

COMMISSIONERS:
RONALD A. BRISÉ, CHAIRMAN
LISA POLAK EDGAR
ART GRAHAM
EDUARDO E. BALBIS
JULIE I. BROWN

STATE OF FLORIDA



OFFICE OF THE GENERAL COUNSEL
S. CURTIS KISER
GENERAL COUNSEL
(850) 413-6199

Public Service Commission

December 11, 2012

RECEIVED-PPSC
12 DEC 11 PM 3:48
COMMISSION
CLERK

Mr. William Carey, President
TLP Water, Inc.
12315 U.S. Highway 441
Tavares, Florida 32778

Re: Staff-Assisted Rate Case for TLP Water, Inc. in Lake County, Docket No. 120183-WU

Dear Mr. Carey:

This will confirm that Commission staff will hold a customer meeting at the City of Tavares Civic Center on Wednesday, January 9, 2013, starting at 6:00 p.m. We ask that, if at all possible, you or another knowledgeable representative of the Utility attend the meeting in order to answer customer questions. The location of the general meeting will be as follows:

City of Tavares Civic Center
100 East Caroline Street
Tavares, Florida 32778

A draft customer meeting notice is enclosed. Please note the date has been left blank so that you can fill in the date that the notice is sent to the customers. As required by Rule 25-22.0407(9)(b), Florida Administrative Code (F.A.C.), the utility shall provide, in writing, a customer meeting notice to all customers within its service area no less than 14 days and no more than 30 days prior to the date of a customer meeting. Please furnish me with a copy of the notice, as reproduced at the time it is distributed to your customers, together with a cover letter indicating the exact date(s) on which the notice was mailed or otherwise delivered to the customers.

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

TLP Water, Inc.
12315 U.S. Highway 441
Tavares, Florida 32778

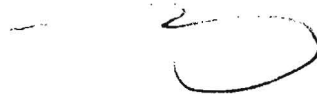
COM
AFD
APA
ECO
ENG
GCL
IDM
TEL
CLX

RECEIVED-PPSC
12 DEC 11 PM 3:48
COMMISSION
CLERK

Mr. William Carey
Page 2
December 11, 2012

For your convenience, I have also enclosed a copy of Rule 25-22.0407(a), F.A.C. Should you have any questions about any of the matters contained herein, please do not hesitate to contact me at (850) 413-6856. In addition, you may contact Martha Golden at (850) 413-7015 or Jennie Lingo at (850) 413-6964, with any questions.

Sincerely,

A handwritten signature in black ink, appearing to be "Larry Harris", written over a horizontal line.

Larry Harris
Senior Attorney

Enclosures

LH/mg

cc: Division of Accounting and Finance (Prestwood, Mouring, Golden)
Division of Economics (Lingo, Hudson, Roberts)
Division of Engineering (Rieger, Lewis)
Office of General Counsel (Teitzman)
Office of Commission Clerk (Docket No. 120183-WU)

Rule 25-22.0407(9), Florida Administrative Code

(9) When a utility applies for a staff-assisted rate case in accordance with Section 367.0814, Florida Statutes, and Rule 25-30.455, F.A.C., and staff-assistance is granted, the requirements of subsections (2), (3), (4), and (5) of this rule shall not apply.

(a) Upon receipt of the staff reports, the utility shall place two copies of its application for staff-assistance and the staff reports at any business offices it has in its service area. Such copies shall be available for public inspection during the utility's regular business hours. If the utility does not have a business office in its service area, the utility shall place two copies of its application and the staff reports at the main county library, the local community center or other appropriate location that is within or most convenient to the service area and that is willing to accept and provide public access to the copies.

(b) No less than 14 days and no more than 30 days prior to the date of a customer meeting conducted by the Commission staff, the utility shall provide, in writing, a customer meeting notice to all customers within its service area and to all persons in the same service areas who have filed a written request for service or who have been provided a written estimate for service within the 12 calendar months prior to the month the petition is filed.

(c) The customer meeting notice shall be approved by the Commission staff prior to distribution and shall include the following:

1. The date the notice was issued;
2. The time, date, location, and purpose of the customer meeting;
3. A statement that the utility has applied for a staff-assisted rate case and the general reasons for doing so;
4. A statement of the location where copies of the application and the staff reports are available for public inspection and the times during which inspection may be made;
5. A comparison of current rates and charges and the proposed new rates and charges;
6. The utility's address, telephone number, and business hours;
7. A statement that written comments regarding utility service or the proposed rates and charges should be addressed to the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0870, and that such comments should identify the docket number assigned to the proceeding;
8. A statement that complaints regarding service may be made to the Commission's Division of Consumer Affairs at the following toll-free number: 1(800)342-3552.
9. A statement that the Commission will be reviewing the utility's service availability charges in the pending case and that the Commission may adjust those charges.
10. The docket number assigned by the Commission's Division of the Commission Clerk and Administrative Services.

(d) The customer meeting notice shall be mailed to the out-of-town address of all customers who have provided the utility with an out-of-town address.

(e) If the proposed agency action order issued in the case is protested and any hearings are subsequently held, the utility shall give notice in accordance with subsections (6) and (7) above.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

NOTICE OF CUSTOMER MEETING

TO THE CUSTOMERS OF TLP WATER, INC.

AND

ALL OTHER INTERESTED PERSONS

DOCKET NO. 120183-WU

APPLICATION OF TLP WATER, INC.

FOR A STAFF-ASSISTED RATE CASE IN

LAKE COUNTY

Issued:

Notice is hereby given that the staff of the Florida Public Service Commission (Commission) will conduct a customer meeting to discuss the application of TLP Water, Inc. (TLP or Utility) for a staff-assisted rate case (SARC) in Lake County. The meeting will be held at the following time and place:

6:00 p.m., Wednesday, January 9, 2013
City of Tavares Civic Center
100 East Caroline Street
Tavares, Florida 32778

All persons who wish to comment are urged to be present at the beginning of the meeting, since the meeting may be adjourned early if no customers are present. One or more of the Commissioners of the Commission may attend and participate in this meeting. The meeting will begin as scheduled and will continue until all the customers have been heard.

