

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: September 4, 2008

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Hudson, Bruce, Bulecza-Banks, Fletcher, Daniel, Stallcup)
Office of the General Counsel (Bennett)

RE: Docket No. 070722-WS – Application for staff-assisted rate case in Palm Beach County by W.P. Utilities, Inc.

AGENDA: 09/16/08 – Regular Agenda – Proposed Agency Action – Except for Issues 12 and 13 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Argenziano

CRITICAL DATES: 05/08/09 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\070722.RCM.DOC

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Case Background

W.P. Utilities, Inc. (W.P. or Utility) is a Class C water and wastewater company serving approximately 190 customers in Palm Beach County. According to the Utility's 2007 annual report, total gross revenue was \$33,737 and \$55,020 for water and wastewater, respectively. Total operating expense was \$54,237 for water and \$53,258 for wastewater.

W.P. purchases potable water and wastewater treatment and disposal services from the City of Lake Worth and resells these services to the residents of Palm Breezes Club Mobile Home Park. The Utility owns the water distribution and wastewater collection lines within the mobile home park.

W.P. has been in existence and providing service since 1987. W.P. received reseller exempt status in 1990.¹ In order to recover the costs of administration, meter setting, meter reading, customer accounting, maintenance of the distribution and collection systems and plant investment, which could not be done under the reseller exempt status, the Utility applied for and received Certificate Nos. 548-W and 478-S.²

On August 24, 1994, W.P. filed for a Staff-Assisted Rate Case (SARC) and Docket No. 940895-WS was established. The Utility was granted a rate increase.³ W.P. last applied for a SARC January 13, 2000. The filing was assigned Docket No. 000042-WS. The Utility withdrew its request on February 24, 2000.

On December 13, 2007, W.P. applied for a SARC in the instant docket. The test year for final rates is the twelve-month period ended December 31, 2007.

The Commission has the authority to consider this rate case pursuant to Section 367.0814, Florida Statutes (F.S.).

¹ See Order No. 23412, issued August 28, 1990, in Docket No. 900682-WS, In Re: Request for exemption from Florida Public Service Commission regulation for water and sewer facilities in Palm Beach County by W.P. Utilities, Inc.

² See Order No. PSC-92-1374-FOF-WS, issued November 11, 1992, in Docket No. 920650-WS, In Re: Application for water and wastewater certificates in Palm Beach County by W.P. Utilities, Inc.

³ See Order No. PSC-95-0480-FOF-WS, issued April 13, 1995, in Docket No. 940895-WS, In Re: Application for staff-assisted rate case in Palm Beach County by W.P. Utilities, Inc.

Discussion of Issues

Issue 1: Is the quality of service provided by W.P. considered satisfactory?

Recommendation: Yes. The Utility's quality of water and treated wastewater, the operational condition of the water distribution and wastewater collection lines, and W.P.'s attempts to address customer satisfaction are satisfactory; therefore, the Utility's overall quality of service is satisfactory. (Daniel)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission determines the overall quality of service provided by a utility by evaluating three separate components of water and wastewater operations, including, the quality of the utility's product, the operating condition of the utility's plant and facilities, and the utility's attempt to address customer satisfaction.

W.P. purchases potable water and wastewater treatment service from the City of Lake Worth and resells those services to the residents of Palm Breezes Club Mobile Home Park. The Utility owns the water distribution and wastewater collection lines within the mobile home park. In addition, the customers have an irrigation system which draws water from a lake adjacent to the park.

The Palm Beach County Health Department conducted a sanitary survey of the W.P.'s water system on October 25, 2007, which indicated that the Utility is in compliance with all environmental regulations. In addition, the Commission's staff engineer conducted a field inspection of the W.P.'s facilities on February 21, 2008. The Utility appears to be properly maintaining the distribution and collection system.

A customer meeting was held on June 11, 2008 in W.P.'s service area. Approximately 45 customers attended and four customers spoke. Most of the questions and comments related to the amount of and basis for the proposed rate increase. Staff explained the Commission's proposed agency action process for SARCs and addressed the customers' concerns regarding the proposed rate increase. No issues related to quality of service were brought up by the customers. However, the customers indicated that they received the notice for the customer meeting the day prior to the meeting; therefore, staff conducted a follow-up conference call on August 13, 2008, to give the customers an additional opportunity to offer comments. Two customers had questions regarding the amount of the Utility loss shown on the customer meeting notice, and whether the clubhouse paid for its water use.

Based on the above, staff recommends that the Utility's quality of water and treated wastewater, the operational condition of the water distribution and wastewater collection lines, and W.P.'s attempts to address customer satisfaction are satisfactory; therefore, the Utility's overall quality of service is satisfactory.

Issue 2: What portions of the Utility's water and wastewater facilities are used and useful?

Recommendation: The Utility's water distribution and wastewater collection systems should be considered 100 percent used and useful. (Daniel)

Staff Analysis: W.P. does not own water or wastewater treatment facilities; instead, bulk water and wastewater service is purchased by the Utility and resold to its customers. W.P. owns the water distribution and wastewater collection systems within the mobile home park which were designed to serve the existing customers. There has been no growth in the Utility's service area since the last rate case in 1995, and there is no apparent potential for growth. Therefore, staff recommends that, pursuant to Rule 25-30.4325, F.A.C., the water distribution and wastewater collection systems are 100 percent used and useful.

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

Recommendation: The appropriate average test year rate base for W.P. is \$36,254 for water and \$73,659 for wastewater. (Hudson)

Staff Analysis: The Utility's rate base was last established in 1995.⁴ Staff has selected a test year ended December 31, 2007 for this rate case. Rate base components established, in the above-mentioned Order, have been updated through December 31, 2007, using information obtained from staff's audit and engineering reports. A summary of each component and the adjustments follows.

Utility Plant in Service (UPIS): W.P. recorded \$125,568 and \$158,600 of UPIS for the test year ended December 31, 2007, for water and wastewater, respectively. Pursuant to Audit Finding No. 1, the Utility recorded wastewater plant as a water plant addition. Thus, staff has made an adjustment to reclassify \$7,180 from water plant to wastewater plant. Staff has decreased UPIS by \$6,797 to reflect an averaging adjustment for wastewater. Staff's recommended UPIS balance is \$118,388 and \$158,983 for water and wastewater, respectively.

