

State of Florida



Public Service Commission

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

DATE: November 22, 2011

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Jones-Alexis, Mouring, Walden)
Office of the General Counsel (Young) *YAKG POO JS ALM*

RE: Docket No. 110023-WS – Application for certificates to provide water and wastewater service in Lake County by MFL Utility Systems, L.L.C.
County(ies): Lake

AGENDA: 12/06/11 – Regular Agenda – Proposed Agency Action for Issues 1 and 2 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brisé

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\110023.RCM.DOC

Case Background

MFL Utility Systems, L.L.C. (MFL Utility or Utility) has been providing potable water and wastewater service to the Mid-Florida Lakes Yacht Club mobile home park (Mid-Florida MHP), located south of County Road 44 near the city of Leesburg, since approximately 1974. The Mid-Florida MHP is in the St. Johns River Water Management District (SJRWMD) in a Water Resource Caution Area. MFL Utility currently serves approximately 1,225 residential connections in addition to a clubhouse, compound, laundry room, fitness facility, two firehouses, and two pools. Based on projected revenues, the Utility is a Class B water and wastewater utility.

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MFL Utility is a wholly-owned subsidiary of Equity LifeStyle Properties, Inc. (ELPI). On January 7, 2011, ELPI filed an application for original water and wastewater certificates in Lake County on behalf of the Utility. Historically, ELPI included the cost of water and wastewater service in customers' lot rental fees. As such, ELPI was exempt from the Commission's regulation, pursuant to Section 367.022(5), Florida Statutes (F.S.). However, the Commission's approval of the Utility's request for original certificates makes the Utility subject to regulation by the Commission, pursuant to Section 367.031, F.S. ELPI intends to offset the establishment of rates and charges with appropriate decreases in lot rental fees.

On September 20, 2011, the Commission granted the Utility Certificate Nos. 656-W and 560-S to provide service to its requested service territory.¹ Staff conducted a customer meeting on November 9, 2011, in order to allow MFL Utility's customers to provide input regarding the Utility's quality of service and to answer customers' questions about the Utility's proposed rates and charges.

ELPI has also requested certificates and initial rates and charges for three additional wholly-owned utilities, including OB Utility Systems, L.L.C. (Docket No. 110020-WS), COL Utility Systems, L.L.C. (Docket No. 110021-WS), and HV Utility Systems, L.L.C. (Docket No. 110022-WU).

The purpose of this recommendation is to address the appropriate initial rates and charges for MFL Utility. The Commission has jurisdiction pursuant to Sections 367.031, 367.045, 367.081, 367.091, and 367.101, F.S.

¹ See Order No. PSC-11-0454-FOF-WS, issued October 10, 2011, in Docket No. 110023-WS, In re: Application for certificates to provide water and wastewater service in Lake County by MFL Utility Systems, L.L.C.

Discussion of Issues

Issue 1: What are the appropriate initial water and wastewater rates and return on investment for MFL Utility?

Recommendation: The water and wastewater rates, as shown on Schedule Nos. 1 and 2, are reasonable and should be approved. MFL Utility should be required to file a proposed customer notice to reflect the Commission-approved rates for the water and wastewater systems. The approved rates 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(1), Florida Administrative Code (F.A.C.). In addition, the approved rates 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. MFL Utility should be required to charge the approved rates until authorized to change them by the Commission in a subsequent proceeding. A return on equity of 10.85 percent plus or minus 100 basis points should also be approved. (Jones-Alexis, Walden, Young)

Staff Analysis: Rule 25-30.033(1)(t), (u), (v), and (w), F.A.C., specifies the requirements for establishing rates and charges for original certificates, including submission of a cost study, growth projections, and data related to the projected plant, capital structure, and operating and maintenance (O&M) expenses. In the instant case, the Utility's water and wastewater facilities are currently in operation and are built out. Therefore, the requested rates and charges in the application are based on the actual operating costs of the existing systems at designed capacity. This is consistent with Commission policy for setting initial rates and charges. The cost study provided in the application includes data related to the existing plant, capital structure, and O&M expenses and excludes customer growth projections.

Utility Facilities

MFL Utility's service territory covers a 196-acre area near Leesburg. This area encompasses the Mid-Florida MHP, which consists of mobile homes, a clubhouse, a compound, laundry facilities, two firehouses, two pools, and a fitness center. MFL Utility has completed installation and calibration of approximately 70 percent of its meters in conjunction with its application for initial rates and charges. The Utility's current Consumptive Use Permit, issued by the SJRWMD, authorizes the use of 123.37 million gallons per year of groundwater from the Floridan aquifer for household, landscape irrigation, and essential and unaccounted for type uses.

