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October 14, 2004

Ms. Blanca Bayo, Director  
Commission Clerk and Administrative Services  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

**HAND DELIVERY**  
**COMMISSION CLERK**  
04 OCT 14 PM 12:29  
RECEIVED-PPSC

Re: Docket No. 000694-WU


Dear Ms. Bayo:

Enclosed for filing on behalf of Water Management Services, Inc. ("WMSI") are an original and fifteen copies of WMSI's Petition for Approval of Phase III Final Rates.

Please acknowledge receipt of these documents by stamping the extra copy of this letter "filed" and returning the copy to me.

Thank you for your assistance with this filing.

Sincerely,



Kenneth A. Hoffman

CMP \_\_\_\_\_  
COM \_\_\_\_\_  
CTR \_\_\_\_\_  
ECR \_\_\_\_\_  
GCL \_\_\_\_\_  
OPC \_\_\_\_\_ KAH/tls  
MMS \_\_\_\_\_ Enclosures  
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SEC 1  
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*ok 10/15/04  
KMP*

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*Oh*  
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DOCUMENT NUMBER-DATE  
11072 OCT 14 04

FPSC-COMMISSION CLERK

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In re: Petition of Water )  
Management Services, Inc. for )  
a Limited Proceeding to Increase )  
Water Rates in Franklin County )

Docket No. 000694-WU

Filed: October 14, 2004

**WATER MANAGEMENT SERVICES, INC.'S  
PETITION FOR APPROVAL OF PHASE III FINAL RATES**

Water Management Services, Inc. ("WMSI"), pursuant to Order No. PSC-03-1005-PAA-WU, hereby files this Petition for Approval of Phase III Rates. In support of this Petition, WMSI states:

**A. BACKGROUND**

1. Original Petition. On June 6, 2000, WMSI filed a petition for limited proceeding to recover the revenue requirement associated with the cost of a new water main necessitated by the Department of Transportation's ("DOT") decision to build a new bridge connecting St. George Island (WMSI's service territory) to the mainland (where WMSI's wells are located) and to demolish portions of the existing bridge on which WMSI's existing water main was located. The capital cost for the project, including other improvements required on the mainland, was initially estimated at \$6,223,334. As additional information became available, this estimate was revised to \$5,968,167 in response to staff data requests. Based on DOT's original construction schedule for the bridge, the new main was projected to be completed in March 2003.

2. Initial Proposal for Phased Rate Increase. WMSI requested authority to implement the required rate increase in three phases.

(a) Phase I rates would become effective November 1, 2000 and would be designed to recover revenue requirements associated with capital expenditures through December 2001.

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FPSC-COMMISSION CLERK

(b) Phase II rates would become effective January 1, 2002, and would be designed to recover revenue requirements associated with projected capital expenditures through completion of the project.

(c) Phase III rates would become effective six months after the actual in service-date of the project and would be designed to recover the revenue requirement associated with the actual capital costs incurred. For the first twelve months, Phase III rates would be subject to a credit or surcharge in the amount necessary to true up any over- or under-recovery during Phases I and II.

3. Commission's Phase I Order. By Order No. PSC-00-2227-PAA-WU, dated November 21, 2000 ("Phase I Order"), the Commission:

(a) determined that the construction of the new water main was justified and that the prudent costs should be recovered through a rate or charge to be determined in Phase III;

(b) determined that the installation of a 12-inch line (rather than a smaller 10-inch line) was prudent and cost-effective and that 100% of the prudently-incurred costs should be recovered through a rate or charge to be determined in Phase III;

(c) determined that a proposed pipeline from Well No. 1 to Well No. 4, a new aerator, and a new high service pump and controls were prudent and that 100% of the prudently-incurred costs should be recovered through a rate or charge to be determined in Phase III; and

(d) granted temporary Phase I rates designed to produce additional revenues of \$82,707 per year (an increase of 11.3%) based on the projected debt service requirements for estimated capital expenditures through June 30, 2002.

4. Change in Phase II Timetable. The Phase I Order contemplated that Phase II rates would become effective in July 2002, but did not establish either a termination date for Phase I rates

or a specific filing deadline for Phase II rates. In October 2001, WMSI filed a motion requesting approval (if necessary) to delay the setting of Phase II rates. By Order No. PSC-01-2188-PCO-WU, the Commission determined that no approval was required, but acknowledged WMSI's intent to delay the Phase II filing.

5. Phase II Petition. On May 14, 2003, WMSI filed its Phase II Supplemental Petition for Limited Proceeding. WMSI requested revised rates for the Phase II increase. The Supplemental Petition was predicated on numerous changes that occurred after the filing of the Phase I Petition and issuance of the Phase I Order, to wit:

(a) Due to changes in DOT's bridge project schedule, the projected in-service date of the new main was changed from March 2003 to October 2003.

(b) The estimated capital cost of the new transmission main and the other approved work on the mainland was decreased from \$5,968,167 to \$4,935,646. This \$1 million savings was attributable in large part to the decision by WMSI management to reject all bids for the bulk of the transmission main construction and to negotiate separately with material suppliers and installation contractors to achieve a better price.

(c) WMSI was able to obtain financing through a State Revolving Fund ("SRF") loan program administered by the Department of Environmental Protection ("DEP"). The principal amount of the approved SRF loans was \$6,161,683, of which \$5,903,770 was available to pay project costs after provisions for capitalized interest and partial funding of a loan reserve account. The weighted average debt cost for the SRF funds was 3.46% versus the 10.5% to 11.5% initially projected.

(d) WMSI's eminent domain case through which it was seeking to recover all or part of the cost of the new main from DOT was unsuccessful, and WMSI obtained no recovery from the state.

6. The net effect of the above-described changes substantially reduced the total project cost. In light of this cost reduction, the availability of extremely low cost debt financing through the SRF loans, and concerns expressed by customers regarding fire protection, WMSI's Supplemental Petition requested recovery of the cost of installing approximately 17,700 feet of 6" and 8" mains, installing a new 200,000 gallon elevated storage tank, increasing high service pumping capacity, adding an emergency generator, and other plant improvements. The total capital cost of the fire flow and related improvements was estimated at \$1,150,829.

