

State of Florida



# Public Service Commission

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

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**DATE:** February 21, 2013

**TO:** Office of Commission Clerk (Cole)

**FROM:** Division of Accounting and Finance (Golden, Mouring, Prestwood)  
Division of Economics (Lingo, Roberts, Hudson)  
Division of Engineering (Lewis, Rieger, Ballinger)  
Office of the General Counsel (Harris)

*Handwritten initials and signatures:* ms, al, Lingo, SH, CK, PJ, JWD, 500, TB, AH

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

**AGENDA:** 03/05/13 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Balbis

**CRITICAL DATES:** 11/29/13 (15-Month Effective Date (SARC))

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\AFD\WP\120183.RCM.DOC

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FPSC-COMMISSION CLERK

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### Case Background

TLP Water, Inc. (TLP or Utility) is a Class C utility in Lake County. The Utility is located in the St. Johns River Water Management District (SJRWMD) area where water use restrictions apply. The Utility provides water service to 53 water connections comprised of 49 residential customers, 2 inactive residential connections, and 2 general service customers. According to TLP's 2011 annual report, total gross revenues were \$33,844 and total operating expenses were \$36,113, resulting in a net operating loss of \$2,269.

Three Lakes Mobile Home Park (MHP) is a privately owned property formerly known as Carl's Camp. In 1945, Carl's Camp installed a small 4-inch well to provide water service to the area. The property was sold in 1948 and included an agreement that Carl's Camp would supply water service to 15 lots in the Sunset View subdivision on Lakeside Lane.<sup>1</sup> The camp became known as the Three Lakes Mobile Home Park in the 1960s. The Commission received jurisdiction over Lake County in 1972.<sup>2</sup> In 1992, Three Lakes Mobile Home Park was incorporated as a nonprofit cooperative (Three Lakes Park Co-Op or Co-Op). The Co-Op believed it was exempt from the Commission's jurisdiction, pursuant to Section 367.022, Florida Statutes (F.S.); however, because the Utility was providing service to customers outside the cooperative, it was rendered subject to the Commission's jurisdiction.<sup>3</sup> In August 2009, the Commission granted Water Certificate No. 644-W to TLP.<sup>4</sup> The Utility subsequently applied for a staff-assisted rate case (SARC) and was granted a rate increase in March 2010.<sup>5</sup>

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

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<sup>1</sup> See Lake County Clerk of Court's Official Records, Deed Book 276 Page 183, at <http://www.lakecountyclerk.org/>.

<sup>2</sup> See Order No. 5472, issued June 30, 1972, in Docket No. 5818-WS, In re: Jurisdictional Resolutions from Boards of County Commissioners adopting the Water and Sewer System Regulatory Law, Chapter 71-278, Laws of Florida, (Chapter 367, Florida Statutes). Resolution Adopted by Lake County.

<sup>3</sup> Section 367.022(7), F.S., provides that "nonprofit corporations, associations, or cooperatives providing service solely to members who own and control such nonprofit corporations, associations, or cooperatives" are exempt from Commission regulation.

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

<sup>5</sup> See Order No. PSC-10-0124-PAA-WU, issued March 1, 2010, in Docket No. 090244-WU, In re: Application for staff-assisted rate case in Lake County by TLP Water, Inc.

### Discussion of Issues

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

**Recommendation:** No. Consistent with the Utility's last rate case, quality of service should be considered marginal due to the outstanding Department of Environmental Protection (DEP) violations concerning the distribution system. The Utility has been required by DEP to replace the water distribution system, and it is currently in the process of securing funding from the United States Department of Agriculture (USDA). Given the existing compliance status with DEP, the Utility should provide Commission staff with a report within six months of the Proposed Agency Action (PAA) order in this docket, detailing its efforts in obtaining USDA funding to replace the water distribution system and obtain the appropriate DEP permitting. (Lewis, Rieger)

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

#### Quality of Product and Operating Condition of the Plant and Facilities

A March 30, 2011 DEP sanitary survey report found no deficiencies at the water treatment plant. Staff conducted a field inspection of the Utility's facilities on August 28, 2012, and found the water treatment plant to be operating satisfactorily. As discussed below, there are outstanding issues concerning TLP's distribution facilities.

