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-12-0435-PAA-WU ISSUED: August 22, 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

NOTICE OF PROPOSED AGENCY ACTION ORDER GRANTING IN PART REQUESTED RATE INCREASE AND REQUIRING ESCROWING OF A PORTION OF ALL REVENUES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that, except for the four-year rate reduction and the proof of adjustments, which are final agency action, all other action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.).

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 June 8, 2011, WMSI filed its test-year letter with this Commission, stating its intent to submit an application for an increase in rates and charges. On November 7, 2011, the Utility filed its application for rate increase at issue in the instant docket. 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's application did not meet the minimum filing requirements (MFRs) as filed, and it was not until February 17, 2012, that the MFRs were determined to be complete. This date was set as the official date of filing.

[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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By Order No. PSC-12-0030-PCO-WU, issued January 19, 2012, we approved interim rates designed to generate annual revenues of $1,417,664. This represents a revenue increase on an annual basis of $115,803 or 8.90 percent. The interim rates are subject to refund with interest, pending the conclusion of the rate case. The Utility has requested final rates designed to generate annual revenues of $2,019,622, representing a revenue increase of $714,035 or 54.69 percent.

On January 20, 2012, the Office of Public Counsel (OPC) filed a Notice of Intervention in this docket, and an order acknowledging intervention was issued on January 23, 2012.[2] On March 2, 2012, OPC filed a Motion for an Administrative Hearing on WMSI's Application for Rate Increase (Motion), requesting that the rate application be set directly for hearing, and that the PAA procedure not be used. On March 8, 2012, WMSI filed a timely Response opposing OPC's motion. Neither OPC nor WMSI requested oral argument on the Motion, but we allowed both parties to make oral presentations in regards to OPC's motion at the April 10, 2012, Commission Conference. We denied OPC's motion for an administrative hearing and determined that the docket would continue to be processed using the PAA process.[3]

On June 19, 2012, the Utility submitted a letter waiving the requirement to process the rate case within five months of the official filing date pursuant to Section 367.081(8), Florida Statutes (F.S.), through August 2, 2012.

This Order addresses the revenue requirement and rates that should be approved on a prospective basis. We have jurisdiction pursuant to Sections 367.081 and 367.082, F.S.

II. QUALITY OF SERVICE

Pursuant to Rule 25-30.433(1), F.A.C., we determine the overall quality of service provided by a utility by evaluating three separate components of water operations. These components are the quality of the utility's product, the operating condition of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. Comments or complaints received by the Commission from customers and the utility's compliance with the rules and regulations of the Department of Environmental Protection (DEP) and Water Management Districts (WMD) are also considered.

A. Quality of Product and Operational Condition of the Plant and Facilities

WMSI's water system includes four supply wells located in East Point on the mainland. The raw water is pumped five miles to the Utility's water plant on St. George Island through a 12-inch water main attached to the St. George Island bridge. The water is disinfected using gas chlorination and aeration is used to remove hydrogen sulfide. Two reservoirs located at the plant site, a 150,000-gallon elevated storage tank and a 300,000-gallon ground storage tank, are used for storage and fire flow reserve. Fire hydrants are located throughout the distribution system. The water system is currently in compliance with the rules and regulations of DEP and the

[2] See Order No. PSC-12-0034-PCO-WU.
[3] See Order No. PSC-12-0222-PCO-WU.

Northwest Florida Water Management District (NWFWMD). WMSI's water system was last inspected by DEP on August 12, 2011. No major deficiencies were identified during the inspection.

Although the water system is currently functioning satisfactorily, the Utility has recognized for some time the need for increased maintenance and improvements to the system as a result of extreme environmental conditions, including salt water, salt air, shifting sand, and periodic hurricanes and tornados. A 2010 engineering study that was part of the previous rate case recognized that, as a result of its harsh surroundings, the risk of catastrophic failure for a portion of the raw water supply main was likely.[4] This once-buried main is now exposed in the bay as a result of the last major storm. Also, the ground storage tank is structurally unsound and needs to be replaced. The tank has visible evidence of leakage in the sidewalls, cracking of perimeter structural beams, and deterioration of the hollow core panels which is compromising the roof. Because of the likelihood of prolonged water outage to its customers should a catastrophic failure occur, the Utility plans to replace the ground storage tank and the exposed raw water supply main. In addition, the water treatment plant has reached the end of its useful life. These items were also considered in the previous rate case. By Order No. PSC 11-0010-SC-WU, we acknowledged that the pro forma plant improvements in that case were reasonable and should improve the quality of service and the system's reliability; however, we also determined that the Utility failed to obtain adequate documentation to support the cost of the pro forma plant additions. As a result of the lack of sufficient cost support, the pro forma plant additions were not included in rate base in that case.[5]

In the current case, the Utility requested pro forma plant additions for the installation of a new 600,000-gallon ground storage tank to replace the existing ground storage tank, a 2,600 gallon per minute (gpm) high service pumping station, an additional 500 gpm potable water well, modifications to the existing water treatment plant, a replacement generator for Well No. 3, and supply main and distribution system piping. The Utility believes that the improvements are necessary to eliminate the potential for catastrophic failure of existing facilities and to continue to meet system demand, including fire flow demands. Further consideration of the Utility's request for the allowance of pro forma plant additions is discussed later in this Order.

B. The Utility's Attempt to Address Customer Satisfaction

A customer meeting was held on April 25, 2012, at the St. George Island Volunteer Fire Department. Approximately 70 customers attended the meeting and 17 spoke. Customers commented about the hardness and corrosive nature of the water, as well as high levels of chlorine in the water. Several customers commented that they received good service from the Utility and had no problem with the water quality. The fire chief, representing the local volunteer fire department, expressed concerns about the existing water system's ability to meet fire flow demands. Our staff explained that there are several pro forma plant projects proposed by the Utility to help improve system pressure to address fire flow concerns on the island.

[4] See Order No. PSC-11-0010-SC-WU, pp. 14-15.
[5] See Order No. PSC-11-0010-SC-WU, pp. 14-15.

Customers expressed concern over the amount of the proposed rate increase, its potential negative affect on the general economy of St. George Island, and the frequency of rate cases filed by the Utility. The customers were aware of the proposed pro forma plant improvements, and requested that we closely consider the necessity and location of the items being requested, as well as the dependability of the proposed costs. The customers believe the Utility's finances are not managed properly and, as a result, suggested that funds collected to pay for pro forma items need to be protected through the use of an escrow account or some other mechanism of protection. Concerns were also raised regarding allegations in the last rate case that the Utility may have improperly advanced funds to associated companies.

Two customer billing complaints have been filed with this Commission in the past three years; however, there are currently no active complaints on file. The Utility reported that no complaints were logged with the Utility during the test year. We received correspondence from over 30 customers who expressed concern over the proposed rate increase. There were also several comments included in the correspondence about the hardness of the water.

Approximately half of the correspondence included a request that we not use the PAA process, but instead move to a public hearing process as soon as possible based on their belief that the PAA process would be detrimental to the customers and add to the overall cost of the process. As discussed above, OPC requested that the rate case be set directly for hearing and that the PAA procedures not be used. By Order No. PSC 12-0222-PCO-WU, we denied OPC's motion for formal hearing because we believed that OPC had not demonstrated why the Utility's choice to use the PAA process is not in the public interest. In addition, approximately 100 customers wrote to this Commission expressing concern about the City of Carrabelle's application to DEP for a loan to fund the purchase of WMSI.

C. Summary

In the Utility's last rate case, the overall quality of service was found to be satisfactory. The water system is currently in compliance with the rules and regulations of DEP and the WMD. Further, the Utility has identified improvements that are needed to avoid potential failure of existing facilities and to meet fire flow demands and has proposed a plan to address those concerns. Therefore, we find that WMSI's quality of product and operational condition of the facilities is satisfactory. The Utility appears to be actively involved in maintaining good service to its customers. Therefore, WMSI's attempts to address customer satisfaction are satisfactory. Based on all of the above, we find that WMSI's overall quality of service is satisfactory.

III. Uncontested Audit Adjustments

In its response to our staff's audit report, received April 4, 2012, WMSI agreed to the audit adjustments as set forth in Table 1 below.

Table 1

WMSI Audit Adjustments	Description of Adjustments
Finding No. 4	Remove late fee, out of period expenses, and several other miscellaneous O&M expenses.

In addition to the specific findings agreed to by WMSI, there were several other audit adjustments contained in Finding 4 that the Utility did not address in its audit response. We do not include those adjustments here because they were not expressly agreed to in writing. Instead, we will address those adjustments in the contested Operations and Maintenance (O&M) expense audit findings later in this Order. We also note that WMSI stated in its audit response that it did not disagree with the auditor's adjustments related to Finding 5 (depreciation expenses) and Finding 6 (taxes other than income). However, each response was also conditioned on the Utility's responses to several other audit findings. Because the findings were not unconditionally agreed to in the Utility's response, we will address Findings 5 and 6 with the contested rate base audit findings below.

Based on the audit adjustments agreed to by the Utility, the adjustments set forth in Table 2 below shall be made to rate base and net operating income.

Table 2

Water – O&M Expenses				
WMSI Audit Adjustment	Acct. 615 - Purchased Power	Acct. 620- Materials and Supplies	Acct. 675- Miscellaneous Expenses	Total
Finding No. 4	($29)	($27)	($821)	($877)

IV. RATE BASE

A. Audit Adjustments Not Agreed To

Our staff's WMSI audit report was released on March 12, 2012, and the Utility's response was received on April 4, 2012. This section of the Order addresses the contested rate base audit findings and the appropriate adjustments that shall be made.

Finding 1: Capitalized Items from Prior Rate Case

In the Utility's last rate proceeding, we required WMSI to capitalize $51,751 of miscellaneous expenses to plant. Order No. PSC-11-0010-SC-WU also required the Utility to make several additional adjustments for retired plant and capital improvements.

WMSI disagreed with the reclassifications, believing that the repair should have been expensed, or if capitalized, a retirement from the fixed asset account would be necessary. We note that WMSI appealed our decision, and the First District Court of Appeal affirmed our decisions set out in Order NO. PSC-11-0010-SC-WU.[6] Therefore, WMSI's argument is moot. As such, plant shall be increased by $3,426. In addition, corresponding adjustments shall be made to increase accumulated depreciation by $1,420 ($3,426 - $2,006), and increase depreciation expense by $804.

Finding 2: Accumulated Depreciation

Our audit staff addressed several general ledger transactions the Utility made to correct what it believed to be a Commission accounting error in Docket No. 940109-WU, as well as a change in the asset life for computers from 15 years to 6 years. The Utility reiterates its position that Order No. PSC-94-1383-FOF-WU[7] was in error when the original cost for Transmission & Distribution (T&D) Mains was reduced without a corresponding reduction in accumulated depreciation. With that belief, WMSI contends that the adjustments reflected in its filing "are necessary to reflect the true-up of accumulated depreciation as of the December 31, 2010 test year."[8]

According to the audit report, the Utility provided a 10-page document, which reflects the T&D Mains asset account and the related accumulated depreciation balances from 1987 and 1992. However, the audit report stated that "the information provided by the Utility did not provide sufficient detail for audit staff to determine the validity of these adjustments." Our audit staff used the beginning balances for the T&D Main asset and accumulated depreciation accounts that were established in Order No. PSC-11-0010-SC-WU to determine the balances for accumulated depreciation in the current case. Our audit staff traced the 2010 additions to original source documents and calculated the related accumulated depreciation in order to determine the test year balances. We agree with our auditor's position on this matter because the Utility's proof was insufficient to support the validity of its adjustments.

As for the final transaction, WMSI also believes that we should approve a 6-year service life for computers in Account 340, consistent with Rule 25-30.140(2)(a), F.A.C. It did not appear from the audit report that our audit staff had any concerns about the change in service life. As part of their analysis, our audit staff provided accumulated depreciation calculations using the shorter life. As such, we find a 6-year service life for computers in Account 340 is appropriate and shall be approved.

