

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in water rates in
Franklin County by Water Management
Services, Inc.

DOCKET NO. 110200-WU
ORDER NO. PSC-12-0030-PCO-WU
ISSUED: January 19, 2012

The following Commissioners participated in the disposition of this matter:

RONALD A. BRISÉ, Chairman
LISA POLAK EDGAR
ART GRAHAM
EDUARDO E. BALBIS
JULIE I. BROWN

ORDER SUSPENDING PROPOSED FINAL RATES AND APPROVING INTERIM RATES

BY THE COMMISSION:

I. BACKGROUND

Water Management Services, Inc. (WMSI or Utility) is a Class A utility providing service to approximately 1,808 water customers in Franklin County. For the year ended December 31, 2010, the Utility reported operating revenues of \$1,291,712 and a net operating loss of \$145,071. WMSI's last rate case was in 2010.¹

On November 7, 2011, the Utility filed its application for a rate increase at issue in the instant docket. As of the date of our vote, there were deficiencies in the Minimum Filing Requirements (MFRs). The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and requested interim rates. The test year established for interim and final rates is the 13-month average period ended December 31, 2010.

The Utility requested interim rates designed to generate annual water revenues of \$1,573,120. This represents an annual revenue increase of \$270,096 (20.73 percent). WMSI requested final rates designed to generate annual water revenues of \$2,019,159, which represents a revenue increase of \$714,935 (54.82 percent).

The 60-day statutory deadline for this Commission to suspend the Utility's requested final rates and address its interim request was January 6, 2012. By letter dated November 18, 2011, the Utility extended this 60-day deadline through the first Commission Conference in January 2012. This Order addresses the suspension of the Utility's requested final rates and its requested interim rates. We have jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes (F.S.).

¹ See Order No. PSC-11-0010-SC-WU, issued January 3, 2011, in Docket No. 100104-WU, In re: Application for increase in water rates in Franklin County by Water Management Services, Inc.

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FPSC-COMMISSION CLERK.

II. SUSPENSION OF PROPOSED FINAL RATES

Section 367.081(6), F.S., provides that we may, for good cause, withhold consent to the implementation of the requested rates within 60 days after the date the rate request is filed. Further, Section 367.081(8), F.S., permits the proposed rates to go into effect (secured and subject to refund) at the expiration of five months from the official date of filing if: (1) we have not acted upon the requested rate increase; or (2) if our PAA action is protested by a party other than the Utility.

Our staff has reviewed the filing and has considered the information filed in support of the rate application and the proposed final rates. Our staff believes further investigation of this information is necessary, including on-site investigations by staff accountants and engineers. To date, our staff has initiated an audit of WMSI's books and records. This audit is tentatively due on January 17, 2012. In addition, our staff sent its first data request on November 22, 2011. The Utility's response to this data request was due on December 22, 2011. Further, our staff believes additional requests will be necessary to process this case. Based on the foregoing, we find there is good cause for suspending the Utility's proposed rates, and we hereby suspend the Utility's proposed rate increase.

III. INTERIM RATES

The Utility has filed rate base, cost of capital, and operating statements to support its requested interim rate increase. Pursuant to Section 367.082(5)(b)1., F.S., the achieved rate of return for interim purposes must be calculated by applying adjustments consistent with those used in the Utility's most recent rate proceeding and annualizing any rate changes. Our staff has reviewed the Utility's interim request, as well as Order No. PSC-11-0010-SC-WU, in which we last established rates. Our adjustments are discussed below. We have attached accounting schedules to illustrate our approved rate base, capital structure, and test year operating income amount. The water rate base is shown on Schedule No. 1-A, with adjustments to rate base shown on Schedule No. 1-B. The capital structure is shown on Schedule No. 2. The operating income schedule for water is labeled as Schedule No. 3-A. The operating income adjustments are shown on Schedule No. 3-B.

A. Rate Base

Based on an analysis of the MFRs and review of Order No. PSC-11-0010-SC-WU from WMSI's last rate proceeding, we find that several adjustments are necessary.

1. Plant in Service

In its filing, the Utility recorded pro forma plant adjustments to remove a 2008 Tahoe and 2008 Sierra totaling \$39,448. Pursuant to the interim statute, all pro forma adjustments shall be removed because interim is based on an historical test year plant. Thus, we find the plant balance shall be increased by \$39,448. A corresponding adjustment shall be made to increase accumulated depreciation by \$6,452.