If a named storm or other disaster requires cancellation of the meeting, Commission staff will attempt to give timely direct notice to the parties. Notice of the cancellation of the meeting will also be provided on the Commission's website (<http://www.psc.state.fl.us/>) under the Hot Topics link found on the home page. Cancellation can also be confirmed by calling the Commission's Office of the General Counsel at (850) 413-6199.

Any person requiring some accommodation at the customer meeting because of a physical impairment should call the Office of Commission Clerk at (850) 413-6770 at least five calendar days prior to the meeting. Any person who is hearing or speech impaired should contact the Commission by using the Florida Relay Service, which can be reached at 1-800-955-8771 (TDD).

PURPOSE

The purpose of this meeting is to give customers and other interested persons an opportunity to offer comments to Commission staff regarding the quality of service the Utility provides, the proposed rate increase, and to ask questions and comment on staff's preliminary rates included in this notice as well as other issues. Staff members will summarize TLP's proposed filing, the preliminary work accomplished, and answer questions to the extent possible. A representative from the Utility has also been invited to respond to questions.

At the beginning of the meeting, procedures will be established for the order of comments. Commission staff will have sign-up sheets, and customers will be called to speak in the order that they sign up. Staff will be available to coordinate customers' comments and to assist members of the public.

Any person who wishes to comment or provide information to staff may do so at the meetings, orally or in writing. Written comments may also be sent to the Commission at the address given at the end of this notice. Your letter will be placed in the correspondence file of this docket. You may also submit comments through the Commission's toll-free facsimile line at 1-800-511-0809.

BACKGROUND

TLP is a Class C utility in Lake County. The utility is located in the St. Johns River Water Management District (SJRWMD) area where water use restrictions apply. The utility provides water service to 51 residential customers and 2 general service customers. Wastewater treatment is provided by septic tanks. According to TLP's 2011 annual report, total gross revenue was \$33,844. The Utility's total operating expenses were \$36,113.

Three Lakes Mobile Home Park is a privately owned property formerly known as Cari's Camp. In 1945, Cari's Camp installed a small 4-inch well to provide water service to the area. A 1948 agreement required Cari's Camp to supply water to the residents on Lakeside Lane and Canal Street, which are located outside of the park. The camp became known as the Three Lakes Mobile Home Park in the 1960s. The Commission received jurisdiction over Lake County in 1972.¹ In 1992, Three Lakes Mobile Home Park was incorporated as a nonprofit cooperative. The mobile home park believed it was exempt from the Commission's jurisdiction, pursuant to Section 367.022, Florida Statutes (F.S.); however, the Utility continued to serve customers outside the cooperative, which rendered it subject to the Commission's jurisdiction. In August 2009, the Commission granted Water Certificate No. 644-W to TLP.² The Utility subsequently applied for a staff-assisted rate case and was granted a rate increase in March 2010.³

¹ See Order No. 5472, issued June 30, 1972, in Docket No. 5818-WS, In re: Jurisdictional Resolutions from Boards of County Commissioners adopting the Water and Sewer System Regulatory Law, Chapter 71-278, Laws of Florida, (Chapter 367, Florida Statutes). Resolution Adopted by Lake County.

² See Order No. PSC-09-0542-PAA-WU, issued August 4, 2009, in Docket No. 080499-WU, In re: Application for certificate to operate water utility in Lake County by TLP Water, Inc.

³ See Order No. PSC-10-0124-PAA-WU, issued March 1, 2010, in Docket No. 090244-WU, In re: Application for staff-assisted rate case in Lake County by TLP Water, Inc.

CURRENT AND PRELIMINARY RATES AND CHARGES

Staff has compiled the following rates and charges for the purpose of discussion at the customer meeting. These rates are preliminary and subject to change based on information gathered at the customer meeting, further staff review, and the final decision by the Commission. The Utility's current and staff's preliminary rates are as follows:

| TLP WATER, INC. DOCKET NO. 120183-WU MONTHLY WATER RATES | | |
|--|--------------------------------|-------------------------------|
| | UTILITY'S EXISTING RATES | STAFF RECOMMENDED RATES |
| <u>Residential / General Service</u> | | |
| <i>All Meter Sizes</i> | | |
| Flat Rate | \$59.80 | \$78.06 |
| Vacation Rate | \$42.99 | \$45.04 |

STAFF REPORTS AND UTILITY APPLICATION

The results of staff's preliminary investigation are contained in a staff report dated December 10, 2012. Copies of the report may be examined by interested members of the public from 9:00 a.m. to 5:00 p.m., Monday through Friday at the following location:

TLP Water, Inc.
12315 U.S. Highway 441
Tavares, Florida 32778
(352) 250-9176

PROCEDURES AFTER CUSTOMER MEETING

After the customer meeting, Commission staff will prepare a recommendation which is scheduled to be submitted to the Commission on February 21, 2013. The Commission will then vote on staff's recommendation at its March 5, 2013 Commission Conference. The Commission will thereafter issue a proposed agency action (PAA) order containing rates which may be different from those contained in staff's final recommendation. Substantially affected persons have 21 days from the date that the PAA order is issued to protest the Commission's PAA order. Five to ten customers or persons who attend the meeting, and who wish to receive a copy of the recommendation and the order should so indicate at the meeting. Those individuals are expected to distribute the information in the recommendation and the order to other customers. Anyone who is unable to attend and who wishes to

Mr. William Carey
Page 7
December 11, 2012

obtain a copy of the recommendation or the order may do so in writing to the Commission at the address at the end of this notice.

HOW TO CONTACT THE COMMISSION

Written comments regarding the Utility and the proposed rates, and requests to be placed on the mailing list for this case, may be directed to this address:

Director, Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

All correspondence should refer to "Docket No. 120183-WU, TLP Water, Inc." If you wish to contact the Commission regarding complaints about service, you may call the Commission's Office of Consumer Assistance and Outreach at the following toll-free number: 1-800-342-3552. This notice was prepared by Commission staff for distribution by the Utility to its customers.

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: December 11, 2012

TO: Clarence Prestwood, Chief of Finance, Tax & Cost Recovery, Division of Accounting & Finance

FROM: Martha A. Golden, Regulatory Supervisor/Consultant, Division of Accounting & Finance *mg*
Jennie Lingo, Economic Analyst, Division of Economics *(FL)*
Lydia Roberts, Public Utility Analyst II, Division of Economics *(FL)*
Stanley D. Rieger, Utilities System/Engineering Specialist, Division of Engineering
Clayton K. Lewis, Utilities System/Engineering Specialist Supervisor, Division of Engineering *TLB*

RE: Docket No. 120183-WU - Application for staff-assisted rate case in Lake County by TLP Water, Inc.