Finding 5: Depreciation Expense

In 2010, the Utility implemented the Peachtree Fixed Asset Software to calculate the depreciation expense and accumulated depreciation. According to the audit report, the adjustments recorded to true-up the accumulated depreciation balances caused depreciation expense to be misstated for the test year. According to WMSI's audit response, the Utility does

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[6] See First District Court of Appeal, Per Curiam Affirmed Decision issued on May 15, 2012, in Case No. 1D11-1656.
[7] See Order No. PSC-94-1383-FOF-WU, issued November 14, 1994, in Docket No. 940109-WU, In re: Petition for interim and permanent rate increase in Franklin County by St. George Island Utility Company, Ltd.
[8] See Document No. 02056-12, WMSI Response to Audit Report, dated March 28, 2012, p. 2.

not disagree with the auditor's finding regarding this issue, except as discussed in the Utility's response to Findings 1 and 2. We approve our audit staff's adjustments in both of those findings and the adjustments in Finding 5 shall be approved as well. As such, depreciation expense shall be decreased by $24,615.

Finding 6: Taxes Other Than Income (TOTI)

Based on actual payroll tax returns, our audit staff increased payroll tax expense by $796. Our audit staff also decreased payroll tax expense by $1,345 based on adjustments contained in Finding 4. The net effect of the adjustments was a $549 ($796 - $1,345) reduction to the Utility's adjusted payroll taxes. Our audit staff also decreased real estate and personal property taxes by $829 ($621 + $208), which included the removal of $621 for property taxes applicable to non-utility land and the removal of $208 for discounts not taken due to late payments. TOTI-Other was reduced by $269 ($159 + $110), to remove the $159 registration cost for Gene Brown's vehicle and to remove $110 of incorrectly classified accrued payroll taxes.

According to WMSI's audit response, the Utility does not disagree with the auditor's finding regarding this issue, except as discussed in the Utility's response to Finding 4. Given the Utility's conditional agreement and the additional adjustments our staff made in Finding 4, we find that the auditor's adjustments in Finding 6 are appropriate. As such, TOTI shall be decreased by $1,647.

Summary:

In summary, WMSI's test year rate base shall be adjusted as follows: plant shall be increased by $3,426, and accumulated depreciation shall be increased by $1,420. The following corresponding adjustments shall also be made: depreciation expense shall reflect a net decrease of $23,811 ($804 - $24,615), and TOTI shall reflect a decrease of $1,647.

B. Test-Year Plant Adjustments

According to MFR Schedule B-5, miscellaneous expenses increased substantially in March and December 2010 when compared to other months. As a result, our staff requested that the Utility provide all calculations, basis, workpapers, and support documentation for the increase in miscellaneous expenses. In response, the Utility submitted copies of invoices to document increases in the miscellaneous expense. These copies included five Lewis-Smith Supply Corp. (LSSC) invoices that appear to be for meters and a Graybar invoice for $6,734.80 for repair services related to a drive well. The LSSC invoices total approximately $2,585. As such, the Utility recorded miscellaneous expenses of $9,320 ($2,585 + $6,735) related to these invoices. Our staff also requested additional information from the Utility to determine the nature of the repair in a subsequent data request.[9] The Utility responded that the invoice was related to emergency repairs for damage to Drive Well No. 4 sustained in a lightning strike. We find that the repairs made to the drive plant extended the useful life of the asset, and consistent with the

[9] See Document No. 02940-12, Staff's Fifth Data Request, dated May 8, 2012.

National Association of Regulatory Utility Commissioners' (NARUC) Uniform System of Accounts (USOA) and our prior practice,[10] these costs shall be capitalized to plant. Accordingly, miscellaneous expenses shall be decreased by $9,320, and plant shall be increased by $9,320 to reclassify items that should have been capitalized to plant. Also, a corresponding adjustment shall be made to increase depreciation expense by $298.

C. Pro Forma Plant Additions and Associated Costs and Expenses

The Utility is seeking to increase its plant by $3,565,436 for pro forma plant improvements and an additional $501,500 for land related to the improvements. In the last rate case, we found that WMSI's proposed pro forma plant projects were reasonable and should improve the quality of service and the system's reliability.[11] The improvements proposed in the last rate case included the relocation of a portion of the existing water supply main, the replacement of the existing ground storage tank, the purchase of land for the new storage tank, the reconfiguration of the existing pumping and electrical system, and the upgrade of the distribution system. However, we did not approve WMSI's pro forma plant additions in the last rate case, stating, "at this time, because there is not sufficient cost justification for the pro forma adjustments by the Utility, all pro forma plant additions shall be removed."[12]

In the current rate case, construction documents related to the pro forma plant projects were publicly advertised and requested by at least 24 entities. As mentioned in the last rate case, it is our practice to require at least three bids prior to any approval for pro forma additions.[13] Three complete bids were received, and on August 18, 2011, they were opened and reviewed.[14] For purposes of this rate case, the Utility used the costs associated with the lowest bid.[15]

1. Pro Forma Plant

The Utility claims that except for two additional items, its pro forma request in this docket is essentially the same as the improvements proposed in the last case.[16] According to the response, the first additional item is a new building to house all the new facilities next to the new ground storage tank. The Utility argues that the proposed new building is needed for the following reasons:

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[10] See Order Nos. PSC-11-0444-PAA-SU, issued October 7, 2011, in Docket No. 100471-SU, In re: Application for staff-assisted rate case in Marion County by S & L Utilities, Inc.; and PSC-11-0436-PAA-WS, issued September 29, 2011, in Docket No. 100472-WS, In re: Application for staff-assisted rate case in Manatee County by Heather Hills Estates Utilities LLC.
[11] See Order No. PSC-11-0010-SC-WU, p.14.
[12] Id., p. 15.
[13] See Orders No. PSC-11-0010-SC-WU, pp.14-15; PSC-07-0609-PAA-WS, issued July 30, 2007, in Docket No. 060246-WS, In re: Application for increase in water and wastewater rates in Polk County by Gold Coast Utility Corp., pp. 5-6; and PSC-10-0400-PAA-WS, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke, pp. 9-10.
[14] See Document No. 08222-11, Testimony & Exhibits of Les Thomas, filed on November 7, 2011, p. 10.
[15] Lowest construction bid was submitted by Ben Withers, Inc. of Panacea, Florida in the amount of $2,626,482.
[16] See Document No. 00376-12, WMSI's response to Staff's First Data Request, Item 1, dated January, 19, 2012.

(1) The plant items being replaced have reached the end of their useful lives.
(2) The ground storage tank is literally crumbling and is subject to catastrophic failure.
(3) The electrical and chlorination systems are dangerous, unreliable and problematic.
(4) Having the water storage, aeration, chlorination and electrical systems in the same building as the Utility employees causes a health hazard.
(5) It is not practical to rebuild all these facilities in the same existing structure.[17]

The second additional pro forma item is for a fifth well and new distribution mains. While the fifth well and associated costs were included in WMSI's filing, it was later dropped from the Utility's request. In response to a staff data request, WMSI indicated that it "has dropped the 5th well from its current plans."[18] As the following table illustrates, $571,040 in costs are considered related to the fifth well pro forma plant additions. Accordingly, the costs associated with the fifth well listed in Table 3 below shall be removed from WMSI's pro forma plant.

Table 3

Pro Forma Plant Costs - Fifth Well	
Permit and Construct fifth well	$302,292
Fifth well supply main tie-in to existing main	140,292
Fifth well generator	66,800
SCADA/Controls – 10% of related costs	8,867
Fifth well land purchase and closing costs	52,789
Total pro forma costs:	$571,040

While the Utility's system is functional, WMSI's engineer stated in his testimony that "the system exists in an extreme environment - salt water, salt air, 18 miles of shifting sand and periodic hurricanes and tornados." He contends that "the ground storage tank has numerous deficiencies" and "it must be replaced."[19] Likewise, a portion of the raw water supply main from Eastpoint is currently exposed in the bay. Our staff notes that additional exposure of the main could have resulted from the recent tropical storm as well. According to WMSI's engineer, the pro forma improvements being considered here with the construction of a new ground storage tank in a new location "will eliminate the potential for a catastrophic failure of the existing ground storage tank without interrupting service."[20] Additionally, WMSI's engineer believes that any vulnerability associated with the raw transmission line would be mitigated by the addition of a parallel line installed adjacent to the existing line.[21] A catastrophic failure of either (or both) the ground storage tank or raw transmission line could cause a prolonged outage for residents on the island.[22]

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[17] Id.
[18] See Document No. 03362-12, WMSI's response to Staff's Third Data Request, Item 8, dated May 25, 2012.
[19] See Document No. 08222-11, Testimony & Exhibits of Les Thomas, p. 6.
[20] Id., p. 7.
[21] Id., p. 8.
[22] Id., p. 7.

There was a significant amount of discussion at the customer meeting regarding whether a new ground storage tank, if needed, would be constructed on the existing site versus land that would need to be purchased for the storage tank's construction. A Post, Buckley, Schuh, and Jernigan (PBS&J) Water System Evaluation Addendum prepared in the last rate case spells out the challenges of building a new ground storage tank on the existing site. The report states:

> The major issue with utilizing the existing tank location for the construction of the new ground storage tank is risk, which is often hard to reflect in terms of estimated cost. In order to use the existing location, the old tank would need to be taken out of service during the demolition and construction of the new tank. This would require the use of temporary piping and pumping facilities. Use of such facilities is problematic from a constructability standpoint for several reasons including:
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> - Lack of available space to locate temporary tanks and pumps,
> - Space constraints during construction may add to the cost of the project,
> - An increase in the complexity of the system which inherently reduces the overall system reliability,
> - Lack of redundancy in the system which could lead to extended outages of supply of water, and
> - Most importantly, the discovery of unforeseen circumstances during construction which could lead to extending the time required for temporary facilities, thereby increasing the associated costs.[23]

While the Utility could construct a new ground storage tank on the land it already owns, we find that the additional expenses, construction constraints, and other variables discussed above may outweigh any perceived benefits. In the last rate case, we acknowledged that many of the same improvements, including the replacement of the existing ground storage tank and the purchase of land for the new storage tank, were reasonable. Based on the outcome in that case, we believe that the issue regarding the land is one of the Utility performing the appropriate due diligence.

We note that in addition to the property currently under contract, the Utility investigated several other parcels as well. The first parcel was comprised of four lots located across the alley, behind the Utility's current plant. The Utility made an offer on those lots, but it was rejected and the land was subsequently taken off the market. According to the Utility, it also realized that it was going to need more than the four lots being considered. The 2010 PBS&J addendum indicated that the land cost for a new ground storage tank on this parcel had decreased from \$450,000 to \$300,000.[24] However, we note that the \$300,000 represents a speculative cost for four lots, not the seven lots being considered in this rate case. In any regard, it is moot at this point since the Utility's offer was rejected, the parcel is no longer for sale, and additional space is required.

[23] See Document No. 08651-10, Part 3 (EXH 45), PBS&J St. George Island Water System Evaluation Addendum, dated September 12, 2010, p. 5.
[24] Id., p. 2.

The second parcel contained eight lots separated by an alley located roughly two and one-half blocks from the current plant. The Utility did not make an offer on this parcel since other lots closer to the plant became available. The lots of this third parcel were contiguous, on the same alley as the current plant, and within a block. This is the same parcel that WMSI currently has under contract for $425,000 and recently appraised for $420,000.[25] The contract of sale states that this contract will be void and neither party will have any liability to the other unless and until the following contingencies are met:

> A. Approval by the Florida Public Service Commission of increased rates that are adequate to allow the Buyer to obtain the necessary financing to pay for the property and the above-referenced tank and related approvals;
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> B. Approval by the necessary governmental authorities, including Franklin County and the Florida Department of Environmental Protection, to allow the Buyer to construct the improvements on the property; and
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> C. An adequate financing commitment to provide the Buyer with the funds necessary to buy the property and construct the ground storage tank and related improvements.[26]

We find that the Utility made an attempt to investigate other properties close to the existing plant that could support the pro forma projects while working to minimize the cost before deciding on the current parcel. The negotiated contract price of $425,000 is $325,000 less than the seller's original asking price of $750,000, representing a decrease of over 43 percent.[27] However, the appraisal came in at $5,000 ($425,000 - $420,000) under the contract price for the parcel. Accordingly, the pro forma cost for land shall be reduced by $5,000 to account for the difference between the sales price and the appraisal. A corresponding adjustment shall be made to reduce closing costs by $279.

