

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: June 26, 2014
TO: Docket No. 130153-WS
FROM: Carlotta S. Stauffer, Commission Clerk, Office of Commission Clerk
RE: Rescheduled Commission Conference Agenda Item

Staff's memorandum assigned DN 01339-14 was filed on March 27, 2014, for the April 10, 2014 Commission Conference. As the vote sheet reflects, this item was deferred. This item has been placed on the July 10, 2014 Commission Conference Agenda.

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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: March 27, 2014

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (Lee) *CLW R/TZ*
Division of Accounting and Finance (Barrett, Mouring, Prestwood) *M meB CP*
Division of Economics (Thompson) *KT PLO SH J.W.D.*
Office of the General Counsel (Murphy) *CM RT*

RE: Docket No. 130153-WS – Application for staff-assisted rate case in Highlands County, by L.P. Utilities Corporation c/o LP Waterworks, Inc.

AGENDA: 04/10/14 – Regular Agenda – Proposed Agency Action Except for Issue Nos. 10 and 11 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brown

CRITICAL DATES: 10/22/14 (15-Month Expiration Date for SARC)

SPECIAL INSTRUCTIONS: None

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Case Background

On February 28, 2013, an application was filed in Docket No. 130055-WS, for the transfer of the water and wastewater systems and Certificate Nos. 620-W and 533-S from L.P. Utilities Corporation (LPUC) to LP Waterworks, Inc. (LPWWI or Utility). On March 13, 2014, the Commission approved the transfer.

On May 24, 2013, LPUC c/o LPWWI filed an application for a staff-assisted rate case (SARC). LPWWI is a Class C water and wastewater utility providing service in Highlands County. The Utility is located in the water use caution area of the Southwest Florida Water Management District (SWFWMD). A significant portion of LPWWI's residential customer base is seasonal. Based on the billing data for the 12 months ended May 31, 2013, the Utility served approximately 370 individually metered, residential and several general service water and wastewater customers in the Camp Florida Resort RV Park (RV Park or Park). In addition, the Utility provided water only service to approximately 54 residential customers in the Hickory Hills and Lake Ridge Estates subdivisions and a few general service customers outside the Park.

The current rates were set by Order No. PSC-03-1051-FOF-WS, issued September 22, 2003.¹ This final order was based partially on Order No. PSC-02-1739-PAA-WS, issued December 10, 2002. Subsequent to this SARC decision, the system was transferred from Woodlands of Lake Placid, L.P., to LPUC by Order PSC-04-1162-FOF-WS, issued November 22, 2004, in Docket No. 030102-WS.² LPUC filed an application for a SARC in Docket 110208-WS, on June 20, 2011. Docket No. 110208-WS closed with no rate decision, due to LPUC filing a notice of voluntary withdrawal of its SARC in January 2013.

For the instant docket, the official filing date of the SARC has been determined to be July 22, 2013. Audit staff filed an audit report on September 18, 2013, for the 12 months ended May 31, 2013. On December 18, 2013, a staff report was filed and sent to the Utility to allow review by customers prior to the customer meeting. The customer meeting was held on January 16, 2014, at the Lakeview Clubhouse in the RV Park. In a letter filed on January 24, 2014, the Office of Public Counsel (OPC) identified a list of concerns regarding the discussion at the customer meeting and the information included in the staff report that addressed the preliminary review of the requested rate increase. The issues raised by customers included unaccounted for water, billing, financial efficiency, and rate shock concerns. In addition, letters from customers opposing the rate increase were also filed in the docket. Many customers stated that the increase would cause a hardship and they would prefer a gradual increase phased in over three to five years.

The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.0814, 367.101, and 367.121, Florida Statutes (F.S.).

¹ Docket No. 020010-WS, In re: Application for staff-assisted rate case in Highlands County by The Woodlands of Lake Placid, L.P.

² Docket No.130102-WS, In re: Application for authority to transfer Certificate Nos. 620-W and 533-S in Highlands County from The Woodlands of Lake Placid, L.P. to L. P. Utilities Corporation.

Discussion of Issues

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

Recommendation: Yes. Staff recommends that the quality of service provided by LPWWI be considered satisfactory. (Lee)

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.

Quality of Utility's Product and Operating Condition of the Utility's Facilities

The operation of the Utility is subject to various environmental requirements such as permitting, testing, on-site review, and monitoring under the jurisdiction of Florida Department of Environmental Protection (DEP). DEP's jurisdiction covers the quality of the Utility's water product and the operational condition of its water and wastewater plant and facilities.

To prevent contamination of drinking water supplies, DEP conducts sanitary surveys and compliance inspections on a routine basis. In a letter dated April 10, 2013, DEP identified items in the compliance inspection report that the Utility should address. The noted deficiencies included a buildup of vegetation around the east well, lock requirement for the shut off valve, and documentation for the last inspection for the east tank. The Utility responded to DEP's sanitary survey report and addressed all noted deficiencies. Staff found no outstanding enforcement issues regarding the operational conditions of the Utility's water facilities.

In addition, DEP has jurisdiction over the operational condition of the wastewater treatment plant and facilities. DEP's comprehensive evaluation of a wastewater facility's overall compliance status is based on review of past monitoring data and results from inspections such as its Compliance Evaluation Inspection (CEI). On May 24, 2012, DEP conducted a CEI designed to verify the Utility's compliance with applicable requirements and compliance schedules for chemical and biological self-monitoring programs. The Utility responded to DEP's CEI report and addressed all noted deficiencies. Staff found no outstanding enforcement issues regarding the operational conditions of the Utility's wastewater facilities.

Customer Concerns and Actions Taken to Address Service Quality

On December 18, 2013, a staff report was filed and sent to the Utility to allow review by customers prior to the customer meeting which was held on January 16, 2014. There were approximately 40 customers in attendance at the customer meeting. Of the 40 customers, 5 signed-up to comment and customers who did not sign-up to comment were offered an opportunity to speak.

Among the service quality concerns raised at the meeting was a high water pressure incident experienced by several customers. A few customers also reported low water pressure

incidents. They also noted that the response speed for reported problems, such as leaks, service interruptions, and water pressure problems, was slow compared with the previous owner. Staff requested that the Utility provide responses to these customer concerns.

The Utility did not dispute the high pressure incident reported by a customer on October 28, 2013. The cause, according to the Utility's service technician, was a defective pressure switch. The defective pressure switch was replaced and the air relief valve was checked as part of the corrective actions. The Utility also took actions to provide information and assistance to the affected customers to address the damage claims.

The Utility stated that the low pressure incidents were due to the power fluctuations from the electric supplier and this caused the Programmable Logic Controller (PLC) to fault. The attempt to troubleshoot the PLC with the assistance from the manufacturer was unsuccessful. The Utility reported that it took action to bypass the PLC and the repair corrected the problem.

The Utility also recognized that the previous owner was able to address problems faster. The previous owner had maintenance personnel at the Park while the nearest maintenance technician of the Utility's contractor was 20 miles from the Park. The Utility stated that a maintenance technician who lives within 5 miles of the Park has been hired and this action should improve future response times.

Summary

The Utility has taken reasonable actions to comply with DEP's regulations and to address customer concerns. Staff recommends that the quality of service provided by the Utility be considered satisfactory.

Issue 2: What are the Used and Useful percentages of the Utility's water and wastewater systems?

Recommendation: For the water system, the treatment plant and the distribution system should be considered 100 percent and 87 percent Used and Useful (U&U), respectively. For the wastewater system, the treatment plant and the collection system should be considered 59 percent and 100 percent U&U, respectively. The concern regarding the excessive unaccounted for water should be addressed by reducing the test year water treatment cost of purchased power and chemicals by 8.5 percent. (Lee)

Staff Analysis: Based on Rules 25-30.431, 25-30.432, and 25-30.4325, F.A.C., the Commission's U&U evaluation of water and wastewater system includes consideration of the formula-based method and all relevant factors such as prior decisions, conservation, and change in customer base. In simple terms, the formula-based method calculates the customer demand as a percentage of the capacity. The customer demand is based on the actual demand in the test period and the estimated demand over the five-year statutory growth period.

Water System

By Order PSC-02-1739-PAA-WS, issued December 10, 2002, in Docket No. 020010-WS, the Utility's water treatment facilities and distribution system were determined to be 100 percent and 87 percent U&U, respectively.

There has been no change in the capacity of the water treatment facilities. The actual test year demand by the fire flow requirements of 500 gallons per minute (gpm) is greater than the firm reliable capacity of 380 gpm. Therefore, based on the same formula-based method used in the last SARC decision, the water treatment plant should continue to be 100 percent U&U.

