deferral accounting is shaped by its own unique factual circumstances, and whether an event and its related costs are sufficiently unusual or extraordinary in nature to merit an exception to the general rule against deferral accounting treatment is a determination for the Commission that will be based on the specific facts of each such request. The Commission notes that the Company's request for deferral accounting treatment for costs related to the WWTPs and the two AMR installation projects is determined within the context of this general rate case where the Commission is setting just and reasonable rates on a going-forward basis. The Commission's decision either granting or denying deferral accounting treatment in the present case is made from the standpoint of fairness and equity to both consumers and the Company.

Although deferral accounting is to be employed sparingly, the Commission finds that CWSNC has another option available to use to recover costs associated with future AMR meter deployments. Recognizing the challenges confronting North Carolina's water and wastewater industries in needing to make high cost capital investments to install and replace aging infrastructure, the General Assembly has provided the Commission with a tool specific to water and sewer utilities to alleviate the effects of regulatory lag. Section 62-133.12 authorizes the Commission to approve a rate adjustment mechanism in a general rate case to allow a water or sewer utility to recover the incremental depreciation expense and capital costs associated with reasonable and prudently incurred investment in eligible system improvement projects through the collection from customers of a water or sewer system improvement charge (WSIC or SSIC). The Commission approved such a mechanism for CWSNC in Docket No. W-354, Sub 336 pursuant to an order issued on March 10, 2014. Eligible water system improvements to be recovered by use of WSIC include "distribution system mains, valves, utility service lines (including meter boxes and appurtenances), meters, and hydrants installed as in-kind replacements." N.C.G.S. § 62-133.12(c)(1).

Notwithstanding this tool created to help utilities better manage regulatory lag, both Public Staff witness Junis and CWSNC witness DeStefano testified that, other than deferral, there is currently no rate mechanism such as the WSIC or SSIC mechanism available to the Company to mitigate the regulatory lag and resultant adverse earnings impacts associated with the mass replacement of traditional meters with AMR meters because, according to them, the WSIC and SSIC statute only allows recovery for "in-kind" replacements. Tr. vol. 8, 61-62, 195-96. As is clear from the testimony and CWSNC's stated position in its proposed order, the Company has accepted the Public Staff's interpretation that replacing an analog meter with an AMR meter is not an "in-kind" replacement. Tr. vol. 8, 61-62. The Commission does not agree with this interpretation. Although this question has not previously been brought to the Commission for decision, the Commission holds that the exchange of one type of meter reading device for another type of meter reading device is an "in-kind" replacement as that term is used in

N.C.G.S. § 62-133.12(c)(1). The Public Staff appears to read the words “in kind” to mean “like kind and quality” or perhaps “like grade and quality” but this amounts to an impermissible rewriting of the statute. Such an interpretation would defeat the purpose of providing water and sewer utilities with the opportunity to seek recovery under an approved rate adjustment mechanism. Black’s Law Dictionary defines “in kind” as “of the same species or category” or “in the same kind, class or genus.” Black’s Law Dictionary (5th ed. 1979) Bouvier Law Dictionary defines “in kind” as “[p]roperty in its physical form, or property similar to property in issue. In kind refers to specific property, either the property itself in issue or similar property of the same form, quality, and value as the property in issue.” Bouvier Law Dictionary (Desk ed. 2020) The Commission concludes an “in-kind” replacement can be an identical replacement or one that is a reasonable alternative to serve the same purpose. If the General Assembly’s use of “in kind” limited replacement to the exact identical equipment, upgrade replacements could never be eligible improvements for WSIC or SSIC recovery. A utility seeking to replace a non-functioning obsolete item of equipment with the then-current industry standard equipment would be stymied, and the Commission is not able to conclude that such an outcome was intended by a statute that was meant to facilitate repair and replacement of basic items of utility plant and equipment. Accordingly, with regard to AMR meter installation projects planned for the future, CWSNC and the Public Staff should work together pursuant to Commission Rule R7-39 to mitigate regulatory lag using WSIC recovery. However, the Commission’s decision herein does not in any way relieve the Company of its burden to prove its investments are reasonable and prudently incurred as required by N.C.G.S. § 62-133.12 and Commission Rule R7-39(a). Moreover, in its Order Adopting Rules to Implement G.S. § 62-133.12, *Petition for Rulemaking to Implement G.S.62-133.12, North Carolina Session Law 2013-106(House Bill 710)*, No. W-100, Sub 54 (N.C.U.C. June 6, 2014), the Commission concluded that

any rate adjustments authorized under the WSIC and SSIC mechanisms outside of a general rate case will be allowed to become effective, but not unconditionally approved. In other words, the adjustments will be provisional, will not be deemed *prima facie* just and reasonable, and, thus, may be rescinded retroactively in the utility’s subsequent general rate case, at which time the adjustment may be further examined for a determination of its justness and reasonableness.

Id. at 5.

The Commission also notes the Company’s testimony and evidence regarding ongoing improvement projects and the need and plans for substantial capital investment in the near future. In consideration of this continuing and anticipated increase in capital spending to address aging infrastructure, the Commission recommends that CWSNC seek to make better use of the WSIC and SSIC mechanisms as a regulatory tool to mitigate the negative effects of regulatory lag for all statutorily allowed system improvement projects.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 42

Depreciation and Amortization Expense

The evidence supporting this finding of fact is found in the verified Application and the accompanying NCUC Form W-1, the testimony of Public Staff witnesses Feasel and Henry, and the testimony of Company witness DeStefano. The following table summarizes the differences between the Company’s level of depreciation and amortization expenses from its Application and the amounts recommended by the Public Staff:

<u>Item</u>	<u>Company per Application</u>	<u>Difference</u>	<u>Amount per Public Staff</u>
Depreciation expense	\$6,399,241	\$181,470	\$6,580,711
Amortization exp. - CIAC	(1,485,664)	8,710	(1,476,955)
Amortization exp. - PAA	(85,341)	8,718	(76,623)
Amortization of ITC	<u>(579)</u>	<u>0</u>	<u>(579)</u>
Total	<u>\$4,827,656</u>	<u>\$198,898</u>	<u>\$5,026,554</u>

With respect to CWSNC’s depreciation expense, in light of the agreements reached in the Stipulation and revisions recommended by the Public Staff in its testimony and reflected in Henry Revised Exhibit I and Feasel Revised Exhibits I and II, the Company does not dispute the adjustments recommended by the Public Staff to depreciation expense. As detailed elsewhere in this Order, the Commission finds that the adjustments recommended by the Public Staff to depreciation expense, which are not contested, are appropriate adjustments to be made to operating revenue deductions in this proceeding.

Based on the foregoing, the Commission concludes that the appropriate level of depreciation and amortization expense for use in this proceeding is as follows:

<u>Item</u>	<u>Amount</u>
Depreciation expense	\$6,580,711
Amortization expense – CIAC	(1,476,955)
Amortization expense – PAA	(76,623)
Amortization of ITC	<u>(579)</u>
Total	<u>\$5,026,554</u>

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 43

Franchise, Property, Payroll and Other Taxes

The evidence supporting this finding of fact is found in the verified Application and the accompanying NCUC Form W-1, and in the testimony of Public Staff witness Henry and Company witness DeStefano. The following table summarizes the differences

between the Company's level of franchise, property, payroll, and other taxes from its Application and the amounts recommended by the Public Staff:

<u>Item</u>	<u>Company Application</u>	<u>Difference</u>	<u>Amount per Public Staff</u>
Franchise and other taxes	(\$789)	\$135	(\$655)
Property taxes	268,734	0	268,734
Payroll taxes	<u>596,100</u>	<u>(68,672)</u>	<u>527,428</u>
Total	<u>\$864,045</u>	<u>\$(68,537)</u>	<u>\$795,507</u>

With the Stipulation and revisions made by the Public Staff in its Feasel Revised Exhibits I and II and Henry Revised Exhibit I, the Company does not dispute adjustments recommended by the Public Staff to franchise and other taxes and property taxes. Therefore, the Commission finds that the adjustments recommended by the Public Staff to franchise and other taxes and payroll taxes, which are not contested, are appropriate adjustments to be made to operating revenue deductions in this proceeding.

Based on the foregoing, the Commission concludes that the appropriate level of franchise, property, payroll, and other taxes for use in this proceeding is as follows:

<u>Item</u>	<u>Amount</u>
Franchise and other taxes	(\$655)
Property tax	268,734
Payroll taxes	<u>527,428</u>
Total	<u>\$795,507</u>

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 44-47

Regulatory Fee and Income Taxes

The evidence supporting these findings of fact is found in the testimony of Public Staff witnesses Boswell and Henry, and of Company witness DeStefano. The following table summarizes the differences between the Company's level of regulatory fee and income taxes from its Application and the amounts recommended by the Public Staff:

<u>Item</u>	<u>Company per Application</u>	<u>Difference</u>	<u>Amount per Public Staff</u>
Regulatory fee	\$56,361	(\$12,202)	\$44,159
State income taxes	218,982	(143,508)	75,474
Federal income taxes	1,793,462	(1,175,329)	618,133
Deferred income taxes	<u>0</u>	<u>(69,128)</u>	<u>(69,128)</u>
Total	<u>\$2,068,805</u>	<u>\$(1,400,167)</u>	<u>\$668,638</u>

Regulatory Fee

The difference in the level of regulatory fee is due to the differing levels of revenues recommended by the Company and the Public Staff. Based on conclusions reached elsewhere in this Order regarding the levels of revenues, the Commission concludes that the appropriate level of regulatory fee for use in this proceeding is \$44,159.

State Income Taxes

The difference in the level of state income taxes is due to the differing levels of revenues and expenses recommended by the Company and the Public Staff. Based on the conclusions reached elsewhere in the Order regarding the levels of revenues and expenses, the Commission concludes that the appropriate level of state income taxes for use in this proceeding is \$75,474 based on the current state corporate income tax rate of 2.50%.

Federal Income Taxes

The difference in the level of federal income taxes is due to the differing levels of revenues and expenses recommended by the Company and the Public Staff. Based on the conclusions reached elsewhere in the Order regarding the levels of revenues and expenses, the Commission concludes that the appropriate level of federal income taxes for use in this proceeding is \$618,133 based on the current federal corporate income tax rate of 21.00%.

Deferred Income Taxes

With the Stipulation and revisions made by the Public Staff in its Feasel Revised Exhibits I and II, and Henry Revised Exhibit I, and in the testimony of witness Boswell and Boswell Exhibit 1, the Company agreed with the Public Staff adjustment to deferred income tax of \$69,128 to reflect the annual amortization of protected and unprotected federal EDIT.

Based on the foregoing, the Commission concludes that the appropriate level of regulatory fee and income taxes for use in this proceeding is as follows:

<u>Item</u>	<u>Amount</u>
Regulatory fee	\$44,159
State income taxes	75,474
Federal income taxes	618,133
Deferred income taxes	<u>(69,128)</u>
Total	<u>\$668,638</u>

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 48-50

The Federal Tax Cuts and Jobs Act

The evidence supporting these findings of fact is found in the verified Application and the accompanying NCUC Form W-1, the testimony of Company witness DeStefano, the testimony of Public Staff witness Boswell, and the Stipulation and Settlement Exhibit 1.

In its Application and in the direct testimony of CWSNC witness DeStefano, the Company proposes to include adjustments to the reserve balances for both federal protected EDIT and federal unprotected EDIT based upon the Company's final 2017 federal income tax return filed in late 2018. For federal protected EDIT the Company recommends that the Commission conclude that it is appropriate for CWSNC to continue to return the federal protected EDIT balance maintaining the amortization period approved by the Commission in the Sub 360 Order. In addition, in witness DeStefano's testimony, the Company recommends reducing the term of the federal unprotected EDIT rider approved in the Sub 360 Order (originally 48 months with 35 months now remaining) to a two-year (or 24-month) term as of the effective date of the current proceeding.

Public Staff witness Boswell stated in her direct testimony that certain adjustments to book balances and reserves related to EDIT were recorded to CWSNC's books, adjustments that were not reflected in the Company's most recent rate case. She noted that these adjustments affect the balance of both federal protected EDIT and federal unprotected EDIT. Witness Boswell further stated that the adjustments to the federal protected EDIT and federal unprotected EDIT balances are primarily because: (1) the Company took advantage of a late IRS notice stating that regulated utilities were allowed 100% bonus depreciation for those assets placed in service during the period of September 28, 2017, to December 31, 2017, without a binding contract in place before September 28, 2017, and (2) the Company adjusted amounts utilized in the prior rate case to the actual amounts on its final tax return for 2017. Witness Boswell recommended one adjustment to correct mismatched calculations. She proposed calculating both federal protected EDIT and federal unprotected EDIT amortizations with the adjustments effective as of April 1, 2020. Finally, the Public Staff does not oppose the Company's request to refund the remaining federal unprotected EDIT balance over 24 months instead of the remaining 35 months as originally ordered in Sub 360.

Settlement Exhibit I filed with the Stipulation in the current proceeding reflects the correction to the calculation of federal unprotected EDIT proposed by Public Staff witness Boswell, the reduction of the rider period for the federal unprotected EDIT from 35 months to 24 months, and includes the rate base impact of the flow back of federal protected EDIT in accordance with the RSGM, as approved in Sub 360, in the revenue requirement. In addition, the revenue requirement depicted on Settlement Exhibit I also includes the flow back of state EDIT in accordance with previous Commission orders in Sub 356 and Sub 360. No other party presented evidence on these matters.

Based on the foregoing, the Commission concludes that it is reasonable and appropriate for purposes of this proceeding to accept the Stipulation between CWSNC and the Public Staff on the tax issues. Therefore, the Commission concludes that CWSNC should continue to flow back the federal protected EDIT in accordance with the RSGM as ordered in Sub 360, and the Company shall refund its remaining federal unprotected EDIT balances over 24 months instead of the remaining 35 months as originally ordered by the Commission in Sub 360. Further, CWSNC should continue to flow back the state EDIT (which was originally over a three-year period) in accordance with the Commission's Sub 356 Order as confirmed in the Commission's Sub 360 Order.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 51-59

Capital Structure, Cost of Capital, and Overall Rate of Return

The evidence supporting these findings of fact and conclusions is contained in the verified Application and the accompanying NCUC Form W-1, the testimony and exhibits of the public witnesses, the direct and rebuttal testimony and exhibits of Company witness D'Ascendis, and the direct and supplemental testimony and exhibits of Public Staff witness Hinton.

Rate of Return on Equity

The Commission's consideration of the evidence and decision on this issue is set out below and is organized into three sections. The first is a summary of the record evidence on rate of return on common equity. The second is a summary of the law applicable to the Commission's decision on rate of return on common equity. The third is an application of the law to the evidence and a discussion and explanation of the Commission's ultimate decision on rate of return on common equity.

Summary of Record Evidence on Return on Equity

In its Application, the Company requested approval for its rates to be set using a rate of return on common equity of 10.75%. This request was based upon and supported by the direct testimony of CWSNC witness D'Ascendis. In his rebuttal testimony, witness D'Ascendis reduced his recommended rate of return on common equity to 10.20% based upon his updated analyses. This rate of return on common equity compares to a 9.75% rate of return on common equity underlying CWSNC's current rates. Public Staff witness Hinton, in his direct testimony, recommended a rate of return on common equity for CWSNC of 9.00%. In his supplemental testimony, witness Hinton revised and increased his recommended return on common equity to 9.10%.

Direct and Rebuttal Testimony of Dylan W. D'Ascendis (CWSNC)

Company witness D'Ascendis recommended in his direct testimony a rate of return on common equity of 10.75%. This 10.75% was based upon his indicated cost of common equity of 10.35%, plus a recommended size adjustment of 0.40%. In his rebuttal

testimony, witness D'Ascendis provided an updated analysis reflecting current investor expectations and reduced his recommended rate of return on common equity to 10.20%, including his recommended 0.40% size adjustment.

CWSNC witness D'Ascendis' recommendation was based upon his Discounted Cash Flow (DCF) model, his Risk Premium Model (RPM), and his Capital Asset Pricing Model (CAPM), applied to market data of a proxy group of six water companies (Utility Proxy Group). He also applied the DCF, RPM, and CAPM to a proxy group of domestic, non-price regulated companies (Non-Price Regulated Proxy Group) which he described as comparable in total risk to his Utility Proxy Group.

The results derived from witness D'Ascendis' analyses in his direct and rebuttal testimony are as follows:

Summary of D'Ascendis Pre-Filed Testimony on Common Equity Cost Rate		
	Direct Testimony	Rebuttal Testimony
Discounted Cash Flow Model	8.70%	8.81%
Risk Premium Model	10.62%	10.12%
Capital Asset Pricing Model	10.21%	9.35%
Cost of Equity Models Applied to Comparable Risk, Non-Price Regulated Proxy Group	<u>11.78%</u>	<u>11.29%</u>
Indicated Common Equity Cost Rate Before Adjustment	10.35%	9.80%
Size Adjustment	<u>0.40%</u>	<u>0.40%</u>
Recommended Common Equity Cost Rate After Adjustment	<u>10.75%</u>	<u>10.20%</u>

He concluded that a common equity cost rate of 9.80% for CWSNC is indicated before any Company-specific adjustments. He then adjusted this indicated rate upward by 0.40% to reflect CWSNC's smaller relative size as compared with the members of his Utility Proxy Group, resulting in a size-adjusted indicated common equity cost rate of 10.20%.

CWSNC witness D'Ascendis testified the six companies in his Utility Proxy Group were: American States Water Co.; American Water Works Co., Inc.; Artesian Resources, Inc.; California Water Service Group; Middlesex Water Co.; and York Water Co.

CWSNC witness D'Ascendis testified he used the single-stage constant growth DCF model. He testified his unadjusted dividend yields are based on the proxy companies' dividends as of October 18, 2019, divided by the average of closing market

prices for the 60 trading days ending October 18, 2019.¹⁵ He made an adjustment to the dividend yield because dividends are paid periodically, usually quarterly.

For CWSNC witness D'Ascendis' DCF growth rate he testified he only used analysts' five-year forecasts of earning per share (EPS) growth. He testified the mean result of his application of the single-stage DCF model is 8.73%, the median result is 8.88%, and the average of the two is 8.81% for his Utility Proxy Group as shown on D'Ascendis Rebuttal Exhibit 1, Schedule DWD-1R, page 3. He testified in arriving at a conclusion for the DCF-indicated common equity cost rate for his Utility Proxy Group, he relied on an average of the mean and the median results of the DCF.

Witness D'Ascendis used two risk premium methods. He testified his first method is the Predictive Risk Premium Model (PRPM), while the second method is a Risk Premium Model Using an Adjusted Total Market Approach. He testified the PRPM estimates the risk/return relationship directly, as the predicted equity risk premium is generated by the prediction of volatility or risk. He testified the inputs to his PRPM are the historical returns on the common shares of each company in the Utility Proxy Group minus the historical monthly yield on long-term U.S. Treasury securities through April 2019. He testified he added the forecasted 30-year U.S. Treasury Bond yield, 2.64% to each company's PRPM-derived equity risk premium to arrive at an indicated cost of common equity. His rebuttal mean PRPM indicated common equity cost rate for the Utility Proxy Group is 11.30%, and the median is 10.38%. He relied on the average of the mean and median results of the Utility Proxy Group PRPM to calculate a cost of common equity rate of 10.84% as shown on D'Ascendis Rebuttal Exhibit 1, Schedule DWD-1R, page 11, column (5).

CWSNC witness D'Ascendis testified his total market approach RPM adds a prospective public utility bond yield to an average of (1) an equity risk premium that is derived from a beta-adjusted total market equity risk premium, and (2) an equity risk premium based on the S&P Utilities Index. He calculated in his rebuttal testimony the adjusted prospective bond yield for the Utility Proxy Group to be 4.01% as shown on D'Ascendis Rebuttal Exhibit 1, Schedule DWD-1R, page 12, line 5, and the average equity risk premium to be 5.38% resulting in risk premium derived common equity to be 9.39% for his RPM using his Total Market Approach.

For his CAPM, witness D'Ascendis testified he applied both the traditional CAPM and the empirical CAPM (ECAPM) to the companies in his Utility Proxy Group and averaged the results. He testified the model is applied by adding a risk-free rate of return to a market risk premium, which is adjusted proportionately to reflect the systematic risk of the individual security relative to the total market as measured by the beta coefficient. For his CAPM beta coefficient, he considered two methods of calculation: the average of the beta coefficients of the Utility Proxy Group companies reported by Bloomberg

¹⁵ See Schedule DWD-1R, page 3, footnote 1.

Professional Services, and the average of the beta coefficients of the Utility Proxy Group companies as reported by Value Line Investment Survey (Value Line).

CWSNC witness D'Ascendis in his rebuttal testified the risk-free rate adopted for both applications of the CAPM at 2.64%. This risk-free rate of 2.64% is based on the average of the *Blue Chip* consensus forecast of the expected yields on 30-year U.S. Treasury bonds for the six quarters beginning with the fourth calendar quarter of 2019 and ending with the first quarter in 2021, and long-term projections for the years 2021 to 2025, and 2026 to 2030. D'Ascendis Rebuttal Exhibit 1, DWD-1R, page 22, column (5), and page 23, column (2).

Witness D'Ascendis testified on rebuttal that the mean result of his CAPM/ECAPM analyses is 9.39%, the median is 9.31%, and the average of the two is 9.35%. Witness D'Ascendis testified that, consistent with his reliance on the average of his mean and median DCF results, the indicated common equity costs rate using the CAPM/ECAPM is 9.35%.

Witness D'Ascendis also selected 11 domestic, non-price regulated companies for his Non-Price Regulated Proxy Group that he believes are comparable in total risk to his Utility Proxy Group. He calculated common equity cost rates using the DCF, RPM, and CAPM for the Non-Price Regulated Proxy Group. In his rebuttal testimony, witness D'Ascendis' DCF result was 11.63%, his RPM cost rate was 11.41%, and his CAPM/ECAPM cost rate was 10.44%. Witness D'Ascendis testified that the average of the mean and median of these models was 11.29%, which he used as the indicated common equity cost rate for the Non-Price Regulated Proxy Group.

Based on the results of the application of multiple cost of common equity models to the Utility Proxy Group and the Non-Price Regulated Proxy Group, witness D'Ascendis testified that the reasonable, appropriate and indicated cost of equity for CWSNC before any adjustment for relative risk was 9.80%.

Witness D'Ascendis also made a 0.40% equity cost rate adjustment due to CWSNC's small size relative to the Utility Proxy Group. He testified that the Company has greater relative risk than the average company in the Utility Proxy Group because of its smaller size compared with the group, as measured by an estimated market capitalization of common equity for CWSNC (whose common stock is not publicly traded). This resulted in a size-adjusted cost of common equity for CWSNC of 10.20%.

Additionally, witness D'Ascendis stated that he had reviewed the Commission's Sub 360 Order regarding the issues of the use of the PRPM, the ECAPM, the use of a non-price regulated proxy group, and the applicability of a size adjusted cost of common equity for CWSNC. In response to these concerns, witness D'Ascendis provided testimony further supporting the inclusion of such factors in determining his recommended return on equity.

Specifically, in terms of the PRPM, he addressed the Commission's concerns about using a specific statistical package to calculate the PRPM results, which made the Commission skeptical that investors would place significant weight on the model. He explained that the general autoregressive conditional heteroskedasticity (GARCH) model used for the PRPM has been in the public domain since the 1980s and is available in several statistical packages which are not financially prohibitive for investors.

In response to the Commission's concerns regarding the ECAPM, which were that there was not enough evidence in the record as to why the ECAPM was superior to the CAPM, witness D'Ascendis provided substantially more information on the subject than what was presented in Sub 360.

In response to the Commission's concerns regarding the use of non-price regulated companies, which were that the non-price regulated companies were not of similar risk to the utility proxy group, witness D'Ascendis provided an additional measure of risk to show that, indeed, his non-price regulated proxy group was similar in total risk to the utility proxy group. The study showed that the non-price regulated proxy group's mean and median coefficient of variation (CoV), of net profit were within the range of CoVs of net profit set by the utility proxy group. The coefficient of variation is often used by investors and economists to determine volatility (i.e. risk) and the use of net profit directly ties to earnings and stock prices.

Finally, witness D'Ascendis responded to the Commission's concerns regarding the size adjustment which were whether the size studies presented in the record were applicable to utilities, and that the selection of a 40-basis point adjustment from an indicated 461 basis point risk premium was rather arbitrary. In order to provide more information to the Commission in this case, witness D'Ascendis conducted a study on whether the size effect is in fact applicable to utilities. His study included the universe of water, gas, and electric companies included in Value Line Standard Edition. From each of the utilities' Value Line Ratings & Reports, witness D'Ascendis calculated the 10-year CoV of net profit (a measure of risk) and current market capitalization (a measure of size) for each company. After ranking the companies by size (largest to smallest) and risk (least risky to most risky), he made a scatter plot of the data, as shown on Chart 1 in his direct testimony.

Witness D'Ascendis testified that, as shown in his Chart 1 of his direct testimony, as company size decreases (increasing size rank), the CoV increases, linking size and risk for utilities. The R-Squared value of 0.0962 means that approximately 10% of the change in risk rank is explained by the size rank. While a 0.0962 R-Squared value does not appear to have strong explanatory power, the average R-Squared value of the Utility Proxy Group's beta coefficient is 0.0794. The selection of a 40-basis point upward adjustment based on its difference in size given an indicated risk premium of approximately 400 basis points is consistent with the approximate 0.10 R-Squared value of the size study applicable to utilities. With this additional information, witness D'Ascendis stated that he hoped the Commission would revisit this concern in its Order in this case.

Witness D'Ascendis' rebuttal testimony criticized the testimony of witness Hinton's approach to estimating CWSNC's required return on equity for a number of perceived shortcomings, including Hinton's:

- (a) Inclusion of a gas proxy group to determine a rate of return on common equity for a water utility;
- (b) Misapplication of the discounted cash flow model;
- (c) Misapplication of the risk premium model;
- (d) Misapplication of the capital asset pricing model;
- (e) Misapplication of the Comparable Earnings Model;
- (f) Failure to account for size-specific risks; and
- (g) Opinion that the approval of the Company's requested consumption adjustment mechanism (CAM) in this proceeding requires a downward adjustment to the rate of return on common equity.

Tr. vol. 8, 267–68.

CWSNC Witness D'Ascendis Cross-Examination

CWSNC witness D'Ascendis testified on cross-examination that in the Middlesex Water Company, New Jersey general rate case decided in July 2015, he recommended a specific rate of return on common equity of 10.40%, but that a rate of return on common equity of 9.75% was approved which was 65 basis points less than his recommendation. Witness D'Ascendis testified that in the Carolina Water Service, Inc. South Carolina 2015 general rate case where his recommended rate of return on common equity range was 10.00% to 10.50%, the approved rate of return on common equity was 9.34% which was 91 basis points below the midpoint of his recommended range.

CWSNC witness D'Ascendis further testified on cross-examination that in the Middlesex Water Company, New Jersey general rate case decided in March 2018, his recommended specific rate of return on common equity was 10.70%, and a 9.60% rate of return on common equity was approved whereby his recommended rate of return on common equity was 110 basis points above the approved rate of return on common equity. He testified that the 2018 South Carolina decision for Carolina Water Service, Inc. of South Carolina was the only one of the fifteen listed return on equity decisions, that a commission approved an allowed rate of return on common equity within his recommended range. He also testified that in the recent CWSNC general rate case, order dated February 21, 2019, his recommended rate of return on common equity range was 10.80% to 11.20%, with a midpoint of 11.00%, which was 125 basis points above the Commission approved rate of return on common equity of 9.75%.

Witness D'Ascendis testified on cross-examination that the authorized rates of return on equity for all 15 decisions averaged 127 basis points below his recommended rates of return on equity, and after removing a 2016 outlier case in Missouri where he was 360 basis points above the approved rate of return on common equity, the average difference between falls to 110 basis points. He further testified on cross-examination that

his rebuttal specific return on equity recommendation of 10.20% less the 110 basis points, would be the same number as Public Staff witness Hinton's recommended 9.10% rate of return on common equity.

Witness D'Ascendis also testified that Public Staff D'Ascendis Cross-Examination Exhibit 1, page 2 listed the RRA approved rates of return on equity for the last three years for his Utility Proxy Group companies with approved average rates of return on equity of 9.42%.

Witness D'Ascendis testified that as shown on Public Staff D'Ascendis Cross-Examination Exhibit 2, which was a RRA summary of commission approved rates of return on equity from January 2014 through June 30, 2019, the average approved return on equity was 9.50% for 30 return on equity decisions in the most recent three-year period July 1, 2016 through June 30, 2019.

With respect to his recommended 40 basis point size adjustment, witness D'Ascendis testified on cross-examination that he knew CWSNC served approximately 50,000 customers in North Carolina, was the second largest Commission regulated water and wastewater utility in North Carolina, and the two next largest companies serve approximately 7,000 customers each.

Witness D'Ascendis testified he was aware CWSNC did not have any industrial customers, and that more than 99.5% of its customers were residential plus some small stores and some schools. He testified that CWSNC was geographically diversified in North Carolina with systems along the North Carolina coast, the Piedmont and throughout the mountains.

Witness D'Ascendis further testified on cross-examination that CWSNC obtains all its debt through its parent, Utilities, Inc., and that CWSNC does not go into the debt market. He testified that Utilities Inc. is owned by Corix. Witness D'Ascendis read into the record sections of the pre-filed testimony of Corix CEO and President Gordan Barefoot, which stated Corix provides to CWSNC a full suite of support services, and Corix provides access to favorable terms for debt financing in capital markets. Both the Public Staff and CWSNC used the Utilities, Inc. capital structure and debt costs for CWSNC in this general rate case.

Witness D'Ascendis testified that based on Public Staff D'Ascendis Cross-Examination, Exhibit 4, that the Utilities, Inc. has common equity of \$280.2 million. When multiplied by the D'Ascendis Utility Proxy Group market to book ratio of 347.3%, the result is a market capitalization for Utilities, Inc. of \$973.3 million. Witness D'Ascendis testified that this market capitalization of three of the companies in the D'Ascendis Utility Proxy Group; those companies being Artesian Resources Corporation at \$316.0 million, York Water Company at \$440.0 million, and Middlesex Water Company at \$951.0 million.

CWSNC witness D'Ascendis on cross-examination further testified Public Staff D'Ascendis Cross-Examination Exhibit 5 was a comparison of the growth in dividends

and stock market prices of the D'Ascendis Proxy Group of companies from April 15, 2011 to November 29, 2019. During that period dividend and stock price movements were as follows:

Company	Dividend Growth	Share Price Appreciation
American States Water	126%	378%
American Water Works	127%	419%
Artesian Resource Group	32%	91%
California Water Service	27%	173%
Middlesex Water Company	29%	243%
York Water Co.	36%	163%
Six Company Average	59%	245%

Witness D'Ascendis testified that he agreed that stock market prices have increased materially since April 2011, and dividend amounts have lagged way behind. He further testified that dividend yields are one of the two major components of the DCF.

During cross-examination CWSNC witness D'Ascendis also testified as to the stock price increases subsequent to the California Public Utilities Commission Order dated March 22, 2018 which approved a 9.20% rate of return on common equity for California American Water Co., a wholly-owned subsidiary of American Water Works; a 9.20% rate of return on common equity for California Water Service Co.; an 8.90% rate of return on common equity for Golden State Water Co., a wholly-owned subsidiary of American States Water; and an 8.90% rate of return on common equity for San Jose Water Co. The stock market percentage increases for the period March 22, 2018 to November 29, 2019, were: American Water Works 51.0%, American States Water 56.6%, California Water Service 36.3% and San Jose Water 33.1%, as shown on Public Staff D'Ascendis Cross-Examination Exhibit 6.

Witness D'Ascendis also testified on cross-examination about the significant decrease in the yields of 30-year Treasury Bond and A-Rated Public Utility Bonds as shown on Public Staff D'Ascendis Cross-Examination Exhibit 7. During the one-year period September 2018 to September 2019, the yields on A Rated Public Utility Bonds decreased from 4.32% to 3.37%, a decrease of 95 basis points from the previous CWSNC general rate case expert witness hearing heard before the Commission on October 16, 2018. Witness D'Ascendis' risk free 30-year Treasury Bond projected yield in this current case, shown in rebuttal exhibits filed on November 20, 2019, Schedule DWD-1R, page 22 was 2.64% compared to the 3.74% in September 2018, as stated in his prior Sub 360 CWSNC case testimony in D'Ascendis Rebuttal Exhibit 1, Schedule DWD-1R, page 11, column 6, and page 22, footnote 2, resulting in a bond yield decrease between his two rebuttal testimonies of 110 basis points. He further testified that as of November 29, 2019, the actual 30-year Treasury Bond yield was 2.19% compared to the October 16, 2018 actual 30-year Treasury Bond yield of 3.32%, a decrease of 113 basis points.

With respect to the non-price regulated companies in witness D’Ascendis’ testimony for which he performed DCF, Risk Premium and CAPM analyses, he testified on cross-examination that these companies had competition unlike CWSNC, which has franchises protecting it from competition by other investor owned water utilities. Witness D’Ascendis testified that each time he has presented the non-priced regulated company analyses, the Commission has rejected and given no weight to these analyses.

Witness D’Ascendis testified that the Commission in CWSNC’s February 19, 2019, Sub 360 Order found credible, probative, and entitled to substantial weight to his DCF, Total Market Risk Premium, and Traditional CAPM. He testified that his rebuttal exhibits in this case for these same analyses stated DCF 8.81%, Total Market Risk Premium 9.39%, Traditional CAPM 8.90%, with the average of these three of his models being 9.03%, all as shown on Public Staff D’Ascendis Cross-Examination Exhibit 10.

In response to a request by Chair Mitchell, CWSNC witness D’Ascendis filed a Late Filed Exhibit on December 13, 2019, showing the effect on each of his models using witness Hinton’s 2.53% interest rate as the current yield for 30-year Treasury Bonds rather than the projected yields in witness D’Ascendis’ rebuttal exhibits. This D’Ascendis On-the-Record Data Request provided the following results:

	D’Ascendis Late-Filed Exhibit #1
Discounted Cash Flow Model	8.81%
Risk Premium Model	10.00%
Capital Asset Pricing Model	9.29%
Cost of Equity Models Applied to Comparable Risk, Non-Price Regulated Proxy Group	<u>11.16%</u>
Indicated Common Equity Cost Rate Before Adjustment	9.75%
Size Adjustment	<u>0.40%</u>
Recommended Common Equity Cost Rate After Adjustment	<u>10.15%</u>

Public Staff Witness Hinton Testimony

Public Staff Director of Economic Research John R. Hinton testified the Public Staff recommends an overall rate of return of 7.20%, based on a capital structure consisting of 50.90% long-term debt at a cost rate of 5.36% and 49.10% common equity at a cost rate of 9.10%. He testified his recommendations result in pre-tax interest coverage equaling 3.1 times and a funds flow to debt ratio of 25.0%, which should qualify for a single “A” bond rating.

Witness Hinton described the current financial market conditions, testifying that the cost of financing is much lower today than in the more inflationary period of the 1990s. More recently, the continued low rates of inflation and expectations of future low inflation rates have contributed to even lower long-term interest rates. He testified that according

to Moody's Bond Survey, yields on long-term "A" rated public utility bonds have fallen 88 basis points from 4.25% on February 21, 2019, the date of the order in Sub 360, as compared to 3.37% for September 2019. He testified that by the close of this proceeding, CWSNC will have received five rate increases over the last six years in Docket Nos. W-354, Sub 360, Sub 356, Sub 344, and Sub 336. He further testified relative to the filing of the cost of capital settlement in the CWSNC January 2014 rate case in Docket No. W-354, Sub 336, yields on Moody's A-rated utility bonds are 126 basis points lower than the average 4.63% yield observed during the CWSNC January 2014, as illustrated by Hinton Exhibit JRH-1.

Witness Hinton testified that interest rates on various loans have fallen as the yields on treasury securities have declined since the Commission issued its order on February 21, 2019. The graph on page 15 of witness Hinton's direct testimony shows the lower yields that on average are over 100 basis points lower for all durations except for a minor increase in 90-day treasury bills. He testified that the average decrease in treasury bonds of 5-, 7-, 10-, 20-, and 30-year bonds is 111 basis points. He testified while Utilities, Inc., Corix, and its ultimate parent, the British Columbia Investment Management Corporation (BCIMC) generally cannot obtain capital at these interest rates, the falling yields are indicators of the declining cost of debt capital.

Public Staff witness Hinton testified that the current lower interest rates, especially for longer-term securities, and stable inflationary environment of today indicate that borrowers are paying less for the time value of money. He testified that this is significant since utility stocks and utility capital costs are highly interest rate-sensitive relative to most industries within the securities markets. He testified that given that investors often view purchases of the common stocks of utilities as substitutes for fixed income investments, the reductions in interest rates observed over the past ten years or more has paralleled the decreases in investor required rates of return on common equity.

Public Staff witness Hinton testified that he does not rely on interest rate forecasts. Rather, he believes that relying on current interest rates, especially in relation to yields on long-term bonds, is more appropriate for ratemaking in that it is reasonable to expect that as investors in the marketplace price bonds based upon expectations on demand and supply of capital, future interest rates, inflation rates, etc. He testified that while he has a healthy respect for forecasting, he is aware of the risk of relying on predictions of rising interest rates to determine utility rates. He presented a portion of the testimony of Aqua North Carolina, Inc. witness Pauline Ahern in the 2013 Aqua rate case, Docket No. W-218, Sub 363. In that case she identified several interest rate forecasts by Blue Chip Financial Forecasts of 30-year Treasury Bond yields that were predicted to rise to 4.3% in 2015, 4.70% in 2016, 5.20% in 2017, and 5.50% for 2020-2024. He presented the graph 30-Year US Treasury Bonds on page 18 of his direct testimony, which showed in 2015, the range was approximately 2.50% to 3.10%, in 2016 the range was approximately 2.50% to 3.10%, and in 2017 the range was approximately 2.25% to 3.10%. Witness Hinton testified that similar overestimated forecasts can be identified in witness D'Ascendis' Exhibit DWD-4 in the CWSNC's 2018 rate case where the Blue-Chip consensus forecast predicted the 30-year Treasury Bonds would rise to 3.80% by the

third quarter of 2019. According to the Federal Reserve, the highest observed yield on 30-year Treasury Bonds for the third quarter of 2019 is 2.65%, and the average for the quarter was 2.29%. He testified that these types of errors make these interest rate forecasts inappropriate for ratemaking.

Public Staff witness Hinton testified that he used the discounted cash flow (DCF) model and the Risk Premium model to determine the cost of equity for CWSNC. He testified that the DCF model is a method of evaluating the expected cash flows from an investment by giving appropriate consideration to the time value of money. Witness Hinton testified that the DCF model is based on the theory that the price of the investment will equal the discounted cash flows of returns. The return to an equity investor comes in the form of expected future dividends and price appreciation. He testified that as the new price will again be the sum of the discounted cash flows, price appreciation is ignored, and attention focused on the expected stream of dividends.

Witness Hinton testified that he applied the DCF method to a comparable group of seven water utilities followed by Value Line Investment Survey. He testified that the standard edition of Value Line covers eight water companies. He excluded Consolidated Water Co. due to its significant overseas operations. Witness Hinton included a group of nine natural gas local distribution companies (LDCs) in his DCF analysis stating these LDCs exhibit risk measures similar to his proxy group of water companies.

Public Staff witness Hinton calculated the dividend yield component of the DCF by using the Value Line estimate of dividends to be declared over the next 12 months divided by the price of the stock as reported in the Value Line Summary and Index sections for each week of the 13-week period July 26, 2019, through October 18, 2019. He testified that a 13-week averaging period tends to smooth out short-term variations in the stock prices. This process resulted in an average dividend yield of 1.7% for his proxy group of water utilities and 2.6% for the LDC group utilities.

To calculate the expected growth rate component of the DCF, Public Staff witness Hinton employed the growth rates of his proxy group in earnings per share (EPS), dividends per share (DPS), and book value per share (BPS) as reported in Value Line over the past ten and five years. He also employed the forecasts of the growth rates of his water and LDC proxy groups in EPS, DPS, and BPS as reported in Value Line. He testified that the historical and forecast growth rates are prepared by analysts of an independent advisory service that is widely available to investors and should also provide an estimate of investor expectations. He testified that he includes both historical known growth rates and forecast growth rates, because it is reasonable to expect that investors consider both sets of data in deriving their expectations.

Public Staff witness Hinton testified that he also incorporated the consensus of various analysts' forecasts of five-year EPS growth rate projections as reported in Yahoo Finance. He testified the dividend yields and growth rates for each of the companies and for the average for his comparable proxy groups are shown in Exhibit JRH-4.

Public Staff witness Hinton concluded that based upon his DCF analysis that a reasonable expected dividend yield is 1.7% with an expected growth rate of 6.0% to 7.0%. He testified that his DCF analysis produces a cost of common equity for his comparable proxy group of water utilities of 7.7% to 8.7%. Based upon the DCF analysis for the comparable group of LDCs, he determined that a reasonable expected dividend yield is 2.6%, with an expected growth rate of 5.7% to 6.7%, which yields a range of results of 8.3% to 9.3% for the cost of equity.

He testified that his ultimate DCF based cost of equity is based on the average estimates for the two groups of companies, which he summarized in his Hinton Exhibit 8 that quantifies an approximate range of DCF based cost of equity estimates of 8.48% to 8.80% for his DCF based cost of equity estimate of 8.64%.

Witness Hinton testified that the equity risk premium method can be defined as the difference between the expected return on a common stock and the expected return on a debt security. The differential between the two rates of return are indicative of the return investors require in order to compensate them for the additional risk involved with an investment in the company's common stock over an investment in the company's bonds that involves less risk.

Witness Hinton testified that his method relies on approved returns on common equity for water utility companies from various public utilities commissions that is published by the Regulatory Research Associates, Inc. (RRA), within SNL Global Market Intelligence. In order to estimate the relationship with a representative cost of debt capital, he regressed the average annual allowed equity returns with the average Moody's A-rated yields for Public Utility Bonds from 2006 through 2019. His regression analysis which incorporates years of historical data is combined with recent monthly yields to provide an estimate of the current cost of common equity.

Witness Hinton testified that the use of allowed returns as the basis for the expected equity return has two strengths over other approaches that involve various models that estimate the expected equity return on common stocks and subtracting a representative cost of debt. He testified that one strength of his approach is that authorized returns on equity are generally arrived at through lengthy investigations by various parties with opposing views on the rate of return required by investors. He testified that it is reasonable to conclude that the approved allowed returns are good estimates of the cost of equity.

Public Staff witness Hinton testified that the summary data of risk premiums shown on his Exhibit JRH-5, page 1 of 2, indicates that the average risk premium is 5.00%, with a maximum premium of 5.78%, and minimum premium of 3.73%, which when combined with the last six months of Moody's A-rated utility bond yields produces yields with an average cost of equity of 8.70%, a maximum cost of equity of 9.48%, and a minimum cost of equity of 7.44%. To better estimate the current cost of equity, he performed a statistical regression analysis as shown on Exhibit JRH 5, page 2 of 2 in order to quantify the relationship of allowed equity returns and bond costs. He testified that by applying the risk

premium to the current utility bond cost of 3.71%, resulted in a current estimate of the equity risk premium of equity of 9.57%.

Public Staff witness Hinton concluded that based on all of the results of his DCF model that indicate a cost of equity from 8.48% to 8.80% with a central point estimate of 8.64%, and the risk premium model that indicates a cost of equity of 9.57%, he determined that the investor required rate of return on common equity for CWSNC is between 9.11% which he rounded to 9.10% as shown on Hinton Exhibit 8.

Public Staff witness Hinton testified as to the reasonableness of his recommended return, that he considered the pre-tax interest coverage ratio produced by his cost estimates for the cost equity. He testified that based on his recommended capital structure, cost of debt, and equity return of 9.10%, the pre-tax interest coverage ratio is approximately 3.1 times. He testified that this tax interest coverage and a funds flow to debt ratio of 25.0%, as shown on Supplemental Hinton Exhibit 10, should allow CWSNC to qualify for a single "A" bond rating.

Witness Hinton also performed a comparable earnings analysis and a CAPM analysis solely as checks on the results of this DCF and Risk Premium Regression Analysis. He testified that his comparable earnings analysis for a group of eight water utilities and nine LDC companies produced a five-year average return on equity of 9.83%. He testified that a weakness is that actual earned rates of return can be impacted by factors outside the company's control, such as weather, inflation, and tax changes, including deferred income taxes. These unforeseen developments can cause a company's earned rate of return to exceed or fall short of its cost of capital during any certain period making this method somewhat less reliable than other cost of capital methods, and it suffers from circular reasoning. In addition, he testified that earned rates of return on equity may often include non-regulated income. He testified that his CAPM analysis utilizing his preferred geometric mean return produced return on equity estimates of 7.65% and 7.68% that are at the low end of CWSNC's cost of equity. As such, he testified his CAPM provides a limited check on his recommended cost of equity.

Witness Hinton in his direct testimony had a recommended a rate of return on common equity of 9.10% with a downward 10 basis point adjustment to reflect reduced risk due to the consumption adjustment mechanism CWSNC applied for in this proceeding. His resulting recommended allowed rate return on equity was thus 9.00%. After CWSNC withdrew its request for a consumption adjustment mechanism, witness Hinton filed supplemental testimony withdrawing this 10-basis point downward adjustment.

Witness Hinton testified that his recommended return on common equity takes into consideration the impact of the water and sewer system improvement charges (WSIC and SSIC) pursuant to N.C.G.S. § 62-113.12 on CWSNC's financial risk. He testified that the WSIC and SSIC mechanisms provide the ability for enhanced cost recovery of the eligible capital improvements which reduces regulatory lag through incremental and timely rate increases. He testified he believes this mechanism is seen by debt and equity

investors as supportive regulation that mitigates business and regulatory risk. Witness Hinton testified that he believes that this mechanism is noteworthy and is supportive of his 9.10% return on equity recommendation.

Witness Hinton testified that it is not appropriate to add a risk premium to the cost of equity due to the size of the company. He testified that CWSNC is owned by Corix Infrastructure, Inc. (Corix), which is owned by BCIMC. Corix has a significant influence over the balances of common equity and long-term debt of Utilities, Inc. and CWSNC. Corix determines the amounts of dividend payments to BCIMC and the frequency of those payments. He testified that from a regulatory policy perspective; ratepayers should not be required to pay higher rates because they are located in the franchise area of a utility of a size which is arbitrarily considered to be small. He further testified that if such adjustments were routinely allowed, an incentive would exist for large existing utilities to form subsidiaries when merging or even to split-up into subsidiaries as to obtain higher allowed returns. He further testified that CWSNC operates in a franchise environment that insulates the company from competition and it operates with procedures in place that allow for rate adjustments for eligible capital improvements, cost increases, and other unusual circumstances that impact its earnings. Witness Hinton testified that CWSNC operates in the water and sewer industry, where expensive bottled water provides the only alternative to utility service. It is factually correct that rating agencies and investors add a risk factor for small companies with relatively limited capital resources; however, the inherent protection from competition removes this risk that would otherwise be a concern to investors.

Witness Hinton noted that he also testified to these same size adjustment concerns in the last CWSNC rate case, Sub 360, where the Commission found that a size adjustment was not warranted. He testified that similar arguments were made in a 1997 CWS System, Inc., rate case, Docket No. W-778, Sub 31, by witness Hanley of AUS Consultants, who relied on similar cost of capital methods as witness D'Ascendis, as noted on pages 824-25 in its Eighty-Seventh Report of Orders and Decisions. In CWSNC's 1994 rate case, Docket No. W-354, Sub 128, the Commission was not persuaded to accept an adjustment for small size and its elevated risk, as noted on page 520 in its Eighty-Fourth Report on Orders and Decisions. Tr. vol. 7, 785–86. In a rate case brought by North Carolina Natural Gas, Inc., Docket No, G-21, Sub 293, the explicit consideration of the small size of a regulated utility was argued before this Commission. In its December 6, 1991 Order in that case, the Commission disagreed with the Company witness who testified that the Company's small size warranted the selection of other small sized companies in his proxy group. Witness Hinton testified that while there are published studies that address how the small size of a company relates to higher risks, he is aware of only one study by Dr. Annie Wong¹⁶ that focuses on the size of regulated utilities and risk. He testified that Dr. Wong has tested the data for a size premium in utilities and concluded that "unlike industrial stocks, utility stocks do not exhibit a significant size premium. As explained, there are several reasons why such a size

¹⁶ Annie Wong, "Utility Stocks and the Size Effect: An Empirical Analysis," Journal of the Midwest Finance Association, pp. 95-101, (1993).

premium would not be attributable to utilities because they are regulated closely by state and federal agencies and commissions, and hence, their financial performance is monitored on an ongoing basis by both the state and federal governments.” Tr. vol. 7, 187.

Public Staff Witness Hinton Cross-Examination

Witness Hinton testified on cross-examination that the electric and natural gas industries in North Carolina have a number of surcharge rate adjustment mechanisms available to them which serve to enhance revenue recovery and thereby stabilize earnings and that those mechanisms also employ deferral accounting as part of the true-up process. Witness Hinton also testified that all utilities are concerned with regulatory lag and that surcharge rate adjustment mechanisms reduce regulatory lag, . . . maybe significantly” Tr. vol. 7, 105, 93.

Witness Hinton also testified on cross-examination that during “the last couple years your [CWSNC’s] earned returns have been less than your allowed returns.” *Id.* at 104.

Witness Hinton further stated that he considered his initial proposal (which he withdrew when CWSNC withdrew its request to implement a CAM) to impose a 10-basis point downward adjustment with respect to his recommended rate of return on common equity in consideration of the Company’s initially-proposed CAM to be a “material” adjustment. *Id.* at 111.

Witness Hinton also testified on cross-examination that the 23-basis point reduction in CWSNC’s cost of long-term debt from 5.59% at the time the Company filed its Verified Rate Case Application to 5.36% at September 30, 2019, was “material.” *Id.* at 133.

Law Governing the Commission’s Decision on Return on Equity

In the absence of a settlement agreed to by all parties the Commission must exercise its independent judgment and arrive at its own independent conclusion as to all matters at issue, including the rate of return on common equity. *See, e.g., CUCA I*, 348 N.C. at 466, 500 S.E.2d 707. In order to reach an appropriate independent conclusion regarding the rate of return on common equity the Commission should evaluate the admitted evidence, particularly that presented by conflicting expert witnesses. *State ex rel. Utils. Comm’n v. Cooper*, 366 N.C. 484, 739 S.E.2d 541, 546-47 (2013) (*Cooper I*). In this case the evidence relating to the Company’s cost of equity capital was presented by Company witness D’Ascendis and Public Staff witness Hinton. No rate of return on common equity expert evidence was presented by any other party.

The baseline for establishment of an appropriate rate of return on common equity is the constitutional constraints established by the decisions of the United States Supreme Court in *Bluefield Water Works & Improvement Co., v. Pub. Serv. Comm’n of W. Va.*, 262

U.S. 679 (1923) (*Bluefield*), and *Fed. Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591 (1944) (*Hope*) which, as the Commission has previously noted, establish that:

To fix rates that do not allow a utility to recover its costs, including the cost of equity capital, would be an unconstitutional taking. In assessing the impact of changing economic conditions on customers in setting an ROE, the Commission must still provide the public utility with the opportunity, by sound management, to (1) produce a fair profit for its shareholders, in view of current economic conditions, (2) maintain its facilities and service, and (3) compete in the marketplace for capital.

DEC Sub 1146 Order at 50; see also *State ex rel. Utils. Comm'n v. Gen. Tel. Co.*, 281 N.C. 318, 370, 189 S.E.2d 705, 738 (1972) (*General Telephone*). As the North Carolina Supreme Court held in *General Telephone*, these factors constitute “the test of a fair rate of return declared” in *Bluefield* and *Hope*. *Id.*

The rate of return on common equity is, in fact, a cost. The return that equity investors require represents the cost to the utility of equity capital.

[T]he cost of capital to the utility is synonymous with the investor’s return, and the cost of capital is the earnings which must be generated by the investment of that capital in order to pay its price, that is, in order to meet the investor’s required rate of return.

Morin, Roger A., *Utilities’ Cost of Capital* 19-21 (Public Utilities Reports, Inc. 1984). “The term ‘cost of capital’ may [also] be defined as the annual percentage that a utility must receive to maintain its credit, to pay a return to the owners of the enterprise, and to ensure the attraction of capital in amounts adequate to meet future needs.” Phillips, Charles F., Jr., *The Regulation of Public Utilities* (Public Utilities Reports, Inc. 1993), at 388.

Long-standing decisions of the North Carolina Supreme Court have recognized that the Commission’s subjective judgment is a necessary part of determining the authorized rate of return on common equity. *Public Staff*, 323 NC at 490, 374 S.E.2d at 369. Likewise, the Commission has observed as much in exercising its duty to determine the rate of return on common equity, noting that such determination is not made by application of any one simple mathematical formula:

Throughout all of its decisions, the [United States] Supreme Court has formulated no specific rules for determining a fair rate of return, but it has enumerated a number of guidelines. The Court has made it clear that confiscation of property must be avoided, that no one rate can be considered fair at all times and that regulation does not guarantee a fair return. The Court also has consistently stated that a necessary prerequisite for profitable operations is efficient and economical

management. Beyond this is a list of several factors the commissions are supposed to consider in making their Decisions, but no weights have been assigned.

The relevant economic criteria enunciated by the Court are three: financial integrity, capital attraction and comparable earnings. Stated another way, the rate of return allowed a public utility should be high enough: (1) to maintain the financial integrity of the enterprise, (2) to enable the utility to attract the new capital it needs to serve the public, and (3) to provide a return on common equity that is commensurate with returns on investments in other enterprises of corresponding risk. These three economic criteria are interrelated and have been used widely for many years by regulatory commissions throughout the country in determining the rate of return allowed public utilities.

In reality, the concept of a fair rate of return represents a “zone of reasonableness.” As explained by the Pennsylvania commission:

There is a range of reasonableness within which earnings may properly fluctuate and still be deemed just and reasonable and not excessive or extortionate. It is bounded at one level by investor interest against confiscation and the need for averting any threat to the security for the capital embarked upon the enterprise. At the other level it is bounded by consumer interest against excessive and unreasonable charges for service.

As long as the allowed return falls within this zone, therefore, it is just and reasonable It is the task of the commissions to translate these generalizations into quantitative terms.

Charles F. Phillips, Jr., *The Regulation of Public Utilities*, 3d ed. 1993, pp. 381-82. (notes omitted)

Order Granting General Rate Increase, *Application of Carolina Power & Light Company, d/b/a Progress Energy Carolinas, Inc., for Adjustment of Rates and Charges Applicable to Electric Utility Service in North Carolina*, No. E-2, Sub 1023, at 35-36 (N.C.U.C. May 30, 2013), *aff'd*, *State ex rel. Utils. Comm'n v. Cooper*, 367 N.C. 444, 761 S.E.2d 640 (2014) (2013 DEP Rate Case Order) (additions and omissions after the first quoted paragraph in original).

Moreover, in setting rates the Commission must not only adhere to the dictates of both the United States and North Carolina Constitutions, but, as has been held by the North Carolina Supreme Court, it must set rates as low as possible consistent with constitutional law. *State ex rel. Utils. Comm'n v. Pub. Staff-N. Carolina Utils. Comm'n*, 323 N.C. 481, 490, 374 S.E.2d 361, 370 (1988) (*Public Staff*). Further, the North Carolina General Assembly has provided that the Commission must also set rates employing a multi-element formula set forth in N.C.G.S. § 62-133. The formula requires consideration of elements beyond just the rate of return on equity element, and it inherently necessitates that the Commission make many subjective determinations, in addition to the subjectivity required to determine the rate of return on equity. The subjective decisions the Commission must make as to each of the elements of the formula can and often do have multiple and varied impacts on all of the other elements of the formula. In other words, the formula elements are intertwined and often interdependent in their impact to the setting of just and reasonable rates.

The fixing of a rate of return on the cost of property used and useful to the provision of service (as determined through the end of the historic 12-month test period prior to the proposed effective date of a requested change in rates, and adjusted for proven changes occurring up to the close of the evidentiary hearing) is but one of several interdependent elements of the statutory formula to be used in setting just and reasonable rates. See N.C.G.S. § 62-133. North Carolina General Statute § 62-133(b)(4) provides in pertinent part that the Commission shall:

Fix such rate of return on the cost of the property . . . as will enable the public utility by sound management [1] to produce a fair return for its shareholders, *considering changing economic conditions and other factors* . . . [2] to maintain its facilities and services in accordance with the reasonable requirements of its customers in the territory covered by its franchise, and [3] to compete in the market for capital funds on terms that are reasonable and that are fair to its customers and to its existing investors. [Emphasis added.]

The North Carolina Supreme Court has interpreted the above-emphasized language as requiring the Commission to make findings regarding the impact of changing economic conditions on customers when determining the proper rate of return on common equity for a public utility. *Cooper I*, 366 N.C. at 495, 739 S.E.2d at 548. The Commission must exercise its subjective judgment so as to balance two competing rate of return on common equity-related factors—the economic conditions facing the Company’s customers and the Company’s need to attract equity financing on reasonable terms in order to continue providing safe and reliable service. 2013 DEP Rate Case Order at 35-36. The Commission’s determination in setting rates pursuant to N.C.G.S § 62-133, which includes the fixing of the rate of return on common equity, always takes into account affordability of public utility service to the using and consuming public. The impact of changing economic conditions on customers is embedded in the testimony of expert witnesses regarding their analyses of the rate of return on common equity using various economic models widely used and accepted in utility regulatory rate-setting proceedings. 2013 DEP Rate Case Order, at 38. Further,

[t]he Commission always places primary emphasis on consumers' ability to pay where economic conditions are difficult. By the same token, it places the same emphasis on consumers' ability to pay when economic conditions are favorable as when the unemployment rate is low. Always there are customers facing difficulty in paying utility bills. The Commission does not grant higher rates of return on equity when the general body of ratepayers is in a better position to pay than at other times

Id. at 37. Economic conditions existing during the modified test year, at the time of the public hearings, and at the date of the issuance of the Commission's order setting rates will affect not only the ability of the utility's customers to pay rates, but also the ability of the utility to earn the authorized rate of return during the period the new rates will be in effect. However, in setting the rate of return, just as the Commission is constrained to address the impact of difficult economic times on customers' ability to pay for service by establishing a lower rate of return on common equity in isolation from the many subjective determinations that must be made in a general rate case, it likewise is constrained to address the effect of regulatory lag¹⁷ on the Company by establishing a higher rate of return on common equity in isolation. Instead, the Commission sets the rate of return considering both of these negative impacts taken together in its ultimate decision fixing a utility's rates.

Thus, in summary and in accordance with the applicable law, the Commission's duty under N.C.G.S. § 62-133 is to set rates as low as reasonably possible to the benefit of the customers without impairing the Company's ability to attract the capital needed to provide reliable electric service and recover its cost of providing service. The Commission is guided by this premise when it makes its determination of the appropriate rate of return on common equity.

It is against this backdrop of overarching principles that the Commission analyzes the evidence presented in this case.

¹⁷ Regulatory lag exists where a utility's realized, earned return is less than its authorized return negatively affecting the shareholder's return on investment as other expenses and debts owed are paid ahead of investor return.

Discussion and Application of Law to the Facts in this Case Regarding the Issue of Rate of Return on Common Equity

The Commission has carefully evaluated the testimony of CWSNC witness D'Ascendis and Public Staff witness Hinton. The results of each of the models or methods used by these two witnesses to derive the return on equity that each witness recommends is shown below:

<u>Utility Proxy Group</u>	<u>D'Ascendis Rebuttal Exhibits</u>	<u>D'Ascendis Late-Filed Exhibits</u>	<u>Hinton</u>
DCF	8.81%	8.81%	8.64%
Risk Premium	10.12%	10.00%	9.57%
PRPM	10.84%	10.73%	
Total Market RPM	9.39%	9.27%	
CAPM	9.35%	9.29%	7.65-8.96%*
Traditional CAPM	8.90%	8.84%	
ECAPM	9.80%	9.74%	
Comparable Earnings	————	————	9.83%*
<u>Non-Price Regulated Proxy Group</u>	11.29%	11.16%	————
DCF	11.63%	11.63%	
Risk Premium	11.41%	11.23%	
CAPM	10.44%	10.39%	
Indicated on Return on Equity Before Adjustment	9.80%	9.75%	9.10%
Size Adjustment	0.40%	0.40%	————
Recommended Return on Equity	10.20%	10.15%	9.10%
* Note: Provided solely as a check and not used in formulating this witness's recommended allowed rate of return on common equity.			

The range of the rate of return on common equity recommendations from the two expert witnesses is 9.10% to 10.20%. Underlying the lower rate of return on common equity recommendation of 9.10%, is a rate of return on common equity range of 7.65% to 9.83%, according to witness Hinton's testimony concerning his cost of common equity analyses. Similarly, underlying the higher rate of return on common equity recommendation of 10.20% is a range of 8.81% to 11.29%, according to witness D'Ascendis' rebuttal testimony concerning his cost of common equity analyses. Such a wide range of estimates by expert witnesses is not atypical in proceedings before the Commission with respect to the return on the equity issue. Neither is the seemingly endless debate and habitual differences in judgment among expert witnesses on the virtues of one model or method versus another and how to best determine and measure

the required inputs of each model in representing the interests of the party on whose behalf they are testifying. Nonetheless, the Commission is uniquely situated, qualified, and required to use its impartial judgment to determine the return on equity based on the testimony and evidence in this proceeding in accordance with the legal guidelines discussed above.

In doing so the Commission finds that the DCF (8.81%), Risk Premium (10.00%) and CAPM (9.29%) model results provided by witness D'Ascendis, as updated to use current rates in D'Ascendis Late-Filed Exhibit No. 1, as well as the risk premium (9.57%) analysis of witness Hinton, are credible, probative, and are entitled to substantial weight as set forth below. The Commission further finds that the rate of return on common equity trends, particularly as embodied by data points in Public Staff D'Ascendis Cross-Examination Exhibits 1 and 2 to be credible, positive and corroborative evidence entitled to some weight.¹⁸ Accordingly, the evidence presented concerning other authorized rates of return on equity, when put into proper context, lends substantial support and corroboration to a finding that a 9.50% rate of return on common equity is appropriate in this case.

Company witness D'Ascendis, noting that CWSNC is not publicly traded, first established a group of six relatively comparable risk water companies that are publicly traded (Utility Proxy Group). He testified that use of relatively comparable risk companies as proxies is consistent with principles of fair rate of return established in the Hope and Bluefield cases, which are recognized as the primary standards for the establishment of a fair return for a regulated public utility. He then applied the DCF, the CAPM, and the risk premium models to the market data of the Utility Proxy Group. Witness D'Ascendis' DCF model indicated a cost of equity of 8.81%, his CAPM model indicated a cost of equity of 9.29%, and his Risk Premium model indicated a cost of equity of 10.00%. The Commission finds and concludes that analyses using interest rate forecasts rely unnecessarily on projections. The Commission approves the use of current interest rates, rather than projected near-term or long-term interest rates. The Commission finds witness D'Ascendis' late-filed exhibit Risk Premium Model and his late-filed exhibit CAPM analysis using the current 30-year Treasury yields to be credible, probative and entitled to substantial weight.

Witness Hinton applied a risk premium analysis by performing a regression analysis using the allowed returns on common equity for water utilities from various public utility commissions, as reported in an RRA Water Advisory, with the average Moody's

¹⁸ The Commission determines the appropriate rate of return on common equity based upon the evidence and particular circumstances of each case. However, the Commission believes that the rate of return on common equity trends and decisions by other regulatory authorities deserve some weight, as (1) they provide a check or additional perspective on the case-specific circumstances, and (2) the Company must compete with other regulated utilities in the capital markets, meaning that a rate of return on common equity significantly lower than that approved for other utilities of comparable risk would undermine the Company's ability to raise necessary capital, while a rate of return on common equity significantly higher than other utilities of comparable risk would result in customers paying more than necessary. In this proceeding, witness Hinton's risk premium analysis, as well as Public Staff D'Ascendis Cross-Examination Exhibit No. 1, page 2 and No. 2 provide credible, positive and corroborative evidence.

A-rated bond yields for public utility bonds from 2006 through 2019. The results of the regression analysis were combined with recent monthly yields to provide the current cost of equity. According to witness Hinton, the use of allowed returns as the basis for the expected equity return has strengths over other risk premium approaches that estimate the expected return on equity and subtract a representative cost of debt. He testified that one strength of his approach is that authorized returns on equity are generally arrived at through lengthy investigations by various parties with opposing views on the rate of return required by investors. Thus, it is reasonable to conclude that the approved returns are good estimates for the cost of equity. Witness Hinton testified that applying the significant statistical relationship of the allowed equity returns and bond yields from the regression analysis and adding current utility bond cost of 3.71% resulted in a current estimate of the cost of equity of 9.57%.

The average of witness D'Ascendis' Utility Proxy Group late-filed exhibit DCF result of 8.81%, CAPM result of 9.29% and RPM result of 10.00% and witness Hinton's RPM of 9.57% is 9.42%. A return on common equity of 9.50% is thus supported by the average of the results of the four above-listed cost of equity models which the Commission finds are credible, probative, and entitled to consideration based on the record in this proceeding.

The Commission gives no weight to the DCF, CAPM and comparable earnings analyses of witness Hinton who presented his CAPM and comparable earnings methods only as a check on his DCF and Risk Premium Regression analyses. For reasons generally stated by witness D'Ascendis, the Commission concludes that witness Hinton's use of a proxy group of natural gas companies in his DCF and CAPM analyses is inappropriate for determining the appropriate return on equity in this case. The indicated returns on equity using the water proxy groups in witness Hinton's DCF (8.48%) and CAPM (7.65% to 8.96% with a midpoint of 8.31%) are outliers as they fall far below the other rate of return on common equity analyses in this proceeding.

Witness Hinton's comparable earnings analyses are not reliable as the earned rates of return on equity listed in Hinton Exhibit 6 contain non-regulated earnings and increased earnings resulting from deferred income taxes. Witness D'Ascendis on cross-examination testified that American States Water has significant operations in Army bases around the country and also has an electric utility. Although the California Utilities Commission on March 22, 2018, approved an 8.90% rate of return on common equity for Golden State Water Company which is a wholly-owned subsidiary of American States Water as shown on Public Staff D'Ascendis Cross-Examination Exhibit 6, American States Water achieved earned rates of return on equity of 11.40% in 2018 and 12.0% in 2019 as shown on Hinton Exhibit 6. In addition, although the most recent rate order for Middlesex Water Co. in New Jersey was issued on March 24, 2018, which approved a 9.60% rate of return on common equity as shown on Public Staff D'Ascendis Cross-Examination Exhibit 3, the Middlesex Water Co. earned rate of return on common equity for 2018 was 13.0% and 2019 earned rate of return on common equity was 12.0% as shown on Hinton Exhibit 6.

In addition to estimating the cost of equity for his Utility Proxy Group of publicly-traded water utilities, witness D'Ascendis attempted to estimate the cost of equity for another proxy group consisting of 10 domestic, non-price regulated companies. The rebuttal results of the DCF, RPM, and CAPM applied to the non-price regulated proxy group are 11.63%, 11.23%, and 10.39%, respectively. The Commission concludes that these results are unreasonably high. Each of these results is higher than witness D'Ascendis' estimates of the cost of equity for his own Utility Proxy Group and deserves no weight. The Commission further concludes that given the difference in these results, the risk of the two groups is not equal and the Utility Proxy Group is more reliable as a proxy for the investment risk of common equity in CWSNC.

After determining that the indicated cost of equity from the DCF, CAPM, and risk premium methods applied to both of his proxy groups equals in his rebuttal 9.80% rate of return on common equity, witness D'Ascendis then adjusted the indicated cost of equity upward by 0.40% to reflect CWSNC's smaller size compared to companies in his Utility Proxy Group. He testified that the size of the company is a significant element of business risk for which investors expect to be compensated through higher returns. Witness D'Ascendis calculated his size adjustment as described in his prefiled direct testimony and stated that even though a 3.94% upward size adjustment is indicated, he applies a 0.40% size premium to CWSNC's indicated common equity cost rate.

Witness Hinton testified that he does not believe it is appropriate to add a risk premium to the cost of equity of CWSNC due to size for several reasons. First, from a regulatory policy perspective, witness Hinton stated that ratepayers should not be required to pay higher rates because they are located in the franchise area of a utility that is arbitrarily considered to be small. Further, if such adjustments were routinely allowed, an incentive would exist for large utilities to form subsidiaries or split-up subsidiaries to obtain higher returns. In addition, he noted that CWSNC operates in a franchise environment that insulates the Company from the competition with procedures in place for rate adjustments for circumstances that impact its earnings. Finally, while witness Hinton stated that while there are studies that address how the small size of a company relates to higher returns, he is aware of only one study that focuses on the size of regulated utilities and risk and that study concluded that utility stocks do not exhibit a significant differential in risk due to size. In rebuttal, witness D'Ascendis maintained that a small size adjustment was necessary based on the results of studies he cited and discussed. He contended that the study concerning size premiums for utilities discussed by witness Hinton was flawed.

The uncontroverted evidence is that both CWSNC and the Public Staff used the Utilities, Inc. capital structure and debt cost in this proceeding. CWSNC obtains all its debt and equity from CWSNC's parent company Utilities, Inc. CWSNC does not participate in the debt markets. The Corix CEO, Gordon Barefoot, testified that Corix, the parent company of Utilities, Inc., provides access to favorable terms for debt financing in capital markets.

Based upon the foregoing and the entire record in this proceeding, the Commission concludes that a size adjustment of 0.40% is not warranted and should not be approved. The Commission determines there is insufficient evidence to authorize an adjustment to the approved rate of return on common equity in this case. The record simply does not indicate the extent to which CWSNC's size alone justifies the added risk premium. While a small water/wastewater utility might face greater risk than a publicly-traded peer group, because for example the service area was confined to a hurricane-prone coastal geographic area, evidence of such factual predicates is absent from the record. CWSNC has water and wastewater systems along the North Carolina coast, in the Piedmont, and in the mountains. The Commission notes that the witnesses also disagreed with respect to whether the studies discussed in the testimony concerning size and risk are reliable or even applicable to regulated utilities. The Commission concludes that the testimony regarding these studies is not convincing and does not support a size adjustment.

Having determined that the appropriate rate of return on common equity based upon the evidence in this proceeding is 9.50%, the Commission notes that there is considerable testimony concerning the authorized returns on equity for water utilities in other jurisdictions. While the Commission has relied upon the record in this proceeding and is certainly aware that returns in other jurisdictions can be influenced by many factors, such as different capital market conditions during different periods of time, settlements versus full litigation, the Commission concludes that the rate of return on common equity trends and decisions by other regulatory authorities deserve some weight as (1) they provide a check or additional perspective on the case-specific circumstances, and (2) the Company must compete with other regulated utilities in the capital markets, meaning that a rate of return significantly lower than that approved for other utilities of comparable risk would undermine the Company's ability to raise necessary capital, while a rate of return significantly higher than other utilities of comparable risk would result in customers paying more than necessary.

Public Staff D'Ascendis Cross-Examination Exhibit 2, which has RRA approved rate of return on common equity listings showing approved return on equity decisions for water utilities across the country from January 2014 through June 30, 2019, is helpful in illustrating that the average rate of return on common equity for water utilities was 9.59% in 2014, 9.79% in 2015, 9.71% in 2016, 9.31% in 2017, 9.45% in 2018, and in the only five reported cases for the first six months of 2019 the average is 9.60%. This authorized return data is generally supportive of the Commission approved return on equity of 9.50% based upon all the evidence in this proceeding.

These factors lead the Commission to conclude that a 9.50% rate of return on common equity is supported by the substantial weight of the evidence in this proceeding. However, to meet its obligation in accord with the holding in *Cooper I*, the Commission will next address the impact of changing economic conditions on customers.

In this case all parties had the opportunity to present the Commission with evidence concerning changing economic conditions as they affect customers. The testimony of witnesses D'Ascendis and Hinton, which the Commission finds entitled to

substantial weight, addresses changing economic conditions. As to the impact of changing economic conditions on CWSNC's customers, witness Hinton testified that he reviewed information on the economic conditions in the areas served by CWSNC, specifically, the 2016 and 2017 data on total personal income from the Bureau of Economic Analysis (BEA) and the 2019 Development Tier Designations published by the North Carolina Department of Commerce for the counties in which CWSNC's systems are located. The BEA data indicates that total personal income weighted by the number of water customers by county grew at a compound annual growth rate of approximately 3.1%.

