

State of Florida



Public Service Commission

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

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

DATE: April 19, 2013
TO: Ann Cole, Commission Clerk, Office of Commission Clerk
FROM: Kelly J. Thompson, Regulatory Analyst II, Division of Economics
RE: Docket No. 120270-SU

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State of Florida



Public Service Commission

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

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

DATE: April 1, 2013

TO: Patti Daniel, Bureau Chief, Bureau of Economic Impact and Rate Design

FROM: Kelly Thompson, Regulatory Analyst II
Phillip Ellis, Engineering Specialist III
Martha Golden, Regulatory Supv/Consultant

RE: Docket No. 120270-SU – Application for staff-assisted rate case in Polk County by West Lakeland Wastewater, LLC.

- STAFF REPORT -

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

DOCUMENT NUMBER-DATE

02082 APR 19 2013

FPSC-COMMISSION CLERK

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Case Background

West Lakeland is a Class C wastewater utility that serves approximately 315 customers in Polk County. Water service is provided by the City of Lakeland. According to the West Lakeland's 2012 annual report, total gross revenues were \$88,304 and total operating expenses were \$95,782, resulting in a net loss of \$7,478.

The Utility, previously known as ABCA, Inc., has been providing service to customers in Polk County since 1972. On January 9, 1990, the Polk County Commission granted a franchise to Ameribanc Investors Group for a system known as Village Lakeland. Polk County subsequently came under Commission jurisdiction on July 11, 1996. In 1998, the Commission granted the Utility Certificate No. 515-S to provide wastewater service.¹ Rate base was first established in the Utility's 1999 staff-assisted rate case (SARC).² ABCA's certificate was transferred to West Lakeland in 2001.³

By letter dated March 26, 2009, West Lakeland gave notice of abandonment effective June 30, 2009. On May 13, 2009, the Polk County Attorney filed a Petition for Appointment of Receiver for West Lakeland in the Circuit Court of the Tenth Judicial Circuit (Circuit Court). The Circuit Court appointed Mr. Mike Smallridge as receiver for the wastewater system. On September 8, 2009, the Commission acknowledged West Lakeland's abandonment and the Court's appointment of Mr. Smallridge as receiver.⁴

On October 25, 2012, the Commission received an application for a SARC from West Lakeland. In addition, Mr. Smallridge has become the owner of West Lakeland and has since filed an application for transfer of Certificate No. 515-S in Polk County from West Lakeland Wastewater, Inc. to West Lakeland Wastewater, LLC. in Docket No. 130065-SU.

This Staff Report is a **preliminary** analysis of the Utility prepared by the Florida Public Service Commission (Commission) staff to give utility customers and the Utility an advanced look at what staff may be proposing. The final recommendation to the Commission (currently scheduled to be filed June 6, 2013, for the June 18, 2013 Agenda Conference) will be revised as necessary using updated information and results of customer quality of service or other relevant comments received at the customer meeting. The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.0814, 367.101, and 367.121, Florida Statutes (F.S.).

¹ See Order No. PSC-98-0752-FOF-SU, issued June 1, 1998, in Docket No. 971531-SU, In re: Application for grandfather certificate to operate wastewater utility in Polk County by ABCA, Inc.

² See Order No. PSC-00-1163-PAA-SU, issued June 26, 2000, in Docket No. 990937-SU, In re: Application for staff-assisted rate case in Polk County by ABCA, Inc.

³ See Order No. PSC-01-1576-FOF-SU, issued July 30, 2001, in Docket No. 010382-SU, In re: Application for transfer of Certificate No. 515-S in Polk County from ABCA, Inc. to West Lakeland Wastewater, Inc.

⁴ See Order No. PSC-09-0607-FOF-SU, issued September 8, 2009, in Docket No. 090154-SU, In re: Notice of abandonment of wastewater system for The Village of Lakeland Mobile Home Park in Polk County, by West Lakeland Wastewater, Inc.

Discussion of Issues

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

Recommendation: The staff recommendation regarding customer satisfaction and overall quality of service will not be finalized until after the April 24, 2013 customer meeting. (Ellis, McRoy)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission determines the overall quality of service a utility provides by evaluating the quality of its product, the operational condition of its plant and facilities, and its attempt to address customer satisfaction. The utility's compliance with the Florida Department of Environmental Protection (DEP) regulations and customer comments or complaints received by the Commission are also reviewed.

West Lakeland's wastewater treatment plant (WWTP) operating permit was renewed by DEP on January 11, 2010. It will expire on January 10, 2015. On March 1, 2012, DEP conducted a compliance inspection of the WWTP. Three deficiencies were noted in the inspection report, including the need for the Utility to provide a current flow calibration record for the propeller, replace the scum baffle in each clarifier, remove the solids from the chlorine contact chamber (CCC) and wet well.

The Utility's response to DEP on April 4, 2012, indicated that the flow calibration was completed on January 4, 2012, and a copy of the document was enclosed with the letter. The Utility indicated that the baffles will be repaired within 60 days and the CCC and wet well will be cleaned in the next 30 days.

A review of the customers' complaints over the last three years indicates that the Utility has resolved all of the complaints in a timely manner. There were five complaints filed with the Commission's Consumer Activity Tracking System (CATS) during the past three years. The staff recommendation regarding customer satisfaction and the overall quality of service will not be finalized until after the April 24, 2013 customer meeting.

Issue 2: What are the used and useful percentages of the Utility's WWTP and collection system?

Recommendation: West Lakeland's WWTP is 100 percent used and useful (U&U) and the collection system should be considered 93.7 percent U&U. (Ellis, McRoy)

Staff Analysis: The West Lakeland wastewater system was constructed in 1972. The service area includes 312 single family residential lots. The collection system is composed of polyvinyl chloride (PVC) pipes and there are three lift stations in the service area. The WWTP is a Type III contact stabilization plant and is permitted by the DEP at 70,000 gallons per day (gpd) based on the three-month rolling average daily flow (3MRADF). Liquid chlorine disinfection is applied prior to the wastewater effluent flowing into the percolation ponds.

Pursuant to Rule 25-30.432, F.A.C., the U&U percentage for a WWTP is based on the plant flows and a growth allowance less excessive inflow and infiltration (I&I) divided by the permitted capacity of the plant. Other factors, such as whether the service area is built out and whether the plant flows have decreased due to conservation may also be considered.

In the Utility's last rate case,⁵ the WWTP was found to be 100 percent U&U. The service area has had no growth in the past five years and there are no plans for expansion; therefore, pursuant to Rule 25-30.4325(4), F.A.C., staff recommends that the WWTP be considered 100 percent U&U.

The U&U calculations for the wastewater collection systems are determined by dividing the number of customers connected to the systems by the number of lots available for service. The average number of connections during the test year was 312 equivalent residential connections (ERCs). There was no growth allowance for the system. The distribution and collection systems were designed to serve a total of 333 ERCs. Therefore, pursuant to Rule 25-30.432, F.A.C., the water distribution and wastewater collection systems should be considered 93.7 (312+0/333) percent U&U.