In the previous rate case the Commission noted there were pending violations, primarily with TLP's distribution system, cited by DEP in a May 2008 notice of violation. Correction of these violations was contingent upon anticipated funding from a grant and loan application with the USDA. A February 2010 DEP consent order required dramatic changes to the water system, including a project to connect to the nearby City of Tavares (City) water and wastewater systems. In addition, the consent order required replacement of the Utility's water system components, including the water treatment plant and distribution system. With assistance from the Florida Rural Water Association, the Utility proceeded with the application process to obtain USDA funding. However, complications related to the potential interconnection with the City arose soon after the consent order was finalized. These complications would eventually cause the interconnection project to be rendered unaffordable and impractical.

The Utility withdrew its USDA funding application in early 2012 and began to seek out possible alternatives to correct the outstanding DEP deficiencies. With the original intent of the first consent order to interconnect with the City rendered unachievable, a modified consent order was finalized between the parties on September 24, 2012. The modified consent order indicated that the existing DEP violations relate to the distribution system. Pursuant to the consent order, the Utility is required to apply for and obtain grants and loans from USDA to replace the water

distribution system, obtain the appropriate DEP permitting, and have the project, which is to include canal crossings, completed within 240 days of issuance of the DEP permits. The Utility has indicated that an application for USDA funding was submitted on September 10, 2012, and it will soon apply to DEP for construction permits. Processing of the USDA funding application is ongoing, and a decision to approve the grants and loans could take several months. The initial projected cost of the project is approximately \$322,000. Costs related to the projected water distribution system replacement project are not considered in the present rate case, but may be taken up in a future rate proceeding.

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

The Commission has received three customer correspondences concerning the rate case. In addition, there are no outstanding complaints on the Commission's complaint tracking system. A customer meeting was held on January 9, 2013, at the City of Tavares Civic Center in Tavares, Florida. Approximately 30 customers attended the customer meeting and 10 customers made comments during the course of the customer meeting. The customers mainly expressed opposition to the proposed rate increase and questioned the need for a rate proceeding as the water service provider may soon be changed to the City. Few details were given at the customer meeting as to how and when the City would become the water service provider, as well as the wastewater service provider, for the area. A petition, which opposed the rate increase, was presented during the customer meeting. It indicated that the residents were in the process of trying to secure funding to have the City annex the area and install water and wastewater service. The petition also pointed out that the Utility was loaned money from the Three Lake Park residents to form the water company, with no money paid back. The customers felt that a rate increase would be used for the purpose of paying themselves back, and that perhaps if the Utility reduced expenses a rate increase would not be necessary. Further discussion concerning the loan arrangement between the residents and the Utility is continued in Issue 4.

At the customer meeting, there were also several customers who complained of existing and past problems with water pressure and outages. These problems appear to relate to how the water system was originally designed and constructed. The required replacement of the water distribution system, as mentioned above, should ease the water outage and pressure situations that the customers have noted.

#### Summary

Water quality provided by the Utility is meeting DEP standards and should be considered satisfactory. Operational conditions should be considered marginal due to the outstanding DEP violations concerning the Utility's distribution system. The Utility's attempt to address customer satisfaction is satisfactory considering its effort to secure funding to replace the water distribution system. Replacement of the distribution system should provide the customers with more reliable service. In the previous rate case, the Commission determined quality of service to be marginal, primarily because of the DEP compliance problems that still exist today. Given the existing compliance status with DEP, staff believes that the quality of service should again be considered marginal. No later than six months from the date of the Commission's PAA order concerning this rate case, the Utility should provide Commission staff with a report detailing its

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efforts in obtaining USDA funding to replace the water distribution system and obtain the appropriate DEP permitting

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

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

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

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

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

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

**Staff Analysis:** The appropriate components of the Utility's rate base include utility plant in service, accumulated depreciation, and working capital. TLP's rate base was last established in its 2009 staff-assisted rate case by Order No. PSC-10-0124-PAA-WU.<sup>6</sup> Staff selected the test year ended June 30, 2012, for the instant rate case. A summary of each component and the recommended adjustments follows:

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

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

**Accumulated Depreciation:** TLP reflected a balance for accumulated depreciation of \$0. Pursuant to Order No. PSC-10-0124-PAA-WU, the Utility's accumulated depreciation was \$5,260 as of June 30, 2009. Staff calculated the annual accruals to accumulated depreciation since July 1, 2009, using the prescribed rates set forth in Rule 25-30.140, F.A.C., and determined that accumulated depreciation is \$13,755. In addition, staff has decreased accumulated depreciation by \$1,213 to reflect an averaging adjustment. Staff recommends accumulated depreciation of \$12,542.

**Working Capital Allowance:** Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses or going-concern requirements of the Utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of \$3,706 (based on O&M expense of \$29,649/8). Staff has increased the working capital allowance by \$3,706.

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

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<sup>6</sup> Ibid.

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

**Recommendation:** The appropriate return on equity (ROE) is 8.74 percent with a range of 7.74 percent to 9.74 percent. The appropriate overall rate of return is 8.74 percent. (Golden, Lingo)

**Staff Analysis:** The Utility's capital structure consists of long-term debt of \$136,866 at 12.00 percent interest over a 5-year term. In the Utility's last rate case, the Commission determined that TLP's long-term debt of \$136,866 was a related party loan that was needed for upgrades to comply with DEP. Specifically, repairs were required for the water plant in 2006 and for the water distribution system on Lakeside Lane in 2007. The Co-Op attempted to get all customers to share equally in the cost of the repairs, but was unable to obtain agreement from every customer. Consequently, the members of the Co-Op provided the funds necessary for repairs made from 2006 through 2008, and the loan was formalized into a loan contract effective December 31, 2008. The Co-Op includes the 31 active customers in the MHP and is the sole owner of the Utility. The remaining 20 active customers outside the MHP are not members of the Co-Op.

In the 2009 rate case, the Commission determined that the cost rate of the loan was appropriate due to the financial posture of the Utility and its inability to obtain other funding sources.<sup>7</sup> For ratemaking purposes, the Utility's capital structure was reduced to \$67,900 to reconcile with rate base established in that docket. The Utility subsequently removed \$68,966 of long-term debt from its general ledger to agree with the reconciled capital structure amount of \$67,900, and added additional debt of \$25,500 for legal services, resulting in total test year long-term debt of \$93,400. Although it is necessary to reconcile the capital structure to rate base for ratemaking purposes, the reconciliation adjustment is not necessary for general accounting purposes. Accordingly, staff has increased long-term debt by \$68,966 to restore the related party loan to its original balance. In addition, staff has determined that the \$25,500 legal service debt is an outstanding accounts payable balance for legal services provided during prior years rather than long-term debt. Therefore, staff has decreased the Utility's long-term debt by \$25,500 to remove the legal service accounts payable.

In addition, Commission audit staff confirmed that the Utility has never made a payment toward the principal or interest of the original \$136,866 loan because of persistent cash flow problems. Staff believes the terms of the loan are not properly matched to the Utility's financial ability to repay the loan nor to the service lives of the assets represented by the loan. Staff notes that in previous cases in which utilities have not made principal or interest payments on related party loans, it has been Commission practice to treat the related party debt as equity for ratemaking purposes.<sup>8</sup> Similarly, staff believes the interests of all the customers would be better served by treating the related party debt as equity in this rate proceeding. Therefore, until such time as the Utility is able to begin making payments to repay the loan, staff believes the related

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<sup>7</sup> Ibid.