Non-used and Useful Plant: As discussed in Issue No. 2, a used and useful adjustment is unnecessary.

Contribution in Aid of Construction (CIAC): W.P. recorded CIAC of \$29,542 and \$11,304 for water and wastewater, respectively, for the test year ended December 31, 2007. Based on CIAC approved in the last rate case and CIAC additions, staff has determined the appropriate CIAC to be \$28,774 for water and \$11,010 for wastewater. Therefore, staff has decreased this account by \$768 and \$294 for water and wastewater, respectively.

Accumulated Depreciation: The Utility recorded a balance for accumulated depreciation of \$169,784 for water and \$0 for wastewater for the test year. Staff has calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. Based on staff's calculation, depreciation for water should be decreased by \$90,371 and wastewater should be increased by \$87,789. Staff has decreased this account by \$1,989 and \$2,836 to reflect an averaging adjustment for water and wastewater, respectively. These adjustments result in average accumulated depreciation of \$77,424 for water and \$84,953 for wastewater.

Accumulated Amortization of CIAC: W.P. recorded \$18,734 and \$0 for amortization of CIAC for water and wastewater, respectively. Amortization of CIAC has been recalculated by staff using composite depreciation rates. In order to reflect amortization of CIAC as calculated by staff, this account has been decreased by \$833 for water and increased by \$4,827 for wastewater. Staff has decreased this account by \$492 and \$191 for water and wastewater, respectively, to reflect an averaging adjustment. Staff's net adjustments to this account result in amortization of CIAC of \$17,409 for water and \$4,636 for wastewater.

⁴ See Order No. PSC-95-0480-FOF-WS, issued April 13, 1995, in Docket No. 940895-WS, In Re: Application for a staff-assisted rate case in Palm Beach County by W.P. Utilities, Inc.

Working Capital Allowance: Working capital is defined as the investor-supplied funds 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 working capital allowance. Applying this formula, staff recommends a working capital allowance of \$6,655 for water (based on water O&M of \$53,240) and \$6,003 for wastewater (based on wastewater O&M of \$48,025). Working capital has been increased by \$6,655 and \$6,003 to reflect one-eighth of staff's recommended O&M expenses for water and wastewater, respectively.

Rate Base Summary: Based on the forgoing, staff recommends that the appropriate test year average rate base is \$36,254 for water and \$73,659 for wastewater. Rate base is shown on Schedule Nos. 1-A and 1-B, and staff's adjustments are shown on Schedule No. 1-C.

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

Recommendation: The appropriate return on equity is 12.01 percent with a range of 11.01 percent - 13.01 percent. The appropriate overall rate of return is 7.50 percent. (Hudson)

Staff Analysis: W.P. recorded in its capital structure, for the test year, negative equity of \$3,575,107 and total long-term debt of \$4,902,358. Since including negative equity would penalize the Utility's capital structure by understating the overall rate of return, staff has adjusted the negative equity to zero.⁵ Staff has also decreased long-term debt by \$6,701 to reflect the removal of debt associated with a vehicle which has been paid off. Staff recommends long-term debt of \$4,894,076. The appropriate rate of return on equity is 12.01 percent using the most recent Commission-approved leverage formula.⁶ W.P.'s capital structure has been reconciled with staff's recommended rate base. Staff recommends a return on equity of 12.01 percent with a range of 11.01 percent - 13.01 percent, and an overall rate of return of 7.50 percent. The return on equity and overall rate of return are shown on Schedule No. 2.

⁵ See Order Nos. PSC-95-0480-FOF-WS, issued April 13, 1995, in Docket No. 940895-WS, In Re: Application for a staff-assisted rate case in Palm Beach County by W.P. Utilities, Inc.; PSC-97-0263-FOF-SU, issued March 11, 1997, in Docket No. 960984-SU, In Re: Investigation of possible overearnings in Volusia County by North Peninsula Utilities Corporation; and PSC-01-1574-PAA-WS, issued July 30, 2001, in Docket No. 000584-WS, In Re: Application for approval of staff-assisted rate case in Martin County by Laniger Enterprises of America, Inc.

⁶ See Order No. PSC-07-0472-PAA-WS, issued June 1, 2007, in Docket No. 070006-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 are the appropriate amount of test year revenues?

Recommendation: The appropriate test year revenue for this Utility is \$33,931 for water and \$55,671 for wastewater. (Hudson, Bruce)

Staff Analysis: Per Audit Finding No. 4, W.P. recorded total revenues of \$25,695 for water and \$43,901 for wastewater for the 12-month period ended December 31, 2007. During the audit, the staff auditor discovered that the Utility did not book revenues for its fourth quarter billing. Staff has increased revenues by \$7,809 and \$13,964 for water and wastewater, respectively. W.P. had a rate adjustment during the test year. Staff has annualized revenues for an increase of \$340 for water and \$835 for wastewater. The Utility booked a returned check to accounts receivable instead of revenue. Therefore, staff has increased water revenue by \$87.

Pursuant to Audit Finding No. 4, for wastewater, the Utility accidentally miscoded the rates billed to its residential customers. This resulted in the residential customers being billed the general service gallonage charge and the usage not being capped at the residential limit of 30,000 gallons. Based on these billing errors, the Utility's wastewater revenues should be reduced by \$3,029. W.P. should refund the overcollected wastewater revenues to the customers. The refund is addressed in Issue 11. Based on the above, staff's net adjustment to water revenues is an increase of \$8,236 and wastewater revenues is an increase of \$11,770. Staff recommends test year revenue of \$33,931 for water and \$55,671 for wastewater. Test year revenues are shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule No. 3-B.

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

Recommendation: The appropriate amount of operating expense for the Utility is \$58,600 for water and \$56,822 for wastewater. (Hudson)

Staff Analysis: W.P. recorded operating expenses of \$46,776 for water and \$54,470 for wastewater during the test year ending December 31, 2007. The test year O&M expenses have been reviewed and invoices, canceled checks, and other supporting documentation have been examined. Staff made several adjustments to the Utility's operating expenses, as summarized below.