The existing water treatment facilities include 2 water supply wells and a steel ground storage tank with a capacity of 62,000 gallons. The plant has a designed capacity of 1.209 million gallons per day (MGD), which is sufficient to accommodate the current average flows of 0.293 MGD annual average daily flow (AADF). One 12-inch well is equipped with a 1,700 gallon per minute (GPM) pump, and a second 12-inch well is equipped with a 1,500 GPM pump, for a combined pumping capacity of 3,200 GPM. A third well has been installed but has not yet been cleared for service. The storage tank has high service pumping provided by two 30-horsepower motors, capable of pumping 750 GPM each. The plant uses aeration and chlorination for treatment and has an ammonia feed pump for disinfection using chloramines.

According to the Florida Department of Environmental Protection's (DEP) November 2010 inspection report, conversion to chloramines is awaiting clearance.

The existing wastewater treatment facilities have a capacity of 0.18 MGD, permitted on a three-month average daily flow (TMADF) basis. The treatment process is extended aeration with land application of the treated effluent. The plant consists of flow equalization, aeration, clarification, chlorination, and aerobic digestion of residuals. The Utility's DEP permit provides for a slow-rate restricted public access system for treated effluent, which consists of a sprayfield with a total wetted area of 10 acres.

Rate Base

In setting initial rates and charges for a new utility, Commission practice has been to set rates so that the utility will have an opportunity to earn a fair return on its investment when approximately 80 percent of its projected customers are being served. Typically, in the early years of development, the customer base of a utility is not sufficient to allow the utility to recover its O&M expenses and earn a fair return on its investment; but as growth reaches 80 percent of a utility's projected designed capacity, the initial rates become compensatory. In the instant case, MFL Utility's water and wastewater facilities are in existence and serving its customers at designed capacity. Schedule Nos. 1 and 2 contain the Utility's estimated rate base and revenue requirement and the resulting proposed rates and charges for water and wastewater, respectively.

MFL Utility did not have documentation to support the original costs of the water and wastewater facilities. Therefore, an original cost study was prepared by an accounting firm to estimate the costs of the assets when first dedicated to public service. The Utility's estimated costs for Utility Plant in Service (UPIS) are \$999,313 and \$1,017,217 for the water and wastewater facilities, respectively.

Rule 25-30.580(1)(a), F.A.C., provides that 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 a utility's facilities and plant when the facilities and plant are at their designed capacity. Rule 25-30.580(1)(b), F.A.C., provides that the minimum amount of CIAC should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution and wastewater collection systems. Because the service territory is a mobile home park in which ELPI rents, rather than sells, lots to customers, no CIAC have been collected by the Utility. Therefore, the CIAC balances are \$0 for both the water and wastewater systems.

In addition, because the proposed service territory is a mobile home park in which ELPI rents, rather than sells, lots to customers, the Utility has not collected, and will not collect, CIAC. Should the Utility wish to extend its service territory outside of the Mid-Florida MHP in the future, it must request a service availability policy and charges that are consistent with the guidelines in Rule 25-30.580, F.A.C., which require that at a minimum the cost of the lines should be contributed.

The Utility's estimated accumulated depreciation balance is based on the average service life guidelines for Class B utilities, as set forth in Rule 25-30.140, F.A.C. Based on the guidelines, the water and wastewater accumulated depreciation balances are (\$428,370) and (\$828,223), respectively. Estimated working capital allowances of \$21,984 and \$33,242 for water and wastewater, respectively, are based on 12.50 percent of the estimated water and wastewater O&M expenses, pursuant to Rule 25-30.433(2), F.A.C.

Staff recommends that MFL Utility's estimated rate base of \$592,927 for water and \$222,236 for wastewater, as shown on Schedule Nos. 1 and 2, are reasonable. This rate base is established only as a tool to aid the Commission in setting initial rates and is not intended to formally establish rate base. This is consistent with Commission practice in applications for original certificates.²

Cost of Capital

As required by Rule 25-30.033(1)(w), F.A.C., the application contained a schedule of MFL Utility's capital structure, including a statement of the methods of financing the operation of the Utility. The Utility's capital structure, as shown on Schedule No. 3, consists of 40 percent equity and 60 percent debt. Equity contributions or advances from related entities will be made as required by the Utility to finance and support its operations.

