

VOTE SHEET

August 2, 2012

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

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.

APPROVED

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.

APPROVED

COMMISSIONERS

All Commissioners

ASSIGNED:

COMMISSIONERS' SIGNATURES

MAJORITY

DISSENTING

Handwritten signatures in the majority column, including one that appears to be 'Julie Brown'.

Handwritten signatures in the dissenting column, with notes '(Issue #15)' and '(Issue 15)'.

REMARKS/DISSENTING COMMENTS:

Oral modification, assigned document number 05111-12, attached.

DOCUMENT NUMBER-DATE

05250 AUG-2 2012

FPSC-COMMISSION CLERK

Vote Sheet

August 2, 2012

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

(Continued from previous page)

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.

APPROVED

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.

APPROVED

(Continued from previous page)

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 portion of staff's recommendation dated July 20, 2012. 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.

MODIFIED The Commissioners approved staff's revised recommendation with the following provisions set forth by Mr. Fletcher at the Commission Conference this date:

- 1) Approve the Phase II amounts now, under escrow.
- 2) Hold in escrow the payment of the pro forma loan.
- 3) Hold in escrow the payments for the existing DEP loan.
- 4) The amount to be escrowed is 35.25% of the total monthly revenue.
- 5) All escrow withdrawals to be approved by the Commission staff.
- 6) Company has 18 months to secure financing and complete pro forma items.
- 7) Conduct true up proceedings 12 months after items are in place.

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.

APPROVED

Vote Sheet

August 2, 2012

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

(Continued from previous page)

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

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

APPROVED

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.

APPROVED

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.

APPROVED

*Staff was given administrative
authority to deal with fallout issues*

(Continued from previous page)

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.

APPROVED

staff was given administrative authority to deal with fallout issues

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.

APPROVED

staff was given administrative authority to deal with fallout issues

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.

APPROVED

Vote Sheet

August 2, 2012

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

(Continued from previous page)

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.

APPROVED

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.

APPROVED

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).

MODIFIED

The escrow proposal was addressed in the vote on Issue 5. Managerial imprudence was removed. 15% reduction in the salary of the Utility President with pension and benefits adjusted. Staff was given administrative authority to make adjustments based on today's decision. approved by a 3-2 vote. Commissioners Graham and Balbio dissented.

Vote Sheet

August 2, 2012

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

(Continued from previous page)

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.

APPROVED

** regarding issues 16-23, staff was given administrative authority to make necessary adjustments reflected in these votes.*

Issue 17: What is the appropriate revenue requirement?

Recommendation: The following revenue requirement should be approved:

	Test Year		Revenue	
	Revenues	\$ Increase	Requirement	% Increase
Phase I	\$1,305,587	\$132,908	\$1,438,495	10.18%
Phase II	\$1,438,495	\$346,564	\$1,785,059	24.09%
	\$1,437,866	\$346,491	\$1,784,357	24.10%

APPROVED, *as modified and*
** as noted on issue 16*

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.

APPROVED

** as noted on issue 16*

(Continued from previous page)

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.

APPROVED * as noted on issue 16

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.

APPROVED * as noted on issue 16

(Continued from previous page)

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 of staff's memorandum dated July 20, 2012. 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 of staff's memorandum dated July 20, 2012. Excluding miscellaneous service revenues, the Phase II recommended water rates are designed to produce total Utility revenues of ~~\$1,778,856~~ \$1,779,558. 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.

APPROVED * as noted on issue 16

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.

APPROVED * as noted on issue 16

(Continued from previous page)

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.

APPROVED * as noted in issue 16.

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

APPROVED

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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.

APPROVED

** In issues 25-28 -
Staff given administrative
authority on fallout issues*

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 of staff's memorandum dated July 20, 2012. 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 of staff's memorandum dated July 20, 2012. 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.

APPROVED

** see issue 25*

Vote Sheet

August 2, 2012

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

(Continued from previous page)

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.

APPROVED * see issue 25

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.

APPROVED * see issue 25

Ann Cole

From: Marshall Willis
Sent: Tuesday, July 31, 2012 11:49 AM
To: Ann Cole; Baldwyn English; Roberta Bass; Jim Varian; Cayce Hinton; Katherine Fleming
Cc: Carlotta Stauffer
Subject: FW: Request for Oral Modification to Item 7, August 2, 2012 Agenda, Docket No, 110200-WU - Water Management Services, Inc.