⁵ See Order No. PSC-00-1163-PAA-SU, issued June 26, 2000, in Docket No. 990937-SU, In re: Application for staff-assisted rate case in Polk County by ABCA, Inc.

Issue 3: What is the appropriate allocation of common costs from Florida Utility Service to West Lakeland?

Recommendation: The appropriate allocation of common costs from Florida Utility Service to West Lakeland is 29.08 percent for billing and fixed costs and 34.06 percent for maintenance costs. (Golden)

Staff Analysis: West Lakeland's owner currently provides billing and/or maintenance services to five other utilities. Specifically, West Lakeland's owner also owns and operate Pinecrest Utilities, LLC (Pinecrest), serves as the court-appointed receiver for Four Points Utility Corporation and Bimini Bay Utilities, and provides billing services for Lake Forest Utility and East Marion Sanitary Systems. As of January 1, 2013, the common costs related to these six utilities have been recorded in a company called Florida Utility Service (common office). Commission practice is to allocate common administrative and general expenses based on the number of customers.⁶ Florida Utility Service provides billing services to all six utilities, but only provides maintenance services to four utilities. West Lakeland represents 29.08 percent of the customers for all six utilities receiving billing services and 34.06 percent of the customers for the four utilities receiving maintenance services. Therefore, staff recommends that Florida Utility Service's reasonable and prudent common expenses should be allocated to the West Lakeland wastewater system based on the allocated portion of 29.08 percent for billing and fixed costs and 34.06 percent for maintenance costs. This equitably reflects the distribution of costs between these systems.

⁶ See Order Nos. 17043, issued December 31, 1986, in Docket No. 860325-WS, In re: Request by Southern States Utilities, Inc. for approval of test year ended 12/31/85 for rate increase in Seminole County; PSC-01-0323-PAA-WU, issued February 5, 2001, in Docket No. 000580-WU, In re: Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc. (Alturas Water Works); PSC-05-0442-PAA-WU, issued April 25, 2005, in Docket No. 040254-WU, In re: Application for staff-assisted rate increase in Polk County by Keen Sales, Rentals and Utilities, Inc.

Issue 4: What is the appropriate average test year rate base for West Lakeland?

Recommendation: The appropriate average test year rate base for West Lakeland is zero. West Lakeland should complete the pro forma items within 12 months of the issuance of the consummating order. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission in writing. (Golden)

Staff Analysis: West Lakeland's rate base was last established in its 1999 staff-assisted rate case (SARC) by Order No. PSC-00-1163-PAA-SU.⁷ Staff selected the test year ended September 30, 2012, for the instant rate case. A summary of each component and the recommended adjustments follows:

Utility Plant in Service (UPIS): The Utility recorded a test year UPIS balance of \$237,239. Due to abandonment of the Utility by its prior owners in 2009, Commission audit staff was unable to obtain books or records between 1999 and 2009. However, audit staff was able to confirm the addition of several plant items since 2007. Staff recommends the following adjustments to the Utility's recorded UPIS.

Table 3-1

	<u>Adjustment Description</u>	<u>Wastewater</u>
1.	To reflect 2007 plant addition of a new lift station panel to Acct. No. 370.	\$2,651
2.	To reflect 2007 retirement of lift station panel to Acct. No. 370.	(1,988)
3.	To reflect 2009 plant addition of replacement discharge pipe in lift station to Acct. No. 370.	2,438
4.	To reflect 2009 retirement of discharge pipe in lift station to Acct. No. 370.	(1,829)
5.	To reflect 2010 plant addition of pump in lift station to Acct. No. 370.	2,282
6.	To reflect 2010 plant addition of auto dialer at wastewater treatment plant to Acct. No. 380.	2,480
7.	To record 2011 retirement of pump to Acct. No. 370 (retired 7/11/2011).	(1,016)
8.	To record 2011 retirement of pump to Acct. No. 370 (retired 10/11/2011).	(1,071)
9.	To reflect 2012 plant addition of pump to Acct. 360.	1,342
10.	To reflect the Utility's share of allocated common office plant.	1,461
11.	To reflect pro forma plant addition for manhole ring replacement/raising to Acct. No. 361.	2,530
12.	To reflect pro forma plant addition for lift station rehabilitation to Acct. No. 371.	8,023
13.	To reflect pro forma plant addition for check valve replacement to Acct. No. 380.	967
14.	To reflect an averaging adjustment.	(1,580)
	Total	\$16,689

⁷ See Order No. PSC-00-1163-PAA-SU, issued June 26, 2000, in Docket No. 990937-SU, In re: Application for staff-assisted rate case in Polk County by ABCA, Inc.

Pro forma plant additions are often addressed using a phased approach. As shown in Table 3-1 above (items 11, 12, and 13), West Lakeland has requested consideration of three pro forma plant additions in the instant case. In accordance with Commission practice, staff calculated a Phase II revenue requirement for the pro forma additions and determined that the Phase II revenue requirement would be only \$726 or 0.44 percent above the Phase I revenue requirement. If the pro forma items are included in Phase I, rate case expense can be reduced by a total of \$222 or \$56 per year over the 4-year amortization period due to elimination of the additional customer noticing that would be required upon implementation of the Phase II rate increase. In consideration of the minimal impact of the pro forma plant additions on the initial revenue requirement, as well as the additional benefit of reducing rate case expense, staff believes it would be appropriate to include the pro forma plant additions in the initial revenue requirement. West Lakeland should complete the pro forma items within 12 months of the issuance of the consummating order. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission in writing. Based on the adjustments shown above, staff's net adjustment to UPIS is an increase of \$16,689. Staff recommends a UPIS balance of \$253,928.

Land & Land Rights: The Utility recorded a test year land value of \$356. No adjustments are necessary, therefore, staff recommends a land balance of \$356.

Non-used and Useful Plant: As discussed in Issue 2, West Lakeland's WWTP should be considered 100 percent U&U and the collection system should be considered 93.7 percent U&U. By applying the appropriate U&U percentages to the associated UPIS and accumulated depreciation, it results in a U&U adjustment of \$41.

Contribution in Aid of Construction (CIAC): The Utility recorded CIAC of \$163,400 as established in the Utility's 1999 SARC by Order No. PSC-00-1163-PAA-SU. According to West Lakeland's 2001 through 2008 annual reports, the Utility has been collecting CIAC and added 66 additional customers since the 1999 SARC. Therefore, staff has increased CIAC by \$58,080 to reflect the appropriate account balance. Staff recommends a CIAC balance of \$221,480.

