

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-

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**DATE:** March 22, 2017

**TO:** Carlotta S. Stauffer, Commission Clerk, Office of Commission Clerk **GAW**

**FROM:** Giovanni Wolmers, Public Utility Analyst I, Division of Accounting & Finance

**RE:** Staff Report for Docket #160222-Application for staff-assisted rate case in Highlands County by LP Waterworks, Inc.

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Please file staff report in Docket# 160222.

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# Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

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**DATE:** March 17, 2017

**TO:** Mark A. Cicchetti, Bureau Chief of Finance, Tax & Cost Recovery, Division of Accounting & Finance

**FROM:** Division of Accounting and Finance (Wolmers, D. Buys) *GAW*  
Division of Economics (Friedrich, Hudson) *DB*  
Division of Engineering (Ellis, Wooten) *MCA*  
Office of the General Counsel (Murphy) *POB* *Com*

**RE:** Docket No. 160222-WS – Application for staff-assisted rate case in Highlands County by LP Waterworks, Inc.

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**—STAFF REPORT—**

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

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## Case Background

LP Waterworks, Inc. (LPWW or Utility) is a Class C water and wastewater utility serving approximately 444 water and 389 wastewater residential customers and several general service customers in the Camp Florida Resort RV Park (RV Park or Park) in Highlands County. The customer base is comprised of single family homes, mobile homes, and RV sites. The LPWW service territory is located in the water use caution area of the Southwest Florida Water Management District (SWFWMD).

The Commission ordered that the transfer of Certificate Nos. 620-W and 533-S from LP Utilities Corporation to LP Waterworks, Inc., was in the public interest and was approved, effective the date of the Commission vote, March 13, 2014.<sup>1</sup> The Utility's rate base was last established in its 2013 staff-assisted rate case (SARC) settlement with OPC by Order No. PSC 14-0413-PAA-WS.<sup>2</sup> The water and wastewater rate increase was implemented in two phases. Phase I recovered only the recommended operation and maintenance expenses, property taxes, and regulatory assessment fee (RAF) expense. Phase II rates included the recovery of the Utility's return on rate base, including the modified water and wastewater pro forma plant additions, depreciation net of CIAC amortization, and recovery of the approved operation and maintenance expenses, property taxes, and RAF expense. The Utility agreed not to file a new rate case before one year after implementation of the Phase II rate increase. Phase II rates were implemented September 5, 2015.

In its application for the instant SARC, LPWW is requesting that a test year ending August 31, 2016, be used. In addition, LPWW is requesting the opportunity to recover all prudently incurred expenses the Utility will incur on a going-forward basis, and generate a fair rate of return on its investments in all property considered used and useful in the public service. LPWW reports investing \$45,379 in water plant and \$70,034 in wastewater plant during the years 2014 and 2015. Furthermore, LPWW is also requesting recovery of plant additions for wastewater for the cost of manhole rehabilitation and repair which occurred in October 2016. In the Utility's application, it stated the main reason for the need to request a SARC is due to the significant decrease in water consumption.

This Staff Report is a **preliminary** analysis of the Utility prepared by Commission staff to give customers and the Utility an advanced look at what staff may be proposing. The final recommendation to the Commission is currently scheduled to be filed June 28, 2017, for consideration at the July 11, 2017 Commission Conference. The recommendation will be revised as necessary using any updated information and results of customer quality of service concerns or other relevant information received during the customer meeting. The Commission has jurisdiction in this case pursuant to Sections 367.081(8), 367.0812, 367.0814, and 367.091 Florida Statutes, (F.S.).

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<sup>1</sup>Order No. PSC-14-0130-PAA-WS, issued March 17, 2014, in Docket No. 130055-WS, *In re: Application for approval of transfer LP Utilities Corporation's water and waste waster systems and Certificate Nos. 620-W and 533-S, to LP Waterworks, Inc., in Highlands County.*

<sup>2</sup>Issued August 14, 2014, in Docket No. 130153-WS, *In re: Application for staff-assisted rate case in Highlands County, by L.P. Utilities Corporation c/o LP Waterworks, Inc.*

## Discussion of Issues

**Issue 1:** Is the quality of service provided by LP Waterworks, Inc. satisfactory?

**Recommendation:** Staff's recommendation regarding quality of service will not be finalized until after the April 18, 2017 customer meeting. (Wooten)

**Staff Analysis:** Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in water rate cases, the Commission shall determine the overall quality of service provided by the Utility. This is derived from an evaluation of three separate components of the Utility operations. These components are the quality of the Utility's product, the operating conditions of the Utility's plant and facilities, and the Utility's attempt to address customer satisfaction. The Rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with the Florida Department of Environmental Protection (DEP) and the county health department over the preceding three-year period shall be considered. In addition, input from the DEP and health department officials and customer comments or complaints over the preceding five-year period shall be considered pursuant to Section 367.0812(1)(c), F.S.

The Utility is located in the water use caution area of the Southwest Florida Water Management District. A significant portion of LPWW residential customer base is seasonal.

### Quality of Utility's Product

In evaluation of LPWW's product quality, staff reviewed the Utility's compliance with DEP primary and secondary drinking water standards. Primary standards protect public health while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water. Staff reviewed the chemical analysis of samples dated May 27, 2015. All of the contaminants were below the maximum contaminant level set by DEP. In December 2015, there was a lead warning issued by the company because of failed lead testing from DEP. As of January 13, 2017, the system is currently approved for operation by the DEP after treatment for lead was completed.

### Operating Condition of the Utility's Plant and Facilities

LPWW's water treatment system has two wells rated at 850 gallons per minute (gpm) and 350 gpm. The Utility's water system has two ground storage tanks totaling 25,000 gallons in capacity. There are three fire hydrants present throughout the service area. The distribution system is comprised of varying sizes of PVC pipes. LPWW only provides wastewater service to a portion of its service territory, primarily the Camp Florida Resort. Furthermore, the wastewater system serves seasonal customers which have peak flows from January through March.

Staff reviewed the Utility's last DEP Sanitary Survey, dated November 28, 2016, and the facility was determined to be in compliance with the Department's rules and regulations.

### The Utility's Attempt to Address Customer Satisfaction

A review of the customer complaints indicates the Utility has resolved all of the complaints tracked by the Commission. The Commission's Consumer Activity Tracking System recorded 12 complaints during the past five years. Of the 12 complaints, one was related to quality of service and the others were related to billing.

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**Conclusion**

Quality of service will be determined at a later date, pending review of comments made at the Customer Meeting on April 18th, 2017.

**Issue 2:** What are the used and useful percentages (U&U) of LP Waterworks, Inc. water treatment plant (WTP), water storage, waste treatment plant (WWTP) and distribution and collection systems?

**Recommendation:** LPWW's WTP, water storage and wastewater collection system should all be considered 100 percent U&U. The water distribution system should be considered 84 percent U&U. The WWTP should be considered 96 percent U&U. Staff recommends a 24 percent adjustment to purchased power and chemicals should be made for excessive unaccounted for water. (Wooten)

**Staff Analysis:** LPWW's water treatment system has two wells rated at 850 gpm and 350 gpm. The Utility's water system has two ground storage tanks totaling 25,000 gallons in capacity. There are three fire hydrants present throughout the service area. The distribution system is comprised of varying sizes of PVC pipes. The LPWW wastewater treatment plant is permitted by the DEP as a 50,000 gallon per day annual average daily flow facility. According to the Utility, the LPWW wastewater collection system is comprised of 9,313 feet of PVC collecting mains of varying sizes and 918 feet of force mains. There are 47 manholes present throughout the service area.

