

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

COMMISSIONER
CLERK

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DATE: December 28, 2011

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Fletcher, Rieger, Maurey, Springer)
Office of the General Counsel (Jaeger, Barrera)

RE: Docket No. 110200-WU – Application for increase in water rates in Franklin County by Water Management Services, Inc.

AGENDA: 01/10/12 – Regular Agenda – Decision on Suspension of Rates and on Interim Rates – Participation is at the Discretion of the Commission

COMMISSIONERS ASSIGNED: ~~Edgar, Brise, Brown~~

PREHEARING OFFICER: Brown

CRITICAL DATES: 60-Day Suspension Date Waived Through 01/10/12

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\110200.RCM.DOC

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Case Background

Water Management Services, Inc. (WMSI or Utility) is a Class A utility providing service to approximately 1,808 water customers in Franklin County. For the year ended December 31, 2010, the Utility reported operating revenues of \$1,291,712 and a net operating loss of \$145,071. WMSI's last rate case was in 2010.¹

On November 7, 2011, the Utility filed its application for rate increase at issue in the instant docket. As of the date of this recommendation, there are deficiencies in the Minimum Filing Requirements (MFRs). The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and requested interim rates. The test year established for interim and final rates is the 13-month average period ended December 31, 2010.

The Utility requested interim rates designed to generate annual water revenues of \$1,573,120. This represents an annual revenue increase on an annual basis of \$270,096 (20.73 percent). WMSI requested final rates designed to generate annual water revenues of \$2,019,159. This represents a revenue increase of \$714,935 (54.82 percent).

The 60-day statutory deadline for the Commission to suspend the Utility's requested final rates and address its interim request was January 6, 2012. By letter dated November 18, 2011, the Utility extended this 60-day deadline through the first Commission conference in January 2012. This recommendation addresses the suspension of the Utility's requested final rates and its requested interim rates. The Commission has jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes (F.S.).

¹ See Order No. PSC-11-0010-SC-WU, issued January 3, 2011, in Docket No. 100104-WU, In re: Application for increase in water rates in Franklin County by Water Management Services, Inc.

Discussion of Issues

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

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

Staff Analysis: Section 367.081(6), F.S., provides that the Commission may, for good cause, withhold consent to the implementation of the requested rates within 60 days after the date the rate request is filed. Further, Section 367.081(8), F.S., permits the proposed rates to go into effect (secured and subject to refund) at the expiration of five months from the official date of filing if: (1) the Commission has not acted upon the requested rate increase; or (2) if the Commission's PAA action is protested by a party other than the Utility.

Staff has reviewed the filing and has considered the information filed in support of the rate application and the proposed final rates. Staff believes further investigation of this information is necessary, including on-site investigations by staff accountants and engineers. To date, staff has initiated an audit of WMSI's books and records. This audit is tentatively due on January 17, 2012. In addition, staff sent its first data request on November 22, 2011. The Utility's response to this data request is due on December 22, 2011. Further, staff believes additional requests will be necessary to process this case. Based on the foregoing, staff recommends suspension of the Utility's proposed rate increase.

Issue 2: Should an interim revenue increase be approved?

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

	<u>Adjusted Test Year Revenues</u>	<u>\$ Increase</u>	<u>Revenue Requirement</u>	<u>% Increase</u>
Water	\$1,301,860	\$115,803	\$1,417,664	8.90%

(Fletcher, Rieger)

Staff Analysis: The Utility has filed rate base, cost of capital, and operating statements to support its requested interim rate increase. Pursuant to Section 367.082(5)(b)1., F.S., the achieved rate of return for interim purposes must be calculated by applying adjustments consistent with those used in the Utility's most recent rate proceeding and annualizing any rate changes. Staff has reviewed the Utility's interim request, as well as Order No. PSC-11-0010-SC-WU, in which the Commission last established rates. Staff's recommended adjustments are discussed below. Staff has attached accounting schedules to illustrate staff's recommended rate base, capital structure, and test year operating income amount. The water rate base is shown on Schedule No. 1-A, with adjustments to rate base shown on Schedule No. 1-B. The capital structure is shown on Schedule No. 2. The operating income schedule for water is labeled as Schedule No. 3-A. The operating income adjustments are shown on Schedule No. 3-B.