<sup>8</sup> See Order No. PSC-09-0628-PAA-SU, issued September 17, 2009, in Docket No. 080668-SU, In re: Application for staff-assisted rate case in Highlands County by Fairmount Utilities, The 2nd Inc.; Order No. PSC-10-0681-PAA-WU, issued November 15, 2010, in Docket No. 090414-WU, In re: Application for staff-assisted rate case in Polk County by Pinecrest Ranches, Inc.; Order No. PSC-12-0410-PAA-SU, issued August 13, 2012, in Docket No. 110165-SU, In re: Application for staff-assisted rate case in Highlands County by Utility Corporation of Florida, Inc.

party debt should be treated as equity for ratemaking purposes. This approach will still provide the Co-Op members with an opportunity to earn a return on their investment in the Utility, without unduly burdening both the Co-Op members and non-members with the higher level of rates that would be necessary to recover the 12 percent cost of debt associated with the related party loan. Accordingly, staff has decreased the Utility's long-term debt by \$136,866. Staff's net adjustment to long-term debt is a decrease of \$93,400.

Also, a review of the Utility's federal income tax returns indicates that the Utility's common equity balance would most likely be negative based upon the Utility's continuing net operating losses. To be consistent with prior Commission practice, staff has set the Utility's beginning common equity balance to \$0.<sup>9</sup> Further, staff has increased the Utility's common equity balance by \$136,866 to treat the related party loan as equity for ratemaking purposes. Staff's net adjustment to common equity is an increase of \$136,866. The appropriate ROE is 8.74 percent using the Commission-approved leverage formula currently in effect.<sup>10</sup> The Utility's capital structure has been reconciled with staff's recommended rate base. Staff recommends an ROE of 8.74 percent, with a range of 7.74 percent to 9.74 percent, and an overall rate of return of 8.74 percent. The ROE and overall rate of return are shown on Schedule No. 2.

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<sup>9</sup> See Order No. PSC-08-0652-PAA-WS, issued October 6, 2008, in Docket No. 070722-WS, In re: Application for staff-assisted rate case in Palm Beach County by W.P. Utilities, Inc.

<sup>10</sup> See Order Nos. PSC-12-0339-PAA-WS, issued June 28, 2012, and PSC-12-0372-CO-WS, issued July 20, 2012, in Docket No. 120006-WS, In re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

**Issue 5:** What is the appropriate amount of test year revenue?

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

**Staff Analysis:** TLP recorded total revenue of \$34,257. The Utility's total revenue consisted of \$34,102 of service revenue and \$155 of miscellaneous revenues. The adjusted test year revenue, based on test year billing determinants and rates, is \$33,466, comprised of service revenue of \$33,281 and miscellaneous revenue of \$185. Staff decreased test year revenue by \$791 to reflect the appropriate test year revenues. The test year revenue is shown on Schedule No. 3-A. The related adjustment is shown on Schedule No. 3-B.

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

**Recommendation:** The appropriate amount of operating expense for TLP is \$33,841. (Golden, Lingo)

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

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

**Chemicals (618)** – TLP recorded \$0 for chemicals in this account. Staff has reclassified \$286 for chlorine purchased during the test year from Account Nos. 635 contractual services – testing and 636 contractual services – other to Account No. 618 chemicals. Staff recommends chemicals expense of \$286.

**Materials and Supplies (620)** – The Utility recorded \$349 for material and supplies in this account. Staff has decreased materials and supplies by \$349 to remove office supplies and postage fees that occurred outside the test year. In addition, staff has reclassified \$71 for materials and supplies purchased during the test year from Account Nos. 635 contractual services – testing and 636 contractual services – other to Account No. 620 materials and supplies. Staff's net adjustment to this account is a decrease of \$278. Staff recommends materials and supplies expense of \$71.

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

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

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

Table 6-1

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

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

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

Insurance Expense (655) – TLP recorded insurance expense of \$754. Staff has determined that no adjustments are necessary. Staff recommends insurance expense of \$754.

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

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

Operation and Maintenance Expenses (O&M) Summary – Total adjustments to O&M expense result in a decrease of \$2,898. Staff's recommended O&M expense is \$29,649. O&M expenses are shown on Schedule No. 3-A.

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

Taxes Other Than Income (TOTI) – The Utility recorded \$0 in this account for TOTI. Staff has increased this account by \$1,506 to reflect the appropriate test year RAFs. As discussed in Issue 7, revenues have been increased by \$5,753 to reflect the change in revenue required to cover expenses and allow the recommended return on investment. As a result, TOTI should be increased by \$259 to reflect RAFs of 4.5 percent on the change in revenues. Accordingly, staff's recommended TOTI is \$1,765.