#### **Excessive Unaccounted For Water**

Rule 25-30.4325, F.A.C., defines Excessive Unaccounted for Water (EUW) as "unaccounted for water in excess of 10 percent of the amount produced." Unaccounted for water is all water produced that is not sold, metered or accounted for in the records of the Utility. In determining whether adjustments to plant and operating expenses are necessary in accordance with Rule 25-30.4325(10), F.A.C., staff considers several factors. These include the causes of EUW, any corrective action taken, or the economical feasibility of a proposed solution. EUW is calculated by subtracting both the gallons sold to customers and the gallons used for other services, such as flushing, from the total gallons pumped for the test year.

The Monthly Operating Reports that the Utility files with DEP indicate that the Utility treated 16,285,500 gallons during the test year. In response to a staff data request the Utility indicated that it purchased no water and used 1,428,000 gallons for other uses during the test year. According to the staff audit report, the Utility sold 9,299,000 gallons of water for the test year. When both the gallons sold and water used for other uses is subtracted from the total gallons pumped there is an amount of 5,558,500 gallons that are unaccounted for. The formula for unaccounted for water is given by gallons of unaccounted for water / (total gallons pumped + gallons purchased). The resulting unaccounted for water is 34 percent and the excessive unaccounted for water is 24 percent. Accordingly, staff recommends an adjustment to purchased power and chemicals due to 24 percent EUW.

#### **Infiltration and Inflow**

Rule 25-30.432, F.A.C., provides that in determining the amount of U&U plant, the Commission will consider I&I. Excessive I&I is a calculation that is based on a comparison of the allowable wastewater treated to the actual amount of wastewater treated. Allowable treated water was calculated as 12,130,536 gallons and the actual amount of wastewater treated was 9,289,000 gallons. The actual amount does not exceed the allowable amount, therefore there is no excessive I&I.

### **Water Treatment Plant**

The LPWW water service territory covers approximately 125 acres. The water treatment plant is a closed system with two wells and permitted capacity at 200,000 gallons per day. There are three fire hydrants located throughout the service area which must meet a minimum of 500 gallons per minute for a four-hour period of time. In the previous rate case, Docket No. 130153-WS<sup>3</sup> the water treatment facility was determined to be 100 percent U&U. Staff evaluated the circumstances that the system was considered 100 percent U&U along with the formula based method, and determined that there has been no change and the system should still be considered 100 percent U&U.

### **Water Distribution System and Storage**

The distribution system is evaluated based on equivalent residential connections consisting of customer demand, growth and system capacity. The customer demand is the sum of the 375 connections for the 2016 test year and a growth of eight connections over the statutory five-year period. System capacity is 457 connections. This is then calculated as an 84 percent U&U for the distribution system. LPWW has two useable storage tanks with a total capacity of 25,000 gallons. Rule 25-30.4325(8), F.A.C., states that usable storage capacity less than or equal to the peak day demand shall be considered 100 percent used and useful. The peak day demand was found to be 125,000 gallons per day. The storage will be considered 100 percent U&U.

### **Wastewater Treatment Plant**

LPWW only provides wastewater service to a portion of its service territory, primarily the Camp Florida Resort. The wastewater system serves seasonal customers which have peak flows from January through March. The formula for calculating U&U for the wastewater treatment plant is given by (average daily flow + growth – excessive I&I) / permitted plant capacity. The average daily flow for LPWW is 48,032 gallons per day. There is no excessive I&I and no growth. The permitted capacity of the plant is 50,000 gallons per day. Therefore, the WWTP is 96% percent U&U.

### **Wastewater Collection System**

As there has been no significant customer growth and the system is built out as established in the previous SARC Docket No. 130153-WS, staff recommends the wastewater collection system should be considered 100 percent U&U.

### **Conclusion**

LPWW's WTP should be considered 100 percent U&U. The water distribution system should be considered 84 percent U&U. The WWTP should be considered 96 percent U&U. The wastewater collection system should be considered 100 percent used and useful. The storage systems should be considered 100 percent U&U. Staff recommends a 24 percent adjustment to purchased power and chemicals expenses should be made for excessive unaccounted for water.

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<sup>3</sup>Order No. PSC-14-0413-PAA-WS, issued August 14, 2014, in Docket No. 130153-WS, *In re: Application for staff-assisted rate case in Highlands County, by L.P. Utilities Corporation c/o LP Waterworks, Inc.*



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

**Recommendation:** The appropriate average test year rate base for the utility is \$88,900 for water and \$153,870 for wastewater. (Wolmers)

**Staff Analysis:** The appropriate components of the Utility’s rate base include utility plant in service, accumulated depreciation, contribution-in-aid-of-construction (CIAC), amortization of CIAC, and working capital. The last proceeding that established balances for rate base was Docket No. 130153-WS.<sup>4</sup> Staff selected the test year ended August 31, 2016 for the instant rate case. A summary of each component and the recommended adjustments follows.

**Utility Plant in Service (UPIS)**

The Utility recorded \$527,435 for water and \$441,119 for wastewater. Staff’s adjustments to UPIS are identified in Table 3-1 below. After review by staff, all pro forma items were considered appropriate and prudent. As shown in Table 3-2 below, staff made a net adjustment increasing UPIS by \$11,669 for pro forma plant addition items.

**Table 3-1  
Staff Adjustments to Utility Plant in Service**

	<b>Adjustment Description</b>	<b>Water</b>	<b>Wastewater</b>
1.	Surge Tank Blower and Panel Reclassification (354)	0	(9,200)
2.	Surge Tank Blower and Panel Reclassification (380)	0	9,200
3.	Pumping Equipment, Audit Finding 1- to replace control panel and pump March 2014 did not record retirement per Utility (371)	0	(1,040)
4.	Pro forma Plant Addition Projects (See Table 3-2 for detail)	0	11,669
	<b>Total</b>	<b>\$0</b>	<b>\$10,629</b>

Source: Utility records, Response to staff data requests, and Audit Control No. 16-320-4-1.

**Table 3-2  
Pro-Forma Plant Items**

<b>Project</b>	<b>Acct. No.</b>	<b>Description</b>	<b>Amount</b>
Manhole Repair	354	Materials, Labor and Equipment for Sanitary Sewer Rehabilitation	\$8,236
Replaced Contactor/Overload	371	Replaced contactor and overload in surge pump control panel	\$519
Associated Retirement			(\$390)
Surge Pump at WWTP	371	Installed new pump at WWTP in surge tank	\$3,303
		<b>Net Adjustment</b>	<b>\$11,669</b>

Source: Responses to staff data requests

<sup>4</sup>Order No. PSC-14-0413-PAA-WS, issued August 14, 2014, in Docket No. 130153-WS, *In re: Application for staff-assisted rate case in Highlands County, by L.P. Utilities Corporation c/o LP Waterworks, Inc.*

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Staff's net adjustments to UPIS are increases of \$0 and \$10,629 for water and wastewater, respectively. Staff's recommended UPIS balance is \$527,435 for water and \$451,748 for wastewater.

### **Land & Land Rights**

The Utility recorded a test year land value of \$27,412 for water and \$36,000 for wastewater. No adjustments are necessary, and therefore, staff recommends a land balance of \$27,412 for water and \$36,000 for wastewater.