Accumulated Depreciation: West Lakeland recorded a test year accumulated depreciation balance of \$225,003. Staff calculated the annual accruals to accumulated depreciation since June 30, 1999, using the prescribed rates set forth in Rule 25-30.140, F.A.C., and determined that accumulated depreciation should be increased by \$1,624 to reflect the correct balance for the test year. In addition, staff has increased accumulated depreciation by \$180 to reflect West Lakeland's share of allocated common plant depreciation. Staff also increased accumulated depreciation by \$693 to include depreciation for the three pro forma plant additions discussed above. Further, staff has decreased this account by \$122 to reflect an averaging adjustment. Staff's net adjustment to accumulated depreciation is an increase of \$2,375, resulting in an accumulated depreciation balance of \$227,378.

Accumulated Amortization of CIAC: West Lakeland recorded amortization of CIAC of \$125,305. Amortization of CIAC has been calculated by staff using composite depreciation rates. As a result, accumulated amortization of CIAC should be decreased by \$18,667. Also,

staff has increased accumulated amortization of CIAC by \$7,186 to reflect additions made since the Utility's 1999 SARC. In addition, staff has decreased this account by \$255 to reflect an averaging adjustment. Staff's net adjustment to accumulated amortization of CIAC is an increase of \$11,736, resulting in an amortization of CIAC balance of \$137,041.

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 \$18,185 (based on O&M expense of \$145,477/8). Staff has increased the working capital allowance by \$18,185.

Rate Base Summary: Applying all of the above adjustments results in a negative rate base of \$39,390. In accordance with Commission practice, staff has adjusted the rate base to zero for ratemaking purposes.⁸ Based on the forgoing, staff recommends that the appropriate test year average rate base is zero. Further, West Lakeland should complete the pro forma items within 12 months of the issuance of the consummating order. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission in writing. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

⁸ See Order No. PSC-97-0540-FOF-WS, issued May 12, 1997, in Docket No. 960799-WS, In re: Application for staff-assisted rate case in DeSoto County by Lake Suzy Utilities, Inc.

Issue 5: What is the appropriate return on equity and overall rate of return for West Lakeland?

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 8.72 percent. (Golden)

Staff Analysis: According to staff's audit, West Lakeland recorded the following items in its capital structure: negative retained earnings of \$77,765, long-term debt of \$6,225, and customer deposits of \$318. The long-term debt of \$6,225 is from the Utility owner, a related party. Audit staff determined that there is no formal loan document, no interest on the loan, and no payments have been made on the principal. 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.⁹ In addition, Commission audit staff have determined that the Utility's common equity should be increased by \$62,398 due to adjustments to prior years' books. Therefore, staff's net adjustment to common equity is \$68,623.

The Utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE is 8.74 percent using the Commission-approved leverage formula currently in effect.¹⁰ 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 8.72 percent. The ROE and overall rate of return are shown on Schedule No. 2.

As discussed in Issue 8, staff is recommending the operating ratio margin for the instant docket. Therefore, a determination of the ROE and overall rate of return is not essential for calculating an operating income. However, it is important to establish the overall rate of return on a going forward basis for earnings surveillance. The ROE and overall rate of return are shown on Schedule No. 2.

⁹ See Order Nos. 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.; 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.; 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.

¹⁰ 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 6: What is the appropriate amount of test year revenues?

Recommendation: The appropriate test year revenues for the West Lakeland wastewater system are \$89,977. (Thompson)

Staff Analysis: West Lakeland recorded total test year revenues of \$21,650, including wastewater service revenues of \$20,677 and \$973 of miscellaneous revenues. The Utility's test year is October 2011 to September 2012. The Utility did not record any revenues in its 2012 general ledger. Based on staff's review of the Utility's billing determinants and the rates that were in effect during the test year, staff determined service revenues should be increased by \$64,948 to reflect total test year service revenues of \$85,625. Staff also made an adjustment to miscellaneous revenues. Staff's audit indicated miscellaneous revenues should be \$4,352. Staff recommends miscellaneous revenues be increased by \$3,379 to reflect the appropriate miscellaneous revenues for the test year.

Based on the above adjustments, staff recommends test year revenues of \$89,977 for the wastewater system. Test year revenues should be increased by \$68,327 (\$64,948 + \$3,379). Test year revenues are shown on Schedule No. 3-A.

Issue 7: What is the appropriate amount of test year operating expenses?

Recommendation: The appropriate amount of operating expense for the Utility is \$155,901. (Golden)

Staff Analysis: West Lakeland recorded operating expenses of \$92,795 during the test year ended September 30, 2012. 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:

Salaries and Wages – Employees (701) – West Lakeland recorded \$0 for salaries in this account. As discussed in Issue 3, as of January 1, 2013, common costs are recorded to Florida Utility Service. Currently, Florida Utility Service pays a billing employee and maintenance employee on salary. The billing and maintenance employees are paid salaries of \$19,760 and \$22,880, respectively. The billing and maintenance employees' duties are allocated based on the percentages discussed in Issue 3. Staff has determined that the billing salary attributable to West Lakeland is \$5,746 ($\$19,760 \times 29.08$ percent) and the maintenance salary attributable to West Lakeland is \$7,793 ($\$22,880 \times 34.06$ percent), for a net increase of \$13,539. Therefore, staff recommends salaries and wages – employees expense for the test year of \$13,539.

Salaries and Wages – Officers (703) – West Lakeland recorded \$0 for salaries in this account. The Utility's owner/president has requested a salary of \$60,000 to be allocated to all the utilities that he owns or manages. This amount is in the range provided in the 2008 Compensation Survey issued by the American Water Works Association. Staff has determined that the president's salary attributable to West Lakeland is \$17,446 ($\$60,000 \times 29.08$ percent). Therefore, staff recommends salaries and wages – officers expense for the test year of \$17,446.

Employee Pensions and Benefits (704) – West Lakeland recorded \$0 for salaries in this account. The Utility's owner/president has requested benefits of a \$5,500 contribution to a pension fund for the owner/president and health insurance for the maintenance employee at an annual cost of \$1,476. Based upon the appropriate allocation of costs, West Lakeland's allocation of the president's pension benefit is \$1,599 ($\$5,500 \times 29.08$ percent) and the health benefit is \$503 ($\$1,476 \times 34.06$ percent), for a net adjustment of \$2,102. Staff recommends employee pensions and benefits expense for the test year of \$2,102.

Sludge Removal Expense (711) – The Utility recorded sludge removal expense of \$8,263. Staff has determined that no adjustments are necessary. Staff recommends sludge removal expense of \$8,263.

Purchased Power (715) – The Utility recorded purchased power expense of \$11,897. Staff has decreased purchased power by \$597 to remove penalties and interest. In addition, the common purchased power expense for the common office is \$1,385. West Lakeland's allocated share of the purchased power expense is \$403 ($\$1,385 \times 29.08$ percent). West Lakeland recorded \$582 for the Utility's share of common purchased power expense. Therefore, staff has decreased this account by \$179 ($\$403 - \582) to reflect West Lakeland's allocated share of purchased power expense. Staff's net adjustment to this account is a decrease of \$776. Staff recommends purchased power expense for the test year of \$11,121.