2. Non-Used & Useful Plant

Pursuant to Order No. PSC-11-0010-SC-WU, we found that the Utility's transmission and distribution mains were 100 percent used and useful (U&U) except for the distribution mains less than 8" in diameter serving certain subdivisions within the area known as the Plantation. Specifically, we found that those lines inside the Plantation were 60.9 percent U&U. In its MFRs, WMSI failed to include an interim non-U&U adjustment for those lines inside the Plantation. In accordance with Order No. PSC-11-0010-SC-WU and Section 367.082(5)(b)1., F.S., rate base and depreciation expense shall be reduced by \$33,231 and \$5,322, respectively.

3. Working Capital

On MFR Schedule A-17, the Utility reflected an interim negative working capital allowance of \$70,115 using the balance sheet approach. However, due to the negative amount, WMSI asserted that the formula method (1/8 of Operations and Maintenance (O&M) expenses) should be used for interim purposes which would result in an interim working capital of \$133,814. A negative working capital balance is not typical of a "normal" utility, nor is it the expected future condition of a utility. Therefore, consistent with our practice,² we find a zero working capital allowance is appropriate, and we shall reduce the working capital allowance by \$133,814 to reflect this zero amount.

Based on the above adjustments, we calculate the rate base for interim purposes to be \$3,771,814.

B. Cost of Capital

In its interim request, the Utility used a return on equity (ROE) of 11.16 percent. However, based on Order No. PSC-11-0010-SC-WU, the minimum of WMSI's authorized ROE is 9.85 percent. Although we have made this adjustment in the capital structure, it has no effect on the amount of the interim rate increase because the Utility's capital structure consists of only long-term debt and customer deposits. Based on the components, amounts, and cost rates included in its capital structure, the appropriate overall cost of capital for interim purposes is 4.34 percent, as shown on Schedule No. 2.

C. Net Operating Income

Pursuant to Section 367.082(5)(b)1., F.S., only those adjustments consistent with the most recent rate proceeding of a utility may be made. Therefore, for interim purposes, we find the following adjustments are appropriate.

² See Order Nos. PSC-10-0168-PAA-SU, issued March 23, 2010, in Docket No. 090182-SU, In re: Application for increase in wastewater rates in Pasco County by Ni Florida, LLC; PSC-97-0076-FOF-WS, issued January 27, 1997, in Docket No. 961364-WS, In re: Investigation of rates of Lindrick Service Corporation in Pasco County for possible overearnings; and PSC-95-0574-FOF-WS, issued May 9, 1995, in Docket No. 940917-WS, In re: Application for rate increase in Seminole, Orange, and Pasco Counties by Utilities, Inc. of Florida.

1. Operating Revenues

WMSI recorded an adjustment to increase revenues by \$11,312 in order to annualize test year revenues. On February 15, 2011, the Utility's rates were increased as a result of an approved price index application. This rate change associated with the Utility's 2011 price index application is outside of the test year. Therefore, calculating test year revenues using the rates in effect during the test year, we find the Utility's adjusted test year revenues shall be decreased by \$1,164.

2. Operations and Maintenance Expense (O&M) Expense

WMSI's requested revenue requirement includes an annualized provision for several of its expenses. The interim statute requires that annualized expenses be removed for purposes of determining interim rates. Therefore, we find the following adjustments are appropriate.

1	Remove annualization pay range for H. Garrett.	\$2,223
2	Remove annualization pay range for J. Blankenship.	(1,850)
3	Remove annualized salary for T. Lemieux.	(5,963)
4	Remove annualized salary increase for obtaining additional license.	(3,000)
5	Reflect historical salary for E. Coulter.	3,388
6	Reflect historical salary for W. Abbott.	9,067
7	Reflect historical salary for G. Brown.	5,192
8	Remove annualized employee benefits.	(3,932)
9	Remove annualized cost of diesel fuel.	(2,275)
10	Remove annualized engineering costs.	(4,000)
11	Remove annualized accounting costs.	9,000
12	Remove annualized testing expense.	(668)
13	Remove additional annualized accounting costs.	(526)
14	Remove pro forma mail machine lease cost reduction.	721
15	Remove pro forma mileage reimbursements.	(3,177)
16	Remove pro forma vehicle insurance reduction.	3,351
17	Remove annualized workers comp insurance.	<u>(1,870)</u>
	Total net increase for pro forma annualization adjustments.	<u>\$5,681</u>