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

Operating Expenses Summary – The application of staff's recommended adjustments to TLP's recorded test year operating expenses result in staff's recommended operating expenses of \$33,841. Operating expenses are shown on Schedule No. 3-A. The related adjustments are shown on Schedule No. 3-B.

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

**Recommendation:** The appropriate revenue requirement is \$39,219. (Golden, Lingo)

**Staff Analysis:** TLP should be allowed an annual increase of \$5,753 (17.19 percent). This will allow the Utility the opportunity to recover its expenses and an 8.74 percent return on its investment. The calculations are as follows:

Table 7-1

<u>Water Revenue Requirement</u>	
Adjusted Rate Base	\$61,537
Rate of Return	x .0874
Return on Rate Base	\$ 5,378
Adjusted O&M expense	29,649
Depreciation expense (Net)	2,427
Amortization	0
Taxes Other Than Income	1,765
Income Taxes	0
Revenue Requirement	\$39,219
Less Test Year Revenues	33,466
Annual Increase	\$5,753
Percent Increase/(Decrease)	17.19%

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

**Recommendation:** No. Staff recommends the continuation of TLP's current rate structure of permanent and seasonal flat rates for unmetered residential and general service customers. The seasonal flat rate is applicable for customers that provide documentation showing that they were inactive for more than 60 days. Customers should be issued a credit of the difference between the permanent and seasonal flat rate for the months the customer was inactive for more than 60 days once documentation has been provided to the Utility. A base facility charge (BFC) and uniform gallonage charge rate structure should be approved for metered general service customers. (Roberts)

**Staff Analysis:** Rule 25-30.255(1), F.A.C., requires that each utility measure its water sold on the basis of metered volume sales unless the Commission approves a flat rate service arrangement. In the last rate case, TLP's entire customer base was unmetered; as a result, the Commission approved a flat rate structure with permanent and seasonal flat rates.<sup>11</sup> Currently, TLP has 53 connections. However, 2 of those connections are inactive. For ratemaking purposes, TLP provides water service to 49 unmetered residential customers, one unmetered general service customer, and one new metered general service customer.

The seasonal flat rate is applicable when customers are inactive for more than 60 days. Currently, the customers inform the Utility when they will be inactive for more than 60 days and TLP bills them at the seasonal rate. The Utility manager has found it is difficult to monitor when a seasonal customer returns to permanent status. Therefore, staff recommends that each customer pay the monthly permanent rate until proof is provided to verify that the customer is inactive for more than 60 days. Customers should be required to provide electric bills or other documentation to the Utility as evidence that they are inactive for more than 60 days. Upon receipt of the documentation, TLP should issue a credit in the amount of the difference between the permanent and seasonal flat rate for each of the months the customer was inactive for more than 60 days.

Since the last rate case, one of the residential connections was rezoned for commercial usage and metered. TLP has been able to obtain approximately five months of metered data for the general service customer. Staff recommends that a BFC and uniform gallonage charge rate structure be designed for the metered general service customer.

Based on the foregoing, Staff recommends the continuation of TLP's current rate structure of permanent and seasonal flat rates for unmetered residential and general service customers. The seasonal flat rate is applicable to customers that provide documentation showing that they were inactive for more than 60 days. Customers should be issued a credit of the difference between the permanent and seasonal flat rate for the months the customer was inactive for more than 60 days once the documentation has been provided to the Utility. A BFC and uniform gallonage charge rate structure should be approved for metered general service customers.

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<sup>11</sup> See Order No. PSC- PSC-10-0124-PAA-WU, issued March 1, 2010, in Docket No. 090244-WU, In re: Application for staff-assisted rate case in Lake County by TLP Water, Inc.

**Issue 9:** Should an adjustment to billing determinants be made to reflect repression of consumption?

**Recommendation:** No. An adjustment to billing determinants to reflect repression of consumption should not be made. (Roberts)

**Staff Analysis:** As previously discussed in Issue 8, staff is recommending a continuation of the flat rate structure for unmetered residential customers. A flat rate structure does not send a price signal to customers to reduce their consumption. Therefore, staff recommends that an adjustment to billing determinants to reflect repression of consumption should not be made.

