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(850) 413-6900

Public Service Commission

May 22, 2008

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COMMISSION
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W.P. Utilities, Inc.
Attn: Caroline Schneider
3500 W. Lantana Road
Lantana, FL 33462

Re: Docket No. 070722^{-WS} - Application for staff-assisted rate case in Palm Beach County by W.P. Utilities, Inc.

Dear Ms. Schneider:

Enclosed are two copies of the staff report. Please ensure that a copy of the completed Application for Staff Assistance and the staff report are available for review, pursuant to Rule 25-22.0407 (9)(b), F.A.C., by all interested persons at the following location:

W.P. Utilities, Inc.
3500 W. Lantana Road
Lantana, FL 33462

Should you have any questions about any of the matters contained herein, please do not hesitate to contact me at (850) 413-6642. In addition, you may contact Shannon Hudson at (850) 413-7021, with any questions.

Sincerely,


Cheryl Bulecza-Banks
Chief of Rate Filings

Enclosures

CBB/SH

cc: Division of Economic Regulation (Fletcher, Hudson, Bruce)
Office of General Counsel (Bennett)
~~Division of Commission Clerk and Administrative Services (070722-WS)~~

DOCUMENT NUMBER-DATE
04423 MAY 23 08
FPSC-COMMISSION CLERK

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: May 13, 2008

TO: Cheryl Bulecza-Banks, Bureau Chief, Bureau of Rate Filings

FROM: Shannon Hudson, Regulatory Analyst IV *SH*
Mahnaz Massoudi, Engineer Specialist IV *MM*
Sonica Bruce, Regulatory Analyst III *SB*

RE: Docket No. 070722-WS – Application for staff-assisted rate case in Palm Beach County by W.P. Utilities, Inc.

- STAFF REPORT -

This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting.

DOCUMENT NUMBER-DATE

04423 MAY 23 08

FPSC-COMMISSION CLERK

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Case Background

¹ This Staff Report is a preliminary analysis of the utility prepared by the Florida Public Service Commission (PSC) staff to give utility customers and the utility an advanced look at what staff may be proposing. The final recommendation to the Commission (currently scheduled to be filed August 7, 2008 for the August 19, 2008 Agenda Conference) will be revised as necessary using updated information and results of customer quality of service or other relevant comments received at the customer meeting.

W.P. Utilities, Inc. (W.P. or utility) is a Class C water and wastewater company serving approximately 190 customers in Palm Beach County. According to the utility's 2006 annual report, total gross revenue was \$33,690 and \$57,574 for water and wastewater, respectively. Total operating expense was \$44,371 for water and \$50,298 for wastewater.

The utility purchases potable water and wastewater treatment and disposal services from the City of Lake Worth and resells these services to the residents of Palm Breezes Club Mobile Home Park. W.P. owns the water distribution and wastewater collection lines within the mobile home park. The utility has been in existence and providing service since 1987. W.P. received reseller exempt status in 1990.¹

In order to recover the costs of administration, meter setting, meter reading, customer accounting, maintenance of the distribution and collection systems and plant investment, which could not be done under the reseller exempt status, the utility applied for and received Certificate Nos. 548-W and 478-S.²

On August 24, 1994, the utility filed for a staff-assisted rate case and Docket No. 940895-WS was established. The utility was granted a rate increase.³ The utility last applied for a staff assisted rate case January 13, 2000. The filing was assigned Docket No. 000042-WS. The utility withdrew its request on February 24, 2000.

On December 13, 2007, W.P. applied for a staff-assisted rate case (SARC) in the instant docket. The test year for final rates is the twelve-month period ended December 31, 2007.

The Commission has the authority to consider this rate case pursuant to Section 367.0814, Florida Statutes (F.S.).

¹ See Order No. 23412, issued August 28, 1990, in Docket No. 900682-WS, In Re: Request for exemption from Florida Public Service Commission regulation for water and sewer facilities in Palm Beach County by W.P. Utilities, Inc.

² See Order No. PSC-92-1374-FOF-WS, issued November 11, 1992, in Docket No. 920650-WS, In Re: Application for water and wastewater certificates in Palm Beach County by W.P. Utilities, Inc.

³ See Order No. PSC-95-0480-FOF-WS, issued April 13, 1995, in Docket No. 940895-WS, In Re: Application for staff-assisted rate case in Palm Beach County by W.P. Utilities, Inc.

Discussion of Issues

Issue 1: Should the quality of service provided by W.P. Utilities, Inc. be considered satisfactory?

Preliminary Recommendation: The determination for the quality of water and wastewater service provided by W.P. will be deferred until after the customer meeting scheduled for June 11, 2008. (Massoudi)

Staff Analysis: Rule 25-30.433(1), Florida Administrative Code (F.A.C.), states that:

The Commission in every rate case shall make a determination of the quality of service provided by the Utility. This shall be derived from an evaluation of three separate components of water and wastewater Utility operations: quality of Utility's product (water and wastewater); operational conditions of Utility's plant and facilities; and the Utility's attempt to address customer satisfaction. Sanitary surveys, outstanding citations, violations and consent orders on file with the Department of Environmental Protection (DEP) and county health departments or lack thereof over the proceeding 3-year period shall also be considered. DEP and county health departments officials' testimony concerning quality of service as well as the comments and testimony of the Utility's customers shall be considered.

Staff's preliminary analysis below addresses each of these three components.

Quality of Utility's Product

Water Treatment Plant (WTP)

The W.P. water system is considered a consecutive system. The Utility purchases potable water services from the City of Lake Worth and resells these services to the residents of Palm Breezes Club Mobile Home Park. However, the W.P. water system is overseen by the Palm Beach County Health Department (PBCHD) and Southwest Florida Water Management District (SWFWMD). The PBCHD conducted a sanitary survey of the Utility's water system on October 25, 2007. The Utility has conformed to all testing and chemical analyses required by this agency and the test results have been satisfactory.

The quality of the water service appears to meet or exceed the regulatory standards and is considered satisfactory.

Wastewater Treatment Plant (WWTP)

The Utility only has a wastewater collection system and there are no treatment facilities. The Utility purchases all wastewater treatment services from the City of Lake Worth. Jurisdiction over the Utility's collection system is regulated by the DEP. According to the DEP, the Utility is in compliance status for its collection system and is considered satisfactory. The

quality of wastewater service appears to meet or exceed regulatory standards and is considered satisfactory.

Operational Conditions at the Plant

WTP

The product provided by the Utility is reflective of the operating condition of the water plant. The W.P. water system is considered a consecutive system and does not have a water treatment plant. However, maintenance at the service area appeared to have been given adequate attention.

All things considered, the operational conditions of the water system should be considered satisfactory at this time.

WWTP

The product provided by the Utility is reflective of the operating condition of the wastewater plant. The Utility only has a wastewater collection system and there are no treatment facilities. However, maintenance of the collection system appeared to have been given adequate attention.

All things considered, the operational conditions at the wastewater service area should be considered satisfactory at this time.

