

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: March 3, 2025

TO: Marissa Ramos, Chief of Reliability and Resource Planning, Division of Engineering

FROM: Division of Engineering (Ramirez-Abundez, Ramos, Smith II) *ARA LS*
Division of Accounting and Finance (Folkman, Higgins, G. Kelley,) *DH*
Division of Economics (Bruce, Lenberg, Richards) *SH*
Office of the General Counsel (Farooqi, Imig) *ACH*

RE: Docket No. 20240105-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 scheduled for April 2, 2025.

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Case Background

West Lakeland Wastewater, LLC (West Lakeland or Utility) is a Class C utility providing wastewater service to approximately 316 residential customers in Polk County. Water service is provided by City of Lakeland Utilities. The Utility's last staff-assisted rate case (SARC) was in 2018.¹ In June 2023, the Utility, along with several other sister utilities, was approved for a limited alternative rate increase.² According to the Utility's 2023 annual report, its operating revenues were \$171,821 and operating expenses were \$176,141.

West Lakeland has been in existence since 1972 and was granted a Grandfather Certificate by the Commission in 2001 in the name of ABCA, Inc. and was subsequently transferred to West Lakeland Wastewater Inc.³ In 2009, the Utility was abandoned and appointed to Michael Smallridge as receiver of the wastewater system.⁴

On July 25, 2024, the Utility filed an application for a SARC and the official filing date of the SARC was established as September 20, 2024. In response to staff's second data request, the Utility indicated that it does not have any pro forma requests at this time.⁵

This Staff Report is a preliminary analysis of the Utility's books and records 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 May 21, 2025, for consideration at the June 3, 2025 Commission Conference. The preliminary recommendation will be revised as necessary using any new or updated information and the results of customer quality of service or other relevant comments, if any, received at the customer meeting scheduled for April 2, 2025.

The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.081, 367.0812, 367.0814, 367.091, and 367.121, Florida Statutes (F.S.).

¹ Order No. PSC-2019-0503-PAA-SU, issued November 25, 2019, in Docket No. 20180202-SU, *In re: Application for staff-assisted rate case in Polk County by West Lakeland Wastewater, LLC*.

² Order No. PSC-2023-0192-PAA-WS, issued June 30, 2023, in Docket No. 20220185-WS, *In re: Application for limited alternative rate increase in Hardee, Manatee, Marion, Polk, and Pasco Counties, by Charlie Creek Utilities, LLC, Crestridge Utilities, LLC, East Marion Utilities, LLC, Heather Hills Utilities, LCC, Holiday Gardens Utilities, LLC, Lake Yale Utilities, LLC, McLeod Garden Utilities, LLC, Orange Land Utilities, LLC, Sunny Shores Utilities, LLC, Sunrise Water, LLC and West Lakeland Wastewater, LLC*.

³ Order Nos. PSC-98-0752-FOF-SU, issued June 1, 1998, in Docket No. 971531-SU, *In re: Application for grandfather certificate to operate wastewater utility in Polk County by ABCA, Inc.* and PSC-2001-1271-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 Wastewater Inc.*

⁴ Order No. PSC-2009-0607-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.*

⁵ Document No. 10288-2024, dated December 12, 2024, in Docket No. 20240105-SU.

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Discussion of Issues

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

Preliminary Recommendation: Staff's recommendation regarding quality of service will not be finalized until after the customer meeting scheduled for April 2, 2025. (Ramirez-Abundez)

Staff Analysis: Pursuant to Section 367.081(2)(a)1, F.S., and Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in wastewater rate cases, the Commission shall determine the overall quality of service provided by the Utility. This determination is made from an evaluation of the utility's attempt to address customer satisfaction. Rule 25-30.433, F.A.C., further states that the most recent outstanding, citations, violations, and consent orders on file with the Florida Department of Environmental Protection (DEP), the county health department, and any DEP and county health department officials' testimony concerning quality of service shall be considered. In addition, any customer testimony, comments, or complaints received by the Commission are also reviewed. The operating condition of the wastewater system is addressed in Issue 2.

The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the complaints filed in the Commission's Consumer Activity Tracking System (CATS), received by the Utility, and filed with DEP for the test year and four years prior. There were no complaints recorded by CATS, 1 complaint recorded by DEP, and 19 complaints recorded by the Utility. Out of the 19 complaints recorded by the Utility, 14 were regarding quality of service and five pertained to billing issues. The 14 quality of service complaint consisted of wastewater treatment plant alarm going off, odor, and sewer system backing up. The five billing issue complaints consisted of incorrect billing and late fees. The Utility indicated that all 19 complaints have been resolved. As stated above, the DEP received one complaint regarding a lift station spill near a customer's house. The Utility addressed the issue to the DEP's satisfaction and the complaint was closed.

Conclusion

Staff's recommendation regarding quality of service will not be finalized until after the customer meeting scheduled for April 2, 2025.

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Issue 2: Are the infrastructure and operating conditions of West Lakeland Wastewater, LLC's wastewater system in compliance with DEP regulations?