Witness Hinton testified that the North Carolina Department of Commerce annually ranks the state's 100 counties based on economic well-being and assigns each a Tier designation. The most distressed counties are rated a "1" and the most prosperous counties are rated a "3". The rankings examine several economic measures such as, household income, poverty rates, unemployment rates, population growth, and per capita property tax base. For 2017, the average Tier ranking that has been weighted by the number of water customers by county is 2.5. He testified that both of these economic measures indicate that there has been improvement in the economic conditions for CWSNC's service area relative to the three previous CWSNC rate increases in Sub 360, Sub 356, and Sub 344 that were approved in 2019, 2017, and 2015, respectively.

Witness D'Ascendis testified concerning his review of economic conditions in North Carolina that he reviewed. He testified that he reviewed: unemployment rates from the United States, North Carolina, and the counties comprising CWSNC's service territory; the growth in Gross National Product (GDP) in both the United States and North Carolina; median household income in the United States and in North Carolina; and national income and consumption trends.

Witness D'Ascendis testified that the rate of unemployment has fallen substantially in North Carolina and the U.S. since late 2009 and early 2010, when the rates peaked at 10.00% and 12.00%, respectively. He testified that by April 2019, the unemployment rate had fallen to less than one-half of those peak levels: 3.30% nationally; and 3.60% in North Carolina.

Witness D'Ascendis testified that he was also able to review (seasonally unadjusted) unemployment rates in the counties served by CWSNC. At its peak, which occurred in late 2009 into early 2010, the unemployment rate in those counties reached an average 12.86% (58 basis points higher than the State-wide average); by April 2019, it had fallen to 3.68% (8 basis points higher than the state-wide average).

Witness D'Ascendis testified that for real Gross Domestic Product growth, there also has been a relatively strong correlation between North Carolina and the national economy (approximately 69%). Since the financial crisis, the national rate of growth at times (during portions of 2010 and 2012) outpaced North Carolina's rate of growth. He testified that since the second quarter of 2015; however, North Carolina has consistently exceeded the national growth rate.

As to median household income, witness D'Ascendis testified that the correlation between North Carolina and the U.S. is relatively strong (approximately 87% from 2005 through 2018). Since 2009, the years subsequent to the financial crisis, median household income in North Carolina has grown at a similar annual rate as the national median income (2.32% vs. 2.65%).

Witness D'Ascendis summarized stating in the Commission's order on Remand in Docket No. E-22, Sub 479, the Commission observed that economic conditions in North Carolina were highly correlated with national conditions, such that they were reflected in the analyses used to determine the cost of common equity. He testified that those relationships still hold: Economic conditions in North Carolina continue to improve from the recession following the 2008/2009 financial crisis, and they continue to be strongly correlated to conditions in the United States, generally. He testified that unemployment, at both the State and county level, continues to fall and remains highly correlated with national rates of unemployment; real Gross Domestic Product recently has grown faster in North Carolina than the national rate of growth, although the two remain fairly well correlated; and median household income also has grown faster in North Carolina than the rest of the Country, and remains strongly correlated with national levels.

The Commission's review also includes consideration of the evidence presented by 23 witnesses during the public witness hearings, almost all of whom presently are customers of CWSNC. The Commission held six evening hearings throughout CWSNC's North Carolina service territory to receive public testimony. The testimony presented at the hearings illustrates the difficult economic conditions facing many North Carolina citizens. The Commission accepts as credible, probative, and entitled to substantial weight the testimony of the public witnesses.

Based upon the general state of the economy and the continuing affordability of water and wastewater utility service, and after weighing and balancing factors affected by the changing economic conditions in making the subjective decisions required, the Commission concludes that an allowed rate of return on common equity of 9.50% will not cause undue hardship to customers even though some will struggle to pay the increased rates resulting from this decision. When the Commission's decisions are viewed as a whole, including the decision to establish the rate of return on common equity at 9.50%, the Commission's overall decision fixing rates in this general rate case results in lower rates to consumers in the existing economic environment.¹⁹

All of the scores of adjustments the Commission approves reduce the revenues to be recovered from ratepayers and the return to be paid to equity investors. Some

¹⁹ The Commission notes consumers pay rates, a charge in dollars per 1,000 gallons for the water they consume and a monthly flat rate for residential wastewater customers. They do not pay a "rate of return on equity," though it is a component of the Company's cost of providing service which is built into the billed rates. Investors are compensated by earning a return on the capital they invest in the business. Per the Commission determination of the rate of return on common equity in this matter, investors will have the opportunity to be paid in dollars for the dollars they invested at the rate of 9.50%.

adjustments reduce the authorized rate of return on investment financed by equity investors. The noted adjustments are made solely to reduce rates and provide rate stability to consumers (and return to equity investors) to recognize the difficulty for consumers to pay in the current economic environment. While the equity investor's cost was calculated by resort to a rate of return on common equity of 9.50% instead of the 10.20% recommended by CWSNC witness D'Ascendis on rebuttal. This is only one approved adjustment that reduced ratepayer responsibility and equity investor reward. Many other adjustments reduced the dollars the investors actually have the opportunity to receive. Therefore, nearly all of these other adjustments reduce ratepayer responsibility and equity investor returns in compliance with the Commission's responsibility to establish rates as low as reasonably permissible without transgressing constitutional constraints, and thus, inure to the benefit of consumers' ability to pay their bills in this economic environment.

Despite the improving economic conditions and their effects on CWSNC's customers, the Commission recognizes the financial difficulty that an increase in CWSNC's rates may create for some of CWSNC's customers, especially low-income customers. As shown by the evidence, relatively small changes in the rate of return on common equity have a substantial impact on a utility's base rates. Therefore, the Commission has carefully considered changing economic conditions and their effects on CWSNC's customers in reaching its decision regarding CWSNC's approved rate of return on common equity.

The Commission recognizes that the Company is investing significant sums in system improvements to serve its customers, thus requiring the Company to maintain its creditworthiness in order to compete for large sums of capital on reasonable terms. The Commission must weigh the impact of changing economic conditions on CWSNC's customers against the benefits that those customers derive from the Company's ability to provide safe, adequate, and reliable water and wastewater service. Safe, adequate, and reliable water and wastewater service is essential to the well-being of CWSNC's customers.

The Commission finds and concludes that these investments by the Company provide significant benefits to CWSNC's customers. The Commission concludes that the return on equity approved by the Commission in this proceeding appropriately balances the benefits received by CWSNC's customers from CWSNC's provision of safe, adequate, and reliable water and wastewater service with the difficulties that some of CWSNC's customers will experience in paying CWSNC's increased rates.

The Commission notes further that its approval of a rate of return on common equity at the level of 9.50% or for that matter at any level, is not a guarantee to the Company that it will earn a rate of return on common equity at that level. Rather, as North Carolina law requires, setting the rate of return on common equity at this level merely affords CWSNC the opportunity to achieve such a return. The Commission finds and concludes, based upon all the evidence presented, that the rate of return on common equity provided for herein will indeed afford the Company the opportunity to earn a

reasonable and sufficient return for its shareholders while at the same time producing rates that are just and reasonable to its customers.

Capital Structure

CWSNC witness D'Ascendis' direct testimony recommended the use of the actual capital structure of Utilities, Inc. of 52.04% long-term debt and 47.96% common equity as of March 31, 2019.

In his testimony Public Staff witness Hinton recommended a 50.90% long-term debt and 49.10% common equity capital structure based upon updated information provided by CWSNC concerning the Utilities, Inc. actual capital structure at September 30, 2019. The Partial Stipulation also supports a 50.90% long-term debt and 49.10% common equity capital structure. No other party presented evidence as to a different capital structure.

Accordingly, the Commission finds that the recommended capital structure of 49.10% common equity and 50.90% long-term debt is just and reasonable to all parties in light of all the evidence presented.

Cost of Debt

In its Application CWSNC proposed a cost rate for long-term debt of 5.59%. In his testimony, witness Hinton recommended the cost of debt 5.36% as of September 30, 2019. In addition, the Stipulation includes a cost of debt rate of 5.36%. No other party offered any evidence supporting a debt cost rate below 5.36%.

Therefore, the Commission finds that the use of a debt cost rate of 5.36% is just and reasonable to all parties based upon the evidence presented in this proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 60

Revenue Requirement

The following schedules summarize the gross revenue and overall rate of return that the Company should have a reasonable opportunity to achieve based on the increases in revenues approved in this Order for each rate entity. These schedules, illustrating the Company's gross revenue requirements, incorporate the adjustments found appropriate by the Commission in this Order.

SCHEDULE I

Carolina Water Service, Inc. of North Carolina

Docket No. W-354, Sub 364
Net Operating Income for a Return
For the Twelve Months Ended March 31, 2019
CWSNC Combined Operations

	Present Rates	Increase Approved	After Approved Increase
Operating Revenues:			
Service revenues	\$33,852,232	\$4,969,441	\$38,821,673
Miscellaneous revenues	387,492	14,956	402,448
Uncollectibles	<u>(271,142)</u>	<u>(38,638)</u>	<u>(309,780)</u>
Total operating revenues	<u>33,968,582</u>	<u>4,945,759</u>	<u>38,914,341</u>
Operating Revenue Deductions:			
Salaries and wages – Maintenance	4,949,710	0	4,949,710
Purchased power	2,103,043	0	2,103,043
Purchased water and sewer	2,219,243	0	2,219,243
Maintenance and repair	3,120,935	0	3,120,935
Maintenance testing	544,432	0	544,432
Meter reading	206,176	0	206,176
Chemicals	693,596	0	693,596
Transportation	534,200	0	534,200
Operating expense charged to plant	(665,133)	0	(665,133)
Outside services – other	1,191,299	0	1,191,299
Salaries and wages – General	2,004,409	0	2,004,409
Office supplies & other office exp.	568,864	0	568,864
Regulatory commission expense	307,754	0	307,754
Pension and other benefits	1,600,158	0	1,600,158
Rent	330,308	0	330,308
Insurance	782,562	0	782,562
Office utilities	747,670	0	747,670
Miscellaneous	218,417	0	218,417
Depreciation expense	6,580,711	0	6,580,711
Amortization of CIAC	(1,476,955)	0	(1,476,955)
Amortization of PAA	(76,623)	0	(76,623)
Amortization of ITC	(579)	0	(579)
Franchise and other taxes	(655)	0	(655)
Property taxes	268,734	0	268,734
Payroll taxes	527,428	0	527,428
Regulatory fee	44,159	6,429	50,588
Deferred income tax	(69,128)	0	(69,128)
State income tax	75,474	123,484	198,958
Federal income tax	618,133	1,011,327	1,629,460
Rounding	<u>0</u>	<u>1</u>	<u>1</u>
Total operating revenue deductions	<u>27,948,343</u>	<u>1,141,241</u>	<u>29,089,584</u>
Net operating income for a return	<u>\$6,020,239</u>	<u>\$3,804,518</u>	<u>\$9,824,757</u>

SCHEDULE II

Carolina Water Service, Inc. of North Carolina

Docket No. W-354, Sub 364
Original Cost Rate Base
For the Twelve Months Ended March 31, 2019
CWSNC Combined Operations

<u>Item</u>	<u>Amount</u>
Plant in service	\$238,212,084
Accumulated depreciation	(57,897,943)
Net plant in service	<u>180,314,141</u>
Cash working capital	2,404,800
Contributions in aid of construction	(40,270,675)
Advances in aid of construction	(32,940)
Accumulated deferred income taxes	(5,995,444)
Customer deposits	(315,447)
Inventory	271,956
Gain on sale and flow back taxes	(417,811)
Plant acquisition adjustment	(837,878)
Excess book value	0
Cost-free capital	(261,499)
Average tax accruals	(143,198)
Regulatory liability for excess deferred taxes	(3,941,344)
Deferred charges	2,122,707
Pro forma plant	<u>0</u>
Original cost rate base	<u><u>\$132,897,368</u></u>
Rates of return:	
Present	4.53%
Approved	7.39%

SCHEDULE III

Carolina Water Service, Inc. of North Carolina

Docket No. W-354, Sub 364

Statement of Capitalization and Related Costs
For the Twelve Months Ended March 31, 2019
CWSNC Combined Operations

	<u>Ratio</u>	<u>Original Cost Rate Base</u>	<u>Embedded Cost</u>	<u>Net Operating Income</u>
PRESENT RATES				
Long-Term Debt	50.90%	\$ 67,644,760	5.36%	\$3,625,759
Common Equity	<u>49.10%</u>	<u>65,252,608</u>	3.67%	<u>2,394,480</u>
Total	<u>100.00%</u>	<u>\$132,897,368</u>		<u>\$6,020,239</u>
APPROVED RATES				
Long-Term Debt	50.90%	\$ 67,644,760	5.36%	\$3,625,759
Common Equity	<u>49.10%</u>	<u>65,252,608</u>	9.50%	<u>6,198,998</u>
Total	<u>100.00%</u>	<u>\$132,897,368</u>		<u>\$9,824,757</u>

SCHEDULE I-A
Carolina Water Service, Inc. of North Carolina
Docket No. W-354, Sub 364
Net Operating Income for a Return
For the Twelve Months Ended March 31, 2019
CWSNC Water Operations

	Present <u>Rates</u>	Increase <u>Approved</u>	After Approved <u>Increase</u>
Operating Revenues:			
Service revenues	\$17,485,912	\$1,785,873	\$19,271,785
Miscellaneous revenues	189,818	5,357	195,175
Uncollectibles	<u>(129,396)</u>	<u>(13,215)</u>	<u>(142,611)</u>
Total operating revenues	<u>17,546,334</u>	<u>1,778,015</u>	<u>19,324,349</u>
Operating Revenue Deductions:			
Salaries and wages – Maintenance	2,684,228	0	2,684,228
Purchased power	1,048,858	0	1,048,858
Purchased water and sewer	1,478,502	0	1,478,502
Maintenance and repair	909,143	0	909,143
Maintenance testing	202,228	0	202,228
Meter reading	175,422	0	175,422
Chemicals	311,580	0	311,580
Transportation	283,615	0	283,615
Operating expense charged to plant	(360,703)	0	(360,703)
Outside services – other	654,506	0	654,506
Salaries and wages – General	1,086,991	0	1,086,991
Office supplies & other office expense	308,786	0	308,786
Regulatory commission expense	169,355	0	169,355
Pension and other benefits	867,766	0	867,766
Rent	178,706	0	178,706
Insurance	423,389	0	423,389
Office utilities	411,346	0	411,346
Miscellaneous	120,273	0	120,273
Depreciation expense	3,198,990	0	3,198,990
Amortization of CIAC	(704,302)	0	(704,302)
Amortization of PAA	(115,669)	0	(115,669)
Amortization of ITC	(328)	0	(328)
Franchise and other taxes	(3,473)	0	(3,473)
Property taxes	154,066	0	154,066
Payroll taxes	286,024	0	286,024
Regulatory fee	22,810	2,312	25,122
Deferred income tax	(26,513)	0	(26,513)
State income tax	50,650	44,393	95,043
Federal income tax	<u>414,823</u>	<u>363,575</u>	<u>778,398</u>
Total operating revenue deductions	<u>14,231,071</u>	<u>410,280</u>	<u>14,641,351</u>
Net operating income for a return	<u>\$3,315,263</u>	<u>\$1,367,735</u>	<u>\$4,682,998</u>

SCHEDULE II-A
Carolina Water Service, Inc. of North Carolina
Docket No. W-354, Sub 364
Original Cost Rate Base
For the Twelve Months Ended March 31, 2019
CWSNC Water Operations

<u>Item</u>	<u>Amount</u>
Plant in service	\$114,766,817
Accumulated depreciation	<u>(29,553,703)</u>
Net plant in service	85,213,114
Cash working capital	1,184,436
Contributions in aid of construction	(17,662,813)
Advances in aid of construction	(23,760)
Accumulated deferred income taxes	(2,312,807)
Customer deposits	(175,942)
Inventory	167,608
Gain on sale and flow back taxes	(281,868)
Plant acquisition adjustment	(2,085,004)
Excess book value	0
Cost-free capital	(121,791)
Average tax accruals	(81,595)
Regulatory liability for excess deferred taxes	(2,084,991)
Deferred charges	1,611,323
Pro forma plant	<u>0</u>
Original cost rate base	<u>\$63,345,909</u>
Rates of return:	
Present	5.23%
Approved	7.39%

SCHEDULE III-A
Carolina Water Service, Inc. of North Carolina
Docket No. W-354, Sub 364
Statement of Capitalization and Related Costs
For the Twelve Months Ended March 31, 2019
CWSNC Water Operations

	<u>Ratio</u>	<u>Original Cost Rate Base</u>	<u>Embedded Cost</u>	<u>Net Operating Income</u>
PRESENT RATES				
Long-term Debt	50.90%	\$32,243,068	5.36%	\$1,728,228
Common Equity	49.10%	31,102,841	5.10%	1,587,035
Total	<u>100.00%</u>	<u>\$ 63,345,909</u>		<u>\$3,315,263</u>
APPROVED RATES				
Long-term Debt	50.90%	\$ 32,243,068	5.36%	\$1,728,228
Common Equity	49.10%	31,102,841	9.50%	2,954,770
Total	<u>100.00%</u>	<u>\$ 63,345,909</u>		<u>\$4,682,998</u>

SCHEDULE I-B
Carolina Water Service, Inc. of North Carolina
Docket No. W-354, Sub 364
Net Operating Income for a Return
For the Twelve Months Ended March 31, 2019
CWSNC Sewer Operations

	Present <u>Rates</u>	Increase <u>Approved</u>	After Approved <u>Increased</u>
Operating Revenues:			
Service revenues	\$12,961,929	\$2,942,923	\$15,904,852
Miscellaneous revenues	124,500	8,829	133,329
Uncollectibles	<u>(98,511)</u>	<u>(22,366)</u>	<u>(120,877)</u>
Total operating revenues	<u>12,987,918</u>	<u>2,929,386</u>	<u>15,917,304</u>
Operating Revenue Deductions:			
Salaries and wages – Maintenance	1,622,020	0	1,622,020
Purchased power	838,308	0	838,308
Purchased water and sewer	740,741	0	740,741
Maintenance and repair	1,940,932	0	1,940,932
Maintenance testing	308,671	0	308,671
Meter reading	0	0	0
Chemicals	318,617	0	318,617
Transportation	171,371	0	171,371
Operating expense charged to plant	(217,966)	0	(217,966)
Outside services – other	395,475	0	395,475
Salaries and wages – General	656,845	0	656,845
Office supplies & other office exp.	186,580	0	186,580
Regulatory commission expense	102,331	0	102,331
Pension and other benefits	524,372	0	524,372
Rent	107,979	0	107,979
Insurance	255,830	0	255,830
Office utilities	248,550	0	248,550
Miscellaneous	74,254	0	74,254
Depreciation expense	2,821,151	0	2,821,151
Amortization of CIAC	(570,054)	0	(570,054)
Amortization of PAA	(16,931)	0	(16,931)
Amortization of ITC	(251)	0	(251)
Franchise and other taxes	(2,595)	0	(2,595)
Property taxes	93,092	0	93,092
Payroll taxes	172,838	0	172,838
Regulatory fee	16,884	3,808	20,692
Deferred income tax	(33,406)	0	(33,406)
State income tax	14,845	73,140	87,985
Federal income tax	<u>121,581</u>	<u>599,012</u>	<u>720,593</u>
Total operating revenue deductions	<u>10,892,064</u>	<u>675,960</u>	<u>11,568,024</u>
Net operating income for a return	<u>\$2,095,854</u>	<u>\$2,253,426</u>	<u>\$4,349,280</u>

SCHEDULE II-B
Carolina Water Service, Inc. of North Carolina
Docket No. W-354, Sub 364
Original Cost Rate Base
For the Twelve Months Ended March 31, 2019
CWSNC Sewer Operations

<u>Item</u>	<u>Amount</u>
Plant in service	\$102,974,564
Accumulated depreciation	(23,646,093)
Net plant in service	79,328,471
Cash working capital	941,771
Contributions in aid of construction	(17,559,280)
Advances in aid of construction	(9,180)
Accumulated deferred income taxes	(2,884,203)
Customer deposits	(106,311)
Inventory	101,275
Gain on sale and flow back taxes	(135,943)
Plant acquisition adjustment	296,963
Excess book value	0
Cost-free capital	(139,708)
Average tax accruals	(49,923)
Regulatory liability for excess deferred taxes	(1,259,826)
Deferred charges	307,657
Pro forma plant	0
Original cost rate base	\$58,831,763
Rates of return:	
Present	3.56%
Approved	7.39%

SCHEDULE III-B
Carolina Water Service, Inc. of North Carolina
Docket No. W-354, Sub 364
Statement of Capitalization and Related Costs
For the Twelve Months Ended March 31, 2019
CWSNC Sewer Operations

	<u>Ratio</u>	<u>Original Cost Rate Base</u>	<u>Embedded Cost</u>	<u>Net Operating Income</u>
PRESENT RATES				
Long-term Debt	50.90%	\$ 29,945,367	5.36%	\$1,605,072
Common Equity	<u>49.10%</u>	<u>28,886,396</u>	1.70%	<u>490,782</u>
Total	<u>100.00%</u>	<u>\$ 58,831,763</u>		<u>\$2,095,854</u>
APPROVED RATES				
Long-term Debt	50.90%	\$ 29,945,367	5.36%	\$1,605,072
Common Equity	<u>49.10%</u>	<u>28,886,396</u>	9.50%	<u>2,744,208</u>
Total	<u>100.00%</u>	<u>\$ 58,831,763</u>		<u>\$4,349,280</u>

SCHEDULE I-C
Carolina Water Service, Inc. of North Carolina
Docket No. W-354, Sub 364
Net Operating Income for a Return
For the Twelve Months Ended March 31, 2019
BF/FH/TC Water Operations

	Present <u>Rates</u>	Increase <u>Approved</u>	After Approved <u>Increase</u>
Operating Revenues:			
Service revenues	\$1,304,521	\$97,488	\$1,402,009
Miscellaneous revenues	51,060	312	51,372
Uncollectibles	<u>(16,567)</u>	<u>(1,239)</u>	<u>(17,806)</u>
Total operating revenues	<u>1,339,014</u>	<u>96,561</u>	<u>1,435,575</u>
Operating Revenue Deductions:			
Salaries and wages – Maintenance	308,862	0	308,862
Purchased power	69,724	0	69,724
Purchased water and sewer	0	0	0
Maintenance and repair	63,151	0	63,151
Maintenance testing	8,314	0	8,314
Meter reading	30,753	0	30,753
Chemicals	44,189	0	44,189
Transportation	38,746	0	38,746
Operating expense charged to plant	(41,503)	0	(41,503)
Outside services – other	69,135	0	69,135
Salaries and wages – General	125,075	0	125,075
Office supplies & other office exp.	35,984	0	35,984
Regulatory commission expense	17,639	0	17,639
Pension and other benefits	99,850	0	99,850
Rent	21,337	0	21,337
Insurance	50,550	0	50,550
Office utilities	43,252	0	43,252
Miscellaneous	11,671	0	11,671
Depreciation expense	169,164	0	169,164
Amortization of CIAC	(56,417)	0	(56,417)
Amortization of PAA	13,303	0	13,303
Amortization of ITC	0	0	0
Franchise and other taxes	2,583	0	2,583
Property taxes	10,553	0	10,553
Payroll taxes	32,912	0	32,912
Regulatory fee	1,741	125	1,866
Deferred income tax	(923)	0	(923)
State income tax	2,145	2,411	4,556
Federal income tax	<u>17,569</u>	<u>19,745</u>	<u>37,314</u>
Total operating revenue deductions	<u>1,189,358</u>	<u>22,281</u>	<u>1,211,639</u>
Net operating income for a return	<u>\$149,656</u>	<u>\$74,280</u>	<u>\$223,936</u>

SCHEDULE II-C
Carolina Water Service, Inc. of North Carolina
Docket No. W-354, Sub 364
Original Cost Rate Base
For the Twelve Months Ended March 31, 2019
BF/FH/TC Water Operations

<u>Item</u>	<u>Amount</u>
Plant in service	\$6,285,688
Accumulated depreciation	(2,083,262)
	4,202,426
Net plant in service	4,202,426
Cash working capital	124,591
Contributions in aid of construction	(1,055,139)
Advances in aid of construction	0
Accumulated deferred income taxes	(84,226)
Customer deposits	(16,236)
Inventory	1,503
Gain on sale and flow back taxes	0
Plant acquisition adjustment	13,196
Excess book value	0
Cost-free capital	0
Average tax accruals	(5,624)
Regulatory liability for excess deferred taxes	(291,777)
Deferred charges	140,413
Pro forma plant	0
	\$3,029,127
Original cost rate base	\$3,029,127
Rates of return:	
Present	4.94%
Approved	7.39%

SCHEDULE III-C
Carolina Water Service, Inc. of North Carolina
Docket No. W-354, Sub 364
Statement of Capitalization and Related Costs
For the Twelve Months Ended March 31, 2019
BF/FH/TC Water Operations

	<u>Ratio</u>	<u>Original Cost Rate Base</u>	<u>Embedded Cost</u>	<u>Net Operating Income</u>
PRESENT RATES				
Long-term Debt	50.90%	\$ 1,541,826	5.36%	\$82,642
Common Equity	<u>49.10%</u>	<u>1,487,301</u>	4.51%	<u>67,014</u>
Total	<u>100.00%</u>	<u>\$ 3,029,127</u>		<u>\$149,656</u>
APPROVED RATES				
Long-term Debt	50.90%	\$ 1,541,826	5.36%	\$82,642
Common Equity	<u>49.10%</u>	<u>1,487,301</u>	9.50%	<u>141,294</u>
Total	<u>100.00%</u>	<u>\$ 3,029,127</u>		<u>\$223,936</u>

SCHEDULE I-D
Carolina Water Service, Inc. of North Carolina
Docket No. W-354, Sub 364
Net Operating Income for a Return
For the Twelve Months Ended March 31, 2019
BF/FH Sewer Operations

	Present <u>Rates</u>	Increase <u>Approved</u>	After Approved <u>Increase</u>
Operating Revenues:			
Service revenues	\$2,099,870	\$143,157	\$2,243,027
Miscellaneous revenues	22,114	458	22,572
Uncollectibles	<u>(26,668)</u>	<u>(1,818)</u>	<u>(28,486)</u>
Total operating revenues	<u>2,095,316</u>	<u>141,797</u>	<u>2,237,113</u>
Operating Revenue Deductions:			
Salaries and wages – Maintenance	334,600	0	334,600
Purchased power	146,154	0	146,154
Purchased water and sewer	0	0	0
Maintenance and repair	207,709	0	207,709
Maintenance testing	25,219	0	25,219
Meter reading	0	0	0
Chemicals	19,210	0	19,210
Transportation	40,468	0	40,468
Operating expense charged to plant	(44,961)	0	(44,961)
Outside services – other	72,182	0	72,182
Salaries and wages – General	135,498	0	135,498
Office supplies & other office expense	37,514	0	37,514
Regulatory commission expense	18,429	0	18,429
Pension and other benefits	108,171	0	108,171
Rent	22,286	0	22,286
Insurance	52,793	0	52,793
Office utilities	44,523	0	44,523
Miscellaneous	12,219	0	12,219
Depreciation expense	391,406	0	391,406
Amortization of CIAC	(146,182)	0	(146,182)
Amortization of PAA	42,674	0	42,674
Amortization of ITC	0	0	0
Franchise and other taxes	2,830	0	2,830
Property taxes	11,022	0	11,022
Payroll taxes	35,654	0	35,654
Regulatory fee	2,724	184	2,908
Deferred income tax	(8,286)	0	(8,286)
State income tax	7,834	3,540	11,374
Federal income tax	<u>64,160</u>	<u>28,995</u>	<u>93,155</u>
Total operating revenue deductions	<u>1,635,850</u>	<u>32,719</u>	<u>1,668,569</u>
Net operating income for a return	<u>\$459,466</u>	<u>\$109,078</u>	<u>\$568,544</u>

SCHEDULE II-D
Carolina Water Service, Inc. of North Carolina
Docket No. W-354, Sub 364
Original Cost Rate Base
For the Twelve Months Ended March 31, 2019
BF/FH Sewer Operations

<u>Item</u>	<u>Amount</u>
Plant in service	\$14,185,016
Accumulated depreciation	(2,614,885)
Net plant in service	<u>11,570,131</u>
Cash working capital	154,002
Contributions in aid of construction	(3,993,443)
Advances in aid of construction	0
Accumulated deferred income taxes	(714,208)
Customer deposits	(16,958)
Inventory	1,570
Gain on sale and flow back taxes	0
Plant acquisition adjustment	936,967
Excess book value	0
Cost-free capital	0
Average tax accruals	(6,056)
Regulatory liability for excess deferred taxes	(304,750)
Deferred charges	63,314
Pro forma plant	<u>0</u>
Original cost rate base	<u><u>\$7,690,568</u></u>
Rates of return:	
Present	5.97%
Approved	7.39%

SCHEDULE III-D
Carolina Water Service, Inc. of North Carolina
Docket No. W-354, Sub 364
Statement of Capitalization and Related Costs
For the Twelve Months Ended March 31, 2019
BF/FH Sewer Operations

	<u>Ratio</u>	<u>Original Cost Rate Base</u>	<u>Embedded Cost</u>	<u>Net Operating Income</u>
PRESENT RATES				
Long-term Debt	50.90%	\$ 3,914,499	5.36%	\$209,817
Common Equity	<u>49.10%</u>	<u>3,776,069</u>	6.61%	<u>249,649</u>
Total	<u>100.00%</u>	<u>\$ 7,690,568</u>		<u>\$ 459,466</u>
APPROVED RATES				
Long-term Debt	50.90%	\$ 3,914,499	5.36%	\$ 209,817
Common Equity	<u>49.10%</u>	<u>3,776,069</u>	9.50%	<u>358,727</u>
Total	<u>100.00%</u>	<u>\$ 7,690,568</u>		<u>\$ 568,544</u>

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 61–63

Rate Design

The evidence supporting these findings of fact is found in the verified Application and the accompanying NCUC Form W-1, the Stipulation, and the testimony and exhibits of Public Staff witnesses Junis and Casselberry and CWSNC witness DeStefano.

The water rates proposed by CWSNC in its Application were based on a fixed-to-variable ratio of 52% fixed for the base facility charge and 48% variable for the usage charge. Sewer rates were based on a fixed-to-variable ratio of 80% fixed for the base facility charge and 20% variable for the usage charge.

As part of its Application and as a matter of rate design in this case CWSNC proposes to include in its Uniform Sewer Rate Division, customers in the CLMS service area. CWSNC has maintained the CLMS system rates steady for the last four general rate cases (Docket No. W-354, Subs 336, 344, 356, and 360) in order to allow the remainder of the Uniform Sewer Rate Division to move toward parity with the CLMS sewer rates.

Public Staff witness Junis testified that the Public Staff recommended a service revenue ratio of 45/55 (base facilities charge to usage charge) for Uniform Water and BF/FH/TC Water residential customers, which he stated was consistent with the Public Staff's previous recommendations in CWSNC rate cases and similar to the stated target of 40/60 in the most recent Aqua North Carolina, Inc. (Aqua) rate case, Docket No. W-218, Sub 497. Moreover, he stated the rate design ratio of 45/55 was incorporated in Public Staff witness Casselberry's testimony and exhibits detailing the billing analysis and proposed rates. Tr. vol. 8, 107, 155.

Public Staff witness Junis recommended a 65/35 ratio for Uniform Sewer residential customers, an incremental approach to the target of 45/55, which was also incorporated in witness Casselberry's billing analysis and proposed rates. Tr. vol. 8, 159. Further, the Public Staff recommended that CLMS should be fully incorporated into the Uniform Sewer Rate Division as requested by the Company and that the Public Staff's recommended rates for the Uniform Sewer Rate Division should apply to CLMS customers.

On December 2, 2019, the CLCA filed a Resolution with the Commission whereby it stated that the Association

- strongly opposes being singled out for higher rates than any other territory served by CWSNC, and requests that the Commission adopt a uniform rate schedule for all CWSNC wastewater treatment customers; and
- requests that the Commission move Corolla Light and Monterey Shores area to the uniform rate schedule after thoroughly investigating and

analyzing the basis of the CWSNC request, allowing only an increase that is clearly justified.

During the expert witness hearing in response to a question from the Commission, CLCA indicated that it has no objection to the Stipulation. Tr. vol. 9, 200–01.

In the Stipulation, the Stipulating Parties agreed to a rate design for water utility service for its Uniform Water and BF/FH/TC Water residential customers to be based on a 50/50 ratio of base charge to usage charge, and to use an 80/20 ratio of base charge to usage charge for CWSNC's Uniform Sewer residential customers.²⁰

Based upon the foregoing and the entire record herein, the Commission finds that it is appropriate to utilize a 50/50 ratio of base charge to usage charge in this proceeding for CWSNC's Uniform Water and BF/FH/TC Water residential customers and an 80/20 ratio of base charge to usage charge for CWSNC's Uniform Sewer residential customers as agreed to by the Company and the Public Staff, embodied in the Stipulation, and not opposed by any party. Further, the Commission concludes that it is reasonable and appropriate to consolidate the CLMS sewer service rates with the Company's Uniform Sewer Division rates as requested by CWSNC and supported by both the Public Staff and the CLCA. The Commission concludes that such rate design is fair and reasonable to both CWSNC and its customers. Therefore, taking into account the foregoing findings and conclusions, the Commission concludes that the rates and charges included in Appendices A-1 and A-2, and the Schedules of Connection Fees for Uniform Water and Uniform Sewer, attached hereto as Appendices B-1 and B-2, are just and reasonable and should be approved.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 64-65

Water and Sewer System Improvement Charges

The evidence supporting these findings of fact is found in the generic rulemaking proceeding, Docket No. W-100, Sub 54, wherein the Commission issued orders establishing procedures for implementing and applying the WSIC and SSIC mechanism; in CWSNC's 2013 rate case, Docket No. W-354, Sub 336, wherein the Commission initially approved the Company's WSIC and SSIC mechanism; and in the Commission's prior orders approving WSIC and SSIC mechanisms for CWSNC and the other Corix companies that have been merged into CWSNC.

The Commission's previously-approved WSIC and SSIC rate adjustment mechanism continues in effect, although as required by Commission Rules R7-39(k) and R10-26(k), it has been reset to zero in this rate case. The WSIC and SSIC mechanism is designed to recover between rate case proceedings the costs associated with investment in certain completed, eligible projects for water and sewer system or water quality improvements pursuant to N.C.G.S. § 62-133.12. The WSIC and SSIC surcharge is

²⁰ BF/FH Sewer Rate Division has a monthly flat rate for residential customers.

subject to Commission approval and to audit and refund provisions. Any cumulative system improvement charge recovered pursuant to the WSIC and SSIC mechanism may not exceed 5% of the total annual service revenues approved by the Commission in this rate case proceeding.

Based on the service revenues set forth and approved in this Order, the maximum WSIC and SSIC charges as of the effective date of this Order are:

<u>Item</u>	<u>Service Revenues</u>	<u>Cap %</u>	<u>WSIC & SSIC Cap</u>
CWSNC Uniform Water Operations	\$19,271,785	X 5% =	\$963,589
CWSNC Uniform Sewer Operations	\$15,904,852	X 5% =	\$795,243
BF/FH/TC Water Operations	\$1,402,009	X 5% =	\$70,100
BF/FH Sewer Operations	\$2,243,027	X 5% =	\$112,151

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 66-68

Recommendations of the Public Staff

The evidence for these findings of fact is found in the Company’s NCUC Form W-1, the testimony of Public Staff witness Casselberry, and the testimony of Company witness DeStefano.

In her prefiled testimony, witness Casselberry stated,

The Public Staff recommends that in the next general rate case, W-1, Item 26, be reconciled with the Company’s bill data to ensure that the filing does not include double bills, that the Company accounts for multi-unit customers, and that other bills produced, such as final bills, late notices, re-bills, or other miscellaneous bills are not included in the W-1, Item 26 filing.

Tr. vol. 8, 91. The Company does not oppose this recommendation of the Public Staff.

In response to the Commission’s question during the expert witness hearing regarding whether the Company will be able to provide the information requested by the Public Staff, witness DeStefano responded that, “[t]he Company expects to be able to provide the information requested.” Tr. vol. 9, 197.

In its Application the Company requested to increase its reconnection fee from \$27.00 to \$42.00. Witness Casselberry stated in her testimony that the Public Staff did not oppose increasing the reconnection fee from \$27.00 to \$42.00.

In its Application the Company also proposed to increase the water connection charge from \$500 to \$1,080 and the sewer connection charge from \$2,000 to \$2,635 for Winston Pointe Subdivision, Phase IA. Witness Casselberry stated in her testimony that

the Public Staff recommended a connection charge of \$1,080 for water and \$1,400 for sewer in Winston Pointe Subdivision, Phase IA, as the connection charge should reflect Johnston County's – where the Company purchases bulk water and sewer treatment for Winston Pointe Subdivision – current bulk capacity fee for water and sewer. Witness Casselberry stated that CWSNC indicated that it agreed with the Public Staff's recommendation. Tr. vol. 8, 94.

In light of the foregoing the Commission concludes that it is reasonable and appropriate for the Company to provide accurate bill data and ensure that accurate data is filed in its NCUC Form W-1, Item 26 in its next rate case filing. The Commission further concludes that the reconnection fee should be increased from \$27.00 to \$42.00, and that a connection charge of \$1,080 for water and \$1,400 for sewer in Winston Pointe Subdivision, Phase 1A, is reasonable and appropriate.

IT IS, THEREFORE, ORDERED as follows:

1. That the affidavit of CWSNC's Financial Planning and Analysis Manager, Matthew Schellinger, filed on January 10, 2020, and the Public Staff's Revised Settlement Exhibits I and II filed on January 13, 2020, in these dockets are hereby entered into evidence;
2. That all late-filed exhibits filed by CWSNC and the Public Staff in these dockets are hereby admitted into evidence. That the Resolution of Corolla Light Community Association, Inc., filed on December 2, 2019 is also admitted into evidence;
3. That the Partial Joint Settlement Agreement and Stipulation is incorporated herein by reference and is hereby approved in its entirety;
4. That the Partial Joint Settlement Agreement and Stipulation and the parts of this Order pertaining to the contents of that agreement shall not be cited or treated as precedent in future proceedings;
5. That CWSNC's request to defer incremental O&M costs related to Hurricane Florence storm impacts is approved as set forth in the Stipulation and stated herein, and that CWSNC's request to defer depreciation expense on its capital investments and lost revenues related to Hurricane Florence storm impacts is hereby denied;
6. That CWSNC's Petition to defer post-in-service costs associated with the two WWTPs is approved; provided, however, that the Company shall be, and hereby is, required to cease deferring said costs concurrent with the date the Company is authorized to begin reflecting the costs associated with the WWTPs in rates;
7. That CWSNC's Petition to defer post-in-service costs associated with the two AMR installation projects is denied;

8. That the Schedules of Rates, attached hereto as Appendices A-1 and A-2, and the Schedules of Connection Fees for Uniform Water and Uniform Sewer, attached hereto as Appendices B-1 and B-2, are hereby approved and deemed to be filed with the Commission pursuant to N.C.G.S. § 62-138, and are hereby authorized to become effective for service rendered on and after the issuance date of this Order;²¹

9. That the Notices to Customers, attached hereto as Appendices C-1 and C-2 shall be mailed with sufficient postage or hand delivered to all affected customers in each relevant service area, respectively, in conjunction with the next regularly scheduled billing process;

10. That CWSNC shall file the attached Certificate of Service, properly signed and notarized, not later than ten days after the Notices to Customers are mailed or hand delivered to customers;

11. That CWSNC's federal protected EDIT should continue to be flowed back in accordance with the RSGM pursuant to the Commission's Sub 360 Order;

12. That it is reasonable and appropriate for purposes of this proceeding for CWSNC to refund its remaining federal unprotected EDIT balances over 24 months instead of the remaining 35 months as originally ordered by the Commission in Sub 360;

13. That CWSNC's state EDIT recorded pursuant to the Commission's Sub 138 Order should continue to be amortized in accordance with the Commission's Sub 356 Order and as confirmed by the Commission in its Sub 360 Order;

14. That CWSNC shall receive estimates for the cost of a filtration system in Bradfield Farms Subdivision within 60 days of the date of this Order and shall share those estimates with the Bradfield Farms Homeowners Association;

15. That with respect to AMR meter installation projects planned for the future, CWSNC shall work with the Public Staff pursuant to N.C.G.S. § 62-133.12 and Commission Rule R7-39 to mitigate regulatory lag using WSIC recovery. The burden to prove CWSNC's investments recovered under the WSIC mechanism are reasonably and prudently incurred as required by N.C.G.S. § 62-133.12 and Commission Rule R7-39 shall remain with CWSNC;

16. That in the Company's next general rate case filing CWSNC shall ensure that its NCUC Form W-1, Item 26 is reconciled with the Company's bill data to ensure that the filing does not include double bills, that the Company accounts for multi-unit

²¹ CWSNC's tariffs will be revised to reflect the change in taxability of CIAC based on the process outlined in Ordering Paragraph 4 of the Commission's February 11, 2020 Order, in Docket Nos. W-100, Sub 57 and W-100, Sub 62.

customers, and that other bills produced, such as final bills, late notices, re-bills, or other miscellaneous bills are not included in the NCUC Form W-1, Item 26 filing; and

17. That the Chief Clerk shall establish Docket No. W-354, Sub 364A as the single docket to be used for all future WSIC and SSIC filings, orders, and reporting requirements and shall close Docket No. W-354, Sub 360A.

ISSUED BY ORDER OF THE COMMISSION.

This the 31st day of March, 2020.

NORTH CAROLINA UTILITIES COMMISSION

A handwritten signature in black ink that reads "Kimberley A. Campbell". The signature is written in a cursive, slightly slanted style.

Kimberley A. Campbell, Chief Clerk

SCHEDULE OF RATES

for

CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA

for providing water and sewer utility service

in

ALL OF ITS SERVICE AREAS IN NORTH CAROLINA

(excluding Fairfield Harbour Service Area, Treasure Cove, Register Place Estates, North Hills, Glen Arbor/North Bend, Bradfield Farms, Silverton, Woodland Farms, and Larkhaven Subdivisions, and Hawthorne at the Green Apartments

WATER RATES AND CHARGES

Monthly Metered Water Service (Residential and Commercial):

Base Facility Charge (based on meter size with zero usage)

< 1" meter	\$ 28.92
1" meter	\$ 72.30
1 1/2" meter	\$ 144.60
2" meter	\$ 231.36
3" meter	\$ 433.80
4" meter	\$ 723.00
6" meter	\$1,446.00

Usage Charge:

A. Treated Water/1,000 gallons	\$ 8.27
B. Untreated Water/1,000 gallons (Brandywine Bay Irrigation Water)	\$ 4.23

C. Purchased Water for Resale, per 1,000 gallons:

<u>Service Area</u>	<u>Bulk Provider</u>		
Carolina Forest	Montgomery County	\$	3.19
High Vista Estates	City of Hendersonville	\$	3.40
Riverbend	Town of Franklin	\$	7.50
Riverpointe	Charlotte Water	\$	6.48
Whispering Pines	Town of Southern Pines	\$	3.28
White Oak Plantation/ Lee Forest	Johnston County	\$	2.65
Winston Plantation	Johnston County	\$	2.65
Winston Point	Johnston County	\$	2.65
Woodrun	Montgomery County	\$	3.19
Yorktown	City of Winston Salem	\$	5.79
Zemosa Acres	City of Concord	\$	5.41
Carolina Trace	City of Sanford	\$	2.21

Commercial customers, including condominiums or other property owner associations who bill their members directly, shall have a separate account set up for each meter and each meter shall be billed separately based on the size of the meter and usage associated with the meter.

When because of the method of water line installation utilized by the developer or owner, it is impractical to meter each unit or other structure separately, the following will apply:

Sugar Mountain Service Area:

Where service to multiple units or other structures is provided through a single meter, the average usage for each unit or structure served by that meter will be calculated. Each unit or structure will be billed based upon that average usage plus the base monthly charge for a <1" meter.

Mount Mitchell Service Area:

Service will be billed based upon the Commission-approved monthly flat rate.

Monthly Flat Rate Service: (Billed in Arrears) \$ 58.54

Availability Rate: (Semiannual)

Applicable only to property owners in Carolina Forest
and Woodrun Subdivisions in Montgomery County \$ 27.15

Availability Rate: (Monthly)

Applicable only to property owners in Linville Ridge
Subdivision \$ 13.60

Availability Rate: (Monthly rate, billed semiannually)

Applicable only to property owners in Fairfield Sapphire Valley Service Area	\$ 10.05
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Availability Rate: (Monthly rate, billed quarterly))

Applicable only to property owners in Connestee Falls	\$ 5.30
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<u>Meter Testing Fee:</u> ^{1/}	\$ 20.00
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<u>New Water Customer Charge:</u>	\$ 27.00
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Reconnection Charge: ^{2/}

If water service is cut off by utility for good cause	\$ 42.00
If water service is discontinued at customer's request	\$ 42.00

Reconnection Charge: ^{3/}(Flat-rate water customers)

If water service is cut off by utility for good cause	Actual Cost
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Management Fee: (in the following subdivisions only)

(Per connection)

Wolf Laurel	\$150.00
Covington Cross Subdivision (Phases 1 & 2)	\$100.00

Oversizing Fee: (in the following subdivision only)

(One-time charge per single-family equivalent) Winghurst	\$400.00
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Meter Fee:

For <1" meters	\$ 50.00
For meters 1" or larger	Actual Cost

<u>Irrigation Meter Installation:</u>	Actual Cost
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SEWER RATES AND CHARGES

Monthly Metered Sewer Service:

A. Base Facility Charge:

Residential (zero usage) \$ 58.91

Commercial (based on meter size with zero usage)

< 1" meter \$ 58.91

1" meter \$ 147.28

1 1/2" meter \$ 294.55

2" meter \$ 471.28

3" meter \$ 883.65

4" meter \$1,472.75

6" meter \$2,945.50

B. Usage charge, per 1,000 gallons \$ 4.59

Commercial customers, including condominiums or other property owner associations who bill their members directly, shall have a separate account set up for each meter and each meter shall be billed separately based on the size of the meter and usage associated with the meter.

Monthly Metered Purchased Sewer Service:

Collection Charge (Residential and Commercial) \$ 41.24

Usage charge, per 1,000 gallons
(based on purchased water consumption)

<u>Service Area</u>	<u>Bulk Provider</u>	
White Oak Plantation/ Lee Forest/Winston Pt.	Johnston County	\$ 5.57
Kings Grant	Two Rivers Utilities	\$ 3.98
College Park	Town of Dallas	\$ 7.33

Monthly Flat Rate Service: \$ 73.73

Multi-residential customers who are served by a master meter shall be charged the flat rate per unit. \$ 73.73

Mt. Carmel Subdivision Service Area:

Monthly Base Facility Charge	\$ 7.29
Monthly Collection Charge (Residential and Commercial)	\$ 41.24
Usage Charge, per 1,000 gallons (based on metered water from the water supplier)	\$ 6.32

Regalwood and White Oak Estates Subdivision Service Area:

Monthly Flat Rate Sewer Service	
Residential Service	\$ 73.73
White Oak High School	\$2,187.33
Child Castle Daycare	\$ 280.41
Pantry	\$ 153.76

Fairfield Mountain/Apple Valley (a.k.a. Rumbling Bald) Service Area, and Highland Shores Subdivision:

Monthly Sewer Rates:

Residential	
Collection charge/dwelling unit	\$ 41.24
Treatment charge/dwelling unit	\$ 69.50
Total monthly flat rate/dwelling unit	<u>\$ 110.74</u>

Commercial and Other:

Minimum monthly collection and treatment charge \$ 110.74

Monthly collection and treatment charge for customers who do not take water service \$ 110.74

Treatment charge per dwelling unit

Small (less than 2,500 gallons per month)	\$ 78.50
Medium (2,500 to 10,000 gallons per month)	\$ 139.50
Large (over 10,000 gallons per month)	\$ 219.50

Collection Charge (per 1,000 gallons) \$ 13.93

The Ridges at Mountain Harbour:

Monthly Sewer Rates:

Collection charge (Residential and Commercial)	\$ 41.24
Treatment charge (Residential and Commercial)	
< 1" meter	\$ 18.42
2" meter	\$ 147.36

Availability Rate: (Monthly rate, billed semiannually)

Applicable only to property owners in Fairfield Sapphire Valley Service Area	\$ 10.20
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Availability Rate: (Monthly rate, billed quarterly)

Applicable only to property owners in Connestee Falls	\$ 5.75
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New Sewer Customer Charge: ^{4/} \$ 27.00

Reconnection Charge: ^{5/}

If sewer service is cut off by utility for good cause: Actual Cost

MISCELLANEOUS UTILITY MATTERS

Charge for processing NSF Checks: \$ 25.00

Bills Due: On billing date

Bills Past Due: 21 days after billing date

Billing Frequency: Bills shall be rendered monthly in all service areas, except for Mt. Carmel, which will be billed bimonthly.

Availability rates will be billed quarterly in advance for Connestee Falls, semiannually in advance for Carolina Forest, Woodrun, and Fairfield Sapphire Valley, and monthly for Linville Ridge.

Finance Charge for Late Payment:

1% per month will be applied to the unpaid balance of all bills still past due 25 days after billing date.

Notes:

^{1/} If a customer requests a test of a water meter more frequently than once in a 24-month period, the Company will collect a \$20.00 service charge to defray the cost of the test. If the meter is found to register in excess of the prescribed accuracy limits, the meter testing charge will be waived. If the meter is found to register accurately or below prescribed accuracy limits, the charge shall be retained by the Company. Regardless of the test results, customers may request a meter test once in a 24-month period without charge.

^{2/} Customers who request to be reconnected within nine months of disconnection at the same address shall be charged the base facility charge for the service period they were disconnected.

^{3/} The utility shall itemize the estimated cost of disconnecting and reconnecting service and shall furnish this estimate to customer with cut-off notice.

^{4/} This charge shall be waived if customer is also a water customer within the same service area.

^{5/} The utility shall itemize the estimated cost of disconnecting and reconnecting service and shall furnish this estimate to customer with cut-off notice. This charge will be waived if customer also receives water service from Carolina Water Service within the same service area. Customers who request to be reconnected within nine months of disconnection at the same address shall be charged the base facility charge for the service period they were disconnected.

Issued in Accordance with Authority Granted by the North Carolina Utilities Commission in Docket No. W-354, Sub 364, on this the 31st day of March, 2020.

SCHEDULE OF RATES

for

CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA

for providing water and sewer utility service

in

TREASURE COVE, REGISTER PLACE ESTATES, NORTH HILLS, GLEN
ARBOR/NORTH BEND SUBDIVISIONS, FAIRFIELD HARBOUR SERVICE AREA,
BRADFIELD FARMS SUBDIVISION, LARKHAVEN SUBDIVISION, SILVERTON, AND
WOODLAND FARMS SUBDIVISIONS, AND HAWTHORNE AT THE GREEN
APARTMENTS

WATER RATES AND CHARGES

Monthly Metered Water Service (Residential and Commercial):

Base Facility Charge (based on meter size with zero usage)

< 1" meter	\$ 17.30
1" meter	\$ 43.25
1 1/2" meter	\$ 86.50
2" meter	\$138.40

Usage Charge, per 1,000 gallons \$ 4.20

Availability Rate: (Monthly rate, billed semiannually)

Applicable only to property owners in Fairfield
Harbour Service Area \$ 3.55

Connection Charge:

Treasure Cove Subdivision	\$ 0.00
North Hills Subdivision	\$ 100.00
Glen Arbor/North Bend Subdivision	\$ 0.00
Register Place Estates	\$ 500.00

Fairfield Harbor: ^{1/}

All Areas Except Harbor Pointe II Subdivision

Recoupment of capital fees per tap	\$ 335.00
Connection charge per tap	\$ 140.00

Harbor Pointe Subdivision and any area where mains have been installed after July 24, 1989

Recoupment of capital fee per tap	\$ 650.00
Connection charge per tap	\$ 320.00

Bradfield Farms:

Connection charge per tap	None
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<u>Meter Testing Fee:</u> ^{2/}	\$ 20.00
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<u>New Water Customer Charge:</u>	\$ 27.00
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Reconnection Charge: ^{3/}

If water service is cut off by utility for good cause	\$ 42.00
If water service is discontinued at customer's request	\$ 42.00

<u>New Meter Charge:</u>	Actual Cost
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<u>Irrigation Meter Installation:</u>	Actual Cost
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SEWER RATES AND CHARGES

Monthly Sewer Service:

Residential:

Flat Rate, per dwelling unit	\$ 53.91
Bulk Flat Rate, per REU	\$ 53.91

Commercial and Other:

Monthly Flat Rate (Customers who do not take water service)	\$ 53.91
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Monthly Metered Rates
(based on meter size with zero usage)

<1" meter	\$ 44.62
1" meter	\$ 111.55
1 1/2" meter	\$ 223.10
2" meter	\$ 356.96

Usage Charge, per 1,000 gallons \$ 2.25

Bulk Sewer Service for Hawthorne at the Green Apartments: ^{4/}

Bulk Flat Rate, per REU \$ 53.91

(To be collected from Hawthorne and delivered to Carolina Water Service, Inc. of North Carolina for treatment of the Hawthorne wastewater pursuant to Docket No. W-218, Sub 291)

Availability Rate: (Monthly rate, billed semiannually)

Applicable only to property owners in Fairfield Harbour Service Area \$ 2.85

Connection Charge

Fairfield Harbour: ^{1/}

All Areas Except Harbor Pointe II Subdivision

Recoupment of capital fees per tap	\$ 735.00
Connection charge per tap	\$ 140.00

Harbor Pointe Subdivision and any area where mains have been installed after July 24, 1989

Recoupment of capital fee per tap	\$ 2,215.00
Connection charge per tap	\$ 310.00

Bradfield Farms:

Connection charge per tap None

New Sewer Customer Charge: ^{5/} \$ 27.00

Reconnection Charge: ^{6/}

If sewer service is cut off by utility for good cause: Actual Cost

MISCELLANEOUS UTILITY MATTERS

<u>Charge for processing NSF Checks:</u>	\$ 25.00
<u>Bills Due:</u>	On billing date
<u>Bills Past Due:</u>	21 days after billing date
<u>Billing Frequency:</u>	Bills shall be monthly for service in arrears. Availability billings semiannually in advance.
<u>Finance Charge for Late Payment:</u>	1% per month will be applied to the unpaid balance of all bills still past due 25 days after billing date.

Notes:

^{1/} The recoupment of capital portion of the connection charges shall be due and payable at such time as the main water and sewer lines are installed in front of each lot, and the tap-on fee for water and sewer shall be payable upon request by the owner of each lot to be connected to the water and sewer lines. With written consent of the company, payment of the recoupment capital portion of the connection charge may be made payable over five-year period following the installation of the water and sewer mains in front of each lot, payment to be made in such a manner and in such installments as agreed upon between lot owner and the company, together with interest on the balance of the unpaid recoupment of capital fee from said time until payment in full at the rate of 6% per annum.

^{2/} If a customer requests a test of a water meter more frequently than once in a 24-month period, the Company will collect a \$20.00 service charge to defray the cost of the test. If the meter is found to register in excess of the prescribed accuracy limits, the meter testing charge will be waived. If the meter is found to register accurately or below prescribed accuracy limits, the charge shall be retained by the Company. Regardless of the test results, customers may request a meter test once in a 24-month period without charge.

^{3/} Customers who request to be reconnected within nine months of disconnection at the same address shall be charged the base facility charge for the service period they were disconnected.

^{4/} Each Apartment building will be considered 92.42% occupied on an ongoing basis for billing purposes as soon as the certificate of occupancy is issued for that apartment building.

^{5/} This charge shall be waived if customer is also a water customer within the same service area.

^{6/} The utility shall itemize the estimated cost of disconnecting and reconnecting service and shall furnish this estimate to customer with cut-off notice. This charge will be waived if customer also receives water service from Carolina Water Service within the same service area. Customers who request to be reconnected within nine months of disconnection at the same address shall be charged the base facility charge for the service period they were disconnected.

Issued in Accordance with Authority Granted by the North Carolina Utilities Commission in Docket No. W-354, Sub 364, on this the 31st day of March, 2020.

CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA

SCHEDULE OF CONNECTION FEES

FOR WATER UTILITY SERVICE UNDER UNIFORM RATES

Uniform Connection Fees: ^{1/}

The following uniform connection fees apply unless specified differently by contract approved by and on file with the North Carolina Utilities Commission.

Connection Charge (CC), per SFE (Single-Family Equivalent)	\$ 100.00
Plant Modification Fee (PMF), per SFE	\$ 400.00

The systems where connection fees other than the uniform fees have been approved and/or allowed to become effective by the North Carolina Utilities Commission are as follows. These fees are per SFE:

<u>Subdivision</u>	<u>CC</u>	<u>PMF</u>
Abington	\$ 0.00	\$ 0.00
Abington, Phase 14	\$ 0.00	\$ 0.00
Amherst	\$ 250.00	\$ 0.00
Bent Creek	\$ 0.00	\$ 0.00
Blue Mountain at Wolf Laurel	\$ 925.00	\$ 0.00
Buffalo Creek, Phase I, II, III, IV	\$ 825.00	\$ 0.00
Carolina Forest	\$ 0.00	\$ 0.00
Chapel Hills	\$ 150.00	\$ 400.00
Eagle Crossing	\$ 0.00	\$ 0.00
Elk River Development	\$1,000.00	\$ 0.00
Forest Brook/Old Lamp Place	\$ 0.00	\$ 0.00
Harbour	\$ 75.00	\$ 0.00
Hestron Park	\$ 0.00	\$ 0.00
Hound Ears	\$ 300.00	\$ 0.00
Kings Grant/Willow Run	\$ 0.00	\$ 0.00
Lemmond Acres	\$ 0.00	\$ 0.00
Linville Ridge	\$ 400.00	\$ 0.00
Monterrey (Monterrey LLC)	\$ 0.00	\$ 0.00
Quail Ridge	\$ 750.00	\$ 0.00
Queens Harbour/Yachtsman	\$ 0.00	\$ 0.00
Riverpointe	\$ 300.00	\$ 0.00
Riverpointe (Simonini Bldrs.)	\$ 0.00	\$ 0.00
Riverwood, Phase 6E (Johnston County)	\$ 825.00	\$ 0.00
Saddlewood/Oak Hollow (Summey Bldrs.)	\$ 0.00	\$ 0.00

<u>Subdivision</u>	<u>CC</u>	<u>PMF</u>
Sherwood Forest	\$ 950.00	\$ 0.00
Ski Country	\$ 100.00	\$ 0.00
The Ridges at Mountain Harbour	\$2,500.00	\$ 0.00
White Oak Plantation	\$ 0.00	\$ 0.00
Wildlife Bay	\$ 870.00	\$ 0.00
Willowbrook	\$ 0.00	\$ 0.00
Winston Plantation	\$1,100.00	\$ 0.00
Winston Pointe, Phase 1A	\$1,080.00	\$ 0.00
Wolf Laurel	\$ 925.00	\$ 0.00
Woodrun	\$ 0.00	\$ 0.00
Woodside Falls	\$ 500.00	\$ 0.00

Other Connection Fees:

The following connection fees apply unless specified differently by contract approved and/or filed with the North Carolina Utilities Commission.

Amber Acres, Amber Acres North, Amber Ridge, Ashley Hills North, Bishop Pointe, Carriage Manor, Country Crossing, Covington Cross, Heather Glen, Hidden Hollow, Jordan Woods, Lindsey Point, Neuse Woods, Oakes Plantation, Randsdell Forest, Rutledge Landing, Sandy Trails, Stewart's Ridge, Tuckahoe, Wilder's Village and Forest Hill Subdivisions

Connection Charge:

- A. 5/8" meter \$ 500.00
- B. All other meter sizes Actual cost of meter and installation

The systems where other connection fees have been approved and/or allowed to become effective by the North Carolina Utilities Commission are as follows:

<u>Subdivision</u>	<u>CC</u>
Lindsey Point Subdivision	\$ 0.00
Amber Acres North, Sections II & IV	\$ 570.00
Fairfield Mountain/Apple Valley (a.k.a Rumbing Bald) Service Area	\$ 500.00
Highland Shores Subdivision	\$ 500.00
Laurel Mountain Estates	\$ 0.00
Carolina Trace	\$ 605.00
Connestee Falls	\$ 600.00

The following connection fees apply unless specified differently by contract approved and/or filed with the North Carolina Utilities Commission.

All Areas Except Holly Forest XI, Holly Forest XIV, Holly Forest XV, Whisper Lake I, Whisper Lake II, Whisper Lake III, Deer Run, Lonesome Valley Phases I and II, and Chattooga Ridge

Recoupment of Capital Fee (RCF) ^{2/}	\$ 0.00
Connection charge	\$ 400.00

The systems where other connection fees have been approved and/or allowed to become effective by the North Carolina Utilities Commission are as follows.

<u>Subdivision</u>	<u>CC</u>	<u>RCF</u>
Holly Forest XI	\$ 400.00	\$2,400.00
Holly Forest XIV	\$ 400.00	\$ 250.00
Holly Forest XV	\$ 400.00	\$ 500.00
Whispering Lake Phase I	\$ 400.00	\$1,250.00
Whispering Lake Phases II and III	\$ 400.00	\$2,450.00
Deer Run	\$ 400.00	\$1,900.00
Lonesome Valley Phases I and II	\$ 0.00	\$ 0.00
Chattooga Ridge	\$ 0.00	\$ 0.00

^{1/} These fees are only applicable one time, when the unit is initially connected to the system.

^{2/} The recoupment of capital portion of the connection charges shall be due and payable at such time as the main water and sewer lines are installed in front of each lot, and the tap-on fee for water and sewer shall be payable upon request by the owner of each lot to be connected to the water and sewer lines. With written consent of the company, payment of the recoupment capital portion of the connection charge may be made payable over five-year period following the installation of the water and sewer mains in front of each lot, payment to be made in such a manner and in such installments as agreed upon between lot owner and the company, together with interest on the balance of the unpaid recoupment of capital fee from said time until payment in full at the rate of 6% per annum.

CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA

SCHEDULE OF CONNECTION FEES FOR

SEWER UTILITY SERVICE UNDER UNIFORM RATES

Uniform Connection Fees: ^{1/}

The following uniform connection fees apply unless specified differently by contract approved by and on file with the North Carolina Utilities Commission.

Connection Charge (CC), per SFE (Single-Family Equivalent)	\$ 100.00
Plant Modification Fee (PMF), per SFE	\$1,000.00

The systems where connection fees other than the uniform fees have been approved and/or allowed to become effective by the North Carolina Utilities Commission are as follows. These fees are per SFE:

<u>Subdivision</u>	<u>CC</u>	<u>PMF</u>
Abington	\$ 0.00	\$ 0.00
Abington, Phase 14	\$ 0.00	\$ 0.00
Amber Acres North (Phases II & IV)	\$ 815.00	\$ 0.00
Ashley Hills	\$ 0.00	\$ 0.00
Amherst	\$ 500.00	\$ 0.00
Bent Creek	\$ 0.00	\$ 0.00
Brandywine Bay	\$ 100.00	\$1,456.00
Camp Morehead by the Sea	\$ 100.00	\$1,456.00
Elk River Development	\$1,200.00	\$ 0.00
Hammock Place	\$ 100.00	\$1,456.00
Hestron Park	\$ 0.00	\$ 0.00
Hound Ears	\$ 30.00	\$ 0.00
Independent/Hemby Acres/Beacon Hills (Griffin Bldrs.)	\$ 0.00	\$ 0.00
Kings Grant/Willow Run	\$ 0.00	\$ 0.00
Kynwood	\$ 0.00	\$ 0.00
Mt. Carmel/Section 5A	\$ 500.00	\$ 0.00
Queens Harbor/Yachtsman	\$ 0.00	\$ 0.00
Riverpointe	\$ 300.00	\$ 0.00
Riverpointe (Simonini Bldrs.)	\$ 0.00	\$ 0.00
Steeplechase (Spartabrook)	\$ 0.00	\$ 0.00
The Ridges at Mountain Harbour	\$2,500.00	\$ 0.00
White Oak Plantation	\$ 0.00	\$ 0.00
Willowbrook	\$ 0.00	\$ 0.00

Willowbrook (Phase 3)	\$ 0.00	\$ 0.00
Winston pointe (Phase 1A)	\$1,400.00	\$ 0.00
Woodside Falls	\$ 0.00	\$ 0.00

Other Connection Fees:

The systems where other connection fees have been approved and/or allowed to become effective by the North Carolina Utilities Commission are as follows.

Subdivision

Carolina Pines

Residential	\$1,350.00 per unit (including single-family homes, condominiums, apartments, and mobile homes)
Hotels	\$750.00 per unit
Nonresidential	\$3.57 per gallon of daily design of discharge or \$900.00 per unit, whichever is greater

Subdivision

CC

Fairfield Mountain/Apply Valley (a.k.a. Rumbling Bald) Service Area	\$ 550.00
Highland Shores	\$ 550.00
Carolina Trace	\$ 533.00
Connestee Falls	\$ 400.00

The following connection fees apply unless specified differently by contract approved and/or filed with the North Carolina Utilities Commission.

All Areas Except Holly Forest XIV, Holly Forest XV, Deer Run, and Lonesome Valley Phases I and II

Recoupment of Capital Fee (RCF) ^{2/}	\$ 0.00
Connection charge	\$ 550.00

The systems where other connection fees have been approved and/or allowed to become effective by the North Carolina Utilities Commission are as follows:

<u>Subdivision</u>	<u>CC</u>	<u>RCF</u>
Holly Forest XIV	\$ 550.00	\$1,650.00
Holly Forest XV	\$ 550.00	\$ 475.00
Deer Run	\$ 550.00	\$1,650.00
Lonesome Valley Phases I and II	\$ 0.00	\$ 0.00

^{1/} These fees are only applicable one time, when the unit is initially connected to the system.

^{2/} The recoupment of capital portion of the connection charges shall be due and payable at such time as the main water and sewer lines are installed in front of each lot, and the tap-on fee for water and sewer shall be payable upon request by the owner of each lot to be connected to the water and sewer lines. With written consent of the company, payment of the recoupment capital portion of the connection charge may be made payable over five-year period following the installation of the water and sewer mains in front of each lot, payment to be made in such a manner and in such installments as agreed upon between lot owner and the company, together with interest on the balance of the unpaid recoupment of capital fee from said time until payment in full at the rate of 6% per annum.

Issued in Accordance with Authority Granted by the North Carolina Utilities Commission in Docket No. W-354, Sub 364, on this the 31st day of March, 2020.

**STATE OF NORTH CAROLINA
 UTILITIES COMMISSION
 RALEIGH**

DOCKET NO. W-354, SUB 364

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of

Application by Carolina Water Service,)
 Inc. of North Carolina, 4944 Parkway)
 Plaza Boulevard, Suite 375, Charlotte,)
 North Carolina 28217, for Authority to)
 Adjust and Increase Rates for Water)
 and Sewer Utility Service in All of its)
 Service Areas in North Carolina)

NOTICE TO CUSTOMERS

NOTICE IS HEREBY GIVEN that the North Carolina Utilities Commission has issued an Order authorizing Carolina Water Service, Inc. of North Carolina (CWSNC) to increase rates for water and sewer utility service in all of its service areas in North Carolina. The new approved rates are as follows:

WATER RATES AND CHARGES

(Excluding Fairfield Harbour Service Area and Treasure Cove, Register Place Estates, North Hills, Glen Arbor/North Bend, Bradfield Farms, Larkhaven, Silverton, and Woodland Farms Subdivisions, and Hawthorne at the Green Apartments

Uniform Water Customers:

Monthly Metered Water Service (Residential and Commercial):

Base Facility Charge (based on meter size with zero usage)	
< 1" meter	\$ 28.92
1" meter	\$ 72.30
1 1/2" meter	\$ 144.60
2" meter	\$ 231.36
3" meter	\$ 433.80
4" meter	\$ 723.00
6" meter	\$1,446.00

Usage Charge:

A. Treated Water/1,000 gallons	\$ 8.27
B. Untreated Water/1,000 gallons (Brandywine Bay Irrigation Water)	\$ 4.23

C. Purchased Water for Resale, per 1,000 gallons:

<u>Service Area</u>	<u>Bulk Provider</u>		
Carolina Forest	Montgomery County	\$	3.19
High Vista Estates	City of Hendersonville	\$	3.40
Riverbend	Town of Franklin	\$	7.50
Riverpointe	Charlotte Water	\$	6.48
Whispering Pines	Town of Southern Pines	\$	3.28
White Oak Plantation/ Lee Forest	Johnston County	\$	2.65
Winston Plantation	Johnston County	\$	2.65
Winston Point	Johnston County	\$	2.65
Woodrun	Montgomery County	\$	3.19
Yorktown	City of Winston Salem	\$	5.79
Zemosa Acres	City of Concord	\$	5.41
Carolina Trace	City of Sanford	\$	2.21

Commercial customers, including condominiums or other property owner associations who bill their members directly, shall have a separate account set up for each meter and each meter shall be billed separately based on the size of the meter and usage associated with the meter.

When because of the method of water line installation utilized by the developer or owner, it is impractical to meter each unit or other structure separately, the following will apply:

Sugar Mountain Service Area:

Where service to multiple units or other structures is provided through a single meter, the average usage for each unit or structure served by that meter will be calculated. Each unit or structure will be billed based upon that average usage plus the base monthly charge for a <1" meter.

Mount Mitchell Service Area:

Service will be billed based upon the Commission-approved monthly flat rate.

Monthly Flat Rate Service: (Billed in Arrears) \$ 58.54
Availability Rate: (Semiannual)

Applicable only to property owners in Carolina Forest
and Woodrun Subdivisions in Montgomery County \$ 27.15

Availability Rate: (Monthly)

Applicable only to property owners in Linville Ridge
Subdivision \$ 13.60

Availability Rate: (Monthly rate, billed semiannually)

Applicable only to property owners in Fairfield Sapphire Valley Service Area \$ 10.05

Availability Rate: (Monthly rate, billed quarterly)

Applicable only to property owners in Connestee Falls \$ 5.30

SEWER RATES AND CHARGES

(Excluding Fairfield Harbour Service Area, Treasure Cove, Register Place Estates, North Hills and Glen Arbor/North Bend Subdivisions, Bradfield Farms, Larkhaven, Silverton, and Woodland Farms Subdivisions, and Hawthorne at the Green Apartments)

Uniform Sewer Customers:

Monthly Metered Sewer Service:

Base Facility Charge:

Residential (zero usage) \$ 58.91

Commercial (based on meter size with zero usage)

< 1" meter	\$ 58.91
1" meter	\$ 147.28
1 1/2" meter	\$ 294.55
2" meter	\$ 471.28
3" meter	\$ 883.65
4" meter	\$1,472.75
6" meter	\$2,945.50

Usage charge, per 1,000 gallons \$ 4.59

Commercial customers, including condominiums or other property owner associations who bill their members directly, shall have a separate account set up for each meter and each meter shall be billed separately based on the size of the meter and usage associated with the meter.