In its filing, WMSI made interim reductions of \$11,918 for salaries, \$4,670 for benefits, and \$900 for rental property in order to reflect a 5 percent allocation for non-regulated affiliates. Pursuant to Order No. PSC-11-0010-SC-WU, we found that the non-regulated affiliates share of these expenses were 12.5 percent. In accordance with Order No. PSC-11-0010-SC-WU and Section 367.082(5)(b)1., F.S., we find that salaries, benefits, and rental property expenses shall be reduced further by \$17,877, \$7,005, and \$1,852, respectively.

In its MFRs, the Utility reflected Contractual Services – Engineering of \$22,680 and Contractual Services – Accounting of \$18,550. Consistent with the methodologies used to determine the test year amounts for these expenses in WMSI's last rate case, the appropriate amounts of Contractual Services – Engineering and Contractual Services – Accounting shall be

\$5,995 and \$5,252, respectively. In accordance with Order No. PSC-11-0010-SC-WU and Section 367.082(5)(b)1., F.S., we find that Contractual Services – Engineering shall be reduced by \$16,685 (\$22,680 - \$5,995) and Contractual Services – Accounting shall be reduced by \$13,298 (\$18,550 - \$5,252).

In its filing, WMSI reflected an annual amortization of \$3,600 for a hydraulic analysis and capacity study. Consistent with the last rate case, this expenditure shall be capitalized to the associated pro forma plant additions when they are placed into service. In accordance with Order No. PSC-11-0010-SC-WU and Section 367.082(5)(b)1., F.S., we find that Contractual Services – Engineering shall be further reduced by \$3,600.

Based on the above adjustments, we calculate a net decrease of \$54,635 to O&M expense.

3. Depreciation Expense

In its filing, WMSI reflected net depreciation expense of \$199,395 for the test year ended December 31, 2010. By Order No. PSC-11-0010-SC-WU, we approved net depreciation expense of \$166,741 for the test year ended December 31, 2009. When comparing the approved plant and contributions in aid of construction (CIAC) in the last rate case and the plant and CIAC test year balances in the instant case, we find that the Utility's depreciation expense in the instant case contains an error. Specifically, plant increased by approximately \$35,000 (or four percent, approximately), and CIAC increased by approximately \$94,000 (or three percent, approximately). However, net depreciation expense increased by \$32,654 (or 19.58 percent). Given the changes in plant and CIAC, there is no reason why this would have occurred. Based on review of each primary plant account, it appears the Utility's depreciation expenses for Office Furniture & Equipment contains either typographical or mathematical errors. In addition, WMSI's depreciation expense for Transmission & Distribution Mains does not reflect an approved stipulation from the last rate case.

First, WMSI's Office Furniture & Equipment plant account increased by only \$4,883, but the associated depreciation expense for this account increased by \$14,368 which represents approximately three times the plant increase. Based on an incremental plant value of \$4,883 and the average useful life contained in Rule 25-30.140, Florida Administrative Code (F.A.C.), the depreciation expense should have increased by approximately \$326. To correct this apparent error, the depreciation expense shall be reduced by \$14,042 (\$14,368 - \$326).

Second, the Utility's Transmission & Distribution Mains plant account decreased by approximately \$100,000 since WMSI's last rate case, but the depreciation expense increased by \$17,602 for a total of \$59,275. In its last rate case, WMSI reflected a 13-month average and 2009 year-end balances in this account of \$2,524,926. By Order No. PSC-11-0010-SC-WU, we approved a stipulation which called for a \$100,000 reduction to the Utility's Transmission & Distribution Mains plant account. In the instant case, the Utility did not reflect the approved \$100,000 plant reduction for the month of December 2009 in its calculation of its 13-month average balance for the test year ended December 31, 2010. As such, consistent with the last rate case stipulation, plant and accumulated depreciation shall be reduced by \$7,692 and \$537,

respectively. Moreover, with the stipulation, the approved depreciation expense for the Transmission & Distribution Mains plant account was \$39,347. Because there were no plant additions in this plant account from December 31, 2008, through December 31, 2010, the annual depreciation expense for this account in the instant case shall be \$39,347. In accordance with Order No. PSC-11-0010-SC-WU and Section 367.082(5)(b)1., F.S., depreciation expense shall be reduced by \$19,928 (\$59,275 - \$39,347).