Utility's Attempt to Address Customer Satisfaction

An informal customer meeting is scheduled to be held on June 11, 2008 at the Palm Breezes Clubhouse. That meeting will give the customers of W.P. Utility an opportunity to go on record with specific concerns about the Utility's attitude and responsiveness to quality of service issues. All valid quality of service complaints will be investigated and will be taken into consideration during the preparation of staff's final recommendation. That recommendation is scheduled to go before the panel of Commissioners for approval on the August 5, 2008 Agenda Conference. The engineer will reserve a final quality of service determination until after the information obtained at the customer meeting has been thoroughly reviewed.

Issue 2: What are the used and useful percentages for W.P.'s water and wastewater systems?

Preliminary Recommendation: The following used and useful percentages are appropriate for the Utility's water and wastewater systems:

Water Treatment Plant	N/A
Water Distribution System	100%
Wastewater Treatment Plant	N/A
Wastewater Collection Systems	100%

(Massoudi)

Staff Analysis: Staff has performed an analysis of the utility's facilities and its analysis and recommendations are discussed below.

Water Treatment Plant

Since the Utility does not have any water treatment plant, the used and useful calculation is not applicable.

Water Distribution System

The water distribution system had the potential of serving 190 customers (estimated to be 190 ERCs). The average number of customers served during the test year was 190 customers (estimated to be 190 ERCs). The service has been "built-out". Therefore, the potential growth for this system is zero. By the formula approach, the staff calculates the distribution system to be 100% used and useful (Attachment A, Page 1 of 2).

Wastewater Treatment Plant

Since the Utility does not have any wastewater treatment plant, the used and useful calculation is not applicable.

Wastewater Collection System

The collection system had the potential of serving 190 customers (estimated to be 190 ERCs). The average number of customers served during the test year was 190 customers (estimated to be 190 ERCs). The service has been "built-out". Therefore, the potential growth for this system is zero. By the formula approach, the staff calculates the collection system to be 100% used and useful (Attachment A, Page 2 of 2).

Issue 3: What is the appropriate average test year rate base for the utility?

Preliminary Recommendation: The appropriate average test year rate base for the utility is \$37,087 for water and \$79,918 for wastewater. (Hudson)

Staff Analysis: The utility's rate base was last established by Order No. PSC-95-0480-FOF-WS, issued April 13, 1995, in Docket No. 940895-WS, In Re: Application for a staff-assisted rate case in Palm Beach County by W.P. Utilities, Inc.

Staff has selected a test year ended December 31, 2007 for this rate case. Rate base components established, in the above-mentioned Order, have been updated through December 31, 2007, using information obtained from staff's audit and engineering reports. A summary of each component and the adjustments follows.

Utility Plant in Service (UPIS): The utility recorded \$125,568 and \$158,600 of UPIS for the test year ended December 31, 2007, for water and wastewater, respectively. Pursuant to Audit Finding No. 1, the utility recorded a wastewater plant as a water plant addition. Thus, staff has made an adjustment to reclassify \$7,180 from water plant to wastewater plant. Staff has decreased UPIS by \$6,797 to reflect an averaging adjustment for wastewater, respectively. Staff's recommended UPIS balance is \$118,388 and \$158,983 for water and wastewater, respectively.

Non-used and Useful Plant: As discussed in Issue No. 2, a used and useful adjustment is unnecessary.

Contribution in Aid of Construction (CIAC): The utility recorded CIAC of \$29,542 and \$11,304 for water and wastewater, respectively, for the test year ended December 31, 2007. Based on CIAC approved in the last rate case and CIAC additions, staff has determined the appropriate CIAC to be \$27,142 for water and \$6,606 for wastewater. Therefore, staff has decreased this account by \$2,400 and \$4,698 for water and wastewater, respectively.

Accumulated Depreciation: The utility recorded a balance for accumulated depreciation of \$169,784 for water and \$0 for wastewater for the test year. Staff has calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. As a result, staff has decreased this account by \$90,371 for water and increased by \$84,012 for wastewater to reflect depreciation calculated per staff. Staff has decreased this account by \$1,989 and \$2,651 to reflect an averaging adjustment for water and wastewater, respectively. These adjustments results in average accumulated depreciation of \$77,424 for water and \$81,361 for wastewater.

Accumulated Amortization of CIAC: The utility recorded \$18,734 and \$0 for amortization of CIAC for water and wastewater, respectively. Amortization of CIAC has been recalculated by staff using composite depreciation rates. In order to reflect amortization of CIAC as calculated by staff, this account has been decreased by \$1,554 for water and increased by \$3,041 for wastewater. Staff has decreased this account by \$456 and \$106 for water and wastewater, respectively, to reflect an averaging adjustment. Staff's net adjustments to this account results in Amortization of CIAC of \$16,724 for water and \$2,935 for wastewater.

Docket No. 070722-WS

Date: May 13, 2008

Working Capital Allowance: Working capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the O&M expense formula approach for calculating working capital allowance. Applying this formula, staff recommends a working capital allowance of \$6,541 for water (based on water O&M of \$52,329) and \$5,967 for wastewater (based on wastewater O&M of \$47,738). Working capital has been increased by \$6,541 and \$5,967 to reflect one-eighth of staff's recommended O&M expenses for water and wastewater, respectively.

Rate Base Summary: Based on the forgoing, staff recommends that the appropriate test year average rate base is \$37,087 for water and \$79,918 for wastewater. Rate base is shown on Schedule Nos. 1-A and 1-B, and staff's adjustments are shown on Schedule 1-C.

Issue 4: What is the appropriate rate of return on equity and overall rate of return for this utility?

Preliminary Recommendation: The appropriate return on equity is 12.01% with a range of 11.01% - 13.01%. The appropriate overall rate of return is 7.50%. (Hudson)

Staff Analysis: The utility recorded in its capital structure, for the test year, negative equity of \$3,575,107 and total long term debt of \$4,902,358. Since including negative equity would penalize the utility's capital structure by understating the overall rate of return, staff has adjusted the negative equity to zero.⁴ Staff has also decreased long term debt by \$6,701 to reflect the removal of debt associated with a vehicle which has been paid off. Staff recommends long term debt of \$4,894,076.

Using the leverage formula approved by Order No. PSC-07-0472-PAA-WS issued June 1, 2007, in Docket No. 070006-WS, In Re: Water and Wastewater industry annual establishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S., the appropriate rate of return on equity is 12.01%.

The utility's capital structure has been reconciled with staff's recommended rate base. Staff recommends a return on equity of 12.01% with a range of 11.01% - 13.01%, and an overall rate of return of 7.50%. The return on equity and overall rate of return are shown on Schedule No. 2.

⁴ See Order Nos. PSC-95-0480-FOF-WS, issued April 13, 1995, in Docket No. 940895-WS, In Re: Application for a staff-assisted rate case in Palm Beach County by W.P. Utilities, Inc.; PSC-97-0263-FOF-SU, issued March 11, 1997, in Docket No. 960984-SU, In Re: Investigation of possible overearnings in Volusia County by North Peninsula Utilities Corporation; and PSC-01-1574-PAA-WS, issued July 30, 2001, in Docket No. 000584-WS, In Re: Application for approval of staff-assisted rate case in Martin County by Laniger Enterprises of America, Inc.