Purchased Water/Wastewater – (610/710) – The Utility recorded \$21,993 for water and \$34,429 for wastewater in this account during the test year. Pursuant to Audit Finding No. 7, W.P.'s parent company paid some of its purchased water expenses. The Utility did not record the expense on its books. Staff has made an adjustment to increase this account by \$4,831 for water. W.P. recorded purchased water as purchased wastewater. Staff has increased this account by \$1,658 for purchased water reclassified from purchased wastewater. Staff has also increased this account by \$5,096 to reflect purchased water recorded as wastewater purchased power. The Utility recorded a prior year expense for purchased water and purchased wastewater. Staff has increased purchased water by \$574 and purchased wastewater by \$430 to reflect the appropriate test year expense. Staff's net adjustments to this account is an increase of \$12,159 for purchased water and a decrease of \$1,228 for purchased wastewater. Staff recommends purchased water of \$34,152 and purchased wastewater of \$33,201.

Purchased Power – (615/715) – W.P. recorded \$0 for water and \$6,482 for wastewater in this account during the test year. Pursuant to Audit Finding No. 7, the Utility recorded purchased water expenses as purchased power. Staff has decreased this account by \$5,096 to reflect the reclassification of purchased water expense. Staff recommends purchased power of \$0 for water and \$1,386 for wastewater.

Materials and Supplies – (620/720) – W.P. recorded \$0 for water and \$0 for wastewater in this account during the test year. Pursuant to Audit Finding No. 7, the Utility's parent company paid for water material and supplies. W.P. did not record the expense on its books. Staff has increased this account by \$41. Staff recommends material and supplies of \$41 for water and \$0 for wastewater.

Contractual Services – Billing – (630/730) – The Utility recorded \$0 for water and \$0 for wastewater in this account during the test year. Staff has increased this account by \$360 for water to reflect meter reading expenses paid by the W.P.'s parent company. The Utility recorded \$105 of expenses for meter reading as repairs and maintenance in Acct. No. 636. Staff has reclassified the \$105 of meter reading expense for water to this account. Staff has increased this account by \$15 for water to reflect the appropriate test year meter reading expense. W.P. currently bills on a quarterly basis. Staff is recommending in Issue 8 that the Utility convert its billing cycle to monthly. Therefore, staff has increased this account by \$960 for water to reflect a pro forma expense for monthly meter reading. Staff has increased both water and wastewater by \$1,920 to reflect the appropriate monthly billing expense for the W.P.'s bookkeeper. Staff recommends contractual services – billing of \$3,360 for water and \$1,920 for wastewater.

Contractual Services – Professional – (631/731) – The Utility recorded \$4,164 for water and \$4,164 for wastewater in this account during the test year. Staff has increased this account by \$480 for both water and wastewater to reflect accounting expenses paid to the bookkeeper by the W.P.’s parent company. Staff has also increased this account by \$540, each for both water and wastewater, to reflect the appropriate expense for the Utility’s bookkeeper. Staff has reclassified \$228, each for both water and wastewater to Acct. No. 665. Staff’s net adjustment to this account is an increase of \$792, each to both water and wastewater. Staff’s recommended contractual services – professional is \$4,956 for water and \$4,956 for wastewater.

Contractual Services – Testing – (635/735) – The Utility recorded \$3,890 for water and \$0 for wastewater in this account during the test year. W.P. recorded operator expenses as testing. Staff has decreased this account by \$3,300 to reclassify operator expenses to Acct No. 636. Staff also decreased this account by \$290 to reflect the appropriate water testing expense per the staff engineer. Staff’s net adjustment to this account is a decrease of \$3,590 for water. Staff’s recommended contractual services – testing is \$300 for water and \$0 for wastewater.

Contractual Services – Other – (636/736) – The Utility recorded \$6,340 for water and \$6,000 for wastewater in this account during the test year. W.P. recorded operator expenses as testing. Staff has increased this account by \$3,300 to reflect operator expenses reclassified from Acct. No. 635. Also, the expense for operator services is increasing. The increase to operator services is \$300. Staff believes this amount is reasonable and increased this account. Staff decreased this account by \$105 for water to reclassify meter reading expenses recorded as repairs and maintenance to Acct. Nos. 630. Staff’s net adjustment to this account is an increase of \$3,495 for water. Staff’s recommended contractual services – other is \$9,835 for water and \$6,000 for wastewater.

Regulatory Commission Expense – (665/765) – The Utility recorded \$0 in this account during the test year for water and wastewater. W.P. recorded accounting expenses related to the rate case in Acct. No 631. Staff has increased this account by \$228 for both water and wastewater to reflect reclassified rate case expense. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a 4-year period. The Utility is required by Rule 25-22.0407, F.A.C., to mail notices of the customer meeting and notices of final rates in this case to its customers. For these notices, staff has estimated \$156 for postage expense, \$133 printing expense, and \$19 for envelopes. The above results in a total rate case expense for noticing of \$308. W.P. paid a \$1,000 rate case filing fee for water and wastewater. Staff recommends that rate case expense for filing fee and noticing is \$1,308 (\$1,000 + \$308), which amortized over four years is \$327, allocating \$163 each for water and wastewater.

Operation and Maintenance Expense (O&M Summary) – The total O&M adjustment is a increase of \$16,649 for water and a decrease of \$3,221 for wastewater. Staff’s recommended O&M expenses are \$53,240 for water and \$48,025 for wastewater. O&M expenses are shown on Schedule Nos. 3-D and 3-E.

Depreciation Expense (Net of Amortization of CIAC) – W.P. recorded net depreciation expense of \$8,396 for water and \$167 for wastewater. Staff calculated test year depreciation using the rates prescribed in Rule 25-30.140, F.A.C. Staff’s calculation results in a necessary adjustment

to reduce depreciation expense for water by \$4,417 and increase wastewater by \$5,272. Staff has calculated amortization of CIAC of \$984 for water and \$404 for wastewater based on composite rates. Staff has decreased this account by \$5,401 for water and increased this account by \$4,868 for wastewater. Staff's recommended net depreciation expense is \$2,995 for water and \$5,035 for wastewater.

Taxes Other Than Income (TOTI) – The Utility recorded regulatory assessment fees (RAFs) of \$1,789 for water and \$3,057 for wastewater. Based on staff's recommended test year revenues, W.P.'s RAFs should be \$1,527 for water and \$2,505 for wastewater. Staff has made adjustments to increase RAFs by \$11 (\$1,527 - \$1,516) for water and decrease RAFs by \$86 (\$2,504 - \$2,590) for wastewater. The Utility failed to record its property taxes. Therefore, staff has increased this account by \$566 for water and \$790 for wastewater. Staff's net adjustment to this account is an increase of \$577 for water and an increase of \$704 for wastewater.