RATE BASE

Based on an analysis of the MFRs and staff's review of Order No. PSC-11-0010-SC-WU from WMSI's last rate proceeding, staff believes several adjustments are necessary.

Plant in Service

In its filing, the Utility recorded pro forma plant adjustments to remove a 2008 Tahoe and 2008 Sierra totaling \$39,448. Pursuant to the interim statute, all pro forma adjustments should be removed because interim is based on historical test year plant. Thus, staff recommends that the plant balance be increased by \$39,448. A corresponding adjustment should be made to increase accumulated depreciation by \$6,452.

Non-Used & Useful Plant

Pursuant to Order No. PSC-11-0010-SC-WU, the Commission found that the Utility's transmission and distribution mains were 100 percent used and useful (U&U) except for the distribution mains less than 8" in diameter serving certain subdivisions within the area known as the Plantation. Specifically, the Commission found that those lines inside the Plantation were 60.9 percent U&U. In its MFRs, WMSI failed to include an interim non-U&U adjustment for those lines inside the Plantation. In accordance with Order No. PSC-11-0010-SC-WU and Section 367.082(5)(b)1., F.S., rate base and depreciation expense should be reduced by \$33,231 and \$5,322, respectively.

Working Capital

On MFR Schedule A-17, the Utility reflected an interim negative working capital allowance of \$70,115 using the balance sheet approach. However, due to the negative amount, WMSI asserted that the formula method (1/8 of Operations and Maintenance (O&M) expenses) should be used for interim purposes which would result in an interim working capital of \$133,814. A negative working capital balance is not typical of a "normal" utility, nor is it the expected future condition of a utility. Therefore, consistent with Commission practice,² staff recommends a zero working capital allowance. Staff has reduced the working capital allowance by \$133,814.

Based on the above adjustments, staff recommends that rate base for interim purposes should be \$3,771,814.

COST OF CAPITAL

In its interim request, the Utility used a return on equity (ROE) of 11.16 percent. However, based on Order No. PSC-11-0010-SC-WU, the minimum of WMSI's authorized ROE is 9.85 percent. Staff has made this adjustment in the capital structure. However, it has no effect on the amount of the interim rate increase because the Utility's capital structure consists of only long-term debt and customer deposits. Based on the components, amounts, and cost rates included in its capital structure, the appropriate overall cost of capital for interim purposes is 4.34 percent, as shown on Schedule No. 2.

NET OPERATING INCOME

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

Operating Revenues

WMSI recorded an adjustment to increase revenues by \$11,312 in order to annualize test year revenues. On February 15, 2011, the Utility's rates were increased as a result of an approved price index application. This rate change associated with the Utility's 2011 price index application is outside of the test year. Therefore, staff has calculated test year revenues using the rates in effect during the test year. This calculation results in a decrease of \$1,164 to the Utility's adjusted test year revenues.

² See Order Nos. PSC-10-0168-PAA-SU, issued March 23, 2010, in Docket No. 090182-SU, In re: Application for increase in wastewater rates in Pasco County by Ni Florida, LLC; PSC-97-0076-FOF-WS, issued January 27, 1997, in Docket No. 961364-WS, In re: Investigation of rates of Lindrick Service Corporation in Pasco County for possible overearnings; and PSC-95-0574-FOF-WS, issued May 9, 1995, in Docket No. 940917-WS, In re: Application for rate increase in Seminole, Orange, and Pasco Counties by Utilities, Inc. of Florida.

