

State of Florida



Public Service Commission

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

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

DATE: April 29, 2019

TO: Elisabeth Draper, Bureau Chief, Economic Impact and Rate Design

FROM: Division of Economics (Bethea, Hudson) *SH TB EJD*
Division of Accounting and Finance (D. Andrews, Norris) *for BO*
Division of Engineering (Ellis, Wooten) *POE*

RE: Docket No. 20180202-SU – Application for staff-assisted rate case in Polk County by West Lakeland Wastewater, LLC.

- STAFF REPORT -

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

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Case Background

West Lakeland Wastewater, LLC. (West Lakeland or utility) is a Class C wastewater only utility providing service to approximately 315 residential and 1 general service customers in Polk County. Effective June 6, 2001, West Lakeland Wastewater Inc. was granted the approval of transfer for Certificate No. 515-S from ABCA, Inc.¹ In 2009, the utility was abandoned and appointed to Michael Smallridge as receiver of the wastewater system.² On December 9, 2014, the utility was approved for a limited proceeding rate increase (LIMP).³ Subsequently, those rates were amended through three price index rate adjustments and a four year rate reduction for fully amortized rate case expense. On July 30, 2018, the Commission approved the transfer of West Lakeland Wastewater Inc. to West Lakeland Wastewater LLC.⁴ According to West Lakeland's 2018 annual report, total gross revenues were \$133,665 and total operating expenses were \$113,159, resulting in net operating income of \$20,506.

On October 30, 2018, West Lakeland filed an application for a staff-assisted rate case (SARC). Pursuant to Section 367.0814(2), Florida Statutes (F.S.), the official filing date of the SARC has been determined to be December 31, 2018. The 12-month period ended October 31, 2018 was selected as the test year for the instant docket. West Lakeland is seeking recovery of legal expenses associated with prior dockets as well as pro forma items. The Florida Department of Environment Protection (DEP) conducted a compliance evaluation inspection which noted three deficiencies to which the utility responded and addressed all noted deficiencies. The plant is therefore in compliance with DEP rules regulations.

This staff report is a **preliminary** analysis of the utility prepared by Commission staff to give customers and the utility an advanced look at what staff may be proposing. The final recommendation to the Commission is currently scheduled to be filed June 26, 2019, for consideration at the July 9, 2019 Commission Conference. The recommendation will be revised as necessary using any updated information and results of customer quality of service concerns or other relevant information received during the customer meeting. The Commission has jurisdiction in this case pursuant to Sections 367.081, 367.0812, 367.0814, and 367.091, (F.S.).

¹Order No. PSC-01-1271-PAA-SU, issued June 6, 2001, in Docket No. 010382-SU, *In re: Application for transfer of Certificate No. 515-S in Polk County from ABCA, Inc. to West Lakeland Utilities, Inc., by West Lakeland Wastewater Inc.*

²Order No. PSC-09-0607-FOF-SU, as amended by PSC-09-0607A-FOF-SU, issued February 16, 2010, in Docket No. 20090154-SU, *In re: Notice of abandonment of wastewater system for The Village of Lakeland Mobile Home Park in Polk County, by West Lakeland Wastewater, Inc.*

³Order No. PSC-14-0679-PAA-SU issued December 9, 2014, in Docket No. 140106-SU, *In re: Application for limited proceeding rate increase in Polk County by West Lakeland Wastewater, Inc..*

⁴Order No. PSC-2018-0377-PAA-SU, issued July 30, 2018, in Docket No. 20170246-SU, *In re: Application for authority to transfer facilities and Certificate No. 515-S in Polk County from West Lakeland Wastewater, Inc. to West Lakeland Wastewater, LLC.*

Discussion of Issues

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

Preliminary Recommendation: Staff's recommendation regarding quality of service will be determined at a later date, pending review of comments made at the Customer Meeting on May 22, 2019. (Wooten)

Staff Analysis: Pursuant to Section 367.081(2)(a)1, F.S., in wastewater rate cases, the Commission shall determine the overall quality of service provided by the utility. Rule 25-30.433(1), Florida Administrative Code (F.A.C.) requires an evaluation of the utility's attempt to address customer satisfaction, compliance evaluation inspections, outstanding citations, violations, and consent orders on file with the Florida Department of Environmental Protection (DEP) and the county health department over the preceding three-year period. The Commission also considers the infrastructure and operational conditions of the plant and facilities.

The Utility's Attempt to Address Customer Satisfaction

The Commission's Consumer Activity Tracking System recorded 11 complaints during the past five years, the most recent from 2015. Seven complaints were related to improper billing and four were related to quality of service, which were resolved in a timely manner. The DEP received one complaint in 2015 regarding an odor from the WWTP. The utility addressed the issue to the DEP's satisfaction and the complaint was closed. The utility received nine complaints during the past five years, two related to quality of service concerns and seven related to billing credit inquiries, which were resolved by the utility.

Conclusion

Staff's recommendation regarding quality of service will be determined at a later date, pending review of comments made at the Customer Meeting on May 22, 2019.

Issue 2: What are the used and useful percentages (U&U) of West Lakeland's wastewater treatment plant (WWTP) and wastewater collection system?