For the distribution system, the evaluation is based on the demand and capacity measured on the basis of equivalent residential connections. The customer demand is the sum of the 389 connections for the test year and the additional 7 connections estimated over the five-year statutory growth period. The total demand is 87 percent of the distribution capacity of 457 connections. Therefore, the water distribution system should be considered 87 percent U&U.

Wastewater System

In the last SARC decision mentioned above, the Utility's wastewater treatment plant and collection system were determined to be 59 percent and 85 percent U&U, respectively.

There has been no change in capacity of the wastewater treatment plant, which is permitted by the DEP to operate at no more than 50,000 gallons per day (gpd) of monthly Average Daily Flow (ADF). Daily flows are measured and reported to DEP monthly. Monthly ADF for the system typically peaks in February, therefore, February ADF is used to measure the actual demand in the test period.

Based on the flow data reported to DEP, the ADF for February 2013 was 9,250 gpd which represents less than 20 percent of the plant capacity. Upon further review, staff noted a

significantly lower flow beginning in June 2012. In response to staff's request, the Utility tested the Ultrasonic Flow Meter at the treatment plant on August 21, 2013, and found that the meter was only registering flow up to 15 gpm. For future reports, the Utility obtained DEP's permission to measure the flow at the lift station. The flow data reported subsequently indicate that the reported 9,250 gpd of ADF for February 2013 is very likely due to the faulty meter.

Due to the lack of accurate flow data, staff examined additional data which suggests that the growth of wastewater customers has remained relatively flat over the past 12 years. The wastewater plant only serves the RV Park and the staff did not identify any significant growth in that customer base. Therefore, staff recommends that the wastewater treatment plant be considered 59 percent U&U, consistent with Order No. PSC-02-1739-PAA-WS.

The same rationale of no customer growth can be applied to the collection system as well. Because the existing collection system was designed to serve the RV Park, staff recommends that the collection system be deemed 100 percent U&U.

Unaccounted For Water

During the test year ended May 31, 2013, 18.0 million gallons of treated water were metered at the water treatment facilities. Of those, 14.7 million gallons, or 81.5 percent of the amount produced, were metered and billed to customers. The remaining 18.5 percent of the amount produced was not generating revenues. Rule 25-30.4325(1)(e), F.A.C., provides that the excessive unaccounted for water (EUW) is unaccounted for water in excess of 10 percent of the amount produced. Therefore, EUW is 8.5 percent after the 10 percent allowance by Commission practice.

Accordingly, staff recommends that the test year water treatment cost of purchased power and chemicals be reduced by 8.5 percent. The corresponding amount of adjustment is further discussed in Issue 6 regarding the operating expense.

Summary

Regarding the water system, staff recommends that the treatment plant and the distribution system should be considered 100 percent and 87 percent U&U, respectively. For the wastewater system, staff recommends that the treatment plant and the collection system should be considered 59 percent and 100 percent U&U, respectively. Staff recommends that the test year water treatment cost of purchased power and chemicals be reduced by 8.5 percent due to EUW.

Issue 3: What is the appropriate average test year rate base for L.P. Waterworks, Inc.?

Recommendation: The appropriate average test year rate base balances for L.P. Waterworks, Inc. are \$86,549 for water and \$104,793 for wastewater. (Barrett)

Staff Analysis: The appropriate components of the Utility's rate base include utility plant in service, accumulated depreciation, contribution-in-aid-of-construction (CIAC), amortization of CIAC and working capital. The last proceeding that established balances for rate base was Docket No. 020010-WS.³ Staff selected the test year ended May 31, 2013, for the instant rate case. A summary of each component and the recommended adjustments follows:

Utility Plant in Service (UPIS): The Utility recorded \$469,295 for water and \$377,807 for wastewater. Staff's adjustments to UPIS are identified in Table 3-1 below.

Table 3-1

	<u>Adjustment Description</u>	<u>Water</u>	<u>Wastewater</u>
1.	To reflect plant balance (301) per Order No. PSC-02-1739-PAA-WS	\$414	\$0
2.	To reflect plant balance (310) per Order No. PSC-02-1739-PAA-WS	2,506	0
3.	To reflect plant balance (334) per Order No. PSC-02-1739-PAA-WS	27,663	0
4.	To reclassify an O&M item to the appropriate UPIS account (336)	620	0
5.	To reflect plant balance (340) per Order No. PSC-02-1739-PAA-WS	(3,281)	0
6.	To reflect plant balance (351) per Order No. PSC-02-1739-PAA-WS	0	346
7.	To reflect plant balance (380) per Order No. PSC-02-1739-PAA-WS	0	5,200
8.	To reflect plant balance (390) per Order No. PSC-02-1739-PAA-WS	0	645
	Total	<u>\$27,922</u>	<u>\$6,191</u>

Staff's net adjustments to UPIS are increases of \$27,922 and \$6,191 for water and wastewater, respectively. Staff's recommended UPIS balance is \$497,217 for water and \$383,998 for wastewater.

Land & Land Rights: The Utility recorded a test year land value of \$20,598 for water and \$36,000 for wastewater. Staff believes no adjustments are necessary, and staff recommends a land balance of \$20,598 for water and \$36,000 for wastewater.

Non-Used and Useful Plant: As discussed in Issue 2, the treatment plant and the distribution system should be considered 100 percent and 87 percent U&U, respectively. For the wastewater system, the treatment plant and the collection system should be considered 59 percent and 100 percent U&U, respectively. Therefore, staff recommends adjustments of \$5,100 and \$3,072 for water and wastewater, respectively, for non used and useful plant, and related adjustments to accumulated depreciation, CIAC, and accumulated amortization.

³See Order No. PSC-02-1739-PAA-WS, issued December 10, 2002, in Docket No. 020010-WS, In re: Application for staff-assisted rate case in Highlands County by The Woodlands of Lake Placid, L.P.

Contributions In Aid of Construction (CIAC): L.P. Waterworks, Inc. recorded CIAC balances of \$204,307 for water and \$65,600 for wastewater. Staff's adjustments to CIAC are identified in Table 3-2 below.

Table 3-2

	<u>Adjustment Description</u>	<u>Water</u>	<u>Wastewater</u>
1.	To increase CIAC balance per Order No. PSC-03-1051-FOF-WS	(\$30,608)	\$0
2.	To increase CIAC additions for January 2002 through May 2012	(30,731)	(26,800)
	Total	<u>(\$61,339)</u>	<u>(\$26,800)</u>

Staff's net adjustments to CIAC are increases of \$61,339 and \$26,800 for water and wastewater, respectively, to reflect the CIAC balances per Order No. PSC-03-1051-FOF-WS, issued September 22, 2003, in Docket No. 020010-WS. Staff recommends CIAC balances of \$265,646 and \$92,400 for water and wastewater, respectively.

Accumulated Depreciation: L.P. Waterworks, Inc. recorded balances for accumulated depreciation of \$266,493 and \$291,400 for water and wastewater, respectively. Staff has calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C., and determined that accumulated depreciation should be increased by \$38,298 for water and decreased by \$18,965 for wastewater. Staff recommends accumulated depreciation balances of \$304,791 for water and \$272,435 for wastewater.

Amortization of CIAC: L.P. Waterworks, Inc. recorded balances for amortization of CIAC of \$100,229 for water and \$37,965 for wastewater. Staff has increased amortization of CIAC by \$32,282 for water and \$5,264 to reflect the amortization of CIAC per Order No. PSC-02-1739-PAA-WS, issued December 10, 2002, in Docket No. 020010-WS. Staff recommends amortization of CIAC balances of \$132,511 for water and \$43,229 for wastewater.

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 working capital allowances of \$11,761 for water (based on O&M expense of \$94,086/8), and \$9,472 for wastewater (based on O&M expense of \$75,780/8). Staff recommends increasing the working capital allowances by \$11,761 for water and \$9,472 for wastewater.

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate average test year rate bases are \$86,549 for water and \$104,793 for wastewater. Rate base for water is shown on Schedule No. 1-A and on Schedule No. 1-B for wastewater. The related adjustments for water and wastewater are shown on Schedule No. 1-C.

Issue 4: What is the appropriate rate of return on equity and overall rate of return for L.P. Waterworks, Inc.?

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. (Barrett)

Staff Analysis: The Utility's capital structure consists of \$322,313 of common stock and \$165,935 in retained earnings, totaling \$488,248 in total common equity. The Utility has no long-term debt or customer deposits. The appropriate ROE is 8.74 percent using the Commission-approved leverage formula currently in effect.⁴ 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.