4. Amortization – Other Expense

In the Utility's limited proceeding initiated in 2000, we approved an annual amortization of \$14,298 for the undepreciated portion of the supply main which had been replaced.³ The Utility recorded an annual amortization of \$14,616. Therefore, the Utility's amortization amount shall be decreased by \$318.⁴

In WMSI's last rate case, we approved an annual amortization of gain on sale of land and other assets of \$48,408.⁵ In accordance with Order No. PSC-11-0010-SC-WU and Section 367.082(5)(b)1., F.S., this amount shall be recognized for interim purposes.

Based on the above, we find that operating expenses shall be reduced by \$48,726 (\$318 + \$48,408).

5. Taxes Other Than Income (TOTI)

In its filing, the Utility decreased payroll taxes by \$1,605 associated with WMSI's pro forma salary normalization adjustments. As discussed previously, we have removed WMSI's pro forma salaries adjustments. Therefore, TOTI shall be increased by \$1,605 to reflect the removal of this pro forma payroll tax adjustment. Also, as discussed previously, pursuant to our adjustment to reflect a 12.5 percent allocation to the non-regulated affiliates consistent with our decision in the Utility's last rate case, payroll taxes shall be reduced by \$1,368 associated with the salary adjustment above. Based on these adjustments, there is a net increase of \$237 (\$1,605 - \$1,368) to TOTI.

Based on the above, we calculate the appropriate test year operating income, before any revenue increase, to be \$53,189.

D. Revenue Requirement

Based on the above adjustments, we calculate a water revenue requirement of \$1,417,664. This represents an interim increase in annual revenues of \$115,803 (or 8.90 percent). This revenue increase will allow WMSI the opportunity to recover its operating expenses and earn a 4.34 percent return on its water rate base.

³ See Page 5 of Order No. PSC-05-1156-PAA-WU, issued November 21, 2005, in Docket No. 000694-WU, In re: Petition by Water Management Services, Inc. for limited proceeding to increase water rates in Franklin County.

⁴ This specific adjustment is consistent with the Commission decision on interim in the Utility's last rate case. See Page 5 of Order No. PSC-10-0513-PCO-WU, issued August 12, 2010, in Docket No. 100104-WU.

⁵ See Pages 38 and 74 of Order No. PSC-11-0010-SC-WU.

E. Interim Water Rates

As calculated above, the interim water rates for WSMI shall be designed to allow the Utility the opportunity to generate annual water revenues of \$1,417,664. This reflects an increase of \$115,803 (8.90 percent), before removal of miscellaneous and other revenues. To determine the appropriate percentage increase to apply to the service rates, miscellaneous service revenues must be removed from the test year revenues. Our calculation is as follows:

	<u>Water</u>
1 Total Test Year Revenues	\$1,301,860
2 Less: Miscellaneous Revenues	<u>\$5,501</u>
3 Test Year Revenues from Service Rates	\$1,296,359
4 Revenue Increase	<u>\$115,803</u>
5 % Service Rate Increase (Line 4/Line3)	<u>8.93%</u>

The interim rate increase of 8.93 percent for water shall be applied as an across-the-board increase to the service rates in effect as of December 31, 2010. The approved rates shall be effective for service rendered as of the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates shall not be implemented until our staff verifies that the tariff sheets are consistent with our decision, the proposed customer notice is adequate, and the required security has been filed. The Utility shall provide proof of the date notice was given within 10 days after the date of notice.

The Utility's test year, proposed interim, and final rates, and our approved interim rates are shown on Schedule No. 4.

IV. APPROPRIATE SECURITY TO GUARANTEE THE INTERIM INCREASE

Pursuant to Section 367.082, F.S., revenues collected under interim rates shall be placed under bond, escrow, letter of credit, or corporate undertaking subject to refund with interest at a rate ordered by this Commission. As shown above, the total annual interim increase is \$115,803. In accordance with Rule 25-30.360, F.A.C., our staff has calculated the potential refund of revenues and interest collected under interim conditions to be \$67,565. This amount is based on an estimated seven months of revenue being collected from the approved interim rates over the Utility's rates in effect as of December 31, 2010, shown on Schedule No. 4.