Preliminary Recommendation: West Lakeland's WWTP and wastewater collection system should both be considered 100 percent U&U. Also, staff recommends that a 20.7 percent adjustment to purchased power and chemicals should be made for excessive infiltration and inflow (I&I). (Wooten)

Staff Analysis: The West Lakeland wastewater system was constructed in 1972. The utility's last rate case was in 2012.⁵ The collection system is composed of polyvinyl chloride (PVC) pipes and there are three lift stations in the service area. West Lakeland' WWTP is permitted by the DEP as a 70,000 gallons per day (gpd) facility. According to the utility, its wastewater collection system is comprised of 1,835 feet of 4-inch PVC force mains and 13,376 feet of 6-inch PVC collecting mains. There are 12 manholes present throughout the service area. Liquid chlorine disinfection is applied prior to wastewater effluent flowing into the percolation ponds and spray field.

Used and Useful

Wastewater Treatment Plant

As mentioned above, the utility had a rate case in 2012. During this previous rate case, the WWTP was found to be 100 percent U&U. There has been no change in service area or plant additions in the past five years and there are no plans for expansion; therefore, in accordance with the Commission's previous order, staff has assigned a U&U amount of 100 percent for the WWTP.

Wastewater Collection

During the previous rate case, the wastewater collection system was found to be 100 percent U&U. The service area has had no growth in the past five years, no change in capacity and consistent with the prior Commission Order, the collection system should be considered 100 percent U&U.

Infiltration and Inflow

Rule 25-30.432, F.A.C., provides that in determining the amount of U&U plant, the Commission will consider I&I. Excessive I&I is a calculation that is based on a comparison of the allowable wastewater treated to the actual amount of wastewater treated. Allowable treated water was calculated as 5,133,773 gallons and the actual amount of wastewater treated was 9,497,604 gallons. The actual amount exceeds the allowable amount with an excess I&I of 4,363,831 gallons and therefore there is 20.7 percent excessive I&I.

Conclusion

West Lakeland's WWTP and wastewater collection system should both be considered 100 percent U&U. Also, staff recommends that a 20.7 percent adjustment to purchased power and chemicals should be made for excessive I&I.

⁵Order 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.*

Issue 3: What is the appropriate average test year rate base for West Lakeland Wastewater, LLC.?

Preliminary Recommendation: The appropriate average test year rate base for West Lakeland for ratemaking purposes is zero. (D. Andrews, Wooten)

Staff Analysis: The test year ended October 31, 2018, was used for the instant case. A summary of each rate base component and recommended adjustments are discussed below.

Utility Plant in Service (UPIS)

The utility recorded a test year UPIS balance of \$274,694. Based on audit staff's review of the utility's books and records, UPIS should be increased by a net adjustment of \$492 to reflect the supported UPIS test year balances. In addition, staff decreased UPIS by \$6,470 to include an averaging adjustment.

**Table 1-1
 Pro Forma Plant Items**

Project	Acct. No.	Description	Amount
Replace Pump #1	371	Replace Pump #1 at lift station	\$5,900
		Retirement	(\$4,425)
Replace Pump #2	371	Replace Pump #2 at lift station	\$5,900
		Retirement	(\$4,425)
Replace Effluent Lift Station existing Electrical Panel	380	Install new DEP rated electrical panel	\$5,591
		Retirement	(\$4,193)
Rebuild Electrical and Blower Housing Building	354	Self-build, Materials List quote	\$1,175
		Retirement	(\$882)
Shut Off Valve (3 Inch)	363	Installation of estimated 15, 3 inch shut-off valves	\$1,050
Shut Off Valve Installation (4 inch)	363	Installation of estimated 300, 4 inch shut-off valves	\$24,954

Source: Responses to staff data requests

The utility requested pro forma includes a pump, which malfunctioned recently, that required immediate replacement. In an effort to accommodate future replacement needs and redundancy, a second similar pump was purchased simultaneously. The utility installed the pumps which required a new effluent lift station electrical panel also be installed. The utility received a quote for a stainless steel panel and a fiberglass panel, and chose to replace the electrical panel with a fiberglass panel which cost less.

The electrical and blower housing building is in a state of disrepair and must be rebuilt. The utility received two verbal estimates for replacing the electrical and blower housing building, both in excess of \$10,000. In order to reduce utility costs, the utility has opted to self-build the

electrical and blower housing building using utility staff. Materials are estimated to cost \$1,175 for the electrical and blower housing building rebuild.

According to the utility, non-payment by some ratepayers is a recurring problem. When a non-payment occurs and after multiple warnings the utility would cap the wastewater lines of the customer to discontinue service. Capping customers' wastewater lines involves the utility renting equipment to access the wastewater lines and upon receiving a customer's payment would require an equipment rental to access the lines again and restore service. This capping process would occur on average three to four times a month. In an effort to efficiently address these concerns, the utility has begun installing shut off valves on customers' wastewater lines to avoid the cost of continual capping and uncapping. The utility estimates that total cost of installation for both size shut-off valves will be \$26,004. West Lakeland has also requested a replacement truck after the existing truck was totaled subsequent to the test year. Staff has allowed the replacement truck for the staff report. Staff's analysis regarding the reasonableness of pro forma plant projects is not yet finalized; staff will continue to evaluate the pro forma plant projects prior to making its final recommendation. As such, staff has made a net increase to UPIS of \$33,519 ($\$1,175 + \$26,004 + \$11,800 + \$5,591 + \$3,124 - \$882 - \$8,850 - \$4,193 - \250).