Operations and Maintenance Expense (O&M) Expense

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

1	Remove annualization pay range for H. Garrett.	\$2,223
2	Remove annualization pay range for J. Blankenship.	(1,850)
3	Remove annualized salary for T. Lemieux.	(5,963)
4	Remove annualized salary increase for obtaining additional license.	(3,000)
5	Reflect historical salary for E. Coulter.	3,388
6	Reflect historical salary for W. Abbott.	9,067
7	Reflect historical salary for G. Brown.	5,192
8	Remove annualized employee benefits.	(3,932)
9	Remove annualized cost of diesel fuel.	(2,275)
10	Remove annualized engineering costs.	(4,000)
11	Remove annualized accounting costs.	9,000
12	Remove annualized testing expense.	(668)
13	Remove additional annualized accounting costs.	(526)
14	Remove pro forma mail machine lease cost reduction.	721
15	Remove pro forma mileage reimbursements.	(3,177)
16	Remove pro forma vehicle insurance reduction.	3,351
17	Remove annualized workers comp insurance.	<u>(1,870)</u>
	Total net increase for pro forma annualization adjustments.	<u>\$5,681</u>

In its filing, WMSI made interim reductions of \$11,918 for salaries, \$4,670 for benefits, and \$900 for rental property in order to reflect a 5 percent allocation for non-regulated affiliates. Pursuant to Order No. PSC-11-0010-SC-WU, the Commission found that the non-regulated affiliates share of these expenses were 12.5 percent. In accordance with Order No. PSC-11-0010-SC-WU and Section 367.082(5)(b)1., F.S., staff recommends that salaries, benefits, and rental property expenses should be reduced further by \$17,877, \$7,005, and \$1,852, respectively.

In its MFRs, the Utility reflected contractual services – engineering of \$22,680 and contractual services – accounting of \$18,550. Consistent with the methodologies used to determine the test year amounts for these expenses in WMSI's last rate case, the appropriate amounts of contractual services – engineering and contractual services – accounting should be \$5,995 and \$5,252, respectively. In accordance with Order No. PSC-11-0010-SC-WU and Section 367.082(5)(b)1., F.S., staff recommends that contractual services – engineering be reduced by \$16,685 (\$22,680 - \$5,995) and contractual services – accounting be reduced by \$13,298 (\$18,550 - \$5,252).

In its filing, WMSI reflected an annual amortization of \$3,600 for a hydraulic analysis & capacity study. Consistent with the last rate case, this expenditure should be capitalized to the associated pro forma plant additions when they are placed into service. In accordance with Order No. PSC-11-0010-SC-WU and Section 367.082(5)(b)1., F.S., staff recommends that contractual services – engineering should be further reduced by \$3,600.

Based on the above adjustments, staff's recommends a net decrease of \$54,635 to O&M expense.

Depreciation Expense

In its filing, WMSI reflected net depreciation expense of \$199,395 for the test year ended December 31, 2010. By Order No. PSC-11-0010-SC-WU, the Commission approved net depreciation expense of \$166,741 for the test year ended December 31, 2009. When comparing the approved plant and contributions in aid of construction (CIAC) in the last rate case and the plant and CIAC test year balances in the instant case, staff believes that the Utility's depreciation expense in the instant case contains an error. Specifically, plant increased by approximately \$35,000 (or 4 percent, approximately), and CIAC increased by approximately \$94,000 (or 3 percent, approximately). However, net depreciation expense increased by \$32,654 (or 19.58 percent). Given the changes in plant and CIAC, there is no prime facie reason why this would have occurred. Based on its review of each primary plant account, staff believes the Utility's depreciation expenses for Office Furniture & Equipment contains either typographical or mathematical errors. In addition, WMSI's depreciation expense for Transmission & Distribution Mains does not reflect an approved stipulation from the last rate case.

First, WMSI's Office Furniture & Equipment plant account increased by only \$4,883, but the associated depreciation expense for this account increased by \$14,368 which represents approximately three times the plant increase. Based on an incremental plant value of \$4,883 and the average useful life contained in Rule 25-30.140, Florida Administrative Code (F.A.C.), the depreciation expense should have increased by approximately \$326. To correct this apparent error, staff recommends that depreciation expense be reduced by \$14,042 (\$14,368 - \$326).