Issue 5: What are the appropriate amounts of test year revenues in this case?

Preliminary Recommendation: The appropriate test year revenue for this utility is \$34,078 for water and \$55,858 for wastewater. (Hudson)

Staff Analysis: Per Audit Finding No. 4, the utility recorded total revenues of \$25,695 for water and \$43,901 for wastewater for the 12 month period ended December 31, 2007. During the audit, the staff auditor discovered that the utility did not book revenues for its fourth quarter billing. Staff has increased revenues by \$7,955 and \$14,148 for water and wastewater, respectively. The utility had a rate adjustment during the test year. Staff has annualized revenues for increase of \$341 for water and \$838 for wastewater. The utility booked a returned check to accounts receivable instead of revenue. Therefore, staff has increased water revenue by \$87.

Pursuant to Audit Finding No. 4, for wastewater, the utility billed the residential customers the general service gallonage charge. The utility also did not enforce its 30,000 gallon cap and billed customers for usage over 30,000 gallons. Based on these billing errors, the utility's wastewater revenues should be reduced by \$3,029. The utility should refund the overcollected wastewater revenues to the customers. Based on the audit, staff's net adjustment to water revenues is an increase of \$8,383 and wastewater revenues is an increase of \$11,957. Staff recommends test year revenue of \$34,078 for water and \$55,858 for wastewater. Test year revenues are shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule No. 3-B.

Issue 6: What is the appropriate amount of operating expenses?

Preliminary Recommendation: The appropriate amount of operating expense for the utility is \$57,768 for water and \$56,366 for wastewater. (Hudson)

Staff Analysis: The utility recorded operating expenses of \$46,776 for water and \$54,470 for wastewater during the test year ending December 31, 2007. The test year O & M expenses have been reviewed and invoices, canceled checks, and other supporting documentation have been examined. Staff made several adjustments to the utility's operating expenses, as summarized below:

Purchased Water/Wastewater – (610/710) – The utility recorded \$21,993 for water and \$34,429 for wastewater this account during the test year. Pursuant to Audit Finding No. 7, the utility's parent company paid some of its purchased water expenses. The utility did not record the expense on its book. Staff has made an adjustment to increase this account by \$4,831. The utility recorded purchased water as purchased wastewater. Staff has increased this account by \$1,658 for purchased water reclassified from purchased wastewater. Staff has also increased this account by \$5,096 to reflect purchased water recorded as purchased power. Staff's net adjustments to this account is an increase of \$11,585 for purchased water and a decrease of \$1,658 for purchased wastewater. Staff recommends purchased water of \$33,578 and purchased wastewater of \$32,771.

Purchased Power – (615/715) – The utility recorded \$0 for water and \$6,482 for wastewater in this account during the test year. Pursuant to Audit Finding No. 7, the utility recorded purchased water expenses as purchased power. Staff has decreased this account by \$5,096 to reflect the reclassification of purchased water expense. Staff recommends purchased power of \$0 for water and \$1,386 for wastewater.

Materials and Supplies – (620/720) – The utility recorded \$0 for water and \$0 for wastewater in this account during the test year. Pursuant to Audit Finding No. 7, the utility's parent company paid for material and supplies. The utility did not record the expense on its book. Staff has increased this account by \$41. Staff recommends material and supplies of \$41 for water and \$0 for wastewater.

Contractual Services – Billing – (630/730) – The utility recorded \$0 for water and \$0 for wastewater in this account during the test year. The utility recorded billing expenses as accounting expenses in Acct. No. 631. Staff has increased water by \$900 and wastewater by \$900 to reflect reclassified billing expenses from Acct. No. 631. The utility recorded \$105 of expenses for meter reading as repairs and maintenance in Acct. No. 636. Staff has reclassified the meter reading expense, to this account, and allocated it equally at \$52 for both water and wastewater. The utility currently bills on a quarterly basis. Staff is recommending in Issue 8 that the utility convert its billing cycle to monthly. Staff has increased both water and wastewater by \$1,920 to reflect pro forma billing expenses. Staff has also increased this account by \$960 for water to reflect a pro forma expense for monthly meter reading. Staff has increased this account by \$1,110 for both water and wastewater to reflect billing expenses paid by the utility's parent company. Staff's net adjustment to this account is an increase of \$4,943 for water

and \$3,983 for wastewater. Staff recommends contractual services – billing of \$4,943 for water and \$3,983 for wastewater.

Contractual Services – Professional – (631/731) – The utility recorded \$4,164 for water and \$4,164 for wastewater in this account during the test year. The utility recorded billing expenses as accounting expenses in Acct. No. 631. Staff has decreased water by \$900 and wastewater by \$900 to reflect billing expenses reclassified to Acct Nos. 630/730. The utility recorded accounting expenses related to the rate case in this account. Staff has reclassified \$228 for both water and wastewater to Acct. No. 665. Staff's net adjustment to this account is a decrease of \$1,128 to both water and wastewater. Staff's recommended contractual services – professional is \$3,036 for water and \$3,036 for wastewater.

Contractual Services – Testing – (635/735) – The utility recorded \$3,890 for water and \$0 for wastewater in this account during the test year. The utility recorded operator expenses as testing. Staff has decreased this account by \$3,300 to reclassify operator expenses to Acct No. 636. Staff also decreased this account by \$290 to reflect the appropriate water testing expense per the staff engineer. Staff's net adjustment to this account is a decrease of \$3,590 for water. Staff's recommended contractual services – testing is \$300 for water and \$0 for wastewater.

Contractual Services – Other – (636/736) – The utility recorded \$6,340 for water and \$6,000 for wastewater in this account during the test year. The utility recorded operator expenses as testing. Staff has increased this account by \$3,300 to reflect operator expenses reclassified from Acct. No. 635. Also, the expense for operator services is increasing. The increase to operator services is \$300. Staff believes this amount is reasonable and increased this account. Staff decreased this account by \$105 for water to reclassify meter reading expenses recorded as repairs and maintenance to Acct. Nos. 630/730. Staff's net adjustment to this account is an increase of \$3,495 for water. Staff's recommended contractual services – other is \$9,835 for water and \$6,000 for wastewater.

Regulatory Commission Expense – (665/765) – The utility recorded \$0 in this account during the test year for water and wastewater. The utility recorded accounting expenses related to the rate case in Acct. No 631. Staff has increased this account by \$228 for both water and wastewater to reflect reclassified rate case expense. Pursuant to Section 367.0816, Florida Statutes, rate case expense is amortized over a 4-year period. The utility is required by Rule 25-22.0407, Florida Administrative Code, to mail notices of the customer meeting and notices of final rates in this case to its customers. For these notices, staff has estimated \$156 for postage expense, \$133 printing expense, and \$19 for envelopes. The above results in a total rate case expense for noticing of \$308. The utility paid a \$1,000 rate case filing fee for water and wastewater. Staff recommends that total rate case expense is \$1,308 (\$1,000 + \$308), which amortized over four years is \$327, allocating \$163 each for water and wastewater.