Preliminary Recommendation: Staff's recommendation regarding DEP compliance will not be finalized until after the customer meeting scheduled for April 2, 2025. (Ramirez-Abundez)

Staff Analysis: Rule 25-30.225(2), F.A.C., requires each wastewater utility to maintain and operate its plant and facilities by employing qualified operators in accordance with the rule of the DEP. Rule 25-30.433(2), F.A.C., requires consideration of whether the infrastructure and operating conditions of the plant and facilities are in compliance with Rule 25-30.225., F.A.C. In making this determination, the Commission must consider testimony of the DEP and county health department officials, compliance evaluations, inspections, citations, violations, consent orders issued to the utility, customer testimony, comments, complaints, utility testimony, and responses to the aforementioned items.

Wastewater System Operating Conditions

West Lakeland's wastewater system has a permitted capacity of 70,000 gallons per day (GPD) Three Month Rolling Average Daily Flow (3MRADF) contact stabilization domestic wastewater treatment plant. Liquid chlorine disinfection is applied prior to wastewater effluent flowing into the percolation ponds and spray field. Staff reviewed the Utility's compliance evaluation inspections conducted by the DEP to determine the Utility's overall wastewater facility compliance. A review of the inspection conducted on April 17, 2024, indicated that West Lakeland wastewater treatment facility was in compliance with the DEP's rules and regulations.

Conclusion

Staff's recommendation regarding DEP compliance will not be finalized until after the customer meeting scheduled for April 2, 2025.

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Issue 3: What are the used and useful (U&U) percentages of West Lakeland's wastewater treatment plant (WWTP) and the wastewater collections system?

Preliminary Recommendation: West Lakeland's WWTP and wastewater collection system should both be considered 100 percent U&U. There is no excessive infiltration and inflow (I&I) and no adjustment to operating expenses is necessary. These are preliminary determinations and are subject to change. (Ramirez-Abundez)

Staff Analysis: As stated in Issue 2, West Lakeland's WWTP is permitted by the DEP as a 70,000 GPD facility. According to the Utility, its wastewater collection system is comprised of 1,835 feet of 4-inch polyvinyl chloride (PVC) force mains and 13,376 feet of 6-inch PVC collecting mains. There are 12 manholes and three lift stations throughout the service area.

Wastewater Treatment Plant and Collection System U&U

In its last rate case, the Commission found the WWTP and wastewater collection system to be 100 percent U&U.⁶ 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 recommends a U&U of 100 percent for the WWTP and wastewater collection system.

Infiltration and Inflow (I&I)

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 allowable wastewater treated to the actual amount of wastewater treated. Allowable treated water was calculated as 34,769,303 gallons and the amount of wastewater treated was 29,183,000 gallons. The amount treated is less than the estimated allowable amount. Therefore, there is no excessive I&I and no adjustment to operating expenses is necessary.

Conclusion

Staff recommends West Lakeland's WWTP and wastewater collection system should both be considered 100 percent U&U. There is no excessive I&I and no adjustment to operating expenses is necessary. These are preliminary determinations and are subject to change.

⁶ Order No. PSC-2019-0503-PAA-SU, issued November 25, 2019, in Docket No. 20180202-SU, *In re: Application for staff-assisted rate case in Polk County by West Lakeland Wastewater, LLC*.

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Issue 4: 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 is \$1,671. (Richards)

Staff Analysis: The appropriate components of the Utility's rate base include utility plant in service (UPIS), land and land rights, accumulated depreciation, contributions-in-aid of construction (CIAC), accumulated amortization of CIAC, and working capital. Staff selected the test year ended June 30, 2024, for the instant docket. Commission audit staff determined that the Utility's books and records are in compliance with the currently-applicable National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA). A summary of each component and the recommended adjustments are discussed below.

Utility Plant in Service

The Utility recorded UPIS of \$309,485. Staff made an averaging adjustment reducing this amount by \$69, and therefore recommends UPIS of \$309,416.

Land and Land Rights

The Utility recorded a land and land rights balance of \$356 for its wastewater system. Staff made no adjustments to this account, therefore recommends a land and land right balance of \$356.

Used and Useful

As discussed in Issue 3, the Utility's system is considered 100 percent U&U. Therefore, no U&U adjustment is necessary.

Accumulated Depreciation

The Utility recorded accumulated depreciation of \$271,797. Audit staff reduced this amount by \$3,905. Additionally, staff increased accumulated depreciation by \$3,970 to reflect an averaging adjustment. Therefore, staff recommends an average accumulated depreciation balance of \$271,862 ($\$271,797 - \$3,905 + \$3,970$).

Contributions-In-Aid of Construction

The Utility recorded CIAC of \$221,480. Staff made no adjustments to CIAC, and therefore recommends an average CIAC balance of \$221,480.

Accumulated Amortization of CIAC

The Utility recorded accumulated amortization of CIAC of \$164,343. Staff decreased this balance by \$1,600 to reflect an averaging adjustment. Therefore, staff recommends an average accumulated amortization of CIAC balance of \$162,743 ($\$164,343 - \$1,600$).