- STAFF REPORT -

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

Table of Contents

| <u>Issue</u> | <u>Description</u> | <u>Page</u> |
|--------------|---|-------------|
| | Case Background | 3 |
| 1 | Quality of Service (Rieger, Lewis) | 4 |
| 2 | Used and Useful (Rieger, Lewis) | 6 |
| 3 | Rate Base (Lingo, Golden)..... | 7 |
| 4 | Rate of Return (Lingo, Golden) | 8 |
| 5 | Test Year Revenue (Roberts, Lingo, Golden)..... | 9 |
| 6 | Operating Expenses (Lingo, Golden)..... | 10 |
| 7 | Revenue Requirement (Lingo, Golden) | 13 |
| 8 | Rate Structure (Roberts)..... | 14 |
| 9 | Repression (Roberts) | 15 |
| 10 | Rates (Roberts)..... | 16 |
| 11 | Four-Year Rate Reduction (Lingo, Golden) | 17 |
| 12 | Temporary Rates (Lingo, Golden) | 18 |
| 13 | Proof of Adjustments (Lingo, Golden) | 20 |
| 14 | Close Docket (Harris) | 21 |
| | Schedule No. 1-A Water Rate Base | 22 |
| | Schedule No. 1-B Adjustments to Rate Base..... | 23 |
| | Schedule No. 2 Capital Structure | 24 |
| | Schedule No. 3-A Water NOI | 25 |
| | Schedule No. 3-B Adjustments to NOI..... | 26 |
| | Schedule No. 3-C Water O&M Expense | 28 |
| | Schedule No. 4 Water Rates..... | 29 |

Case Background

TLP Water, Inc (TLP or Utility) is a Class C utility in Lake County. The utility is located in the St. Johns River Water Management District (SJRWMD) area where water use restrictions apply. The utility provides water service to 51 residential customers and 2 general service customers. Wastewater treatment is provided by septic tanks. According to TLP's 2011 annual report, total gross revenues were \$33,844 and total operating expenses were \$36,113, resulting in a net operating loss of \$2,269.

Three Lakes Mobile Home Park is a privately owned property formerly known as Cari's Camp. In 1945, Cari's Camp installed a small 4-inch well to provide water service to the area. A 1948 agreement required Cari's Camp to supply water to the residents on Lakeside Lane and Canal Street, which are located outside of the park. The camp became known as the Three Lakes Mobile Home Park in the 1960s. The Commission received jurisdiction over Lake County in 1972.¹ In 1992, Three Lakes Mobile Home Park was incorporated as a nonprofit cooperative. The mobile home park believed it was exempt from the Commission's jurisdiction, pursuant to Section 367.022, Florida Statutes (F.S.); however, the Utility continued to serve customers outside the cooperative, which rendered it subject to the Commission's jurisdiction. In August 2009, the Commission granted Water Certificate No. 644-W to TLP.² The Utility subsequently applied for a staff-assisted rate case and was granted a rate increase in March 2010.³

In the instant docket, TLP filed its application for a SARC on July 2, 2012, and completed the Commission's filing requirements on August 30, 2012, which was established as the official filing date in this case. The Commission has jurisdiction in this case pursuant to Sections 367.0814, F.S.

This Staff Report is a **preliminary** analysis of the Utility prepared by the Florida Public Service Commission (PSC or Commission) staff to give Utility customers and the Utility an advanced look at what staff may be proposing. The final recommendation to the Commission (currently scheduled to be filed February 21, 2013, for the March 5, 2013 Commission Conference) will be revised as necessary using updated information and results of customer quality of service or other relevant comments received at this customer meeting.

¹ See Order No. 5472, issued June 30, 1972, in Docket No. 5818-WS, In re: Jurisdictional Resolutions from Boards of County Commissioners adopting the Water and Sewer System Regulatory Law, Chapter 71-278, Laws of Florida, (Chapter 367, Florida Statutes). Resolution Adopted by Lake County.

² See Order No. PSC-09-0542-PAA-WU, issued August 4, 2009, in Docket No. 080499-WU, In re: Application for certificate to operate water utility in Lake County by TLP Water, Inc.

³ See Order No. PSC-10-0124-PAA-WU, issued March 1, 2010, in Docket No. 090244-WU, In re: Application for staff-assisted rate case in Lake County by TLP Water, Inc.

Discussion of Issues

Issue 1: Is the quality of service provided by TLP satisfactory?

Recommendation: Quality of service will be determined at a later date, pending review of comments made at the January 09, 2013 customer meeting. (Rieger, Lewis)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission shall make a determination of the overall quality of service provided by a utility by evaluating the quality of the utility's product, the operational conditions of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. TLP's compliance with the DEP regulations and customer comments or complaints received by the Commission are also reviewed.

Quality of Product and Operating Condition of the Plant and Facilities

With a rated maximum day capacity of 43,200 gallons per day (GPD), TLP's water treatment plant includes one supply well rated at 80 gallons per minute, a 2,000 gallon steel hydropneumatic tank, and a hypo chlorination system used for disinfection. TLP is current in all of its required chemical analyses. A March 30, 2011 DEP sanitary survey report found no deficiencies at the water treatment plant. Staff conducted a field inspection of the Utility's facilities on August 28, 2012, and found the water treatment plant to be operating satisfactorily. As discussed below, there are outstanding issues concerning TLP's distribution facilities.

In the previous rate case, the Commission noted that there were pending violations with TLP's distribution system cited by DEP in a May 2008 notice of violation (NOV). Correction of these violations was contingent upon anticipated funding from a loan/grant application with the United States Department of Agriculture (USDA). A February 2010 DEP consent order required dramatic changes to the water system. Those changes called for the Utility applying for and being awarded USDA Rural Development funds for grants and loans. This potential funding was intended for a project to connect to the nearby City of Tavares (City) water system, and replace the Utility's water system components that included the water treatment plant and distribution system. With assistance from the Florida Rural Water Association, the Utility proceeded with the application process to obtain USDA funding. However, complications related to the potential interconnection with the City arose soon after the consent order was finalized. These complications would eventually cause the interconnection project to be rendered unaffordable and impractical.

