

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:** November 13, 2014

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

**FROM:** Division of Engineering (M. Watts, Rieger) *MR*  
Division of Accounting and Finance (Barrett) *MCB*  
Office of Industry Development and Market Analysis (Roberts) *AM by CE/BB TR*  
Office of the General Counsel (Murphy) *AT* *ST* *MR* *MTJ-u-d* *CE*

**RE:** Docket No. 130194-WS – Application for staff-assisted rate case in Lake County by Lakeside Waterworks, Inc.

**AGENDA:** 11/25/14 – Regular Agenda – Proposed Agency Action Except for Issue Nos. 10 and 14 – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Edgar

**CRITICAL DATES:** 12/17/14 (15-Month Effective Date (SARC))

**SPECIAL INSTRUCTIONS:** None

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## Case Background

Lakeside Waterworks, Inc. (Lakeside or Utility) is a Class C water and wastewater utility serving approximately 187 water and 176 wastewater customers in Lake County. Lakeside's service territory is located in the St. Johns River Water Management District (SJRWMD) and general water use restrictions apply. The Utility's 2013 annual report shows total gross revenues of \$41,056 for water and \$33,341 for wastewater, with net operating losses of \$28,103 and \$23,759 for water and wastewater, respectively.

Shangri-La began providing service in 1983. The original owners had the understanding that the water and wastewater systems did not need certification by the Commission since the service was included in the lot rent for the mobile home park. In 1994, staff learned that Shangri-La was providing metered service, and informed Shangri-La that it needed certification. The system was originally certificated in Docket No. 940653-WS.<sup>1</sup> On December 20, 2012, an application was filed for the transfer of Shangri-La by the Lake Utilities, Inc.'s (Shangri-La) water and wastewater systems, and Certificate Nos. 567-W and 494-S, to Lakeside. The transfer was approved on September 18, 2013.<sup>2</sup> The last staff assisted rate case (SARC) for the system was Docket No. 110130-WS, which was withdrawn by Shangri-La. There have not been any other rate cases for this system, thus, the Commission has not previously set used and useful percentages.

In the instant docket, Lakeside filed its application for a SARC on July 19, 2013, and subsequently completed the Commission's filing requirements. September 17, 2013, was established as the official filing date in this case.

On August 13, 2014, staff filed a preliminary recommendation (Staff Report) pending further review of this case. A customer meeting was subsequently held on September 11, 2014, at the Shangri-La by the Lake Clubhouse in Leesburg, Florida. On September 29, 2014, the Office of Public Counsel (OPC) filed a letter in this docket to address several concerns related to the customer meeting and Staff Report. Lakeside filed a response to OPC's concerns on October 1, 2014. On October 21, 2014, OPC filed a letter reiterating one of its concerns that it believed was not addressed by Lakeside's October 1, 2014, letter, or by staff's sixth data request to Lakeside dated October 8, 2014. Lakeside responded to OPC's October 21, 2014, letter on October 27, 2014. The concerns raised by the customers and OPC will be discussed further within the recommendation.

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

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<sup>1</sup> See Order No. PSC-96-0062-FOF-WS, issued January 12, 1996, in Docket No. 940653-WS: In re: Application for certificates to provide water and wastewater services in Lake County by Shangri-La By The Lake Utilities, Inc.

<sup>2</sup> See Order No. PSC-13-0425-PAA-WS, issued September 18, 2013, in Docket No. 120317-WS: In re: Application for approval to transfer water and wastewater system Certificate Nos. 567-W and 494-S in Lake County from Shangri-La by the Lake Utilities, Inc. to Lakeside Waterworks, Inc.

### Discussion of Issues

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

**Recommendation:** Yes. Staff recommends that the condition of the water and wastewater treatment facilities are satisfactory and the water provided by Lakeside is meeting applicable water quality standards, including primary and secondary standards, as prescribed in the Florida Department of Environmental Protection (DEP) rules. It also appears that the Utility has attempted to address the customers' concerns. Therefore, staff recommends that the overall quality of service for the Lakeside water and wastewater systems in Lake County is satisfactory. (M. Watts, Rieger)

**Staff Analysis:** Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in water and wastewater rate cases, the Commission shall determine the overall quality of service provided by a utility. This is derived from an evaluation of three separate components of the utility operations. These components are the quality of the utility's product, the operational conditions of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. Lakeside's compliance with the DEP and SJRWMD regulations, and customer comments or complaints received by the Commission, are also reviewed.

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

Lakeside's service area is located next to Lake Eustis, near Leesburg, Florida, in Lake County. The raw water source is ground water, which is obtained from two wells in the service area. The water treatment processing sequence is to pump raw water from the aquifer, perform an aeration process, inject calcium hypochlorite, store the treated water in a tank, and distribute.

In addition to primary contaminants, newly enacted amendments to Section 367.0812, F.S., require the Commission to consider secondary contaminants as part of the overall quality of service. Secondary contaminants are those contaminants a customer would likely notice because they impact things like color or smell. However, secondary contaminants are not a health risk and DEP does not typically undertake enforcement actions for secondary standards, unless another type of contaminant exceeds the maximum contaminant levels (MCL).

Lakeside is current in all of its required chemical analyses. Staff reviewed the chemical analysis with samples dated March 13, 2012. Laboratory tests show that Lakeside's finished water product is well below the MCLs allowed by DEP for all primary and secondary contaminants, and there appears to be no water quality compliance issues with this facility.

Staff also reviewed the Utility's last two DEP Sanitary Survey Reports, dated June 5, 2012, and November 26, 2013. The earlier report, issued prior to Lakeside's acquisition of the system, noted failure to clean and inspect the finished-water storage tank, as well as maintain some required documentation. The second report, issued just after Lakeside assumed responsibility for the system, found no physical deficiencies, but requested documentation that the finished drinking water meter had been calibrated. Staff verified that the documentation was

provided to DEP. Based on Lakeside's DEP compliance, staff recommends that the operational condition of the water treatment plant (WTP) is satisfactory.

The wastewater treatment plant (WWTP) is an extended aeration activated sludge facility, with chlorinated effluent sent to a spray field with a backup percolation pond for wet weather conditions. Staff reviewed the last Compliance Evaluation Inspection performed by DEP, dated April 9, 2012. DEP found a small hole in the digester tank wall that was leaking. The Utility reported on May 9, 2012, that the hole had been repaired. When inspecting the plant, staff observed that patches had been applied effectively. No subsequent compliance issues were reported by DEP.

Although this facility appears to have no current compliance issues with DEP, Lakeside had initially sought recovery of several pro forma items in this proceeding to cover needed repairs to the system. During staff's site visit, staff observed that the condition of the aging system appears to warrant the repairs contemplated by Lakeside. However, Lakeside elected to withdraw the request for recovery of these particular repair costs from this proceeding. Staff also observed that Lakeside is actively monitoring the condition of the system and making temporary repairs as necessary, to ensure the continued safe operation of the WWTP until permanent measures can be completed. Lakeside indicated it intends to proceed with the repairs and seek recovery in a future proceeding. Based on Lakeside's proactive approach to ensuring the safe operation of the system now and in the future, and on Lakeside's status with DEP, staff recommends that the operational condition of the WWTP is satisfactory.

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

A customer meeting was held in Leesburg, Florida on September 11, 2014. Eighty -five residents of Lakeside's territory attended the meeting and twenty-three residents spoke. One of the residents, in addition to their own comments, read letters from two residents who were unable to attend. Additionally, a representative of Senator Hays addressed the group and questioned the appropriateness of such a large rate increase.

All of the customers that spoke were concerned about the rate increase. In addition to rates, several customers had the following concerns or questions: (1) what additional services would they get for the higher-priced water; (2) black rings in the toilet; (3) water quality and safety; (4) the test results shown in the Water Quality Summary Table of their annual Consumer Confidence Reports (CCR) for the past three years have identical numbers; (5) affiliate transactions; and (6) irrigation meters.

The affiliate transactions are discussed in Issue 3, and the rates for irrigation meters are discussed in Issue 9. Additionally, the questions on what additional services the customers will receive appear to come from an assumption that Lakeside's request for rate relief is driven by providing new services not provided by the previous company. However, the Utility's need for rate relief will be fully addressed in subsequent issues.

The remaining concerns pertain to water quality. As stated in the previous section, Lakeside's last water quality test showed that the water was well below the MCLs for all primary

and secondary water quality standards required by DEP, ensuring that the water is safe to drink. Regarding the customers' concerns that the reported test results were identical from year to year, DEP requires the tests be performed every three years, and the last test was performed in 2012. Thus, the results reported in the annual CCRs will reflect the same test results until new tests are conducted in 2015.

The issue with the black rings that form in the toilets was brought up by three residents, and reiterated by the OPC in a letter to the Commission Clerk dated September 29, 2014. Lakeside responded to OPC's concerns on this and other issues in a letter filed October 1, 2014. Staff reviewed both letters and agrees with Lakeside's assessment of the issue with the black rings, namely that it is caused by mold that grows quickly in Florida's warm, moist climate, not by poor water quality.

After the customer meeting, Lakeside met with customers and followed up on quality of service comments made at the meeting. Lakeside reported its actions in its October 1, 2014, response to OPC's concerns as follows:

Immediately after the customer meeting, LWI [Lakeside] met with customers who expressed that their service was satisfactory and they had not experienced any problems since the new ownership. In addition, the day after the customer meeting, LWI had U.S. Water Services' staff investigate each customer's complaint and found no unusual water quality issues. LWI flushed lines and reviewed flushing procedures and found no anomaly in the water quality. LWI had the field employees meet with several of the customers in the service area subsequent to the customer meeting. Each of the customers the field employees contacted expressed their experience that the quality of the service had improved under the new ownership. Specifically, the 4 to 5 customers indicated that the water pressure had improved and the smell of the water had improved since the change in ownership.

Prior to a previously-scheduled customer meeting, (which would have been held on July 24, 2014), nine customers wrote to the Commission requesting that the meeting be rescheduled to the fall, and/or objecting to the rate increase. Staff rescheduled the meeting to September 11, 2014, as noted above, to accommodate the first request. After the September 11, 2014 customer meeting and as of November 6, 2014, the Commission received additional comments from four customers concerning the rate case. These comments included objection to the rate increase, expressing dissatisfaction that no Commissioners attended the customer meeting, expressing that staff contact her to discuss a desire for the Utility to meet with customers in November and one customer asked that staff contact her to discuss what new services Lakeside provides that the previous owner did not. Staff followed up with this customer on November 12, 2014.

There are no outstanding complaints in the Commission's Complaint Tracking System, no complaints were filed with DEP during the test year, and Lakeside stated no complaints have been filed with the Utility.

Summary

Staff recommends that the condition of the water and wastewater treatment facilities are satisfactory, and the water provided by Lakeside is meeting applicable water quality standards, including primary and secondary standards, as prescribed in the DEP rules. It also appears the Utility has attempted to address the customers' concerns. Therefore, staff recommends that the overall quality of service for the Lakeside water and wastewater systems in Lake County is satisfactory.