Monthly Metered Purchased Sewer Service:

Collection Charge (residential and commercial) \$ 41.24

Usage charge, per 1,000 gallons based on purchased water consumption

<u>Service Area</u>	<u>Bulk Provider</u>		
White Oak Plantation/ Lee Forest/Winston Pt.	Johnston County	\$	5.57
Kings Grant	Two Rivers Utilities	\$	3.98
College Park	Town of Dallas	\$	7.33

Monthly Flat Rate Service: \$ 73.73

Multi-residential customers who are served by a master meter shall be charged the flat rate per unit. \$ 73.73

Mt. Carmel Subdivision Service Area:

Monthly Base Facility Charge \$ 7.29

Monthly Collection Charge
(Residential and commercial) \$ 41.24

Usage Charge/1,000 gallons based on purchased water \$ 6.32

Regalwood and White Oak Estates Subdivision Service Area:

Monthly Flat Rate Sewer Service
Residential Service \$ 73.73
White Oak High School \$2,187.33
Child Castle Daycare \$ 280.41
Pantry \$ 153.76

Fairfield Mountain/Apple Valley (a.k.a. Rumbling Bald) Service Area, Highland Shores Subdivisions and Laurel Mountain Estates

Monthly Sewer Rates:

Residential:
Collection charge/dwelling unit \$ 41.24
Treatment charge/dwelling unit \$ 69.50
Total monthly flat rate/dwelling unit \$ 110.74

Commercial and Other:

Minimum monthly collection and treatment charge \$ 110.74

Monthly collection and treatment charge for customers
Who do not take water service (per single family unit) \$ 110.74

Treatment charge per dwelling unit

Small (less than 2,500 gallons per month)	\$ 78.50
Medium (2,500 to 10,000 gallons per month)	\$ 139.50
Large (over 10,000 gallons per month)	\$ 219.50

Collection Charge (per 1,000 gallons)	\$ 13.93
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The Ridges at Mountain Harbour:

Monthly Sewer Rates:

Collection charge (Residential and Commercial)	\$ 41.24
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Treatment Charge (Residential and Commercial)	
< 1 inch meter	\$ 18.42
2 inch meter	\$ 147.36

Availability Rate: (Monthly rate, billed semiannually)

Applicable only to property owners in Fairfield Sapphire Valley Service Area	\$ 10.20
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Availability Rate: (Monthly rate, billed quarterly)

Applicable only to property owners in Connestee Falls	\$ 5.75
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RATE ADJUSTMENT MECHANISM:

The Commission-authorized water and sewer system improvement charge (WSIC/SSIC) rate adjustment mechanism continues in effect and will now be applicable to all customers in CWSNC's North Carolina service areas. It has been reset at zero in the Docket No. W-354, Sub 364 rate case, but CWSNC may, under the Rules and Regulations of the Commission, next apply for a rate surcharge on July 31, 2020 to become effective October 1, 2020. The WSIC/SSIC mechanism is designed to recover, between rate case proceedings, the costs associated with investment in certain completed, eligible projects for system or water quality improvement. The WSIC/SSIC mechanism is subject to Commission approval and to audit and refund provisions. Any cumulative system improvement charge recovered pursuant to the WSIC/SSIC mechanism may not exceed 5% of the total annual service revenues approved by the Commission in this general rate case proceeding. Additional information regarding the WSIC/SSIC mechanism is contained in the Commission's Order and can be accessed from the Commission's website at www.ncuc.net, under Docket Information, using the Docket Search feature for docket number "W-354 Sub 360A" and "W-354, Sub 364A" .

CREDIT/REFUNDS DUE TO REDUCTION IN FEDERAL CORPORATE INCOME TAX RATE:

On December 22, 2017, President Donald J. Trump signed into law the Tax Cuts and Jobs Act (The Tax Act), which among other things, reduced the federal corporate income tax rate from 35% to 21%, effective for taxable years beginning after December 31, 2017.

With respect to excess deferred income taxes (EDIT) resulting from the reduction in the federal corporate income tax rate, the Commission is requiring that: (1) CWSNC shall continue to flow back the federal protected EDIT to customers in accordance with the Reverse South Georgia Method as ordered by the Commission in CWSNC's last rate case (Docket No. W-354, Sub 360), and (2) CWSNC shall refund the remaining federal unprotected EDIT to customers through a levelized rider over a period of 24 months as requested by CWSNC instead of the remaining 35-month period as originally ordered by the Commission in Docket No. W-354, Sub 360.

CWSNC will provide the applicable dollar amount concerning the federal EDIT rider (refund) shown as a separate line item on individual customers' monthly bills, along with explanatory information.

ISSUED BY ORDER OF THE COMMISSION.

This the 31st day of March, 2020.

NORTH CAROLINA UTILITIES COMMISSION

Handwritten signature of Kimberley A. Campbell in black ink.

Kimberley A. Campbell, Chief Clerk

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-354, SUB 364

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

<p>In the Matter of Application by Carolina Water Service, Inc.) of North Carolina, 4944 Parkway Plaza) Boulevard, Suite 375, Charlotte, North) Carolina 28217, for Authority to Adjust and) Increase Rates for Water and Sewer Utility) Service in All of its Service Areas in North) Carolina)</p>	<p>) NOTICE TO CUSTOMERS) IN TREASURE COVE, REGISTER) PLACE ESTATES, NORTH HILLS,) AND GLEN ARBOR/NORTH BEND) SUBDIVISIONS, FAIRFIELD) HARBOUR SERVICE AREA,) BRADFIELD FARMS, LARKHAVEN,) SILVERTON, AND WOODLAND) FARMS SUBDIVISIONS, AND) HAWTHORNE AT THE GREEN) APARTMENTS</p>
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NOTICE IS HEREBY GIVEN that the North Carolina Utilities Commission has issued an Order authorizing Carolina Water Service, Inc. of North Carolina to charge the following new rates for water and sewer utility service in Treasure Cove, Register Place Estates, North Hills, and Glen Arbor/North Bend Subdivisions, Fairfield Harbour Service Area, Bradfield Farms, Larkhaven, Silverton, and Woodland Farms Subdivisions, and Hawthorne at the Green Apartments:

WATER RATES AND CHARGES

Monthly Metered Water Service (Residential and Commercial):

Base Facility Charge (based on meter size with zero usage)	
< 1" meter	\$ 17.30
1" meter	\$ 43.25
1 1/2" meter	\$ 86.50
2" meter	\$ 138.40
Usage Charge, per 1,000 gallons	\$ 4.20

Availability Rate: (Monthly rate, billed semiannually)

Applicable only to property owners in Fairfield Harbour Service Area	\$ 3.55
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SEWER RATES AND CHARGES

Monthly Sewer Service:

Residential:

Flat Rate, per dwelling unit	\$ 53.91
Bulk Flat Rate, per REU	\$ 53.91

Commercial and Other:

Monthly Flat Rate (Customers who do not take water service)	\$ 53.91
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Monthly Metered Rates
(based on meter size with zero usage)

<1" meter	\$ 44.62
1" meter	\$111.55
1 1/2" meter	\$223.10
2" meter	\$356.96

Usage Charge, per 1,000 gallons	\$ 2.25
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Bulk Sewer Service for Hawthorne at the Green Apartments:

Bulk Flat Rate, per REU	\$ 53.91
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(To be collected from Hawthorne and delivered to Carolina Water Service, Inc. of North Carolina for treatment of the Hawthorne wastewater pursuant to Docket No. W-218, Sub 291)

Availability Rate: (Monthly rate, billed semiannually)

Applicable only to property owners in Fairfield Harbour Service Area	\$ 2.85
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RATE ADJUSTMENT MECHANISM:

The Commission-authorized water and sewer system improvement charge (WSIC/SSIC) rate adjustment mechanism continues in effect and will now be applicable to all customers in CWSNC's North Carolina service areas. It has been reset at zero in the Docket No. W-354, Sub 364 rate case, but CWSNC may, under the Rules and Regulations of the Commission, next apply for a rate surcharge on July 31, 2020, to become effective October 1, 2020. The WSIC/SSIC mechanism is designed to recover, between rate case

proceedings, the costs associated with investment in certain completed, eligible projects for system or water quality improvement. The WSIC/SSIC mechanism is subject to Commission approval and to audit and refund provisions. Any cumulative system improvement charge recovered pursuant to the WSIC/SSIC mechanism may not exceed 5% of the total annual service revenues approved by the Commission in this general rate case proceeding. Additional information regarding the WSIC/SSIC mechanism is contained in the Commission's Order and can be accessed from the Commission's website at www.ncuc.net, under Docket Information, using the Docket Search feature for docket number "W-354 Sub 360A" and "W-354 Sub 364A".

CREDIT/REFUNDS DUE TO REDUCTION IN FEDERAL CORPORATE INCOME TAX RATE:

On December 22, 2017, President Donald J. Trump signed into law the Tax Cuts and Jobs Act (The Tax Act), which among other things, reduced the federal corporate income tax rate from 35% to 21%, effective for taxable years beginning after December 31, 2017.

With respect to excess deferred income taxes (EDIT) resulting from the reduction in the federal corporate income tax rate, the Commission is requiring that: (1) CWSNC shall continue to flow back the federal protected EDIT to customers in accordance with the Reverse South Georgia Method as ordered by the Commission in CWSNC's last rate case (Docket No. W-354, Sub 360), and (2) CWSNC shall refund the remaining federal unprotected EDIT to customers through a levelized rider over a period of 24 months as requested by CWSNC instead of the remaining 35-month period as originally ordered by the Commission in Docket No. W-354, Sub 360.

CWSNC will provide the applicable dollar amount concerning the federal EDIT rider (refund) shown as a separate line item on individual customers' monthly bills, along with explanatory information.

ISSUED BY ORDER OF THE COMMISSION.

This the 31st day of March, 2020.

NORTH CAROLINA UTILITIES COMMISSION



Kimberley A. Campbell, Chief Clerk

CERTIFICATE OF SERVICE

I, _____, mailed with sufficient postage or hand delivered to all affected customers the attached Notices to Customers issued by the North Carolina Utilities Commission in Docket No. W-354, Subs 363, 364, and 365, and the Notices were mailed or hand delivered by the date specified in the Order.

This the ____ day of _____, 2020.

By: _____
Signature

Name of Utility Company

The above named Applicant, _____, personally appeared before me this day and, being first duly sworn, says that the required Notices to Customers were mailed or hand delivered to all affected customers, as required by the Commission Order dated _____ in Docket No. W-354, Subs 363, 364, and 365.

Witness my hand and notarial seal, this the ____ day of _____, 2020.

Notary Public

Printed or Typed Name

(SEAL) My Commission Expires: _____
Date

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2017-292-WS - ORDER NO. 2018-345

MAY 17, 2018

IN RE: Application of Carolina Water Service, Inc.) ORDER APPROVING
for Adjustment of Rates and Charges and) RATES AND CHARGES
Modification to Certain Terms and)
Conditions for the Provision of Water and)
Sewer Service)

This matter is before the Public Service Commission of South Carolina ("Commission") on the Application of Carolina Water Service, Inc. ("CWS" or "Company") for approval of a new schedule of rates and charges and modifications to certain terms and conditions for the provision of water and sewer services for its customers in South Carolina. CWS filed its Application on November 10, 2017, pursuant to S.C. Code § 58-5-240 and S.C. Code Regs. §§ 103-503, 103-703, 103-512.4.A and 103-712.4.A.

In the Application, CWS requested an increase in revenues for combined operations of \$4,511,414 consisting of a water revenue increase of \$2,272,914 and a sewer revenue increase of \$2,238,500. The revenue increase utilizes a return on equity ("ROE") of 10.5% based on the rate of return on rate base methodology and a historical test year beginning September 1, 2016, and ending August 31, 2017.

CWS requested permission to modify its sewer service tariff to reduce the frequency with which customers must test their backflow devices from every year to every

DOCKET NO. 2017-292-WS – ORDER NO. 2018-345

MAY 17, 2018

PAGE 2

two years, and to authorize the Company to terminate service, after notice, to a customer who fails to demonstrate that his backflow device is working properly. App. p. 6, ¶ 20. CWS requested authorization to increase its Water Meter Installation Charge from \$35 to \$45 per year, to more accurately reflect the utility's cost of providing this service. App. p. 6, ¶ 21. The Company also requested approval of a provision in its tariff limiting the liability of the Company, its agents, and employees for interruption of service, whether caused by acts or omissions, to those remedies provided in the Commission's rules and regulations. App. p. 6, ¶ 22.

CWS last rate case before this Commission was in Docket No. 2015-199-WS. In that case, the Commission approved a settlement in which CWS received a combined revenue increase of \$3,068,441 based on a \$50,955,443 rate base; an operating margin of 11.95%, an ROE of 9.34%, and a return on rate base of 7.99%.

CWS' South Carolina operations are classified by the National Association of Regulatory Utility Commissioners ("NARUC") as a Class A water and wastewater utility according to water and sewer revenues reported on its Application for the test year ending August 31, 2017. The Commission's approved service area for CWS is in parts of sixteen counties.

I. PROCEDURAL BACKGROUND

The Commission's Clerk's Office instructed CWS to publish a prepared Notice of Filing, one time, in a newspaper of general circulation in the area affected by CWS' Application and to mail copies of the Notice of Filing to all customers affected by the proposed rates and charges and modifications. The Notice of Filing indicated the nature of

DOCKET NO. 2017-292-WS – ORDER NO. 2018-345

MAY 17, 2018

PAGE 3

the Application and advised all interested parties desiring to participate in the scheduled proceeding of the manner and time in which to file the appropriate pleadings. CWS filed affidavits demonstrating the Notice of Filing had been duly published and provided to all customers.

Petitions to Intervene were subsequently filed on behalf of the Forty Love Point Homeowners' Association ("Forty Love"), York County, and James S. Knowlton. The South Carolina Office of Regulatory Staff ("ORS"), a party of record pursuant to S.C. Code § 58-4-10(B), made on-site investigations of CWS' facilities, audited CWS' books and records, issued data requests, and gathered other detailed information concerning CWS' operations.

CWS was represented by Charles L.A. Terreni, and Scott Elliott. Laura P. Valtorta represented Forty Love. Michael K. Kendree represented York County, Mr. Knowlton appeared pro se. Jeffrey M. Nelson, and Florence P. Belser represented the ORS. On March 28, 2018 York County moved to withdraw from the proceedings without prejudice after CWS withdrew its request for approval of the Utility System Improvement Rate ("USIR"). York County's request was granted on the same day. Order No. 2018-38-H.

The Commission held public hearings in Lexington, York, and Greenville counties to allow CWS's customers to present their views regarding the Application. An evidentiary hearing was held April 3-4, 2018, at the Commission's offices in Columbia with the Honorable Swain E. Whitfield, presiding.

The Company presented the testimony of Michael R. Cartin, Operations and Regulatory Affairs Manager (direct, rebuttal and supplemental), Robert M. Hunter,

DOCKET NO. 2017-292-WS – ORDER NO. 2018-345

MAY 17, 2018

PAGE 4

Financial Planning and Analysis Manager (direct and rebuttal), and Bob Gilroy, Vice President of Operations (direct, rebuttal, and testimony responsive to customers who testified at public hearings). Mr. Cartin, testified about the Company's operations and various expenses and capital expenditures made by CWS. Mr. Hunter testified about the Company's finances and revenue requirement, and Mr. Gilroy testified about various aspects of the Company's operations and customer service. The Company also presented the testimony of Dylan W. D'Ascendis, CRRA, Director at ScottMadden, Inc., who testified to the Company's capital structure, cost of debt, and recommended ROE.

Forty Love presented the direct testimony of subdivision residents and customers Barbara King and Jay Dixon. They testified to problems experienced with the sewer system serving Forty Love Point. Mr. Knowlton presented his rebuttal testimony opposing the amount and frequency of the Company's rate increases.

ORS presented the testimony of Matthew Schellinger (direct and surrebuttal), Zachary Payne (direct and surrebuttal), and Douglas H. Carlisle, Jr., Ph.D. (direct and surrebuttal) as a panel. Dr. Carlisle testified to the Company's capital structure, cost of debt, and recommended ROE.

Dr. Carlisle's testimony included an analysis and recommendation for an allowed ROE. Mr. Payne testified about ORS's examination of the Application and CWS' books and records and the subsequent accounting and pro forma adjustments recommended by ORS. Mr. Schellinger's direct testimony focused on CWS' compliance with Commission rules and regulations, ORS' business office compliance review, inspections of CWS' water

DOCKET NO. 2017-292-WS – ORDER NO. 2018-345

MAY 17, 2018

PAGE 5

and wastewater systems, test year and proposed revenue, and performance bond requirements.

II. REVIEW OF THE EVIDENCE AND EVIDENTIARY CONCLUSIONS

A. Standards and Required Findings

In considering the Application, the Commission must ascertain and fix just and reasonable rates, standards, classifications, regulations, practices, and measurements of service to be furnished. The Commission must give due consideration to the Company's total revenue requirements and review the operating revenues and operating expenses of CWS to establish adequate and reasonable levels of revenues and expenses. The Commission will consider a fair rate of return for CWS based on the record and any increase must be just and reasonable and free of undue discrimination. CWS has also asked this Commission to approve revenues based on an authorized ROE established to allow CWS the opportunity to earn a fair return.

After evaluation of the positions of the parties, the Commission reaches the legal and factual conclusions discussed below, based on its review of the facts and evidence of record. The evidence supporting the Company's business and legal status is contained in the Application filed by CWS, testimony, and in prior Commission orders in the docket files of the Commission, of which the Commission takes judicial notice.

CWS has approximately 16,000 water customers and 14,000 sewer customers in Lexington, Richland, Sumter, Aiken, Saluda, Orangeburg, Beaufort, Georgetown, Abbeville, Union, Anderson, York, Cherokee, Greenville, Greenwood, and Williamsburg counties. App. Schd. F; R. p. 345 (Gilroy Dir. p. 2, ll. 21-24). As a public utility, its

DOCKET NO. 2017-292-WS – ORDER NO. 2018-345

MAY 17, 2018

PAGE 6

operations are subject to the jurisdiction of the Commission pursuant to S.C. Code §§ 58-5-10 et seq.

B. Test Year

A fundamental principle of the ratemaking process is the establishment of a historical test year as the basis for calculating a utility's return on rate base. To determine the utility's expenses and revenues, we must select a 'test year' for the measurement of the expenses and revenues. *Heater of Seabrook v. PSC*, 324 S.C. 56, 59 n.1 (1996). While the Commission considers a utility's proposed rate increase based upon occurrences within the test year, the Commission will also consider adjustments for any known and measurable out-of-test year changes in expenses, revenues, and investments, and will also consider adjustments for any unusual situations which occurred in the test year. When the test year figures are atypical, the Commission should adjust the test year data. See *S. Bell Tel. & Tel. Co. v. Pub. Serv. Com*, 270 S.C. 590, 603 (1978).

In its Application, CWS utilized a historic test year, the twelve months beginning September 1, 2016, and ending August 31, 2017, with adjustments for 2018 expectations. App. p.2, ¶ 5. ORS used the same historical test year. R. p. 729 (Payne Dir. p. 2, ll. 5-10). None of the other parties contested CWS' proposed test year. Based on the information available to the Commission, and that none of the parties objected to CWS' proposed test year, the Commission concludes that the test year beginning September 1, 2016, and ending August 31, 2017, is appropriate for this Application.

DOCKET NO. 2017-292-WS – ORDER NO. 2018-345

MAY 17, 2018

PAGE 7

C. Rate of Return on Rate Base

The Company requested rate base and rate of return treatment for its Application. App. pp. 4-5, ¶ 16. No other party of record proposed an alternative method for determining just and reasonable rates and the testimony of ORS' witnesses Payne and Carlisle assumes that return on rate base will be the methodology employed.

The Commission has wide latitude in selecting a rate setting methodology. Heater of Seabrook, at 64. Even though S.C. Code § 58-5-240(H) requires the Commission to specify an operating margin in all water and sewer rate cases, the Commission is not precluded by that statute from employing the return on rate base approach to ratemaking. Id. Operating margin "is less appropriate for utilities that have large rate bases and need to earn a rate of return sufficient to obtain the necessary debt and equity capital that a large utility needs for sound operation." Id at 65. In the Company's last rate case, the Commission employed the return on rate base methodology. The Commission finds the return on rate base methodology is appropriate. The Company's rate base, according to its Application, is \$54,853,170. App. Ex. B, Sch. C, p. 1.

The determination of return on rate base requires consideration of three components, namely: capital structure, cost of equity (or "ROE") and the cost of debt. R. pp. 397-398 (D' Ascendis Dir. pp. 4-5).

Mr. D'Ascendis and Dr. Carlisle agreed the capital structure and cost of debt of CWS's parent, Utilities, Inc. should be employed: it is 48.11% long-term debt and 51.89% common equity. R. pp. 395 (D'Ascendis Dir. p. 2, ll. 10-17); 649 (Carlisle Dir. p.4, ll. 21-

DOCKET NO. 2017-292-WS – ORDER NO. 2018-345

MAY 17, 2018

PAGE 8

p.5, l. 3). No other party disagreed. The Commission finds this capital structure supported by the uncontroverted testimony of the parties.

Mr. D'Ascendis and Dr. Carlisle disagreed on CWS's cost of debt. Mr. D'Ascendis used an embedded debt rate of 6.60%. Dr. Carlisle lowered CWS's cost of debt rate from 6.60% to 6.58% due to what he described as "unfavorable terms" of the Company's long-term debt. R. p. 649 (Carlisle Dir., p. 4, l. 21 – p. 5, l. 9). Dr. Carlisle argued the Company imprudently refinanced its long-term debt when interest rates were high and agreed to terms which prevent it from refinancing now that interest rates are lower. *Id.* Mr. D'Ascendis countered that the Company's long-term debt financing, which was agreed to in 2006, was in line with bond yields for similarly situated companies at the time. R. p. 438 (D'Ascendis, Rebut. p. 3, ll. 1-14). However, the Commission has not been provided any evidence to support the ORS position. We find the appropriate long-term debt rate for CWS is 6.60%.

The rate of return on common equity, or ROE, is a key figure used in calculating a utility's overall rate of return. *Porter v. PSC*, 333 S.C. 12 (1998). A utility is entitled to the opportunity to earn a fair rate of return. *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944) and *Bluefield Water Works Improvement Co. v. Public Service Comm'n*, 262 U.S. 679 (1922),

Mr. D'Ascendis recommended that CWS' ROE should fall within a range of 10.45% to 10.95%. R. p. 397 (D'Ascendis Dir. p. 4, ll. 4-20 (Table 2)).

To determine the cost of equity, Mr. D'Ascendis used the Discounted Cash Flow ("DCF") Risk Premium Model ("RPM") and the Capital Asset Pricing Model ("CAP-M")

DOCKET NO. 2017-292-WS – ORDER NO. 2018-345

MAY 17, 2018

PAGE 9

and (“ECAP-M”) model to similar risk companies, i.e. proxy groups, of regulated and non-regulated companies. R. pp. 396-397 (D’Ascendis Direct pp. 3-4).

The proxy groups were used by Mr. D’Ascendis because the Company's common stock is not publicly traded, and, therefore, CWS's market-based common equity cost rates cannot be determined directly. Id. He used a proxy group of eight water companies whose common stocks were actively traded for insight into a common equity cost rate applicable to CWS. R. p. 402 (D’Ascendis Direct, p.10). The utility proxy group was selected according to these criteria: 1) they are included in the Water Utility Group of Value Line's Standard Edition (October 13, 2017); 2) they have 70% or greater of 2016 total operating income and 70% or greater of 2016 total assets attributable to regulated water operations; 3) at the time of the preparation of this testimony, they had not publicly announced that they were involved in any major merger or acquisition activity (i.e. one publicly traded utility merging with or acquiring another); 4) they have not cut or omitted their common dividends during the five years ending 2016 or through the time of the preparation of this testimony; 5) they have Value Line and Bloomberg adjusted betas; 6) they have a positive Value Line five-year dividends per share (“DPS”) growth rate projection; and 7) they have Value Line, Reuters, Zacks, or Yahoo! Finance consensus five-year earnings per share (“EPS”) growth rate projections. Id. The companies that met Mr. D’Ascendis’ criteria were: American States Water Co., American Water Works Co., Inc., Aqua America, Inc., California Water Service Group, Connecticut Water Service, Inc., Middlesex Water Co., SJW Corp., and York Water Co. Id.

DOCKET NO. 2017-292-WS – ORDER NO. 2018-345

MAY 17, 2018

PAGE 10

Mr. D'Ascendis also selected a proxy group of twenty-eight non-price regulated companies comparable in total risk to the proxy group of water companies. R. Ex. 8 (D'Ascendis Direct, Ex. 1, Schd. DWD-6). The criteria for non-price regulated proxy group were: 1) they must be covered by Value Line Investment Survey (Standard Edition); 2) they must be domestic, non-price regulated companies, i.e., non-utilities; 3) their beta coefficients must lie within plus or minus two standard deviations of the average unadjusted beta of the utility proxy group; and 4) the residual standard errors of the Value Line regressions, which gave rise to the unadjusted beta coefficients, must lie within plus or minus two standard deviations of the average residual standard error of the utility proxy group. R. p. 423 (D'Ascendis Direct, p. 30, ll. 15-23).

Mr. D'Ascendis' DCF analysis yields cost rates for the water company proxy group of 8.64%. The RPM analysis produced a common equity cost rate of 10.69% for the water company proxy group. The CAP-M cost rate is 10.51% for the water company proxy group. D'Ascendis averaged the mean, 10.43%, and median, 10.58%, equity costs of the water company proxy group, resulting in 10.51%. R. p. 424 (D'Ascendis Direct, p. 29, ll. 10-15). With the non-price regulated proxy group, the DCF yields 13.57%, the RPM, 11.91%, and the CAP-M/ECAP-M, 11.15%. R. p. 424 (D'Ascendis Direct, pp. 31, l. 12-32, l. 4). The average of the mean and median of the non-price regulated proxy group is 12.06%. R. p. 425 (D'Ascendis Direct, p. 32, ll. 7-14).

The approximate average of the results produced by any of Mr. D'Ascendis' models is 10.45%. R. p. 426 (D'Ascendis Direct, p. 33, ll. 5-9). He also recommended an upward adjustment of 0.50% ROE, due to CWS's small size. R. pp. 426 - 429 (D'Ascendis Direct,

DOCKET NO. 2017-292-WS – ORDER NO. 2018-345

MAY 17, 2018

PAGE 11

p. 33, l. 11- 36, l. 20). His average ROE after the size adjustment is 10.95%. R. p. 429 (D’Ascendis Direct, p. 36, ll. 17-20). Mr. D’Ascendis recommended range of ROE was 10.45% to 10.95%. R. p. 397 (D’Ascendis Dir. p. 4, ll. 4-20 (Table 2)).

Dr. Carlisle employed the DCF model, the Comparable Earnings Model (“CEM”), and the CAP-M method to calculate his ROE range of 8.82% to 9.54%. R. p. 647 (Carlisle Direct, p. 2, ll. 12-15).

Dr. Carlisle also used a water company proxy group of ten water companies for his DCF and CAP-M analyses. R. p. 649 (Carlisle Direct, p. 4, ll. 15-20). Dr. Carlisle’s water company proxy group was identical to Mr. D’Ascendis’ water company proxy group except for the addition of Global Water Resources and Artesian Resources. Carlisle Rev. Exhibit DHC-4.

Dr. Carlisle’s DCF analysis yields cost rates for his water company proxy group of 8.82%. R. p. 654 (Carlisle Direct, p. 9, ll. 5-6). Dr. Carlisle did not perform the DCF analysis on non-price regulated proxy group as Mr. D’Ascendis did.

Dr. Carlisle’s CAP-M analysis compared the returns of the companies in his water company proxy group to a “risk free rate of return” (projected 30 yr. Treasury bond yield). R. p. 658 (Carlisle Direct, p. 13, ll. 17-23). Dr. Carlisle’s CAP-M analysis produced a range of 9.38% to 9.70%, which he averaged for a final CAP-M rate of 9.54%. R. p. 659 (Carlisle Direct, p. 14, ll. 12-13). Dr. Carlisle did not perform the CAP-M analysis on comparable non-price regulated stocks, as Mr. D’Ascendis did.

Dr. Carlisle’s CEM analysis, was applied to a group of non-price regulated stocks selected from Value Line with a comparable price volatility factor (“beta” or “β”) to those

DOCKET NO. 2017-292-WS – ORDER NO. 2018-345

MAY 17, 2018

PAGE 12

in his water company proxy group. R. p. 655 (Carlisle Dir. p. 10, ll. 1-6). The CEM analysis produced a “retrospective” return on equity of 9.15%, and a “prospective” ROE of 8.63%. Dr. Carlisle averaged the two to arrive at a CEM ROE of 8.89%. R. p. 656 (Carlisle Dir. p. 11, ll. 3-7).

Finally, Dr. Carlisle averaged his DCF, CEM, and CAP-M rates to arrive at his recommended ROE of 9.08%.

Mr. D’Ascendis and Dr. Carlisle disagreed often. Mr. D’Ascendis argued that Dr. Carlisle should have relied on analysts’ estimates of earnings per share rather than historical and projected measures of book value per share, dividends per share, and sales growth to predict growth in earnings per share when performing his DCF analysis. R. p. 438 (D’Ascendis, Rebut. p. 3, l. 15 – p. 7, l. 5). On the other hand, Dr. Carlisle took issue with Mr. D’ Ascendis’ reliance on analysts’ projections of earnings per share (“EPS”) as the sole factor in his DCF analysis. R. pp. 666–667 (Carlisle Surr. p. 5, l. 8 – p. 6, l. 12). Dr. Carlisle, instead, also considers dividends per share (“DPS”), book value per share (“BPS”), and revenue or sales. R. pp. 650-651 (Carlisle Dir., pp. 6-7). Mr. D’Ascendis pointed to common market references, such as Yahoo Finance and Bloomberg, which provide earnings per share projections, but not projections of dividends per share, book value per share or sales growth, as evidence the investment community relies on the former but not the latter. R. p. 458, l. 24 – p. 459, l. 13. Had he done so, Mr. D’Ascendis testified, Dr. Carlisle's analysis would have produced a higher ROE. R. p. 442 (D'Ascendis Rebut., p. 7, ll. 1-5). Dr. Carlisle disagreed, citing studies showing that analysts’ estimates have

been historically overly optimistic, and should not be the sole basis for the DCF analysis.

R. pp. 664–666 (Carlisle, Surr. p. 3, l. 6 – p. 5, l. 4).

Mr. D’Ascendis also disagreed with Dr. Carlisle’s CAP-M calculations. He argued that Dr. Carlisle used the wrong measures of market return, and that he should have used the arithmetic mean of monthly total return rates instead of a geometric mean (or compound growth rate). Mr. D’Ascendis contends using the arithmetic produces the best insight into future returns. R. pp. 443–445 (D’ Ascendis Rebut. pp. 8-10). Dr. Carlisle responded that his market return measure better reflects the variety of companies in the market. Dr. Carlisle also defended his use of the geometric mean arguing that the arithmetic mean ignores the “compounding” effect of investing and can mislead investors by masking over the ups and downs of the market. R. p. 668 (Carlisle Surr. p. 7, l. 5 – p. 10, l. 26).

Mr. D’Ascendis criticized Dr. Carlisle for not performing an ECAP-M analysis, which he testified would have produced an equity cost rate of 10.03%. R. pp. 444–445 (D’Ascendis Rebut. p. 9, l. 8 – p. 10, l. 9). Mr. D’Ascendis also testified that Dr. Carlisle’s selection of non-price regulated companies for his CEM analysis failed to reflect the total risk of his water company proxy group. Mr. D’Ascendis performed Dr. Carlisle’s DCF and CAP-M analyses using a group that better reflected the risk of the water proxy group and found cost rates of 14.66% and 9.85% respectively. R. p. 448 (D’Ascendis Rebut. p. 13, ll. 14-24). Using the amended proxy group, Dr. Carlisle’s range would change to 9.57% (DCF), 10.03% (CAP-M), and 12.26% (CEM) with an average of 10.62%. R. p. 449 (D’Ascendis Rebut. p. 14, ll. 4-10).

The Commission finds Mr. D’Ascendis’ arguments persuasive. He provided more indicia of market returns, by using more analytical methods and proxy group calculations. Mr. D’Ascendis’ use of analysts’ estimates for his DCF analysis is supported by consensus, as is his use of the arithmetic mean. The Commission also finds that Mr. D’Ascendis’ non-price regulated proxy group more accurately reflects the total risk faced price regulated utilities and CWS. Furthermore, there is no dispute that CWS is significantly smaller than its proxy group counterparts, and, therefore, it may present a higher risk. . An appropriate ROE for CWS is 10.45% to 10.95%. The Company used an ROE of 10.5% in computing its Application, a return on the low end of Mr. D’Ascendis’ range, and the Commission finds that ROE is supported by the evidence.

Table 1 below indicates the capital structure of the Company, the cost of debt, the cost of equity as approved in this Order, and the resulting rate of return on rate base:

Table 1: Summary of Overall Rate of Return

<u>Type of Capital</u>	<u>Ratios</u>	<u>Cost Rate</u>	<u>Weighted Cost Rate</u>
Long-Term Debt	48.11%	6.60%	3.17%
Common Equity	<u>51.89%</u>	10.50%	<u>5.45%</u>
Total	100.00%		8.62%

D. Contested Rate Base Adjustments

The rate base proposed by CWS for combined operations was \$54,853,170. App. Ex B., Sch. C. CWS disputed two of ORS’s rate base adjustments: Adj. 32(c) in which ORS proposes to disallow \$1,081,375 spent in connection with a liner of the equalization

DOCKET NO. 2017-292-WS – ORDER NO. 2018-345

MAY 17, 2018

PAGE 15

basin (“EQ Liner”) at the Friarsgate wastewater treatment plant, and Adj. 32(d) in which ORS proposes to disallow \$306,552 in engineering costs incurred at the Friarsgate Plant. R. p. 744 (Payne Direct, p. 17).

1. Friarsgate EQ Basin Removal and Site Remediation

The Company proposes to include \$1,081,375 for engineering costs and remediation costs associated with the replacement of the Equalization Basin’s (“EQ”) liner at the Friarsgate WWTF. An EQ Liner is a heavy-mill plastic liner placed in an in-ground basin that holds water. R. p. 478, ll. 20-24. CWS hired an engineering firm, W.K. Dickson, after an upset occurred at its Friarsgate Wastewater Treatment Facility (“Friarsgate Plant”). W.K. Dickson assisted CWS in formulating and presenting a Corrective Action Plan required by a Consent Order with DHEC. R. p. 555, l. 16 – p. 557, l. 1. W.K. Dickson submitted engineering plans on an expedited basis for various changes and improvements made to the plant. R. p. 555, ll. 19-25. DHEC also required CWS to have a professional engineer who was a wastewater expert on site to supervise the plant’s operations. R. p. 556, ll. 14-22. W.K. Dickson also provided required monthly reports to DHEC. R. p. 556, l. 22 – p. 557, l. 1.

The Company was required by a DHEC Consent Order to: 1) remove the existing liner, 2) complete any environmental mitigation efforts concerning the soils under the existing liner, and 3) replace the EQ Liner. This effort included removing and properly disposing of any affected soils. Once the site was sufficiently mitigated, new soil was brought in, graded, and compacted to prepare the site for the installation of the new liner. Although the EQ plastic liner has yet to be installed, the Company removed the existing

DOCKET NO. 2017-292-WS – ORDER NO. 2018-345
MAY 17, 2018
PAGE 16

EQ Liner and completed the environmental mitigation required by DHEC before the audit cutoff date of February 12, 2018. CWS acted expeditiously to comply with the DHEC mandate. CWS is not asking to recover the cost of the new liner. R. p. 505, ll. 8-14.

CWS witness Cartin testified that the DHEC Consent Order required CWS to remove the EQ Liner at the Friarsgate Plant, remediate the soil underneath the liner, and replace the liner. R. pp. 318-319 (Cartin Rebut. p. 3, l. 3 – p. 4, l. 2). CWS spent \$1,081,375 to remove the EQ Liner and remediate the soil under the liner. Id. The Company had not installed the new liner yet but is in the process of doing so. Id. CWS contends that its compliance with DHEC's Consent Order was required for its continued operations and the public has benefitted from the removal of the old EQ Liner and the soil remediation, and therefore the costs should be included in rate base. Id.

The ORS proposes to disallow these costs because the EQ Liner has not yet been replaced. The ORS reasons that the project included both the engineering and remediation and the replacement of the EQ Liner. ORS's witness, Zachary Payne, testified that, since the new EQ Liner is still under construction, the whole project is not used and useful and should not be included in rate base. R. p. 754 (Payne Surr. p. 4, ll. 7-17).

The Commission finds the measures required by the DHEC Consent Order were in the public interest. Disallowing recovery of remediation costs acts to impair a utility's ability to address environmental concerns and conflicts with the policy of allowing recovery of necessary and prudently incurred costs. These known and measurable expenditures provided prompt regulatory and environmental compliance and immediate environmental and customer benefits. CWS has not requested recovery of the cost of the

DOCKET NO. 2017-292-WS – ORDER NO. 2018-345

MAY 17, 2018

PAGE 17

new EQ Liner, the part of the project that ORS challenges as not used and useful. The Commission finds the \$1,081,375 cost of the removal of the existing EQ Liner and environmental remediation served the Company's customers and the public interest, and the Company is entitled to its recovery.

2. Friarsgate Engineering Costs

ORS proposed to disallow \$306,552 in engineering costs paid to the W.K. Dickson firm for services at the Friarsgate Plant. R. p. 744 (Payne Direct, p. 17, l. 11 (Adj. 32(d))). CWS contends the costs are recoverable because W.K. Dickson was hired to comply with the terms of the Consent Order with DHEC. R. pp. 319-320 (Cartin Rebut. p. 4, l. 3 – p. 5, l. 4). Mr. Cartin testified that W.K. Dickson was hired to design an O&M Manual and take other measures to ensure compliance at the plant. Id. Mr. Gilroy testified that W.K. Dickson was continuously present at the plant following an upset that occurred in June 2016 which led to a DHEC enforcement action. R. p. 353 (Gilroy Direct p. 10 ll. 1-7); R. p. 487, l. 12 – p. 488, l. 9. During that period, W.K. Dickson served as the principal point of contact with DHEC personnel and obtained permission for changes and improvements made to the facility. Id.

ORS took the position the W.K. Dickson costs should not be recoverable because they were incurred to comply with DHEC's Consent Order, which was caused by the Company's failure to adequately operate and maintain the Friarsgate Plant. R. p. 683, ll. 5-22. ORS's witness, Mr. Schellinger also testified the invoices for the work lacked sufficient detail to allow it to determine the work performed, and the work was required by Consent Orders which arose from the Company's violation of its NPDES permit. R.

DOCKET NO. 2017-292-WS – ORDER NO. 2018-345

MAY 17, 2018

PAGE 18

pp.712-715 (Schellinger Surr. p. 5, l. 13 – p. 8, l. 20). If the costs were allowable, Mr. Schellinger testified that they should be booked as operations and maintenance expenses, not capital assets. CWS responded that costs incurred to ensure the Company's compliance with environmental regulations should be recoverable, and that treating them as capital expenditures is consistent with the practice adopted by the Company and the ORS in the settlement of the last rate case. R. pp. 319 - 320 (Cartin Rebut. p. 4, l. 3 – p. 5, l. 4). The Commission finds the engineering fees are recoverable as a capital expense prudently incurred to ensure necessary compliance with environmental regulations.

E. Expenses

CWS contested adjustments proposed by the ORS to the Company's O&M expenses: a reduction of \$96,892 in sludge hauling expenses (Adj. 9(d)), and the disallowance of \$998,606 in legal expenses incurred during litigation involving the I-20 wastewater treatment plant (Adj. 16).

1. Adjustment for Litigation Expenses

The Company proposes to amortize \$998,606 in financial costs and litigation expenses associated with its I-20 sewer system over 66.67 years. R, pp. 316-317 (Cartin Rebut., p. 1, l. 12 – p. 2, l. 18). These costs were primarily incurred with five actions: 1) a lawsuit brought by the Congaree Riverkeeper in the U.S. District Court, 2) a condemnation action brought by the Town of Lexington, 3) a challenge to DHEC's denial of a permit for the I-20 Plant in the Administrative Law Court, 4) the Town of Lexington's challenge of DHEC's order that it interconnect with CWS brought in the Administrative Law Court, and 5) CWS's lawsuit against the EPA in the United States District Court. Schellinger Sur.

DOCKET NO. 2017-292-WS – ORDER NO. 2018-345

MAY 17, 2018

PAGE 19

p. 3, ll. 1-11. The Company proposed to amortize these costs over 66.7 years, resulting in an expense of \$14,979 per year. R. p. 300 (Cartin, Dir., p. 2, ll. 15-18).

ORS argued the legal expenses should not be allowed for two reasons. Mr. Schellinger testified that legal expenses incurred to defend the Congaree Riverkeeper's lawsuit should not be allowed because the District Court had ruled against CWS finding various violations of its NPDES permit and of effluent limitations since 2009. R. p. 692 (Schellinger Surr. p. 3, l. 11 – p. 4, l. 5). Mr. Schellinger viewed the company's lawsuit against the EPA and its litigation in the Administrative Law Court as related to the Riverkeeper proceeding, a position not disputed by CWS. Schellinger asserts that CWS should not be allowed to recover its legal costs because the actions arose from the Company's violations of environmental regulations. Id.

Schellinger testified the legal costs incurred in the condemnation action should not be recovered because CWS may be allowed to recover some costs if it prevailed. R. p. 730 (Schellinger Surr. p. 4, ll. 6-22). Schellinger also posited the actions before the Administrative Law Court could turn on the outcome of the condemnation action. R. p. 731 (Schellinger Surr. p. 5, ll. 1-12). He testified that since the outcome of the condemnation action was unknown and since if successful CWS may recover its litigation costs, the Commission should establish a regulatory asset in which to defer the litigation costs for future rate making treatment.

Mr. Cartin testified that CWS had no choice but to defend the Congaree Riverkeeper's lawsuit, and to prosecute its related actions. R. p. 490, l. 22 – p. 491, l. 7. He pointed out the Congaree Riverkeeper brought his suit to force an interconnection of

DOCKET NO. 2017-292-WS – ORDER NO. 2018-345
MAY 17, 2018
PAGE 20

the I-20 Plant to the Town of Lexington’s sewer system, an action CWS was ready to take but the Town of Lexington would not allow. R. p. 489, ll. 8-20. It was not until 2016, after DHEC ordered the Town of Lexington to seek an interconnection with CWS, that Lexington brought its condemnation proceeding. R. p. 567, ll. 1-12. When the condemnation suit was brought, CWS readily allowed the town to take possession of the I-20 system and interconnect the plant, reserving its right to contest Lexington’s valuation of the plant. Id.

The Commission finds that regulated utilities, like any business, will experience litigation costs associated with its business operations. CWS acted to limit exposure to liability and benefit the utility and its rate payers. The financial and litigation costs were prudently incurred. Recovery of these costs equates to \$14,979 in annual amortization expense. As Mr. Cartin testified, CWS had no alternative but to defend the Congaree Riverkeeper’s lawsuit and engage in the related litigation. Therefore, CWS will be allowed to recover \$998,606 amortized over 66.7 years, at the rate of \$14,979 per year.

2. Sludge Hauling Expenses

CWS incurred \$284,233 in sludge hauling expenses at its Friarsgate Plant and at its Watergate wastewater treatment facility (“Watergate Plant”) during the test year. R. p. 753 (Payne Surr. p. 3). ORS proposed to remove \$96,892 in sludge hauling costs. ORS proposes an adjustment to allow recovery of a three-year average of annual sludge hauling costs at the two facilities.

ORS witness Payne testified that the ORS reviewed the sludge costs in the test year and the costs in the previous two years, concluding that the sludge hauling costs in the test

year were atypical. R. pp. 751-752 (Payne Surr. p. 2, l. 19 – p. 3, l. 12). The ORS proposes to average the annual sludge expense for the three years reviewed and proposed an adjustment of \$96,892, normalizing this operating expense. Id.

CWS witness Gilroy testified the increase of sludge hauling expense during the test year was caused by additional sludge removal requirements at the Friarsgate WWTF which produces large amounts of sludge that must be disposed of in a timely manner. R. pp. 358-360. The amount of sludge produced depends on many factors within the process of the waste water treatment. Id. The active sludge inventory within the process must be kept at a certain concentration for the biological process to be effective and result in a clear compliant effluent. Id. Excess sludge inventory must be removed frequently to keep sludge from building up to unacceptable levels which could cause problems with effluent quality. Id.

Mr. Gilroy testified that because the Friarsgate WWTF has been on a Consent Order, these sludge inventories are also monitored by DHEC, which recommends that the inventory to be kept at a constant rate. R. p. 365 (Gilroy Rebut. p. 3, ll. 3-12)). Ordinarily, the liquid sludge is poured into filtrate boxes that drain off the water leaving a very dry cake behind, which is then hauled and disposed of at the Northeast Sanitary Landfill. Id. When the sludge production exceeds the capacity of the filtrate boxes, CWS utilizes contractor liquid tanker trucks to haul the sludge to the City of Cayce's disposal site. Id. Disposing of the sludge in the cake form is more cost-effective than hauling truckloads of liquid sludge. Id. Although more expensive, sometimes the filtrate boxes are full, and tankers must be utilized. Id.

DOCKET NO. 2017-292-WS – ORDER NO. 2018-345

MAY 17, 2018

PAGE 22

The Commission finds that the sludge hauling costs in the test year are recoverable as known and measurable, prudently incurred costs. The ORS does not dispute the sludge costs in the test year. It simply speculates that the costs will not recur in a similar amount. Speculation is not sufficient. Moreover, the testimony indicates that the sludge costs have increased because of the DHEC Consent Order, and were prudently incurred. The Commission denies the ORS adjustment to reduce the sludge hauling expenses.

3. Effects of the Income Tax and Jobs Act

a) Excess Accumulated Deferred Income Taxes

The Company filed its Application before Congress enacted the Tax Cuts and Jobs Act of 2017 (“TCJA”), which took effect on January 1, 2018. P.L. No: 115-97. The TCJA changed the tax laws affecting the Company. Mr. Hunter testified the TCJA reduced the corporate income tax rate from 35% to 21%, causing the Company to reduce its requested revenue requirement by approximately \$877,000. R. p. 255, ll. 16-22. This Commission held in Order No. 2018-308 that, beginning January 1, 2018, regulatory accounting treatment is required for all regulated utilities for any impacts of the new law, including current and deferred tax impacts. We also held that the utilities should track and defer the effects resulting from the Tax Act in a regulatory liability account, and further, for water/wastewater utilities with operating revenues that are equal or greater than \$250,000, the issue will be addressed at the next rate case or other proceeding. The provisions of Order No. 2018-308 apply to the present case, as well as to other utilities indicated in Order No. 2018-308.

F. Rate Case Expenses

CWS proposed to include rate case expenses incurred in this rate case through the date of the hearing, and ORS agreed to this proposal, subject to its review of the requested additional amount and examination of supporting documentation. R p. 754 (Payne Surreb., p. 4, ll. 5-7). ORS received and reviewed documentation supporting rate case expenses of \$88,500 and informed the Commission at the hearing that the ORS agrees with them. After the hearing, CWS presented documentation supporting additional rate case expenses of \$64,560. Because the additional rate case expenses are known and measurable, the Commission will allow them to be included in the total rate case expense and amortized over three years. We find the Company is entitled to \$153,060 in total rate case expenses, including those expenses submitted to ORS post-hearing. This amount amortized over three years less the Company's per book amount yields a post-hearing adjustment of \$21,520.

G. Other Adjustments

The remaining ORS adjustments are accepted by this Commission without discussion. They either were not disputed by the parties or were caused by carrying out the effects of the adjustments adopted above.

H. Deferred Accounts

By Order No. 2015-876 in Docket No. 2015-199-WS, the Commission approved two regulatory deferred accounts authorizing CWS 1) to record and monitor all rate increases from third-party providers for water supply and sewer treatment; and 2) to recover non-revenue water expenses. The Commission authorized CWS to seek recovery

DOCKET NO. 2017-292-WS – ORDER NO. 2018-345

MAY 17, 2018

PAGE 24

of the balance of these deferred accounts, subject to audit by ORS and approval by the Commission in a subsequent rate case. In this Application CWS is seeking recovery of the balance in the regulatory deferral account associated with increases in purchased water from bulk water providers. (Application, para. 17) Mr. Hunter testified that the purchase water deferred account had a balance of \$669,808 as of March 8, 2018 and explained CWS sought recovery of this balance in this docket R. p. 278 (Hunter Rebut. p. 3 ll. 7–17). At the hearing, Mr. Payne testified that the ORS had reviewed the supporting documentation of the purchase water deferred account and that the ORS agreed with CWS' request to recover the balance of \$669,808. R. p. 752 (Payne Surreb., p. 2, ll.8-18). The Commission finds it reasonable for CWS to recover the purchased water deferred account balance of \$669,808.

Because the non-revenue water deferral account has a balance of zero, the ORS recommended this account be closed. R. p. 701 (Schellinger Dir., p. 11, l. 18 – p. 12, l. 8). The Company did not dispute this recommendation. The Commission finds it reasonable that the non-revenue water account be closed.

I. Performance Bond

CWS currently provides the maximum amount required for its performance bond in the amount of \$350,000 for water and \$350,000 for sewer operations. Using the criteria set forth in S.C. Code Regs. §§ 103-512.3.1 and 103-712.3.1, ORS recommended that CWS be required to continue the current performance bond amounts. R. p. 701 (Schellinger Dir. p. 12, ll. 9-15). CWS agreed to the performance bond amounts. The Commission requires

DOCKET NO. 2017-292-WS – ORDER NO. 2018-345

MAY 17, 2018

PAGE 25

that CWS maintain its performance bond in \$350,000 for water and \$350,000 for sewer operations.

J. Changes to Rates, Charges and Term of Service

1. Irrigation Only Meters

Mr. Cartin testified that after hearing concerns expressed by customers with irrigation only meters, the Company had determined to eliminate the base facilities charge for irrigation only meters for residential customers who are no longer receiving an economic benefit from having an irrigation meter. The impact on revenues will be \$37,946 annually. The Company is not seeking recovery of this lost revenue here. R. p. 320 (Cartin Reb., p. 5, ll. 5-20).

The ORS has no objection to eliminating the base facilities charge on customers with irrigation only meters.

The Commission finds that eliminating the base facilities charge for customers with irrigation only meters is just and reasonable and in the public interest.

2. Backflow Testing.

CWS proposed to change the terms and conditions of its tariff to permit its customers to test their backflow devices every two years. The ORS proposed to limit the testing requirement to every two years for those residential customers with irrigation cross connections. R. pp. 699 - 700 (Schellinger Dir., p. 10, l. 18 – p. 11, l. 6). CWS concurred with the ORS recommendation with the additional provision that if the sewer system utilizes chemical injection, annual testing will be required. R. p. 363 (Gilroy Rebut., p. 1, ll. 1-7).

DOCKET NO. 2017-292-WS – ORDER NO. 2018-345

MAY 17, 2018

PAGE 26

The Commission finds that permitting CWS' residential irrigation customers to test backflow preventers every two years is reasonable, provided that if the sewer system utilizes chemical injection, annual testing will be required

3. Water Meter Installation Charge

CWS requests authority to increase its Water Meter Installation Charge from \$35.00 to \$45.00 to more closely reflect the utility's costs. (Application at ¶ 20) The ORS has reviewed the cost justification for this increase and agrees the increase is reasonable. R. p. 699 (Schellinger Dir., p. 10, ll.14 – 17). The \$45.00 charge is reasonable and CWS is authorized to increase its Water Meter Installation Charge to \$45.00.

4. Limitation of Liability

CWS seeks authority to limit the liability of the Company, its agents and employees for damages arising out of interruption of service or the failure to furnish service, whether caused by acts or omission, to those remedies provided in the Commission's rules and regulations governing water and wastewater utilities. (Application at ¶ 22). Mr. Cartin points out that the Commission has promulgated regulations for quality of service and interruption of service. Limiting customer remedies to those provided in the regulations will eliminate the prospect of unnecessary litigation and result in cost savings which will benefit customers. R. pp. 310-311 (Cartin Dir., p. 12, l. 14 – p. 13 1, l. 2). The ORS does not oppose the Company's proposed changes to tariff language regarding liability for interruption of service. Interruption of service is regulated by the Commission in S.C, Code Ann. Regs. 103-771 and 103-551. R. p. 670 (Schellinger Dir., p. 11, ll. 7–12) The

proposed limitation of liability to those protections found in S.C. Code Reg. 103-771 and 103-551 is reasonable and is approved.

K. Authorized Revenues

CWS requested in its Application to increase revenues for combined operations by \$4,511,414, comprising a water revenue increase of \$2,272,914 and a sewer revenue increase of \$2,238,500, based on the rate of return on rate base methodology utilizing an ROE of 10.5% and an historical test year ending August 31, 2017. The revenue and expense adjustments to the requested increase in revenue set out herein at the approved ROE of 10.50% produce additional operating revenue of \$2,936,437 consisting of a water revenue increase of \$1,286,127 and a sewer revenue increase of \$1,650,310.

L. Rate Design

Exhibit “A” to the Application contains the Company’s Schedule of Proposed Water Charges. The proposed water rate structure for Territory 1 and Territory 2 will remain the same as approved in Order No. 2015-876. In Territory 1 and Territory 2 there will remain separate charges for Water Supply Customers (where water is supplied by wells owned and operated by CWS) and Water Distribution Customers (where water is purchased from a governmental body or agency or other entity for distribution and resale by CWS). R. p. 264 (Hunter Dir. p. 5, ll. 18–25).

Exhibit “A” to the Application contains the Company’s Schedule of Proposed Sewer Charges. Under the existing tariff, the flat rate charge for Sewer Collection & Treatment Only Customers and the flat rate charge for Sewer Collection Only Customers are two different rates. CWS proposes to combine Sewer Collection & Treatment Only

DOCKET NO. 2017-292-WS – ORDER NO. 2018-345
MAY 17, 2018
PAGE 28

Customers and Sewer Collection Only Customers into one single rate per unit. Separate rates will remain on the tariff for Mobile Homes, and The Village Sewer Collection Customers. R. p. 265 (Hunter Dir., p.6, ll. 16–23).

Rate design is a matter of discretion for the Commission. In establishing rates, it is incumbent upon us to fix rates which “distribute fairly the revenue requirements [of the utility].” See *Seabrook Island Property Owners Association v. S.C. Public Service Comm’n*, 303 S.C. 493, 499 (1991). Our determination of “fairness” with respect to the distribution of the Company’s revenue requirement is subject to the requirement that it be based upon some objective and measurable framework. See *Utilities Services of South Carolina, Inc., v. South Carolina Office of Regulatory Staff*, 392 S.C. 96, 113-114 (2011).

CWS has combined certain of its sewer rates in this docket moving closer to uniform rates. The water rate design was approved by Order No. 2015-876. No party contests the proposed rate design and it is approved by the Commission.

M. Forty Love Point

The Forty Love Point Homeowners Association intervened questioning sewer service in the neighborhood. Barbara King and Jay Dixon, residents of the Forty Love subdivision, testified that they experienced sewer backups in their homes and chronicled the efforts of CWS to address their concerns. Representatives of CWS and its engineers, DHEC and ORS have met with the witnesses. CWS provides collection only services to Forty Love and Richland County treats the sewage. The witnesses testified that Richland County and CWS should coordinate any remedy for the customer concerns. The witnesses believe their sewer system is outdated and inadequate. The witnesses also contest the

DOCKET NO. 2017-292-WS – ORDER NO. 2018-345
MAY 17, 2018
PAGE 29

proposed rate increase. R. pp. 608–610 (Dixon Dir. p. 1, l. 1 – p. 4, l. 76); R. pp. 603 – 605 (King Dir., p. 1, l. 1 – p. 3, l. 59).

CWS witness Gilroy testified that the Forty Love sewer system is a LETTS design installed by the developer. LETTS systems are modified septic tanks in which solid waste accumulates in a holding tank with the gray water draining to a common sewer main for transport to the Richland County Utilities treatment plant. CWS has been working with the Kings and Dixons to determine why their LETTS tanks fail to drain during prolonged rain events. CWS believes the elevation and distance between their finished basements and the sewer main outside provides for no leeway when the sewer main backs up slightly. CWS has a contractor working to install a pump tank that will both pump their water into the main and provide the separation needed to eliminate backups of their homes. R. pp. 363–364 (Gilroy Rebut., p. 1, l. 8 – p. 2, l. 10).

CWS is also retaining a professional engineering firm to inspect the system and help solve the sewerage backup problems experienced by these customers. While it is working towards a permanent solution, CWS will continue to alleviate the problem by dispatching pump trucks to the neighborhood when heavy rains are anticipated. CWS is also inspecting each LETTS tank and will reseal them as necessary. Reduced water from the tanks should ease the stress placed on the system. Id.

CWS will continue to communicate the engineering assessment with the outside contractor with Forty Love. CWS and Forty Love have agreed to report their findings to the Commission and ORS in six months – by September 30, 2018. Id. The Commission finds that the agreement between CWS and Forty Love is reasonable.

CWS and the HOA have agreed to the following plan of action which, at their request, the Commission incorporates in its Order:

CWS acknowledges that some of its customers in the Forty Love Point neighborhood have experienced problems with sewerage backups. CWS has taken, and will continue to take, measures to address these customers' concerns. CWS and the HOA agree to cooperatively investigate the source and extent of sewerage problems experienced by customers in the Forty Love Point neighborhood and formulate a plan to address them. The company is retaining an engineering firm to perform an assessment of the Forty Love Point system, and CWS will continue to work with DHEC and Richland County to determine whether issues with the latter's system may be affecting Forty Love Point. CWS and the HOA will report their findings to the PSC and the ORS in six months.

N. Dancing Dolphin, LLC

The Commission requested that the ORS investigate the allegations made by CWS' customer the Dancing Dolphin, LLC. The ORS recommends that CWS complete an inflow and infiltration study and a cost benefits analysis for the sewer system serving the properties owned by the Dancing Dolphin. R. pp. 705– 706 (Schellinger Dir., p. 16, l. 20 - -p. 17, l. 3) CWS will conduct an inflow and infiltration study and provide a report to the Commission within one year of the date of the Order. R. pp. 317–318 (Cartin Rebut., p. 2, 19 - p. 3, l. 2). In addition, CWS has credited the Dancing Dolphin, LLC with one month's bill to address the customer's concerns. R. p. 310 (Cartin Dir. p. 12, ll. 12–13). The Commission finds CWS conduct to be prudent and reasonable.

DOCKET NO. 2017-292-WS – ORDER NO. 2018-345

MAY 17, 2018

PAGE 31

O. Customer Communications

The record reflects that CWS is working to give its customers a better understanding of the pressures and costs of operating its water and sewer systems. The Company has hired a communications coordinator to direct its customer outreach activities. R. pp. 251-253. Since December of 2017, CWS scheduled meetings with its customers in York County on December 4, 2017, and February 27, 2018; Lexington County on December 5, 2017; Anderson County on December 6, 2017; Richland County on February 21, 2018, and Greenville County on March 1, 2018. At those meetings, CWS gave customers the opportunity to meet with its management and field personnel to learn more about its operations and cost of service. R. p. 371 (Gilroy Resp., p.1, ll. 6–16).

This Commission would observe that, in prior years, the Company’s customer service was perceived by some as being below standard. However, the Company’s testimony in this case shows that it is committed to improvement in a proactive fashion. Relatively few customers appeared to complain about quality of service, as compared to the last several rate cases. We hold that the Company should routinely be responsive on quality of service issues, and that CWS should set the standard for quality and customer service.

However, in order to ensure that the Company is being responsive to quality of service issues, and to its customers, CWS shall prepare a report and submit it to the Commission and to ORS no less than semiannually, and the document should have headings for “Customer Complaint,” “Company Response,” “Customer Reaction to Company,” and explain the Company reaction to Customer Complaints during the period

DOCKET NO. 2017-292-WS – ORDER NO. 2018-345

MAY 17, 2018

PAGE 32

addressed, along with any explanations regarding quality of service. The Company shall also submit a separate report no less than semiannually reporting on all capital improvements made during the period to enhance customer service and to explain the cost of such capital improvements.

III. FINDINGS OF FACT

1) CWS is a water and sewer utility providing water and sewer service in its assigned service area in South Carolina. The Commission is vested with authority to regulate rates of every public utility in this state and to ascertain and fix just and reasonable rates for service. S.C. §58-5-210, et. seq. CWS's operations in South Carolina are subject to the jurisdiction of the Commission.

2) CWS requested in its Application to increase revenues for combined operations by \$4,511,414 comprising a water revenue increase of \$2,272,914 and a sewer revenue increase of \$2,238,500, based on the rate of return on rate base methodology utilizing an ROE of 10.5% and a historical test year ending August 31, 2017.

3) The test year period for this proceeding, selected by the Company, is September 1, 2016 through August 31, 2017.

4) The Commission will use the return on rate base methodology in determining and fixing just and reasonable rates.

5) The return on rate base methodology requires three components: capital structure, cost of debt, and cost of equity (or ROE).

6) CWS's rate base is \$55,524,956 after the adjustments adopted by the Commission.

DOCKET NO. 2017-292-WS – ORDER NO. 2018-345

MAY 17, 2018

PAGE 33

7) The Commission adopts and approves of a capital structure of 48.11% long-term debt and 51.89% equity; a cost of debt rate of 6.60%; and an ROE of 10.50%.

8) The approved capital structure, cost of debt rate, and ROE produce additional operating revenue of \$2,936,437 consisting of a water revenue increase of \$1,286,127 and a sewer revenue increase of \$1,650,310.

9) The approved revenues and expenses establish a fair and reasonable operating margin of 13.23%, and a return on rate base of 8.62%.

10) The schedule of rates and terms and conditions attached to this Order as Exhibit A (Order Exhibit 1) are just and reasonable and designed to achieve the Company's new revenue requirement.

IV. CONCLUSIONS OF LAW

Based upon the discussion, findings of fact and the record of the instant proceeding, the Commission makes these Conclusions of Law:

1) CWS is a public utility as defined in S.C. Code § 58-5-10(3) and is subject to the jurisdiction of this Commission.

2) The appropriate test year on which to set rates for CWS is the twelve-month period beginning September 1, 2016 and ending August 31, 2017.

3) Based on the information provided by the parties, the Commission concludes the rate setting methodology to use as a guide in determining the lawfulness of CWS's proposed rates and for fixing just and reasonable rates is return on rate base.

4) For CWS to have the opportunity to earn the 10.5% ROE, found fair and reasonable herein, CWS must be allowed additional revenues of \$2,936,437.

DOCKET NO. 2017-292-WS – ORDER NO. 2018-345

MAY 17, 2018

PAGE 34

5) The schedule of rates and terms and conditions in the attached Exhibit A are approved for use by CWS and are just and reasonable without undue discrimination and are also designed to meet the revenue requirements of CWS.

6) Pursuant to S.C. Code § 58-5-720 and 10 S.C. Code Regs. §§ 103-512.3 and 103-712.3, CWS will post a performance bond of \$350,000 for water and \$350,000 for sewer operations.

V. ORDERING PROVISIONS

IT IS THEREFORE ORDERED THAT:

I. The rates, fees, and charges in Order Exhibit 1 are both fair and reasonable and will allow CWS to continue to provide its customers with adequate water and wastewater services.

II. The Company is to provide thirty (30) days' notice of the increase to customers of its water and wastewater services prior to the rates and schedules being put into effect for service rendered. The schedules will be deemed filed with the Commission under S.C. Code § 58-5-240.

III. An ROE of 10.5%, return on rate base of 8.62% and operating margin of 13.23% based on the new rates, fees, and charges, is approved for CWS.

IV. The Company will continue to maintain current performance bonds in the amounts of \$350,000 for water operations and \$350,000 for wastewater operations pursuant to S.C. Code § 58-5-720.

V. The Company shall provide the written reports on quality of service and capital improvements no less than semiannually as described above.

DOCKET NO. 2017-292-WS – ORDER NO. 2018-345
MAY 17, 2018
PAGE 35

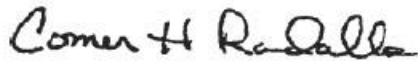
VI. This Order will remain in full force and effect until further order of the Commission.

BY ORDER OF THE COMMISSION:



Swain E. Whitfield, Chairman

ATTEST:



Comer H. Randall, Vice Chairman

EXHIBIT A

Tariff

Carolina Water Service, Inc.
Docket No. 2017-292-WS
SCHEDULE OF PROPOSED RATES AND CHARGES

WATER

Service Territory 1

Monthly Charges - Water Supply Customers Only

Where water is supplied by wells owned and operated by the Utility, the following rates apply:

	<u>Current</u>	<u>Proposed</u>
<u>Residential</u>		
Base Facilities Charge per single-family house, condominium, mobile home, or apartment unit	\$14.64 per unit	\$14.43 per unit
Residential Commodity Charge	\$5.69 per 1,000 gal. or 134 cft.	\$5.61 per 1,000 gal. or 134 cft.
<u>Commercial</u>		
Base Facilities Charge by meter size		
5/8" meter *	\$ 14.64 per unit	\$ 14.43 per unit
3/4" meter	\$ 14.64 per unit	\$ 14.43 per unit
1" meter	\$ 38.10 per unit	\$ 37.54 per unit
1.5" meter	\$ 76.21 per unit	\$ 75.10 per unit
2" meter	\$ 121.93 per unit	\$ 120.15 per unit
3" meter	\$ 228.63 per unit	\$ 225.29 per unit
4" meter	\$ 381.16 per unit	\$ 375.59 per unit
8" meter	\$1,171.21 per unit	\$1,154.08 per unit
Commercial Commodity Charge	\$5.69 per 1,000 gal or 134 cft.	\$5.61 per 1,000 gal. or 134 cft.

Monthly Charges - Water Distribution Customers Only

Where water is purchased from a governmental body or agency or other entity for distribution and resale by the Utility, the following rates apply:

<u>Residential</u>		
Base Facilities Charge per single-family house, condominium, mobile home, or apartment unit	\$14.64 per unit	\$14.43 per unit
Residential Commodity Charge	\$6.67 per 1,000 gal. or 134 cft.	\$7.57 per 1,000 gal. or 134 cft.

Corrected

Carolina Water Service, Inc.
Docket No. 2017-292-WS
SCHEDULE OF PROPOSED RATES AND CHARGES

	<u>Current</u>	<u>Proposed</u>
<u>Commercial</u>		
Base Facilities Charge		
by meter size		
5/8" meter *	\$ 14.64 per unit	\$ 14.43 per unit
3/4" meter	\$ 14.64 per unit	\$ 14.43 per unit
1" meter	\$ 38.10 per unit	\$ 37.54 per unit
1.5" meter	\$ 76.21 per unit	\$ 75.10 per unit
2" meter	\$ 121.93 per unit	\$ 120.15 per unit
3" meter	\$ 228.63 per unit	\$ 225.29 per unit
4" meter	\$ 381.16 per unit	\$ 375.59 per unit
8" meter	\$1,171.21 per unit	\$1,154.08 per unit
 Commercial Commodity Charge		
	\$6.67 per 1,000 gal. or 134 cft.	\$7.57 per 1,000 gal. or 134 cft/

***A "Fire Line" customer will be billed a monthly base facilities charge of a 5/8" meter or at the rate of any other meter size used as a detector.**

Corrected

Carolina Water Service, Inc.
Docket No. 2017-292-WS
SCHEDULE OF PROPOSED RATES AND CHARGES

Service Territory 2

Monthly Charges - Water Supply Customers

Where water is supplied by wells owned and operated by the Utility, the following rates apply:

	<u>Current</u>	<u>Proposed</u>
<u>Residential</u>		
Base Facilities Charge per single-family house, condominium, mobile home or apartment unit:	\$24.72 per unit	\$28.62 per unit
Residential Commodity Charge	\$ 8.88 per 1,000 gal. or 134 cft.	\$10.28 per 1,000 gal. or 134 cft.
<u>Commercial</u>		
Base Facilities Charge by meter size		
5/8" meter*	\$ 24.72 per unit	\$ 28.62 per unit
1" meter	\$ 68.81 per unit	\$ 79.65 per unit
1.5" meter	\$ 126.45 per unit	\$146.38 per unit
3" meter	\$ 431.52 per unit	\$499.53 per unit
Commercial Commodity Charge	\$ 8.88 per 1,000 gal. or 134 cft.	\$10.28 per 1,000 gal. or 134 cft.

Monthly Charges - Water Distribution Customers Only

Where water is purchased from a governmental body or agency or other entity for distribution and resale by the Utility, the following rates apply:

<u>Residential</u>		
Base Facilities Charge per single-family house, condominium, mobile home or apartment unit:	\$ 24.72 per unit	\$ 28.62 per unit
Residential Commodity Charge	\$ 9.41 per 1,000 gal. or 134 cft.	\$ 11.86 per 1,000 gal. or 134 cft.
<u>Commercial</u>		
Base Facilities Charge by meter size:		
5/8" meter*	\$ 24.72 per unit	\$ 28.62 per unit
1" meter	\$ 68.81 per unit	\$ 79.65 per unit
1.5" meter	\$ 126.45 per unit	\$146.38 per unit
3" meter	\$ 431.52 per unit	\$499.53 per unit
Commercial Commodity Charge	\$ 9.41 per 1,000 gal.	\$ 11.86 per 1,000 gal.

Carolina Water Service, Inc.
Docket No. 2017-292-WS
SCHEDULE OF PROPOSED RATES AND CHARGES

or 134 cft.

or 134 cft.

***A "Fire Line" customer will be billed a monthly base facilities charge of a 5/8" meter or at the rate of any other meter size used as a detector.**

Carolina Water Service, Inc.
Docket No. 2017-292-WS
SCHEDULE OF PROPOSED RATES AND CHARGES

**WATER SERVICE
TERMS AND CONDITIONS
AND
NON-RECURRING CHARGES**

1. Terms and Conditions

A. Where the Utility is required by regulatory authority with jurisdiction over the Utility to interconnect to the water supply system of a government body or agency or other entity and tap/connection/impact fees are imposed by that entity, such tap/connection/impact fees will also be charged to the Utility's affected customers on a pro rata basis, without markup.

B. Commercial customers are those not included in the residential category above and include, but are not limited to, hotels, stores, restaurants, offices, industry, etc.

C. The Utility will, for the convenience of the owner, bill a tenant in a multi-unit building, consisting of four or more residential units (or in such other circumstances as the law may allow from time to time), which is served by a master water meter or a single water connection. However, in such cases all arrearages must be satisfied before service will be provided to a new tenant or before interrupted service will be restored. Failure of an owner to pay for services rendered to a tenant in these circumstances may result in service interruptions.

D. When, because of the method of water line installation utilized by the developer or owner, it is impractical to meter each unit separately, service will be provided through a single meter, and consumption of all units will be averaged; a bill will be calculated based on that average and the result multiplied by the number of units served by a single meter.

E. Billing Cycle

Recurring charges will be billed monthly in arrears. Nonrecurring charges will be billed and collected in advance of service being provided.

F. Extension of Utility Service Lines and Mains

The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to connect to its water system. However, anyone or entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to any appropriate connection point, and pay the appropriate fees and charges as set forth in this rate schedule, and comply with the guidelines and standards hereof, shall not be denied service unless water supply is unavailable or unless the South Carolina Department of Health and Environmental Control or other government entity has for any reason restricted the Utility from adding additional customers to the serving water system. In no event will the Utility be required to construct additional water supply capacity to serve any customer or entity without an agreement acceptable to the Utility first having been reached for the payment of all costs associated with adding water supply capacity to the affected water system.

Carolina Water Service, Inc.
Docket No. 2017-292-WS
SCHEDULE OF PROPOSED RATES AND CHARGES

G. Cross-Connection Inspection

Any customer installing, permitting to be installed, or maintain any cross connection between the Utilities water system and any other non-public water system, sewer, or a line from any container of liquids or other substances, must install an approved back-flow prevention device in accordance with 24A S.C. Code Ann. Regs. R.61-58.7.F.2, as may be amended for time to time. Such a customer shall have such cross connection inspected by a licensed certified tester and provide to Utility a copy of written inspection report indicating the back-flow device is functioning properly and testing results submitted by the tester in accordance with 24A S.C. Code Ann. Regs. R.61-58.7.F.2, as may be amended from time to time. Said report and results must be provided by the customer to the Utility no later June 30th of each year for required residential and commercial customers, provided that said report and results for residential irrigation customers shall be provided by the customer to the Utility no later than June 30th of every other year (unless the sewer system utilizes chemical injection for which annual testing will be required). Should a customer subject to these requirements fail to timely provide such report and results, Utility may arrange for inspection and testing by a licensed certified tester and add the charges incurred by the Utility in that regard to the customer's next bill. If after inspection and testing by the Utility's certified tester, the back-flow device fails to function properly, the customer will be notified and given a 30 day period in which to have the back-flow device repaired or replaced with a subsequent follow-up inspection by a licensed certified tester indicating the back-flow device is functioning properly. Failure to submit a report indicating the back-flow device is functioning properly will result in discontinuation of water service to said customer until such time as a passing inspection report is received by Utility.

