

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: July 22, 2010

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Hudson, Fletcher, Maurey, Salnova) *SA BF ALM NS CRB*
Office of the General Counsel (Jaeger, Saylor) *BS JC*

RE: Docket No. 100104-WU – Application for increase in water rates in Franklin County by Water Management Services, Inc.

AGENDA: 08/03/10 – Regular Agenda – Decision on Suspension of Rates and on Interim Rates – Participation is at the Discretion of the Commission

COMMISSIONERS ASSIGNED: ~~All Commissioners~~ *Edgar, Skop, Graham ac*

PREHEARING OFFICER: Skop

CRITICAL DATES: 60-Day Suspension Date Waived Through 08/03/2010

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\100104.RCM.DOC

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Case Background

Water Management Services, Inc. (WMSI or Utility) is a Class A water utility providing service to approximately 1,805 water customers in Franklin County. For the year ended December 31, 2009, the Utility reported operating revenues of \$1,319,558 and a net operating loss of \$23,496. WMSI's last full-blown rate case was in 1994.¹

On June 6, 2000, the Utility filed an application for a limited proceeding to increase its water rates to recover the cost of building a new water transmission main to connect its wells on the mainland to its service territory on St. George Island. The need for a new water transmission main was due to the Florida Department of Transportation (DOT) demolishing and replacing the bridge. WMSI's transmission main was attached to the new bridge. The Commission found that the construction of a new water supply main was justified and the increase was phased in over three phases.²

On May 25, 2010, the Utility filed its application for rate increase at issue in the instant docket. Staff found no deficiencies in the Minimum Filing Requirements (MFRs). WMSI requested that the application be set directly for hearing and requested interim rates. The test year established for interim and final rates is the 13-month average period ended December 31, 2009.

The Utility requested interim rates designed to generate annual water revenues of \$1,627,994. This represents a revenue increase on an annual basis of \$327,504 (25.18 percent). WMSI requested final rates designed to generate annual water revenues of \$1,943,296. This represents a revenue increase of \$641,629 (49.29 percent).

The original 60-day statutory deadline for the Commission to suspend the Utility's requested final rates was July 26, 2010. However, by letter dated June 3, 2010, WMSI agreed to extend the statutory time frame through August 3, 2010. This recommendation addresses the suspension of the Utility's requested final rates and its requested interim rates. The Commission has jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes (F.S.).

¹ See Order No. PSC-94-1383-FOF-WU, issued November 14, 1994, in Docket No. 940109-WU, In re: Petition for interim and permanent rate increase in Franklin County by St. George Island Company, Ltd.

² See Order Nos. PSC-00-2227-PAA-WU, issued November 21, 2000, PSC-03-1005-PAA-WU, issued September 8, 2003, and PSC-05-1156-PAA-WU, issued November 21, 2005, in Docket No. 000694-WU, In re: Petition by Water Management Services, Inc. for limited proceeding to increase water rates in Franklin County.

Discussion of Issues

Issue 1: Should the Utility's proposed water rates be suspended?

Recommendation: Yes. WMSI's proposed final water rates should be suspended. (Hudson)

Staff Analysis: Section 367.081(6), F.S., provides that the Commission may, for good cause, withhold consent to the implementation of the requested rates by a vote to that effect within 60 days after the date the rate request is filed. Further, the above referenced statute permits the proposed final rates to go into effect, under bond, escrow or corporate undertaking, eight months after filing unless final action has been taken by the Commission.

Staff has reviewed the filing and has considered the information filed in support of the rate application and the proposed final rates. Staff believes further investigation of this information is required, including on-site investigations by staff accountants and engineers. Based on the foregoing, staff recommends that the Utility's proposed rate increase be suspended.

Issue 2: Should an interim revenue increase be approved?