The utility withdrew its USDA funding application in early 2012 and began to seek out possible alternatives to correct the outstanding DEP deficiencies. With the original intent of the first consent order to interconnect with the City rendered unachievable, a modified consent order was finalized between the parties on September 24, 2012. The modified consent order required the Utility to apply for and obtain grants and loans from USDA, replace the water distribution system, obtain the appropriate DEP permitting, and have the project, which is to include canal crossings, completed within 240 days of issuance of the DEP permits. The Utility has indicated that an application for USDA funding was submitted on September 10, 2012, and it will soon

Docket No. 120183-WU
Date: December 11, 2012

apply to DEP for construction permits. A decision on the loan could take several months. The initial projected cost of the project is approximately \$322,000.

The Utility's attempt to address Customer Satisfaction

The Commission has not received any customer correspondence concerning this rate case. In addition, there are no outstanding complaints on the Commission's Consumer Activity Tracking System (CATS). A customer meeting is scheduled to be held on January 9, 2013, in Tavares, Florida. A determination of the Utility's attempt to address customer satisfaction will be decided at a later date, pending review of customer comments made at the upcoming meeting.

Summary

Quality of service will be determined at a later date, pending review of comments made at the January 9, 2013 customer meeting.

Issue 2: What are the used and useful percentages of the water treatment plant and the water distribution system?

Recommendation: The water treatment plant and distribution system should be considered 100 percent used and useful. (Rieger, Lewis)

Staff Analysis: TLP provides water services to 51 residential connections and 2 general service connections. The customers consist of 31 resident owners and one common club house located within the Three Lakes Park mobile home community. There are two connections to the east of the mobile home community. One of those connections is an inactive residential connection. The other is a former residential connection that has been rezoned for commercial usage and now houses the Buzzard Beach Bar & Grille. The remaining 19 residential connections are located on the west side of the mobile home community. One of those connections is inactive.

In Docket No. 090244-WU, the Commission determined that pursuant to Rule 25-30.4325(4), F.A.C., the water plant and distribution system be deemed 100 percent used and useful because TLP's water system had one well and tank system serving the existing customers, there was no room for expansion, and the service area was built out. Since there has been little to no change to TLP's water treatment plant and distribution system since the previous rate case, staff believes that pursuant to Rule 25-30.4325(4), F.A.C., the water treatment plant and distribution system are 100 percent used and useful. Staff recommends the water plant and distribution system be considered 100 percent used and useful.

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

Recommendation: The appropriate average test year rate base for the Utility is \$61,537. (Lingo, Golden)

Staff Analysis: The appropriate components of the Utility's rate base include utility plant in service, accumulated depreciation, and working capital. TLP's rate base was last established in its 2009 staff-assisted rate case by Order No. PSC-10-0124-PAA-WU.⁴ Staff selected the test year ended June 30, 2012, for the instant rate case. A summary of each component and the recommended adjustments follows:

Utility Plant in Service (UPIS): The Utility recorded a UPIS balance of \$0. Staff has increased UPIS by \$70,373 to reflect the June 30, 2009 plant balance established by Order No. PSC-10-0124-PAA-WU. Staff determined that no additions or retirements to UPIS were made between July 1, 2009 and June 30, 2012. Therefore, staff recommends a UPIS balance of \$70,373.

Non-Used and Useful Plant: As discussed in Issue 2, TLP's water treatment plant and distribution system should be considered 100 percent used and useful. Therefore, a used and useful adjustment is not necessary.

Accumulated Depreciation: TLP recorded a balance for accumulated depreciation of \$0. Staff has calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C., and determined that accumulated depreciation is \$13,755. In addition, staff has decreased accumulated depreciation by \$1,213 to reflect an averaging adjustment. Staff recommends accumulated depreciation of \$12,542.

Working Capital Allowance: TLP recorded working capital of \$0. Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses or going-concern requirements of the Utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of \$3,706 (based on O&M expense of \$29,648/8). Staff has increased the working capital allowance by \$3,706.

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate average test year rate base is \$61,537. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

⁴ Ibid.

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

Recommendation: The appropriate return on equity (ROE) is 11.16 percent with a range of 10.16 percent to 12.16 percent. The appropriate overall rate of return is 12.00 percent. (Lingo, Golden)

Staff Analysis: The Utility's capital structure consists of long-term debt of \$136,866 at 12.00 percent. In the Utility's last rate case, the Commission determined that TLP's long-term debt of \$136,866 was a related party loan that was needed for upgrades to comply with DEP. The Commission determined that the cost rate of the loan was appropriate due to the financial posture of the Utility and its inability to obtain other funding sources.⁵ For ratesetting purposes, the Utility's capital structure was reduced to \$67,900 to reconcile with rate base established in that docket. The Utility subsequently removed \$68,966 of long-term debt from its general ledger to agree with the reconciled capital structure amount of \$67,900, and added additional debt of \$25,500 for legal services, resulting in total test year long-term debt of \$93,400.

Staff confirmed that the Utility has never made a payment toward the principal or interest of the original \$136,866 loan because of persistent cash flow problems. Although it is necessary to reconcile the capital structure to rate base for ratesetting purposes, the reconciliation adjustment is not necessary for general accounting purposes. Accordingly, staff has increased long-term debt by \$68,966 to restore the related party loan to its original balance. In addition, staff has determined that the \$25,500 legal service debt is an outstanding accounts payable balance for legal services provided during prior years rather than long-term debt. Therefore, staff has decreased the Utility's long-term debt by \$25,500 to remove the legal service accounts payable. Staff's net adjustment to long-term debt is an increase of \$43,466.

Also, a review of the Utility's federal income tax returns indicates that the Utility's common equity balance would most likely be negative based upon the Utility's continuing net operating losses. To be consistent with prior Commission policy, staff has set the Utility's common equity balance to \$0.⁶ The appropriate ROE is 11.16 percent using the Commission-approved leverage formula currently in effect.⁷ The Utility's capital structure has been reconciled with staff's recommended rate base. Staff recommends an ROE of 11.16 percent, with a range of 10.16 percent to 12.16 percent, and an overall rate of return of 12.00 percent. The ROE and overall rate of return are shown on Schedule No. 2.

⁵ Ibid.