**Issue 2:** What are the used and useful percentages (U&U) of Lakeside's WTP, water storage facilities, WWTP, and distribution and collection systems? (M. Watts, Rieger)

**Recommendation:** Lakeside's WTP should be considered 40.5 percent U&U, its water storage facilities should be considered 100 percent U&U, its WWTP should be considered 16.8 percent U&U, and its water distribution and wastewater collection systems should be considered 100 percent U&U. There is no indication of excessive inflow and infiltration (I&I) or excessive unaccounted for water (EUW). (M. Watts, Rieger)

**Staff Analysis:** Lakeside's water system has an 8-inch well rated at 850 gallons per minute (gpm) and a 6-inch well rated at 270 gpm, for a total capacity of 1,120 gpm. Storage consists of a 20,000-gallon concrete ground storage tank with aeration, and two steel hydropneumatic tanks with capacities of 3,000 gallons and 5,000 gallons. A hypochlorination system is used for disinfection and water from the tanks is pumped into the water distribution system.

The distribution system is a composite network of approximately 2,820 linear feet of 10-inch PVC pipe, 2,828 linear feet of 8-inch PVC pipe, 3,450 linear feet of 6-inch PVC pipe, 1,700 linear feet of 4-inch PVC pipe, and 2,800 linear feet of 1.5-inch PVC pipe. According to the Utility, there are 11 fire hydrants in its service area.

The WWTP is a 50,000 gallon per day (gpd) extended aeration activated sludge facility. The chlorinated effluent is sent to a 3.2 acre restricted public access spray field with a backup percolation pond for wet weather conditions.

The collection system is a composite network of force mains, collecting mains, and four lift stations. The force mains consist of approximately 3,211 linear feet of 4-inch PVC pipe and 2,324 linear feet of 3-inch PVC pipe. The collecting mains consist of approximately 9,768 linear feet of 4-inch PVC pipe and 4,277 linear feet of 3-inch PVC pipe. According to the Utility, there are 15 manholes.

#### Excessive Unaccounted for Water

Rule 25-30.4325 (1)(e) , F.A.C., defines EUW as unaccounted for water in excess of 10 percent of the amount produced. Unaccounted for water is all water that is produced that is not sold, metered, or accounted for in the records of the utility. Rule 25-30.4325(10), F.A.C.; provides that to determine whether adjustments to plant and operating expenses, such as purchased electrical power and chemicals cost, are necessary, the Commission will consider all relevant factors as to the reason for EUW, solutions implemented to correct the problem, or whether a proposed solution is economically feasible. The unaccounted for water is calculated by subtracting both the gallons used for other purposes, such as flushing, and the gallons sold to customers from the total gallons pumped for the test year. Due to circumstances discussed more fully in Issue 9, the 12-month period following the test year, referred to herein as the "post test year," was used for EUW and WTP U&U calculations. The Utility's records indicated 9,229,662 gallons of water were produced during the post test year, 8,160,000 gallons of water were sold to customers, and 440,780 gallons were used for other purposes. Thus, unaccounted for water is 6.8 percent of the amount produced, resulting in no EUW.



### Water Treatment Plant Used & Useful

Pursuant to Rule 25-30.4325(8), F.A.C., the U&U percentage of a WTP with storage is calculated by dividing the peak system demand by the firm reliable capacity (FRC). The system demand is based on the single maximum day in the test year less EUW, plus a fire flow and a growth allowance.

Because the Utility has storage capacity, the FRC is based on 16 hours of pumping excluding the largest well. The Utility has two wells rated at 850 gpm and 270 gpm. Thus, using the capacity of the smaller well, the Utility's FRC is 259,200 gpd (270 gpm x 60 min/hr x 16 hrs).

The peak day of 42,300 gallons, which occurred on August 15, 2013, appears to be appropriate since it is not associated with unusual occurrences. Fire flow for the Utility's service area is 500 gpm for 2 hours, or 60,000 gpd. As discussed above, the Utility's EUW is zero. Pursuant to Rule 25-30.431, F.A.C., a linear regression analysis of the Utility's historical growth pattern results in 12 equivalent residential connections (ERCs) for the five-year statutory growth period. The Utility had an average of 187 ERCs for the post test year, resulting in 226 gpd/ERC (42,300gpd/187ERCs). Thus, a growth allowance of 2,712 gpd is also considered. Therefore, pursuant to Rule 25-30.4325, F.A.C., staff recommends that the WTP be considered 40.5 percent U&U. [(42,300 gpd - 0 gpd + 60,000 gpd + 2,712 gpd)/259,200 gpd]

### Storage Used & Useful

Pursuant to Rule 25-30.4325(8), F.A.C., for water systems with storage, if the storage capacity is less than the peak demand, the storage system should be considered 100 percent U&U. For Lakeside, since the storage capacity (20,000 gallons) is less than the peak demand (42,300 gallons), the storage system should be considered 100 percent U&U.

### Inflow & Infiltration

Typically, infiltration results from groundwater entering a wastewater collection system through broken or defective pipes and joints; whereas, inflow results from water entering a wastewater collection system through manholes or lift stations. The allowance for infiltration is 500 gallons per day per inch diameter pipe per mile, and an additional 10 percent of water sold is allowed for inflow. The Utility's records indicated that it had approximately 153,000 gallons of total I&I, much less than the 3,401,890 gallons of allowable I&I. Therefore staff recommends that the Utility had no excessive I&I for the test year.

### Wastewater Treatment Plant Used & Useful

Pursuant to Rule 25-30.432, F.A.C., the U&U analysis of the Utility's WWTP is based on the customer demand compared with the permitted plant capacity, with customer demand measured on the same basis as permitted capacity. Consideration is given for growth and I&I. Pursuant to Rule 25-30.431, F.A.C., a linear regression analysis of the Utility's historical growth pattern results in 9 ERCs for the five-year statutory growth period. The Utility had an average of

176 ERCs for the test year, resulting in 45 gpd/ERC (8,000 gpd/176 ERCs). Thus, a growth allowance of 405 gpd is also considered. Based on the annual average daily flow during the test year of 8,000 gpd and the DEP permitted plant capacity of 50,000 gpd, and pursuant to Rule 25-30.432, F.A.C., staff recommends that the WWTP be considered 16.8 percent U&U.  $[(8,000 \text{ gpd} + 405 \text{ gpd})/50,000 \text{ gpd}]$

#### Water Distribution and Wastewater Collection Systems Used & Useful

The U&U analysis for the water distribution and wastewater collection systems are determined by dividing the number of lots connected to the systems, by the number of lots fronting mains in the service area. Consideration is given for growth, if applicable. However, staff recommends that the lines that are currently recognized in the Utility's rate base serve an area in the service territory that appears to be built out. Therefore, staff recommends that the water distribution and wastewater collection systems be considered 100 percent U&U.

#### Summary

Lakeside's WTP should be considered 40.5 percent U&U, its water storage facilities should be considered 100 percent U&U, its WWTP should be considered 16.8 percent U&U, and its water distribution and wastewater collection systems should be considered 100 percent U&U. There is no indication of excessive I&I or EUW.

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

**Recommendation:** The appropriate average test year rate base for Lakeside is \$30,811 for water and \$27,925 for wastewater. (Barrett, M. Watts)

**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. 940653-WS.<sup>3</sup> Staff selected the test year ended June 30, 2013, for the instant rate case. A summary of each component and the recommended adjustments follows:

**Utility Plant in Service (UPIS):** The Utility recorded \$138,299 for water and \$147,414 for wastewater UPIS. Staff's adjustments to UPIS are identified in Table 3-1 below:

<u>Description</u>		<u>Water</u>	<u>Wastewater</u>
1.	To reflect plant balance (301) per Order No. PSC-130425-PAA-WS	(\$3,160)	\$0
2.	To reflect plant balance (310) per Order No. PSC-130425-PAA-WS	(603)	0
3.	To reflect plant balance (351) per Order No. PSC-130425-PAA-WS	0	(1,125)
4.	To reflect plant balance (371) per Order No. PSC-130425-PAA-WS	0	(1,057)
5.	To reflect plant balance (393) per Order No. PSC-130425-PAA-WS	0	(245)
6.	To reflect an averaging adjustment	0	(93)
7.	To reflect net pro forma plant repairs	<u>3,512</u>	<u>923</u>
<b>Total</b>		<b><u>(\$251)</u></b>	<b><u>(\$1,598)</u></b>

The pro forma plant balances in UPIS reflect the plant items that have been completed, less their associated retirement values, as shown in Table 3-2 below:

<u>Description</u>		<u>Water</u>	<u>Wastewater</u>
1.	Installed Mercoid switch on Hydro Tank #2, 4 new chlorine pumps (one as a replacement and 3 as new units), a chlorine injection system and saddle taps. Also, installed new conduit, cleaned up electrical panel and performed other minor repairs.	\$7,062	\$0
2.	Repair work on water distribution mains.	3,013	0
3.	Installed new stenner pumps (2). Repaired diffusers (4) and manifold at Wastewater Treatment Plant. Repaired and reinforced steel walkways and handrails. Repaired air header, and other minor repairs.	<u>0</u>	<u>3,690</u>
<b>Total Pro forma Plant</b>		<b><u>\$10,075</u></b>	<b><u>\$3,690</u></b>

<sup>3</sup>See Order No. PSC-96-0062-FOF-WS, issued January 12, 1996, in Docket No. 940653-WS: , In re: Application for certificate to provide water and wastewater services in Lake County by Shangri-La by the Lake Utilities, Inc.

### Discussion of Pro forma Plant

As shown in Table 3-2, the Utility is requesting cost recovery for \$10,075 in water and \$3,690 in wastewater pro forma plant. The Utility has completed the work described below and provided invoices which staff has reviewed.

Lakeside provided two invoices for repairs at the water treatment plant, asserting the replacements and repairs were necessary to comply with a regulatory mandate.<sup>4</sup> The first invoice was for \$5,296 and the second was for \$1,766, for a total of \$7,062. In a data request response filed June 5, 2014, the Utility stated that there are no specific cost savings associated with completing this project. In a data request response filed October 15, 2014, the Utility stated the additional pumps will improve the removal of hydrogen sulfides, improve chlorine residuals in the tank and distribution system, and also discourage algae growth in the treatment system components. Staff reviewed the invoices and description of the work performed, and recommends that the pro forma plant repairs are justified and prudent. Staff recommends \$7,062 in pro forma water plant.

Lakeside provided two invoices related to repair work on water mains. The first invoice was for \$1,233 for an emergency repair of a 6-inch water main and the second was for \$1,780 for repairing a 4-inch water main. The total of these two invoices is \$3,013. Staff reviewed the invoices and description of the work performed, and believes these pro forma items are justified and prudent. Staff recommends \$3,013 in pro forma water plant.

Lakeside provided an invoice for \$3,690 for work at the wastewater treatment plant. Two new stenner pumps were installed, and repair work was performed on the air header, the four diffusers, and the manifold at the plant. In addition, the steel walkways and handrails were reinforced, as needed, and other minor repairs were performed. The Utility asserted the work at the wastewater treatment plant was necessary to comply with a regulatory mandate.<sup>5</sup> In a data request response filed June 5, 2014, the Utility stated that there are no specific cost savings associated with completing this project. Staff reviewed the invoice and description of the work performed, and recommends that this pro forma item is justified and prudent. Staff recommends \$3,690 in wastewater pro forma plant.

Lakeside has requested cost recovery for the pro forma plant as shown in Table 3-2. Staff notes that the associated retirements are \$6,563 for water and \$2,768 for wastewater. As noted previously, the Utility has completed the work described for these projects and provided invoices which staff has reviewed. Staff recommends approval of \$10,075 in water and \$3,690 in wastewater pro forma plant.