Chemicals (718) – West Lakeland recorded chemical expense of \$3,029. Staff has decreased chemical expense by \$324 to remove chemical expenses that occurred outside the test year. Further, the Florida Rural Water Association (FRWA) conducted a video review of West Lakeland's collection system. According to the FRWA, the Utility will be using Root X treatment on its collection system six times a year at an annual cost of \$814. Accordingly, staff has increased this account by \$814 to reflect inclusion of this expense as a pro forma adjustment. Staff's net adjustment to this account is an increase of \$490. Staff recommends chemical expense for the test year of \$3,519.

Material and Supplies (720) – The Utility recorded materials and supplies expense of \$2,203. Staff has determined that no adjustments are necessary. Staff recommends material and supplies expense for the test year of \$2,203.

Contractual Services - Professional (731) – West Lakeland recorded contractual services – professional expense of (\$9,481). In December 2011, the Utility made entries to correct charges between Account Nos. 731 contractual services – professional, 735 contractual services – testing, and 736 contractual services – other. However, because these entries include items outside the test year, staff has reversed the entries. Staff's reversing adjustment to Account No. 731 contractual services – professional is an increase of \$14,174. Also, staff has decreased this account by \$200 to remove two payments for annual report preparation services by the Utility's engineering consultant that were already expensed to Account No. 735 contractual services – testing.

In addition, Florida Utility Service employs a bookkeeper on a contractual basis for \$36,400 per year. Staff has determined that West Lakeland's allocated share of the bookkeeping expense is \$10,584 ($\$36,400 \times 29.08$ percent). West Lakeland recorded \$1,745 for the Utility's share of the bookkeeping expense. Therefore, staff has increased this account by \$8,839 ($\$10,584 - \$1,745$) to reflect West Lakeland's allocated share of the bookkeeping expense. Lastly, the Utility indicated that it plans to file annual price index applications and that its accountant charges a fee of \$400 for this service. Staff has increased this account by \$400 to reflect a pro forma adjustment for this accounting service. Staff's net adjustment to this account is an increase of \$23,213. Therefore, staff recommends contractual services - professional expense for the test year of \$13,733.

Contractual Services – Testing (735) – The Utility recorded contractual services – testing expense of \$2,041. As discussed above, the Utility made correcting entries between several accounts, but the entries included items outside the test year. Staff's total adjustment to Account No. 735 contractual services – testing is a decrease of \$728 to reverse the Utility's correcting adjustment. Staff recommends contractual services - testing expense for the test year of \$1,313.

Contractual Services - Other (736) – West Lakeland recorded contractual services – other expense of \$45,927. As discussed above, the Utility made correcting entries between several accounts, but the entries included items outside the test year. Staff has made two reversing adjustments to Account No. 736 contractual services – other, which are a decrease of \$14,174 and an increase \$728 for a combined decrease of \$13,446. Also, staff has decreased this account by \$600 to remove the expense of an original cost study. This is a non-recurring expense that should be amortized. Accordingly, staff has increased this account by \$120 to reflect the 5-year amortization of the original cost study ($\$600/5$). In addition, the Utility recorded \$23,739 for the Utility's share of the common expenses for contractual services – other, but staff has determined

that West Lakeland's allocated share of the common expenses for this account is \$38,319. Therefore, staff has increased this account by \$14,580 (\$38,319-\$23,739) to reflect West Lakeland's allocated share of expense for contractual services – other. Lastly, in December 2012, the Utility hired a meter reader at a flat fee of \$305 per month. Staff has increased this account by \$3,660 (\$305 x 12 months) to reflect a pro forma adjustment for the meter reading service. Staff's net adjustment to this account is an increase of \$4,314. Staff recommends contractual services - other expense for the test year of \$50,240.

Rent Expense (740) – The Utility recorded rent expense of \$281 for the test year, of which \$263 was allocated as the Utility's share of common rent expense. Staff has determined that West Lakeland's allocated share of rent expense is \$1,975 (\$6,792 x 29.08 percent). Therefore, staff has increased this account by \$1,712 (\$1,975-\$263) to reflect West Lakeland's allocated share of rent expense. Staff recommends rent expense of \$1,993.

Transportation Expense (750) – West Lakeland recorded \$8,271 for transportation expense for the test year. During the test year, West Lakeland had use of a truck that was purchased by Pinecrest. The Utility owner had planned to reassign the truck and related expenses to Florida Utility Service and allocate a portion of the common costs to West Lakeland. However, the truck was totaled in an accident while still owned by Pinecrest. West Lakeland recorded \$2,151 in this account for truck loan payments. The payments should have been recorded as a decrease to the loan and an increase to interest in Pinecrest's ledger. Therefore, staff has decreased this account by \$2,151 to remove the truck loan payments. In addition, West Lakeland has use of an older truck that is shared among the utilities. Accordingly, staff has increased this account by \$170 to reflect the West Lakeland's allocated share of truck maintenance expense. Staff has also increased this account by \$1,100 to reflect the Utility's allocated share of transportation expense. Staff's net adjustment to this account is a decrease of \$881. Staff recommends transportation expense for the test year of \$7,389.

Insurance Expense (755) – The Utility recorded insurance expense of \$2,581 for the test year. Commission audit staff noted that the Utility's most recent property insurance invoice was \$292 less than the test year expense. Accordingly, staff has decreased this account by \$292 to make a pro forma adjustment to reflect the appropriate property insurance expense for the West Lakeland plant. Also, staff has increased this account by \$685 (\$2,356 x 29.08 percent) to reflect West Lakeland's allocated share of common property insurance expense, which also includes insurance coverage of the shared truck. Staff's net adjustment to this account is an increase of \$393. Therefore, staff recommends insurance expense for the test year of \$2,974.

Regulatory Commission Expense (765) – West Lakeland did not record any regulatory commission expense for the test year. 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 noticing, staff has estimated \$287 for postage expense, \$218 for printing expense, and \$32 for envelopes. This results in \$537 for the noticing requirement. The Utility paid a \$1,000 rate case filing fee. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a 4-year period. Based on the above, staff recommends total rate case expense of \$1,537 (\$537+ \$1,000), which amortized over 4 years is \$384. Therefore, staff recommends regulatory commission expense of \$384.

Miscellaneous Expense (775) – The Utility recorded miscellaneous expense of \$11,171. Staff has increased this account by \$609 to reverse a credit that did not relate to any charges in the test year and for which no support could be found. Also, staff has decreased this account by \$988 to reclassify shared meter reading equipment to common allocated plant. In addition, West Lakeland recorded \$4,539 in this account for the Utility's share of common miscellaneous expense. Staff has determined that West Lakeland's allocated share of miscellaneous expense is \$3,125, therefore, staff has decreased this account by \$1,415 (\$3,124-\$4,539) to reflect the Utility's allocated share of miscellaneous expense. Lastly, the Utility recorded \$744 in this account for 15 months of garbage expense. In December 2012, the Utility's monthly fee for garbage service increased slightly from approximately \$50 per month to \$52 per month. Staff has annualized the Utility's current monthly fee and determined that the annual expense is \$625. Therefore, staff has decreased this account by \$119 to reflect the appropriate garbage expense. Staff's net adjustment to this account is a decrease of \$1,913. Staff recommends a miscellaneous expense balance of \$9,258.