From: Braulio Baez
Sent: Tuesday, July 31, 2012 11:47 AM
To: Marshall Willis
Cc: Chuck Hill; Carlotta Stauffer; Andrew Maurey; Cheryl Bulecza-Banks; Bart Fletcher; Todd Brown; Pauline Robinson; Adam Teitzman; Shannon Hudson
Subject: RE: Request for Oral Modification to Item 7, August 2, 2012 Agenda, Docket No, 110200-WU - Water Management Services, Inc.

Approved. Thank you, Marshall.

Sent from my Windows Phone

From: Marshall Willis
Sent: 7/31/2012 11:42 AM
To: Braulio Baez
Cc: Chuck Hill; Carlotta Stauffer; Andrew Maurey; Cheryl Bulecza-Banks; Bart Fletcher; Todd Brown; Pauline Robinson; Adam Teitzman; Shannon Hudson
Subject: Request for Oral Modification to Item 7, August 2, 2012 Agenda, Docket No, 110200-WU - Water Management Services, Inc.

Staff requests approval to make an oral modification to the recommendation for the above-referenced item. Item 7 relates to a PAA rate increase request by Water Management Services, Inc. (WMSI or Utility). This recommendation contains a number of adjustments. It has come to staff's attention that certain fall-out adjustments were inadvertently not made. Staff requests approval to make these fall-out adjustments. The impact on Phase I and II revenue requirements is less than \$1,000. The Statutory time frame to process this case has been waived by WMSI through the August 2, 2012, Commission Conference. Staff notes that the specific changes to staff's recommendation are provided in type and strike format, as well as highlighted in yellow, below:

(1) Issue 5, p. 18: Because the recommendation paragraph refers to staff's analysis and adjustments, the following corrections need to be made to Table 5-2.

Table 5-2

Pro Forma Plant and Expense Adjustments - Phase I & Phase II					
Description	Adjusted Test Year Per Utility	Staff Adjustments Phase I (net)	Staff Recomm. Phase I	Staff Adjustments Phase II	Staff Recomm. Phase II

Phase NUMBER-DATE
 05111 JUL 31 2012

7/31/2012

FPSC-COMMISSION CLERK

Plant in Service	\$12,193,911	(\$3,398,846)	\$8,795,065	\$2,847,017	\$11,642,082
Land and Land Rights	\$589,094	(\$3,405,311)	\$87,594	\$496,221	\$583,815
Accumulated Depreciation	(\$3,163,683)	(\$57,970)	(\$3,221,653)	\$18,645	(\$3,203,008)
Depreciation Expense	\$252,236	(\$57,822)	\$174,372	\$90,300	\$264,672
Amortization Expense	\$24,400	(\$78,187)	\$13,457	\$8,243	\$21,700
Taxes Other Than Income	\$151,785	(\$10,943)	\$108,284	\$22,824	\$131,108

(2) Issue 17, p.40:

Recommendation:

	Test Year Revenues	\$ Increase	Revenue Requirement	% Increase
Phase I	\$1,305,587	\$132,908	\$1,438,495	10.18%
Phase II	<u>\$1,438,495</u>	<u>\$346,564</u>	<u>\$1,785,059</u>	<u>24.09%</u>
	\$1,437,866	\$346,491	\$1,784,357	24.10%

Staff Analysis, second paragraph:

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 \$1,438,495 ~~\$1,437,866~~. The recommended revenue requirement exceeds staff's adjusted test year revenue by \$132,908 ~~\$132,279~~, or 10.18 ~~10.13~~ percent. Staff recommends approval of rates in Phase II designed to generate a revenue requirement of \$1,785,059 ~~\$1,784,357~~. The recommended revenue requirement exceeds staff's adjusted test year revenue by \$346,564 ~~\$346,491~~, or 24.09 ~~24.10~~ percent.

(3) Issue 21, p. 48:

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 \$1,779,558 ~~\$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)

(4) Issue 21, p. 49:

Excluding miscellaneous service revenues, the recommended water rates for Phase II are designed to produce total Utility revenues of \$1,779,558 ~~\$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.

Marshall Willis
Director
Division of Accounting and Finance
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32309

Phone: (850) 413-6914
Fax: (850) 413-6915
Email: Marshall.Willis@psc.state.fl.us