The Utility's proposed cost of equity of 10.85 percent is consistent with the Commission's current leverage formula in effect at the time of the Commission's vote.³ The Utility's cost of debt of 4.25 percent is based on the prime rate in effect at the time the application was filed (3.25 percent) plus 100 basis points.⁴

Staff recommends an overall cost of capital of 6.89 percent for MFL Utility based on a capital structure consisting of 40 percent equity and 60 percent debt, a cost of equity of 10.85 percent, and a cost of debt of 4.25 percent. Staff believes this is a reasonable overall cost of capital for calculating the revenue requirement for this original certificate case. Staff further

² See Order No. PSC-11-0113-PAA-WS, issued February 11, 2011, in Docket No. 050192-WS, In re: Application for certificates to provide water and wastewater service in Sumter County by Central Sumter Utility Company, L.L.C.; Order No. PSC-08-0540-PAA-WS, issued August 18, 2008, in Docket No. 080103-WS, In re: Application for certificates to provide water and wastewater service in Hardee and Polk Counties by TBBT Utility LLC; Order No. PSC-08-0228-PAA-WS, issued April 7, 2008, in Docket No. 060602-WS, In re: Application for certificate to provide water and wastewater service in Lee and Charlotte Counties by Town and Country Utilities Company; and Order No. PSC-07-0983-PAA-WS, issued December 10, 2007, in Docket No. 060726-WS, In re: Application for certificates to provide water and wastewater service in Glades County and water service in Highlands County by Silver Lake Utilities, Inc.

³ See Order No. PSC-11-0287-PAA-WS, issued July 5, 2011, in Docket No. 110006-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. Also, see Rules 25-30.415 and 25-30.033(1)(w) and (3), F.A.C.

⁴ See Order No. PSC-08-0540-PAA-WS, issued August 18, 2008, in Docket No. 080103-WS, In re: Application for certificates to provide water and wastewater service in Hardee and Polk Counties by TBBT Utility LLC; and Order No. PSC-08-0228-PAA-WS, issued April 7, 2008, in Docket No. 060602-WS, In re: Application for certificate to provide water and wastewater service in Lee and Charlotte Counties by Town and Country Utilities Company.

recommends that the Commission set the Utility's authorized return on equity at 10.85 percent with a range of plus or minus 100 basis points.

Net Operating Income

MFL Utility's estimated net operating income for water and wastewater services are shown on Schedule Nos. 1 and 2, respectively, and are based on the rate base for each system and the overall cost of capital of 6.89 percent, as previously discussed. The resulting net operating income figures for water and wastewater service are \$40,853 and \$15,312, respectively.

Revenue Requirement

MFL Utility's proposed revenue requirements are based on O&M expenses, depreciation, taxes other than income, and net operating income, as described above. Included in O&M expenses are chemicals, purchased power, plant maintenance, laboratory testing, insurance, and contractual services. Taxes other than income include projected regulatory assessment fees of 4.50 percent of gross revenues and personal property taxes.

The Utility's proposed revenue requirement for the water system of \$269,088 includes \$175,870 for O&M, \$31,748 for depreciation expense, and \$20,617 for taxes other than income. Staff recommends that the proposed revenue requirement for the water system of \$269,088 is reasonable and should be used to set initial rates for water service.

The Utility's proposed revenue requirement for the wastewater system of \$325,840 includes \$265,932 for O&M, \$27,241 for depreciation expense, and \$17,355 for taxes other than income. Staff recommends that the proposed revenue requirement for the wastewater system of \$325,840 is reasonable and should be used to set initial rates for wastewater service.

Rates

MFL Utility's proposed residential and general service rates are based on revenue requirements of \$269,088 and \$325,840 for water and wastewater, respectively. As shown on Schedule Nos. 1 and 2, the Utility's requested rates include a monthly base facility charge (BFC) and a single gallonage charge for all water and wastewater customers.