The criteria for a corporate undertaking include sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. Our staff reviewed WSMI's 2008, 2009, and 2010 financial statements to determine the financial condition of the Utility. WSMI has inadequate liquidity, profitability, ownership equity, and interest coverage to guarantee any potential refund. Based on this analysis, we find that the Utility shall secure a

surety bond, letter of credit, or escrow agreement to guarantee any potential refunds of water revenues in accordance with Section 367.082, F.S.

In its filing, the Utility requested its interim rate increase be secured through an escrow account. This form of security is appropriate. If the security provided is an escrow account, said account shall be established between the Utility and an independent financial institution pursuant to a written escrow agreement. The Commission shall be a party to the written escrow agreement and a signatory to the escrow account. The written escrow agreement shall state the following: the account is established at the direction of the Commission for the purpose set forth above; that no withdrawals of funds shall occur without the prior approval of the Commission through the Commission Clerk, Office of Commission Clerk; the account shall be interest bearing; information concerning the escrow account shall be available from the institution to the Commission or its representative at all times; the amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt; and, pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla 3d DCA 1972), escrow accounts are not subject to garnishments.

The Utility shall deposit 8.17 percent of the revenues collected under interim conditions into the escrow account each month. The escrow agreement shall also state that if a refund to the customers is required, all related interest earned on the escrow account shall be distributed to the customers, and if a refund to the customers is not required, the interest earned on the escrow account shall revert to the Utility.

If the security provided is a surety bond or a letter of credit, said instrument shall be in the amount of \$67,565. If the Utility chooses a surety bond as security, the surety bond shall state that it will be released or terminated only upon subsequent order of the Commission. If the Utility chooses to provide a letter of credit as security, the letter of credit shall state that it is irrevocable for the period it is in effect, and that it will be in effect until a final Commission order is rendered releasing the funds to the Utility or requiring a refund.

Regardless of the type of security provided, the Utility shall keep an accurate and detailed account of all monies it receives. Pursuant to Rule 25-30.360(6), F.A.C., the Utility shall provide a report by the 20th day of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund shall be with interest and undertaken in accordance with Rule 25-30.360, F.A.C.

In no instance shall maintenance and administrative costs associated with any refund be borne by the customers. Such costs are the responsibility of, and shall be borne by, the Utility.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the final water rate increase requested by Water Management Services, Inc. is hereby suspended in accordance with Section 367.081(6), F.S. It is further

ORDERED that the request for an interim increase in water rates by Water Management Services, Inc. is hereby granted to the extent set forth in the body of this Order. It is further

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

ORDERED that all matters contained in the schedules and attachments to this Order are incorporated herein by reference. It is further

ORDERED that the approved rates shall be effective for service rendered as of the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1)(a), F.A.C. It is further

ORDERED the rates shall not be implemented until our staff verifies that the tariff sheets are consistent with our decision, the proposed customer notice is adequate, and the required security has been filed. It is further

ORDERED that Water Management Services, Inc. shall provide proof of the date notice was given within 10 days after the date of notice. It is further

ORDERED that Water Management Services, Inc. shall file an escrow account or file a surety bond or letter of credit to guarantee any potential refund of revenues collected under interim conditions. It is further

ORDERED that if the security provided is an escrow account, said account shall be established between the Utility and an independent financial institution pursuant to a written escrow agreement, with the Commission being a party and signatory to the written escrow agreement and account. It is further

ORDERED that the written escrow agreement shall state the conditions noted in the body of this Order. It is further

ORDERED that if the Utility files an escrow account, the Utility shall deposit 8.17 percent of the revenues collected under interim conditions into the escrow account each month. It is further

ORDERED that if a refund to the customers is required, all related interest earned on the escrow account shall be distributed to the customers, and if a refund to the customers is not required, the interest earned on the escrow account shall revert to the Utility. It is further

ORDERED that if the security provided is a surety bond or a letter of credit, said instrument shall be in the amount of \$67,565. It is further

ORDERED that if the Utility chooses a surety bond as security, the surety bond shall state that it will be released or terminated only upon subsequent order of the Commission. It is further

ORDERED that if the Utility chooses to provide a letter of credit as security, the letter of credit shall state that it is irrevocable for the period it is in effect, and that it will be in effect until

a final Commission order is rendered releasing the funds to the Utility or requiring a refund. It is further

ORDERED that pursuant to Rule 25-30.360(6), F.A.C., Water Management Services, Inc. shall provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund shall be with interest and undertaken in accordance with Rule 25-30.360, F.A.C. It is further

ORDERED that this docket shall remain open pending our final action on Water Management Services, Inc.'s requested rate increase.