Staff's net adjustment to UPIS is an increase of \$27,541 ($\$492 - \$6,470 + \$33,519$). Therefore, staff recommends that the appropriate UPIS balance is \$302,235.

Land & Land Rights

The utility recorded a test year land balance of \$356. Based on staff's preliminary review, no adjustment is necessary. Therefore, staff recommends that the appropriate balance is \$356.

Non-Used and Useful Plant

As discussed in Issue 2, West Lakeland's wastewater treatment plant, and wastewater collection system are considered 100 percent U&U. Therefore, no U&U adjustments are necessary.

Accumulated Depreciation

West Lakeland recorded a test year accumulated depreciation balance of \$249,723. Staff increased accumulated depreciation by \$943 to reflect depreciation pursuant to Rule 25-30.140, F.A.C. Staff also decreased accumulated depreciation by \$1,538 to include an averaging adjustment. In addition, staff decreased accumulated depreciation by \$5,753 to reflect pro forma additions and corresponding retirements. Staff's adjustments result in a net decrease to accumulated depreciation of \$6,348 ($\$5,753 + \$1,538 - \943). Staff recommends an accumulated depreciation balance of \$243,375 ($\$249,723 - \$6,348$).

Contributions In Aid of Construction (CIAC)

The utility recorded a CIAC balance of \$221,480. Based on staff's preliminary review, no adjustment is necessary. Therefore, staff recommends that the appropriate balance is \$221,480.

Accumulated Amortization of CIAC

The utility recorded a test year accumulated amortization of CIAC balance of \$132,041. Staff reduced accumulated amortization of CIAC by \$667 to make an adjustment based on composite depreciation rates. Staff also reduced accumulated amortization of CIAC by \$1,228 to include an

averaging adjustment. As such, staff recommends an accumulated amortization of CIAC balance of \$130,146.

Working Capital Allowance

Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses. 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. The formula does not include O&M expense for regulatory commission expense. Applying this formula, staff recommends a working capital allowance of \$15,280 (based on O&M expense of $(\$122,633 - \$390) / 8$).

Rate Base Summary

Applying all of the above adjustments results in a negative rate base of \$16,837. In accordance with Commission practice, staff has adjusted the rate base to zero for ratemaking purposes.^{6&7} Based on the forgoing, staff recommends that the appropriate test year average rate base is zero. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

⁶Order No. PSC-97-0540-FOF-WS, issued May 12, 1997, in Docket No. 960799-WS, *In re: Application for staff-assisted rate case in DeSoto County by Lake Suzy Utilities, Inc.*

⁷ 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.*

Issue 4: What is the appropriate return on equity and overall rate of return for West Lakeland Wastewater, LLC.?

Preliminary Recommendation: The appropriate return on equity (ROE) is 10.93 percent with a range of 9.93 percent to 11.93 percent. (D. Andrews)

Staff Analysis: West Lakeland has negative equity and negative rate base. As discussed in Issue 7, staff is recommending the operating ratio methodology be used in this case. Although the traditional rate of return does not apply in this case due to the negative rate base, staff recommends that an ROE still be established for this utility. The appropriate ROE for the utility is 10.93 percent based upon the Commission-approved leverage formula currently in effect.⁸ Staff recommends an ROE of 10.93 percent, with a range of 9.93 percent to 11.93 percent.

⁸Order No. PSC-2018-0327-PAA-WS, issued June 26, 2018, in Docket No. 20180006-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), F.S.*

Issue 5: What are the appropriate test year revenues for the wastewater system of West Lakeland?

Preliminary Recommendation: The appropriate test year revenues for West Lakeland are \$136,394. (Bethea)

Staff Analysis: West Lakeland recorded total test year revenues of \$131,915, which included \$126,092 of service revenues and \$5,823 of 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 determined service revenues should be increased by \$3,924 to reflect annualized test year service revenues of \$130,016.⁹ In addition, staff increased miscellaneous revenues by \$555 to reflect revenues collected as a result of miscellaneous services occurrences during the test year. Therefore, staff increased miscellaneous revenues by \$555 to reflect total miscellaneous revenues of \$6,378 (\$5,823 + \$555). Based on the above, the appropriate test year revenues for West Lakeland are \$136,394 (\$130,016 + \$6,378).

⁹ The utility filed a 2018 Index that became effective on October 5, 2018.

Issue 6: What is the appropriate amount of operating expense for West Lakeland Wastewater, LLC.?

Preliminary Recommendation: The appropriate amount of operating expense for West Lakeland is \$134,739. (D. Andrews)

Staff Analysis: West Lakeland recorded operating expense of \$113,723 for the test year ended October 31, 2018. The test year O&M expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. Staff has made a few adjustments to the utility's operating expenses as summarized below.