For water service, the Utility proposed a residential and general service BFC of \$7.10 for 5/8" x 3/4" meters. For both residential and general service water usage, the Utility proposed a gallonage charge of \$1.65 per 1,000 gallons for all levels of usage. For wastewater service, the Utility proposed a BFC of \$8.17 for all residential customers with meters of all sizes and \$8.17 for all general service customers with a 5/8" x 3/4" meter. For residential wastewater usage, the Utility proposed a gallonage charge of \$1.65 per 1,000 gallons, capped at 6,000 gallons. For general service wastewater usage, the Utility proposed a gallonage charge of \$2.58 per 1,000 gallons. Staff recommends that the Utility's proposed rates and rate structure are reasonable, consistent with Commission practice for setting initial water and wastewater rates, and should be approved.

Section 723.037, F.S., requires that 90 days' written notice be provided to the affected residents when a mobile home park wishes to change its lot rental fees. In addition, the Mid-Florida MHP's prospectus must be amended. The Florida Department of Business and Professional Regulation enforces this section of the statutes. Therefore, the Utility anticipates that it will begin collecting rates in mid-2012. If the Commission approves MFL Utility's request for initial rates, staff will work with the Utility to establish the effective date of its tariffs once Mid-Florida MHP's prospectus has been amended.

Customer Meeting

Approximately 280 MFL Utility customers attended a noticed customer meeting held at the Mid-Florida MHP Clubhouse on November 9, 2011. The purpose of the meetings was to allow customers to ask questions and provide input regarding the Utility's quality of service. Approximately 8 customers spoke during this meeting and raised 17 specific complaints. At the customer meeting, Commission staff gave opening remarks, and representatives of the Utility and the Office of Public Counsel (OPC) were present.

Of the 17 specific complaints received, summarized in Table 1-1, staff identified water quality and aging infrastructure as the most prevalent categories.

| <u>Type of Complaint</u> | <u>Total</u> |
|--------------------------|--------------|
| Water Quality | 5 |
| Plant Issues | 5 |
| Affordability | 3 |
| Meters | 2 |
| Other | 2 |
| Total | 17 |

The majority of those who attended the meetings repeatedly expressed concern over the Utility's water quality and testing. Most of the comments made by the eight customers who spoke were about the Utility's aging infrastructure and whether the cost of plant improvements would be borne by the customers rather than by the Utility as a result of the Utility's certification and Commission-approved rates and charges.

Customers' complaints about the quality of their water and wastewater service included statements that the water quality is poor and has declined each year. They described concerns

with respect to numerous issues, including leaks that could cause customers to incur high bills, meter installations and readings, and that the Utility's new rates would cause the community's upkeep to decline as a result of charges incurred for water usage.

MFL Utility filed a response to concerns raised at the customer meeting. The Utility's response indicated that both the water and wastewater plants are in compliance with and routinely inspected by the DEP. According to the Utility, customers will begin to be billed Commission-approved rates after all meters have been installed and the appropriate noticing to customers has been completed. The Utility anticipates that this will occur in mid-2012. Finally, the Utility stated in its response that ELPI site staff and a third-party plant operator are establishing an emergency preparedness plan that will be filed by the end of 2011.

Conclusion

The water and wastewater rates, as discussed and recommended in staff's analysis and shown on Schedule Nos. 1 and 2, respectively, appear reasonable and should be approved. MFL Utility should be required to file a proposed customer notice to reflect the Commission-approved rates for the water and wastewater systems. The approved rates 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(1), F.A.C. In addition, the approved rates 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. MFL Utility should be required to charge the approved rates until authorized to change them by the Commission in a subsequent proceeding. A return on equity of 10.85 percent plus or minus 100 basis points should also be approved.

Issue 2: What are the appropriate miscellaneous service charges for MFL Utility?

Recommendation: The appropriate miscellaneous service charges for MFL Utility are those described in staff's analysis. MFL Utility should be required to file a proposed customer notice to reflect the Commission-approved charges for the water and wastewater systems. The approved miscellaneous service charges 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(1), F.A.C. In addition, the approved charges 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. MFL Utility should be required to collect the approved charges until authorized to change them by the Commission in a subsequent proceeding. (Jones-Alexis, Young)

Staff Analysis: Pursuant to Section 367.091, F.S., MFL Utility requested authority to apply certain miscellaneous service charges.