⁶ See Order No. PSC-08-0652-PAA-WS, issued October 6, 2008, in Docket No. 070722-WS, In re: Application for staff-assisted rate case in Palm Beach County by W.P. Utilities, Inc.

⁷ See Order Nos. PSC-12-0339-PAA-WS, issued June 28, 2012, and PSC-12-0372-CO-WS, issued July 20, 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 5: What is the appropriate amount of test year revenue?

Recommendation: The appropriate test year revenue for this Utility is \$33,466. (Roberts, Lingo, Golden)

Staff Analysis: TLP recorded total revenue of \$34,257. The Utility's total revenue consisted of \$34,102 of service revenue and \$155 of miscellaneous service revenue. Staff has annualized revenue based on test year billing determinants and existing rates and determined the appropriate service revenue to be \$33,281. Also, based on staff's audit, miscellaneous service revenue should be \$185. The calculated service revenue and miscellaneous service revenue result in total test year revenue of \$33,466 (\$33,281+\$185). Staff has decreased test year revenue by \$791 to reflect the appropriate test year revenues. Water test year revenue is shown on Schedule No. 3-A. The related adjustment is shown on Schedule No. 3-B.

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

Recommendation: The appropriate amount of operating expense for TLP is \$33,935. (Lingo, Golden)

Staff Analysis: TLP recorded operating expense of \$32,547 for the test year ended June 30, 2012. The test year O&M expenses have been reviewed, and invoices, canceled checks, and other supporting documentation have been examined. Staff has made several adjustments to the Utility's operating expenses as summarized below:

Purchased Power (615) – TLP recorded \$845 for purchased power expense in this account. Staff has made two adjustments to purchased power to remove \$250 for two electric bills that occurred outside the test year and to add \$40 for an electric bill that occurred within the test year, resulting in a net decrease of \$210. Staff recommends purchased power expense of \$635.

Chemicals (618) – TLP recorded \$0 for chemicals in this account. Staff has reclassified \$286 for chlorine purchased during the test year from Accounts Nos. 635 contractual services – testing and 636 contractual services – other. Staff recommends chemicals expense of \$286.

Materials and Supplies (620) – The Utility recorded \$349 for material and supplies in this account. Staff has decreased materials and supplies by \$349 to remove office supplies and postage fees that occurred outside the test year. In addition, staff has reclassified \$71 for materials and supplies purchased during the test year from Accounts Nos. 635 contractual services – testing and 636 contractual services – other. Staff's net adjustment to this account is a decrease of \$278. Staff recommends materials and supplies expense of \$71.

Contractual Services – Professional (631) – TLP recorded \$14,350 in this account for contractual services – professional. Staff has decreased this account by \$1,500 to remove two payments for legal services that occurred outside the test year. Staff recommends contractual services – professional expense of \$12,850.

Contractual Services – Testing (635) – The Utility recorded \$8,729 in this account for testing expense. Staff has decreased this account by \$575 to remove boil water notice delivery expenses that were reclassified to Account No. 636 contractual services – other, and by an additional \$350 to remove boil water notice delivery expenses that occurred outside the test year. In addition, staff has decreased this account by \$3,241 to remove non-testing services that were reclassified to Accounts Nos. 618 chemicals, 620 materials and supplies, and 636 contractual services – other. Staff's net adjustment to this account is a decrease of \$4,166. Staff recommends contractual services – testing expense of \$4,563.

Contractual Services – Other (636) – TLP recorded \$3,710 in this account for contractual services – other. Staff has made adjustments to this account to reclassify certain expenses and recognize the appropriate expense level of services. Staff recommends the following adjustments to contractual services – other.

Table 6-1

| | <u>Adjustment Description</u> | <u>Water</u> |
|----|--|----------------|
| 1. | To reclassify operator services from Acct. No. 635. | \$3,205 |
| 2. | To reclassify boil water notice delivery expenses from Acct. No. 635. | 575 |
| 3. | To include water distribution line repairs that were paid for by a customer and incorrectly credited against the customer's account. | 108 |
| 4. | To reflect annual amortization of legal fees that were approved in Docket No. 090244-WU (the Utility's last rate case). | 398 |
| 5. | To remove office supplies and postage that occurred outside the test year. | (255) |
| 6. | To reclassify various items, such as bank fees, membership fees, and permits, to Acct. No. 675. | (681) |
| 7. | To remove regulatory assessment fees (RAFs) paid on the Utility's 2011 revenues that are reclassified as taxes other than income. | (1,523) |
| | Total | <u>\$1,826</u> |

Staff's net adjustment to contractual services - other is an increase of \$1,826. Staff recommends contractual services – other expense of \$5,536.

Rents (640) – TLP recorded rent expense of \$3,810. Staff has increased rent by \$90 to reflect annualization of a \$15 per month increase in the water plant lease that went into effect on January 1, 2012. Staff recommends rent expense of \$3,900.

Regulatory Commission Expense (665) – TLP recorded \$0 for regulatory commission expense in this account. Staff has increased this account by \$150 to reflect the annual amortization of rate case expense approved in the Utility's last rate case (Docket No. 090244-WU). Regarding the current rate case, pursuant to Rule 25-22.0407, F.A.C., the Utility is required to mail notices of the customer meeting and notices of final rates to its customers. For these notices, staff has estimated \$48 for postage expense, \$37 for printing expense, and \$5 for envelopes, for a total noticing cost of \$90. The Utility paid a \$200 rate case filing fee. The total rate case expense including postage, notices, envelopes, and filing fee is \$290. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a four-year period, which is \$73 per year (\$290/4). Staff's net adjustment to this account is an increase of \$223. Staff recommends regulatory commission expense of \$223.

Miscellaneous Expense (675) – TLP recorded \$0 in this account for miscellaneous expense. Staff has reclassified \$681 for various items, such as bank fees, membership fees, and permits, from Account No. 636 contractual services – other. In addition, staff has increased miscellaneous expense by \$150 to reflect the annual amortization of the Utility's certification docket application fee, which is being amortized over five years as approved in the Utility's last rate case. Staff's net adjustment to this account is an increase of \$831. Staff recommends miscellaneous expense of \$831.

Operation and Maintenance Expenses (O&M) Summary – Total adjustments to O&M expense result in a decrease of \$2,899. Staff's recommended O&M expense is \$29,648. O&M expenses are shown on Schedule No. 3-A.