Staff's net adjustments to UPIS are decreases of \$251 for water and \$1,598 for wastewater. Staff's recommended UPIS balances are \$138,048 for water and \$145,817 for wastewater.

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<sup>4</sup> Pursuant to Rule 62-555.320(12)(d), F.A.C.

<sup>5</sup> Pursuant to Rules 62-600.410(1), 62-600.410(6), and 62-600.410(8), F.A.C.

Land & Land Rights: The Utility recorded no test year land value for water and wastewater. No adjustments are necessary, therefore, staff recommends land balances of \$0 for water and wastewater.

Non-Used and Useful Plant: Non-used and useful plant is discussed in Issue 2. Staff's adjustments to these accounts are identified in Table 3-3 below:

Table 3-3 Adjustments to Non-Used and Useful Plant			
<u>Description</u>		<u>Water</u>	<u>Wastewater</u>
1.	To reflect non-used and useful plant	(\$30,388)	(\$68,885)
2.	To reflect non-used and useful accumulated depreciation	<u>23,793</u>	<u>44,065</u>
Total		<u>(\$6,595)</u>	<u>(\$24,821)</u>

Contributions In Aid of Construction (CIAC): Lakeside recorded CIAC balances of \$13,776 for water and \$18,257 for wastewater. Staff made no adjustments to CIAC, and recommends CIAC balances of \$13,776 and \$18,257 for water and wastewater, respectively.

Accumulated Depreciation: Lakeside recorded balances for accumulated depreciation of \$106,153 and \$95,725 for water and wastewater, respectively. Staff's adjustments to accumulated depreciation are identified in Table 3-4 below:

Table 3-4 Adjustments to Accumulated Depreciation			
<u>Description</u>		<u>Water</u>	<u>Wastewater</u>
1.	To reflect the appropriate test year accumulated depreciation (AF2)	(\$464)	\$5,534
2.	To reflect an averaging adjustment	2,396	266
3.	To reflect pro forma plant repairs	<u>5,277</u>	<u>2,522</u>
Total		<u>\$7,209</u>	<u>\$8,322</u>

Staff has calculated accumulated depreciation using the prescribed criteria set forth in Rule 25-30.140, F.A.C., and determined that net accumulated depreciation should be decreased by \$7,209 for water and \$8,322 for wastewater. Staff recommends accumulated depreciation balances of \$98,944 for water and \$87,404 for wastewater.

Amortization of CIAC: Lakeside recorded balances for amortization of CIAC of \$5,830 for water and \$11,929 for wastewater. Staff's adjustments to amortization of CIAC are identified in Table 3-5 below:

Table 3-5 Adjustments to Amortization of CIAC			
<u>Description</u>		<u>Water</u>	<u>Wastewater</u>
1.	To reflect the appropriate test year amortization of CIAC (AF3)	\$245	(\$5,691)
2.	To reflect an averaging adjustment	(245)	(139)
Total		<u>\$0</u>	<u>(5,830)</u>

Staff's adjustments for water were off-setting amounts. The amortization of CIAC for wastewater was decreased by \$5,830. Staff recommends amortization of CIAC balances of \$5,830 for water and \$6,099 for wastewater.

Working Capital Allowance: Lakeside did not record a working capital balance for water or wastewater. 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 \$6,248 for water (based on O&M expense of \$49,984/8), and \$6,491 for wastewater (based on O&M expense of \$51,930/8). Staff recommends increasing working capital allowances by \$6,248 for water and \$6,491 for wastewater.

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate average test year rate bases are \$30,811 for water and \$27,925 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 Lakeside?

**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 \$181,898 of common stock. The Utility has no long-term debt or customer deposits. As discussed in Issue 7, staff is recommending the operating ratio methodology be used in this case. Although the traditional rate of return method is not used when the operating ratio methodology is used, staff recommends that an ROE still be established for this Utility. The appropriate ROE is 8.74 percent using the Commission-approved leverage formula currently in effect.<sup>6</sup> The Utility's capital structure has been reconciled with staff's recommended rate base. Staff recommends an ROE of 8.74 percent, with a range of 7.74 percent to 9.74 percent, and an overall rate of return of 8.74 percent. The ROE and overall rate of return are shown on Schedule No. 2.

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<sup>6</sup> See Order Nos. PSC-14-0272-PAA-WS, issued May 29, 2014, and PSC-14-0323-CO-WS, issued June 24, 2014, in Docket No. 140006-WS: In re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

**Issue 5:** What are the appropriate test year revenues?

**Recommendation:** The appropriate test year revenues for this Utility are \$38,806 for water and \$32,176 for wastewater. (Roberts)

**Staff Analysis:** Lakeside recorded total revenues for water of \$38,080, which includes \$30 of miscellaneous revenues. Lakeside recorded \$31,949 of wastewater service revenues, and no miscellaneous revenues. Based on staff's review of the Utility's billing determinants and the rates that were in effect during the test year, staff recommends the Utility increase service revenues by \$726 and \$227 for water and wastewater, respectively, to reflect the appropriate test year revenues. Based on the above, staff recommends that the appropriate test year revenues for water and wastewater are \$38,806 ( $\$38,050 + \$726 + \$30$ ) and \$32,176 ( $\$31,949 + \$227$ ), respectively. Test year revenues are shown on Schedule Nos. 3-A and 3-B and adjustments are shown on Schedule No. 3-C.



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

**Recommendation:** The appropriate amount of operating expense is \$55,770 for water and \$55,482 for wastewater. (Barrett)

**Staff Analysis:** Lakeside recorded operating expense of \$44,358 for water and \$42,164 for wastewater for the test year ended June 30, 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) - Lakeside recorded \$1,799 for water and \$1,799 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 \$1,727 for water and \$849 for wastewater officer salaries expense. Staff has made adjustments to increase water by \$773 and wastewater by \$1,651 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 \$2,500 for water and \$2,500 for wastewater.

Purchased Power (615/715) - Lakeside recorded \$1,916 for purchased power expense for water and \$3,519 for wastewater in these accounts. Staff’s adjustments to these accounts are identified in Table 6-1 below:

Table 6-1 Adjustments to Purchased Power			
<u>Description</u>		<u>Water</u>	<u>Wastewater</u>
1.	To reflect the appropriate test year purchased power (AF5)	\$739	\$1,336
2.	To reflect an increase in electric rates	51	1,307
Total		<u>\$790</u>	<u>\$2,643</u>

Staff increased these balances by \$738 for water and \$1,336 for wastewater based on invoices for purchased power in the historic test year. On June 5, 2014, the Utility provided bills from July 2013 through June 2014 (exactly one year more current than the bills from the historic test year), and requested that the Commission include the impact of a January 1, 2014, rate increase of its electric provider. Using the more current usage data and the new rates, staff made additional adjustments to increase purchased power expense for water by \$51 and by \$1,307 for wastewater. These adjustments increase purchased power expense by \$790 for water, and by \$2,643 for wastewater. Staff recommends purchased power expense of \$2,706 for water and \$6,162 for wastewater.

Fuel for Power Production (616) The Utility recorded \$437 for this expense. Based on a lack of documentation, staff has made an adjustment to remove \$108 from this account. Staff recommends a balance of \$329 for this account.

Chemicals (618/718) The Utility recorded \$269 for water and \$404 for wastewater for chemicals expense. Staff made an adjustment to increase the balance for water by \$201 and the balance for wastewater by \$116 based on invoices for chemicals. Staff recommends chemical expense of \$470 for water and \$520 for wastewater.

Materials and Supplies (620/720) The Utility recorded \$1,767 for materials and supplies for water and \$77 for wastewater. Staff has made adjustments to remove \$926 from the water balance, and increased the wastewater balance by \$63, based on invoices for materials and supplies. Staff recommends balances of \$841 for water and \$140 for wastewater.

Contractual Services - Billing (630/730) - Lakeside recorded \$2,030 for water and \$18,230 for wastewater for this account. Staff has made adjustments to remove these amounts because the amounts are captured in the Contractual Services – Other account (636/736). Staff recommends a balance of \$0 for these accounts for water and wastewater.

Contractual Services - Professional (631/731) - Lakeside recorded \$6,318 for water and \$1,334 for wastewater for this account. Staff’s adjustments to these accounts are identified in Table 6-2 below:

<u>Description</u>		<u>Water</u>	<u>Wastewater</u>
1.	To reflect reclassified expense from 632 (AF5)	(\$1,250)	\$0
2.	To reflect reclassified expense from 633/733 (AF5)	0	1,286
3.	To reflect the appropriate Contractual Serv. – Professional expense (AF5)	(2,448)	0
4.	To reflect the amortization of CAD mapping	0	280
5.	To reflect the appropriate legal expenses	(2,511)	(2,534)
Total		(\$6,209)	(\$968)

Staff made an adjustment to remove a reclassified expense of \$1,250 for water due to a lack of documentation. Staff also made an adjustment to increase this expense for wastewater by \$1,286 to correct an allocation between water and wastewater. Staff also made an adjustment to water to remove \$2,448 due to a lack of documentation. Staff also made an adjustment to increase wastewater by \$280 to amortize a CAD mapping project.<sup>7</sup> The final adjustments staff

<sup>7</sup> Staff notes that the CAD mapping and legal expense topics were identified in a letter the Office of Public Counsel (OPC) filed on September 29, 2014. On October 1, 2014, the Utility filed a response to OPC’s letter, and staff has incorporated these concerns in this recommendation.

recommends are to remove legal expenses of \$2,511 for water and \$2,534 for wastewater, since these amounts were incurred by the former owner to effectuate the sale of the Utility and are non recurring. These adjustments result in net decreases of \$6,209 for water and \$968 for wastewater. Staff recommends balances of \$109 for water and \$366 for wastewater for this account.

Contractual Services – Other (636/736) – Lakeside recorded balances of \$18,259 for water and \$4,824 for wastewater in this account. Staff has increased these accounts by \$19,938 for water and \$30,906 for wastewater for adjustments and to account for the Utility’s management services agreement.

### Background Information

The prior owner of this Utility paid outside sources for operating and billing services for the water and wastewater utilities. Lakeside purchased the assets of Shangri-La by the Lake Utilities Inc., in October 2012. On November 16, 2012, the Utility signed a 5 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.<sup>8</sup> The U.S. Water contract:

- Puts in place certified utility operators with a focus on preventative and prescriptive maintenance services.
- States that all Customer Service/Billing/Collection functions are provided by the same entity (U.S. Water Services Corporation).
- Covers the costs of minor repairs (up to a \$400 threshold per occurrence).
- States that testing services and permitting expenses are covered by U.S. Water.
- States that meter/hydrant testing is provided by U.S. Water.
- Record keeping and governmental relations are addressed by U.S. Water.

Section 4 of the U.S. Water contract addresses the monthly fees for service. Per the contract, Lakeside is obligated to pay U.S. Water Services Corporation \$3,183 monthly for the water operation and \$2,978 monthly for the wastewater operation (for a monthly total of \$6,161).

### Bids for Management Service and Pricing

In a data request response filed March 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. These contractors stated they were “not capable or interested in

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<sup>8</sup> The complete U.S. Water contract is in the audit staff’s work papers. Table 4 is on Audit work paper 43-3.21.

providing the required services.” As a result, the Utility entered into the management services agreement with U.S. Water Services Corporation.