Pursuant to Rule 25-30.460, F.A.C., utilities may apply for miscellaneous service charges, including initial connection, normal reconnection, violation reconnection, and premises visit charges. MFL Utility's proposed miscellaneous service charges, which are based upon actual expenses, are shown on Schedule No. 3. The Utility's proposed charges are similar to or lower than charges previously approved by the Commission for other Class B utilities.⁵ Additionally, Commission practice has been to place the burden of such charges on the cost causer rather than the general body of ratepayers. This is consistent with one of the fundamental principles of rate making – ensuring that the cost of providing service is recovered from the cost causer.⁶

The Utility proposed a wastewater violation reconnection charge equal to the actual cost incurred for providing that service. However, Commission practice has been to set this charge equal to the normal reconnection charge.⁷ Therefore, staff recommends that the violation reconnection charge be set at \$15.

⁵ See Order No. PSC-11-0199-PAA-WU, issued April 22, 2011, in Docket No. 100149-WU, In re: Application for increase in water rates in Lee County by Ni Florida, LLC; and Order No. PSC-08-0827-PAA-WS, issued December 22, 2008, in Docket No. 070694-WS, In re: Application for increase in water and wastewater rates in Orange County by Wedgefield Utilities, Inc.

⁶ See Order No. PSC-03-1119-PAA-SU, issued October 7, 2003, in Docket No. 030106-SU, In re: Application for staff-assisted rate case in Lee County by Environmental Protection Systems of Pine Island, Inc.; and Order No. PSC-96-1409-FOF-WU, issued November 20, 1996, in Docket No. 960716-WU, In re: Application for transfer of Certificate No. 123-W in Lake County from Theodore S. Jansen d/b/a Ravenswood Water System to Crystal River Utilities, Inc.

⁷ See Order No. PSC-11-0113-PAA-WS, issued February 11, 2011, in Docket No. 050192-WS, In re: Application for certificates to provide water and wastewater service in Sumter County by Central Sumter Utility Company, L.L.C.; Order No. PSC-08-0611-PAA-WS, issued September 22, 2008, in Docket No. 080113-WS, In re: Application for certificates to provide water and wastewater service in Duval County by Regency Utilities, Inc.; Order No. PSC-08-0540-PAA-WS, issued August 18, 2008, in Docket No. 080103-WS, In re: Application for certificates to provide water and wastewater service in Hardee and Polk Counties by TBBT Utility LLC; and Order No. PSC-08-0435-PAA-WS, issued July 7, 2008, in Docket No. 070548-WS, In re: Application for certificates to provide water and wastewater service in Marion County by Century - Fairfield Village, Ltd.

The Utility excluded from its proposed miscellaneous service charges a nonsufficient funds (NSF) check charge, which is a service fee authorized by Sections 68.065 and 832.08(5), F.S., based on the amount of a check that is returned for nonpayment. Staff notes that the Utility incurs expenses in receiving and processing returned checks. Therefore, staff recommends that a NSF check charge be approved. MFL Utility should be authorized to collect the following NSF check charges: \$25 if the face value of the check does not exceed \$50; \$30 if the face value is more than \$50 but does not exceed \$300; and \$40 if the face value is more than \$300.

Conclusion

Staff recommends that MFL Utility's request for authority to apply certain miscellaneous service charges, as reflected on Schedule No. 3, is reasonable and should be approved. In addition, staff recommends that the changes and additions to the Utility's miscellaneous service charges recommended herein are reasonable and should be approved. MFL Utility should be required to file a proposed customer notice to reflect the Commission-approved charges for the water and wastewater systems. The approved miscellaneous service charges 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(1), F.A.C. In addition, the approved charges 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. MFL Utility should be required to collect the approved charges until authorized to change them by the Commission in a subsequent proceeding.

Issue 3: Should this docket be closed?

Recommendation: If no timely protest to the proposed agency action issues is filed with the Commission by a substantially affected person, a Consummating Order should be issued. However, the docket should remain open to allow MFL Utility to file a proposed customer notice reflecting the Commission-approved water and wastewater rates and charges and to provide proof of the date notice was given no less than ten days after the date of the notice. (Jones-Alexis, Young)

Staff Analysis: If no timely protest to the proposed agency action issues is filed with the Commission by a substantially affected person, a Consummating Order should be issued. However, the docket should remain open to allow MFL Utility to file a proposed customer notice reflecting the Commission-approved water and wastewater rates and charges to provide proof of the date notice was given no less than ten days after the date of the notice.