7. WMSI noted in its Supplemental Petition that the remaining available funding of \$968,128 under the SRF loans compared favorably to the \$1,150,829 cost of the above fire flow and related improvements. Accordingly, in view of the low cost of the SRF loans, WMSI determined it to be prudent to proceed with these improvements and amended its contract with the general contractor for the 12-inch main, Boh Brothers, to include this additional work. WMSI also requested the use of a 20 year useful life for depreciation purposes for the main that would be anchored to the new bridge.

8. Based on the above, WMSI requested a Phase II revenue increase of \$472,951 above the revenues produced by the Phase I rates. WMSI proposed that the Commission set Phase III rates approximately 6 months after the receipt of the Phase III filing and that the Commission "implement

any credit or surcharge necessary to correct the over- or under-collection of revenue requirements during Phase I and II.”<sup>1</sup>

9. Phase II Order. On September 8, 2003, the Commission issued Order No. PSC-03-1005-PAA-WU, Notice of Proposed Agency Action Order Determining Prudence of Fireflow Protection Improvements, Appropriate Depreciable Life for the Transmission Main, and Appropriate Phase 2 Revenue Requirement and Order Approving Temporary Rate Increases and Four-Year Rate Reduction for Rate Case Expense (the “Phase II Order”). Pursuant to the Phase II Order, the Commission approved as proposed agency action:

(a) the recovery of the requested fire flow improvements, determining that installation of such improvements was prudent and the estimated costs reasonable, subject to true-up in Phase III of this proceeding;

(b) a 35 year useful life for the new 12-inch main attached to the bridge; and

(c) a Phase II additional revenue requirement of \$490,959.

The Commission ordered a temporary Phase II revenue requirement increase of \$490,959 which translated into a 42.1% rate increase, subject to true-up in the Phase III portion of this proceeding.

10. Protests of Phase II Order. On September 29, 2003, the Office of Public Counsel (“OPC”) timely filed a Petition on Proposed Agency Action protesting that portion of the Phase II Order preliminarily approving the removal of the existing 150,000 gallon elevated water storage tank and replacing it with a new 200,000 gallon tank. On the same date, WMSI also timely filed a Petition for Proposed Agency Action preserving its right to recover additional rate case expense that would be incurred as a result of OPC’s Petition and engaging in the formal hearing process.

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<sup>1</sup>WMSI Supplemental Petition, at ¶16.

11. On May 26, 2004, WMSI and OPC entered into a Settlement Agreement providing, in pertinent part:

(a) That WMSI's existing 150,000 gallon elevated storage tank shall not be dismantled;

(b) That with respect to the approximately \$6.2 million of capital projects undertaken by WMSI since the Fall of 2000, the Commission shall verify the details of such expenditures and the reasonableness and prudent of each such expenditure prior to approving Phase III Final Rates and Changes;

(c) That WMSI shall expend the approximate \$400,000 that would have been spent replacing the existing elevated storage tank to complete the looping of the water mains that provide service from Bob Sikes Cut to the State Park; and

(d) That upon completion of said improvements, WMSI will conduct actual field measurements to record the actual water pressure produced throughout the system.

12. By Order No. PSC-04-0791-AS-WU issued August 12, 2004, the Commission approved the Settlement Agreement as final agency action thereby resolving OPC's and WMSI's protests of the Phase II Order.

**B. Phase III Rates**

13. WMSI now petitions the Commission to establish, on a going forward basis, the final Phase III rates to recover the cost associated with the completed project, as placed in service. WMSI maintains that it is appropriate to address any adjustment to rates for over-collection or under-collection during Phases I and/or II during the first twelve months the Phase III rates are in effect.

14. In considering this Petition, the Commission should be mindful of the extraordinary efforts of WMSI to minimize costs for its customers. Specifically, WMSI extended substantial resources in its lawsuit against DOT seeking compensation from DOT for the costs of the new supply main attached to the new bridge. Those efforts were ultimately unsuccessful. On the other hand, WMSI's legal action against Boh Brothers in Franklin County Circuit Court resulted in a settlement and sole source contract with Boh Brothers which ultimately saved WMSI's customers approximately \$1 million. With the low cost SRF loans, again secured through WMSI's proactive efforts, this approximate \$1 million was used to install approximately 35,000 feet of 6" and 8" distribution lines to completely loop the distribution system and to make improvements to the water treatment plant. These improvements have served to increase water pressure throughout the system, enhance fire flow capability, reduce unaccounted for water, and substantially improve the reliability and quality of service.

15. Attached as Appendix A are summary schedules supporting WMSI's request for a Phase III final annual revenue requirement of \$551,140. The following is a summary and explanation of these schedules:

(a) Final Cost of Project.

In the Phase II Order, the total project cost, upon which the approved Phase II rates were approved, was estimated to be \$6,086,474. This amount recognized that there were significant savings derived in the cost of the supply main itself and that it would be prudent to utilize the savings to fund certain improvements to the system infrastructure that would provide for fire protection, increased system water pressure and miscellaneous plant improvements. Following the issuance of the Phase II Order, and as previously discussed, OPC and community representatives negotiated with



WMSI to revise the planned improvements to eliminate the replacement of the water storage tank and to loop and further improve the distribution mains. The final amount booked to Plant in Service is \$6,156,536, a difference of \$70,062. This cost includes all plant as well as capitalized engineering and overheads. The distribution to the various NARUC plant accounts as well as the differences between the final amounts and the amounts estimated in the Phase II Order are shown on Schedule 2, page 1 of 3.

(b) Final Interest Rate.

An average rate of 3.46% was calculated and approved in the Phase II Order as the ongoing rate for the determination of revenue requirements. When the final mix of funding sources and costs are calculated, the resulting average interest rate is 3.49%. The development of the interest expense is shown on Schedule 3.

(c) Final Depreciation Rates.

The requested depreciation was developed based on PSC guideline lives, applied to the projected final costs for Plant in Service. However, in its petition for Phase II rates, WMSI requested that the Commission approve a shorter depreciable life of twenty years for the exposed portion of the ductile iron pipe attached to the bridge because it would be subject to more adverse environmental conditions than buried pipe. In the Phase II Order, the Commission did recognize WMSI's concern and approved a depreciable life of 35 years for exposed pipe, or five years shorter than the 40 year life it approved for buried pipe.