As part of the proposed pro forma additions, the Utility also plans to relocate and elevate the high service pumps on the island. According to comments received during the customer meeting, the pumps are already located on the highest point on the island and are high enough that no federal flood insurance is required. We approved the reconfiguration of the existing pumping and electrical system, in the last rate case, but did not consider a new water treatment plant and new pumping system.[28] While OPC believes that the Utility has not demonstrated the need for this project, we find that locating the pumps adjacent to the new ground storage tank makes sense, especially given the site constraints and the current condition of the Utility's existing plant. We conclude that the pumps, and the remainder of WMSI's proposed pro forma plant items, are reasonable, prudent, and in the long-term best interest of both the Utility and its customers.

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[25] See Document No. 03362-12, WMSI's response to Staff's Third Data Request, Items 4 and 5; and Contract of sale signed on March 14, 2012.
[26] Id.
[27] See Document No. 03362-12, WMSI's response to Staff's Third Data Request, Items 4(f) and 5.
[28] See Order No. PSC-11-0010-SC-WU, p.14.

2. Proposed Financing of Pro Forma Items

The Utility has requested $6.6 million in financing for pro forma plant improvements, land, closing costs, and to payoff an existing first mortgage loan. The Utility submitted its loan application to Fidelity Bank/USDA, on May 25, 2012. Fidelity Bank has not made a loan decision on WMSI's requested $6.6 million USDA loan, at this time. However, in its filings, WMSI contended that the Fidelity Bank/USDA loan could be approved and closed within 90-120 days after a final Commission order.[29] The Utility's loan request is based upon the following assumptions:

> (1) That the Utility is successful in securing a substantial rate increase in its case before the Commission, including much higher tap fees; and
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> (2) That DEP agrees to subordinate its security interest on the water supply main to Fidelity's first mortgage lien, and to modify the debt service requirements on the existing DEP loan.[30]

While the Utility's first assumption is being addressed in this Order, the second assumption was addressed in a recent DEP response to the Utility. In a letter dated June 15, 2012, DEP said that it was unable to subordinate its loan to Fidelity Bank, but said that it will reassess its position once this Commission has made a decision regarding the rate case. As for restructuring the existing loan, DEP said that while it considers the loan to be in default, it would delay any enforcement action until we make a decision in the instant case.

3. Protection for Pro Forma Plant and Associated Costs and Payment on DEP Loan

In the past, there have been instances when we approved revenue requirements associated with pro forma items only to have the utility in question fail to complete the pro forma investments. However, addressing the pro forma items in a single case saves additional rate case expense to the customers because the utility would not need to file another rate case or limited proceeding to seek recovery for them.

Section 367.081(2)(a)2., F.S., provides that, in fixing rates which are just, reasonable, compensatory and not unfairly discriminatory, the Commission "shall consider utility property, including land acquired or facilities constructed or to be constructed within a reasonable time in the future, not to exceed 24 months after the end of the historic base year used to set final rates unless a longer period is approved by the commission." WMSI is using a December 31, 2010 test year in the instant docket. Pursuant to our decisions, this PAA Order is being issued on August 22, 2012, and in the absence of a protest, a Consummating Order should be issued on September 17, 2012. Bid documents specify that the work will be "substantially completed within 270 calendar days."[31] At this time, the Utility must still close on the land associated with

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[29] See Document No. 03362-12, WMSI's response to Staff's Third Data Request, Items 2 and 3.
[30] Id. The Utility's subordination request was sent to DEP on May 17, 2012.
[31] See Document No. 08222-11, Testimony & Exhibits of Les Thomas, p. 59.

the project and finalize the financing for the pro forma plant, making completion prior to the end of 2012 impossible.

Accordingly, we find that WMSI shall complete the pro forma items within 18 months of the issuance of the Consummating Order for this PAA Order. Within 12 months of completion of the pro forma items, the Utility shall submit data, such as final invoices and cancelled checks, enabling this Commission to perform a true-up of all prudently incurred investments and costs associated with the pro forma plant. Pending this true-up of pro forma plant and costs, we find that the final revenue requirement shall be calculated using the estimated costs with our adjustments.

To protect the customers, to ensure that the pro forma projects are completed, and the DEP loan and the financing loan are paid, WMSI shall set up an interest bearing escrow account. The Utility shall deposit in this escrow account each month 35.25 percent of all Utility revenues collected pursuant to the newly approved rates, with these deposited funds being subject to refund with interest. As stated above, all pro forma projects shall be completed within 18 months of this PAA Order being final, and any refund will be based on those projects being completed and a subsequent true-up of the actual costs. The account shall be established between the Utility and an independent financial institution pursuant to a written escrow agreement. This Commission shall be a party to the written escrow agreement and the Commission Clerk shall be a signatory to any such escrow agreement, with any disbursements requiring the approval of our Commission Clerk. Our staff shall have administrative authority to authorize all payments from this escrow account on the bank loan and construction contracts for the pro forma plant, the interest payments on the loan while the pro forma plant items are being constructed, and the DEP loan as they become due.

The written escrow agreement shall state the following: that the account is established at the direction of this 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; that the account shall be interest bearing; that information concerning the escrow account shall be available from the institution to the Commission or its representative at all times; and that pursuant to Consentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments. The Utility shall be required to deposit into the escrow account each month 35.25 percent of all revenues collected through the water rates approved in this Order. If a refund is not required, the interest earned by the escrow account shall revert to the Utility.

The Utility shall be allowed to implement the approved rates by submitting the appropriate tariff sheets and proposed notice which shall be verified and approved by our staff. The approved rates shall 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. The rates shall not be implemented until notice has been received by the customers. WMSI shall provide proof of the date notice was given within ten days of the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility shall immediately notify this Commission in writing.

D. Used and Useful Percentages for Water treatment Plant

The Utility maintains that the water treatment plant, storage facilities, and T&D mains should be considered 100 percent U&U. In the Utility's last rate case, the parties stipulated that no U&U adjustments were required for the water treatment and storage facilities. It was also determined that the Utility's T&D mains were 100 percent U&U, except for the distribution mains serving the subdivision known as the Plantation that are less than eight inches in diameter. The distribution lines in the Plantation were considered 60.9 percent U&U, consistent with the methodology approved by this Commission in Docket No. 100104-WU.

According to the Utility's application, based on a peak day of 835,000 gallons per day (gpd), an allowance for fire flow of 60,000 gpd, and firm reliable capacity of 960,000 gpd, the water treatment plant is 93.23 percent U&U. That amount is lower than the 100 percent U&U calculation determined in the previous rate case. There has been virtually no physical change in operating capacity of the treatment facilities since the last rate case; however, there was a 16.6 percent reduction in peak day demand and a 9 percent reduction in total gallons of water pumped. The reduction in water pumped also resulted in reduced amounts of purchased power and chemical expenses since the last rate case. Pursuant to Rule 25-30.4325, F.A.C., although peak day demand and annual flows have been reduced, we find that the Utility's water treatment plant shall be considered 100 percent U&U, as stipulated in the last rate case, because the treatment plant is essentially at capacity and customer growth has been non-existent over the last several years. There does not appear to be any excessive unaccounted for water.

The Utility's existing storage facilities include a 150,000-gallon elevated storage tank and a 300,000-gallon ground storage tank. As previously discussed, the Utility has requested a pro forma plant addition to replace the 300,000-gallon ground storage tank with a 600,000-gallon ground storage tank. Based on a peak demand of 835,000 gpd and a fire flow allowance of 60,000 gpd, the storage facilities shall be considered 100 percent U&U, pursuant to Rule 25-30.4325, F.A.C.

To justify its claim that all distribution lines should be considered 100 percent U&U, the Utility argued that the lines are at the end of their useful lives and there is no guarantee that there will ever be another customer on those lines. In a May 4, 2012, letter to the Commission regarding concerns with the Utility's rate application, OPC expressed unease over the fact that the distribution lines were constructed by a separate utility company that was not WMSI, and that the companies are affiliated and have had common ownership interests. Also, in reference to the age of the distribution system, OPC pointed out that there is no statute, rule, or Commission policy that considers the age of the plant investment in determining the U&U amount to be included in setting rates. Further, OPC noted that in the last rate case, we relied on a statement by the Utility witness that the lines inside the Plantation were constructed for the benefit of the developer. As such, OPC contends the Utility customers should not bear the burden of the cost of the excess capacity of the distribution system.

Consistent with the methodology approved by us in the Utility's prior rate cases, the Utility's T&D mains shall be considered 100 percent U&U, except for the distribution mains serving the Plantation subdivision that are less than eight inches in diameter. As there has been no increase in customers since the last rate case for this area, the distribution mains serving the Plantation subdivision that are less than eight inches in diameter shall be considered 60.9 percent U&U based on 470 connected lots and 772 total available lots, consistent with the last rate case. Accordingly, rate base, depreciation expense, and property taxes shall be reduced by $18,023, $1,833, and $154, respectively.

E. Unamortized Rate Case Expense

In its filing, WMSI included $339,180 in its working capital allowance for unamortized rate case expense. Of that amount, $229,180 is the balance of unamortized rate case expense from the Utility's 2010 rate case. The remainder of the amount is one-half of the total estimated rate case expense for the current rate case, or $110,000. We find two adjustments are necessary. The first adjustment is a reduction in the unamortized rate case expense from the 2010 case and the second adjustment is related to the rate case expense for the current case.

1. Unamortized Rate Case Expense from 2010 Rate Case

In WMSI's 2010 rate case, we approved rate case expense of $229,180 to be amortized over four years.[32] Our practice is to include one-half of rate case expense, or $114,589, in working capital.[33] Therefore, the Utility's prior-case unamortized rate case expense figure of $229,180 shall be reduced by $114,589.

2. Unamortized Rate Case Expense for Current Rate Case

The Utility included a pro forma adjustment of $110,000 in the working capital allowance for unamortized rate case expense associated with the current rate case. Later on in this Order, we are approving rate case expense of $124,519 for the current rate case. Consistent with our long-standing practice, only one-half of this total rate case expense, or $62,260, shall be included in the working capital allowance. As such, WMSI's pro forma adjustment of $110,000 for working capital shall be reduced by $47,741 to $62,260.

3. Conclusion

Based on the above, the Utility's unamortized rate case expense shall be decreased by $114,589 to reflect the appropriate amount for the 2010 rate case and decreased by an additional $47,741 to reflect the appropriate amount for the current rate case. The appropriate total amount of unamortized rate case expense is $176,850 ($339,180 - $114,589 - $47,741). Our adjustments result in a negative working capital allowance which will be discussed below.

F. Appropriate Working Capital Allowance

Rule 25-30.433(2), F.A.C., requires that Class A utilities use the balance sheet method to calculate the working capital allowance (working capital). The balance sheet approach generally

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[32] See Order No. PSC-11-0010-SC-WU, p. 34.

[33] See Order No. PSC-10-0423-PAA-WS, issued July, 1, 2010, in Docket No. 090402-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities, Corporation, p. 11.

defines working capital as current assets and deferred debits that are utility-related and do not already earn a return, less current liabilities, deferred credits and operating reserves that are utility-related and upon which a utility does not already pay a return. On MFR Schedule A-17, the Utility reflected working capital of $39,885 using the balance sheet approach.

It is our practice to include one-half of the approved amount of rate case expense from prior cases and one-half of the approved amount from the instant case in the working capital calculation for Class A water and wastewater utilities.[34] As discussed above, we calculated the appropriate amount of unamortized rate case expense to include in the working capital allowance to be $176,850, a $162,330 reduction from the Utility's figure of $339,180.

The summation of our adjustments results in a negative working capital allowance of $122,445. A negative working capital balance is not typical of a "normal" utility or the expected future condition of a utility. Therefore, consistent with our practice,[35] the working capital allowance shall be set at zero, which results in a reduction in the Utility's working capital allowance of $39,885.

G. Rate Base

Based on our adjustments, the appropriate rate base without the pro forma adjustments would be $3,729,581. However, taking into account the bid for the pro forma projects and our approved estimated costs, we calculate rate base to be $7,091,463. The schedule for our calculation of rate base is attached as Schedule No. 1-A, and our adjustments are shown on Schedule No. 1-B. As stated earlier, these figures are subject to the pro forma projects being completed and trued-up with the escrow amounts being subject to refund with interest.