H. A Single Family Equivalent (SFE) shall be determined by using the South Carolina Department of Health and Environmental Control Guidelines for Unit Contributory Loadings for Domestic Wastewater Treatment Facilities -- 6 S.C. Code Ann. Regs. 61-67 Appendix A, as may be amended from time to time. Where applicable, such guidelines shall be used for determination of the appropriate monthly service and tap fee. The Company shall have the right to request and receive water usage records from the water provider to its customers. In addition, the Company shall have the right to conduct an inspection of the customer's premises. If it is determined that actual flows or loadings are greater than the design flows or loadings, then the Company shall recalculate the customer's equivalency rating based on actual flows or loadings and thereafter bill for its services in accordance with such recalculated loadings.

I. The liability of the Company, its agents and employees for damages arising out of interruption of service or the failure to furnish service, whether caused by acts or omission, shall be limited to those remedies provided in the Public Service Commission's rules and regulations governing water utilities.

Carolina Water Service, Inc.
Docket No. 2017-292-WS
SCHEDULE OF PROPOSED RATES AND CHARGES

2. Non-Recurring Charges

A. Water Service Connection (New connections only) - \$300 per SFE

B. Plant Impact Fee (New connections only) - \$400 per SFE

The Plant Capacity Fee reflects the portion of plant capacity which will be used to provide service to the new customers as authorized by Commission Rule R. 103-702.13. The plant capacity fee represents the Utility's investment previously made (or planned to be made) in constructing water production, treatment and/or distribution facilities that are essential to provide adequate water service to the new customer's property.

C. Water Meter Installation - 5/8 inches x 3/4 inches meter \$45.00

All 5/8 inch x 3/4 inch water meters shall meet the Utility's standards and shall be installed by the Utility. A one-time meter fee of \$35 shall be due upon installation for those locations where no 5/8 inch x 3/4 inch meter has been provided by a developer to the Utility.

For the installation of all other meters, the customer shall be billed for the Utility's actual cost of installation. All such meters shall meet the Utility's standards and be installed by the Utility unless the Utility directs otherwise.

D. Customer Account Charge – (New customers only) \$30.00

A one-time fee to defray the costs of initiating service.

E. Reconnection Charges: In addition to any other charges that may be due, in those cases where a customer's service has been disconnected for any reason as set forth in Commission Rule R.103-732.5, a reconnection fee shall be due in the amount of \$40.00 and shall be due prior to the Utility reconnecting service.

F. Tampering Charge: In the event the Utility's equipment, water mains, water lines, meters, curb stops, service lines, valves or other facilities have been damaged or tampered with by a customer, the Utility may charge the customer responsible for the damage the actual cost of repairing the Utility's equipment, not to exceed \$250. The tampering charge shall be paid in full prior to the Utility re-establishing service or continuing the provision of service.

Carolina Water Service, Inc.
Docket No. 2017-292-WS
SCHEDULE OF PROPOSED RATES AND CHARGES

SEWER

Service Territory 1 and 2

(Former customers of Carolina Water Service, Inc., Utilities Services of SC, Inc. and United Utility Companies, Inc.)

Former Customers of Carolina Water Service, Inc.

Monthly Charges – Sewer Collection & Treatment Only

Where sewage collection and treatment are provided through facilities owned and operated by the Utility, the following rates apply:

	<u>Current</u>	<u>Proposed</u>
Residential - charge per single-family house, condominium, villa, or apartment unit:	\$57.58 per unit	\$65.69 per unit
Mobile Homes:	\$42.01 per unit	\$47.94 per unit
Commercial	\$57.58 per SFE*	\$65.69 per SFE*

Commercial customers are those not included in the residential category above and include, but are not limited to, hotels, stores, restaurants, offices, industry, etc.

Monthly charge – Sewer Collection Only

When sewage is collected by the Utility and transferred to a government body or agency, or other entity for treatment, the Utility's rates are as follows:

Residential – per single-family house, condominium, or apartment unit	\$52.93 per unit	\$65.69 per unit
Commercial	\$52.93 per SFE*	\$65.69 per SFE*
The Village Sewer Collection	\$29.95 per SFE*	\$34.18 per SFE*

* Single Family Equivalent (SFE) shall be determined by using the South Carolina Department of Health and Environmental Control Guidelines for Unit Contributory Loadings for Domestic Wastewater Treatment Facilities -- 25 S.C. Code Ann. Regs. 61-67 Appendix A, as may be amended from time to time. Where applicable, such guidelines shall be used for determination of the appropriate monthly service and tap fee.

Corrected

SEWER SERVICE

Carolina Water Service, Inc.
Docket No. 2017-292-WS
SCHEDULE OF PROPOSED RATES AND CHARGES

TERMS AND CONDITIONS
AND
NON-RECURRING CHARGES

1. Terms and Conditions

A. Where the Utility is required under the terms of a 201/208 Plan, or by other regulatory authority with jurisdiction over the Utility, to interconnect to the sewage treatment system of a government body or agency or other entity and tap/connection/impact fees are imposed by that entity, such tap/connection/impact fees will be charged to the Utility's affected customers on a pro rata basis, without markup.

B. The Utility will, for the convenience of the owner, bill a tenant in a multi-unit building, consisting of four or more residential units (or in such other circumstances as the law may allow from time to time), which is served by a master sewer meter or a single sewer connection. However, in such cases all arrearages must be satisfied before service will be provided to a new tenant or before interrupted service will be restored. Failure of an owner to pay for services rendered to a tenant in these circumstances may result in service interruptions.

C. Billing Cycle

Recurring charges will be billed monthly in arrears. Non-recurring charges will be billed and collected in advance of service being provided.

D. Toxic and Pretreatment Effluent Guidelines

The utility will not accept or treat any substance or material that has been defined by the United States Environmental Protection Agency ("EPA") or the South Carolina Department of Health and Environmental Control ("DHEC") as a toxic pollutant, hazardous waste, or hazardous substance, including pollutants falling within the provisions of 40 CFR 129.4 and 401.15. Additionally, pollutants or pollutant properties subject to 40 CFR 403.5 and 403.6 are to be processed according to pretreatment standards applicable to such pollutants or pollutant properties, and such standards constitute the Utility's minimum pretreatment standards. Any person or entity introducing such prohibited or untreated materials into the Company's sewer system may have service interrupted without notice until such discharges cease, and shall be liable to the Utility for all damages and costs, including reasonable attorney's fees, incurred by the Utility as a result thereof.

E. Extension of Utility Service Lines and Mains

The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to discharge acceptable wastewater into one of its sewer systems. However, anyone or entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to any appropriate connection point, and pay the appropriate fees and charges as set forth in this rate schedule, and comply with the guidelines and standards hereof, shall not be denied service unless sewer capacity is unavailable or unless the South Carolina Department of Health and Environmental Control or other government entity has for any reason restricted the Utility from adding additional customers to the serving sewer system.

Carolina Water Service, Inc.
Docket No. 2017-292-WS
SCHEDULE OF PROPOSED RATES AND CHARGES

In no event will the Utility be required to construct additional sewer treatment capacity to serve any customer or entity without an agreement acceptable to the Utility first having been reached for the payment of all costs associated with adding wastewater treatment capacity to the affected sewer system.

F. A Single Family Equivalent (“SFE”) shall be determined by 6 S.C. Code Ann. Regs. 61-67 Appendix A, as may be amended from time to time. Where applicable, such guidelines shall be used for determination of the appropriate monthly service, plant impact fee and tap fee. The Company shall have the right to request and receive water usage records from the water provider to its customers. In addition, the Company shall have the right to conduct an inspection of the customer’s premises. If it is determined that actual flows or loadings are greater than the design flows or loadings, then the Company shall recalculate the customer’s equivalency rating based on actual flows or loadings and thereafter bill for its services in accordance with such recalculated loadings.

G. The liability of the Company, its agents and employees for damages arising out of interruption of service or the failure to furnish service, whether caused by acts or omission, shall be limited to those remedies provided in the Public Service Commission’s rules and regulations governing wastewater utilities.

2. Solids Interceptor Tanks

For all customers receiving sewage collection service through an approved solids interceptor tank, the following additional charges shall apply:

A. Pumping Charge

At such time as the Utility determines through its inspection that excessive solids have accumulated in the interceptor tank, the Utility will arrange for the pumping tank and will include \$150.00 as a separate item in the next regular billing to the customer.

B. Pump Repair or Replacement Charge

If a separate pump is required to transport the customer’s sewage from solids interceptor tank to the Utility’s sewage collection system, the Utility will arrange to have this pump repaired or replaced as required and will include the cost of such repair or replacement as a separate item in the next regular billing to the customer and may be paid for over a one-year period.

C. Visual Inspection Port

In order for a customer who uses a solids interceptor tank to receive sewage service from the Utility or to continue to receive such service, the customer shall install at the customer’s expense a visual inspection port which will allow for observation of the contents of the solids interceptor tank and extraction of test samples therefrom. Failure to provide such visual inspection port after timely notice of not less than thirty (30) days shall be just cause for interruption of service until a visual inspection port has been installed.

Carolina Water Service, Inc.
Docket No. 2017-292-WS
SCHEDULE OF PROPOSED RATES AND CHARGES

3. Non-recurring Charges

- A. Sewer Service Connection (New connections only) \$300 per SFE
- B. Plant Capacity Fee (New connections only) \$400 per SFE

The Plant Capacity Fee shall be computed by using South Carolina DHEC "Guide Lines for Unit Contributory Loadings to Wastewater Treatment Facilities" (1972) to determine the single family equivalency rating. The plant capacity fee represents the Utility's investment previously made (or planned to be made) in constructing treatment and/or collection system facilities that are essential to provide adequate treatment and disposal of the wastewater generated by the development of the new property.

The nonrecurring charges listed above are minimum charges and apply even if the equivalency rating of non-residential customer is less than one (1). If the equivalency rating of a non-residential customer is greater than one (1), then the proper charge may be obtained by multiplying the equivalency rating by the appropriate fee. These charges apply and are due at the time new service is applied for, or at the time connection to the sewer system is requested.

C. Notification Fee

A fee of \$15.00 shall be charged to each customer per notice to whom the Utility mails the notice as required by Commission Rule R. 103-535.1 prior to service being discontinued. This fee assesses a portion of the clerical and mailing costs of such notices to the customers creating the cost.

D. Customer Account Charge - (New customers only)

\$30.00

A one-time fee to defray the costs of initiating service. This charge will be waived if the customer is also a water customer.

E. Reconnection Charges: In addition to any other charges that may be due, in those cases where a customer's service has been disconnected for any reason as set forth in Commission Rule R. 103-532.4 a reconnection fee in the amount of \$500.00 shall be due at the time the customer reconnects service. Where an elder valve has been previously installed, a reconnection fee of \$40.00 shall be charged.

F. Tampering Charge: In the event the Utility's equipment, sewage pipes, meters, curb stops, service lines, elder valves or other facilities have been damaged or tampered with by a customer, the Utility may charge the customer responsible for the damage the actual cost of repairing the Utility's equipment, not to exceed \$250. The tampering charge shall be paid in full prior to the Utility re-establishing service or continuing the provision of service.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in water and wastewater rates in Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole Counties, by Utilities, Inc. of Florida.

DOCKET NO. 20200139-WS
ORDER NO. PSC-2021-0206-FOF-WS
ISSUED: June 4, 2021

The following Commissioners participated in the disposition of this matter:

GARY F. CLARK, Chairman
ART GRAHAM
ANDREW GILES FAY
MIKE LA ROSA

FINAL ORDER

BY THE COMMISSION:

MARTIN S. FRIEDMAN, ESQUIRE, DEAN MEAD, 420 South Orange Avenue, Suite 700, Orlando, FL 32801
JOHN L. WHARTON, ESQUIRE, DEAN, MEAD & DUNBAR, 106 East College Avenue, Suite 1200, Tallahassee, Florida 32301
On behalf of Utilities, Inc. of Florida (UIF).

RICHARD GENTRY, CHARLES J. REHWINKEL, STEPHANIE MORSE, ANASTACIA PIRRELLO, ESQUIRES, Office of Public Counsel, c/o The Florida Legislature, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400
On behalf of the Citizens of the State of Florida (OPC).

WALTER L. TRIERWEILER and BIANCA Y. LHERISSON, ESQUIRES, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850
On behalf of the Florida Public Service Commission (Staff).

MARY ANNE HELTON, ESQUIRE, Deputy General Counsel, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850
Advisor to the Florida Public Service Commission.

KEITH C. HETRICK, ESQUIRE, General Counsel, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850
Florida Public Service Commission General Counsel.

Table of Contents

Issue	Description	Page
	BACKGROUND	6
	DECISION	8
I.	Quality of Service	8
II.	Test Year Plant-In Service Adjustments	21
III.	Pro Forma Plant	21
IV.	Plant Retirements	60
V.	STIPULATED – Excessive Unaccounted for Water	62
VI.	STIPULATED—Excessive Infiltration and Inflow	62
VII.	STIPULATED—Used and Useful (U&U) for Water Treatment	63
VIII.	STIPULATED—Used and Useful for Water Storage	63
IX.	Used and Useful for Wastewater Treatment	63
X.	STIPULATED—Used and Useful for Water Distribution	69
XI.	STIPULATED—Used and Useful for Collection Lines	69
XII.	Test Year Accumulated Depreciation Adjustments	69
XIII.	Test Year CIAC Adjustments	70
XIV.	Test Year Accumulated Amortization of CIAC Adjustments	71
XV.	DROPPED	71
XVI.	Working Capital Allowance	72
XVII.	Test Year Rate Base	77
XVIII.	Accumulated Deferred Taxes	77
XIX.	STIPULATED—Customer Deposits	78
XX.	STIPULATED—Cost Rate for Short-Term Debt	79
XXI.	STIPULATED—Cost Rate of Long-Term Debt	79
XXII.	Return on Equity	79
XXIII.	Weighted Average Cost of Capital	96
XXIV.	Test Year Revenues	99
XXV.	STIPULATED—Rate Case Expense	100
XXVI.	Pro Forma Expense	100
XXVII.	Test Year O&M Expense Adjustments	107
XXVIII.	STIPULATED—Operating Expense Amortization	112
XXIX.	Taxes Other Than Income (TOTI)	113
XXX.	Test Year Depreciation Expense	113
XXXI.	Test Year CIAC Amortization Expense	114
XXXII.	Test Year Income Taxes	115
XXXIII.	Revenue Requirement	117
XXXIV.	STIPULATED (FALLOUT)—Rate Structures and Rates	118
XXXV.	STIPULATED—Private Fire Protection Charges	118
XXXVI.	STIPULATED (FALL OUT)—Wastewater Rates and Rate Structures	119
XXXVII.	STIPULATED (FALL OUT)—Reuse Rates	119
XXXVIII.	STIPULATED—Customer Deposits	120
XXXIX.	STIPULATED—Guaranteed Revenue Charges	120

XL.	Allowance for Funds Used During Construction.....	120
XLI.	Sewer and Water Improvement Mechanism.....	122
XLII.	Interim Refunds	129
XLIII.	Removal of Current Rate Case Expense.....	130
XLIV.	Commission Ordered Adjustments.....	131
	Schedule No. 1-A.....	135
	Schedule No. 1-B.....	136
	Schedule No. 1-C.....	137
	Schedule No. 2.....	138
	Schedule No. 3-A.....	139
	Schedule No. 3-B.....	140
	Schedule No. 3-C.....	141
	Schedule No. 4-A.....	143
	Schedule No. 4-B.....	144

Acronym Table

The following abbreviations used herein are listed below for reference purposes:

AA	Accumulated Amortization
AC	Asbestos Cement
ADIT	Accumulated Deferred Income Tax
AFUDC	Allowance for Funds Used During Construction
ARCH	Autoregressive Conditional Heteroskedasticity
BFC	Base Facility Charge
CAPM	Capital Asset Pricing Model
CIAC	Contributions in Aid of Construction
CIP	Capital Improvement Plan
CIPP	Cured-in-place Pipe
CRU-US	Corix Regulated Utilities (U.S.), Inc.
CWIP	Construction Work in Progress
DBP	Disinfection Byproducts
DCF	Discounted Cash Flow
DEP	Department of Environmental Protection
ECAPM	Empirical Capital Asset Pricing Model
EPS	Earnings Per Share
ERC	Equivalent Residential Connection
ERP	Equity Risk Premium
EUW	Excessive Unaccounted for Water
EWD	Englewood Water District
EXH	Exhibit
F.A.C.	Florida Administrative Code
FDOT	Florida Department of Transportation
FM	Force Main
FMV	Fair Market Value
F.S.	Florida Statutes
GARCH	Generalized Form of Autoregressive Conditional Heteroskedasticity
GDP	Gross Domestic Product
GRIP	Gas Reliability Infrastructure Program
GSM	Gravity Sewer Mains
GST	Gravity Storage Tank
I&I	Infiltration and/or Inflow
IDC	Interest During Construction
IRS	Internal Revenue Service
KWRU	KW Resorts Utilities Corp.
LUSI	Lake Utility Services, Inc.
MFRs	Minimum Filing Requirements
NARUC	National Association of Regulatory Utility Commissioners
O&M	Operation and Maintenance
OPC	Office of Public Counsel
PAA	Proposed Agency Action

PCF	UIF Witness Flynn's Exhibits
PFAS	Polyfluoroalkyl Substances
PRPM	Predicted Risk Premium Model
PVC	Polyvinyl Chloride
RAFs	Regulatory Assessment Fees
RAS	Return Activated Sludge
RPM	Risk Premium Model
RRA	Regulatory Research Associates
ROE	Return on Equity
RTU	Remote Terminal Unit
SCADA	Supervisory Control & Data Acquisition
SWIM	Sewer and Water Improvement Mechanism
TOTI	Taxes Other than Income
TR	Transcript
U&U	Used and Useful
UIF	Utilities, Inc. of Florida
USOA	Uniform System of Accounts
WACC	Weighted Average Cost of Capital
WM	Water Mains
WSC	Water Service Corporation
WTP	Water Treatment Plant
WWTP	Wastewater Treatment Plant

BACKGROUND

Utilities, Inc. of Florida (UIF or Utility) is a Class A utility providing water and wastewater service to 27 systems in the following counties: Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole. UIF is a wholly-owned subsidiary of Utilities, Inc. (UI). The Utility's last rate proceeding, processed in Docket No. 20160101-WS, utilized a historic December 31, 2015, test year.¹ That proceeding culminated in Order No. PSC-2017-0361-FOF-WS, issued September 25, 2017, as amended by Order No. PSC-2017-0361A-FOF-WS, issued October 4, 2017.

On October 20, 2017, the Office of Public Counsel (OPC) and Seminole County each filed a notice of administrative appeal with the First District Court of Appeal (the First DCA or the Court).² Our decision was affirmed by the First DCA in the appeal by Seminole County.³ In OPC's appeal, the Court affirmed our order except as to that portion of the used and useful (U&U) determination involving prepaid connections. The Court remanded this issue to us to determine the extent to which prepaid connections meet the requirements of Section 367.081(2)(a)2.b., F.S.⁴ For property to be considered used and useful in the public service under Section 367.081(2)(a)2.b., F.S., it must be shown to be "needed to serve customers 5 years after the end of the test year."

On remand from the First District Court of Appeal, in Order No. PSC-2019-0363-PAA-WS, issued on August 27, 2019, addressed the reversed and remanded portion of OPC's appeal, its effect on our previous decisions, and the Utility's motion for appellate and remand rate case expense.

Additionally, we approved a single, consolidated rate structure. The Utility's last rate proceeding occurred in Docket No. 20160101-WS utilizing a historic December 31, 2015, test year.⁵

In 2019, the Utility recorded total company operating revenues of \$16,396,327 for water and \$20,840,529 for wastewater, respectively. UIF reported net operating income for 2019 of \$3,726,366 for water and \$5,185,175 for wastewater. In 2019, UIF had 33,736 water and 23,885 wastewater customers for its combined systems.

On July 13, 2020, UIF filed an application for approval of interim and final water and wastewater rate increases. By letter dated August 5, 2020, our staff advised the Utility that its Minimum Filing Requirements (MFRs) had deficiencies. The Utility filed its response on August 24, 2020. A second deficiency letter was issued on August 28, 2020. The Utility filed a response to Commission staff's second deficiency letter on August 31, 2020, correcting its remaining

¹ *In re: Application for increase in water and wastewater rates in Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole Counties by Utilities, Inc. of Florida.*

² Document Nos. 09000-2017 and 09009-2017.

³ No. 1D17-4438.

⁴ *Citizens of State v. Florida Public Service Commission*, 294 So. 3d 961 (Fla. 1st DCA 2019).

⁵ *In re: Application for increase in water and wastewater rates in Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole Counties by Utilities, Inc. of Florida.*

deficiencies, and thus, August 31, 2020, became the official filing date pursuant to Sections 367.081 and 367.083, Florida Statutes (F.S.).

The Utility's application for increased interim and final water and wastewater rates is based on the historical 13-month average period ended December 31, 2019. The requested final rates include adjustments for pro forma projects. UIF requested final rates designed to generate additional revenues of \$2,812,445, or 16.94 percent, for water operations and \$6,521,686, or 32.12 percent, for wastewater operations.

Upon its request, the Office of Public Counsel (OPC) was added as an interested person to this docket on April 20, 2020. The intervention of the OPC was acknowledged by Order No. PSC-2020-0259-PCO-WS, issued July 24, 2020, in this docket.

On April 21, 2020, UIF filed a Petition for Variance or Waiver of a specific provision from Rule 25-30.437, Florida Administrative Code (F.A.C.), to waive the requirement to provide additional detailed billing analyses for each rate change period in the test year. By Order No. PSC-2020-0211-PAA-WS, issued June 26, 2020, this Commission approved the Utility's petition.

By Order No. PSC-2020-0322-PCO-WS, issued September 21, 2020, we authorized the collection of interim water and wastewater rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirements represented an increase of \$918,223 for water and \$1,051,222 for wastewater operations.⁶

Five customer service hearings were held via teleconference over the following dates: December 3, 2020, December 10, 2020, and January 6-7, 2021.

A formal evidentiary hearing was held on February 2-3, 2021. At the hearing, we approved Type II stipulations for Excessive Unaccounted for Water (EUW), Excessive Infiltration and/or Inflow (I&I), Used and Useful (U&U) – Water Treatment, U&U – Storage, U&U – Wastewater Treatment, U&U – Wastewater Collection Lines, U&U – Wastewater Distribution, Rate Case Expense, Operating Expense Amortizations, Water Rate Structure, Wastewater Rate Structure, Private Fire Protection Charges, Reuse Rates, Customer Deposits, Guaranteed Revenue Charges, Customer Deposits Included in Capital Structure, Cost Rates for Short-Term Debt, and Cost Rates for Long-Term Debt.⁷ Those approved stipulations are set forth herein. The Parties filed post-hearing briefs on the remaining contested issues on February 23, 2021.

⁶ Order No. PSC-2020-0322-PCO-WS, issued September 21, 2020, in Docket No. 20200139-WS, *In re: Application for increase in water and wastewater rates in Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole Counties by Utilities, Inc. of Florida*.

⁷ OPC takes no position on these issues nor does it have the burden of proof related to them. As such, OPC represents that it will not contest or oppose this Commission taking action approving a proposed stipulation between the Company and another party or our staff as a final resolution of these issues. No person is authorized to state that OPC is a participant in, or party to, a stipulation on these issues, either in this docket, in an order of this Commission, or in a representation to a Court.

This Order addresses the remaining issues concerning the Utility's final requested rates. As needed, individual systems within the consolidated Utility will be referred by their former names as follows: Cypress Lake Utilities, Inc. (Cypress Lakes), Utilities, Inc. of Eagle Ridge (Eagle Ridge), Labrador Utilities, Inc. (Labrador), Lake Placid Utilities, Inc. (Lake Placid), Lake Utility Services, Inc. (LUSI), Utilities, Inc. of Longwood (Longwood), Mid-County Services, Inc. (Mid-County), Utilities, Inc. of Pennbrooke (Pennbrooke), Utilities Inc. of Sandalhaven (Sandalhaven), Sanlando Utilities Corporation (Sanlando), Tierra Verde Utilities, Inc. (Tierra Verde), and Utilities, Inc. of Florida (UIF-Marion, UIF-Pinellas, UIF-Orange, UIF-Pasco, and UIF-Seminole. We have jurisdiction pursuant to Section 367.081, F.S.

DECISION

I. Quality of Service

A. Parties' Arguments

1. UIF

UIF asserted the quality of service for all its systems is satisfactory and most customers that attended one of the five virtual customer service hearings addressed the rate increase, not quality of service. UIF acknowledged that we evaluate quality of service based on three components: quality of the utility's product, operating conditions, and attempts to address customer satisfaction. The Utility stated that OPC did not outline its arguments in these three categories; but instead, its arguments are directed to systems with current or past Consent Orders with DEP. UIF argued this relates to the operating category and not the water quality customers receive. UIF noted that according to OPC the quality of service for LUSI, Sanlando Utilities (Wekiva Hunt Club), and the Mid-County systems is unsatisfactory.

In its brief, UIF separately addressed the three components noted above. The Utility argued the quality of the Utility's product (water) is satisfactory and specifically addresses the Summertree, LUSI, Sanlando, and Pennbrooke systems. UIF contended Summertree has had the most improvement since the last rate case with the completion of the interconnection with Pasco County in 2016. UIF stated water quality complaints have declined, and DEP has received no water quality complaints since the system was interconnected. The Utility stated that LUSI was determined to be marginal in the last rate case due to an open Consent Order regarding disinfection byproducts (DBP) exceedances. The Utility argued it should now be considered satisfactory because there were no customer complaints about water quality and DEP considers this system to be in compliance. For the Sanlando system, the main complaint of the customers that testified at the service hearings was the magnitude of the rate increase; however, while there were some comments related to water quality, none of them indicated "that there were systemic water quality issues." The Utility stated that DEP's records do not indicate any water quality complaints since 2017, and only a half dozen before that. Regarding Pennbrooke, UIF stated that three customers testified at the service hearings regarding aesthetics and hardness. In addition, OPC witness Lewis testified that she made contact with two residents in Pennbrooke who did not like the water quality and purchased filtration systems. UIF noted that neither of these customers

had ever contacted the Utility to complain about water quality. Moreover, DEP has found this system to be in compliance and reported one water quality complaint in 2017.

Next, the Utility addressed operating conditions and argued that all systems are in compliance, except the Mid-County and Sanlando wastewater systems (Wekiva Hunt Club). The Utility specifically addressed both systems and the LUSI system. UIF countered OPC witness Lewis' recommendation that the Mid-County system be found unsatisfactory with a 50-basis point reduction, by stating the Consent Order was due to not having submitted final paperwork and the Consent Order was closed on December 21, 2020. The Utility also refuted witness Lewis's recommendation that the Sanlando wastewater system (Wekiva Hunt Club) should be found not satisfactory and a 50-basis point reduction should be applied due to current and past Consent Orders. The Utility asserted that since two pro forma projects are being requested in this docket, the compliance issue related to unauthorized discharges will be resolved and because UIF is taking the necessary "steps to meet the requirements of the Consent Order," a penalty should not be imposed. The Utility stated that witness Lewis recommended a marginal or unsatisfactory determination for the LUSI system due to a Consent Order from DEP relating to DBP exceedances. UIF argued the system is in compliance with DEP and the prior issues related to DBP exceedances have been resolved.

Last, in order to address customer satisfaction, the Utility contended it improved customer service and communications by creating a new position, Director of External Affairs, which Mr. Snow holds. UIF argued that based on the records, UIF timely addressed customer service issues; therefore, the Utility's attempt to address customer satisfaction should be considered satisfactory. This Commission has logged fewer complaints during this rate case's analyzed 5-year period compared to the same relative time of the Utility's last rate case. Twelve of the 18 water quality complaints recorded with DEP were for two of UIF's largest systems, Sanlando and LUSI. The Utility argued that DEP considers no water system out of compliance because of secondary water quality standards. Additionally, UIF reorganized its Customer Experience department to respond to the customers by their preferred method of communication and has expanded its platform for customer feedback and information to social media and its application, MyUtilityConnect. OPC witness Lewis commented on the number of billing complaints, to which UIF responded that it works with each customer individually to address high bill complaints.

2. OPC

OPC contended that UIF's overall quality of service is not satisfactory due to issues with the: LUSI, Sanlando (Wekiva Hunt Club), Mid-County, and Pennbrooke systems. OPC argued for a minimum of a 50-basis point reduction to LUSI, Mid-County, and Pennbrooke's return on equity (ROE) and a 100-basis point reduction to Sanlando's (Wekiva Hunt Club) ROE.

Regarding DEP compliance, OPC argued that UIF demonstrated consistent mismanagement of its facilities and that there has been a consistent pattern of compliance issues at UIF's wastewater facilities. Witness Lewis identified six Consent Orders relating to three facilities. Specifically, Wekiva Hunt Club/Sanlando was subject to three Consent Orders, in 2015, 2018, and 2019, all for the discharge of untreated or improperly treated wastewater. Mid-

County was also the subject of two Consent Orders, in 2018 and 2019. LUSI was the subject of a 2015 Consent Order related to maximum contaminant levels. OPC went on to note that Commission staff witness Hicks testified that the LUSI system had the second highest incidence of complaints recorded in this Commission's Consumer Activity Tracking System and about 20 percent of those LUSI complaints related to quality of service.

During the five customer service hearings, OPC contended that customers testified about poor water quality and having to purchase bottled water since home filters are too expensive. Customers also complained of staining on home appliances and home exteriors from their water. Further, customers stated they were then required to clean the stains on their homes or be fined by their homeowners' association. OPC argued that customers should not have this additional burden due to their water quality. Customers also had issues regarding the Utility's emergency telephone line going unanswered.

OPC contended that the Utility "should not be allowed to operate in non-compliance during the test year, later resolve the deficiencies in time for the rate case, and then expect to receive a clean bill of health from the Commission." OPC argues we should look at the Utility's history of non-compliance and take this into consideration when setting new rates. Further, OPC argues we should find UIF's quality of service to be unsatisfactory based on the Utility's compliance history with DEP as well as customer testimony for the following four systems: LUSI, Sanlando (Wekiva Hunt Club), Mid-County, and Pennbrooke. OPC also asserted that UIF's ROE should be reduced by a minimum of 50-basis points for LUSI, Mid-County, and Pennbrooke, and 100-basis points for Sanlando (Wekiva Hunt Club).

B. Analysis

Pursuant to Rule 25-30.433(1), F.A.C., this Commission "in every rate case shall make a determination of the quality of service provided by the utility by evaluating the quality of the Utility's product (water) and the Utility's attempt to address customer satisfaction (water and wastewater)." Also, pursuant to Rule 25-30.433(2), F.A.C., "in order to ensure safe, efficient, and sufficient service to utility customers, the Commission shall consider whether the infrastructure and operational conditions of the plant and facilities are in compliance with Rule 25-30.225, F.A.C." In doing so, we shall consider test results, inspections, complaints, testimony, as well as any citations, violations, or Consent Orders on file with DEP and county health department pursuant to Rule 25-30.433, F.A.C.

Section 367.0812(1), F.S., additionally requires us, in fixing rates, to consider the extent to which the utility provides water service that meets secondary water quality standards as established by DEP. Primary water standards relate to the safety of the water, while secondary standards relate to the aesthetics of the water like taste, color, odor, and sediment.

Rule 25-30.433(1), F.A.C., requires that the testimony of a utility's customers be considered in a rate case proceeding. Five remote service hearings were held due to the ongoing COVID-19 pandemic. There were a total of 42 customers and one appointed official that testified at the service hearings. Each customer that testified expressed their dissatisfaction with UIF's proposed rate increase; some customers also testified regarding odor, discolored water, or the

additional cost of buying bottled water. Of the total customers who provided testimony at the service hearings, OPC asserted 35 percent addressed poor water quality, such as odor or bad taste, and 22 percent addressed customer service issues. However, we found that only 11 customers testified to quality of service related issues, which includes poor water quality, and three customers testified to customer service issues, which is approximately 26 and 7 percent, respectively, of the total 43 participants. UIF asserted that the majority of the customer comments from the service hearings were concerning the proposed rate increase and not relating to quality of service.

DEP provided compliance and complaint data from January 1, 2015, through August 31, 2020, which was included in the hearing record. DEP received a total of 44 complaints during this 5-year period: 23 complaints related to water and 21 complaints related to wastewater. The water complaints consisted of concerns primarily regarding odor, color, and pressure, and the wastewater complaints consisted of primarily odor concerns.

The Utility provided the complaints it received during the test year and four years prior in Vol. III of its MFRs. There were 1,460 billing and 2,532 service complaints for the test year for all of the Utility's systems. UIF's secondary water quality complaints for the four years prior to the test year amounted to 998 complaints, with some complaints having been addressed in prior rate proceedings.

As of February 3, 2021, there were a total of 906 comments, filed by 820 customers, in the docket file. UIF serves over 60,000 water and wastewater customers; therefore, approximately 1.4 percent of the Utility's customers provided comments in the instant docket. We analyzed all comments in the docket file and a total of 812 customers provided comments expressing their discontent with the proposed rate increase. In addition, 78 customers, approximately 9.5 percent of the total customers that commented in the docket file, provided comments regarding the quality of service and addressed their dissatisfaction with the odor, color, and pressure of their water product. Several customers provided comments also expressing their dissatisfaction with the Utility's customer service and pointed out that UIF's emergency number was not adequately managed.

We received a total of 194 complaints from October 5, 2015, through October 5, 2020, with 69 percent of the complaints concerning billing issues, and the remaining 31 percent concerning quality of service issues. Commission staff witness Hicks testified that most complaints for the analyzed 5-year period came from Seminole County, with 133 complaints followed by Lake County with 31 complaints. Out of the total complaints for both Seminole and Lake Counties, there were only six complaints regarding quality of service. UIF serves over 24,000 customers in Seminole County (Sanlando and UIF-Seminole) and over 18,000 customers in Lake County (LUSI and Pennbrooke). The total customer complaints we received represents a small fraction of UIF's customer base within Seminole and Lake Counties and also with respect to the Utility in its entirety. Further, witness Hicks testified that most of the UIF complaints received by this Commission were resolved or closed. Witness Hicks also stated that the Utility may have violated our rules for 15 of the 194 complaints received by this Commission. The majority of these potential rule violations involved inaccurate meters and meter readings,

customer billing, deposit refunds, and failing to respond to the customers or us in a timely manner.

OPC witness Lewis focused her testimony on quality of service issues identified by DEP and customer testimony, complaints, and comments. The witness testified to specific concerns regarding past and present Consent Orders for the following systems: LUSI, Sanlando (Wekiva Hunt Club), and Mid-County. Witness Lewis asserted that we should consider the issues identified in the Consent Orders, even if the Utility has since corrected any deficiencies. With respect to the complaint-related documentation of this case, the witness testified that the majority of complaints are related to billing, but there were also several complaints related to customer service. Witness Lewis argued that the Utility does not respond to these complaints, until or unless the customer contacts us and we subsequently facilitate contact between the Utility and customer. The witness supported her argument by indicating that she spoke with three customers from different systems about the quality of the water product and associated issues, which included discussions regarding the color, odor, and staining of the product, as well as purchasing supplemental water filtration systems to help mitigate these issues. Witness Lewis recommended a finding of marginal or unsatisfactory quality of service for LUSI, Sanlando (Wekiva Hunt Club), and Mid-County, with a potential 50-basis point reduction to the Utility's ROE if we find the quality of service for these systems is unsatisfactory. Further, the witness concluded that if a specific system has a history of repeated or unresolved issues, the ROE should be reduced by 100-basis points, but she did not identify a particular system where this may be applicable. In its brief, OPC recommends, for the first time, that Pennbrooke be considered unsatisfactory; however, OPC provided limited support for its assessment of Pennbrooke's quality of service, and instead focused on two customer complaints and 3 service hearing comments concerning secondary water quality standards discussed in detail below. Further, in its brief, OPC argued we should find the quality of service unsatisfactory for LUSI, Sanlando (Wekiva Hunt Club), Mid-County, and Pennbrooke. OPC further stated that ROE should be reduced by 50-basis points for LUSI, Mid-County, and Pennbrooke and by 100-basis points for Sanlando (Wekiva Hunt Club). OPC also stated that the awarded ROE should be reduced by at least 50-100 basis points on a targeted underperforming system basis.

UIF witness Snow disagreed with witness Lewis' assertion that UIF does not respond to customers until we are involved. Witness Snow further stated that customers may choose to contact this Commission initially ahead of the Utility, and also indicated that OPC did not provide a specific example of where this occurred. Additionally, witness Snow addressed each of the three customers witness Lewis testified about regarding their quality of service concerns, and stated that these customers have either never filed a complaint with the Utility or else they have not done so within the past 14 years. Witness Snow further argued that the Utility is willing to work with customers individually to address any concerns. In response to witness Hicks' testimony about UIF's potential rule violations on responding to complaints promptly, witness Snow asserted these complaints were from 2015, 2017, and 2018, and none occurred during 2019 and 2020; therefore, this is not a current problem. In support of UIF's quality of service argument, witness Snow testified that UIF reorganized its Customer Experience department to better serve the customer, using the customer's preferred method of communication. Further, in response to OPC's argument regarding the compliance of the specific UIF systems identified

previously that OPC contested, UIF discussed DEP’s compliance determination for LUSI, Mid-County, and Sanlando (Wekiva Hunt Club).

In Vol III of its MFRs, UIF provided the required additional engineering information pursuant to Rule 25-30.440, F.A.C. Currently, all the Utility’s water systems are in compliance with DEP’s rules and regulations and are under no formal enforcement action or violation. In evaluating UIF’s product quality (water), we reviewed the Utility’s compliance with 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.

Below, is the quality of the Utility’s product, pursuant to Rule 25-30.433(1), F.A.C., as well as the infrastructure and operating conditions of the plant and facilities, as required by Rule 25-30.433(2), F.A.C. Our analysis consists of: 1) a discussion of the systems which we deemed satisfactory, were satisfactory in the last rate case, and not contested by OPC; and 2) a discussion of the systems which we find to be satisfactory or marginal now, but were either found to be marginal or unsatisfactory in the last rate case or are contested by OPC in the instant docket. Table 1 summarizes the quality of service determinations from UIF’s last rate case, the recommended determinations for the instant docket by UIF and OPC, as well as our approved determinations, by system.

Table 1
Quality of Service Determination Summary

System	Last Rate Case Determination	UIF Recommendation	OPC Recommendation	Commission Approved
Lake Placid	Satisfactory	Satisfactory	*	Satisfactory
UIF-Marion	Satisfactory	Satisfactory	*	Satisfactory
UIF-Orange	Satisfactory	Satisfactory	*	Satisfactory
UIF-Pasco-Orangewood	Satisfactory	Satisfactory	*	Satisfactory
UIF-Pinellas-Lake Tarpon	Satisfactory	Satisfactory	*	Satisfactory
LUSI	Marginal	Satisfactory	Unsatisfactory	Satisfactory
Pennbrooke	Marginal	Satisfactory	Unsatisfactory	Unsatisfactory
Labrador	Marginal	Satisfactory	*	Satisfactory
UIF-Pasco-Summertree	Unsatisfactory	Satisfactory	*	Satisfactory
Cypress Lakes	Marginal	Satisfactory	*	Satisfactory
UIF-Seminole	Marginal	Satisfactory	*	Satisfactory
Sanlando WTP	Satisfactory	Satisfactory	*	Satisfactory
Sanlando WWTP	Satisfactory	Satisfactory	Unsatisfactory	Unsatisfactory
Mid-County	Marginal	Satisfactory	Unsatisfactory	Unsatisfactory

* These systems were not identified in OPC witness Lewis’ testimony as having satisfactory, marginal, or unsatisfactory quality of service.

a. Systems with Satisfactory Determination in Last Rate Case and Uncontested Satisfactory Quality of Service

The water and wastewater systems below are in compliance with DEP requirements, including secondary water quality standards; had minimal customer participation at the service hearings; received few, if any, quality of service complaints; and were found to have satisfactory quality of service in the last rate case.⁸ For water: Lake Placid, UIF-Marion, UIF-Orange, UIF-Pasco-Orangewood, and UIF-Pinellas-Lake Tarpon, and Sanlando. For wastewater: Sandalhaven, Cross Creek/Eagle Ridge, UIF- Marion, Lake Placid, Longwood, and Tierra Verde. As noted above, OPC did not identify any quality of service issues with these systems or address these systems specifically. As such, we find the quality of service for these systems to be satisfactory.

b. Systems with Unsatisfactory/Marginal Determination in Last Rate Case or Contested Satisfactory Quality of Service

As stated previously, in its brief, OPC argued the quality of service should be unsatisfactory for LUSI, Mid-County, Pennbrooke, and Sanlando (Wekiva Hunt Club). Also, OPC contends that a reduction of 50-basis points should be imposed for LUSI, Mid-County, and Pennbrooke, and a reduction of 100-basis points for Sanlando (Wekiva Hunt Club) to UIF's ROE, on a targeted underperforming system basis. In opposition to OPC, UIF argued all of its systems should be considered satisfactory. Below, we discuss the following systems in greater detail: LUSI, Pennbrooke, Labrador, UIF-Pasco-Summertree, Cypress Lakes, UIF-Seminole, Sanlando (WTP & WWTP), and Mid-County.

1. LUSI

We found the quality of service for the LUSI system to be marginal, with no penalty, in UIF's 2016 rate case.⁹ This determination was due to an open Consent Order, entered into on September 6, 2016, for DBP exceedances at the LUSI water treatment plant (WTP). To rectify the issues associated with this Consent Order, UIF indicated that it upgraded its LUSI WTP with a chlorine dioxide pretreatment capability in 2019, which has significantly lowered the production of DBPs within the system. The Utility corrected all violations and satisfied all requirements of the Consent Order, and the order was subsequently closed in August 2019. LUSI's most recent chemical analyses results were performed on March 17, 2020, February 8, 2018, and April 10, 2018, and the results were in compliance with DEP's standards. There are currently no open Consent Orders for this system. DEP recorded two complaints regarding water quality: one complaint regarding smell in January 2016 and one complaint of high DBP in February 2016, both of which are prior to the system's chlorine dioxide pretreatment upgrade to LUSI's WTP discussed previously. In its brief, UIF stated one customer testified at the service hearings from this system. As noted above, OPC believes the quality of service for this system should be unsatisfactory. However, we find that UIF has taken the necessary steps to address the

⁸ Order No. PSC-2017-0361-FOF-WS.

⁹ Order No. PSC-2017-0361-FOF-WS.

past compliance issue of DBP exceedances for this system and there have been minimal complaints since UIF performed the upgrades to the WTP; therefore, we find this system's quality of service to be satisfactory.

2. Pennbrooke

We found the quality of service of the Pennbrooke system to be marginal, with a 50-basis point reduction to the Utility's ROE, in UIF's 2016 rate case.¹⁰ This determination was due to excess levels of iron and customer complaints regarding discolored water, sediment, low pressure, and high iron. Pennbrooke's most recent chemical analyses were performed on February 8, 2018, and indicated an excess iron level. While Pennbrooke's results showed an iron exceedance, DEP did not impose any corrective measures since there was not a significant amount of complaints associated with excess iron levels in the one year period leading up to the violation. DEP indicated that Pennbrooke is in compliance.

In February 2017, DEP received two complaints for the Pennbrooke system: one for color and one for the hardness of the water. At the service hearings, one customer testified to the quality of the product and complained of discoloration, odor, sediment within pipes, and loss of water pressure due to irrigation within the community. Witness Lewis relied on this customer's service hearing testimony in her direct testimony concerning poor water quality, specifically discolored water. UIF rebutted witness Lewis' arguments with respect to this specific customer by stating that this customer has not complained to the Utility in over 14 years. Additionally, UIF argued that it has investigated treatment alternatives for the iron levels concentrated in its groundwater, but the Pennbrooke homeowners' association (HOA) declined to support the treatment upgrade due to potential bill impacts. Further, the Pennbrooke HOA provided comments in the docket file on behalf of its customers which addressed the community's water quality concerns relating to iron and chlorine within the water product and water pressure.

The Utility evaluated its complaint records to determine if there were clusters of complaints regarding secondary water quality and found that Pennbrooke was one of two areas of concern. UIF stated that Pennbrooke had considerable levels of soluble iron in the source water and adds a sequestrant to the water to keep the iron in soluble form. Further, the Utility asserted that since the last rate case, it met with HOA representatives in Pennbrooke and coordinated an irrigation schedule to spread the peak demand across more days of the week to address the low-pressure complaints. The Utility also activated routine flushing of dead-end mains to reduce water age, due to seasonal residence within the system.

As noted above, OPC believes the quality of service for this system should be unsatisfactory. UIF has demonstrated its readiness to address customers' satisfaction by meeting with the HOA representatives and implementing water treatment options, such as the addition of a sequestrant and routine flushing. However, there is still an issue of excess iron levels in the water product, as demonstrated in its 2018 chemical analyses and the customer correspondence analyzed for the instant docket. Therefore, we find the quality of service for Pennbrooke to be unsatisfactory.

¹⁰ Order No. PSC-2017-0361-FOF-WS.

3. Labrador

We found the quality of service of the Labrador system to be marginal, with no penalty, in UIF's 2016 rate case. This determination was largely due to water quality complaints and historical issues relating to Labrador's source water.¹¹ The most recent chemical analyses for Labrador were performed June 6, 2018, and were in compliance with DEP's drinking water standards. Additionally, there are minimal customer complaints contained within the record of the instant docket and there were no complaints filed with DEP for Labrador.

UIF asserted that since its last rate case, Labrador is maximizing the use of a different well that has enhanced water quality relative to the water source to improve Labrador's quality of service. Also, the Utility contended it has improved the reliability and performance of the emergency generator at the water treatment plant that has previously had equipment failures, as well as flushing parts of the water system monthly to address secondary water quality issues. OPC did not specifically address this system. Labrador is in compliance with DEP and UIF has made infrastructure and operating condition improvements, with the utilization of a different well, implementation of monthly flushing for parts of the water system, as well as improving its emergency generator; therefore, we find this system's quality of service to be satisfactory.

4. UIF-Pasco-Summertree

We found the quality of service of the UIF-Pasco-Summertree system to be unsatisfactory, with a 100-basis point reduction to the Utility's ROE, in UIF's 2016 rate case.¹² This determination was based upon UIF not maintaining secondary water quality standards and customer complaints. Since its interconnection with Pasco County Utilities in December 2016, UIF-Pasco-Summertree purchases bulk water from Pasco County. The Utility argued that Pasco's water chemistry levels fluctuate daily and as a result, a biofilm will accumulate on the pipe interiors. To monitor this issue, UIF tests daily for chlorine and ammonia at multiple locations. The Utility also performs semi-annual chlorine burns followed by uni-directional flushing to maintain water quality. Further, UIF implemented a chlorine dioxide pilot study within this system, with the objective of stabilizing the system's water quality and reducing the necessity of regular flushing. The Utility is requesting cost recovery of this chlorine dioxide pilot study, in PCF-38, which is discussed in greater detail below.

As a reseller of water, UIF-Pasco-Summertree is not subject to DEP's secondary water standards. However, due to the high volume of customer complaints in the previous rate proceeding, we required UIF to perform and report secondary water quality testing every six months for this system. The water samples were to be taken at the same six locations in the distribution system and testing was to continue until we found the water quality to be satisfactory.¹³ While previous test results indicated slight iron exceedances, the most recent chemical analyses for secondary water contaminants were performed on October 1, 2020, and

¹¹ Order No. PSC-2017-0361-FOF-WS.

¹² Order No. PSC-2017-0361-FOF-WS.

¹³ Order No. PSC-16-0505-PAA-WS, issued October 31, 2016, in Docket No. 150269-WS, *In re: Application for limited proceeding water rate increase in Marion, Pasco, and Seminole Counties by Utilities, Inc. of Florida.*

was in compliance with DEP's standards. DEP stated UIF-Pasco-Summertree was in compliance, and the seven complaints concerning issues with water quality were received by DEP prior to the interconnection with Pasco County Utilities. OPC did not specifically address this system. Based on the aforementioned analyses of this system's compliance, complaints, and demonstrated efforts by UIF to address complaints, we find the quality of service for this system to be satisfactory. However, we find it appropriate that the additional testing and reporting requirements pursuant to Order PSC-16-0505-PAA-WS shall continue, but shall now be conducted on an annual basis, instead of on a semi-annual basis.

5. Cypress Lakes

We found the quality of service of the Cypress Lakes system to be marginal, with a 50-basis point reduction to the Utility's ROE, in UIF's 2016 rate case. This determination was due to the number of complaints involving secondary water quality issues and the lack of substantial improvement since previous rate cases in 2010 and 2007.¹⁴ UIF asserted it has increased its attempts to examine the chlorine levels and monitors the age of the water within the system and aesthetic water quality characteristics to improve the quality of service for this system since its last rate case. The Utility also adjusts (from the monitoring data) feed rates of the chlorine and ammonia at the WTP and conducts periodic burns of the system followed by uni-directional flushing. The most recent chemical analyses were performed on March 25, 2020, and were in compliance with DEP's drinking water standards. DEP indicated Cypress Lakes was in compliance and did not receive any complaints from the customers of this system. OPC did not specifically address this system. Cypress Lakes is in compliance with DEP and the Utility has demonstrated that it has made improvements since the prior rate cases and has reduced customer complaints substantially. Therefore, we find the quality of service for this system to be satisfactory.

6. UIF-Seminole

We found the quality of service of the UIF-Seminole system to be marginal, with no penalty, in UIF's 2016 rate case. This determination was due to ongoing secondary water quality standard issues and the system's need for capital intensive upgrades.¹⁵ The most recent chemical analyses for the seven systems within UIF-Seminole were performed for Bear Lake on February 19, 2018, Jansen on February 19, 2018, Little Wekiva on February 14, 2018, Oakland Shores on February 20, 2018, Park Ridge on March 7, 2018, Ravenna Park on March 7, 2018, and Weathersfield on March 26, 2020. While Jansen's results showed an iron exceedance, DEP did not impose any corrective measures since there was not a significant amount of complaints associated with excess iron levels in the one-year period leading up to the violation. Further, DEP indicated that Oakland Shores and Bear Lake incurred reporting violations for late bacteriological testing results, but these violations were closed once the results were received. DEP also indicated that Little Wekiva had a treatment technique violation, in which a residual fell under a required limit; however, this violation was closed as well. Additionally, Phillips had an iron violation in May 2018, but following this exceedance violation, Phillips merged with

¹⁴ *Id.*

¹⁵ Order No. PSC-2017-0361-FOF-WS.

Ravenna Park in February 2019 and no additional action was taken by DEP. Since Phillips merged with Ravenna Park, DEP conducted a sanitary survey on February 13, 2020. The facility was found in compliance, and DEP did not report any iron exceedances. As these violations have been corrected and closed, DEP reported all seven systems of UIF-Seminole as in compliance with DEP's standards.

UIF asserted that since the previous rate case, the Utility has completed a comprehensive replacement of the water system infrastructure in Bear Lake, Little Wekiva, Oakland Shores, and the combined system of Ravenna Park/Crystal Lake/Phillips. UIF stated the Park Ridge system was redone in 2014 and this improved water pressure, water aesthetics, and reduced widespread water outages by having functional isolation valves in each system. The Utility asserted that the two smallest water plants, Park Ridge and Little Wekiva, installed emergency generators and automatic transfer switches, to minimize the rate of recurrence and length of time without water service.

DEP did not receive any complaints for the Jansen, Bear Lake, Park Ridge, Little Wekiva, Oakland Shores, and Weathersfield systems. DEP reported four secondary water quality complaints for the Ravenna Park system since 2015. OPC did not specifically address this system. All systems of UIF-Seminole are in compliance with DEP's standards and DEP has not initiated any enforcement action. Additionally, there have been minimal customer complaints and UIF has made capital improvements in an effort to improve the quality of service since its last rate case. Therefore, we find the quality of service for this system to be satisfactory.

7. Sanlando (Water)

We found the quality of service of the Sanlando water system to be satisfactory in UIF's 2016 rate case.¹⁶ The most recent chemical analyses for Sanlando, which consists of three WTPs, were completed on January 28, 2020, and February 19, 2020, and were all in compliance with DEP's standards. In December 2018, the Sanlando water system had reporting violations for late-filed bacteriological and DBP test results; however, these violations were closed when DEP received the test results in February 2019. DEP reported the Sanlando water system to be in compliance.

DEP received eight complaints for Sanlando's water system from 2015 through 2020, which varied in nature. At the service hearings, three customers from this system testified regarding poor water product and customer service. OPC did not specifically address Sanlando's water system. This system is in compliance with DEP and there have been minimal complaints from the customers of this system. Further, the nominal DEP violation against this system in 2018 was promptly corrected and late-filed test reports does not appear to be a repetitive issue. Therefore, we find the quality of service for the Sanlando water system to be satisfactory.

8. Sanlando (Wastewater)

¹⁶ Order No. PSC-2017-0361-FOF-WS.

We found the quality of service to be satisfactory for the Sanlando (Wekiva Hunt Club) wastewater system in UIF's 2016 rate case.¹⁷ At that time, we considered DEP's 2015 Consent Order for unauthorized discharge and its subsequent closure.¹⁸ A Consent Order was issued in 2018, due to overflows following Hurricane Irma and an effluent violation. The Utility indicated the 2018 Consent Order was mainly attributable to hydraulic bottlenecks within the treatment process and excess infiltration and inflow (I&I) as a consequence of Hurricane Irma. The Utility stated that it had satisfied the requirements of the 2018 Consent Order and it was being processed by DEP for case closure in December 2020. Further, the Utility asserted that it would continue to investigate sources of I&I within this system, which contains numerous miles of clay sewer mains. Additionally, UIF is requesting cost recovery for numerous improvements to the wastewater treatment plant (WWTP). This pro forma project, PCF-22, is discussed in greater detail below.

In October 2019, DEP found this system in violation for an unauthorized discharge and UIF was issued a Consent Order in 2020. UIF stated that the 2020 Consent Order was due to equipment failure, causing an unauthorized discharge. UIF is requesting cost recovery to construct larger, more capable headworks that will not cause overflows. This project, PCF-23, is discussed in greater detail below. The Utility asserted for its DEP-approved in-kind project, UIF will install water level transducers and solar arrays at six key lift stations. Due to the 2018 and 2020 Consent Orders, the Sanlando WWTP is out of compliance with DEP. While the 2018 and 2020 Consent Orders were due to unauthorized discharges, the causes which led to the discharges differ. The Utility has demonstrated a responsiveness to DEP based on the Utility's testimony stating that the 2018 Consent Order was in the closure process in December 2020 and the Utility has requested cost recovery for their DEP-approved in-kind project relating to the 2020 Consent Order. Additionally, the Utility asserted that it is taking the necessary steps to comply with the Consent Order, and therefore, we should follow our precedent and not impose a penalty for this system.

During the service hearings, there was testimony regarding an additional sewage spill at the Sanlando WWTP towards the end of December 2020. This sewage spill was due to a loss of power at a lift station which decreased pumping capacity for a short duration of time. UIF responded to the sewage spill and resolved the issue. The spill was contained within the retention pond around the lift station. The cause for this sewage spill was due to a loss of power at a lift station, which was not the cause for either of the prior unauthorized discharges addressed in the 2018 and 2020 Consent Orders.

Further, UIF has made \$6,000,000 in plant improvements and more than \$2,000,000 in collection system improvements to reduce I&I. With these improvements, and the two pro forma projects (PCF-22 and PCF-23) discussed below, we find that UIF is taking action to address the quality of service issues associated with the Sanlando wastewater system and has demonstrated its responsiveness to DEP. However, while the cause of each overflow event has differed, the unauthorized discharges still occurred and resulted in the issuance of two DEP Consent Orders.

¹⁷ *Id.*

¹⁸ *Id.*

We therefore find the quality of service for Sanlando (Wekiva Hunt Club) wastewater system to be unsatisfactory.

9. Mid-County

We found the quality of service of the Mid-County system to be marginal, with a 50-basis point reduction to the Utility's ROE, in UIF's 2016 rate case.¹⁹ This was due to the sewage spills that occurred between January 2015 and September 2016 along with odor complaints received by DEP. In 2018, Mid-County was under a Consent Order with DEP regarding effluent violations. DEP considered Mid-County to be out-of-compliance because UIF did not submit its final paperwork. DEP closed that Consent Order on July 30, 2019. Mid-County had a 2019 violation that resulted in a Consent Order regarding sanitary sewer overflows and failure to submit public notices of pollution for these overflows. UIF stated that the 2019 Consent Order was closed on December 21, 2020, after the Utility concluded an engineering study of the WWTP to ascertain the cause of the spill and reduce the risk of future spills. The Utility installed emergency generators and automatic transfer switches at two key lift stations as an in-kind project with DEP, in December 2020. UIF is requesting cost recovery of numerous pro forma projects that were identified in the engineering study that could improve the WWTP. These projects, PCF-14, PCF-15, and PCF-17, are discussed in greater detail below in Section III. Further, there has been very minimal customer participation from this system.

OPC argued that the quality of service for Mid-County should be unsatisfactory and an ROE reduction of 50-basis points should be imposed due to the two Consent Orders, which occurred between 2015 and 2020. UIF recognizes that the Mid-County system was out of compliance because UIF did not submit its final paperwork relating to the Consent Order, but the Consent Order was closed as of December 21, 2020. Mid-County previously had overflow issues in 2015, which we have already considered in UIF's quality of service determination of marginal in its prior rate case. Due to subsequent overflow issues in 2019, which resulted in the issuance of a DEP Consent Order, we find the quality of service for Mid-County to be unsatisfactory.

C. Conclusion

Based on the above, as shown in Table 1, we hereby find that the quality of service for all UIF systems to be satisfactory with the exclusion of the Pennbrooke water, Sanlando (Wekiva Hunt Club) wastewater, and Mid-County wastewater systems, which shall be deemed unsatisfactory. All existing ROE penalties associated with prior quality of service determinations shall be removed, and a reduction of 15 basis points to the Utility's overall ROE shall be implemented due to the unsatisfactory quality of service of the three aforementioned systems. Further, the secondary water quality reporting and testing requirements, pursuant to Order No. PSC-16-0505-PAA-WS for Summertree shall now be conducted on an annual basis, instead of a semi-annual basis.

¹⁹ Order No. PSC-2017-0361-FOF-WS.

II. Test Year Plant-In Service Adjustments

A. Parties' Arguments

1. UIF

The Utility asserted that the only adjustments to test year plant balances were to allocate common plant between water and wastewater systems.

2. OPC

In its brief, OPC discussed reductions related to pro forma plant projects. These projects are discussed in Section III.

B. Analysis

UIF witness Swain made test year adjustments to the plant-in-service balance to correct allocations of common plant between water and wastewater and to reclassify plant accounts for the wastewater system. Although it addressed pro forma adjustments, OPC did not dispute the Utility's adjustments. Further, Commission staff witness Dobiac's testimony did not reflect any audit adjustments to the test year plant-in-service balances. As such, we find that these test year adjustments are appropriate and no further adjustments are necessary to the adjusted test year plant-in-service balances.

Based on the above, we hereby find no further adjustments to the adjusted test year plant-in-service balances. Adjustments to pro forma plant additions shall be made as set forth and discussed below.

III. Pro Forma Plant

A. Parties' Arguments

1. UIF

UIF argued that of the 45 pro forma project additions that had been identified by UIF witness Flynn, all had been supported by invoices or signed contracts and would be completed by December 31, 2021. Despite the change in completion date from witness Flynn's direct testimony for 15 of the projects, all of the pro forma projects would be completed within the 24-month statutory deadline. The costs for the 45 pro forma projects requested totaled \$30,042,556. The Utility stated that OPC had indicated there were issues with the documentation provided; however, UIF witness Flynn had asserted that documentation may vary from project to project, and a lack of documentation does not affect a project's completion. For example, witness Flynn

pointed to a specific project where a Notice to Proceed was not issued, but the project had been completed.

UIF argued that OPC's witness Radigan had not questioned the reasonableness or prudence of any of the projects, and the witness had been given the opportunity to visit the Utility's systems and evaluate the projects. UIF asserted that OPC had originally recommended exclusion of 11 projects for a lack of sufficient support, and six projects which it affirmed were not plant-in-service and should be construction work in progress (CWIP). However, OPC's witness later agreed that two of the projects, PCF-13 and PCF-29, had been fully supported, and another one, PCF-16, was partially supported. The Utility also argued that the study projects it had requested in this proceeding were similar to projects we approved in UIF's last rate case, which OPC did not object to at the time. Additionally, for the projects OPC characterized as CWIP, the Utility argued that the projects were not CWIP but should be in plant-in-service. Alternatively, if the projects were not included in plant-in-service, they should instead be placed in working capital.

UIF specifically addressed the projects that were contested by OPC. For PCF-6, the Utility argued that the project's development of a master sewer plan would be applied to the operation of the Labrador WWTP and would provide guidance for capital investment decisions. This master sewer plan would support construction projects that would follow in 2021. For PCF-21, UIF argued that it aimed to video inspect 10 percent of its Sandalhaven collection system, which consisted of clay pipes that are more prone to failure, each year on average. As an alternative, the Utility proposed that PCF-21 could be deferred and amortized over a reasonable timeframe, such as five years, rather than being included in rate base.

For PCF-26, UIF asserted that the engineering services for the project were a prerequisite to the replacement of three Sanlando force mains, which was an immediate need. The Utility stated it must move forward with the construction of the force main replacements in 2021. For PCF-30, UIF argued that the Utility was utilizing the engineering work from the project to support capital investment decisions; therefore, the project was in use and should be included in rate base. For PCF-39, the Utility argued that the scope of the Summertree I&I investigation project had been expanded to address the identified deficiencies and the investment should be fully recovered. Like PCF-39, UIF asserted that the scope of PCF-45 had also been expanded to include the construction costs for the Weathersfield Northwestern Bridge Crossing project and the investment should be fully recovered.

For PCF-14, the Utility argued that construction was underway for the Mid-County Master Lift Station project, which was scheduled to be completed by the end of June 2021. To date, approximately 15 percent of the work for PCF-14 had been completed and \$282,018 had been spent of the \$2,103,578 total projected cost. For PCF-16, UIF argued that the Mid-County Curlew Creek I&I Remediation project was on schedule and would be completed by January 31, 2021. Of the total \$719,049 project cost for PCF-16, \$234,906 has been spent to date. For PCF-17, the Utility stated that OPC witness Radigan was incorrect in believing that the Mid-County lift station project, PCF-14, would have to be completed prior to beginning PCF-17. The PCF-17 project was scheduled to be completed by November 2021, and the expenditures to date were limited to engineering services totaling \$169,994 with a total projected budget of \$2,424,782.

For PCF-18, UIF argued that the Mid-County Lift Station 10 Force Main Relocation project was scheduled to be completed by the end of December 2021, and the expenditures to date related to engineering service totaling \$31,640 with a total projected cost of \$57,451. For PCF-20, the Utility asserted that no expenditures had yet been made, but the project was on schedule to be completed in March 2021. For PCF-23, UIF argued that the Wekiva WWTP Headworks project would take nine months to complete and was scheduled to be completed in November 2021. The contractor had been mobilized on-site and was currently completing the Wekiva WWTP improvements, PCF-22, project. For PCF-28, the Utility argued that the plans for the E. E. Williamson Utility Relocations project had been drawn up, permits had been obtained, bids had been opened, and the project had been awarded to the lowest bidder. PCF-28 was scheduled to be completed by December 2021. For PCF-31, UIF argued that after a delay, the Sanlando Ground Storage Tank Rehabilitations project was on schedule. For PCF-33, the Utility stated that the Tierra Verde Force Main and Gravity Sewer Main Relocations project was nearly completed with only \$5,500 of the work remaining of the total project cost of \$593,368.

2. OPC

OPC argued that witness Radigan, testifying on behalf of OPC, had identified several projects for which sufficient documentation had not been provided by UIF to support a completion date and that the projects may not be completed within the 24-month limitation per Section 367.081(2)(a)2., F.S. Several other projects had been identified by witness Radigan as studies and were not connected to an active construction project. OPC argued that we had previously disallowed projects where insufficient documentation had been provided in support of a project.²⁰

OPC argued that the burden of proof with respect to the pro forma projects was on UIF. Relating to insufficient supporting documentation, witness Radigan identified eight pro forma projects that he recommended should be disallowed, and partial recovery for one pro forma project which the Utility had not demonstrated would be completed within the 24 months. The costs for these nine projects totaled \$9,401,299. OPC stated the UIF witness Flynn had testified there were four important documents for construction projects, which were a bid, an award form, a contract, and a Notice to Proceed. The Notice to Proceed must be issued and signed by both the Utility and contractor before construction work could begin. Witness Radigan reviewed the documentation offered and for projects with incomplete documentation, the witness recommended excluding the project. Witness Radigan also testified that one project in particular, PCF-17, could not begin until another project, PCF-14, had been completed. Due to a delay in the completion date for PCF-14, and the project timeframe for PCF-17, OPC stated “it will be impossible for PCF-17 to be completed by the 24-month deadline of December 31, 2021.”

OPC argued that it was unclear what criteria UIF had utilized for determining when an award form was necessary for a project. For some projects an award form was issued, such as PCF-42 and PCF-43, which both had a project cost below \$100,000 and construction times of 168 calendar days. While for other projects, such as PCF-20 with a project cost of \$128,000 and

²⁰ Order No. PSC-2017-0361-FOF-WS.

a construction time of 10 months, witness Flynn indicated it was unnecessary to issue an award form for the project. Also for PCF-16, which had a cost of \$634,302 and would be carried out over several years, witness Flynn claimed an award form was not needed for the project. Further, related to PCF-16, OPC stated that witness Flynn had testified that a Notice to Proceed was not issued for each contractor, but instead suggested that a Notice to Proceed was only required for the contractor whose work constituted the largest financial cost. However, OPC argued that the Utility had been inconsistent in regards to the documentation, such as Notice to Proceed forms, it had supplied to support the projects. For example, a Notice to Proceed was provided for both PCF-42 and PCF-43, which had lower costs and shorter construction times than PCF-6, PCF-20, and PCF-33; however, a Notice to Proceed was not provided for either PCF-6, PCF-20, or PCF-33.

OPC stated that on cross examination, witness Flynn had “admitted that at least 15 of the 45 pro forma projects requested fell behind on their construction schedules” since the filing of his direct testimony. While several projects had been delayed, other projects such as PCF-31 had been paused and the Utility had not supplied support for a planned completion date. OPC argued that witness Flynn had admitted that there was no overarching reason for the project delays, but the delays could be the result of third-party action. OPC stated that Section 367.081(2)(a)2., F.S., outlines that a project must be placed into use within 24 months after the test year and it does not contemplate why a project was or was not completed in that timeframe. Therefore, based on a lack of sufficient documentation, OPC recommended that we should completely disallow PCF-14, PCF-17, PCF-18, PCF-20, PCF-23, PCF-28, PCF-31, and PCF-33, and we should disallow the portion of PCF-16 for which documentation was not provided.

For an additional six projects, OPC argued that a total cost of \$432,673 should be disallowed because the projects did not have actual plant additions associated with them. Pursuant to the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) and Rule 25-30.116, F.A.C., studies and reports that are not attributed to an active construction project to be completed within the statutory timeframe cannot be considered plant-in-service or construction-work-in-progress. OPC identified PCF-6, PCF-21, and PCF-26 as studies and reports that would be used to develop future construction plans, but did not have any plant additions associated with them at this time. Additionally, OPC argued that witness Flynn had testified that several of these projects would require a separate capital project to address the findings.

OPC cited to Order No. PSC-2017-0361-FOF-WS, stating that although projects that were designated as investigations or studies were included in rate base, the decision to include these studies was contrary to the USOA and Rule 25-30.116, F.A.C. OPC cited to Section 120.68(7)(e), F.S., indicating that there is grounds for appeal when we deviate from official policy or agency rule. OPC stated that “a previous error on the part of the Commission does not become precedent for continuing to perpetuate the erroneous ruling if it is contrary to the controlling statute or in this case, rule.” For these reasons, OPC recommended that we disallow PCF-6, PCF-21, PCF-26, PCF-30, PCF-39 and PCF-45 because the projects had no construction associated with a plant addition.

OPC argued that UIF should not be allowed to seek cost recovery for in-kind penalty projects, which are projects a utility may choose to implement as part of a DEP Consent Order and may involve capital improvements. OPC stated that per the Consent Order for PCF-22, an in-kind penalty project cost must be at least one and a half times the amount the utility would have been fined. OPC argued that UIF should not be allowed to recover these in-kind project costs from customers when it had elected to complete the project and the project costs were more than the fine. Additionally, OPC cited to Order No. PSC-2018-0014-FOF-EI,²¹ stating “the Commission held that when a Consent Order required payment of an amount that was not a fine but was essentially a donation to avoid a fine, the utility could not recover that amount from customers.” In UIF’s case, the Consent Order allows the Utility to choose a project rather than paying a fine. Therefore, OPC recommended that we disallow the amount of DEP fines associated with PCF-15, PCF-17, PCF-22 and PCF-23, and embedded in capital costs totaling \$56,147.

B. Analysis

Section 367.081(2)(a)2., F.S., provides that we, in fixing rates, shall consider facilities to be constructed within a reasonable time in the future, not to exceed 24 months after the end of the historic base year used to set final rates, unless a longer period is approved by us, to be used and useful (U&U) if such property is needed to serve current customers. In this proceeding, UIF requested cost recovery for 45 pro forma projects. Each project is discussed in detail below and the approved adjustments are summarized in Table 2.

²¹ Order No. PSC-2018-0014-FOF-EI, issued January 5, 2018, in Docket No. 20180007-EI, *In re: Environmental cost recovery clause.*

Table 2
Commission Approved Pro Forma Plant Additions

PCF	Description	MFR	Commission	Adjustment
1	Cypress Lakes Inflow and Infiltration (I&I) Investigation	\$45,000	\$42,500	(\$2,500)
2	Eagle Ridge Lift Station 3 and 8 Rehabilitation	\$84,411	\$84,411	\$0
3	Eagle Ridge Supervisory Control and Data Acquisition (SCADA) Remote Telemetry Unit (RTU) Installation	\$247,761	\$212,335	(\$35,426)
4	Eagle Ridge Engineering Site Improvements	\$130,264	\$48,713	(\$81,551)
5	Eagle Ridge Site Improvements	\$707,506	\$572,181	(\$135,325)
6	Labrador WWTP Master Plan	\$40,636	\$0	(\$40,630)
7	Longwood SCADA RTU Installation	\$125,647	\$122,160	(\$3,487)
8	LUSI Engineering of Crescent Bay Raw Water Main (WM)	\$70,000	\$71,500	\$1,500
9	LUSI Crescent Bay Raw WM	\$506,869	\$488,700	(\$18,169)
10	LUSI Lake Groves Sulfuric Acid Storage Tank Replacement	\$56,241	\$55,089	(\$1,152)
11	LUSI Hydrochloric Acid Storage Tank Relocation	\$33,165	\$29,992	(\$3,173)
12	LUSI Lake Groves Return Activated Sludge (RAS) Pump Replacement	\$45,660	\$42,558	(\$3,102)
13	LUSI Barrington WWTP Improvements	\$396,710	\$378,559	(\$18,151)
14	Mid-County Master Lift Station	\$1,878,199	\$2,140,924	\$262,725
15	Mid-County Generators at Lift Stations 4 and 7	\$153,163	\$120,952	(\$32,211)
16	Mid-County Curlew Creek I&I Remediation	\$664,201	\$624,220	(\$39,981)
17	Mid-County Headworks	\$3,186,839	\$2,478,657	(\$708,182)
18	Mid-County Lift Station 10 Force Main (FM) Relocation	\$58,139	\$56,170	(\$1,969)
19	Pennbrooke Diffuser Replacement	\$34,000	\$29,280	(\$4,720)
20	Sandalhaven SCADA Installation	\$135,490	\$129,299	(\$6,191)
21	Sandalhaven I&I Investigation	\$61,847	\$58,255	(\$3,592)
22	Wekiva WWTP Improvements	\$6,859,793	\$6,548,308	(\$311,485)
23	Wekiva WWTP Headworks	\$3,100,024	\$2,784,953	(\$315,071)
24	Sanlando Well Panel Replacements	\$76,796	\$76,812	\$16
25	Sanlando FM and WM Replacement	\$3,926,417	\$3,718,965	(\$207,452)
26	Sanlando Engineering F5/C1/L2 FM Replacements	\$202,637	\$185,907	(\$16,730)
27	Sanlando I&I Corrections, Phase 4	\$2,062,398	\$2,161,675	\$99,277
28	Sanlando E.E. Williamson Utility Relocations	\$462,856	\$450,686	(\$12,170)
29	Sanlando Lift Station Mechanical Rehabilitation	\$560,469	\$529,015	(\$31,455)
30	Sanlando FM Modeling and Development of Critical Infrastructure Plan (CIP)	\$93,492	\$103,746	\$10,254
31	Sanlando Ground Storage Tank (GST) Remediation	\$188,923	\$184,578	(\$4,345)
32	Tierra Verde I&I Remediation	\$172,192	\$116,074	(\$56,118)
33	Tierra Verde FM and GSM Replacement	\$609,491	\$533,786	(\$75,705)
34	Tierra Verde Lift Station 4 Replacement	\$854,450	\$936,917	\$82,467
35	Buena Vista Well Improvements	\$98,145	\$97,662	(\$483)
36	Orangewood Well 1 Improvements	\$170,453	\$167,775	(\$2,678)
37	Seminole County SCADA Installation	\$96,664	\$93,976	(\$2,688)
38	Summertree Chlorine Dioxide Pilot Study	\$52,000	\$91,301	\$39,301
39	Summertree I&I Investigation	\$27,481	\$28,620	\$1,139
40	Golden Hills Galvanized Pipe Replacement	\$77,743	\$79,553	(\$1,810)
41	Golden Hills Water Main Relocation	\$170,810	\$169,682	(\$1,128)
42	Little Wekiva Generator	\$100,256	\$97,053	(\$3,203)
43	Park Ridge Generator	\$104,292	\$88,706	(\$15,586)
44	Ravenna Park I&I Remediation	\$678,829	\$821,360	\$142,531
45	Weathersfield Northwestern Bridge Crossing	\$22,000	\$140,246	\$118,246
	Total	\$29,430,359	\$27,993,811	(\$1,440,163)

Source: EXH 48; EXH 148, BSP 111

Note: We approve amortizing \$41,000 for PCF-6 and \$76,391 for PCF-32 in O&M expense.