In setting these final rates, WMSI is requesting that the depreciable life be set for the buried pipe at 35 years and for the exposed pipe at 30 years. The fact is that an error was made, by both WMSI and the Commission Staff, in initially identifying the guideline life for this pipe as 40

years. According to Rule 25-30.140, Florida Administrative Code, forty years is a guideline life for transmission and distribution mains in Account 331. This pipe, however, is a supply main and falls under Account 309, for which the guideline rate in the Rule is 35 years and a five year shorter life would be 30 years. Transmission and distribution mains transmit and distribute water from treatment and/or storage plant. Supply mains transmit water from the well sites to treatment and/or plant. This main, which transmits water from the wells on the mainland to the storage and treatment plant on St. George Island, should clearly be categorized as a supply and be depreciated as such. The overall effect of this change, and the application of guideline rates to the actual final costs for Plant in Service, would be to increase the average depreciation expense from the 2.89% allowed in the Phase II Order to 3.13%. The development of the average depreciation expense is shown on Schedule 2, page 1.

(d) Final Property Tax Rate.

The property tax rate allowed in the Phase II Order was 1.25%, based on the then current 2002 tax rate. The tax rate for 2003 is 1.14% and that is reflected in the requested final rate. The development of the personal property tax rate is shown on Schedule 2, page 3.

(e) Final Rate Case Expense.

In the Phase II Order, the Commission allowed a rate case expense of \$41,746 based on WMSI's costs incurred through that date. The updated rate case expense is \$74,043 consisting of \$60,043 incurred through August, 2004 plus \$14,000 estimated to complete the proceeding. On that basis the annual amortization expense increases from the \$10,436 allowed in the Phase II Order to \$18,511. The development of rate case expense is shown on Schedule 2, page 3.

(f) Amortization of Undepreciated Prudently Retired Supply Main

With the completion of the new supply main, the existing main is being removed and retired. The retirement, though prudent, occurs prior to the end of the depreciable life of the plant. Rule 25-30.443(9), Florida Administrative Code, sets out the method of determining the annual amortization cost and the amortization period. On that basis, it has been determined that the annual amortization expense is \$9,791 and the amortization period is 9.48 years. This factor was not considered in the Phase II Order. The development of the amortization expense is shown on Schedule 2, page 2.

(g) Proceeds from Recovery of Taking by DOT.

As discussed in the Phase II Order, WMSI's eminent domain case against DOT was unsuccessful. All remedies through appeal have been exhausted. Nevertheless, WMSI's pursuit was in the best interest of the customers because all net proceeds would have gone toward the reduction of the cost of the supply main. WMSI also believes that its pursuit in this endeavor assisted in providing WMSI with the leverage necessary to bargain with DOT to allow WMSI to engineer and contract in a more favorable manner.

(h) Property Insurance Expense.

WMSI experienced an increase in its property insurance expense associated with the increase in the value of property as a result of the completion of the plant additions included in this proceeding which should be recoverable through rates. This expense was not addressed in either Phase I or Phase II. The annual expense increase resulting from the completion of the plant additions included in this proceeding is \$8,253. The development of the applicable insurance expense is shown on Schedule 2, page 3.

(i) Annual Audit Expense.

The Construction Loan Agreement between WMSI and DEP, at Section 2.01(10), requires that WMSI prepare in every fiscal year until the loan is retired, an annual audit report in accordance with generally accepted auditing standards. The Loan Agreement sets out a specific scope that the audits will encompass. The performance of these audits is a contractual obligation specific to this loan, and goes beyond the normal regulatory and reporting requirements of this Commission. WMSI has obtained an estimate of \$12,000 as the annual expense to perform such an audit from its CPA. This expense, which was not a factor considered in the Phase II Order, is included herein to be recovered through rates in this limited proceeding.

(j) Final Rates.

The final revenue requirement was determined in accordance with the formulas used in previous filings in this docket. The final annual revenue requirement is \$551,140. The Phase II Order set Phase II rates to produce annual revenues of \$490,959. However, Phase II rates, when applied to actual billing units and gallons sold for the twelve months ended June, 2004, produced annual revenues of \$486,259. Final rates should, therefore be increased to recover an additional \$64,881 annually ( $\$551,140 - \$486,259 = \$64,881$ ). The formula for determination of the final revenue requirement is shown on Schedule 1, page 1. The development of the rates required to generate the final revenue requirement is shown on Schedule 1, page 2. The requested final rates and the comparison to Phase II rates as well as the previous rates prior to this limited proceeding are shown on Schedule 1, page 3. The final rates, which recover the costs associated with the replacement of the supply main as well as improvements for fire protection and other plant improvements, represent an increase of 65.90% over the rates in effect prior to the limited

proceeding. This compares to the 138% increase that was projected at the time of the initial customer meeting in this docket, just for the replacement of the supply main.

16. True-up of Revenues Collected Under Phase I and Phase II Rates.

Phase I rates were designed to generate the revenues necessary to recover the interest and debt related expense incurred as a result of construction of the required plant additions. Phase II rates were designed to generate the revenues necessary to recover interest and debt related expenses and, in addition, the depreciation and property tax expense associated with the plant additions and the amortization of rate case expense associated with this limited proceeding. Schedule 4 shows, through June, 2004, the comparison of revenues collected under Phases I and II and the expenses incurred during that period.

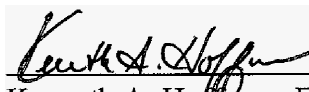
Several points should be noted. First, the allowance for depreciation expense began in September, 2003, with the approval of Phase II rates on the assumption that all plant constructed would go into services at the same time, approximately the first half of 2004. However, certain portions of the allowed plant improvements were able to be placed in service much earlier. Although the majority of plant was placed in service in 2004, some was placed in service as early as January, 2001 and, therefore, began accruing depreciation expense at the time. The total accrued depreciation expense is shown on Schedule 4. Second, although an allowance has been provided for property tax, that actual expense has not yet been incurred. Therefore, in the true-up, that expense is not shown. Finally, as discussed in its Phase II Supplement Petition, WMSI was required to fund a one time reserve payment in addition to its ongoing liability for interest expense. That cash expenditure is also shown on Schedule 4.