Recommendation: Yes. WMSI should be authorized to collect annual water revenues as indicated below:

	<u>Adjusted Test Year Revenues</u>	<u>\$ Increase</u>	<u>Revenue Requirement</u>	<u>% Increase</u>
Water	\$1,320,242	\$109,228	\$1,429,470	8.27%

(Hudson)

Staff Analysis: The Utility has filed rate base, cost of capital, and operating statements to support its requested interim water increase. Pursuant to Section 367.082(5)(b)1, F.S., the achieved rate of return for interim purposes must be calculated by applying adjustments consistent with those used in the Utility's most recent rate proceeding and annualizing any rate changes. Staff has reviewed the Utility's interim request, as well as Order No. PSC-94-1383-FOF-WU, in which the Commission last established rate base, and Order No. PSC-05-1156-PAA-WU, the Utility's limited proceeding. Staff's recommended adjustments are discussed below. Staff has attached accounting schedules to illustrate staff's recommended rate base, capital structure, and test year operating income amount. The water rate base is shown on Schedule No. 1-A, with adjustments to rate base shown on Schedule No. 1-B. The capital structure is shown on Schedule No. 2. The operating income schedule for water is labeled as Schedule No. 3-A. The operating income adjustments are shown on Schedule No. 3-B.

RATE BASE

Based on an analysis of the MFRs and staff's review of Order Nos. PSC-94-1383-FOF-WU and PSC-05-1156-PAA-WU from WMSI's last rate proceedings, staff believes several working capital adjustments are necessary.

Working Capital

On MFR Schedule A-17, the Utility reflected an interim working capital allowance (working capital) of \$66,850 using the balance sheet approach. WMSI included \$112,034 of unamortized debt discount and issuing expense in its working capital calculation. As indicated on MFR Schedule D-5, the unamortized debt discount and issuing expense is also incorporated in the Utility's long-term debt cost rate in the capital structure. As such, it should not be included in the working capital calculation. Therefore, consistent with Commission practice,³ staff has removed the unamortized debt discount and issuing expense of \$112,034 from the working capital calculation.

³ Past Commission practice has been to amortize the issuance costs over the life of the loan and to incorporate the amortization in the cost of long-term debt. See Order No. PSC-97-1225-FOF-WU, issued October 10, 1997, in Docket No. 970164-WU, In re: Application for increase in rates in Martin County by Hobe Sound Water Company.

Staff has also made several adjustments to WMSI's deferred accounts used in the calculation of working capital. The Utility recorded \$60,754 of amortization for an undepreciated supply main which had been replaced. In WMSI's limited proceeding, the Commission approved an annual amortization of \$14,298 for the undepreciated portion of the supply main. Staff has recalculated the amortization using the Commission-approved amortization resulting in a balance of \$62,187. Therefore, staff has increased the deferred account by \$1,432 (\$62,187-\$60,754). Finally, since this is a water only proceeding, staff has decreased the working capital calculation by \$35,603 for deferred cost incurred by WMSI in seeking to obtain an original certificate for a wastewater system.

The summation of staff's adjustments results in a negative working capital allowance of \$79,355. A negative working capital balance is not typical of a "normal" utility or the expected future condition of a utility. Therefore, consistent with Commission practice,⁴ staff recommends a zero working capital allowance. Staff has reduced the working capital allowance by \$66,850.

Based on the above adjustments, staff recommends that rate base for interim purposes should be \$3,818,437.

COST OF CAPITAL

In its interim request, the Utility used a return on equity (ROE) of 11.30 percent. However, based on Order No. PSC-94-1383-FOF-WU, the minimum of WMSI's authorized ROE range is 10.34 percent. Staff has made this adjustment in the capital structure. However, it has no effect on the amount of the interim rate increase because the Utility's capital structure consists of only long-term debt and customer deposits.

NET OPERATING INCOME

Pursuant to Section 367.082(5)(b)1., F.S., only those adjustments consistent with the most recent rate proceeding of a utility may be made. Staff has made adjustments to the Utility's operating income for interim purposes, as discussed below.

Operating Revenues

WMSI recorded an adjustment to decrease revenues by \$18,824 in order to annualize test year revenues. On February 21, 2010, the Utility reduced its rates to remove the amortization of prior rate case expense. WMSI used the reduced rates to annualize its test year revenues. The rate change for the removal of prior rate case expense is outside of the test year. Therefore, staff has calculated test year revenues using the rates in effect during the test year. This calculation results in an increase of \$19,753 to the Utility's adjusted test year revenues.