1. PCF-1 UIF – Cypress Lakes I&I Investigation

UIF requested cost recovery to jet clean and video inspect approximately 18,000 linear feet of 8 inch PVC gravity sewer mains (GSM) and manholes. This was done in zones 1 and 2 of the Cypress Lakes collection system to locate and evaluate pipe deficiencies and to remove accumulated solids deposited in manhole and pipe inverts. A report will be provided to identify any deficiencies in the piping that will require repairs. The Utility stated the investigation was necessary due to increased inflow during extended rain, which indicates the likelihood of excessive I&I.

In UIF witness Flynn’s direct testimony, the requested amount for this project was \$50,000. In witness Flynn’s rebuttal testimony, he provided an updated project cost of \$42,500. No interest during construction (IDC) or capitalized labor expense²² (cap time) was incurred for this project. OPC witness Radigan did not address the Cypress Lakes I&I Investigation project or the costs in his testimony.

UIF provided one bid for the project totaling \$42,500. In response to discovery, UIF specified that a \$75,000 threshold for project costs was its parent company’s policy for determining whether multiple bids should be obtained for a project. UIF stated that this policy “has been in place for over ten years and has been an accepted practice in many previous rate case dockets initiated by UIF and its affiliated companies in Florida.” Since the I&I investigation cost was less than this threshold, only one bid was solicited.

In response to discovery, UIF provided an invoice for the project in the amount of \$42,500. Witness Flynn testified that the Cypress Lakes I&I Investigation project was completed in August 2020. Based on the documentation provided by the Utility, as well as the testimony of witness Flynn, we find that \$42,500 is reasonable for the project. UIF recorded a cost of \$45,000 for PCF-1 in its MFRs as working capital; therefore, we find that an adjustment shall be made to decrease the cost of PCF-1 by \$2,500. However, as there were no plant addition costs associated with the project, we find that the project costs shall be recorded in working capital. The appropriate working capital allowance will be discussed further below in Section XVI.

2. PCF-2 UIF – Eagle Ridge Lift Station 3 and 8 Rehabilitation

UIF requested cost recovery to replace pipes, valves, and fittings at lift stations 3 and 8 due to corrosion after many years of service. In addition, as there is no drain valve, rainwater fills the vault making the valves less accessible. By relocating the check and isolation valves from the vault to an above ground piping arrangement, the valves will be readily accessible without having to attempt to core drill the valve vault and wet well in a very limited space. This project also included coating the wet well walls to protect the concrete from further degradation.

In UIF witness Flynn’s direct testimony, the requested amount for this project was \$81,890. In witness Flynn’s rebuttal testimony, he provided an updated project cost of \$80,139, which included IDC and cap time. OPC witness Radigan did not address the Eagle Ridge Lift

²² The treatment of capitalized labor expense is discussed in Section XXVI.

Station 3 and 8 Rehabilitation project or the costs in his testimony. UIF provided three bids for the rehabilitation project and the lowest bid of \$77,890 was selected.

In response to discovery, UIF provided invoices for the rehabilitation project totaling \$77,890, and an invoice for disposal fees totaling \$4,301. Witness Flynn testified that the Eagle Ridge Lift Station 3 and 8 Rehabilitation project was completed in September 2020, and had a cap time cost of \$2,220. Based on the documentation provided by the Utility, as well as witness testimony, we find that \$84,411 (\$77,890 + \$4,301 + \$2,220) is reasonable for the project. UIF recorded a cost of \$84,411 for PCF-2 in its MFRs; therefore, we find that no adjustment is necessary for PCF-2.

3. PCF-3 UIF – Eagle Ridge SCADA RTU Installation

Similar to projects PCF-7, PCF-20, and PCF-37, UIF requested cost recovery to install RTUs and associated hardware and software at 13 lift stations and at the Eagle Ridge and Cross Creek WWTPs. UIF stated the project will interface with its existing SCADA network and information technology infrastructure to offer real time operational data during both normal and inclement weather conditions and thereby reduce the risk of sanitary sewer overflows and property damage caused by wastewater backups. The project was initiated at the urging of DEP after Hurricane Irma in 2017.

In UIF witness Flynn's direct testimony, the requested amount for this project was \$229,000. In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$229,159, which included IDC and cap time. OPC witness Radigan did not address the Eagle Ridge SCADA RTU Installation project or the costs in his testimony.

UIF provided one bid from the primary contractor, Sanders Co., totaling \$162,619 and one bid from each of the two supporting contractors, totaling \$48,920 and \$18,055, respectively. UIF only obtained one primary contractor bid for this project, as the contractor being utilized for PCF-7, PCF-20, and PCF-37 was also selected for PCF-3. UIF stated the primary contractor was sole sourced due to their exceptional expertise and professionalism from their earlier work, and their excellent technical support, which is a critical criterion in selecting a contractor to install SCADA systems. Only one bid was solicited for the work performed by each of the supporting contractors, as both were below UIF's \$75,000 threshold for obtaining multiple bids. As referenced in project PCF-1, the Utility stated this policy has been an accepted practice in previous UIF rate cases.

In response to discovery, UIF provided invoices for the SCADA installation totaling \$210,534. Witness Flynn testified that the Eagle Ridge SCADA Installation project was completed in August 2020, and had a cap time cost of \$1,801. Based on the documentation provided by the Utility, as well as the testimony of witness Flynn, we find that \$212,335 (\$210,534 + \$1,801) is reasonable for the project. UIF recorded a cost of \$247,761 for PCF-3 in its MFRs; therefore, we find that an adjustment shall be made to decrease the cost of PCF-3 by \$35,426.

4. PCF-4 UIF – Eagle Ridge Engineering Site Improvements

UIF requested cost recovery for engineering services in support of the replacement of the perimeter fence and gates, removal of invasive species, and installation of native landscaping materials in conformance with Lee County's land use ordinances. Services include providing construction engineering and inspection, and coordination with Lee County staff. This project is for engineering services only, in relation to the construction work performed under project PCF-5.

In UIF witness Flynn's direct testimony, the requested amount for this project was \$130,000. In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$163,483, which included IDC and cap time. Witness Flynn stated the project budget was increased due to the additional services required to obtain a variance to the county's development code, site plan approval, permitting, construction oversight, and coordination services. OPC witness Radigan did not address the Eagle Ridge Engineering Site Improvements project or the costs in his testimony.

UIF provided one bid for the site improvements totaling \$81,000 and one subcontracted bid for a boundary survey totaling \$9,555. Witness Flynn stated Kimley-Horn & Associates (Kimley-Horn) was selected to provide engineering services in support of the Eagle Ridge Site Improvements required by Lee County, and Echo UES, Inc., provided site survey services as a subcontractor of Kimley-Horn, since Kimley-Horn does not have its own in-house survey crew. Kimley-Horn was the preferred engineering consultant selected to work on the Eagle Ridge Site Improvements Project due to its familiarity with the facilities as well as the breadth and depth of the resources that were required for this project.

In response to discovery, UIF provided invoices from Kimley-Horn totaling \$46,044. However, invoices were not provided for the permitting assistance or boundary survey. Witness Flynn provided a cap time cost of \$2,669 for PCF-4 and testified that the project was completed in August 2020. Based on the documentation provided by the Utility, as well as the testimony of witness Flynn, we find that \$48,713 (\$46,044 + \$2,669) is reasonable for the project. UIF recorded a cost of \$130,264 for PCF-4 in its MFRs; therefore, we hereby find that an adjustment shall be made to decrease the cost of PCF-4 by \$81,551 and the amount shall be capitalized under project PCF-5.

5. PCF-5 UIF – Eagle Ridge Site Improvements

UIF requested cost recovery to obtain a setback variance for the previously constructed equalization tank. This includes removal of all invasive trees and shrubs from the plant site, installation of a 9-foot high decorative fence on three sides and an 8-foot high chain link fence on the west side of the perimeter to replace the 1984 fence material, replace two access gates on the north and west sides, add landscaping buffer on all four sides, and add a drip irrigation system. UIF stated that the project is designed to meet Lee County's land development ordinance specifications.

In UIF witness Flynn's direct testimony, the requested amount for this project was \$657,000. In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$703,798, which included IDC and cap time. OPC witness Radigan did not address the Eagle Ridge Site Improvements project or the costs in his testimony.

UIF provided two bids for the fencing removal and installation, three bids for tree clearing, and one bid for the decorative fence. The Utility selected the lowest bids for the fencing removal and installation, totaling \$72,808, and tree clearing, totaling \$194,000. Witness Flynn stated that four bids were solicited for the decorative fence, but only one bid was received from the sole vendor who offered a product that met the fencing criteria, for a total of \$233,752.

In response to discovery, UIF provided invoices for the Eagle Ridge Site Improvements project totaling \$561,095. Witness Flynn provided a cap time cost of \$11,086 for PCF-5 and testified that the project was completed in July 2020. Based on the documentation provided by the Utility, as well as the testimony of witness Flynn, we find that \$572,181 (\$561,095 + \$11,086) is reasonable for the project. UIF recorded a cost of \$707,506 for PCF-5 in its MFRs; therefore, we find that an adjustment shall be made to decrease the cost of PCF-5 by \$135,325.

6. PCF-6 UIF – Labrador WWTP Master Plan

UIF requested cost recovery to develop a preliminary design report for the removal and replacement of the three treatment trains, digesters, filter clear wells, chlorine contact tanks, and process blowers that are nearing the end of their service life. This project is for engineering services only.

In UIF witness Flynn's direct testimony, the requested amount for this project was \$41,000. In witness Flynn's rebuttal testimony, he provided an updated project cost of \$44,736. However, the Utility did not provide supporting documentation for this project increase. No IDC or cap time was included for this project. OPC witness Radigan testified that there were no plant addition costs associated with the Labrador WWTP Master Plan project. Instead this project was CWIP and should not be considered plant-in-service. Furthermore, witness Radigan stated that once the project was complete, the expenditures to date will be added to the construction costs and the project could then be eligible for inclusion in the calculation of revenue requirement at some future time. Witness Flynn testified that the project will identify the capital improvements necessary to comply with the WWTP operating permit.

UIF only obtained one bid for this project at a cost of \$41,000, as it was below UIF's \$75,000 threshold for obtaining multiple bids. As referenced in project PCF-1, the Utility stated this policy has been an accepted practice in previous UIF rate cases. As an exhibit to his rebuttal testimony, witness Flynn provided a signed agreement for the project totaling \$41,000.

Witness Flynn testified that the report is scheduled to be completed by the end of January 2021. Based on the documentation provided by the Utility, as well as witness testimony, we find that \$41,000 is reasonable for the project. However, regarding the concerns raised by witness Radigan, we agree that there were no plant addition costs associated with PCF-6. As the costs for this project are to maintain compliance with the WWTP operating permit, which expires March

22, 2025, we find that \$41,000 be amortized over four years and included in operation and maintenance (O&M) expense. UIF recorded a cost of \$40,636 for PCF-6 in its MFRs; therefore, we find that an adjustment shall be made to decrease the cost of PCF-6 by \$40,636.

7. PCF-7 UIF – Longwood SCADA RTU Installation

Similar to projects PCF-3, PCF-20, and PCF-37, UIF requested cost recovery to install remote telemetry units at 13 lift stations in the Longwood collection system. The 13 lift stations were being monitored with the use of alarm systems; however, UIF began implementing SCADA in other systems in 2016. With the use of SCADA, lift stations can be monitored remotely by operators, which can reduce the lag time between an alarm event and notification. It also provides technicians with the ability to pull reports for lift stations to prioritize work activities and the SCADA system can be used for tracking purposes, such as logging pump replacements or electrical issues.

In UIF witness Flynn’s direct testimony, the requested amount for this project was \$122,024. In witness Flynn’s rebuttal testimony, he provided an updated project cost of \$125,647, which included IDC and cap time. OPC witness Radigan did not address the Longwood SCADA RTU Installation project or the costs in his testimony. UIF only obtained one bid for this project, as the contractor being utilized for PCF-3, PCF-20, and PCF-37 was also selected for PCF-7. UIF stated that the selected contractor “offered consistent pricing for similar work as well as the ability to maintain safety and security protocols that are critically necessary when installing or modifying any cloud-based technology.”

In response to discovery, UIF provided invoices for the SCADA installation totaling \$122,024. Witness Flynn testified that the Longwood SCADA RTU Installation project was completed in January 2020, and had a cap time cost of \$136. Based on the documentation provided by the Utility, as well as witness testimony, we find that \$122,160 (\$122,024 + \$136) is reasonable for the project. UIF recorded a cost of \$125,647 for PCF-7 in its MFRs; therefore, we find that an adjustment shall be made to decrease the cost of PCF-7 by \$3,487.

8. PCF-8 UIF – LUSI Engineering of Crescent Bay Raw WM

UIF requested cost recovery for the design, permitting, and construction of a raw WM connecting the existing Crescent Bay well with an underutilized WTP to meet peak water demand driven by growth. This project is for engineering services only, in relation to the construction work to be performed under project PCF-9.

In UIF witness Flynn’s direct testimony, the requested amount for this project was \$70,000. In witness Flynn’s rebuttal testimony, he provided an updated project cost of \$75,242, which included IDC and cap time. OPC witness Radigan did not address the LUSI Engineering of Crescent Bay Raw WM project or the costs in his testimony.

UIF provided one bid for the project totaling \$70,000. UIF only solicited the service of Kimley-Horn for this project because “engineering services are often sole sourced to engineering firms that are very familiar with the facilities, equipment, processes, and UIF policies and

procedures regarding specific water and wastewater systems.” As an exhibit to his rebuttal testimony, witness Flynn provided a signed authorization letter for the engineering service of Kimley-Horn totaling \$70,000.

Witness Flynn projected a cap time cost of \$1,500 for PCF-8 and testified that the project will be completed in May 2021. Based on the documentation provided by the Utility, as well as witness testimony, we find that \$71,500 (\$70,000 + \$1,500) is reasonable for the project. UIF recorded a cost of \$70,000 for PCF-8 in its MFRs; therefore, we find that an adjustment shall be made to increase the cost of PCF-8 by \$1,500 and the amount shall be capitalized under project PCF-9.

9. PCF-9 UIF – LUSI Crescent Bay Raw WM

UIF requested cost recovery for construction of a raw WM connecting the existing Crescent Bay well with an underutilized WTP to meet peak water demand driven by growth. The project scope includes drilling 1,000 linear feet under a body of water and an additional 4,000 linear feet to connect to an existing raw WM. As stated above, the engineering services for this project are being performed under project PCF-8.

In UIF witness Flynn’s direct testimony, the requested amount for this project was \$486,514. In witness Flynn’s rebuttal testimony, he provided an updated project cost of \$503,031, which included IDC and cap time. OPC witness Radigan did not address the LUSI Crescent Bay Raw WM project or the costs in his testimony.

UIF provided three bids for the project and the lowest bid of \$481,514 was selected. As an exhibit to his rebuttal testimony, witness Flynn provided a signed agreement for the project totaling \$481,514.

Witness Flynn projected a cap time cost of \$7,186 for PCF-9 and testified that the project will be completed in May 2021. Based on the documentation provided by the Utility, as well as witness testimony, we find that \$488,700 (\$481,514 + \$7,186) is reasonable for the project. UIF recorded a cost of \$506,869 for PCF-9 in its MFRs; therefore, we find that an adjustment shall be made to decrease the cost of PCF-9 by \$18,169.

10. PCF-10 UIF – LUSI Lake Groves Sulfuric Acid Storage Tank Replacement

UIF requested cost recovery to replace the existing sulfuric tank and associated piping with corrosion and UV resistant materials. These materials can withstand a concentration of 93 percent sulfuric acid that is used in the treatment of groundwater produced by Well 3. In UIF witness Flynn’s direct testimony, the requested amount for this project was \$54,303. In UIF witness Flynn’s rebuttal testimony, he provided an updated project cost of \$55,504, which included IDC and cap time. OPC witness Radigan did not address the LUSI Lake Groves Sulfuric Acid Storage Tank Replacement project or the costs in his testimony.

UIF provided only one bid for the project totaling \$54,302, as it was below UIF's \$75,000 threshold for obtaining multiple bids. As referenced in project PCF-1, the Utility stated this policy has been an accepted practice in previous UIF rate cases. In response to discovery, UIF provided an invoice for the project totaling \$54,302.

Witness Flynn testified that the project was completed in April 2020 and had a cap time cost of \$787. Based on the documentation provided by the Utility, as well as the testimony of witness Flynn, we find that \$55,089 (\$54,302 + \$787) is reasonable for the project. UIF recorded a cost of \$56,241 for PCF-10 in its MFRs; therefore, we find that an adjustment shall be made to decrease the cost of PCF-10 by \$1,152.

11. PCF-11 UIF – LUSI Hydrochloric Acid Storage Tank Relocation

UIF requested cost recovery to relocate a 1,000 gallon acid storage tank and spill containment vessel to the exterior of the Lake Groves chemical storage building to prevent rapid corrosion of metal components and equipment inside the building. In UIF witness Flynn's direct testimony, the requested amount for this project was \$29,992. No adjustment was made in witness Flynn's rebuttal testimony and there were no IDC or cap time costs associated with this project. OPC witness Radigan did not address the LUSI Hydrochloric Acid Storage Tank Relocation project or the costs in his testimony.

UIF obtained a bid from Florida Environmental Construction in the amount of \$44,834 to complete the entire project. Witness Flynn stated this amount was more than expected, so UIF bid out the electrical and non-electrical components separately. In response to discovery, UIF provided an invoice for the electrical work totaling \$10,753, and the non-electrical work totaling \$19,239. Witness Flynn testified that the project was completed in March 2020, and the project cost totaled \$29,992.

Based on the documentation provided by the Utility, as well as witness testimony, we find that \$29,992 is reasonable for the project. UIF recorded a cost of \$33,165 for PCF-11 in its MFRs; therefore, we find that an adjustment shall be made to decrease the cost of PCF-11 by \$3,173.

12. PCF-12 UIF – LUSI Lake Groves RAS Pump Replacement

UIF requested cost recovery to replace both existing WILO brand RAS pumps with two new Xylem brand pumps. The project scope also includes new piping, bypass piping, pump base adapters, and custom stainless steel bracket welding. Witness Flynn testified that the existing pumps do not provide reliable performance, are expensive to repair, and parts are not readily available for the WILO model.

In UIF witness Flynn's direct testimony, the requested amount for this project was \$43,000. In witness Flynn's rebuttal testimony, he provided an updated project cost of \$42,558. No IDC or cap time was included for this project. OPC witness Radigan did not address the LUSI Lake Groves RAS Pump Replacement project or the costs in his testimony.

UIF only provided one bid for the install work and one bid for the material costs of the pumps totaling \$42,558, as the cost was below UIF's \$75,000 threshold for obtaining multiple bids. As referenced in project PCF-1, the Utility stated this policy has been an accepted practice in previous UIF rate cases. As an exhibit to his rebuttal testimony, witness Flynn provided signed agreements for the project totaling \$42,558.

Witness Flynn testified that the project will be completed in May 2021. Based on the documentation provided by the Utility, as well as witness testimony, we find that \$42,558 is reasonable for the project. UIF recorded a cost of \$45,660 for PCF-12 in its MFRs; therefore, we find that an adjustment shall be made to decrease the cost of PCF-12 by \$3,102.

13. PCF-13 UIF – LUSI Barrington WWTP Improvements

UIF requested cost recovery for improvements to the LUSI Barrington WWTP. This includes installation of a plant lift station, emergency generator, automatic transfer switch, equalization pumps, 200 square foot field office, and a process control lab following the acquisition of the facilities in 2019. The project components address items not included in the original plant design that are needed to meet operating permit requirements, and to provide backup power to prevent overflow during outages. In addition, the project includes engineering services for design, permitting, and construction inspection services.

In UIF witness Flynn's direct testimony, the requested amount for this project was \$380,000. In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$392,946, which includes projected IDC and cap time. OPC witness Radigan testified that additional documentation was needed for the LUSI Barrington WWTP Improvements project, and he could not recommend the costs be included in rate base at this time. In response to discovery, OPC indicated that witness Radigan was unable to verify the construction timing and cost of the project as final contracts and invoices had not been provided by UIF. Upon cross examination, however, witness Radigan agreed that sufficient information was provided to support project PCF-13.

UIF provided two bids for the construction work and the lower bid of \$333,000 was selected. UIF provided one bid from Kimley-Horn for the engineering services, totaling \$47,000. UIF stated that multiple bids were not obtained for the engineering services because "engineering services are often sole sourced to engineering firms that are very familiar with the facilities, equipment, processes, and UIF policies and procedures regarding specific water and wastewater systems." As an exhibit to his rebuttal testimony, witness Flynn provided signed agreements from both contractors totaling \$374,735.

Witness Flynn projected a cap time cost of \$3,824 for PCF-13 and testified that the project will be completed in May 2021. Regarding the concerns raised by witness Radigan, additional support for PCF-13, including a contract and scheduling documents, was provided in witness Flynn's rebuttal testimony and in response to discovery. Based on the documentation provided by the Utility, as well as witness testimony, we find that \$378,559 (\$374,735 + \$3,824) is reasonable for the project. UIF recorded a cost of \$396,710 for PCF-13 in its MFRs; therefore, we find that an adjustment shall be made to decrease the cost of PCF-13 by \$18,151.

14. PCF-14 UIF – Mid-County Master Lift Station

UIF requested cost recovery to replace the master lift station at the WWTP. A DEP consent order required a preliminary design report of the WWTP which ultimately found that the master lift station will need to be replaced. This includes the wet well, pumps, piping, controls, and GSM, as well as demolition of the original lift station. In addition, the project includes engineering services for surveying, design, permitting, bidding, and construction monitoring services.

In UIF witness Flynn's direct testimony, the requested amount for this project was \$1,766,115. As an exhibit to his rebuttal testimony, witness Flynn provided an updated project cost of \$2,216,140, which includes projected IDC and cap time. OPC witness Radigan testified that additional documentation was needed for the Mid-County Master Lift Station project, and he could not recommend the costs be included in rate base at this time. In response to discovery, OPC indicated that witness Radigan was unable to verify the construction timing and cost of the project as final contracts and invoices had not been provided by UIF.

Bids were obtained from three contractors for the completion of the construction project, and the contractor with the lowest bid of \$1,928,578 was selected. UIF provided one bid from Kimley-Horn for the engineering services, totaling \$101,000. UIF stated that multiple bids were not obtained for the engineering services because "engineering services are often sole sourced to engineering firms that are very familiar with the facilities, equipment, processes, and UIF policies and procedures regarding specific water and wastewater systems." As an exhibit to his rebuttal testimony, witness Flynn provided signed agreements from both the construction and engineering contractors totaling \$2,102,058.

Witness Flynn projected a cap time cost of \$38,866 for PCF-14 and testified that the project will be completed by June 2021. Regarding the concerns raised by witness Radigan, additional support for PCF-14, including a contract and scheduling documents, was provided in witness Flynn's rebuttal testimony and in response to discovery. Based on the documentation provided by the Utility, as well as witness testimony, we find that \$2,140,924 (\$2,102,058 + \$38,866) is reasonable for the project. UIF recorded a cost of \$1,878,199 for PCF-14 in its MFRs; therefore, we find that an adjustment shall be made to increase the cost of PCF-14 by \$262,725.

15. PCF-15 UIF – Mid-County Generators at Lift Stations 4 and 7

UIF requested cost recovery for backup generators at Mid-County lift stations 4 and 7. This project is in response to DEP's warning letter, dated August 5, 2019, which was issued ahead of Mid-County's November 25, 2019 Consent Order and after lift stations 4 and 7 both had sanitary sewer overflows due to power loss. The project scope includes placement of generators, automatic transfer switches, subbase fuel storage tanks, and electrical components. In addition, the project includes engineering services for design, permitting, and construction coordination, and inspection services.

In UIF witness Flynn's direct testimony, the requested amount for this project was \$145,000. In witness Flynn's rebuttal testimony, he provided an updated project cost of \$136,163, which included IDC and cap time. OPC witness Radigan did not address the Mid-County Generators project or the costs in his testimony. As discussed above, OPC argues that since PCF-15 is an in-kind penalty project the capital costs should be disallowed and not be recovered from customers since the costs of the project exceed the amount of DEP's fine. However, in-kind projects benefit the customers more so than the utility paying a fine and not improving its service and not resolving issues within the Consent Order. Therefore, the costs of the in-kind project should be recovered through rates. Further, OPC relies Order No. 2018-0014-FOF-EI as a Commission precedent on this point, in which we disallowed the recovery of funds deposited into Escrow to be utilized as directed by DEP.²³ However, we also found that this fund component was not associated with operation of a particular facility for the benefit of customers and that the Utility in that case also failed to meet its burden of proof, which is not the case for the in-kind projects presented in the instant docket. In the instant docket, the in-kind projects directly benefit the customers and the Utility has provided documentation for us to evaluate the prudence and cost of the project. PCF-17, PCF-22, and PCF-23 are also considered in-kind projects and are discussed in greater detail within their respective subsections.

UIF provided three bids for the construction costs of the project and the lowest bid of \$105,530 was selected. UIF provided one bid from Kimley-Horn for the engineering services, totaling \$11,000. UIF stated that multiple bids were not obtained for the engineering services because "engineering services are often sole sourced to engineering firms that are very familiar with the facilities, equipment, processes, and UIF policies and procedures regarding specific water and wastewater systems." As an exhibit to his rebuttal testimony, witness Flynn provided signed agreements from both the construction and engineering contractors totaling \$116,530.

Witness Flynn projected a cap time cost of \$4,422 for PCF-15 and testified that the project will be completed in May 2021. Regarding the in-kind project concern addressed in OPC's brief, a utility can recover environmental compliance costs pursuant to Section 367.081, F.S., which is consistent with our practice. Based on the documentation provided by the Utility, as well as witness testimony, we find that \$120,952 (\$116,530 + \$4,422) is reasonable for the project. UIF recorded a cost of \$153,163 for PCF-15 in its MFRs; therefore, we find that an adjustment shall be made to decrease the cost of PCF-15 by \$32,211.

16. PCF-16 UIF – Mid-County Curlew Creek I&I Remediation

UIF requested cost recovery to video inspect 6,500 linear feet of GSMs and manholes, replace a collapsed GSM, install sheeting around two manholes to prevent structural failure, line 6,500 linear feet of clay pipe with cured-in-place pipe (CIPP), rehabilitate 36 manholes, install fiberglass liners in three manholes, and install liners in 30 service laterals. In addition, the project includes engineering services for design, permitting, and construction coordination and inspection services. UIF stated this project was necessitated due to regulatory violations related to excessive I&I.

²³ Order No. PSC-2018-0014-FOF-EI, issued January 5, 2018, Docket No. 20180007-EI, *In re: Environmental cost recovery clause*.

In UIF witness Flynn's direct testimony, the requested amount for this project was \$634,302. In his rebuttal testimony, he provided an updated project cost of \$719,049, which includes projected IDC and cap time. OPC witness Radigan testified that additional documentation was needed for the Mid-County Curlew Creek I&I Remediation project, and he could not recommend the costs be included in rate base at this time. In response to discovery, OPC indicated that witness Radigan was unable to verify the construction timing and cost of the project as final contracts and invoices had not been provided by UIF. Upon cross examination, witness Radigan agreed that information was provided to partially support project PCF-16.

UIF obtained three bids for the construction services for GSM cleaning and inspection, CIPP lining, service lateral lining, and manhole rehabilitation. The contractor with the lowest bid of \$414,243 was selected. UIF provided one bid from Kimley-Horn for the engineering services, totaling \$28,520. UIF stated that multiple bids were not obtained for the engineering services because "engineering services are often sole sourced to engineering firms that are very familiar with the facilities, equipment, processes, and UIF policies and procedures regarding specific water and wastewater systems." As an exhibit to his rebuttal testimony, witness Flynn provided a signed agreement from the primary contractor totaling \$414,243. In response to discovery, UIF provided invoices from Kimley-Horn totaling \$29,370. In addition, UIF provided supplemental invoices from six supporting contractors for the remainder of the project scope, totaling \$169,357.

Witness Flynn projected a cap time cost of \$11,250 for PCF-16 and testified that the project will be completed by the end of January 2021. Regarding the concerns raised by witness Radigan, additional support for PCF-16, including a contract and scheduling documents, was provided in witness Flynn's rebuttal testimony and in response to discovery. Based on the documentation provided by the Utility, as well as witness testimony, we find that \$624,220 (\$414,243 + \$29,370 + \$169,357 + \$11,250) is reasonable for the project. UIF recorded a cost of \$664,201 for PCF-17 in its MFRs; therefore, we find an adjustment shall be made to decrease the cost of PCF-31 by \$39,981.

17. PCF-17 UIF – Mid-County Headworks

UIF requested cost recovery to replace a static screen, dewatering screw, and a metal platform that are badly corroded and at end of their service life. In addition, the stainless steel static screen does not adequately prevent debris from entering the treatment trains to the detriment of the treatment process. The project includes installing a 3 millimeter center flow screw, screening compactor, grit removal equipment, and control panel sized to meet peak influent flow characteristics.

In UIF witness Flynn's direct testimony, the requested amount for this project was \$3,046,000. As an exhibit to his rebuttal testimony, witness Flynn provided an updated project cost of \$2,582,684, which includes projected IDC and cap time.

OPC witness Radigan testified that additional documentation was needed for the Mid-County Headworks project, and he could not recommend the costs be included in rate base at this time. Additionally, witness Radigan testified that project PCF-17, which had an expected

completion date of March 2021, cannot be started until after the completion of PCF-14. However, witness Radigan testified that project PCF-14 was delayed and will not be complete until March 2021. For this reason, witness Radigan testified that there is a need for project scheduling information to determine if the project can meet the 24-month post test year limitation for inclusion in rate base. In rebuttal, witness Flynn testified that the start of project PCF-17 is not dependent on PCF-14, and that the two projects' workflows are being coordinated to accelerate the completion for both projects. In its post-hearing brief, OPC identified PCF-17 as an in-kind penalty project and argued that the fine embedded in capital costs should be disallowed. However, we find that it is appropriate to recover the cost of this project through rates as discussed above for PCF-15.

Bids were obtained from two contractors for the construction portion of the project, and the contractor with the lower bid of \$2,237,777 was selected. UIF sole sourced Kimley-Horn for the engineering services, totaling \$187,005. UIF stated that multiple bids were not obtained because "engineering services are often sole sourced to engineering firms that are very familiar with the facilities, equipment, processes, and UIF policies and procedures regarding specific water and wastewater systems." As an exhibit to his rebuttal testimony, witness Flynn provided signed agreements from both the construction and engineering contractors totaling \$2,424,782.

Witness Flynn projected a cap time cost of \$53,875 for PCF-17 and testified that the project will be completed by November 2021. Regarding the concerns raised by witness Radigan, additional support for PCF-17, including a contract and scheduling documents, was provided in witness Flynn's rebuttal testimony and in response to discovery. Regarding the in-kind project concern addressed in OPC's brief, a utility can recover environmental compliance costs pursuant to Section 367.081(2)(a)2., F.S., which is consistent with our practice. Based on the documentation provided by the Utility, as well as witness testimony, we find that \$2,478,657 (\$2,424,782 + \$53,875) is reasonable for the project. UIF recorded a cost of \$3,186,839 for PCF-17 in its MFRs; therefore, we find that an adjustment shall be made to decrease the cost of PCF-17 by \$708,182.

18. PCF-18 UIF – Mid-County Lift Station 10 FM Relocation

UIF requested cost recovery to relocate a FM that conflicts with a planned Department of Transportation (DOT) road improvement project. The project scope is to design the relocation of segments of the pipe, coordinate with DOT to avoid conflicts with their plans, then obtain a DEP construction permit, solicit bids, and provide construction inspection services.

In UIF witness Flynn's direct testimony, the requested amount for this project was \$55,750. In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$57,451, which includes projected IDC and cap time. OPC witness Radigan testified that additional documentation was needed for the Mid-County Lift Station 10 Force Main Relocation project, and he could not recommend the costs be included in rate base at this time. In response to discovery, OPC indicated that witness Radigan was unable to verify the construction timing and cost of the project as final contracts and invoices had not been provided by UIF.

One bid was obtained from Kimley-Horn totaling \$55,750. The work outlined in the bid included design, permitting, surveying, construction bidding, and construction coordination services. UIF stated that multiple bids were not obtained because “engineering services are often sole sourced to engineering firms that are very familiar with the facilities, equipment, processes, and UIF policies and procedures regarding specific water and wastewater systems.” As an exhibit to his rebuttal testimony, witness Flynn provided a signed proposal with Kimley-Horn for a project cost of \$55,750. In addition, witness Flynn testified that “UIF must adjust its facilities before the DOT’s contractor mobilizes late next year to avoid any delays on our part to the DOT’s schedule.”

Witness Flynn projected a cap time cost of \$420 for PCF-18 and testified that the project will be completed by December 2021. Regarding the concerns raised by witness Radigan, additional support for PCF-18, including a contract and scheduling documents, was provided in witness Flynn’s rebuttal testimony and in response to discovery. Based on the documentation provided by the Utility, as well as witness testimony, we find that \$56,170 (\$55,750 + \$420) is reasonable for the project. UIF recorded a cost of \$58,139 for PCF-18 in its MFRs; therefore, we find that an adjustment shall be made to decrease the cost of PCF-18 by \$1,969.

19. PCF-19 UIF – Pennbrooke Diffuser Replacement

UIF requested cost recovery to replace all diffusers and drop pipes in the Pennbrooke WWTP aeration basins. In UIF witness Flynn’s direct testimony, the requested amount for this project was \$33,420. In witness Flynn’s rebuttal testimony, he provided an updated project cost of \$33,419. OPC witness Radigan did not address the Pennbrooke Diffuser Replacement project or the costs in his testimony.

UIF only provided one bid for the repairs to the aeration basin totaling \$29,280 and one bid for the new diffusers totaling \$4,139, as the cost was below UIF’s \$75,000 threshold for obtaining multiple bids. As referenced in project PCF-1, the Utility stated this policy has been an accepted practice in previous UIF rate cases. In response to discovery, UIF provided an invoice for the repairs to the aeration basin totaling \$29,280, which did not include the cost of the diffusers.

Witness Flynn testified that the project was completed in April 2020, and stated there were no IDC or cap time costs. Based on the documentation provided by the Utility, as well as the testimony of witness Flynn, we find that \$29,280 is reasonable for the project. UIF recorded a cost of \$34,000 for PCF-19 in its MFRs; therefore, we find that an adjustment shall be made to decrease the cost of PCF-19 by \$4,720.

20. PCF-20 UIF – Sandalhaven SCADA Installation

Similar to projects PCF-3, PCF-7, and PCF-37, UIF requested cost recovery to install RTUs at 13 lift stations in the Sandalhaven collection systems. The 13 lift stations were being monitored with the use of alarm systems; however, UIF began implementing SCADA in other systems in 2016. With the use of SCADA, lift stations can be monitored remotely by operators, which can reduce the lag time between an alarm event and notification. It also provides

technicians with the ability to pull reports for lift stations to prioritize work activities, and the SCADA system can be used for tracking purposes, such as logging pump replacements or electrical issues.

In UIF witness Flynn's direct testimony, the requested amount for this project was \$128,000. In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$135,406, which includes projected IDC and cap time. OPC witness Radigan testified that additional documentation was needed for the Sandalhaven SCADA Installation project, and he could not recommend the costs be included in rate base at this time. In response to discovery, OPC indicated that witness Radigan was unable to verify the construction timing and cost of the project as final contracts and invoices had not been provided by UIF.

UIF only obtained one bid for this project, as the contractor being utilized for PCF-3, PCF-7, and PCF-37 was also selected for PCF-20. UIF stated that the selected contractor "offered consistent pricing for similar work as well as the ability to maintain safety and security protocols that are critically necessary when installing or modifying any cloud-based technology." As an exhibit to his rebuttal testimony, witness Flynn provided a signed quote for the work to be performed by the contractor totaling \$127,349.

Witness Flynn projected a cost of \$1,950 for cap time related to PCF-20, and testified that the planned completion date is March 2021. In addition, witness Flynn testified that once the equipment is in hand, in January 2021, the contractor will begin installing the RTUs at a rate of two per week. Regarding the concerns raised by witness Radigan, additional support for PCF-20, including an agreement and scheduling documents, was provided in witness Flynn's rebuttal testimony and in response to discovery. Based on the documentation provided by the Utility, as well as witness testimony, we find that \$129,299 (\$127,349 + \$1,950) is reasonable for the project. UIF recorded a cost of \$135,490 for PCF-20 in its MFRs; therefore, we find that an adjustment shall be made to decrease the cost of PCF-20 by \$6,191.

21. PCF-21 UIF – Sandalhaven I&I Investigation

UIF requested cost recovery to clean, video inspect and smoke test 8,000 linear feet of 8 inch GSM located in the Sandalhaven collection system, in an effort to identify sources of I&I. A report of any deficiencies requiring repairs would be generated following the inspection. However, a separate capital project would be developed to address the deficiencies identified in the I&I investigation.

In UIF witness Flynn's direct testimony, the requested amount for this project was \$57,000. In witness Flynn's rebuttal testimony, he provided an updated project cost of \$56,500. OPC witness Radigan testified that there were no plant additions associated with the project; therefore, this project was CWIP and not plant-in-service. Furthermore, OPC witness Radigan stated that once the project was complete, "the expenditures to date will be added to the construction costs and the project could then be eligible for inclusion in the calculation of revenue requirement at some future time."

UIF provided two bids for the project and the lower bid of \$56,500 was selected. In witness Flynn's rebuttal testimony, a copy of the signed Contract with the contractor was provided as an exhibit. Witness Flynn testified that the Sandalhaven I&I Investigation project will commence in January 2021, and projected a cap time cost of \$1,755.

Based on the documentation provided by the Utility, as well as witness testimony, we find that \$58,255 (\$56,500 + \$1,755) is reasonable for the project. UIF recorded a cost of \$61,847 for PCF-21 in its MFRs as working capital; therefore, we find that an adjustment shall be made to decrease the cost of PCF-21 by \$3,592. Considering that witness Flynn indicated in his direct testimony that any corrections related to deficiencies of the I&I investigation would be captured under a separate capital project, and UIF did not supply sufficient documentation related to the corrections, we find that the costs be recorded in working capital. The appropriate working capital allowance is discussed further in Section XVI below.

22. PCF-22 UIF – Wekiva WWTP Improvements

UIF requested cost recovery for plant improvements at its Wekiva WWTP. The improvements included removal and replacement of the process blowers, air header, traveling bridge filters, and storage building. Additionally, the relocation of a belt press, upgrades to the sodium hypochlorite storage capacity, replacement of the sodium aluminate storage tank, and renewal of the plant operating permit, as well as the demolition and removal of all decommissioned tanks and equipment were also requested to be recovered. Improvements were also planned for the plant roadway and facility entrance gate. Furthermore, a Noise & Odor study was conducted at the Wekiva WWTP to provide a baseline of existing conditions at the plant boundary. The Noise & Odor study was used to determine if excessive noise or odors were being produced and carried off-site, as well as identify any measures for noise or odor reduction that were needed to maintain compliance with DEP regulations.

This project was a result of a consent order issued by DEP. Under the terms of the consent order, the Utility was required to perform an engineering study of the Wekiva WWTP to identify any deficiencies which led to the facility failing to meet its operating permit limits. The study would also examine whether the plant met Class I reliability standards. UIF submitted the report with the recommended improvements to DEP for review, and DEP determined that the outlined improvements met the objectives of the consent order. A permit application to construct the proposed improvements was submitted to DEP and a permit for construction was issued on January 31, 2019. Many of the improvements involved the replacement of various treatment components that were past their expected service life, were inadequate to treat wet weather flows, and/or lack adequate redundancy.

In UIF witness Flynn's direct testimony, the requested amount for the project was \$6,112,000. In his rebuttal testimony, UIF witness Flynn updated the project cost for PCF-22 to \$6,846,372, which included IDC and projected cap time. OPC witness Radigan did not address the Wekiva WWTP Improvements project or the costs in his testimony. However, in its post-hearing brief, OPC identified PCF-22 as an in-kind penalty project and argued that the fine embedded in capital costs should be disallowed. UIF obtained bids from two contractors for the WWTP improvements, and the contractor with the lowest bid of \$6,355,772 was selected. In

witness Flynn's rebuttal testimony, a copy of the signed agreement with the contractor was provided as an exhibit. Witness Flynn testified that the project was "substantially complete with all newly installed equipment placed into service in October and November. The project is scheduled to be completed by the end of December 2020."

In response to discovery, the Utility provided invoices to support the construction costs totaling \$6,176,447. This updated project cost included three change orders for additional work that was required, including relocating a water main that was in conflict with the project, upgrading a sludge press, installing a new pump, and electrical upgrades. UIF provided invoices for engineering services related to the WWTP improvements and the Noise & Odor study totaling \$280,700. Witness Flynn also projected a cost of \$91,161 for cap time related to PCF-22. In its post-hearing brief, OPC identified PCF-22 as an in-kind penalty project and argued that the fine embedded in capital costs should be disallowed. However, we find that it is appropriate to recover the cost of this project through rates as discussed above for PCF-15. Based on the documentation provided by the Utility, as well as witness testimony, we find that a total cost of \$6,548,308 (\$6,176,447 + \$280,700 + \$91,161) is reasonable for the project. UIF recorded a cost of \$6,859,793 for PCF-22 in its MFRs; therefore, we find that an adjustment shall be made to decrease the cost of PCF-22 by \$311,485.

23. PCF-23 UIF – Wekiva WWTP Headworks

UIF requested cost recovery for the design, permitting, bidding, construction, inspection, and engineering for the headworks improvements at the Wekiva WWTP. The improvements included new screens, enhanced flow monitoring, increased peak flow capacity, overflow piping, an emergency bypass pump, and upsized piping. This project was initiated to address a DEP issued consent order that resulted from wastewater overflow in 2019. The overflow occurred after a screen had become jammed and led to raw influent overflowing onto the ground and into a nearby area. It was determined that the incident was due to the facility receiving an influent flow that exceeded the headworks' design capacity. The headworks improvements would allow the WWTP to meet the historical and current flows, provide for additional redundancy in the event of equipment failures, and incorporate a SCADA system for monitoring the headworks operation.

In UIF witness Flynn's direct testimony, the requested amount for this project was \$2,750,000. In his rebuttal testimony, UIF witness Flynn updated the project cost to \$2,908,666, which included IDC and projected cap time. OPC witness Radigan testified that additional documentation was needed for the Wekiva WWTP Headworks project, and he could not recommend the costs be included in rate base at this time. In response to discovery, OPC indicated that witness Radigan was unable to verify the construction timing and cost of the project as final contracts and invoices were not provided by the Utility. Additionally, the witness toured several projects, including the Wekiva Headworks project where construction had not yet begun. OPC also identified PCF-23 as an in-kind penalty project and argued that the fine embedded in capital costs should be disallowed.

UIF obtained bids from three contractors for the headworks improvements, and the contractor with the lowest bid was selected for a total cost of \$2,563,162. As an exhibit to his

rebuttal testimony, witness Flynn provided a signed contract, along with a Notice to Proceed indicating that substantial completion of the project would be achieved by September 1, 2021, and final payment would be due by October 1, 2021. Witness Flynn testified that the Wekiva WWTP Headworks project was estimated to be fully completed in November 2021.

In response to discovery, the Utility provided invoices related to the construction and engineering services totaling \$2,768,827. Witness Flynn also projected a cost of \$16,126 for cap time related to PCF-23. Regarding the concerns raised by witness Radigan, additional support for PCF-23, including a contract and scheduling documents, was provided in witness Flynn's rebuttal testimony and in response to discovery. In its post-hearing brief, OPC identified PCF-23 as an in-kind penalty project and argued that the fine embedded in capital costs should be disallowed. However, it is appropriate to recover the cost of this project through rates as discussed above for PCF-15. Based on the documentation provided by UIF, as well as witness testimony, we find that \$2,784,953 ($\$2,768,827 + \$16,126$) is reasonable for the project. The Utility recorded a cost of \$3,100,024 for PCF-23 in its MFRs; therefore, we find that an adjustment shall be made to decrease the cost of PCF-23 by \$315,071.

24. PCF-24 Sanlando Well Panel Replacements

In its filing, UIF requested cost recovery to replace control panels, electric meter bases, and associated electrical equipment at five of Sanlando's water supply wells. The existing well panels were original panels that were installed in the 1970s and had reached the end of their service life. Furthermore, the existing panels were not compliant with the National Electric Code and the procurement of replacement parts had become difficult.

In UIF witness Flynn's direct testimony, the requested amount for PCF-24 was \$74,500. In his rebuttal testimony, UIF witness Flynn updated the project cost to \$78,537, which included IDC and projected cap time. OPC witness Radigan did not address the Sanlando Well Panel Replacements project or the costs in his testimony. The Utility obtained one bid for this project at a cost of \$74,500 as the cost was below UIF's \$75,000 threshold for obtaining multiple bids. As referenced in project PCF-1, the Utility stated this policy has been an accepted practice in previous UIF rate cases.

In response to discovery, the Utility provided invoices for the well panel replacements totaling \$74,500. Witness Flynn testified that the Sanlando Well Panel Replacements project was estimated to be completed in December 2020, and projected a cost of \$2,312 for cap time related to PCF-24. Based on the documentation provided by UIF, as well as witness testimony, we find that \$76,812 ($\$74,500 + \$2,312$) is reasonable for the project. The Utility recorded a cost of \$76,796 for PCF-24 in its MFRs; therefore, we find that an adjustment shall be made to increase the cost of PCF-24 by \$16.

25. PCF-25 Sanlando FM and WM Replacement

UIF requested cost recovery to replace 5,000 linear feet of asbestos-cement (AC) wastewater FM and 5,000 linear feet of AC WM with PVC mains. The existing wastewater FM was constructed in 1973 and is the only means of conveying flows from two areas of the

Sanlando collection system to the Wekiva WWTP. The existing WM in the Sanlando water distribution system was similar in age to the FM and also follows a similar route. The WM had incurred several breaks over the past two years and had been identified for a high risk of failure in the Utility's Asset Management Program.

In UIF witness Flynn's direct testimony, the requested amount for this project was \$3,762,250. In his rebuttal testimony, UIF witness Flynn updated the project cost to \$3,860,720, which included IDC and projected cap time. OPC witness Radigan did not address the Sanlando FM and WM Replacement project or the costs in his testimony. Bids were obtained from three contractors for the replacement of the WM and FM, and the contractor with the lowest combined bid was selected at a cost of \$3,575,250. Additionally, the Utility provided two bids from Kimley-Horn for a combined total of \$116,150 related to the design and permitting for the main replacements, as well as bidding and construction services. As an exhibit to his testimony, witness Flynn provided an agreement for the project, along with a Notice to Proceed indicating that the project would be substantially completed by May 23, 2021, and final payment would be due by June 22, 2021.

In response to discovery, UIF provided invoices supporting a project cost of \$3,691,400. Witness Flynn testified that the Sanlando FM and WM Replacement project was estimated to be completed in May 2021, and projected a cost of \$27,565 for cap time related to PCF-25. Based on the documentation provided by the Utility, as well as witness testimony, we find that \$3,718,965 (\$3,691,400 + \$27,565) is reasonable for the project. UIF recorded a cost of \$3,926,417 for PCF-25 in its MFRs; therefore, we find that an adjustment shall be made to decrease the cost of PCF-25 by \$207,452.

26. PCF-26 Sanlando Engineering F5/C1/L2 FM Replacements

UIF requested cost recovery to replace three FMs in the Sanlando system that had reached the end of their service life. The costs requested for the project related to the engineering, permitting, bidding, and inspection services; however, construction costs for the FM replacements were not included in PCF-26. The three FM segments to be replaced were constructed in the 1970s and 1980s and had been identified by the Utility as having a high probability for failure. Witness Flynn testified that the Utility had intended to include the construction costs in this proceeding; however, it would have resulted in the Utility delaying its filing. Nonetheless, witness Flynn stated that "the engineering services covered in this project are a prerequisite to the construction of the replacement FMs and the FM failure history indicates clearly that replacing the FMs is an immediate need."

In UIF witness Flynn's direct testimony, the requested amount for this project was \$194,500. In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$202,966, which included IDC and cap time. OPC witness Radigan testified that there were no plant additions associated with PCF-26, pointing out that UIF indicated that construction of the new FMs would be captured under a separate project. Therefore, witness Radigan testified that this project was CWIP and should not be considered plant-in-service. Furthermore, OPC witness Radigan stated that once the project was complete, "the expenditures to date will be added to the

construction costs and the project could then be eligible for inclusion in the calculation of revenue requirement at some future time.”

Three bids for engineering services were obtained from Kimley-Horn, one for each FM segment with all three totaling \$185,500. The work outlined in the bids included FM route analysis, design, and permitting, as well as construction related services such as bid preparation and inspections for the FM replacements. The Utility stated that multiple bids were not obtained because “engineering services are often sole sourced to engineering firms that are very familiar with the facilities, equipment, processes, and UIF policies and procedures regarding specific water and wastewater systems.” Additionally, the Utility indicated that a separate bid was obtained for each of the three FMs to allow UIF to compare the engineering costs against the actual construction bids, which will be solicited individually for each FM.

In response to discovery, UIF provided invoices for the project totaling \$185,500. The Utility stated that the Sanlando Engineering F5/C1/L2 FM Replacements project was estimated to be completed in December 2020, and witness Flynn projected a cost of \$407 for cap time related to PCF-26. Based on the documentation provided by UIF, as well as witness testimony, we find that \$185,907 (\$185,500 + \$407) is reasonable for the project. UIF recorded a cost of \$202,637 for PCF-26 in its MFRs; therefore, we find that an adjustment shall be made to decrease the cost of PCF-26 by \$16,730.

27. PCF-27 Sanlando I&I Corrections, Phase 4

UIF requested cost recovery for cleaning and video inspection of 94,000 linear feet of its Sanlando gravity wastewater main and manholes to locate and evaluate pipe deficiencies, as well as remediation of any identified deficiencies. The deficiencies would be addressed through a combination of cured-in-place pipe (CIPP) lining and excavation and replacement. A large portion of Sanlando’s collection system was constructed in the 1970s and is a combination of vitrified clay pipe and PVC. For several months in 2019, the Wekiva WWTP was treating wastewater flows over its rated capacity, resulting in the need to investigate where the excess inflow and infiltration was occurring.

In UIF witness Flynn’s direct testimony, the requested amount for this project was \$1,996,092. In UIF witness Flynn’s rebuttal testimony, he provided an updated project cost of \$2,328,0234, which included IDC and cap time. OPC witness Radigan did not dispute the Sanlando I&I Corrections, Phase 4 project or the costs in his testimony. Bids were obtained from three contractors for the excavation and replacement of the manholes and a gravity main, and the contractor with the lowest bid of \$2,391,373 was selected. Three bids were also obtained for the video inspection and CIPP linings, and the contractor with the lowest bid of \$734,681 was selected. As an exhibit to his rebuttal testimony, witness Flynn provided signed agreements with the two contractors totaling \$1,921,685. The witness also included Notice to Proceed forms that indicated that the final completion date for the excavation and replacement work was January 26, 2021, and April 20, 2021, for the video inspection and CIPP lining work.

In response to discovery, the Utility provided invoices and support for the two portions of the project totaling \$2,068,761. This total included change orders for additional work that was

required for the project, including raising a manhole, a pipe repair, and pipe cleanouts. UIF also included an invoice for an emergency sewer repair at a cost of \$62,914. The Utility stated that the repair was due to a collapsed sewer pipe in January 2020, and was “the initiation of the proforma project’s investigative efforts that ultimately identified numerous additional pipe and manhole deficiencies in Sanlando’s collection system that were aggregated into the scope of the Sanlando I&I Corrections Phase project.” Witness Flynn testified that the Sanlando I&I Corrections project was estimated to be completed in March 2021, and projected a cost of \$30,000 for cap time related to PCF-27. Based on the documentation provided by UIF, as well as witness testimony, we find that \$2,161,675 (\$2,068,761+ \$62,914 + \$30,000) is reasonable for the project. The Utility recorded a cost of \$2,062,398 for PCF-27 in its MFRs; therefore, we find that an adjustment shall be made to increase the cost of PCF-27 by \$99,277.

28. PCF-28 Sanlando E.E. Williamson Utility Relocations

UIF requested cost recovery to relocate a water and wastewater main within the E.E. Williamson Road right of way, which conflicted with a road improvement project being completed by Seminole County. In UIF witness Flynn’s direct testimony, the requested amount for this project was \$444,026. In UIF witness Flynn’s rebuttal testimony, he provided an updated project cost of \$462,535, which included IDC and cap time. OPC witness Radigan testified that additional documentation was needed for the Sanlando E.E. Williamson Utility Relocations project, and he could not recommend the costs be included in rate base at this time. In response to discovery, OPC indicated that witness Radigan was unable to verify the construction timing and cost of the project as final contracts and invoices had not been provided by the Utility.

Bids were obtained from three contractors for relocation of the water and wastewater mains, and the contractor with the lowest bid of \$423,351 was selected. As an exhibit to his rebuttal testimony, witness Flynn provided a signed agreement with the contractor for a total project cost of \$423,351. A signed proposal was also provided for engineering services totaling \$20,675. The engineering services were comprised of preparing plans and drawings, and post design services related to the project.

Witness Flynn projected a cost of \$6,660 for cap time related to PCF-28, and he testified that the Sanlando E.E. Williamson Utility Relocations project was an open project and was estimated to be completed by December 2021. However, UIF witness Flynn stated that the start of the project was dependent on Seminole County’s schedule, which “currently identifies the county’s intent to let their contractor proceed in the fourth quarter of 2021.” Due to the fact that construction has not yet begun for PCF-28, invoices were not available for verification; however, it appears the project will be completed within the required 24 months following the test year. Regarding the concerns raised by witness Radigan, additional support for PCF-28, including a contract and scheduling information, was provided in witness Flynn’s rebuttal testimony and in response to discovery. Based on the documentation provided by UIF, as well as witness testimony, we find that \$450,686 (\$423,351 + \$20,675 + \$6,660) is reasonable for the project. The Utility recorded a cost of \$462,856 for PCF-28 in its MFRs; therefore, we find that an adjustment shall be made to decrease the cost of PCF-28 by \$12,170.

29. PCF-29 Sanlando Lift Station Mechanical Rehabilitation

UIF requested cost recovery to remove and replace various parts, valves, and fittings at several of its Sanlando lift stations. The project also included costs for the replacement of control panels at 12 lift stations. The lift stations being rehabilitated were constructed 40 years ago, and the Utility had identified deficiencies with the control panels as part of its Asset Management Plan.

In UIF witness Flynn's direct testimony, the requested amount for this project was \$540,000. In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$543,277, which included IDC and cap time. OPC witness Radigan testified that additional documentation was needed for the Sanlando Lift Station Mechanical Rehabilitation project, and he could not recommend the costs be included in rate base at this time. In response to discovery, OPC indicated that witness Radigan was unable to verify the construction timing and cost of the project as final contracts and invoices had not been provided by UIF. Upon cross examination, however, witness Radigan agreed that sufficient information was provided to support project PCF-29.

Bids were obtained from three contractors for rehabilitation of the lift stations, and the contractor with the lowest bid of \$432,850 was selected. As an exhibit to his rebuttal testimony, witness Flynn provided a signed agreement with the contractor for a total project cost of \$465,950, along with a Notice to Proceed form indicating a final completion date of March 2, 2021. The Utility stated that "the project scope was expanded to include installation of a control panel and conduits at LS H-05 at \$25,925 and to replace some discharge piping and valves at LS C-02 at \$3,290."

In response to discovery, UIF provided invoices for the project totaling \$508,764. This total included change orders for additional parts and labor, included a new plug valve and piping on two of the lift stations. Furthermore, the Utility included two invoices totaling \$13,394 for the replacement of a main disconnect to a lift station and an emergency replacement of a breaker. Witness Flynn testified that the Sanlando Lift Station Mechanical Rehabilitation project was estimated to be completed by December 2020, and projected a cost of \$6,856 for cap time related to PCF-29. Regarding the concerns raised by witness Radigan, additional support for PCF-29, including an agreement and scheduling documents, was provided in witness Flynn's rebuttal testimony and in response to discovery. Based on the documentation provided by UIF, as well as witness testimony, we find that \$529,015 (\$508,764 + \$13,394 + \$6,856) is reasonable for the project. The Utility recorded a cost of \$560,469 for PCF-29 in its MFRs; therefore, we find that an adjustment shall be made to decrease the cost of PCF-29 by \$31,455.

30. PCF-30 Sanlando FM Modeling and Development of CIP

UIF requested cost recovery for two separate engineering tasks related to its Sanlando FM network. The first was a five-year capital plan for infrastructure renewal, which involved prioritization of improvements over a five-year period. This portion of the project identified 98,800 linear feet of FM, located largely in the Sanlando service area, as high priority. The second portion of the project involved the modeling of Sanlando FMs. Due to the size and

complexity of the Sanlando system, FM modeling was needed to identify the most efficient route for replacing FM segments and to potentially improve pumping efficiencies.

In UIF witness Flynn's direct testimony, the requested amount for this project was \$83,500. In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$94,161, which included IDC and cap time. OPC witness Radigan testified that there were no plant addition costs associated with the Sanlando FM Modeling and Development of CIP project. Instead, this project was CWIP and should not be considered plant-in-service. Furthermore, witness Radigan stated that once the project was complete, "the expenditures to date will be added to the construction costs and the project could then be eligible for inclusion in the calculation of revenue requirement at some future time."

Two bids were obtained from Kimley-Horn, one for the five-year capital plan at a cost of \$46,500 and one for the FM modeling at a cost of \$37,000. During discovery, Commission staff inquired why bids from other contractors were not obtained, and the Utility stated that the costs for each task were below the \$75,000 threshold requiring multiple bids. As referenced in project PCF-1, the Utility stated this policy has been an accepted practice in previous UIF rate cases. Additionally, UIF stated that for engineering related services, projects may be sole sourced to engineering firms that are familiar with the Utility's systems, facilities, and processes.

In response to discovery, the Utility provided invoices and documentation for the project totaling \$83,500. As an exhibit to his rebuttal testimony, witness Flynn also provided a proposal for pressure gauges totaling \$14,780. The pressure gauges were needed to complete the FM modeling, which required lift station drawdowns to be performed with pressure readings of the FM. Witness Flynn testified that the Sanlando FM Modeling and Development of CIP project was completed in June 2020, and included a cost of \$5,466 for cap time related to PCF-30. Regarding the concerns raised by witness Radigan, plant additions were made for this project totaling \$14,780 for the pressure gauges. Based on the documentation provided by UIF as well as witness testimony, we find that \$103,746 ($\$83,500 + \$14,780 + \$5,466$), is reasonable for the project. The Utility recorded a cost of \$93,492 for PCF-30 in its MFRs; therefore, we find that an adjustment shall be made to increase the cost of PCF-30 by \$10,254.

31. PCF-31 Sanlando GST Remediation

UIF requested cost recovery for the remediation of three ground water storage tanks at its Wekiva WTP and one ground water storage tank at its Des Pinar WTP. As required by DEP, the GSTs were inspected and several deficiencies were identified, including interior coating failures and corrosion of the interior ladders. The costs requested for PCF-31 were for sandblasting, epoxy, and painting of the interior of three tanks: two at the Wekiva WTP and the one at the Des Pinar WTP. The costs also included replacement of existing steel ladders with new fiberglass ladders in two of the Wekiva WTP tanks and the one Des Pinar WTP tank.

In UIF witness Flynn's direct testimony, the requested amount for this project was \$181,000. In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$194,003, which included IDC and cap time. OPC witness Radigan testified that additional documentation was needed for the Sanlando GST Remediation project, and he could not

recommend the costs be included in rate base at this time. In response to discovery, OPC indicated that witness Radigan was unable to verify the construction timing and cost of the project, as final contracts and invoices had not been provided by the Utility. Bids were obtained from two contractors for remediation of the storage tanks, and the contractor with the lowest bid of \$148,983 was selected. As an exhibit to his rebuttal testimony, witness Flynn provided signed proposals with the contractor for a total project cost of \$180,319. Included in this total was an additional proposal for the repair of a GST tank wall at the Wekiva WTP totaling \$34,400.

Witness Flynn projected a cost of \$4,259 for cap time related to PCF-31, and testified that the contractor had begun work in April 2020. However, at the direction of UIF, the project was postponed until late autumn or winter due to the annual increase in water demand that occurred in the spring. Delaying the project would allow for the tanks to be removed from service in sequence and would not reduce the system's storage capacity or negatively impact the delivery of service. The Utility stated that it had "elected to postpone further work until January 2021 reflecting the time of year when water demand is at its lowest." In response to discovery, UIF provided an invoice totaling \$77,496 for the tank work that was completed before the project was delayed. Regarding the concerns raised by witness Radigan, additional support for PCF-31, including signed proposals and scheduling information, was provided in witness Flynn's rebuttal testimony and in response to discovery. Based on the documentation provided by the Utility, as well as witness testimony, we find that \$184,578 (\$180,319 + \$4,259) is reasonable for the project. UIF recorded a cost of \$188,923 for PCF-31 in its MFRs; therefore, we find that an adjustment shall be made to decrease the cost of PCF-31 by \$4,345.

32. PCF-32 UIF – Tierra Verde I&I Remediation

UIF requested cost recovery to video inspect 64,300 linear feet of GSMs and 253 manholes, and remove accumulated solids throughout the collection system due to severe tuberculation. This project also included the cleaning and lining of portions of the collection system to prevent future tuberculation.

In UIF witness Flynn's direct testimony, the requested amount for this project was \$165,000. In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$219,560, inclusive of IDC and cap time. The project scope was expanded because the initial contractor, RedZone Robotics, did not have sufficient equipment to inspect the entire system, and an additional contractor was required to clean and inspect those portions. OPC witness Radigan did not address the Tierra Verde I&I Remediation project or the costs in his testimony.

UIF provided one bid for inspection services totaling \$85,300, and one bid for cleaning and lining services totaling \$74,276. UIF stated multiple bids were not obtained for the inspection services because of the competitive unit price offered, and the contractor's ability to inspect the majority of the collection system at once. UIF only obtained one bid for the cleaning and lining portion of the project since it was less than UIF's \$75,000 threshold for obtaining multiple bids. As referenced in project PCF-1, the Utility stated this policy has been an accepted practice in previous UIF rate cases. In response to discovery, UIF provided invoices for the cleaning and lining portion of the project, including invoices from the additionally required contractor, totaling \$102,562, and invoices for the inspection services totaling \$76,391.

Witness Flynn testified that the project will be completed in December 2020, and projected a cap time cost of \$13,512. Based on the documentation provided by the Utility, as well as witness testimony, we find that the cost of cleaning and lining the system, totaling \$116,074 (\$102,562 + \$13,512), is reasonable and shall be capitalized. UIF recorded a cost of \$172,192 for PCF-32 in its MFRs; therefore, we find that an adjustment shall be made to decrease the cost of PCF-32 by \$56,118. The cost for inspecting the system, totaling \$76,391, which did not result in capital improvements, is a non-recurring expense. As such, we find that the cost shall be deferred and amortized over five years.

33. PCF-33 UIF – Tierra Verde FM and GSM Replacement

UIF requested cost recovery to relocate the Tierra Verde FM and GSM. This involves the replacement of 1,500 linear feet of 10 inch FM between lift station 4 and a receiving manhole, lining 400 linear feet of GSM, and installing two manholes. Part of the FM had failed in 2017 and was replaced. Following this event, a contractor attempted to video inspect and analyze the condition of the FM. However, heavy sedimentation in the bottom of the pipe made inspection impossible, and it was ultimately determined the entire FM needed replacement. In addition, the location of the FM and GSM, as well as the lift station being replaced in project PCF-34, conflicted with a traffic circle being installed by the DOT. For this reason, it was necessary to relocate the FM and GSM in advance of the DOT's traffic circle project to avoid incurring penalties for delaying the DOT's project.

In UIF witness Flynn's direct testimony, the requested amount for this project was \$551,000. In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$593,368, which included IDC and cap time. OPC witness Radigan testified that additional documentation was needed for the project, and he could not recommend the costs be included in rate base at this time. Furthermore, OPC witness Radigan stated that once the project was complete, "the expenditures to date will be added to the construction costs and the project could then be eligible for inclusion in the calculation of revenue requirement at some future time."

UIF provided bids from McKenzie Contracting (McKenzie) for the construction work, totaling \$501,294, and one bid for the engineering services of Kimley-Horn, totaling \$24,042. Witness Flynn stated UIF solicited the service of seven qualified contractors to complete the construction work. However, only one bid was submitted and was awarded to McKenzie. UIF also stated that additional bids were not solicited due to time constraints resulting from the necessity to complete the work in advance of the DOT project. UIF stated that multiple bids were not obtained for the engineering services because "engineering services are often sole sourced to engineering firms that are very familiar with the facilities, equipment, processes, and UIF policies and procedures regarding specific water and wastewater systems." As an exhibit to his rebuttal testimony, witness Flynn provided signed agreements for both the construction and engineering work, totaling \$475,267. In response to discovery, UIF provided a change order in the amount of \$50,069 for additional services performed by McKenzie, due to a concrete slab found under the roadway obstructing access to the FM.

In witness Flynn's rebuttal testimony, he stated that the project is nearly complete, with one manhole ring and cover requiring adjustment in coordination with the DOT. In addition, witness Flynn projected a cap time cost of \$8,450, and a plant-in-service date of February 2021. Regarding the concerns raised by witness Radigan, additional support for PCF-33, including an agreement and scheduling documents, was provided in witness Flynn's rebuttal testimony and in response to discovery. Based on the documentation provided by the Utility, as well as witness testimony, we find that \$533,786 (\$475,267 + \$50,069 + \$8,450) is reasonable for the project. UIF recorded a cost of \$609,491 for PCF-33 in its MFRs; therefore, we find that an adjustment shall be made to decrease the cost of PCF-33 by \$75,705.

34. PCF-34 UIF – Tierra Verde Lift Station 4 Replacement

UIF requested cost recovery to relocate the Tierra Verde Lift Station 4, in addition to the required engineering services to design, permit, and oversee the construction of the lift station. The construction contractor will construct a new lift station on Madonna Blvd. and convert the wet well from the prior lift station to a manhole. The existing wet well is undersized, and the lift station is at the end of its service life after being in service over 50 years. In addition, the location of the lift station, as well as the FM and GSM being replaced in project PCF-33, conflict with a traffic circle being installed by the DOT. The new lift station will be moved to a location that avoids conflicts with underground utilities and offers adequate room away from the edge of asphalt when performing maintenance on the facility. Similar to PCF-33, this project is being coordinated with the DOT to avoid scheduling conflicts.

In UIF witness Flynn's direct testimony, the requested amount for this project was \$80,542 for engineering services, and \$828,440 for construction. In UIF witness Flynn's rebuttal testimony, he provided an updated construction cost of \$871,501, which included IDC and cap time. OPC witness Radigan did not address the Tierra Verde Lift Station 4 Replacement project or the costs in his testimony.

UIF provided bids from two contractors for the construction services, and the contractor with the lower bid of \$828,440 was selected. UIF also provided bids from Kimley-Horn for the engineering services, totaling \$85,300. UIF stated that multiple bids were not obtained for the engineering services because "engineering services are often sole sourced to engineering firms that are very familiar with the facilities, equipment, processes, and UIF policies and procedures regarding specific water and wastewater systems." In response to discovery, witness Flynn provided signed agreements for both the construction and engineering work, totaling \$913,740.

Witness Flynn stated that during the construction of project PCF-33, a conduit collapsed that supplied power to lift station 4. As a result, new conduit and conductors were routed on an expedited basis to resupply power to the lift station. Provisions were made to construct and place the new conduit and conductors in alignment with the construction plans for the new lift station. For this reason, the associated costs, totaling \$10,650, were included in project PCF-34.

Witness Flynn testified that construction of the new lift station will begin in April 2021, once the DOT has restored Madonna Blvd.'s right-of-way, and will be completed in September 2021. In addition, witness Flynn provided a projected cap time cost of \$12,527 for the project.

Based on the documentation provided by the Utility, as well as witness testimony, we find that \$936,917 (\$913,740 + \$10,650 + \$12,527) is reasonable for the project. UIF recorded a cost of \$854,450 for PCF-34 in its MFRs; therefore, we find that an adjustment shall be made to increase the cost of PCF-34 by \$82,467.

35. PCF-35 UIF – Buena Vista Well Improvements

UIF requested cost recovery for well improvements at its Buena Vista WTP, which included replacing the well pump assembly at Well 2, cleaning and inspecting the well casing, replacing the hydropneumatic tank and piping at Well 3, and making minor improvements to the well house. The Well 2 pump had been in service for over 30 years and was found to be operating below its design output. The hydropneumatic tank at Well 3 was inspected and found to need internal sandblasting and coating. However, according to witness Flynn's Exhibit PCF-35, due to the tank's installation date of 1996 and considering it was not an American Society of Mechanical Engineers code tank, the existing tank would instead be replaced. The new replacement hydropneumatic tank would be up to code and would negate the need for sandblasting and coating.

In UIF witness Flynn's direct testimony, the requested amount for this project was \$95,000. In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$80,233, which included IDC and cap time. OPC witness Radigan did not address the Buena Vista Well Improvements project or the costs in his testimony. The Utility provided one bid for the hydropneumatic tank and piping at Well 3 totaling \$49,973 and an invoice for the improvements at Well 2 totaling \$20,595. UIF stated that the costs for the work performed by the two contractors was below the \$75,000 threshold, so additional bids were not obtained. As referenced in project PCF-1, the Utility stated this policy has been an accepted practice in previous UIF rate cases. In addition, both contractors had been utilized previously and the Utility had been satisfied with the quality of the work performed and the costs for PCF-35 were in line with similar projects.

As an exhibit to his rebuttal testimony, witness Flynn provided invoices for the work related to the two wells totaling \$37,340. In response to discovery, UIF provided an invoice for the Well 3 hydropneumatic tank and piping totaling \$59,847. This total also included a change order of \$9,874 for installation of piping, new check valve, concrete pedestal replacements, and plant site maintenance. Witness Flynn testified that the Buena Vista Well Improvements project was estimated to be completed by December 2020, and projected a cost of \$475 for cap time related to PCF-35. Based on the documentation provided by the Utility, as well as witness testimony, we find that \$97,662 (\$37,340 + \$59,847 + \$475) is reasonable for the project. UIF recorded a cost of \$98,145 for PCF-35 in its MFRs; therefore, we find that an adjustment shall be made to decrease the cost of PCF-35 by \$483.

