State of Florida

Public Service Commission

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COMMISSION CLERK

DATE: July 20, 2012

TO: Office of Commission Clerk (Cole)

FROM: Division of Accounting and Finance (T. Brown, Cicchetti, Fletcher, Maurey)
Division of Economics (King, Draper, Kummer, Stallcup)
Division of Engineering (Rieger, Ballinger)
Office of the General Counsel (Jaeger, Barrera)

ALM

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

AGENDA: 08/02/12 – Regular Agenda – Proposed Agency Action Except for Issue Nos. 26 & 27 - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brown

CRITICAL DATES: 5-Month Effective Date Waived Through 08/02/12

SPECIAL INSTRUCTIONS: None

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

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Table of Contents

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 June 8, 2011, WMSI filed its test-year letter with the Commission, stating its intent to submit an application for an increase in rates and charges. On November 7, 2011, the Utility filed its application for rate increase at issue in the instant docket. 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's application did not meet the minimum filing requirements (MFRs) as filed, and it was not until February 17, 2012, that the MFRs were determined to be complete. This date was set as the official date of filing.

By Order No. PSC-12-0030-PCO-WU, issued January 19, 2012, the Commission approved interim rates designed to generate annual revenues of $1,417,664. This represents a revenue increase on an annual basis of $115,803 or 8.90 percent. The interim rates are subject to refund with interest, pending the conclusion of the rate case. The Utility has requested final rates designed to generate annual revenues of $2,019,622, representing a revenue increase of $714,035 or 54.69 percent.

On January 20, 2012, the Office of Public Counsel (OPC) filed a Notice of Intervention in this docket, and an order acknowledging intervention was issued on January 23, 2012.[2] On March 2, 2012, OPC filed a Motion for an Administrative Hearing on WMSI's Application for Rate Increase (Motion), requesting that the rate application be set directly for hearing, and that the PAA procedure not be used. WMSI filed a timely Response opposing OPC's motion on March 8, 2012. Neither OPC nor WMSI requested oral argument on the Motion, but the Commission did allow both parties to make oral presentations in regards to OPC's motion at the April 10, 2012, Commission Conference. The Commission denied OPC's motion for an administrative hearing and determined that the docket shall continue to be processed using the PAA process.[3]

On June 19, 2012, the Utility submitted a letter waiving the requirement to process the rate case within five months of the official filing date pursuant to Section 367.081(8), Florida Statutes (F.S.), through August 2, 2012.

This recommendation addresses the revenue requirement and rates that should be approved on a prospective basis. The Commission has jurisdiction pursuant to Sections 367.081 and 367.082, F.S.

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[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.
[2] See Order No. PSC-12-0034-PCO-WU.
[3] See Order No. PSC-12-0222-PCO-WU.

Discussion of Issues

QUALITY OF SERVICE

Issue 1: Is the quality of service provided by Water Management Services, Inc. considered satisfactory?

Recommendation: Yes, the overall quality of service provided by the Utility should be considered satisfactory. (Rieger)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission determines the overall quality of service provided by a utility by evaluating three separate components of water operations. These components are the quality of the utility's product, the operating condition of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. Comments or complaints received by the Commission from customers and the utility's compliance with the Department of Environmental Protection (DEP) and Water Management Districts (WMD) are also considered.

Quality of Product and Operational Condition of the Plant and Facilities

WMSI's water system includes four supply wells located in East Point on the mainland. The raw water is pumped five miles to the Utility's water plant on St. George Island through a 12-inch water main attached to the St. George Island Bridge. The water is disinfected using gas chlorination and aeration is used to remove hydrogen sulfide. Two reservoirs located at the plant site, a 150,000-gallon elevated storage tank and a 300,000-gallon ground storage tank, are used for storage and fire flow reserve. Fire hydrants are located throughout the distribution system. The water system is currently in compliance with the rules and regulations of the DEP and the Northwest Florida Water Management District (NWFWMD). WMSI's water system was last inspected by DEP on August 12, 2011. No major deficiencies were identified during the inspection.

Although the water system is currently functioning satisfactorily, the Utility has recognized for some time the need for increased maintenance and improvements to the system as a result of extreme environmental conditions, including salt water, salt air, shifting sand, and periodic hurricanes and tornados. A 2010 engineering study that was part of the previous rate case recognized that, as a result of its harsh surroundings, the risk of catastrophic failure for a portion of the raw water supply main was likely.[4] This once-buried main is now exposed in the bay as a result of the last major storm. Also, the ground storage tank is structurally unsound and needs to be replaced. The tank has visible evidence of leakage in the sidewalls, cracking of perimeter structural beams, and deterioration of the hollow core panels which is compromising the roof. Because of the likelihood of prolonged water outage to its customers should a catastrophic failure occur, the Utility plans to replace the ground storage tank and the exposed raw water supply main. In addition, the water treatment plant has reached the end of its useful life. These items were also considered in the previous rate case. By Order No. PSC 11-0010-SC-WU, the Commission acknowledged that the pro forma plant improvements in that case were

[4] See Order No. PSC-11-0010-SC-WU, pp. 14-15.

reasonable and should improve the quality of service and the system's reliability; however, it was determined that the Utility failed to obtain adequate documentation to support the cost of the pro forma plant additions. As a result of the lack of sufficient cost support, the pro forma plant additions were not included in rate base in that case.[5]

In the current case, the Utility requested pro forma plant additions for the installation of a new 600,000-gallon ground storage tank to replace the existing ground storage tank, a 2,600 gallon per minute (gpm) high service pumping station, an additional 500 gpm potable water well, modifications to the existing water treatment plant, a replacement generator for well #3, and supply main and distribution system piping. The Utility believes that the improvements are necessary to eliminate the potential for catastrophic failure of existing facilities and to continue to meet system demand, including fire flow demands. Further consideration of the Utility's request for the allowance of pro forma plant additions is discussed in Issue 5.

<u>The Utility's Attempt to Address Customer Satisfaction</u>

A customer meeting was held on April 25, 2012, at the St. George Island Volunteer Fire Department. Approximately 70 customers attended the meeting and 17 spoke. Customers commented about the hardness and corrosive nature of the water, as well as high levels of chlorine in the water. Several customers commented that they received good service from the Utility and had no problem with the water quality. The fire chief, representing the local volunteer fire department, expressed concerns about the existing water system's ability to meet fire flow demands. Staff explained that there are several pro forma plant projects proposed by the Utility to help improve system pressure to address fire flow concerns on the island.

Customers expressed concern over the amount of the proposed rate increase, its potential negative affect on the general economy of St. George Island, and the frequency of rate cases filed by the Utility. The customers were aware of the proposed pro forma plant improvements, and requested that the Commission closely consider the necessity and location of the items being requested, as well as the dependability of the proposed costs. The customers believe the Utility's finances are not managed properly and, as a result, suggested that funds collected to pay for pro forma items need to be protected through the use of an escrow account or some other mechanism of protection. Concerns were also raised regarding allegations in the last rate case that the Utility may have improperly advanced funds to associated companies.

Two customer billing complaints have been filed with the Commission in the past three years; however, there are currently no active complaints on file. The Utility reported that no complaints were logged with the Utility during the test year. The Commission received correspondence from over 30 customers who expressed concern over the proposed rate increase. There were also several comments included in the correspondence about the hardness of the water.

Approximately half of the correspondence included a request that the Commission not use the PAA process, but instead move to a public hearing process as soon as possible based on their belief that the PAA process would be detrimental to the customers and add to the overall

[5] <u>See</u> Order No. PSC-11-0010-SC-WU, pp. 14-15.

cost of the process. As discussed in the case background, OPC requested that the rate case be set directly for hearing and that the PAA procedures not be used. By Order No. PSC 12-0222-PCO-WU, the Commission denied OPC's motion for formal hearing because the Commission believed that OPC had not demonstrated why the Utility's choice to use the PAA process is not in the public interest. In addition, approximately 100 customers wrote to the Commission expressing concern about the City of Carrabelle's application to DEP for a loan to fund the purchase of WMSI.

Summary

In the Utility's last rate case, the overall quality of service was found to be satisfactory. The water system is currently in compliance with the rules and regulations of the DEP and the WMD. Further, the Utility has identified improvements that are needed to avoid potential failure of existing facilities and to meet fire flow demands and has proposed a plan to address those concerns. Therefore, staff recommends that WMSI's quality of product and operational condition of the facilities is satisfactory. The Utility appears to be actively involved in maintaining good service to its customers. Therefore, staff recommends that WMSI's attempts to address customer satisfaction are satisfactory. Based on all of the above, staff recommends that WMSI's overall quality of service be considered satisfactory.

RATE BASE

Issue 2: Should the audit adjustments to which the Utility and staff agree be made?

Recommendation: Yes. Based on the audit adjustments agreed to by the Utility and staff, operations and maintenance (O&M) expenses should be reduced by $877. (T. Brown)

Staff Analysis: In its response to staff's audit report, received April 4, 2012, WMSI agreed to the audit adjustments as set forth in the tables below.

Table 2-1

WMSI Audit Adjustments	Description of Adjustments
Finding No. 4	Remove late fee, out of period expenses, and several other miscellaneous O&M expenses.

In addition to the specific findings agreed to by WMSI, there were several other audit adjustments contained in Finding 4 that the Utility did not address in its audit response. Staff did not include those adjustments here because they were not expressly agreed to in writing. Instead, staff addresses those adjustments in the contested O&M expense audit findings in Issue 12. Staff also notes that WMSI stated in its audit response that it did not disagree with the auditor's adjustments related to Finding 5 (depreciation expenses) and Finding 6 (taxes other than income). However, each response was also conditioned on the Utility's responses to several other audit findings. Because the findings were not unconditionally agreed to in the Utility's response, staff will address Finding 5 and 6 with the contested rate base audit findings in Issue 3.

Based on the audit adjustments agreed to by the Utility, staff recommends that the adjustments set forth in Table 2-2 be made to rate base and net operating income.

Table 2-2

Water – O&M Expenses				
WMSI Audit Adjustment	Acct. 615 - Purchased Power	Acct. 620- Materials and Supplies	Acct. 675- Miscellaneous Expenses	Total
Finding No. 4	($29)	($27)	($821)	($877)

Issue 3: Should any audit adjustments contested by the Utility be made to rate base?

Recommendation: Yes. WMSI's test year rate base should be adjusted as follows: plant should be increased by $3,426, and accumulated depreciation should be increased by $1,420. The following corresponding adjustments should also be made: depreciation expense should reflect a net decrease of $23,811, and taxes other than income should be decreased by $1,647. (T. Brown)

Staff Analysis: Staff's WMSI audit report was released on March 12, 2012, and the Utility's response was received on April 4, 2012. This issue addresses the contested rate base audit findings and the appropriate adjustments that should be made.

Finding 1: Capitalized Items from Prior Rate Case

In the Utility's last rate proceeding, the Commission required WMSI to capitalize $51,751 of miscellaneous expenses to plant. Order No. PSC-11-0010-SC-WU also required the Utility to make several additional adjustments for retired plant and capital improvements.

WMSI disagreed with the reclassifications, believing that the repair should have been expensed, or if capitalized, a retirement from the fixed asset account would be necessary. Staff believes that WMSI's argument is moot at this point, since the First District Court of Appeal recently affirmed the Commission's decision in Docket 100104-WU, which had been appealed by the Utility.[6] As such, plant should be increased by $3,426. In addition, corresponding adjustments should be made to increase accumulated depreciation by $1,420 ($3,426 - $2,006), and increase depreciation expense by $804.

Finding 2: Accumulated Depreciation

Audit staff addressed several general ledger transactions the Utility made to correct what it believed to be a Commission accounting error in Docket No. 940109-WU, as well as a change in the asset life for computers from 15 years to 6 years. The Utility reiterates its position that Order No. PSC-94-1383-FOF-WU[7] was in error when the original cost for Transmission & Distribution (T&D) Mains was reduced without a corresponding reduction in accumulated depreciation. With that belief, WMSI contends that the adjustments reflected in its filing "are necessary to reflect the true-up of accumulated depreciation as of the December 31, 2010 test year."[8]

According to the audit report, the Utility provided a 10-page document, which reflects the T&D Mains asset account and the related accumulated depreciation balances from 1987 and 1992. However, the audit report stated that "the information provided by the Utility did not provide sufficient detail for audit staff to determine the validity of these adjustments." Audit

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[6] See First District Court of Appeal, Per Curiam Affirmed Decision issued on May 15, 2012, in Case No. 1D11-1656.
[7] See Order No. PSC-94-1383-FOF-WU, issued November 14, 1994, in Docket No. 940109-WU, In Re: Petition for interim and permanent rate increase in Franklin County by St. George Island Utility Company, Ltd.
[8] See Document No. 02056-12, WMSI Response to Audit Report, dated March 28, 2012, p. 2.

staff used the beginning balances for the T&D Main asset and accumulated depreciation accounts that were established in Order No. PSC-11-0010-SC-WU to determine the balances for accumulated depreciation in the current case. Audit staff traced the 2010 additions to original source documents and calculated the related accumulated depreciation in order to determine the test year balances. Staff agrees with the auditor's position on this matter because the Utility's proof was insufficient to support the validity of its adjustments.

As for the final transaction, WMSI also believes that the Commission should approve a 6-year service life for computers in Account 340, consistent with Rule 25-30.140(2)(a), F.A.C. It did not appear from the audit report that audit staff had any concerns about the change in service life. As part of their analysis, audit staff provided accumulated depreciation calculations using the shorter life. As such, staff recommends the Commission approve a 6-year service life for computers in Account 340.

Finding 5: Depreciation Expense

In 2010, the Utility implemented the Peachtree Fixed Asset Software to calculate the depreciation expense and accumulated depreciation. According to the audit report, the adjustments recorded to true-up the accumulated depreciation balances caused depreciation expense to be misstated for the test year. According to WMSI's audit response, the Utility does not disagree with the auditor's finding regarding this issue, except as discussed in the Utility's response to Findings 1 and 2. Staff recommends the approval of audit staff's adjustments in both of those findings and believes that the adjustments in Finding 5 should be approved as well. As such, staff recommends that depreciation expense be decreased by $24,615.

Finding 6: Taxes Other Than Income (TOTI)

Based on actual payroll tax returns, audit staff increased payroll tax expense by $796. Audit staff also decreased payroll tax expense by $1,345 based on adjustments contained in Finding 4. The net effect of the adjustments was a $549 ($796 - $1,345) reduction to the Utility's adjusted payroll taxes. Audit staff also decreased real estate and personal property taxes by $829 ($621 + $208), which included the removal of $621 for property taxes applicable to non-utility land and the removal of $208 for discounts not taken due to late payments. TOTI-Other was reduced by $269 ($159 + $110), to remove the $159 registration cost for Gene Brown's vehicle and to remove $110 of incorrectly classified accrued payroll taxes.