Operation and Maintenance Expense (O & M Summary) – The total O&M adjustment is a increase of \$15,738 for water and a decrease of \$3,508 for wastewater. Staff's recommended O&M expenses are \$52,329 for water and \$47,738 for wastewater. O&M expenses are shown on Schedule 3-D and 3-E.

Depreciation Expense (Net of Amortization of CIAC) – The utility recorded net depreciation expense of \$8,396 for water and \$167 for wastewater. Staff calculated test year depreciation using the rates prescribed in Rule 25-30.140,² F.A.C. Staff's calculation results in a necessary adjustment to reduce depreciation expense for water by \$4,417 and increase wastewater by \$4,914. Staff has calculated amortization of CIAC of \$912 for water and \$223 for wastewater based on composite rates. Staff has decreased this account by \$5,329 for water and increased this account by \$4,691. Staff's recommended net depreciation expense is \$3,067 for water and \$4,858 for wastewater.

Taxes Other Than Income (TOTI) – The utility recorded RAFs of \$1,789 for water and \$3,057 for wastewater. Based on staff's recommended test year revenues, the utility's RAFs should be \$1,534 for water and \$2,513 for wastewater. Staff has made adjustments to increase RAFs by \$17 (\$1,533 - \$1,516) for water and decrease RAFs by \$77 (\$2,513 - \$2,590) for wastewater. The utility failed to record its property taxes. Therefore, staff has increased this account by \$566 for water and \$790 for wastewater. Staff's net adjustment to this account is an increase of \$583 for water and an increase of \$713 for wastewater.

Income Tax – The utility recorded income tax of \$0 water and wastewater. The utility is an 1120 S corporation. The tax liability is passed on to the owner's personal tax returns. Therefore, staff did not make an adjustment to this account.

Operating Expenses Summary – The application of staff's recommended adjustments to the audited test year operating expenses results in staff's calculated operating expenses of \$57,768 for water and \$56,366 for wastewater. Operating expenses are shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule 3-C.

Issue 7: What are the appropriate revenue requirements?

Preliminary Recommendation: The appropriate revenue requirement is \$61,767 for water and \$62,667 for wastewater. (Hudson)

Staff Analysis: The utility should be allowed an annual increase of \$27,719 (81.34%) for water and \$6,809 (12.19%) for wastewater. This will allow the utility the opportunity to recover its expenses and earn an 7.50% return on its investment. The calculations are as follows:

	<u>Water</u>	<u>Wastewater</u>
Adjusted Rate Base	\$37,087	\$79,918
Rate of Return	x .0750	x .0750
Return on Rate Base	\$2,782	\$5,994
Adjusted O & M expense	\$52,329	\$47,738
Depreciation expense (Net)	\$3,067	\$4,858
Amortization	\$0	\$0
Taxes Other Than Income	\$3,620	\$4,076
Income Taxes	\$0	\$0
Revenue Requirement	\$61,797	\$62,667
Less Test Year Revenues	\$34,078	\$55,858
Annual Increase	\$27,719	\$6,809
Percent Increase/(Decrease)	81.34%	12.19%

Revenue requirement is shown on Schedule No. 3-A and 3-B.

Issue 8: What are the appropriate rate structures for the utility's water and wastewater systems?

Preliminary Recommendation: The appropriate rate structure for the water system's residential class is a monthly base facility charge (BFC) which includes a two-tier inclining block rate structure, with usage blocks set at 0-3 kgal and usage in excess of 3 kgal, and rate factors of 1.0 and 1.25. The appropriate rate structure for the water system's non-residential class is a traditional BFC/uniform gallonage charge. The water system's BFC cost recovery should be set at 50%. The appropriate rate structure for the wastewater system's residential and non-residential class is a monthly BFC/uniform gallonage. The non-residential gallonage charge should be 1.2 times greater than the corresponding residential charge, and the BFC cost recovery percentage for the wastewater system should be set at 50%. The residential wastewater cap should be changed to 6,000 gallons (6 kgal). (Bruce)

Staff Analysis: The utility currently has a BFC uniform/gallonage charge rate structure for the water systems' residential and non-residential class. The BFC is \$25.41 and is billed on a quarterly basis. The monthly usage charge is \$2.22 per kgal.

Water Rates: The current rate structure consists of a BFC/uniform gallonage rate structure which is billed quarterly. In prior cases, it has been Commission practice to convert the utility's billing system to monthly. By billing on a monthly basis, customers receive a more timely price signal that will allow them to adjust their consumption accordingly. Therefore, in order to promote a rate design that is consistent with past Commission practice, staff recommends changing the utility's quarterly billing to monthly.

Staff performed a detailed analysis of the utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential rate class. The goal of the evaluation was to select the rate design parameters that: 1) allow the utility to recover its revenue requirement; 2) equitably distribute cost recovery among the utility's customers; and 3) implement, where appropriate, water conserving rate structures consistent with the Commission's goals and practices.

Water use in the utility's service area is under the jurisdiction of the South Florida Water Management District (SFWMD or District). However, W.P. Utilities purchases its potable water and wastewater treatment from the City of Lake Worth and resells these services to the customers of the utility. Therefore, the utility is considered non-jurisdictional by the SFWMD.

The customer's monthly overall average consumption is 2.5 kgal. This is considered a low overall average consumption and may not suggest that an inclining block rate structure is appropriate. However, based on staff's analysis, staff believes it is appropriate to recommend an inclining block rate structure. This belief is based upon the fact the utility's customer base is very seasonal, and that while in residence, a small portion of the utility's customers consume over 8 kgal per month. Therefore, staff believes that an inclining block rate structure will help incent these customers to reduce their usage.

Furthermore, staff recommends that the fixed cost recovery be increased from the initial accounting allocation of 27.94% to 50%. The Commission typically sets the BFC recovery no

greater than 40%. However, setting the BFC allocation at 40% reduces the BFC. Reducing the BFC may harm the company's cash flow due to the seasonal customer base.

Based on the foregoing, staff recommends that the utility's current rate structure which includes a quarterly BFC be changed to a monthly BFC that includes a two-tier inclining block rate structure wherein the blocks are set at 0-3 kgal and usage in excess of 3 kgal, with rate factors of 1.0 and 1.25. The water system's BFC cost recovery should be set at 50%.

Wastewater Rates: The utility currently has a BFC/gallage charge rate structure for the wastewater systems' residential and non-residential class. The BFC is \$46.44 and is billed on a quarterly basis. The monthly usage charge is \$3.36 per kgal.

As mentioned above, the current rate structure consists of quarterly billing for the BFC and is considered non-conservation oriented. In prior cases, it has been Commission practice to convert the utility's billing system to monthly. By billing on a monthly basis, customers receive a more timely price signal that will allow them to adjust their consumption accordingly. Therefore, in order to promote a rate design goal that is consistent with past Commission practice, staff recommends changing the utility's quarterly billing to monthly.