IV. COST OF CAPITAL

A. Return on Equity

Based on our leverage formula currently in effect, the appropriate return on equity is 11.16 percent.[36] The Utility correctly used the same return on equity in its filing. An allowed

[34] See Order Nos. PSC-08-0327-FOF-EI, issued May 19, 2008, in Docket No. 070304-EI, In re: Review of 2007 Electric Infrastructure Storm Hardening Plan filed pursuant to Rule 25-6.0342, F.A.C., submitted by Florida Public Utilities Company; PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, In re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.; and PSC-97-1225-FOF-WU, issued October 10, 1997, in Docket No. 970164-WU, In re: Application for increase in rates in Martin County by Hobe Sound Water Company.

[35] 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-97-0540-FOF-WS, issued May 12, 1997, in Docket No. 960799-WS, In re: Application for staff-assisted rate case in DeSoto County by Lake Suzy Utilities, Inc.; 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.

[36] See Order No. PSC-12-0339-PAA-WS, issued June 28, 2012, in Docket No. 120006-WS, In re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

range of plus or minus 100 basis points shall be recognized for ratemaking purposes. However, it has no effect on the amount of the proposed rate increase because the Utility's capital structure consists of only long-term debt and customer deposits.

B. Weighted Average Cost of Capital

In its filing, the Utility requested an overall cost of capital of 5.96 percent. The conditional loan for pro forma plant and land referenced in MFR Schedule D-5 was included in the calculations.

We have made adjustments to correct long-term debt costs associated with the refinancing of an existing Centennial Bank loan, which occurred on June 15, 2012.[37] The new loan carries a maturity date of June 2014 and a 6.50 percent interest rate. The loan's previous maturity date was June 2011 and an 8.46 percent interest rate.

Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2010, the weighted average cost of capital is 5.51 percent. Schedule No. 2 details our calculation of the overall cost of capital. Again, this calculation is subject to the pro form projects being completed, the appropriate loan obtained, and a subsequent true-up.

V. NET OPERATING INCOME

A. Test Year Operations and Maintenance (O&M) Expenses

Our staff's audit report was released on March 12, 2012, and the Utility's response was received on April 4, 2012. Though WMSI contests all but $877 of reduced O&M expenses in Audit Finding 4, we find that additional adjustments pursuant to that audit finding are appropriate. In Audit Finding 4, our audit staff noted numerous adjustments related to O&M expenses, totaling $62,157. Of that amount, approximately $877 in audit findings were agreed to by the Utility and were previously discussed. The remaining $61,280 of suggested audit adjustments are addressed below.

1. Salaries & Wages, Employee Pension & Benefits, and Rental Expense

Our audit staff decreased the Utility's adjusted balance for Salaries & Wages by $17,852 ($9,332 + $8,250), Pension & Benefits by $9,285, and Rental expense by $1,350 to allocate 12.5 percent to affiliates per Order No. PSC-11-0010-SC-WU.[38] The Utility maintains an administrative and accounting office in Tallahassee that is used for regulated and non-regulated operations, and allocates 5 percent of the applicable salaries, benefits, and rent to affiliates. The adjustments identified above reflect the increase in the allocation to affiliates by the incremental difference between the 5 percent recognized in the Utility's filing and the 12.5 percent required

[37] See Document No. 03958-12, Letter dated 6/18/12 advising the loan closing occurred 6/15/12; with Centennial Bank documents attached.
[38] See Order No. PSC-11-0010-SC-WU, pp. 22, 24, and 28.

by Order No. PSC-11-0010-SC-WU. We find this adjustment is appropriate, and the adjustments, as shown, shall be made.

2. Materials and Supplies

Our audit staff recommended an expense reduction of $1,302 for materials and supplies. WMSI disagreed with our audit staff on some 46 items. A portion of that amount, $27 (out of period), was addressed as part of the agreed to audit adjustments set out earlier in this Order. As a result, the total audit adjustment amount being considered for this account is $1,275 ($1,302 - $27). In its audit response, WMSI provided support for many of the items, totaling $926. As such, materials and supplies shall be reduced by only $349 ($1,275 - $926).

3. Contractual Services-Engineering

Our audit staff noted three adjustments to Contractual Services-Engineering on the MFR Schedule B-3, Adjustments to Operating Income. In its filing, the Utility decreased the account by $2,680 to remove a 2009 expense that was disallowed in the last rate proceeding. We agree with this adjustment. The account was increased by $4,000 for the estimated engineering expense of $2,000 per month, which includes the NWFWMD, DEP, and all of the other engineering services that the Utility needs on an ongoing basis. Exhibit A of the prefiled testimony of Les Thomas shows a hydraulic analysis and capacity study, which the Utility had requested be conducted at an hourly rate not to exceed $36,000. The capacity study includes a design period of ten years, and the cost will be amortized at $3,600 per year. Citing lack of support documentation, our staff auditors recommended that $7,600 ($4,000 + $3,600) be removed.

Upon further review, we agree that, because the invoices for the $4,000 figure primarily relate to the Utility's pro forma projects, this amount shall not be allowed. However, with regard to the capacity study, we find the documentation was adequate and supported the $3,600 annual amortization expense. As such, the $3,600 for the capacity study shall be allowed. In order to remain consistent with our previous decision, the engineering services from the last rate case shall be indexed to obtain the appropriate prospective level of expense. By indexing the engineering services from the last rate case, we calculate the appropriate engineering services expense to be $6,084 ($5,872 x 1.03618438). This represents an increase of $2,484 above the supported amount of $3,600. The Utility requested $22,680 in its MFRs for engineering services in the instant rate case. As such, engineering services shall be reduced by $16,596 ($22,680 - $6,084).

4. Contractual Services-Testing

The Utility increased Contractual Services-Testing by $668, which the audit report identified as the amortized amount for the lead, copper, and organic testing required every three years. Because no invoices were provided as support for the calculation, our audit staff decreased the Utility's adjusted balance for Contractual Services-Testing by $668. In its response to the audit, WMSI submitted invoices totaling $1,705. Using a three-year amortization period, we calculate the appropriate annual expense for the costs of this testing to be $568 ($1,705/3). As such, Contractual Services-Testing shall be reduced by $100 ($668 - $568).

5. Contractual Services-Other

The Utility increased Contractual Services-Other by $526 for the annual report preparation cost. Based on the actual invoices, the audit report concluded that the account should be increased by $1,063 for a total increase of $1,589. However, our audit staff decreased the account by an additional $1,794 for expenses with insufficient support. The net reduction made by our audit staff was $731 ($1,063 - $1,794). In its response, WMSI provided supporting documentation for $1,779 in expense. That leaves $15 of expenses with insufficient support. As such, the Utility's adjusted balance for Contractual Services-Other shall be increased by $1,048 ($1,063 - $15).

6. Transportation Expense

The Utility increased Transportation Expense by $3,177, for mileage reimbursement for Gene Brown and Sandy Chase. Our audit staff removed this amount because no mileage logs or expense reports were provided to support these numbers as required by Order No. PSC-11-0010-SC-WU. An additional $5,739 of expenses was recorded in this account for vehicle repairs, maintenance, and gasoline purchases. This amount was removed by our audit staff because it was not possible to discern the amount applicable to utility business from the support provided for these amounts. Our audit staff also removed an additional $244 of expenses because of insufficient support provided. The total decrease to Transportation Expense in the audit report was $9,160 ($3,177 + $5,739 + $244).

The Utility argued in its audit response that prior to the issuance of Order No. 11-0010-SC-WU in the last rate case, there was no order or requirement for Gene Brown or Sandra Chase to maintain individual travel logs for the company vehicles. We disagree, and note that in the 1994 rate case, the Utility was effectively put on notice that travel records would be required in future proceedings. In the final order in that case, we stated, " . . . these employees shall maintain travel records prospectively so that we may adequately consider the level of such expenses in future proceedings."[39] Accordingly, we find that the $3,177 adjustment for mileage reimbursement is appropriate, and Transportation Expense shall be reduced by that amount.

WMSI did not challenge the removal of the $5,739 in vehicle maintenance expense, and Transportation Expense shall be reduced by the full amount of $5,739. However, as regards the $244 reduction for insufficient support, the Utility subsequently did provide support for approximately $171, leaving $73 ($244 - $171) as unsupported. As such, we calculate the total decrease to Transportation Expense to be $8,989 ($3,177 + $5,739 + $73).

[39] See Order No. PSC-94-1383-FOF-WU, p. 44.

7. Insurance-Vehicle Expense

The Utility decreased Insurance-Vehicle Expense by $3,351, which represents the amortized insurance expense for two vehicles that were removed from plant. The remaining balance of $7,980 in this account is the expense for the remaining three vehicles owned or leased by the Utility. However, our audit staff calculated $5,600 of actual insurance expense for these vehicles, and decreased the Utility's adjusted balance for the Insurance-Vehicle Expense by $2,380 ($7,980 - $5,600). The Utility did not address this particular adjustment in its audit response. Therefore, we find that this adjustment is appropriate.

8. Miscellaneous Expense

Our audit staff decreased Miscellaneous Expense by $12,070 ($8,405 + $3,665), reclassifying $8,405 to plant for a split case pump and removing $3,665 of additional expenses. WMSI made no mention of the split case pump reclassification in its audit response and focused solely on the 47 items that were disallowed for insufficient support or non-regulated expense. The Utility agreed with our audit staff's removal of approximately $821 worth of audit adjustments, which were included earlier in this Order. Of the remaining $2,844 ($3,665 - $821) of disallowed expenses, we find that approximately $770 shall be allowed because the Utility provided adequate support or because it is our practice to accept such expenses. As such, the appropriate additional expense addressed in this finding shall be $2,074 ($2,844 - $770). This results in Miscellaneous Expense being reduced by $10,479 ($8,405 + $2,074).

9. Summary

In summary, for the above-noted adjustments, WMSI's test year O&M expenses shall be reduced by $70,982. In addition, plant shall be increased by $6,465. Further, accumulated depreciation and depreciation expense shall be increased by $148 and $323, respectively.

10. Contractual Services–Accounting

The Utility recorded Contractual Services-Accounting Expense of $9,550 in the current test year. The adjusted test year amount represents an increase of $5,883 ($9,550 - $3,667) over our approved accounting expense from WMSI's last rate case. In our prior rate case decision, we reduced the level of Contractual Services-Accounting Expense by $14,333, finding that the five-year average of $3,667 was an appropriate level of Contractual Services–Accounting Expense for the Utility. In doing so, we stated as follows:

> On a prospective basis, we find that Ms. Withers services will be minimal according to the accounting manual. The Utility has adequate in-house employees to maintain its accounting functions in full compliance as illustrated in its accounting manual. The $3,667 level of Accounting Services expense will allow

> for oversight over the implementation of the accounting manual, as well as the completion of the Federal and Florida Corporate Tax returns.[40]

The Utility did not identify any information in the instant case that had not already been considered in the previous rate case. In fact, the only explanation for the increase was provided by the Utility in MFR, Schedule B-7, where it offered the following:

> The Utility's accounting expense in 2010 was greater than the PSC approved 2009 test year. Reflects the increased accounting services required by the utility's accounting procedures and maintaining accounting records for regulatory purposes and tax reporting.[41]

Additionally, we note that there is only one year separating the current test year from the test year in the prior rate case.

Given the proximity of the test years and the lack of additional new information in support of the request, we find the Utility has not proved that its requested increase in Contractual Services-Accounting Expense is warranted. As such, the Contractual Services-Accounting Expense shall be reduced by the Utility's requested increase, \$5,883. The resulting Contractual Services-Accounting expense is \$3,667 (\$9,550 - \$5,883), the same as in the last rate case.

B. Rate Case Expense for 2010 Test Year?

In its MFRs, the Utility included an estimate of \$220,000 for current rate case expense. Our staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On May 25, 2012, the Utility submitted a revised estimated rate case expense through completion of the PAA process of \$127,890, as shown in Table 4 below.

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[40] See Order No. PSC-11-0010-SC-WU, p. 26.
[41] See Document No. 00247-12, WMSI MFR Vol. 1, 1/7/2012 Revision, p. 31.