Second, the Utility's Transmission & Distribution Mains plant account decreased by approximately \$100,000 since WMSI's last rate case, but the depreciation expense increased by \$17,602 for a total of \$59,275. In its last rate case, WMSI reflected a 13-month average and 2009 year-end balances in this account of \$2,524,926. By Order No. PSC-11-0010-SC-WU, the Commission approved a stipulation which called for a \$100,000 reduction to the Utility's Transmission & Distribution Mains plant account. In the instant case, the Utility did not reflect the approved \$100,000 plant reduction for the month of December 2009 in its calculation of its 13-month average balance for the test year ended December 31, 2010. As such, consistent with the last rate case stipulation, staff recommends that plant and accumulated depreciation be reduced by \$7,692 and \$537, respectively. Moreover, with the stipulation, the approved depreciation expense for the Transmission & Distribution Mains plant account was \$39,347. Because there were no plant additions in this plant account from December 31, 2008 through December 31, 2010, the annual depreciation expense for this account in the instant case should be \$39,347. In accordance with Order No. PSC-11-0010-SC-WU and Section 367.082(5)(b)1., F.S., staff recommends that depreciation expense be reduced by \$19,928 (\$59,275 - \$39,347).

Amortization – Other Expense

In the Utility's limited proceeding initiated in 2000, the Commission approved an annual amortization of \$14,298 for the undepreciated portion of the supply main which had been

replaced.³ The Utility recorded an annual amortization of \$14,616. Staff has reduced the Utility's amortization amount by \$318.⁴

In WMSI's last rate case, the Commission approved an annual amortization of gain on sale of land and other assets of \$48,408.⁵ In accordance with Order No. PSC-11-0010-SC-WU and Section 367.082(5)(b)1., F.S., staff recommends that the approved annual amortization of gain on sale of land and other assets of \$48,408 be recognized for interim purposes.

Based on the above, staff recommends that operating expenses be reduced by \$48,726 (\$318 + \$48,408).

Taxes Other Than Income (TOTI)

In its filing, the Utility decreased payroll taxes by \$1,605 associated with WMSI's pro forma salary normalization adjustments. As discussed previously (page 6), staff removed WMSI's pro forma salaries adjustments. Staff has increased TOTI by \$1,605 to reflect the removal of this pro forma payroll tax adjustment. As discussed previously, staff recommended an adjustment to reflect a 12.5 percent allocation to the non-regulated affiliates consistent with the Commission's decision in the Utility's last rate case. Staff recommends that payroll taxes be reduced by \$1,368 associated with the salary adjustment above. Based on the above, staff recommends a net increase of \$237 (\$1,605 - \$1,368).

Based on the above, staff recommends that the appropriate test year operating income, before any revenue increase, is \$53,189 for water.

REVENUE REQUIREMENT

Based on the above adjustments, staff recommends a water revenue requirement of \$1,417,664. This represents an interim increase in annual revenues of \$115,803 (or 8.90 percent). This revenue increase will allow WMSI the opportunity to recover its operating expenses and earn a 4.34 percent return on its water rate base.

³ See Page 5 of Order No. PSC-05-1156-PAA-WU, issued November 21, 2005, in Docket No. 000694-WU, In re: Petition by Water Management Services, Inc. for limited proceeding to increase water rates in Franklin County.

⁴ This specific adjustment is consistent with the Commission decision on interim in the Utility's last rate case. See Page 5 of Order No. PSC-10-0513-PCO-WU, issued August 12, 2010, in Docket No. 100104-WU.

⁵ See Pages 38 and 74 of Order No. PSC-11-0010-SC-WU.

Issue 3: What are the appropriate interim water rates?