The initial allocation for the wastewater BFC cost recovery percentage was 31.23%. Staff recommends that the BFC cost recovery be increased to 50%. It is commission practice to set the BFC cost recovery at least 50% due to the capital intense of nature of wastewater plants. Also, it is commission practice to set the wastewater cap at 6 kgal. Therefore, staff recommends changing the current wastewater cap of 30 kgal to 6 kgal. Furthermore staff recommends that general service gallage charge is 1.2 times greater than the residential charge.

Based on the foregoing, staff recommends that the appropriate rate structure for the wastewater systems' residential and non-residential are changed to a monthly BFC/uniform gallage charge rate structure. The wastewater gallage cap should be set at 6 kgal per month. The general service gallage charge is 1.2 times greater than the residential charge, and the BFC cost recovery percentage for the wastewater system should be set at 50%.

Issue 9: Is a repression adjustment appropriate in this case, and if so, what are the appropriate adjustments to make for this utility, what are the appropriate corresponding expense adjustments to make, and what are the final revenue requirements?

Recommendation: Yes, a repression adjustment is appropriate for this utility. Test year consumption should be reduced by 12%, resulting in a consumption reduction of approximately 667 kgals. Purchased water expense should be reduced by \$3,720 and regulatory assessment fees (RAFS) should be reduced by \$175. The final post-repression revenue requirement for the water system should be \$57,902. For the wastewater system, test year kgals sold should be reduced by 12%, resulting in a consumption reduction of approximately 647 kgals. Purchased sewage treatments expense should be reduced by \$3,932.52, purchased power expense should be reduced by \$166.32, and RAFs should be reduced by \$184.45. The final post-repression revenue requirement for the wastewater system should be \$58,384.

In order to monitor the effect of the changes to rate structure and revenue, the utility should be ordered to file reports detailing the number of bills rendered, the consumption billed and the revenues billed on a monthly basis. In addition, the reports should be prepared, by customer class and meter size. The reports should be filed with staff, on a quarterly basis, for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the utility makes adjustments to consumption in any month during the reporting period, the utility should be ordered to file a revised monthly report for that month within 30 days of any revision. (Bruce)

Staff Analysis: Staff conducted a detailed analysis of the consumption patterns of the utility's residential customers as well as the effect of increased revenue requirements on the amount paid by residential customers at varying levels of consumption. This analysis showed that approximately 67% of the residential bills rendered during the test year were for consumption levels at or below 3 kgal per month. This indicates a highly seasonal customer base. The overall average consumption is 2.5 kgal. Based on staff's analysis, staff believes it is appropriate to recommend an inclining block rate structure. This belief is based upon the fact the utility's customer base is very seasonal, and that while in residence, a small portion of the utility's customers consume over 8 kgals per month. This indicate that there is some level of discretionary, or non-essential consumption and is therefore subject to the effects of repression.

Using our database of utilities that have previously had repression adjustments made, staff calculated a repression adjustment for this utility based upon the recommended increase in revenues from monthly service in this case, and the historically observed response rates of consumption to changes in price. This is the same methodology for calculating repression adjustments that the Commission has approved in prior cases. Based on this methodology, staff calculated test year residential water sold should be reduced by 667 kgals. Purchased water expense should be reduced by \$3,720 and regulatory assessment fees (RAFS) should be reduced by \$175. The final post-repression revenue requirement for the water system should be \$57,902. For the wastewater system, test year kgals sold should be reduced by 647 kgals. Purchased sewage treatments expense should be reduced by \$3,932.52 purchased power expense should be reduced by \$166.32, and RAFs should be reduced by \$184.45. The final post-repression revenue requirement for the wastewater system should be \$58,384.

Docket No. 070722-WS

Date: May 13, 2008

In order to monitor the effect of the changes to rate structure and revenue, the utility should be ordered to file reports detailing the number of bills rendered, the consumption billed and the revenues billed on a monthly basis. In addition, the reports should be prepared, by customer class and meter size. The reports should be filed with the Commission, on a quarterly basis, for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the utility makes adjustments to consumption in any month during the reporting period, the utility should be ordered to file a revised monthly report for that month within 30 days of any revision.

Issue 10: What are the appropriate rates for this utility?

Preliminary Recommendation: The appropriate monthly water rates are shown on Schedule No. 4. The recommended water and wastewater rates produce revenues of \$57,902 and \$58,384. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Bruce, Hudson)

Staff Analysis: The appropriate pre-repression revenue requirement is \$61,797 for the water system and \$62,667 for the wastewater system. As discussed in Issue 8, staff recommends that the utility's current rate structure which includes a quarterly BFC be changed to a monthly BFC that includes a two-tier inclining block rate structure wherein the blocks are set at 0-3 kgals and usage in excess of 3 kgals, with rate factors of 1.0 and 1.25. The water system's BFC cost recovery should be set at 50%. Staff recommends that the appropriate rate structure for the wastewater systems' residential and non-residential are changed to a monthly BFC/uniform gallonage charge rate structure. The wastewater gallonage cap should be set at 6 gal per month. The general service gallonage charge is 1.2 times greater than the residential charge, and the BFC cost recovery percentage for the wastewater system should be set at 50%.

As discussed in 9, staff recommends that repression adjustments be made to the water and wastewater systems. Applying the rate design and repression adjustments to the recommended pre-repression revenue requirements for water and wastewater systems results in the final rates contained in Schedules No. 4-A. These rates are designed to recover post-repression revenue requirement for the water system of \$57,902 and \$58,384 for the wastewater system.

The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. The old charge shall be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge shall be prorated based on the number of days in the billing cycle on and after the effective date of the new rates. In no event shall the rates be effective for service rendered prior to the stamped approval date.

A comparison of the utility's original rates and staff's recommended water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, respectively.

Issue 11: Should the utility refund the overcollected wastewater revenues?

Preliminary Recommendation: The utility should refund \$3,029 of test year wastewater revenues to its wastewater customers. A refund should be made to these customers and should be made with interest, as required by Rule 25-30.360(4), F.A.C. The utility should be required to submit the proper refund reports, pursuant to Rule 25-30.360(7), F.A.C. The refund should be completed within one year of the effective date of this Order. The utility should treat any unclaimed refunds as contributions-in-aid-of-construction (CIAC), pursuant to Rule 25-30.360(8), F.A.C. (Hudson, Bruce)

Staff Analysis: As discussed in Issue No. 5, the utility incorrectly billed its residential wastewater customers the general service gallonage charge. The utility also billed customers for usage above its 30,000 gallon cap. Staff has determined the overbilling results in additional wastewater revenues of \$3,029.

The utility should refund \$3,029 of test year wastewater revenues to its wastewater customers. A refund should be made to these customers and should be made with interest, as required by Rule 25-30.360(4), F.A.C. The utility should be required to submit the proper refund reports, pursuant to Rule 25-30.360(7), F.A.C. The refund should be completed within one year of the effective date of this Order. The utility should treat any unclaimed refunds as contributions-in-aid-of-construction (CIAC), pursuant to Rule 25-30.360(8), F.A.C.