Table 4

	MFR B-10 Estimated	Actual as of 5/15/12	Additional Estimated	Revised Total
Legal Fees (Locurto)	$97,500	$3,625	$0	$3,625
Legal Fees (Friedman)	0	17,870	20,445	38,315
Accounting Consultant Fees	62,975	58,803	4,440	63,243
Engineering Consultant Fees	11,000	11,000	3,500	14,500
M&R Consultants	3,000	0	0	0
Undetermined Expert Fees	37,775	0	0	0
Filing Fee	5,250	5,250	0	5,250
Notices, FedEx, Misc.	2,500	1,547	1,500	3,047
Total Rate Case Expense	$220,000	$98,095	$29,885	$127,890

Pursuant to Section 367.081(7), F.S., we must determine the reasonableness of rate case expense and shall disallow all rate case expense determined to be unreasonable. Our staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on that review, we find that several adjustments are necessary to the Utility's revised rate case expense estimate.

1. Legal Fees (The Locurto Law Firm, P.A.)

The first adjustment relates to the Utility's actual legal fees for The Locurto Law Firm, P.A. (Locurto). WMSI requested total legal fees of $3,625, which was comprised of only actual costs.[42] Our only adjustment to Locurto's fees relates to the preparation and filing of Gene Brown's testimony and exhibits. Because Mr. Brown's testimony and exhibits were withdrawn on June 14, 2012, the costs associated with the preparation, review, and revision of the testimony shall be removed from rate case expense. Based on an invoice dated December 15, 2011, we find that approximately 3.16 hours shall be removed. Approximately .66 hours (1/3 x 2 hours) relate to a 2-hour meeting held on October 12, 2011, with Gene Brown, Les Thomas, and Jeanne Allen. The other 2.5 hours relate to a November 6, 2011, meeting with Gene Brown to review testimony and address revisions. Accordingly, Locurto legal fees shall be reduced by $792 (3.16 hours x $250).

2. Legal Fees (Sundstrom, Friedman & Fumero, LLP)

The second adjustment relates to the Utility's estimated legal fees to complete the rate case. WMSI requested total legal fees for Sundstrom, Friedman & Fumero, LLP (Friedman) of

[42] A notice of substitution of counsel was received by this Commission on January 12, 2012.

$38,315, which was comprised of $17,870[43] in actual costs and $20,445 in estimated fees to complete the rate case. After reviewing the supporting documentation, the only adjustment we make is for the removal of one hour in order to "review and respond to Audit due 7/31/12." The audit report in this docket was filed on March 12, 2012, and WMSI filed its audit response on April 4, 2012. No additional audit has been requested. Accordingly, this additional hour for review of the audit shall be disallowed, and Friedman legal fees shall be reduced by $340 (1 hour x $340).

3. Accounting Consultant Fees

The third adjustment relates to the Utility's estimated accounting consultant fees to complete the rate case. WMSI requested total accounting fees of $63,243, which was comprised of $58,803 in actual costs and $4,400 in estimated fees to complete the rate case. Law, Redd, Crona & Munroe, P.A. (LRCM) estimates that a total of 24 hours is needed to complete the case. They estimate 6 hours to "provide assistance to client in connection with responses to PSC staff's and other data requests, including updates to rate case expense;" 12 hours to "review staff recommendations, testing recommended revenue requirements and rates and discussion with client," and 6 more hours to "review PAA Order, testing final approved revenue requirements and resulting final rates, discussion with client." The functions laid out in the last two descriptions appear to be essentially the same, yet LRCM contends that one will take twice as long. Both entries acknowledge reviewing a recommendation or order, testing revenue requirements and rates, and discussing them with the Utility. As such, they should require the same amount of time to complete. We find that 18 hours is a reasonable amount of time to complete the remaining duties, review our staff's recommendation, review the PAA Order, test revenue requirements, and brief WMSI. Accordingly, accounting consultant fees shall be reduced by 6 hours, or $1,110 (6 hours x $185).

4. Engineering Consultant Fees

The fourth adjustment relates to the Utility's actual engineering consulting fees and its estimated engineering consultant fees to complete the rate case. WMSI requested total engineering fees of $14,500, which was comprised of $11,000 in actual costs and $3,500 in estimated fees to complete the rate case.

The only support provided for 80 of the 88 hours of actual engineering charges was a description on the engineer's summary of actual charges that stated "preparation of engineering support documentation for the PSC application." This description was entered ten separate times (days) on the billing summary. The remaining eight hours were described as "preparation of engineering report for PSC site visit." We believe that some of the "support documentation" for the PSC application may have already been available as a result of the Utility's 2010 rate case. Absent additional detail related to support documentation preparation, we find that a reduction in

[43] This amount is approximately $168.50 higher than what was included in the attorney calculated total. The amount provided by the attorney for actual unbilled from 5/1/12 through 5/15/12 was $341.50. Supporting documents reflect an actual unbilled balance of $510.00. The $510.00 amount was included in the "Utility's Actual as of 5/15/2012" column for Legal Fees (Friedman).

hours is necessary to account for the lack of detail provided in conjunction with the 80 hours related to the consultant's document preparation. Accordingly, 6 hours (0.6 hours x 10 days) shall be removed from the consultant's actual hours.

In addition, 17 hours of the estimated 28 hours to complete are allocated to preparing for the plant inspection or attending the plant inspection. These 17 hours are in addition to the 8 actual hours already spent on the preparation of an engineering report for the Commission's site visit. Given the lack of detail contained in the estimate to complete, we question the amount of preparation actually required for a site visit when the consultant has done engineering work for the Utility since March 1994.[44] The engineer's familiarity with the Utility leads us to believe that 17 hours of estimated time devoted to preparation for and attendance at the plant inspection is excessive, unreasonable, and unsupported. Consequently, the estimated hours related to the plant inspection shall be reduced by one-half, or 8.5 hours (17 hours/2). Accordingly, engineering consultant fees shall be reduced by 14.5 hours, or $1,812 (14.5 hours x $125).

5. Customer Notices and Postage

The fifth adjustment relates to the Utility's expenses for customer notices and postage. The Utility estimated charges of $2,500 for these expenses. As of May, 15, 2012, the Utility reported actual expenses of $1,547 for customer notices and postage with an additional $1,500 still remaining. In several recent rate cases, we have allowed expenses of $0.05 per envelope, $0.34 for postage, and $0.10 per copy.[45] Although we shall use the same costs for envelopes and copies, we note that $0.35 reflects the current commercial letter postage rates, and we find that the $0.35 rate shall be used.

WMSI is responsible for sending four notices: the interim notice, the initial notice, customer meeting notice, and notice of the final rate increase. The initial notice and customer meeting notice were combined in this docket. As such, we estimate the postage cost for the notices to be approximately $1,911 (1,820 customers x $0.35 pre-sorted rate x 3 notices). We estimate envelope costs to be $273 (1,820 customers x $0.05 per envelope x 3 notices) and copying costs to be $1,456 (1,820 customers x $0.10 per copy x 8 pages).[46] Costs using these amounts total $3,640 ($1,911 + $273 + $1,456). Based on the above, we find that WMSI has underestimated the costs associated with customer notices and postage in this docket. Accordingly, rate case expense shall be increased by $593 ($3,640 - $3,047).

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[44] See Document No. 08222-11, Testimony & Exhibits of Les Thomas, p. 3.

[45] See Order Nos. PSC-12-0206-PAA-WS, issued April 17, 2012, in Docket No. 110264-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.; PSC-11-0587-PAA-SU, issued December 21, 2011, in Docket No. 110153-SU, In re: Application for increase in water and wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge; and PSC-11-0514-PAA-WS, issued November 3, 2011, in Docket No. 100426-WS, In re: Application for increase in water and wastewater rates in Lake County by Lake Utility Services, Inc.

[46] It appears that both the interim notice and final notice would be one page each while the combined initial and customer meeting notice would be four pages.

6. Conclusion

It is the Utility's burden to justify its requested costs.[47] Further, we have broad discretion with respect to the allowance of rate case expense. It would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings.[48] In summary, WMSI's revised rate case expense shall be decreased by $3,461, for a total rate case expense of $124,519. Our breakdown of rate case expense is as follows:

Table 5

		Utility		
	MFR	Revised Actual	Commission	
Description	Estimated	& Estimated	Adjustments	Total
Legal Fees (Locurto)	$97,500	$3,625	($792)	$2,833
Legal Fees (Friedman)	0	38,315	(340)	37,975
Accounting Consultant Fees	62,975	63,243	(1,110)	62,133
Engineering Consultant Fees	11,000	14,500	(1,812)	12,688
M&R Consultants	3,000	0	0	0
Undetermined Expert Fees	37,775	0	0	0
Filing Fee	5,250	5,250	0	5,250
Notices, FedEx, Misc.	2,500	3,047	593	3,640
Total Rate Case Expense	$220,000	$127,980	($3,461)	$124,519
Annual Amortization	$55,000	$31,995	($865)	$31,130

In its MFRs, WMSI requested total rate case expense of $220,000, which amortized over four years is $55,000. Based on the adjustments approved above, total rate case expense shall be decreased by $95,481 ($220,000 - $124,519), or $23,870 ($55,000 - $31,130) per year.

The approved total rate case expense shall be amortized over four years, pursuant to Section 367.0816, F.S. Based on the data provided by WMSI and our adjustments discussed above, and dividing the approved rate case expense of $124,519 by four, we calculated that the annual expense is $31,130.

C. Cash Advances to WMSI's President and Associated Companies – Account 123

The Utility's last rate case, Docket No. 100104-WU, included Issue 50A: "Is the Utility's level of investment in associated companies appropriate? If not, what action should the Commission take?" Regarding Issue 50A, Order No. PSC-11-0010-SC-WU concluded:

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[47] See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982)
[48] See Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), rev. den., 529 So. 2d 694 (Fla. 1988)

> Based on the record in this proceeding, it cannot be determined if the level of investment in associated companies is appropriate. However, the amounts in question are not included in rate base and are not considered in the determination of appropriate rates. That said, based on the circumstances in this case, our staff shall initiate a cash flow audit of the Utility as soon as possible, and, if it is determined that the activity in the account has impaired the Utility's ability to meet its financial and operating responsibilities, our staff shall recommend an appropriate adjustment for imprudence.[49]

Our staff initiated a cash flow audit which was released July 29, 2011. Regarding Account 123, the staff cash flow audit concluded:

> The net receivable of $1,175,075 from Gene Brown and associated companies, as of December 31, 2010, represents funds that have been moved out of the Utility for either Gene Brown's personal use or one of the associated companies.[50]

According to the Utility's 2011 annual report, as of December 31, 2011, the amount in Account 123 was $1,215,075, an increase of $40,000 from December 31, 2010.

Based on the staff cash flow audit and the Utility's financial statements, it appears that, on net, as of December 31, 2011, approximately $1.2 million in cash has been taken out of the Utility for non-utility purposes since 2003. In Docket No. 100104-WU, the Utility argued that all of the funds that flowed through this account were used to pay debt service on loans incurred by associated company Brown Management Group and WMSI's President personally to obtain financing to keep the Utility in operation.[51] However, there is no evidence that funds have been provided to the Utility in an amount greater than the amount that has been taken out of the Utility. While cash has moved in and out of Account 123 over time, as the cash flow audit demonstrates, approximately $1.2 million more in cash has flowed out of the Utility than was invested in the Utility through this account since 2003 when the balance in Account 123 was last at zero.

WMSI's approved rates include funds for debt service costs.[52] Despite the availability of these funds through rates, it appears that the Utility's loan agreement with DEP has been amended on at least four occasions and that WMSI has not made some payments as originally scheduled. We note that during this period when scheduled payments were not made, cash was

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[49] See Order No. PSC-11-0010-SC-WU, p. 56.

[50] See Document No. 05312-11, Auditor's Report, WMSI Cash Flow Audit in Docket No. 100104-WU, Audit Control No. 11-007-1-2, dated July 29, 2011, p. 11.

[51] See Document No. 08650-10, Transcript Vol. 4, in Docket No. 100104-WU, p. 572.