⁴ See Order Nos. PSC-13-0241-PAA-WS, issued June 3, 2013, and PSC-13-0307-CO-WS, issued July 8, 2013, in Docket No. 130006-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 revenues?

Recommendation: The appropriate test year revenues for LP Waterworks, Inc.'s water and wastewater systems are \$59,191 and \$47,642, respectively. (Thompson)

Staff Analysis: LP recorded total test year water revenues of \$57,226, which include water service revenues of \$56,346 and miscellaneous revenues of \$880. The Utility recorded total test year wastewater service revenues of \$46,581. Based on staff's review of the Utility's billing determinants and the rates that were in effect during the test year ended May 31, 2013, staff determined service revenues for the water system should be increased by \$1,965 to reflect total test year service revenues of \$58,311. Service revenues for the wastewater system should be increased by \$1,061 to reflect total test year service revenues of \$47,642.

Based on the above adjustments, the service revenues for the Utility's water and wastewater system should be increased by \$1,965 and \$1,061, respectively. Staff recommends the appropriate test year revenues for LP's water and wastewater systems are \$59,191 and \$47,642, respectively. Test year revenues are shown on Schedule Nos. 3-A and 3-B.

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

Recommendation: The appropriate amounts of operating expense for L.P. Waterworks, Inc. are \$109,046 for water and \$86,324 for wastewater. (Barrett)

Staff Analysis: L.P. Waterworks, Inc. recorded operating expense of \$74,113 for water and \$67,534 for wastewater for the test year ended May 31, 2013. 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:

Salaries and Wages - Employees (601/701): L.P. Waterworks, Inc. recorded \$11,069 for water and \$9,056 for wastewater employee salaries expense in these accounts. Staff has made adjustments to remove these amounts because the amounts are captured in the Contractual Services – Other account. Staff recommends \$0 for these accounts for water and wastewater.

Salaries and Wages - Officers (603/703): The Utility recorded \$2,767 for water and \$2,233 for wastewater officer salaries expense. Staff has increased these accounts by \$3,233 for water and \$3,767 for wastewater because the officers administer and oversee the Utilities' management services agreement, which is addressed in the discussion of Contractual Services – Other (636/736). Staff recommends salaries and wages for officers of \$6,000 for water and \$6,000 for wastewater.

Purchased Power (615/715): L.P. Waterworks, Inc. recorded \$4,941 for purchased power expense for water and \$4,800 for wastewater in these accounts. Staff reviewed the invoices from the Utility and recommends adjustments to remove \$1,265 for water and \$312 for wastewater to reflect the appropriate test year purchased power expense. Staff also recommends removing \$321 for excessive unaccounted for water (EUW). Staff notes that EUW was previously discussed in Issue 2. The sum of these adjustments removes \$1,578 from water purchased power and \$312 from wastewater purchased power. Staff recommends purchased power expense of \$3,363 for water and \$4,479 for wastewater.

Chemicals (618/718): The Utility recorded \$1,053 for water and \$96 for wastewater for chemicals expense, based on invoices covering a partial year. Staff reviewed additional invoices from the Utility to annualize this expense and recommends increases of \$1,175 for water and \$175 for wastewater. Staff also recommends removing \$90 of water expense for EUW. As noted above, EUW was previously discussed in Issue 2. The net of these adjustments results in increases of \$1,085 for water and \$175 for wastewater. Staff recommends chemical expense of \$2,138 for water and \$271 for wastewater.

Materials and Supplies (620): The Utility recorded \$0 for materials and supplies. Staff has increased this account by \$15, based on an audit adjustment. Staff recommends a balance of \$15 for this account.

Contractual Services - Professional (631/731): L.P. Waterworks, Inc. recorded \$1,829 for water and \$26,398 for wastewater in contractual services - professional. Staff has made adjustments to

remove these amounts because the amounts are captured in the Contractual Services – Other account. Staff recommends \$0 for both water and wastewater.

Contractual Services - Testing (635/735): The Utility recorded \$5,994 for water and \$0 for wastewater for testing expense. Staff has made an adjustment to contractual services testing to remove \$5,994 for water because this expense is captured in the Contractual Services – Other account. Staff recommends \$0 for Contractual Services - Testing for both water and wastewater.

Contractual Services – Other (636/736): L.P. Waterworks, Inc. recorded \$22,312 for water and \$0 for wastewater. Staff has increased these accounts by \$54,872 for water and \$58,692 for wastewater to account for the Utilities’ management services agreement.

Background Information

Staff notes that the prior owner of this Utility employed a management services agreement with Highlands Executive Labor Personnel (H.E.L.P. agreement). The H.E.L.P. agreement provided “for the day-to-day operations of the Utility providing water and wastewater service,” including:

- Processing of accounts (billing and collections).
- Meter reading.
- Coordination and reporting with governmental agencies.
- Supervision of direct labor.
- Reimbursement for the direct costs for trips to meetings, conferences, or hearing related to the operation of the utility.

The former owners paid \$750 per week (\$3,000 per month) for the H.E.L.P. agreement.

On December 27, 2012, the Utility signed a five year management services agreement with U.S. Water Services Corporation (U.S. Water contract). Table 4 of the U.S. Water contract provides a summary of the scope of the agreement, setting forth the respective cost responsibilities for the Utility’s owner and U.S. Water Services Corporation.⁵ The Utility asserts that the U.S. Water agreement provides more services than typical agreements for management services because:

- The U.S. Water contract put in place certified utility operators with a focus on preventative and prescriptive maintenance services.
- All Customer Service/Billing/Collection functions are provided by the same entity (U.S. Water Services Corporation).
- Minor repairs (up to a \$400 threshold) are covered by U.S. Water.

⁵ The complete U.S. Water contract is in the audit staff’s work papers. Table 4 is on Audit work paper 43-3.21.

- Testing services and permitting expenses are covered by U.S. Water.
- Meter/hydrant testing is provided.
- Record keeping & governmental relations are addressed as well.

Section 4 of the U.S. Water contract addresses the monthly fees for service. Per the contract, L.P. Waterworks Inc. is obligated to pay U.S. Water Services Corporation \$6,432 monthly for the water operation and \$4,891 monthly for the wastewater operation (for a monthly total of \$11,323).

Staff reviewed both agreements, and it appears that the U.S. Water contract is much more comprehensive in nature than the now-expired H.E.L.P. agreement.

Bids for Management Service and Pricing

In a Data Request response dated January 27, 2014, the Utility states that it sought other bidders for the management services provided in the U.S. Water contract. Bids were solicited from two local companies and one Statewide/Nationwide contracting enterprise. According to the Data Request response, these contractors “declined to bid on this work due to their skill levels, depth of services, or [the work] would require additional sub-contractors” As a result, the Utility entered into the management services agreement with U.S. Water Services Corporation.

Because the U.S. Water contract is more comprehensive than the H.E.L.P. agreement was, staff believes a price comparison between the two may not be appropriate for a side-by-side analysis. In evaluating the pricing, staff looked at another U.S. Water contract that provided identical services, and compared that to data the Utility provided in a Data Request. To facilitate reviewing this information, staff developed Tables 6-1 and Table 6-2 (below).

Staff developed Table 6-1 using summary data the Utility provided in a Data Request response dated January 27, 2014. The data is from a 2011 study conducted by Wetzel Consulting, LLC (WetCon), an independent consultant that evaluated utilities in the southern U.S. using American Water Works Association (AWWA) Performance Indicators. Eleven indicators were captured in the WetCon study, but L.P. Waterworks Inc., used the annual cost per account indicators for Customer Service and for O&M to demonstrate that the U.S. Water contract compares favorably with other utilities in the South. The Utility states that the annualized total cost of the U.S. Water contract falls between the top and median quartile of those in the survey sample. The summary of the data is shown below in Table 6-1:

Table 6-1

Summary of WetCon study Annual Cost per account in South (\$/account)			
Utilities sampled	Customer Service	O&M	Total Annual Cost per account
Top Quartile	\$36.43	\$246.00	\$282.43
Median Quartile	\$41.16	\$301.00	\$342.16
Bottom Quartile	\$52.38	\$379.00	\$431.38

Staff developed Table 6-2 to convert the U.S. Water contract (shown as “LPW” in Table 6-2) values and those from a similar agreement (shown as “Comp” in Table 6-2) in order to facilitate a direct comparison on the basis used in the WetCon study. Staff believes the “annual cost per account” basis is the most meaningful tool to directly compare the findings in the WetCon study with the U.S. Water contract fees at issue in this rate case. By using this analysis, the annual cost per account for the U.S. Water contract is \$326.81, or \$27.23 per month, as shown in Table 6-2 below. This amount is slightly lower than the median quartile of utilities sampled in the WetCon study, as shown in Table 6-1.