Issue 12: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

Preliminary Recommendation: The water and wastewater rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Hudson)

Staff Analysis: Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for RAFs which is \$409 annually for both water and wastewater. Using the utility's current revenues, expenses, capital structure and customer base the reduction in revenues will result in the rate decreases as shown on Schedule No. 4.

The utility should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The utility also should be required to file a proposed customer notice setting forth 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 should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Issue 13: Should the recommended rates be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility?

Preliminary Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility. Prior to implementation of any temporary rates, the utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the utility should file reports with the Commission's Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Hudson)

Staff Analysis: This recommendation proposes an increase in water rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the utility, staff recommends that the recommended rates be approved as temporary rates. The recommended rates collected by the utility should be subject to the refund provisions discussed below.

The utility should be authorized to collect the temporary rates upon the staff's approval of appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$23,454. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

If the utility chooses a bond as security, the bond should contain wording to the effect that it will be terminated only under the following conditions:

- 1) The Commission approves the rate increase; or
- 2) If the Commission denies the increase, the utility shall refund the amount collected that is attributable to the increase.

If the utility chooses a letter of credit as a security, it should contain the following conditions:

- 1) The letter of credit is irrevocable for the period it is in effect, and,
- 2) The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

If security is provided through an escrow agreement, the following conditions should be part of the agreement:

- 1) No refunds in the escrow account may be withdrawn by the utility without the express approval of the Commission;
- 2) The escrow account shall be an interest bearing account;
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility;
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments; and
- 8) The Commission Clerk must be a signatory to the escrow agreement.
- 9) The account must specify by whom and on whose behalf such monies were paid.

In no instance should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the utility. Irrespective of the form of security chosen by the utility, an account of all monies received as a result of the rate increase should be maintained by the utility. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

The utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the utility should file reports with the Commission Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

WATER TREATMENT PLANT – USED AND USEFUL DATA

1)		Capacity of System (ERCs)	190	ERCs
2)		Test Year Connections Average Test Year in ERC	190	ERCs
5)		Growth	0	gallons per min
	a)	Customer growth in connections for last 5 years including test year using Regression Analysis	0	ERCs
	b)	Statutory Growth Period	5	Years
	c)	Growth = (a)(b) Connections allowed for growth	0	ERCs

USED AND USEFUL FORMULA

$$[2+3]/(1)$$

$$(190+ 0)/190= 100\% \text{ Used and Useful}$$

WASTEWATER COLLECTION SYSTEM – USED AND USEFUL DATA

1)		Capacity of System (Number of Potential in ERCs)	190	ERCs
2)		Test Year Connections (Customers) Average Test Year in ERC	190	ERCs
5)		Growth	0	
	a)	Customer growth in connections for last 5 years including test year using Regression Analysis	0	ERCs
	b)	Statutory Growth Period	5	Years
	c)	Growth = (a)(b) Connections allowed for growth	0	ERCs

USED AND USEFUL FORMULA

$$[2+3]/(1)$$

$$(190+ 0)/190= 100\% \text{ Used and Useful}$$

W-1

W.P. UTILITIES, INC.		SCHEDULE NO. 1-A	
TEST YEAR ENDING 12/31/2007		DOCKET NO. 070722-WS	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$125,568	(\$7,180)	\$118,388
2. LAND & LAND RIGHTS	\$0	\$0	\$0
3. NON-USED AND USEFUL COMPONENTS	\$0	\$0	\$0
4. CIAC	(\$29,542)	\$2,400	(\$27,142)
5. ACCUMULATED DEPRECIATION	(\$169,784)	\$92,360	(\$77,424)
6. AMORTIZATION OF CIAC	\$18,734	(\$2,010)	\$16,724
7. WORKING CAPITAL ALLOWANCE	<u>\$0</u>	<u>\$6,541</u>	<u>\$6,541</u>
8. WATER RATE BASE	<u>(\$55,024)</u>	<u>\$92,111</u>	<u>\$37,087</u>

W.P. UTILITIES, INC. TEST YEAR ENDING 12/31/2007 SCHEDULE OF WASTEWATER RATE BASE		SCHEDULE NO. 1-B DOCKET NO. 070722-WS	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$158,600	\$383	\$158,983
2. LAND & LAND RIGHTS	0	0	0
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(11,304)	4,698	(6,606)
5. ACCUMULATED DEPRECIATION	0	(81,361)	(81,361)
6. AMORTIZATION OF CIAC	0	2,935	2,935
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>5,967</u>	<u>5,967</u>
8. WASTEWATER RATE BASE	<u>\$147,296</u>	<u>(\$67,378)</u>	<u>\$79,918</u>

W.P. UTILITIES, INC. TEST YEAR ENDING 12/31/2007 ADJUSTMENTS TO RATE BASE		SCHEDULE NO. 1-C DOCKET NO. 070722-WS PAGE 1 OF 2	
	<u>WATER</u>	<u>WASTEWATER</u>	
<u>UTILITY PLANT IN SERVICE</u>			
1. To reclassify water plant addition recorded to wastewater	(\$7,180)	\$7,180	
2. To reflect an averaging adjustment	0	(\$6,797)	
Total	<u>(\$7,180)</u>	<u>\$383</u>	
<u>CIAC</u>			
1. To reflect the appropriate CIAC balance	<u>\$2,400</u>	<u>\$4,698</u>	
<u>ACCUMULATED DEPRECIATION</u>			
1. To reflect test year depreciation calculated per 25-30.140 F.A.C.	\$90,371	(\$84,012)	
2. Averaging Adjustment	<u>\$1,989</u>	<u>\$2,651</u>	
Total	<u>\$92,360</u>	<u>(\$81,361)</u>	
<u>AMORTIZATION OF CIAC</u>			
1. To reflect accumulated amortization per 25-30.140 F.A.C.	(\$1,554)	\$3,041	
2. To reflect an averaging adjustment	<u>(\$456)</u>	<u>(\$106)</u>	
Total	<u>(\$2,010)</u>	<u>\$2,935</u>	
<u>WORKING CAPITAL ALLOWANCE</u>			
1. To reflect 1/8 of test year O & M expenses.	<u>\$6,541</u>	<u>\$5,967</u>	

W.P. UTILITIES, INC.
TEST YEAR ENDING 12/31/2007
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 070722-WS