As shown on Schedule 4, after consideration of all allowable expenses, the revenue deficit through June, 2004 is \$72,957. In accordance with the approach outlined in its initial petition, that deficit or under collection of revenues, could be addressed by a surcharge to rates during the first twelve months the final rates are in effect. It could be collected by a surcharge to the base charge, the gallonage charge, or a combination, as directed by the Commission. The surcharge would end when the amount of the deficit is collected.

WHEREFORE, WMSI respectfully requests that the Commission enter a Final Order:

- A. Granting WMSI's request for recovery of Phase III final revenue requirements of \$551,140 and final Phase III rates as outlined in this Petition effective within six months after the date of filing of this Petition;
- B. Authorizing WMSI to collect a surcharge of \$72,957 during the first twelve months the final rates are in effect as requested herein; and
- C. Granting such other relief as is necessary and proper.

Respectfully submitted,

  
Kenneth A. Hoffman, Esquire  
J. Stephen Menton, Esquire  
Rutledge, Ecenia, Purnell & Hoffman  
215 S. Monroe Street, Ste. 420  
P.O. Box 551  
Tallahassee, FL 32301  
(850) 681-6788 - telephone  
(850) 681-6515 - telecopier

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by Hand Delivery this 14th day of October, 2004 to:

Adrienne Vining, Esq.  
Division of Legal Services  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Room 370  
Tallahassee, FL 32399-0850

Stephen C. Reilly, Esq.  
Office of Public Counsel  
111 West Madison Street  
Room 812  
Tallahassee, FL 32399-1400

  
\_\_\_\_\_  
KENNETH A. HOFFMAN, ESQUIRE

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**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In re: Petition of Water            )  
Management Services, Inc. for    )  
a Limited Proceeding to Increase   )  
Water Rates in Franklin County    )

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Docket No. 000694-WU

**APPENDIX "A" TO  
WATER MANAGEMENT SERVICES, INC.'S  
PETITION FOR APPROVAL OF PHASE III FINAL RATES**



WATER MANAGEMENT SERVICES, INC. - DOCKET NO. 000694-WU  
REVENUE REQUIREMENT - TRUEUP  
BASED ON TOTAL PROJECT COSTS, PLACED IN SERVICE JUNE, 2004

The formula for determining the increased revenue requirement associated with the cost incurred in Phases I and II of replacing the water supply main and completing fire protection and other authorized improvements is:

RR = $[(d*U1)+(i + pp)*(U2) + LC + RL+ AE+ IN]/(1-RAF)$	=	\$551,140
Allowed in Order for Phase II		490,959
Calculated Phase II revenues for TYE 6/04		\$486,259
Required increase		\$64,881

where:

- RR = Revenue Requirement
- i = Interest rate on loan associated with utility plant constructed
- d = depreciation rate for utility plant constructed, per PSC guidelines
- U1 = Utility plant constructed to replace water supply main and complete fire protection and other authorized improve
- U2 = U1 less 1/2 yr depr.
- LC = 1/4 \* allowable expense for pursuing limited proceeding
- RL = amortization expense for undepreciated portion of prudently retired supply main (PSC Rule 25-30.433(9).
- AE = annual expense to perform audit required by DEP Loan Agreement
- IN = Property insurance differential related to project additions
- pp = personal property tax on tax value of project assets
- RAF = 4.5% Regulatory Assessment Fee

TRUEUP III ASSUMPTIONS:

		Source:
RR =		
i =	3.48%	Schedule 3, page 1
d =	3.13%	Rule 25-30.140, F.A.C. & Sch. 2, page 1
U1 =	\$6,156,536	Total Project Cost
U2 =	\$6,060,420	Total Project Cost less accrued one-half year depreciation, Schedule 2, page 1
LC =	\$18,511	Sch. 2, page 3
RL =	\$14,631	Sch. 2, page 2
AE =	\$12,000	Per CPA
IN =	\$8,253	Sch. 2, page 3
pp =	1.14%	Sch. 2, page 3
RAF =	4.50%	PSC Rule 25-30.120, F.A.C.

PROPOSED INCREASE FACTOR:  
 OVER PRE - LIMITED PROCEEDING RATES

$$\frac{\text{Phase II Rev.} + (\text{Req. Rev. for Trueup} - \text{Phase II Rev. Diff.})}{\text{Phase II Revenues}} =$$

$$\frac{\$1,322,599 + \$64,881}{\$1,322,599} = 1.049$$

BILLING UNITS & GALLONS, TYE JUNE, 2004

Meter Size	Billing Units	M -Gals
<b>Residential Service</b>		
5/8" x 3/4"	19,578	146,198
1"	383	5,755
<b>Subtotal Residential</b>	<b>19,961</b>	<b>151,953</b>
<b>General Service</b>		
5/8" x 3/4"	579	6,759
1"	92	1,835
1 1/2"	36	3,384
2"	51	4,783
3" Compound	24	2,053
3" Turbine	0	0
4" Compound	12	1,686
4" Turbine	0	0
6" Compound	0	3,314
6" Turbine	12	0
<b>Subtotal Gen. Service</b>	<b>806</b>	<b>23,794</b>
<b>Total Metered Service</b>	<b>20,767</b>	<b>175,747</b>
Misc. Revenues		
<b>Total Operating Revenue</b>		

PHASE II RATES						PHASE II RATE DIFF. FR. ORIG.		
BFC	\$/MG	Base Revenue	MG Revenue	Total		BFC	\$/MG	Revenue
\$33.06	\$3.13	647,249	457,599	1,104,847		\$12.16	\$1.15	406,196
\$82.66	\$3.13	31,659	18,014	49,673		\$30.41	\$1.15	18,266
		\$678,907	\$475,613	\$1,154,521				\$424,462
\$33.06	\$3.13	19,142	21,155	40,297		\$12.16	\$1.15	14,813
\$82.66	\$3.13	7,605	5,743	13,347		\$30.41	\$1.15	4,908
\$165.34	\$3.13	5,952	10,590	16,543		\$60.83	\$1.15	6,081
\$264.52	\$3.13	13,491	14,909	28,400		\$97.32	\$1.15	10,441
\$529.03	\$3.13	12,697	6,427	19,124		\$194.63	\$1.15	7,032
\$578.67	\$3.13	0	0	0		\$212.90	\$1.15	0
\$826.50	\$3.13	9,918	5,277	15,195		\$303.98	\$1.15	5,587
\$991.98	\$3.13	0	0	0		\$364.96	\$1.15	0
\$1,653.00	\$3.13	0	10,373	10,373		\$607.97	\$1.15	3,811
\$2,066.64	\$3.13	24,800	0	24,800		\$760.34	\$1.15	9,124
		\$93,604	\$74,475	\$168,078				\$61,797
		\$772,511	\$550,088	\$1,322,599				\$486,256
				5,020				
				\$1,327,619				