According to WMSI's audit response, the Utility does not disagree with the auditor's finding regarding this issue, except as discussed in the Utility's response to Finding 4. Given the Utility's conditional agreement and the additional adjustments staff made in Finding 4, staff believes that the auditor's adjustments in Finding 6 are appropriate. As such, staff recommends that TOTI be decreased by $1,647.

Summary:

In summary, staff believes that WMSI's test year rate base should be adjusted as follows: plant should be increased by $3,426, and accumulated depreciation should be increased by

$1,420. The following corresponding adjustments should also be made: depreciation expense should reflect a net decrease of $23,811 ($804 - $24,615), and TOTI should decrease by $1,647.

Issue 4: Should any additional test-year plant adjustments be made?

Recommendation: Yes. Miscellaneous expenses should be decrease by $9,320 plant should be increased by $9,320 to reclassify items that should have been capitalized to plant. Accordingly, a corresponding adjustment should be made to increase depreciation expense by $298. (T. Brown)

Staff Analysis: According to MFR Schedule B-5, miscellaneous expenses increased substantially in March and December 2010 when compared to other months. As a result, staff requested that the Utility provide all calculations, basis, workpapers, and support documentation for the increase in miscellaneous expenses. In response, the Utility submitted copies of invoices to document increases in the miscellaneous expense. These copies included five Lewis-Smith Supply Corp. (LSSC) invoices that appear to be for meters and a Graybar invoice for $6,734.80 for repair services related to a drive well. The LSSC invoices total approximately $2,585. As such, the Utility recorded miscellaneous expenses of $9,320 ($2,585 + $6,735) related to these invoices. Staff requested additional information from the Utility to determine the nature of the repair in a subsequent data request.[9] The Utility responded that the invoice was related to emergency repairs for damage to Drive Well #4 sustained in a lightning strike. Staff believes that the repairs made to the drive plant extended the useful life of the asset and should be capitalized to plant.

Consistent with the National Association of Regulatory Utility Commissioners' (NARUC) Uniform System of Accounts (USOA) and prior Commission practice,[10] staff believes that these expenses should be capitalized to plant. Accordingly, staff recommends that miscellaneous expenses be decreased by $9,320 and plant increased by $9,320 to reclassify items that should have been capitalized to plant. Accordingly, a corresponding adjustment should be made to increase depreciation expense by $298.

[9] See Document No. 02940-12, Staff's Fifth Data Request, dated May 8, 2012.

[10] See Order Nos. PSC-11-0444-PAA-SU, issued October 7, 2011, in Docket No. 100471-SU, In re: Application for staff-assisted rate case in Marion County by S & L Utilities, Inc.; and PSC-11-0436-PAA-WS, issued September 29, 2011, in Docket No. 100472-WS, In re: Application for staff-assisted rate case in Manatee County by Heather Hills Estates Utilities LLC.

Issue 5: Should adjustments be made to the Utility's pro forma plant additions and associated expenses?

Recommendation: Yes. Staff recommends that a phased-in approach is appropriate. All of WMSI's pro forma plant and land costs should be removed from Phase I. Staff's recommended Phase II adjustments are reflected in the staff analysis below. The Utility should be allowed to implement Phase II rates only after all pro forma items have been completed, placed in commercial service, and copies of the final invoices and cancelled checks have been provided. Once verified by staff, the 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. The rates should not be implemented until notice has been received by the customers. WMSI should provide proof of the date notice was given within 10 days of the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission in writing. (T. Brown, Rieger)

Staff Analysis: The Utility is seeking to increase its plant by $3,565,436 for pro forma plant improvements and an additional $501,500 for land related to the improvements. In the last rate case, the Commission found that WMSI's proposed pro forma plant projects were reasonable and should improve the quality of service and the system's reliability.[11] The recommended improvements included the relocation of a portion of the existing water supply main, the replacement of the existing ground storage tank, the purchase of land for the new storage tank, the reconfiguration of the existing pumping and electrical system, and the upgrade of the distribution system. However, the Commission did not approve WMSI's pro forma plant additions, stating, "at this time, because there is not sufficient cost justification for the pro forma adjustments by the Utility, all pro forma plant additions shall be removed."[12]

In the current rate case, construction documents related to the pro forma plant projects were publicly advertised and requested by at least 24 entities. As mentioned in the last rate case, it is Commission practice to require at least three bids prior to any approval for pro forma additions.[13] Three complete bids were received, and on August 18, 2011, they were opened and reviewed.[14] For purposes of this rate case, the Utility used the costs associated with the lowest bid.[15]

Pro Forma Plant

The Utility claims that except for two additional items, its pro forma request in this docket is essentially the same as the improvements proposed in the last case.[16] According to the response, the first additional item is a new building to house all the new facilities next to the new

[11] See Order No. PSC-11-0010-SC-WU, p.14.
[12] Id. p. 15.
[13] See Orders No. PSC-11-0010-SC-WU, pp.14-15; PSC-07-0609-PAA-WS, issued July 30, 2007, in Docket No. 060246-WS, In re: Application for increase in water and wastewater rates in Polk County by Gold Coast Utility Corp., pp. 5-6; and PSC-10-0400-PAA-WS, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke, pp. 9-10.
[14] See Document No. 08222-11, Testimony & Exhibits of Les Thomas, filed on November 7, 2011, p. 10.
[15] Lowest construction bid was submitted by Ben Withers, Inc. of Panacea, Florida in the amount of $2,626,482.
[16] See Document No. 00376-12, WMSI's response to Staff's First Data Request, Item 1, dated January, 19, 2012.

ground storage tank (GST). The Utility argues that the proposed new building is needed for the following reasons:

(1) The plant items being replaced have reached the end of their useful lives.
(2) The ground storage tank is literally crumbling and is subject to catastrophic failure.
(3) The electrical and chlorination systems are dangerous, unreliable and problematic.
(4) Having the water storage, aeration, chlorination and electrical systems in the same building as the Utility employees causes a health hazard.
(5) It is not practical to rebuild all these facilities in the same existing structure.[17]

The second additional pro forma item is for a fifth well and new distribution mains. While the fifth well and associated costs were included in WMSI's filing, it was later dropped from the Utility's request. In response to a staff data request, WMSI indicated that it "has dropped the 5th well from its current plans."[18] As the following table illustrates, staff believes that $571,040 in costs are considered related to the fifth well pro forma plant additions. Accordingly, staff recommends the removal of the costs associated with the fifth well from WMSI's pro forma plant.

Table 5-1

Pro Forma Plant Costs - Fifth Well	
Permit and Construct fifth well	$302,292
Fifth well supply main tie-in to existing main	140,292
Fifth well generator	66,800
SCADA/Controls – 10% of related costs	8,867
Fifth well land purchase and closing costs	52,789
Total pro forma costs:	$571,040

While the Utility's system is functional, WMSI's engineer stated in his testimony that "the system exists in an extreme environment - salt water, salt air, 18 miles of shifting sand and periodic hurricanes and tornados." He contends that "the ground storage tank has numerous deficiencies" and "it must be replaced."[19] Likewise, a portion of the raw water supply main from Eastpoint is currently exposed in the bay. Staff notes that additional exposure of the main could have resulted from the recent tropical storm as well. According to WMSI's engineer, the pro forma improvements being considered here with the construction of a new GST in a new location "will eliminate the potential for a catastrophic failure of the existing ground storage tank without interrupting service."[20] Additionally, WMSI's engineer believes that any vulnerability associated with the raw transmission line (RTL) would be mitigated by the addition of a parallel

[17] Id.
[18] See Document No. 03362-12, WMSI's response to Staff's Third Data Request, Item 8, dated May 25, 2012.
[19] See Document No. 08222-11, Testimony & Exhibits of Les Thomas, p. 6.
[20] Id. p. 7.

line installed adjacent to the existing line.[21] A catastrophic failure of either (or both) the GST or RTL could cause a prolonged outage for residents on the island.[22]

There was a significant amount of discussion at the customer meeting regarding whether a new storage tank, if needed, would be constructed on the existing site versus land that would need to be purchased for the storage tank's construction. A Post, Buckley, Schuh, and Jernigan (PBS&J) Water System Evaluation Addendum prepared in the last rate case spells out the challenges of building a new GST on the existing site. The report states:

> The major issue with utilizing the existing tank location for the construction of the new ground storage tank is risk, which is often hard to reflect in terms of estimated cost. In order to use the existing location, the old tank would need to be taken out of service during the demolition and construction of the new tank. This would require the use of temporary piping and pumping facilities. Use of such facilities is problematic from a constructability standpoint for several reasons including:
>
> - Lack of available space to locate temporary tanks and pumps,
> - Space constraints during construction may add to the cost of the project,
> - An increase in the complexity of the system which inherently reduces the overall system reliability,
> - Lack of redundancy in the system which could lead to extended outages of supply of water, and
> - Most importantly, the discovery of unforeseen circumstances during construction which could lead to extending the time required for temporary facilities, thereby increasing the associated costs.[23]

While the Utility could construct a new GST on the land it already owns, staff believes that the additional expenses, construction constraints, and other variables discussed above may outweigh any perceived benefits. In the last rate case, the Commission acknowledged that many of the same improvements, including the replacement of the existing ground storage tank and the purchase of land for the new storage tank, were reasonable. Based on the outcome in that case, staff believes that the issue regarding the land is one of the Utility performing the appropriate due diligence.

Staff notes that in addition to the property currently under contract, the Utility investigated several other parcels as well. The first parcel was comprised of four lots located across the alley, behind the Utility's current plant. The Utility made an offer on those lots, but it was rejected and the land was subsequently taken off the market. According to the Utility, it also realized that it was going to need more than the four lots being considered. The 2010 PBS&J addendum indicated that the land cost for a new ground storage tank on this parcel had decreased

[21] Id. p. 8.
[22] Id. p. 7.
[23] See Document No. 08651-10, Part 3 (EXH 45), PBS&J St. George Island Water System Evaluation Addendum, dated September 12, 2010, p. 5.

from $450,000 to $300,000.[24] However, staff notes that the $300,000 represents a speculative cost for four lots, not the seven lots being considered in this rate case. In any regard, it is moot at this point since the Utility's offer was rejected, the parcel is no longer for sale, and additional space is required.

The second parcel contained eight lots separated by an alley located roughly 2 ½ blocks from the current plant. The Utility did not make an offer on this parcel since other lots closer to the plant became available. The lots of this third parcel were contiguous, on the same alley as the current plant, and within a block. This is the same parcel that WMSI currently has under contract for $425,000 and recently appraised for $420,000.[25] The contract of sale states that "this contract will be void and neither party will have any liability to the other unless and until the following contingencies are met:

> A. Approval by the Florida Public Service Commission of increased rates that are adequate to allow the Buyer to obtain the necessary financing to pay for the property and the above-referenced tank and related approvals;
>
> B. Approval by the necessary governmental authorities, including Franklin County and the Florida Department of Environmental Protection, to allow the Buyer to construct the improvements on the property; and
>
> C. An adequate financing commitment to provide the Buyer with the funds necessary to buy the property and construct the ground storage tank and related improvements.[26]

Staff believes that the Utility made an attempt to investigate other properties close to the existing plant that could support the pro forma projects while working to minimize the cost before deciding on the current parcel. The negotiated contract price is $325,000 less than the seller's original asking price of $750,000, representing a decrease of over 43 percent.[27] However, the appraisal came in $5,000 ($425,000 - $420,000) under the contract price for the parcel. Accordingly, staff believes that the pro forma cost for land should be reduced by $5,000 to account for the difference between the sales price and the appraisal. A corresponding adjustment should be made to reduce closing costs by $279.

As part of the proposed pro forma additions, the Utility also plans to relocate and elevate the high service pumps on the island. According to comments received during the customer meeting, the pumps are already located on the highest point on the island and are high enough that no federal flood insurance is required. The Commission approved the reconfiguration of the existing pumping and electrical system, in the last rate case, but did not consider a new water treatment plant and new pumping system.[28] While OPC believes that the Utility has not demonstrated the need for this project, staff believes that locating the pumps adjacent to the new

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[24] Id., p. 2.
[25] See Document No. 03362-12, WMSI's response to Staff's Third Data Request, Items 4 and 5; and Contract of sale signed on March 14, 2012.
[26] Id.
[27] See Document No. 03362-12, WMSI's response to Staff's Third Data Request, Items 4(f) and 5.
[28] See Order No. PSC-11-0010-SC-WU, p.14.

GST makes sense, especially given the site constraints and the current condition of the Utility's existing plant. Staff believes that the pumps, and the remainder of WMSI's proposed pro forma plant items, are reasonable, prudent, and in the long-term best interest of both the Utility and its customers.

Proposed Financing of Pro Forma Items

The Utility has requested $6.6 million in financing for pro forma plant improvements, land, closing costs, and to payoff an existing first mortgage loan. The Utility submitted its loan application to Fidelity Bank/USDA, on May 25, 2012. Fidelity Bank has not made a loan decision on WMSI's requested $6,600,000 USDA loan, at this time. However, WMSI contends that the Fidelity Bank/USDA loan can be approved and closed within 90-120 days after a final Commission order.[29] The Utility's loan request is based upon the following assumptions:

> (1) That the Utility is successful in securing a substantial rate increase in its case before the Commission, including much higher tap fees; and
>
> (2) That the DEP agrees to subordinate its security interest on the water supply main to Fidelity's first mortgage lien, and to modify the debt service requirements on the existing DEP loan.[30]

While the Utility's first assumption is being addressed in this recommendation, the second assumption was addressed in a recent DEP response to the Utility. In a letter dated June 15, 2012, DEP said that it was unable to subordinate its loan to Fidelity Bank, but said that it will reassess its position once the Commission has made a decision regarding the rate case. As for restructuring the existing loan, DEP said that while it considers the loan to be in default, it would delay any enforcement action until the Commission makes a decision in the instant case.

Two-Phase Rate Increase

In the past, there have been instances when the Commission approved revenue requirements associated with pro forma items only to have the utility in question fail to complete the pro forma investments. In addition, addressing the pro forma items in a single case saves additional rate case expense to the customers because the Utility would not need to file another rate case or limited proceeding to seek recovery for them. The Commission has approved a phase-in approach in several other dockets.[31]

Section 367.081(2)(a)2., F.S., provides that, in fixing rates which are just, reasonable, compensatory and not unfairly discriminatory, the Commission "shall consider utility property,

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[29] See Document No. 03362-12, WMSI's response to Staff's Third Data Request, Items 2 and 3.
[30] Id. The Utility's subordination request was sent to DEP on May 17, 2012.
[31] See Order Nos. PSC-11-0444-PAA-SU, issued October 7, 2011, in Docket No. 100471-SU, In re: Application for staff-assisted rate case in Marion County by S & L Utilities, Inc.; PSC-09-0628-PAA-SU, issued September 17, 2009, in Docket No. 080668-SU, In re: Application for staff-assisted rate case in Highlands County by Fairmount Utilities, The 2nd Inc.; and PSC-09-0716-PAA-WU, issued October 28, 2009, in Docket No. 090072-WU, In re: Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc.

including land acquired or facilities constructed or to be constructed within a reasonable time in the future, not to exceed 24 months after the end of the historic base year used to set final rates unless a longer period is approved by the commission." Staff notes that WMSI is using a December 31, 2010 test year in the instant docket. Staff anticipates a PAA Order being issued on August 22, 2012, and in the absence of a protest, a consummating order being issued on September 17, 2012. Bid documents specify that the work will be "substantially completed within 270 calendar days."[32] At this time, the Utility must still close on the land associated with the project and finalize the financing for the pro forma plant, making completion prior to the end of 2012 impossible. Accordingly, WMSI should be required to complete the pro forma items within 18 months of the issuance of the consummating order, but no later than March 17, 2014.