As part of its analysis of the contract, staff developed Table 6-3 using summary data<sup>9</sup> the Utility provided. Table 6-3 provides a comparison of the annual costs per account for services from water and wastewater utilities, as presented in a 2011 study conducted by Wetzel Consulting, LLC (WetCon) for the Florida Governmental Utility Authority (FGUA). In early 2013, the FGUA Board hired WetCon, an independent consultant, to evaluate FGUA systems against other water and wastewater systems in the South, using American Water Works Association (AWWA) Performance Indicators. Nine indicators were captured in the WetCon study, of which two related to operating costs.<sup>10</sup> In its data request response filed March 27, 2014, Lakeside provided a schedule comparing its contract costs to the data contained in the WetCon Benchmarking Study conducted for FGUA. In the schedule, Lakeside calculated the average per customer cost of the U.S. Water contract to be \$395. This amount represents the average contract cost per customer on a combined water and wastewater basis. The Utility noted at that time that \$395 compared favorably with the benchmark because the amount fell between the highest cost and median groupings of the survey sample results, as shown below in Table 6-3.

Staff notes, however, that in a data request response filed May 2, 2014, the Utility revised its calculation based on updated customer counts. In addition, instead of presenting the costs on a combined system basis, Lakeside classified the costs for water and wastewater separately. The Utility claims the revised calculation matches what was done in the WetCon study, and shows that the average cost per customer, per service, is lower than previously identified in the March 27, 2014, data request response.

The major difference between Lakeside’s original calculation (filed March 27, 2014) and its revised calculation is strictly in presentation. The total annual cost of the U.S. Water contract for both water and wastewater service is \$73,932. This amount is used in both calculations. In its original calculation, Lakeside took this total and divided by 187 water and wastewater ERCs. The result was a per customer cost of \$395. In the revised calculation (filed May 2, 2014), Lakeside took the total contract cost of \$73,932, and divided by the combined water and wastewater ERCs of 358. This results in an average cost per service of \$207. The revised calculation was necessary in order to properly compare the numbers contained in the WetCon Study to those of Lakeside. In the WetCon Study, the costs are calculated on an average cost per service.

Table 6-3 shows a summary of the data in the WetCon Study, plus staff’s and the Utility’s calculation of average costs:

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<sup>9</sup> In a response filed March 27, 2014, the Utility provided summary data of certain findings from a 2011 report. Staff obtained and reviewed the entire report.

<sup>10</sup> The nine metrics include: Customer Service Costs, O&M Costs, Debt Ratio, Water Rates, Sewer Rates, Number of Employees, Water Loss Rate, Sewer Overflow Rate, and Customer Complaints.

Table 6-3 Summary of WetCon study showing Annual Average Cost per account of utilities in the South (\$/account) Compared to Lakeside				
Utilities sampled	Customer Service Costs in Study (a)	O&M Costs Water & Wastewater in Study (b)	Total Costs as reflected in Study (c) = (a) + (b)	Comparison of Average Cost
Lakeside (Staff's calculation)	Not separately identified	N/A	N/A	\$202.55*
Lakeside (Utility's calculation)	Not separately identified	N/A	N/A	\$206.51
FGUA West	\$38.51	\$225.00	\$263.51	\$263.51
FGUA South	\$50.58	\$213.00	\$263.58	\$263.58
Top Grouping (Lowest Cost of Benchmark)	\$36.43	\$246.00	\$282.43	\$282.43
Median Grouping (Median Cost of Benchmark)	\$41.16	\$301.00	\$342.16	\$342.16
Bottom Grouping (Highest Cost of Benchmark)	\$52.38	\$379.00	\$431.38	\$431.38

\* In order to mirror the comparative analysis the Utility applied in the response it filed on May 2, 2014, staff calculated an average cost using the customer counts derived from the 2012 Annual Report. Staff's calculation shows that the average cost per customer is \$202.55, as shown in Table 6-4. Staff notes that the difference in its calculation and the Utility's (\$202.55 versus \$206.51) is due to using different customer counts. Staff performed this calculation using data from the Utility's 2012 Annual Report, as shown in Column C in Table 6-4 below. The Utility's calculation was developed based on 183 water customers and 175 wastewater customers, and staff notes the Utility did not reference the source for those numbers.

Table 6-4 Staff's calculation of the contract costs for Lakeside (\$/Account)					
Contracted Service	Annual Contracted Amounts (a)	Mathematical Average of Column (a) (\$73,932/2) (b)	Customer Counts (per 2012 Annual Report) (c)	Mathematical Average of Column (c) (365/2) (d)	Annual Cost per Customer for each Contracted Service (e) = (b)/(d)
Water	\$38,196	\$36,966	186	182.50	\$202.55
Wastewater	<u>35,736</u>		179		
Total	<u>\$73,932</u>		<u>365</u>		

In its data request response filed May 2, 2014, the Utility states that it recalculated the cost of the U.S. Water contract to show that the average cost per customer is significantly lower than previously represented. In its revised calculation, the Utility calculates the average cost per customer to be \$207, which it claims puts it well under the FGUA figures captured in the WetCon study. The response also points out that comparing Lakeside to any of the FGUA systems in the WetCon study is difficult for the following reasons:

1. All of the FGUA systems have a much larger customer base than Lakeside (under 200 water customers for Lakeside versus over 12,000 for the largest of the FGUA systems identified).
2. A similar disparity exists for the respective wastewater customer bases.
3. The level of repair, renewal, and replacement of utility plant is much different for the FGUA (the U.S. Water contract with Lakeside contains a \$400 threshold per occurrence, and the FGUA threshold is \$7,500).
4. Staffing needs are much greater for the FGUA systems compared to Lakeside.
5. The FGUA contracts with U.S. Water include the costs for chemicals, whereas chemicals are not included in Lakeside's contract with U.S. Water.
6. Reporting requirements and regulatory oversight. The FGUA is not an entity regulated by the FPSC.

### Affiliate Relationship

Because there is a nexus<sup>11</sup> 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,<sup>12</sup> 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 their enforcement deprives a utility of due process.<sup>13</sup> 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:

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<sup>11</sup> In its SARC application, the Utility states that four shareholders own Lakeside. In a March 27, 2014 response to a data request, the Utility states that three of the four Utility shareholders are Corporate Officers of U.S. Water Services Corporation.

<sup>12</sup> See pp. 99-100, 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.

<sup>13</sup> See Keystone Water Co. v. Bevis, 278 So. 2d 606, 609 (Fla. 1973).

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.

Although a related party relationship exists 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 such a 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.

In letters filed September 29, 2014, and October 21, 2014, OPC expressed concern about the fairness of the charges the Utility pays U.S. Water for contracted services. OPC asserts that “because there is no market based on similar bids, we believe that the Utility should, at a minimum, provide any contracts (with all Appendices) between USWSC and non-affiliated utilities, especially all smaller utilities with 2,000 or fewer water accounts and 2,000 or fewer wastewater accounts.” On October 27, 2014, the Utility filed a response to the filing OPC made on October 21, 2014, noting that OPC’s request is actually to a non-regulated Florida corporation, and not to the regulated utility (Lakeside Waterworks). In its response letter, the Utility generally described the scope of three contracts U.S. Water has with non-related regulated utilities. Separately, the Utility filed a request for confidential classification for these three contracts. Staff reviewed the Utility’s response letter and notes that while all three contracts are between U.S. Water and various regulated utilities in Florida, the scope of contractual arrangements described therein appears to be quite different than that between U.S. Water and Lakeside Waterworks. Because of the request for confidential classification for the contracts U.S. Water has with non-related regulated utilities, staff will generally describe the contracts using information disclosed in the Utility’s response letter, and refer to the contracts as “Contracts 1, 2, and 3.” In addition, the scope of services staff discusses below are describe in the cover letter that accompanied the contracts, and for which no confidential treatment was sought. In “Contract 1,” U.S. Water provides daily visits to the water and wastewater treatment facilities, and a limited amount of testing. U.S. Water does not provide any services for maintenance, line flushing, meter testing, or service order work. According to “Contract 2,” U.S. Water provides 6 visits per week to the water and wastewater facilities, and some testing services. As in “Contract 1,” no other services are provided. “Contract 3” is with a water only utility, and specifies daily visits and specific arrangements for testing services. Staff notes the contractual arrangement between U.S. Water and Lakeside Waterworks is more comprehensive in nature than “Contracts 1, 2, and 3.” The contracts show that U.S. Water provides more extensive services to Lakeside Waterworks than the services that are provided to the non-related



regulated utilities identified in “Contracts 1, 2, and 3.”<sup>14</sup> Staff notes that in a data request response dated May 30, 2014, the Utility states “there is zero amount (no portion) of the monthly contractual services charge that includes compensation for any owner of the utility.” Staff believes that the U.S. water contract is appropriate and is recommending approval because 1) no other company was willing to provide operations, preventive maintenance, and billing and customer care services as set forth in the management contract and, 2) Lakeside customers will be receiving an array of services that they did not previously receive. Lakeside has expressed its commitment to providing safe and reliable services as demonstrated by performing preventive and prescriptive maintenance. Lakeside has undertaken needed improvements necessary to ensure the continued reliable functioning of the systems. Staff believes, Lakeside’s proactive approach for managing and operating the water and wastewater systems will provide long term benefits to Lakeside’s customers.

### 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 have increased. Staff recommends contractual services – other expenses of \$38,197 for water and \$35,730 for wastewater.

Rents (640/740) – Lakeside recorded rent expense of \$2,996 for water and \$0 for wastewater. Staff has made audit-related adjustments to remove \$428 from water, and to increase the wastewater balance by \$2,568. The land lease is \$5,136 annually, and is allocated equally between water and wastewater.

On September 29, 2014, OPC filed a letter expressing concern about the Utility’s land lease. Specifically, OPC states that the order from the transfer<sup>15</sup> did not include any land, and no other order addresses the value of the land lease. OPC contends that the Commission’s precedent favors limiting the lease expense to the recovery of the annual rate of return times the original cost of the land when placed into service. In addition, the OPC believes the escalation clause in the lease agreement, which is tied to the Consumer Price Index (CPI) and adjusted for state taxes, is unreasonable.

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<sup>14</sup> Staff notes that on November 5, 2014, the Utility filed an additional response to the filing OPC made on October 21, 2014. As in the October 27, 2014, filing, the cover letter accompanying the response generally described the scope of another contract U.S. Water has with a non-related regulated utility (“Contract 4”). Separately, the Utility filed a request for confidential classification for this contract. Staff reviewed the Utility’s response letter and notes that the scope of “Contract 4” described therein appears to be quite different than that between U.S. Water and Lakeside Waterworks.

<sup>15</sup> See Order No. PSC-13-0425-PAA-WS, issued September 18, 2013, in Docket No. 120317-WS: In re: Application for approval to transfer water and wastewater system Certificate Nos. 567-W and 494-S in Lake County from Shangri-La by the Lake Utilities, Inc. to Lakeside Waterworks, Inc.

On October 1, 2014, the Utility filed a response to OPC's letter. The Utility states that Order No. PSC-96-0062-FOF-WS,<sup>16</sup> established land rental values of \$3,750 for water and \$3,750 for wastewater. The Utility states the land lease arrangement is between two non-associated parties, and is an arms-length transaction. In addition, the rent expense amounts staff included in its August 13, 2014 Staff Report (\$2,568 for water and \$2,568 for wastewater) is below the amounts cited in the above-noted order.