Income Tax – The Utility recorded income tax of \$0 water and wastewater. W.P. is an 1120 S corporation. The tax liability is passed on to the owner's personal tax returns. Therefore, staff did not make an adjustment to this account.

Operating Expenses Summary – The application of staff's recommended adjustments to the audited test year operating expenses results in staff's calculated operating expenses of \$58,600 for water and \$56,822 for wastewater. Operating expenses are shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule No. 3-C.

Issue 7: What are the appropriate revenue requirements?

Recommendation: The appropriate revenue requirement is \$62,610 for water and \$62,661 for wastewater. (Hudson)

Staff Analysis: W.P. should be allowed an annual increase of \$28,679 (84.52 percent) for water and \$6,990 (12.56 percent) for wastewater. This will allow the Utility the opportunity to recover its expenses and earn an 7.50 percent return on its investment. The calculations are as follows:

	<u>Water</u>	<u>Wastewater</u>
Adjusted Rate Base	\$36,254	\$73,659
Rate of Return	x .0750	x .0750
Return on Rate Base	\$2,719	\$5,524
Adjusted O&M expense	53,240	48,025
Depreciation expense (Net)	2,995	5,035
Amortization	0	0
TOTI	3,656	4,076
Income Taxes	0	0
Revenue Requirement	\$62,610	\$62,661
Less Test Year Revenues	33,931	55,671
Annual Increase	\$28,679	\$6,990
Percent Increase/(Decrease)	84.52%	12.56%

Revenue requirement is shown on Schedule No. 3-A and 3-B.

Issue 8: What are the appropriate rate structures for the Utility's water and wastewater systems?

Recommendation: The appropriate rate structure for the water system's residential class is a monthly base facility charge (BFC)/uniform gallonage charge rate structure. The appropriate rate structure for the water system's non-residential class is a traditional BFC/uniform gallonage charge. The water system's BFC cost recovery should be set at 50%. The appropriate rate structure for the wastewater system's residential and non-residential class is a monthly BFC/uniform gallonage. The non-residential gallonage charge should be 1.2 times greater than the corresponding residential charge, and the BFC cost recovery percentage for the wastewater system should be set at 50%. The residential wastewater cap should be changed to 6,000 gallons (6 kgal). (Bruce)

Staff Analysis: The Utility currently has a BFC uniform/gallonage charge rate structure for the water systems' residential and non-residential class. The BFC is \$25.41 and is billed on a quarterly basis. The monthly usage charge is \$2.22 per kgal.

Water Rates: The current rate structure consists of a BFC/uniform gallonage rate structure which is billed quarterly. In prior cases, it has been Commission practice to convert the Utility's billing system to a monthly system.⁷ By billing on a monthly basis, customers receive a more timely price signal that will allow them to adjust their consumption accordingly. Therefore, in order to promote a rate design that is consistent with past Commission practice, staff recommends changing the Utility's quarterly billing to monthly.

Staff performed a detailed analysis of the Utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential rate class. The goal of the evaluation was to select the rate design parameters that: 1) allow the Utility to recover its revenue requirement; 2) equitably distribute cost recovery among the Utility's customers; and 3) implement, where appropriate, water conserving rate structures consistent with the Commission's goals and practices.

Water use in the Utility's service area is under the jurisdiction of the South Florida Water Management District (SFWMD or District). However, W.P. Utilities purchases its potable water and wastewater treatment from the City of Lake Worth and resells these services to the customers of the Utility. Therefore, the Utility is considered non-jurisdictional by the SFWMD.

Based on staff's analysis, the customer's monthly overall average consumption is approximately 2.5 kgals and that the customer base is seasonal. Furthermore, staff estimates that even while the seasonal customers are in residence, average residential consumption is only 3.3 kgals per month. Staff evaluated the appropriateness of implementing an inclining block rate structure for this Utility. These rate structures, as well as staff's recommended rate structures are presented in Attachment A. However, given the relatively low consumption levels, staff does not believe that there is a significant amount of discretionary usage that can be influenced by an

⁷ See Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, In Re: Application for rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida; Order No. PSC-07-1009-PAA-WU, Issued December 20, 2007, in Docket No. 070177-WU, In Re: Application for staff-assisted rate case in Pasco County by LWV Utility.

inclining block rate structure. Therefore, staff recommends that the appropriate rate structure for the residential class is a traditional BFC/uniform gallonage rate structure.

Furthermore, staff recommends that the fixed cost recovery be increased from the initial accounting allocation of 27.78% to 50%. The Commission typically sets the BFC recovery no greater than 40%. However, in this case, because the Utility's customer base is very seasonal, staff recommends that a 50% BFC allocation factor is appropriate. This higher allocation percentage will help insure that the Utility will have sufficient cash flow to cover fixed costs while the seasonal customers are not in residence. In recent cases, the Commission has approved a BFC allocation greater than 40%.⁸

Based on the foregoing, staff recommends that the Utility's current rate structure which includes a quarterly BFC be changed to a monthly BFC/uniform gallonage rate structure. The water system's BFC cost recovery should be set at 50%.

Wastewater Rates: The Utility currently has a BFC/gallonage charge rate structure for the wastewater systems' residential and non-residential class. The BFC is \$46.44 and is billed on a quarterly basis. The monthly usage charge is \$3.36 per kgal.

As mentioned above, the current rate structure consists of quarterly billing for the BFC and is considered non-conservation oriented. In prior cases, it has been Commission practice to convert the Utility's billing system to a monthly billing system. By billing on a monthly basis, customers receive a more timely price signal that will allow them to adjust their consumption accordingly. Therefore, in order to promote a rate design goal that is consistent with past Commission practice, staff recommends changing the Utility's quarterly billing to monthly.

The initial allocation for the wastewater BFC cost recovery percentage was 30.41%. Staff recommends that the BFC cost recovery be increased to 50%. It is Commission practice to set the BFC cost recovery at least 50% due to the capital intensive nature of wastewater plants. The current wastewater cap is set at 30 kgals per quarter. The Commission typically sets the wastewater monthly cap at 6 kgal. A review of the billing data indicates setting the wastewater cap at 6 kgal is appropriate. Therefore, staff recommends changing the wastewater cap of 30 kgal per quarter to 6 kgal per month. Furthermore staff recommends that general service gallonage charge is 1.2 times greater than the residential charge.