### **Non-Used and Useful Plant**

The Utility recorded a test year non-U&U plant balance of \$12,746 for water and \$2,438 for wastewater. As discussed in Issue 2, the Water Distribution System should be considered 84 percent U&U and the Wastewater Treatment Plant should be considered 96 percent U&U.

Application of the U&U percentage to the average plant balances and associated average accumulated depreciation balances results in a net increase of \$2,941 for water and net decrease of \$1,969 for wastewater non-U&U components. Therefore, staff's recommended non-U&U plant balances are \$15,687 and \$469 for water and wastewater, respectively.

### **Accumulated Depreciation**

The Utility recorded a balance for accumulated depreciation of \$362,984 and \$311,970 for water and wastewater, respectively. Staff has calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C., and determined that accumulated depreciation should not change for water and be decreased by \$5,533 for wastewater. Staff recommends an accumulated depreciation balance of \$362,984 for water and \$306,437 for wastewater.

### **Contribution In Aid of Construction (CIAC)**

The Utility recorded a CIAC balance of \$266,480 for water and \$92,400 for wastewater. Commission audit staff noted that previously in Order No. PSC-14-0413-PAA-WS<sup>5</sup> adjustments were made. Staff recommends a CIAC balance of \$266,480 for water and \$92,400 for wastewater.

### **Accumulated Amortization of CIAC**

The Utility recorded a balance for accumulated amortization of CIAC of \$167,447 for water and \$55,709 for wastewater. Commission audit staff noted that prior Order No. PSC-14-0413-PAA-WS<sup>5</sup> adjustments were made. No adjustments are necessary, therefore staff recommends a accumulated amortization of CIAC balance of \$167,447 for water and \$55,709 for wastewater.

### **Working Capital Allowance**

Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses. Consistent with Rule 25-30.433(2), F.A.C. staff used the one-eighth of the operating and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of \$11,757 for water (based on O&M expense of \$94,053÷8 for water) and \$9,719 for wastewater (based on O&M expense of \$77,752÷8 for wastewater).

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<sup>5</sup>Issued August 14, 2014, in Docket No. 130153-WS, *In re: Application for staff-assisted rate case in Highlands County, by L.P. Utilities Corporation c/o LP Waterworks, Inc.*

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**Rate Base Summary**

Based on the foregoing, staff recommends that the appropriate average test year rate base is \$88,900 for water and \$153,870 for wastewater. Rate base is shown on Schedule No.1-A for water and on Schedule No. 1-B for wastewater. The related adjustments for water and wastewater are shown on Schedule No. 1-C.

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

**Recommendation:** The appropriate return on equity (ROE) is 9.39 percent with a range of 8.39 percent to 10.39 percent. The appropriate overall rate of return is 7.72 percent. (Wolmers)

**Staff Analysis:** According to the staff's audit, the Utility's test year capital structure consists of \$138,719 in retained earnings for common equity, long term debt of \$56,212, and customer deposits of \$4,770.

Staff has increased customer deposits by \$330, to reflect the actual amount of customer deposits on the Utility's general ledger per staff's audit.

The appropriate ROE is 9.39 percent using the Commission-approved leverage formula currently in effect.<sup>6</sup> The Utility's capital structure has been reconciled with staff's recommended rate base. Staff recommends an ROE of 9.39 percent, with a range of 8.39 percent to 10.39 percent, and an overall rate of return of 7.72 percent. The ROE and overall rate of return are shown on Schedule No. 2.

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<sup>6</sup>Orders Nos. PSC-16-0254-PAA-WS, issued June 29, 2016, and PSC-16-0284-CO-WS, issued July 25, 2016, in Docket No. 160006-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), F.S.*

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**Issue 5:** What are the appropriate test year revenues for the water and wastewater systems of LP Waterworks, Inc.?

**Recommendation:** The appropriate test year revenues for LPWW's water and wastewater systems are \$104,974 and \$85,750, respectively. (Friedrich)

**Staff Analysis:** LPWW recorded total test year revenues of \$107,183 for water and \$84,240 for wastewater. The water revenues included \$104,515 of service revenues and \$2,668 of miscellaneous revenues. The wastewater revenues included \$84,240 of service revenues and no miscellaneous revenues. Based on staff's review of the Utility's billing determinants and the service rates that were in effect during the test year, staff determined test year service revenues should be \$103,452 for water and \$84,228 for wastewater. This results in a decrease of \$1,063 and \$12 for water and wastewater test year service revenues, respectively. Staff also made adjustments to miscellaneous revenues for water and wastewater. Staff increased water miscellaneous service revenues by \$376 and divided the total miscellaneous revenues equally between the water and wastewater system. Therefore, the water and wastewater systems each have miscellaneous revenues of \$1,522. Based on the above, the appropriate test year revenues for LPWW's water and wastewater systems are \$104,974 and \$85,750 respectively.

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

**Recommendation:** The appropriate amount of operating expense for the Utility is \$94,053 for water and \$77,752 for wastewater. (Wolmers)

**Staff Analysis:** The Utility recorded operating expense of \$94,053 for water and \$77,752 for wastewater for the test year ended August 31, 2016. The test year O&M expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. Staff has made several adjustments to the Utility's operating expenses as summarized below.

**Salaries and Wages – Officers, Directors (603/703)**

The Utility recorded a balance of \$6,120 for water and \$5,880 for wastewater in Accounts 603 and 703, respectively. This represents compensation for the Director of the Utility. The total amount included in Accounts 603 and 703 is \$12,000, which is the same amount approved in Order No. PSC-14-0413-PAA-WS,<sup>7</sup> therefore staff recommends no adjustments for salaries and wages.

**Purchased Power (615/715)**

The Utility recorded \$2,770 for purchased power expense for water and \$4,528 for wastewater in Accounts 615 and 715, respectively. Staff made an adjustment of \$99 to purchased power expense for water to reflect the actual amount of purchased power expense of \$2,869. However, staff made another adjustment to the purchased power expense account to reflect excessive unaccounted for water as discussed in Issue 2, and decreased the account by \$689, reducing purchased water expense to \$2,180. Furthermore, staff made an adjustment of \$323 to purchase power expense for wastewater to reflect actual amount of purchased power expense of \$ 4,851. Staff recommends purchased power expense of \$2,180 for water and \$4,851 for wastewater.

**Chemicals (618/718)**

The Utility recorded chemical expense of \$650 for water and \$525 for wastewater. Staff has decreased the chemical expense for water by \$156 to reflect unaccounted for water, as discussed in Issue 2. Staff recommends a balance of \$494 for this account. There were no adjustments for wastewater. Staff recommends chemical expense for the test year of \$494 for water and \$525 for wastewater.

**Contractual Services – Accounting Fees (632/732)**

The Utility recorded a credit of \$638 for water and \$613 for wastewater in these accounts for accounting fees. The Utility explained this relates to an over accrual from a prior period and currently there are no outside accounting fees. Staff made adjustments to remove these amounts since they are outside the test year period. Staff recommends accounting expense should be \$0 for both water and wastewater.