⁴ See Order Nos. PSC-10-0168-PAA-SU, issued March 23, 2010, in Docket No. 090182-SU, In re: Application for increase in wastewater rates in Pasco County by Ni Florida, LLC; PSC-97-0076-FOF-WS, issued January 27, 1997, in Docket No. 961364-WS, In re: Investigation of rates of Lindrick Service Corporation in Pasco County for possible overearnings; and PSC-95-0574-FOF-WS, issued May 9, 1995, in Docket No. 940917-WS, In re: Application for rate increase in Seminole, Orange, and Pasco Counties by Utilities, Inc. of Florida.

Operation and Maintenance Expense (O&M) Expense)

WMSI's requested revenue requirement includes an annualized provision for several of its expenses. The interim statute requires that annualized expenses be removed for purposes of determining interim rates. Staff has made the following adjustments.

1	To remove normalization for bridge maintenance contract	(\$36,000)
2	To remove normalization for tank maintenance contract	(17,380)
3	To remove normalization for billing software lease & maint contract	(3,720)
4	To remove normalization for engineering service contract	(20,500)
5	To remove normalization for John Deere Lease	(2,084)
6	To remove normalization for hydra platform	(16,514)
7	To remove normalization for stuffer machine lease	(706)
8	To remove normalization for mail machine lease	(1,285)
9	To remove normalization for vehicle lease	(15,883)
10	To remove normalization for health insurance & pension	(5,588)
11	To remove normalization for accounting service contract	(13,775)
12	To remove normalization for salaries	16,250
	Total net decrease for normalization	<u>(\$117,185)</u>

The Utility increased O&M expense by \$1,570 to record a test year legal expense that was booked in 2010. WMSI did not provide any support documentation indicating the expense was invoiced in 2009. Therefore, staff has decreased O&M expense by \$1,570.

In the Utility's 1994 rate case, the Commission made adjustments for the allocation of expenses for affiliates. The adjustments were made to salaries, pensions, miscellaneous, and rent expenses. Since staff did not have a breakdown of the expense accounts for the salaries, pensions, and miscellaneous expenses, staff calculated the ratio of the allocation adjustment to WMSI's adjusted test year for each respective expense.⁵ Then, staff applied that percentage to the Utility's total O&M expense for each respective account on its MFR Schedule B-5. Those calculations result in decreases of \$8,207 for salaries, \$4,792 for pensions, and \$8,800 for miscellaneous expenses.

For rent expense, the Commission approved a 60 percent allocation to WMSI for office rental. Therefore, staff applied the 40 percent allocation for affiliates to the Utility's contract for office rental of \$18,000 contained in WMSI's 2009 Annual Report. This calculation results in a decrease of \$7,200. Finally, the Utility's transportation expense was decreased to reflect the removal of allowances for administrative staff. In order to determine the appropriate adjustment, staff used the same methodology described above.⁶ This calculation results in a decrease of \$5,561 to transportation expense.

⁵ Previous Order Adjustment/Utility's Adjusted Test Year: Salaries - \$3,214/\$123,120 = 2.61%; Pensions and Benefits - \$1,260/\$34,356 = 3.67%; Miscellaneous - \$1,764/\$24,422 = 7.23%.

⁶ Transportation - \$3,900/\$15,600 = 25.00%.

On MFR Schedule B-5, the Utility reported a contractual services – engineering expense of \$27,500. WMSI indicated on its MFR Schedule B-9 that this amount is for a water system evaluation. The Utility is relying on the recommendations of this evaluation for its proposed pro forma plant additions in this proceeding. For interim purposes, staff believes this amount should be amortized over a five-year period which is consistent with the treatment of studies allowed in its last rate case. Therefore, staff has decreased O&M expense by \$22,000.

WMSI's test year O&M expense included \$24,184 for rate case expense. As mentioned previously, the prior rate case expense amortization was \$17,986. In regard to the remaining balance of \$6,198, staff is unsure if this rate case expense is related to the current proceeding. But, for interim purposes, it should be removed from the calculation of interim rates. Staff has reduced O&M expense by \$6,198 to remove unauthorized rate case expense.

Based on the above adjustments, staff's recommends a net decrease of \$181,513 to O&M expense.

Amortization – Other Expense

As discussed previously, the Commission approved an annual amortization of \$14,298 for the undepreciated portion of the supply main which had been replaced. The Utility recorded an annual amortization of \$14,616. Staff has reduced the Utility's amortization amount by \$318.