Recommendation: The water rates for WMSI in effect as of December 31, 2010, should be increased by 8.93 percent to generate the recommended revenue increase for the interim period. The approved rates should be effective for service rendered as of the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1)(a), F.A.C. The rates should not be implemented until staff verifies that the tariff sheets are consistent with the Commission decision, the proposed customer notice is adequate, and the required security has been filed. The Utility should provide proof of the date notice was given within 10 days after the date of notice. (Fletcher)

Staff Analysis: Staff recommends that interim water rates for WMSI be designed to allow the Utility the opportunity to generate annual water revenues of \$1,417,664. This reflects an increase of \$115,803 (8.90 percent), before removal of miscellaneous and other revenues. To determine the appropriate percentage increase to apply to the service rates, miscellaneous service revenues should be removed from the test year revenues. The calculation is as follows:

	<u>Water</u>
1 Total Test Year Revenues	\$1,301,860
2 Less: Miscellaneous Revenues	<u>\$5,501</u>
3 Test Year Revenues from Service Rates	\$1,296,359
4 Revenue Increase	<u>\$115,803</u>
5 % Service Rate Increase (Line 4/Line3)	<u>8.93%</u>

The interim rate increase of 8.93 percent for water should be applied as an across-the-board increase to the service rates in effect as of December 31, 2010. The approved rates should be effective for service rendered as of the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until staff verifies that the tariff sheets are consistent with the Commission's decision, the proposed customer notice is adequate, and the required security has been filed. The Utility should provide proof of the date notice was given within 10 days after the date of notice.

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

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

Recommendation: The Utility should be required to open an escrow account or file a surety bond or letter of credit to guarantee any potential refund of revenues collected under interim conditions. If the security provided is an escrow account, the Utility should deposit 8.17 percent of the revenues collected under interim conditions into the escrow account each month. Otherwise, the surety bond or letter of credit should be in the amount of \$67,565. Pursuant to Rule 25-30.360(6), F.A.C., the Utility should provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and in accordance with Rule 25-30.360, F.A.C. (Springer, Fletcher)

Staff Analysis: Pursuant to Section 367.082, F.S., revenues collected under interim rates shall be placed under bond, escrow, letter of credit, or corporate undertaking subject to refund with interest at a rate ordered by the Commission. As recommended in Issue 2, the total recommended annual interim increase is \$115,803 for water. In accordance with Rule 25-30.360, F.A.C., staff has calculated the potential refund of revenues and interest collected under interim conditions to be \$67,565. This amount is based on an estimated seven months of revenue being collected from staff's recommended interim rates over the Utility's rates in effect as of December 31, 2010, shown on Schedule No. 4.

The criteria for a corporate undertaking include sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. Staff reviewed WMSI's 2008, 2009, and 2010 financial statements to determine the financial condition of the Utility. WMSI has inadequate liquidity, profitability, ownership equity, and interest coverage to guarantee any potential refund. Based on this analysis, staff recommends that the Utility be required to secure a surety bond, letter of credit, or escrow agreement to guarantee any potential refunds of water revenues in accordance with Section 367.082, F.S.

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

The Utility should deposit 8.17 percent of the revenues collected under interim conditions into the escrow account each month. The escrow agreement should also state that if a refund to the customers is required, all related interest earned on the escrow account shall be distributed to

the customers, and if a refund to the customers is not required, the interest earned on the escrow account shall revert to the Utility.

If the security provided is a surety bond or a letter of credit, said instrument should be in the amount of \$67,565. If the Utility chooses a surety bond as security, the surety bond should state that it will be released or terminated only upon subsequent order of the Commission. If the Utility chooses to provide a letter of credit as security, the letter of credit should state that it is irrevocable for the period it is in effect, and that it will be in effect until a final Commission order is rendered releasing the funds to the Utility or requiring a refund.

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

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

Docket No. 110200-WU
Date: December 28, 2011

Issue 5: Should this docket be closed?

Recommendation: No. This docket should remain open pending the Commission's final action on WMSI's application for increase in rates and charges. (Jaeger, Barrera, Fletcher)

Staff Analysis: This docket should remain open pending the Commission's final action on WMSI's application for increase in rates and charges.