Operation & Maintenance Expense

Salaries and Wages – Employees (701)

West Lakeland recorded salaries and wages – employees expense of \$21,934. Staff increased this expense by \$623 to reflect the appropriate allocations for current employees' annualized salaries. In addition, the utility requested the allocation of two new maintenance technicians to West Lakeland. Based on the requested salary of \$37,900 and the ten-percent allocation for West Lakeland, staff increased salary and wages – employees expense by \$7,580 ($\$37,900 \times 2 \times .10$). As such, staff recommends salaries and wages – employees expense of \$30,137. For its final recommendation, staff is further evaluating the prudence of the additional employees.

Salaries and Wages – Officers (703)

West Lakeland recorded salaries and wages – officers expense of \$7,670. Staff increased salaries and wages – officers expense by \$330 to annualize the officer's salary. As such, staff recommends salaries and wages – officers expense of \$8,000.

Pensions and Benefits (704)

West Lakeland recorded pensions and benefits expense of \$1,034. Staff increased pensions and benefits expense by \$766 to reflect the allocation of current and pro forma employee benefits and pensions expense. Therefore, staff recommends a pensions and benefits expense of \$1,800.

Purchased Sewer (710)

West Lakeland recorded purchased sewer expense of \$8,732. Staff decreased purchased sewer expense by \$92 to remove the payment of late fees. Therefore, staff recommends purchased sewer expense of \$8,640.

Purchased Power (715)

The utility recorded purchased power expense of \$10,930. Staff increased this account by \$1,108 to reflect the proper test year period. As discussed in Issue 2, staff believes an adjustment for excessive I&I may be appropriate to purchased power and chemicals. However, for the purposes of the staff report, staff recommends no adjustment as staff continues to evaluate the excessive I&I. As such, staff recommends purchased power expense of \$12,038.

Fuel for Power Production Expense (716)

West Lakeland recorded fuel for power production expense of \$105 for the test year. Staff decreased this expense by \$13 to remove power production purchases that were not substantiated with invoices. As such, staff recommends a fuel for power production expense of \$92.

Chemicals Expense (718)

The utility recorded chemicals expense of \$1,721. Staff decreased chemicals expense by \$843 to remove professional testing services provided by a vendor. As discussed in Issue 2, staff believes an adjustment for excessive I&I may be appropriate to purchased power and chemicals. However, for the purposes of the staff report, staff recommends no adjustment as staff continues to evaluate the excessive I&I. As such, staff recommends chemicals expense of \$878.

Materials and Supplies Expense (720)

West Lakeland recorded materials and supplies expense of \$5,025. Staff reduced materials and supplies expense by \$153 to reflect actual invoices and proper allocations for West Lakeland. Therefore, staff recommends materials and supplies expense of \$4,872.

Contractual Services – Professional (731)

The utility recorded contractual services - professional expense of \$504. Based on staff's preliminary review, no adjustment is necessary. Therefore, staff recommends contractual services – professional expense of \$504.

Contractual Services – Other (736)

The utility recorded contractual services - other expense of \$25,007. Staff increased this expense by \$912 to reflect the provided invoices and to reallocate the \$843 mistakenly charged to chemicals expense. As such, staff recommends contractual services – other expense of \$25,919.

Rent Expense (740)

The utility recorded rent expense of \$2,087. Based on staff's preliminary review, no adjustment is necessary. Therefore, staff recommends rent expense of \$2,087.

Transportation Expense (750)

The utility recorded transportation expense of \$3,855. Based on staff's preliminary review, no adjustment is necessary. Therefore, staff recommends transportation expense of \$3,855.

Insurance Expense (755)

West Lakeland recorded insurance expense of \$5,153 for the test year. Based on staff's preliminary review, no adjustment is necessary. Therefore, staff recommends that the appropriate insurance expense is \$5,153.

Regulatory Commission Expense (765)

West Lakeland recorded regulatory commission expense of \$1,500 for the filing fee for the current docket. The filing fee is for the current docket is only \$1,000. Therefore, West Lakeland has applied for a refund of \$500.¹⁰ Staff has calculated a total of \$1,558 in regulatory commission expense for the current docket. This amount includes the \$1,000 filing fee and \$558

¹⁰ Document No. 00641-2019

in noticing costs for the instant case. On February 21, 2019, West Lakeland requested the recovery of \$190 of rate case expense for attorney fees associated with the review of staff's first data request. According to Section 367.0814(3), F.S., the Commission may not award rate case expense for the recovery of attorney fees before the initial staff report is made available to the customers. Therefore, the utility's request for the recovery of \$190 in legal fees should be denied. The recommended total rate case expense of \$1,558 should be amortized over four years, pursuant to Section 367.081(8), F.S. This represents an annual expense of \$390 ($\$1,558 / 4$). As such, staff recommends regulatory commission expense of \$390, which results in a decrease of \$1,110.

Bad Debt Expense (770)

The utility recorded bad debt expense of \$1,531. Based on staff's preliminary review, no adjustment is necessary. Therefore, staff recommends bad debt expense of \$1,531.