Taxes Other Than Income (TOTI)

The Utility increased TOTI by \$5,730 to annualize the 2009 personal property tax. Staff has decreased TOTI by \$5,730 to reflect the removal of this personal property tax normalization. As discussed previously, staff removed WMSI's adjustment to normalize salaries. Staff has also removed the corresponding normalization adjustment for payroll taxes and increased payroll taxes by \$1,243. Finally, staff has decreased TOTI by \$628 to adjust payroll taxes for the adjustment made to salaries for the allocation to affiliates. Staff's recommended net adjustment to TOTI is a decrease of \$5,115.

Based on the above, staff recommends that the appropriate test year operating income, before any revenue increase, is \$42,627 for water.

REVENUE REQUIREMENT

Based on the above adjustments, staff recommends a water revenue requirement of \$1,429,470. This represents an interim increase in annual revenues of \$109,228 (or 8.27 percent) for water. The water increase will allow WMSI the opportunity to recover its water operating expenses and earn a 3.85 percent return on its water rate base.

Issue 3: What are the appropriate interim water rates?

Recommendation: The water rates for WSMI in effect as of December 31, 2009, should be increased by 8.29 percent to generate the recommended revenue increase for the interim period. The approved rates should be effective for service rendered as of the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1)(a), Florida Administrative Code (F.A.C.). The rates should not be implemented until staff verifies that the tariff sheets are consistent with the Commission decision, the proposed customer notice is adequate, and the required security has been filed. The Utility should provide proof of the date notice was given within 10 days after the date of notice. (Hudson)

Staff Analysis: Staff recommends that interim water rates for WSMI be designed to allow the Utility the opportunity to generate annual water revenues of \$1,429,470. This reflects an increase of \$109,228 (8.27 percent), before removal of miscellaneous and other revenues. To determine the appropriate percentage increase to apply to the service rates, miscellaneous service revenues should be removed from the test year revenues. The calculation is as follows:

	<u>Water</u>
1 Total Test Year Revenues	\$1,320,242
2 Less: Miscellaneous Revenues	<u>\$3,157</u>
3 Test Year Revenues from Service Rates	\$1,317,085
4 Revenue Increase	<u>\$109,228</u>
5 % Service Rate Increase (Line 4/Line3)	<u>8.29%</u>

The interim rate increase of 8.29 percent for water should be applied as an across-the-board increase to the service rates in effect as of December 31, 2009. The approved rates should be effective for service rendered as of the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until staff verifies that the tariff sheets are consistent with the Commission's decision, the proposed customer notice is adequate, and the required security has been filed. The Utility should provide proof of the date notice was given within 10 days after the date of notice.

The Utility's test year, proposed interim, and final rates, and staff's recommended interim rates are shown on Schedule No. 4 for water.

Issue 4: What is the appropriate security to guarantee the interim increase?

Recommendation: The Utility should be required to open an escrow account or file a surety bond or letter of credit to guarantee any potential refund of revenues collected under interim conditions. If the security provided is an escrow account, the Utility should deposit \$9,102 into the escrow account each month. Otherwise, the surety bond or letter of credit should be in the amount of \$72,904. Pursuant to Rule 25-30.360(6), F.A.C., the Utility should provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and in accordance with Rule 25-30.360, F.A.C. (Hudson, Salnova)

Staff Analysis: Pursuant to Section 367.082, F.S., revenues collected under interim rates shall be placed under bond, escrow, letter of credit, or corporate undertaking subject to refund with interest at a rate ordered by the Commission. As recommended in Issue 2, the total recommended annual interim increase is \$109,228 for water. In accordance with Rule 25-30.360, F.A.C., staff has calculated the potential refund of revenues and interest collected under interim conditions to be \$72,904. This amount is based on an estimated eight months of revenue being collected from staff's recommended interim rates over the Utility's rates in effect as of December 31, 2009, shown on Schedule No. 4.