Depreciation Expense (Net of Related Amortization of CIAC) – The Utility recorded depreciation expense of \$0 during the test year. Staff has calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C., and determined depreciation expense to be \$2,427. TLP has no amortization of CIAC. Therefore, staff recommends net depreciation expense of \$2,427.

Taxes Other Than Income (TOTI) – The Utility recorded \$0 in this account for TOTI. Staff has increased this account by \$1,506 to reflect the appropriate test year RAFs. As discussed in Issue 7, revenues have been increased by \$7,853 to reflect the change in revenue required to cover expenses and allow the recommended return on investment. As a result, TOTI should be increased by \$353 to reflect RAFs of 4.5 percent on the change in revenues. Accordingly, staff's recommended TOTI is \$1,859.

Income Tax – The Utility is an 1120C Corporation and did not record income tax for the test year. Based on its current income tax return, TLP has a large amount of net loss carry forwards. These net loss carry forwards are sufficient enough to offset any income tax liability for the next few years. Therefore, staff has not made any adjustments to this account.

Operating Expenses Summary – The application of staff's recommended adjustments to TLP's recorded test year operating expenses result in staff's recommended operating expenses of \$33,935. Operating expenses are shown on Schedule No. 3-A. The related adjustments are shown on Schedule No. 3-B.

Issue 7: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirement is \$41,319. (Lingo, Golden)

Staff Analysis: TLP should be allowed an annual increase of \$7,853 (23.5 percent). This will allow the Utility the opportunity to recover its expenses and a 12.00 percent return on its investment. The calculations are as follows:

Table 7-1

| <u>Water Revenue Requirement</u> | |
|----------------------------------|----------|
| Adjusted Rate Base | \$61,537 |
| Rate of Return | x .1200 |
| Return on Rate Base | \$ 7,384 |
| Adjusted O&M expense | 29,648 |
| Depreciation expense (Net) | 2,427 |
| Amortization | 0 |
| Taxes Other Than Income | 1,859 |
| Income Taxes | 0 |
| Revenue Requirement | \$41,319 |
| Less Test Year Revenues | 33,466 |
| Annual Increase | \$7,853 |
| Percent Increase/(Decrease) | 23.5% |

Issue 8: Should the Utility's current rate structure be changed, and if so, what is the appropriate rate structure for the Utility's water system?

Recommendation: No. Staff recommends the continuation of TLP's current flat rate structure with permanent and seasonal flat rates. The seasonal flat rate is applicable for customers that are inactive for at least 60 consecutive days. (Roberts)

Staff Analysis: Rule 25-30.255(1), F.A.C., requires that each utility measure its water sold on the basis of metered volume sales unless the Commission approves a flat rate service arrangement. The Commission approved a flat structure with permanent and seasonal flat rates in the Utility's last rate case.⁸ The seasonal flat rate applies when a customer is inactive for at least 60 consecutive days. This will allow the customers to only pay fixed costs that are associated with the Utility rather than a flat rate that includes variable costs when they are not in residence.

Staff is lacking the consumption data necessary to design a base facility charge (BFC)/uniform gallonage charge rate structure because the Utility's service territory is not completely metered. However, staff was able to determine that customers' average consumption is 4,090 gallons per month based on total number of gallons reported to DEP less 10 percent unaccounted-for-water divided by the total number of bills. This number is slightly higher than the average consumption of 2,570 gallons per month from the Utility's prior rate case. As discussed in Issue 2, one of the Utility's residential connections was rezoned for commercial usage and now houses the Buzzard Beach Bar & Grille. TLP has metered the connection for this commercial customer. For the final recommendation, staff will evaluate whether or not the new commercial connection has caused the increase in average consumption and consider designing a BFC/uniform gallonage charge rate for this customer.

Based on the foregoing, staff recommends the continuation of TLP's current flat rate structure with permanent and seasonal flat rates. The seasonal flat rate is applicable for customers that are inactive for at least 60 consecutive days.

⁸ Ibid. 3.

Issue 9: Is an adjustment to reflect repression of consumption appropriate at this time?

Recommendation: No, a repression adjustment is not appropriate at this time. (Roberts)

Staff Analysis: As previously discussed in Issue 8, staff is recommending to continue the flat rate structure at this time. Due to the fact that a flat rate structure will not let customers reduce their bills by reducing consumption, staff does not believe that a reduction in consumption will occur. Therefore, a repression adjustment is not appropriate at this time.

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

Recommendation: The appropriate monthly water rates are shown on Schedule No. 4. The recommended rates should be designed to produce revenues of \$41,319, excluding miscellaneous service charges. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice. (Roberts)

Staff Analysis: The appropriate monthly water rates should be design to produce recommended revenues of \$41,319, excluding miscellaneous service charges. As discussed in Issue 8, staff is recommending a continuation of the Utility's current flat rate structure consisting of permanent and seasonal flat rates. The permanent flat rate consists of fixed and variable costs whereas the seasonal flat rate consists of only the fixed cost. Staff calculated the fixed cost rate by dividing the \$27,563 of fixed cost associated with the revenue requirement by the total annual bills of 612. This results in a fixed cost rate of \$45.04. Staff calculated the variable cost rate by dividing the \$13,571 of variable cost associated with the revenue requirement by the total number of year round bills of 411. This results in a variable cost rate of \$33.02. Therefore, staff recommends a permanent rate of \$78.06 (\$45.04+\$33.02) and a seasonal rate of \$45.04.

The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice.

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

Based on the foregoing, the appropriate rates for monthly service for the water are shown on Schedule 4.

Issue 11: What is the appropriate amount by which rates should be reduced in four years after the published effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816 F.S.?

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

Staff Analysis: Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for RAFs. The total reduction is \$78. Using TLP's current revenue, expenses, capital structure and customer base, the reduction in revenue will result in the rate decreases as shown on Schedule No. 4.

The Utility should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. TLP also should be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction.

If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Issue 12: Should the recommended rates be approved for the Utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility?

Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the Utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility. TLP should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. Prior to implementation of any temporary rates, the Utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the Utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Lingo, Golden)

Staff Analysis: This recommendation proposes an increase in water rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the Utility, staff recommends that the recommended rates be approved as temporary rates. TLP should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. The recommended rates collected by the Utility should be subject to the refund provisions discussed below.