36. PCF-36 UIF – Orangewood Well 1 Improvements

Similar to PCF-35, UIF requested cost recovery for well improvements at its Orangewood WTP, specifically for the replacement of the well pump assembly, well head, and discharge piping, as well as the replacement of the hydropneumatic tank and emergency

generator. The Well 1 pump had been in service for over 30 years and was found to be operating below its design output. The hydropneumatic tank was inspected and found to need internal sandblasting and coating. During the sandblasting process, a hole appeared in the tank wall, requiring the replacement of the entire tank. The existing emergency generator was installed in 1989 and was at the end of its useful life. Additionally, the existing generator operated on propane gas, which presented delivery challenges during storm events.

In UIF witness Flynn's direct testimony, the requested amount for this project was \$165,000. In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$184,672, which included IDC and cap time. OPC witness Radigan did not address the Orangewood Well 1 Improvements project or the costs in his testimony. The Utility obtained bids from two contractors for the well improvements, and the contractor with the lowest bid of \$32,408 was selected. Two bids at a cost of \$67,315 and \$65,717 were obtained for the hydropneumatic tank replacement, and the contractor that would be completing the well improvements was selected for the tank replacement at a cost of \$67,315. UIF also provided two bids for the new generator, and the contractor with the lowest bid of \$42,848 was selected.

In response to discovery, the Utility provided invoices for the well, hydropneumatic tank, and generator totaling \$156,298. UIF also provided invoices for engineering services at a cost of \$9,000 related to the installation of the hydropneumatic tank. Witness Flynn testified that the Orangewood Well 1 Improvements project was completed in September 2020, and included a cost of \$2,477 for cap time. Based on the documentation provided by the Utility, as well as witness testimony, we find that \$167,775 (\$156,298 + \$9,000 + \$2,477) is reasonable for the project. UIF recorded a cost of \$170,453 for PCF-36 in its MFRs; therefore, we find that an adjustment shall be made to decrease the cost of PCF-36 by \$2,678.

37. PCF-37 UIF – Seminole County SCADA Installation

In its filing, UIF requested cost recovery to install remote telemetry units at 10 lift stations in the Weathersfield and Ravenna Park collection systems. The 10 lift stations were being monitored with the use of alarm systems; however, the Utility began implementing SCADA in other systems in 2016. With the use of SCADA, lift stations can be monitored remotely by operators, which can reduce the lag time between an alarm event and notification. It also provides technicians with the ability to pull reports for lift stations to prioritize work activities and the SCADA system can be used for tracking purposes, such as logging pump replacements or electrical issues.

In UIF witness Flynn's direct testimony, the requested amount for this project was \$94,476. In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$96,664, which included IDC and cap time. OPC witness Radigan did not address the Seminole County SCADA Installation project or the costs in his testimony. UIF only obtained one bid for this project, as the contractor being utilized for PCF-7 and PCF-20 was also selected for PCF-37. The Utility stated that the selected contractor "offered consistent pricing for similar work as well as the ability to maintain safety and security protocols that are critically necessary when installing or modifying any cloud-based technology." Additionally, UIF indicated that the selected contractor offered equipment equal to the SCADA equipment that had been installed at

other locations, thus simplifying repairs and maintenance, as well as equipment technical support.

In response to discovery, the Utility provided invoices for the SCADA installation totaling \$93,876. Witness Flynn testified that the Seminole County SCADA Installation project was completed in January 2020, and included a cost of \$100 for cap time. Based on the documentation provided by the Utility, as well as witness testimony, we find that \$93,976 (\$93,876 + \$100) is reasonable for the project. UIF recorded a cost of \$96,664 for PCF-37 in its MFRs; therefore, we find that an adjustment shall be made to decrease the cost of PCF-37 by \$2,688.

38. PCF-38 Summertree Chlorine Dioxide Pilot Study

UIF requested cost recovery for a chlorine dioxide pilot study for its Summertree system. The purpose of the pilot would be to determine the effectiveness of using chlorine dioxide as a post-treatment method for reducing the accumulation of nitrogen compounds in the Summertree water distribution system. Water is supplied to the Summertree system by Pasco County through a bulk water agreement. The Utility estimated that once the water enters the Summertree system, it is typically four days old and the chloramination that is used to treat the water results in a combined chlorine residual which varies and decreases over time. In order to maintain the required chlorine residual in the system, the Utility had implemented flushing procedures to reduce the age of the water. The use of chlorine dioxide as a secondary disinfectant could potentially stabilize the chlorine residual and greatly reduce the amount of flushing, thus resulting in lower O&M costs that would otherwise be passed on to customers. It would also eliminate the cost of a semi-annual chlorine burn, which requires notifying customers before and after the burn event occurs.

In UIF witness Flynn's direct testimony, the requested amount for this project was \$52,000. In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$92,000, which also included the chemical feed equipment needed to carry out the pilot study. Witness Flynn's projected costs related to IDC and cap time, bring the total project cost to \$98,036. OPC witness Radigan did not address the Summertree Chlorine Dioxide Pilot Study project or the costs in his testimony. The engineering services for this project were sole sourced to Kimley-Horn at a cost of \$52,000. For the chemical feed equipment, the Utility stated that Kimley-Horn solicited bids from various contractors and vendors, and only one contractor met all of the requirements of both the pilot study and the permanent installation of the equipment.

In response to discovery, UIF provided invoices for the project totaling \$52,000 for engineering services and \$37,890 for the chemical equipment and a 90-day chemical supply. Witness Flynn testified that the Summertree Chlorine Dioxide Pilot Study project was estimated to be completed in March or April 2021, and included a cost of \$1,411 for cap time. Based on the documentation provided by the Utility, as well as witness testimony, we find that \$91,301 (\$52,000 + \$37,890 + \$1,411) is reasonable for the project. UIF recorded a cost of \$52,000 for PCF-38 in its MFRs as working capital; therefore, we find that an adjustment shall be made to increase the cost of PCF-38 by \$39,301 and the amount shall be included in plant-in-service.

39. PCF-39 Summertree I&I Investigation

UIF requested cost recovery to clean, video inspect, and smoke test 9,400 linear feet of gravity wastewater mains and manholes in Pointe West, the oldest section of its Summertree system. A report of any deficiencies requiring repairs would be generated following the inspection. However, a separate capital project would be developed to address the deficiencies identified in the I&I investigation.

In UIF witness Flynn's direct testimony, the requested amount for this project was \$27,000. In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$378,227, which included \$28,620 for the initial cleaning and video inspection, as well as \$335,859 for capital improvements related to the I&I investigation. OPC witness Radigan testified that there were no plant addition costs associated with the Summertree I&I Investigation project. Instead, this project was CWIP and should not be considered plant-in-service. Furthermore, witness Radigan stated that once the project was complete, "the expenditures to date will be added to the construction costs and the project could then be eligible for inclusion in the calculation of revenue requirement at some future time."

Bids were obtained from three contractors for the cleaning and video inspection of the system, and the contractor with the lowest bid of \$28,620 was selected. As an exhibit to his rebuttal testimony, witness Flynn provided a bid for \$320,859 to address the pipe deficiencies that had been identified during the I&I investigation. The Utility stated it solicited bids from three contractors in total to address the pipe deficiencies; however, the selected contractor was the only one of the three that submitted a bid.

Witness Flynn provided documentation related to the I&I investigation totaling \$28,620. No additional documentation was provided to support the work to correct the deficiencies identified in the I&I investigation, aside from the single bid offered in witness Flynn's rebuttal testimony. For instance, UIF did not produce a signed contract or any documents supporting a completion date within the required 24 months for PCF-39. Witness Flynn testified that the Summertree I&I Investigation project was estimated to be completed in March 2021, and projected a cost of \$7,500 for cap time. Considering that witness Flynn's Exhibit PCF-39 indicated that any corrections related to the I&I investigation would be captured under a separate capital project, and that the Utility did not supply sufficient documentation to support the corrections, we find that those costs shall be included at this time. Regarding the concerns raised by witness Radigan, we agree that there were no plant addition costs associated with PCF-39. Based on the documentation provided by UIF, as well as witness testimony, we find that \$28,620 is reasonable for the project. The Utility recorded a cost of \$27,481 for PCF-39 in its MFRs as working capital; therefore, we find that an adjustment shall be made to increase the cost of PCF-39 by \$1,139. The appropriate working capital allowance is discussed further in Section XVI below.

40. PCF-40 UIF – Golden Hills Galvanized Pipe Replacement

UIF requested cost recovery to remove and replace approximately 2,000 linear feet of WMs and two fire hydrants. The WMs had been in service for over 50 years and had become

tuberculated and prone to leaks. The two original fire hydrants had begun to leak, and repair parts were no longer available due to their age. Additionally, 18 service lines and some isolation valves would also be replaced as part of this project.

In UIF witness Flynn's direct testimony, the requested amount for this project was \$75,160. In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$80,004, which included IDC and cap time. OPC witness Radigan did not address the Golden Hills Galvanized Pipe Replacement project or the costs in his testimony. The Utility obtained multiple bids for the project from one contractor totaling \$75,160. UIF stated that bids were not solicited from additional contractors as the selected contractor was familiar with the Golden Hills system, had produced very satisfactory results for similar work, and was available to schedule the work. Furthermore, the Utility had not expected the total construction cost to exceed the \$75,000 threshold for soliciting multiple bids. As referenced in project PCF-1, the Utility stated this policy has been an accepted practice in previous UIF rate cases.

In response to discovery, UIF provided estimates and invoices for the project totaling \$75,160. Witness Flynn testified that the Golden Hills Galvanized Pipe Replacement project was completed in December 2020, and included a cost of \$4,393 for cap time. Based on the documentation provided by the Utility, as well as witness testimony, we find that \$79,553 (\$75,160 + \$4,393) is reasonable for the project. UIF recorded a cost of \$77,743 for PCF-40 in its MFRs; therefore, we find that an adjustment shall be made to increase the cost of PCF-40 by \$1,810.

41. PCF-41 UIF – Golden Hills Water Main Relocation

In its filing, UIF requested cost recovery to replace 1,350 linear feet of a WM and one fire hydrant located in the Golden Hills service territory. The locations of the WM and fire hydrant were in conflict with a Marion County stormwater improvement project and required relocation. The facilities were located within the Marion County right-of-way and needed to be relocated under the terms and conditions of the existing right-of-way permit.

In UIF witness Flynn's direct testimony, the requested amount for this project was \$154,764. In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$170,810, which included IDC and cap time. OPC witness Radigan did not address the Golden Hills Water Main Relocation project or the costs in his testimony. In response to discovery, the Utility indicated that due to the time constraint imposed by Marion County, only one bid was solicited totaling \$141,913. UIF also stated that the "contractor's unit prices were in line with similar recent project costs with a similar scope of work."

The Utility provided invoices for a total project cost of \$156,764. This total also contained additional work that was completed and is related to PCF-41, including the costs for a main tap and road boring, as well as engineering services. Witness Flynn testified that the Golden Hills Water Main Relocation project was completed in January 2020, and included a cost of \$12,918 for cap time. Based on the documentation provided by the UIF, as well as witness testimony, we find that \$169,682 (\$156,764 + \$12,918) is reasonable for the project. The Utility

recorded a cost of \$170,810 for PCF-41 in its MFRs; therefore, we find that an adjustment shall be made to decrease the cost of PCF-41 by \$1,128.

42. PCF-42 UIF – Little Wekiva Generator

UIF requested cost recovery for an emergency generator and automatic transfer switch at the Little Wekiva WTP. The Little Wekiva system is not interconnected with any other water supply source; therefore, the Utility had placed a portable generator at the WTP as an interim solution in the event of a power outage. However, the portable generator required personnel to manually start the generator on-site and then transfer the load. The new 40 kW generator has an automatic transfer switch and is adequately sized to start and run the treatment plant in the event of a power outage. The new generator also offers a diesel fuel tank capable of 72 hours of continuous run time under load, along with a weatherproof, sound-reducing enclosure.

In UIF witness Flynn's direct testimony, the requested amount for this project was \$94,437. In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$100,618, which included IDC and cap time. OPC witness Radigan did not address the Little Wekiva Generator project or the costs in his testimony. The Utility obtained bids from two contractors for the new generator, and the lowest bid of \$86,837 was selected.

In response to discovery, UIF provided invoices for the generator totaling \$86,837. Additionally, invoices for engineering services related to the design and installation of the generator were provided at a cost of \$7,600. Witness Flynn testified that the Little Wekiva Generator project was completed in June 2020, and included a cost of \$2,616 for cap time. Based on the documentation provided by the Utility, as well as witness testimony, we find that \$97,053 (\$86,837 + \$7,600 + \$2,616) is reasonable for the project. UIF recorded a cost of \$100,256 for PCF-42 in its MFRs; therefore, we find an adjustment shall be made to decrease the cost of PCF-42 by \$3,203.

43. PCF-43 UIF – Park Ridge Generator

Similar to PCF-42, UIF requested cost recovery for an emergency generator and automatic transfer switch at the Park Ridge WTP. As with Little Wekiva, the Park Ridge system is not interconnected with any other water supply source, and there was no existing permanent generator on-site to provide back-up power. The new generator has an automatic transfer switch and is adequately sized to start and run the treatment plant in the event of a power outage. The new 60 kW generator also has a diesel fuel tank capable of 72 hours of continuous run time under load, along with a weatherproof, sound reducing enclosure.

In UIF witness Flynn's direct testimony, the requested amount for this project was \$99,137. In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$103,489, which included IDC and cap time. OPC witness Radigan did not address the Park Ridge Generator project or the costs in his testimony. Bids from two contractors at a cost of \$91,537 and \$79,615 were obtained for a 60 kW generator, and the Utility indicated that it had selected the same contractor that was selected for the Little Wekiva project, which provided the higher bid at a cost of \$91,537.

In response to discovery, UIF provided invoices for the generator totaling \$91,537. Additionally, invoices for engineering services related to the design and installation of the generator were provided at a cost of \$7,600. Witness Flynn testified that the Park Ridge Generator project was completed in June 2020, and included a cost of \$1,491 for cap time. We agree with the engineering costs included for PCF-43 but do not believe that the Utility provided adequate justification for selecting the higher generator bid at a cost of \$91,537. Therefore, we find that the cost of the generator shall be limited to the cost of the lower bid at \$79,615. Based on the documentation provided by the Utility, as well as witness testimony, we find that \$88,706 (\$79,615 + \$7,600 + \$1,491) is reasonable for the project. UIF recorded a cost of \$104,292 for PCF-43 in its MFRs; therefore, we find that an adjustment shall be made to decrease the cost of PCF-43 by \$15,586.

44. PCF-44 Ravenna Park I&I Remediation

UIF requested cost recovery for the video inspection of 11,600 linear feet of a gravity wastewater main and manholes in the Ravenna Park and Lincoln Heights systems. The project also incorporated the costs to remediate the identified pipe deficiencies by utilizing cured-in-place pipes, sectional liners, and open cut methods. Also included in this project were the costs for reinstating 87 service laterals, root removal, and restoring sections of the gravity main at several locations in the system.

In UIF witness Flynn's direct testimony, the requested amount for this project was \$651,568. In UIF witness Flynn's rebuttal testimony, he testified that the project budget was expanded to \$853,310 as additional failed pipes had been identified which required replacement. Therefore, the total project cost was updated to \$876,921, which included IDC and cap time. OPC witness Radigan did not address the Ravenna Park I&I Remediation project or the costs in his testimony. Bids were obtained from four contractors for the digging and repair of the mains, and the contractor with the lowest bid of \$409,137 was selected. Three bids were also solicited for the linings, and the contractor with the lowest bid of \$199,133 was selected.

In response to discovery, the Utility provided invoices for the project totaling \$810,012. This total included three change orders for multiple repairs, cleanouts, and pipe replacements totaling \$201,471. Witness Flynn testified that the Ravenna Park I&I Remediation project was completed in December 2020, and included a cost of \$11,348 for cap time. Based on the documentation provided by UIF, as well as witness testimony, we find that \$821,360 (\$810,012 + \$11,348) is reasonable for the project. The Utility recorded a cost of \$678,829 for PCF-44 in its MFRs; therefore, we find that an adjustment shall be made to increase the cost of PCF-44 by \$142,531.

45. PCF-45 Weathersfield Northwestern Bridge Crossing

UIF requested cost recovery for the design, permitting, and bidding services related to replacement of a WM in coordination with a Seminole County's bridge replacement project. The project initially involved the design and permit for an interconnect assembly, construction of the interconnect assembly, and removal and temporarily capping of the WM on the Northwestern

Avenue bridge. Once the bridge replacement project was completed, a new WM would be installed across the bridge.

In witness Flynn's rebuttal testimony, he testified that Seminole County had informed the Utility in November 2020 that demolition of the bridge would begin in January 2021. Therefore, UIF opted to construct a temporary aerial river crossing to maintain water service to its customers and would forego the interconnect with the City of Altamonte Springs. Witness Flynn testified that DEP had issued a construction permit for the temporary bypass, and the contractor would mobilize at the beginning of January 2021 to construct the bypass. Once the new bridge was completed, the contractor would install a WM attached to the bridge and the temporary bypass would be removed.

In UIF witness Flynn's direct testimony, the requested amount for this project was \$22,000. In UIF witness Flynn's rebuttal testimony, he updated the project cost to include the costs for the engineering services, construction of the temporary bypass, and construction of the new WM totaling \$147,054, including cap time and IDC. OPC witness Radigan testified that there were no plant addition costs associated with the Weathersfield Northwestern Bridge Crossing project. Instead this project was CWIP and should not be considered plant-in-service. Furthermore, witness Radigan stated that once the project was complete, "the expenditures to date will be added to the construction costs and the project could then be eligible for inclusion in the calculation of revenue requirement at some future time."

The engineering services for this project were sole sourced to Kimley-Horn at a cost of \$7,065 for the initial temporary interconnection, and then \$6,000 for the temporary aerial river crossing main. The Utility stated that it only solicited bids from Kimley-Horn for engineering services because of "their comprehensive knowledge and familiarity with the Utility's system, facilities, processes, and requirements and at a quoted amount commensurate with similar previous work product." Additionally, the amount fell below the \$75,000 threshold that UIF utilizes for soliciting multiple bids. As referenced in project PCF-1, the Utility stated this policy has been an accepted practice in previous UIF rate cases.

A bid was also provided from a contractor at a cost of \$127,101 for the construction of the bridge bypass and reconnection of the WM once the bridge project was completed. The Utility stated that the construction portion of the project was sole sourced to the contractor due to the time constraints imposed by Seminole County. The change in schedule had required UIF to change the project scope and design, as well as re-evaluate the timing of the project. This had required the Utility to promptly design a solution to meet the County's schedule, obtain a DEP construction permit, and prepare for the construction of the temporary bypass.

In response to discovery, UIF provided invoices for the engineering services totaling \$12,005. Witness Flynn identified that the Weathersfield Northwestern Bridge Crossing project would be completed in August 2021, and projected a cost of \$1,140 for cap time. Regarding the concerns raised by witness Radigan, plant additions associated with PCF-45 were included in witness Flynn's rebuttal testimony, as well as documents supporting the plant additions and timing. Based on the documentation provided by the Utility, as well as witness testimony, we find that \$140,246 ($\$127,101 + \$12,005 + \$1,140$) is reasonable for the project. UIF recorded a

cost of \$22,000 for PCF-45 in its MFRs; therefore, we find an adjustment shall be made to increase the cost of PCF-45 by \$118,246.

C. Conclusion

Pro forma plant additions shall be decreased by \$150,054 for water and \$1,276,038 for wastewater. Corresponding adjustments shall also be made to decrease accumulated depreciation and depreciation expense by \$1,861 for water and \$67,329 for wastewater. Additionally, property taxes shall be decreased by \$2,328 for water and \$7,778 for wastewater. Adjustments to pro forma plant retirements shall be made as set forth below in Section IV.

IV. Plant Retirements

A. Parties' Arguments

1. UIF

UIF stated that adjustments for plant retirements should be made based on the approved amounts for pro forma projects which were discussed in Section III.

2. OPC

OPC argued that pro forma projects PCF-14, PCF-17, PCF-18, PCF-23, PCF-28 and PCF-33 should be disallowed. OPC also stated that the appropriate plant retirements should be tied to pro forma projects that are approved by this Commission in Section III.

B. Analysis

In its initial filing, UIF reflected pro forma retirements to plant and accumulated depreciation of \$679,801 for water and \$8,212,442 for wastewater. The Utility also identified contributed plant included in the pro forma retirements and included adjustments to retire associated contributions in aid of construction (CIAC) in the amount of \$87,827 for water and \$753,220 for wastewater.

For its pro forma plant retirements, UIF stated the Handy Whitman Index was utilized to determine the retirement percentages for the pro forma projects in this proceeding. The current project cost was multiplied by the retirement percentages to calculate the retirement amount. OPC witness Crane did not dispute this method for determining the pro forma retirements in her testimony. Instead, OPC witness Crane testified that for each pro forma project that OPC witness Radigan identified for exclusion in his testimony, a retirement was not needed. UIF witness Crane stated that for those identified projects, retirements should not be made "since those retirements would presumably not take place until and unless the associated plant addition is completed and placed into service."

Taking into account the supporting documentation provided by the Utility and considering that OPC did not object to the methodology used, we find that UIF's utilization of

the Handy Whitman Index to determine plant retirements is reasonable. We applied the retirement percentages from the Handy Whitman Index to our approved pro forma project costs, as discussed in Section III, to determine the appropriate plant retirements. Table 3 summarizes our adjustments to the pro forma plant retirements. In fact, if the original cost of retired plant is not known, but the year it is placed into service is known, the Handy Whitman Index has been approved by this Commission to determine the appropriate retirement percentage to apply to the cost of the replaced plant.²⁴

Table 3
Pro Forma Plant Addition Retirements-Water

System	MFR – Pro Forma Plant Retirement	Commission Approved – Pro Forma Plant Retirement
PCF-2 Eagle Ridge - Wastewater	\$39,190	\$32,211
PCF-5 Eagle Ridge - Wastewater	\$247,401	\$211,230
PCF-10 LUSI - Water	\$27,307	\$24,714
PCF-12 LUSI - Wastewater	\$23,024	\$21,774
PCF-14 Mid-County - Wastewater	\$606,625	\$722,016
PCF-17 Mid-County - Wastewater	\$1,558,186	\$1,240,605
PCF-18 Mid-County - Wastewater	\$20,063	\$19,973
PCF-19 Pennbrooke - Wastewater	\$17,396	\$14,981
PCF-22 Sanlando - Water	\$21,781	\$21,948
PCF-22 Sanlando - Wastewater	\$2,876,520	\$3,052,611
PCF-23 Sanlando - Wastewater	\$1,406,998	\$1,416,631
PCF-24 Sanlando - Water	\$36,560	\$36,560
PCF-25 Sanlando - Water	\$354,033	\$382,828
PCF-25 Sanlando - Wastewater	\$691,829	\$685,241
PCF-28 Sanlando - Water	\$71,685	\$23,891
PCF-28 Sanlando - Wastewater	\$39,777	\$119,310
PCF-29 Sanlando - Wastewater	\$211,628	\$204,635
PCF-33 Tierra Verde - Wastewater	\$168,170	\$165,565
PCF-34 Tierra Verde - Wastewater	\$301,553	\$336,282
PCF-35 Buena Vista - Water	\$46,408	\$47,694
PCF-36 Orangewood - Water	\$63,394	\$66,955
PCF-40 Golden Hills - Water	\$16,142	\$16,176
PCF-41 Golden Hills - Water	\$33,309	\$33,739
PCF-45 Weathersfield - Water	\$4,735	\$29,939

²⁴ Order Nos. PSC-04-0363-PAA-SU, p. 11, issued April 5, 2004, in Docket No. 020408-SU, *In re: Application for rate increase in Seminole County by Alafaya Utilities, Inc.*; PSC-00-1528-PAA-WU, p. 9, issue August 23, 2000, in Docket No. 991437-WU, *In re: Application for increase in water rates in Orange County by Wedgefield Utilities, Inc.*; PSC-2017-0209-PAA-WU, issued May 30, 2017, in Docket No. 20160065-WU, *In re: Application for increase in water rates in Charlotte County by Bocilla Utilities, Inc.*; and PSC-2016-0169-PAA-WU, issued April 28, 2016, in Docket No. 20150166-WU, *In re: Application for transfer of water system and Certificate No. 654-W in Lake County from Black Bear Reserve Water Corporation to Black Bear Waterworks, Inc.*

Based on our approved pro forma plant retirements, CIAC retirements shall be \$40,067 for water and \$858,004 for wastewater. To reflect our approved retirements, plant and accumulated depreciation shall be decreased by \$9,090 for water and \$34,706 for wastewater. CIAC and accumulated amortization of CIAC shall be increased by \$23,857 for water and decreased by \$104,784 for wastewater.

Additionally, UIF's initial filing reflected corresponding adjustments to remove depreciation expense and CIAC amortization associated with its proposed pro forma retirements. The Utility decreased depreciation expense by \$19,921 for water and \$397,889 for wastewater. It also decreased CIAC amortization by \$2,042 for water and \$42,818 for wastewater. Using Rule 25-30.140, F.A.C., we recalculated the corresponding adjustments to depreciation expense and CIAC amortization. Based on the approved pro forma retirements discussed above, depreciation expense shall be increased by \$976 for water and \$1,657 for wastewater. CIAC amortization shall be increased by \$1,111 for water and \$14,061 for wastewater. Although our approved retirements result in further reductions to plant, accumulated depreciation, wastewater CIAC, and wastewater accumulated amortization of CIAC, the corresponding adjustments to depreciation expense and wastewater CIAC amortization are an increase due to errors in UIF's calculation of its proposed adjustments to these components, causing them to be overstated.

C. Conclusion

We hereby approve plant retirements associated with pro forma additions in the amount of \$688,891 for water and \$8,247,148 for wastewater. As such, plant and accumulated depreciation shall be decreased by \$9,090 for water and \$34,706 for wastewater, along with the following corresponding adjustments. CIAC and accumulated amortization of CIAC shall be increased by \$976 for water and \$1,657 for wastewater. CIAC amortization shall be increased by \$1,111 for water and \$14,061 for wastewater.

V. STIPULATED—Excessive Unaccounted for Water

We approved a Type II stipulation addressing whether any water systems have excessive unaccounted for water and, if so, what systems and what adjustments are necessary, as follows:

Lake Placid – 10.00%; LUSI (Four Lakes) – 1.90%; Golden Hills – 8.80%; Sanlando 2.10% and Little Wekiva 5.50%. Adjustments shall be made to purchased power, chemicals and purchased water/wastewater as appropriate.

VI. STIPULATED—Excessive Infiltration and Inflow

We approved a Type II stipulation addressing whether any wastewater systems have excessive infiltration and/or inflow and, if so, what systems and what adjustments are necessary, as follows:

Summertree – 2.14%; Orangewood – 5.72% and Ravenna Park – 11.25%. Adjustments should be made to purchased power, chemicals and purchased water/wastewater as appropriate.

VII. STIPULATED—Used and Useful (U&U) for Water Treatment

We approved a Type II stipulation addressing what the appropriate used and useful percentages for the water treatment and related facilities of each water system are, as follows:

All water treatment and related facilities are 100% used and useful.

VIII. STIPULATED—Used and Useful for Water Storage

We approved a Type II stipulation addressing what the appropriate used and useful percentages for the water storage and related facilities of each water system are, as follows:

All water storage and related facilities are 100% used and useful.

IX. Used and Useful for Wastewater Treatment

A. Parties' Arguments

1. UIF

With respect to Mid-County, UIF argued that OPC witness Radigan assumed that 2019 being a wet year is an anomaly, but data shows that heavy rainfall is common. UIF contended that UIF witness Seidman demonstrated that witness Radigan did not understand the consideration of I&I when calculating U&U, and that witness Radigan appeared to be in agreement with witness Seidman's calculations. UIF maintained that the Mid-County WWTP is clearly fully utilized and should be considered 100 percent U&U.

Regarding Labrador, UIF argued that the developer of the parcel that prevented a built out determination in the last rate case has signed an agreement with UIF that establishes that the parcel will be built to its full potential within the next five years. UIF affirmed that UIF witness Seidman rejected as unprecedented OPC witness Radigan's suggestion that this Commission should consider land outside of the certificated territory to determine U&U. UIF maintained that the plant is properly sized to serve the community and that the Labrador service area is built out. Therefore, UIF attested that the Labrador WWTP should be considered 100 percent U&U.

As it relates to Lake Placid, UIF argued that the system is built out due to a portion of the service area, originally intended for future development, being designated as a protected scrub jay habitat after construction, permanently eliminating future customer growth in that area. UIF asserted that we recognized that the system was built out in 1996 due to these environmental limitations. UIF contended that assigning the Lake Placid system the calculated WWTP U&U value severely hampers UIF's ability to earn on the improvements necessary to maintain the plant. Therefore, UIF maintained that the Lake Placid WWTP should be considered 100 percent U&U.

With respect to LUSI Lake Groves, UIF contended that UIF witness Seidman addressed OPC witness Radigan's conclusion that the U&U for this system was overstated due to inclusion of future prepaid lots resulting in double counting. However, UIF asserted that following witness Radigan's criticisms, witness Seidman revised the U&U calculation for LUSI Lake Groves to account for the five percent per year growth limit for equivalent residential connections (ERCs) as required under Section 367.081(2)(a)2.b., F.S. With this revision, UIF contended that the LUSI Lake Groves WWTP should be considered 70 percent U&U. UIF averred that all other WWTP are 100 percent U&U.

2. OPC

OPC noted that the parties agree on the U&U percentage for UIF-Marion, but disagree with respect to Mid-County, Labrador, Lake Placid, and LUSI Lake Groves. With regard to Mid-County, OPC acknowledged that using test year flows results in a U&U over 100 percent for Mid-County, but argues that the system's test year flows were unusually high. OPC asserted that UIF witness Seidman acknowledged that the test year was a very wet year, and that UIF also indicated that "this facility had regulatory violations in 2019 related to excess I&I" as justification for certain pro forma projects for Mid-County. OPC argued that Mid-County should not be rewarded with a higher U&U nor punished with a lower U&U because rainfall did or did not favor the system in a particular year. OPC opined that we should evaluate average flows for Mid-County and use that data to calculate U&U, and that the WWTP U&U should remain at 93.67 percent, as set in the last rate case, until that is accomplished.

With respect to Labrador, OPC argued that UIF lacks sufficient proof with regard to the timing of completion of the parcel that is now being developed that prevented a built out determination for Labrador in the last rate case. Therefore, OPC asserted that UIF failed to support its claim, and that the WWTP U&U should remain at 79.94 percent as set in the previous rate case.

Regarding Lake Placid, OPC noted that although UIF mentioned that the system was determined to be built out in 1996 by this Commission, UIF failed to mention that in the 2016 rate case, and we agreed with OPC that the U&U for Lake Placid was 29.79 percent. OPC asserted that UIF made the same arguments about environmental regulation in that rate case, and that we rejected this due to the argument not being any different from the one made previously.²⁵ OPC argued that UIF has not presented any evidence that is any different than what was provided in the 2016 rate case, and that the WWTP U&U for Lake Placid should remain at 29.79 percent as set in that case.

Concerning LUSI Lake Groves, OPC noted that in the last rate case, we revised the U&U calculation for the system to remove prepaid connections as capacity devoted to prepaid connections does not qualify as property used and useful in the public service under Section 367.081(2)(a)2.b., F.S. Since the system has growth, OPC asserted that the WWTP U&U for LUSI Lake Groves is 65 percent.

²⁵ Order No. PSC-2017-0361-FOF-WS, pp. 93, 97.

B. Analysis

Rules 25-30.431 and 25-30.432, F.A.C., is followed for evaluation of WWTP U&U. The rules set forth provisions for flow data and capacity to be used in the equation, and other factors for consideration such as I&I, growth, the extent to which the service area is built out, and decrease in flow due to conservation or reduction in customers.

1. U&U for WWTP

Table 4 is a summary of the WWTP U&U percentages as proposed by UIF and OPC, along with our approved values for UIF’s wastewater systems. As shown, OPC did not dispute UIF’s WWTP U&U values for Cypress Lakes, Eagle Ridge, Pennbrooke, Sandalhaven-Transmission, and Sanlando. As we previously determined the WWTP U&U to be 100 percent for these systems, and there is no dispute regarding the flow data, capacity, and other factors for consideration pursuant to Rules 25-30.431 and 25-30.432, F.A.C., for these systems. We find that the WWTP U&U for these systems is 100 percent.

Table 4
UIF, OPC, and Commission Approved WWTP U&U Percent Value

WWTP System	UIF	OPC	Commission Approved
Cypress Lakes	100.00	No Dispute	100.00
Eagle Ridge	100.00	No Dispute	100.00
Labrador	100.00	79.94	100.00
Lake Placid	100.00	29.79	29.79
LUSI Barrington	100.00	No Dispute	100.00
LUSI Lake Groves	70.00	65.00	65.00
Mid-County	100.00	93.67	100.00
Pennbrooke	100.00	No Dispute	100.00
Sandalhaven-EWD	51.62	No Dispute	42.24
Sandalhaven-Transmission	100.00	No Dispute	100.00
Sanlando	100.00	No Dispute	100.00
UIF-Marion	78.44	No Dispute	74.78

Regarding the WWTP U&U of the three remaining systems that OPC does not dispute, LUSI Barrington, Sandalhaven-EWD, and UIF-Marion, we find the following. For LUSI Barrington, U&U values have not previously been established as this system was acquired by UIF in 2019.²⁶ UIF requested that the WWTP be considered 100 percent U&U for this system. We have reviewed the documentation provided for this system, and as the LUSI Barrington WWTP is serving all of the lots in its service area, thus using the WWTP to its current full

²⁶ Order No. PSC-2019-0071-PAA-SU, issued on February 25, 2019, in Docket No. 20170174-SU, *In re: Application for transfer of assets of exempt utility, amendment of Certificate No. 465-S, and petition for partial variance or waiver of Rule 25-30.030(5)(b), F.A.C., by Utilities, Inc. of Florida.*

potential, we find that this system is built out. Therefore, we find that the LUSI Barrington WWTP is 100 percent U&U.

With respect to Sandalhaven-EWD, UIF requested that the WWTP U&U be considered 51.62 percent for this system. UIF calculated this value by imputing flows in addition to the 2019 test year flows in order to achieve flows experienced by the system in 2010. UIF explained that this was done because this Commission typically defaults to a U&U based on higher flows experienced in previous test years so as not to penalize a utility for providing capacity previously needed. While it is true that we do typically default to the previously approved U&U if the updated U&U calculation is lower, this is not done by inserting a previous test year's flow data in the calculation with the current test year's values, but by simply defaulting to the previously approved U&U. With that being said, we reevaluated the WWTP U&U for Sandalhaven-EWD, removing the additional flows associated with the 2010 test year and only accounting for the 2019 test year flows. This resulted in a WWTP U&U of 36.97 percent. As the WWTP U&U approved in the last rate case was 42.24 percent, we find that the WWTP U&U for Sandalhaven-EWD is 42.24 percent as is Commission practice.

As it refers to UIF-Marion, UIF and OPC agreed that the WWTP U&U for this system should be considered 78.44 percent. However, upon reviewing the provided documentation, we found that UIF used a simple average growth calculation due to a weak coefficient of determination instead of the traditional five-year growth per the regression equation as required by Rule 25-30.431(2)(b)-(c), F.A.C.²⁷ We are not aware of any cases where the regression equation was not used to calculate the five-year growth. Therefore, we reevaluated the WWTP U&U for UIF-Marion using the traditional five-year growth per the regression equation. This resulted in a WWTP U&U of 74.78 percent, which is our finding for the WWTP U&U for UIF-Marion. Of the remaining four systems in dispute, the differences can be attributed to the treatment of built out status, prepaid connections, and excessive test year flows.

a. System Built Out Status

UIF's position that the Labrador WWTP is 100 percent U&U is based on the contention that the 11.6 acre parcel that prevented a built out determination in the last rate case is now being developed for 36 manufactured homes which will use the whole parcel. OPC witness Radigan argued that it is an assumption that the vacant area will be built out as it has not occurred yet. Witness Radigan further argued that there is land adjacent to Labrador's service area and that Labrador could expand its service area to serve new customers. Thus, witness Radigan recommended that Labrador maintain the 79.94 percent U&U approved in the last rate case.

In response to discovery, UIF provided a signed agreement with the developer to support the claim that the parcel is being developed. UIF also provided an email from the developer stating that approximately seven lots per year could be expected to be developed over the next five years. In addition, UIF indicated that the parcel has already been cleared, and that construction of the underground water and sewer infrastructure was to begin in January 2021 or

²⁷ The coefficient of determination is the R squared value which describes how good of a fit the linear regression curve is to the variability of historic ERC growth.

sooner. With regard to the service area, Labrador does not currently have any vacant lots, and there is only one lot it is unable to serve due to the lot being used for a park. We are not aware of any cases where we considered land outside of a utility's certificated service territory as part of its U&U consideration and thus, we do not believe that is appropriate. Therefore, because UIF has presented evidence that the parcel is being developed, and all lots capable of being served in Labrador's service territory are being served, we agree with UIF and hereby find that the Labrador WWTP is 100 percent U&U.

UIF's position that the Lake Placid WWTP is 100 percent U&U was initially based on the Utility's claim that growth was negative. Following a correction to Schedule F-10, growth was no longer negative for this system. OPC witness Radigan argued that UIF gave no firm evidence that the system is actually built out to use the design capacity of the plant, and that UIF indicated that there are still vacant lots in the service area in response to discovery. In his rebuttal, UIF witness Seidman expanded UIF's argument to include that the system is built out because of the designated scrub jay habitat located within the service area which has prevented customer growth. Witness Seidman further argued that we recognized Lake Placid's built out status due to environmental limitations in the 1996 rate case order (1996 Order).²⁸

We reviewed the 1996 Order referenced by UIF, discovery responses, and the calculated WWTP U&U for Lake Placid. With respect to the 1996 Order, we found that the water distribution and wastewater collection systems were built out. We did not make a similar finding for the WWTP in the 1996 Order. In response to discovery, UIF indicated that there were 12 vacant lots in the Lake Placid service area, but also indicated that these lots were not located in the protected scrub jay habitat. The calculated WWTP U&U for Lake Placid was 15.83 percent. Because UIF has not provided evidence that the built out argument for Lake Placid is any different than that considered by us in previous orders, we agree with OPC and hereby find that the Lake Placid WWTP is 29.79 percent U&U, as approved in the last rate case.

b. Prepaid Connections

UIF requested that the LUSI Lake Groves WWTP be considered 70 percent U&U which includes future prepaid connections, as well as consideration of the five percent per year growth limit for ERCs as mandated by the statute. UIF argued that 967 prepaid lots had not been connected at the end of 2019; therefore, the regression analyses did not accurately reflect new growth. UIF stated that LUSI Lake Groves averaged 30 new taps per month in 2020, which is consistent with the past year's growth. Thus, UIF updated its growth calculation to account for future prepaid connections.

OPC witness Radigan argued that UIF's addition of prepaid connections on top of historic growth results in double counting, and recommended that the prepaid connections be removed. This resulted in a recommendation of 65 percent WWTP U&U for LUSI Lake Groves by OPC. UIF witness Seidman rebutted this argument by indicating that the additional

²⁸ Order No. PSC 96-0910-FOF-WS, issued July 15, 1996, in Docket No. 951027-WS, *In re: Application for a rate increase in Highland County by Lake Placid Utilities, Inc.*

connections are from a new area that had not previously been served; therefore, these connections could not result in double counting as they were not connected during the test year.

Prepaid connections for LUSI Lake Groves had been specifically disallowed in the amended order following the appeal in the last rate case because these connections did not qualify as property that was used and useful in the public service, as required under Section 367.081(2)(a)2.b., F.S.²⁹ For property to be considered used and useful in the public service under the statute, it must be shown to be “needed to serve customers five years after the end of the test year.” As in that case, UIF has not provided evidence that these prepaid connections will be made within the next five years. Therefore, we removed these future prepaid connections and reevaluated the WWTP U&U. This resulted in a WWTP U&U of 65 percent which is our finding for the LUSI Lake Groves WWTP, consistent with OPC’s recommendation.

c. Excessive Test Year Flows

While the UIF WWTP U&U calculation for Mid-County was 105.42 percent, OPC witness Radigan argued that high test year flows and I&I are the reason for this calculation. Witness Radigan opined that in dry years, the U&U equation would unreasonably penalize a utility, and in wet years, it would reward a utility. He recommended that we consider and adjust the WWTP U&U calculation for the effects of I&I for Mid-County, and that until this was done, Mid-County’s WWTP U&U should remain at 93.67 percent as approved in the last rate case.

UIF witness Seidman rebutted OPC witness Radigan’s argument by stating that experiencing high flows is not uncommon for the Mid-County system, and that we already consider the impact of I&I and have done so for many years. Witness Seidman argued that his analysis shows that Mid-County’s I&I is not excessive for the test year, and that witness Radigan has reviewed and agreed with witness Seidman’s calculations. Thus, witness Seidman concluded that the Mid-County WWTP is clearly fully utilized and should be considered 100 percent U&U.

We agree with UIF and note that I&I has been and continues to be considered in the calculation of WWTP U&U. We have reviewed the documentation provided for Mid-County and as stated by UIF witness Seidman, Mid-County does not have any excessive I&I for the test year, regardless of the high test year flows experienced by the system as contemplated by OPC witness Radigan. Therefore, we agree with UIF and hereby find that the Mid-County WWTP is 100 percent U&U.

C. Conclusion

In its filing, UIF made non-U&U adjustments to decrease rate base by \$928,928, depreciation expense by \$83,244, and property tax expense by \$21,302. The appropriate used and useful percentages for UIF’s wastewater systems are shown in the table below. To reflect the appropriate non-U&U percentages applied to all components of rate base, we find that a further decrease of \$284,620 to rate base, \$28,459 to depreciation expense, and \$9,743 to property tax expense shall be made.

²⁹ Order No. PSC-2019-0363-PAA-WS.

Table 5
Appropriate Used and Useful Percentages for UIF’s Wastewater Systems

System	Facilities	U&U (Percent)
Cypress Lakes	WWTP	100.00
Eagle Ridge	WWTP	100.00
Labrador	WWTP	100.00
Lake Placid	WWTP	29.79
LUSI Barrington	WWTP	100.00
LUSI Lake Groves	WWTP	65.00
Mid-County	WWTP	100.00
Pennbrooke	WWTP	100.00
Sandalhaven	EWD Capacity	42.24
Sandalhaven	Transmission	100.00
Sanlando	WWTP	100.00
UIF-Marion	WWTP	74.78

X. STIPULATED—Used and Useful for Water Distribution

We approved a Type II Stipulation addressing what are the appropriate U&U percentages for the water distribution and related facilities of each water system, as follows:

All water distribution and related facilities are 100% used and useful.

XI. STIPULATED—Used and Useful for Collection Lines

We approved a Type II Stipulation addressing what the appropriate U&U percentages are for the collection lines and related facilities of each wastewater system, as follows:

All collection lines are 100% used and useful.

XII. Test Year Accumulated Depreciation Adjustments

A. Parties’ Arguments

1. UIF

In its brief, the Utility stated that the adjustments to test year accumulated depreciation were due to the allocation of common plant between water and wastewater and to correct the over-amortization of Sandalhaven intangible plant. In addition, UIF made adjustments to annualize accumulated depreciation for test year additions. The Utility asserted that OPC did not dispute any test year changes.

2. OPC

In its brief, OPC discussed adjustments related to pro forma plant projects; these are discussed in Section III.

B. Analysis

UIF witness Swain made test year adjustments to the accumulated depreciation balance to correct the allocation of common plant between water and wastewater and to correct the over-amortization of Sandalhaven intangible plant. The Utility also made adjustments to annualize accumulated depreciation for test year plant additions. Although it addressed adjustments corresponding to pro forma plant, OPC did not dispute these adjustments. Further, Commission staff witness Dobiac's testimony did not reflect any audit adjustments to the test year accumulated depreciation balances.

C. Conclusion

Based on the above, we hereby find no further adjustments are appropriate to the adjusted test year accumulated depreciation balances. All necessary adjustments to accumulated depreciation associated with pro forma additions shall be made as set forth and discussed in Sections III and IV above.

XIII. Test Year CIAC Adjustments

A. Parties' Arguments

1. UIF

In its brief, UIF stated this issue is a fall out from the determination of Section III.

2. OPC

In its brief, OPC discussed adjustments related to pro forma retirements; these are discussed in Section IV. OPC maintained that these adjustments should be made to adjust the CIAC balance for projected plant retirements based on its recommended adjustments to pro forma plant.

B. Analysis

In its initial filing, the Utility's only adjustments to CIAC are retirements associated with certain pro forma plant projects. Further, Commission staff witness Dobiac's testimony did not reflect any audit adjustments to test year CIAC balances. Pro forma adjustments to accumulated amortization of CIAC are addressed in Section IV.

C. Conclusion

Based on the above, we hereby find no further adjustments are appropriate to the adjusted test year CIAC balances. All necessary adjustments to CIAC associated with pro forma additions shall be made as set forth and discussed in Section IV above.

XIV. Test Year Accumulated Amortization of CIAC Adjustments

A. Parties' Arguments

1. UIF

In its brief, UIF stated that this is a fallout from the determination of Section III.

2. OPC

In its brief, OPC stated adjustments should be made consistent with the adjustment of CIAC balances discussed in Section XIII.

B. Analysis

In its initial filing, the Utility's only test year adjustment to the accumulated amortization of CIAC balance was to correct the over amortization of CIAC. This adjustment was made to the same three systems in UIF's last rate case.³⁰ Further, Commission staff witness Dobiac's testimony did not reflect any adjustments to test year accumulated amortization of CIAC balances. The remaining adjustments to accumulated amortization of CIAC in UIF's initial filing are related to retirements associated with pro forma plant projects.

C. Conclusion

Based on the above, we hereby approve no further adjustments to the adjusted test year accumulated amortization of CIAC balances. All necessary adjustments to accumulated amortization of CIAC associated with pro forma additions shall be made as set forth and discussed in Section IV.

XV. DROPPED³¹

³⁰ Order No. PSC-2017-0361-FOF-WS, issued September 25, 2017, in Docket No. 20160101-WS, *In re: Application for increase in water and wastewater rates in Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole Counties by Utilities, Inc. of Florida.*

³¹ The parties agreed to drop this issue prior to the prehearing.

XVI. Working Capital Allowance

A. Parties' Arguments

1. UIF

In its brief, UIF stated that the presumed cash balance included in working capital is a reasonable substitute for actual intercompany receivables and payables. The cash balance of 2 percent of rate base proposed by UIF witness Swain was based upon the ratio of allowed cash to gross plant allowed in our prior cases. Witness Swain explained that UIF could have included the full intercompany receivable and payable balances in working capital since they meet the requirements of inclusion in working capital, as they are not interest bearing, and not otherwise included in rate base. Instead, UIF proposed a more conservative approach by estimating what it presumed to be a reasonable cash balance. Lastly, UIF stated in its brief that it should be clear that for a company the size of UIF, with substantial ongoing capital projects, that a reasonable cash requirement would be greater than the \$3,000 of petty cash currently included on UIF's books.

UIF also stated in its brief that the studies related to pro forma projects should be included as adjustments to working capital. Further, UIF maintained that OPC witness Crane's recommendation to remove the studies from working capital and classify the studies as CWIP is not consistent with our practice. UIF stated that in its last rate case, all pro forma studies were included in rate base after adjustments to update costs, with OPC agreeing to the accounting treatment.³² UIF witness Flynn suggested that another alternative to including the studies in working capital would be to amortize the expense over a reasonable time frame, such as five years.

2. OPC

In its brief, OPC asserted that UIF failed to meet its burden to support its requested level of cash, specifically how its requested level of cash is necessary for the provision of safe and reliable utility service. While acknowledging cash can be a component in determining rate base, OPC witness Crane also specified that a valid basis is necessary for supporting the level of cash. OPC further argued that the two Commission orders UIF used to develop its imputed cash value are not applicable, as this Commission did not use a ratio of gross plant as a methodology for deciding the appropriate level of cash. OPC maintained that the estimate UIF proposed in this case is arbitrary and not reasonably related to the company's day-to-day operational requirements.

B. Analysis

Rule 25-30.433(2), F.A.C., requires that Class A Utilities use the balance sheet method to calculate the working capital allowance. In its MFRs, UIF requested a total working capital

³² Order No. PSC-2017-0361-FOF-WS.

allowance of \$4,151,132 for water and \$5,551,167 for wastewater. We hereby find that additional adjustments are necessary.

1. Imputed Cash Balance

In her direct testimony, UIF witness Swain stated that UIF does not maintain its own unique bank accounts, but instead records cash transactions through intercompany accounts. Witness Swain stated that the overall magnitude of the balance in these accounts as compared to rate base was very large and that she was not able to isolate a specific account that would be appropriate to include in working capital. As an alternative, she reviewed other utilities and cases to develop a presumed cash balance. To derive the presumed cash value, witness Swain used the Commission-approved cash and rate base balances from KW Resorts Utilities Corp.'s (KWRU) 2015 and 2017 rate cases to calculate a percentage representing the ratio of working capital to rate base.³³ In the KWRU 2015 rate case, the cash balance represented approximately two percent of approved rate base, and in the KWRU 2017 rate case, the cash balance represented approximately 1.65 percent of approved rate base. Based on those percentages of gross plant, witness Swain made an adjustment to impute UIF's cash balance based on two percent of requested rate base, resulting in a pro forma increase of \$2,355,199 and \$3,061,123 to water and wastewater working capital, respectively.

OPC witness Crane recommended completely removing the Utility's adjustment to its cash balance. In her direct testimony, she outlined several reasons to support her assertion that UIF has not demonstrated a valid basis or need for the level of cash requested, specifically as it pertains to the provision of safe and reliable utility service. She first highlighted and questioned the applicability of the KWRU rate cases due to the large difference in levels of actual cash maintained by the two utilities, with KWRU reflecting a cash balance of nearly \$900,000 in its 2017 Rate Case prior to us approving nearly a third of that amount. Witness Crane also expressed her concern with witness Swain's inability to identify specific intercompany accounts to attribute to working capital, though she relied on the accounts as a basis to impute presumed cash. She further stated that the total balance of working capital allowances for water and wastewater, excluding the Utility's adjustments to cash, are in line with the Commission-approved balances, \$1,130,422 for water and \$3,030,342 for wastewater, from UIF's last rate case.

In response to witness Crane, witness Swain stated that under the balance sheet method of working capital, the entire net balance of intercompany accounts is eligible for inclusion in working capital, as it is not interest bearing or included in rate base or capital structure. She explained that she proposed her methodology to develop a reasonable cash balance in lieu of the large intercompany account balances and chose the KWRU rate cases because we considered and determined the appropriate level of cash in both cases. Witness Swain also pointed out that the working capital balances approved in UIF's last case are comparable because they did not include a cash balance or intercompany accounts as well.

³³ Order No. PSC-17-0091-FOF-SU, issued March 13, 2017, in Docket No. 150071-SU, *In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*; Order No. PSC-2018-0446-FOF-SU, issued September 4, 2018, in Docket No. 20170141-SU, *In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*

We agree with OPC and hereby find that removing the Utility's adjustment to increase cash in working capital. In so finding, "it is the [Commission's] prerogative to evaluate the testimony of competing experts and accord whatever weight to the conflicting opinions it deems necessary."³⁴ Ultimately, it is a utility's burden of proof to support its requested rate increase before this Commission.³⁵ UIF has not provided a sound basis for imputing its requested cash balance, or a sound basis for the methodology it proposed.

In regards to the Utility's proposed methodology, the KWRU rate cases used by witness Swain to derive a cash value are not applicable to this case. In the KWRU 2015 rate case, there was one specific adjustment to cash to reflect a more recent 13-month average cash balance for the Utility, as the test year represented an anomaly.³⁶ In the KWRU 2017 rate case, the cash balance was adjusted to equal the balance in the previous rate case. However, this adjustment was made after we identified a specific account lending to the excessive balance that was more representative of capital expenditures, not day-to-day operations. Upon consideration of the remaining balance left after excluding the account, we decided it was reasonable to hold the balance to the amount approved in the previous case. We did not use any percent of rate base to determine a reasonable level of cash for either of these cases.³⁷ Witness Swain's methodology does not line up with our basis for making adjustments in either case. Nor did she provide any further support for using KWRU as a proxy to develop the level of cash to impute for UIF. Thus, we hereby find that using two percent of rate base is an arbitrary methodology.

When asked if she thought the ratio of cash to rate base was an appropriate indicator to derive a presumed cash balance, witness Crane stated she did not think a ratio of cash to rate base was appropriate, and that a ratio of operating expenses would be more appropriate. As further explained by witness Crane, working capital represents the short-term liabilities and assets that are needed to operate. In the KWRU 2017 rate case, we agreed that the working capital allowance should reflect day-to-day operations. This concept is further supported by Rule 25-30.433(2), F.A.C., which requires Class B and C utilities to use the formula method to calculate working capital by taking one eighth of operation and maintenance (O&M) expense. When asked to explain how the ratio of cash to total rate base was an appropriate indicator of an appropriate level of cash, the Utility brought up the fact that other components of working capital can be allocated between water and wastewater based on various factors that include gross plant. Although that is true, deriving an allocation of a known value in working capital is not comparable to estimating the appropriate level of a component of working capital.

When asked if the Utility considered other alternatives to calculate a presumed cash balance, witness Swain stated that it considered including the net balance of all intercompany receivables and payables in their entirety. UIF's initial basis for making an adjustment to increase cash in working capital stems from the Utility's intercompany accounts that are used for cash transactions in lieu of specific bank accounts and therefore not reflected in its cash balance. However, the details provided about the intercompany accounts were sparse and not entirely

³⁴ See *Gulf Power Co. v. FPSC*, 453 So. 2d 799, 805 (Fla. 1984).

³⁵ See *Florida Power Corp. v. Cresse*, 412 So. 2d 1187 (Fla. 1982).

³⁶ Order No. PSC-17-0091-FOF-SU.

³⁷ Order No. PSC-2018-0446-FOF-SU.

clear. This made it difficult to assess the Utility's original request and basis for imputing cash, as well as to evaluate the reasonableness of the requested level of cash. Of the various accounts that comprise the net balance, specific account detail was not available for the Utility's witness to determine if a particular intercompany receivable or payable could be included in the working capital calculation prior to developing her alternative methodology. The balances were characterized as significant in size. However, in response to our staff's discovery requests, the Utility never quantified or provided support for the accounts. One of the responses stated that "it is not possible to determine the amount of cash included in the intercompany accounts. Over many years the intercompany accounts have been used to record obligations to and from the related companies." Other discovery responses stated that the accounts are only representative of UIF transactions.

UIF maintained that the accounts are not interest bearing or reflected in rate base or capital structure, thus making them eligible to be included in working capital under the balance sheet method. The lack of clear detail and support documentation provided in relation to the accounts made it difficult to evaluate the Utility's original request, much less support the inclusion of the entire balance. Further, even if we were able to ascertain the magnitude of the net balance, the level of the balance would still be evaluated and subject to adjustments, just as we did in the KWRU rate cases cited. While the Utility's proposal is not altogether unreasonable, it ultimately failed to support its request. As such, we hereby approve a decrease in working capital of \$2,355,199 for water and \$3,061,123 for wastewater to remove the Utility's requested presumed cash balance.

2. Pilot Studies and Investigations

In its initial filing, UIF included an adjustment to increase working capital for wastewater to reflect studies and preliminary investigations for pro forma projects yet to be completed. The Utility's MFRs listed a Chlorine Dioxide Pilot Study for Summertree and two separate investigations related to I&I and smoke testing for Cypress Lakes. As explained by witness Crane, the Chlorine Dioxide Pilot Study relates to the water system instead of wastewater, and one of the Smoke Testing/I&I Investigations labelled as Cypress Lakes, in the amount of \$89,328, should actually reflect two separate investigations—one for Sandalhaven in the amount of \$61,847 and one for Summertree in the amount of \$27,481. Additionally, the Utility's "Total Pro Forma Adjustments to Working Capital" in the amount of \$3,202,451 for wastewater, Line 17, does not include the \$45,000 listed for Cypress Lakes' I&I Investigation. Before making corrections for the errors listed above, we evaluated each pro forma project using the same process used to evaluate costs and the prudence of pro forma plant projects.

Additionally, we evaluated the circumstances of each project to determine if it was appropriate to include in working capital. We, in Order No. PSC-01-1374-PAA-WS, cited the NARUC USOA accounting instructions for Account 183 – Preliminary Survey and Investigation, as stated below:³⁸

³⁸ Order No. PSC-01-1374-PAA-WS, issued June 27, 2001, in Docket No. 010518-WS, *In re: Notice of intent to increase water and wastewater rates in Pasco County, based upon application of provisions of Section 367.081(4)(a) & (b), F.S., by Aloha Utilities, Inc.*

This account shall be charged with all expenditures for preliminary surveys, plans, investigations, etc., made for the purpose of determining the feasibility of projects under contemplation. If construction results, this account shall be credited and the appropriate utility plant account charged. If the work is abandoned, the charge shall be to account 426 - Miscellaneous Nonutility Expenses, or to the appropriate operating expense account unless otherwise ordered by the Commission (See account 675 - Miscellaneous Expenses).³⁹

Our order further explained that because the results of the pilot project in question were not yet completed, it was appropriate to recognize the costs in working capital in that rate proceeding and address the appropriate final treatment for the costs in a future rate proceeding. According to the Utility, as referenced in Table 6 below, future projects stemming from the results of the I&I investigations are probable. Therefore, we hereby find that inclusion of the updated total amount for each project in working capital. As discussed in Section III, the Chlorine Dioxide Pilot Study has already resulted in a capital project, and we find that those costs shall be capitalized to plant. As such, the costs associated with the study shall be removed from working capital. In total, we hereby approve a decrease to wastewater working capital of \$4,453 to reflect the appropriate amount of pro forma studies and preliminary investigations, as shown in Table 6 below.

Table 6
Working Capital Adjustments for Pilot Study and I&I Investigations

PCF No.	Description	Status	MFR Amt	Commission Approved Total	Adjustment
1	I&I Investigation-Cypress Lakes	Future project probable.	\$0	\$42,500	\$42,500
21	I&I Investigation-Sandalhaven	Future project probable.	61,847	58,255	(3,592)
38	Chlorine Dioxide Pilot Study	Capitalizing to completed capital project.	52,000	0	(52,000)
39	I&I Investigation-Summertree	Project commencing.*	<u>27,481</u>	<u>36,120</u>	<u>8,639</u>
Total			<u>\$141,328</u>	<u>\$136,875</u>	<u>\$4,453</u>

*Not being recovered in the instant docket.

3. Miscellaneous Deferred Debits

The final adjustment to working capital is a corresponding adjustment to miscellaneous deferred debits. Based on our findings to amortize pro forma O&M expenses discussed in Sections III and XXVI, miscellaneous deferred debits shall be increased to reflect the

³⁹ Pursuant to Rule 25-30.115, F.A.C., water and wastewater utilities must maintain their accounts and records in conformity with the 1996 NARUC USOA.

unamortized portion of each expense. As such, wastewater working capital shall be increased by \$91,863 to reflect the unamortized balance, total expense less a year of amortization, of the amortized expenses associated with WWTP permitting in PCF-8 and I&I inspection in PCF-32.

C. Conclusion

The appropriate working capital balance is \$1,795,933 for water and \$2,577,454 for wastewater. Thus we hereby approve a decrease in working capital of \$2,355,199 for water and \$2,973,713 (-\$3,061,123 - \$4,453 + \$91,863) for wastewater.

XVII. Test Year Rate Base

A. Parties' Arguments

1. UIF

In its brief, UIF stated this is a fallout determination.

2. OPC

In its brief, OPC stated the appropriate rate base for the December 31, 2019 test year is \$54,066,409 for water and \$75,375,380 for wastewater.

B. Analysis

This is a fallout issue. Based upon the Utility's adjusted 13-month average test year balances and our approved adjustments, the appropriate 13-month average rate base is \$54,410,589 for water and \$85,280,139 for wastewater. Schedule Nos. 1-A and 1-B reflect our approved rate base calculations for each system. Our approved adjustments to rate base for each system are shown on Schedule No. 1-C.

XVIII. Accumulated Deferred Taxes

A. Parties' Arguments

1. UIF

The appropriate amount of accumulated deferred income taxes is presented in MFR Schedule D-1. The amount includes \$7,156,450 of regular accumulated deferred income taxes, and \$5,353,825 of protected accumulated deferred income taxes as a result of the TCJA, for a total of \$12,510,275.

2. OPC

The capital structure should reflect 4.88 percent accumulated deferred income taxes, which is the percentage of accumulated deferred taxes reflected in the capital structure proposed by UIF.

B. Analysis

The appropriate amount of accumulated deferred income taxes (ADITs) was not a disputed issue in this case. UIF proposed a capital structure that included an accumulated deferred income tax ratio of 4.88 percent, not including the protected amounts as a result of the TCJA. OPC agreed that the capital structure should reflect 4.88 percent of ADITs. OPC witness Crane explained that deferred income taxes are taxes that have been collected from ratepayers but have not yet been paid by the utility due to differences in the tax treatment utilized by regulatory commissions and taxing authorities, including the Internal Revenue Service (IRS).

The ADITs balance for the historic test year ended December 31, 2019, as reflected on MFR Schedule D-1, was \$7,156,450. UIF also included an additional amount of \$5,353,825 to reflect the protected ADITs that were created as a result of the TCJA. Witness Crane explained the TCJA reduced the federal income tax rate from 35 percent to 21 percent thereby creating excess deferred income taxes on the Utility's books. The protected excess ADITs are associated with plant-related balances primarily related to accelerated depreciation methodologies (including bonus depreciation) that were permissible for tax purposes, but which were not reflected for ratemaking purposes. Protected excess deferred income taxes are required to be returned to ratepayers using the Average Rate Assumption Method (ARAM) or an alternate method such as the Reverse South Georgia Method (RSGM), which generally provides that the excess deferred income taxes cannot be flowed-through to ratepayers more rapidly than the average remaining life of the underlying property that gave rise to the deferred taxes. Witness Swain explained that UIF performed an analysis to record an adjustment to the deferred tax balance as a result of the reduced tax rate as required by the TCJA, creating a new liability account of protected ADITs. The protected ADIT balance of \$5,353,825 would be amortized over a 21.51-year period reflecting the remaining depreciation life of the associated assets.

C. Conclusion

Based on record evidence, the appropriate amount of accumulated deferred income taxes to include in the capital structure is \$12,510,275. This amount includes \$7,156,450 shown on UIF's balance sheet, as well as \$5,353,825 related to the flow back of protected accumulated deferred income taxes associated with the Tax Cut and Jobs Act, amortized over 21.51 years.

XIX. STIPULATED—Customer Deposits

We approved a Type II Stipulation addressing the appropriate amount of customer deposits to include in the capital structure:

\$248,501 (0.18% of the capital structure).

XX. STIPULATED—Cost Rate for Short-Term Debt

We approved a Type II Stipulation addressing the appropriate cost rate for short-term debt for the test year:

4.04%.

XXI. STIPULATED—Cost Rate of Long-Term Debt

We approved a Type II Stipulation addressing the appropriate cost rate for long-term debt for the test year:

5.78%.

XXII. Return on Equity

A. Parties' Arguments

1. UIF

UIF argued that the return on equity of 9.69 percent produced by this Commission's leverage formula understates the investor required return on equity for UIF. Witness D'Ascendis argued the indicated common equity cost rate for UIF is 10.75 percent based on the results of multiple financial models applied to a Utility Proxy Group. Witness D'Ascendis argued this cost rate must be adjusted upward by 100 basis points to reflect UIF's unique business and financial risks relative to his Utility Proxy Group. Witness D'Ascendis contended that his recommended authorized ROE of 11.75 percent is consistent with the *Hope* and *Bluefield* standard of just and reasonable rates of return and balances the interests of both customers and UIF. UIF argued that an ROE of 11.75 percent would provide UIF with sufficient earnings to enable the Company to attract necessary new capital efficiently and at a reasonable cost.

2. OPC

OPC argued that UIF's requested 11.75 percent ROE is excessive and unreasonable. OPC argued that the awarded ROE should be based on the cost of equity capital as set forth in the *Hope* and *Bluefield* Supreme Court Decisions. Witness Garrett contended that UIF's awarded ROE should be based on its estimated cost of equity of 6.00 percent. OPC argued that witness Garrett's ROE analysis properly took into account the historically low interest rates and that utility stocks are less risky than average stocks in the marketplace, and thus, have a lower cost of equity. OPC argued that consistent with the U.S. Supreme Court finding in the *Federal Power Commission v. Hope Natural Gas Co.* case,⁴⁰ the awarded ROE should also be fair and reasonable. Witness Garrett opined that while an ROE of 6.00 percent is accurate from a technical analysis standpoint, he recommended this Commission award an ROE of 9.50 percent.

⁴⁰ See *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944).

Witness Garrett argued that an awarded ROE of 9.50 percent represents a good balance between the Supreme Court's decision in the *Hope* case that awarded ROEs should be based on cost, while recognizing the end result must be reasonable. OPC argued that OPC witness Garrett's recommended ROE of 9.50 percent is closest to the result of 9.69 percent from this Commission's leverage formula.

B. Analysis

1. Cost of Equity Models

The ROE is the allowed cost of common equity included in a utility's regulatory capital structure to determine the overall rate of return used to establish a revenue requirement. UIF's common equity is not publicly traded, and as such, a market-based cost rate for the Utility cannot be directly observed. Consequently, both OPC witness Garrett and UIF witness D'Ascendis applied cost of equity financial models to a proxy group of publicly traded companies with similar risk to UIF to derive approximations of the required ROE. OPC witness Garrett used the same proxy group of publicly traded water utilities as that of UIF witness D'Ascendis.

Both OPC and UIF witnesses used the Discounted Cash Flow (DCF) model and the Capital Asset Pricing Model (CAPM) to estimate the cost of equity. In addition, UIF witness D'Ascendis employed two risk premium methods, the PRPM (predicted risk premium model) and the adjusted total market approach RPM (risk premium model) to estimate the cost of equity. Neither OPC witness Garrett nor UIF witness D'Ascendis believe our Leverage Formula approved by Order No. PSC-2020-0222-PAA-WS⁴¹ is appropriate for setting the allowed ROE in this case. Witness Garrett argued the result from our Leverage Formula is too high and doesn't have an input for market risk and witness D'Ascendis contended it is too low and doesn't meet the *Hope* and *Bluefield*⁴² standard.

The DCF model is based on the theory that a stock's current price represents the present value of all expected future cash flows. In its basic form, the DCF model is expressed as the dividend yield of a stock plus the expected long-term growth rate.

$$\text{ROE} = (\text{dividend} \div \text{stock price}) + \text{growth rate}$$

The CAPM is a risk premium method that estimates the cost of equity for a stock as a function of a risk-free return plus a risk premium. The market risk premium is defined as the incremental return of the stock market as a whole less the risk-free rate multiplied by the beta for the individual security. The beta is expressed as the volatility or expected return of an individual security compared against the stock market as a whole. A beta value of 1.0 indicates the individual security has the same volatility or expected return as the stock market. A beta value of

⁴¹ Order No. PSC-2020-0222-PAA-WS, Issued June 29, 2020, in Docket No. 20200006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*

⁴² See *Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679, 692-93 (1923), and *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944).

less than 1.0 is considered less risky than the stock market as a whole and a beta value greater than 1.0 is considered more risky.

$$\text{ROE} = \text{risk-free rate} + \text{Beta} (\text{expected market return} - \text{risk-free rate})$$

The risk premium approach is based on the principle that an investment in equity securities is more risky than an investment in bond securities and equity investors require a higher return than debt investors to compensate equity investors for bearing greater risk. In the risk premium approach, the cost of equity is derived from the sum of the estimated equity risk premium and the expected yield on a particular class of bonds.

$$\text{ROE} = \text{risk premium} + \text{bond yield}$$

2. UIF

Witness D’Ascendis recommended that we authorize a return on common equity of 11.75 percent. In support of his recommendation, witness D’Ascendis applied several cost of equity models to a proxy group of regulated water companies and a second proxy group of non-regulated companies. Those models included the DCF, CAPM, and two Risk Premium Models; a Predictive RPM and a RPM using an adjusted total market approach. In addition, witness D’Ascendis argued that an upward adjustment of 100 basis points is necessary to compensate UIF for its unique business risk and smaller size as compared to his Utility Proxy Group. Table 7 summarizes the results from witness D’Ascendis’ cost of equity models and recommendation.

Table 7
UIF Witness D’Ascendis’ ROE Model Results

Common Equity Cost Rate Model	Results
Discounted Cash Flow Model (DCF)	9.07%
Risk Premium Model (RPM)	10.91%
Capital Asset Pricing Model (CAPM)	10.90%
Cost of Equity Models Applied to Non-Price Regulated Proxy Group	11.48%
Indicated ROE from model results	10.75% (Avg. of Mean and Median)
Business Risk Adjustment	1.00%
Recommended ROE	11.75% (10.75% + 1.00%)

Witness D’Ascendis selected seven publicly traded water companies for his Utility Proxy Group. The most recent five-year average common equity ratio (including short-term debt) for the Utility Proxy Group is 51.09 percent. That is comparable to UIF’s common equity ratio of 49.39 percent. The seven companies are listed below.

- American States Water Company
- American Water Works Co., Inc.
- California Water Service Corp.
- Essential Utilities, Inc.
- Middlesex Water Co.
- SJW Corporation
- York Water Co.

Witness D'Ascendis applied the single-stage constant growth DCF model to his Utility Proxy Group as one method to estimate the ROE. He adjusted the dividend yield in the formula to account for quarterly dividend payments to reflect the actual payout frequency of the companies. Witness D'Ascendis relied on security analysts' five-year forecasts of earnings per share for the growth estimate in his application of the DCF. The average result of the DCF analyses of the seven water companies in the proxy group was 8.70 percent. The median result was 9.44 percent. Witness D'Ascendis then averaged the mean and median results to arrive at his recommended DCF result of 9.07 percent for the Utility Proxy Group.

Witness D'Ascendis applied both the traditional CAPM and the Empirical CAPM (ECAPM) to the companies in his Utility Proxy Group. The ECAPM, unlike the traditional CAPM, includes an algebraic adjustment to increase the Beta value in the equation to reflect the assumption that empirical studies demonstrate low beta securities earn returns somewhat higher than the traditional CAPM predicts. The CAPM and ECAPM require three inputs, the Beta coefficient, the risk-free rate, and the return on the stock market. For the Beta coefficient, witness D'Ascendis relied on an average of the adjusted Beta coefficient published by Value Line and provided by Bloomberg Professional Services. For the risk-free interest rate, witness D'Ascendis used the Blue Chip Financial Forecast (Blue Chip) to estimate the projected 30-year U.S. Treasury Bond Yield rate. He used the consensus forecast from the most future six annual quarters ending with the third quarter in 2021 as published in the May 1, 2020 Blue Chip. He averaged the more recent forecast with the long-range five-year forecasts for 2021 – 2025 and 2026 – 2030, as published in the December 1, 2019 Blue Chip. Witness D'Ascendis did not calculate an implied market return, but instead determined the expected equity risk premium for the market using six estimated market returns from three different sources: three from Ibbotson historical data, two from Value Line, and one from Bloomberg. In his CAPM, witness D'Ascendis used a risk-free rate of 2.03 percent, an estimated equity risk premium of 11.94 percent (indicating the expected return on the market is 14 percent), and an average beta for the Utility Proxy Group of 0.71. The CAPM results are summarized in Table 8.

Table 8
Summary of Witness D’Ascendis’ CAPM Results

	Average Beta	Risk-Free Rate	Market Equity Risk Premium	Traditional CAPM	Empirical CAPM	Average of CAPM and ECAPM
Mean	0.69	2.03%	11.94%	10.29%	11.21%	10.75%
Median	0.72	2.03%	11.94%	10.63%	11.46%	11.05%
Average of Mean and Median	0.71	2.03%	11.94%	10.46%	11.34%	10.90%

Witness D’Ascendis also relied on two risk premium methods to support his recommended ROE for UIF. The first method is a Predictive Risk Premium Model (PRPM) and the second method is a risk premium method (RPM) using an adjusted total market approach. Witness D’Ascendis obtained a result of 11.31 percent and 10.50 percent, respectively, for his PRPM and RPM approaches. Witness D’Ascendis averaged the results of his two risk premium methods to arrive at an overall result of 10.91 percent for his risk premium models.