**MFL UTILITY SYSTEMS, L.L.C.
 WATER SYSTEM**

Water Rate Base

| | |
|-------------------------------------|-------------------|
| Utility Plant in Service | \$ 999,313 |
| Accumulated Depreciation | (428,370) |
| Working Capital Allowance (1/8 O&M) | <u>21,984</u> |
| Water Rate Base | <u>\$ 592,927</u> |

Water Revenue Requirement

| | |
|---------------------------------|-------------------|
| Operating Revenues | <u>\$ 269,088</u> |
| Operating and Maintenance (O&M) | 175,870 |
| Net Depreciation Expense | 31,748 |
| Taxes Other Than Income | <u>20,617</u> |
| Net Operating Income | <u>\$ 40,853</u> |
| Water Rate Base | \$ 592,927 |
| Rate of Return | 6.89% |

Monthly Water Service Rates – Residential Service

| | |
|-------------------------------------|---------|
| Base Facility Charge 5/8" x 3/4" | \$ 7.10 |
| Charge per 1,000 gallons | \$ 1.65 |

Monthly Water Service Rates – General Service

| | |
|-------------------------------------|---------|
| Base Facility Charge 5/8" x 3/4" | \$ 7.10 |
| 1" | 17.75 |
| 1.5" | 35.50 |
| 2" | 56.80 |
| 3" | 106.50 |
| 4" | 177.50 |
| 6" | 355.00 |
| Charge per 1,000 gallons | \$ 1.65 |

Comparison of Residential Water Service Bills

| | |
|----------------|----------|
| 3,000 gallons | \$ 12.05 |
| 5,000 gallons | \$ 15.35 |
| 10,000 gallons | \$ 23.60 |

**MFL UTILITY SYSTEMS, L.L.C.
 WASTEWATER SYSTEM**

Wastewater Rate Base

| | |
|-------------------------------------|-------------------|
| Utility Plant in Service | \$ 1,017,217 |
| Accumulated Depreciation | (828,223) |
| Working Capital Allowance (1/8 O&M) | <u>33,242</u> |
| Wastewater Rate Base | <u>\$ 222,236</u> |

Wastewater Revenue Requirement

| | |
|---------------------------------|-------------------|
| Operating Revenues | <u>\$ 325,840</u> |
| Operating and Maintenance (O&M) | 265,932 |
| Net Depreciation Expense | 27,241 |
| Taxes Other Than Income | <u>17,355</u> |
| Net Operating Income | <u>\$15,312</u> |
| Wastewater Rate Base | \$ 222,236 |
| Rate of Return | 6.89% |

Monthly Wastewater Service Rates – Residential Service

| | |
|--|---------|
| Base Facility Charge | |
| All meter sizes | \$ 8.17 |
| Charge per 1,000 gallons (6,000 gallons maximum) | \$ 2.58 |

Monthly Wastewater Service Rates – General Service

| | |
|--------------------------|---------|
| Base Facility Charge | |
| 5/8" x 3/4" | \$ 8.17 |
| 1" | 20.43 |
| 1.5" | 40.85 |
| 2" | 65.36 |
| 3" | 122.55 |
| 4" | 204.25 |
| 6" | 408.50 |
| Charge per 1,000 gallons | \$ 2.58 |

Comparison of Residential Wastewater Service Bills

| | |
|----------------|----------|
| 3,000 gallons | \$ 15.91 |
| 5,000 gallons | \$ 21.07 |
| 10,000 gallons | \$ 23.65 |

MFL UTILITY SYSTEMS, L.L.C.

| <u>Cost of Capital</u> | | | | |
|--------------------------|---------------------------|----------------------|------------------------------------|--|
| Capital Structure | Balance per Filing | Percent Ratio | Staff Recommended Cost Rate | Staff Recommended Weighted Cost |
| Equity | \$ 326,065 | 40 % | 10.85% | 4.34% |
| Debt | <u>\$ 489,098</u> | <u>60 %</u> | 4.25% | <u>2.55%</u> |
| Total | \$ 815,163 | 100% | -- | 6.89% |
| Return on Equity | | | High | Low |
| Range of Reasonableness | | | 11.85% | 9.85% |

Miscellaneous Service Charges

| Description | Staff Recommended Business Hours Charges |
|--|---|
| Initial Connection Charge | \$ 15.00 |
| Normal Reconnection Charge | \$ 15.00 |
| Violation Reconnection Charge | \$ 15.00 |
| Premises Visit in Lieu of Disconnection Charge | \$ 10.00 |
| NSF Check Charge | \$25 for face value ≤ \$50 \$30 for \$300 ≤ face value > \$50 \$40 for face value > \$300 |