Operation and Maintenance Expense (O&M Summary) – Based on the above adjustments, O&M expense should be increased by \$59,295. Staff's recommended adjustments to O&M expense are shown on Schedule Nos. 3-A and 3-B.

Depreciation Expense (Net of Amortization of CIAC) – The Utility did not record depreciation expense. Staff has calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff calculated test year depreciation expense of \$584. In addition, staff has increased depreciation expense by \$180 to reflect West Lakeland's allocated share of depreciation expense on common plant. Staff has also increased depreciation expense by \$693 to reflect depreciation expense for the three pro forma plant additions discussed in Issue 4. Lastly, staff has increased amortization of CIAC by \$509 based on composite rates. This results in a net depreciation expense of \$948. Therefore, staff recommends net depreciation expense of \$948.

Taxes Other Than Income (TOTI) – West Lakeland recorded a TOTI balance of \$6,613. Staff has decreased this account by \$1,498 to reflect the appropriate test year RAFs. Staff has also decreased this account by \$65 to reflect the appropriate test year utility property taxes and further decreased this account by \$27 to reflect a U & U adjustment to utility property taxes. In addition, staff has increased TOTI by \$1,036 to reflect West Lakeland's allocated share of FICA on the billing and maintenance employees' salaries. Staff's net adjustment to test year TOTI is a decrease of \$554. In addition, as discussed in Issue 9, revenues have been increased by \$75,924 to reflect the change in revenue required to cover expenses and allow an opportunity to earn the recommended return on investment. As a result, TOTI should be increased by \$3,417 to reflect RAFs of 4.5 percent on the change in revenues. Therefore, staff recommends TOTI of \$9,476.

Income Tax – The Utility did not have any income tax expense for the test year. West Lakeland is a limited liability company. The tax liability is passed on to the owners' personal tax returns. Therefore, staff did not make an adjustment to this account.

Operating Expenses Summary – The application of staff's recommended adjustments to West Lakeland's test year operating expenses result in operating expenses of \$155,901. Operating expenses are shown on Schedule Nos. 3-A and 3-B. The adjustments are shown on Schedule No. 3-C.

Issue 8: Should the Commission utilize the operating ratio methodology as an alternative means to calculate the revenue requirement for West Lakeland, and, if so, what is the appropriate margin?

Recommendation: Yes, the Commission, on its own motion, should utilize the operating ratio methodology for calculating the revenue requirement for West Lakeland. The margin should be 6.87 percent of O&M expense. (Golden)

Staff Analysis: Section 367.0814(9), F.S., provides that the Commission may, by rule, establish standards and procedures for setting rates and charges of small utilities using criteria other than those set forth in Sections 367.081(1), (2)(a), and (3), F.S. Rule 25-30.456, F.A.C., provides, in part, an alternative to a staff-assisted rate case as described in Rule 25-30.455, F.A.C. As an alternative, utilities with total gross annual operating revenue of less than \$250,000 per system may petition the Commission for staff assistance in alternative rate setting.

Although West Lakeland did not petition the Commission for alternative rate setting under the aforementioned rule, staff believes that the Commission should exercise its discretion to employ the operating ratio methodology to set rates in this case. The operating ratio methodology is an alternative to the traditional calculation of revenue requirements. Under this methodology, instead of applying a return on the Utility's rate base, the revenue requirement is based on the margin of West Lakeland's O&M expenses. This methodology has been applied in cases where the traditional calculation of revenue requirements would not provide sufficient revenue to protect against potential variances in revenues and expenses.

By Order No. PSC-96-0357-FOF-WU,¹¹ the Commission, for the first time, utilized the operating ratio methodology as an alternative means for setting rates. This order also established criteria to determine the use of the operating ratio methodology and a guideline margin of 10 percent of O&M expense. This criteria was applied again in Order No. PSC-97-0130-FOF-SU.¹² Most recently, the Commission approved the operating ratio methodology for setting rates in Order No. PSC-13-0126-PAA-SU.¹³

In Order No. PSC-96-0357-FOF-WU, the Commission established criteria to determine whether to utilize the operating ratio methodology for those utilities with low or non-existent rate base. The qualifying criteria established by Order No. PSC-96-0357-FOF-WU, and how they apply to the Utility are discussed below:

1) Whether the Utility's O&M expense exceeds rate base. The operating ratio method substitutes O&M expense for rate base in calculating the amount of return. A Utility generally would not benefit from the operating ratio method if rate base exceeds O&M expense. The decision to use the operating ratio method depends on the determination of whether the primary risk resides in capital costs or operating expenses. In the instant case, the rate base is less than

¹¹ Issued March 13, 1996, in Docket No. 950641-WU, In re: Application for staff-assisted rate case in Palm Beach County by Lake Osborne Utilities Company, Inc.

¹² Issued February 10, 1997, in Docket No. 960561-SU, In re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.

¹³ See Order No. PSC-13-0126-PAA-SU, issued March 14, 2013, in Docket No. 120078-SU, In re: Application for staff-assisted rate case in Brevard County by TKCB.

the level of O&M expense. The Utility's primary risk resides with covering its operating expense. Based on the staff's preliminary recommendation, the adjusted rate base for the test year is negative \$39,390, adjusted to zero for ratemaking purposes, while adjusted O&M expense is \$145,477.

2) Whether the Utility is expected to become a Class B utility in the foreseeable future. According to Chapter 367.0814(9), F.S., the alternative form of regulation being considered in this case only applies to small utilities with gross annual revenue of \$250,000 or less. West Lakeland is a Class C utility and the recommended revenue requirement of \$165,901 is substantially below the threshold level for Class B status (\$200,000 per system). The Utility's service area has not had any significant growth in the last five years. Therefore, the Utility will not become a Class B utility in the foreseeable future.

3) Quality of service and condition of plant. As discussed in Issue 1, on March 1, 2012, DEP conducted a compliance inspection of the WWTP. Three deficiencies were noted in the inspection report, including the need for the utility to provide a current flow calibration record for the propeller; replace the scum baffle in each clarifier; remove the solids from the chlorine contact chamber (CCC) and wet well. The utility's response to DEP on April 4, 2012, indicated that the flow calibration was completed on January 4, 2012, and a copy of the document was enclosed with the letter. The Utility indicated that the baffles will be repaired within 60 days and the CCC and wet well will be cleaned in the next 30 days. The recommended quality of service will not be finalized until after the April 24, 2013 customer meeting.

4) Whether the Utility is developer-owned. The current Utility owner is not a developer.