Witness D’Ascendis explained the PRPM estimates the risk/return relationship directly as the predicted equity risk premium is generated by the predictability of volatility using autoregressive conditional heteroskedasticity (ARCH). The inputs to the models are the historical returns on the common equity of each company in the Utility Proxy Group, minus the monthly yield on long-term U.S. Treasury securities through April 2020. Witness D’Ascendis used a generalized form of ARCH (or GARCH) to determine each utility’s projected equity risk premium using Eviews statistical software. The mean and median results from witness D’Ascendis application of his PRPM to the Utility Proxy Group were 11.66 percent and 10.96 percent, respectively. Witness D’Ascendis then averaged the mean and median results to arrive at his final result of 11.31 percent for the PRPM.

Witness D’Ascendis’ second RPM, an adjusted total market approach, added a prospective public utility bond yield to the average of an equity risk premium derived from a beta-adjusted total market equity risk premium and an equity risk premium based on the S&P Utility Index. First, witness D’Ascendis calculated a prospective Moody’s A-rated public utility bond yield of 3.82 percent for the Utility Proxy Group based on the group’s average Moody’s issuer rating of A2/A3. Next, witness D’Ascendis used a derivation of a beta-derived RPM by determining a market risk premium of 10.71 percent based on an average result from six different methodologies, and multiplying the result by an adjusted beta of 0.71. The forecasted equity risk premium from witness D’Ascendis’ beta-adjusted derivation was 7.60 percent ($10.71\% \times 0.71 = 7.60\%$). The results are summarized in Table 9.

Table 9
Witness D'Ascendis' Beta-Adjusted RPM Derivation Results

	Equity Risk Premium Methodology	Utility Proxy Group
1.	Ibbotson Equity Risk Premium	5.78%
2.	Regression on Ibbotson RPM data	9.12%
3.	Ibbotson Equity Risk Premium based on PRPM	11.95%
4.	Equity Risk Premium based on Value Line Summary and Index	15.50%
5.	Equity Risk Premium based on Value Line S&P 500 Companies	11.58%
6.	Equity Risk Premium based on Bloomberg S&P 500 Companies	10.32%
	Average of RPM results	10.71%
	Adjusted Beta	0.71
	Forecasted Equity Risk Premium	7.60%

Witness D'Ascendis also derived the equity risk premium based on three RPMs using the S&P Utility Index holding period returns, and two RPMs using expected returns of the S&P Utility Index using Value Line and Bloomberg data. For the three RPMs using historical returns, witness D'Ascendis relied on a traditional RPM, a regression based RPM, and the PRPM. For the two RPMs using expected returns, witness D'Ascendis relied on the expected total returns on the S&P Utility Index using forecasted data from Value Line and Bloomberg Professional Services. Witness D'Ascendis averaged the results for an Implied Equity Risk Premium of 5.76 percent. Witness D'Ascendis' results using RPM on the S&P Utility Index is summarized in Table 10.

Table 10
Witness D'Ascendis' RPM results for the S&P Utility Index

RPM Methodology	S&P Utility Index Total	A-rated public utility bonds	Implied Equity Risk
Historical Equity Risk Premium	10.74%	6.53%	4.21%
Regression of Historical Equity Risk Premium	6.68%	n/a	6.68%
Forecasted Equity Risk Premium using PRPM	5.95%	n/a	5.95%
Forecasted Equity Risk Premium using Value Line Data	10.50%	3.74%	6.76%
Forecasted Equity Risk Premium using Bloomberg Data	8.97%	3.74%	5.23%
Average Equity Risk Premium			5.76%

Witness D'Ascendis averaged the results from his RPM based on the total market using his beta adjusted approach (7.60 percent) with the results using the holding period returns of the

S&P Utility Index with A-rated utility bonds (5.76 percent). The equity risk premium applicable to the Utility Proxy Group was 6.68 percent. Witness D’Ascendis then added his RPM result of 6.68 percent to his adjusted prospective bond yield of 3.82 percent to derive the final result of 10.50 percent for his estimate of an equity risk premium through the use of an adjusted total market approach.

Witness D’Ascendis also applied cost of equity models to a proxy group of domestic, non-price regulated companies. Witness D’Ascendis explained that the Supreme Court, in the *Hope* and *Bluefield*⁴³ cases, did not specify that comparable risk companies had to be utilities. He argued that non-price regulated companies make an excellent proxy if they are comparable in total risk to the Utility Proxy Group and are appropriate because all of the companies compete for capital in the same markets. Witness D’Ascendis selected twelve companies comparable in total risk to the Utility Proxy Group. Witness D’Ascendis explained the total risk can be determined by the measurement of the variance of returns as measured by the companies’ beta coefficients. Companies that have similar betas and standard errors of regression are similar in total risk. The twelve non-price regulated companies selected by witness D’Ascendis are Casey’s General Stores, Cboe Global Markets, Cracker Barrel, Campbell Soup, Dunkin’ Brands Group, Darden Restaurants, Hormel Foods, Lancaster Colony, Eli Lilly, Lamb Weston Holdings, Altria Group, and Valvoline Inc.

Witness D’Ascendis applied the DCF, RPM, and CAPM to the non-price regulated proxy group in an identical manner as he did the Utility Proxy Group except for the PRPM. The average of the mean and median of his results were 11.48 percent for the twelve company non-price regulated proxy group. The results are summarized in Table 11.

Table 11
Witness D’Ascendis’ ROE estimate for a
non-price regulated proxy group of companies

Cost of Equity Models	Indicated ROE
DCF	8.41%
RPM	13.12%
CAPM	11.83%
Mean	11.12%
Median	11.83%
Average of Mean and Median	11.48%

Witness D’Ascendis contended that due to its small size relative to the companies in the Utility Proxy Group, UIF has greater business risk which should be reflected in its awarded ROE. As such, witness D’Ascendis opined that 100 basis points should be added to his ROE

⁴³ See *Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679, 692-93 (1923), and *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944).

estimate of 10.75 percent for a final recommended ROE of 11.75 percent. Witness D'Ascendis explained that smaller companies are less able to cope with risk exposure to negative business cycles and economic downturns. Investors require higher returns from riskier companies to compensate for less marketability and liquidity of small company stocks. Witness D'Ascendis cited several well-known articles in support of his testimony. Witness D'Ascendis argued that consistent with financial principles of risk and return, increased risk due to small size must be considered in the allowed rate of return on common equity. UIF's market capitalization is \$196 million as compared to the \$5.66 billion average market capitalization of the Utility Proxy Group; a difference of almost 29 times that of UIF. Witness D'Ascendis also testified that our leverage formula recognizes a size adjustment by adding a 50-basis point private placement premium and a 50-basis point small utility risk premium to the results of cost of capital models used in its derivation of the annual leverage formula. Additionally, the long-term debt of UIF's parent company, Corix Regulated Utilities (US), Inc. (CRU-US), is privately placed debt. Therefore, witness D'Ascendis argued, a size premium is necessary to reflect UIF's greater risk due to their smaller size relative to the Utility Proxy Group.

3. OPC

OPC witness Garrett also used versions of the CAPM and DCF model to calculate the cost of equity and determined the market cost of equity derived from his models indicated an ROE of 6.00 percent. Nonetheless, witness Garrett recognized that in the *Hope*⁴⁴ case, the U.S. Supreme Court found that although the awarded ROE should be based on the utility's cost of capital, the Supreme Court also indicated that the end result should be just and reasonable. Therefore, witness Garrett recommended UIF's allowed mid-point ROE should be 9.50 percent. Witness Garrett opined that while an awarded ROE of 6.00 percent would be technically accurate, an allowed ROE of 9.50 percent is a good balance between the Supreme Court's "end result" doctrine that the awarded ROE be based on the actual cost of equity and be reasonable.

Witness Garrett argued that allowed ROEs for utilities have been above the average required market return for two decades. Witness Garrett contended that because utility stocks are less risky than the average stock in the market, the cost of equity for utilities is below the market cost of equity. Witness Garrett recognized that an awarded ROE of 6.00 percent would be a substantial change from prior awarded ROEs and suggested the ratemaking concept of gradualism, which is usually applied to ratepayers to avoid rate shock, could be applied to shareholders and slowly reduce awarded ROEs towards their true market-based cost of equity. Witness Garrett explained if we suddenly changed the awarded ROE anticipated by regulatory stakeholders, it could have the undesirable effect of increasing the utility's risk profile and would be at odds with the Supreme Court's "end result" doctrine. Witness Garrett argued that an awarded ROE of 9.50 percent represents a gradual move toward UIF's market-based cost of equity, and would be fair to UIF's shareholders because 9.50 percent is over 300 basis points above the Company's market-based cost of equity.

OPC witness Garrett testified that the cost of capital should be evaluated objectively and closely tied to economic realities based on stock prices, dividends, growth rates and, most

⁴⁴ See *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944).

importantly, risk. Witness Garrett opined that utility stocks are less risky than the average stock in the market and the cost of equity for utilities is below that of the market cost of equity. Witness Garrett opined that like regulated electric and gas utilities, water utilities' risk can be objectively measured through beta coefficients. Witness Garrett explained:

Beta represents the sensitivity of a given security to the market as a whole. The market portfolio of all stocks has a beta equal to one. Stocks with betas greater than one are relatively more sensitive to market risk than the average stock. For example, if the market increases (decreases) by 1.0%, a stock with a beta of 1.5 will, on average, increase (decrease) by 1.5%. In contrast, stocks with betas of less than one are less sensitive to market risk, such that if the market increases (decreases) by 1.0%, a stock with a beta of 0.5 will, on average, only increase (decrease) by 0.5%. Thus, stocks with low betas are relatively insulated from market conditions.

Witness Garrett opined that firms with high betas are affected more than firms with low betas, which is why firms with high betas are riskier. Stocks with betas greater than one are generally known as cyclical stocks. Firms in cyclical industries are sensitive to recurring patterns of recession and recovery known as the business cycle. Thus, cyclical firms are exposed to a greater level of market risk. Securities with betas less than one, on the other hand, are known as defensive stocks. Companies in defensive industries, such as public utility companies, will have low betas and performance that is comparatively unaffected by overall market conditions. Therefore, witness Garrett argued, since utilities are defensive firms that experience little market risk and are relatively insulated from market conditions, that fact should be appropriately reflected in UIF's awarded ROE.

Witness Garrett applied the single stage quarterly compounding DCF model and the CAPM to the same Utility Proxy Group used by witness D'Ascendis. In his DCF application, witness Garrett obtained the current 30-day average of reported dividend and stock prices for the Utility Proxy Group to determine the dividend yield, then added a long-term terminal growth rate representing the U.S. nominal gross domestic product (GDP) of 3.90 percent. The result of his DCF model was 6.00 percent. Witness Garrett argued that the terminal growth rate used in the DCF model should not exceed the aggregate economic growth rate. According to the Congressional Budget Office, the U.S. GDP is 3.90 percent which includes an inflation rate of 2.0 percent. Witness Garrett argued that utilities are in the maturity stage of the business life cycle and their real growth opportunities are limited to the population growth within their defined service territory. For mature companies such as regulated utilities, witness Garrett argued, the terminal growth rate will likely fall between the expected rate of inflation and the expected nominal GDP.

Applying the CAPM to the Utility Proxy Group, witness Garrett obtained a result of 6.00 percent. In his CAPM derivation, witness Garrett used a risk-free rate of 1.51 percent which was based on the then current 30-day average of daily 30-year U.S. Treasury Bond Yield rate. Witness Garrett used the Utility Proxy Group average beta of 0.76 as published by Value Line Investment Survey even though there is evidence suggesting that betas published by sources like Value Line may overestimate the risk of utilities. For his equity risk premium (ERP), witness

Garrett relied primarily on the ERP reported in published expert surveys, and an implied ERP which he calculated. Witness Garrett explained his implied ERP relied on the Gordon Growth Model version of the DCF model to calculate the implied market return using the companies in the S&P 500. Witness Garrett obtained a result of 7.50 percent for the S&P 500 market return and subtracted the risk-free rate of 1.51 percent to obtain an ERP result of 6.00 percent. For his final ERP estimate, witness Garrett considered six ERP results ranging from 4.40 percent to 6.00 percent and conservatively selected the highest estimate of 6.00 percent. The final result of witness Garrett's CAPM yielded a result of 6.00 percent. The CAPM equation is presented here: $K = R_f + B(ERP)$ or $6.07\% = 1.51\% + 0.76(6.00\%)$.

To test the reasonableness of his cost of equity estimate, witness Garrett used the same methods as he did to derive the ERP and risk-free rate in his CAPM. Witness Garrett opined that the risk-free rate plus the ERP is equal to the required return on the stock market. Witness Garrett contended that the cost of equity of utility stocks must be less than the total market cost of equity as indicated by the average utility company beta of less than 1.0. Using the same expert surveys and implied ERP calculations, witness Garrett concluded that the average market cost of equity is 7.00 percent which provides an upper limit to UIF's actual cost of equity.

Witness Garrett also recommended we increase the long-term debt ratio in UIF's capital structure used for setting rates from approximately 45 percent to 50 percent. Witness Garrett opined that UIF's proposed capital structure consists of an insufficient amount of debt, especially since UIF's awarded ROE will certainly be above the market-based cost of equity. Witness Garrett explained that equity capital has a higher cost than debt capital and companies can reduce their weighted average cost of capital (WACC) by increasing their debt financing. Witness Garrett argued that while competitive firms maximize their value by minimizing their WACC, regulated utilities can increase their revenue requirement by increasing their WACC. Comparatively, the Utility Proxy Group has an average debt ratio of 50 percent. The higher proportion of debt in the capital structure, the higher the financial risk which must be factored into the common equity cost rate.

4. OPC Critique of UIF Testimony

Witness Garrett testified to four main disagreements with and critiques of witness D'Ascendis' ROE testimony and quantitative analyses. First, witness Garrett argued that witness D'Ascendis used short-term, quantitative growth estimates published by analysts that resulted in high long-term growth rates in his DCF model analysis. Second, that witness D'Ascendis' market equity risk premium estimate of 11.94 percent used in his CAPM derivation was overstated and unsupported. Third, witness D'Ascendis' use of a non-price regulated proxy group is unnecessary, and the risk inherent in the non-regulated proxy group is greater than that of the Utility Proxy Group. Fourth, witness Garrett disagreed with witness D'Ascendis that a 100-basis point upward adjustment to the ROE is necessary to account for UIF's small-size risk.

a. DCF

Witness D'Ascendis used short-term growth rate estimates from analysts as high as 14 percent in his DCF model analysis. Witness Garrett explained that analysts' growth rates are

based on short-term projections of earnings growth rates published by institutional research analysts such as Value Line and Bloomberg. Analysts' earnings growth rate estimates range from three to ten years and many ROE analysts inappropriately use them as long-term growth projections in the single-stage constant growth DCF model as witness D'Ascendis did in his analysis. Witness Garrett argued that a growth rate of 14 percent for one of the companies in witness D'Ascendis' DCF model is more than three times the projected U.S. GDP growth rate of 3.9 percent, which makes the results of witness D'Ascendis' DCF model upwardly biased and not reflective of current market conditions.

b. CAPM

Witness Garrett argued that witness D'Ascendis' market equity risk premium estimate of 11.94 percent used in his CAPM derivation was overstated and unsupported. Witness Garrett pointed out that witness D'Ascendis' market equity risk premium estimate of 11.94 percent is significantly higher than the average estimates reported by 2,156 responses from people and entities in the U.S.A. to a 2020 IESE Business School survey. The average estimates for the market risk premium as reported by the 2020 IESE Business School survey was 5.60 percent with a maximum estimate of 13.40 percent. Witness Garrett compared witness D'Ascendis' equity risk premium estimate with three other independent sources ranging from 4.40 percent to 6.00 percent. Witness D'Ascendis' equity risk premium is twice that of the other independent sources for the ERP and clearly not within the range of reasonableness.

c. Non-Price Regulated Proxy Group

Witness Garrett argued that there is no marginal benefit from applying the same CAPM and DCF model to a group of non-price regulated, non-utility companies in this case. Witness Garrett contended that using a group of non-regulated, non-utility companies will not indicate a required return commensurate with returns of investments of corresponding risk. Also, witness D'Ascendis' application of CAPM suffers from the same overestimated equity risk premium used in the analysis of the Utility Proxy Group.

d. Small Size Premium

Witness Garrett disagreed with witness D'Ascendis that a 100-basis point upward adjustment to the ROE is necessary to account for UIF's small size risk. Witness Garrett argued that small-cap stocks do not consistently outperform large-cap stocks. Witness Garrett testified that the small size premium was short-lived from 1936-1975, and more recent studies demonstrated that after 1983, U.S. small-cap stocks underperformed relative to large-cap stocks. Witness Garrett opined that in a 2002 study by Elroy Dimson, Paul Marsh & Mike Staunton, *Triumph of the Optimists: 101 Years of Global Investment Returns*, the authors found that after the size effect phenomenon was discovered in 1981, it disappeared in a few years. Witness Garrett argued that utility witnesses often use the term "size effect" to imply there should be a small-size premium to artificially inflate the cost of equity.

5. Business Risk

Business risk refers to the viability of a business and the ability to generate sufficient revenue to cover its operational expenses and cost of capital. Some examples of business risk facing water companies are the legal and regulatory environment, customer growth, declining customer water consumption, water supply restrictions, and significant water quality requirements. Witness D'Ascendis opined that because water utility companies have the obligation to provide safe, adequate, and reliable water service at all times, they do not have the option to delay capital-intensive investments in infrastructure. Witness D'Ascendis testified that increasingly stringent environmental standards from regulatory agencies such as the U.S. Environmental Protection Agency, state and county health agencies, and water management districts require additional investment in infrastructure to comply with new health and consumption standards. Because water utilities invest in capital-intensive long-lived assets, long-term business risks are of considerable concern to investors. Witness D'Ascendis testified that the capital intensity of the water utility industry, that is, the capital investment required to produce one dollar of revenue, is greater than in other industries including gas and electric utilities. Witness D'Ascendis explained that in 2019, it required \$4.70 of net water utility plant to produce \$1.00 in operating revenue, while for the Gas and Electric Industries, it required net plant of \$2.33 and \$2.93, respectively. Witness D'Ascendis also mentioned water utility companies have risk associated with their long-lived assets through low depreciation rates. Lower depreciation rates mean water utilities have lower depreciation expense and cannot rely on depreciation as a source of cash flow as much as other regulated industries. For example, witness D'Ascendis testified that water utilities' average depreciation rates in 2019 were 2.59 percent as compared to the natural gas and electric utilities that averaged depreciation rates of 3.35 percent and 3.64 percent, respectively. Witness D'Ascendis concluded that, ". . . the water utility industry's high degree of capital intensity and low depreciation rates, coupled with the need for capital spending to replace aging and failing water infrastructure, makes the need to maintain financial integrity and the ability to attract needed new capital through the allowance of a sufficient rate of return, increasingly important in order for water utilities to be able to successfully meet the challenges and investment needs they face."

6. Financial Risk

Financial risk is the additional risk that a company may not have sufficient cash flow to meet its financial obligations. The higher proportion of debt in the capital structure, the higher the financial risk which must be factored into the ROE. Witness Garrett explained the more risk an investor assumes the larger return the investor will demand. UIF proposed to use a capital structure consisting of 50.61 percent debt and 49.39 percent equity. The range of equity ratios for the Utility Proxy Group is between 38.48 percent and 57.05 percent, with an average of 49.34 percent. Witness Garrett argued that because regulated utilities have large amounts of fixed assets, stable earnings, and low risk relative to other industries, they can afford to have relatively higher debt ratios for leverage. Competitive firms can minimize their cost of capital by including a sufficient amount of debt in their capital structures. Witness Garrett opined that the average debt ratios of a utility proxy group will likely be lower than what would be observed in a pure competitive environment.

7. UIF Critique of OPC Testimony

Witness D'Ascendis disagreed with seven recommendations and assumptions in witness Garrett's testimony. First, witness Garrett's recommendation to increase the debt ratio in the capital structure from 50 percent to 55 percent is unreasonable because it is based on the debt ratios of non-utility industries. Second, witness Garrett's recommended ROE of 9.50 percent was not supported by the results of his cost of equity models. Third, witness Garrett confused the relationship between the allowed ROE, the required ROE, the expected return, and the cost of equity. Fourth, witness Garrett incorrectly concluded that allowed returns for utility companies exceed the required return on the market. Fifth, witness Garrett did not apply the DCF model appropriately. Sixth, witness Garrett did not apply the CAPM appropriately. Seventh, witness Garrett did not consider using a small size premium for UIF in his ROE recommendation.

a. Capital Structure

Witness D'Ascendis rebutted witness Garrett's recommendation to increase UIF's debt ratio in its capital structure from 50 percent to 55 percent and explained the CRRA (Certified Rate of Return Analyst) Guide recommends using a hypothetical capital structure when 1.) the utility's capital structure is deemed to be substantially different from the typical or proper capital structure, or 2.) the utility's capital structure is funded as part of a diversified organization whose overall capital structure reflects its diversified nature rather than its utility operations only.⁴⁵ Further, witness D'Ascendis pointed out that UIF's parent capital structure is in line with the capital structures of the companies in the Utility Proxy Group and UIF's parent, Corix Regulated Utilities, Inc., which solely operates regulated water utilities and is not diversified. UIF's proposed capital structure consisting of a common equity ratio of 49.39 percent compares very closely with that of the Utility Proxy Group's average capital structure consisting of 49.34 percent.

b. Lack of Empirical Basis for 9.50 percent ROE

Witness D'Ascendis argued that witness Garrett's recommended ROE of 9.50 percent is fundamentally disconnected from his analytical model results of 6.00 percent and far removed from observable and relevant data. Witness D'Ascendis disagreed with witness Garrett's application of the concept of gradualism to this case and pointed out that gradualism is usually applied from the ratepayers' viewpoint as a method to avoid rate shock and is not applicable to the awarded ROE. In rebuttal, witness D'Ascendis stated, "Given that Mr. Garrett's analyses in this case point to a lower return of 6.00%, but he recommended a 9.50% return, it is unclear to the extent that Mr. Garrett finds the analyses he presents to be reliable, as they clearly have no correlation with his recommendation." Witness D'Ascendis opined that witness Garrett's recommendation is without merit or empirical support, and should be given no weight by this Commission.

⁴⁵ See, David C. Parcell, *The Cost of Capital – A Practitioner's Guide*, Prepared for the Society of Utility and Regulatory Financial Analysts, 2010 Edition, at 47.

c. Relationship between various types of returns and ROE

In his rebuttal testimony, witness D'Ascendis opined that witness Garrett's explanation of the relationship between the allowed ROE and investor-required ROE changed throughout his testimony. On page 5 of his testimony, witness Garrett stated, "While cost of equity, required ROE, earned ROE and awarded ROE are interrelated factors and concepts, they are all technically different from each other." Witness D'Ascendis then claimed witness Garrett contradicted his prior statement on page 14 by stating that awarded ROEs and cost of equity are very different concepts. Witness D'Ascendis contended that witness Garrett continued to change his position regarding the equivalency, or non-equivalency of the allowed and required ROE. Witness D'Ascendis rebutted witness Garrett by explaining "For regulated utilities, the ROE equals the investor-required return on equity which equals the allowed ROE, as reflected in the *Hope* and *Bluefield* Supreme Court decisions cited in both my Direct Testimony and Mr. Garrett's testimony."

d. Allowed ROEs Exceed the Investor-required return on the market

Witness D'Ascendis argued that witness Garrett's conclusion that allowed ROEs have exceeded the investor-required return on the market is his own opinion and misplaced. Witness D'Ascendis disagreed with witness Garrett's methodology used to calculate the market cost of equity which ranged from a high of 11.96 percent in 1990 to 7.12 percent in 2019, with the lowest result of 6.91 percent in 1998. In rebuttal, witness D'Ascendis calculated the market cost of equity for the same period using his PRPM methodology which ranged from approximately 19 percent in 1990 to 13.50 percent in 2019. Witness D'Ascendis opined that his results made intuitive sense as the ratio of allowed ROEs versus the required market return averages about 0.70, which is consistent with utility betas over the same period.

e. Misapplication of the DCF Model

Witness D'Ascendis argued that witness Garrett's use of a 3.90 percent growth rate in his DCF model is not based on any measure of company-specific growth. Witness Garrett's assumption that one growth rate applies to all companies in the Utility Proxy Group has no basis in theory or practice. Further, GDP is not an upper limit for terminal growth in the DCF model as witness Garrett contends. GDP is not a market measure, but rather a measure of the value of the total output of goods and services, excluding inflation, in an economy. Witness D'Ascendis argued that while projected growth in earnings per share (EPS) is not a market measure, it is well established in financial literature that EPS is the superior measure of dividend growth in a DCF model. Since the utility industry is in its mature phase of the company life cycle, which is characterized by limited investment opportunities and steady earnings growth, the company-specific projected EPS growth rate, not the projected GDP growth rate, is the appropriate measure for growth in the DCF model.

f. Misapplication of the CAPM

Witness D'Ascendis disagreed with witness Garrett's use of the average 30-year U.S. Treasury Yields to estimate his risk-free rate and the various methods he used to estimate the

MRP (market return less the risk-free rate). Witness Garrett's risk-free rate is not based on prospective estimates in contradiction to his testimony that a forward looking risk premium should be used in the CAPM. The MRP surveys used by witness Garrett, such as the Duff and Phelps survey, are based on an expected return on the market which has no relevance to the investor-required return. Further, the Graham and Harvey survey did not provide a reasonable prospective market return estimate. Witness D'Ascendis demonstrated that the Graham and Harvey survey respondents have provided forecasts that significantly underestimated actual market returns. From 2012 through 2019 the Graham and Harvey Survey averaged an expected market return of 5.30 percent while the actual average market return was 15.55 percent. Witness D'Ascendis opined witness Garrett's implied MRP using the Constant Growth DCF methodology is based on a series of questionable assumptions, to which a small set of very reasonable adjustments produces a higher market return estimate. Witness Garrett argued witness Garrett's growth rate of 5.37 percent is too low and he should have used the arithmetic mean which would have equated to a growth rate of 7.35 percent and an estimated market return of 7.98 percent. Witness Garrett's CAPM analysis is flawed because it uses a historical risk-free rate and MRPs based on expected returns.

g. Lack of a Small Size Premium

Witness D'Ascendis took issue with witness Garrett's position that a small size premium is not necessary as studies have shown that small-cap stocks do not consistently outperform large-cap stocks, and therefore, a small size premium is not appropriate. Witness D'Ascendis argued that witness Garrett's position focuses only on the returns of small companies versus large companies. Smaller companies face greater risk than larger companies as they are less able to overcome significant events that affect business operations. As quoted by witness D'Ascendis, Duff & Phelps indicated that the size of a company is one of the most important risk elements to consider when developing cost of equity estimates. Duff & Phelps' *2017 Valuation Handbook – U.S. Guide to Cost of Capital: Cost of Capital Navigator* states:

The size of a company is one of the most important risk elements to consider when developing cost of equity estimates for use in valuing a firm. Traditionally, researchers have used market value of equity (i.e., "market capitalization" or simply "market cap") as a measure of size in conducting historical rate of return research. For example, the Center for Research in Security Prices (CRSP) "deciles" are developed by sorting U.S. companies by market capitalization. Another example is the Fama-French "Small minus Big" (SMB) series, which is the difference in return of "small" stocks minus "big" (i.e., large) stocks, as defined by market capitalization.

Witness D'Ascendis pointed to additional articles supporting the applicability of a size premium making clear that size is a risk factor that must be taken into account when setting the cost of capital. Further, our annual leverage formula allows for a 0.50 percent private placement premium and a 0.50 percent small size premium to recognize smaller companies are considered by investors to be more risky than larger companies.

8. Commission's Leverage Formula

Both witness D'Ascendis and witness Garrett discussed our leverage formula in their respective testimonies. Using UIF's equity ratio in our leverage formula yielded a result of 9.69 percent. UIF witness D'Ascendis argued that the leverage formula result of 9.69 percent underestimated the current investor-required return for UIF. OPC witness Garrett testified that his results from the CAPM and DCF model indicate UIF's cost of equity is much lower than our leverage formula result of 9.69 percent. Witness Garrett further testified that he believed our leverage formula did not add any marginal value to the analytical process beyond the CAPM and DCF Model. Further, witness Garrett questioned whether our leverage formula met the Supreme Court's *Hope* and *Bluefield* standard because the leverage formula did not measure the cost of equity and there is no input to account for market risk, or the effect of market risk on UIF. In deposition, witness Garrett admitted he was not intimately familiar with the theory behind our leverage formula and was not sure how the formula is calculated or derived. Neither witness provided convincing testimony that our annual leverage formula was inaccurate or inappropriate for setting a ROE for small Florida water and wastewater utilities.

9. Declining Authorized ROEs

As presented in witness Garrett's testimony, according to Regulatory Research Associates (RRA) the average authorized ROEs for water utilities in the U.S. have declined from approximately 10.25 percent in 2006 to approximately 9.40 percent in 2017. In his deposition, witness D'Ascendis confirmed that according to RRA the annual average allowed return on equity for water utilities has been below 10 percent since 2012; however, he also stated that the below 10 percent rate was the average and not all of the allowed ROEs were below 10 percent, and a few were 10.50 percent.

10. Summary

In general, UIF witness D'Ascendis used cost of equity models and assumptions that produced a high ROE estimate, while OPC witness Garrett used cost of equity models and assumptions that produced a low ROE estimate. The appropriate ROE is greater than OPC's recommended ROE of 9.50 percent and lower than UIF's recommended ROE of 11.75 percent. The range of results of the witnesses' cost of equity models is 6.00 percent to 11.66 percent.

The only cost of equity model analysis that supports a 10.75 percent ROE is UIF witness D'Ascendis' Predictive Risk Premium Model (PRPM) with an average result of 11.66 percent. However, the record showed that the PRPM is based on the GARCH model, which used Eviews statistical software to derive a predictive equity risk premium, which is added to a projected risk-free rate. This method is akin to a black box calculation where the inputs were entered and a result was produced using statistical software. Witness D'Ascendis and his colleagues developed the PRPM method and admitted that it is used primarily by himself and other colleagues familiar with the methodology. The record failed to support that witness D'Ascendis' PRPM methodology is widely accepted by other jurisdictions as a method to estimate the equity risk premium. Therefore, we find that the cost of equity models using the PRPM shall be discounted in this case.

Witness D'Ascendis also used a proxy group of twelve competitive unregulated companies of statistically equal risk to the Utility Proxy Group to derive a cost of equity of 11.48 percent. Witness D'Ascendis included the derived cost of equity of 11.48 percent for his non-price regulated company proxy group in his overall average for the individual cost of equity models for the Utility Proxy Group. This practice inflated the overall results of witness D'Ascendis' cost of equity models by 30 basis points. We agree with OPC witness Garrett that there is no marginal benefit in this case from applying the same CAPM and DCF models to a group of non-price regulated, non-utility companies.

We agrees with UIF witness D'Ascendis that OPC witness Garrett's cost of equity model results of 6.00 percent has no correlation to, and does not provide any empirical support for, his recommended ROE of 9.50 percent. Further, a cost of equity of 6.00 percent is unreasonable considering that investors require a higher return on equity over debt and the cost of long-term debt for UIF is 5.78 percent. Therefore, witness D'Ascendis' traditional forms of the CAPM and DCF models shall be given more weight than witness Garrett's CAPM and DCF models.

We place greater weight on the traditional forms of the CAPM and DCF models applied to a comparable Utility Proxy Group. Witness D'Ascendis' DCF model average result for the Utility Proxy Group was 8.70 percent using an average growth estimate of approximately 6.88 percent. In comparison, OPC witness Garrett's DCF model result was 6.00 percent, using a growth rate of 3.90 percent. We agree with witness D'Ascendis that using an estimate for GDP of 3.90 percent as the growth rate in the DCF model for calculating the cost of equity using the Utility Proxy Group is inappropriate because it is not based on any measure of growth in the utility industry.

Witness D'Ascendis routinely used assumptions and estimates towards the high end of the range of reasonableness in his cost of equity models. In his CAPM and ECAPM analyses, witness D'Ascendis used estimates for the return on the total market of 18.71 percent, 14.79 percent, and 13.53 percent, which translated into equity risk premiums of 15.50 percent, 11.95 percent, and 11.58 percent. Additionally, in one of his risk premium derivations, witness D'Ascendis calculated an average equity risk premium of 6.68 percent using a total market approach and added the result to an adjusted prospective bond yield for the Utility Proxy Group of 3.82 percent. The result was 10.50 percent. This result is higher than UIF's current allowed ROE of 10.40 percent.

In his deposition, witness D'Ascendis confirmed that his cost of equity models reflect a return on the total market of approximately 14 percent. However, witness D'Ascendis admitted that the historical return on the U.S. stock market has averaged 12.10 percent. Witness D'Ascendis opined that, statistically, the difference between 12 and 14 percent is indistinguishable. However, by using the higher estimated return on the market, witness D'Ascendis' results from his cost of equity models were inflated.

In his traditional CAPM derivation, witness D'Ascendis obtained a result for the Utility Proxy Group of 10.46 percent using a return on the market of approximately 14 percent. However, if witness D'Ascendis used the average market return of 12.10 percent in his

traditional CAPM derivation, along with his estimated average Beta coefficient of 0.69 and his projected risk-free rate of 2.00 percent, the result would be 9.17 percent [$12.10\% = 2.00\% + 0.71(12.10\% - 2.00\%)$]. Consequently, using a bullish estimated market return of 14 percent yielded an estimated cost of equity 136 basis points. The higher ROE estimate, based on the highest market return projection, is significant when applying the result to the overall cost of capital used to set the rates UIF charges to its ratepayers.

Averaging the result of 8.70 percent from UIF witness D'Ascendis' DCF model with the result of 9.17 percent from his traditional CAPM model using an average market return of 12.10 percent, yields an estimated cost of equity of 8.94 percent. Recognizing that UIF's small size relative to the companies included in the Utility Proxy Group contributes to additional business and financial risk for UIF as compared to the companies in the Utility Proxy Group, we hereby find that the record reasonably supports an ROE of 9.90 percent.

C. Conclusion

Based on the aforementioned, the record does not reliably support an ROE of 11.75 percent. The traditional CAPM and DCF models presented in the record, when simplified, more reliably support an indicated cost of equity of 8.94 percent. Recognizing UIF's smaller size as compared to the companies in the Utility Proxy Group contributes to additional risk, we find that the record reasonably supports an ROE of 9.90 percent. UIF's current allowed ROE is 10.40 percent. The record indicates that allowed ROEs across the country have been trending downward to an average of below 10.00 percent. Further, our annual leverage formula reflected an estimated allowed ROE of 9.70 percent based on UIF's equity ratio of 49.39 percent. Moreover, we determined that UIF's quality of service is unsatisfactory and imposed a 15 basis point reduction to the ROE as a penalty. Therefore, we find that the appropriate ROE for UIF is 9.75 percent, which includes a 15 basis point penalty for unsatisfactory service quality, with a range of plus or minus 100 basis points.

XXIII. Weighted Average Cost of Capital

A. Parties' Arguments

1. UIF

UIF argued that the weighted average cost of capital (WACC) is a fallout from the determinations of Sections XVIII through XXI. Witness D'Ascendis argued that UIF's proposed capital structure is reasonable as compared with the range of equity ratios maintained by the Utility Proxy Group from which he derived his recommended common equity cost rate in Section XXII. Witness D'Ascendis also argued that UIF's proposed capital structure consisting of a common equity ratio of 49.39 percent compares very closely with that of the Utility Proxy Group's average capital structure consisting of 49.34 percent.

2. OPC

OPC argued the appropriate WACC based on OPC's proposed capital structure is 6.73 percent. Witness Garrett recommended we increase the long-term debt ratio in UIF's capital structure used for setting rates from approximately 45 percent to 50 percent. Witness Garrett opined that, comparatively, the Utility Proxy Group has an average debt ratio of 50 percent. Witness Garrett argued that UIF's proposed capital structure consists of an insufficient amount of debt, especially since UIF's awarded ROE will certainly be above its market-based cost of equity. Witness Garrett explained that equity capital has a higher cost than debt capital and companies can reduce their weighted average cost of capital (WACC) by increasing their debt financing. Witness Garrett argued that while competitive firms maximize their value by minimizing their WACC, regulated utilities increase their revenue requirement by increasing their WACC.

B. Analysis

In its MFRs, UIF requested a capital structure based on a 13-month average as of December 31, 2019, consisting of common equity in the amount of \$66,098,114 (49.39 percent), long-term debt in the amount of \$60,999,232 (45.58 percent) and short-term debt in the amount of \$6,731,596 (5.03 percent) as a percentage of investor supplied capital. The ratios of UIF's investor supplied capital is based on the actual capital structure of the Utility's parent company, Corix Regulated Utilities, Inc. The Utility appropriately used the 13-month average to determine the capital structure for Class A utilities as required by Rule 25-30.433(4), F.A.C. UIF reconciled the capital structure to the UIF rate base using only its investor sources of capital. When reconciled to the UIF rate base, the ratios are reduced to 44.85 percent for common equity, 41.39 percent for long-term debt, and 4.57 percent for short-term debt.

1. UIF

Witness D'Ascendis argued that UIF's common equity ratio of 49.39 percent is reasonable and consistent with the range of common equity ratios maintained by the companies in the Utility Proxy Group. The range of common equity ratios for the Utility Proxy Group is between 38.48 percent and 57.05 percent, with an average of 49.34 percent. Witness D'Ascendis maintained that a long-term debt cost rate of 5.78 percent and a short-term debt cost rate of 4.04 percent are appropriate as they are the actual 13-month average debt cost rates for UIF's parent company.

Table 12
UIF Requested Weighted Average Cost of Capital

Capital Component	Amount	Percentage	Cost Rate	Weighted Cost
Long-Term Debt	\$60,999,232	41.59%	5.78%	2.40%
Short-Term Debt	\$6,731,596	4.59%	4.04%	0.19%
Common Equity	\$66,098,114	45.07%	11.75%	5.30%
Customer Deposits	\$248,501	0.17%	2.00%	0.003%
Tax Credits – Zero Cost	\$73,443	0.05%		
ADITs	\$7,156,450	4.88%		
ADITs - TCJA	\$5,353,825	3.65%		
Total Weighted Average Cost of Capital		100%		7.89%

2. OPC

Witness Garrett argued that UIF’s proposed capital structure consists of an insufficient amount of debt, especially since UIF’s awarded ROE will certainly be above its market-based cost of equity. Accordingly, witness Garrett recommended we apply a capital structure consisting of 45 percent common equity, 50 percent long-term debt, and 5 percent short-term debt. Witness Garrett argued that under the rate base rate of return model, a higher WACC results in higher rates, all else held constant. Witness Garrett argued UIF’s proposed debt ratio is far too low, and if adopted, would result in a reasonably high WACC for shareholders. OPC witness Crane testified to the WACC recommended by OPC as presented in Table 13.

Table 13
OPC Recommended Weighted Average Cost of Capital

Capital Component	Amount	Percentage	Cost Rate	Weighted Cost
Long-Term Debt		45.63%	5.78%	2.64%
Short-Term Debt		4.56%	4.04%	0.184%
Common Equity		41.06%	9.50%	3.90%
Customer Deposits		0.17%	2.00%	0.003%
Tax Credits – Zero Cost		0.05%		
ADITs		4.88%		
ADITs - TCJA		3.65%		
Total Weighted Average Cost of Capital		100%		6.73%

The weighted average cost of capital is a fallout issue that combines the cost rates and amounts of the capital components into a final rate of return. As discussed in Issue 18, the appropriate total amount of ADITs is \$12,510,275. For Section XIX through XXI, the cost rates for long-term debt (5.78 percent), short-term debt (4.04 percent), and customer deposits (2.00 percent) are stipulated. As we found in Section XXII, the appropriate ROE is 9.75 percent. Record evidence indicates that using the capital structure of UIF’s parent, Corix Regulated Utilities, Inc., is reasonable and is comparable with the equity ratios of other regulated water utility companies in the Utility Proxy Group. Therefore, we agree with UIF that appropriate capital structure consists of 49.39 percent common equity, 45.58 percent long-term debt, and

5.03 percent short-term debt as a percentage of investor sources. The appropriate WACC is presented in Schedule No. 2 and in Table 14.

Table 14
Commission Approved Weighted Average Cost of Capital

Capital Component	Amount	Percentage	Cost Rate	Weighted Cost
Long-Term Debt	\$57,822,168	41.39%	5.78%	2.39%
Short-Term Debt	\$6,382,518	4.57%	4.04%	0.18%
Common Equity	\$62,653,823	44.85%	9.75%	4.37%
Customer Deposits	\$248,501	0.17%	2.00%	0.00%
Tax Credits – Zero Cost	\$73,443	0.05%		
ADITs	\$7,156,450	5.12%		
ADITs - TCJA	\$5,353,825	3.83%		
Total Weighted Average Cost of Capital		100%		6.95%

C. Conclusion

The appropriate capital structure consists of 49.39 percent common equity, 45.58 percent long-term debt, and 5.03 percent short-term debt as a percentage of investor sources. Based on the proper components, amounts, and cost rates associated with the capital structure for the 13-month average test year ended December 31, 2019, as discussed in Sections XVIII through XXII, the appropriate weighted average cost of capital for UIF for purposes of setting rates in this proceeding is 6.95 percent.

XXIV. Test Year Revenues

A. Parties' Arguments

1. UIF

UIF argued the appropriate test year revenues are \$16,603,928 for water and \$20,305,882 for wastewater, as set forth in the Utility's MFRs.

2. OPC

OPC did not propose any adjustments to the Utility's adjusted test year revenues. However, OPC argued there should be adjustments of \$1,693,982 to UIF's claimed water revenue deficiency of \$2,823,848, as shown on Exhibit ACC-2, Schedule 1, which results in an overall water revenue increase of no more than approximately 6.8 percent. For wastewater, OPC argued that the adjustments indicate a revenue deficiency of no more than \$2,720,043, which reflects revenue requirements of \$3,809,340 to the Utility's revenue deficiency of \$6,529,383. This would result in an overall wastewater increase of no more than approximately 13.4 percent.

B. Analysis

In its MFRs, the Utility reflected test year revenues of \$16,603,928 for water and \$20,305,882 for wastewater. UIF contended that its MFR schedules reflect the appropriate amount of test year revenues. The test year revenues consist of service revenues of \$16,243,430 and miscellaneous revenues of \$360,497 for water. For wastewater, test year revenues consist of service revenues of \$19,974,976 and miscellaneous revenues of \$330,906. Pursuant to the audit report, the Utility understated the number of water residential bills by 1,323 in its MFR Schedule E-2, which results in the understatement of water test year revenues by \$14,923.

In addition, the Utility had a price index adjustment during the test year resulting in an increase to service rates and miscellaneous service charges. However, in its MFRs, the Utility annualized services revenues, but it did not annualize miscellaneous revenues. Annualizing for the increase in miscellaneous service charges results in miscellaneous revenues of \$363,563 for water and \$333,719 for wastewater. As a result, test year revenues shall be increased by \$3,066 (\$363,563 - \$360,497) for water and \$2,813 (\$333,719 - \$330,906) for wastewater. OPC's arguments pertain to UIF's requested revenue increase rather than the test year revenues.

Based on the above, the appropriate test year revenues for UIF's water and wastewater systems are \$16,621,916 and \$20,308,695, respectively. UIF's test year revenues shall be increased by \$17,989 (\$14,923 + \$3,066) for water and \$2,813 for wastewater.

XXV. STIPULATED—Rate Case Expense

We approved a Type II Stipulation addressing the appropriate amount of rate case expense, as follows:

The appropriate amount of rate case expense is \$743,084. This shall be amortized over four years for an annual expense of \$185,771. Based on the Utility's original request for amortization of rate case expense of \$197,144, annual amortization of rate case expense shall be decreased by \$11,373. Pursuant to Order No. PSC-2019-0363-PAA-WS, \$39,727 of the total rate case expense is appellate and remand rate case expense related to Docket No. 20160101-WS.

XXVI. Pro Forma Expense

A. Parties' Arguments

1. UIF

UIF argued that adjustments to chemical expense related to its Lake Groves facilities were needed, as well as adjustments to telephone expense related to the new employees requested in this proceeding. However, no adjustment to telephone expense was required for the full-time position that UIF had requested be converted from a current part-time position to full-time. The Utility stated that two adjustments should be made to salaries, consisting of annualizing the three-percent salary increase so that a full year of salary expense was included, and to increase the salaries another three percent for the annualized salary increase that would

take place in 2020. UIF stated that OPC witness Crane testified that it was not appropriate to include new post-test year employees; however, the Utility argued that witness Crane “overlooked the fact that the Commission approved new but not yet hired employees as a pro forma adjustment in UIF’s last rate case.”

2. OPC

OPC argued that it was the Utility’s burden to prove that the additional employees it requested were needed. OPC also stated that UIF had admitted that it had not yet hired any of the additional employees; therefore, O&M expense should be reduced by \$107,421 for water and \$98,602 for wastewater.

B. Analysis

UIF requested several pro forma expense adjustments in its MFRs. OPC witness Crane testified that for the requested pro forma expense adjustments, the Utility had not provided a description of the adjustments or why the adjustments were necessary. Witness Crane stated supporting workpapers and calculations were requested from UIF for these adjustments; however, the information provided was inadequate in many cases. Witness Crane only included adjustments to the Utility’s requested salaries and benefits, telephone, and truck fleet expenses as she recommended denial of the new employees. Witness Crane did not recommend an adjustment to any other pro forma expense discussed in this issue.

1. Amortized O&M Expense

As discussed in Section III, we approved the reclassification of costs associated with two pro forma plant projects (PCF-8, PCF-32) as amortized O&M expense. As such, wastewater miscellaneous expense shall be increased by \$10,250 to amortize the WWTP permitting expenses in PCF-8 and \$15,278 to amortize the I&I inspection expenses in PCF-32.

2. Capitalized Labor

In response to discovery, UIF indicated that capitalized labor expense was recorded for many of the pro forma projects as of October 1, 2020. The capitalized labor is included in our approved pro forma plant additions in Section III. As the labor expense is being recovered through the pro forma plant projects, a corresponding adjustment shall be made to reduce test year salaries and wages expense. Although the Utility did not make this corresponding adjustment to its instant filing, capitalized Water Services Corporation (WSC) labor has been an issue previously addressed in several rate cases involving the former sister companies prior to its reorganization. We allowed the inclusion of capitalized WSC labor expenses in rate case expense as long as the utility demonstrated that a corresponding reduction was made to test year salaries to remove the capitalized labor.⁴⁶ Our decision was based on the principal of avoiding double

⁴⁶ Order Nos. PSC-14-0025-PAA-WS, issued January 10, 2014, in Docket No. 120209-WS, *In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida*; and PSC-14-0283-PAA-WS, issued May 30, 2014, in Docket No. 130212-WS, *In re: Application for increase in water and wastewater rates in Polk County by Cypress Lakes Utilities, Inc.*

recovery. We have also previously approved this adjustment to capitalize labor associated with plant projects.⁴⁷ As such, we hereby decrease salaries and wages expense by \$61,245 for water and \$353,675 for wastewater. A corresponding adjustment shall be made to decrease payroll tax expense by \$4,685 for water and \$27,056 for wastewater.

3. New Employee Positions

UIF requested the addition of four new employee positions as pro forma expense adjustments. The Utility also requested adjustments to telephone expense and truck fleet expense related to the new employees, which will be discussed in more detail below. The four requested positions included a meter reader, a meter technician, a full-time water/wastewater operator, and a part-time water/wastewater operator being converted to full-time. For the requested meter reader position, UIF did not provide any description or information supporting the need for the position in its MFRs, witness testimony, or through discovery. The Utility also stated that none of the additional employees it requested had been hired.

Table 15
 UIF Requested Salary Adjustments for New Employees

Position	Requested Salary Adjustment
Meter Reader	\$29,000
Meter Technician	\$40,956
Water/Wastewater Operator	\$52,000
Water/Wastewater Operator	\$18,400

In response to discovery, UIF stated that the meter technician would test, calibrate, repair, and/or replace water meters in the Sanlando system. During the test year, Sanlando had experienced excessive unaccounted for water and the Utility indicated additional support was needed to flow test the large meters in the system. Sanlando has over 300 large meters in use which, due to the age of the meters, may be under-recording water use. UIF also stated that the current field staff was barely able to test ten percent of its meters annually, as required by this Commission, as well as fulfill the meter tests requested by customers and required by the water management district. The Utility listed that a single meter technician was employed by UIF; however, it also staffed nearly 30 field technicians, who also perform some meter related tasks.

An additional full-time water/wastewater operator was requested primarily in support of the Lake Groves WTP and WWTP, and occasionally for the Barrington WWTP. The Utility stated that this new full-time operator was needed to operate, maintain, manage, and monitor the Lake Groves WTP following the addition of chlorine dioxide to its treatment process. The position would also provide additional support at the Lake Groves WWTP, where plant flows

⁴⁷ Order Nos. PSC-99-1399-PAA-WU, issued July 21, 1999, in Docket No. 981663-WU, *In re: Application for staff-assisted rate case in Orange County by Tangerine Water Company, Inc.*; PSC-17-0209-PAA-WU, issued May 30, 2017, in Docket No. 160065-WU, *In re: Application for increase in water rates in Charlotte County by Bocilla Utilities, Inc.*

have continued to increase due to customer growth in the service area, and the employee would help with the daily reclaimed water volume delivered to reuse customers. When needed, the new employee would also assist with monitoring, operating, and managing of the Barrington WWTP, which was acquired in 2019, and provide additional support during preparation and recovery from storms. As with the Eagle Ridge and Cross Creek WWTPs discussed below, the Lake Groves WWTP must be staffed by a certified operator for a minimum of six hours per day, seven days a week. For Barrington and Lake Groves, UIF indicated it had a combined total of five water/wastewater operators assigned to the two systems.

The conversion of a part-time water/wastewater operator position to a full-time position would be in support of the Eagle Ridge, Cross Creek, Sandalhaven, and Lake Placid systems. The Utility stated that the Eagle Ridge and Cross Creek WWTPs must be staffed a minimum of six hours per day, seven days a week to meet DEP Part III public access reclaimed water requirements. The conversion to a full-time position would provide an increase of 16 hours per week of available man-hours to staff the Cross Creek WWTP, particularly on weekends. Furthermore, the full-time position would allow for staffing at either of the Eagle Ridge or Cross Creek WWTPs in the event one of the other three plant operators was on leave or in training. UIF stated that based on recent storm events, additional manpower was needed to prepare for and recover from storms impacting its systems. For the Eagle Ridge, Cross Creek, and Lake Placid WWTPs, UIF specified that it had a combined total of four operators assigned to the three systems.

OPC witness Crane testified that it was inappropriate to include additional employees unless other corresponding adjustments were also made. Witness Crane argued that the costs the Utility incurred during the test year were the costs required to provide water and wastewater service, which included its employee base at the time. UIF's request for additional employees did not also include an adjustment to its water or wastewater sales to reflect post-test year growth. Witness Crane testified that the Utility had experienced customer growth over the period from December 2016 to the end of the test year, which included approximately 4 percent for water and 4.6 percent for wastewater. Specific to the test year, witness Crane stated that UIF experienced growth "of approximately 1.7 percent in the water utility and of 2.3 percent in the sewer utility." Therefore, witness Crane recommended that if the costs for the additional employees were included, a corresponding adjustment should be made to reflect additional revenues related to customer growth or, at a minimum, the actual growth that occurred during the test year should be annualized.

For the new meter technician and the part-time position moving to full-time, UIF did not indicate customer growth as a factor in the need for the additional employees. Instead, the two new positions would be to support existing operations, which require additional manpower to meet the necessary meter testing and DEP staffing requirements. For the new full-time operator position, the Utility stated that in addition to increased plant flows, an additional operator was needed due to the treatment change at Lake Groves and due to the recent acquisition of the Barrington system. Taking into account the information provided by UIF for the additional employees and the argument presented by witness Crane, customer growth does not appear to be the primary driver for the requested positions.

Considering the size of the Sanlando system, that only one meter technician is currently employed, and the Utility is attempting to address the issue of unaccounted for water, the addition of a new meter technician position for Sanlando appears reasonable. We find that moving a part-time operator position to full-time is reasonable in order to ensure DEP staffing requirements are met for the Eagle Ridge, Cross Creek, Sandalhaven, and Lake Placid systems. Furthermore, accounting for the recent addition of the Barrington WWTP and the new treatment system at the Lake Groves WTP, we find that the addition of a new operator position to support those systems is also reasonable. Finally, due to a lack of support, we do not approve of the meter reader position requested by UIF.

UIF allocated salary and wages and pensions and benefits expense for the requested meter reader based on ERCs. As such, we approve decreasing UIF's requested salary and wages expense by \$15,121 ($\$29,000 \times 52.14\%$) for water and \$13,879 ($\$29,000 \times 47.86\%$) for wastewater. Additionally, we approve a corresponding adjustment to decrease UIF's requested pensions and benefits expense by \$7,830 ($\$15,017 \times 52.14\%$) for water and \$7,187 ($\$15,017 \times 47.86\%$) for wastewater. There shall also be a corresponding adjustment to decrease payroll tax expense by \$1,287 for water and \$1,181 for wastewater.

4. Labor Escalator

The Utility requested an adjustment to increase salary and wages and pensions and benefits expense by 3.75 percent. This includes two parts: (1) a 3.00 percent pro forma increase for the year after the test year, and (2) a 0.75 percent increase to annualize test year salaries that were increased by three percent in April of the test year. OPC witness Crane recommended limiting this adjustment to 3.0 percent due to her belief that any further increase would essentially reflect costs in 2021. However, as UIF witness Swain indicated in her rebuttal testimony, the extra 0.75 percent increase is used to annualize the test year increase, not to move the increase beyond 2020. Further, the same 3.75 percent labor escalator was allowed in UIF's prior rate case in Order No. PSC-2017-0361-FOF-WS.⁴⁸ Therefore, we approve no adjustment.

5. Chemicals Expense

UIF requested a \$71,653 adjustment to chemicals expense for the Lake Groves and Summertree systems. For the Lake Groves system, UIF requested an increase of \$66,653 to annualize hydrochloric acid and sulfuric acid chemical costs. The Utility stated the Lake Groves water treatment process was upgraded in June 2019, which uses hydrochloric acid to maintain the level of disinfection byproducts below the required amount. For its Lake Groves system, UIF indicated that a six-month supply of hydrochloric acid is \$1,121, which results in an annual cost of \$2,242.

Further, the Utility stated that sulfuric acid is used to pretreat the raw water from Lake Groves Well 3. However, Well 3 could not be used for the first six months of 2019 while

⁴⁸ Order No. PSC-2017-0361-FOF-WS, issued September 25, 2017, in Docket No. 20160101-WS, *In re: Application for rate increase in water and wastewater rates in Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole Counties by Utilities, Inc. of Florida.*

upgrades were being completed; therefore, no sulfuric acid was purchased during those months. In response to discovery, UIF indicated that a six-month supply of sulfuric acid is \$37,205, which results in an annual cost of \$74,410. This results in an annual chemical cost of \$76,652 (\$74,410 + \$2,242) for hydrochloric acid and sulfuric acid for the Lake Groves system. However, UIF included \$38,914 for sulfuric acid and hydrochloric acid chemicals in its MFRs for the test year. Therefore, we find that an adjustment be made to reduce pro forma chemicals expense for Lake Groves by \$28,914 (\$76,652 - \$38,914 - \$66,653).

For the Summertree system, UIF requested a \$5,000 adjustment for chlorine dioxide chemicals as part of a pilot study performed under project PCF-38. The Utility stated that the study was initiated to reduce chlorine demand in the piping system. Witness Flynn stated that DEP approved the pilot study on August 8, 2020, and the pilot study will continue at least through January 19, 2021 or longer. In addition, witness Flynn stated the required amount of chlorine dioxide is expected to decrease over time as the system reaches equilibrium over the course of the study. Therefore, we find that the \$5,000 adjustment for chlorine dioxide shall be removed, as the study is still ongoing, and the required amount of chlorine dioxide is unknown. Based on the above, we hereby find that a total reduction of \$33,914 (\$28,914 + \$5,000) shall be made to chemicals expense.

6. Contractual Services - Testing Expense

UIF requested a \$24,500 adjustment to Contractual Services – Testing, indicating that the adjustment was related to polyfluoroalkyl substances (PFAS) testing for the Summertree system. In response to discovery, the Utility stated that in 2020, it had “sampled and analyzed each water system’s point of entry for the presence of PFAS constituents, specifically PFAS and PFOA (Perfluorooctanoic acid).” We requested documentation supporting the amount of \$24,500, and UIF provided an invoice totaling \$2,850 for testing related to its Orangewood system. However, the invoice provided was billed to the Utility’s parent company and no specific system name was indicated on the document. No other documentation or justification was provided to support the \$24,500 adjustment. Therefore, we hereby remove \$24,500 from Contractual Services - Testing due to a lack of documentation and justification to support the adjustment.

7. Contractual Services - Other Expense

UIF requested an increase of \$33,600 to Contractual Services - Other, indicating that the adjustment was related to increased ground maintenance costs for the Sandalhaven and Eagle Ridge systems. For the Eagle Ridge system, UIF requested a \$22,800 adjustment for the increased cost to maintain new sod and native plant species. As part of project PCF-5, the Utility stated these items were required to be installed by Lee County to establish a visual buffer for a new field office and surge tank. In response to discovery, UIF provided a monthly contract price for the groundwork totaling \$2,500. This results in an annual contract service cost of \$30,000 for the Eagle Ridge system. Therefore, we find that an adjustment shall be made to increase contract services by \$7,200 (\$30,000 - \$22,800) for the Eagle Ridge system.

For the Sandalhaven system, UIF requested a \$10,800 adjustment for ground maintenance costs. In response to discovery, the Utility indicated it replaced the previous ground

maintenance contractor for the Sandalhaven system because they did not adequately maintain the property or provide maintenance at any of the 13 lift stations. In response to discovery, UIF provided a monthly contract for the new ground maintenance contractor totaling \$900. This results in an annual contract service cost of \$10,800 for the Sandalhaven system. However, since the contract started in July 2019, UIF included \$5,400 in its MFRs for the test year. Therefore, we find that an adjustment shall be made to decrease contractual services by \$5,400 (\$10,800 - \$5,400) for the Sandalhaven system to account for the six months of the annual contract service already included. Based on the above, we hereby find that a total adjustment shall be made to increase Contractual Services - Other by \$1,800 (\$7,200 - \$5,400).

8. Telephone Expense

As discussed above, UIF requested the addition of four new employees and the costs associated with those positions. One of the requested adjustments related to the new employees was an increase to telephone expense of \$1,917 for water and \$1,759 for wastewater. In response to discovery, the Utility indicated that these adjustments were originally for four new employees; however, the new positions included a current part-time employee moving to full-time. Therefore, only three of the new positions would require a phone and UIF decreased its requested adjustments to \$1,437 for water and \$1,320 for wastewater. As discussed above, we hereby approve three of the requested employees, including the conversion of the part-time position to full-time. Based on the documentation and justification provided by the Utility, we find that the appropriate telephone expense shall be \$958 for water and \$880 for wastewater for the two new positions requiring phones. Therefore, we hereby decrease UIF's requested telephone expense adjustments by \$959 for water and \$879 for wastewater.

9. Truck Fleet Expense

UIF requested an adjustment to truck fleet expense of \$6,931 for water and \$6,362 for wastewater. The Utility indicated that these adjustments were for three new vehicles, which would be needed for the new employees. UIF stated that it currently has "79 vehicles assigned to Utility employees. The adjustment in fleet expense reflects the increase to 82 assigned vehicles and thus a pro rata increase of 3.8 percent in fleet expense in the test year." We updated the requested truck fleet expense amounts to \$4,615 for water and \$4,236 for wastewater to reflect our disallowance of one new employee. Therefore, we hereby decrease UIF's requested truck fleet expense adjustments by \$2,316 for water and \$2,126 for wastewater.

C. Conclusion

Based on the above, we hereby find that pro forma expense shall be decreased by \$145,884 for water and \$350,418 for wastewater.

XXVII. Test Year O&M Expense Adjustments

A. Parties' Arguments

1. UIF

In its brief, UIF argued that we should allow for the recovery of lobbying expenses that are for the benefit of customers through rates. UIF claimed that lobbying activities related to Fair Market Value (FMV) legislation would reduce the cost for current customers “by allowing UIF to spread individual system costs over a larger customer base” and would benefit new customers by “achieving economies of scale for the systems acquired.” Given the “unique nature” of the lobbying, UIF stated that it is appropriate for these costs to be recovered through rates.

Additionally, UIF argued that we have frequently approved the recovery of costs associated with Incentive Compensation Plans (ICP) through rates. UIF contended that OPC witness Crane’s recommendation to disallow 50-percent of the expense was arbitrary. UIF further stated that arbitrary action, such as that recommended by OPC, has previously been struck down in court.⁴⁹ UIF also stated that unlike the Florida Power & Light Company (FPL) case that OPC relied upon in its argument to disallow, witness Crane made no attempt to evaluate whether total compensation to employees was unnecessary or unreasonable, nor did the witness argue such.⁵⁰ UIF further highlighted the testimony of UIF witness Elicegui which presented results of a study in order to demonstrate that total compensation is reasonable and concluded that “compensation amounts compared favorably to the market.”

In its brief, UIF also argued that we recognize that “a utility may legitimately include severance payments to employees as part of its base rate calculation.”⁵¹ UIF contended that OPC witness Crane’s testimony stating that UIF did not provide detail for this expense was false and that details were provided in a discovery request response. UIF also stated that while this Commission usually adopts the three-year average when determining the appropriate amount for variable expenses, the Utility did not request an adjustment to the test year, as the test year amount was less than the three-year average approach.

2. OPC

In its brief, OPC asserted that this Commission has a policy of disallowing lobbying expenses. OPC argued that UIF did not present evidence of any benefit received by customers for its lobbying related to its Fair Market Value (FMV) legislation and as such any recovery through rates would be inappropriate. Furthermore, OPC claimed that the bill would have benefited shareholders instead of customers. Additionally, OPC stated that while UIF claimed both customers and shareholders would have benefited from the legislation, this Commission should disallow the entire cost because the Utility failed to present evidence that it attempted to

⁴⁹ *Florida Bridge Company v. Bevis*, 363 So. 2d 799 (Fla. 1978).

⁵⁰ Order No. PSC-10-0153-FOF-EI, issued March 17, 2010, in Docket No. 080677-EI, *In re: Petition for increase in rates by Florida Power & Light Company*.

⁵¹ Order No. PSC-92-0708-FOC-TL, issued July 24, 1992, in Docket No. 910980-TL, *In re: Application for a rate increase by United Telephone Company of Florida*.

quantify the actual benefit to customers or apportion the costs between customers and shareholders. OPC concluded that since UIF's FMV bill did not pass the 2020 legislature it could not have benefited the Utility's customers and is therefore reason alone to disallow the recovery of related expenses through rates.

In its brief, OPC argued that the recovery of costs through rates related to the Employee Deferred Incentive Compensation Program (EIP) should be disallowed, as it was designed to primarily benefit shareholders. OPC maintained that all costs of the EIP that are tied to financial metrics should be recovered from shareholders and not customers as the recovery of costs through rates would be inconsistent with a utility's mandate to provide safe and reliable utility service at the lowest reasonable cost. OPC reiterated this point by contending that this Commission has frequently disallowed the recovery of costs associated with EIPs that are determined by financial metrics. OPC further stated that UIF failed to perform a study comparing its EIP to other EIPs in which this Commission allowed for the recovery of costs through rates. Additionally, OPC stated that this Commission has found that incentive compensation tied to earning per share could have consequences contrary to customer welfare and safety. While witness Crane recommended only a 50-percent disallowance of costs associated with incentive compensation in her testimony, OPC contended that because UIF failed to meet its burden of proof to justify the costs of the Long-Term Incentive Plan (LTIP), this Commission should disallow 100 percent of costs related specifically to the LTIP.

In its brief, OPC argued that non-qualified retirement benefit plans should not receive favorable treatment by this Commission, just like they do not receive favorable treatment by the Internal Revenue Service (IRS). OPC stated that these expenses are not under the same scrutiny as qualified retirement benefit plans. Under the Employee Retirement Income Security Act (ERISA), OPC claimed, qualified plans must adhere to strict requirements including a \$285,000 compensation cap and the prohibition of discrimination among employees regarding retirement benefits. OPC continued that non-qualified plans do not fall under the purview of ERISA and by offering these plans, a company is able to provide additional benefits to highly paid officers and executives. OPC contended that shareholders, not ratepayers, should fund these benefits.

In its brief, OPC argued that all of UIF's parent company's severance costs should be disallowed because UIF did not show that these costs are necessary to provide safe and reliable utility service. OPC stated that UIF failed to meet its burden of proof by providing details regarding the reason for the costs, the recurring nature of the costs, the number of employees involved, and the underlying factors that resulted in these severance payments. OPC also added that while the needed detail was not provided, including any non-recurring costs in ongoing rates by itself would be inappropriate.

B. Analysis

1. Incentive Compensation

UIF witness Deason testified that the Utility's EIP is a short-term incentive plan for the executive management team and select senior leaders at the parent company level. The only person in Florida who is subject to the EIP is the president of UIF, Gary Rudkin. All other

employees under this plan are at the parent company level. The largest weighting factor in this plan is financial performance.

OPC witness Crane testified that in order for any award to be made under the EIP, the company must achieve a targeted level of return on investment and must be free from any code red safety or environmental incidents. Seventy percent of the company performance metric is based on financial performance measures. OPC witness Crane is recommending that the incentive compensation award costs that are tied to financial metrics be recovered from the Utility's shareholders, and denied for recovery in this case. Given the overall EIP's objective to maximize shareholder value and the overall requirement that certain financial metrics must be achieved prior to any awards being made, OPC witness Crane recommended an adjustment to eliminate 50 percent of the incentive compensation costs identified by UIF.

In rebuttal testimony, UIF witness Deason argued that OPC witness Crane made no allegations or presented any evidence that the total compensation paid to employees at UIF, or its parent company CORIX, is unnecessary or unreasonable. UIF witness Deason referenced past Commission orders that allowed recovery for incentive plans tied to the achievement of corporate goals because they provide an incentive to control costs.⁵² We also allowed incentive compensation when a utility's total compensation package was set near the median level of benchmarked compensation. UIF witness Elicegui testified that charges included in the revenue requirement reflect shared and Corporate Services provided from the parent company at cost with no mark-up or profit. To compare with outside providers, adjusted shared and Corporate Service costs were reduced to an hourly rate and compared to market benchmarks. According to these benchmarks for Management Consultants, UIF's costs were less than half of what the costs would have been from an outside provider.

As referenced in earlier orders, our practice has been to allow incentive compensation in rates if the total compensation is at or below median market benchmarks. All of the employees included in the EIP, with the exception of the President of UIF, are at the parent company level. Based on UIF witness Elicegui's analysis of corporate service costs, we find that the total compensation package of employees at the parent company level are reasonable for recovery. Therefore, we make no adjustment. In so finding, "it is the [Commission's] prerogative to evaluate the testimony of competing experts and accord whatever weight to the conflicting opinions it deems necessary."⁵³

2. Severance Pay

During the test year, UIF incurred approximately \$57,000 in severance expense, all of which was allocated down from the parent company level which totaled \$748,552, in Canadian dollars, prior to allocation. OPC witness Crane recommended removing this expense for two reasons. First, OPC witness Crane asserted that UIF provided no details regarding these severance costs and, therefore, has not met its burden of proof to demonstrate that these costs are

⁵² Order Nos. PSC-92-1197-FOF-EI, issued October 22, 1992, in Docket No. 910890-EI, *In re: Petition for a rate increase by Florida Power Corporation*; PSC-09-0283-FOF-EI, issued April 30, 2009, in Docket No. 20080317-EI, *In re: Petition for rate increase by Tampa Electric Company*.

⁵³ See *Gulf Power Co. v. FPSC*, 453 So. 2d 799, 805 (Fla. 1984)

necessary to the provision of safe and reliable utility service. Second, she pointed out that we do not know if these are recurring costs.

In rebuttal testimony, UIF witness Deason argued that OPC witness Crane was mistaken in both of her arguments. He first explained that detail for the test year was in fact provided in response to OPC discovery. He also stated that the amount of severance expense is recurring, but varies from year to year. He pointed to recent fluctuations in the expense to illustrate his point. In 2017, the parent company recorded \$0 in severance expense, but then recorded \$4,415,800, in Canadian dollars, in 2018. For variable expenses such as this, UIF witness Deason argued that it is common regulatory practice to take a three-year average for rate setting purposes. In this case, UIF reflected the test year amount, which is significantly less than the three-year average.

All of the severance expense incurred in this case comes from the parent company level. As discussed above, for incentive compensation, the overall compensation package for employees at the parent company level is well below the level UIF would incur if they outsourced management services. We find that, although severance pay is a variable expense, it is reasonable to expect some level of severance expense in any given year. Therefore, we shall make no adjustment.

3. Non-Qualified Retirement Benefits

OPC witness Crane testified that UIF included non-qualified retirement benefits to its employees in the test year and recommended the removal of this expense. These non-qualified plans provide supplemental retirement benefits for key executives that are in addition to the normal retirement programs provided by the Utility. “Qualified” plans limit the amount of compensation that can be considered for purposes of determining pension benefits. In addition, non-qualified plans allow a company to avoid rules and regulations that apply to qualified plans, such as requirements of the Employee Retirement Income Security Act. Non-qualified plans also do not qualify for the more favorable tax treatment that is available to qualified retirement plans under the Internal Revenue Service (IRS) Tax Code. These benefits are available to a very small group of officers and other executives that also receive the normal retirement plan benefits offered by UIF.

UIF witness Deason argued that OPC witness Crane’s recommended adjustment to remove non-qualified retirement expense from the test year is inconsistent with prudent regulatory policy. He once again maintained that her analysis focused entirely on how certain employees are compensated, not on how much they are compensated, and that she provided no analysis demonstrating that the total amount of compensation is excessive to the marketplace for these employees. He asserted that UIF and CORIX have designed its compensation packages in order to be competitive in attracting and retaining well qualified and effective employees, so that it will achieve its mandate of providing safe and reliable service.

Although we agree with UIF’s focus on evaluating total compensation, we find that the distinguishing factor that requires further consideration is OPC’s point that non-qualified plans allow a utility to avoid certain rules and regulations, while also receiving less favorable tax treatment from the IRS. We agree that these expenses shall not be borne by the customers. UIF

directly incurred non-qualified retirement plan costs of \$26,853 in the test year. The Utility was also allocated approximately 22 percent of WSC's total costs, resulting in an allocation of \$27,985 ($\$127,203 \times 22\%$). The total amount of the expense, \$54,838 ($\$26,853 + \$27,985$), was allocated to water and wastewater based on ERCs. Therefore, we hereby decrease pensions and benefits expense by \$28,592 ($\$54,837 \times 52.14\%$) for water and \$26,245 ($\$54,837 \times 47.86\%$) for wastewater.

4. Lobbying Expense

In OPC's first set of interrogatories to UIF, OPC asked for expenses included in the filing that were directed toward lobbying activities by the organization. In response to OPC's discovery, UIF provided a spreadsheet showing about \$76,000 included in expense paid to several companies for lobbying. In response to follow up discovery from OPC, UIF indicated \$45,827 paid to Gunster was to monitor legislative activity on the issue of Fair Market Valuation (FMV) with respect to water and wastewater acquisitions. The remaining expenses were utilized for regulatory assistance. UIF witness Snow suggested that passage of the FMV legislation would not only benefit UIF but also the customers due to increasing UIF's ability to acquire underfunded systems and offer robust financial and operational resources as well as allowing the Utility to spread individual system costs across an even larger customer base thus achieving economies of scale. OPC witness Crane testified that lobbying costs are not necessary for the provision of safe and adequate utility service and that lobbying activities of a regulated utility may be focused on policies and positions that enhance shareholders but may not benefit, and may even harm, ratepayers. It was indicated in UIF witness Snow's testimony that the FMV legislation that Gunster was monitoring for UIF did not pass the Legislature. We agree with witness Crane that it has been our practice to disallow lobbying expense.⁵⁴ Therefore, we hereby decrease O&M expenses by \$23,894 ($\$45,827 \times 52.14\%$) for water and \$21,933 ($\$45,827 \times 47.86\%$) for wastewater.