The criteria for a corporate undertaking include sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. Staff reviewed WMSI's 2007, 2008, and 2009 financial statements to determine the financial condition of the Utility. WMSI has inadequate liquidity, profitability, ownership equity, and interest coverage to guarantee any potential refund. Based on this analysis, staff recommends that the Utility be required to secure a surety bond, letter of credit, or escrow agreement to guarantee any potential refunds of water revenues.

If the security provided is an escrow account, said account should be established between the Utility and an independent financial institution pursuant to a written escrow agreement. The Commission should be a party to the written escrow agreement and a signatory to the escrow account. The written escrow agreement should state the following: that the account is established at the direction of the Commission for the purpose set forth above; that no withdrawals of funds shall occur without the prior approval of the Commission through the Commission Clerk, Office of Commission Clerk; the account shall be interest bearing; information concerning that escrow account shall be available from the institution to the Commission or its representative at all times; the amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt; and, pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla 3d DCA 1972), escrow accounts are not subject to garnishments.

The Utility should deposit \$9,102 into the escrow account each month for possible refund. The escrow agreement should also state that if a refund to the customers is required, all interest earned on the escrow account shall be distributed to the customers, and if a refund to the customers is not required, the interest earned on the escrow account shall revert to the Utility.

If the security provided is a surety bond or a letter of credit, said instrument should be in the amount of \$72,904. If the Utility chooses a surety bond as security, the surety bond should

state that it will be released or terminated only upon subsequent order of the Commission. If the Utility chooses to provide a letter of credit as security, the letter of credit should state that it is irrevocable for the period it is in effect and that it will be in effect until a final Commission order is rendered releasing the funds to the Utility or requiring a refund.

Regardless of the type of security provided, the Utility should keep an accurate and detailed account of all monies it receives. Pursuant to Rule 25-30.360(6), F.A.C., the Utility shall provide a report by the 20th day of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, F.A.C.

In no instance should maintenance and administrative costs associated with any refund be borne by the customers. Such costs are the responsibility of, and should be borne by, the Utility.

Docket No. 100104-WU

Date: July 22, 2010

Issue 5: Should the docket be closed?

Recommendation: No. The docket should remain open pending the Commission's final action on the Utility's requested rate increase. (Jaeger, Hudson)

Staff Analysis: The docket should remain open pending the Commission's final action on the Utility's requested rate increase.

Docket No. 100104-WU

Date: July 22, 2010

Water Management Services, Inc. Schedule of Water Rate Base Test Year Ended 12/31/09				Schedule No. 1-A Docket No. 100104-WU	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$8,932,312	\$0	\$8,932,312	\$0	\$8,932,312
2 Land and Land Rights	90,994	0	90,994	0	90,994
3 Non-used and Useful Components	0	(19,856)	(19,856)	0	(19,856)
4 Accumulated Depreciation	(3,263,577)	0	(3,263,577)	0	(3,263,577)
5 CIAC	(3,228,165)	0	(3,228,165)	0	(3,228,165)
6 Amortization of CIAC	1,327,593	0	1,327,593	0	1,327,593
7 Advances for Construction	(20,864)	0	(20,864)	0	(20,864)
8 Working Capital Allowance	<u>66,850</u>	<u>0</u>	<u>66,850</u>	<u>(66,850)</u>	<u>0</u>
9 Rate Base	<u>\$3,905,143</u>	<u>(\$19,856)</u>	<u>\$3,885,287</u>	<u>(\$66,850)</u>	<u>\$3,818,437</u>

Water Management Services, Inc. Adjustments to Rate Base Test Year Ended 12/31/09	Schedule No. 1-B Docket No. 100104-WU
Explanation	Water
<u>Working Capital</u> To reflect the appropriate working capital allowance.	<u>(\$66,850)</u>