5) Whether the Utility operates treatment facilities or is simply a distribution and/or collection system. The issue is whether or not purchased water and/or wastewater costs should be excluded in the computation of the operating margin. West Lakeland operates a wastewater treatment plant and collection system.

Based on staff's review of the Utility's situation relative to the above criteria, staff recommends that West Lakeland is a viable candidate for the operating ratio methodology.

By Order Nos. PSC-96-0357-FOF-WS and PSC-97-0130-FOF-WU, the Commission determined that a margin of 10 percent shall be used unless unique circumstances justify the use of a greater or lesser margin. The important question is not what the return percentage should be, but what level of operating margin will allow the utility to provide safe and reliable service and remain a viable entity. The answer to this question requires a great deal of judgment based upon the particular circumstances of the utility.

Several factors must be considered in determining the reasonableness of a margin. First, the margin must provide sufficient revenue for the Utility to cover its interest expense. However, in this case, the Utility is not paying interest expense.

Second, use of the operating ratio methodology rests on the contention that the principal risk to the utility resides in operating cost rather than in capital cost of the plant. The fair return

on a small rate base may not adequately compensate the utility owner for incurring the risk associated with covering the much larger operating cost. Therefore, the margin should adequately compensate the utility owner for that risk. Under the rate base method, the return to West Lakeland would be zero due to the Utility's negative rate base, providing no financial cushion.

Third, if the return on rate base method was applied, West Lakeland could be left with insufficient funds to cover operating expenses. Therefore, the margin should provide adequate revenue to protect against potential variability in revenue and expenses. The return on rate base method would provide the Utility no return. If the Utility's operating expenses increase and revenue decreases, West Lakeland would not have the funds required for day-to-day operations.

In conclusion, staff believes the above factors show that the Utility needs a higher margin of revenue over operating expenses than the traditional return on rate base method would allow. Therefore, in order to provide West Lakeland with adequate cash flow to meet environmental requirements and to provide some assurance of safe and reliable service, staff recommends application of the operating ratio methodology. Applying a 10 percent margin would result in an operating margin of \$14,548. When the criteria were established, the Commission found it was reasonable and prudent to limit the dollar amount of the margin to \$10,000.¹⁴ Based on the circumstances for West Lakeland, an operating margin of \$10,000 is achieved with an operating margin ratio of 6.87 percent. Therefore, staff is recommending a 6.87 percent operating margin ratio in the instant case.

¹⁴ See Order No. PSC-96-0357-FOF-WU, p.8.

Issue 9: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirement is \$165,901. (Golden)

Staff Analysis: West Lakeland should be allowed an annual increase of \$75,924 (84.38 percent). This will allow the Utility the opportunity to recover its expenses and a 6.87 percent cushion over its O&M expenses. The calculations are as follows:

Table 9-1

Adjusted O&M Expense	\$145,477
Operating Margin Ratio	<u>6.87%</u>
Operating Margin	\$10,000
Adjusted O&M Expense	145,477
Depreciation expense (Net)	948
Amortization	0
Taxes Other Than Income	9,476
Income Tax	<u>0</u>
Revenue Requirement	\$165,901
Less Adjusted Test Year Revenues	<u>\$89,977</u>
Annual Increase	<u>\$75,924</u>
Percent Increase/(Decrease)	<u>84.38%</u>

Issue 10: What is the appropriate rate structure for the West Lakeland wastewater system?

Recommendation: The appropriate rate structure for the wastewater system's residential class should be a continuation of the base facility charge (BFC) and uniform gallonage charge rate structure. Staff recommends the residential wastewater gallonage cap be set at 6,000 gallons a month. Furthermore, staff recommends that the non-residential gallonage charge be 1.2 times greater than the residential gallonage charge. The wastewater system's BFC allocation should be 50 percent. (Thompson)

Staff Analysis: West Lakeland's current rate structure for the wastewater system's residential and non-residential classes is the traditional BFC and gallonage charge rate structure. The BFC is \$13.39 and the residential gallonage charge is \$3.26 per 1,000 gallons, with a maximum of 8,000 gallons. The water service is provided by the City of Lakeland. The Commission's preferred wastewater rate structure is a BFC and uniform rate structure. For this reason, staff recommends a continuation of the BFC and gallonage charge rate structure.

The Utility's current residential wastewater cap is set at 8,000 gallons per month. It is Commission practice to set the residential wastewater gallonage cap at a consumption level equal to at least 80 percent of residential water sold. Staff's review of the billing data indicates that at the 6,000 gallon consumption level, 86 percent of the gallons sold are captured. For this reason, the Utility's wastewater gallonage cap of 8,000 gallons should be reduced to 6,000 gallons. There is no cap for non-residential customers. Furthermore, staff recommends the non-residential gallonage charge remain at 1.2 times greater than the residential charge. The proposed BFC recovers approximately 50 percent of the recommended revenue requirement, consistent with Commission practice.

Based on the foregoing, staff recommends that The appropriate rate structure for the wastewater system's residential class should be a continuation of the base facility charge (BFC) and uniform gallonage charge rate structure. Staff recommends the residential wastewater gallonage cap be set at 6,000 gallons a month. Furthermore, staff recommends that the non-residential gallonage charge be 1.2 times greater than the residential gallonage charge. The wastewater system's BFC allocation should be 50 percent.

Issue 11: What are the appropriate rates for West Lakeland?

Recommendation: The appropriate monthly wastewater rates are shown on Schedule No. 4. The recommended rates should be designed to produce service revenues of \$161,549. 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. (Thompson)

Staff Analysis: The recommended rates should be designed to produce the revenue requirement for the wastewater system excluding miscellaneous revenues. The wastewater revenue requirement of \$165,901 should be adjusted to remove miscellaneous revenues of \$4,352. The resulting wastewater rates should be designed to produce service revenues of \$161,549.

Based on the foregoing, the appropriate rates for monthly service for the wastewater system are shown on Schedule No. 4. The recommended rates should be designed to produce service revenues of \$161,549. 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.

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 wastewater 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. West Lakeland 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, Thompson)

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 \$430.

The wastewater 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. West Lakeland should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Issue 13: Should the recommended rates be approved for West Lakeland on a temporary basis, subject to refund, 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, in the event of a protest filed by a party other than the Utility. West Lakeland 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 Clerk's office 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)

Staff Analysis: This recommendation proposes an increase in 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. West Lakeland 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.

The Utility 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 \$50,663. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

If the Utility 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 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 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;
- 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 the Utility, 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.

The Utility 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 Clerk's office no later than the 20th of each month indicating the monthly and total amount of money subject to

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Date: April 1, 2013

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.