By ORDER of the Florida Public Service Commission this 19th day of January, 2012.



ANN COLE
Commission Clerk
Florida Public Service Commission
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Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by this order, which is non-final in nature, may request (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code, or (2) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Office of Commission Clerk, in the form prescribed by Rule 25-22.0376, Florida Administrative Code. Citizens of the State of Florida v. Mayo, 316 So.2d 262 (Fla. 1975), states that an order on interim rates is not final or reviewable until a final order is issued. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

Water Management Services, Inc. Schedule of Water Rate Base Test Year Ended 12/31/10			Schedule No. 1-A Docket No. 110200-WU		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Comm'n Adjust- ments	Comm'n Adjusted Test Year
1 Plant in Service	\$8,840,469	(\$64,615)	\$8,775,854	\$31,756	\$8,807,610
2 Land and Land Rights	87,856	(262)	87,594	0	87,594
3 Non-used and Useful Components	0	0	0	(33,231)	(33,231)
4 Accumulated Depreciation	(3,345,867)	126,081	(3,219,786)	(5,915)	(3,225,701)
5 CIAC	(3,322,830)	0	(3,322,830)	0	(3,322,830)
6 Amortization of CIAC	1,420,734	0	1,420,734	0	1,420,734
7 Construction Work In Progress	48,946	0	48,946	0	48,946
8 Advances for Construction	(12,019)	712	(11,307)	0	(11,307)
9 Working Capital Allowance	<u>133,814</u>	<u>0</u>	<u>133,814</u>	<u>(133,814)</u>	<u>0</u>
10 Rate Base	<u>\$3,851,103</u>	<u>\$61,916</u>	<u>\$3,913,019</u>	<u>(\$141,205)</u>	<u>\$3,771,814</u>

Water Management Services, Inc. Adjustments to Rate Base Test Year Ended 12/31/10		Schedule No. 1-B Docket No. 110200-WU
Explanation	Water	
<u>Plant in Service</u>		
1 Remove pro forma adjustments for 2008 Tahoe & Sierra sold.		\$39,448
2 Consistent adjustment for approved stipulation in last rate case.		<u>(7,692)</u>
Total		<u>\$31,756</u>
<u>Non-used and Useful</u>		
To reflect net non-used and useful adjustment.		<u>(\$33,231)</u>
<u>Accumulated Depreciation</u>		
1 Remove pro forma adjustments for 2008 Tahoe & Sierra sold.		(\$6,452)
2 Consistent adjustment for approved stipulation in last rate case.		<u>537</u>
Total		<u>(\$5,915)</u>
<u>Working Capital</u>		
To reflect adjustment to working capital allowance.		<u>(\$133,814)</u>

Water Management Services, Inc. Capital Structure- 13-Month Average Test Year Ended 12/31/10						Schedule No. 2 Docket No. 110200-WU		
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility								
1 Long-term Debt	\$7,831,613	(\$119,766)	\$7,711,847	(\$3,903,342)	\$3,808,505	97.33%	4.30%	4.18%
2 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4 Common Equity	(2,163,302)	2,163,302	0	0	0	0.00%	11.16%	0.00%
5 Customer Deposits	112,209	(7,685)	104,524	0	104,524	2.67%	6.00%	0.16%
6 Deferred Income Taxes	0	0	0	0	0	0.00%	0.00%	0.00%
7 Total Capital	<u>\$5,780,520</u>	<u>\$2,035,851</u>	<u>\$7,816,371</u>	<u>(\$3,903,342)</u>	<u>\$3,913,029</u>	<u>100.00%</u>		<u>4.34%</u>
Per Commission								
8 Long-term Debt	\$7,711,847	\$0	\$7,711,847	(\$4,044,557)	\$3,667,290	97.23%	4.30%	4.18%
9 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
10 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
11 Common Equity	0	0	0	0	0	0.00%	11.85%	0.00%
12 Customer Deposits	104,524		104,524	0	104,524	2.77%	6.00%	0.17%
13 Deferred Income Taxes	0	0	0	0	0	0.00%	0.00%	0.00%
14 Total Capital	<u>\$7,816,371</u>	<u>\$0</u>	<u>\$7,816,371</u>	<u>(\$4,044,557)</u>	<u>\$3,771,814</u>	<u>100.00%</u>		<u>4.34%</u>
						LOW	HIGH	
RETURN ON EQUITY						<u>9.85%</u>	<u>11.85%</u>	
OVERALL RATE OF RETURN						<u>4.34%</u>	<u>4.34%</u>	