Table 6-2

Comparison of two U.S. Water Services Corporation contracts to assess an Annual Cost per account (\$/Customer)											
	Monthly Charge from US Water to Utility			Annual	Customer Counts/2012 Annual Report		Unit Cost per Customer/Month			Annual	
	Water	WW	Total		Water	WW	Water	WW	SUM		
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	
			(c)=(a+b)	(d)=(c)*12			(g)=c/e	(h)=c/f	(i)=g+h	(j)=(i)*12	
LPW	\$6,432	\$4,891	\$11,323	\$135,876	434	394	\$14.82	\$12.41	\$27.23	\$326.81	
Comp.	\$3,183	\$2,978	\$6,161	\$73,932	186	179	\$17.11	\$16.64	\$33.75	\$405.00	

Affiliate Relationship

Because there is a nexus⁶ between the utility's owners and U.S. Water Services Corporation, staff considered how the Commission addressed affiliate transactions in other cases. In Order No. PSC-12-0102-FOF-WS,⁷ the Commission found that "evaluating whether and how much affiliate costs should be included in rates, we are aware of the relevant statutes and cases on rates and affiliate transactions," and stated Section 367.081(2)(a)1., F.S., sets forth the Commission's responsibility in rate setting. In part, Section 367.081(2)(a)1., F.S. provides:

The commission shall, either upon request or upon its own motion, fix rates which are just, reasonable, compensatory, and not unfairly discriminatory. In every such proceeding, the commission shall consider the value and quality of the service and the cost of providing the service, which shall include, but not be limited to, debt interest; the requirements of the utility for working capital; maintenance, depreciation, tax, and operating expenses incurred in the operation of all property used and useful in the public service; and a fair return on the investment of the utility in property used and useful in the public service

In Order No. PSC-12-0102-FOF-WS, the Commission referred to Section 367.081(2)(a)1., F.S., and found:

As reflected in the statute cited above [Section 367.081(2)(a)1., F.S], we are required to set reasonable rates, but we must also set rates that are compensatory. The provisions in the statute require that we consider the cost of providing service, which includes operating expenses incurred in the operation of all property used and useful in the public service, as well as a fair return on the investment of the Utility in property used and useful in the public service. In conducting our analysis of the appropriate operating expenses to be included, we are mindful of two Florida Supreme Court cases. In the case of Keystone Water Co v. Bevis, 278 So. 2d 606 (Fla. 1973), the Court held that a utility is entitled to a fair rate of return on property used or useful in public service. In Keystone, the Court further found that rates which do not yield a fair rate of return are unjust, unreasonable, and confiscatory and

⁶ In its SARC application, the Utility states that six shareholders own L.P. Waterworks. In a January 27, 2014, response to a Data Request, the Utility states that four of the six Utility shareholders are Corporate Officers of U.S. Water Services Corporation.

⁷ See pp. 99-100 of Order No. PSC-12-0102-FOF-WS, Order Approving in Part Requested Increase in Water and Wastewater Rates and Requiring Refunds With Interest, issued March 5, 2012, in Docket No. 100330-WS, In re: Application for increase in water/wastewater rates in Alachua, Brevard, DeSoto, Hardee, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.

their enforcement deprives a utility of due process.⁸ Additionally, in GTE v. Deason, 642 So. 2d 545 (Fla. 1994), the Florida Supreme Court laid out the standard of review for affiliate transactions, stating:

The mere fact that a utility is doing business with an affiliate does not mean that unfair or excess profits are being generated, without more. Charles F. Phillips, Jr., *The Regulation of Public Utilities* 254-55 (1988). We believe the standard must be whether the transactions exceed the going market rate or are otherwise inherently unfair If the answer is “no,” then the PSC may not reject the utility’s position.

GTE v. Deason, 645 So. 2d at 547-548.

Summary

Staff acknowledges that the U.S Water contract is a significant operating expense. However, staff notes that the U.S Water contract is comprehensive in nature, and provides the Utility’s customers with services that prior owners/operators did not. Staff notes that providing such services is the primary reason that the water and wastewater expenses are increased.

Although an affiliate relationship appears to exist between the Utility’s owners and U.S. Water Services Corporation, staff believes the holdings in Keystone v. Bevis and GTE v. Deason indicate that an affiliate relationship is not “unfair” on its face. As noted previously, no other service companies provided bids for the services included in the U.S. Water contract, and staff believes this is relevant. Because the Utility’s customers will be getting an array of services that no other management services company was willing to provide, staff is recommending that the expense for the U.S Water contract is appropriate.

Staff recommends Contractual Services – Other expenses of \$77,184 for water and \$58,692 for wastewater.

Rents (640/740): L.P. Waterworks, Inc. recorded rent expense of \$210 for water and \$172 for wastewater. Staff has made adjustments to remove these amounts because no supporting documents were provided. Staff recommends rent expense of \$0 for water and wastewater.

Insurance Expense (655/755): L.P. Waterworks, Inc. recorded \$0 insurance expense for water and \$433 for wastewater. Based on an audit-related adjustment, staff has increased these accounts by \$551 for water, and by \$118 for wastewater. Staff recommends insurance expense of \$551 for water and \$551 for wastewater.

⁸ See Keystone Water Co. v. Bevis, 278 So. 2d 606, 609 (Fla. 1973).

Regulatory Commission Expense (665/765): L.P. Waterworks, Inc. recorded \$0 for regulatory Commission expense. 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 the customer meeting notices, staff has estimated \$213 for postage expense, \$217 for printing expense, and \$22 for envelopes, for a cost of \$452. In addition, staff has estimated \$213 for postage expense, \$87 for printing expense, and \$22 for envelopes, for the cost of noticing water and wastewater customers of new rates, for a total of \$322. The Utility paid a \$1,000 rate case filing fee for the water utility, and a \$1,000 rate case filing fee for the wastewater utility. The total rate case expense including postage, notices, envelopes, and filing fee is \$2,774. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a four-year period, which is \$694 per year (\$2,774/4). Staff's net adjustments to this account result in increases of \$347 for water, and \$347 for wastewater. Staff recommends regulatory Commission expense of \$347 for water and \$347 for wastewater.

Bad Debt Expense (670/770): L.P. Waterworks, Inc. recorded bad debt expense of \$1,123 for water and \$907 for wastewater. In addition, the Utility requested that its bad debt expense be 2 percent of revenue. Staff believes bad debt expense of 2 percent of revenues is reasonable, and, based on staff's recommended rate increase, staff has made adjustments to these accounts of \$1,235 for water and \$998 for wastewater. Staff recommends bad debt expense of \$2,358 for water and \$1,905 for wastewater.

Miscellaneous Expense (675/775): L.P. Waterworks, Inc. recorded \$6,735 for water and \$5,367 for wastewater for miscellaneous expense. Staff made audit-related adjustments to reclassify a \$15 expense and remove \$5,253 from water. Staff made an additional adjustment of \$169 from water to remove a billing cards expense. Staff also made an audit-related adjustment to remove \$4,993 from wastewater, and an additional adjustment of \$138 for removing a billing cards expense. The sum of these adjustments reduces miscellaneous expense by \$5,437 for water and \$5,131 for wastewater. Staff recommends miscellaneous expense of \$1,298 for water and \$236 for wastewater.

Sludge Removal Expense (711): L.P. Waterworks, Inc. recorded \$0 for wastewater sludge removal. Staff has made an adjustment to increase this account by \$3,300. In a document the Utility provided to staff on January 16, 2014, sludge removal expenses were estimated to cost \$1,800 in January and about \$980 every three months thereafter. Staff amortized the \$1,800 expense over five years, and calculated three occurrences of the \$980 expense per year for a total of \$3,300. Staff recommends a sludge removal expense of \$3,300 for wastewater.

Operation and Maintenance Expenses (O&M) Summary: Total adjustments to O&M expense result in an increase of \$35,220 for water and \$26,318 for wastewater. Staff's recommended O&M expense is \$94,086 for water and \$75,780 for wastewater. O&M expenses are shown on Schedule Nos. 3-A and 3-B for water and wastewater, respectively.

Depreciation Expense (Net of Related Amortization of CIAC): The Utility recorded depreciation expense of \$12,286 for water and \$12,939 for wastewater 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 \$16,531 for water and \$6,169 for wastewater. The Utility recorded an Amortization of CIAC of \$6,168 for water and \$2,328 for wastewater during

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the test year. Staff has made adjustments to increase this account by \$2,630 for water, and \$258 for wastewater. Therefore, staff recommends net depreciation expense of \$7,733 for water and \$3,583 for wastewater.