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(3), F.A.C., staff used the one-eighth operation and maintenance (O&M) expense (less rate case expense) formula for calculating the working capital allowance. Section 367.081(9), F.S., prohibits a utility from earning a return on

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the unamortized balance of rate case expense. As such, for this calculation staff removed the rate case expense of \$593. This resulted in an adjusted O&M expense balance of \$179,979 (\$180,572 - \$593). Applying this formula, staff recommends a working capital allowance of \$22,497 ($\$179,979 \div 8$).

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base is \$1,671. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

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Issue 5: 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 9.42 percent with a range of 8.42 percent to 10.42 percent. The appropriate overall rate of return is 8.40 percent. (Richards)

Staff Analysis: The Utility's capital structure consists of long-term debt, common equity and customer deposits. The Utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE is 9.42 percent based on the Commission-approved leverage formula currently in effect.⁷ Staff recommends an ROE of 9.42 percent with a range of 8.42 percent to 10.42 percent, and an overall rate of return of 8.40 percent. The ROE and overall rate of return are shown on Schedule No. 2.

⁷ Order No. PSC-2024-0165-PAA-WS, issued May 22, 2024, in Docket No. 20240006-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.*

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Issue 6: What are the appropriate test year revenues for West Lakeland Wastewater, LLC?

Preliminary Recommendation: The appropriate test year revenues for West Lakeland are \$199,785. (Lenberg)

Staff Analysis: West Lakeland recorded total test year revenues of \$190,996, which included \$183,393 of service revenues and \$7,603 of miscellaneous revenues. Staff made an adjustment to service revenues. The Utility recorded \$53 for general service revenues; however, there are no general service customers. Therefore, staff removed the revenues of \$53 reflected for the general service customers, which results in service revenues of \$183,340. The Utility also had a price index that became effective on June 1, 2024. Staff annualized service revenues by applying the number of billing determinants to the rates in effect as of June 1, 2024. As a result, staff determined that service revenues should be \$192,035, which is an increase of \$8,642. In addition, staff made an adjustment to miscellaneous revenues to reflect revenues collected as a result of occurrences during the test year. Therefore, staff increased miscellaneous revenues by \$147 to reflect total miscellaneous revenues of \$7,750 (\$7,603 + \$147). Based on the above, the appropriate test year revenues for West Lakeland are \$199,785 (\$192,035+ \$7,750).

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Issue 7: What is the appropriate amount of operating expense for West Lakeland Wastewater, LLC?

Preliminary Recommendation: The amount of operating expense for West Lakeland is \$208,083. (Richards)

Staff Analysis: The Utility recorded an operating expense of \$207,252. The test year O&M expenses have been reviewed by staff, including invoices and other supporting documentation. Staff made several adjustments to the Utility's operating expense as described below.

Operation and Maintenance Expense

Rate Case Expense (765)

The Utility did not record any rate case expense for the instant docket. The Utility is required by Rule 25-22.0407, F.A.C., to mail notices of the rate case overview, final rates, and four-year rate reduction. Staff calculated noticing costs to be \$1,055. Staff calculated the distance from the Utility to Tallahassee as 226 miles. Based on the 2025 Internal Revenue Service business mileage rate of \$0.70, staff calculated the round-trip travel expense to the Commission Conference of \$316.⁸ Additionally, the Utility paid a filing fee of \$1,000.

Staff recommends a total rate case expense, consisting of noticing costs, travel, and filing fee of \$2,372 ($\$1,055 + \$316 + \$1,000$), which amortized over four years is \$593 ($\$2,372 \div 4$ years).

Bad Debt Expense (770)

The Utility recorded bad debt expense of \$4,506. Staff notes that it is Commission practice to calculate bad debt expense using a three-year average when the information is available. In its three most recent Annual Reports (2021, 2022, and 2023) the Utility recorded bad debt expenses of \$750, \$2,566 and \$3,914, respectively. Staff calculated the average bad debt expense for these previous three years to be \$2,410 ($(\$750 + \$2,566 + \$3,914) \div 3$) which represents a decrease of \$2,096. Therefore, staff recommends total bad debt expense of \$2,410 ($\$4,506 - \$2,096$).

Operation and Maintenance Expense Summary

The Utility recorded test year O&M expense of \$182,075. Based on the above adjustments, staff recommends O&M expense be reduced by \$1,503. This results in a total O&M expense of \$180,572 ($\$182,075 - \$1,503$). Staff's recommended adjustments to O&M are shown on Schedule No. 3-C.

Depreciation Expense

The Utility recorded depreciation expense of \$9,516. Using the depreciation rates prescribed in Rule 25-30.140, F.A.C., staff increased this amount by \$890. Therefore, staff recommends depreciation expense of \$10,406.

⁸ <https://www.irs.gov/tax-professionals/standard-mileage-rates>

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Amortization of CIAC

The Utility recorded amortization of CIAC of \$3,200. Staff made no adjustments and therefore recommends amortization of CIAC of \$3,200.