**Legal Fees (633/733)**

The Utility recorded legal fees of \$2,575 for water and \$835 for wastewater. The staff audit noted that some of the legal fees might be nonrecurring and decreased these accounts by \$2,311 for water and \$571 for wastewater. Thus, the staff audit recorded legal fees of \$264 for water and

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<sup>7</sup>Issued August 14, 2014, in Docket No. 130153-WS, *In re: Application for staff-assisted rate case in Highlands County, by L.P. Utilities Corporation c/o LP Waterworks, Inc.*

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\$264 for wastewater. In response to a staff data request,<sup>8</sup> the Utility provided invoices and notified staff that legal fees of \$371 for water and \$323 for wastewater were recurring. Therefore, staff recommends legal fees of \$635 for water and \$587 for wastewater.

**Contractual Services – Other (636/736)**

The Utility recorded \$79,598 for water and \$60,530 for wastewater in these accounts for operating, maintenance and customer service fees. The amounts approved in Order No. PSC-14-0413-PAA-WS are \$77,184 for water and \$58,692 for wastewater. A contract with U.S. Water Services Corporation was provided by the Utility which explains that the contract is adjusted yearly by the Consumer Price Index. Staff has requested further explanation from the Utility on the difference in the amounts in the third data request.<sup>9</sup> On a preliminary basis, staff will include what the Utility has recorded for contractual services expense which is \$79,598 for water and \$60,530 for wastewater.

**Rent Expense (640/740)**

The Utility recorded rent expense of \$220 for water and \$0 for wastewater. The rent expense amount was reclassified to Account 375 for miscellaneous expense. Therefore, the recommended rent expense for water and wastewater should be \$0 for the requested test year.

**Insurance Expense (655/755)**

The Utility recorded insurance expense of \$619 for water and \$619 for wastewater. Staff increased the insurance expense \$26 for water and \$26 for wastewater to reflect the April 2016 invoice which totals \$1,209. This amount was allocated 50 percent to water and 50 percent wastewater to follow both the methodology used by the Utility and Order No. PSC-14-0413-PAA-WS. Thus, staff recommends insurance expense of \$645 for water and \$645 for wastewater.

**Regulatory Commission Expense (665/765)**

The Utility, in its initial SARC filing rate case expense,<sup>10</sup> recorded \$430 for regulatory commission expense in each of these accounts. 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 \$457 for postage expense, \$327 for printing expense, and \$47 for envelopes, resulting in rate case noticing expense of \$831. However, the Utility recorded a rate case noticing expense of \$941. The Utility paid an \$1,000 rate case filing fee for the water, and a \$500 rate case filing fee for the wastewater. However, the Utility recorded a rate case filing fee expense for wastewater of \$1,000. The Utility records rate case travel expense of \$250 to attend the customer meeting and \$250 to attend the PAA Agenda, pending review of receipts. The total rate case expense including postage, notices, envelopes, filing and travel fee is \$2,831.

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<sup>8</sup>Document No. 01528-17 (LP Waterworks (Rendell) - Letter dated 2/7/17, providing response to staff's first data request No. 13).

<sup>9</sup>Document No. 03195-17 (AFD/Wolmers - Copy of letter dated 3/6/17 to [LP Waterworks]/Rendell titled "staff's third data request;" information requested by 3/15/17).

<sup>10</sup>Document No. 08270-16 (LP Waterworks, Inc. [LP Waterworks] (Rendell) - Application for staff-assisted rate case in Highlands County).

Pursuant to Section 367.081(8), F.S., rate case expense is amortized over a four-year period, which is \$708 per year ( $\$2,831 \div 4$ ). Staff's adjustment to these accounts result in a decreases of \$52 and decreases of \$100, for water and wastewater, respectively. Allocating the amount by the Utility's ERCs percentage, staff recommends Regulatory Commission Expense of \$378 for water and \$330 for wastewater.

The Utility's rate case expense from prior order has one more year of amortization left (\$347 for water and \$347 for wastewater).<sup>11</sup> Therefore, resulting in Regulatory Commission Expense of \$725 for water and \$677 for wastewater.

#### **Bad Debt Expense (670/770)**

The Utility recorded a credit in bad debt expense of \$408 for water, and \$157 for wastewater. The Utility explained the recording methodology of recording bad debt expense and it appears reasonable. Staff could not take the average of the last 3 years bad debt expense because the Utility 2014's bad debt expense has a credit. Therefore, staff recommends adjusting bad debt expense to reflect 2 percent of test year revenue, resulting in increases of \$2,538 for water and \$1,588 for wastewater. Further data has been requested from the Utility for explanation of the bad debt expense. Preliminary, staff recommends bad debt expense of \$2,130 for water and \$1,745 for wastewater.

#### **Miscellaneous Expense (675/775)**

The Utility recorded \$1,306 for miscellaneous expense. Staff has increased the account by \$220 for the quarterly fee reclassified from the Utility's rent expense, Account 640. The Utility does not report any miscellaneous expense for wastewater. Therefore, staff recommends miscellaneous expense of \$1,526 for water and \$0 for wastewater.

#### **Sludge Removal Expense (711)**

The Utility recorded \$2,312 for sludge hauling expenses. Staff reviewed the source documentation and agrees with the amount. Staff recommends no adjustment at this time to sludge removal expense for wastewater.

#### **Operation and Maintenance Expenses (O&M) Summary**

Total adjustments to O&M expense result in an increase of \$811 for water and \$2,549 for wastewater. Staff's recommended O&M expense is \$94,053 for water and \$77,752 for wastewater. O&M expenses are shown on Schedule Nos. 3-A and 3-B for water and wastewater, respectively.

#### **Depreciation Expense**

The Utility recorded depreciation expense of \$19,511 for water and \$16,426 for wastewater during the test year. Staff calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C., and determined depreciation expense required adjustments to decrease water depreciation expense by \$1,136 and increase wastewater depreciation expense by \$256. Therefore, staff recommends depreciation expense of \$18,375 for water and \$16,682 for wastewater.

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<sup>11</sup>Order No. PSC-14-0413-PAA-WS, issued August 14, 2014, in Docket No. 130153-WS, *In re: Application for staff-assisted rate case in Highlands County, by L.P. Utilities Corporation c/o LP Waterworks, Inc.*



Docket No. 160222-WS

Date: March 17, 2017

**Taxes Other Than Income (TOTI)**

The Utility recorded \$7,605 for water and \$8,190 for wastewater for TOTI. Staff has increased this amount by \$684 for water and decreased this amount by \$1,039 for wastewater. Therefore, staff recommends TOTI of \$8,289 for water and \$7,151 for wastewater.

**Operating Expenses Summary**

The application of staff's recommended adjustments to the Utility's adjusted test year operating expenses results in staff's recommended operating expenses of \$110,856 for water and \$98,152 for wastewater. Operating expenses are shown on Schedule No. 3-A for water and Schedule 3-B for wastewater. The related adjustments for water and wastewater are shown on Schedule No. 3-C.

**Issue 7:** What is the appropriate revenue requirement?

**Recommendation:** The appropriate revenue requirement is \$88,900 for water and \$153,870 for wastewater, resulting in an annual increase of \$13,346 (12.71 percent) for water, and an annual increase of \$25,425 (29.65 percent) for wastewater. (Wolmers)

**Staff Analysis:** The Utility should be allowed an annual increase of \$13,346 for water (12.71 percent) and \$25,425 for wastewater (29.65 percent). This will allow the Utility the opportunity to recover its expenses as well as a 7.72% percent return on its investment. The calculations are shown in Table 7-1 and Table 7-2 for water and wastewater, respectively.