Water Management Services, Inc. Statement of Water Operations Test Year Ended 12/31/10						Schedule No. 3-A Docket No. 110200-WU	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$1,291,712</u>	<u>\$281,408</u>	<u>\$1,573,120</u>	<u>(\$271,260)</u>	<u>\$1,301,860</u>	<u>\$115,803</u> 8.90%	<u>\$1,417,664</u>
Operating Expenses							
2 Operation & Maintenance	\$1,115,100	(\$44,590)	\$1,070,510	(\$54,635)	\$1,015,875		\$1,015,875
3 Depreciation	199,395	0	199,395	(39,292)	160,103		160,103
4 Amortization	14,616	0	14,616	(48,726)	(34,110)		(34,110)
5 Taxes Other Than Income	107,672	11,101	118,773	(11,969)	106,804	5,211	112,015
6 Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7 Total Operating Expense	<u>\$1,436,783</u>	<u>(\$33,489)</u>	<u>\$1,403,294</u>	<u>(\$154,623)</u>	<u>\$1,248,671</u>	<u>\$5,211</u>	<u>\$1,253,882</u>
8 Operating Income	<u>(\$145,071)</u>	<u>\$314,897</u>	<u>\$169,826</u>	<u>(\$116,637)</u>	<u>\$53,189</u>	<u>\$110,592</u>	<u>\$163,782</u>
9 Rate Base	<u>\$3,851,103</u>		<u>\$3,913,019</u>		<u>\$3,771,814</u>		<u>\$3,771,814</u>
10 Rate of Return	<u>(3.77%)</u>		<u>4.34%</u>		<u>1.41%</u>		<u>4.34%</u>

Water Management Services, Inc. Adjustment to Operating Income Test Year Ended 12/31/10		Schedule No. 3-B Docket No. 110200-WU Page 1 of 2
Explanation	Water	
<u>Operating Revenues</u>		
1	Remove requested interim revenue increase.	(\$270,096)
2	To reflect the appropriate amount of annualized revenues.	(1,164)
	Total	<u>(\$271,260)</u>
<u>Operation and Maintenance Expense</u>		
1	Remove annualization pay range for H. Garrett.	\$2,223
2	Remove annualization pay range for J. Blankenship.	(1,850)
3	Remove annualized salary for T. Lemieux.	(5,963)
4	Remove annualized salary increase for obtaining addit'l license.	(3,000)
5	Reflect historical salary for E. Coulter.	3,388
6	Reflect historical salary for W. Abbott.	9,067
7	Reflect historical salary for G. Brown.	5,192
8	Remove annualized employee benefits.	(3,932)
9	Remove annualized cost of diesel fuel.	(2,275)
10	Remove annualized engineering costs.	(4,000)
11	Remove annualized accounting costs.	9,000
12	Remove annualized testing expense.	(668)
13	Remove additional annualized accounting costs.	(526)
14	Remove pro forma mail machine lease cost reduction.	721
15	Remove pro forma mileage reimbursements.	(3,177)
16	Remove pro forma vehicle insurance reduction.	3,351
17	Remove annualized workers comp insurance.	(1,870)
18	Reflect 12.5% salary allocation per last rate case.	(17,877)
19	Reflect 12.5% benefits allocation per last rate case.	(7,005)
20	Reflect engineering costs per last rate case.	(16,685)
21	Reflect accounting costs per last rate case.	(13,298)
22	Capitalize hydraulic analysis & capacity study per last rate case.	(3,600)
23	Reflect 12.5% rental allocation per last rate case.	(1,852)
	Total	<u>(\$54,635)</u>
<u>Depreciation Expense - Net</u>		
1	Reflect appropriate depreciation expense for office furniture.	(\$14,042)
2	Reflect appropriate depreciation expense for T&D mains.	(19,928)
3	To remove net depreciation on non-U&U adjustment above.	(5,322)
	Total	<u>(\$39,292)</u>