[52] See Order Nos. PSC-00-2227-PAA-WU, issued November 21, 2000, in Docket Nos. 940109-WU and 000694-WU, In re: Petition for interim and permanent rate increase in Franklin County by St. George Island Utility Company, Ltd. and In re: Petition by Water Management Services, Inc. for limited proceeding to increase water rates in Franklin County, p. 13; PSC-03-1005-PAA-WU, issued September 8, 2003, in Docket No. 000694-WU, In re: Petition by Water Management Services, Inc. for limited proceeding to increase water rates in Franklin County, p. 12; and 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., p. 15.

being advanced to the President and associated companies. We also note that on December 30, 2009, the Utility entered into Amendment 3 to the loan agreement with DEP to restructure the 20-year loan. The term of the DEP loan was increased an additional 10 years, which lowered the Utility's annual loan payments; however the incremental increase in interest expense over the term of the loan will be approximately $928,071.[53]

By letter dated June 15, 2012, from DEP to WMSI, DEP stated that WMSI's "loan is hereby determined to be in default in accordance with Rule 62-552.430."[54] DEP is delaying enforcement action pending our decision in this docket. In order to fund the approximately $4 million in plant additions requested in this docket, which includes replacing the water ground storage tank that has been described by the Utility and others as on the verge of catastrophic collapse, it appears that the Utility's prospective bank is requiring DEP subordinate its claim on the Utility's assets. Whether financing can be arranged for the proposed plant additions is not known at this time.

The above-noted actions of the Utility's President appear to result in additional costs over the term of the DEP loan of approximately $928,071. We do not believe that the customers should be required to pay all these additional costs. Given the actions of the Utility's President, we find that the allowance for the Utility President's salary shall be reduced by 15 percent, which results in a reduction of $14,438. Accordingly, corresponding adjustments shall be made to reduce the allowance for the pensions and benefits expense and payroll taxes by $3,504 and $1,104, respectively, for a total adjustment of $19,046. We believe this adjustment is consistent with our prior decisions wherein we have reduced the president's salary.[55]

In a letter dated July 9, 2012, from WMSI to this Commission, the Utility expressed confidence that it can secure the required financing for the necessary improvements. To this end, WMSI indicated that it will make the following proposal to the new lender and to DEP as soon as the Utility's annual revenue requirement is established in this case. To facilitate this, WMSI proposed that it would make the following proposal to the new lender and to DEP:

(1) all WMSI utility revenue will be deposited in a WMSI account established at the bank which makes the loan for the new improvements;

(2) on a set date each month, that lender will debit the account for the monthly P&I payment due that bank;

(3) on another set date during each month, the bank will transfer from WMSI's account to an escrow account established for the benefit of DEP an amount equal to 1/6 of the semi-annual loan payment due to DEP; and

[53] See Document No. 05312-11, Auditor's Report, WMSI Cash Flow Audit in Docket No. 100104-WU, p. 13.
[54] See Document No. 04560-12, DEP letter dated June 15, 2012, p. 3.
[55] See Order Nos. PSC-02-0593-FOF-WU, issued April 30, 2002, in Docket No. 010503-WU, In re: Application for increase in water rates for Seven Springs System in Pasco County by Aloha Utilities, Inc., pp. 30-31 and PSC-01-1162-PAA-WU, issued May 22, 2001, In re: Application for staff assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc. (Sunrise Water Company), p. 28.

(4) WMSI will maintain and operate the utility from the remaining cash flow and other resources available to WMSI.[56]

The Utility closes the letter by stating that the monthly debit and escrow arrangement set forth above will ensure that all necessary improvements are made to the Utility's system and the DEP loan will be repaid in accordance with the terms of the loan agreement.

As noted earlier in this Order, we are requiring WMSI to escrow 35.25 percent of all monthly revenues. This amount is designed to cover both the DEP loan and any loan obtained to finance the pro forma improvements. Also, as noted earlier in this Order, our staff has been given administrative authority to approve any withdrawals from this escrow account to make payments on construction loans as they become due or to make the DEP loan payments as they become due. Therefore, in effect, we have accepted, but modified slightly, WMSI's proposal for an escrow account.

Conclusion

Based on the above, we reiterate our decision that WMSI shall escrow monthly 35.25 percent of all Utility revenues as set forth earlier in this Order. Finally, we find that the revenue requirement shall be calculated such that the Utility President's salary is reduced by 15 percent. The amount of the salary reduction shall be $14,438 per year. As part of this adjustment, pensions and benefits expense shall be reduced by $3,504, and payroll taxes shall be reduced by $1,104. The total adjustment is $19,046 ($14,438 + $3,504 + $1,104).

D. Net Gain on Sale of Land and Other Assets

Over the past five years, WMSI has sold assets that have resulted in gains and losses. It is our long-standing practice to amortize capital gains from the sale of specific assets over a period of five years to the benefit of the ratepayers.[57]

Based on this practice, the net capital gains (net of capital losses) on the sale of specific assets shall be recognized and amortized over five years. We have not included those assets that would otherwise be fully amortized within a year of when the rates would go into effect.[58] Based on the above, we calculate a net gain of $5,794. The net gain on sale of land and other specific

[56] See Document No. 04560-12, WMSI letter dated July, 9, 2012, p. 2.
[57] See Order Nos. PSC-07-0205-PAA-WS, issued March 6, 2007, in Docket No. 060258-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corp.; PSC-04-0947-PAA-SU, issued September 28, 2004, in Docket No. 040733-SU, In re: Disposition of gain on sale of land held for future use in Marion County by BFF Corp.; PSC-02-1159-PAA-GU, issued August 23, 2002, in Docket No. 020521-GU, In re: Petition for approval to amortize gain on sale of property over five-year period by Florida Public Utilities Company; and PSC-98-0451-FOF-EI, issued March 30, 1998, in Docket No. 970537-EI, In re: 1997 depreciation study by Florida Public Utilities Company, Marianna Division.
[58] The following transactions fall into this category and were not included in staff's calculation: (1) disposition of a 2005 dump truck on 2/16/2007; (2) disposition of a 2001 truck on 8/14/2007; and, (3) the disposition of Commonwealth Office Park lots 5 & 6 on 11/1/2007.

assets of the Utility shall be amortized over five years, which results in an annual amortization of $1,159.

Our calculation of the amortization of the gain on sale and the resulting reduction in expenses is reflected in Table 6 below.

Table 6

WMSI Gain/(Loss) on Sale				
Date	Description	Net Book Value	Proceeds/ Sale Price	Gain/(Loss)
06/04/09	Easement	$0	$4,000	$4,000
07/14/09	Easement	$0	$500	$500
12/31/09	Backhoe Trailer	$4,006	$10,000	$5,994
03/10/10	2008 GMC Truck	$21,713	$22,612	$899
12/31/10	2008 Chevy Tahoe	$37,222	$35,471	($1,751)
01/01/11	2007 Chevy Tahoe	$17,741	$13,393	($4,348)
07/19/11	200 Non-functioning Meters	$0	$500	$500
Total Gain/(Loss) on Sales				$5,794
Amortized Gain/(Loss)				$1,159

VI. REVENUE REQUIREMENT

In its filing, WMSI requested revenue requirements to generate annual revenue of $2,019,622. This requested revenue requirement represents a revenue increase of $714,035, or approximately 54.69 percent.

Consistent with our decisions concerning the underlying rate base, cost of capital, and operating income issues, we find that the revenue requirement is $1,811,648. The approved revenue requirement exceeds adjusted test year revenue by $506,061, or 38.76 percent.

This pre-repression revenue requirement will allow the Utility the opportunity to recover its expenses and earn a 5.51 percent rate of return. The computation of the revenue requirement is shown on Schedule No. 3-A.

VII. RATES AND CHARGES

A. Appropriate Billing Determinants

Our staff reviewed the aggregate billing determinants contained in MFR Schedule E-2 and the detailed billing determinants contained in MFR Schedule E-14. In its review, our staff verified that the aggregate billing determinants in MFR Schedule E-2 represent the sum of the detailed billing determinants contained in MFR Schedule E-14. Therefore, we find that the billing determinants contained in MFR Schedules E-2 and E-14 are appropriate for rate-setting purposes.

B. Appropriate Rate Structure

Our staff performed a detailed analysis of the Utility's billing data in order to evaluate various base facility charge (BFC) cost recovery percentages, as well as usage blocks and usage block rate factors for the residential rate classes. The goals of the evaluations were to select the rate design parameters that: 1) allow the Utility to recover its revenue requirement; 2) equitably distribute cost recovery among the Utility's customers; and 3) implement, where appropriate, water conserving rate structures consistent with this Commission's Memorandum of Understanding with the WMDs.

The Utility's current residential rate structure is a three-tier inclining block rate structure with usage blocks from 0 to 8 kgals,[59] 8.001 to 15 kgals, and all kgals in excess of 15 kgals per month. The gallonage rates for these usage blocks are $3.30, $4.12, and $4.96 per kgal, respectively. The BFC for a 5/8" x 3/4" meter is $27.79 based upon a BFC allocation percentage of 50 percent. In its filing, WMSI also proposed a continuation of a three-tiered inclining block rate structure with the BFC allocation remaining at 50 percent.

In 1991, we entered into a Memorandum of Understanding with the five WMDs. The purpose of this memorandum was to commemorate that it is in the public interest to engage in a joint goal to ensure the efficient and conservative utilization of water resources in Florida, and that a joint cooperative effort is necessary to implement an effective, state-wide water conservation policy. In keeping with this memorandum, we have, whenever practicable, implemented water conserving rate structures which limit the BFC allocation to no more than 40 percent and to adopt inclining block rate structures that provide an economic incentive to consumers to reduce excessive consumption. Over the last several years, it has been our practice to implement these rate design parameters whenever applicable.[60]

In this case, we are approving an increase to the revenue requirement of just less than 39 percent. In order to implement this increase, we have evaluated various BFC cost recovery percentages, as well as usage blocks and usage block rate factors for the residential rate classes to select the rate design parameters that allow for recovery of the revenue requirement, equitable distribution of cost recovery among customers, and implementation of the appropriate water conserving rate structures. As explained below, we find the appropriate rate structure is a two-tier inclining block rate structure with the base facility charge cost recovery percentage of 50 percent. The usage blocks shall be set for monthly usage levels of 0 – 6 kgals, and for usage in excess of 6.001 kgals.

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[59] Thousand gallons.

[60] See Order Nos. PSC-94-1452-FOF-WU, issued November 28, 1994, in Docket No. 940475-WU, In re: Application for rate increase in Martin County by Hobe Sound Water Company; PSC-01-0327-PAA-WU, issued February 6, 2001, in Docket No. 000295-WU, In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.; PSC-00-2500-PAA-WS, issued December 26, 2000, in Docket No. 000327-WS, In re: Application for staff-assisted rate case in Putnam County by Buffalo Bluff Utilities, Inc.; and PSC-02-0593-FOF-WS, issued April 30, 2002, in Docket No. 010503-WU, In re: Application for increase in water rates for Seven Springs system in Pasco County by Aloha Utilities, Inc.

The billing determinants show that average overall consumption is approximately 6 kgals, with average residential consumption at approximately 8.5 kgals. At consumption levels in excess of 12 kgals, approximately 12 percent of the customers are using 26 percent of the water. These usage levels are significant especially given that the current rate structure for the Utility is a three-tier inclining block. We believe that because many of the homes on St. George Island are not traditional owner-occupied homes, but instead are vacation rentals, economic incentives to conserve fall short because rate increases may be passed on to the renter. This scenario generally mimics how rate increases are passed on by the General Service class to their customers. As such, we do not believe meaningful water conservation can be achieved through rate design for these large volume residential consumers. Moreover, we believe continuation of the three-tier rate structure, even applying aggressive rate factors, would have a minimal impact on consumption, but could potentially harm the Utility by reducing the gallons sold to other consumers. As noted in the last rate case, a significant number of customers had installed shallow wells for irrigation leading to a sharp decrease in gallons sold. If a three-tier structure continues, we are concerned that further erosion in the gallons sold could occur.

We find from a financial integrity point, a two-tier rate structure featuring a relatively modest increase in price of the second tier will remove the economic incentive to install shallow wells. The approved rate structure will still achieve water conservation goals established by the NWFWMD, by having inclining block rates, while simultaneously helping insure long term financial viability for the Utility. Therefore, we find a two-tier inclining block rate structure with the base facility charge cost recovery level of 50 percent with usage blocks set for monthly usage levels of 0 – 6 kgals and for usage in excess of 6.001 kgals is appropriate. The approved rate structure and the typical monthly bills are shown in Table 7 below.