The Utility should be allowed to implement Phase II rates only after all pro forma items have been completed, placed in commercial service, and copies of the final invoices and cancelled checks have been provided. Once verified by staff, the 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. The rates should not be implemented until notice has been received by the customers. WMSI should provide proof of the date notice was given within 10 days of the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission in writing.

Conclusion

Staff recommends that all of WMSI's pro forma plant and expenses should be removed from Phase I which are reflected in the table below. Staff recommended Phase II adjustments over its Phase I amounts are also reflected in the table below.[33] WMSI's pro forma plant and expenses should be adjusted in Phase I and Phase II as follows:

[32] See Document No. 08222-11, Testimony & Exhibits of Les Thomas, p. 59.

[33] Staff notes the difference between the Utility's pro forma plant and staff's recommended Phase II pro forma plant is $576,319 ($571,040 + $5,000 + $279).

Table 5-2

Pro Forma Plant and Expense Adjustments - Phase I & Phase II					
Description	Adjusted Test Year Per Utility	Staff Adjustments Phase I (net)[34]	Staff Recomm. Phase I	Staff Adjustments Phase II[35]	Staff Recomm. Phase II
Plant in Service	$12,193,911	($3,405,311)	$8,795,065	$2,847,017	$11,642,082
Land and Land Rights	$589,094	($501,500)	$87,594	$496,221	$583,815
Accumulated Depreciation	($3,163,683)	($57,822)	($3,221,653)	$18,645	($3,203,008)
Depreciation Expense	$252,236	($78,187)	$174,372	$90,300	$264,672
Amortization Expense	$24,400	($10,943)	$13,457	$8,243	$21,700
Taxes Other Than Income	$151,785	($43,501)	$108,284	$22,824	$131,108

The Utility should be allowed to implement Phase II rates only after all pro forma items have been completed, placed in commercial service, and copies of the final invoices and cancelled checks have been provided. Once verified by staff, the 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. The rates should not be implemented until notice has been received by the customers. WMSI should provide proof of the date notice was given within 10 days of the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission in writing.

[34] See Schedule Nos. 1-B, 3-A, and 3-B.
[35] See Schedule Nos. 5-B and 7-B.

Issue 6: What are the used and useful percentages of the Utility's water system?

Recommendation: WMSI's water treatment plant (WTP) and storage facilities should be considered 100 percent used and useful (U&U). The Utility's transmission and distribution (T&D) mains should be considered 100 percent U&U, except for the distribution lines serving the Plantation subdivision that are less than 8 inches in diameter. The distribution lines in the Plantation that are less than 8 inches in diameter should be considered 60.9 percent U&U. Accordingly, rate base, depreciation expense, and property taxes should be reduced by $18,023, $1,833, and $154, respectively. (Rieger, T. Brown)

Staff Analysis: The Utility maintains that the WTP, storage facilities, and T&D mains should be considered 100 percent U&U. In the Utility's last rate case, the parties stipulated that no U&U adjustments were required for the water treatment and storage facilities. It was also determined that the Utility's T&D mains were 100 percent U&U, except for the distribution mains serving the subdivision known as the Plantation that are less than 8 inches in diameter. The distribution lines in the Plantation were considered 60.9 percent U&U, consistent with the methodology approved by the Commission in Docket Nos. 940109-WS and 100104-WU.

According to the Utility's application, based on a peak day of 835,000 gallons per day (gpd), an allowance for fire flow of 60,000 gpd, and firm reliable capacity (FRC) of 960,000 gpd, the water treatment plant is 93.23 percent U&U. That amount is lower than the 100 percent U&U calculation determined in the previous rate case. There has been virtually no physical change in operating capacity of the treatment facilities since the last rate case; however, there was a 16.6 percent reduction in peak day demand and a 9 percent reduction in total gallons of water pumped. The reduction in water pumped also resulted in reduced amounts of purchased power and chemical expenses since the last rate case. Pursuant to Rule 25-30.4325, F.A.C., although peak day demand and annual flows have been reduced, staff recommends that the Utility's WTP be considered 100 percent U&U, as stipulated in the last rate case, because the treatment plant is essentially at capacity and customer growth has been non-existent over the last several years. There does not appear to be any excessive unaccounted for water.

The Utility's existing storage facilities include a 150,000-gallon elevated storage tank and a 300,000-gallon ground storage tank. As previously discussed, the Utility has requested a pro forma plant addition to replace the 300,000-gallon ground storage tank with a 600,000-gallon ground storage tank. Staff recommends that, based on a peak demand of 835,000 gpd and a fire flow allowance of 60,000 gpd, the storage facilities be considered 100 percent U&U, pursuant to Rule 25-30.4325, F.A.C.

To justify its claim that all distribution lines should be considered 100 percent U&U, the Utility argued that the lines are at the end of their useful lives and further, there is no guarantee that there will ever be another customer on those lines. In a May 4, 2012, letter to the Commission regarding concerns with the Utility's rate application, OPC expressed unease over the fact that the distribution lines were constructed by a separate utility company that was not WMSI, and that the companies are affiliated and have had common ownership interests. Also, in reference to the age of the distribution system, OPC pointed out that there is no statute, rule, or Commission policy that considers the age of the plant investment in determining the U&U amount to be included in setting rates. Further, OPC noted that in the last rate case, the

Commission Order relied on a statement by the Utility witness that the lines inside the Plantation were constructed for the benefit of the developer. As such, OPC contends the Utility customers should not bear the burden of the cost of the excess capacity of the distribution system.

Staff believes that, consistent with the methodology approved by the Commission in the Utility's prior rate cases, the Utility's T&D mains should be considered 100 percent U&U, except for the distribution mains serving the Plantation subdivision that are less than 8 inches in diameter. As there has been no increase in customers since the last rate case for this area, the distribution mains serving the Plantation subdivision that are less than 8 inches in diameter should be considered 60.9 percent U&U based on 470 connected lots and 772 total available lots, consistent with the last rate case. Accordingly, rate base, depreciation expense, and property taxes should be reduced by $18,023, $1,833, and $154, respectively.

Issue 7: What is the appropriate amount of unamortized rate case expense?

Recommendation: The appropriate unamortized rate case expense (URCE) is $176,850. (T. Brown)

Staff Analysis: In its filing, WMSI included $339,180 in its working capital allowance for URCE. Of that amount, $229,180 is the balance of URCE from the Utility's 2010 rate case. The remainder of the amount is one-half of the total estimated rate case expense for the current rate case, or $110,000. Staff is recommending two adjustments. The first adjustment is a reduction in the URCE from the 2010 case and the second adjustment is related to the rate case expense for the current case.

Unamortized Rate Case Expense – 2010 Rate Case

In WMSI's 2010 rate case, the Commission approved rate case expense of $229,180 to be amortized over four years.[36] Commission practice is to include one-half of rate case expense, or $114,589, in working capital.[37] Therefore, staff believes the Utility's prior-case URCE of $229,180 should be reduced by $114,589.

Unamortized Rate Case Expense – Current Rate Case

The Utility included a pro forma adjustment of $110,000 in the working capital allowance for URCE associated with the current rate case. In Issue 14, staff is recommending rate case expense of $124,519 for the current rate case. Consistent with long-standing Commission practice, one-half of the total rate case expense, or $62,260, should be included in the working capital allowance. As such, staff believes an adjustment of $47,741 should be made to reduce WMSI's pro forma adjustment of $110,000 to $62,260.

Conclusion

Based on the above, staff believes the Utility's URCE should be decreased by $114,589 to reflect the appropriate amount for the 2010 rate case and decreased by an additional $47,741 to reflect the appropriate amount for the current rate case. The appropriate total amount of URCE is $176,850 ($339,180 - $114,589 - $47,741). The result of staff's recommended amount of URCE is a negative working capital allowance which will be discussed fully in Issue 8.

[36] See Order No. PSC-11-0010-SC-WU, p. 34.
[37] See Order No. PSC-10-0423-PAA-WS, issued July, 1, 2010, in Docket No. 090402-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities, Corporation, p. 11.

Issue 8: What is the appropriate working capital allowance?

Recommendation: The appropriate working capital allowance is zero, which results in a reduction in the Utility's working capital allowance of $39,885. (T. Brown)

Staff Analysis: Rule 25-30.433(2), F.A.C., requires that Class A utilities use the balance sheet method to calculate the working capital allowance (working capital). The balance sheet approach generally defines working capital as current assets and deferred debits that are utility-related and do not already earn a return, less current liabilities, deferred credits and operating reserves that are utility-related and upon which a utility does not already pay a return. On MFR Schedule A-17, the Utility reflected working capital of $39,885 using the balance sheet approach.

It is Commission practice to include one-half of the approved amount of rate case expense from prior cases and one-half of the approved amount from the instant case in the working capital calculation for Class A water and wastewater utilities.[38] As discussed in Issue 7, staff believes the appropriate amount of URCE to include in the working capital allowance is $176,850. The Utility included $339,180 for the 2010 and current rate case expense. Staff recommends that the URCE included in the working capital should be decreased by $162,330 ($176,850 - $339,180).

The summation of our adjustments results in a negative working capital allowance of $122,445. A negative working capital balance is not typical of a "normal" utility or the expected future condition of a utility. Therefore, consistent with Commission practice,[39] staff recommends that the working capital allowance should be set at zero, which results in a reduction in the Utility's working capital allowance of $39,885.

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[38] See Order Nos. PSC-08-0327-FOF-EI, issued May 19, 2008, in Docket No. 070304-EI, In re: Review of 2007 Electric Infrastructure Storm Hardening Plan filed pursuant to Rule 25-6.0342, F.A.C., submitted by Florida Public Utilities Company; PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, In re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.; and PSC-97-1225-FOF-WU, issued October 10, 1997, in Docket No. 970164-WU, In re: Application for increase in rates in Martin County by Hobe Sound Water Company.

[39] 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-97-0540-FOF-WS, issued May 12, 1997, in Docket No. 960799-WS, In re: Application for staff-assisted rate case in DeSoto County by LakeSuzy Utilities, Inc.; 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.

Issue 9: What is the appropriate rate base for the test year period ended December 31, 2010?

Recommendation: Consistent with other recommended adjustments, the appropriate rate base for the test year ended December 31, 2010, for Phase I is $3,729,581. The appropriate rate base for Phase II is $7,091,463. (T. Brown)

Staff Analysis: Based on staff's recommended adjustments, the appropriate rate base for Phase I is $3,729,581. The schedule for Phase I rate base is attached as Schedule No. 1-A, and the adjustments are shown on Schedule No. 1-B. The appropriate rate base for Phase II is $7,091,463. The schedule for Phase II rate base is attached as Schedule No. 5-A, and the adjustments are shown on Schedule No. 5-B.

COST OF CAPITAL

Issue 10: What is the appropriate return on equity?

Recommendation: Based on the Commission leverage formula currently in effect, the appropriate return on equity (ROE) is 11.16 percent. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. However, it has no effect on the amount of the proposed rate increase because the Utility's capital structure consists of only long-term debt and customer deposits. (T. Brown)

Staff Analysis: Based on the Commission leverage formula currently in effect, the appropriate ROE is 11.16 percent.[40] The Utility correctly used the same ROE in its filing. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. However, it has no effect on the amount of the proposed rate increase because the Utility's capital structure consists of only long-term debt and customer deposits.

[40] See Order No. PSC-12-0339-PAA-WS, issued June 28, 2012, in Docket No. 120006-WS, In re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

Issue 11: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2010?

Recommendation: The appropriate weighted average cost of capital for the test year ended December 31, 2010 is 4.44 percent for Phase I and 5.51 percent for Phase II. (T. Brown)

Staff Analysis: In its filing, the Utility requested an overall cost of capital of 5.96 percent. Because staff recommended a two-phase rate increase for WMSI, the conditional loan for pro forma plant and land referenced in MFR Schedule D-5 was removed for purposes of Phase I. However, the pro forma loan was included in staff's Phase II calculations.

Staff made additional adjustments in both phases to correct long-term debt costs associated with the refinancing of an existing Centennial Bank loan, which occurred on June 15, 2012.[41] The new loan carries a maturity date of June 2014 and a 6.50 percent interest rate. The loan's previous maturity date was June 2011 and an 8.46 percent interest rate.

Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2010, the weighted average cost of capital is 4.44 percent for Phase I and 5.51 percent for Phase II. Schedule Nos. 2 and 6 detail staff's recommended overall cost of capital for each phase.

[41] See Document No. 03958-12, Letter dated 6/18/12 advising the loan closing occurred 6/15/12; with Centennial Bank documents attached.

NET OPERATING INCOME

Issue 12: Should any adjustments contested by the Utility be made to test year O&M expenses?

Recommendation: Yes. WMSI's test year O&M expenses should be reduced by $70,982. In addition, plant should be increased by $6,465. Further, accumulated depreciation and depreciation expense should be increased by $148 and $323, respectively. (T. Brown)

Staff Analysis: Staff's audit report was released on March 12, 2012, and the Utility's response was received on April 4, 2012. The following recommendation addresses the contested O&M expenses contained in Audit Finding 4 and the appropriate adjustments that should be made. In that finding, audit staff noted numerous adjustments related to O&M expenses, totaling $62,157. Of that amount, approximately $877 in audit findings were agreed to by the Utility and were discussed previously in Issue 2. The remaining $61,280 of suggested audit adjustments are addressed here.

Salaries & Wages, Employee Pension & Benefits, and Rental Expense

Audit staff decreased the Utility's adjusted balance for salaries & wages by $17,852 ($9,332 + $8,250), pension & benefits by $9,285, and rental expense by $1,350 to allocate 12.5 percent to affiliates per Order No. PSC-11-0010-SC-WU.[42] The Utility maintains an administrative and accounting office in Tallahassee that is used for regulated and non-regulated operations. The Utility allocated 5 percent of the applicable salaries, benefits, and rent to affiliates. The adjustments identified above reflect the increase in the allocation to affiliates by the incremental difference between the 5 percent recognized in the Utility's filing and the 12.5 percent required by Order No. PSC-11-0010-SC-WU.

