

State of Florida



Public Service Commission

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

DATE: April 15, 2014

TO: Paul Vickery, Bureau Chief, Bureau of Reliability and Resource Planning

FROM: Division of Engineering (Watts, Rieger) *MT*
Division of Accounting and Finance (Barrett) *DR PV CKL DS*
Division of Economics (Roberts) *MCB*
Office of the General Counsel (Murphy) *PH PDEH C M*

RE: Docket No. 130194-WS – (Staff Report) Application for staff-assisted rate case in Lake County by Lakeside Waterworks, Inc.

--STAFF REPORT--

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

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Case Background

On December 20, 2012, an application was filed for the transfer of Shangri-La by the Lake Utilities, Inc.'s (Shangri-La's) water and wastewater systems, and Certificate Nos. 567-W and 494-S, to Lakeside Waterworks, Inc. (Lakeside or Utility). The transfer was approved on September 18, 2013.¹

On July 19, 2013, Lakeside filed an application for a staff-assisted rate case (SARC). The official filing date of the SARC has been determined to be September 17, 2013. On September 6, 2013, Lakeside requested a 45-day extension to provide the necessary data for the staff audit. Lakeside is a Class C water and wastewater utility serving approximately 183 water and 175 wastewater residential customers in Lake County. The last SARC for the system occurred in Docket No. 110130-WS for Shangri-La and it was withdrawn.

The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.0814, 367.101, and 367.121, Florida Statutes (F.S.)

¹ See Order No. PSC-13-0425-PAA-WS, issued September 18, 2013, in Docket No. 120317-WS: In re: Application for approval to transfer water and wastewater system Certificate Nos. 567-W and 494-S in Lake County from Shangri-La by the Lake Utilities, Inc. to Lakeside Waterworks, Inc.

Discussion of Issues

Issue 1: Is the quality of service provided by Lakeside satisfactory? (Watts, Rieger)

Recommendation: Quality of service will be determined at a later date, pending review of comments made at the May 15, 2014, customer meeting. (Watts, Rieger)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission shall make a determination of the overall quality of service provided by a utility by evaluating the quality of the utility's product, the operational conditions of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. Lakeside's compliance with the Department of Environmental Protection (DEP) and St. Johns River Water Management District (SJRWMD) regulations, and customer comments or complaints received by the Commission are also reviewed.

Quality of Product and Operating Condition of the Plant and Facilities

The water treatment plant includes two supply wells rated at 850 gallons per minute (gpm) and 270 gpm, a 20,000 gallon concrete ground storage tank with aeration, two steel hydropneumatic tanks with capacities of 3,000 gallons and 5,000 gallons, and a hypo chlorination system used for disinfection. Lakeside is current in all of its required chemical analysis, and there appears to be no water compliance issues with this facility.

The wastewater treatment plant is a 0.050 million gallons per day (MGD) extended aeration activated sludge facility with chlorinated effluent sent to a 3.2 acre restricted public access spray field with a backup percolation pond for wet weather conditions. Also, there appears to be no wastewater compliance issues with this facility.

The Utility's attempt to address Customer Satisfaction

The Commission has not received any customer correspondences concerning the rate case. In addition, there are no outstanding complaints on the Commission's Complaint Tracking System. It appears there have been no complaints to DEP during the test year. A customer meeting is scheduled to be held on May 15, 2014, in Leesburg, Florida. A determination of the Utility's attempt to address customer satisfaction will be decided at a later date, pending review of customer comments made at the upcoming meeting.

Summary

Quality of service will be determined at a later date, pending review of comments made at the May 15, 2014, customer meeting.

Issue 2: What are the used and useful percentages for the Utility's water and wastewater systems?

Recommendation: The Utility's water treatment plant is 42.8 percent used and useful (U&U), water storage is 100 percent used and useful, wastewater treatment plant is 16.8 percent U&U, and the water distribution and wastewater collection systems are 100 percent U&U. Staff recommends that in consideration of excessive unaccounted for water (EUW), a corresponding adjustment should be made to decrease purchased power and chemicals for water by \$265.50 (\$2,655 x 10 percent), and \$31.80 (\$318 x 10 percent), respectively. (Watts, Rieger)

Staff Analysis:

Water Treatment Plant (WTP) and Storage

Pursuant to Rule 25-30.4325, F.A.C. the U&U calculation for the WTP is determined by dividing the peak demand by the firm reliable capacity (FRC) of the wells. Consideration is given to fire flow, unaccounted for water, and growth. The water system has two wells rated at 850 gpm and 270 gpm, respectively, and storage capacity of 20,000 gallons. Because the Utility has storage capacity, the FRC is based on 16 hours of pumping excluding the largest well. The peak day of 50,400 gallons, which occurred on March 7, 2013, appears to be appropriate since it is not associated with unusual occurrences. Fire flow for the Utility's service area is 500 gpm for 2 hours, or 60,000 gallons. Based on the amount of water pumped during the test year versus the amount sold to the customers, there appears to be a 2,610 gpd EUW determination. A growth consideration of 3,084 gpd is also considered. Therefore, pursuant to Rule 25-30.4325, F.A.C., staff recommends that the WTP be considered 42.8 percent U&U based on a peak day of 50,400 gpd, fire flow of 60,000 gpd, 2,610 gpd EUW, 3,084 gpd for growth, and a FRC of 259,200 gpd. For storage, a 100 percent U&U is recommended because, pursuant to Rule 25-30.4325, F.A.C., storage capacity is less than peak demand.

As noted above, there was a 2,610 gpd EUW adjustment considered within the U&U determination. This number represents 10 percent of the total amount of water pumped during the test year. Rule 25-30.4325, F.A.C., describes EUW as unaccounted for water in excess of 10 percent of the amount produced. The rule provides that to determine whether adjustments to plant and operating expenses, such as chemical, electrical, and purchased water costs are necessary, the Commission will consider all relevant factors as to the reason for EUW, solutions implemented to correct the problem, or whether a proposed solution is economically feasible. An explanation justifying EUW has not been identified. Staff recommends that a corresponding adjustment should be made to decrease purchased power and chemicals for water by \$265.50 (\$2,655 x 10 percent), and \$31.80 (\$318 x 10 percent), respectively.

Wastewater Treatment Plant (WWTP)

Pursuant to Rule 25-30.432, F.A.C., the U&U analysis of the Utility's WWTP is based on the customer demand compared with the permitted plant capacity, with customer demand measured on the same basis as the permitted capacity. Consideration is given for growth and inflow and infiltration (I&I). Based on the annual average daily flow during the test year of

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8,000 gpd and the DEP permitted plant capacity of 50,000 gpd, with 405 gpd considered for growth, staff recommends that the WWTP be considered 16.8 percent U&U.

Water Distribution and Wastewater Collection Systems

The U&U analysis for the water distribution and wastewater collection systems are determined by dividing the number of lots connected to the systems by the number of lots fronting mains in the service area. Consideration is given for growth. In this case staff believes that the lines that are currently recognized in the Utility's rate base, serve an area that appears to be built out. Therefore, staff recommends that the water distribution and wastewater collection systems be considered 100 percent U&U.

Issue 3: What is the appropriate average test year rate base for Lakeside Waterworks, Inc.?

Recommendation: The appropriate average test year rate base for Lakeside Waterworks, Inc. is \$35,117 for water and \$43,292 for wastewater. (Barrett)

Staff Analysis: The appropriate components of the Utility’s rate base include utility plant in service, accumulated depreciation, contribution-in-aid-of-construction (CIAC), amortization of CIAC, and working capital. The last proceeding that established balances for rate base was Docket No. 120317-WS.² Staff selected the test year ended June 30, 2013, for the instant rate case. A summary of each component and the recommended adjustments follows:

Utility Plant in Service (UPIS): The Utility recorded \$138,299 for water and \$147,414 for UPIS. Staff’s adjustments to UPIS are identified in Table 3-1 below.

Table 3-1 UPIS Adjustments

	<u>Adjustment Description</u>	<u>Water</u>	<u>Wastewater</u>
1.	To reflect plant balance (301) per Order No. PSC-130425-PAA-WS	(\$3,160)	\$0
2.	To reflect plant balance (310) per Order No. PSC-130425-PAA-WS	(603)	0
3.	To reflect plant balance (351) per Order No. PSC-130425-PAA-WS	0	(1,125)
4.	To reflect plant balance (371) per Order No. PSC-130425-PAA-WS	0	(1,057)
5.	To reflect plant balance (393) per Order No. PSC-130425-PAA-WS	0	(245)
6.	To reflect an averaging adjustment	0	(93)
7.	To reflect proforma plant repairs	<u>1,632</u>	<u>1,747</u>
	Total	<u>(\$2,131)</u>	<u>(\$773)</u>

Staff’s net adjustments to UPIS are decreases of \$2,131 and \$773 for water and wastewater, respectively. Staff’s recommended UPIS balance is \$136,168 for water and \$146,641 for wastewater.