REQUESTED FINAL RATES					
Increase Factor	BFC	\$/MG	Base Revenue	MG Revenue	Total
1.049	\$34.68	\$3.28	\$679,000	\$480,047	\$1,159,046
1.049	86.71	3.28	33,212	18,898	52,110
			\$712,212	\$498,945	\$1,211,156
1.049	\$34.68	\$3.28	\$20,081	\$22,193	\$42,274
1.049	86.71	3.28	7,978	6,024	14,002
1.049	173.45	3.28	6,244	11,110	17,354
1.049	277.50	3.28	14,152	15,641	29,793
1.049	554.98	3.28	13,320	6,742	20,062
1.049	607.06	3.28	0	0	0
1.049	867.04	3.28	10,405	5,536	15,941
1.049	1,040.64	3.28	0	0	0
1.049	1,734.09	3.28	0	10,882	10,882
1.049	2,168.02	3.28	26,016	0	26,016
			\$98,195	\$78,126	\$176,323
			\$810,407	\$577,073	\$1,387,480
					5,020
					\$1,392,500

\* Percent increase of Final Rates over Pre - Limited Proceeding Rates = 65.90%

**BOLD TYPE -**

Effective, November, 2004, metering at the State Park will change from 2 - 6" compound meters + 4 - 2" compound meters + 1 - 1" meter to only one 6" turbine meter. The number of billing units in bold type reflect the reduction of 24 billing units for the 6" compound meter, 48 billing units for the 2" compound meter, 12 billing units for the 1" meter and the addition of 12 billing units for the 6" turbine meter. The number of gallons billed, in total, will not change, but the realignment of gallons by meter size is not reflected above, as it has no effect on the calculation.

WATER MANAGEMENT SERVICES, INC. - DOCKET NO. 000694-WU  
 COMPARATIVE RATE SCHEDULES

Schedule 1  
 Page 3 of 3  
 10/12/04

Residential and General Service

	Rates Pre-Limited Proceeding	Authorized PHASE II Rates	Requested Final Rates
Meter Size	BFC per month	BFC per month	BFC per month
5/8" x 3/4"	\$20.90	\$33.06	\$34.68
1"	52.25	82.66	86.71
1 1/2"	104.51	165.34	173.45
2"	167.20	264.52	277.50
3" Compound	334.40	529.03	554.98
3" Turbine	365.77	578.67	607.06
4" Compound	522.52	826.50	867.04
4" Turbine	627.02	991.98	1,040.64
6" Compound	1,045.03	1,653.00	1,734.09
6" Turbine	1,306.30	2,066.64	2,168.02
8" Compound	1,672.05	2,644.80	2,774.54
8" Turbine	1,881.06	2,975.40	3,121.36
10" Compound	2,403.58	3,801.90	3,988.40
10" Turbine	3,030.59	4,793.70	5,028.86
12" Compound	4,493.50	6,281.40	6,589.54
Gallage Charge, \$/MG	\$1.98	\$3.13	\$3.28
Average Residential Bill @ 7.60 MG per month	\$35.95	\$56.85	\$59.64

WATER MANAGEMENT SERVICES, INC. - DOCKET NO. 000694-WU  
PLANT IN SERVICE and  
CALCULATION OF AVERAGE DEPRECIATION RATE

NARUC Acct	Plant Component	Total	PSC Guideline Service Life, yrs	Annual Depr. Expense	Actual Accum. Depr.	1/2 yr Depr.
303	Land	\$20,151				
304	Structures (island office improv.)	287,231	33.00	8,704	4,352	4,352
307	Wells & Springs (well controls)	16,698	30.00	557	186	278
309	Supply Mains (exposed)	3,259,090	30.00	108,636	76,151	54,318
309	Supply Mains (other)	229,639	35.00	6,561		3,281
310	Power Gen. Equip. ( emergency gen.)	40,982	20.00	2,049	1,537	1,025
311	Pumping Equipment (controls)	69,611	20.00	3,481	1,740	1,740
320	Treatment Equip. (aerator, chlorinator)	36,065	22.00	1,639	919	820
330	Dist. Res. & Standpipes (tank & fittings)	18,018	37.00	487	191	243
331	Trans & Dist. Mains (pipe improv.)	1,009,001	43.00	23,465	8,977	11,733
	Engineering & Overheads @ Avg Dep. L	1,170,050	31.92	36,654	8,977	18,327
	Depreciable Plant	\$6,136,386	31.92	\$192,233	\$103,029	\$96,116
	Total Plant, incl. land	6,156,536		3.13%		
	Deprec. Plant excl. Engr. & Overheads	4,966,336	31.92	155,579		3.13%

Support for non-guideline depreciation rate for exposed supply mains

NARUC Account	Contractor	Total **	PSC Guideline Service Life, yrs
309	Boh Brothers Mains & Appurt. - exposed	1,233,664	30 **
309	Blankenship Mains & Appurt. - exposed	832,804	30 **
309	Materials - Mains & Appurt. - exposed		
309	U.S. Filter - hangers	561	30 **
309	Weldcraft - hangers	584,060	30 **
309	Clow - D.I. pipe	426,323	30 **
309	Consolidated - coating	181,678	30 **
		<u>3,259,090</u>	

\*\* In Order No. PSC-03-1005-PAA-WU, the Commission recognized that the exposed mains were subject to more adverse environmental conditions than buried pipe. On that basis, it allowed a 35 year life, as compared to the and distribution mains. The main in question is a supply main. The rule indicates a guideline life of 35 years for supply mains. Applying the Commission's logic, the authorized depreciation life for buried and exposed pipes should be 35 and 30 years rather than the 40 and 35 years in the order.