Staff recommends a total rent expense of \$5,136 annually, split equally between water and wastewater (i.e., rent expense of \$2,568 for water and \$2,568 for wastewater). Staff notes that the agreed-upon land lease amounts, even with the escalation clause that OPC found objectionable, is less than the values included in the above-cited order. Additionally, as noted by the Utility, the land lease agreement is between two non-associated parties.

Insurance Expense (655/755) – Lakeside recorded \$576 of insurance expense for water and \$424 for wastewater. Staff has made audit-related adjustments to remove \$54 from water and increase the amount for wastewater by \$97. Staff notes that the insurance expense is allocated equally between water and wastewater, and recommends insurance expense of \$522 for water and \$521 for wastewater.

Regulatory Commission Expense (665/765) - Lakeside recorded \$0 for regulatory commission expense in these accounts. Regarding the current rate case, pursuant to Rule 25-22.0407, F.A.C., the Utility is required to mail notices of the customer meeting and notices of final rates to its customers. For the customer meeting notices, staff estimated \$91 for postage expense, \$93 for printing expense, and \$9 for envelopes, for a total cost of \$193. For the notification of final rates, staff estimated \$91 for postage expense, \$37 for printing expense, and \$9 for envelopes, for a total cost of \$137. The Utility paid a \$1,000 rate case filing fee for the water system, and a \$1,000 filing fee for the wastewater system. The total rate case expense including postage, notices, envelopes, and filing fee is \$2,330. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a four-year period, which is \$583 per year (\$2,330/4). Staff's net adjustment to this account is an increase of \$292 for water and \$292 for wastewater. Staff recommends regulatory commission expense of \$292 for water and \$292 for wastewater.

Bad Debt Expense (670/770) – Lakeside recorded bad debt expense of \$865 for water and \$638 for wastewater. Separately, the Utility requested that its bad debt expense be increased to 2 percent of revenue.

On September 29, 2014, OPC filed a letter expressing concern about the bad debt expense, stating the Utility has not substantiated its request for bad debt to be increased to 2 percent of revenue. OPC stated that bad debt expense has averaged about 0.72 percent of revenue in other cases it has studied. Based on calculating bad debt expense as 0.72 percent of staff's recommended revenue requirement, staff determined that OPC's recommended bad debt expense balances would be \$441 for water and \$439 for wastewater.

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<sup>16</sup> See Order No. PSC-96-0062-FOF-WS, issued January 12, 1996, in Docket No. 940653-WS: In re: Application for certificates to provide water and wastewater service in Lake County by Shangri-La by the Lake Utilities, Inc.

On October 1, 2014, the Utility filed a response to OPC's letter. The Utility explained its three-step process for addressing bad debt, and attached an Aged Accounts Receivable Report to demonstrate that its Inactive Write-Offs (as of July 31, 2014) are approximately \$494 for water and wastewater systems combined. In order to facilitate a resolution on this matter, the Utility states that it will agree to bad debt expense in that amount, with an additional allowance for bad debt based on the increase in the revenue requirement approved by the Commission.

Staff analyzed the Utility's proposal and compared it to what OPC proposed as appropriate, 0.72 percent of staff's recommended revenue requirement. Based on that comparison, staff found that the Utility's proposal yielded a lower percentage, 0.695 percent versus 0.72 percent, and staff recommends approval of the Utility's proposal.

Staff has made adjustments to decrease these accounts by \$462 for water and \$191 for wastewater. Staff recommends bad debt expense of \$403 for water and \$447 for wastewater.

Miscellaneous Expense (675/775) – Lakeside recorded \$1,480 for water and \$2,273 for wastewater for miscellaneous expense. Staff has made audit-related adjustments to remove \$433 for water and \$2,088 for wastewater due to lack of documentation. Staff recommends miscellaneous expense of \$1,047 for water and \$185 for wastewater.

Sludge Removal Expense (711) – The Utility recorded \$0 for wastewater sludge removal. Based on prior invoices, staff made an adjustment to increase this account by \$2,500. Staff recommends sludge removal expense of \$2,500 for wastewater.

Transportation Expense (750) – Lakeside recorded \$19 for transportation expense. Staff has made an adjustment to remove this amount due to lack of documentation. Staff recommends transportation expense of \$0.

Operation and Maintenance Expenses (O&M) Summary – Total adjustments to O&M expense result in an increase of \$9,545 for water and \$17,540 for wastewater. Staff's recommended O&M expense is \$49,984 for water and \$51,930 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 \$1,932 for water and \$6,068 for wastewater during the test year. Staff has calculated depreciation expense using the prescribed criteria set forth in Rule 25-30.140, F.A.C., and recommends adjustments to increase the water balance by \$1,412 and decrease the wastewater balance by \$5,167. Staff recommends depreciation expense balances of \$3,344 for water and \$902 for wastewater. The Utility recorded no amortization of CIAC for water and wastewater during the test year. Staff has made adjustments to increase these accounts by \$490 for water and \$278 for wastewater. Therefore, staff recommends net depreciation expense of \$2,854 for water and \$624 for wastewater.

Taxes Other Than Income (TOTI) – The Utility recorded \$1,987 for water and \$1,706 for wastewater for TOTI. Staff made adjustments to the test year balances to decrease these amounts by \$43 and \$61 for water and wastewater, respectively. Staff increased TOTI by \$988 for water and \$1,282 for wastewater, due to staff's recommended revenue increases for water

and wastewater. Therefore, staff recommends TOTI balances for the test year of \$2,932 for water and \$2,928 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 Utility 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 Lakeside’s recorded test year operating expenses results in staff’s recommended operating expenses of \$55,770 for water and \$55,482 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:** Should the Commission utilize the operating ratio methodology as an alternative means to calculate the revenue requirement for Lakeside 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 Lakeside. The margin should be 10 percent of O&M expense for water and wastewater. (Barrett)

**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 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 \$275,000 per system may petition the Commission for staff assistance in alternative rate setting.

Although Lakeside 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 Lakeside's O&M expenses. This methodology has been applied in cases such as this, in which 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,<sup>17</sup> 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.<sup>18</sup> Most recently, the Commission approved the operating ratio methodology for setting rates in Order No. PSC-13-0327-PAA-SU.<sup>19</sup>

By 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

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<sup>17</sup> See Order No. PSC-96-0357-FOF-WU, 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.

<sup>18</sup> See Order No. PSC-97-0130-FOF-SU 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.

<sup>19</sup> See Order No. PSC-13-0327-PAA-SU issued July 16, 2013, in Docket No. 120270-SU: In re: Application for staff-assisted rate case in Polk County by West Lakeland Wastewater, LLC.

case, the rate base is less than the level of O&M expense. Staff believes the Utility's primary risk resides with covering its operating expenses. Based on the staff's recommendation, the rate base for the test year is \$30,811 for water and \$27,925 for wastewater, while adjusted O&M expenses are \$49,984 for water and \$51,930 for wastewater.

2. Whether the Utility is expected to become a Class B utility in the foreseeable future. Lakeside is a Class C utility and the recommended revenue requirements of \$60,768 for water and \$60,675 for wastewater are 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, staff believes 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, staff is recommending the quality of service be found satisfactory.
4. Whether the Utility is developer-owned. The current owner of this Utility is not a developer.
5. Whether the Utility operates treatment facilities or is simply a distribution and/or collection system. The consideration at issue is whether the Utility purchases water and/or wastewater services, and whether such costs should be excluded in the computation of the operating margin. Staff notes that the Utility does not purchase water and also operates its wastewater treatment plant and collection system.

Based on staff's review of the Utility's situation relative to the above criteria, staff recommends that Lakeside 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 when the operating ratio methodology is used, a margin of 10 percent should be used unless unique circumstances justify the use of a greater or lesser margin. The operating margin should be set at a level which allows the utility to provide safe and reliable service and remain a viable entity. Establishing the level of the operating margin 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. Under the rate base method, the return on rate base would be \$2,693 for water and \$2,441 for wastewater, compared to \$4,998 for water

and \$5,193 for wastewater, using the operating ratio method. Staff believes the margins under the rate base method do not provide a sufficient financial cushion, and do not adequately compensate the utility owner for that risk.

Third, if the return on rate base method was applied, Lakeside 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. If the Utility's operating expenses increase and revenue decreases, the Utility 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 Lakeside 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 at a margin of 10 percent of O&M expense for determining the water and wastewater revenue requirements.

**Issue 8:** What is the appropriate revenue requirement?

**Recommendation:** The appropriate revenue requirement is \$60,768 for water and \$60,675 for wastewater, resulting in an annual increase of \$21,962 for water (56.59 percent), and an annual increase of \$28,499 for wastewater (88.57 percent). (Barrett)

**Staff Analysis:** Lakeside should be allowed an annual increase of \$21,962 for water (56.59 percent), and \$28,499 for wastewater (88.57 percent). This will allow the Utility the opportunity to recover its expenses and generate a 10 percent margin over its O&M expenses. The calculations are shown in Table 8-1 and Table 8-2 for water and wastewater, respectively:

Table 8-1 Water Revenue Requirement	
Adjusted O&M expense	\$49,984
Operating Ratio	10.00%
Operating Margin	\$4,998
Adjusted O&M expense	49,984
Depreciation expense	3,344
Amortization	(490)
Taxes Other Than Income	2,932
Income Taxes	0
Revenue Requirement	\$60,768
Less Test Year Revenues	38,806
Annual Increase	\$21,962
Percent Increase/(Decrease)	56.59%



Table 8-2 Wastewater Revenue Requirement	
Adjusted O&M expense	\$51,930
Operating Ratio	10.00%
Operating Margin	\$5,193
Adjusted O&M expense	51,930
Depreciation expense	902
Amortization	(278)
Taxes Other Than Income	2,928
Income Taxes	0
Revenue Requirement	\$60,675
Less Test Year Revenues	32,176
Annual Increase	\$28,499
Percent Increase/(Decrease)	88.57%

**Issue 9:** What are the appropriate rate structures and rates for Lakeside's water and wastewater systems?

**Recommendation:** The recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A through 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 services rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice. (Roberts)

**Staff Analysis:**

Water Rates

Lakeside is located in Lake County within the SJRWMD. The Utility provides service to approximately 182 residential water customers; approximately 75 of the residential customers have an irrigation meter. The Utility was unable to distinguish the irrigation usage from the household usage during the test year. However, the new owner's billing system is able to make that distinction. Therefore, staff relied on the 12 months ended June 30, 2014, for purposes of designing rates. The difference in water demand during the test year and the post test year is immaterial.

Approximately 21 percent of the residential bills during the post test year had zero gallons indicating a somewhat seasonal customer base. The average residential water demand is 3,553 gallons per month. The average residential water demand, excluding zero gallon bills, is 4,479 gallons per month. Currently, Lakeside's water system rate structure consists of a base facility charge (BFC) and gallonage charge for both residential and general service customers, and only a gallonage charge for residential irrigation customers.

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.