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

**Recommendation:** The appropriate monthly water rates are shown on Schedule No. 4. The recommended rates should be designed to produce service revenues of \$39,034, which excludes miscellaneous revenues of \$185. The appropriate seasonal and permanent monthly rates for unmetered customers and BFC and gallonage charge for metered general service customers are shown on Schedule No. 4. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice. (Roberts)

**Staff Analysis:** Staff's recommended revenue requirement is \$39,219. Monthly water rates should be designed to produce the recommended service revenues of \$39,034, which excludes miscellaneous revenues of \$185. As discussed in Issue 8, staff is recommending a continuation of the Utility's current flat rate structure consisting of permanent and seasonal flat rates for the unmetered residential and general service customers. Also, staff is recommending a BFC and uniform gallonage charge rate structure for metered general service customers.

In order to design the appropriate permanent, seasonal, and BFC and uniform gallonage charge rates, staff analyzed the portions of the revenue requirement that represent the Utility's fixed and variable costs. It appears that approximately 65 percent of the revenue requirement reflects the Utility's fixed costs (\$25,463) and the remaining 35 percent of the revenue requirement is associated with variable costs (\$13,571).

A seasonal rate and BFC for the metered general service customer of \$41.60 was calculated by dividing the revenues associated with fixed cost by the total number of bills of 612. In order to determine the appropriate permanent rate and gallonage charge for the metered general service customer, staff relied on the information reported to DEP of water pumped during the test year. Adjustments were made for July 2011 when a line break occurred and an estimate was made for water used for line flushing. This results in test gallons of 1,979,500. The revenues associated with the Utility's variable costs were divided by the total estimated gallons of water sold during the test year. This calculation results in a gallonage charge of \$6.86 per 1,000 gallons.

Based on the available data, it appears that residential customers use an average of 4,760 gallons of water (4.76 kgal) per month. Therefore, staff recommends a permanent flat rate of \$74.24, which includes the seasonal rate of \$41.60 plus an additional \$32.64 based on an average 4.76 kgal per month at \$6.86 per 1,000.

Therefore, staff recommends that rates be designed to produce service revenues of \$39,034, which excludes miscellaneous revenues of \$185. The appropriate seasonal and permanent monthly rates for unmetered customers and BFC and gallonage charge for metered general service customers are shown on Schedule No. 4. The Utility should file revised tariff

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Date: February 21, 2013

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. If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. 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.

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

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

**Staff Analysis:** Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for RAFs. The total reduction is \$77. Using TLP's current revenue, expenses, capital structure and customer base, the reduction in revenue will result in the rate decreases as shown on Schedule No. 4.

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

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

**Issue 12:** What is the appropriate initial customer deposit for this Utility?

**Recommendation:** An initial customer deposit of \$130.00 should be approved. The Utility should file a revised tariff sheet and proposed notice consistent with the Commission's vote. The initial customer deposit should become effective for connections made on or after the stamped approval date of the revised tariff sheet after customers have been notified. (Roberts)

**Staff Analysis:** Rule 25-30.311, F.A.C., provides guidelines for collecting, administering, and refunding customer deposits. Rule 25-30.311(7), F.A.C., provides that new or additional customer deposits may be collected from an existing customer based on an average monthly bill for a two-month period. TLP's existing tariff does not authorize the Utility to collect an initial customer deposit. Staff calculated an initial customer deposit amount that reflects an average bill for a two-month period based on staff's recommended rates in Issue 10. The Utility's existing and staff's recommended initial customer deposit amounts are shown below:

WATER

RESIDENTIAL AND GENERAL SERVICE

Existing Initial Customer Deposit

Recommended Initial Customer Deposit

N/A

\$130.00

The Utility should file a revised tariff sheet and proposed notice consistent with the Commission's vote. The initial customer deposit should become effective for connections made on or after the stamped approval date of the revised tariff sheet after the customers have been notified.