WATER MANAGEMENT SERVICES, INC. - DOCKET NO. 000694-WU  
 REPLACEMENT OF SUPPLY MAIN SERVING ST. GEORGE ISLAND  
 SUMMARY OF ACCUMULATED DEPRECIATION FOR PRUDENTLY RETIRED PLANT

Schedule 2  
 Page 2 of 3  
 10/12/04

Date In Service	Amount Retired	Depr. Life, Yrs	Annual Exp.	Monthly Expense	Retirement Date	In Service Days	In Service Years	Accum. Depr.
07/01/85	298,468.55	32	9,327.14	777.26	12/31/03	6,757	18.51	172,667.08
09/30/95	1,161.74	35	33.19	2.77	12/31/03	3,014	8.26	274.07
01/31/96	2,180.96	35	62.31	5.19	12/31/03	2,891	7.92	493.53
05/31/96	355.62	35	10.16	0.85	12/31/03	2,770	7.59	77.10
08/31/96	1,039.68	35	29.71	2.48	12/31/03	2,678	7.34	217.98
09/30/96	967.57	35	27.64	2.30	12/31/03	2,648	7.25	200.52
10/31/96	7,873.60	35	<b>224.96</b>	18.75	12/31/03	2,617	7.17	1,612.93
12/31/96	2,147.75	35	61.36	5.11	12/31/03	2,556	7.00	429.69
04/30/99	513.37	35	14.67	1.22	12/31/03	1,706	4.67	68.57
	<u>314,708.84</u>		<u>9,791.14</u>	<u>815.93</u>				<u>176,041.47</u>
								Net loss = net undepreciated plant balance = 138,667.37

Amortization period:  $\frac{\text{net loss}}{\text{ann. depr. exp.} + \text{rr} \cdot \text{net loss}} = 9.48 \text{ years}$

where:

net loss = 138,667.37

ann. depr. exp. = 9,791.14

rr (rate of return) = 3.49% (final requested interest rate from limited proceeding Dkt. No. 000694-WU)

Annual amortization expense = Loss/years =  $\$138,667.37 / 9.48 = \$14,630.63$

WATER MANAGEMENT SERVICES, INC. - DOCKET NO. 000694-WU  
LIMITED PROCEEDINGS EXPENSE

Firm or Vendor	Counsel or Consultant	Hourly Rate	Total * of Charges	Type of Service Rendered
Hopping Green & Sams	Richard Melson	\$220.00	\$12,531	A Legal representation re Phase I - limited proceeding
		\$250.00	\$10,741	A Legal representation re Phases II - limited proceeding
Rutledge, Ecenia & Hoffman	Kenneth Hoffman	\$250.00	\$7,735	A Legal representation re Trueup phase - limited proceed
		\$250.00	\$6,000	B Legal rep. re Trueup phase - limited proceeding to com
Nicholas Yonclas, P.A.	Nicholas Yonclas	\$125.00	\$2,100	A Legal representation regarding water tower
Management & Regulatory Consultants, Inc.	Frank Seidman	\$95.00	\$11,216	A Regulatory consulting, preparation of schedules for Phase I of limited proceeding; assist w/SRF application
		\$100.00	\$8,400	A Analysis for & preparation of Phase II
		\$100.00	\$6,275	A Analysis for & preparation of Trueup phase
		\$100.00	\$8,000	B Analysis for & preparation of Trueup phase to completion, assist with response to staff requests.
Filing fees			\$1,000	A
Misc. copying, notices, out of pocket expenses.			\$45	A
<b>Total Expense</b>			<u>\$74,043</u>	

\* Assumes that the limited proceeding is resolved without a formal hearing.  
A - Actual expense  
B - Estimated expense

PERSONAL PROPERTY TAX EXPENSE

	Basis	Tax	Pct
Based on 2003 Tax Rate	420,250.00	4,792.11	1.14%

PROPERTY INSURANCE EXPENSE

	Basis	Annual Premium
2003 Premium - Old bridge	113,000	147
2004 Premium - New bridge	4,000,000	8,400
Differential related to project additions		8,253

WATER MANAGEMENT SERVICES, INC. - DOCKET NO. 000694-WU  
CONSTRUCTION WORK IN PROGRESS AND CAPITAL OUTLAY TO PLANT IN SERVICE  
and Related Interest Expense

	Actual Construction Expend.				Cumulative
	Acct 105.10 Supply Main	Acct 105.15 Dist. Improv.	Acct 105.70 Plant Improv.	Direct to P.I.S.	
Jan, 2000	0.00				0.00
Feb	0.00				0.00
Mar	0.00				0.00
Apr	15,792.12				15,792.12
May	7,547.08				23,339.20
June	19,807.77				43,146.97
July	19,535.32				62,682.29
Aug	26,270.70				88,952.99
Sep	9,000.00				97,952.99
Oct	76,889.10				174,842.09
Nov	65,987.90				240,829.99
Dec	118,193.74				359,023.73
Jan, 2001	14,693.33				373,717.06
Feb	16,758.33				390,475.39
Mar	11,982.96				402,458.35
Apr	15,216.83				417,675.18
May	13,246.29				430,921.47
June	12,713.34				443,634.81
July	101,814.28				545,449.09
Aug	68,639.85				614,088.94
Sep	11,633.34				625,722.28
Oct	156,932.66				782,654.94
Nov	179,550.16				962,205.10
Dec	97,682.22				1,059,887.32
Jan, 2002	6,580.00				1,066,467.32
Feb	7,230.00			20,150.50	1,093,847.82
Mar	6,630.00				1,100,477.82
Apr	136,536.05				1,237,013.87
May	89,415.60				1,326,429.47
June	212,843.66				1,539,273.13
July	107,841.63				1,647,114.76
Aug	79,420.70				1,726,535.46
Sep	155,312.68				1,881,848.14
Oct	433,280.29				2,315,128.43
Nov	15,154.73				2,330,283.16
Dec	465,403.04				2,795,686.20
Jan, 2003	289,438.84				3,085,125.04
Feb	144,989.90		8,000.00		3,238,114.94
Mar	542,251.83		(8,000.00)		3,772,366.77
Apr	54,187.12		0.00		3,826,553.89
May	63,827.83	0.00	0.00		3,890,381.72
June	382,707.95	64,634.20	287,231.40		4,624,955.27
July	279,808.31	0.00	(0.00)		4,904,763.58
Aug	(4,393.64)	80,026.69	0.00		4,980,396.63
Sep	85,075.17	57,781.51	(0.00)		5,123,253.31
Oct	12,033.75	104,930.10	0.00	60,627.93	5,300,845.09
Nov	76,833.70	69,953.40	0.00		5,447,632.19
Dec	(40,338.47)	101,983.43	69,610.97		5,578,888.12
Jan, 2004	33,664.50	101,983.43	(0.00)	16,746.38	5,731,282.43
Feb	17,819.96	122,380.11	(0.00)	0.00	5,871,482.50
Mar	5,908.84	116,563.44	95,616.00	224.44	6,089,795.22
Apr	0.00	0.00	20,770.00	3,351.20	6,113,916.42
May				36,346.69	6,150,263.11
June	6,054.48			218.80	6,156,536.39