**Table 7-1  
Water Revenue Requirement**

Adjusted Rate Base	\$88,900
Rate of Return	<u>7.72%</u>
Return on Rate Base	\$6,863
Adjusted O&M Expense	94,053
Depreciation Expense	18,375
Amortization	(9,861)
Taxes Other Than Income	8,890
Income Taxes	<u>0</u>
Revenue Requirement	\$118,320
Less Test Year Revenues	<u>104,974</u>
Annual Increase	<u>\$13,346</u>
Percent Increase/(Decrease)	<u>12.71%</u>

**Table 7-2**  
**Wastewater Revenue Requirements**

Adjusted Rate Base	\$153,870
Rate of Return	<u>7.72%</u>
Return on Rate Base	\$11,879
Adjusted O&M Expense	77,752
Depreciation Expense	16,682
Amortization	(3,434)
Taxes Other Than Income	8,296
Income Taxes	<u>0</u>
Revenue Requirement	\$111,175
Less Test Year Revenues	<u>85,750</u>
Annual Increase	<u>\$25,425</u>
Percent Increase/(Decrease)	<u>29.65%</u>

**Issue 8:** What are the appropriate rate structure and rates for the water and wastewater systems of LP Waterworks, Inc.?

**Recommendation:** The recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B. 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. (Friedrich)

**Staff Analysis:**

**Water Rates**

LPWW is located in Highlands County within the SFWMD. The Utility provides water service to approximately 444 residential customers and 21 general service customers. Approximately 57.15 percent of the residential customer bills during the test year had zero gallons, indicating a seasonal customer base. The average residential water demand is 1,336 gallons per month. The average residential water demand excluding zero gallon bills is 3,086 gallons per month.

The Utility's current water system rate structure for residential customers consists of a base facility charge (BFC) and two-tier inclining block rate structure. The rate blocks are: (1) 0-3,000 gallons and (2) all usage in excess of 3,000 gallons per month. The general service rate structure consists of a BFC and uniform gallonage charge. In addition, the utility's private fire protection service rates are based on one-twelfth of the utility's BFC for each meter size pursuant to Rule 25-30.465, F.A.C.

Staff performed an analysis of the Utility's billing data in order to evaluate the appropriate rate structure for the residential water customers. The goal of the evaluation was to select the rate design parameters that: 1) produce the recommended revenue requirement; 2) equitably distribute cost recovery among the Utility's customers; 3) establish the appropriate non-discretionary usage threshold for restricting repression; and 4) implement, where appropriate, water conserving rate structures consistent with Commission practice.

Staff believes an across-the-board increase to the Utility's existing rates is appropriate because of the low revenue requirement percentage increase. In addition, no significant repression is anticipated. To determine the appropriate percentage increase to apply to the service rates, miscellaneous revenues were removed from the test year revenues, resulting in a 12.9 percent increase in the service rates. Staff's recommended rate structure and rates for LPWW's water system are shown on Schedule No. 4-A

**Wastewater Rates**

LPWW provides wastewater service to 389 residential customers and 18 general service customers. Currently, the residential wastewater rate structure consists of a uniform BFC for all meter sizes and a gallonage charge with an 8,000 gallon cap per month. The general service rate

structure consists of a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge.

Staff performed an analysis of the Utility's billing data to evaluate various BFC cost recovery percentages and gallonage caps for the residential customers. The goal of the evaluation was to select the rate design parameters that: (1) produce the recommended revenue requirement; (2) equitably distribute cost recovery among the Utility's customers; and (3) implement a gallonage cap that considers approximately the amount of water that may return to the wastewater system.

The Commission's practice is to allocate at least 50 percent of the wastewater revenue to the BFC due to the capital intensive nature of wastewater plants. However, staff believes a BFC allocation of 65 percent is more appropriate and would increase revenue stability due to the high seasonality of the utility's customer base and the significant decrease in water demand. Additionally, in the utility's last rate case, a BFC allocation of 60 percent was approved and attributed partly to the utility's seasonal customer base.<sup>12</sup>

It is also Commission practice to set the wastewater cap at approximately 80 percent of residential water gallons sold, which typically results in gallonage caps of 6,000, 8,000, or 10,000. The wastewater gallonage cap recognizes that not all water used by the residential customers is returned to the wastewater system. Due to the seasonality of the utility's customer base, 83 percent of the total water sold is captured at 3,000 gallons, which is lower than gallonage caps typically approved for wastewater. In addition, staff believes that lowering the gallonage cap below 6,000 would have an adverse effect on the residential gallonage charge. For these reasons, staff recommends that the gallonage cap of 8,000 per month be reduced to 6,000 gallons. Staff also recommends that the general service gallonage charge be 1.2 times greater than the residential gallonage charge which is consistent with Commission practice. Staff's recommended rate structure and rates for LPWW's wastewater system are shown on Schedule No. 4-B.

### **Summary**

Based on the foregoing, the recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B. 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.

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<sup>12</sup> Order No. PSC-14-0413-PAA-WS, in Docket No. 130153-WS, issued August 14, 2014, In re: *Application for staff-assisted rate case in Highlands County, by L.P. Utilities Corporation c/o LP Waterworks, Inc.*

**Issue 9:** 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 367.081(8), F.S.?

**Recommendation:** The water and wastewater rates should be reduced as shown on Schedule No. 4-A and 4-B, respectively, to remove rate case expense grossed-up for RAFs 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 367.081(8), F.S. LPWW, Inc. 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. (Wolmers)

**Staff Analysis:** Section 367.081(8), 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 unless a longer period can be justified and is in the public interest. 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 reductions are \$400 for water and \$349 for wastewater.

The water and wastewater rates should be reduced as shown on Schedule No. 4-A and 4-B, respectively, to remove rate case expense grossed-up for RAFs 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 367.081 (8), F.S. LPWW 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.

**Issue 10:** Should the miscellaneous service charges of LP Waterworks, Inc. be revised?

**Recommendation:** Staff's recommendation regarding the Utility's miscellaneous service charges will not be finalized until after the April 19, 2017, customer meeting. (Friedrich)

**Staff Analysis:** Section 367.091, F.S., authorizes the Commission to approve miscellaneous service charges. The utility's existing miscellaneous service charges were established in 2002.<sup>13</sup> The utility requested that its miscellaneous service charges be updated to reflect current costs. The utility's current and requested miscellaneous service charges are below in Table 10-1. Staff has requested additional information in regards to the cost justification provided by the utility for its requested charges. Staff will reserve its recommendation on revising the utility's existing miscellaneous service charges until staff's final recommendation.

**Table 10-1  
Miscellaneous Service Charges**

	Current	Utility Requested	
	Normal and After Hours	During Hours	After Hours
Initial Connection Charge	\$15.00	\$25.57	\$38.36
Normal Reconnection Charge	\$15.00	\$25.57	\$38.36
Violation Reconnection Charge (Water Only)	\$15.00	\$44.14	\$66.22
Violation Reconnection Charge (Wastewater Only)	Actual Cost	Actual Cost	
Premises Visit Charge (in lieu of Disconnection)	\$10.00	\$25.57	\$38.36

<sup>13</sup> Order No.PSC-02-0250-PAA-WS, in Docket No. 990374-WS, dated February 26, 2002, In re: Application for certificates to operate a water and wastewater utility in Highlands County by the Woodlands of Lake Placid, L.P., and for deletion of portion of wastewater territory in Certificate No.361-S held by Highlands Utilities Corporation.