Water Management Services, Inc. Capital Structure-Simple Average Test Year Ended 12/31/09							Schedule No. 2 Docket No. 100104-WU	
Description	Total Capital	Specific Adjust- ments	Subtotal Adjusted Capital	Prorata Adjust- ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility								
1 Long-term Debt	\$7,768,865	\$0	\$7,768,865	(\$3,984,077)	\$3,784,788	97.41%	3.79%	3.69%
2 Short-term Debt	0	0	\$0	0	\$0	0.00%	0.00%	0.00%
3 Preferred Stock	0	0	\$0	0	\$0	0.00%	0.00%	0.00%
4 Common Equity	(1,857,218)	1,857,218	\$0	0	\$0	0.00%	11.30%	0.00%
5 Customer Deposits	100,499	0	\$100,499	0	\$100,499	2.59%	6.00%	0.16%
6 Deferred Income Taxes	0	0	\$0	0	\$0	0.00%	0.00%	0.00%
7 Total Capital	<u>\$6,012,146</u>	<u>\$1,857,218</u>	<u>\$7,869,364</u>	<u>(\$3,984,077)</u>	<u>\$3,885,287</u>	<u>100.00%</u>		<u>3.85%</u>
Per Staff								
8 Long-term Debt	\$7,768,865	\$0	\$7,768,865	(\$4,050,927)	\$3,717,938	97.37%	3.79%	3.69%
9 Short-term Debt	0	0	\$0	\$0	0	0.00%	0.00%	0.00%
10 Preferred Stock	0	0	\$0	\$0	0	0.00%	0.00%	0.00%
11 Common Equity	0	0	\$0	\$0	0	0.00%	10.34%	0.00%
12 Customer Deposits	100,499	0	\$100,499	\$0	100,499	2.63%	6.00%	0.16%
13 Deferred Income Taxes	0	0	\$0	\$0	0	0.00%	0.00%	0.00%
14 Total Capital	<u>\$7,869,364</u>	<u>\$0</u>	<u>\$7,869,364</u>	<u>(\$4,050,927)</u>	<u>\$3,818,437</u>	<u>100.00%</u>		<u>3.85%</u>
						LOW	HIGH	
RETURN ON EQUITY						<u>10.34%</u>	<u>12.34%</u>	
OVERALL RATE OF RETURN						<u>3.85%</u>	<u>3.85%</u>	

Water Management Services, Inc. Statement of Water Operations Test Year Ended 12/31/09						Schedule No. 3-A Docket No. 100104-WU	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$1,319,313</u>	<u>\$308,680</u>	<u>\$1,627,993</u>	<u>(\$307,751)</u>	<u>\$1,320,242</u>	<u>\$109,228</u> 8.27%	<u>\$1,429,470</u>
Operating Expenses							
2 Operation & Maintenance	\$1,057,196	\$118,756	\$1,175,952	(\$181,513)	\$994,439		\$994,439
3 Depreciation	175,545	(1,833)	173,712	0	173,712		173,712
4 Amortization	14,616	0	14,616	(318)	14,298		14,298
5 Taxes Other Than Income	100,197	13,933	114,130	(18,964)	95,166	4,915	100,082
6 Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7 Total Operating Expense	<u>1,347,554</u>	<u>130,856</u>	<u>1,478,410</u>	<u>(200,795)</u>	<u>1,277,615</u>	<u>4,915</u>	<u>1,282,531</u>
8 Operating Income	<u>(\$28,241)</u>	<u>\$177,824</u>	<u>\$149,583</u>	<u>(\$106,956)</u>	<u>\$42,627</u>	<u>\$104,313</u>	<u>\$146,940</u>
9 Rate Base	<u>\$3,905,143</u>		<u>\$3,885,287</u>		<u>\$3,818,437</u>		<u>\$3,818,437</u>
10 Rate of Return	<u>-0.72%</u>		<u>3.85%</u>		<u>1.12%</u>		<u>3.85%</u>