Miscellaneous Expense (775)

The utility recorded miscellaneous expense of \$7,633. Staff decreased this account by \$462 to properly reflect the amount from provided invoices and the appropriate allocation to West Lakeland. In addition, West Lakeland has requested the recovery of deferred legal fees approved in Order No. PSC-16-0030-PAA-SU. The utility's request was based on legal invoices totaling \$28,697 with the last invoice dated November 30, 2017. Rule 25-30.433, F.A.C, states that nonrecurring expenses shall be amortized over a five-year period unless a shorter or longer period can be justified. West Lakeland requested an amortization period of three years because of the length of time that has passed since the fees were incurred. Staff believes a 3-year amortization period is appropriate for the purposes of the staff report. However, staff will continue to review the legal fees and amortization period. Therefore, staff increased miscellaneous expense by \$9,566 ($\$28,697 / 3$). As such, staff recommends miscellaneous expense of \$16,737 ($\$7,633 - \$462 + \$9,566$).

Operation and Maintenance Expense Summary

Based on the above adjustments, staff recommends that O&M expense should be increased by \$18,212, resulting in total O&M expense of \$122,633. Staff's recommended adjustments to O&M expense are shown on Schedule No 3-C.

Depreciation Expense (Net of Amortization of CIAC)

West Lakeland recorded depreciation expense of \$4,484 during the test year. Staff recalculated depreciation expense for the test year and as such, decreased the expense by \$1,408. Staff further calculated depreciation expense for the pro forma plant additions and retirements that the utility requested. These additions result in an increase of \$1,565. This results in a depreciation expense of \$4,642. In addition, West Lakeland recorded amortization expense of \$3,672. Staff decreased amortization of CIAC by \$1,187 to reflect appropriate amortization expense based on composite rates. This results in an amortization expense of \$2,485. Therefore, staff recommends net depreciation expense of \$2,157 ($\$4,642 - \$2,485$).

Taxes Other Than Income (TOTI)

West Lakeland recorded a TOTI balance of \$8,490 during the test year. Staff increased TOTI by \$653 to reflect the increase in salaries and wages expense. Staff increased the Regulatory Assessment Fees (RAFs) by \$273 to reflect the adjusted test year revenues. Staff decreased

property tax expense by \$65 to reflect the appropriate amount of property tax. In addition, staff increased TOTI by \$58 to reflect the appropriate business tax receipts. This results in a net increase of \$919 ($\$653 + \$273 - \$65 + \58).

In addition, as discussed in Issue 8, revenues have been increased by \$12,023 to reflect the change in revenue required to cover expenses and allow the recommended operating margin. As a result, TOTI should be increased by \$541 to reflect RAFs of 4.5 percent on the change in revenues. Staff's adjustments result in a net increase of \$1,460 ($\$919 + \541). Therefore, staff recommends TOTI of \$9,950.

Operating Expenses Summary

The application of staff's recommended adjustments to West Lakeland's test year operating expenses results in operating expenses of \$134,739. Operating expenses are shown on Schedule No. 3-A. The related adjustments are shown on Schedule Nos. 3-B and 3-C.

Issue 7: Should the Commission utilize the operating ratio methodology as an alternative method of calculating the wastewater revenue requirement for West Lakeland Wastewater, LLC. and, if so, what is the appropriate margin?

Preliminary Recommendation: Yes. The Commission should utilize the operating ratio methodology for calculating the revenue requirement for West Lakeland. The margin should be 12 percent of O&M expense. (D. Andrews)

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. By Order No. PSC-2019-0096-FOF-WS, the Commission adopted Rule 25-30.4575, F.A.C.,¹¹ Operating Ratio Methodology, which states that the Commission will apply a margin of 12 percent when determining the revenue requirement, up to a cap of \$15,000. The operating ratio methodology can be applied when the utility's rate base is no greater than 125 percent of O&M expenses and that the use of the operating ratio methodology does not change the utility's qualification for a staff assisted rate case under subsection Rule 25-30.455(1), F.A.C.

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 West Lakeland's eligible operating expenses plus a margin of 12 percent. This methodology has been applied in cases in which the traditional calculation of the revenue requirement would not provide sufficient revenue to protect against potential variances in revenues and expenses. As discussed in Issues 3 and 6, staff has recommended a rate base of zero. Furthermore, the application of the operating ratio methodology does not change the utility's qualification for a staff assisted rate case. As such, West Lakeland meets the criteria for the operating ratio methodology established in Rule 25-30.4575(2), F.A.C. Therefore, staff recommends the application of the operating ratio methodology at a margin of 12 percent of eligible O&M expense for determining the water and wastewater revenue requirements.

¹¹ This rule became effective on March 28, 2019.

Issue 8: What is the appropriate revenue requirement?