Due to the customers' low average monthly consumption and the seasonal nature of the customers, staff recommends that 54 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 2.15; 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 4,000 gallons per month. Staff recommends a traditional BFC and gallonage charge rate structure with an additional gallonage charge for non-discretionary usage for residential water customers. Residential irrigation customers should

continue being billed only a gallonage charge. The Commission previously found that the separate irrigation meter did not place any additional demand on the Utility's water system and irrigation customers should only be assessed the gallonage charge for the water usage registered by the separate irrigation meter.<sup>20</sup> Based on staff's analysis of the post test year data, staff believes that this is still appropriate. General service customers and general service irrigation customers should be billed a BFC and uniform gallonage charge.

Based on billing data provided by the Utility and an assumption of 4,000 gallons per month of non-discretionary usage, approximately 40 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 approximately 57 percent, the residential discretionary consumption can be expected to decline by 1,553,000 gallons resulting in anticipated average residential demand of 3,587 gallons per month, excluding zero gallon bills. Staff recommends a 19.91 percent reduction in total residential consumption and corresponding reductions of \$515 for purchased power, \$89 for chemicals, and \$28 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$60,105.

Based on the foregoing, staff recommends that 54 percent of the water revenues should be generated from the BFC. Staff also recommends a traditional BFC and gallonage charge rate structure with an additional gallonage charge for non-discretionary usage threshold of 4,000 gallons for residential customers. Residential irrigation customers should be billed only a gallonage charge. A 19.91 percent reduction in total residential consumption and corresponding reductions of \$515 for purchased power, \$89 for chemicals, and \$28 for RAFs should be made to reflect the anticipated repression. General service customers and general service irrigation customers should continue to be billed a BFC and uniform gallonage charge. Staff's recommended rate structure and resulting water rates are shown on Schedule Nos. 4-A and 4-B.

### Wastewater Rates

The Utility provides wastewater service to approximately 176 residential customers. Currently, the residential rate structure for the wastewater system consists of a uniform BFC for all meter sizes and a gallonage charge with a 6,000 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)

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<sup>20</sup> See Order No. PSC-00-0259-PAA-WS, issued February 8, 2000, in Docket No. 990080-WS, In re: Complaint and request for hearing by Linda J. McKenna and 54 petitioners regarding unfair rates and charges of Shangri-La by the Lake Utilities, Inc. in Lake County, p. 28.

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 for wastewater to at least 50 percent due to the capital intensive nature of wastewater plants. Based on the seasonality of Lakeside's customers and the significant increase in the revenue requirement, staff recommends that 50 percent of the revenue requirement should be generated from the BFC in order to mitigate the impact of 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 water 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 272,727 gallons to reflect the anticipated reduction in water demand used to calculate wastewater rates. Staff recommends a 5.75 percent reduction in total residential consumption and corresponding reductions of \$354 for purchased power, \$30 for chemicals, \$144 for sludge removal, and \$24 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$60,123. Further, staff recommends no change to the Utility's existing residential cap of 6,000 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.

Based on the foregoing, staff recommends that 50 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 6,000 gallons. A 5.75 percent reduction in total residential consumption and corresponding reductions of \$354 for purchased power, \$30 for chemicals, \$144 for sludge removal, and \$24 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. Staff's recommended rate structure and the resulting wastewater rates are shown on Schedule Nos. 4-C and 4-D.

The recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A through 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 10 days of the date of the notice.

**Issue 10:** 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 rates should be reduced as shown on Schedule Nos. 4-B for water and 4-D for wastewater, 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. Lakeside 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. (Roberts, 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 RAFs. The total reduction is \$672 (\$336 for water and \$336 for wastewater). Using Lakeside's current revenue, expenses, capital structure and customer base, the reduction in revenue will result in the rate decreases as shown on Schedule Nos. 4-B for water and 4-D for wastewater.

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. Lakeside 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 11:** What are the appropriate initial customer deposits for Lakeside?

**Recommendation:** The appropriate initial customer deposits should be \$55 and \$76 for the residential 5/8 inch x 3/4 inch 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 initial 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 collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding. (Roberts)

**Staff Analysis:** Rule 25-30.311, F.A.C., provides 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.<sup>21</sup> Currently, the Utility's initial deposits are \$45 for water and \$55 for 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 the cost causer.

Staff recommends the appropriate initial customer deposits should be \$55 and \$76 for the residential 5/8 inch x 3/4 inch 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 initial 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 collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding.

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<sup>21</sup> See e.g., 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., and 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 12:** Should Lakeside's request to implement a \$5.25 late payment charge be approved?

**Recommendation:** Yes. Lakeside's request to implement a \$5.25 late payment charge should be approved. Lakeside should be required to file a proposed customer notice to reflect the Commission-approved charge. The approved charge should be effective for services 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 charge should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no less than ten days after the date of the notice. (Roberts)

**Staff Analysis:** Section 367.091, F.S., authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or services availability charges. The Utility is requesting a \$5.25 late payment charge to recover the cost of supplies and labor associated with processing late payment notices. The Utility's request for a late payment charge was accompanied by its reason for requesting the charge, as well as the cost justification required by Section 367.091, F.S.

Based on staff's research, since the late 1990s, the Commission has approved late payment charges ranging from \$2.00 to \$7.00.<sup>22</sup> The purpose of this charge is not only to provide an incentive for customers to make timely payment, thereby reducing the number of delinquent accounts, but also to place the cost burden of processing delinquent accounts solely upon those who are cost causers.

Based on the above, staff recommends that Lakeside's request to implement a \$5.25 late payment charge should be approved. Lakeside should be required to file a proposed customer notice to reflect the Commission-approved charge. The approved charge should be effective for services 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 charge should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no less than ten days after the date of the notice.

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<sup>22</sup> See Order Nos. PSC-01-2101-TRF-WS, in Docket No. 011122-WS, issued October 22, 2001: In re: Tariff filing to establish a late payment charge in Highlands County by Damon Utilities, Inc.; PSC-08-0255-PAA-WS, in Docket No. 070391-WS, issued April 24, 2008, In re: Application for certificates to provide water and wastewater service in Sumter County by Orange Blossom Utilities, Inc.; PSC-09-0752-PAA-WU, in Docket No. 090185-WU, issued November 16, 2009, In re: Application for grandfather certificate to operate water utility in St. Johns County by Camachee Island Company, Inc. d/b/a Camachee Cove Yacht Harbor Utility.; PSC-10-0257-TRF-WU, in Docket No. 090429-WU, issued April 26, 2010, In re: Request for approval of imposition of miscellaneous service charges, delinquent payment charge and meter tampering charge in Lake County, by Pine Harbour Water Utilities, LLC.; and PSC-11-0204-TRF-SU, in Docket No. 100413-SU, issued April 25, 2011, In re: Request for approval of tariff amendment to include a late fee of \$14.00 in Polk County by West Lakeland Wastewater.

**Issue 13:** Should Lakeside's request to revise its existing service availability charges be approved, and if so, what are the appropriate charges?

**Recommendation:** Yes. Staff recommends that Lakeside's existing service availability charges be revised. A main extension charge per ERC of \$210 for water and \$131 for wastewater should be approved. The approved service availability charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475, F.A.C. (Roberts)

**Staff Analysis:** Service availability charges for Lakeside were last approved in Docket No. 940653-WS.<sup>23</sup> The Utility is currently authorized to charge a meter installation charge of \$125. Rule 25-30.580, F.A.C., establishes guidelines for designing service availability charges. Pursuant to the rule, the maximum amount of contributions-in-aid-of construction (CIAC), net of amortization, should not exceed 75 percent of the total original cost, net of accumulated depreciation, of the Utility's facilities and plant when the facilities and plant are at their designed capacity. The minimum amount CIAC should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution system.

A main extension charge allows the Utility to recover a portion of the cost of the Utility's transmission and distribution system from future customers. Based on the average historical cost of the existing distribution system, staff recommends a main extension charges per ERC of \$210 for water and \$131 for wastewater. Staff's recommended main extension charge is consistent with the guidelines in Rule 25-30.580, F.A.C., which require that, at a minimum, the cost of the Utility's lines should be contributed. The proposed main extension charge will allow the Utility to recover a portion of its investment in the transmission and distribution system from future connections consistent with Rule 25-30.580 (2), F.A.C.

Based on the foregoing, staff recommends that Lakeside's existing service availability charges be revised. A main extension charge per ERC of \$210 for water and \$131 for wastewater should be approved. The approved service availability charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475, F.A.C.

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<sup>23</sup> See Order No. PSC-96-0062-FOF-WS, issued January 12, 1996, Docket No. 940653-WS, In re: Application for certificates to provide water and wastewater services in Lake County by Shangri-La by the Lake Utilities, Inc.



**Issue 14:** 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. Lakeside 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 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, Roberts)

**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. Lakeside 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.

Lakeside 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 \$33,650. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

If Lakeside 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.
2. If the Commission denies the increase, the Utility shall refund the amount collected that is attributable to the increase.

If Lakeside 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 Lakeside.
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 Lakeside, 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.

Lakeside 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 Office of Commission Clerk no later

than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

**Issue 15:** 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, Lakeside 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, Lakeside 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.

**Issue 16:** 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, and that the adjustments for all applicable NARUC USOA primary accounts have been made. 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, and that the adjustments for all applicable NARUC USOA primary accounts have been made. Once these actions are complete, this docket should be closed administratively.

<b>Lakeside Waterworks, Inc.</b>		<b>SCHEDULE NO. 1-A</b>	
<b>TEST YEAR ENDED 6/30/2013</b>		<b>DOCKET NO. 130194-WS</b>	
<b>SCHEDULE OF WATER RATE BASE</b>			
<b>DESCRIPTION</b>	<b>BALANCE PER UTILITY</b>	<b>STAFF ADJUSTMENTS TO UTIL. BAL.</b>	<b>BALANCE PER STAFF</b>
UTILITY PLANT IN SERVICE	\$138,299	(\$251)	\$138,048
LAND & LAND RIGHTS	0	0	0
NON-USED AND USEFUL COMPONENTS	0	(6,595)	(6,595)
CIAC	(13,776)	0	(13,776)
ACCUMULATED DEPRECIATION	(106,153)	7,209	(98,944)
AMORTIZATION OF CIAC	5,830	0	5,830
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>6,248</u>	<u>6,248</u>
WATER RATE BASE	<u>\$24,200</u>	<u>\$6,611</u>	<u>\$30,811</u>

<b>Lakeside Waterworks, Inc.</b>		<b>SCHEDULE NO. 1-B</b>	
<b>TEST YEAR ENDED 6/30/2013</b>		<b>DOCKET NO. 130194-WS</b>	
<b>SCHEDULE OF WASTEWATER RATE BASE</b>			
<b>DESCRIPTION</b>	<b>BALANCE PER UTILITY</b>	<b>STAFF ADJUST. TO UTIL. BAL.</b>	<b>BALANCE PER STAFF</b>
1. UTILITY PLANT IN SERVICE	\$147,414	(\$1,598)	\$145,817
2. LAND & LAND RIGHTS	0	0	0
3. NON-USED AND USEFUL COMPONENTS	0	(24,821)	(24,821)
4. CIAC	(18,257)	0	(18,257)
5. ACCUMULATED DEPRECIATION	(95,725)	8,322	(87,404)
6. AMORTIZATION OF CIAC	11,929	(5,830)	6,099
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>6,491</u>	<u>6,491</u>
8. WASTEWATER RATE BASE	<u>\$45,361</u>	<u>(\$17,436)</u>	<u>\$27,925</u>