Debt Components - Capital Sources Available for Project (see notes on page 3)										ht	te
Bank of Perry	Rate	GSB - Const.	Rate	DEP	Rate	Weighted Interest	Cum.				
0.00	10.50%					0.00	0.00				
0.00	10.50%					0.00	0.00				
0.00	10.50%					0.00	0.00				
15,792.12	10.50%					138.18	138.18		10.50%		
23,339.20	10.50%					204.22	342.40		10.50%		
43,146.97	10.50%					377.54	719.94		10.50%		
62,682.29	10.50%					548.47	1,268.41		10.50%		
88,952.99	10.50%					778.34	2,046.74		10.50%		
97,952.99	10.50%					857.09	2,903.83		10.50%		
174,842.09	10.50%					1,529.87	4,433.70		10.50%		
240,829.99	10.50%					2,107.26	6,540.96		10.50%		
359,023.73	10.50%					3,141.46	9,682.42		10.50%		
373,717.06	10.50%					3,270.02	12,952.45		10.50%		
247,853.01	10.50%	142,622.38	9.50%			3,297.81	16,250.25		10.13%		
214,835.97	10.50%	187,622.38	9.50%			3,365.16	19,615.41		10.03%		
180,052.80	9.00%	237,622.38	9.50%			3,231.57	22,846.98		9.28%		
193,299.09	9.00%	237,622.38	9.50%			3,330.92	26,177.90		9.28%		
177,012.43	9.00%	266,622.38	9.50%			3,438.35	29,616.26		9.30%		
171,961.82	9.00%	373,487.27	9.50%			4,246.49	33,862.75		9.34%		
173,185.15	8.00%	440,903.79	9.50%			4,645.06	38,507.80		9.08%		
109,230.68	8.00%	516,491.60	9.50%			4,817.10	43,324.90		9.24%		
234,740.69	7.00%	547,914.25	9.50%			5,706.98	49,031.87		8.75%		
299,669.95	7.00%	662,535.15	9.50%			6,993.14	56,025.02		8.72%		
397,352.17	5.75%	662,535.15	9.00%			6,872.99	62,898.01		7.78%		
92,032.71	5.75%	203,943.61	7.50%	770,491.00	3.32%	3,849.77	66,747.78		4.33%		
0.00	5.75%	24,526.82	7.50%	1,069,321.00	3.32%	3,115.14	69,862.92		3.42%		
0.00	5.75%	21,076.82	7.50%	1,079,401.00	3.32%	3,121.49	72,984.41		3.40%		
0.00	5.75%	16,856.87	7.50%	1,220,157.00	3.32%	3,484.99	76,469.40		3.38%		
0.00	5.75%	96,192.47	7.50%	1,230,237.00	3.32%	4,008.76	80,478.16		3.63%		
0.00	5.75%	216,791.13	7.50%	1,322,482.00	3.32%	5,018.00	85,496.16		3.91%		
0.00	5.75%	108,288.76	7.50%	1,538,826.00	3.32%	4,939.10	90,435.26		3.60%		
0.00	5.75%	76,368.46	7.50%	1,650,167.00	3.32%	5,047.99	95,483.25		3.51%		
23,513.23	5.75%	195,207.91	7.50%	1,663,127.00	3.32%	5,939.31	101,422.56		3.79%		
0.00	5.75%	76,611.43	7.50%	2,238,517.00	3.32%	6,679.15	108,101.71		3.46%		
0.00	5.75%	0.00	7.50%	2,330,283.16	3.32%	6,454.50	114,556.21		3.32%		
229,043.60	5.75%	191,352.60	7.50%	2,375,290.00	3.32%	8,872.62	123,428.82		3.81%		
301,109.97	5.25%	190,079.07	7.50%	2,593,936.00	3.32%	9,690.13	133,118.95		3.77%		
240,103.72	5.25%	188,796.22	7.50%	2,809,215.00	3.32%	10,011.49	143,130.44		3.71%		
641,718.33	5.25%	187,352.44	7.25%	2,943,296.00	3.32%	12,091.88	155,222.33		3.85%		
461,847.09	5.25%	186,010.80	7.25%	3,178,696.00	3.32%	11,948.86	167,171.19		3.75%		
0.00	5.25%	267,189.72	7.25%	3,623,192.00	3.32%	11,649.92	178,821.11		3.59%		
657,167.46	5.25%	183,265.81	7.25%	3,784,522.00	3.32%	14,464.84	193,285.95		3.75%		
254,052.79	5.25%	181,861.79	7.25%	4,468,849.00	3.32%	14,588.21	207,874.16		3.57%		
0.00	5.25%	193,699.63	7.25%	4,786,697.00	3.32%	14,428.63	222,302.79		3.48%		
0.00	5.00%	262,069.31	7.25%	4,861,184.00	3.32%	15,048.02	237,350.80		3.52%		
0.00	5.00%	255,222.09	7.25%	5,045,623.00	3.32%	15,517.51	252,868.32		3.51%		
0.00	5.00%	284,078.19	7.25%	5,163,554.00	3.32%	16,018.50	268,886.82		3.53%		
0.00	5.00%	253,710.12	7.25%	5,325,178.00	3.32%	16,282.70	285,169.52		3.50%		
0.00	5.00%	358,611.43	7.25%	5,372,671.00	3.32%	17,048.03	302,217.54		3.57%		
0.00	5.00%	350,753.50	7.25%	5,520,729.00	3.32%	17,410.65	319,628.19		3.56%		
0.00	5.00%	427,576.22	7.25%	5,662,219.00	3.32%	18,266.69	337,894.88		3.60%		
0.00	5.00%	222,478.42	7.25%	5,891,438.00	3.32%	17,662.46	355,557.33		3.47%		
0.00	5.00%	246,494.11	7.25%	5,903,769.00	3.32%	17,841.70	373,399.04		3.48%		
0.00	5.00%	252,767.39	7.25%	5,903,769.00	3.32%	17,879.61	391,278.65		3.48%		