Water Management Services, Inc. Schedule of Water Rate Base Test Year Ended 12/31/10			Schedule No. 1-A Docket No. 110200-WU		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$8,840,469	(\$64,615)	\$8,775,854	\$31,756	\$8,807,610
2 Land and Land Rights	87,856	(262)	87,594	0	87,594
3 Non-used and Useful Components	0	0	0	(33,231)	(33,231)
4 Accumulated Depreciation	(3,345,867)	126,081	(3,219,786)	(5,915)	(3,225,701)
5 CIAC	(3,322,830)	0	(3,322,830)	0	(3,322,830)
6 Amortization of CIAC	1,420,734	0	1,420,734	0	1,420,734
7 Construction Work In Progress	48,946	0	48,946	0	48,946
8 Advances for Construction	(12,019)	712	(11,307)	0	(11,307)
9 Working Capital Allowance	<u>133,814</u>	<u>0</u>	<u>133,814</u>	<u>(133,814)</u>	<u>0</u>
10 Rate Base	<u>\$3,851,103</u>	<u>\$61,916</u>	<u>\$3,913,019</u>	<u>(\$141,205)</u>	<u>\$3,771,814</u>

Water Management Services, Inc.		Schedule No. 1-B
Adjustments to Rate Base		Docket No. 110200-WU
Test Year Ended 12/31/10		
Explanation	Water	
<u>Plant in Service</u>		
1	Remove pro forma adjustments for 2008 Tahoe & Sierra sold.	\$39,448
2	Consistent adjustment for approved stipulation in last rate case.	<u>(7,692)</u>
	Total	<u>\$31,756</u>
<u>Non-used and Useful</u>		
	To reflect net non-used and useful adjustment.	<u>(\$33,231)</u>
<u>Accumulated Depreciation</u>		
1	Remove pro forma adjustments for 2008 Tahoe & Sierra sold.	(\$6,452)
2	Consistent adjustment for approved stipulation in last rate case.	<u>537</u>
	Total	<u>(\$5,915)</u>
<u>Working Capital</u>		
	To reflect adjustment to working capital allowance.	<u>(\$133,814)</u>

Water Management Services, Inc. Capital Structure- 13-Month Average Test Year Ended 12/31/10						Schedule No. 2 Docket No. 110200-WU		
Description	Total Capital	Specific Adjust- ments	Subtotal Adjusted Capital	Prorata Adjust- ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility								
1 Long-term Debt	\$7,831,613	(\$119,766)	\$7,711,847	(\$3,903,342)	\$3,808,505	97.33%	4.30%	4.18%
2 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4 Common Equity	(2,163,302)	2,163,302	0	0	0	0.00%	11.16%	0.00%
5 Customer Deposits	112,209	(7,685)	104,524	0	104,524	2.67%	6.00%	0.16%
6 Deferred Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>
7 Total Capital	<u>\$5,780,520</u>	<u>\$2,035,851</u>	<u>\$7,816,371</u>	<u>(\$3,903,342)</u>	<u>\$3,913,029</u>	<u>100.00%</u>		<u>4.34%</u>
Per Staff								
8 Long-term Debt	\$7,711,847	\$0	\$7,711,847	(\$4,044,557)	\$3,667,290	97.23%	4.30%	4.18%
9 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
10 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
11 Common Equity	0	0	0	0	0	0.00%	11.85%	0.00%
12 Customer Deposits	104,524		104,524	0	104,524	2.77%	6.00%	0.17%
13 Deferred Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>
14 Total Capital	<u>\$7,816,371</u>	<u>\$0</u>	<u>\$7,816,371</u>	<u>(\$4,044,557)</u>	<u>\$3,771,814</u>	<u>100.00%</u>		<u>4.34%</u>
						LOW	HIGH	
RETURN ON EQUITY						<u>9.85%</u>	<u>11.85%</u>	
OVERALL RATE OF RETURN						<u>4.34%</u>	<u>4.34%</u>	