Based on the foregoing, staff recommends that the appropriate rate structure for the wastewater systems' residential and non-residential are changed to a monthly BFC/uniform gallonage charge rate structure. The wastewater gallonage cap should be set at 6 kgal per month. The general service gallonage charge is 1.2 times greater than the residential charge, and the BFC cost recovery percentage for the wastewater system should be set at 50%.

⁸ See Order No. PSC-07-0609-PAA-WS, issued July 30, 2007, in Docket No. 060246-WS, In Re: Application for increase in water and wastewater rates in Polk County by Gold Coast Utility Corp.; Order No. PSC-08-0262-PAA-WS, issued in April 28, 2008, in Docket No. 070414-WS, In Re: Application for staff-assisted rate case in Polk County by Hidden Cove, Ltd.

Issue 9: Is a repression adjustment appropriate in this case, and if so, what are the appropriate adjustments to make for this Utility, what are the appropriate corresponding expense adjustments to make, and what are the final revenue requirements?

Recommendation: No, a repression adjustment is not appropriate in this case. However, in order to monitor the effect of the changes to rate structure and revenue, the Utility should be ordered to file reports detailing the number of bills rendered, the consumption billed and the revenues billed on a monthly basis. In addition, the reports should be prepared, by customer class and meter size. The reports should be filed with staff, on a quarterly basis, for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the Utility makes adjustments to consumption in any month during the reporting period, the Utility should be ordered to file a revised monthly report for that month within 30 days of any revision. (Bruce)

Staff Analysis: Based on staff's analysis, a repression adjustment is not warranted in this case due to the fact that there is no significant amount of discretionary usage. However, staff recommends that monthly reports be prepared to monitor the effects from changes in revenue to the water and wastewater systems. These reports should be filed with the Commission, on a quarterly basis, for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the Utility makes adjustments to consumption in any month during the reporting period, the Utility should be ordered to file a revised monthly report for that month within 30 days of any revision.

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

Recommendation: The appropriate monthly water and wastewater rates are shown on Schedules Nos. 4-A and 4-B, respectively. The recommended water and wastewater rates produce revenues of \$62,610 and \$62,661. 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 be 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 no less than 10 days after the date of the notice. (Bruce, Hudson)

Staff Analysis: The appropriate pre-repression revenue requirement is \$62,610 for the water system and \$62,661 for the wastewater system. As discussed in Issue 8, the appropriate rate structure for the water system's residential and non-residential class is a monthly BFC/uniform gallonage charge rate structure. The water system's BFC cost recovery should be set at 50%. The appropriate rate structure for the wastewater system's residential and non-residential class is a monthly BFC/uniform gallonage. The non-residential gallonage charge should be 1.2 times greater than the corresponding residential charge, and the BFC cost recovery percentage for the wastewater system should be set at 50%. The residential wastewater cap should be changed to 6,000 gallons (6 kgal).

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 no less than 10 days after 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.

Issue 11: Should the W.P. refund wastewater revenues collected from its residential customers that were in excess of the tariffed residential rate?

Recommendation: The Utility should refund \$3,029 of test year wastewater revenues to its wastewater customers. A refund should be made to these customers and should be made with interest, as required by Rule 25-30.360(4), F.A.C. W.P. should be required to submit the proper refund reports, pursuant to Rule 25-30.360(7), F.A.C. The refund should be completed within one year of the effective date of this Order. The Utility should treat any unclaimed refunds as CIAC, pursuant to Rule 25-30.360(8), F.A.C. A show cause may be initiated if the Utility fails to make the refunds as prescribed. (Hudson, Bruce)

Staff Analysis: As discussed in Issue No. 5, for wastewater, the Utility accidentally miscoded the rates billed to its residential customers. This resulted in the residential customers being billed the general service gallonage charge and the usage not being capped at the residential limit of 30,000 gallons. Staff has determined the overbilling results in additional wastewater revenues of \$3,029.

W.P. should refund \$3,029 of test year wastewater revenues to its wastewater customers. A refund should be made to these customers with interest, as required by Rule 25-30.360(4), F.A.C. The Utility should be required to submit the proper refund reports, pursuant to Rule 25-30.360(7), F.A.C. The refund should be completed within one year of the effective date of this Order. W.P. should treat any unclaimed refunds as CIAC, pursuant to Rule 25-30.360(8), F.A.C. A show cause may be initiated if the Utility fails to make the refunds as prescribed.

Issue 12: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S.?

Recommendation: The water and wastewater rates should be reduced as shown on Schedule No. 4, 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 367.0816, F.S. The Utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If W.P. 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. (Hudson)

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 the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for RAFs which is \$409 annually, each for both water and wastewater. Using the Utility's current revenues, expenses, capital structure and customer base the reduction in revenues will result in the rate decreases as shown on Schedule No. 4.

W.P. should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The Utility also should be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction. If W.P. 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 13: Should the recommended rates be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the W.P.?

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, in the event of a protest filed by a party other than W.P. 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 W.P. 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., W.P. should file reports with the Commission's Division of Economic Regulation 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. (Hudson)

Staff Analysis: This recommendation proposes an increase in water and wastewater 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 W.P., staff recommends that the recommended rates be approved as temporary rates. The recommended rates collected by the Utility should be subject to the refund provisions discussed below.

W.P. should be authorized to collect the temporary rates upon the staff's approval of 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 \$23,454. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

If W.P. 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 the Utility 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 refunds 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 the Utility;
- 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; and
- 8) The Commission Clerk must be a signatory to the escrow agreement.
- 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 W.P., 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.

W.P. 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 Division of Economic Regulation 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.

Issue 14: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action issues files a protest within 21 days of the issuance of the order, a Consummating Order should be issued. However, 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. When the PAA issues are final and the tariff and notice actions are complete, this docket should be closed administratively. (Bennett)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action issues files a protest within 21 days of the issuance of the order, a Consummating Order should be issued. However, 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. When the PAA issues are final and the tariff and notice actions are complete, this docket should be closed administratively.