<b>Lakeside Waterworks, Inc.</b>		<b>SCHEDULE NO. 1-C</b>	
<b>TEST YEAR ENDED 6/30/2013</b>		<b>DOCKET NO. 130194-WS</b>	
<b>ADJUSTMENTS TO RATE BASE</b>			
	<u><b>WATER</b></u>	<u><b>WASTEWATER</b></u>	
<b><u>UTILITY PLANT IN SERVICE</u></b>			
1. To reflect plant balance (301) per Order No. PSC-13-0425-PAA-WS	(\$3,160)	\$0	
2. To reflect plant balance (310) per Order No. PSC-13-0425-PAA-WS	(603)	0	
3. To reflect plant balance (351) per Order No. PSC-13-0425-PAA-WS	0	(1,125)	
4. To reflect plant balance (371) per Order No. PSC-13-0425-PAA-WS	0	(1,057)	
5. To reflect plant balance (393) per Order No. PSC-13-0425-PAA-WS	0	(245)	
6. To reflect an averaging adjustment	0	(93)	
7. To reflect net pro forma plant repairs	<u>3,512</u>	<u>923</u>	
Total	<u>(\$251)</u>	<u>(\$1,598)</u>	
<b><u>LAND</u></b>			
Not applicable	<u>\$0</u>	<u>\$0</u>	
<b><u>NON-USED AND USEFUL PLANT</u></b>			
1. To reflect non-used and useful plant	(\$30,388)	(\$68,885)	
2. To reflect non-used and useful accumulated depreciation	<u>23,793</u>	<u>44,065</u>	
Total	<u>(\$6,595)</u>	<u>(\$24,821)</u>	
<b><u>CIAC</u></b>			
Not applicable	<u>\$0</u>	<u>\$0</u>	
<b><u>ACCUMULATED DEPRECIATION</u></b>			
1. To reflect the appropriate test year accumulated depreciation (AF2)	(\$464)	\$5,534	
2. To reflect an averaging adjustment	2,396	266	
3. To reflect pro forma plant repairs	<u>5,277</u>	<u>2,522</u>	
Total	<u>\$7,209</u>	<u>\$8,322</u>	
<b><u>AMORTIZATION OF CIAC</u></b>			
1. To reflect the appropriate Amortization of CIAC (AF3)	\$245	(\$5,691)	
2. To reflect an averaging adjustment	<u>(245)</u>	<u>(139)</u>	
Total	<u>\$0</u>	<u>(\$5,830)</u>	
<b><u>WORKING CAPITAL ALLOWANCE</u></b>			
To reflect 1/8 of test year O&M expenses.	<u>\$6,248</u>	<u>\$6,491</u>	



Lakeside Waterworks, Inc. TEST YEAR ENDED 6/30/2013 SCHEDULE OF CAPITAL STRUCTURE							SCHEDULE NO. 2 DOCKET NO. 130194-WS		
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST	
1. COMMON STOCK	\$181,898	\$0	\$181,898						
2. RETAINED EARNINGS	0	0	0						
3. PAID IN CAPITAL	0	0	0						
4. TREASURY STOCK	<u>0</u>	<u>0</u>	<u>0</u>						
5. TOTAL COMMON EQUITY	\$181,898	\$0	\$181,898	-\$123,162	\$58,736	100.00%	8.74%	8.74%	
6. LONG TERM DEBT	\$0	\$0	\$0	0	0	0.00%	0.00%	0.00%	
7. LONG TERM DEBT	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	0.00%	
TOTAL LONG TERM DEBT	\$0	\$0	\$0	0	0	0.00%			
8. CUSTOMER DEPOSITS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>	
9. TOTAL	<u>\$181,898</u>	<u>\$0</u>	<u>\$181,898</u>	<u>-\$123,162</u>	<u>\$58,736</u>	<u>100.00%</u>		<u>8.74%</u>	
<b>RANGE OF REASONABLENESS</b>						<b><u>LOW</u></b>	<b><u>HIGH</u></b>		
RETURN ON EQUITY							<u>7.74%</u>	<u>9.74%</u>	
OVERALL RATE OF RETURN							<u>7.74%</u>	<u>9.74%</u>	

<b>Lakeside Waterworks, Inc.</b>		<b>SCHEDULE NO. 3-A</b>				
<b>TEST YEAR ENDED 6/30/2013</b>		<b>DOCKET NO. 130194-WS</b>				
<b>SCHEDULE OF WATER OPERATING INCOME</b>						
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. <b>OPERATING REVENUES</b>	<u>\$38,080</u>	<u>\$726</u>	<u>\$38,806</u>	<u>\$21,962</u> 56.59%	<u>\$60,768</u>	
<b>OPERATING EXPENSES:</b>						
2. OPERATION & MAINTENANCE	\$40,439	\$9,545	\$49,984	\$0	\$49,984	
3. DEPRECIATION (NET)	1,932	1,412	3,344	0	3,344	
4. AMORTIZATION	0	(490)	(490)	0	(490)	
5. TAXES OTHER THAN INCOME	1,987	(43)	1,944	988	2,932	
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
7. <b>TOTAL OPERATING EXPENSES</b>	<u>\$44,358</u>	<u>\$10,423</u>	<u>\$54,781</u>	<u>\$988</u>	<u>\$55,770</u>	
8. <b>OPERATING INCOME/(LOSS)</b>	<u>(\$6,278)</u>		<u>(\$15,975)</u>		<u>\$4,998</u>	
9. <b>WATER RATE BASE</b>	<u>\$24,200</u>		<u>\$30,811</u>		<u>\$30,811</u>	
10. <b>OPERATING RATIO</b>					<u>10.00%</u>	

<b>Lakeside Waterworks, Inc.</b>		<b>SCHEDULE NO. 3-B</b>				
<b>TEST YEAR ENDED 6/30/2013</b>		<b>DOCKET NO. 130194-WS</b>				
<b>SCHEDULE OF WASTEWATER OPERATING INCOME</b>						
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. <b>OPERATING REVENUES</b>	<u>\$31,949</u>	<u>\$227</u>	<u>\$32,176</u>	<u>\$28,499</u> 88.57%	<u>\$60,675</u>	
<b>OPERATING EXPENSES:</b>						
2. OPERATION & MAINTENANCE	\$34,390	\$17,540	\$51,930	\$0	\$51,930	
3. DEPRECIATION (NET)	6,068	(5,167)	902	0	902	
4. AMORTIZATION	0	(278)	(278)	0	(278)	
5. TAXES OTHER THAN INCOME	1,706	(61)	1,645	1,282	2,928	
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
7. <b>TOTAL OPERATING EXPENSES</b>	<u>\$42,164</u>	<u>\$12,035</u>	<u>\$54,199</u>	<u>\$1,282</u>	<u>\$55,482</u>	
8. <b>OPERATING INCOME/(LOSS)</b>	<u>(\$10,215)</u>		<u>(\$22,023)</u>		<u>\$5,193</u>	
9. <b>WASTEWATER RATE BASE</b>	<u>\$45,361</u>		<u>\$27,925</u>		<u>\$27,925</u>	
10. <b>OPERATING RATIO</b>					<u>10.00%</u>	

<b>Lakeside Waterworks, Inc.</b>		<b>SCHEDULE NO. 3-C</b>	
<b>TEST YEAR ENDED 6/30/2013</b>		<b>DOCKET NO. 130194-WS</b>	
<b>ADJUSTMENTS TO OPERATING INCOME</b>			
	<u><b>WATER</b></u>	<u><b>WASTEWATER</b></u>	
<b>OPERATING REVENUES</b>			
. To adjust utility revenues to audited test year amount.	<u>\$726</u>	<u>\$227</u>	
<b>OPERATION AND MAINTENANCE EXPENSES</b>			
1. Salaries and Wages - Employees (601/ 701)			
To reflect the appropriate Salaries & Wages exp. for Employees	<u>(\$1,799)</u>	<u>(\$1,799)</u>	
2. Salaries and Wages - Officers (603/ 703)			
To reflect the appropriate Salaries & Wages exp. for Officers	<u>\$773</u>	<u>\$1,651</u>	
3. Purchased Power (615/715)			
a. To reflect the appropriate Purchased Power expense (AF5)	\$739	\$1,336	
b. To reflect adjustment for excessive unaccounted water	<u>51</u>	<u>1307</u>	
Subtotal	<u>\$790</u>	<u>\$2,643</u>	
4. Fuel For Power Production (616)			
To reflect the appropriate Purchased Power expense (AF5)	<u>(\$108)</u>	<u>\$0</u>	
5. Chemicals (618/718)			
To reflect the appropriate Chemicals expense (AF5)	<u>\$201</u>	<u>\$116</u>	
6. Materials & Supplies (620)			
To reflect the appropriate Materials & Supplies expense (AF5)	<u>(\$926)</u>	<u>\$63</u>	
7. Contractual Services - Billing (630/730)			
To reclassify these expenses to 636/736	<u>(\$2,030)</u>	<u>(\$18,230)</u>	
<b>(O &amp; M EXPENSES CONTINUED ON NEXT PAGE)</b>			

**Lakeside Waterworks, Inc.**  
**TEST YEAR ENDED 5/31/2013**  
**ADJUSTMENTS TO OPERATING INCOME**  
**(O & M EXPENSES CONTINUED)**

**SCHEDULE NO. 3-C**  
**DOCKET NO. 130194-WS**

	<u>WATER</u>	<u>WASTEWATER</u>
8. Contractual Services – Professional (631/731)		
a. To reflect reclassified expense from 632 (AF5)	(\$1,250)	\$0
b. To reflect reclassified expense from 633/733 (AF5)	0	1,286
c. To reflect the appropriate expense (AF5)	(2,448)	0
d. To reflect the amortization of CAD mapping	0	280
e. To reflect the appropriate legal expenses	<u>(2,511)</u>	<u>(2,534)</u>
Subtotal	<u>(\$6,209)</u>	<u>(\$968)</u>
9. Contractual Services - Other (636/736)		
a. To reflect reclassified expenses from 630/730	\$2,030	\$18,230
b. To reflect the appropriate expense	(\$2,030)	(18,230)
c. To reflect the U.S. Water management services agreement	<u>\$19,938</u>	<u>\$30,096</u>
Subtotal	<u>\$19,938</u>	<u>\$30,906</u>
10. Rents (640/ 740)		
To reflect the appropriate rental expense (AF6)	<u>(\$428)</u>	<u>\$2,568</u>
11. Insurance Expense (655/755)		
To reflect the appropriate insurance expense	<u>(\$54)</u>	<u>\$97</u>
12. Regulatory Commission Expense (765/765)		
To reflect 4-year amortization of rate case expense (\$2,336/4)	<u>\$292</u>	<u>\$292</u>
13. Bad Debt Expense (670/770)		
To reflect the appropriate bad debt expense	<u>(\$462)</u>	<u>(\$191)</u>
14. Miscellaneous Expense (675/775)		
To reflect the appropriate miscellaneous expenses (AF5)	<u>(\$433)</u>	<u>(\$2,088)</u>
15. Sludge Removal Expense (711)		
To reflect the appropriate sludge removal expense (AF5)	<u>\$0</u>	<u>\$2,500</u>
16. Transportation Expense (750)		
To reflect the appropriate transportation expense (AF5)	<u>\$0</u>	<u>(\$19)</u>