Preliminary Recommendation: The appropriate revenue requirement is \$148,418 resulting in an annual increase of \$12,023 (8.81 percent). (D. Andrews)

Staff Analysis: West Lakeland should be allowed an annual increase of \$12,023 (8.81 percent). The calculations are shown in Table 8-1:

Table 8-1

Revenue Requirement	
Adjusted O&M	\$122,633
Minus Purchased Sewer	(8,640)
Operating Margin (%)	x 12.00%
Operating Margin (\$15,000 Cap)	\$13,679
Adjusted O&M Expense	122,633
Depreciation Expense (Net)	2,157
Taxes Other Than Income	9,950
Income Tax	0
Revenue Requirement	\$148,418
Less Adjusted Test Year Revenues	136,395
Annual Increase	<u>\$12,023</u>
Percent Increase	<u>8.81%</u>

Issue 9: What are the appropriate rate structure and rates for West Lakeland wastewater system?

Preliminary Recommendation: Staff recommends that the rate increase of 9.25 percent for wastewater should be applied as an across-the-board increase monthly to service rates. The rates, as shown on Schedule No. 3, should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. 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 that notice was given within 10 days of the date of the notice. (Bethea)

Staff Analysis: The utility provides service to 315 residential customers and 1 general service customer. Currently, the residential wastewater rate structure consists of a uniform BFC for all meter sizes and a gallonage charge with an 6,000 gallon cap per month. The general service rate structure consists of a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge. Due to the relatively low revenue requirement increase (9.25 percent) staff recommends a continuation of the existing rate structure and the percentage increase be applied as an across-the-board increase to existing service rates. To determine the appropriate percentage increase to apply to the service rates, miscellaneous revenues should be removed from the test year revenues. The calculation is as follows:

	<u>Wastewater</u>
Total Test Year Revenues	\$136,395
Less: Miscellaneous Revenues	\$6,378
Test Year Revenues from Service Rates	\$130,016
Revenues Increase	\$12,023
% Service Rate Increase (Line4/Line 3)	9.25%

Based on the above, staff recommends that the rate increase of 9.25 percent for wastewater should be applied as an across-the-board increase monthly to service rates. The rates, as shown on Schedule No. 3, should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. 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 that notice was given within 10 days of the date of the notice.

Date: April 29, 2019

Issue 10: What is the appropriate amount by which rates should be reduced four years after the published effective date to reflect the removal of the amortized rate case expense?

Preliminary Recommendation: The rates should be reduced as shown on Schedule No. 3, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.081(8), F.S. West Lakeland should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (D. Andrews, Bethea)

Staff Analysis: Section 367.081(8), 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 and the gross-up for RAFs. The total reduction is \$408.

The rates should be reduced as shown on Schedule No. 3 to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.081(8), F.S. West Lakeland should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Issue 11: What are the appropriate initial customer deposits for West Lakeland Wastewater, LLC.?

Preliminary Recommendation: The appropriate initial customer deposit is \$83 for all residential meter sizes. The initial customer deposits for all general service meter sizes should be two times the average estimated monthly bill. The approved initial customer deposits should be effective for service 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 initial customer deposits until authorized to change them by the Commission in a subsequent proceeding. (Bethea)

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. An initial customer deposit ensures that the cost of providing service is recovered from the cost causer. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill.¹² Currently, the utility has an initial customer deposit of \$40. However, this amount does not cover two months' average bills based on staff's recommended rates. The utility indicated that the average monthly residential usage is 3,765 gallons per customer. Therefore, the average residential monthly bill based on staff's recommended rates is approximately \$41.45.

Staff recommends the appropriate initial customer deposit is \$83 for all residential meter sizes. The initial customer deposits for all general service meter sizes should be two times the average estimated monthly bill. The approved initial customer deposits should be effective for service 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 initial customer deposits until authorized to change them by the Commission in a subsequent proceeding.

¹²Order No. PSC-15-0142-PAA-SU, issued March 26, 2015, in Docket No. 130178-SU, *In re: Application for staff assisted rate case in Polk County by Crooked Lake Park Sewerage Company.*

Issue 12: Should the recommended rates be approved for West Lakeland Wastewater on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the utility?

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

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

West Lakeland 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 \$8,146. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

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

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

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

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

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

- 1) The Commission Clerk, or his or her designee, must be a signatory to the escrow agreement;
- 2) No monies in the escrow account may be withdrawn by the utility without the express approval of the Commission;
- 3) The escrow account shall be an interest bearing account;
- 4) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
- 5) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility;
- 6) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
- 7) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
- 8) 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;
- 9) The account must specify by whom and on whose behalf such monies were paid.

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

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

Issue 13: Should the utility be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision?

Preliminary Recommendation: Yes. West Lakeland should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. West Lakeland should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all applicable NARUC USOA primary accounts have been made to the utility's books and records. In the event the utility needs additional time to complete the adjustments, notice should be provided within seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. (D. Andrews)

Staff Analysis: West Lakeland should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. West Lakeland should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA primary accounts have been made to the utility's books and records. In the event the utility needs additional time to complete the adjustments, notice should be provided within seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days.