Taxes Other Than Income (TOTI): The Utility recorded \$9,129 for water and \$7,461 for wastewater for TOTI. Based on audit-related adjustments, staff decreased these amounts by \$1,902 and \$500 for water and wastewater, respectively. Therefore, staff recommends TOTI balances of \$7,227 for water and \$6,961 for wastewater.

Income Tax: The Utility is a limited liability company and did not record income tax for the test year. As a limited liability company, the entity pays no income tax. Therefore, staff has not made any adjustments to this account.

Operating Expenses Summary: The application of staff's recommended adjustments to L.P. Waterworks, Inc.'s recorded test year operating expenses result in staff's recommended operating expenses of \$109,046 for water and \$86,324 for wastewater. Operating expenses are shown on Schedule No. 3-A for water and Schedule 3-B for wastewater. The related adjustments for water and wastewater are shown on Schedule No. 3-C.

Issue 7: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirement is \$116,611 for water and \$95,483 for wastewater, resulting in an annual increase of \$57,420 for water (97.01 percent), and an annual increase of \$47,841 for wastewater (100.42 percent). (Barrett)

Staff Analysis: L.P. Waterworks, Inc. should be allowed annual increases of \$57,420 for water (97.01 percent) and 47,841 for wastewater (100.42 percent). This will allow the Utility the opportunity to recover its expenses and earn an 8.74 percent return on its investment. The calculations are shown in Table 7-1 and Table 7-2 for water and wastewater, respectively:

Table 7-1

<u>Water Revenue Requirement</u>	
Adjusted Rate Base	\$86,549
Rate of Return	x .0874
Return on Rate Base	\$ 7,564
Adjusted O&M expense	94,086
Depreciation expense	16,531
Amortization	(8,798)
Taxes Other Than Income	7,227
Income Taxes	0
Revenue Requirement	\$116,611
Less Test Year Revenues	59,191
Annual Increase	\$57,420
Percent Increase/(Decrease)	97.01%

Table 7-2

<u>Wastewater Revenue Requirement</u>	
Adjusted Rate Base	\$104,793
Rate of Return	x .0874
Return on Rate Base	\$ 9,159
Adjusted O&M expense	75,780
Depreciation expense	6,169
Amortization	(2,586)
Taxes Other Than Income	6,961
Income Taxes	0
Revenue Requirement	\$95,483
Less Test Year Revenues	47,642
Annual Increase	\$47,841
Percent Increase/(Decrease)	100.42%

Issue 8: What are the appropriate rate structures and rates for LP Waterworks, Inc.'s water and wastewater systems?

Recommendation: The recommended monthly water and wastewater rates are shown on Schedule Nos. 4-B and 4-D, respectively. 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 ten days of the date of the notice. (Thompson)

Staff Analysis:

Water

The Utility's water system is located in Highlands County within the Southern Water Use Caution Areas of the SWFWMD. The Utility provides water service to approximately 370 individually metered residential and several general service customers in Camp Florida Resort. In addition, the Utility provides water only service to approximately 54 residential customers in Hickory Hills and Lake Ridge Estates subdivisions and a few general service customers outside the RV Park. Approximately 45 percent of the residential customer bills during the test year had zero gallons indicating a seasonal customer base. The average residential water demand, excluding zero gallon bills, is 4,940 gallons per month. Currently, LP's water system rate structure consists of a base facility charge (BFC) and a uniform gallonage charge for both residential and general service customers. The units in the RV Park are billed based on 80 percent of the residential BFC for a 5/8" x 3/4" meter.

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

In the Utility's last SARC, Docket No. 020010-WS, the approved rate structure included a BFC for the RV Park lots equal to 80 percent of the BFC for a 5/8" x 3/4" meter. Although meters had been installed in the RV Park, only a few months of metered data were available to use in calculating rates. It appears that an assumption was made that customers in the RV Park would place less demand on the water system than a typical single family home. Based on a review of the current billing data, the average demand for customers in the RV Park is slightly more than the average demand of the customers in single family homes; therefore, staff recommends that a discounted BFC for customers in the RV Park is no longer appropriate.

Due to the seasonal nature of the customers, staff recommends that 40 percent of the water revenues should be generated from the BFC in order to ensure that the Utility will have sufficient cash flow to cover fixed costs. The average people per household served by the water system is two; therefore, based on the number of persons per household, 50 gallons per day per person, and the number of days per month, the non-discretionary usage threshold should be 3,000 gallons per month. Staff recommends that the traditional BFC and gallonage charge rate structure with an additional rate block for the non-discretionary usage threshold of 3,000 gallons for residential customers should be approved. This rate structure minimizes increases at lower levels of consumption while maintaining revenue sufficiency for the Utility.

Based on billing data provided by the Utility and an assumption of 3,000 gallons per month of non-discretionary usage, approximately 55 percent of total residential consumption is discretionary and, therefore, subject to the effects of repression. A repression adjustment quantifies changes in consumption patterns in response to an increase in price. Customers will typically reduce their discretionary consumption in response to price changes, while non-discretionary consumption remains relatively unresponsive to price changes. Based on a recommended revenue increase of 97 percent, the residential discretionary consumption can be expected to decline by 3,765,000 gallons resulting in anticipated average residential demand of 3,572 gallons per month, excluding zero gallon bills. Staff recommends a 27.7 percent reduction in total residential consumption and corresponding reductions of \$863 for purchased power, \$549 for chemicals, and \$67 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$114,252.

Based on the above, staff recommends that all residential and general service water customers be billed a BFC based on meter size. In addition, 40 percent of the revenue requirement should be recovered through the BFC. Residential rates should include a non-discretionary threshold of 3,000 gallons and discretionary usage should be reduced by 3,765,000 gallons to reflect the anticipated reduction in demand. Staff's recommended rate structure, along with two alternate rate structures, and the resulting rates are shown on Schedule Nos. 4-A and 4-B.

Wastewater

The Utility provides wastewater service to the residential and general service customers in Camp Florida Resort; wastewater service is not provided to the residential and general service water customers outside the RV Park. Approximately 49 percent of the residential customers' wastewater bills during the test year had zero gallons. The average water demand for wastewater customers, excluding zero gallon bills, was 5,141 gallons per month. Currently, the residential rate structure for the wastewater system consists of a uniform BFC for all meter sizes and gallonage charge with an 8,000 gallon cap. General service customers are billed a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge.

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

implement a gallonage cap that considers the amount of water that may return to the wastewater system.

Typically, Commission practice is to set the BFC allocation to at least 50 percent due to the capital intensive nature of wastewater plants. Based on the seasonality of LP's wastewater customers and the significant increase in the revenue requirement, staff recommends that 60 percent of the revenue requirement should be generated from the BFC in order to mitigate the rate increase. In addition, based on the expected reduction in water demand described above, staff recommends that a repression adjustment also be made for wastewater. Because wastewater rates are calculated based on customers' water demand, if those customers' water demand is expected to decline, then the billing determinants used to calculate wastewater rates should also be adjusted. Therefore, staff recommends that a repression adjustment for the discretionary usage should also be made to calculate wastewater rates. Based on the billing analysis for the wastewater system, staff recommends that discretionary usage be reduced by 2,047,000 gallons to reflect the anticipated reduction in water demand used to calculate wastewater rates. Staff recommends a 22.5 percent reduction in total residential consumption and corresponding reductions of \$1,008 for purchased power, \$61 for chemicals, \$743 for sludge removal, and \$82 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$93,589. Further, staff recommends no change to the Utility's existing residential cap of 8,000 gallons because a reduction to the cap would result in fewer gallons to spread the revenue requirement across and an additional increase in the wastewater gallonage charge. General service customers should continue to be billed a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge. Staff's recommended rate structure, along with two alternate rate structures, and the resulting wastewater rates are shown on Schedule Nos. 4-C and 4-D.

Summary

Based on the foregoing, staff recommends 40 percent of the water revenues should be generated from the BFC. The traditional BFC and gallonage charge rate structure with an additional rate block for the non-discretionary usage threshold of 3,000 gallons should be approved for the water system. A 27.7 percent reduction in total residential consumption and corresponding reductions of \$863 for purchased power, \$549 for chemicals, and \$67 for RAFs should be made to reflect the anticipated repression. General service customers should continue to be billed a BFC and gallonage charge.