Water Management Services, Inc. Statement of Water Operations Test Year Ended 12/31/10						Schedule No. 3-A Docket No. 110200-WU	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$1,291,712</u>	<u>\$281,408</u>	<u>\$1,573,120</u>	<u>(\$271,260)</u>	<u>\$1,301,860</u>	<u>\$115,803</u> 8.90%	<u>\$1,417,664</u>
Operating Expenses							
2 Operation & Maintenance	\$1,115,100	(\$44,590)	\$1,070,510	(\$54,635)	\$1,015,875		\$1,015,875
3 Depreciation	199,395	0	199,395	(39,292)	160,103		160,103
4 Amortization	14,616	0	14,616	(48,726)	(34,110)		(34,110)
5 Taxes Other Than Income	107,672	11,101	118,773	(11,969)	106,804	5,211	112,015
6 Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7 Total Operating Expense	<u>\$1,436,783</u>	<u>(\$33,489)</u>	<u>\$1,403,294</u>	<u>(\$154,623)</u>	<u>\$1,248,671</u>	<u>\$5,211</u>	<u>\$1,253,882</u>
8 Operating Income	<u>(\$145,071)</u>	<u>\$314,897</u>	<u>\$169,826</u>	<u>(\$116,637)</u>	<u>\$53,189</u>	<u>\$110,592</u>	<u>\$163,782</u>
9 Rate Base	<u>\$3,851,103</u>		<u>\$3,913,019</u>		<u>\$3,771,814</u>		<u>\$3,771,814</u>
10 Rate of Return	<u>(3.77%)</u>		<u>4.34%</u>		<u>1.41%</u>		<u>4.34%</u>

Water Management Services, Inc. Adjustment to Operating Income Test Year Ended 12/31/10		Schedule No. 3-B Docket No. 110200-WU Page 1 of 2
Explanation	Water	
<u>Operating Revenues</u>		
1 Remove requested interim revenue increase.		(\$270,096)
2 To reflect the appropriate amount of annualized revenues.		<u>(1,164)</u>
Total		<u>(\$271,260)</u>
<u>Operation and Maintenance Expense</u>		
1 Remove annualization pay range for H. Garrett.		\$2,223
2 Remove annualization pay range for J. Blankenship.		(1,850)
3 Remove annualized salary for T. Lemieux.		(5,963)
4 Remove annualized salary increas for obtaining additional license.		(3,000)
5 Reflect historical salary for E. Coulter.		3,388
6 Reflect historical salary for W. Abbott.		9,067
7 Reflect historical salary for G. Brown.		5,192
8 Remove annualized employee benefits.		(3,932)
9 Remove annualized cost of diesel fuel.		(2,275)
10 Remove annualized engineering costs.		(4,000)
11 Remove annualized accounting costs.		9,000
12 Remove annualized testing expense.		(668)
13 Remove additional annualized accounting costs.		(526)
14 Remove pro forma mail machine lease cost reduction.		721
15 Remove pro forma mileage reimbursements.		(3,177)
16 Remove pro forma vehicle insurance reduction.		3,351
17 Remove annualized workers comp insurance.		(1,870)
18 Reflect 12.5% salary allocation per last rate case.		(17,877)
19 Reflect 12.5% benefits allocation per last rate case.		(7,005)
20 Reflect engineering costs per last rate case.		(16,685)
21 Reflect accounting costs per last rate case.		(13,298)
22 Capitalize hydraulic analysis & capacity study per last rate case.		(3,600)
23 Reflect 12.5% rental allocation per last rate case.		<u>(1,852)</u>
Total		<u>(\$54,635)</u>
<u>Depreciation Expense - Net</u>		
1 Reflect appropriate depreciation expense for office furniture.		(\$14,042)
2 Reflect appropriate depreciation expense for T&D mains.		(19,928)
3 To remove net depreciation on non-U&U adjustment above.		<u>(5,322)</u>
Total		<u>(\$39,292)</u>