**Issue 13:** Should the recommended rates be approved for the Utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility?

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

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

TLP should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$3,839. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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

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

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

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

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

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

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

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

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

**Issue 14:** Should the Utility be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all applicable National Association of Regulatory Commissioners Uniform System of Accounts (NARUC USOA) primary accounts associated with the Commission approved adjustments?

**Recommendation:** Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, TLP should provide proof, within 90 days of the final order in this docket, that the adjustments for all applicable NARUC USOA primary accounts have been made, and that the Utility has taken steps to establish and maintain records using the accrual basis. (Golden, Lingo)

**Staff Analysis:** Commission audit staff noted that the Utility's records are maintained on a cash basis for income tax purposes rather than on an accrual basis as required by the NARUC USOA. Specifically, the NARUC USOA requires that the books of accounts of all water utilities shall be kept by the double entry method, on an accrual basis. In order to use the Utility's records for ratemaking purposes, audit staff was required to convert the Utility's test year accounting records from a cash basis to an accrual basis. The audit staff noted that because the Utility's underlying records were sufficient and fully accessible, audit staff was able to complete their assigned objectives for this rate proceeding. However, the impact of the Utility's accounting method on the audit staff's work was considerable.

Although it is acceptable for the Utility to continue to maintain its records on a cash basis for income tax purposes, the Utility must take steps to establish records using the accrual basis in order to comply with the NARUC USOA. The Utility should either convert its records to an accrual basis for both income tax and Commission regulatory purposes, or establish an additional set of records using the accrual basis specifically for regulatory purposes.

To ensure that the Utility adjusts its books in accordance with the Commission's decision, TLP should provide proof, within 90 days of the final order in this docket, that the adjustments for all applicable NARUC USOA primary accounts have been made, and that the Utility has taken steps to establish and maintain records using the accrual basis.

**Issue 15:** Should this docket be closed?

**Recommendation:** No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets, customer notice, and report concerning USDA funding and DEP permitting to replace the water distribution system have been filed by the Utility and approved by staff. Once these actions are complete, this docket should be closed administratively. (Harris)

**Staff Analysis:** If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets, customer notice, and report concerning USDA funding and DEP permitting to replace the water distribution system have been filed by the Utility and approved by staff. Once these actions are complete, this docket should be closed administratively.

TLP WATER, INC. TEST YEAR ENDED 06/30/2012 SCHEDULE OF WATER RATE BASE				
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF	
1. UTILITY PLANT IN SERVICE	\$0	\$70,373	\$70,373	
2. LAND & LAND RIGHTS	0	0	0	
3. NON-USED AND USEFUL COMPONENTS	0	0	0	
4. CIAC	0	0	0	
5. ACCUMULATED DEPRECIATION	0	(12,542)	(12,542)	
6. AMORTIZATION OF CIAC	0	0	0	
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>3,706</u>	<u>3,706</u>	
8. WATER RATE BASE	<u>\$0</u>	<u>\$61,537</u>	<u>\$61,537</u>	

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

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

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$0	\$0	\$0					
2. RETAINED EARNINGS	\$0	\$0	\$0					
3. PAID IN CAPITAL	\$0	\$0	\$0					
4. OTHER COMMON EQUITY	\$0	\$136,866	\$136,866					
5. TOTAL COMMON EQUITY	\$0	\$136,866	\$136,866	(\$75,329)	\$61,537	100.00%	8.74%	8.74%
6. LONG TERM DEBT		\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
Loans	\$93,400	(\$93,400)	\$0	\$0	\$0	0.00%	12.00%	0.00%
	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
TOTAL LONG TERM DEBT	\$93,400	(\$93,400)	\$0	\$0	\$0	0.00%		
7. CUSTOMER DEPOSITS	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
8. TOTAL	\$93,400	\$43,466	\$136,866	(\$75,329)	\$61,537	100.00%		8.74%
RANGE OF REASONABLENESS						<b>LOW</b>	<b>HIGH</b>	
RETURN ON EQUITY						7.74%	9.74%	
OVERALL RATE OF RETURN						7.74%	9.74%	