Table 7

Approved Rate Structure	
Two-tier inclining block; Monthly kgal usage blocks at 0-6, 6.001+; Usage block rate factors at 1, 1; BFC = 50 percent	
BFC	$34.83
0-6 kgals	$6.21
6.001 + kgals	$7.03
Typical Monthly Bills	
6 kgals	$72.11
10 kgals	$100.22
15 kgals	$135.35
20 kgals	$170.49
25 kgals	$205.62
30 kgals	$240.75
35 kgals	$275.89
40 kgals	$311.02

C. Repression Adjustment

The approved increase in the revenue requirement is approximately 39 percent. This increase will likely have some impact on kgals consumed. Using our standard methodology to calculate customers' reaction to changes in price, we find residential consumption would be reduced by approximately 6.9 percent. While a larger decrease in consumption may seem reasonable given the size of the increase, we believe, as discussed above, that many homes on St. George Island are not fulltime owner-occupied homes, but instead are vacation rental properties. As is the case with the General Service class, these homeowners may pass along increases to their customers (i.e., the vacation home renter). To reflect this relative insensitivity to price changes, we find a price elasticity of demand to be -0.2 instead of -0.4 normally used to calculate repression adjustments. This lower price elasticity reflects our belief that many of the Utility's customers will simply pass the increase in cost to their renters instead of reducing their consumption.

D. Water Rates

Excluding miscellaneous service revenues, the approved water rates are designed to produce total Utility revenues of $1,806,147 and are shown on Schedule No. 4. These rates were developed using the billing determinants provided by the Utility in its MFR Schedules E-2 and E-14, a BFC cost recovery percentage of 50 percent, and a repression adjustment as discussed above.

The Utility shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates shall not be implemented until our staff has approved the proposed customer notice. The Utility shall provide proof of the date the notice was given within 10 days of the date of the notice.

E. Late Fee

Section 367.091, F.S., authorizes this Commission to establish, increase, or change a rate or charge other than monthly rates or service availability charges. WMSI has requested a $5 late fee. The Utility's request for a late fee was accompanied by its reason for requesting the fee, as well as the cost justification required by Section 367.091, F.S. WMSI's cost analysis breakdown for its proposed late fee is shown below in Table 8 below.

Table 8

Late Fee Cost Analysis	
Item:	Cost:
Office Clerk Labor ($22.50/hr. x 0.20 hours)	$4.50
Postage/Printing Envelope	0.50
Total	$5.00

This cost is comprised of one-fifth of an hour of employee time at $22.50 per hour to research and verify that the payment is late, process the bill and assess the late payment fee, or $4.50 ($22.50/5). In addition, the $5 fee also recognizes the cost of an envelope, printer and printing supplies, and postage to send the notice to the customer, totaling approximately $0.50.

The late payment fee is designed to encourage customers to pay their bills on time and to ensure that the cost associated with late payment is not passed onto customers who do pay on time. The Utility's justification for the late fee is to place the burden of these costs on the cost causer rather than the general body of ratepayers. We find the estimated cost provided by the Utility is reasonable.

Based on the above, WMSI's proposed late fee of $5 is approved. This fee shall be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates shall not be implemented until our staff has approved the proposed customer notice. The Utility shall provide proof of the date the notice was given within ten days after the date of the notice. This notice may be combined with the other required notices.

F. Non-Sufficient Funds Fee

Section 367.091, F.S., requires that rates, charges, and customer service policies be approved by this Commission. We have authority to establish, increase, or change a rate or charge. WMSI has requested a non-sufficient funds fee in accordance with Section 832.08(5), F.S.

We find that WMSI shall be authorized to collect a non-sufficient funds fee, and that it shall be established consistent with Section 68.065, F.S., which allows for the assessment of charges for the collection of worthless checks, drafts, or orders of payment. As currently set forth in Sections 832.08(5), the following fees may be assessed:

1) $25, if the face value does not exceed $50,

2) $30, if the face value exceeds $50 but does not exceed $300,

3) $40, if the face value exceeds $300,

4) or five percent of the face amount of the check, whichever is greater.

WMSI's tariff for a non-sufficient funds fee shall be revised to reflect the charges set by Sections 68.065 and 832.08(5), F.S. Approval of such fee is consistent with our prior decisions.[61] Furthermore, as discussed in prior Commission orders, such a fee places the cost on the cost-causer, rather than requiring that the costs associated with the return of the non-sufficient funds checks be spread across the general body of ratepayers.

[61] See Order Nos. PSC-10-0364-TRF-WS, issued June 7, 2010, in Docket No. 100170-WS, In re: Application for authority to collect non-sufficient funds charges, pursuant to Sections 68.065 and 832.08(5), F.S., by Pluris Wedgefield Inc.; and 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.

As such, WMSI's proposed non-sufficient funds fee is approved. The fee shall be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the fees shall not be implemented until our staff has approved the proposed customer notice. The Utility shall provide proof of the date the notice was given within ten days of the date of the notice. This notice may be combined with the other required notices.

G. Service Availability Charges

Based mainly on the Utility's proposed pro forma plant additions, the Utility has requested that its Service Availability Charges be increased. We last considered the level of Service Availability Charges in WMSI's 2010 rate case, but chose not to modify the existing charges.[62] WMSI's existing Service Availability Charges were last set by the Commission in 1994.[63] Since the Service Availability Charges were last set, the Utility contends that plant has increased from approximately \$2.5 million to approximately \$9.0 million in 2010, and will increase to approximately \$12.8 million with the pro forma additions proposed in the current rate case.

When designing the appropriate level of service availability charges, we use Rule 25-30.580, F.A.C., which sets out guidelines for setting service availability policy. Pursuant to the rule, the maximum amount of CIAC, net of amortization, should not exceed 75 percent of the total original cost, net of accumulated depreciation, of the Utility's facilities and plant when the facilities and plant are at their designed capacity. The minimum amount of CIAC should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution and sewage collection systems.

WMSI's ratio of net CIAC to net plant indicates that with present Service Availability Charges and no additions to plant, the ratio is currently only 35.0 percent. After the proposed additions to plant, that ratio will drop to 24.9 percent at design capacity. According to its current tariff, the current charge of \$1,620, is composed of a plant capacity charge of \$845, a main extension charge of \$525, and a meter installation fee of \$250. WMSI proposes that the charge be increased to \$10,004.47, a 517.56 percent increase. Under WMSI's proposed Service Availability Charges, the plant capacity charge would increase to \$9,079.47, the meter installation fee would increase to \$400, and the main extension charge would remain at its current level. In addition, a plant capacity charge for "all others-per gallon/day" would increase from \$2.41 to \$25.94. A similar "all others-per gallon/day" charge for the main extension charge would remain the same under the Utility's proposal. The proposed plant capacity charge would be an increase of 974.49 percent over the existing charge. This results in the net CIAC to net plant ratio reaching 75 percent at design capacity. The Utility believes that the increased level of CIAC will have a mitigating effect on monthly service rates to existing and future customers.

We note that the rule is a "guideline," and there is no mandatory requirement to set the level at 75 percent. WMSI's requested Service Availability Charges are based in large part on pro forma plant additions that may, or may not, come to fruition and at a time when customer

[62] See Order No. PSC-11-0010-SC-WU, pp. 49-50.
[63] See Order No. PSC-94-1383-FOF-WU, pp. 65-66.

growth is stagnant. Given those conditions, we find that a 517.56 percent increase in the total service availability charges per equivalent residential connection (ERC) is excessive and highly speculative, with the potential to stunt future growth.

In order to determine what charges might be appropriate, our staff calculated the average cost per ERC for both the treatment plant and the transmission and distribution plant as we have done previously.[64] We believe that using the average costs per ERC will result in reasonable charges. We calculate the total treatment plant cost using the adjusted 13-month average to be \$7,196,409. Dividing this amount by 2,125 which represents the total capacity in ERCs of the treatment plant, we calculate an average plant capacity cost per ERC of approximately \$3,387. The corresponding plant capacity charge for "all others-per gallon/day" would be \$9.68 (\$3,387/350 gpd).

Then, taking the total transmission and distribution plant of \$3,237,063 (adjusted 13-month average), and dividing this amount by 2,125 which represents the total capacity in ERCs, we calculated an average cost for the transmission and distribution plant of approximately \$1,523 per ERC, which represents the average main extension charge. The corresponding main extension charge for "all others-per gallon/day" would be \$4.35 (\$1,523/350 gpd).

In addition, we find that the \$400 meter installation charge proposed by WMSI is reasonable, cost based, and shall be approved. This represents a \$150 increase over the existing charge.

Based on the discussion above, we find that the appropriate combined service availability charge per ERC shall be \$5,310, a \$3,690 increase. The increase is the result of increases to the plant capacity charge of \$2,542, the main extension charge of \$998, and the meter installation fee of \$150.

Conclusion

We find that WMSI's service availability charges shall be revised as set out above. The approved charges are reasonable and consistent with the guidelines set forth in Rule 25-30.580, F.A.C. The approved charges shall be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475, F.A.C. The appropriate revised service availability charges for WMSI are reflected in Table 9 below.

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[64] See Order No. PSC-00-1528-PAA-WU, issued August 23, 2000, in Docket No. 991437-WU, In re: Application for increase in water rates in Orange County by Wedgefield Utilities, Inc.

Table 9

Service Availability Charges			
Type of Charge	Present Charge	Proposed Charge	Commission Approved
Plant Capacity Charge-Res. per ERC	$845	$9,079.47	$3,387
Plant Capacity Charge-All others per Gallon/Day	$2.41	$25.94	$9.68
Main Extension Charge-Res. per ERC	$525	$525	$1,523
Main Extension Charge- All others per Gallon/Day	$1.50	$1.50	$4.35
Flow Meter Installation/Res	$250	$400	$400

H. Interim Rate Increase

By Order No. PSC-12-0030-PCO-WU, we authorized the collection of interim water rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim water revenue requirement was $1,417,664, which represented an increase in annual water revenue of $115,803, or approximately 8.90 percent. This interim increase was effective for service rendered after March 1, 2012, and was protected by funds held in escrow.

According to Section 367.082, F.S., any refund shall be calculated to reduce the rate of return of the Utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates that are in effect shall be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates is the 13-month average period ended December 31, 2010. WMSI's approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the floor of the last authorized range of return on equity.

To establish the proper refund amount, we have calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period.

Using the principles discussed above, the $1,417,664 revenue requirement granted in the Interim Order for the test year is less than the revised revenue requirement for the interim collection period of $1,719,057. This results in no interim refund. As such, the escrow account shall be released upon this PAA Order becoming final through issuance of a Consummating Order.

I. Four-Year Rate Reduction

Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return included in working capital, and the gross-up for RAFs. If the approved pro forma projects are completed within the four-year amortization period, the decreased revenue of $36,190 associated with rate case expense will result in the rate reduction shown on Schedule No. 4.

The Utility shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates shall not be implemented until our staff has approved the proposed customer notice. WMSI shall provide proof of the date notice was given within ten days of the date of the notice.

If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense.