Taxes Other Than Income (TOTI)

The Utility recorded TOTI of \$12,461. Audit staff increased TOTI by \$389 to reflect the appropriate regulatory assessment fees (RAFTs) based on corrected Utility test year revenues. Based on revenues discussed in Issue 6, TOTI should be increased by \$7 to reflect RAFTs of 4.5 of the change in revenues. As discussed in Issue 9, staff recommends revenues be increased by \$23,298 in order to reflect the change in revenue required to cover expenses and allow the Utility to earn an operating margin of \$15,000. As a result, TOTI should be increased by \$1,048 to reflect RAFTs of 4.5 percent of the change in revenues. Therefore, staff recommends TOTI of \$13,905 ($\$12,461 + \$389 + \$7 + \$1,048$).

Operating Expense Summary

The Utility recorded operating expenses of \$207,252. The application of staff's recommended adjustments to the Utility's recommended operating expense results in a total operating expense of \$208,083. Operating expenses are shown on Schedule No. 3-A, and the related adjustments are shown on Schedule No. 3-B.

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Issue 8: 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, West Lakeland meets the requirement for application of the operating ratio methodology for calculating the revenue requirement. (Richards)

Staff Analysis: Rule 25-30.4575(2), F.A.C., provides that, in rate cases processed under Rule 25-30.455, F.A.C., the Commission will use the operating ratio methodology to establish the Utility's revenue requirement when its rate base is not greater than 125 percent of O&M expenses, less regulatory commission expense, and the use of the operating ratio methodology does not change the Utility's qualification for a SARC.

With respect to West Lakeland, staff recommended a rate base of \$1,671. After removal of rate case expense, staff calculated an O&M expense of \$179,979 (\$180,572 - \$593). Based on staff's preliminary recommended amounts, the Utility's rate base is 0.93 percent of its adjusted O&M expense. Based on this, the Utility qualifies for application of the operating ratio methodology.

Rule 25-30.4575, F.A.C., limits the operating ratio adjustment to \$15,000, therefore staff recommends the appropriate margin is \$15,000.

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Issue 9: What is the appropriate revenue requirement for West Lakeland Wastewater, LLC?

Preliminary Recommendation: The appropriate revenue requirement is \$223,083, resulting in an annual increase of \$23,298 (11.66 percent). (Richards)

Staff Analysis: West Lakeland should be allowed an annual increase of \$23,298 (11.66 percent). This should allow the Utility the opportunity to recover expenses and earn an operating margin of \$15,000. The calculations for revenue requirement are shown on Table 9-1.

Table 9-1
Revenue Requirement

| | |
|-------------------------------|------------------|
| Adjusted O&M Expense | \$179,419 |
| Operating Margin (%) | <u>12.00%</u> |
| Operating Margin – Limit (\$) | <u>\$15,000</u> |
| Wastewater O&M Expense | \$180,572 |
| Depreciation Expense | 10,406 |
| Amortization | 3,200 |
| Taxes Other Than Income | <u>13,905</u> |
| Revenue Requirement | <u>\$223,083</u> |
| Less Test Year Revenues | \$199,785 |
| Annual Increase | \$23,298 |
| Percent Increase | 11.66% |

Source: Staff calculations.

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Issue 10: What are the appropriate rate structure and rates for the West Lakeland Wastewater, LLC?

Preliminary Recommendation: The recommended rate structures and monthly wastewater rates are shown on Schedule No. 4. 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 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. (Lenberg)

Staff Analysis: West Lakeland provides wastewater service to approximately 316 residential customers and no general service customers. Currently, the wastewater rate structure for residential customers consists of a monthly uniform base facility charge (BFC) for all meter sizes and gallonage charge with a 6,000 gallonage cap. The general service rate structure consists of BFCs 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 in order to evaluate various BFC cost recovery percentages and gallonage caps for the residential wastewater customers. The goal of the evaluation was to select the rate design parameters that: 1) produce the recommended revenue requirement; 2) equitably distribute cost recovery among the Utility's customers; and 3) implement a gallonage cap, where appropriate, that considers approximately the amount of water that may return to the wastewater system.

Consistent with Commission practice, staff allocated 50 percent of the wastewater revenue to the BFC due to the capital intensive nature of wastewater plants. The Utility's current wastewater gallonage cap is set at 6,000 gallons per month. The wastewater gallonage cap recognizes that not all water used by the residential customers is returned to the wastewater system. Based on staff's review of the billing data, staff recommends that the gallonage cap for residential customers remain at 6,000 gallons. Staff also recommends that the general service gallonage charge continue to be 1.2 times greater than the residential gallonage charge, which is consistent with Commission practice.

In addition, wastewater rates are calculated on customers' water demand; if those customers' water demand is expected to decline due to repression, then the billing determinants used to calculate wastewater rates should be adjusted accordingly. In determining the number of wastewater gallons subject to repression, staff uses the gallons between the non-discretionary threshold and the wastewater gallonage cap and applies the percentage reduction in water gallons. In this case, there is no water system to calculate repression. Therefore, a repression adjustment for wastewater is not applicable.