<b>Lakeside Waterworks, Inc.</b>	<b>SCHEDULE NO. 3-C</b>	
<b>TEST YEAR ENDED 5/31/2013</b>	<b>DOCKET NO. 130194-WS</b>	
<b><u>ADJUSTMENTS TO OPERATING INCOME</u></b>		
(O & M EXPENSES CONTINUED)	<b><u>WATER</u></b>	<b><u>WASTEWATER</u></b>
<b>TOTAL O &amp; M EXPENSE ADJUSTMENTS</b>	<b><u>\$9,545</u></b>	<b><u>\$17,540</u></b>
<b>DEPRECIATION EXPENSE</b>		
1. To reflect test year depreciation calculated per 25-30.140, FAC (AF2)	\$2,860	(\$3,878)
2. To reflect the depreciation of pro forma plant	312	116
3. To reflect the depreciation of non-used and useful plant	<u>(\$1,760)</u>	<u>(\$1,350)</u>
Total	<u>\$1,412</u>	<u>(\$5,167)</u>
<b>AMORTIZATION OF CIAC</b>		
To reflect the appropriate amount of amortization expense (AF3)	<u>\$490</u>	<u>\$278</u>
<b>TAXES OTHER THAN INCOME</b>		
1. To reflect the appropriate RAFs	\$186	\$287
2. To reflect the appropriate payroll taxes	<u>(230)</u>	<u>(348)</u>
Total	<u>(\$43)</u>	<u>(\$61)</u>
<b>INCOME TAX</b>		
Income Tax per Staff	<u>\$0</u>	<u>\$0</u>

<b>Lakeside Waterworks, Inc.</b>	<b>SCHEDULE NO. 3-D</b>		
<b>TEST YEAR ENDED 5/31/2013</b>	<b>DOCKET NO. 130194-WS</b>		
<b>ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE</b>			
	<b>TOTAL PER UTILITY</b>	<b>STAFF ADJUSTMENT</b>	<b>TOTAL PER STAFF</b>
(601) SALARIES AND WAGES - EMPLOYEES	\$1,799	(\$1,799)	\$0
(603) SALARIES AND WAGES - OFFICERS	1,727	773	2,500
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	1,916	790	2,706
(616) FUEL FOR POWER PRODUCTION	437	(108)	329
(618) CHEMICALS	269	201	470
(620) MATERIALS AND SUPPLIES	1,767	(926)	841
(630) CONTRACTUAL SERVICES - BILLING	2,030	(2,030)	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	6,318	(6,209)	109
(635) CONTRACTUAL SERVICES - TESTING	0	0	0
(636) CONTRACTUAL SERVICES - OTHER	18,259	19,938	38,197
(640) RENTS	2,996	(428)	2,568
(655) INSURANCE EXPENSE	576	(54)	522
(665) REGULATORY COMMISSION EXPENSE	0	292	292
(670) BAD DEBT EXPENSE	865	(462)	403
(675) MISCELLANEOUS EXPENSES	<u>1,480</u>	<u>(433)</u>	<u>1,047</u>
	<u>\$40,439</u>	<u>\$9,545</u>	<u>\$49,984</u>

<b>Lakeside Waterworks, Inc.</b>		<b>SCHEDULE NO. 3-E</b>	
<b>TEST YEAR ENDED 5/31/2013</b>		<b>DOCKET NO. 130194-WS</b>	
<b>ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE</b>			
	<b>TOTAL PER UTILITY</b>	<b>STAFF ADJUSTMENT</b>	<b>TOTAL PER STAFF</b>
(701) SALARIES AND WAGES - EMPLOYEES	\$1,799	(\$1,799)	\$0
(703) SALARIES AND WAGES - OFFICERS	849	1,651	2,500
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	0	2,500	2,500
(715) PURCHASED POWER	3,519	2,643	6,162
(718) CHEMICALS	404	116	520
(720) MATERIALS AND SUPPLIES	77	63	140
(730) CONTRACTUAL SERVICES - BILLING	18,230	(18,230)	0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	1,334	(968)	366
(735) CONTRACTUAL SERVICES - TESTING	0	0	0
(736) CONTRACTUAL SERVICES - OTHER	4,824	30,906	35,730
(740) RENTS	0	2,568	2,568
(750) TRANSPORTATION EXPENSE	19	(19)	0
(755) INSURANCE EXPENSE	424	97	521
(765) REGULATORY COMMISSION EXPENSES	0	292	292
(770) BAD DEBT EXPENSE	638	(191)	447
(775) MISCELLANEOUS EXPENSES	<u>2,273</u>	<u>(2,088)</u>	<u>185</u>
	<u>\$34,390</u>	<u>\$17,540</u>	<u>\$51,930</u>



LAKESIDE WATERWORKS, INC. TEST YEAR ENDED 6/30/13		SCHEDULE NO. 4-A DOCKET NO. 130194-WS	
<b>LAKESIDE WATERWORKS, INC. STAFF'S RECOMMENDED AND ALTERNATIVE WATER RATE STRUCTURES AND RATES</b>			
Test Year Rate Structure and Rates		Recommended Rate Structure and Rates	
BFC/ gallonage rate structure BFC generated from current rates = 54%		BFC/ gallonage rate structure BFC = 54%	
BFC	\$12.96	BFC	\$13.55
All Gallons	\$1.23	0-4 kgal (non-discretionary)	\$3.42
		Over 4 kgal	\$6.47
Typical Monthly Bills		Typical Monthly Bills	
Consumption (kgals)		Consumption (kgals)	
0	\$12.96	0	\$13.55
1	\$14.19	1	\$16.97
2	\$15.42	2	\$20.39
3	\$16.65	3	\$23.81
4	\$17.88	4	\$27.23
5	\$19.11	5	\$33.70
6	\$20.34	6	\$40.17
10	\$25.26	10	\$66.05
Alternative 1 Rate Structure and Rates		Alternative 2 Rate Structure and Rates	
BFC/ gallonage rate structure BFC = 55%		BFC/ gallonage rate structure BFC =60%	
BFC	\$13.80	BFC	\$15.08
0-4 kgal (non-discretionary)	\$3.35	0-4 kgals (non-discretionary)	\$2.97
Over 4 kgal	\$6.17	Over 4 kgals	\$4.90
Typical Monthly Bills		Typical Monthly Bills	
Consumption (kgals)		Consumption (kgals)	
0	\$13.80	0	\$15.08
1	\$17.15	1	\$18.05
2	\$20.50	2	\$21.02
3	\$23.85	3	\$23.99
4	\$27.20	4	\$26.96
5	\$33.37	5	\$31.86
6	\$39.54	6	\$36.76
10	\$64.22	10	\$56.36

<b>LAKESIDE WATERWORKS, INC.</b>		<b>SCHEDULE NO. 4-B</b>	
<b>TEST YEAR ENDED 6/30/13</b>		<b>DOCKET NO. 130194-WS</b>	
<b>MONTHLY WATER RATES</b>			
	<b>UTILITY EXISTING RATES*</b>	<b>STAFF RECOMMENDED RATES*</b>	<b>4 YEAR RATE REDUCTION</b>
<b><u>Residential, General Service, and Irrigation</u></b>			
Base Facility Charge by Meter Size			
5/8"X3/4"	\$12.96	\$13.55	\$0.08
3/4"	\$19.45	\$20.33	\$0.11
1"	\$32.42	\$33.88	\$0.19
1-1/2"	\$64.83	\$67.75	\$0.38
2"	\$103.73	\$108.40	\$0.61
3"	\$207.45	\$216.80	\$1.21
4"	\$324.16	\$338.75	\$1.90
6"	\$648.30	\$677.50	\$3.79
*Residential irrigation customers do not pay a base facility charge.			
Charge per 1,000 Gallons - Residential and Residential Irrigation			
All Gallons	\$1.23		
0 - 4,000 Gallons		\$3.42	\$0.02
Over 4,000 Gallons		\$6.47	\$0.04
Charge per 1,000 Gallons – General Service General Service Irrigation	\$1.23	\$4.18	\$0.02
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
4,000 Gallons	\$17.88	\$27.23	
6,000 Gallons	\$20.34	\$40.17	
10,000 Gallons	\$25.26	\$66.05	

LAKESIDE WATERWORKS, INC. TEST YEAR ENDED 6/30/13		SCHEDULE NO. 4-C DOCKET NO. 130194-WS	
LAKESIDE 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 generated from current rates = 50%		Monthly BFC/uniform kgals charge BFC = 50%	
BFC	\$10.01	BFC	\$14.24
per 1 kgal	\$2.46	per 1 kgal	\$6.70
(6 kgal cap)		(6 kgal cap)	
Typical Monthly Bills		Typical Monthly Bills	
Consumption (kgals)		Consumption (kgals)	
0	\$10.01	0	\$14.24
1	\$12.47	1	\$20.94
2	\$14.93	2	\$27.64
3	\$17.39	3	\$34.34
4	\$19.85	4	\$41.04
5	\$22.31	5	\$47.74
6	\$24.77	6	\$54.44
10	\$24.77	10	\$54.44
Alternative 1 Rate Structure and Rates		Alternative 2 Rate Structure and Rates	
Monthly BFC/uniform kgals charge BFC = 55%		Monthly BFC/uniform kgals charge BFC =60%	
BFC	\$15.66	BFC	\$17.09
per 1 kgal	\$6.03	per 1 kgal	\$5.36
(6 kgal cap)		(6 kgal cap)	
Typical Monthly Bills		Typical Monthly Bills	
Consumption (kgals)		Consumption (kgals)	
0	\$15.66	0	\$17.09
1	\$21.69	1	\$22.45
2	\$27.72	2	\$27.81
3	\$33.75	3	\$33.17
4	\$39.78	4	\$38.53
5	\$45.81	5	\$43.89
6	\$51.84	6	\$49.25
10	\$51.84	10	\$49.25

<b>LAKESIDE WATERWORKS, INC.</b>		<b>SCHEDULE NO. 4-D</b>	
<b>TEST YEAR ENDED 06/30/13</b>		<b>DOCKET NO. 130194-WS</b>	
<b>MONTHLY WASTEWATER RATES</b>			
	<b>UTILITY EXISTING RATES</b>	<b>STAFF RECOMMENDED RATES</b>	<b>4 YEAR RATE REDUCTION</b>
<b><u>Residential</u></b>			
Base Facility Charge - All Meter Sizes	\$10.01	\$14.24	\$0.08
Charge per 1,000 Gallons- Residential*			
*6,000 gallon cap	\$2.46	\$6.70	\$0.04
<b><u>General Service</u></b>			
Base Facility Charge by Meter Size			
5/8"X3/4"	\$10.01	\$14.24	\$0.08
3/4"	\$15.02	\$21.36	\$0.12
1"	\$25.05	\$35.60	\$0.20
1-1/2"	\$50.08	\$71.20	\$0.40
2"	\$80.14	\$113.92	\$0.64
3"	\$160.26	\$227.84	\$1.28
4"	\$250.41	\$356.00	\$1.99
6"	\$500.84	\$712.00	\$3.99
Charge per 1,000 Gallons - General Service	\$2.95	\$8.04	\$0.05
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
4,000 Gallons	\$19.85	\$41.04	
6,000 Gallons	\$24.77	\$54.44	
10,000 Gallons	\$24.77	\$54.44	