WATER

	Current Rates		Current rates converted to Monthly	Staff Recommended	Alternate 1	Alternate 2
				Traditional Base Facility Charge	BFC 2-Tier Inclining Block 0-3 Kgal; 3+ Kgal 2nd Tier Rate Factor =1.25	BFC 2-Tier Inclining Block 0-3 Kgal; 3+ Kgal 2nd Tier Rate Factor =1.50
Quarterly BFC Per kgal	\$25.41 \$2.22	BFC Per Kgal	\$8.47 \$2.22	\$13.80 \$5.24	\$13.80 0-3 Kgal \$ 4.99 3+ Kgal \$ 6.24	\$13.80 0-3 Kgal \$ 4.77 3+ Kgal \$ 7.16
	Typical Quarterly Bills		Typical Monthly Bills	Typical Monthly Bills	Typical Monthly Bills	Typical Monthly Bills
0 kgal	\$25.41	0 kgal	\$8.47	\$13.80	\$13.80	\$13.80
3 kgals	\$45.39	3 kgals	\$15.13	\$29.51	\$28.78	\$28.12
5 kgals	\$58.71	5 kgals	\$19.57	\$39.98	\$41.26	\$42.43
10 kgals	\$92.01	10 kgals	\$30.67	\$66.16	\$72.47	\$78.22
15 kgals	\$125.31	15 kgals	\$41.77	\$92.33	\$103.67	\$114.01

Note: All recommended and alternative rates are based on a BFC=50% and rate factors of 1.0, 1.25 and 1.50

W.P. UTILITIES, INC. TEST YEAR ENDING 12/31/2007 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 070722-WS		
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF	
1. UTILITY PLANT IN SERVICE	\$125,568	(\$7,180)	\$118,388	
2. LAND & LAND RIGHTS	0	0	0	
3. NON-USED AND USEFUL COMPONENTS	0	0	0	
4. CIAC	(29,542)	768	(28,774)	
5. ACCUMULATED DEPRECIATION	(169,784)	92,360	(77,424)	
6. AMORTIZATION OF CIAC	18,734	(1,325)	17,409	
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>6,655</u>	<u>6,655</u>	
8. WATER RATE BASE	<u>(\$55,024)</u>	<u>\$91,278</u>	<u>\$36,254</u>	

W.P. UTILITIES, INC. TEST YEAR ENDING 12/31/2007 SCHEDULE OF WASTEWATER RATE BASE		SCHEDULE NO. 1-B DOCKET NO. 070722-WS	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$158,600	\$383	\$158,983
2. LAND & LAND RIGHTS	0	0	0
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(11,304)	294	(11,010)
5. ACCUMULATED DEPRECIATION	0	(84,953)	(84,953)
6. AMORTIZATION OF CIAC	0	4,636	4,636
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>6,003</u>	<u>6,003</u>
8. WASTEWATER RATE BASE	<u>\$147,296</u>	<u>(\$73,637)</u>	<u>\$73,659</u>

W.P. UTILITIES, INC.		SCHEDULE NO. 1-C	
TEST YEAR ENDING 12/31/2007		DOCKET NO. 070722-WS	
ADJUSTMENTS TO RATE BASE		PAGE 1	
	<u>WATER</u>	<u>WASTEWATER</u>	
<u>UTILITY PLANT IN SERVICE</u>			
1. To reclassify water plant addition recorded to wastewater.	(\$7,180)	\$7,180	
2. To reflect an averaging adjustment.	<u>0</u>	<u>(\$6,797)</u>	
Total	<u>(\$7,180)</u>	<u>\$383</u>	
<u>CIAC</u>			
To reflect the appropriate CIAC balance.	<u>\$768</u>	<u>\$294</u>	
<u>ACCUMULATED DEPRECIATION</u>			
1. To reflect test year depreciation calculated per 25-30.140 F.A.C.	\$90,371	(\$87,789)	
2. To reflect an averaging adjustment.	<u>1,989</u>	<u>2,836</u>	
Total	<u>\$92,360</u>	<u>(\$84,953)</u>	
<u>AMORTIZATION OF CIAC</u>			
1. To reflect accumulated amortization per 25-30.140 F.A.C.	(\$833)	\$4,827	
2. To reflect an averaging adjustment.	<u>(492)</u>	<u>(191)</u>	
Total	<u>(\$1,325)</u>	<u>\$4,636</u>	
<u>WORKING CAPITAL ALLOWANCE</u>			
To reflect 1/8 of test year O & M expenses.	<u>\$6,655</u>	<u>\$6,003</u>	

W.P. UTILITIES, INC.
TEST YEAR ENDING 12/31/2007
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 070722-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. TOTAL COMMON EQUITY	<u>(\$3,575,107)</u>	<u>\$3,575,107</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>	12.01%	0.00%
2. LONG TERM DEBT - GEMSA	\$4,694,149	\$0	\$4,694,149	(\$4,588,726)	\$105,423	95.91%	7.80%	7.48%
NOTES PAYABLE Owner	184,897	0	184,897	(180,745)	4,152	3.78%	0.00%	0.00%
3. LONG TERM DEBT Vehicle	15,030	0	15,030	(14,692)	338	0.31%	6.00%	0.02%
LONG TERM DEBT Vehicle	6,701	(6,701)	0	0	0	0.00%	6.85%	0.00%
LONG TERM DEBT Tractor	<u>1,581</u>	<u>0</u>	<u>1,581</u>	<u>(1,545)</u>	<u>36</u>	<u>0.03%</u>	0.00%	0.00%
TOTAL LONG TERM DEBT	<u>\$4,902,358</u>	<u>\$0</u>	<u>\$4,894,076</u>	<u>(\$4,784,163)</u>	<u>\$109,913</u>	<u>100.00%</u>		
4. CUSTOMER DEPOSITS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>	6.00%	<u>0.00%</u>
5. TOTAL	<u>\$1,327,251</u>	<u>\$3,575,107</u>	<u>\$4,894,076</u>	<u>(\$4,784,163)</u>	<u>\$109,913</u>	<u>100.00%</u>		<u>7.50%</u>
RANGE OF REASONABLENESS						LOW	HIGH	
RETURN ON EQUITY						<u>11.01%</u>	<u>13.01%</u>	
OVERALL RATE OF RETURN						<u>7.50%</u>	<u>7.50%</u>	