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Issue 14: Should West Lakeland 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 Utility 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, West Lakeland 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. (Golden)

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

Docket No. 120270-SU

Date: April 1, 2013

WEST LAKELAND WASTEWATER, LLC		SCHEDULE NO. 1-A	
TEST YEAR ENDED 09/30/12		DOCKET NO. 120270-SU	
SCHEDULE OF WASTEWATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$237,239	\$16,689	\$253,928
LAND & LAND RIGHTS	356	0	356
NON-USED AND USEFUL COMPONENTS	0	(41)	(41)
CIAC	(163,400)	(58,080)	(221,480)
ACCUMULATED DEPRECIATION	(225,003)	(2,375)	(227,378)
AMORTIZATION OF CIAC	125,305	11,736	137,041
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>18,185</u>	<u>18,185</u>
WASTEWATER RATE BASE	<u>(\$25,503)</u>	<u>(\$13,887)</u>	<u>(\$39,390)</u>

WEST LAKELAND WASTEWATER, LLC
TEST YEAR ENDED 09/30/12
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1-B
DOCKET NO. 120270-SU
PAGE 1 OF 1

UTILITY PLANT IN SERVICE

1.	To reflect 2007 plant addition of a new lift station panel to Acct. No. 370.	\$2,651
2.	To reflect 2007 retirement of lift station panel to Acct. No. 370.	(1,988)
3.	To reflect 2009 plant addition of replacement discharge pipe in lift station to Acct. No. 370.	2,438
4.	To reflect 2009 retirement of discharge pipe in lift station to Acct. No. 370.	(1,829)
5.	To reflect 2010 plant addition of pump in lift station to Acct. No. 370.	2,282
6.	To reflect 2010 plant addition of auto dialer at wastewater treatment plant to Acct. No. 380.	2,480
7.	To record 2011 retirement of pump to Acct. No. 370 (retired 7/11/2011).	(1,016)
8.	To record 2011 retirement of pump to Acct. No. 370 (retired 10/11/2011).	(1,071)
9.	To reflect 2012 plant addition of pump to Acct. 360.	1,342
10.	To reflect the Utility's share of allocated common plant.	1,461
11.	To reflect pro forma plant addition for manhole ring replacement/raising to Acct. No. 361.	2,530
12.	To reflect pro forma plant addition for lift station rehabilitation to Acct. No. 371.	8,023
13.	To reflect pro forma plant addition for check valve replacement to Acct. No. 380.	967
14.	To reflect an averaging adjustment.	(1,580)
	Total	<u>\$16,689</u>

NON-USED AND USEFUL PLANT

1.	To reflect non-used and useful plant.	(\$7,820)
2.	To reflect non-used and useful accumulated depreciation.	7,779
	Total	<u>(\$41)</u>

CIAC

1.	To reflect 2000 CIAC additions.	(\$20,240)
2.	To reflect 2001 CIAC additions.	(20,240)
3.	To reflect 2005 CIAC additions.	(6,160)
4.	To reflect 2008 CIAC additions.	(11,440)
	Total	<u>(\$58,080)</u>

ACCUMULATED DEPRECIATION

1.	To reflect accumulated depreciation per Rule 25-30.140.	(\$1,624)
2.	To reflect accumulated depreciation on Utility's share of allocated common plant.	(\$180)
3.	To reflect pro forma accumulated depreciation.	(\$693)
4.	To reflect averaging adjustment.	122
	Total	<u>(\$2,375)</u>

AMORTIZATION OF CIAC

1.	To adjust amortization of CIAC based on composite rates.	(\$18,667)
2.	To reflect additions to amortization of CIAC based on composite rates.	\$7,186
3.	To reflect averaging adjustment.	(255)
	Total	<u>\$11,736</u>

WORKING CAPITAL ALLOWANCE

	To reflect 1/8 of test year O & M expenses.	<u>\$18,185</u>
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WEST LAKELAND WASTEWATER, LLC							SCHEDULE NO. 2	
TEST YEAR ENDED 09/30/12							DOCKET NO. 120270-SU	
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	<u>(\$77,765)</u>	<u>\$68,623</u>	<u>(\$9,142)</u>					
TOTAL COMMON EQUITY	<u>(\$77,765)</u>	<u>\$68,623</u>	<u>(\$9,142)</u>	<u>(\$29,930)</u>	<u>(\$39,072)</u>	99.19%	8.74%	8.67%
5. LONG TERM DEBT	<u>(\$6,225)</u>	<u>\$6,225</u>	0	0	0	0.00%	0.00%	0.00%
6. SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%
7. PREFERRED STOCK	<u>0</u>	<u>0</u>	0	0	<u>0</u>	<u>0.00%</u>	0.00%	0.00%
TOTAL LONG TERM DEBT	<u>(\$6,225)</u>	<u>\$6,225</u>	0	0	0	0.00%		
8. CUSTOMER DEPOSITS	<u>(\$318)</u>	<u>0</u>	<u>(\$318)</u>	<u>\$0</u>	<u>(\$318)</u>	<u>0.81%</u>	6.00%	<u>0.05%</u>
9. TOTAL	<u>(\$84,307)</u>	<u>\$74,848</u>	<u>(\$9,459)</u>	<u>(\$29,930)</u>	<u>(\$39,390)</u>	<u>100.00%</u>		<u>8.72%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>7.74%</u>	<u>9.74%</u>	
OVERALL RATE OF RETURN						<u>7.73%</u>	<u>9.71%</u>	

WEST LAKELAND WASTEWATER, LLC			SCHEDULE NO. 3-A		
TEST YEAR ENDED 09/30/12			DOCKET NO. 120270-SU		
SCHEDULE OF WASTEWATER OPERATING INCOME					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$21,650</u>	<u>\$68,327</u>	<u>\$89,977</u>	<u>\$75,924</u> 84.38%	<u>\$165,901</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$86,182	\$59,295	\$145,477	\$0	\$145,477
3. DEPRECIATION (NET)	0	948	948	0	948
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	6,613	(554)	6,059	3,417	9,476
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$92,795</u>	<u>\$59,689</u>	<u>\$152,484</u>	<u>\$3,417</u>	<u>\$155,901</u>
8. OPERATING INCOME/(LOSS)	<u>(\$71,145)</u>		<u>(\$62,507)</u>		<u>\$10,000</u>
9. WASTEWATER RATE BASE	<u>(25,503)</u>		<u>(39,390)</u>		<u>\$0</u>
10. RATE OF RETURN	<u>(278.97%)</u>		<u>(158.69%)</u>		<u>6.87%</u>

WEST LAKELAND WASTEWATER, LLC
TEST YEAR ENDED 09/30/12
ADJUSTMENTS TO OPERATING INCOME

Schedule No. 3-B
DOCKET NO. 120270-SU
Page 1 of 2

OPERATING REVENUES

1. To reflect the appropriate test year services revenues.	\$64,948
2. To reflect the appropriate test year miscellaneous service revenues.	3,379
Subtotal	<u>\$68,327</u>