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

Preliminary Recommendation: The appropriate initial customer deposit is \$114 for all residential meter sizes. 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. (Lenberg)

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.⁹ Currently, the Utility has an initial customer deposit of \$78. However, this amount does not cover two months of average bills based on staff's recommended rates. According to the Utility's billing data, the average monthly residential wastewater usage is 3,320 gallons per customer. Therefore, the average residential monthly bill based on staff's recommended rates is approximately \$57.

Staff recommends the appropriate initial customer deposit is \$114 for all residential meter sizes. 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.

⁹ Order 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: What are the appropriate miscellaneous service charges for West Lakeland Wastewater, LLC?

Preliminary Recommendation: The appropriate miscellaneous service charges are shown on Table 12-4 and should be approved. The Utility should be required to file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective for service rendered or connections made 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 and the notice has been received by customers. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Lenberg)

Staff Analysis: West Lakeland is requesting to revise its existing miscellaneous service charges. The Utility's existing miscellaneous service charges for wastewater were established in 1997.¹⁰ The Utility's late payment charge was approved in 2011.¹¹ The Utility's Convenience charge was approved in 2013.¹² Section 367.091, F.S., authorizes the Commission to change miscellaneous service charges. The Utility's violation reconnection charge and convenience charge will remain unchanged. The Utility's requested miscellaneous charges were accompanied by its reason for requesting the charges, as well as the cost justification required by Section 367.091(6), F.S. The Utility's existing and requested miscellaneous service charges are shown below in Tables 12-1.

Table 12-1
West Lakeland's Existing and Requested Miscellaneous Service Charges

| Description | <u>Existing</u> | <u>Requested</u> |
|-------------------------------|------------------------|-------------------------|
| Initial Connection Charge | \$15.00 | \$80.00 |
| Normal Reconnection Charge | \$15.00 | \$80.00 |
| Violation Reconnection Charge | Actual Cost | N/A |
| Premises Visit Charge | \$10.00 | \$80.00 |
| Late Payment Charge | \$7.00 | \$7.85 |
| Convenience Charge | \$2.50 | N/A |

Source: Utility's current tariffs and cost justification documentation.

Premises Visit Charge

As shown on Table 12-1, the Utility's request consists of several miscellaneous service charges. Rule 25-30.460, F.A.C., does not allow for initial connection and normal reconnection charges.¹³ The Utility's requested initial connection and normal reconnection charges are obsolete and inconsistent with the Rule. The Utility provided cost justification of \$81.02; however, the Utility

¹⁰ Order No. PSC-98-0752-FOF-SU, issued June 1, 1998, in Docket No. 971531-SU, *In re: Application for grandfather certificate to operate wastewater Utility in Polk County by ABCA, Inc.*

¹¹ Order No. PSC-11-0204-TRF-SU, issued April 25, 2011, in Docket No. 100413-SU, *In re: Request for approval of tariff amendment to include a late fee of \$14.00 in Polk County by West Lakeland Wastewater.*

¹² Order No. PSC-13-0426-TRF-SU, issued September 19, 2013, in Docket No. 120289-SU, *In re: Request for approval of tariff sheets for miscellaneous service charges in Polk County by West Lakeland Wastewater LLC.*

¹³ Order No. PSC-2021-0201-FOF-WS, issued June 4, 2021, in Docket No. 20200240-WS, *In re: Proposed amendment of Rule 25-30.460, F.A.C., Application for Miscellaneous Service Charges.*

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requested a charge of \$80.00 for a premises visit which represents the cost of a trip to perform a specified service. Staff believes the cost justification is reasonable and imposes the cost upon the cost causer. Based on the Rule, staff recommends that the initial connection and normal reconnection charges be removed. Staff also recommends that the definition for the premises visit charge be updated to comply with amended Rule 25-30.460, F.A.C. The premises visit charge should be \$80.00. The Utility's calculation for the premises visit charge is shown below on Table 12-2.

Table 12-2
Calculation for Requested Premises Visit

| <u>Activity</u> | <u>Cost</u> |
|------------------------------------------------------------|----------------|
| Mileage (\$0.70 per mile x 40) | \$28.00 |
| Labor – Tech – Round Trip Drive (\$27.85 x 1.15) | \$32.03 |
| Labor – Tech – Location Labor Time (\$27.85 x 0.50) | \$13.93 |
| Labor – Tech – Customer Care Representative (28.25 x 0.25) | <u>\$7.06</u> |
| Total | <u>\$81.02</u> |

Source: Utility's cost justification documentation.

Late Payment Charge

The Utility currently has a \$7.00 late payment charge. The Utility is requesting a \$7.85 late payment charge to recover the cost of labor, supplies, and postage associated with processing late payment notices. 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. The Utility calculated the actual costs for its late payment charges to be \$7.85. The Utility indicated that it will take approximately 15 minutes per account to research, compile, and produce late notices. The delinquent customer accounts will be processed by the administrative employee, which results in labor cost of \$7.06 (\$28.25 x 0.25hr). This is consistent with prior Commission decisions where the Commission has allowed 5-15 minutes per account per month for the administrative labor associated with processing delinquent customer accounts.¹⁴ In addition, the Utility included a material cost of \$0.79 for paper, envelopes, and postage, which results in total costs of \$7.85 (\$7.06 + \$0.79). The Utility's calculation for its costs associated with a late payment charge is shown on Table 12-3. Staff recommends the requested late payment charge of \$7.85 be approved.