Water Management Services, Inc.		Schedule No. 3-B
Adjustment to Operating Income		Docket No. 100104-WU
Test Year Ended 12/31/09		
Explanation	Water	
<u>Operating Revenues</u>		
1 Remove requested final revenue increase.	(\$327,504)	
2 To reflect the appropriate amount of annualized revenues.	19,753	
Total	<u>(\$307,751)</u>	
<u>Operation and Maintenance Expense</u>		
1 To remove normalization for bridge maintenance contract.	(\$36,000)	
2 To remove normalization for tank maintenance contract.	(17,380)	
3 To remove normalization for billing software lease & maint contract.	(3,720)	
4 To remove normalization for engineering service contract.	(20,500)	
5 To remove normalization for John Deere Lease.	(2,084)	
6 To remove normalization for hydra platform.	(16,514)	
7 To remove normalization for stuffer machine lease.	(706)	
8 To remove normalization for mail machine lease.	(1,285)	
9 To remove normalization for vehicle lease.	(15,883)	
10 To remove normalization for health insurance & pension.	(5,588)	
11 To remove normalization for accounting service contract.	(13,775)	
12 To remove normalization for salaries.	16,250	
13 To remove legal expense booked in 2010.	(1,570)	
14 To adjustment salaries for allocation to affiliates.	(8,207)	
15 To adjust pensions for allocation to affiliates.	(4,792)	
16 To adjust miscellaneous expenses for allocation to affiliates.	(8,800)	
17 To adjust transportation expense.	(5,561)	
18 To adjust rent expense.	(7,200)	
19 To amortize engineering study over 5 years.	(22,000)	
20 To remove rate case expense.	(6,198)	
Total	<u>(\$181,513)</u>	
<u>Amortization-Other Expense</u>		
To reflect the appropriate annual amortization - loss on bridge.	<u>(\$318)</u>	
<u>Taxes Other Than Income</u>		
1 RAFs on revenue adjustments above.	(\$13,849)	
2 To remove payroll tax for salary normalization.	1,243	
3 To remove adjustment for PP tax liability.	(5,730)	
4 To adjust payroll taxes for affiliate adjustment.	(628)	
Total	<u>(\$18,964)</u>	

Water Management Services, Inc.			Schedule No. 4		
Water Monthly Service Rates			Docket No. 100104-WU		
Test Year Ended 12/31/09					
	Rates In Effect 12/31/09	Rates Prior to Filing(1)	Utility Requested Interim	Utility Requested Final	Staff Recomm. Interim
<u>Residential, GS and Multi-Family</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$27.89	\$27.50	\$34.41	\$58.42	\$30.20
3/4"	\$41.84	\$41.26	\$51.63	\$87.64	\$45.31
1"	\$69.74	\$68.78	\$86.07	\$146.10	\$75.52
1-1/2"	\$139.47	\$137.54	\$172.12	\$292.16	\$151.04
2"	\$223.16	\$220.08	\$275.41	\$467.50	\$241.67
3" Compound	\$418.42	\$412.64	\$516.38	\$876.53	\$453.12
3" Turbine	\$488.16	\$481.42	\$602.45	\$1,022.64	\$528.64
4" Compound	\$697.37	\$687.74	\$860.64	\$1,460.90	\$755.20
4" Turbine	\$836.84	\$825.28	\$1,032.76	\$1,753.07	\$906.24
6" Compound	\$1,394.73	\$1,375.46	\$1,721.26	\$2,921.76	\$1,510.40
6" Turbine	\$1,743.42	\$1,719.33	\$2,151.58	\$3,652.21	\$1,888.01
8" Compound	\$2,253.58	\$2,200.75	\$2,754.03	\$4,674.85	\$2,440.47
8" Turbine	\$2,510.52	\$2,475.83	\$3,098.26	\$5,259.17	\$2,718.72
10" Compound	\$3,207.89	\$3,163.57	\$3,958.90	\$6,720.08	\$3,473.93
10" Turbine	\$4,044.73	\$3,988.85	\$4,991.66	\$8,473.14	\$4,380.17
12" Compound	\$5,997.36	\$5,914.50	\$7,401.43	\$12,563.62	\$6,494.73
<u>Residential</u>					
Gallonge Charge					
0 - 8,000 Gallons	\$3.32	\$3.27	\$4.09	\$2.99	\$3.60
8,001 - 15,000 Gallons	\$4.14	\$4.08	\$5.11	\$2.99	\$4.48
over 15,000 Gallons	\$4.98	\$4.91	\$6.14	\$4.48	\$5.39
<u>General Service and Multi-Family</u>					
Gallonge Charge, per 1,000 Gallons	\$4.72	\$4.65	\$5.82	\$3.30	\$5.11
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$37.85	\$37.31	\$46.68	\$67.39	\$40.99
5,000 Gallons	\$44.49	\$43.85	\$54.86	\$73.37	\$48.18
10,000 Gallons	\$62.73	\$61.82	\$77.35	\$88.32	\$67.93
(1) This rate reflects a four-year rate reduction on February 21, 2010.					