TLP should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$5,240. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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

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

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

- 1) The letter of credit is irrevocable for the period it is in effect, and,

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

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

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

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

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

Docket No. 120183-WU
Date: December 11, 2012

Issue 13: 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 applicable National Association of Regulatory Commissioners Uniform System of Accounts (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, TLP should provide proof, within 90 days of the final order in this docket, that the adjustments for all applicable NARUC USOA primary accounts have been made. (Lingo, Golden)

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

Docket No. 120183-WU
Date: December 11, 2012

Issue 14: 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 should 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. Once these actions are complete, this docket should be closed administratively. (Harris)

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 should 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. Once these actions are complete, this docket should be closed administratively.

| TLP WATER, INC. | | SCHEDULE NO. 1-A | |
|-----------------------------------|---------------------------|-----------------------------------|-------------------------|
| TEST YEAR ENDED 06/30/2012 | | DOCKET NO. 120183-WU | |
| SCHEDULE OF WATER RATE BASE | | | |
| DESCRIPTION | BALANCE PER UTILITY | STAFF ADJUST. TO UTIL. BAL. | BALANCE PER STAFF |
| 1. UTILITY PLANT IN SERVICE | \$0 | \$70,373 | \$70,373 |
| 2. LAND & LAND RIGHTS | 0 | 0 | 0 |
| 3. NON-USED AND USEFUL COMPONENTS | 0 | 0 | 0 |
| 4. CIAC | 0 | 0 | 0 |
| 5. ACCUMULATED DEPRECIATION | 0 | (12,542) | (12,542) |
| 6. AMORTIZATION OF CIAC | 0 | 0 | 0 |
| 7. WORKING CAPITAL ALLOWANCE | <u>0</u> | <u>3,706</u> | <u>3,706</u> |
| 8. WATER RATE BASE | <u>\$0</u> | <u>\$61,537</u> | <u>\$61,537</u> |

| TLP WATER, INC. | | SCHEDULE NO. 1-B |
|--|--|-----------------------------|
| TEST YEAR ENDED 06/30/2012 | | DOCKET NO. 120183-WU |
| ADJUSTMENTS TO RATE BASE | | |
| <u>UTILITY PLANT IN SERVICE</u> | | |
| To reflect plant balance per Order No. PSC-10-0124-PAA-WU. | | <u>\$70,373</u> |
| <u>ACCUMULATED DEPRECIATION</u> | | |
| 1. To reflect accumulated depreciation per Rule 25-30.140 F.A.C. | | (\$13,755) |
| 2. To reflect a test year averaging adjustment. | | <u>1,213</u> |
| Total | | <u>(\$12,542)</u> |
| <u>WORKING CAPITAL ALLOWANCE</u> | | |
| To reflect 1/8 of test year O & M expenses. | | <u>\$3,706</u> |

TLP WATER, INC.
 TEST YEAR ENDED 06/30/2012
 SCHEDULE OF CAPITAL STRUCTURE

| CAPITAL COMPONENT | PER UTILITY | SPECIFIC ADJUSTMENTS | BALANCE BEFORE PRO RATA ADJUSTMENTS | PRO RATA ADJUSTMENTS | BALANCE PER STAFF | PERCENT OF TOTAL | COST | WEIGHTED COST |
|--------------------------------|-----------------|----------------------|-------------------------------------|----------------------|-------------------|------------------|---------------|---------------|
| 1. TOTAL COMMON EQUITY | undetermined | undetermined | \$0 | \$0 | \$0 | 0.00% | 11.16% | 0.00% |
| 2. TOTAL LONG-TERM DEBT | <u>\$93,400</u> | <u>\$43,466</u> | <u>\$136,866</u> | <u>(\$75,329)</u> | <u>\$61,537</u> | <u>100.00%</u> | <u>12.00%</u> | <u>12.00%</u> |
| 3. TOTAL | <u>\$93,400</u> | <u>\$43,466</u> | <u>\$136,866</u> | <u>(\$75,329)</u> | <u>\$61,537</u> | <u>100.00%</u> | | <u>12.00%</u> |
| RANGE OF REASONABLENESS | | | | | | LOW | HIGH | |
| RETURN ON EQUITY | | | | | | <u>10.16%</u> | <u>12.16%</u> | |
| OVERALL RATE OF RETURN | | | | | | <u>12.00%</u> | <u>12.00%</u> | |

| TLP WATER, INC. TEST YEAR ENDED 06/30/2012 SCHEDULE OF WATER OPERATING INCOME | | SCHEDULE NO. 3-A DOCKET NO. 120183-WU | | | |
|---|--------------------------|--|--------------------------------|----------------------------|------------------------|
| | TEST YEAR PER UTILITY | STAFF ADJ. PER UTILITY | STAFF ADJUSTED TEST YEAR | ADJUST. FOR INCREASE | REVENUE REQUIREMENT |
| 1. OPERATING REVENUES | <u>\$34,257</u> | <u>(\$791)</u> | <u>\$33,466</u> | <u>\$7,853</u> 23.5% | <u>\$41,319</u> |
| OPERATING EXPENSES: | | | | | |
| 2. OPERATION & MAINTENANCE | <u>\$32,547</u> | <u>(\$2,899)</u> | <u>\$29,648</u> | <u>\$0</u> | <u>\$29,648</u> |
| 3. DEPRECIATION (NET) | <u>0</u> | <u>2,427</u> | <u>2,427</u> | <u>0</u> | <u>2,427</u> |
| 4. AMORTIZATION | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| 5. TAXES OTHER THAN INCOME | <u>0</u> | <u>1,506</u> | <u>1,506</u> | <u>353</u> | <u>1,859</u> |
| 6. INCOME TAXES | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| 7. TOTAL OPERATING EXPENSES | <u>\$32,547</u> | <u>\$1,034</u> | <u>\$33,581</u> | <u>\$353</u> | <u>\$33,935</u> |
| 8. OPERATING INCOME/(LOSS) | <u>\$1,710</u> | | <u>(\$115)</u> | | <u>\$7,384</u> |
| 9. WATER RATE BASE | <u>\$0</u> | | <u>\$61,537</u> | | <u>\$61,537</u> |
| 10. RATE OF RETURN | <u>0%</u> | | <u>-0.2%</u> | | <u>12.00%</u> |