VIII. PROOF OF ADJUSTMENTS

To ensure that the Utility adjusts its books in accordance with our decision, WMSI shall provide proof, within 90 days of the final order in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application for increased water rates by Water Management Services, Inc., is approved in part as set forth in the body of this Order. It is further

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

ORDERED that all matters contained in the attachments and schedules appended hereto are incorporated herein by reference. It is further

ORDERED that Water Management Services, Inc. shall charge the rates and charges as set forth in the body of this Order and as shown on Schedule No. 4 attached hereto. It is further

ORDERED that Water Management Services, Inc. shall file revised water tariff sheets and a proposed customer notice to reflect the approved water rates. It is further

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

ORDERED that the approved water rates shall not be implemented until our staff has approved the proposed customer notice, and Water Management Services, Inc. shall provide proof of the date notice was given no less than ten days after the date of the notice. It is further

ORDERED that Water Management Services, Inc., shall establish an interest bearing escrow account as set forth in the body of this Order. It is further

ORDERED that Water Management Services, Inc., shall escrow monthly 35.25 percent of all revenues collected pursuant to the increased water rates approved in this Order. It is further

ORDERED that Water Management Services, Inc., shall have 18 months from the Consummating Order for this Order to secure financing and complete the pro forma projects. It is further

ORDERED that Water Management Services, Inc., shall have 12 months from the date that all pro forma projects are completed to file data allowing the Commission to perform a true-up of the costs for the pro forma projects. It is further

ORDERED that if the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility shall immediately notify the Commission in writing. It is further

ORDERED that no refund of the interim water rates is required, and upon this Order becoming final, those escrowed funds may be released to the Utility. It is further

ORDERED that the water rates shall be reduced as shown on Schedule No. 4 to remove the amortization of rate case expense, grossed up for regulatory assessment fees. It is further

ORDERED that the decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period. It is further

ORDERED that Water Management Services, Inc. shall file revised tariff sheets and a proposed customer notice setting forth the lower rates and the reason for the reduction to reflect the approved reduction in rates no later than 30 days prior to the actual date of the required rate reduction. It is further

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

ORDERED that the reduction in rates shall not be implemented until our staff has approved the proposed customer notice. The Utility shall provide proof of the date notice was given no less than ten days after the date of the notice. It is further

ORDERED that if Water Management Services, Inc. files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense. It is further

ORDERED that the Late Fee and Non-Sufficient Funds fee shall be approved as set forth in the body of this Order. It is further

ORDERED that Water Management Services, Inc. shall file a proposed customer notice to reflect the approved Late Fee and Non-Sufficient Funds Fee for approval by our staff. It is further

ORDERED that the notice for these fees may be combined with the other notices required. It is further

ORDERED that the approved Late Fee and Non-Sufficient Funds Fee shall be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C. It is further

ORDERED that the fees shall not be implemented until our staff has approved the proposed customer notice. It is further

ORDERED that Water Management Services, Inc. shall provide proof the customers have received notice within ten days after the date the notice was sent. It is further

ORDERED that Water Management Services, Inc. shall file revised tariff sheets reflecting the revised service availability charges approved in this Order. It is further

ORDERED that the approved service availability charges shall be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475, F.A.C. It is further

ORDERED that Water Management Services, Inc. shall provide proof, within 90 days of this order, that the adjustments for all the applicable NARUC USOA primary accounts have been made. It is further

ORDERED that, except for the four-year rate reduction and the proof of adjustments, which are final agency action, the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that if no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a Consummating Order will be issued. It is further

ORDERED that the docket shall remain open for our staff's verification that the revised tariff sheets and customer notices have been filed by the Utility and approved by staff. It is further

ORDERED that the docket shall remain open to allow our staff to verify that the pro forma items have been completed and the true-up of the pro forma plant costs has been accomplished. It is further

ORDERED that once these actions are complete, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 22nd day of August, 2012.

Ann Cole

ANN COLE
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

RRJ

DISSENTS BY COMMISSIONERS GRAHAM AND BALBIS:

COMMISSIONER GRAHAM dissented on the treatment of the excess interest due to the President having restructured the DEP loan. He agreed with the annual dollar amount being deducted from the revenue requirement, but did not believe that the Commission should tell the Utility that it has to result in reducing the president's salary and related expenses.

COMMISSIONER BALBIS dissented on the treatment of the excess interest due to the President having restructured the DEP loan. He agrees that the annual dollar amount associated with the excess interest for restructuring the DEP loan should be deducted from the revenue requirement, but believes the entire dollar amount identified in staff's recommendation should be deducted, and that the Commission should not designate a specific account from which to deduct that dollar amount.

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.

As identified in the body of this order, our action, except for the four-year rate reduction and the proof of adjustments, which are final agency action, is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on September 12, 2012. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Any party adversely affected by the Commission's final action in this matter may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Office of Commission Clerk, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, 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 by filing a notice of appeal with the Office of Commission Clerk and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

Attachment A

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	$3,353,442	$12,193,911	($551,829)	$11,642,082
2	Land and Land Rights	87,856	501,238	589,094	(5,279)	583,815
3	Non-used and Useful Components	0	0	0	(18,023)	(18,023)
4	Accumulated Depreciation	(3,345,867)	182,184	(3,163,683)	($39,325)	($3,203,008)
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	Net Debit Deferred Income Taxes	0	0	0	0	0
8	Advances for Construction	(12,019)	712	(11,307)	0	(11,307)
9	Working Capital Allowance	39,885	0	39,885	(39,885)	0
10	Other - CWIP	48,946	(48,946)	0	0	0
11	Rate Base	$3,757,174	$3,988,630	$7,745,804	($654,341)	$7,091,463

Attachment A

Water Management Services, Inc. Adjustments to Rate Base Test Year Ended 12/31/10		Schedule No. 1-B Docket No. 110200-WU
	Explanation	**Water**
	Plant In Service	
1	Prior Order Adjustment from AF 1.	$3,426
2	Reflect appropriate test year plant.	9,320
3	Reflect appropriate pro forma plant.	(571,040)
4	Reclassifying items expensed to plant.	6,465
	Total	($551,829)
	Land	
	Reflect appropriate pro forma land.	($5,279)
	Non-used and Useful	
	To reflect net non-used and useful adjustment.	($18,023)
	Accumulated Depreciation	
1	Prior Order Adjustment from AF 1.	($1,420)
2	Reflect appropriate test year plant.	(298)
3	Reflect appropriate pro forma plant.	(37,459)
4	Reclassifying items expensed to plant.	(148)
	Total	($39,325)
	Working Capital	
	Reflect appropriate working capital allowance.	($39,885)

Attachment A

Water Management Services, Inc.
Capital Structure-Simple Average
Test Year Ended 12/31/10

Schedule No. 2
Docket No. 110200-WU

	Description	Total Capital	Specific Adjust-ments	Subtotal Adjusted Capital	Prorata Adjust-ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility									
1	Long-term Debt	$11,778,773	$0	$11,778,773	-$4,137,492	$7,641,281	98.65%	5.96%	5.88%
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	1.35%	6.00%	0.08%
6	Deferred Income Taxes	0	0	$0	0	$0	0.00%	0.00%	0.00%
7	**Total Capital**	$9,727,680	$2,155,617	$11,883,297	-$4,137,492	$7,745,805	100.00%	-	5.96%
Per Commission									
8	Long-term Debt	$11,778,773	$0	$11,778,773	($4,791,833)	$6,986,940	98.53%	5.50%	5.42%
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%	11.16%	0.00%
12	Customer Deposits	104,524	0	$104,524	$0	104,524	1.47%	6.00%	0.09%
13	Deferred Income Taxes	0	0	$0	$0	0	0.00%	0.00%	0.00%
14	**Total Capital**	$11,883,297	$0	$11,883,297	-$4,791,833	$7,091,464	100.00%	-	5.51%

	LOW	HIGH
RETURN ON EQUITY	10.16%	12.16%
OVERALL RATE OF RETURN	5.51%	5.51%

Attachment A

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:**	$1,291,712	$727,910	$2,019,622	-$714,035	$1,305,587	$506,061	$1,811,648
							38.76%	
	Operating Expenses							
2	Operation & Maintenance	$1,115,100	$14,452	$1,129,552	-128,873	1,000,679		1,000,679
3	Depreciation	199,395	52,841	252,236	12,436	264,672		264,672
4	Amortization	14,616	9,784	24,400	-2,700	21,700		21,700
5	Taxes Other Than Income	107,672	44,113	151,785	-40,781	111,004	22,773	133,777
6	Income Taxes	0	0	0	0	0	0	0
7	**Total Operating Expense**	$1,436,783	$121,190	$1,557,973	-159,918	1,398,055	22,773	1,420,828
8	**Operating Income**	($145,071)	$606,720	$461,649	-$554,117	-$92,468	$483,288	$390,820
9	**Rate Base**	$3,757,174		$7,745,804		$7,091,463		$7,091,463
10	**Rate of Return**	-3.86%		5.96%		-1.30%		5.51%

Attachment A

Water Management Services, Inc. Adjustment to Operating Income Test Year Ended 12/31/10		Schedule No. 3-B Docket No. 110200-WU
	Explanation	**Water**
	Operating Revenues	
	Remove requested final revenue increase.	($714,035)
	Operation and Maintenance Expense	
1	Agreed Upon Audit Adjustment	($877)
2	Reflect appropriate test year plant.	(9,320)
3	To reflect appropriate O&M expense AF 4.	(70,982)
4	Reflect appropriate contractual services - accounting.	(5,883)
5	To reflect appropriate rate case expense for instant case.	(23,870)
6	To reflect officer salary reduction.	(17,941)
	Total	($128,873)
	Depreciation Expense – Net	
1	Prior Order Adjustment from AF 1.	$804
2	To reflect appropriate depreciation expense AF 5.	(24,615)
3	Reflect appropriate test year plant.	298
4	Reflect appropriate pro forma plant.	(37,459)
5	To remove net depreciation on non-U&U adjustment above.	(1,833)
6	Reclassifying items expensed to plant.	323
	Total	($12,436)
	Amortization-Other Expense	
1	To reflect appropriate amortization of retired plant included in pro forma.	($1,541)
2	To amortize net gain on sales.	(1,159)
	Total	($2,700)
	Taxes Other Than Income	
1	RAFs on revenue adjustments above.	($32,132)
2	To reflect appropriate TOTI AF 6.	(1,647)
3	Reflect appropriate pro forma plant.	(5,786)
4	To remove TOTI on non-U&U adjustment above.	(112)
5	To reflect officer salary reduction.	(1,104)
	Total	($40,781)

Attachment A

Water Management Services, Inc. Water Monthly Service Rates Test Year Ended 12/31/10					Schedule No. 4 Docket No. 110200-WU
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	4-year Rate Reduction
Residential					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	$27.79	$29.96	$43.06	$34.83	$0.70
3/4"	$41.69	$44.95	$64.59	$52.25	$1.04
1"	$69.49	$74.92	$107.66	$87.08	$1.74
1-1/2"	$138.97	$149.83	$215.31	$174.15	$3.48
Gallonage Charge, per kgal					
0-8,000 Gallons	$3.30	$3.56	$5.11	$0.00	$0.00
8,001-15,000 Gallons	$4.12	$4.44	$6.38	$0.00	$0.00
over 15,000 Gallons	$4.96	$5.35	$7.68	$0.00	$0.00
0-6,000 Gallons				$6.21	$0.12
over 6,000 Gallons				$7.03	$0.14
General Service, includes Public & Multi-family					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	$27.79	$29.96	$43.06	$34.83	$0.70
3/4"	$41.69	$44.95	$64.59	$52.25	$1.04
1"	$69.49	$74.92	$107.66	$87.08	$1.74
1-1/2"	$138.97	$149.83	$215.31	$174.15	$3.48
2"	$222.36	$239.74	$344.51	$278.64	$5.57
3" Compound	$416.92	$449.50	$645.95	$557.28	$11.13
3" Turbine	$486.42	$524.43	$753.63	$609.53	$12.18
4" Compound	$694.88	$749.18	$1,076.60	$870.75	$17.39
4" Turbine	$833.84	$899.00	$1,291.90	$1,044.90	$20.87
6" Compound	$1,389.73	$1,498.33	$2,153.16	$1,741.50	$34.79
6" Turbine	$1,737.17	$1,872.92	$2,691.46	$2,176.88	$43.49
8" Compound	$2,223.59	$2,394.34	$3,445.09	$2,786.40	$55.66
8" Turbine	$2,501.52	$2,696.99	$3,875.69	$3,134.70	$62.62
10" Compound	$3,196.40	$3,446.17	$4,952.30	$4,005.45	$80.01
10" Turbine	$4,030.24	$4,345.17	$6,244.19	$5,050.35	$100.89
12" Compound	$5,975.88	$6,442.84	$9,258.64	$7,488.45	$149.59
Gallonage Charge, per 1,000 Gallons	$4.70	$5.07	$7.28	$6.56	$0.13
	Typical Residential Bills 5/8" x 3/4" Meter				
3,000 Gallons	$37.69	$40.64	$58.39	$53.46	
5,000 Gallons	$44.29	$47.76	$68.61	$65.88	
10,000 Gallons	$62.43	$67.32	$96.70	$100.21	