OPERATION AND MAINTENANCE EXPENSES

1. Salaries and Wages - Employees (701)	
a. To reflect the Utility's allocated share of billing employee's salary.	\$5,746
b. To reflect the Utility's allocated share of maintenance employee's salary.	7,793
Subtotal	<u>\$13,539</u>
2. Salaries and Wages - Officers (703)	
a. To reflect the Utility's allocated share of president's salary.	<u>\$17,446</u>
3. Employee Pensions and Benefits (704)	
a. To reflect the Utility's allocated share of president's benefits.	\$1,599
b. To reflect the Utility's allocated share of employee health insurance.	\$503
Subtotal	<u>\$2,102</u>
4. Purchased Power (715)	
a. To remove penalties and interest.	(\$597)
b. To reflect the Utility's allocated share of purchased power expense.	(\$179)
Subtotal	<u>(\$776)</u>
5. Chemicals (718)	
a. To remove chemical expenses that occurred outside the test year.	(\$324)
b. To reflect pro-forma adjustment for Root X chemical expense.	\$814
Subtotal	<u>\$490</u>
6. Contractual Services - Professional (731)	
a. To reverse correcting entries that occurred outside the test year.	\$14,174
b. To reclassify two accounting service payments to accounts payable.	(200)
c. To reflect the Utility's allocated share of contractual bookkeeping expense.	8,839
d. To reflect pro-forma adjustment for accounting services.	400
Subtotal	<u>\$23,213</u>
7. Contractual Services - Testing (735)	
a. To reverse correcting entries that occurred outside the test year.	<u>(\$728)</u>
8. Contractual Services - Other (736)	
a. To reverse correcting entries that occurred outside the test year.	(\$13,446)
b. To remove non-recurring expense for original cost study.	(600)
c. To reflect 5-year amortization of original cost study (\$600/5).	120
d. To reflect the Utility's allocated share of contractual services - other.	14,580
e. To reflect pro-forma adjustment to include meter reading service.	3,660
Subtotal	<u>\$4,314</u>

WEST LAKELAND WASTEWATER, LLC TEST YEAR ENDED 09/30/12 ADJUSTMENTS TO OPERATING INCOME	Schedule No. 3-B DOCKET NO. 120270-SU Page 2 of 2
9. Rent Expense (740)	
a. To reflect the Utility's allocated share of rent expense.	<u>\$1,712</u>
10. Transportation Expense (750)	
a. To correct truck loan payments.	(\$2,151)
b. To reflect the Utility's allocated share of truck maintenance expense.	170
c. To reflect the Utility's allocated share of transportation expense.	<u>1,100</u>
Subtotal	<u>(\$881)</u>
11. Insurance Expenses (755)	
a. To reflect pro-forma adjustment to reflect appropriate plant insurance expense.	(\$292)
b. To reflect the Utility's allocated share of property insurance expense.	<u>\$685</u>
Subtotal	<u>\$393</u>
12. Regulatory Commission Expense (765)	
a. To reflect 4-year amortization of rate case expense (\$1,537/4).	<u>\$384</u>
13. Miscellaneous Expense (775)	
a. To reverse a misclassified credit.	\$609
b. To reclassify shared meter reading equipment to common allocated plant.	(\$988)
c. To reflect the Utility's allocated share of miscellaneous expense.	(\$1,415)
d. To reflect pro-forma adjustment to reflect appropriate garbage expense for Utility plant.	
(\$119)	
Subtotal	<u>(\$1,913)</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$59,295</u>
DEPRECIATION EXPENSE	
1. To reflect test year depreciation calculated per 25-30.140, F.A.C.	\$584
2. To reflect test year depreciation on allocated common plant.	180
3. To reflect depreciation expense for pro forma plant additions.	693
4. To reflect the appropriate amortization of CIAC.	(\$509)
Total	<u>\$948</u>
TAXES OTHER THAN INCOME	
1. To reflect the appropriate test year RAFs.	(\$1,498)
2. To reflect appropriate test year utility property taxes.	(65)
3. To reflect non-used and useful adjustment to utility property taxes.	(27)
4. To reflect the Utility's allocated share of FICA on employee salaries.	<u>1,036</u>
Total	<u>(\$554)</u>

Docket No. 120270-SU

Date: April 1, 2013

WEST LAKELAND WASTEWATER, LLC

TEST YEAR ENDED 09/30/12

SCHEDULE NO. 3-C

DOCKET NO. 120270-SU

ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE

	TOTAL PER UTILITY	STAFF ADJUST- MENTS	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$0	\$13,539	\$13,539
(703) SALARIES AND WAGES - OFFICERS	0	17,446	17,446
(704) EMPLOYEE PENSIONS AND BENEFITS	0	2,102	2,102
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	8,263	0	8,263
(715) PURCHASED POWER	11,897	(776)	11,121
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	3,029	490	3,519
(720) MATERIALS AND SUPPLIES	2,203	0	2,203
(730) CONTRACTUAL SERVICES - BILLING	0	0	0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	(9,481)	23,213	13,733
(735) CONTRACTUAL SERVICES - TESTING	2,041	(728)	1,313
(736) CONTRACTUAL SERVICES - OTHER	45,927	4,314	50,240
(740) RENTS	281	1,712	1,993
(750) TRANSPORTATION EXPENSE	8,271	(881)	7,389
(755) INSURANCE EXPENSE	2,581	393	2,974
(765) REGULATORY COMMISSION EXPENSES	0	384	384
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSES	<u>11,171</u>	<u>(1,913)</u>	<u>9,258</u>
	<u>\$86,182</u>	<u>\$59,295</u>	<u>\$145,477</u>

Docket No. 120270-SU

Date: April 1, 2013

WEST LAKELAND WASTEWATER, LLC. TEST YEAR ENDED SEPTEMBER 30, 2012 MONTHLY WASTEWATER RATES		SCHEDULE NO. 4 DOCKET NO. 120270-SU	
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential</u>			
Base Facility Charge - All Meter Sizes	\$13.39	\$21.58	\$0.06
<u>Gallonge Charge</u>			
Per 1,000 Gallons (6,000 gallon cap)	N/A	\$8.01	\$0.02
Per 1,000 Gallons (8,000 gallon cap)	\$3.26	N/A	N/A
<u>General Service</u>			
<u>Base Facility Charge by Meter Size:</u>			
5/8"X3/4"	\$13.39	\$21.58	\$0.06
1"	\$18.29	\$53.95	\$0.14
1-1/2"	\$28.09	\$107.90	\$0.29
2"	\$52.61	\$172.64	\$0.46
3"	\$82.02	\$345.28	\$0.92
4"	\$160.45	\$539.50	\$1.44
6"	\$248.71	\$1,079.00	\$2.87
8"	\$493.82	\$1,726.40	\$4.60
<u>General Service Gallonge Chg.</u>			
Per 1,000 Gallons	\$3.89	\$9.61	\$0.02
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$23.17	\$45.61	
5,000 Gallons	\$29.69	\$61.63	
10,000 Gallons	\$39.47	\$69.64	