Materials and Supplies

Audit staff recommended an expense reduction of $1,302 for materials and supplies. WMSI disagreed with audit staff on some 46 items. A portion of that amount, $27 (out of period), was addressed as part of the agreed to audit adjustments in Issue 2. As a result, the total audit adjustment amount being considered for this account is $1,275 ($1,302 - $27). In its audit response, WMSI provided support for many of the items, totaling $926. As such, staff recommends a reduction of $349 ($1,275 - $926) for materials & supplies.

Contractual Services-Engineering

Audit staff noted three adjustments to contractual services-engineering on the MFR Schedule B-3, Adjustments to Operating Income. In its filing, the Utility decreased the account by $2,680 to remove a 2009 expense that was disallowed in the last rate proceeding. Staff agrees with this adjustment. The account was increased by $4,000 for the estimated engineering expense of $2,000 per month, which includes the NWFWMD, the DEP, and all of the other engineering services that the Utility needs on an ongoing basis. Exhibit A of the prefiled

[42] See Order No. PSC-11-0010-SC-WU, pp. 22, 24, and 28.

testimony of Les Thomas shows a hydraulic analysis and capacity study, which the Utility had requested be conducted at an hourly rate not to exceed $36,000. The capacity study includes a design period of 10 years, and the cost will be amortized at $3,600 per year. Due to lack of support documentation, staff auditors removed $7,600 ($4,000 + $3,600).

Staff believes that the Utility's documentation provided in its audit response still does not adequately support the $4,000 previously mentioned because the invoices primarily relate to the Utility's pro forma projects. With regard to the capacity study, staff believes the documentation was adequate and supported the $3,600 annual amortization expense. As such, staff believes that the $3,600 for capacity study should be allowed. However, staff believes that in order to remain consistent with the Commission's previous decision, the engineering services from the last rate case should be indexed to obtain the appropriate prospective level of expense. By indexing the engineering services from the last rate case, staff calculated the appropriate engineering services expense to be $6,084 ($5,872 x 1.03618438). This represents an increase of $2,484 above the supported amount of $3,600. The Utility requested $22,680 in its MFRs for engineering services in the instant rate case. As such, staff reduced engineering services by $16,596 ($22,680 - $6,084).

Contractual Services-Testing

The Utility increased contractual services-testing by $668, which the audit report identified as the amortized amount for the lead, copper, and organic testing required every three years. Because no invoices were provided as support for the calculation, audit staff decreased the Utility's adjusted balance for contractual services-testing by $668. WMSI submitted invoices totaling $1,705 in support as part of its audit response. Staff calculated the amortized amount for this amount to be $568 ($1,705/3). As such, contractual services-testing should be reduced by $100 ($668 - $568).

Contractual Services-Other

The Utility increased contractual services-other by $526 for the annual report preparation cost. Based on the actual invoices, the audit report concluded that the account should be increased by $1,063 for a total increase of $1,589. However, audit staff decreased the account by an additional $1,794 for expenses with insufficient support. The net reduction made by audit staff was $731 ($1,063 - $1,794). In its response, WMSI provided supporting documentation for $1,779 in expense. That leaves $15 of expenses with insufficient support. As such, staff believes the Utility's adjusted balance for contractual services-other should be increased by $1,048 ($1,063 - $15).

Transportation Expense

The Utility increased transportation expense by $3,177, for mileage reimbursement for Gene Brown and Sandy Chase. Audit staff removed this amount because no mileage logs or expense reports were provided to support these numbers as required by Order No. PSC-11-0010-SC-WU. An additional $5,739 of expenses was recorded in this account for vehicle repairs, maintenance, and gasoline purchases. This amount was removed by audit staff since it was not possible to discern the amount applicable to utility business from the support provided for these amounts. Audit staff also removed an additional $244 of expenses because of insufficient support provided. The total decrease to transportation expense in the audit report was $9,160 ($3,177 + $5,739 + $244).

The Utility argued in its audit response that prior to the issuance of Order No. 11-0010-SC-WU in the last rate case, there was no order or requirement for Gene Brown or Sandra Chase to maintain individual travel logs for the company vehicles. Staff disagrees, noting that in its 1994 rate case, the Utility was effectively put on notice that travel records would be required in future proceedings. The Commission stated, " . . . these employees shall maintain travel records prospectively so that we may adequately consider the level of such expenses in future proceedings."[43] Accordingly, staff agrees with the removal of $3,177 for mileage reimbursement.

WMSI did not challenge the removal of the $5,739 in vehicle maintenance expense. The Utility also provided support for approximately $171 that had been removed for insufficient support, leaving $73 ($244 - $171) as unsupported. As such, staff recommends that the appropriate decrease to transportation expense is $8,989 ($3,177 + $5,739 + $73).

Insurance-Vehicle Expense

The Utility decreased insurance-vehicle expense by $3,351, which represents the amortized insurance expense for two vehicles that were removed from plant. The remaining balance of $7,980 in this account is the expense for the remaining three vehicles owned or leased by the Utility. However, audit staff calculated $5,600 of actual insurance expense for these vehicles. Audit staff decreased the Utility's adjusted balance for insurance-vehicle by $2,380 ($7,980 - $5,600). The Utility did not address this particular adjustment in its audit response.

Miscellaneous Expense

Audit staff decreased miscellaneous expense by $12,070 ($8,405 + $3,665), reclassifying $8,405 to plant for a split case pump and removing $3,665 of additional expenses. WMSI made no mention of the split case pump reclassification in its audit response and focused solely on the 47 items that were disallowed for insufficient support or non-regulated expense. The Utility agreed with audit staff's removal of approximately $821 worth of audit adjustments, which were included in Issue 2. Of the remaining $2,844 ($3,665 - $821) of disallowed expenses, staff believes that approximately $770 should be allowed because the Utility provided adequate support or because it is Commission practice to accept such expenses. As such, staff believes that the appropriate additional expense addressed in this finding should be $2,074 ($2,844 - $770). Staff recommends a reduction of $10,479 ($8,405 + $2,074) for miscellaneous expense.

[43] See Order No. PSC-94-1383-FOF-WU, p. 44.

Summary

In summary, staff believes that WMSI's test year O&M expenses should be reduced by $70,982. In addition, plant should be increased by $6,465. Further, accumulated depreciation and depreciation expense should be increased by $148 and $323, respectively.

Issue 13: Should any adjustments be made to the Utility's contractual services – accounting expense?

Recommendation: Yes, contractual services – accounting expense should be reduced by $5,883. (T. Brown)

Staff Analysis: The Utility recorded contractual services - accounting expense of $9,550 in the current test year. The adjusted test year amount represents an increase of $5,883 ($9,550 - $3,667) over the Commission-approved expense from WMSI's last rate case. In its prior rate case decision, the Commission reduced the level of contractual services - accounting expense by $14,333, finding that the five-year average of $3,667 was an appropriate level of accounting services expense for the Utility. The Commission determined the following:

> On a prospective basis, we find that Ms. Withers services will be minimal according to the accounting manual. The Utility has adequate in-house employees to maintain its accounting functions in full compliance as illustrated in its accounting manual. The $3,667 level of Accounting Services expense will allow for oversight over the implementation of the accounting manual, as well as the completion of the Federal and Florida Corporate Tax returns.[44]

The Utility did not identify any information in the instant case that had not already been considered in the previous rate case. In fact, the only explanation for the increase was provided by the Utility in MFR, Schedule B-7, where it offered the following:

> The Utility's accounting expense in 2010 was greater than the PSC approved 2009 test year. Reflects the increased accounting services required by the utility's accounting procedures and maintaining accounting records for regulatory purposes and tax reporting.[45]

Additionally, staff notes that there is only one year separating the current test year from the test year in the prior rate case.

Staff believes that given the proximity of the test years and the lack of additional new information in support of the request, the Utility has not proved that its requested increase in contractual services - accounting expense is warranted. As such, staff recommends that contractual services - accounting expense should be reduced by the Utility's requested increase, $5,883. The resulting contractual services - accounting expense is $3,667 ($9,550 - $5,883), the same as in the last rate case.

[44] See Order No. PSC-11-0010-SC-WU, p. 26.
[45] See Document No. 00247-12, WMSI MFR Vol. 1, 1/7/2012 Revision, p. 31.

Issue 14: What is the appropriate amount of rate case expense?

Recommendation: The appropriate amount of rate case expense is $124,519. This expense should be recovered over four years for an annual expense of $31,130. Therefore, annual rate case expense should be reduced by $23,870. (T. Brown)

Staff Analysis: In its MFRs, the Utility included an estimate of $220,000 for current rate case expense. Staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On May 25, 2012, the Utility submitted a revised estimated rate case expense through completion of the PAA process of $127,890.

Table 14-1

	MFR B-10 Estimated	Actual as of 5/15/12	Additional Estimated	Revised Total
Legal Fees (Locurto)	$97,500	$3,625	$0	$3,625
Legal Fees (Friedman)	0	17,870	20,445	38,315
Accounting Consultant Fees	62,975	58,803	4,440	63,243
Engineering Consultant Fees	11,000	11,000	3,500	14,500
M&R Consultants	3,000	0	0	0
Undetermined Expert Fees	37,775	0	0	0
Filing Fee	5,250	5,250	0	5,250
Notices, FedEx, Misc.	2,500	1,547	1,500	3,047
Total Rate Case Expense	$220,000	$98,095	$29,885	$127,890

Pursuant to Section 367.081(7), F.S., the Commission shall determine the reasonableness of rate case expense and shall disallow all rate case expense determined to be unreasonable. Staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on its review, staff believes several adjustments are necessary to the revised rate case expense estimate.

Legal Fees (The Locurto Law Firm, P.A.)

The first adjustment relates to the Utility's actual legal fees for The Locurto Law Firm, P.A. (Locurto). WMSI requested total legal fees of $3,625, which was comprised of only actual costs.[46] Staff's only adjustment to Locurto's fees relates to the preparation and filing of Gene Brown's testimony and exhibits. Staff believes that because Mr. Brown's testimony and exhibits were withdrawn on June 14, 2012, the costs associated with the preparation, review, and revision of the testimony should be removed from rate case expense. Based on an invoice dated

[46] A notice of substitution of counsel was received by the Commission on January 12, 2012.

December 15, 2011, staff believes that approximately 3.16 hours should be removed. Approximately .66 hours (1/3 x 2 hours) relate to a 2 hour meeting held on October 12, 2011, with Gene Brown, Les Thomas, and Jeanne Allen. The other 2.5 hours relate to a November 6, 2011, meeting with Gene Brown to review testimony and address revisions. Accordingly, staff recommends that Locurto legal fees be reduced by $792 (3.16 hours x $250).

Legal Fees (Sundstrom, Friedman & Fumero, LLP)

The second adjustment relates to the Utility's estimated legal fees to complete the rate case. WMSI requested total legal fees for Sundstrom, Friedman & Fumero, LLP (Friedman) of $38,315, which was comprised of $17,870[47] in actual costs and $20,445 in estimated fees to complete the rate case. After reviewing the supporting documentation, the only adjustment staff made was for the removal of one hour in order to "review and respond to Audit due 7/31/12." Staff notes that the audit report in this docket was filed on March 12, 2012. WMSI filed its audit response on April 4, 2012. No additional audit has been requested. Accordingly, staff recommends that Friedman legal fees be reduced by $340 (1 hour x $340).

Accounting Consultant Fees

The third adjustment relates to the Utility's estimated accounting consultant fees to complete the rate case. WMSI requested total accounting fees of $63,243, which was comprised of $58,803 in actual costs and $4,400 in estimated fees to complete the rate case. Law, Redd, Crona & Munroe, P.A. (LRCM) estimate that a total of 24 hours are needed to complete the case. They estimate 6 hours to "provide assistance to client in connection with responses to PSC staff's and other data requests, including updates to rate case expense;" 12 hours to "review staff recommendations, testing recommended revenue requirements and rates and discussion with client," and 6 more hours to "review PAA Order, testing final approved revenue requirements and resulting final rates, discussion with client." Staff believes that the functions laid out in the last two descriptions are essentially the same, yet LRCM contends that one will take twice as long. Both entries acknowledge reviewing a recommendation or order, testing revenue requirements and rates, and discussing them with the Utility. As such, they should require the same amount of time to complete. Staff believes that 18 hours is a reasonable amount of time to complete the remaining duties, review staff's recommendation, review the PAA Order, test revenue requirements, and brief WMSI. Accordingly, staff recommends that accounting consultant fees be reduced by 6 hours, or $1,110 (6 hours x $185).

Engineering Consultant Fees

The fourth adjustment relates to the Utility's actual engineering consulting fees and its estimated engineering consultant fees to complete the rate case. WMSI requested total engineering fees of $14,500, which was comprised of $11,000 in actual costs and $3,500 in estimated fees to complete the rate case.

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[47] This amount is approximately $168.50 higher than what was included in the attorney calculated total. The amount provided by the attorney for actual unbilled from 5/1/12 through 5/15/12 was $341.50. Supporting documents reflect an actual unbilled balance of $510.00. The $510.00 amount was included in the "Utility's Actual as of 5/15/2012" column for Legal Fees (Friedman).

The only support provided for 80 of the 88 hours of actual engineering charges was a description on the engineer's summary of actual charges that stated "preparation of engineering support documentation for the PSC application." This description was entered 10 separate times (days) on the billing summary. The remaining 8 hours were described as "preparation of engineering report for PSC site visit." Staff believes that some of the "support documentation" for the PSC application may have already been available as a result of the Utility's 2010 rate case. Absent additional detail related to support documentation preparation, staff believes that a reduction in hours is necessary to account for the lack of detail provided in conjunction with the 80 hours related to the consultant's document preparation. Accordingly, staff believes that 6 hours (0.6 hours x 10 days) should be removed from the consultant's actual hours.

In addition, 17 hours of the estimated 28 hours to complete are allocated to preparing for the plant inspection or attending the plant inspection. These 17 hours are in addition to the 8 actual hours already spent on the preparation of an engineering report for the Commission's site visit. Given the lack of detail contained in the estimate to complete, staff questions the amount of preparation actually required for a site visit when the consultant has done engineering work for the Utility since March 1994.[48] The engineer's familiarity with the Utility leads staff to believe that 17 hours of estimated time devoted to preparation for and attendance at the Commission's plant inspection is excessive, unreasonable, and unsupported. Consequently, staff believes that the estimated hours related to the plant inspection should be reduced by one-half, or 8.5 hours (17 hours/2). Accordingly, staff recommends that engineering consultant fees be reduced by 14.5 hours, or $1,812 (14.5 hours x $125).