WATER MANAGEMENT SERVICES, INC. - DOCKET NO. 000694-WU  
NOTES TO DEBT SERVICE SCHEDULE

1. In 2000, and in January, 2001, all supply main construction was funded by the Citizens Bank of Perry note.
2. Beginning in February, 2001, a construction loan was secured from Gulf State Bank (GSB). Construction was funded first, by the GSB loan, with all remaining, by the Bank of Perry note.
3. In January, 2002, draws became available from the DEP State Revolving Fund loan. The GSB construction loan was paid down and renewed at a lower level. Construction was funded first from DEP draws, second from the GSB construction loan, and any excess from the Bank of Perry note.
4. For the purpose of setting final rates, the ongoing cost of debt in June, 2004 is used.

DEP Loan Weighted Average Cost

Loan Amt	Int. Rate	Interest on Loan Amt	Loan Fee Amort.	Effective Interest	Eff. Int. on Loan
3,000,000	3.05%	91,500	10,038	101,538	3.38%
3,080,883	2.93%	90,270	10,309	100,579	3.26%
<u>6,080,883</u>	(Notes 1,2)	<u>181,770</u>	<u>20,347</u>	<u>202,117</u>	<u>3.32%</u>

Amort. yrs	Ann. Amort.	Loan Costs
252,700	19.00	13,300 Loan Reserve net of interest earned (see note)
140,933	20.00	7,047 Loan Service Fees
<u>393,634</u>	(Note 3)	<u>20,347</u> Total Annual Amortization

Notes:

1. The actual principal of the loan is \$6,161,683, which includes \$80,800 of capitalized interest. However, since the Phase I rates provided revenue to cover interest during construction directly, for ratemaking purposes the loan amount excludes the capitalized interest.

2. The actual amount available for construction = \$6,080,883 less \$177,113 = \$5,903,770.

3. The Loan Reserve Account is an interest bearing account, the amount of which is not available to the utility except in the event of a default of payment. Even then it must be replenished. In order to reflect the benefit to ratepayers of the interest earned, the \$134,198 interest that would be earned over 20 years is deducted from the required reserve of \$386,898 to determine the amount to be amortized as a loan cost.

Required Reserve	386,898	Required Reserve	386,898
FV in 20 Yrs	521,096	Less int. earned	<u>134,198</u>
Int. earned	134,198	Net to be amort.	<u>252,700</u>
At int. rate of	1.50% current 12 mo. CD rate		



WATER MANAGEMENT SERVICES, INC. - DOCKET NO. 000694-WU  
TRUE UP OF REVENUES COLLECTED and  
EXPENSES INCURRED through 6/04

	Interest * # Revenue Requirement	Depreciation* Revenue Requirement	RC Expense* Revenue Requirement	Total Revenue Requirement	Cum. Total Collected @ Phased Rates
Jan, 2000					
Feb					
Mar					
Apr	145			145	
May	359			359	
June	754			754	
July	1,328			1,328	
Aug	2,143			2,143	
Sep	3,041			3,041	
Oct	4,643			4,643	
Nov	6,849			3,849	
Dec	10,139			10,139	5,218
Jan, 2001	13,563	797		14,360	
Feb	17,016	1,594		18,610	
Mar	20,540	2,391		22,930	
Apr	23,924	3,188		27,111	
May	27,411	3,984		31,396	
June	31,012	4,781		35,793	
July	35,458	5,578		41,037	
Aug	40,322	6,375		46,697	
Sep	45,366	7,172		52,538	
Oct	51,342	7,969		59,311	
Nov	58,665	8,766		67,431	
Dec	65,862	9,563		75,424	97,263
Jan, 2002	69,893	10,474		80,367	
Feb	73,155	11,386		84,540	
Mar	76,423	12,297		88,721	
Apr	80,073	13,209		93,281	
May	84,270	14,120		98,391	
June	89,525	15,032		104,556	
July	94,697	15,943		110,640	
Aug	99,982	16,855		116,837	
Sep	106,202	17,766		123,968	
Oct	113,196	18,678		131,873	
Nov	119,954	19,589		139,544	
Dec	129,245	20,501		149,746	188,908
Jan, 2003	139,392	21,412		160,804	
Feb	149,875	22,324		172,199	
Mar	162,536	23,236		185,772	
Apr	175,048	24,147		199,195	
May	187,247	25,059		212,306	
June	202,394	25,970		228,364	
July	217,669	26,882		244,551	
	232,778	27,793		260,571	
Sep	248,535	28,705	911	278,150	
Oct	264,784	29,873	1,821	296,478	
Nov	281,557	31,041	2,732	315,330	
Dec	298,607	32,210	3,643	334,459	402,690
Jan, 2004	316,458	35,414	4,553	356,425	
Feb	334,689	38,864	5,464	379,017	
Mar	353,817	53,372	6,375	413,563	
Apr	372,311	68,331	7,285	447,928	
May	390,994	83,334	8,196	482,523	
June	409,716	98,484	9,106	517,306	654,134
Plus: Cash expenditure required to fund reserve:				209,785	
Total Revenue Requirement through 6/30/04				727,091	
Difference: Revenue collected less revenue requirement @ 6/30/04					(72,957)
# - Cumulative Interest Expense from Schedule 3, page 1					
* - Grossed up for 4.5% RAF					