Water Management Services, Inc. Adjustment to Operating Income Test Year Ended 12/31/10		Schedule No. 3-B Docket No. 110200-WU Page 2 of 2
Explanation	Water	
<u>Amortization</u>		
1 To reflect the appropriate annual amortization - loss on bridge.		(\$318)
2 Amortize Gain on Sales per last rate case.		<u>(48,408)</u>
Total		<u>(\$48,726)</u>
<u>Taxes Other Than Income</u>		
1 RAFs on revenue adjustments above.		(\$12,207)
2 Reflect appropriate interim payroll taxes.		<u>237</u>
Total		<u>(\$11,969)</u>

Water Management Services, Inc.		Schedule No. 4			
Monthly Service Rates		Docket No. 110200-WU			
Test Year Ended 12/31/10					
	Rates in Effect 12/31/2010	Present Rates	Utility Requested Interim	Utility Requested Final	Commission Approved Interim
<u>Residential</u>					
Base Facility Charges:					
5/8" x 3/4"	\$27.50	\$27.79	\$32.98	\$42.34	\$29.96
3/4"	\$41.26	\$41.69	\$49.47	\$63.51	\$44.95
1"	\$68.78	\$68.78	\$82.46	\$105.86	\$74.92
1-1/2"	\$137.54	\$138.97	\$164.91	\$211.71	\$149.83
Gallorage Charge - Per Kgal					
0-8,000 Gallons	\$3.27	\$3.30	\$3.92	\$5.03	\$3.56
8,001- 15,000 Gallons	\$4.08	\$4.12	\$4.89	\$6.28	\$4.44
over 15,000 Gallons	\$4.91	\$4.96	\$5.89	\$7.56	\$5.35
<u>General Service</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$27.50	\$27.79	\$32.98	\$42.34	\$29.96
3/4"	\$41.26	\$41.69	\$49.47	\$63.51	\$44.95
1"	\$68.78	\$68.78	\$82.46	\$105.86	\$74.92
1-1/2"	\$137.54	\$138.97	\$164.91	\$211.71	\$149.83
2"	\$220.08	\$222.36	\$263.87	\$338.75	\$239.74
3" Compound	\$412.64	\$416.92	\$494.75	\$635.14	\$449.50
3" Turbine	\$481.42	\$486.42	\$577.22	\$741.02	\$524.43
4" Compound	\$687.74	\$694.88	\$824.59	\$1,058.59	\$749.18
4" Turbine	\$825.28	\$833.84	\$989.49	\$1,270.28	\$899.00
6" Compound	\$1,375.46	\$1,389.73	\$1,649.15	\$2,117.13	\$1,498.33
6" Turbine	\$1,719.33	\$1,737.17	\$2,061.45	\$2,646.42	\$1,872.92
8" Compound	\$2,200.75	\$2,223.59	\$2,638.67	\$3,387.44	\$2,397.34
8" Turbine	\$2,475.83	\$2,501.52	\$2,968.48	\$3,810.84	\$2,696.99
10" Compound	\$3,163.57	\$3,196.40	\$3,793.07	\$4,869.42	\$3,446.17
10" Turbine	\$3,988.85	\$4,030.24	\$4,782.57	\$6,139.70	\$4,345.17
12" Compound	\$5,914.50	\$5,975.88	\$7,091.40	\$9,103.71	\$6,442.84
Gallorage Charge, per kgal	\$4.65	\$4.70	\$5.58	\$7.16	\$5.07
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$37.31	\$37.69	\$44.74	\$57.43	\$40.64
5,000 Gallons	\$44.29	\$44.29	\$52.58	\$67.49	\$47.77
10,000 Gallons	\$61.82	\$62.43	\$74.12	\$95.14	\$67.34
Average Usage of 6,142	\$47.58	\$48.06	\$57.06	\$73.23	\$51.84