Customer Notices and Postage

The fifth adjustment relates to the Utility's expenses for customer notices and postage. The Utility estimated charges of $2,500 for these expenses. As of May, 15, 2012, the Utility reported actual expenses of $1,547 for customer notices and postage with an additional $1,500 still remaining. In several recent rate cases, the Commission has allowed expenses of $0.05 per envelope, $0.34 for postage, and $0.10 per copy.[49] Staff recommends using the same costs for envelopes and copies, but recommends using $0.35 to reflect current commercial letter postage rates.

WMSI is responsible for sending four notices: the interim notice, the initial notice, customer meeting notice, and notice of the final rate increase. The initial notice and customer meeting notice were combined in this docket. As such, staff estimated the postage cost for the notices to be approximately $1,911 (1,820 customers x $0.35 pre-sorted rate x 3 notices). Staff estimates envelope costs to be $273 (1,820 customers x $0.05 per envelope x 3 notices) and

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[48] See Document No. 08222-11, Testimony & Exhibits of Les Thomas, p. 3.

[49] See Order Nos. PSC-12-0206-PAA-WS, issued April 17, 2012, in Docket No. 110264-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.; PSC-11-0587-PAA-SU, issued December 21, 2011, in Docket No. 110153-SU, In re: Application for increase in water and wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge; and PSC-11-0514-PAA-WS, issued November 3, 2011, in Docket No. 100426-WS, In re: Application for increase in water and wastewater rates in Lake County by Lake Utility Services, Inc.

copying costs to be $1,456 (1,820 customers x $0.10 per copy x 8 pages).[50] Costs using these amounts total $3,640 ($1,911 + $273 + $1,456). Staff believes that WMSI has underestimated the costs associated with customer notices and postage in this docket. Accordingly, staff recommends rate case expense be increased by $593 ($3,640 - $3,047).

Conclusion

It is the Utility's burden to justify its requested costs.[51] Further, the Commission has broad discretion with respect to the allowance of rate case expense. It would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings.[52] In summary, staff recommends that WMSI's revised rate case expense be decreased by $3,461. The appropriate total rate case expense is $124,519. A breakdown of rate case expense is as follows:

Table 14-2

Description	MFR Estimated	Utility Revised Actual & Estimated	Staff Adjustments	Total
Legal Fees (Locurto)	$97,500	$3,625	($792)	$2,833
Legal Fees (Friedman)	0	38,315	(340)	37,975
Accounting Consultant Fees	62,975	63,243	(1,110)	62,133
Engineering Consultant Fees	11,000	14,500	(1,812)	12,688
M&R Consultants	3,000	0	0	0
Undetermined Expert Fees	37,775	0	0	0
Filing Fee	5,250	5,250	0	5,250
Notices, FedEx, Misc.	2,500	3,047	593	3,640
Total Rate Case Expense	$220,000	$127,980	($3,461)	$124,519
Annual Amortization	$55,000	$31,995	($865)	$31,130

In its MFRs, WMSI requested total rate case expense of $220,000, which amortized over four years is $55,000. Based on the adjustments recommended above, total rate case expense should be decreased by $95,481 ($220,000 - $124,519), or $23,870 ($55,000 - $31,130) per year.

The recommended total rate case expense should be amortized over four years, pursuant to Section 367.0816, F.S. Based on the data provided by WMSI and the recommended adjustments discussed above, staff recommends the appropriate amount of rate case expense is $124,519. This expense should be recovered over four years for an annual expense of $31,130.

[50] Staff anticipates that both the interim notice and final notice would be one page each while the combined initial and customer meeting notice would be four pages.
[51] See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982)
[52] See Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), rev. den., 529 So. 2d 694 (Fla. 1988)

Issue 15: Have the Utility's cash advances to WMSI's President and associated companies in the amount of $1.2 million, represented by Account 123, affected the Utility's ability to meet its financial and operating responsibilities? If so, what action, if any, should the Commission take?

Recommendation: Yes. The Utility's cash advances to WMSI's President and associated companies in the amount of $1.2 million have impaired the Utility's ability to meet its financial and operating responsibilities. The Commission should accept the Utility's proposal to escrow, on a monthly basis, the amount necessary to pay its annual debt service as described in the staff analysis. In conjunction with this payment arrangement, staff also recommends that WMSI be required to file an affidavit with the Commission signed by a representative of the Utility attesting that the payment has been made within 5 working days of each payment. Finally, staff recommends the Utility President's salary be reduced for managerial imprudence. The amount of the salary reduction should be $33,688 per year. As part of this adjustment, pensions and benefits expense should be reduced by $8,176 and payroll taxes should be reduced by $2,577. The total adjustment is $44,441 ($33,688 + $8,176 + $2,577). (Maurey, Cicchetti, Fletcher)

Staff Analysis: The Utility's last rate case, Docket No. 100104-WU, included Issue 50A: "Is the Utility's level of investment in associated companies appropriate? If not, what action should the Commission take?" Regarding Issue 50A, Order No. PSC-11-0010-SC-WU concluded:

> Based on the record in this proceeding, it cannot be determined if the level of investment in associated companies is appropriate. However, the amounts in question are not included in rate base and are not considered in the determination of appropriate rates. That said, based on the circumstances in this case, our staff shall initiate a cash flow audit of the Utility as soon as possible, and, if it is determined that the activity in the account has impaired the Utility's ability to meet its financial and operating responsibilities, our staff shall recommend an appropriate adjustment for imprudence.[53]

Staff initiated a cash flow audit which was released July 29, 2011. Regarding Account 123, the staff cash flow audit concluded:

> The net receivable of $1,175,075 from Gene Brown and associated companies, as of December 31, 2010, represents funds that have been moved out of the Utility for either Gene Brown's personal use or one of the associated companies.[54]

According to the Utility's 2011 annual report, as of December 31, 2011, the amount in Account 123 was $1,215,075, an increase of $40,000 from December 31, 2010.

Based on the staff cash flow audit and the Utility's financial statements, it is clear that, on net, as of December 31, 2011, approximately $1.2 million in cash has been taken out of the Utility for non-utility purposes since 2003. In Docket No. 100104-WU, the Utility argued that all of the funds that flowed through this account were used to pay debt service on loans incurred

[53] See Order No. PSC-11-0010-SC-WU, p. 56.
[54] See Document No. 05312-11, Auditor's Report, WMSI Cash Flow Audit in Docket No. 100104-WU, Audit Control No. 11-007-1-2, dated July 29, 2011, p. 11.

by associated company Brown Management Group and WMSI's President personally to obtain financing to keep the Utility in operation.[55] However, there is no evidence that funds have been provided to the Utility in an amount greater than the amount that has been taken out of the Utility. While cash has moved in and out of Account 123 over time, as the cash flow audit demonstrates, approximately $1.2 million more in cash has flowed out of the Utility than was invested in the Utility through this account since 2003 when the balance in Account 123 was last at zero.

WMSI's approved rates include funds for debt service costs.[56] Despite the availability of these funds through rates, multiple payments on the loan from DEP were not made by the Utility. During the period when debt service payments were missed, cash was being advanced to the President and associated companies. On December 30, 2009, the Utility entered into Amendment 3 to the loan agreement with DEP to restructure the 20-year loan because of a missed payment of $208,695 on November 15, 2009. The term of the DEP loan was increased an additional 10 years, which lowered the Utility's annual loan payments; however the incremental increase in interest expense over the term of the loan will be $928,071.[57]

By letter dated June 15, 2012, from DEP to WMSI, DEP stated that WMSI's "loan is hereby determined to be in default in accordance with Rule 62-552.430."[58] DEP is delaying enforcement action pending the Commission's decision in this docket. In order to fund the approximately $4 million in plant additions requested in this docket, which includes replacing the water storage tank that has been described by the Utility and others as on the verge of catastrophic collapse, the Utility's bank is requiring that DEP subordinate its claim on the Utility's assets. Whether financing can be arranged for the proposed plant additions is not known at this time.

The Utility's ongoing cash advances to WMSI's President and associated companies calls into question the Utility's viability as a "going concern." A firm is a going concern if it is expected to continue in operation for the foreseeable future and will be able to maintain assets and discharge liabilities in the normal course of operations. By advancing cash to WMSI's President and associated companies in lieu of making required debt service payments and needed capital improvements, staff is concerned about the viability of the Utility as a going concern. Major concerns for utilities in financial distress include safety and quality of service. Although the Utility has not had specific safety or quality of service issues, it is noted that repairs and replacements of critical infrastructure have been delayed.

[55] See Document No. 08650-10, Transcript Vol. 4, in Docket No. 100104-WU, p. 572.
[56] See Order Nos. PSC-00-2227-PAA-WU, issued November 21, 2000, in Docket Nos. 940109-WU and 000694-WU, In re: Petition for interim and permanent rate increase in Franklin County by St. George Island Utility Company, Ltd. and In re: Petition by Water Management Services, Inc. for limited proceeding to increase water rates in Franklin County, p. 13; PSC-03-1005-PAA-WU, issued September 8, 2003, in Docket No. 000694-WU, In re: Petition by Water Management Services, Inc. for limited proceeding to increase water rates in Franklin County, p. 12; and 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., p. 15.
[57] See Document No. 05312-11, Auditor's Report, WMSI Cash Flow Audit in Docket No. 100104-WU, p. 13.
[58] See Document No. 04560-12, DEP letter dated June 15, 2012, p. 3.

Given the mismanagement concerns expressed above, staff recommends that the Utility President's salary be reduced by approximately 35 percent, which results in a reduction of $33,688. Accordingly, corresponding adjustments should be made to reduce pensions and benefits expense and payroll taxes by $8,176 and $2,577, respectively, for a total adjustment of $44,441. This recommended adjustment is consistent with prior Commission decisions wherein the president's salary was reduced for managerial imprudence.[59] In the instant case, the amount of the adjustment is based on the additional interest expense on the DEP loan. As noted earlier, had funds collected through rates been used to timely pay debt service payments instead of paid out in the form of cash advances to associated companies, the incremental increase in interest expense of $928,071 would have been avoided. Staff determined the amount necessary to reduce revenue requirement to prevent this unnecessary cost from being borne by ratepayers. Such an adjustment represents approximately 35 percent of the Utility President's salary, plus the applicable adjustments to pensions and benefits expense and payroll taxes.

In a letter dated July 9, 2012, from WMSI to the Commission, the Utility expressed confidence that it can secure the required financing for the necessary improvements. To this end, WMSI indicated that it will make the following proposal to the new lender and to DEP as soon as the Utility's annual revenue requirement is established in this case. To facilitate this, WMSI will make the following proposal to the new lender and to DEP:

(1) all WMSI utility revenue will be deposited in a WMSI account established at the bank which makes the loan for the new improvements;

(2) on a set date each month, that lender will debit the account for the monthly P&I payment due that bank;

(3) on another set date during each month, the bank will transfer from WMSI's account to an escrow account established for the benefit of DEP an amount equal to 1/6 of the semi-annual loan payment due to DEP; and

(4) WMSI will maintain and operate the utility from the remaining cash flow and other resources available to WMSI.[60]

The Utility closes the letter by stating that the monthly debit and escrow arrangement set forth above will ensure that all necessary improvements are made to the Utility's system and the DEP loan will be repaid in accordance with the terms of the loan agreement.

Staff agrees with the Utility that escrowing its debt service requirements will be seen as a positive sign by the banks and DEP. Staff believes that the proposal by the Utility outlined above appears reasonable. However, to track the debt service payments, staff recommends the

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[59] See Order Nos. PSC-02-0593-FOF-WU, issued April 30, 2002, in Docket No. 010503-WU, In re: Application for increase in water rates for Seven Springs System in Pasco County by Aloha Utilities, Inc., pp. 30-31 and PSC-01-1162-PAA-WU, issued May 22, 2001, In re: Application for staff assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc. (Sunrise Water Company), p. 28.
[60] See Document No. 04560-12, WMSI letter dated July, 9, 2012, p. 2.

Commission require WMSI to file an affidavit with the Commission within 5 working days of each payment.

Conclusion

Staff recommends the Commission accept the Utility's proposal to escrow, on a monthly basis, the amount necessary to pay its annual debt service as described above. In conjunction with this payment arrangement, staff also recommends that WMSI be required to file an affidavit with the Commission signed by a representative of the Utility attesting that the payment has been made within 5 working days of each payment. Finally, staff recommends that the Utility President's salary be reduced approximately 35 percent for managerial imprudence. The amount of the salary reduction should be $33,688 per year. As part of this adjustment, pensions and benefits expense should be reduced by $8,176 and payroll taxes should be reduced by $2,577. The total adjustment is $44,441 ($33,688 + $8,176 + $2,577).

Issue 16: How should the net gain on sale of land and other assets be treated?

Recommendation: The gain on sale of land and other assets of the Utility should be amortized over five years. The annual amortization is $1,159. (T. Brown)

Staff Analysis: Over the past five years, WMSI has sold assets that have resulted in gains and losses. It is a long-standing Commission practice to amortize capital gains from the sale of specific assets over a period of five years to the benefit of the ratepayers.[61]

Based on Commission practice, staff believes the net capital gains (net of capital losses) on the sale of specific assets should be recognized and amortized over five years. Staff's calculation has not included those assets that would otherwise be fully amortized within a year of when the rates would go into effect.[62] Based on the above, staff has calculated a net gain of $5,794. Staff recommends the net gain on sale of land and other specific assets of the Utility be amortized over five years, which results in an annual amortization of $1,159.

Staff's calculation of the amortization of the gain on sale and the resulting reduction in expenses is reflected in the following table.

Table 16-1

WMSI Gain/(Loss) on Sale				
Date	Description	Net Book Value	Proceeds/ Sale Price	Gain/(Loss)
06/04/09	Easement	$0	$4,000	$4,000
07/14/09	Easement	$0	$500	$500
12/31/09	Backhoe Trailer	$4,006	$10,000	$5,994
03/10/10	2008 GMC Truck	$21,713	$22,612	$899
12/31/10	2008 Chevy Tahoe	$37,222	$35,471	($1,751)
01/01/11	2007 Chevy Tahoe	$17,741	$13,393	($4,348)
07/19/11	200 Non-functioning Meters	$0	$500	$500
Total Gain/(Loss) on Sales				$5,794
Amortized Gain/(Loss)				$1,159

[61] See Order Nos. PSC-07-0205-PAA-WS, issued March 6, 2007, in Docket No. 060258-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corp; PSC-04-0947-PAA-SU, issued September 28, 2004, in Docket No. 040733-SU, In re: Disposition of gain on sale of land held for future use in Marion County by BFF Corp; PSC-02-1159-PAA-GU, issued August 23, 2002, in Docket No. 020521-GU, In re: Petition for approval to amortize gain on sale of property over five-year period by Florida Public Utilities Company; and PSC-98-0451-FOF-EI, issued March 30, 1998, in Docket No. 970537-EI, In re: 1997 depreciation study by Florida Public Utilities Company, Marianna Division.