**Issue 11:** Should LP Waterworks, Inc. be authorized to collect Non-Sufficient Funds Charges (NSF)?

**Recommendation:** Yes. LPWW should be authorized to collect NSF charges. Staff recommends that LPWW revise its tariffs to reflect the NSF charges currently set forth in Section 68.065, F.S. The NSF charges should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. Furthermore, the charges should not be implemented until staff has approved the proposed customer notice. LPWW should provide proof of the date the notice was given within 10 days of the date of the notice. (Friedrich)

**Staff Analysis:** Section 367.091, F.S., requires rates, charges, and customer service policies to be approved by the Commission. The Commission has authority to establish, increase, or change a rate or charge. Staff believes that LPWW should be authorized to collect NSF charges 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 Section 68.065(2), F.S., the following NSF charges 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.

Approval of NSF charges is consistent with prior Commission decisions.<sup>14</sup> Furthermore, NSF charges place the cost on the cost-causer, rather than requiring that the costs associated with the return of the NSF checks is spread across the general body of ratepayers. As such, LPWW should be authorized to collect NSF charges. Staff recommends that LPWW revise its tariff sheet to reflect the NSF charges currently set forth in Section 68.065, F.S. The NSF charges should be effective on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. Furthermore, the NSF charges should not be implemented until staff has approved the proposed customer notice. LPWW should provide proof of the date the notice was given within 10 days of the date of the notice.

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<sup>14</sup>Order Nos. PSC-14-0198-TRF-SU, issued May 2, 2014, in Docket No. 140030-SU, *In re: Request for approval to amend Miscellaneous Service charges to include all NSF charges by Environmental Protection Systems of Pine Island, Inc.*; and PSC-13-0646-PAA-WU, issued December 5, 2013, in Docket No. 130025-WU, *In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.*



Docket No. 160222-WS

Date: March 17, 2017

**Issue 12:** Should the Utility be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission decision?

**Recommendation:** Yes. LPWW should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. LPWW should submit a letter within 90 days of the final order in this docket confirming that the adjustments to all applicable NARUC USOA primary accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. (Wolmers)

**Staff Analysis:** LPWW should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. LPWW should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA primary accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days.

Docket No. 160222-WS

Date: March 17, 2017

<b>LP WATERWORKS, INC.</b>		<b>SCHEDULE NO. 1-A</b>	
<b>TEST YEAR ENDED 08/31/2016</b>		<b>DOCKET NO. 160222-WS</b>	
<b>SCHEDULE OF WATER RATE BASE</b>			
<b>DESCRIPTION</b>	<b>BALANCE PER UTILITY</b>	<b>STAFF ADJUST. TO UTIL. BAL.</b>	<b>BALANCE PER STAFF</b>
1. UTILITY PLANT IN SERVICE	\$527,435	\$0	\$527,435
2. LAND & LAND RIGHTS	27,412	0	27,412
3. NON-USED AND USEFUL COMPONENTS	(12,746)	(2,941)	(15,687)
4. ACCUMULATED DEPRECIATION	(362,984)	0	(362,984)
5. CIAC	(266,480)	0	(266,480)
6. AMORTIZATION OF CIAC	167,447	0	167,447
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>11,757</u>	<u>11,757</u>
8. WATER RATE BASE	<u>\$80,084</u>	<u>\$8,816</u>	<u>\$88,900</u>

<b>LP WATERWORKS, INC.</b> <b>TEST YEAR ENDED 08/31/2016</b> <b>SCHEDULE OF WASTEWATER RATE</b> <b>BASE</b>		<b>SCHEDULE NO. 1-B</b> <b>DOCKET NO. 160222-WS</b>	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$441,119	\$10,629	\$451,748
2. LAND & LAND RIGHTS	36,000	0	36,000
3. NON-USED AND USEFUL COMPONENTS	(2,438)	1,969	(469)
4. ACCUMULATED DEPRECIATION	(311,970)	5,533	(306,437)
5. CIAC	(92,400)	0	(92,400)
6. AMORTIZATION OF CIAC	55,709	0	55,709
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>9,719</u>	<u>9,719</u>
8. WASTEWATER RATE BASE	<u>\$126,020</u>	<u>\$27,850</u>	<u>\$153,870</u>

<b>LP WATERWORKS, INC.</b>	<b>SCHEDULE NO. 1-C</b>	
<b>TEST YEAR ENDED 08/31/2016</b>	<b>DOCKET NO. 160222-WS</b>	
<b>ADJUSTMENTS TO RATE BASE</b>	<b><u>WATER</u></b>	<b><u>WASTEWATER</u></b>
<b><u>UTILITY PLANT IN SERVICE</u></b>		
1.Surge Tank Blower and Panel Reclassification (354)	0	(9,200)
2.Surge Tank Blower and Panel Reclassification (380)	0	9,200
3.Pumping Equipment, Audit Finding 1- to replace control panel and pump March 2014 did not record retirement per Utility (371)	0	(1,040)
4.Pro forma Plant Addition Projects	0	11,669
<b>Total</b>	<b><u>\$0</u></b>	<b><u>\$10,629</u></b>
<b><u>LAND</u></b>		
Not applicable	0	0
<b>Total</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>
<b><u>NON-USED AND USEFUL PLANT</u></b>		
Net Non-used & Useful Plant & Accumulated Depreciation, including pro forma plant additions	(2,941)	1,969
<b>Total</b>	<b><u>(\$2,941)</u></b>	<b><u>\$1,969</u></b>
<b><u>ACCUMULATED DEPRECIATION</u></b>		
1.Structure Improvements per PSC-14-0413-PAA-WS (354)	0	383
2.Collection Sewers- Gravity per PSC-14-0413-PAA-WS (361)	0	39
3.Pumping Equipment (371)		
a. Per PSC-14-0413-PAA-WS	0	35
b. Audit Finding 1- to replace control panel and pump March 2014 did not record retirement per Utility (371)	0	1,040
4.Treatment and Disposal per PSC-14-0413-PAA-WS (380)		4,497
5.Pro forma Plant Addition Projects	0	(461)
<b>Total</b>	<b><u>\$0</u></b>	<b><u>\$5,533</u></b>
<b><u>CIAC</u></b>		
Not applicable	0	0
<b>Total</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>
<b><u>AMORTIZATION OF CIAC</u></b>		
Not applicable	0	0
<b>Total</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>
<b><u>WORKING CAPITAL ALLOWANCE</u></b>		
To reflect 1/8 of test year O&M expenses.	11,757	9,719
<b>Total</b>	<b><u>\$11,757</u></b>	<b><u>\$9,719</u></b>