5. Holiday Party

In response to OPC's discovery, UIF indicated that the Utility has one office holiday social event each year. During the test year, the event was held at a restaurant in Orlando at a cost of \$5,079. This amount was allocated between water and wastewater based on ERCs or \$2,648 for water and \$2,431 for wastewater. OPC witness Crane recommended that costs for the annual holiday social event be borne by shareholders instead of ratepayers. UIF provided no testimony opposing OPC witness Crane's recommendation to remove these costs from expenses. We agree that these social costs shall not be borne by ratepayers and shall be removed. Therefore, we hereby decrease O&M expense by \$2,648 for water and \$2,431 for wastewater.

⁵⁴ Order Nos. PSC-11-05470-FOF-EI, issued November 23, 2011, in Docket No. 110009-EI, *In re: Nuclear cost recovery clause*; and PSC-14-0025-PAA-WS, issued January 10, 2014, in Docket No. 120209-WS, *In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.*; and PSC-14-07140-FOF-EI, issued December 31, 2014, in Docket No. 140007-EI, *In re: Environmental cost recovery clause*.

6. Infiltration & Inflow

This is a fall out to Section VI, which is a Type II stipulated issue. In its original filing, UIF included O&M expense adjustments to reflect I&I in Lincoln Heights and Orangewood. However, the Utility's filing should have also included O&M adjustments to reflect I&I in Summertree. UIF witness Swain provided these corrections to her testimony. As such, we hereby decrease purchased wastewater expense by \$4,901 and purchased power expense by \$107 for wastewater to reflect her corrections.

7. Sludge Removal Expense

The Utility recorded sludge removal expense of \$639,081 for wastewater. This is an increase of \$199,434 from the prior rate case test year. UIF stated that DEP has severely restricted the volume of biosolids that can be land applied to agricultural properties located in the Lake Okeechobee basin. This has caused an increase in prices for sludge hauling contractors. We make no adjustments, and therefore approve sludge removal expense of \$639,081 for wastewater. OPC did not made a recommendation on sludge removal expense.

8. Chemicals

The Utility recorded chemical expense of \$457,621 for water and \$420,056 for wastewater for a total of \$877,677. We reviewed UIF's chemical expenses from the prior rate case test year which were \$367,915 for water and \$453,080 for wastewater for a total of \$820,995. We calculated an increase in chemical expense of \$56,682 from the prior rate case test year. The Utility made a negative \$40,974 adjustment to water chemicals expense and a positive \$102,121 adjustment to wastewater chemical expense. These adjustments include the annualization of test year chemical expenses, due to DEP regulations, as well as corrections to allocations made at some facilities. We make no additional adjustments, and therefore approve a chemicals expense of \$416,646 for water and \$522,177 for wastewater. OPC did not made a recommendation on either water or wastewater chemical expenses.

C. Conclusion

Based on the above, we find that test year O&M expenses shall be decreased by \$55,135 (-\$28,592 - \$23,894 - \$2,648) for water and \$55,617 (-\$26,245 - \$21,933 - \$2,431 - \$4,901 - \$107) for wastewater.

XXVIII. STIPULATED—Operating Expense Amortization

We approved a Type II stipulation addressing whether any adjustments should be made to operating expense amortizations, as follows:

Pursuant to Order No. PSC-2017-0361-FOF-WS, the amortization expense associated with early retirements is \$46,750 for the Summertree water system, \$193,294 for the Longwood wastewater system, and \$30,511 for the Sandalhaven wastewater system. Therefore, amortization expense shall be increased by \$46 and \$121,916 for water and wastewater, respectively.

XXIX. Taxes Other Than Income (TOTI)

A. Parties' Arguments

1. UIF

UIF argued that TOTI is a fallout adjustment determined by Sections III, XVI, and XXVII.

2. OPC

OPC reflected adjustments related to pro forma plant projects; these are discussed in Sections III, IX, XXVI, and XXVII. OPC argued that a fallout adjustment should be made to payroll tax expense to reflect the impact of OPC's recommended adjustments to eliminate cost for new employee positions, reduce the annual labor cost escalator, eliminate severance costs, and reduce incentive compensation award costs. OPC also stated that fallout adjustments should be made to property tax expense to reflect reductions associated with its recommended adjustments to pro forma plant projects and non-U&U adjustments to rate base for wastewater.

B. Analysis

This is a fall out issue. Based on our approved adjustments to test year revenues and to remove the Utility's requested increase, regulatory assessment fees (RAFs) shall be reduced by \$125,751 for water and \$293,349 for wastewater. To reflect our approved adjustment to remove capitalized labor from salaries and wages expenses, payroll taxes shall be reduced by \$4,685 for water and \$27,056 for wastewater. To reflect our approved adjustment to pro forma salaries, payroll taxes shall be reduced by \$1,287 for water and \$1,181 for wastewater. To reflect our approved adjustments to pro forma plant, property taxes shall be reduced by \$2,328 for water and \$7,778 for wastewater. Lastly, to reflect our approved non-U&U adjustment to rate base, property taxes shall be reduced by \$9,743 for wastewater. In total, test year TOTI shall be decreased by \$134,050 (-\$125,751 - \$4,685 - \$1,287 - \$2,328) for water and \$339,107 (-\$293,349 - \$27,056 - \$1,181 - \$7,778 + \$9,743) for wastewater.

XXX. Test Year Depreciation Expense

A. Parties' Arguments

1. UIF

UIF argued that the test year depreciation expense is a fall out adjustment from determinations made in Sections II, III, and XVI.

2. OPC

In its brief, OPC reflected adjustments related to pro forma plant projects; these are discussed in Sections III, IV, and IX. OPC argued that a reduction should be made to water and wastewater depreciation expense of \$11,914 and \$300,001, respectively, based on its pro forma plant recommendations. OPC also stated that a reduction of \$101,214 should be made to wastewater to reflect non-U&U rate base adjustments.

B. Analysis

UIF witness Swain made test year adjustments to reclassify the amortization of early retirements and to correct the over-amortization of Sandalhaven intangible plant. The Utility also made adjustments to annualize depreciation expense for test year plant additions. Although it addressed adjustments corresponding to pro forma plant and non-U&U rate base, OPC did not dispute the Utility's other adjustments to depreciation expense. Further, Commission staff witness Dobiac's testimony did not reflect any audit adjustments to the test year depreciation expense. As such, we find that the Utility's adjustments are appropriate.

The remaining adjustments to depreciation expense in UIF's initial filing are related to a non-U&U adjustment to rate base and pro forma plant projects. Pro forma and non-U&U adjustments to depreciation expense are addressed in Sections III, IV, and IX.

C. Conclusion

We hereby make no further adjustments to the adjusted test year depreciation expense. All necessary adjustments to depreciation expense shall be made as set forth and discussed in Sections III, IV, and IX.

XXXI. Test Year CIAC Amortization Expense

A. Parties' Arguments

1. UIF

In its brief, UIF stated that this is a fall out issue from the determination of Section III.

2. OPC

In its brief, OPC reflected adjustments related to pro forma plant projects; these are discussed in Sections III, IV, and IX. OPC stated that water and wastewater CIAC amortization expense should be reduced by \$1,667 and \$6,555, respectively, in relation to its adjustments to plant additions. OPC also stated that CIAC amortization expense should be increased by \$24,123 should be made to reflect non-U&U rate base adjustments.

B. Analysis

In its initial filing, the Utility's only test year adjustment to CIAC amortization was to correct the over-amortization of CIAC. This adjustment was made to the same three systems in UIF's last rate case.⁵⁵ Further, Commission staff witness Dobiac's testimony did not reflect any audit adjustments to test year amortization of CIAC expense. The remaining adjustments to CIAC amortization in UIF's initial filing are related to a non-U&U adjustment to rate base and retirements associated with pro forma plant projects. Pro forma and non-U&U adjustments to CIAC amortization are addressed in Sections IV and IX. As such, we hereby make no further adjustments to the adjusted test year CIAC amortization. All necessary adjustments to CIAC amortization shall be made as set forth and discussed in Sections IV and IX.

C. Conclusion

We hereby make no further adjustments to the adjusted test year CIAC amortization. All necessary adjustments to CIAC amortization shall be made as set forth and discussed in Sections IV and IX.

XXXII. Test Year Income Taxes

A. Parties' Arguments

1. UIF

Income tax expense is a fallout of the specific revenues and expenses requested. Regarding the amortization of unprotected excess deferred income taxes, UIF argued they should be flowed back to customers over ten years, consistent with our prior decisions. Regarding the state corporate income tax rate, the rate will revert back to 5.5 percent on January 1, 2022. UIF argued this is a known and measurable change and as such should be applied to UIF's income in this case.

2. OPC

Income taxes depend on the specific level of revenues authorized by this Commission. Regarding the flow back of unprotected excess deferred income taxes, OPC argued UIF should return unprotected excess deferred income taxes to customers over five years. OPC witness Crane testified that, given the pandemic and financial difficulties of Floridians, a five-year versus ten-year amortization will provide needed relief to customers. Regarding the state corporate income tax rate, OPC argued that income taxes should reflect a rate of 4.458 percent. OPC argued that on September 12, 2019, the Florida Department of Revenue announced a reduction in the rate from 5.5 percent to 4.458 percent for tax years 2019, 2020, and 2021. For the historical test year of 2019, the rate was 4.458 percent. OPC argued that we should set rates to collect the

⁵⁵ Order No. PSC-2017-0361-FOF-WS, issued September 25, 2017, in Docket No. 20160101-WS, *In re: Application for increase in water and wastewater rates in Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole Counties by Utilities, Inc. of Florida.*

rate in effect at the time of setting rates and during the test year, as this is the only equitable, known and measurable tax rate.

B. Analysis

1. Income Taxes

As a result of our approved adjustments, the appropriate amount of test year income taxes is \$375,393 for water and \$111,993 for wastewater. In addition, as discussed in Section XXXIII below, we have calculated a revenue increase of \$1,696,108 for water and \$4,635,151 for wastewater. As a result, income taxes shall be increased by \$408,589 for water and \$1,116,599 for wastewater to reflect the change in revenues.

2. Amortization of Unprotected Excess Deferred Income Taxes

We have discretion regarding the period over which to amortize unprotected excess deferred income taxes. In the recent past, we have approved amortization periods of as much as 10 years and in one instance, a settlement agreement, an amortization period of 1 year.

As pointed out by OPC witness Crane, unprotected excess deferred income taxes represent money that is owed to customers. We find that it is appropriate to return excess deferred income taxes to customers as quickly as possible as long as it does not create a cash flow problem for the Utility, i.e. a liquidity problem with regard to operations. OPC witness Crane testified that UIF has not provided any evidence that a five-year amortization period would create a cash flow problem for UIF. When UIF witness Deason was asked at hearing if he could provide any analysis that indicated a five-year amortization would cause a cash flow problem for UIF, he could not. Consequently, we find that a five-year amortization period is reasonable and hereby approve a five-year amortization for unprotected excess deferred income taxes.

3. State Corporate Income Tax Rate

In 2019, the Florida Department of Revenue announced a reduction in the state corporate income tax rate from 5.5 percent to 4.458 percent for tax years 2019, 2020, and 2021. As shown on Exhibit 186, the state corporate income tax rate is expected to revert to 5.5 percent on January 1, 2022. UIF argued that this is a known and measurable change and as such should be applied to UIF's income in this case. However, that change will occur seven months after UIF's rates are to go into effect.

OPC argued that the rate for the historical test year was 4.458 percent and that rate should be applied. Furthermore, OPC argued, that UIF witness Deason agreed that if the rate is set at 5.5 percent, there would be a period of over-collection throughout 2021.

At hearing, our staff asked UIF witnesses Deason and Swain if a composite state corporate income tax rate was developed, using a four-year period that incorporated a 4.458 percent rate for the seven months of 2021 and a 5.5 percent rate for the remainder of the 4-year

period, whether that would allow UIF the opportunity to earn its expected amount of state corporate income taxes over the 4-year period. Both witnesses answered yes, it would. However, both witnesses qualified their answers by indicating that if UIF did not seek a rate case for new rates becoming effective by the beginning of year five, that the allowance for income tax expense would be insufficient after year four.

A composite state corporate tax rate that incorporates a 4.458 percent rate for the seven months of 2021 and a 5.5 percent rate for the remainder of the four-year period will allow UIF the opportunity to earn its expected amount of state corporate income taxes over the next four years. UIF has filed rate cases in 2012, 2016, and 2020. Consequently, we find that using a four-year period to develop a composite rate is reasonable. It should be noted, when asked about how long UIF would agree to stay-out if the Sewer and Water Infrastructure Mechanism (SWIM) program were approved, witness Deason indicated two years. Using a four-year composite tax rate, and all other things being equal, if UIF were to file a rate case for new rates becoming effective by the beginning of year five, UIF would actually recover more than its expected income tax expense. That is because 5.5 percent would represent a greater percent of actual income tax expense than the percentage of 4.458 percent used in the composite rate.

C. Conclusion

As a result of our approved adjustments, the appropriate amount of test year income taxes is \$375,393 for water and \$111,993 for wastewater. In addition, as discussed in Section XXXIII below, we have calculated a revenue increase of \$1,696,108 for water and \$4,635,151 for wastewater. As a result, income taxes shall be increased by \$408,589 for water and \$1,116,599 for wastewater to reflect the change in revenues.

We have discretion regarding the period over which to amortize unprotected excess deferred income taxes. We find that a five-year amortization period is reasonable and hereby approve a five-year amortization.

We find that a composite state corporate income tax rate of 5.348 percent, as opposed to 4.458 percent or 5.5 percent, is reasonable and represents an equitable balancing of interests between customers and shareholders. Consequently, we hereby approve a state corporate income tax rate of 5.348 percent.

XXXIII. Revenue Requirement

A. Parties' Arguments

In its brief, UIF argued that this issue is a fall out based on the determination of all other issues. In its brief, OPC argued that the appropriate revenue requirement should be calculated using a base revenue increase of \$1,129,866 and \$2,720,043 for water and wastewater, respectively.

B. Analysis

This is a fall out issue. In its filing, UIF requested a revenue requirement to generate annual revenue of \$19,416,372, representing a revenue increase of \$2,812,445, or 16.94 percent, for water and \$26,827,568, representing a revenue increase of \$6,521,686, or 32.12 percent, for wastewater. Consistent with our findings regarding rate base, cost of capital, and operating income issues, the appropriate revenue requirement is \$18,318,024 for water and \$24,943,846 for wastewater. Our approved revenue requirement for water is \$1,696,108 greater than our approved test year revenues of \$16,621,916, or an increase of 10.20 percent. Our approved revenue requirement for wastewater is \$4,635,151 greater than our approved test year revenues of \$20,308,695, or an increase of 22.82 percent. Our approved revenue requirement will allow the Utility the opportunity to recover its expenses and earn a 6.95 percent return on its investment in rate base. Schedule Nos. 3-A and 3-B reflect our approved net operating income and resulting revenue requirement. Our approved adjustments to net operating income are shown on Schedule No. 3-C.

XXXIV. STIPULATED (FALLOUT)—Rate Structures and Rates

We approved a Type II Stipulation addressing the appropriate rate structures and rates for the water systems, as follows:

The appropriate rate structure is a continuation of the existing rate structure and the percentage increase shall be applied as an across-the-board increase to service rates at the time of filing. To determine the appropriate percentage increase to apply to the service rates, miscellaneous revenues of \$363,563 shall be removed from the test year revenues.

The fall out percentage increase to service rates is as follows:

Table 16
 Percentage Service Rate Increase – Water

	<u>Water</u>
1 Total Test Year Revenues	\$16,621,916
2 Less: Miscellaneous Revenues	<u>\$363,563</u>
3 Test Year Revenues from Service Rates	\$16,258,353
4 Revenue Increase	<u>\$1,696,108</u>
5 Percentage Service Rate Increase (Line 4 / Line 3)	10.43%

XXXV. STIPULATED—Private Fire Protection Charges

We approved a Type II Stipulation addressing the appropriate private fire protection charges, as follows:

The appropriate private fire protection charges for UIF shall be calculated based on one-twelfth of the respective base facility charge pursuant to Rule 25-30.465, F.A.C.

XXXVI. STIPULATED (FALL OUT)—Wastewater Rates and Rate Structures

We approved a Type II Stipulation addressing the appropriate rate structures and rates for the wastewater systems, as follows:

The appropriate rate structure is a continuation of the existing rate structure and the percentage increase shall be applied as an across-the-board increase to service rates at the time of filing. To determine the appropriate percentage increase to apply to the service rates, miscellaneous revenues of \$333,719 shall be removed from the test year revenues.

The fall out percentage increase to service rates is as follows:

Table 17
 Percentage Service Rate Increase – Wastewater

	<u>Wastewater</u>
1 Total Test Year Revenues	\$20,308,695
2 Less: Miscellaneous Revenues	<u>\$333,719</u>
3 Test Year Revenues from Service Rates	\$19,974,976
4 Revenue Increase	<u>\$4,635,151</u>
5 Percentage Service Rate Increase (Line 4 / Line 3)	23.20%

XXXVII. STIPULATED (FALL OUT)—Reuse Rates

We approved a Type II Stipulation addressing the appropriate reuse rates, as follows:

The appropriate rate structure is a continuation of the existing rate structure and the percentage increase shall be applied as an across-the-board increase to service rates at the time of filing. To determine the appropriate percentage increase to apply to the service rates, miscellaneous revenues of \$333,719 shall be removed from the test year revenues.

The fall out percentage increase to service rates is as follows:

Table 18
 Percentage Service Rate Increase – Wastewater

	<u>Wastewater</u>
1 Total Test Year Revenues	\$20,308,695
2 Less: Miscellaneous Revenues	<u>\$333,719</u>
3 Test Year Revenues from Service Rates	\$19,974,976
4 Revenue Increase	<u>\$4,635,151</u>
5 Percentage Service Rate Increase (Line 4 / Line 3)	23.20%

XXXVIII. STIPULATED—Customer Deposits

We approved a Type II Stipulation addressing the appropriate customer deposits, as follows:

The appropriate customer deposits for UIF shall reflect an average of two months service for residential customers with a 5/8" x 3/4" meter and two times the average customer bill for all other meter sizes.

XXXIX. STIPULATED—Guaranteed Revenue Charges

We approved a Type II Stipulation addressing the appropriate guaranteed revenue charges, as follows:

The guaranteed revenue charges shall remain unchanged.

XL. Allowance for Funds Used During Construction

A. Parties' Arguments

1. UIF

UIF argued that over the years the cost of capital, which is used to establish the AFUDC rate, has varied above and below the current AFUDC rate. Since the cost of capital varies from year-to-year, UIF contends it is not necessary to change the AFUDC rate. UIF witness Swain argued that UIF's current AFUDC rate of 9.03 percent is in compliance with Commission Order No. PSC-2004-0262-PAA-WS, when the Utility previously petitioned this Commission for an AFUDC rate. UIF argued that if the AFUDC rate is changed, it must be based on a cost of capital rate of 7.889 percent.

2. OPC

OPC argued UIF has not updated its AFUDC rate since 2004, despite the fact that interest rates have declined since 2004. OPC argued that UIF's current AFUDC rate of 9.03 percent is excessive, has been in place for 18 years, and negatively impacts Florida customers by unduly causing current customers to pay higher rates than necessary. OPC witness Crane argued that this Commission should authorize a prospective AFUDC rate of 6.73 percent.

B. Analysis

UIF did not request to revise its AFUDC rate in this proceeding and proposed to maintain its current AFUDC rate of 9.03 percent. OPC witness Crane proposed this Commission authorize a prospective AFUDC rate of 6.73 percent. UIF's current AFUDC rate of 9.03 percent is based on the cost of capital for the 12-month period ended December 31, 2002, which includes an ROE of 11.32 percent. Since that time, UIF's cost of capital has decreased by 201 basis points. Witness Crane testified that the debt rate reflected in the 9.03 percent AFUDC rate is based on a

long-term debt of 7.82 percent and zero short-term debt. Witness Crane opined that in spite of the significant decline in capital costs, UIF has continued to accrue AFUDC at the same rate of 9.03 percent. Based on the record evidence, UIF's current AFUDC rate no longer reflects its current cost of capital and should be revised to reflect UIF's most recent 12-month embedded cost of capital.

Pursuant to Rule 25-30.116(3), F.A.C., the applicable AFUDC rate shall be determined as follows:

(a) The most recent 12-month average embedded cost of capital, except as noted below, shall be derived using all sources of capital and adjusted using adjustments consistent with those used by the Commission in the Company's last rate case.

(b) The cost rates for the components in the capital structure shall be the midpoint of the last allowed return on common equity, the most recent 12-month average cost of short-term debt and customer deposits and a zero cost rate for deferred taxes and all investment tax credits. The cost of long-term debt and preferred stock shall be based on end of period cost. The annual percentage rate shall be calculated to two decimal places.

(c) A company that has not had its equity return set in a rate case must calculate its return on common equity by applying the most recent water and wastewater equity leverage formula.

The embedded cost of capital in the record does not comport with the requirements of Rule 25-30.116, F.A.C. The record does not include the most recent 12-month embedded cost of capital since the approved test year in this case is the 13-month average test year ended December 31, 2019. Further, the cost rates of short-term debt and customer deposits in this case are based on a 13-month average whereas the AFUDC rule requires the use the most recent 12-month average. In addition, the AFUDC rate requires the cost of long-term debt be based on end of period cost, which is not the case in this docket. Because the cost rates and methods to determine the embedded cost of capital filed in the instant docket do not comport with Rule 25-30.116, F.A.C., we find it is more appropriate to determine the AFUDC rate in a separate docket at the conclusion of the instant rate case proceeding. Further, the AFUDC rate established in a new docket would be based on a more recent test year ended December 31, 2020, and be effective January 1, 2021.

C. Conclusion

UIF's AFUDC rate shall not be revised in this proceeding. UIF shall be required to file with this Commission a request to revise its AFUDC rate pursuant to Rule 25-30.116, F.A.C., within 30 days after the issuance of this Final Order in this docket.

XLI. Sewer and Water Improvement Mechanism

A. UIF's Swim Proposal

As part of its request in this proceeding, UIF petitioned this Commission for approval of a Sewer and Water Improvement Mechanism (SWIM), to allow UIF to recover the revenue requirement on capital expenditures for the replacement of aging infrastructure through an annual increase to base rates. UIF's initial plan for the recovery of SWIM-related costs was described in witness Deason's direct testimony, to be recovered through an annual filing in conjunction with UIF's annual index and pass through filings. The testimony provided an outline of how the SWIM program might work, but provided very little substantive detail.

UIF first altered its initial SWIM proposal in response to our staff's discovery, when UIF stated that it was acceptable for the filing to be handled as a docketed case before this Commission, such as a tariff filing. UIF went further in witness Deason's rebuttal testimony and explained that it would be amenable to a process that allows for our review of the costs for prudence and agreed to apply SWIM only to linear infrastructure. He further proffered that UIF would be willing to cap the annual SWIM-related increase in base rates, provided the rate increase was reasonable. He further testified that if SWIM were approved, UIF would agree to a stay-out provision, provided the stay-out timeframe was reasonable. The witness did not provide any testimony as to what would constitute a "reasonable" cap or stay-out timeframe, however. Witness Deason also analogized UIF's proposed SWIM program to the Commission-approved Gas Reliability Infrastructure Program (GRIP), which was initially approved by Order No. PSC-2012-0490-TRF-GU, discussed briefly below.⁵⁶

On cross examination, UIF further modified its proposal to gravitate toward and then to embrace GRIP, with witness Deason testifying that UIF's SWIM proposal was like GRIP; that UIF was not opposed to handling recovery as a separate tariff filing; that UIF would agree to a \$10 million dollar annual cap on expenditures; that GRIP is valid precedent for UIF's SWIM proposal; and UIF would further limit the replacement of linear assets to those that were at or beyond useful life. In its post-hearing brief, UIF further refined its proposal and offered to limit the SWIM program to coincide with UIF's 5-year planning horizon for capital improvements.

As discussed above, UIF witness Deason discussed the natural gas GRIP program as precedent and support for UIF's SWIM proposal. GRIP was designed to accelerate the replacement of cast iron and bare steel pipelines, in order to proactively respond to public concerns regarding aging gas infrastructure reliability and safety. The natural gas utilities who sought approval for GRIP cited to the Pipeline and Hazardous Safety Administration's (PHMSA) amended Federal Pipeline Safety Regulations that required natural gas distribution pipeline operators to develop and implement Distribution Integrity Management Plans (DIMPs). Changes to the Natural Gas Pipeline Safety Act required the Secretary of the Department of

⁵⁶ Issued September 24, 2012, in Docket No. 20120036-GU, *In re: Joint petition for approval of Gas Reliability Infrastructure Program (GRIP) by Florida Public Utilities Company and the Florida Division of Chesapeake Utilities Corporation*. There are three different Commission-approved natural gas utility programs that address the replacement of cast iron and bare steel pipelines, all of which all have a similar process for truing-up the costs associated with those programs. For ease of reference, the term "GRIP" is used throughout this issue.

Transportation (DOT) to review the DIMPs to evaluate the continuing priority to enhance protections for public safety and to reduce risk in high consequence areas. At the time we considered the initial GRIP petition, twenty-four states had established programs for the replacement of cast iron and bare steel pipelines, and several other states had pending programs.

B. Parties' Arguments

1. UIF

a. Justifications for SWIM

UIF asserted that the objective of the SWIM program is the same as that of the GRIP program: to proactively respond to concerns over the reliability and safety of aging infrastructure. Witness Deason testified as to the benefits that would accrue from UIF's proposal, which he asserted would reduce the need for costlier rate proceedings, have positive impacts on economic development, help prioritize capital replacements, and provide improved opportunity for oversight.

UIF argued that the proposed SWIM program is designed to reduce the regulatory lag associated with traditional base rate proceedings through the inclusion of Commission-approved capital expenditures in rates on an annual basis, thus also reducing the Utility's need and frequency for filing rate cases. He stated that this mechanism would benefit customers in the form of reduced rate case expense passed on to the customers, less rate shock, better unit pricing for the investments reflected in rates, along with fewer impacts to UIF's customers and communities through the anticipated replacement schedule. The Utility added that, although the majority of the SWIM projects are related to operational assets (including buildings and other structures for treating and pumping water and wastewater), it would be willing to limit the scope of the projects to the replacement of linear infrastructure (mains and pipes for water and wastewater), if this Commission believes this will optimize the value to the customers.

UIF also stated that not only is SWIM modeled after GRIP, but like GRIP, the SWIM program is authorized pursuant to this Commission's broad ratemaking authority. The Utility maintained that Sections 367.011(2) & (3), 367.081, and 367.121(1)(a) & (d) provide a legal basis for implementing the SWIM program. UIF highlighted in particular Section 367.121(1)(d), F.S., which authorizes this Commission to require repairs and improvements if reasonably necessary to provide adequate and proper service. UIF stated that the objective of the SWIM program is to replace aging water and wastewater infrastructure, and that this Commission addressed much the same need within the gas industry through its approval of the GRIP programs.

As further precedent for its SWIM proposal, UIF relied on our broad ratemaking powers in Sections 366.04, 366.05, and 366.06, F.S. For example, in *Action Group v. Deason*, 615 So. 2d 683 (Fla. 1993), the Florida Supreme Court upheld approval of a 15-year rate rider charged to customers in a specific service area to retire the existing debt of a financially distressed system that Florida Power Corporation had purchased. The Court stated that this Commission had authority under Section 366.04(1), F.S., to fix "just, reasonable, and compensatory rates, charges,

fares, tolls, or rentals” and under Section 366.05(1), F.S., to prescribe “fair and reasonable rates and charges [and] classifications.” The Court stated this authority was to be construed liberally. See also Section 366.041(2), F.S., which provides that the “power and authority herein conferred upon the commission shall . . . be construed liberally to further the legislative intent that adequate service be rendered by public utilities.” UIF also relied on this Commission’s broad ratemaking authority in approving surcharges for Florida Power & Light Company (FPL)⁵⁷ and Progress Energy Florida, Inc. (Progress)⁵⁸ for the recovery of costs incurred after an unusually heavy series of storms. In response to OPC’s arguments, detailed below, UIF argued that a full rate case is not required to change base rates, citing to other “analogous” investment recovery mechanisms approved by this Commission, such as the GRIP and storm surcharges.

b. SWIM’s Cost Recovery Method

UIF’s initial plan for recovery of SWIM related costs was to establish an administrative mechanism similar to the Utility’s annual index and pass through filings pursuant to Section 367.081(4), F.S. Witness Deason explained that under an annual administrative SWIM program, the additional revenue collected would be limited to the return on the investment using the equity and debt components of the weighted average cost of capital from UIF’s prior rate case along with the corresponding depreciation expense pursuant to Rule 25.30-140, F.A.C., grossed up for income taxes. He stated that the Utility was also proposing to combine the recovery of the additional SWIM revenue with its annual index filing, thus merging the two revenue requirements to calculate a combined percentage increase in base rates. As described by witness Deason, the annual administrative SWIM filing would detail this calculation along with the corresponding investments. The filing would also have a projection of scheduled investments for the subsequent two years, along with the estimated corresponding revenue requirements. After the first year of implementation, the Utility would annually file a true-up prior to April 30th for the previous 12-month historical period ending December 31 demonstrating the actual replacement costs, actual index revenue, and any resulting over or under recovery. The timing of the true-up would be such that any over or under recovery amounts could be included in the current year’s SWIM calculation.

Beginning first with responses to discovery requests and then with its rebuttal testimony, UIF modified its initial recovery proposal to adopt a GRIP-like annual tariff filing and to accept a cap of the amount of the annual increase in base rates associated with SWIM projects. UIF also suggested a prudence and cost review process, and to limit recovery under SWIM only to linear infrastructure projects. Witness Deason stated that UIF was not opposed to handling recovery as a separate tariff filing as is done with GRIP. Witness Deason also stated that UIF would agree to a \$10 million annual cap on capital expenditures, and that SWIM projects could be limited to those linear assets at or beyond their useful life. Finally, in its post-hearing brief, UIF discussed all of the above, and concluded by agreeing to a limited initial implementation period of 5 years, which was consistent with UIF’s planning horizon.

⁵⁷ Docket No. 041291-EI, *In re: Petition for authority to recover prudently incurred storm restoration costs related to 2004 storm season that exceed storm reserve balance*, by Florida Power & Light Co.

⁵⁸ Docket No. 041272-EI, *In re: Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan*, by Progress Energy Florida, Inc.

2. OPC

OPC described UIF's proposal for a new sewer and water cost recovery mechanism as unnecessary and stated that the ratemaking process already provides ample opportunities for utilities to conduct prudent maintenance. OPC identified what it deemed as the "fundamental drawback" of UIF's proposal—the lack of substance provided in its initial proposal and the shortcomings of its subsequent efforts to supplement information in rebuttal. OPC argued that this left the Utility's proposal deficient in several aspects, and that UIF has failed to provide support for our approval of the SWIM concept. OPC also objected to UIF's shifting position on how SWIM would be implemented: first in its initial filing as being taken up administratively along with UIF's annual index and pass-through filing, then evolving into a GRIP-like annual filing. OPC objected to the evolution of UIF's proposal taking place so late in the course of the litigation, such that the final approach UIF ultimately endorsed first appeared in UIF's rebuttal testimony and "ad hoc colloquies on re-direct."

OPC further argued that Section 367.081, F.S., was the exclusive means by which Class A water and wastewater utilities could fix or change their rates outside of annual index and pass-through filings. OPC argued that this Commission lacks the authority to create alternative ratemaking methods for Class A water and wastewater utilities based on the specific and limited authority set forth in Section 367.081, F.S. To support its assertion, OPC cited Section 367.0814, F.S., which addresses Commission staff assistance in setting rates for primarily Class C utilities. It explained that the statute contains a specific provision granting this Commission the authority to establish criteria and procedures, by rule, that deviate from the rate setting requirements of Section 367.081, F.S. OPC concluded with the assertion that the elements of due process and protection of the customers' substantial interests are preserved in rate cases, which are required to be conducted pursuant to traditional ratemaking procedures (specifically, pursuant to Sections 367.081, 120.57, and 120.569, F.S.). OPC argued that UIF expects to be given an exemption from statutory requirements, due process requirements, and long-standing Commission prudence-determination policy, supporting such deviation through the filing of a mere eight sentences of direct testimony.

OPC also asserted that SWIM, if adopted, would be subject to reversal "...due to a clear lack of authority to depart from the mandatory statutory method for establishing the prudence of, and method for recovering the cost of, plant additions, and the Commission has no record basis to explain such a departure." OPC argued that UIF failed to meet its burden of proof, provided vague responses on cross-examination, and provided a number of bold claims (including the assertion that SWIM would save customers money on rate case expense) with absolutely no support.

Significantly, according to OPC, GRIP cannot be relied upon to provide precedent for SWIM. OPC pointed out that GRIP is a highly specific, unique approach to a highly specific and well documented problem. Unlike UIF's SWIM proposal, the cast iron and bare steel rider and GRIP cost recovery mechanisms were a specific response to an imminent safety risk in the transportation of a highly combustible product that was subject to a concrete federal requirement and program DIMP. No such circumstances exist or were demonstrated in evidence by UIF. OPC criticized UIF's late attempt to shore up its SWIM proposal by offering to limit recovery to

“linear infrastructure,” noting that the term lacked specifics other than “linear infrastructure” referring to a catch-all generalization encompassing “things that are below ground.”

OPC cited to UIF witness Deason’s rebuttal, in which he noted that in the GRIP order we said, “[h]ere we are approving a similar surcharge, for a *discreet period*, due to *unusual circumstances*.”⁵⁹ OPC also noted that we emphasized in the GRIP order that “[i]t is clear that we have the authority under our broad ratemaking powers found in Sections 366.04, 366.05 and 366.06, F.S., to establish this type of surcharge to recover a discreet set of costs incurred in response to unusual urgent circumstances.”⁶⁰ OPC stated that the terms “surcharge,” “unusual,” and “urgent” are each materially significant in GRIP and do not apply to SWIM. OPC also argued that in approving the GRIP surcharge, we expressly noted the “urgency related to deaths and explosions and the exigency behind the actions of the Federal regulators.” OPC concluded that “For SWIM, there is neither urgency nor regulation nor a regulatory agency that has identified an imminent harm or risk of immediate death or injury if so-called linear facilities are not modernized at UIF’s unbridled whim. GRIP does not justify SWIM.”

OPC also took exception to the reference by witness Deason, made for the first time in rebuttal, to recent sewage spills in Ft. Lauderdale (unrelated to a UIF system), in order to promote the idea that SWIM could proactively prevent such events. On cross-examination, OPC pointed out that witness Deason was unable to identify the cause of the Ft. Lauderdale wastewater spills, or draw a connection between these coastal spills and UIF’s freshwater wastewater systems, or with UIF’s own experience with spills beyond the statement that wastewater spills present health hazards. OPC asserted that in contrast to the detailed, specific projects discussed in the GRIP proposal, UIF would be “looking into” the useful life of facilities that would be subject to SWIM, and later stated that such a process has been ongoing “for several years.” OPC stated that it views UIF’s claim, that SWIM would support economic development at a time when the State is recovering from the economic fallout of the pandemic, as not nearly enough to remedy the complete absence of evidence to support approval of SWIM. OPC concluded that for all these reasons, SWIM is unlawful, unsubstantiated, and should be denied.

C. Analysis

UIF’s initial proposal, briefly outlined in witness Deason’s direct testimony, was to recover SWIM-related costs administratively through an annual filing in conjunction with UIF’s annual index and pass through filings. Minimal detail was provided explaining the need for the program or the benefits to the customers of approving such a program. As the docket progressed, UIF’s request evolved to propose recovery of costs via GRIP-like tariff filings, which would establish a surcharge to be trued-up annually based upon actual and projected costs. OPC noted that when witness Deason was asked to explain why the SWIM program wasn’t more fully developed, he responded that he intended to do so in response to our staff and OPC’s inquiries in the course of the docket. OPC contends – and we agree – that it is not the burden of this Commission, our staff, or OPC to extract details from the Utility to support its request. OPC

⁵⁹ Order No. PSC-2012-0490-TRF-GU, at 11. (Emphasis added in OPC’s brief)

⁶⁰ *Id.* at 10

argued that the ad hoc process by which UIF has attempted to shore-up support for its SWIM proposal does not provide the other participants in the docket, or this Commission, with a meaningful opportunity to examine the program. OPC witness Crane characterized the details of UIF's SWIM program as "vague, incomplete, and inadequate for purposes of a thorough analysis." We agree with witness Crane's assessment.

As a possible benefit of UIF's proposal, witness Flynn stated that local and state economies are positively impacted by the capital investment needed to replace and repair failing infrastructure. However, he did not distinguish between the benefit of the replacement of aging water and wastewater infrastructure recovered through a SWIM program and the replacement of infrastructure that would be completed in the normal course of business and recovered through a rate case or limited proceeding. Indeed, it appears that these capital investments are actually part of an ongoing, routine, and significant component of cost for the water and wastewater utility, rather than required to abate a certain hazard or immediate public safety concern.

Witness Flynn also characterized the issues pertaining to aging water and wastewater infrastructure as a nationwide problem jeopardizing reliable access to safe water, and described the potential negative economic impacts of failing essential infrastructure at a macro level, such as business failure and costs associated with lost water and leaks. Witness Flynn stated that UIF has invested more than \$90 million in its Florida systems over the past 10 years to better serve its customers in a safe and reliable manner. However, he failed to provide evidence concerning how SWIM would significantly improve UIF's ability to make similar capital investments in the future. Witness Flynn also explained that PCF-46, a 5-year capital improvement plan (CIP) developed by Kimley-Horn and Associates, was developed as part of the Utility's plan to replace assets that have exceeded or are approaching the end of their service lives. In Exhibit PCF-46, UIF provided detail and estimates for each project in the CIP, as well as a general summary of the recommended projects and the associated total costs for each of the 5 years. Witness Flynn's statement that these planned projects were primarily related to linear assets, with some vertical assets as well, became more relevant when UIF later conceded that it would be willing to limit SWIM recovery to the replacement of linear infrastructure.

While UIF witness Deason analogized the replacement of cast iron and bare steel pipe under GRIP as "very similar" to the issue of replacing aging water and wastewater infrastructure, he admitted to not researching the facts and circumstances leading to the GRIP order. The proposed SWIM program responds to no federal or state legislation or regulatory mandates, and fails to identify specific assets which, barring accelerated replacement via SWIM, pose a risk of injury or death.

Despite UIF's contention that it modelled SWIM after GRIP, UIF failed to provide justification for either the replacement of linear infrastructure or the accelerated recoupment of its costs. GRIP was predicated upon a federally mandated program to identify known hazardous gas pipes for remediation. Natural gas utilities were required by law to develop DIMPs, and then use those plans to enhance safety and reduce risks to their systems.⁶¹ Changes to the Natural Gas Pipeline Safety Act required DOT to review the DIMPs to evaluate the continuing priority to

⁶¹ Order No. PSC-2012-0490-TRF-GU, at 1-2.

enhance protections for public safety and to reduce risk in high consequence areas. For example, the companies' DIMPs identified specific assets as risks, such as bare steel pipes. The installation of these pipes had been prohibited since the early 1970s and are vulnerable to leaks, which can result in catastrophic injury, death, or destruction of property in the event of failure. In support of GRIP, the natural gas companies asserted that the federal regulatory findings compelled them to conduct an evaluation and abate the hazards associated with cast iron and bare steel mains and services that would ultimately fail due to age, leak history, soil conditions, and other pertinent criteria, and stated that these concerns ranked highest in "threats and risks to its gas distribution pipeline."⁶²

We agree with OPC that the Utility has provided very little evidence to support a finding that SWIM should be approved for the same reasons GRIP was approved. We have not approved any similar program for a regulated water or wastewater utility, and UIF has provided no persuasive evidence to support the cost recovery of large capital projects for water and wastewater utilities via its SWIM proposal. As UIF's concept of its proposed SWIM program has evolved, it appears that the intention of the program is to accelerate recovery of routine and unremarkable capital investment, rather than accelerate the replacement of aging infrastructure due to safety concerns.

Other examples cited by UIF in support of its SWIM proposal involved our approval of a surcharge to Florida Power Corporation's customers associated with the purchase of Sebring Utilities Commission's system,⁶³ and two storm cost recovery surcharges by FPL⁶⁴ and Progress.⁶⁵ However, in each of these instances, the surcharges in question were created to address cost recovery associated with unique and exigent circumstances, after being fully vetted in a Commission proceeding. As noted above, UIF invites a comparison to this Commission's precedent for the recovery of extraordinary expenditures incurred after an unusually heavy series of storms, but provided no evidence of "extraordinary circumstances" or "unusually heavy series of storms" or other unique events that were central to these Commission-approved precedents.⁶⁶

Finally, in support of our authority to approve the proposed SWIM program, UIF highlighted Section 367.121(1)(d), F.S., which authorizes us to require repairs and improvements if reasonably necessary to provide adequate and proper service. Based on our review, it appears that our only utilization of this authority was for Aloha Utilities, Inc., whose customers had been experiencing "black water" problems for years. Specifically, we required the utility to make improvements to Wells Nos. 8 and 9, and then to all its wells, to implement a treatment process designed to remove at least 98 percent of the hydrogen sulfide in its raw water.⁶⁷ Aloha Utilities,

⁶² *Id.*

⁶³ *Action Group v. Deason*, 615 So. 2d 683 (Fla. 1993).

⁶⁴ Order No. PSC-06-1062-TRF-EI, issued December 26, 2006, in Docket No. 041291-EI, *In re: Petition for authority to recover prudently incurred storm restoration costs related to 2004 storm season that exceed storm reserve balance, by Florida Power & Light Co.*

⁶⁵ Order No. PSC-06-0772-PAA-EI, issued September 18, 2006, in Docket No. 041272-EI, *In re: Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.*

⁶⁶ *Id.*

⁶⁷ Order No. PSC-02-0593-FOF-WU, issued April 30, 2002, in Docket No. 010503-WU, *In re: Application for increase in water rates for Seven Springs System in Pasco County by Aloha Utilities, Inc.*

Inc. appealed our final decision requiring these improvements, but the First District Court of Appeals affirmed our Final Order on May 6, 2003.⁶⁸

D. Conclusion

We have broad ratemaking authority under Chapter 367, F.S. Notwithstanding that broad authority, we find that UIF has failed to meet its burden of proof to support the utility's requested SWIM program. It is well established in case and statutory law that the utility has the burden of proof to demonstrate the reasonableness and prudence of the costs for which it seeks recovery. *Florida Power Corp. v. Cresse*, 413 So. 2d 1187 (1982), at 1191. Therefore, for the reasons discussed above, we hereby deny UIF's SWIM program request.

XLII. Interim Refunds

A. Parties' Arguments

1. UIF

In its brief, UIF cited the requirements contained in Section 367.082, F.S., for calculating refunds. It further cited Rule 25-30.360(4),(7), and (8), F.A.C., for implementing refunds, and stated that the Corporate Undertaking of UIF and the Corporate Guarantee of Utilities, Inc. should be released upon the verification of any required refunds by the Commission staff, or, if no refund is required, upon the issuance of the Final Order.

2. OPC

In its brief, OPC stated that refunds should be calculated in accordance with this Commission's findings and the rates established in this case.

B. Analysis

We authorized UIF to collect interim water and wastewater rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirement for water of \$17,217,167 represented an increase of \$918,223, or 5.63 percent. The approved interim revenue requirement for wastewater of \$20,988,143 represented an increase of \$1,051,222, or 5.27 percent.⁶⁹

According to Section 367.082(4), F.S., any refund shall be calculated to reduce the rate of return of the Utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not

⁶⁸ Aloha Utilities, Inc. v. Florida Public Service Commission, 848 So. 2d 307 (Fla. 1st DCA 2003); see also Order No. PSC-03-1157-PCO-WU, issued October 20, 2003, in Docket No. 010503-WU, *In re: Application for increase in water rates for Seven Springs System in Pasco County by Aloha Utilities, Inc.*

⁶⁹ Order No. PSC-2020-0322-PCO-WS, issued September 21, 2020, in Docket No. 20200139-WS, *In re: Application for increase in water and wastewater rates in Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole Counties, by Utilities, Inc. of Florida.*

relate to the period that interim rates are in effect shall be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

To establish the proper refund amounts, we calculated interim period revenue requirements by utilizing the same data used to establish final rates. Current rate case expense and incomplete pro forma projects were removed because these items are prospective in nature and did not occur during the interim collection period. Using the principles discussed above, the granted interim test year revenue requirements are less than the calculated interim period revenue requirement.

C. Conclusion

No interim refund shall be required because the total interim collection period revenue requirement calculated is greater than the total interim revenue requirement that was granted. As a result, the corporate undertaking amount of \$1,810,655 shall be released.

XLIII. Removal of Current Rate Case Expense

A. Parties' Arguments

1. UIF

Pursuant to Section 367.081(8), F.S., rate case expense is recovered over four years unless a longer period is justified and is in the public interest. UIF asserted that there was no evidence presented to warrant a variance of the four-year amortization period. Based on the stipulation of total rate case expense in Issue 25, UIF contends rates should be reduced after four years to reflect an annual decrease in revenues of \$185,771.

2. OPC

No argument was provided in OPC's brief.

B. Analysis

Section 367.081(8), F.S., requires that rates be reduced immediately following the expiration of the determined amortization period by the amount of the rate case expense previously included in rates. After weighing the evidence put forth in the record, we find that a four-year amortization period is appropriate. The reduction in revenues will result in the rate decrease as shown on Schedule Nos. 4-A and 4-B, which will remove rate case expense grossed-up for RAFs of \$101,427 for water and \$93,098 for wastewater.

C. Conclusion

UIF's water and wastewater rates shall be reduced as shown on Schedule Nos. 4-A and 4-B, respectively. This is to remove rate case expense, grossed up for RAFs, which is being amortized over a four-year period and will result in a reduction of \$101,427 for water

and \$93,098 for wastewater. The decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period pursuant to Section 367.081(8), F.S. UIF shall be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The Utility shall also be required to file a proposed customer notice of the lower rates and the reason for the reduction. If UIF files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase, and the reduction in the rates due to the amortized rate case expense.

XLIV. Commission Ordered Adjustments

A. Parties' Arguments

In its brief, UIF stated "Consistent with Commission policy, UIF should make the Commission approved adjustments and advise the Commission accordingly within 90 days of the Final Order being effective." No argument was provided in OPC's brief.

B. Analysis

The Utility shall be required to notify this Commission, in writing, that it has adjusted its books in accordance with any Commission ordered adjustments. UIF shall submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice shall be provided within seven days prior to the deadline. Upon providing good cause, our staff shall be given administrative authority to grant an extension of up to 60 days.

C. Conclusion

UIF The Utility shall be required to notify this Commission, in writing, that it has adjusted its books in accordance with any Commission ordered adjustments. UIF shall submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice shall be provided within seven days prior to the deadline. Upon providing good cause, our staff shall be given administrative authority to grant an extension of up to 60 days.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Application for increase in water and wastewater rates in Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole Counties, by Utilities, Inc. of Florida, is hereby approved as set forth in the body of this Order. It is further

ORDERED that all matters contained in the attached schedules and appendices are incorporated herein by reference. It is further

ORDERED that UIF is hereby authorized to charge the new rates and charges as approved in the body of this Order. It is further

ORDERED that the rates and charges approved herein shall 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. The rates and charges shall not be implemented until Commission staff has approved the proposed customer notice and the notice has been received by the customers. It is further

ORDERED that UIF shall provide proof of the date notice was given no less than 10 days after the date of the notice. It is further

ORDERED that the quality of service for all UIF systems is satisfactory with the exclusion of the Pennbrooke water, Sanlando (Wekiva Hunt Club) wastewater, and Mid-County wastewater systems, which are unsatisfactory, as shown in Table 1. All existing ROE penalties associated with prior quality of service determinations shall be removed and a reduction of 15 basis points to the Utility's overall ROE shall be implemented due to the unsatisfactory quality of service of the three aforementioned systems. However, the secondary water quality reporting and testing requirements, pursuant to Order No. PSC-16-0505-PAA-WS for Summertree shall be continued, but shall now be conducted on an annual basis, instead of a semi-annual basis. It is further

ORDERED that the appropriate ROE for the test year ended December 31, 2019 is 9.75 percent, which includes a 15 basis point penalty for unsatisfactory service quality, with a range of plus or minus 100 basis points. It is further

ORDERED that a new Allowance for Funds Used During Construction (AFUDC) rate shall not be established in this docket. The Utility shall be required to file with the Commission a request to revise its AFUDC rate pursuant to Rule 25-30.116, F.A.C., within 30 days after the issuance of this Final Order. It is further

ORDERED that Utilities, Inc. of Florida's request for a Sewer and Water Improvement Mechanism shall be denied. It is further

ORDERED that no interim refund is required, and the corporate undertaking amount of \$1,810,655 shall be released. It is further

ORDERED that Utilities, Inc. of Florida's water and wastewater rates shall be reduced as shown on Schedule Nos. 4-A and 4-B, respectively, to remove rate case expense, grossed up for RAFs, which is being amortized over a four-year period and shall result in a reduction of \$101,427 for water and \$93,098 for wastewater. The decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period pursuant to Section 367.081(8), F.S. The Utility shall file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The Utility shall also be required to file a proposed customer notice of the lower rates and the reason for the reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data

ORDER NO. PSC-2021-0206-FOF-WS
DOCKET NO. 20200139-WS
PAGE 133

shall be filed for the price index and/or pass-through increase, and the reduction in the rates due to the amortized rate case expense. It is further

ORDERED that the Utility shall be required to notify this Commission, in writing that it has adjusted its books in accordance with any Commission ordered adjustments. Utilities, Inc. of Florida shall submit a letter within 90 days of the final order in this docket confirming that the adjustments to all applicable NARUC USOA accounts have been made to the Utility's books and records. In the event that the Utility needs additional time to complete the adjustments, notice shall be provided within seven days prior to the deadline. Upon providing good cause, Commission staff shall be given administrative authority to grant an extension of up to 60 days. It is further

ORDERED that this docket shall remain open for Commission staff's verification that the Utility has filed the revised tariff sheets, customer notices have been filed, and that the Utility has notified the Commission in writing that the adjustments for all applicable NARUC USOA primary accounts have been made. Once these actions are complete, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 4th day of June, 2021.



ADAM J. TEITZMAN
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
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Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

BYL, WLT

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater utility by filing a notice of appeal with the Office of Commission Clerk, and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

Utilities, Inc. of Florida		Schedule No. 1-A			
Schedule of Water Rate Base		Docket No. 20200139-WS			
Test Year Ended 12/31/19					
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year
1 Plant in Service	\$121,858,071	(\$2,795,312)	\$119,062,759	(\$159,144)	\$118,903,615
2 Land and Land Rights	296,859	0	296,859	0	296,859
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(51,397,784)	5,249,620	(46,148,164)	10,950	(46,137,214)
5 CIAC	(41,304,592)	87,827	(41,216,765)	(23,857)	(41,240,622)
6 Accumulated Amortization of CIAC	20,893,605	(88,677)	20,804,928	23,857	20,828,785
7 Construction Work in Progress	2,628,722	(2,628,722)	0	0	0
8 Advances for Construction	(36,767)	0	(36,767)	0	(36,767)
9 Acquisition Adjustments	56,355	(56,355)	0	0	0
10 Accumulated Amortization of Acq. Adj.	192,642	(192,642)	0	0	0
11 Working Capital Allowance	<u>0</u>	<u>4,151,132</u>	<u>4,151,132</u>	<u>(2,355,199)</u>	<u>1,795,933</u>
12 Rate Base	<u>\$53,187,111</u>	<u>\$3,726,871</u>	<u>\$56,913,982</u>	<u>(\$2,503,393)</u>	<u>\$54,410,589</u>

Utilities, Inc. of Florida		Schedule No. 1-B			
Schedule of Wastewater Rate Base		Docket No. 20200139-WS			
Test Year Ended 12/31/19					
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year
1 Plant in Service	\$131,296,074	\$23,256,173	\$154,552,247	(\$1,310,743)	\$153,241,504
2 Land and Land Rights	583,041	0	583,041	0	583,041
3 Non-used and Useful Components	0	(928,928)	(928,928)	(284,620)	(1,213,548)
4 Accumulated Depreciation	(57,140,576)	2,869,610	(54,270,966)	102,035	(54,168,931)
5 CIAC	(44,997,031)	753,220	(44,243,811)	104,784	(44,139,027)
6 Accumulated Amortization of CIAC	30,720,963	(2,217,848)	28,503,115	(104,784)	28,398,331
7 CWIP	(605,083)	605,083	0	0	0
8 Advances for Construction	1,315	0	1,315	0	1,315
9 Acquisition Adjustment	1,238,784	(1,238,784)	0	0	0
10 Accumulated Amortization of Acq. Adj.	(163,693)	163,693	0	0	0
11 Working Capital Allowance	<u>0</u>	<u>5,551,167</u>	<u>5,551,167</u>	<u>(2,973,713)</u>	<u>2,577,454</u>
12 Rate Base	<u>\$60,933,794</u>	<u>\$28,813,386</u>	<u>\$89,747,180</u>	<u>(\$4,467,041)</u>	<u>\$85,280,139</u>

Utilities, Inc. of Florida		Schedule No. 1-C	
Adjustments to Rate Base		Docket No. 20200139-WS	
Test Year Ended 12/31/19			
<u>Explanation</u>	<u>Water</u>	<u>Wastewater</u>	
<u>Plant In Service</u>			
1 Pro Forma Plant Additions (I-3)	(\$150,054)	(\$1,276,038)	
2 Pro Forma Plant Retirements (I-4)	(9,090)	(34,706)	
Total	(\$159,144)	(\$1,310,743)	
<u>Non-used and Useful</u>			
Non-Used and Useful Adjustments (I-9)	\$0	(\$284,620)	
<u>Accumulated Depreciation</u>			
1 Pro Forma Plant Additions (I-3)	\$1,861	\$67,329	
2 Pro Forma Plant Retirements (I-4)	9,090	34,706	
Total	\$10,950	102,035	
<u>CIAC</u>			
Pro Forma Plant Retirements (I-4)	(\$23,857)	\$104,784	
<u>Accumulated Amortization of CIAC</u>			
Pro Forma Plant Retirements (I-4)	\$23,857	(\$104,784)	
<u>Working Capital</u>			
1 Pro Forma Cash Adjustment (I-16)	(\$2,355,199)	(\$3,061,123)	
2 Pro Forma Studies and Preliminary Investigations Adjustment (I-16)	0	(4,453)	
3 Miscellaneous Deferred Debits Adjustment (I-16)	0	91,863	
	(\$2,355,199)	(\$2,973,713)	

Utilities, Inc. of Florida							Schedule No. 2	
Capital Structure-13-Month Average							Docket No. 20200139-WS	
Test Year Ended 12/31/19								
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility								
1 Long-term Debt	\$257,846,154	\$0	\$257,846,154	(\$196,846,833)	\$60,999,321	41.59%	5.78%	2.40%
2 Short-term Debt	28,461,538	0	28,461,538	(21,729,943)	6,731,595	4.59%	4.04%	0.19%
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4 Common Equity	279,391,931	0	279,391,931	(213,293,817)	66,098,114	45.07%	11.75%	5.30%
5 Customer Deposits	248,501	0	248,501	0	248,501	0.17%	2.00%	0.00%
6 Tax Credits-Zero cost	73,443	0	73,443	0	73,443	0.05%	0.00%	0.00%
7 Deferred Income Taxes	7,143,896	12,554	7,156,450	0	7,156,450	4.88%	0.00%	0.00%
8 Excess Deferred Tax Liability	<u>5,647,645</u>	<u>(293,820)</u>	<u>5,353,825</u>	<u>0</u>	<u>5,353,825</u>	<u>3.65%</u>	0.00%	0.00%
9 Total Capital	<u>\$578,813,108</u>	<u>(\$281,266)</u>	<u>\$578,531,842</u>	<u>(\$431,870,593)</u>	<u>\$146,661,249</u>	<u>100.00%</u>		<u>7.89%</u>
Per Commission								
10 Long-term Debt	\$257,846,154	\$0	\$257,846,154	(\$200,023,986)	\$57,822,168	41.39%	5.78%	2.39%
11 Short-term Debt	28,461,538	0	28,461,538	(22,079,020)	6,382,518	4.57%	4.04%	0.18%
12 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
13 Common Equity	279,391,931	0	279,391,931	(216,738,108)	62,653,823	44.85%	9.75%	4.37%
14 Customer Deposits	248,501	0	248,501	0	248,501	0.18%	2.00%	0.00%
15 Tax Credits-Zero cost	73,443	0	73,443	0	73,443	0.05%	0.00%	0.00%
16 Deferred Income Taxes	7,156,450	0	7,156,450	0	7,156,450	5.13%	0.00%	0.00%
17 Excess Deferred Tax Liability	<u>5,353,825</u>	<u>0</u>	<u>5,353,825</u>	<u>0</u>	<u>5,353,825</u>	<u>3.83%</u>	0.00%	<u>0.00%</u>
18 Total Capital	<u>\$578,531,842</u>	<u>\$0</u>	<u>\$578,531,842</u>	<u>(\$438,841,114)</u>	<u>\$139,690,728</u>	<u>100.00%</u>		<u>6.95%</u>
						<u>LOW</u>	<u>HIGH</u>	
					RETURN ON EQUITY	<u>8.75%</u>	<u>10.75%</u>	
					OVERALL RATE OF RETURN	<u>6.51%</u>	<u>7.40%</u>	

Utilities, Inc. of Florida							Schedule No. 3-A	
Statement of Water Operations							Docket No. 20200139-WS	
Test Year Ended 12/31/19								
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement	
1 Operating Revenues:	<u>\$16,396,327</u>	<u>\$3,020,045</u>	<u>\$19,416,372</u>	<u>(\$2,794,456)</u>	<u>\$16,621,916</u>	<u>\$1,696,108</u> 10.20%	<u>\$18,318,024</u>	
Operating Expenses								
2 Operation & Maintenance	\$8,659,460	\$373,246	\$9,032,706	(\$206,949)	\$8,825,757		\$8,825,757	
3 Depreciation	2,885,066	192,476	3,077,542	(1,995)	3,075,547		3,075,547	
4 Amortization	0	50,263	50,263	46	50,309		50,309	
5 Taxes Other Than Income	1,653,481	203,117	1,856,598	(134,050)	1,722,548	76,325	1,798,873	
6 Income Taxes	<u>(528,046)</u>	<u>1,437,320</u>	<u>909,274</u>	<u>(533,881)</u>	<u>375,393</u>	<u>408,589</u>	<u>783,983</u>	
7 Total Operating Expense	<u>12,669,961</u>	<u>2,256,422</u>	<u>14,926,383</u>	<u>(876,829)</u>	<u>14,049,554</u>	<u>484,914</u>	<u>14,534,468</u>	
8 Operating Income	<u>\$3,726,366</u>	<u>\$763,623</u>	<u>\$4,489,989</u>	<u>(\$1,917,627)</u>	<u>\$2,572,362</u>	<u>\$1,211,194</u>	<u>\$3,783,556</u>	
9 Rate Base	<u>\$53,187,111</u>		<u>\$56,913,982</u>		<u>\$54,410,589</u>		<u>\$54,410,589</u>	
10 Rate of Return	<u>7.01%</u>		<u>7.89%</u>		<u>4.73%</u>		<u>6.95%</u>	

Utilities, Inc. of Florida							Schedule No. 3-B	
Statement of Wastewater Operations							Docket No. 20200139-WS	
Test Year Ended 12/31/19								
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement	
1 Operating Revenues:	<u>\$20,840,529</u>	<u>\$5,987,039</u>	<u>\$26,827,568</u>	<u>(\$6,518,873)</u>	<u>\$20,308,695</u>	<u>\$4,635,151</u> 22.82%	<u>\$24,943,846</u>	
Operating Expenses								
2 Operation & Maintenance	\$10,494,286	\$575,233	\$11,069,519	(\$411,479)	\$10,658,040		\$10,658,040	
3 Depreciation	3,773,374	870,142	4,643,516	(108,192)	4,535,324		4,535,324	
4 Amortization	0	110,166	110,166	121,916	232,082		232,082	
5 Taxes Other Than Income	1,872,394	617,804	2,490,198	(339,107)	2,151,091	208,582	2,359,673	
6 Income Taxes	<u>(484,700)</u>	<u>1,918,645</u>	<u>1,433,945</u>	<u>(1,321,952)</u>	<u>111,993</u>	<u>1,116,599</u>	<u>1,228,591</u>	
7 Total Operating Expense	<u>15,655,354</u>	<u>4,091,990</u>	<u>19,747,344</u>	<u>(2,058,814)</u>	<u>17,688,530</u>	<u>1,325,180</u>	<u>19,013,710</u>	
8 Operating Income	<u>\$5,185,175</u>	<u>\$1,895,049</u>	<u>\$7,080,224</u>	<u>(\$4,460,059)</u>	<u>\$2,620,165</u>	<u>\$3,309,971</u>	<u>\$5,930,136</u>	
9 Rate Base	<u>\$60,933,794</u>		<u>\$89,747,180</u>		<u>\$85,280,139</u>		<u>\$85,280,139</u>	
10 Rate of Return	<u>8.51%</u>		<u>7.89%</u>		<u>3.07%</u>		<u>6.95%</u>	

Utilities, Inc. of Florida		Schedule 3-C	
Adjustment to Operating Income		Docket No. 20200139-WS	
Test Year Ended 12/31/19		Page 1 of 2	
<u>Explanation</u>	<u>Water</u>	<u>Wastewater</u>	
<u>Operating Revenues</u>			
1 Remove requested final revenue increase or decrease.	(\$2,823,848)	(\$6,529,383)	
2 Test Year Revenues (I-24)	<u>17,989</u>	<u>2,813</u>	
Total	<u>(\$2,794,456)</u>	<u>(\$6,518,873)</u>	
<u>Operation and Maintenance Expense</u>			
1 Stipulated Rate Case Expense (I-25)	(\$5,930)	(\$5,443)	
2 Pro Forma WWTP Permitting Expense (I-26)	0	10,250	
3 Pro Forma I&I Inspection Expense (I-26)	0	15,278	
4 Pro Forma Capitalized Labor (I-26)	(61,245)	(353,675)	
5 Pro Forma Positions - Salaries & Wages Expense (I-26)	(15,121)	(13,879)	
6 Pro Forma Positions - Pensions & Benefits Expense (I-26)	(7,830)	(7,187)	
7 Pro Forma Positions - Telephone Expense (I-26)	(959)	(879)	
8 Pro Forma Transportation Expense - New Positions (I-26)	(2,316)	(2,126)	
9 Pro Forma Chemicals Expense - Lake Groves (I-26)	(28,914)	0	
10 Pro Forma Chemicals Expense - Summertree (I-26)	(5,000)	0	
11 Pro Forma Contractual Services - Testing Expense - Summertree (I-26)	(24,500)	0	
12 Pro Forma Contractual Services - Other Expense - Summertree (I-26)	0	(5,400)	
13 Pro Forma Contractual Services - Other Expense - Eagle Ridge (I-26)	0	7,200	
14 Non-Qualified Retirement Expense (I-27)	(28,592)	(26,245)	
15 Lobbying Expense (I-27)	(23,894)	(21,933)	
16 Holiday Party Expense (I-27)	(2,648)	(2,431)	
17 Infiltration & Inflow - Purchased Wastewater (I-27)	0	(4,901)	
18 Infiltration & Inflow - Purchased Power (I-27)	0	(107)	
Total	<u>(\$206,949)</u>	<u>(\$411,479)</u>	
<u>Depreciation Expense - Net</u>			
1 Pro Forma Plant Additions (I-3)	(\$1,861)	(\$67,329)	
2 Pro Forma Plant Retirements - Depreciation Expense (I-4)	976	1,657	
3 Pro Forma Plant Retirements - CIAC Amortization (I-4)	(1,111)	(14,061)	
4 Non-Used and Useful Adjustments (I-9)	0	(28,459)	
Total	<u>\$1,995</u>	<u>(\$108,192)</u>	
<u>Amortization-Other Expense</u>			
Stipulated Amortization Expense (I-28)	<u>\$46</u>	<u>\$121,916</u>	

Utilities, Inc. of Florida		Schedule 3-C	
Adjustment to Operating Income		Docket No. 20200139-WS	
Test Year Ended 12/31/19		Page 2 of 2	
<u>Explanation</u>	<u>Water</u>	<u>Wastewater</u>	
<u>Taxes Other Than Income</u>			
1	RAFs on revenue adjustments above.	(\$125,751)	(\$293,349)
2	Pro Forma Plant Additions (I-3)	(2,328)	(7,778)
3	Non-Used and Useful Adjustments (I-9)	0	(9,743)
4	Pro Forma Capitalized Labor (I-26)	(4,685)	(27,056)
5	Pro Forma Positions - Payroll Taxes (I-26)	(1,287)	(1,181)
	Total	<u>(\$134,050)</u>	<u>(\$339,107)</u>

Utilities Inc. of Florida					Schedule No. 4-A
Test Year Ended 12/31/19					Docket No. 20200139-WS
Water Rates					
	Utility's Existing Rates	Commission Approved Interim Rates	Utility's Proposed Final Rates	Commission Approved Rates	Four Year Rate Reduction
<u>Residential and General Service</u>					
Base Facility Charge by Meter Size					
5/8" x 3/4"	\$11.28	\$11.71	\$13.23	\$12.46	\$0.07
3/4"	\$16.92	\$17.57	\$19.85	\$18.69	\$0.11
1"	\$28.20	\$29.28	\$33.08	\$31.15	\$0.18
1-1/2"	\$56.40	\$58.55	\$66.17	\$62.30	\$0.35
2"	\$90.24	\$93.68	\$105.86	\$99.68	\$0.56
3"	\$180.48	\$187.36	\$211.73	\$199.36	\$1.12
4"	\$282.00	\$292.75	\$330.83	\$311.50	\$1.75
6"	\$564.00	\$585.50	\$661.65	\$623.00	\$3.50
8"	\$902.40	\$936.80	\$1,058.64	\$996.80	\$5.60
10"	\$1,635.60	\$1,697.95	\$1,918.79	\$1,806.70	\$10.15
Charge per 1,000 gallons - Residential Service					
0-4,000 gallons	\$1.59	\$1.65	\$1.87	\$1.76	\$0.01
4,001-12,000 gallons	\$2.37	\$2.46	\$2.78	\$2.62	\$0.01
Over 12,000 gallons	\$3.96	\$4.11	\$4.65	\$4.37	\$0.02
Charge per 1,000 gallons - General Service					
	\$2.68	\$2.78	\$3.14	\$2.96	\$0.02
<u>Private Fire Protection Service</u>					
1 1/2"	\$4.70	\$4.88	\$5.51	\$5.19	\$0.03
2"	\$7.52	\$7.81	\$8.82	\$8.31	\$0.05
3"	\$15.04	\$15.61	\$17.64	\$16.61	\$0.09
4"	\$23.50	\$24.40	\$27.57	\$25.96	\$0.15
6"	\$47.00	\$48.79	\$55.14	\$51.92	\$0.29
8"	\$75.20	\$78.07	\$88.22	\$83.07	\$0.47
10"	\$136.30	\$141.50	\$159.90	\$150.56	\$0.85
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>					
3,000 Gallons	\$16.05	\$16.66	\$18.84	\$17.74	
6,000 Gallons	\$22.38	\$23.23	\$26.27	\$24.74	
8,000 Gallons	\$27.12	\$28.15	\$31.83	\$29.98	

Utilities Inc. of Florida		Schedule No. 4-B			
Test Year Ended 12/31/19		Docket No. 20200139-WS			
Wastewater Rates		Page 1 of 2			
	Utility's Existing Rates	Commission Approved Interim Rates	Utility's Proposed Final Rates	Commission Approved Rates	Four Year Rate Reduction
<u>Residential Service (RS1)</u>					
All Meter Sizes	\$26.72	\$27.63	\$35.44	\$32.92	\$0.13
Charge per 1,000 gallons (8,000 gallon cap)	\$4.27	\$4.42	\$5.66	\$5.26	\$0.02
<u>Residential Service (RS2)</u>					
All Meter Sizes	\$53.44	\$55.26	\$70.89	\$65.84	\$0.25
Charge per 1,000 gallons (16,000 gallon cap)	\$4.27	\$4.42	\$5.66	\$5.26	\$0.02
<u>Residential Service (RS3)</u>					
Flat Rate	\$48.06	\$49.70	\$63.75	\$59.21	\$0.22
<u>Residential Service (RS4)</u>					
Flat Rate	\$96.13	\$99.40	\$127.52	\$118.42	\$0.45
<u>Residential Reuse Service (RSS1)</u>					
All Meter Sizes	\$7.92	\$7.92	\$10.51	\$9.76	\$0.04
Charge per 1,000 Gallons	\$1.50	\$1.50	\$1.99	\$1.85	\$0.01
<u>General Service (GS1)</u>					
Base Facility Charge by Meter Size					
5/8" x 3/4"	\$26.72	\$27.63	\$35.44	\$32.92	\$0.13
3/4"	\$40.08	\$41.45	\$53.17	\$49.38	\$0.20
1"	\$66.80	\$69.08	\$88.61	\$82.30	\$0.33
1-1/2"	\$133.60	\$138.15	\$177.22	\$164.60	\$0.65
2"	\$213.76	\$221.04	\$283.55	\$263.36	\$1.04
3"	\$427.52	\$442.08	\$567.10	\$526.72	\$2.08
4"	\$668.00	\$690.75	\$886.10	\$823.00	\$3.25
6"	\$1,336.00	\$1,381.50	\$1,772.19	\$1,646.00	\$6.50
8"	\$2,137.60	\$2,210.40	\$2,835.51	\$2,633.60	\$10.40
10"	\$3,874.40	\$4,006.35	\$5,139.36	\$4,773.40	\$18.85
Charge per 1,000 gallons	\$5.11	\$5.29	\$6.78	\$6.30	\$0.02

Utilities Inc. of Florida			Schedule No. 4-B		
Test Year Ended 12/31/19			Docket No. 20200139-WS		
Wastewater Rates			Page 2 of 2		
	Utility's Existing Rates	Commission Approved Interim Rates	Utility's Proposed Final Rates	Commission Approved Rates	Four Year Rate Reduction
<u>General Service (GS2)</u>					
5/8" x 3/4"	\$53.44	\$55.26	\$70.89	\$65.84	\$0.25
3/4"	\$80.16	\$82.89	\$106.33	\$98.76	\$0.38
1"	\$133.60	\$138.15	\$177.22	\$164.60	\$0.63
1 1/2"	\$267.20	\$276.30	\$354.44	\$329.20	\$1.25
2"	\$427.52	\$442.08	\$567.10	\$526.72	\$2.00
3"	\$855.04	\$884.16	\$1,134.20	\$1,053.44	\$4.00
4"	\$1,336.00	\$1,381.50	\$1,772.19	\$1,646.00	\$6.25
6"	\$2,672.00	\$2,763.00	\$3,544.39	\$3,292.00	\$12.50
8"	\$4,275.20	\$4,420.80	\$5,671.02	\$5,267.20	\$20.00
10"	\$7,748.80	\$8,012.70	\$10,278.73	\$9,546.80	\$36.25
Charge per 1,000 gallons	\$5.11	\$5.29	\$6.78	\$6.30	\$0.02
<u>General Service (GS3)</u>					
Flat Rate	\$48.06	\$49.70	\$63.75	\$59.21	\$0.22
<u>General Service (GS4)</u>					
Flat rate (905 ERCs)	\$43,494.30	\$44,978.50	\$57,694.88	\$53,585.05	\$203.62
<u>Bulk Service (BS1)</u>					
All Meter Sizes (58 ERCs)	\$1,549.76	\$1,602.54	\$2,055.75	\$1,909.36	\$7.26
Charge per 1,000 gallons	\$4.27	\$4.42	\$5.66	\$5.26	\$0.02
<u>General Reuse Service (GRS1)</u>					
All Meter Sizes	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Charge per 1,000 gallons	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison (RS1)</u>					
3,000 Gallons	\$39.53	\$40.89	\$52.42	\$48.70	
6,000 Gallons	\$52.34	\$54.15	\$69.40	\$64.48	
8,000 Gallons	\$60.88	\$62.99	\$80.72	\$75.00	