[62] The following transactions fall into this category and were not included in staff's calculation: (1) disposition of a 2005 dump truck on 2/16/2007; (2) disposition of a 2001 truck on 8/14/2007; and, (3) the disposition of Commonwealth Office Park lots 5 & 6 on 11/1/2007.

REVENUE REQUIREMENT

Issue 17: What is the appropriate revenue requirement?

Recommendation: The following revenue requirement should be approved:

	Test Year Revenues	$ Increase	Revenue Requirement	% Increase
Phase I	$1,305,587	$132,908	$1,438,495	10.18%
Phase II	$1,437,866	$346,491	$1,784,357	24.10%

(T. Brown)

Staff Analysis: In its filing, WMSI requested revenue requirements to generate annual revenue of $2,019,622. This requested revenue requirement represents a revenue increase of $714,035, or approximately 54.69 percent.

Consistent with staff's recommendations concerning the underlying rate base, cost of capital, and operating income issues, staff recommends approval of rates in Phase I designed to generate a revenue requirement of $1,437,866. The recommended revenue requirement exceeds staff's adjusted test year revenue by $132,279, or 10.13 percent. Staff recommends approval of rates in Phase II designed to generate a revenue requirement of $1,784,357. The recommended revenue requirement exceeds staff's adjusted test year revenue by $346,491, or 24.10 percent.

These recommended pre-repression revenue requirements will allow the Utility the opportunity to recover its expenses and earn a 4.44 percent return on its investment in rate base in Phase I, and 5.51 percent in Phase II. The computation of the revenue requirements for Phase I and II are shown on Schedules No. 3-A and 7-A , respectively.

RATES

Issue 18: What are the appropriate billing determinants for the historical test year ending December 31, 2010?

Recommendation: The appropriate test year billing determinants before repression are those listed in the MFR Schedules E-2 and E-14. (King, Stallcup)

Staff Analysis: Staff reviewed the aggregate billing determinants contained in MFR Schedule E-2 and the detailed billing determinants contained in MFR Schedule E-14. In its review, staff verified that the aggregate billing determinants in MFR Schedule E-2 represent the sum of the detailed billing determinants contained in MFR Schedule E-14. Therefore, staff recommends that the billing determinants contained in MFR Schedules E-2 and E-14 are appropriate for rate-setting purposes.

Issue 19: What are the appropriate rate structures for the Utility's water systems?

Recommendation:

Phase I: The appropriate rate structure for the Phase I residential class increase is a continuation of the existing three-tier inclining block rate structure and base facility charge cost recovery percentage of 50 percent. Because staff is recommending a relatively small revenue requirement increase of 10.18 percent, staff recommends an across the board increase in the base facility charge (BFC) and gallonage charges. The appropriate rate structure for all non-residential classes is a continuation of the BFC/uniform gallonage charge rate structure.

Phase II: The appropriate rate structure for the Phase II residential class increase is a two-tier inclining block rate structure with the base facility charge cost recovery percentage of 50 percent. The usage blocks should be set for monthly usage levels of 0 – 6 kgals and for usage in excess of 6.001 kgals. The appropriate rate structure for all non-residential classes is a continuation of the BFC/uniform gallonage charge rate structure. However, prior to the implementation of the Phase II rate structure, the Utility should review and report to the Commission the number of equivalent residential connections (ERC) and kgals sold in the 12 months prior to its request to implement the Phase II rates. If during that 12-month period, the ERCs or kgals have increased or decreased by 5 percent or more, the Utility should file updated MFR E-14 Schedules so that the recommended Phase II rate structure may be evaluated, and if necessary, amended. (King, Stallcup)

Staff Analysis: Staff performed a detailed analysis of the Utility's billing data in order to evaluate various BFC cost recovery percentages, as well as usage blocks and usage block rate factors for the residential rate classes for Phase I and Phase II. The goals of the evaluations were 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 Memorandum of Understanding (MOU) with the WMDs.

The Utility's current residential rate structure is a three-tier inclining block rate structure with usage blocks from 0 to 8 kgals, 8.001 to 15 kgals, and all kgals in excess of 15 kgals per month. The gallonage rates for these usage blocks are $3.30, $4.12, and $4.96 per kgal, respectively. The BFC for a 5/8" x 3/4" meter is $27.79 based upon a BFC allocation percentage of 50 percent. In its filing, WMSI also proposed a continuation of a three-tiered inclining block rate structure with the BFC allocation remaining at 50 percent.

In 1991, the Commission entered into a MOU with the five WMDs. The purpose of the MOU was to commemorate that it is in the public interest to engage in a joint goal to ensure the efficient and conservative utilization of water resources in Florida, and that a joint cooperative effort is necessary to implement an effective, state-wide water conservation policy. In keeping with this MOU, the Commission has, whenever practicable, implemented water conserving rate structures which limit the BFC allocation to no more than 40 percent and to adopt inclining block rate structures that provide an economic incentive to consumers to reduce excessive consumption. Over the last several years, it has been Commission practice to implement these rate design parameters whenever applicable.[63]

Phase I

The rate increases for this Utility will be accomplished in two phases. After performing its detailed analysis of the billing data to evaluate various BFC cost recovery percentages, as well as usage blocks and usage block rate factors for the residential rate classes, staff believes the Phase I rate structure should continue to follow the Utility's existing rate structure with an across the board increase to the BFC and gallonage charges because staff is recommending a relatively small revenue requirement increase of 10.18 percent.

Staff believes the Phase I proposed rate structure will have a minimal impact on customers since the increases in rates are relatively small and the usage blocks are unchanged. The recommended rate structure allows the Utility to recover its revenue requirement and equitably distributes cost recovery among its customers. In addition, staff contacted the NWFWMD, and it believes that an inclining block rate structure continues to be appropriate for WMSI.

The billing impacts are shown in Table 19-1.

[63] See Order Nos. PSC-94-1452-FOF-WU, issued November 28, 1994, in Docket No. 940475-WU, In re: Application for rate increase in Martin County by Hobe Sound Water Company; PSC-01-0327-PAA-WU, issued February 6, 2001, in Docket No. 000295-WU, In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.; PSC-00-2500-PAA-WS, issued December 26, 2000, in Docket No. 000327-WS, In re: Application for staff-assisted rate case in Putnam County by Buffalo Bluff Utilities, Inc.; and PSC-02-0593-FOF-WS, issued April 30, 2002, in Docket No. 010503-WU, In re: Application for increase in water rates for Seven Springs system in Pasco County by Aloha Utilities, Inc.

Table 19-1

Rates and Bill Impacts of Staff's Proposed Phase I Rate Structures		
Rate Structure and Consumption Level	Current Rates BFC = 50 percent	Staff Proposed Phase I Rate Structure BFC = 50 percent
BFC	$27.79	$30.63
$/Kgal		
0 - 8 kgals	$3.30	$3.64
8.001 - 15 kgals	$4.12	$4.54
15+ kgals	$4.96	$5.47
Consumption	Current Bill	($ change)
0 kgals	$27.79	$2.84
5 kgals	$44.29	$4.54
10 kgals	$62.43	$6.40
15 kgals	$83.03	$8.50
20 kgals	$107.83	$11.05
25 kgals	$132.63	$13.60
30 kgals	$157.43	$16.15
35 kgals	$182.23	$18.70
40 kgals	$207.03	$21.25

Phase II

In Phase II, staff is recommending an increase to the revenue requirement of approximately 37 percent. In order to implement this increase, staff again evaluated various BFC cost recovery percentages, as well as usage blocks and usage block rate factors for the residential rate classes to select the rate design parameters that allow for recovery of the revenue requirement, equitable distribution of cost recovery among customers, and implementation of the appropriate water conserving rate structures. As explained below, staff believes the appropriate rate structure for Phase II is a two-tier inclining block rate structure with the base facility charge cost recovery percentage of 50 percent. The usage blocks should be set for monthly usage levels of 0 – 6 kgals and for usage in excess of 6.001 kgals.

The billing determinants show that average overall consumption is approximately 6 kgals, with average residential consumption at approximately 8.5 kgals. At consumption levels in excess of 12 kgals, approximately 12 percent of the customers are using 26 percent of the water. These usage levels are significant especially given that the current rate structure for the Utility is a three-tier inclining block. Staff believes that because many of the homes on St.

George Island are not traditional owner-occupied homes, but instead are vacation rentals, economic incentives to conserve fall short since rate increases may be passed on to the renter. This scenario generally mimics how rate increases are passed on by the General Service class to their customers. As such, staff does not believe meaningful water conservation can be achieved through rate design for these large volume residential consumers. Moreover, continuation of the three-tier rate structure, even applying aggressive rate factors, would have a minimal impact on consumption but could potentially harm the Utility by reducing the gallons sold to other consumers. As noted in the last rate case, a significant number of customers had installed shallow wells for irrigation leading to a sharp decrease in gallons sold. If a three-tier structure continues, staff is concerned that further erosion in the gallons sold could occur.

Staff believes from a financial integrity point, a two-tier rate structure featuring a relatively modest increase in price of the second tier will remove the economic incentive to install shallow wells. The recommended rate structure will still achieve water conservation goals established by the NWFWMD, by having inclining block rates, while simultaneously helping insure long term financial viability for the utility. Therefore, staff recommends a two-tier inclining block rate structure with the base facility charge cost recovery percentage of 50 percent with usage blocks set for monthly usage levels of 0 – 6 kgals and for usage in excess of 6.001 kgals. However, prior to the implementation of the Phase II rate structure, the Utility should review and report to the Commission the number of ERCs and kgals sold in the 12 months prior to their request to implement the Phase II rates. If during that 12-month period, the ERCs or kgals have increased or decreased by 5 percent or more, the Utility should file updated MFR E-14 Schedules so that the recommended Phase II rate structure may be evaluated, and if necessary, amended.

In addition to the recommended rate structure described above, staff also evaluated two alternative rate structures. The first is a three-tier rate structure with rate factors of 1.0/1.0/1.25. The second is also a three-tier rate structure with rate factors of 1.0/1.0/1.5. These alternatives are more consistent with the Utility's current rate structure. Staff's recommended rate structure as well as both alternative structures and the resulting bills are shown in Table 19-2.

Table 19-2

Staff Recommended Rate Structure and Rates for Phase II and Possible Alternatives			
Two-tier inclining block; Monthly kgal usage blocks at 0-6, 6.001+; Usage block rate factors at 1, 1 ; BFC = 50 percent			
BFC		$34.33	
0-6 kgals		$6.12	
6.001 + kgals		$6.68	
Typical Monthly Bills			
6 kgals		$71.04	
10 kgals		$97.75	
15 kgals		$131.12	
20 kgals		$164.50	
25 kgals		$197.88	
30 kgals		$231.26	
35 kgals		$264.64	
40 kgals		$298.02	
Alternative 1		Alternative 2	
Three-tier inclining block Monthly kgal usage blocks at 0-6, 6.001-12, 12+ Usage block rate factors at .91/ 1/ 1.25 BFC = 50 percent		Three-tier inclining block charge Monthly kgal usage blocks at 0-6, 6.001-12, 12+ Usage block rate factors at .90/ 1/ 1.5 BFC = 50 percent	
BFC	$34.33	BFC	$34.32
0 – 6 kgals	$5.73	0 – 6 kgals	$5.38
6.001 – 12 kgals	$6.32	6.001 – 12 kgals	$6.01
12 + kgals	$7.89	12 + kgals	$9.01
Typical Monthly Bills		Typical Monthly Bills	
6 kgals	$68.70	6 kgals	$66.63
10 kgals	$93.96	10 kgals	$90.66
15 kgals	$130.27	15 kgals	$129.70
20 kgals	$169.74	20 kgals	$174.74
25 kgals	$209.21	25 kgals	$219.79
30 kgals	$248.69	30 kgals	$264.84
35 kgals	$288.16	35 kgals	$309.89
40 kgals	$327.63	40 kgals	$354.94

Issue 20: Is a repression adjustment appropriate in this case, and, if so, what is the appropriate adjustment to make for this Utility?

Recommendation:

Phase I: No, a repression adjustment is not appropriate for Phase I rates.

Phase II: Yes, based on billing determinants for the historical test year ending December 31, 2010 a repression adjustment is appropriate for Phase II. Residential consumption should be reduced by 5 percent, resulting in a consumption reduction of approximately 5.7 kgals. However, if ERCs or kgals either increase or decrease by 5 percent or more prior to the implementation of Phase II rates, as discussed previously, the repression adjustment should be evaluated and amended if necessary. (King, Stallcup)

Staff Analysis: In Phase 1, staff is recommending an across the board increase for the gallonage charges and the BFC. Staff believes that the Phase I increase will not result in a material reduction in the number of gallons sold by the Utility since the change in an average customers bill will be relatively small.[64]

The recommended increase in the revenue requirement for Phase II is approximately 37 percent. Staff believes this increase will likely have some impact on kgals consumed. Using staff's standard methodology to calculate customers' reaction to changes in price, it is believed that residential consumption would be reduced by 5.0 percent. While a larger decrease in consumption may seem reasonable given the size of the increase, staff believes, as discussed in the prior issue, that many homes on St. George Island are not fulltime owner-occupied homes but instead are vacation rental properties. As is the case with the General Service class, these homeowners may pass along increases to their customers (i.e., the vacation home renter). To reflect this relative insensitivity to price changes, staff utilized a price of elasticity of demand of -0.2 instead of -0.4 normally used to calculate repression adjustments. This lower price elasticity reflects staff's belief that many of the Utility's customers will simply pass the increase in cost to their renters instead of reducing their consumption.

Staff believes a repression adjustment is not appropriate for Phase I, but is appropriate for Phase II. As discussed previously, if ERCs or kgals either increase or decrease by 5 percent or more prior to the implementation of Phase II rates, the repression adjustment should be evaluated and amended if necessary.

[64] The average residential consumption is 8.509 kgals which currently results in a bill of $58.31. If staff's Phase I proposed rate structure is implemented, the bill will increase to $64.28.

Issue 21: What are the appropriate water rates for the Utility?

Recommendation:

Phase I: The appropriate Phase I monthly rates are shown on Schedule No. 4. Excluding miscellaneous service revenues, the Phase I recommended water rates are designed to produce total Utility revenues of $1,432,994. 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 of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given within 10 days of the date of the notice.

Phase II: The appropriate Phase II monthly rates are shown on Schedule No. 8. Excluding miscellaneous service revenues, the Phase II recommended water rates are designed to produce total Utility revenues of $1,778,856. 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 of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given no less than 10 days after the date of the notice. Prior to the implementation of the Phase II rate structure, the Utility should review and report to the Commission the number of ERCs and kgals sold in the 12 months prior to their request to implement the Phase II rates. If either ERCs or kgals increase or decrease by 5 percent or more prior to the implementation of Phase II rates, the repression adjustment should be re-evaluated and amended if necessary. (King, Stallcup)

Staff Analysis:

Phase I

Excluding miscellaneous service revenues, the recommended water rates for Phase I are designed to produce total Utility revenues of $1,432,994 and are shown on Schedule No. 4. The recommended rates were developed using the billing determinants provided by the Utility in its MFR Schedules E-2 and E-14, a BFC cost recovery percentage of 50 percent, and without a repression adjustment.