¹⁴ Order Nos. PSC-2016-0041-TRF-WU, issued January 25, 2016, in Docket No. 20150215-WU, *In re: Request for approval of tariff amendment to include miscellaneous service charges for the Earlene and Ray Keen Subdivisions, the Ellison Park Subdivision and the Lake Region Paradise Island Subdivision in Polk County, by Keen Sales, and Utilities, Inc.* and PSC-2015-0569-PAA-WS, issued December 16, 2015, in Docket No. 20140239-WS, *In re: Application for staff-assisted rate case in Polk County by Orchid Springs Development Corporation.*

Date: March 3, 2025

Table 12-3
Calculation of Proposed Late Payment Charge

| <u>Activity</u> | <u>Cost</u> |
|-------------------------------------------------------|---------------|
| Supply – Paper Envelope (\$0.10 x 1.00) | \$0.10 |
| Supply – Postage (\$0.69 x 1.00) | \$0.69 |
| Labor – Customer Care Representative (\$28.25 x 0.25) | \$7.06 |
| Total | <u>\$7.85</u> |

Source: Utility's cost justification documentation

Table 12-4
Staff Recommended Miscellaneous Service Charge

| <u>Description</u> | <u>Recommended Rates</u> |
|-------------------------------|--------------------------|
| Premises Visit Charge | \$80.00 |
| Late Payment Charge | \$7.85 |
| Violation Reconnection Charge | Actual Cost |
| Convenience Charge | \$2.50 |

Source: Staff's Calculations

Conclusion

The appropriate miscellaneous service charges are shown on Table 12-4 and should be approved. The Utility should be required to file a proposed customer notice to reflect the Commission approved charges. The approved charges should be effective for service rendered or connections made 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 and the notice has been received by customers. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

Date: March 3, 2025

Issue 13: 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. 4, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. Pursuant to Section 367.081(8), F.S., the decrease in rates should become effective immediately following the expiration of the rate case expense recovery period. West Lakeland should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and rationale no later than one month prior to the effective date of the new rates. If the Utility files revised tariffs reflecting 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 and the reduction in the rates due to the amortized rate case expense. (Richards)

Staff Analysis: Section 367.081(8), F.S., requires that the rates be reduced by the amount of rate case expense previously included in rates, immediately following the expiration of the recovery period. With respect to West Lakeland, 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 \$621.

Staff recommends that the rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. Pursuant to Section 367.081(8), F.S., the decrease in rates should become effective immediately following the expiration of the rate case expense recovery period. West Lakeland should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and rationale no later than one month prior to the effective date of the new rates. If the Utility files revised tariffs reflecting 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 and the reduction in the rates due to the amortized rate case expense.

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Issue 14: Should the recommended rates be approved for West Lakeland Wastewater, LLC on 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 reflecting the Commission-approved rates. The approved rates 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 temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. Further, prior to implementing any temporary rates, the Utility should provide appropriate financial 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 both the current monthly and total amount 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. (Richards)

Staff Analysis: This recommendation proposes an increase in rates. A timely protest might delay a 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 proposed rates be approved on a temporary basis. West Lakeland should file revised tariff sheets and a proposed customer notice reflecting 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 it has been received by the customers. The additional revenue produced by staff's recommended rates and collected by the Utility should be subject to the refund provisions discussed below.

West Lakeland should be authorized to initiate the temporary rates upon staff's approval of an appropriate security for the potential refund and cost of the proposed customer notice. Security should be in the form of either a bond or letter of credit in the amount of \$15,990. Alternatively, the Utility may establish an escrow agreement with an independent financial institution.

If the Utility chooses a bond for securing the potential refund, 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.

Date: March 3, 2025

If the Utility chooses a letter of credit for securing the potential refund, the letter of credit 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. 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 prior written authorization of the Commission Clerk, or his or her designee.
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.

The Utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission Clerk's office no later than the 20th of every 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.

| WEST LAKELAND WASTEWATER, LLC TEST YEAR ENDED 06/30/2024 SCHEDULE OF WASTEWATER RATE BASE | | SCHEDULE NO. 1-A DOCKET NO. 20240105-SU | |
|-------------------------------------------------------------------------------------------------|---------------------------|--------------------------------------------|-------------------------|
| DESCRIPTION | BALANCE PER UTILITY | STAFF ADJ. | BALANCE PER STAFF |
| 1. UTILITY PLANT IN SERVICE | \$309,485 | (\$69) | \$309,416 |
| 2. LAND & LAND RIGHTS | 356 | 0 | 356 |
| 3. ACCUMULATED DEPRECIATION | (271,797) | (65) | (271,862) |
| 4. CIAC | (221,480) | 0 | (221,480) |
| 5. ACCUMULATED AMORTIZATION OF CIAC | 164,343 | (1,600) | 162,743 |
| 6. WORKING CAPITAL ALLOWANCE | <u>\$0</u> | <u>\$22,497</u> | <u>\$22,497</u> |
| WASTEWATER RATE BASE | <u>(\$19,093)</u> | <u>\$20,764</u> | <u>\$1,671</u> |