Docket No. 160222-WS

Date: March 17, 2017

LP WATERWORKS, INC. TEST YEAR ENDED 08/31/2016 SCHEDULE OF CAPITAL STRUCTURE				SCHEDULE NO. 2 DOCKET NO. 160222-WS				
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$0		\$0					
2. RETAINED EARNINGS	138,719		138,719					
3. PAID IN CAPITAL	0		0					
4. TREASURY STOCK	<u>0</u>		<u>0</u>					
5. TOTAL COMMON EQUITY	\$138,719		\$138,719	\$30,649	\$169,368	69.76%	9.39%	6.55%
6. LONG TERM DEBT	<u>56,212</u>		<u>56,212</u>	<u>12,420</u>				
TOTAL LONG TERM DEBT	\$56,212		\$56,212	\$12,420	\$68,632	28.27%	4.00%	1.13%
8. CUSTOMER DEPOSITS	<u>\$4,440</u>	<u>\$330</u>	<u>\$4,770</u>	<u>\$0</u>	<u>\$4,770</u>	<u>1.96%</u>	2.00%	<u>0.04%</u>
9. TOTAL	<u>\$199,371</u>	<u>\$330</u>	<u>\$199,701</u>	<u>\$43,069</u>	<u>\$242,770</u>	<u>100.00%</u>		<u>7.72%</u>
<b>RANGE OF REASONABLENESS</b>						<b>LOW</b>	<b>HIGH</b>	
RETURN ON EQUITY						<u>8.39%</u>	<u>10.39%</u>	
OVERALL RATE OF RETURN						<u>7.03%</u>	<u>8.42%</u>	

<b>LP WATERWORKS, INC.</b>		<b>SCHEDULE NO. 3-A</b>			
<b>TEST YEAR ENDED 08/31/2016</b>		<b>DOCKET NO. 160222-WS</b>			
<b>SCHEDULE OF WATER OPERATING INCOME</b>					
	<b>TEST YEAR</b>	<b>STAFF</b>	<b>STAFF</b>	<b>ADJUST.</b>	<b>REVENUE</b>
	<b>PER UTILITY</b>	<b>ADJUSTMENTS</b>	<b>ADJUSTED</b>	<b>FOR</b>	<b>REQUIREMENT</b>
			<b>TEST YEAR</b>	<b>INCREASE</b>	
1. <b>OPERATING REVENUES</b>	<u>\$107,183</u>	<u>(\$2,209)</u>	<u>\$104,974</u>	<u>\$13,346</u> 12.71%	<u>\$118,320</u>
<b>OPERATING EXPENSES:</b>					
2. <b>OPERATION &amp; MAINTENANCE</b>	\$93,242	\$811	\$94,053	\$0	\$94,053
3. <b>DEPRECIATION (NET)</b>	19,511	(1,136)	18,375	0	18,375
4. <b>AMORTIZATION</b>	(9,861)	0	(9,861)	0	(9,861)
5. <b>TAXES OTHER THAN INCOME</b>	7,605	684	8,289	601	8,890
6. <b>INCOME TAXES</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. <b>TOTAL OPERATING EXPENSES</b>	<u>\$110,497</u>	<u>\$359</u>	<u>\$110,856</u>	<u>\$601</u>	<u>\$111,457</u>
8. <b>OPERATING INCOME/(LOSS)</b>	<u>(\$3,314)</u>		<u>(\$5,882)</u>		<u>\$6,863</u>
9. <b>WATER RATE BASE</b>	<u>\$80,084</u>		<u>\$88,900</u>		<u>\$88,900</u>
10. <b>RATE OF RETURN</b>	<u>-4.14%</u>		<u>-6.62%</u>		<u>7.72%</u>

<b>LP Waterworks, Inc.</b>		<b>SCHEDULE NO. 3-B</b>				
<b>TEST YEAR ENDED 08/31/2016</b>		<b>DOCKET NO. 160222-</b>				
<b>SCHEDULE OF WASTEWATER OPERATING INCOME</b>		<b>WS</b>				
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. <b>OPERATING REVENUES</b>	<u>\$84,240</u>	<u>\$1,510</u>	<u>\$85,750</u>	<u>\$25,425</u> 29.65%	<u>\$111,175</u>	
<b>OPERATING EXPENSES:</b>						
2. <b>OPERATION &amp; MAINTENANCE</b>	\$75,203	\$2,549	\$77,752	\$0	\$77,752	
3. <b>DEPRECIATION (NET)</b>	16,426	256	16,682	0	16,682	
4. <b>AMORTIZATION</b>	(3,434)	0	(3,434)	0	(3,434)	
5. <b>TAXES OTHER THAN INCOME</b>	8,190	(1,039)	7,151	1,144	8,296	
6. <b>INCOME TAXES</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
7. <b>TOTAL OPERATING EXPENSES</b>	<u>\$96,385</u>	<u>\$1,767</u>	<u>\$98,152</u>	<u>\$1,144</u>	<u>\$99,296</u>	
8. <b>OPERATING INCOME/(LOSS)</b>	<u>(\$12,145)</u>		<u>(\$12,402)</u>		<u>\$11,879</u>	
9. <b>WASTEWATER RATE BASE</b>	<u>\$126,020</u>		<u>\$153,870</u>		<u>\$153,870</u>	
10. <b>RATE OF RETURN</b>	<u>-9.64%</u>		<u>-8.06%</u>		<u>7.72%</u>	

<b>LP WATERWORKS, INC.</b>		<b>SCHEDULE NO. 3-C</b>	
<b>TEST YEAR ENDED 08/31/2016</b>		<b>DOCKET NO. 160222-WS</b>	
<b>ADJUSTMENTS TO OPERATING INCOME</b>		<b>Page 1 of 2</b>	
	<b><u>WATER</u></b>	<b><u>WASTEWATER</u></b>	
<b>OPERATING REVENUES</b>			
1	TY Service Revenue, (ECO) Staff Adjustment	(3,731)	(12)
2	TY Misc. Rev., (ECO) Staff Adjustment	1,522	1,522
	<b>Total</b>	<b><u>(\$2,209)</u></b>	<b><u>\$1,510</u></b>
<b>OPERATION AND MAINTENANCE EXPENSES</b>			
1.	Salaries and Wages - Officers, Directors per PSC14-0413PAA (603/703)	0	0
2.	Sludge Removal (711)	0	0
3.	Purchase Power, actual amount per bills (615/715)		
	a. To reflect actual amount per auditor	99	323
	b. To reflect excessive unaccounted for water	(689)	0
4.	Chemicals, Adjustment for excessive unaccounted for water (618/718)	(156)	0
5.	Contractual Services - Accounting, to reflect Auditor's Adjustments (632/732)	638	613
6.	Legal Fees (633/733)		
	a. To reflect Auditor's adjustment	(2,311)	(571)
	b. To reflect recurring Legal Fees, (AFD) Staff Adjustment	371	323
7.	Contractual Services - Other (636/736)	0	0
8.	Rent Expense, to reflect Auditor's Adjustments (640)	(220)	0
9.	Insurance Expense, to reflect Auditor's Adjustments (655/755)	26	26
10.	Bad Debt Expense, 2% of TY Rev. (AFD) Staff Adjustment (670/770)	2,538	1,588
11.	Miscellaneous Expenses, to reflect Auditor's Adjustments (675/775)	220	0
12.	Regulatory Commission Expense, to reflect (AFD) Staff Adj. for Rate Case Expense, including last RCE of \$347 for water and \$347 for wastewater per PSC14-0413PAA (665/765)	295	247
	<b>Total</b>	<b><u>\$811</u></b>	<b><u>\$2,549</u></b>
<b>DEPRECIATION EXPENSE</b>			
1.	Structures and Improvements, per Audit Finding 2 (354)	0	(340)
2.	Treatment and Disposal, per Audit Finding 2 (380)	0	384
3.	Tools, Shop and Garage Equipment, per Audit Finding 2 (393)	0	(15)
4.	To reflect Pro forma Plant Addition Projects Depreciation Expense	0	461
5.	To reflect Non-used & Useful Component Depreciation Expense, including pro forma plant additions	(1,136)	(233)
	<b>Total</b>	<b><u>(\$1,136)</u></b>	<b><u>\$256</u></b>