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 of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given within 10 days of the date of the notice.

Phase II

Excluding miscellaneous service revenues, the recommended water rates for Phase II are designed to produce total Utility revenues of $1,778,856 and are shown on Schedule No. 8. These rates were developed using the billing determinants provided by the Utility in its MFR Schedules E-2 and E-14, a BFC cost recovery percentage of 50 percent, and a repression adjustment as discussed in Issue 20.

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 of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given within 10 days of the date of the notice.

Prior to the implementation of the Phase II rate structure, the Utility should review and report to the Commission the number of ERCs and kgals sold in the 12 months prior to their request to implement the Phase II rates. If either ERCs or kgals increase or decrease by 5 percent or more prior to the implementation of Phase II rates, the repression adjustment should be re-evaluated and amended if necessary.

Issue 22: Should the Utility's request for approval of a $5.00 late fee be granted?

Recommendation: Yes. The Utility's requested late fee of $5.00 should be approved. The late fee should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given within ten days of the date of the notice. This notice may be combined with the notices required in other issues. (King)

Staff Analysis: Section 367.091, F.S., authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or service availability charges. WMSI has requested a $5.00 late fee. The Utility's request for a late fee was accompanied by its reason for requesting the fee, as well as the cost justification required by Section 367.091, F.S. WMSI's cost analysis breakdown for its proposed late fee is shown below:

Table 22-1

Late Fee Cost Analysis	
Item:	Cost:
Office Clerk Labor ($22.50/hr. x 0.20 hours)	$4.50
Postage/Printing Envelope	0.50
Total	$5.00

This cost is comprised of one-fifth of an hour of employee time at $22.50 per hour to research and verify that the payment is late, process the bill and assess the late payment fee, or $4.50 ($22.50/5). In addition, the $5.00 fee also recognizes the cost of an envelope, printer and printing supplies, and postage to send the notice to the customer, totaling approximately $0.50.

The late payment fee is designed to encourage customers to pay their bills on time to ensure that the cost associated with late payment is not passed onto customers who do pay on time. The Utility's justification for the late fee is to place the burden of these costs on the cost causer rather than the general body of ratepayers. Staff believes the estimated cost provided by the Utility is reasonable.

Based on the above, staff recommends that WMSI's proposed late fee of $5.00 should be approved. This fee should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given within ten days after the date of the notice. This notice may be combined with the notices required in other issues.

Issue 23: Should the Utility's request for approval of a Non-Sufficient Funds fee be granted?

Recommendation: Yes. The Utility's requested Non-Sufficient Funds (NSF) fee should be approved. The NSF fee should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given within ten days of the date of the notice. This notice may be combined with the notice required in other issues. (King)

Staff Analysis: Section 367.091, F.S., requires that rates, charges, and customer service policies be approved by the Commission. The Commission has authority to establish, increase, or change a rate or charge. WMSI has requested an NSF fee in accordance with the Section 832.08(5), F.S.

Staff believes that WMSI should be authorized to collect an NSF fee. Staff believes the NSF fee should be established consistent with Section 68.065, F.S., which allows for the assessment of charges for the collection of worthless checks, drafts, or orders of payment. As currently set forth in Sections 832.08(5), the following fees may be assessed:

1) $25, if the face value does not exceed $50,

2) $30, if the face value exceeds $50 but does not exceed $300,

3) $40, if the face value exceeds $300,

4) or five percent of the face amount of the check, whichever is greater.

Staff recommends that WMSI's tariff for an NSF fee be revised to reflect the charges set by Sections 68.065 and 832.08(5), F.S. Approval of an NSF fee is consistent with the Commission's prior decisions.[65] Furthermore, as discussed in prior Commission orders, an NSF fee places the cost on the cost-causer, rather than requiring that the costs associated with the return of the NSF checks be spread across the general body of ratepayers.

As such, staff recommends that WMSI's proposed NSF fee be approved. The fee should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the fees should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given within ten days of the date of the notice. This notice may be combined with the notice required in other issues.

[65] See Order Nos. PSC-10-0364-TRF-WS, issued June 7, 2010, in Docket No. 100170-WS, In re: Application for authority to collect non-sufficient funds charges, pursuant to Sections 68.065 and 832.08(5), F.S., by Pluris Wedgefield Inc.; and 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.

Issue 24: Should the Utility be authorized to revise certain service availability charges, and, if so, what are the appropriate charges?

Recommendation: Yes. WMSI's service availability charges should be revised. Staff's recommended charges are reasonable and consistent with the guidelines set forth in Rule 25-30.580, F.A.C., and should be approved. The approved charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475, F.A.C. The appropriate revised service availability charges are reflected below.

Plant Capacity Charge:	
Residential	$3,387
All others, per Gallon/day	$9.68
Main Extension Charge:	
Residential	$1,523
All others, per Gallon/day	$4.35
Meter Installation:	
Residential	$400

(T. Brown)

Staff Analysis: According to its current tariff, the Utility has authorized service availability charges of $845, $525, and $250 for a plant capacity charge, a main extension charge, and a meter installation charge, respectively. The total for these current charges is $1,620. In its filing, WMSI requested revised service availability charges of $10,004.47. This requested charge was based on the Utility's proposed pro forma plant additions.

The Commission last considered the level of Service Availability Charges (SACs) in WMSI's 2010 rate case, but chose not to modify the existing charges.[66] WMSI's existing SACs were last set by the Commission in 1994.[67] Since the SACs were last set, the Utility contends that plant has increased from approximately $2.5 million to approximately $9.0 million in 2010, and will increase to approximately $12.8 million with the pro forma additions proposed in the current rate case.

Rule 25-30.580, F.A.C., establishes guidelines for designing service availability policy. When designing the appropriate level of service availability charges, the Commission uses Rule 25-30.580, F.A.C., as a guideline. Pursuant to the rule, the maximum amount of CIAC, net of amortization, should not exceed 75 percent of the total original cost, net of accumulated depreciation, of the Utility's facilities and plant when the facilities and plant are at their designed capacity. The minimum amount of CIAC should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution and sewage collection systems.

WMSI's ratio of net CIAC to net plant indicates that with present SAC charges and no additions to plant, the ratio is currently only 35.0 percent. After the proposed additions to plant, that ratio will drop to 24.9 percent at design capacity. The current charge of $1,620, is composed

[66] See Order No. PSC-11-0010-SC-WU, pp. 49-50.
[67] See Order No. PSC-94-1383-FOF-WU, pp. 65-66.

of a plant capacity charge of $845, a main extension charge of $525, and a meter installation fee of $250. WMSI proposes that the charge be increased to $10,004.47, a 517.56 percent increase. Under WMSI's proposed SACs, the plant capacity charge increases to $9,079.47, the meter installation fee increases to $400, and the main extension charge remains at its current level. In addition, a plant capacity charge for "all others-per gallon/day" increases from $2.41 to $25.94. A similar "all others-per gallon/day" charge for the main extension charge remains the same under the Utility's proposal. The proposed plant capacity charge represents an increase of 974.49 percent over the existing charge. This results in the net CIAC to net plant ratio reaching 75 percent at design capacity. The Utility believes that the increased level of CIAC will have a mitigating effect on monthly service rates to existing and future customers.

Because the Commission uses the rule as a "guideline," staff notes that there is no mandatory requirement to set the level at 75 percent. WMSI's requested SACs are based in large part on pro forma plant additions that may, or may not, come to fruition and at a time when customer growth is stagnant. Given those conditions, staff believes that a 517.56 percent increase in the total service availability charges per ERC is excessive and highly speculative, with the potential to stunt future growth.

In order to determine what charges might be appropriate, staff calculated the average cost per ERC for both the treatment plant and the transmission and distribution plant as this Commission has done previously.[68] Staff believes that using the average costs per ERC will result in reasonable charges. Staff calculated the total treatment plant cost using the adjusted 13-month average of $7,196,409. Staff then divided this amount by 2,125 which represents the total capacity in ERCs of the treatment plant. This calculation results in an average plant capacity cost per ERC of approximately $3,387. The corresponding plant capacity charge for "all others-per gallon/day" would be $9.68 ($3,387/350 gpd).

Staff then took the total transmission and distribution plant of $3,237,063 (adjusted 13-month average). Staff divided this amount by 2,125 which represents the total capacity in ERCs. Staff's calculation generated an average cost for the transmission and distribution plant of approximately $1,523, which represents the average main extension charge. The corresponding main extension charge for "all others-per gallon/day" would be $4.35 ($1,523/350 gpd).

In addition, staff believes that the $400 meter installation charge proposed by WMSI is reasonable, cost based, and should be approved. This represents a $150 increase over the existing charge.

Based on the discussion above, staff believes that the appropriate combined service availability charge per ERC should be $5,310, a $3,690 increase. The increase is the result of increases to the plant capacity charge of $2,542, the main extension charge of $998, and the meter installation fee of $150.

[68] See Order No. PSC-00-1528-PAA-WU, issued August 23, 2000, in Docket No. 991437-WU, In re: Application for increase in water rates in Orange County by Wedgefield Utilities, Inc.

Conclusion

WMSI's service availability charges should be revised. Staff's recommended charges are reasonable and consistent with the guidelines set forth in Rule 25-30.580, F.A.C., and should be approved. The approved charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475, F.A.C. The appropriate revised service availability charges for WMSI are reflected below.

Table 24-1

Service Availability Charges			
Type of Charge	Present Charge	Proposed Charge	Staff Recommended
Plant Capacity Charge-Res. per ERC	$845	$9,079.47	$3,387
Plant Capacity Charge-All others per Gallon/Day	$2.41	$25.94	$9.68
Main Extension Charge-Res. per ERC	$525	$525	$1,523
Main Extension Charge- All others per Gallon/Day	$1.50	$1.50	$4.35
Flow Meter Installation/Res	$250	$400	$400

Issue 25: In determining whether any portion of the interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

Recommendation: The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense and other items not in effect during the interim period. This revised water revenue requirement for the interim collection period should be compared to the amount of interim water revenue requirement granted. This results in no interim refund. As such, the escrow account should be released. (T. Brown)

Staff Analysis: By Order No. PSC-12-0030-PCO-WU, the Commission authorized the collection of interim water rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim water revenue requirement was $1,417,664, which represented an increase in annual water revenue increase of $115,803 or approximately 8.90 percent. This interim increase was effective for service rendered after March 1, 2012, and was protected by funds held in escrow.

According to Section 367.082, F.S., any refund should be calculated to reduce the rate of return of the Utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates that are in effect should be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates is the 13-month average period ended December 31, 2010. WMSI's approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the floor of the last authorized range of return on equity.

To establish the proper refund amount, staff has calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period.

Using the principles discussed above, the $1,417,664 revenue requirement granted in the Interim Order for the test year is less than the revised revenue requirement for the interim collection period of $1,423,165. This results in no interim refund. As such, the escrow account should be released.

Issue 26: 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, F.S.?

Recommendation: The rates should be reduced for water related annual rate case expense, grossed-up for regulatory assessment fees (RAFs), which is being amortized over a four-year period. If the recommended pro forma projects are completed after the four-year amortization period, the decreased revenue of $35,492 associated with rate case expense will result in the rate reduction recommended by staff on Schedule No. 4. If the recommended pro forma projects are completed within the four-year amortization period, the decreased revenue of $36,190 associated with rate case expense will result in the rate reduction recommended by staff on Schedule No. 8. 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. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. WMSI should provide proof of the date notice was given within 10 days of the date of the notice. 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 for the reduction in the rates due to the amortized rate case expense. (T. Brown)

Staff Analysis: Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return included in working capital, and the gross-up for RAFs. If the recommended pro forma projects are completed after the four-year amortization period, the decreased revenue of $35,492 associated with rate case expense will result in the rate reduction recommended by staff on Schedule No. 4. If the recommended pro forma projects are completed within the four-year amortization period, the decreased revenue of $36,190 associated with rate case expense will result in the rate reduction recommended by staff on Schedule No. 8.

The Utility should be required to 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 of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. WMSI should provide proof of the date notice was given within 10 days of the date of the notice.

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 for the reduction in the rates due to the amortized rate case expense.

Issue 27: Should the Utility be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable NARUC USOA primary accounts associated with the Commission approved adjustments?

Recommendation: Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, WMSI should provide proof, within 90 days of the final order in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made. (T. Brown)

Staff Analysis: To ensure that the Utility adjusts its books in accordance with the Commission's decision, WMSI should provide proof, within 90 days of the final order in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made.

Issue 28: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Also, the docket should remain open to allow for a review of the ERCs and gpd usage, and for staff to verify that the pro forma items have been completed and the Phase II rates properly implemented. Once these actions are complete, this docket should be closed administratively. (Jaeger, T. Brown)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Also, the docket should remain open to allow for a review of the ERCs and gpd usage, and for staff to verify that the pro forma items have been completed and the Phase II rates properly implemented. Once these actions are complete, this docket should be closed administratively.