W.P. UTILITIES, INC. TEST YEAR ENDING 12/31/2007 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 070722-WS		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$25,695</u>	<u>\$8,236</u>	<u>\$33,931</u>	<u>\$28,679</u> 84.52%	<u>\$62,610</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$36,591	\$16,649	\$53,240	\$0	\$53,240
3. DEPRECIATION (NET)	8,396	(5,401)	2,995	0	2,995
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	1,789	577	2,366	1,291	3,656
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$46,776</u>	<u>\$11,824</u>	<u>\$58,600</u>	<u>\$1,291</u>	<u>\$59,891</u>
8. OPERATING INCOME/(LOSS)	<u>(\$21,081)</u>		<u>(\$24,669)</u>		<u>\$2,719</u>
9. WATER RATE BASE	<u>(\$55,024)</u>		<u>\$36,254</u>		<u>\$36,254</u>
10. RATE OF RETURN	<u>38.31%</u>		<u>-68.05%</u>		<u>7.50%</u>

W.P. UTILITIES, INC.		SCHEDULE NO. 3-B			
TEST YEAR ENDING 12/31/2007		DOCKET NO. 070722-WS			
SCHEDULE OF WASTEWATER OPERATING INCOME					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$43,901</u>	<u>\$11,770</u>	<u>\$55,671</u>	<u>\$6,990</u> 12.56%	<u>\$62,661</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$51,246	(\$3,221)	\$48,025	\$0	\$48,025
3. DEPRECIATION (NET)	167	4,868	5,035	0	5,035
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	3,057	704	3,761	315	4,076
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$54,470</u>	<u>\$2,352</u>	<u>\$56,822</u>	<u>\$315</u>	<u>\$57,136</u>
8. OPERATING INCOME/(LOSS)	<u>(\$10,569)</u>		<u>(\$1,151)</u>		<u>\$5,524</u>
9. WASTEWATER RATE BASE	<u>\$147,296</u>		<u>\$73,659</u>		<u>\$73,659</u>
10. RATE OF RETURN	<u>-7.18%</u>		<u>-1.56%</u>		<u>7.50%</u>

W.P. UTILITIES, INC.
TEST YEAR ENDING 12/31/2007
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-C
DOCKET NO. 070722-WS
PAGE 1 OF 2

	<u>WATER</u>	<u>WASTEWATER</u>
OPERATING REVENUES		
1. To reflect to unbooked 4th quarter revenue.	\$7,809	\$13,964
2. To reflect annualize revenue.	340	835
3. To correct misclassified water revenue.	87	0
4. To correct overbilling error.	<u>0</u>	<u>(3,029)</u>
Subtotal	<u>\$8,236</u>	<u>\$11,770</u>
OPERATION AND MAINTENANCE EXPENSES		
1. Purchased Water/Wastewater (610/710)		
a. To include unrecorded purchased water paid by parent co.	\$4,831	\$0
b. To reclassify purchased water from purchased wastewater.	1,658	(\$1,658)
c. To reclassify purchased water from purchased power.	5,096	0
d. To correct recording of prior period expense.	<u>\$574</u>	<u>430</u>
Subtotal	<u>\$12,159</u>	<u>(\$1,228)</u>
2. Purchased Power (615/ 715)		
a. To reclassify purchased water.		<u>(\$5,096)</u>
3. Materials & Supplies (620/ 720)		
a. To record supplies paid by Homeland.	<u>\$41</u>	<u>\$0</u>
4. Contractual Services - Billing (630/ 730)		
a. To record meter reading expenses paid by Homeland.	\$360	\$0
b. To record meter reading expenses reclassified from Acct.636.	105	0
c. To record the appropriate test year meter reading expense.	15	0
d. To reflect pro forma expense for monthly meter reading.	960	0
e. To record billing expenses.	<u>1,920</u>	<u>1,920</u>
Subtotal	<u>\$3,360</u>	<u>\$1,920</u>
5. Contractual Services - Professional (631/ 731)		
a. To reclassify billing expenses to Acct No. 630.	\$480	\$480
b. To record the appropriate bookkeeper expenses.	540	540
c. To reclassify Rate Case Expense to Acct No. 665/775.	<u>(228)</u>	<u>(228)</u>
Subtotal	<u>\$792</u>	<u>\$792</u>
6. Contractual Services - Testing (635/ 735)		
a. To reclassify operator expense to Acct No. 635.	(\$3,300)	\$0
b. To reflect the appropriate testing per staff engineer.	<u>(290)</u>	<u>0</u>
Subtotal	<u>(\$3,590)</u>	<u>\$0</u>

(O&M EXPENSES CONTINUED ON NEXT PAGE)

W.P. UTILITIES, INC.
TEST YEAR ENDING 12/31/2007
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-C
DOCKET NO. 070722-WS
PAGE 2 OF 2

(O & M EXPENSES CONTINUED)	<u>WATER</u>	<u>WASTEWATER</u>
7. Contractual Services - Other (636/ 736)		
a. To reclassify operator expense from Acct. No. 635.	\$3,300	\$0
b. To reflect pro forma increase to operator expense.	300	0
c. To reclassify billing expenses to Acct Nos. 630/730.	<u>(105)</u>	<u>0</u>
Subtotal	<u>\$3,495</u>	<u>\$0</u>
8. Regulatory Expense (665/ 765)		
a. To reclassify rate case expense from Acct. No. 636.	\$228	\$228
b. To reflect rate case expense for noticing.	<u>163</u>	<u>163</u>
Subtotal	<u>\$391</u>	<u>\$391</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$16,649</u>	<u>(\$3,221)</u>
DEPRECIATION EXPENSE		
1. To reflect test year depreciation calculated per 25-30.140, FAC	(\$4,417)	\$5,272
2. To reflect test year CIAC amortization calculated by staff	<u>(984)</u>	<u>(404)</u>
Total	<u>(\$5,401)</u>	<u>\$4,868</u>
TAXES OTHER THAN INCOME		
1. To reflect the appropriate test year RAFs	\$11	(\$86)
2. To reflect the appropriate property taxes	<u>566</u>	<u>790</u>
Total	<u>\$577</u>	<u>\$704</u>