<b>LP WATERWORKS, INC.</b> <b>TEST YEAR ENDED 8/31/2016</b> <b>ADJUSTMENTS TO OPERATING INCOME</b>		<b>SCHEDULE NO. 3-C</b> <b>DOCKET NO. 160222-WS</b> <b>Page 2 of 2</b>	
	<u><b>WATER</b></u>	<u><b>WASTEWATER</b></u>	
<b>AMORTIZATION OF CIAC</b>			
Not Applicable	0	0	
<b>Total</b>	<u><b>\$0</b></u>	<u><b>\$0</b></u>	
<b>TAXES OTHER THAN INCOME</b>			
1. Property Tax, Audit Finding 6- to reflect real taxes per the 2016 property tax bill (408.21)	172	(198)	
2. Tangible Personal Tax, Audit Finding 6- to reflect the balance from the 2016 tax bill (408.3)	953	(1,060)	
3. Regulatory Assessment Fee, to reflect (ECO) Staff TY Rev. Req. (408.11)	(99)	68	
4. To reflect Pro forma Plant Addition Projects (AFD) Staff Adjustment	0	176	
5. To reflect Non-used & Useful Adjustment for TOTI (AFD) Staff Adjustment	(341)	(25)	
<b>Total</b>	<u><b>\$684</b></u>	<u><b>(\$1,039)</b></u>	
<b>INCOME TAXES</b>			
Not Applicable, Utility is a LLC	0	0	
<b>Total</b>	<u><b>\$0</b></u>	<u><b>\$0</b></u>	

<b>LP WATERWORKS, INC.</b> <b>TEST YEAR ENDED 08/31/2016</b> <b>ANALYSIS OF WATER OPERATION AND</b> <b>MAINTENANCE EXPENSE</b>		<b>SCHEDULE 3-D</b> <b>DOCKET NO. 160222-WS</b>		
<b>ACCOUNT. #</b>	<b>DESCRIPTION</b>	<b>TOTAL PER UTILITY</b>	<b>STAFF ADJUST- MENT</b>	<b>TOTAL PER STAFF</b>
603	Salaries and Wages - Officers, Directors	\$6,120	\$0	\$6,120
615	Purchase Power	2,770	(590)	2,180
618	Chemicals	650	(156)	494
632	Contractual Services - Accounting	(638)	638	0
633	Legal Fees	2,575	(1,940)	635
636	Contractual Services - Other	79,598	0	79,598
640	Rent	220	(220)	0
655	Insurance Expense	619	26	645
665	Regulatory Commission Expense	430	295	725
670	Bad Debt Expense	(408)	2,538	2,130
675	Miscellaneous Expense	<u>1,306</u>	<u>220</u>	<u>1,526</u>
	Total O & M Expense	<u>\$93,242</u>	<u>\$811</u>	<u>\$94,053</u>
	Working Capital is 1/8 of O&M Expense			<b>\$11,757</b>

<b>LP WATERWORKS, INC.</b> <b>TEST YEAR ENDED 08/31/2016</b> <b>ANALYSIS OF WASTEWATER OPERATION AND</b> <b>MAINTENANCE EXPENSE</b>		<b>SCHEDULE NO. 3-E</b> <b>DOCKET NO. 160222-WS</b>		
<b>ACCOUNT #</b>	<b>DESCRIPTION</b>	<b>TOTAL PER UTILITY</b>	<b>STAFF ADJUST- MENT</b>	<b>TOTAL PER STAFF</b>
703	Salaries and Wages - Officers, Directors	\$5,880	\$0	\$5,880
711	Sludge Removal	2,312	0	2,312
715	Purchase Power	4,528	323	4,851
718	Chemicals	525	0	525
732	Contractual Services - Accounting	(613)	613	0
733	Legal Fees	835	(248)	587
736	Contractual Services - Other	60,530	0	60,530
755	Insurance Expense	619	26	645
765	Regulatory Commission Expense	430	247	677
770	Bad Debt Expense	<u>157</u>	<u>1,588</u>	<u>1,745</u>
	Total O & M Expense	<u>\$75,203</u>	<u>\$2,549</u>	<u>\$77,752</u>
	Working Capital is 1/8 of O&M Expense			<b>\$9,719</b>

<b>LP WATERWORKS, INC.</b>		<b>SCHEDULE NO. 4-A</b>	
<b>TEST YEAR ENDED AUGUST 31, 2016</b>		<b>DOCKET NO. 160222-WS</b>	
<b>MONTHLY WATER RATES</b>			
	<b>RATES AT TIME OF FILING</b>	<b>STAFF RECOMMENDED RATES</b>	<b>4 YEAR RATE REDUCTION</b>
<b><u>Residential and General Service</u></b>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$8.54	\$9.64	\$0.04
3/4"	\$12.82	\$14.46	\$0.06
1"	\$21.38	\$24.10	\$0.09
1-1/2"	\$42.74	\$48.20	\$0.19
2"	\$68.38	\$77.12	\$0.30
3"	\$136.77	\$154.24	\$0.60
4"	\$213.70	\$241.00	\$0.93
6"	\$427.40	\$482.00	\$1.86
Charge per 1,000 Gallons- Residential Service			
0-3,000 gallons	\$4.91	\$5.54	\$0.02
Over 3,000 gallons	\$7.21	\$8.14	\$0.03
Charge per 1,000 Gallons- General Service			
	\$5.91	\$6.67	\$0.03
<b><u>Private Fire Protection Service</u></b>			
5/8" x 3/4"	\$0.71	\$0.80	
3/4"	\$1.07	\$1.20	
1"	\$1.78	\$2.01	
1-1/2"	\$3.56	\$4.02	
2"	\$5.70	\$6.43	
3"	\$11.40	\$12.85	
4"	\$17.81	\$20.08	
6"	\$35.62	\$40.17	
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
3,000 Gallons	\$23.27	\$26.26	
6,000 Gallons	\$44.90	\$50.68	
8,000 Gallons	\$59.32	\$66.96	

LP WATERWORKS, INC.		SCHEDULE NO. 4-B	
TEST YEAR ENDED AUGUST 31, 2016		DOCKET NO. 160222-WS	
MONTHLY WASTEWATER RATES			
	RATES AT TIME OF FILING	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<b><u>Residential</u></b>			
Base Facility Charge - All Meter Sizes	\$12.27	\$14.98	\$0.06
Charge Per 1,000 gallons (8,000 gallon cap)	\$4.94		
Charge Per 1,000 gallons (6,000 gallon cap)		\$7.74	\$0.03
<b><u>General Service</u></b>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$12.27	\$14.98	\$0.06
3/4"	\$18.41	\$22.47	\$0.09
1"	\$30.68	\$37.45	\$0.15
1-1/2"	\$61.35	\$74.90	\$0.29
2"	\$98.16	\$119.84	\$0.47
3"	\$196.32	\$239.68	\$0.94
4"	\$306.75	\$374.50	\$1.47
6"	\$613.51	\$749.00	\$2.93
Charge per 1,000 gallons	\$5.92	\$9.29	\$0.04
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
3,000 Gallons	\$27.09	\$38.20	
6,000 Gallons	\$41.91	\$61.42	
8,000 Gallons	\$51.79	\$61.42	