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON EQUITY	(\$3,575,107)	\$3,575,107	0	0	0	0.00%	12.01%	0.00%
2.. LONG TERM DEBT - GEMSA	\$4,694,149	\$0	\$4,694,149	(\$4,581,923)	112,226	95.91%	7.80%	7.48%
3. NOTES PAYABLE Owner	184,897	0	184,897	(180,477)	4,420	3.78%	0.00%	0.00%
4.. LONG TERM DEBT Vehicle	15,030	0	15,030	(14,671)	359	0.31%	6.00%	0.02%
5. LONG TERM DEBT Vehicle	6,701	(\$6,701)	0	0	0	0.00%	6.85%	0.00%
6. LONG TERM DEBT Tractor	1,581		1,581	(1,543)	38	0.03%	0.00%	0.00%
7. TOTAL LONG TERM DEBT	\$4,902,358	0	\$4,894,076	(\$4,777,071)	117,005	100.00%		
8. CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	6.00%	0.00%
9. TOTAL	<u>\$1,327,251</u>	<u>\$3,575,107</u>	<u>\$4,894,076</u>	<u>(\$4,777,071)</u>	<u>\$117,005</u>	<u>100.00%</u>		<u>7.50%</u>
RANGE OF REASONABLENESS						LOW	HIGH	
RETURN ON EQUITY						<u>11.01%</u>	<u>13.01%</u>	
OVERALL RATE OF RETURN						<u>7.50%</u>	<u>7.50%</u>	

W.P. UTILITIES, INC. TEST YEAR ENDING 12/31/2007 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 070722-WS		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$25,695</u>	<u>\$8,383</u>	<u>\$34,078</u>	<u>\$27,719</u> 81.34%	<u>\$61,797</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$36,591	\$15,738	\$52,329	\$0	\$52,329
3. DEPRECIATION (NET)	\$8,396	(\$5,329)	\$3,067	\$0	\$3,067
4. AMORTIZATION	\$0	\$0	\$0	\$0	\$0
5. TAXES OTHER THAN INCOME	\$1,789	\$583	\$2,372	\$1,247	\$3,620
6. INCOME TAXES	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
7. TOTAL OPERATING EXPENSES	<u>\$46,776</u>	<u>\$10,992</u>	<u>\$57,768</u>	<u>\$1,247</u>	<u>\$59,015</u>
8. OPERATING INCOME/(LOSS)	<u>(\$21,081)</u>		<u>(\$23,690)</u>		<u>\$2,782</u>
9. WATER RATE BASE	<u>(\$55,024)</u>		<u>\$37,087</u>		<u>\$37,087</u>
10. RATE OF RETURN	<u>38.31%</u>		<u>-63.88%</u>		<u>7.50%</u>

W.P. UTILITIES, INC. TEST YEAR ENDING 12/31/2007 SCHEDULE OF WASTEWATER OPERATING INCOME		SCHEDULE NO. 3-B DOCKET NO. 070722-WS			
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$43,901</u>	<u>\$11,957</u>	<u>\$55,858</u>	<u>\$6,809</u> 12.19%	<u>\$62,667</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$51,246	(\$3,508)	\$47,738	\$0	\$47,738
3. DEPRECIATION (NET)	\$167	\$4,691	\$4,858	\$0	\$4,858
4. AMORTIZATION	\$0	\$0	\$0	\$0	\$0
5. TAXES OTHER THAN INCOME	\$3,057	\$713	\$3,770	\$306	\$4,076
6. INCOME TAXES	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
7. TOTAL OPERATING EXPENSES	<u>\$54,470</u>	<u>\$1,896</u>	<u>\$56,366</u>	<u>\$306</u>	<u>\$56,673</u>
8. OPERATING INCOME/(LOSS)	<u>(\$10,569)</u>		<u>(\$508)</u>		<u>\$5,994</u>
9. WASTEWATER RATE BASE	<u>\$147,296</u>		<u>\$79,918</u>		<u>\$79,918</u>
10. RATE OF RETURN	<u>-7.18%</u>		<u>-0.64%</u>		<u>7.50%</u>

W.P. UTILITIES, INC.
TEST YEAR ENDING 12/31/2007
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-C
DOCKET NO. 070722-WS
PAGE 1 OF 2

	<u>WATER</u>	<u>WASTEWATER</u>
OPERATING REVENUES		
1. To reflect unrecorded 4th quarter revenue	\$7,955	\$14,148
2. To reflect annualize revenue	\$341	\$838
3. To reflect water revenue	87	
4. To correct overbilling		<u>-3,029</u>
Subtotal	<u>\$8,383</u>	<u>\$11,957</u>
OPERATION AND MAINTENANCE EXPENSES		
1. Purchased Water/Wastewater (610/710)		
a. To include unrecorded purchased water paid by parent co.	\$4,831	
b. To reclassify purchased water from purchased wastewater	\$1,658	(\$1,658)
c. To reclassify purchased water from purchased power	<u>\$5,096</u>	
	<u>\$11,585</u>	<u>(1,658)</u>
2. Purchased Power (615/ 715)		
a. To reclassify purchased water		<u>(\$5,096)</u>
3. Materials & Supplies (620/ 720)		
a. To record supplst paid by Homeland	\$41	
4. Contractual Services - Billing (630/ 730)		
a. To reclassify billing expenses from Acct No. 631/731	\$900	\$900
b. To reclassify billing expenses from Acct No. 636/736	53	53
c. To reflect pro forma expense of changing billing to monthly	1,920	1,920
d. To reflect pro from expense for monthly meter reading	960	
e. To record billing expenses paid by Homeland	<u>1,110</u>	<u>1,110</u>
Subtotal	<u>\$4,943</u>	<u>\$3,983</u>
5. Contractual Services - Professional (631/ 731)		
a. To reclassify billing expenses to Acct No. 630	(\$900)	(\$900)
b. To reclassify Rate Case Expense to Acct No. 665/775	<u>-\$228</u>	<u>-\$228</u>
	<u>(1,128)</u>	<u>(1,128)</u>
6. Contractual Services - Testing (635/ 735)		
a. To reclassify operator expense to Acct No. 635	(\$3,300)	
b. To reflect the appropriate testing per staff engineer	(\$290)	
Subtotal	<u>(3,590)</u>	<u>0</u>
(O & M EXPENSES CONTINUED ON NEXT PAGE)		

W.P. UTILITIES, INC.
TEST YEAR ENDING 12/31/2007
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-C
DOCKET NO. 070722-WS
PAGE 2 OF 2

(O & M EXPENSES CONTINUED)	<u>WATER</u>	<u>WASTEWATER</u>
7. Contractual Services - Other (636/ 736)		
a. To reclassify operator expense from Acct. No. 635	\$3,300	
b. To reflect pro forma increase to operator expense	\$300	
d. To reclassify billing expenses to Acct Nos. 630/730	(\$105)	
Subtotal	<u>\$3,495</u>	<u>\$0</u>
8. Regulatory Expense (665/ 765)		
a. To reclassify rate case expense from Acct. No. 636	\$228	\$228
b. To reflect the four year amortization of rate case expense	\$163	\$163
Subtotal	<u>\$391</u>	<u>\$391</u>
 TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	 <u>\$15,738</u>	 <u>(\$3,508)</u>
 DEPRECIATION EXPENSE		
1. To reflect test year depreciation calculated per 25-30.140, FAC	(\$4,417)	\$4,914
2. To reflect test year CIAC amortization calculated by staff	(\$912)	(\$223)
Total	<u>(\$5,329)</u>	<u>\$4,691</u>
 TAXES OTHER THAN INCOME		
1. To reflect the appropriate test year RAFs	\$17	(\$77)
2. To reflect the appropriate property taxes	\$566	\$790
Total	<u>\$583</u>	<u>\$713</u>