WEST LAKELAND UTILITIES, LLC		SCHEDULE NO. 1-A	
TEST YEAR ENDED 10/31/2018		DOCKET NO. 20180202-SU	
SCHEDULE OF WASTEWATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$274,694	\$27,541	\$302,235
LAND & LAND RIGHTS	356	0	356
ACCUMULATED DEPRECIATION	(249,723)	6,348	(243,375)
CIAC	(221,480)	0	(221,480)
AMORTIZATION OF CIAC	132,041	(1,895)	130,146
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>15,280</u>	<u>15,280</u>
RATE BASE	<u>(\$64,112)</u>	<u>\$47,275</u>	<u>(\$16,837)</u>

WEST LAKELAND UTILITIES, LLC	SCHEDULE NO. 1-B
TEST YEAR ENDED 10/31/2018	DOCKET NO. 20180202-SU
ADJUSTMENTS TO RATE BASE	
UTILITY PLANT IN SERVICE	
1. To reduce Structures and Improvements for lack of documentation.	(\$4,798)
2. To reduce Acct. No. 360 for lack of documentation.	(830)
3. To reduce Acct. No. 361 for lack of documentation.	(2,600)
4. To increase Pumping Equipment for the unrecorded purchase of 3 pumps.	8,333
5. To increase Transportation Equipment for recalculation of plant accounts.	387
6. To reflect pro forma plant addition for electrical and blower housing rebuild to Acct. No. 354.	1,175
7. To reflect pro forma retirement of electrical and blower housing to Acct. No. 354.	(882)
8. To reflect pro forma plant addition for shut off valve installations to Acct. No. 363.	26,004
9. To reflect pro forma plant addition for replacement of existing pump to Acct. No. 371.	5,900
10. To reflect pro forma retirement of pumping equipment to Acct. No. 371.	(4,425)
11. To reflect pro forma plant addition for replacement of existing pump to Acct. No. 371.	5,900
12. To reflect pro forma retirement of pumping equipment to Acct. No. 371.	(4,425)
13. To reflect pro forma plant addition for replacement of existing electrical panel to Acct. No. 380.	5,591
14. To reflect pro forma retirement of electrical panel to Acct. No. 380.	(4,193)
15. To reflect pro forma plant addition for West Lakeland's allocation of new truck to Acct. No. 391.	3,124
16. To reflect pro forma retirement of transportation equipment to Acct. No. 391.	(250)
17. To reflect an averaging adjustment.	<u>(6,470)</u>
Total	<u>\$27,541</u>
ACCUMULATED DEPRECIATION	
1. To reflect accumulated depreciation per Rule 25-30.140, F.A.C..	(\$943)
2. To reflect pro forma accumulated depreciation for pro forma plant additions and retirements.	5,753
3. To reflect an averaging adjustment.	<u>1,538</u>
Total	<u>\$6,348</u>
ACCUMULATED AMORTIZATION OF CIAC	
1. To adjust amortization of CIAC based on composite rates.	(\$667)
2. To reflect an averaging adjustment.	<u>(1,228)</u>
Total	<u>(\$1,895)</u>
WORKING CAPITAL ALLOWANCE	
To reflect 1/8 of test year O & M expenses.	<u>\$15,280</u>

WEST LAKELAND UTILITIES, LLC					SCHEDULE NO. 2-A	
TEST YEAR ENDED 10/31/2018					DOCKET NO. 20180202-SU	
SCHEDULE OF WASTEWATER OPERATING INCOME						
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUSTMENT FOR INCREASE		REVENUE REQUIREMENT
1. OPERATING REVENUES	\$131,916	\$4,479	\$136,395	\$12,023 8.81%		\$148,418
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$104,421	\$18,212	\$122,633	\$0		\$122,633
3. DEPRECIATION (NET)	812	1,345	2,157	0		2,157
4. TAXES OTHER THAN INCOME	<u>8,490</u>	<u>919</u>	<u>9,409</u>	<u>541</u>		<u>9,950</u>
5. TOTAL OPERATING EXPENSES	<u>\$113,723</u>	<u>\$20,475</u>	<u>\$134,198</u>	<u>\$541</u>		<u>\$134,739</u>
6. OPERATING INCOME/(LOSS)	<u>\$18,193</u>		<u>\$2,197</u>			<u>\$13,679</u>
7. RATE BASE	<u>(\$64,112)</u>		<u>(\$16,837)</u>			<u>\$0</u>
8. OPERATING RATIO						<u>12.00%</u>

WEST LAKELAND UTILITIES, LLC	Schedule No. 2-B
TEST YEAR ENDED 10/31/2018	Docket No. 20180202-SU
ADJUSTMENTS TO OPERATING INCOME	Page 1 of 2

OPERATING REVENUES

1.	To reflect the appropriate test year services revenues.	\$3,924
2.	To reflect the appropriate test year miscellaneous service revenues.	<u>555</u>
	Total	<u>\$4,479</u>