Staff recommends that 60 percent of the wastewater revenues be generated from the BFC. The residential wastewater customers' rate structure should consist of a BFC for all meter sizes, with a cap of 8,000 gallons. A 22.5 percent reduction in total residential consumption and corresponding reductions of \$1,008 for purchased power, \$61 for chemicals, \$743 for sludge removal, and \$82 for RAFs should be made to reflect the anticipated repression. General service wastewater customers should be billed a BFC and gallonage charge that is 1.2 times higher than the residential gallonage charge.

The recommended monthly water and wastewater rates are shown on Schedule Nos. 4-B and 4-D, respectively. The Utility should file revised tariff sheets and a proposed customer

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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 ten days of the date of the notice.

Issue 9: What is the appropriate amount by which rates should be reduced in four years after the published effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S.?

Recommendation: The water rates should be reduced as shown on Schedules No. 4-B and 4-D, to remove rate case expense grossed-up water and wastewater 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. L.P. Waterworks, Inc. should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index, and/or pass-through increase or decrease, and the reduction in the rates due to the amortized rate case expense. (Barrett)

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 Regulatory Assessment Fees (RAFs). The total reduction is \$734 (\$367 for water and \$367 for wastewater). Using L.P. Waterworks, Inc.'s current revenue, expenses, capital structure and customer base, the reduction in revenue will result in the rate decreases as shown on Schedules No. 4-B and 4-D.

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. L.P. Waterworks, Inc. 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 10: What are the appropriate initial customer deposits for LP Waterworks, Inc.?

Recommendation: The appropriate initial customer deposits should be \$45 and \$50 for the residential 5/8" x 3/4" meter size for water and wastewater, respectively. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water and wastewater. The approved customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475, F.A.C. The Utility should be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding. (Thompson)

Staff Analysis: Rule 25-30.311, F.A.C., contains the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the Utility and, ultimately, the general body of ratepayers. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill.⁹ Currently, the Utility's existing initial deposits for residential 5/8" x 3/4" meters are \$35 each for both water and wastewater. Based on staff's recommended rates, the existing initial customer deposits are not sufficient to cover two months' bills for water and wastewater, respectively. Staff recommends the existing initial customer deposit be increased to reflect two times the average estimated bill for both water and wastewater to ensure that the cost of providing service is recovered from by those incurring cost.

Staff recommends the appropriate initial customer deposits should be \$45 and \$50 for the residential 5/8" x 3/4" meter size for water and wastewater, respectively. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water and wastewater. The approved customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475, F.A.C. The Utility should be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding.

⁹ See Order No. PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 021228-WS, In re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc. Order No. PSC-03-0845-PAA-WS, issued July 21, 2003, in Docket No. 021192-WS, In re: Application for staff-assisted rate case in Highlands County by Damon Utilities, Inc.

Issue 11: 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. L.P. Waterworks, Inc. 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. (Barrett)

Staff Analysis: This recommendation proposes an increase in water and wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the Utility, staff recommends that the recommended rates be approved as temporary rates. L.P. Waterworks, Inc. 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.

L.P. Waterworks, Inc. 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 \$70,197, based upon the commercial paper rate for March 2014. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

If L.P. Waterworks, Inc. chooses a bond as security, the bond should contain wording that indicates that it will be terminated regarding one of the following conditions:

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

If L.P. Waterworks, Inc. 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.
- 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 L.P. Waterworks, Inc.
- 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.
- 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 L.P. Waterworks, Inc., 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.

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L.P. Waterworks, Inc. 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.

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Issue 12: 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, L.P. Waterworks, Inc. 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. (Barrett)

Staff Analysis: To ensure that the Utility adjusts its books in accordance with the Commission's decision, L.P. Waterworks, Inc. 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.

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Issue 13: Should this docket be closed?

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

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

LP Waterworks, Inc.		SCHEDULE NO. 1-A	
TEST YEAR ENDED 5/31/2013		DOCKET NO. 130153-WS	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$469,295	\$27,922	\$497,217
LAND & LAND RIGHTS	20,598	0	20,598
NON-USED AND USEFUL COMPONENTS	0	(5,100)	(5,100)
CIAC	(204,307)	(61,339)	(265,646)
ACCUMULATED DEPRECIATION	(266,493)	(38,298)	(304,791)
AMORTIZATION OF CIAC	100,229	32,282	132,511
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>11,761</u>	<u>11,761</u>
WASTEWATER RATE BASE	<u>\$119,322</u>	<u>(\$32,773)</u>	<u>\$86,549</u>

LP Waterworks, Inc.		SCHEDULE NO. 1-B	
TEST YEAR ENDED 5/31/2013		DOCKET NO. 130153-WS	
SCHEDULE OF WASTEWATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$377,807	\$6,191	\$383,998
2. LAND & LAND RIGHTS	36,000	0	36,000
3. NON-USED AND USEFUL COMPONENTS	0	(3,072)	(3,072)
4. CIAC	(65,600)	(26,800)	(92,400)
5. ACCUMULATED DEPRECIATION	(291,400)	18,965	(272,435)
6. AMORTIZATION OF CIAC	37,965	5,264	43,229
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>9,472</u>	<u>9,472</u>
8. WASTEWATER RATE BASE	<u>\$94,772</u>	<u>\$10,021</u>	<u>\$104,793</u>

LP Waterworks, Inc.		SCHEDULE NO. 1-C	
TEST YEAR ENDED 5/31/2013		DOCKET NO. 130153-WS	
ADJUSTMENTS TO RATE BASE		PAGE 1 OF 2	
		<u>WATER</u>	<u>WASTEWATER</u>
<u>UTILITY PLANT IN SERVICE</u>			
1.	To reflect plant balance (301) per Order No. PSC-02-1739-PAA-WS	\$414	\$0
2.	To reflect plant balance (310) per Order No. PSC-02-1739-PAA-WS	2,506	0
3.	To reflect plant balance (334) per Order No. PSC-02-1739-PAA-WS	27,663	0
4.	To reclassify an O&M item to the appropriate account (336)	620	0
5.	To reflect plant balance (340) per Order No. PSC-02-1739-PAA-WS	(3,281)	0
6.	To reflect plant balance (351) per Order No. PSC-02-1739-PAA-WS	0	346
7.	To reflect plant balance (380) per Order No. PSC-02-1739-PAA-WS	0	5,200
8.	To reflect plant balance (390) per Order No. PSC-02-1739-PAA-WS	<u>0</u>	<u>645</u>
	Total	<u>\$27,922</u>	<u>\$6,191</u>
<u>CWIP</u>			
	Not applicable	<u>\$0</u>	<u>\$0</u>
<u>LAND</u>			
	Not applicable	<u>\$0</u>	<u>\$0</u>
<u>NON-USED AND USEFUL PLANT</u>			
1.	To reflect non used and useful plant	(\$27,518)	(\$48,212)
2.	To reflect non used and useful accumulated depreciation	13,792	45,140
3.	To reflect non used and useful CIAC	15,899	0
4.	To reflect non used and useful accumulated amortization	<u>(7,274)</u>	<u>0</u>
	Total	<u>(\$5,100)</u>	<u>(\$3,072)</u>
<u>CIAC</u>			
1.	To reflect CIAC balance per Order No. PSC-03-1051-FOF-WS	(\$30,608)	\$0
2.	To reflect CIAC additions for January 2002 through May 2012	<u>(30,731)</u>	<u>(26,800)</u>
	Total	<u>(\$61,339)</u>	<u>(\$26,800)</u>

LP Waterworks, Inc. TEST YEAR ENDED 5/31/2013 ADJUSTMENTS TO RATE BASE	SCHEDULE NO. 1-C DOCKET NO. 130153-WS PAGE 2 OF 2	
	<u>WATER</u>	<u>WASTEWATER</u>
<u>ACCUMULATED DEPRECIATION</u>		
To reflect the appropriate test year accumulated depreciation (AF3)	<u>(\$38,298)</u>	<u>\$18,965</u>
<u>AMORTIZATION OF CIAC</u>		
To reflect Amortization of CIAC per Order No. PSC-02-1739-PAA-WS	<u>\$32,282</u>	<u>\$5,264</u>
<u>WORKING CAPITAL ALLOWANCE</u>		
To reflect 1/8 of test year O&M expenses.	<u>\$11,761</u>	<u>\$9,472</u>