Water Management Services, Inc. - Phase I | **Schedule No. 1-A**
Schedule of Water Rate Base | **Docket No. 110200-WU**
Test Year Ended 12/31/10

	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	$3,353,442	$12,193,911	($3,398,846)	$8,795,065
2	Land and Land Rights	87,856	501,238	589,094	(501,500)	87,594
3	Non-used and Useful Components	0	0	0	(18,023)	(18,023)
4	Accumulated Depreciation	(3,345,867)	182,184	(3,163,683)	(57,970)	(3,221,653)
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	Net Debit Deferred Income Taxes	0	0	0	0	0
8	Advances for Construction	(12,019)	712	(11,307)	0	(11,307)
9	Working Capital Allowance	39,885	0	39,885	(39,885)	0
10	Other - CWIP	48,946	(48,946)	0	0	0
11	Rate Base	$3,757,174	$3,988,630	$7,745,804	($4,016,223)	$3,729,851

	Water Management Services, Inc. - Phase I Adjustments to Rate Base Test Year Ended 12/31/10	Schedule No. 1-B Docket No. 110200-WU
	Explanation	**Water**
	Plant In Service	
1	Prior Order Adjustment from AF 1. (Issue 3)	$3,426
2	Reflect appropriate test year plant. (Issue 4)	9,320
3	Reflect appropriate pro forma plant. (Issue 5)	(3,418,057)
4	Reclassifying items expensed to plant. (Issue 12)	6,465
	Total	($3,398,846)
	Land	
	Reflect appropriate pro forma land. (Issue 5)	($501,500)
	Non-used and Useful	
	To reflect net non-used and useful adjustment. (Issue 6)	($18,023)
	Accumulated Depreciation	
1	Prior Order Adjustment from AF 1. (Issue 3)	($1,420)
2	Reflect appropriate test year plant. (Issue 4)	(298)
3	Reflect appropriate pro forma plant. (Issue 5)	(56,104)
4	Reclassifying items expensed to plant. (Issue 12)	(148)
	Total	($57,970)
	Working Capital	
	Reflect appropriate working capital allowance. (Issue 8)	($39,885)

Water Management Services, Inc. - Phase I | **Schedule No. 2**
Capital Structure-Simple Average | **Docket No. 110200-WU**
Test Year Ended 12/31/10

	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	$11,778,773	$0	$11,778,773	($4,137,492)	$7,641,281	98.65%	5.96%	5.88%
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	1.35%	6.00%	0.08%
6	Deferred Income Taxes	0	0	0	0	0	0.00%	0.00%	0.00%
7	**Total Capital**	$9,727,680	$2,155,617	$11,883,297	($4,137,492)	$7,745,805	100.00%		5.96%
Per Staff									
8	Long-term Debt	$11,778,773	($4,121,268)	$7,657,505	($4,032,448)	$3,625,057	97.20%	4.40%	4.27%
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%	11.16%	0.00%
12	Customer Deposits	104,524	0	104,524	0	104,524	2.80%	6.00%	0.17%
13	Deferred Income Taxes	0	0	0	0	0	0.00%	0.00%	0.00%
14	**Total Capital**	$11,883,297	($4,121,268)	$7,762,029	($4,032,448)	$3,729,581	100.00%		4.44%

	LOW	HIGH
RETURN ON EQUITY	10.16%	12.16%
OVERALL RATE OF RETURN	4.44%	4.44%

Water Management Services, Inc. - Phase I
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:**	$1,291,712	$727,910	$2,019,622	($714,035)	$1,305,587	$132,908	$1,438,495
							10.18%	
	Operating Expenses							
2	Operation & Maintenance	$1,115,100	$14,452	$1,129,552	($152,793)	$976,759		976,759
3	Depreciation	199,395	52,841	252,236	(77,864)	174,372		174,372
4	Amortization	14,616	9,784	24,400	(10,943)	13,457		13,457
5	Taxes Other Than Income	107,672	44,113	151,785	(49,482)	102,303	5,981	108,284
6	Income Taxes	0	0	0	0	0	0	0
7	**Total Operating Expense**	$1,436,783	$121,190	$1,557,973	($291,080)	$1,266,891	$5,981	1,272,872
8	**Operating Income**	($145,071)	$606,720	$461,649	($422,953)	$38,696	$126,927	$165,623
9	**Rate Base**	$3,757,174		$7,745,804		$3,729,581		$3,729,581
10	**Rate of Return**	-3.86%		5.96%		1.04%		4.44%

Water Management Services, Inc. - Phase I Adjustment to Operating Income Test Year Ended 12/31/10		Schedule 3-B Docket No. 110200-WU
	Explanation	**Water**
	Operating Revenues	
	Remove requested final revenue increase.	($714,035)
	Operation and Maintenance Expense	
1	Agreed Upon Audit Adjustment (Issue 2)	($877)
2	Reflect appropriate test year plant. (Issue 4)	(9,320)
3	To reflect appropriate O&M expense AF 4. (Issue 12)	(70,982)
4	Reflect appropriate contractual services - accounting. (Issue 13)	(5,883)
5	To reflect appropriate rate case expense for instant case. (Issue 14)	(23,870)
6	To reflect officer salary reduction for mismanagement. (Issue 15)	(41,864)
	Total	($152,796)
	Depreciation Expense - Net	
1	Prior Order Adjustment from AF 1. (Issue 3)	$804
2	To reflect appropriate depreciation expense AF 5. (Issue 3)	(24,615)
3	Reflect appropriate test year plant. (Issue 4)	298
4	Reflect appropriate pro forma plant. (Issue 5)	(52,841)
5	To remove net depreciation on non-U&U adjustment above. (Issue 6)	(1,833)
6	Reclassifying items expensed to plant. (Issue 12)	323
	Total	($77,864)
	Amotization-Other Expense	
1	To reflect appropriate amortization of retired plant included in pro forma. (Issue 5)	($9,784)
2	To amoritze net gain on sales. (Issue 16)	(1,159)
	Total	($10,943)
	Taxes Other Than Income	
1	RAFs on revenue adjustments above.	($32,132)
2	To reflect appropriate TOTI AF 6. (Issue 3)	(1,647)
3	Reflect appropriate pro forma plant. (Issue 5)	(12,972)
4	To remove TOTI on non-U&U adjustment above. (Issue 6)	(154)
5	To reflect officer salary reduction for mismanagement. (Issue 15)	(2,577)
	Total	($49,482)

Water Management Services, Inc. - Phase I **Schedule No. 4**
Water Monthly Service Rates **Docket No. 110200-WU**
Test Year Ended 12/31/10

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	4-year Rate Reduction
Residential					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	$27.79	$29.96	$43.06	$30.63	$0.76
3/4"	$41.69	$44.95	$64.59	$45.95	$1.13
1"	$69.49	$74.92	$107.66	$76.59	$1.89
1-1/2"	$138.97	$149.83	$215.31	$153.18	$3.78
Gallonage Charge, per kgal					
0-8,000 Gallons	$3.30	$3.56	$5.11	$3.64	$0.09
8,001-15,000 Gallons	$4.12	$4.44	$6.38	$4.54	$0.11
over 15,000 Gallons	$4.96	$5.35	$7.68	$5.47	$0.13
General Servic, includes Public & Multi-family					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	$27.79	$29.96	$43.06	$30.63	$0.76
3/4"	$41.69	$44.95	$64.59	$45.95	$1.13
1"	$69.49	$74.92	$107.66	$76.59	$1.89
1-1/2"	$138.97	$149.83	$215.31	$153.18	$3.78
2"	$222.36	$239.74	$344.51	$245.09	$6.05
3" Compound	$416.92	$449.50	$645.95	$459.54	$11.34
3" Turbine	$486.42	$524.43	$753.63	$536.15	$13.23
4" Compound	$694.88	$749.18	$1,076.60	$765.92	$18.90
4" Turbine	$833.84	$899.00	$1,291.90	$919.08	$22.68
6" Compound	$1,389.73	$1,498.33	$2,153.16	$1,531.80	$37.79
6" Turbine	$1,737.17	$1,872.92	$2,691.46	$1,914.76	$47.24
8" Compound	$2,223.59	$2,394.34	$3,445.09	$2,450.91	$60.47
8" Turbine	$2,501.52	$2,696.99	$3,875.69	$2,757.25	$68.03
10" Compound	$3,196.40	$3,446.17	$4,952.30	$3,523.17	$86.93
10" Turbine	$4,030.24	$4,345.17	$6,244.19	$4,442.25	$109.60
12" Compound	$5,975.88	$6,442.84	$9,258.64	$6,586.79	$162.52
Gallonage Charge, per 1,000 Gallons	$4.70	$5.07	$7.28	$5.18	$0.13
	Typical Residential Bills 5/8" x 3/4" Meter				
3,000 Gallons	$37.69	$40.64	$58.39	$41.55	
5,000 Gallons	$44.29	$47.76	$68.61	$48.83	
10,000 Gallons	$62.43	$67.32	$96.70	$68.83	

Water Management Services, Inc. - Phase II
Schedule of Water Rate Base
Test Year Ended 12/31/10

Schedule No. 5-A
Docket No. 110200-WU

	Description	Adjusted Test Year Per Utility	Staff Adjust-ments	Recomm. Phase I	Staff Adjust-ments	Recomm. Phase II
1	Plant in Service	$12,193,911	($3,398,846)	$8,795,065	$2,847,017	$11,642,082
2	Land and Land Rights	589,094	(501,500)	87,594	496,221	583,815
3	Non-used and Useful Components	0	(18,023)	(18,023)	0	(18,023)
4	Accumulated Depreciation	(3,163,683)	(57,822)	(3,221,653)	18,645	(3,203,008)
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	Advances for Construction	(11,307)	0	(11,307)	0	(11,307)
8	Working Capital Allowance	39,885	(39,885)	0	0	0
9	**Rate Base**	$7,745,804	($4,022,540)	$3,729,581	$3,361,883	$7,091,463

Water Management Services, Inc. - Phase II **Adjustments to Rate Base** **Test Year Ended 12/31/10**	**Schedule No. 5-B** **Docket No. 110200-WU**
Explanation	**Water**
Plant In Service	
Reflect appropriate pro forma plant. (Issue 5)	$2,847,017
Land	
Reflect appropriate pro forma land. (Issue 5)	$496,221
Accumulated Depreciation	
Reflect appropriate pro forma plant. (Issue 5)	$18,645

Water Management Services, Inc. - Phase II | **Schedule No. 6**
Capital Structure-Simple Average | **Docket No. 110200-WU**
Test Year Ended 12/31/10

	Description	Total Capital	Specific Adjust-ments	Subtotal Adjusted Capital	Prorata Adjust-ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Staff Recommended Phase I									
1	Long-term Debt	$11,778,773	($4,121,268)	$7,657,505	($4,038,765)	$3,618,740	97.19%	4.40%	4.27%
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	0	0	0	0	0	0.00%	9.85%	0.00%
5	Customer Deposits	104,524	0	104,524	0	104,524	2.81%	6.00%	0.17%
6	Deferred Income Taxes	0	0	0	0	0	0.00%	0.00%	0.00%
7	**Total Capital**	$11,883,297	($4,121,268)	$7,762,029	($4,038,765)	$3,723,264	100.00%		4.44%
Per Staff									
8	Long-term Debt	$7,657,505	$4,121,268	$11,778,773	($4,791,833)	$6,986,940	98.53%	5.50%	5.42%
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%	11.16%	0.00%
12	Customer Deposits	104,524	0	104,524	0	104,524	1.47%	6.00%	0.09%
13	Deferred Income Taxes	0	0	0	0	0	0.00%	0.00%	0.00%
14	**Total Capital**	$7,762,029	$4,121,268	$11,883,297	($4,791,833)	$7,091,464	100.00%		5.51%

	LOW	HIGH
RETURN ON EQUITY	10.16%	12.16%
OVERALL RATE OF RETURN	5.51%	5.51%

Water Management Services, Inc. - Phase II
Statement of Water Operations
Test Year Ended 12/31/10

Schedule No. 7-A
Docket No. 110200-WU

	Description	Adjusted Test Year Per Utility	Staff Adjust-ments	Recomm. Phase I Rev. Req.	Phase II Revenue Increase	Phase II Revenue Requirement
1	**Operating Revenues:**	$2,019,622	($581,127)	$1,438,495	$346,564	$1,785,059
					24.09%	
	Operating Expenses					
2	Operation & Maintenance	$1,129,552	($152,793)	$976,759	$0	$976,759
3	Depreciation	252,236	(77,864)	174,372	90,300	264,672
4	Amortization	24,400	(10,943)	13,457	8,243	21,700
5	Taxes Other Than Income	151,785	(43,501)	108,284	22,824	131,108
6	Income Taxes	0	0	0	0	0
7	**Total Operating Expense**	$1,557,973	($285,101)	$1,272,872	$121,368	$1,394,239
8	**Operating Income**	$461,649	($296,026)	$165,623	$225,197	$390,820
9	**Rate Base**	$7,745,804		$3,729,581		$7,091,463
10	**Rate of Return**	5.96%		4.44%		5.51%

Water Management Services, Inc. - Phase II **Adjustment to Operating Income** **Test Year Ended 12/31/10**	**Schedule 7-B** **Docket No. 110200-WU**
Explanation	**Water**
Depreciation Expense - Net Reflect appropriate pro forma plant. (Issue 5)	$90,300
Amotization-Other Expense To reflect appropriate amortization of retired plant included in pro forma. (Issue 5)	$8,243
Taxes Other Than Income Reflect appropriate pro forma plant. (Issue 5)	$22,824

Water Management Services, Inc. - Phase II Water Monthly Service Rates Test Year Ended 12/31/10					Schedule No. 8 Docket No. 110200-WU
	Rates Prior to Filing	**Commission Approved Interim**	**Utility Requested Final**	**Staff Recomm. Final**	**4-year Rate Reduction**
Residential					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	$27.79	$29.96	$43.06	$34.33	$0.70
3/4"	$41.69	$44.95	$64.59	$51.50	$1.04
1"	$69.49	$74.92	$107.66	$85.83	$1.74
1-1/2"	$138.97	$149.83	$215.31	$171.65	$3.48
Gallonage Charge, per kgal					
0-8,000 Gallons	$3.30	$3.56	$5.11	$0.00	$0.00
8,001-15,000 Gallons	$4.12	$4.44	$6.38	$0.00	$0.00
over 15,000 Gallons	$4.96	$5.35	$7.68	$0.00	$0.00
0-6,000 Gallons				$6.12	$0.12
over 6,000 Gallons				$6.68	$0.14
General Servic, includes Public & Multi-family					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	$27.79	$29.96	$43.06	$34.33	$0.70
3/4"	$41.69	$44.95	$64.59	$51.50	$1.04
1"	$69.49	$74.92	$107.66	$85.83	$1.74
1-1/2"	$138.97	$149.83	$215.31	$171.65	$3.48
2"	$222.36	$239.74	$344.51	$274.64	$5.57
3" Compound	$416.92	$449.50	$645.95	$549.28	$11.14
3" Turbine	$486.42	$524.43	$753.63	$600.78	$12.18
4" Compound	$694.88	$749.18	$1,076.60	$858.25	$17.41
4" Turbine	$833.84	$899.00	$1,291.90	$1,029.90	$20.89
6" Compound	$1,389.73	$1,498.33	$2,153.16	$1,716.50	$34.81
6" Turbine	$1,737.17	$1,872.92	$2,691.46	$2,145.63	$43.52
8" Compound	$2,223.59	$2,394.34	$3,445.09	$2,746.40	$55.70
8" Turbine	$2,501.52	$2,696.99	$3,875.69	$3,089.70	$62.66
10" Compound	$3,196.40	$3,446.17	$4,952.30	$3,947.95	$80.07
10" Turbine	$4,030.24	$4,345.17	$6,244.19	$4,977.85	$100.96
12" Compound	$5,975.88	$6,442.84	$9,258.64	$7,380.95	$149.70
Gallonage Charge, per 1,000 Gallons	$4.70	$5.07	$7.28	$6.36	$0.13
	Typical Residential Bills 5/8" x 3/4" Meter				
3,000 Gallons	$37.69	$40.64	$58.39	$52.69	
5,000 Gallons	$44.29	$47.76	$68.61	$64.93	
10,000 Gallons	$62.43	$67.32	$96.70	$97.77	