W.P. UTILITIES, INC.
TEST YEAR ENDING 12/31/2007
ANALYSIS OF WATER OPERATION AND
MAINTENANCE EXPENSE

SCHEDULE NO. 3-D
DOCKET NO. 070722-WS

	TOTAL PER UTILITY	STAFF PER ADJUST.		TOTAL PER PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$0	\$0		\$0
(603) SALARIES AND WAGES - OFFICERS	0	0		0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0		0
(610) PURCHASED WATER	21,993	12,159	[1]	34,152
(615) PURCHASED POWER	0	0		0
(616) FUEL FOR POWER PRODUCTION	0	0		0
(618) CHEMICALS	0	0		0
(620) MATERIALS AND SUPPLIES	0	41	[2]	41
(630) CONTRACTUAL SERVICES - BILLING	0	3,360	[3]	3,360
(631) CONTRACTUAL SERVICES - PROFESSIONAL	4,164	792	[4]	4,956
(635) CONTRACTUAL SERVICES - TESTING	3,890	(3,590)	[5]	300
(636) CONTRACTUAL SERVICES - OTHER	6,340	3,495	[6]	9,835
(640) RENTS	0	0		0
(650) TRANSPORTATION EXPENSE	0	0		0
(655) INSURANCE EXPENSE	0	0		0
(665) REGULATORY COMMISSION EXPENSE	0	391	[7]	391
(670) BAD DEBT EXPENSE	0	0		0
(675) MISCELLANEOUS EXPENSES	<u>204</u>	<u>0</u>		<u>204</u>
	<u>36,591</u>	<u>16,649</u>		<u>53,240</u>

W.P. UTILITIES, INC.
TEST YEAR ENDING 12/31/2007
ANALYSIS OF WASTEWATER OPERATION AND
MAINTENANCE EXPENSE

SCHEDULE NO. 3-E
DOCKET NO. 070722-WS

	TOTAL PER UTILITY	STAFF ADJUST- MENT		TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$0	\$0		\$0
(703) SALARIES AND WAGES - OFFICERS	0	0		0
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0		0
(710) PURCHASED SEWAGE TREATMENT	34,429	(1,228)	[1]	33,201
(711) SLUDGE REMOVAL EXPENSE	0	0		0
(715) PURCHASED POWER	6,482	(5,096)	[2]	1,386
(716) FUEL FOR POWER PRODUCTION	0	0		0
(718) CHEMICALS	0	0		0
(720) MATERIALS AND SUPPLIES	0	0		0
(730) CONTRACTUAL SERVICES - BILLING	0	1,920	[4]	1,920
(731) CONTRACTUAL SERVICES - PROFESSIONAL	4,164	792	[5]	4,956
(735) CONTRACTUAL SERVICES - TESTING	0	0		0
(736) CONTRACTUAL SERVICES - OTHER	6,000	0		6,000
(740) RENTS	0	0		0
(750) TRANSPORTATION EXPENSE	0	0		0
(755) INSURANCE EXPENSE	0	0		0
(765) REGULATORY COMMISSION EXPENSES	0	391	[8]	391
(770) BAD DEBT EXPENSE	0	0		0
(775) MISCELLANEOUS EXPENSES	<u>171</u>	<u>0</u>		<u>171</u>
	<u>\$51,246</u>	<u>(\$3,221)</u>		<u>\$48,025</u>

W.P. UTILITIES, INC.		SCHEDULE NO. 4-A		
TEST YEAR ENDING 12/31/2007		DOCKET NO. 070722-WS		
MONTHLY WATER RATES				
	UTILITY'S EXISTING RATES*	UTILITY'S MONTHLY RATES**	STAFF RECOMMENDED RATES	FOUR-YEAR RATE REDUCTION
<u>Residential and General Service</u>				
<u>Base Facility Charge by Meter Size:</u>				
5/8"X3/4"	\$25.41	\$8.47	\$13.80	\$0.09
3/4"	\$38.12	\$12.71	\$20.70	\$0.14
1"	\$63.54	\$21.18	\$34.50	\$0.23
1-1/2"	\$127.06	\$42.35	\$69.00	\$0.45
2"	\$203.29	\$67.76	\$110.40	\$0.72
3"	\$406.59	\$135.53	\$220.80	\$1.45
4"	\$635.29	\$211.76	\$345.00	\$2.26
6"	\$1,270.57	\$423.52	\$690.00	\$4.52
*The BFC Charge is billed quarterly				
** For comparison the Utility's quarterly rate converted to monthly				
<u>Residential and General Service Gallonage Charge</u>				
Per 1,000 Gallons	\$2.22	\$2.22	\$5.24	
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
3,000 Gallons	\$45.39	\$15.13	\$29.52	
5,000 Gallons	\$58.71	\$19.57	\$40.00	
10,000 Gallons	\$92.01	\$30.67	\$66.20	

W.P. UTILITIES, INC. TEST YEAR ENDING 12/31/2007 MONTHLY WASTEWATER RATES		SCHEDULE NO. 4-B DOCKET NO. 070722-WS		
	UTILITY'S EXISTING RATES*	UTILITY'S EXISTING RATES**	STAFF RECOMMENDED RATES	FOUR-YEAR RATE REDUCTION
<u>Residential and General Service</u>				
Base Facility Charge by Meter Size:				
5/8"X3/4"	\$46.44	\$15.48	\$13.86	\$0.09
3/4"	\$69.66	\$23.22	\$20.79	\$0.14
1"	\$116.07	\$38.69	\$34.65	\$0.23
1-1/2"	\$232.14	\$77.38	\$69.30	\$0.45
2"	\$371.43	\$123.81	\$110.88	\$0.73
3"	\$742.84	\$247.61	\$221.76	\$1.45
4"	\$1,163.75	\$387.92	\$346.50	\$2.27
6"	\$2,321.37	\$773.79	\$693.00	\$4.53
* The BFC Charge is billed quarterly				
** For comparison the Utility's quarterly rate converted to monthly				
<u>Residential Gallonage Charge</u>				
Per 1,000 Gallons (30,000 gallon cap per quarter)	\$3.36	\$3.36		
Per 1,000 Gallons (6,000 gallon per month)			\$5.30	\$0.03
<u>General Service Gallonage Charge</u>				
Gallonage Charge per 1,000 gallons	\$4.04	\$4.04	\$6.36	\$0.04
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
3,000 Gallons	\$76.68	\$25.56	\$29.76	
5,000 Gallons	\$96.84	\$32.28	\$40.36	
10,000 Gallons	\$147.24	\$49.08	\$45.66	