LP Waterworks, Inc.					SCHEDULE NO. 2			
TEST YEAR ENDED 5/31/2013					DOCKET NO. 130153-WS			
SCHEDULE OF CAPITAL STRUCTURE								
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE	PRO RATA	BALANCE	PERCENT	COST	WEIGHTED COST
			BEFORE PRO RATA ADJUSTMENTS	ADJUSTMENTS	PER STAFF	OF TOTAL		
1. COMMON STOCK	\$322,313	\$0	\$322,313					
2. RETAINED EARNINGS	165,935	0	165,935					
3. PAID IN CAPITAL	0	0	0					
4. TREASURY STOCK	0	0	0					
5. TOTAL COMMON EQUITY	\$488,248	\$0	\$488,248	(\$296,906)	\$191,342	100.00%	8.74%	8.74%
6. LONG TERM DEBT	\$0	\$0	\$0	0	0	0.00%	7.00%	0.00%
7. LONG TERM DEBT	0	0	0	0	0	0.00%	6.00%	0.00%
TOTAL LONG TERM DEBT	\$0	\$0	\$0	0	0	0.00%		
8. CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	2.00%	0.00%
9. TOTAL	<u>\$488,248</u>	<u>\$0</u>	<u>\$488,248</u>	<u>(\$296,906)</u>	<u>\$191,342</u>	<u>100.00%</u>		<u>8.74%</u>
RANGE OF REASONABLENESS						LOW	HIGH	
RETURN ON EQUITY						<u>7.74%</u>	<u>9.74%</u>	
OVERALL RATE OF RETURN						<u>7.74%</u>	<u>9.74%</u>	
							0.00%	

LP Waterworks, Inc. TEST YEAR ENDED 5/31/2013 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 130153-WS			
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	<u>\$57,226</u>	<u>\$1,965</u>	<u>\$59,191</u>	<u>\$57,420</u> 97.01%	<u>\$116,611</u>	
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$58,866	\$35,220	\$94,086	\$0	\$94,086	
3. DEPRECIATION	12,286	4,245	16,531	0	16,531	
4. AMORTIZATION	(6,168)	(2,630)	(8,798)	0	(8,798)	
5. TAXES OTHER THAN INCOME	9,129	(4,486)	4,643	2,584	7,227	
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
7. TOTAL OPERATING EXPENSES	<u>\$74,113</u>	<u>\$32,349</u>	<u>\$106,462</u>	<u>\$2,584</u>	<u>\$109,046</u>	
8. OPERATING INCOME/(LOSS)	<u>(\$16,887)</u>		<u>(\$47,271)</u>		<u>\$7,564</u>	
9. WATER RATE BASE	<u>\$119,322</u>		<u>\$86,549</u>		<u>\$86,549</u>	
10. RATE OF RETURN	<u>-14.15%</u>		<u>-54.62%</u>		<u>8.74%</u>	

LP Waterworks, Inc. TEST YEAR ENDED 5/31/2013 SCHEDULE OF WASTEWATER OPERATING INCOME			SCHEDULE NO. 3-B DOCKET NO. 130153-WS			
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	<u>\$46,581</u>	<u>\$1,061</u>	<u>\$47,642</u>	<u>\$47,841</u> 100.42%	<u>\$95,483</u>	
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$49,462	\$26,318	\$75,780	\$0	\$75,780	
3. DEPRECIATION	12,939	(6,770)	6,169	0	6,169	
4. AMORTIZATION	(2,328)	(258)	(2,586)	0	(2,586)	
5. TAXES OTHER THAN INCOME	7,461	(2,653)	4,808	2,153	6,961	
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
7. TOTAL OPERATING EXPENSES	<u>\$67,534</u>	<u>\$16,637</u>	<u>\$84,171</u>	<u>\$2,153</u>	<u>\$86,324</u>	
8. OPERATING INCOME/(LOSS)	<u>(\$20,953)</u>		<u>(\$36,529)</u>		<u>\$9,159</u>	
9. WASTEWATER RATE BASE	<u>\$94,772</u>		<u>\$104,793</u>		<u>\$104,793</u>	
10. RATE OF RETURN	<u>-22.11%</u>		<u>-34.86%</u>		<u>8.74%</u>	

LP Waterworks, Inc.	SCHEDULE NO. 3-C	
TEST YEAR ENDED 5/31/2013	DOCKET NO. 130153-WS	
ADJUSTMENTS TO OPERATING INCOME	PAGE 1 OF 3	
	<u>WATER</u>	<u>WASTEWATER</u>
OPERATING REVENUES		
1. To adjust utility revenues to audited test year amount.	<u>\$1,965</u>	<u>\$1,061</u>
OPERATION AND MAINTENANCE EXPENSES		
1. Salaries and Wages - Employees (601/ 701) To reflect the appropriate Salaries & Wages exp. for Employees	<u>(\$11,069)</u>	<u>(\$9,056)</u>
2. Salaries and Wages Officers (603/ 703) To reflect the appropriate Salaries & Wages exp. for Officers	<u>\$3,233</u>	<u>\$3,767</u>
3. Purchased Power (615/715)		
a. To reflect the appropriate Purchased Power expense	(\$1,265)	(\$321)
b. To reflect an adjustment for excessive unaccounted water	<u>(312)</u>	<u>0</u>
Subtotal	<u>(\$1,578)</u>	<u>(\$321)</u>
4. Chemicals (618/718)		
a. To reflect the appropriate Chemicals expense	\$1,175	\$175
b. To reflect an adjustment for excessive unaccounted water	<u>(\$90)</u>	<u>0</u>
Subtotal	<u>\$1,085</u>	<u>\$175</u>
5. Materials & Supplies (620) To reflect the appropriate Materials & Supplies exp. (AF6)	<u>\$15</u>	<u>\$0</u>
6. Contractual Services - Professional (631/731) To reflect the appropriate Contract Services – Professional expense (O & M EXPENSES CONTINUED ON NEXT PAGE)	<u>(\$1,829)</u>	<u>(\$26,398)</u>

LP Waterworks, Inc.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 5/31/2013		DOCKET NO. 130153-WS	
<u>ADJUSTMENTS TO OPERATING INCOME</u>		PAGE 2 OF 3	
(O & M EXPENSES CONTINUED)	<u>WATER</u>	<u>WASTEWATER</u>	
7. Contractual Services - Testing (635/735)			
To reflect the appropriate Contractual Services Testing expense	<u>(\$5,994)</u>		<u>\$0</u>
8. Contractual Services - Other (636/736)			
To reflect the US Water management services agreement	<u>\$54,872</u>		<u>\$58,692</u>
9. Rents (640/ 740)			
To reflect the appropriate rental expense (AF6)	<u>(\$210)</u>		<u>(\$172)</u>
10. Insurance Expense (655/755)			
To reflect the appropriate insurance expense	<u>\$551</u>		<u>\$118</u>
11. Bad Debt Expense (670/770)			
To reflect the appropriate bad debt expense	<u>\$1,235</u>		<u>\$998</u>
12. Regulatory Commission Expense (765)			
To reflect 4-year amortization of rate case expense (\$693/4)	<u>\$347</u>		<u>\$347</u>
13. Miscellaneous Expense (675/775)			
a. To reclassify amount to Materials & Supplies (620) (AF6)	<u>(\$15)</u>		<u>\$0</u>
b. To reflect the appropriate miscellaneous expenses	<u>(5,422)</u>		<u>(5,131)</u>
Subtotal	<u>(\$5,437)</u>		<u>(\$5,131)</u>
(O & M EXPENSES CONTINUED ON NEXT PAGE)			

LP Waterworks, Inc.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 5/31/2013		DOCKET NO. 130153-WS	
<u>ADJUSTMENTS TO OPERATING INCOME</u>		PAGE 3 OF 3	
		<u>WATER</u>	<u>WASTEWATER</u>
(O & M EXPENSES CONTINUED)			
14	Sludge Removal Expense (711)		
	To reflect the appropriate sludge removal expense	<u>\$0</u>	<u>\$3,300</u>
	TOTAL OF O & M EXPENSE ADJUSTMENTS	<u>\$35,220</u>	<u>\$26,318</u>
DEPRECIATION EXPENSE			
To reflect test year depreciation calculated per 25-30.140, FAC			
1.	(AF3)	\$4,968	(\$4,068)
2.	Non used and useful depreciation expense	<u>(723)</u>	<u>(2,702)</u>
	Total	<u>\$4,245</u>	<u>(\$6,770)</u>
AMORTIZATION OF CIAC			
1.	To reflect the appropriate amount of amortization expense (AF4)	(\$3,049)	(\$258)
2.	Non used and useful amortization expense	<u>419</u>	<u>0</u>
	Total	<u>(\$2,630)</u>	<u>(\$258)</u>
TAXES OTHER THAN INCOME			
1.	To reflect the appropriate property taxes	(\$4,272)	(\$2,495)
2.	To reflect overstatement of RAFs (AF8)	<u>(214)</u>	<u>(158)</u>
	Total	<u>(\$4,486)</u>	<u>(\$2,653)</u>
<u>INCOME TAX</u>			
	Income Tax Per Staff	<u>\$0</u>	<u>\$0</u>