TLP WATER, INC. TEST YEAR ENDED 06/30/2012 SCHEDULE OF WATER OPERATING INCOME		SCHEDULE NO. 3-A DOCKET NO. 120183-WU			
	TEST YEAR PER UTILITY	STAFF ADJ. PER UTILITY	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$34,257</u>	<u>(\$791)</u>	<u>\$33,466</u>	<u>\$5,753</u> 17.19%	<u>\$39,219</u>
<b>OPERATING EXPENSES:</b>					
2. OPERATION & MAINTENANCE	\$32,547	(\$2,898)	\$29,649	\$0	\$29,649
3. DEPRECIATION (NET)	0	2,427	2,427	0	2,427
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	0	1,506	1,506	259	1,765
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$32,547</u>	<u>\$1,035</u>	<u>\$33,582</u>	<u>\$259</u>	<u>\$33,841</u>
8. OPERATING INCOME/(LOSS)	<u>\$1,710</u>		<u>(\$116)</u>		<u>\$5,378</u>
9. WATER RATE BASE	<u>\$0</u>		<u>\$61,537</u>		<u>\$61,537</u>
10. RATE OF RETURN	<u>N/A</u>		<u>(0.19%)</u>		<u>8.74%</u>

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

<b>TLP WATER, INC.</b>		<b>SCHEDULE NO. 3-B</b>
<b>TEST YEAR ENDED 06/30/2012</b>		<b>DOCKET NO. 120183-WU</b>
<b>ADJUSTMENTS TO OPERATING INCOME</b>		<b>PAGE 2 OF 2</b>
7.	Rents (640)	
a.	To reflect annualization of \$15 per month water plant lease increase.	<u>\$90</u>
8.	Regulatory Commission Expense (665)	
a.	To reflect 4 year amortization of rate case expense (Docket 090244-WU).	\$150
b.	To reflect 4 year amortization of rate case expense for current docket.	<u>73</u>
	Subtotal	<u>\$223</u>
9.	Miscellaneous Expense (675)	
a.	To reclassify various fees and permits from Acct. No. 636.	\$681
b.	To reflect annual amortization of certification application fee.	<u>150</u>
	Subtotal	<u>\$831</u>
	<b>TOTAL OPERATION &amp; MAINTENANCE ADJUSTMENTS</b>	<u>(\$2,898)</u>
	<b>DEPRECIATION EXPENSE</b>	
1.	To reflect test year depreciation calculated per Rule 25-30.140, F.A.C.	<u>\$2,427</u>
	<b>TAXES OTHER THAN INCOME</b>	
1.	To reflect the appropriate test year RAFs.	<u>\$1,506</u>

TLP WATER, INC.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 06/30/2012		DOCKET NO. 120183-WU	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST.	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSION & BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	845	(210)	635
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	0	286	286
(620) MATERIALS AND SUPPLIES	349	(278)	71
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	14,350	(1,500)	12,850
(635) CONTRACTUAL SERVICES - TESTING	8,729	(4,166)	4,563
(636) CONTRACTUAL SERVICES - OTHER	3,710	1,826	5,536
(640) RENTS	3,810	90	3,900
(650) TRANSPORTATION EXPENSE	0	0	0
(655) INSURANCE EXPENSE	754	0	754
(665) REGULATORY COMMISSION EXPENSE	0	223	223
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSES	0	831	831
	<u>\$32,547</u>	<u>(\$2,898)</u>	<u>\$29,649</u>

TLP WATER, INC.		SCHEDULE NO. 4	
TEST YEAR ENDED 06/30/2012		DOCKET NO. 120183-WU	
MONTHLY WATER RATES			
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	4-YEAR RATE REDUCTION
<b><u>Residential</u></b>			
Permanent Flat Rate	\$59.80	\$74.24	\$0.15
Seasonal Flat Rate	\$42.99	\$41.60	\$0.08
<b><u>General Service</u></b>			
Base Facility Charge	\$0.00	\$41.60	\$0.08
Charge Per 1,000 Gallons	\$0.00	\$6.86	\$0.01