W.P. UTILITIES, INC.		SCHEDULE NO. 3-D		
TEST YEAR ENDING 12/31/2007		DOCKET NO. 070722-WS		
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE				
	TOTAL PER UTILITY	STAFF PER ADJUST.		TOTAL PER PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES		\$0		\$0
(603) SALARIES AND WAGES - OFFICERS		0		\$0
(604) EMPLOYEE PENSIONS AND BENEFITS		0		\$0
(610) PURCHASED WATER	21,993	11,585	[1]	\$33,578
(615) PURCHASED POWER		0		\$0
(616) FUEL FOR POWER PRODUCTION		0		\$0
(618) CHEMICALS		0		\$0
(620) MATERIALS AND SUPPLIES		41	[2]	\$41
(630) CONTRACTUAL SERVICES - BILLING		4,943	[3]	\$4,943
(631) CONTRACTUAL SERVICES - PROFESSIONAL	4,164	(1,128)	[4]	\$3,036
(635) CONTRACTUAL SERVICES - TESTING	3,890	(3,590)	[5]	\$300
(636) CONTRACTUAL SERVICES - OTHER	6,340	3,495	[6]	\$9,835
(640) RENTS		0		\$0
(650) TRANSPORTATION EXPENSE		0		\$0
(655) INSURANCE EXPENSE		0		\$0
(665) REGULATORY COMMISSION EXPENSE		391	[7]	\$391
(670) BAD DEBT EXPENSE		0		\$0
(675) MISCELLANEOUS EXPENSES	<u>204</u>	<u>0</u>		<u>\$204</u>
	<u>36,591</u>	<u>15,738</u>		<u>\$52,329</u>

W.P. UTILITIES, INC.
 TEST YEAR ENDING 12/31/2007
 ANALYSIS OF WASTEWATER OPERATION AND
 MAINTENANCE EXPENSE

SCHEDULE NO. 3-E
 DOCKET NO. 070722-WS

	TOTAL PER UTILITY	STAFF ADJUST- MENT		TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES		\$0		\$0
(703) SALARIES AND WAGES - OFFICERS		\$0		\$0
(704) EMPLOYEE PENSIONS AND BENEFITS		\$0		\$0
(710) PURCHASED SEWAGE TREATMENT	\$34,429	(\$1,658)	[1]	\$32,771
(711) SLUDGE REMOVAL EXPENSE		\$0		\$0
(715) PURCHASED POWER	\$6,482	(\$5,096)	[2]	\$1,386
(716) FUEL FOR POWER PRODUCTION		\$0		\$0
(718) CHEMICALS		\$0		\$0
(720) MATERIALS AND SUPPLIES		\$0		\$0
(730) CONTRACTUAL SERVICES - BILLING		\$3,983	[3]	\$3,983
(731) CONTRACTUAL SERVICES - PROFESSIONAL	\$4,164	(\$1,128)	[4]	\$3,036
(735) CONTRACTUAL SERVICES - TESTING		\$0		\$0
(736) CONTRACTUAL SERVICES - OTHER	\$6,000	\$0		\$6,000
(740) RENTS		\$0		\$0
(750) TRANSPORTATION EXPENSE		\$0		\$0
(755) INSURANCE EXPENSE		\$0		\$0
(765) REGULATORY COMMISSION EXPENSES		\$391	[5]	\$391
(770) BAD DEBT EXPENSE		\$0		\$0
(775) MISCELLANEOUS EXPENSES	\$171	\$0		\$171
	<u>\$51,246</u>	<u>(\$3,508)</u>		<u>\$47,738</u>

W.P. UTILITIES, INC.		SCHEDULE NO. 4-A		
TEST YEAR ENDING 12/31/2007		DOCKET NO. 070722-WS		
MONTHLY WATER RATES				
	UTILITY'S EXISTING RATES*	UTILITY'S MONTHLY RATES**	STAFF RECOMMENDED RATES	MONTHLY RATE REDUCTION
Residential and General Service				
<u>Base Facility Charge by Meter Size:</u>				
5/8"X3/4"	\$25.41	\$8.47	\$12.75	\$0.08
3/4"	\$38.12	\$12.71	\$19.13	\$0.13
1"	\$63.54	\$21.18	\$31.88	\$0.21
1-1/2"	\$127.06	\$42.35	\$63.75	\$0.42
2"	\$203.29	\$67.76	\$102.00	\$0.68
3"	\$406.59	\$135.53	\$204.00	\$1.35
4"	\$635.29	\$211.76	\$318.75	\$2.11
6"	\$1,270.57	\$423.52	\$637.50	\$4.23
*The BFC Charge is billed quarterly				
** For comparison the utility's quarterly rate converted to monthly				
<u>Residential Service Gallonage Charge</u>				
Per 1,000 Gallons	\$2.22	\$2.22		
0 - 3,000 Gallons			\$5.23	\$0.03
Over 3,000 Gallons			\$6.54	\$0.04
<u>General Service Gallonage Charge</u>				
Per 1,000 Gallons	\$2.22		\$5.41	\$0.04
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
3,000 Gallons	\$32.07	\$15.13	\$28.44	
5,000 Gallons	\$36.51	\$19.57	\$41.52	
10,000 Gallons	\$47.61	\$30.67	\$74.22	

W.P. UTILITIES, INC.
TEST YEAR ENDING 12/31/2007
MONTHLY WASTEWATER RATES

SCHEDULE NO. 4-B
DOCKET NO. 070722-WS

	UTILITY'S EXISTING RATES*	UTILITY'S EXISTING RATES**	STAFF RECOMMENDED RATES	MONTHLY RATE REDUCTION
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Residential and General Service

Base Facility Charge by Meter Size:

5/8"X3/4"	\$46.44	\$15.48	\$13.88	\$0.09
3/4"	\$69.66	\$23.22	\$20.82	\$0.14
1"	\$116.07	\$38.69	\$34.70	\$0.23
1-1/2"	\$232.14	\$77.38	\$69.40	\$0.45
2"	\$371.43	\$123.81	\$111.04	\$0.73
3"	\$742.84	\$247.61	\$222.08	\$1.45
4"	\$1,163.75	\$387.92	\$347.00	\$2.27
6"	\$2,321.37	\$773.79	\$694.00	\$4.54

* The BFC Charge is billed quarterly

** For comparison the utility's quarterly rate converted to monthly

Residential Gallonage Charge

Per 1,000 Gallons (30,000 gallon cap per quarter)

	\$3.36	\$3.36	\$5.27	\$0.03
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General Service Gallonage Charge

Gallonage Charge per 1,000 gallons

	\$4.04	\$4.04	\$6.32	\$0.04
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Typical Residential 5/8" x 3/4" Meter Bill Comparison

3,000 Gallons	\$76.68	\$25.56	\$29.69
5,000 Gallons	\$96.84	\$32.28	\$40.23
10,000 Gallons	\$147.24	\$49.08	\$66.58