| WEST LAKELAND WASTEWATER, LLC | | SCHEDULE NO. 1-B |
|--------------------------------------|------------------------------------------------|-------------------------------|
| TEST YEAR ENDED 6/30/2024 | | DOCKET NO. 20240105-SU |
| ADJUSTMENTS TO RATE BASE | | |
| | <u>UTILITY PLANT IN SERVICE</u> | <u>WASTEWATER</u> |
| | To reflect an averaging adjustment. | (\$69) |
| | <u>ACCUMULATED DEPRECIATION</u> | |
| 1. | To reflect auditing adjustments. | \$3,905 |
| 2. | To reflect an averaging adjustment. | <u>(3,970)</u> |
| | Total | <u>(\$65)</u> |
| | <u>ACCUMULATED AMORTIZATION OF CIAC</u> | |
| | To reflect an averaging adjustment. | (\$1,600) |
| | <u>WORKING CAPITAL ALLOWANCE</u> | |
| | To reflect 1/8 O&M expense (less RCE). | \$22,497 |

| WEST LAKELAND WASTEWATER, LLC TEST YEAR ENDED 6/30/2024 SCHEDULE OF CAPITAL STRUCTURE | | | | | SCHEDULE NO. 2 DOCKET NO. 20240105-SU | |
|---------------------------------------------------------------------------------------------|------------------------|---------------------------------------|----------------------------------|---------------------------------|------------------------------------------|--------------------------|
| <u>CAPITAL COMPONENT</u> | <u>PER UTILITY</u> | <u>PRO RATA ADJUST- MENTS</u> | <u>BALANCE PER STAFF</u> | <u>PERCENT OF TOTAL</u> | <u>COST</u> | <u>WEIGHTED COST</u> |
| 1. LONG-TERM DEBT | \$29,098 | (\$28,691) | \$407 | 24.39% | 7.18% | 1.75% |
| 2. COMMON EQUITY | 82,551 | (81,395) | 1,156 | 69.18% | 9.42% | 6.52% |
| 3. CUSTOMER DEPOSITS | <u>\$7,675</u> | <u>(\$7,568)</u> | <u>\$107</u> | <u>6.43%</u> | 2.00% | <u>0.13%</u> |
| TOTAL CAPITAL | <u>\$119,324</u> | <u>(\$117,653)</u> | <u>\$1,671</u> | <u>100.00%</u> | | <u>8.40%</u> |
| <u>RANGE OF REASONABLENESS</u> | | | | | <u>LOW</u> | <u>HIGH</u> |
| RETURN ON EQUITY | | | | | 8.42% | 10.42% |
| OVERALL RATE OF RETURN | | | | | 7.71% | 9.09% |

| WEST LAKELAND WASTEWATER, LLC TEST YEAR ENDED 6/30/2024 SCHEDULE OF WASTEWATER OPERATING INCOME | | | SCHEDULE NO. 3-A DOCKET NO. 20240105-SU | | |
|-------------------------------------------------------------------------------------------------------|-----------------------------|---------------------------|--------------------------------------------|----------------------------|------------------------|
| | TEST YEAR PER UTILITY | STAFF ADJUST- MENTS | STAFF ADJUSTED TEST YEAR | ADJUST. FOR INCREASE | REVENUE REQUIREMENT |
| 1. TOTAL OPERATING REVENUES | \$190,996 | \$8,789 | \$199,785 | \$23,298 11.66% | \$223,083 |
| 2. OPERATING EXPENSES: | | | | | |
| 2. OPERATION & MAINTENANCE | \$182,075 | (\$1,503) | \$180,572 | \$0 | \$180,572 |
| 3. DEPRECIATION | 9,516 | 890 | 10,406 | 0 | 10,406 |
| 4. AMORTIZATION | 3,200 | 0 | 3,200 | 0 | 3,200 |
| 5. TAXES OTHER THAN INCOME | <u>\$12,461</u> | <u>\$396</u> | <u>\$12,856</u> | <u>\$1,048</u> | <u>\$13,905</u> |
| TOTAL OPERATING EXPENSES | <u>\$207,252</u> | <u>(\$218)</u> | <u>\$207,028</u> | <u>\$1,048</u> | <u>\$208,083</u> |
| 6. OPERATING INCOME/(LOSS) | (\$16,256) | | (\$7,249) | | \$15,000 |
| 7. WASTEWATER RATE BASE | (\$19,093) | | \$20,764 | | \$1,671 |
| 8. OPERATING MARGIN | | | | | 12.00% |