| TLP WATER, INC. TEST YEAR ENDED 06/30/2012 ADJUSTMENTS TO OPERATING INCOME | SCHEDULE NO. 3-B DOCKET NO. 120183-WU PAGE 1 OF 2 |
|--|---|
| OPERATING REVENUES | |
| To reflect the appropriate test year revenues. | <u>(\$791)</u> |
| OPERATION AND MAINTENANCE EXPENSES | |
| 1. Purchased Power (615) | |
| a. To remove two electric bills that occurred outside the test year. | (\$250) |
| b. To include one electric bill that occurred within the test year. | <u>40</u> |
| Subtotal | <u>(\$210)</u> |
| 2. Chemicals (618) | |
| a. To reclassify chlorine expenses from Accts. Nos. 635 and 636. | <u>\$286</u> |
| 3. Materials and Supplies (620) | |
| a. To remove office supplies and postage that occurred outside the test year. | (\$349) |
| b. To reclassify materials and supplies from Accts. Nos. 635 and 636. | <u>71</u> |
| Subtotal | <u>(\$278)</u> |
| 4. Contractual Services – Professional (631) | |
| a. To remove legal service payments that occurred outside the test year. | <u>(\$1,500)</u> |
| 5. Contractual Services – Testing (635) | |
| a. To reclassify boil water notice delivery expenses to Acct. No. 636. | (\$575) |
| b. To remove boil water notice delivery that occurred outside the test year. | (350) |
| c. To reclassify non-testing services to Accts. Nos. 618, 620, and 636. | <u>(3,241)</u> |
| Subtotal | <u>(\$4,166)</u> |
| 6. Contractual Services – Other (636) | |
| a. To reclassify operator services from Acct. No. 635. | \$3,205 |
| b. To reclassify boil water notice delivery expenses from Acct. No. 635. | 575 |
| c. To include water distribution line repairs. | 108 |
| d. To reflect annual amortization of legal fees (Docket No. 090244-WU). | 398 |
| e. To remove office supplies and postage that occurred outside the test year. | (255) |
| f. To reclassify various fees and permits to Acct. No. 675. | (681) |
| g. To remove RAFs paid on 2011 revenues. | <u>(1,523)</u> |
| Subtotal | <u>\$1,826</u> |

| TLP WATER, INC. | | SCHEDULE NO. 3-B |
|--|--|-----------------------------|
| TEST YEAR ENDED 06/30/2012 | | DOCKET NO. 120183-WU |
| ADJUSTMENTS TO OPERATING INCOME | | PAGE 2 OF 2 |
| 7. Rents (640) | | |
| a. To reflect annualization of \$15 per month water plant lease increase. | | <u>\$90</u> |
| 8. Regulatory Commission Expense (665) | | |
| a. To reflect 4 year amortization of rate case expense (Docket 090244-WU). | | \$150 |
| b. To reflect 4 year amortization of rate case expense for current docket. | | <u>73</u> |
| Subtotal | | <u>\$223</u> |
| 9. Miscellaneous Expense (675) | | |
| a. To reclassify various fees and permits from Acct. No. 636. | | \$681 |
| b. To reflect annual amortization of certification application fee. | | <u>150</u> |
| Subtotal | | <u>\$831</u> |
| TOTAL OPERATION & MAINTENANCE ADJUSTMENTS | | <u>(\$2,899)</u> |
| DEPRECIATION EXPENSE | | |
| 1. To reflect test year depreciation calculated per Rule 25-30.140, F.A.C. | | <u>\$2,427</u> |
| TAXES OTHER THAN INCOME | | |
| 1. To reflect the appropriate test year RAFs. | | <u>\$1,506</u> |

TLP WATER, INC.

TEST YEAR ENDED 06/30/2012

ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE

SCHEDULE NO. 3-C

DOCKET NO. 120183-WU

| | TOTAL PER UTILITY | STAFF ADJUST. | TOTAL PER STAFF |
|---|-------------------------|------------------|-----------------------|
| (601) SALARIES AND WAGES - EMPLOYEES | \$0 | \$0 | \$0 |
| (603) SALARIES AND WAGES - OFFICERS | 0 | 0 | 0 |
| (604) EMPLOYEE PENSION & BENEFITS | 0 | 0 | 0 |
| (610) PURCHASED WATER | 0 | 0 | 0 |
| (615) PURCHASED POWER | 845 | (210) | 635 |
| (616) FUEL FOR POWER PRODUCTION | 0 | 0 | 0 |
| (618) CHEMICALS | 0 | 286 | 286 |
| (620) MATERIALS AND SUPPLIES | 349 | (278) | 71 |
| (630) CONTRACTUAL SERVICES - BILLING | 0 | 0 | 0 |
| (631) CONTRACTUAL SERVICES - PROFESSIONAL | 14,350 | (1,500) | 12,850 |
| (635) CONTRACTUAL SERVICES - TESTING | 8,729 | (4,166) | 4,563 |
| (636) CONTRACTUAL SERVICES - OTHER | 3,710 | 1,826 | 5,536 |
| (640) RENTS | 3,810 | 90 | 3,900 |
| (650) TRANSPORTATION EXPENSE | 0 | 0 | 0 |
| (655) INSURANCE EXPENSE | 754 | 0 | 754 |
| (665) REGULATORY COMMISSION EXPENSE | 0 | 223 | 223 |
| (670) BAD DEBT EXPENSE | 0 | 0 | 0 |
| (675) MISCELLANEOUS EXPENSES | <u>0</u> | <u>831</u> | <u>831</u> |
| | <u>\$32,547</u> | <u>(\$2,899)</u> | <u>\$29,648</u> |

TLP WATER, INC.
TEST YEAR ENDED 06/30/2012
MONTHLY WATER RATES

SCHEDULE NO. 4
DOCKET NO. 120183-WU

| | UTILITY'S EXISTING RATES | STAFF RECOMMENDED RATES | 4-YEAR RATE REDUCTION |
|---|--------------------------------|-------------------------------|-----------------------------|
| <u>Residential / General Service</u> | | | |
| <i>All Meter Sizes</i> | | | |
| Flat Rate | \$59.80 | \$78.06 | \$0.15 |
| Vacation Rate | \$42.99 | \$45.04 | \$0.08 |