Water Management Services, Inc. Adjustment to Operating Income Test Year Ended 12/31/10		Schedule No. 3-B Docket No. 110200-WU Page 2 of 2
Explanation	Water	
<u>Amortization</u>		
1 To reflect the appropriate annual amortization - loss on bridge.		(S318)
2 Amortize Gain on Sales per last rate case.		(48,408)
Total		<u>(S48,726)</u>
<u>Taxes Other Than Income</u>		
1 RAFs on revenue adjustments above.		(\$12,207)
2 Reflect appropriate interim payroll taxes.		<u>237</u>
Total		<u>(S11,969)</u>

Water Management Services, Inc.			Schedule No. 4		
Monthly Service Rates			Docket No. 110200-WU		
Test Year Ended 12/31/10					
	Rates in Effect 12/31/2010	Present Rates	Utility Requested Interim	Utility Requested Final	Staff Recomm. Interim
<u>Residential</u>					
Base Facility Charges:					
5/8" x 3/4"	\$27.50	\$27.79	\$32.98	\$42.34	\$29.96
3/4"	\$41.26	\$41.69	\$49.47	\$63.51	\$44.95
1"	\$68.78	\$68.78	\$82.46	\$105.86	\$74.92
1-1/2"	\$137.54	\$138.97	\$164.91	\$211.71	\$149.83
Gallonage Charge - Per Kgal					
0-8,000 Gallons	\$3.27	\$3.30	\$3.92	\$5.03	\$3.56
8,001- 15,000 Gallons	\$4.08	\$4.12	\$4.89	\$6.28	\$4.44
over 15,000 Gallons	\$4.91	\$4.96	\$5.89	\$7.56	\$5.35
<u>General Service</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$27.50	\$27.79	\$32.98	\$42.34	\$29.96
3/4"	\$41.26	\$41.69	\$49.47	\$63.51	\$44.95
1"	\$68.78	\$68.78	\$82.46	\$105.86	\$74.92
1-1/2"	\$137.54	\$138.97	\$164.91	\$211.71	\$149.83
2"	\$220.08	\$222.36	\$263.87	\$338.75	\$239.74
3" Compound	\$412.64	\$416.92	\$494.75	\$635.14	\$449.50
3" Turbine	\$481.42	\$486.42	\$577.22	\$741.02	\$524.43
4" Compound	\$687.74	\$694.88	\$824.59	\$1,058.59	\$749.18
4" Turbine	\$825.28	\$833.84	\$989.49	\$1,270.28	\$899.00
6" Compound	\$1,375.46	\$1,389.73	\$1,649.15	\$2,117.13	\$1,498.33
6" Turbine	\$1,719.33	\$1,737.17	\$2,061.45	\$2,646.42	\$1,872.92
8" Compound	\$2,200.75	\$2,223.59	\$2,638.67	\$3,387.44	\$2,397.34
8" Turbine	\$2,475.83	\$2,501.52	\$2,968.48	\$3,810.84	\$2,696.99
10" Compound	\$3,163.57	\$3,196.40	\$3,793.07	\$4,869.42	\$3,446.17
10" Turbine	\$3,988.85	\$4,030.24	\$4,782.57	\$6,139.70	\$4,345.17
12" Compound	\$5,914.50	\$5,975.88	\$7,091.40	\$9,103.71	\$6,442.84
Gallonage Charge, per kgal	\$4.65	\$4.70	\$5.58	\$7.16	\$5.07
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$37.31	\$37.69	\$44.74	\$57.43	\$40.64
5,000 Gallons	\$44.29	\$44.29	\$52.58	\$67.49	\$47.77
10,000 Gallons	\$61.82	\$62.43	\$74.12	\$95.14	\$67.34
Average Usage of 6,142	\$47.58	\$48.06	\$57.06	\$73.23	\$51.84