Date: March 3, 2025

| WEST LAKELAND WASTEWATER, LLC | | SCHEDULE 3-B |
|------------------------------------------------------|-----------------------------------|------------------------|
| TEST YEAR ENDED 6/30/2024 | | DOCKET NO. 20240105-SU |
| ADJUSTMENTS TO OPERATING INCOME | | |
| | | WASTEWATER |
| OPERATING REVENUES | | |
| To reflect auditing adjustments. | | <u>\$8,642</u> |
| OPERATION & MAINTENANCE EXPENSE | | |
| 1. | Rate Case Expense (765) | |
| | To reflect 1/4 rate case expense. | \$593 |
| 2. | Bad Debt Expense (770) | |
| | To reflect three-year average. | <u>(\$2,096)</u> |
| TOTAL OPERATION & MAINTENANCE ADJUSTMENTS | | <u>(\$1,503)</u> |
| DEPRECIATION EXPENSE | | |
| To reflect appropriate depreciation expense. | | \$890 |
| TAXES OTHER THAN INCOME | | |
| To reflect auditing adjustments. | | \$389 |
| To reflect appropriate test year RAFs | | <u>7</u> |
| Total | | <u>\$396</u> |
| TOTAL OPERATING EXPENSE ADJUSTMENTS | | <u>(\$218)</u> |

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| WEST LAKELAND WASTEWATER, LLC | | SCHEDULE NO. 3-C | | |
|------------------------------------|-------------------------------------|----------------------------------|-----------------------------------|--------------------------------|
| TEST YEAR ENDED 6/30/2024 | | DOCKET NO. 20240105-SU | | |
| ANALYSIS OF WASTEWATER O&M EXPENSE | | | | |
| <u>ACCT.#</u> | <u>DESCRIPTION</u> | <u>TOTAL PER UTILITY</u> | <u>STAFF ADJUST- MENT</u> | <u>TOTAL PER STAFF</u> |
| 701 | Salaries and Wages – Employees | \$42,711 | \$0 | \$42,711 |
| 703 | Salaries and Wages – Officers | 7,197 | 0 | 7,197 |
| 704 | Employee Pensions and Benefits | 5 | 0 | 5 |
| 710 | Purchased Wastewater Treatment | 560 | 0 | 560 |
| 711 | Sludge Removal Expense | 33,918 | 0 | 33,918 |
| 715 | Purchased Power | 13,338 | 0 | 13,338 |
| 718 | Chemicals | 2,715 | 0 | 2,715 |
| 720 | Materials and Supplies | 8,000 | 0 | 8,000 |
| 731 | Contractual Services – Professional | 1,092 | 0 | 1,092 |
| 735 | Contractual Services – Testing | 1,240 | 0 | 1,240 |
| 736 | Contractual Services – Other | 30,148 | 0 | 30,148 |
| 740 | Rents | 9,591 | 0 | 9,591 |
| 750 | Transportation Expense | 7,985 | 0 | 7,985 |
| 755 | Insurance Expense | 8,506 | 0 | 8,506 |
| 765 | Rate Case Expense | 0 | 593 | 593 |
| 770 | Bad Debt Expense | 4,506 | (2,096) | 2,410 |
| 775 | Miscellaneous Expenses | <u>\$10,563</u> | <u>\$0</u> | <u>\$10,563</u> |
| | Total O&M Expense | <u>\$182,075</u> | <u>(\$1,503)</u> | <u>\$180,572</u> |
| | Working Capital is 1/8 O&M Less RCE | | | \$22,497 |

| WEST LAKELAND WASTEWATER, LLC | | SCHEDULE NO. 4 DOCKET NO. 20240105-SU | |
|---------------------------------------------------------------------|-------------------------------|---------------------------------------------|-----------------------------|
| TEST YEAR ENDED 6/30/24 | | | |
| MONTHLY WASTEWATER RATES | | | |
| | UTILITY'S CURRENT RATES | STAFF RECOMMENDED RATES | 4 YEAR RATE REDUCTION |
| <u>Residential</u> | | | |
| Base Facility Charge - All Meter Sizes | \$22.61 | \$28.33 | \$0.08 |
| Charge per 1,000 gallons (6,000 gallon cap) | \$8.41 | \$8.53 | \$0.02 |
| <u>General Service</u> | | | |
| Base Facility Charge by Meter Size | | | |
| 5/8" x 3/4" | \$22.61 | \$28.33 | \$0.08 |
| 3/4" | \$33.92 | \$42.50 | \$0.12 |
| 1" | \$56.53 | \$70.83 | \$0.20 |
| 1-1/2" | \$113.05 | \$141.65 | \$0.39 |
| 2" | \$180.88 | \$226.64 | \$0.62 |
| 3" | \$361.75 | \$453.28 | \$1.25 |
| 4" | \$565.25 | \$708.25 | \$1.95 |
| 6" | \$1,130.50 | \$1,416.50 | \$3.90 |
| 8" | \$1,808.80 | \$2,266.40 | \$6.24 |
| Charge per 1,000 gallons | \$10.09 | \$10.24 | \$0.03 |
| <u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u> | | | |
| 3,000 Gallons | \$47.84 | \$53.92 | |
| 6,000 Gallons | \$73.07 | \$79.51 | |
| 8,000 Gallons | \$73.07 | \$79.51 | |