LP Waterworks, Inc. TEST YEAR ENDED 5/31/2013 ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE	SCHEDULE NO. 3-D DOCKET NO. 130153-WS		
	PAGE 1 OF 1		
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$11,069	(\$11,069)	\$0
(603) SALARIES AND WAGES - OFFICERS	2,767	3,233	6,000
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	4,941	(1,578)	3,363
(616) FUEL FOR POWER PRODUCTION	833	0	833
(618) CHEMICALS	1,053	1,085	2,138
(620) MATERIALS AND SUPPLIES	0	15	15
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES -			
PROFESSIONAL	1,829	(1,829)	0
(635) CONTRACTUAL SERVICES - TESTING	5,994	(5,994)	0
(636) CONTRACTUAL SERVICES - OTHER	22,312	54,872	77,184
(640) RENTS	210	(210)	0
(650) TRANSPORTATION EXPENSE	0	0	0
(655) INSURANCE EXPENSE	0	551	551
(665) REGULATORY COMMISSION EXPENSE	0	347	347
(670) BAD DEBT EXPENSE	1,123	1,235	2,358
(675) MISCELLANEOUS EXPENSES	<u>6,735</u>	<u>(5,437)</u>	<u>1,298</u>
Total	<u>\$58,866</u>	<u>\$35,220</u>	<u>\$94,086</u>

LP Waterworks, Inc.**TEST YEAR ENDED 5/31/2013****ANALYSIS OF WASTEWATER OPERATION
AND MAINTENANCE EXPENSE****SCHEDULE NO. 3-E
DOCKET NO. 130153-WS****PAGE 1 OF 1**

	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$9,056	(\$9,056)	\$0
(703) SALARIES AND WAGES - OFFICERS	2,233	3,767	6,000
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	0	3,300	3,300
(715) PURCHASED POWER	4,800	(321)	4,479
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	96	175	271
(720) MATERIALS AND SUPPLIES	0	0	0
(730) CONTRACTUAL SERVICES - BILLING	0	0	0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	26,398	(26,398)	0
(735) CONTRACTUAL SERVICES - TESTING	0	0	0
(736) CONTRACTUAL SERVICES - OTHER	0	58,692	58,692
(740) RENTS	172	(172)	0
(750) TRANSPORTATION EXPENSE	0	0	0
(755) INSURANCE EXPENSE	433	118	551
(765) REGULATORY COMMISSION EXPENSES	0	347	347
(770) BAD DEBT EXPENSE	907	998	1,905
(775) MISCELLANEOUS EXPENSES	<u>5,367</u>	<u>(5,131)</u>	<u>236</u>
Total	<u>\$49,462</u>	<u>\$26,318</u>	<u>\$75,780</u>

LP WATERWORKS, INC. STAFF'S RECOMMENDED AND ALTERNATIVE WATER RATE STRUCTURES AND RATES			
Test Year Rate Structure and Rates		Recommended Rate Structure and Rates	
BFC and Gallonage Charge BFC = 40%		2-Tier Inclining Block Rate Structure Rate Factor 1.00 BFC = 40%	
BFC	\$6.02	BFC	\$8.22
Per 1 kgal	\$2.14	0-3 kgals	\$4.73
		Over 3 kgals	\$8.89
Typical Monthly Bills		Typical Monthly Bills	
Consumption (kgals)		Consumption (kgals)	
0	\$6.02	0	\$8.22
1	\$8.16	1	\$12.95
3	\$12.44	3	\$22.41
5	\$16.72	5	\$40.19
10	\$27.42	10	\$84.64
20	\$48.82	20	\$183.44
Alternative 1 Rate Structure and Rates		Alternative 2 Rate Structure and Rates	
2-Tier Inclining Block Rate Structure Rate Factor 1.00 BFC = 35%		2- Tier Inclining Block Rate Structure Rate Factor 1.00 BFC =45%	
BFC	\$7.18	BFC	\$9.26
0-3 kgals	\$5.13	0-3 kgals	\$4.34
Over 3 kgals	\$10.71	Over 3 kgals	\$7.42
Typical Monthly Bills		Typical Monthly Bills	
Consumption (kgals)		Consumption (kgals)	
0	\$7.18	0	\$9.26
1	\$12.31	1	\$13.60
3	\$22.57	3	\$22.28
5	\$43.99	5	\$37.12
10	\$97.54	10	\$74.22
20	\$204.64	20	\$148.42

LP WATERWORKS, INC. TEST YEAR ENDED MAY 31, 2013 MONTHLY WATER RATES		SCHEDULE NO. 4-B DOCKET NO. 130153-WS	
	UTILITY EXISTING RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8"X3/4" RV Lots (.8 ERC)	\$4.82		
5/8"X3/4"	\$6.02	\$8.22	\$0.03
3/4"	\$9.04	\$12.33	\$0.04
1"	\$15.06	\$20.55	\$0.07
1-1/2"	\$30.13	\$41.10	\$0.13
2"	\$48.20	\$65.76	\$0.21
3"	\$96.40	\$131.52	\$0.42
4"	\$150.62	\$205.50	\$0.66
6"	\$301.25	\$411.00	\$1.32
Charge per 1,000 Gallons - Residential			
0-3,000 gallons	N/A	\$4.73	\$0.02
Over 3,000 gallons	N/A	\$8.89	\$0.03
Charge per 1,000 Gallons – General Service			
	\$2.14	\$6.29	\$0.02
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$12.44	\$22.41	
6,000 Gallons	\$18.86	\$49.08	
10,000 Gallons	\$27.42	\$84.64	

LP WATERWORKS, INC. STAFF'S RECOMMENDED AND ALTERNATIVE WASTEWATER RATE STRUCTURES AND RATES			
Test Year Rate Structure and Rates		Recommended Rate Structure and Rates	
Monthly BFC/ uniform kgals charge BFC =48%		Monthly BFC/ uniform kgals charge BFC = 60%	
BFC	\$6.44	BFC	\$11.92
per 1 kgal	\$1.76	per 1 kgal	\$4.83
(8 kgal cap)		(8 kgal cap)	
Typical Monthly Bills		Typical Monthly Bills	
Consumption (kgals)		Consumption (kgals)	
0	\$6.44	0	\$11.92
1	\$8.20	1	\$16.75
3	\$11.72	3	\$26.41
6	\$17.00	6	\$40.90
8	\$20.52	8	\$50.56
10	\$20.52	10	\$50.56
Alternative 1 Rate Structure and Rates		Alternative 2 Rate Structure and Rates	
Monthly BFC/ uniform kgals charge BFC = 50%		Monthly BFC/ uniform kgals charge BFC =65%	
BFC	\$9.86	BFC	\$12.90
per 1 kgal	\$6.10	per 1 kgal	\$4.22
(8 kgal cap)		(8 kgal cap)	
Typical Monthly Bills		Typical Monthly Bills	
Consumption (kgals)		Consumption (kgals)	
0	\$9.86	0	\$12.90
1	\$15.96	1	\$17.12
3	\$28.16	3	\$25.56
6	\$46.46	6	\$38.22
8	\$58.66	8	\$46.66
10	\$58.66	10	\$46.66

LP WATERWORKS, INC. TEST YEAR ENDED MAY 31, 2013 MONTHLY WASTEWATER RATES	SCHEDULE NO. 4-D DOCKET NO. 130153-WS		
	UTILITY'S EXISTING RATES	STAFF'S RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential Service</u>			
Base Facility Charge – All Meter Sizes	\$6.44	\$11.92	\$0.05
Charge per 1,000 Gallons- Residential 8,000 gallon cap	\$1.76	\$4.83	\$0.02
<u>General Service</u>			
Base Facility Charge by Meter Size:			
5/8"X3/4"	\$6.44	\$11.92	\$0.05
3/4"	\$9.67	\$17.88	\$0.07
1"	\$16.11	\$29.80	\$0.12
1-1/2"	\$32.23	\$59.60	\$0.23
2"	\$51.57	\$95.36	\$0.37
3"	\$103.14	\$190.72	\$0.75
4"	\$161.15	\$298.00	\$1.17
6"	\$322.30	\$596.00	\$2.33
Charge per 1,000 Gallons - General Service	\$2.10	\$5.79	\$0.02
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$11.72	\$26.41	
6,000 Gallons	\$17.00	\$40.90	
10,000 Gallons	\$20.52	\$50.56	