OPERATION AND MAINTENANCE EXPENSES

1.	Salaries and Wages - Employees (701)	
	a. To reflect appropriate allocation of current annualized employee salaries.	\$623
	b. To reflect the allocation of two additional maintenance technicians.	<u>7,580</u>
	Subtotal	<u>\$8,203</u>
2.	Salaries and Wages - Officers (703)	
	To reflect appropriate allocation of annualized salary and wages – officers.	<u>\$330</u>
3.	Employee Pensions and Benefits (704)	
	To reflect appropriate allocation of current annualized and pro forma employee benefits.	<u>\$766</u>
4.	Purchased Water/Purchased Sewage Treatment (710)	
	To remove late fees.	<u>(\$92)</u>
5.	Purchased Power (715)	
	To adjust for previous credits and debits to reflect proper period.	<u>\$1,108</u>
6.	Fuel for Power Production (716)	
	To remove power production purchases that were not substantiated with invoices.	<u>(\$13)</u>
7.	Chemicals (718)	
	To remove professional testing services provided by a vendor (recorded in Acct. No. 736).	<u>(\$843)</u>
8.	Materials and Supplies (720)	
	To reflect actual invoices and allocation details provided.	<u>(\$153)</u>
9.	Contractual Services - Other (736)	
	To reflect provided invoices and reallocate \$750 mistakenly charged to Acct. No. 718.	<u>\$912</u>
10.	Regulatory Commission Expense (765)	
	To reflect four-year amortization of rate case expense (\$1,560 / 4).	<u>(\$1,110)</u>
11.	Miscellaneous Expense (775)	
	a. To reflect the amount from provided invoices and allocation schedules.	(\$462)
	b. To reflect the recovery of deferred legal fees amortized over four years.	<u>9,566</u>
	Subtotal	<u>\$9,104</u>

TOTAL OPERATION AND MAINTENANCE ADJUSTMENTS	<u>\$18,212</u>
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WEST LAKELAND UTILITIES, LLC		Schedule No. 2-B
TEST YEAR ENDED 10/31/2018		Docket No. 20180202-SU
ADJUSTMENTS TO OPERATING INCOME		Page 2 of 2
DEPRECIATION EXPENSE		
1.	To reflect appropriate depreciation expense.	(\$1,408)
2.	To reflect pro forma depreciation.	<u>1,565</u>
	Total	<u>\$158</u>
AMORTIZATION EXPENSE		
	To reflect appropriate amortization expense.	<u>\$1,187</u>
TAXES OTHER THAN INCOME		
1.	To reflect the appropriate test year RAFs.	\$273
2.	To reflect appropriate property taxes.	(65)
3.	To reflect appropriate business tax receipts.	58
4.	To reflect corresponding adjustment to payroll tax increased salaries and wages.	<u>653</u>
	Total	<u>\$919</u>

WEST LAKELAND UTILITIES, LLC		SCHEDULE NO. 2-C	
TEST YEAR ENDED 10/31/2018		DOCKET NO. 20180202-SU	
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUSTMENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$21,934	\$8,203	\$30,137
(703) SALARIES AND WAGES - OFFICERS	7,670	330	8,000
(704) EMPLOYEE PENSIONS AND BENEFITS	1,034	766	1,800
(710) PURCHASED SEWER	8,732	(92)	8,640
(715) PURCHASED POWER	10,930	1,108	12,038
(716) FUEL FOR POWER PRODUCTION	105	(13)	92
(718) CHEMICALS	1,721	(843)	878
(720) MATERIALS AND SUPPLIES	5,025	(153)	4,872
(730) CONTRACTUAL SERVICES - BILLING	0	0	0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	504	0	504
(735) CONTRACTUAL SERVICES - TESTING	0	0	0
(736) CONTRACTUAL SERVICES - OTHER	25,007	912	25,919
(740) RENTS	2,087	0	2,087
(750) TRANSPORTATION EXPENSE	3,855	0	3,855
(755) INSURANCE EXPENSE	5,153	0	5,153
(765) REGULATORY COMMISSION EXPENSE	1,500	(1,110)	390
(770) BAD DEBT EXPENSE	1,531	0	1,531
(775) MISCELLANEOUS EXPENSE	<u>7,633</u>	<u>9,104</u>	<u>16,731</u>
	<u>\$104,421</u>	<u>\$18,212</u>	<u>\$122,633</u>

WEST LAKELAND WASTEWATER, LLC.		SCHEDULE NO. 3	
TEST YEAR ENDED OCTOBER 31, 2018		DOCKET NO. 20180202 -SU	
MONTHLY WASTEWATER RATES			
	RATES AT TIME OF FILING	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential</u>			
Base Facility Charge - All Meter Sizes	\$15.82	\$17.28	\$0.05
Charge Per 1,000 gallons			
6,000 gallon cap	\$5.88	\$6.42	\$0.02
<u>General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$15.82	\$17.28	\$0.05
3/4"	N/A	\$25.92	\$0.07
1"	\$39.55	\$43.20	\$0.12
1-1/2"	\$79.08	\$86.40	\$0.25
2"	\$126.53	\$138.24	\$0.40
3"	\$253.06	\$276.48	\$0.79
4"	\$395.41	\$432.00	\$1.24
6"	\$790.83	\$864.00	\$2.48
8"	\$1,265.32	\$1,382.40	\$3.97
Charge per 1,000 gallons	\$7.05	\$7.70	\$0.02
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
2,000 Gallons	\$27.58	\$30.12	
4,000 Gallons	\$39.34	\$42.96	
6,000 Gallons	\$51.10	\$55.80	