Land & Land Rights: The Utility recorded no test year land value for water and \$36,000 for wastewater. No adjustments are necessary, therefore, staff recommends a land balance of \$0 for water and \$36,000 for wastewater.

Non-Used and Useful Plant: No used and useful adjustments are made for this report.

Contributions In Aid of Construction (CIAC): Lakeside Waterworks, Inc. recorded CIAC balances of \$13,776 for water and \$65,600 for wastewater. Staff made no adjustments to CIAC, and recommends a CIAC balance of \$13,776 and \$65,600 for water and wastewater, respectively.

² Ibid.

Accumulated Depreciation: Lakeside Waterworks, Inc. recorded balances for accumulated depreciation of \$106,153 and \$95,725 for water and wastewater, respectively. Staff's adjustments to accumulated depreciation are identified in Table 3-2 below.

Table 3-2 Accumulated Depreciation Adjustments

	<u>Adjustment Description</u>	<u>Water</u>	<u>Wastewater</u>
1.	To reflect the appropriate test year accumulated depreciation (AF2)	(\$424)	\$5,534
2.	To reflect an averaging adjustment	2,396	266
3.	To reflect proforma plant repairs	4,513	3,164
	Total	<u>\$6,445</u>	<u>\$8,964</u>

Staff has calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C., and determined that net accumulated depreciation should be decreased by \$6,445 for water and \$8,964 for wastewater. Staff recommends an accumulated depreciation balance of \$99,708 for water and \$86,761 for wastewater.

Amortization of CIAC: Lakeside Waterworks, Inc. recorded balances for amortization of CIAC of \$5,830 for water and \$11,929 for wastewater. Staff's adjustments to amortization of CIAC are identified in Table 3-3 below.

Table 3-3 Amortization of CIAC

	<u>Adjustment Description</u>	<u>Water</u>	<u>Wastewater</u>
1.	To reflect the appropriate test year amortization of CIAC (AF3)	\$245	(\$5,691)
2.	To reflect an averaging adjustment	<u>(245)</u>	<u>(139)</u>
	Total	<u>\$0</u>	<u>(5,830)</u>

Staff's net adjustments in water were off-setting amounts. The amortization of CIAC for wastewater was decreased by \$5,830. Staff recommends amortization of CIAC balances of \$5,830 for water and \$6,099 for wastewater.

Working Capital Allowance: Lakeside Waterworks, Inc. did not record a working capital balance for water or wastewater. Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses or going-concern requirements of the Utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowances of \$6,603 for water (based on O&M expense of \$52,825/8), and \$6,913 for wastewater (based on O&M expense of \$55,302/8). Staff recommends increasing the working capital allowances by \$6,603 for water and \$6,913 for wastewater.

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate average test year rate bases are \$35,117 for water and \$43,292 for wastewater. Rate base for water is

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shown on Schedule No. 1-A and on Schedule No. 1-B for wastewater. The related adjustments for water and wastewater are shown on Schedule No. 1-C.

Issue 4: What is the appropriate rate of return on equity (ROE) and overall rate of return for Lakeside Waterworks, Inc.?

Recommendation: The appropriate ROE is 8.74 percent with a range of 7.74 percent to 9.74 percent. The appropriate overall rate of return is 8.74 percent. (Barrett)

Staff Analysis: The Utility's capital structure consists of \$181,898 of common stock. The Utility has no long-term debt or customer deposits. The appropriate ROE is 8.74 percent using the Commission-approved leverage formula currently in effect.³ The Utility's capital structure has been reconciled with staff's recommended rate base. Staff recommends an ROE of 8.74 percent, with a range of 7.74 percent to 9.74 percent, and an overall rate of return of 8.74 percent. The ROE and overall rate of return are shown on Schedule No. 2.

³ See Order Nos. PSC-13-0241-PAA-WS, issued June 3, 2013, and PSC-13-0307-CO-WS, issued July 8, 2013, 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), F.S.

Issue 5: What are the appropriate test year revenues?

Preliminary Recommendation: The appropriate test year revenues for this Utility are \$38,806 for water and \$32,176 for wastewater. (Roberts)

Staff Analysis: Lakeside recorded total revenues for water of \$38,080 and for wastewater of \$31,949, including service revenues of \$38,050 and \$31,949 and miscellaneous revenues of \$30 and \$0, for water and wastewater, respectively. Based on staff's review of the Utility's billing determinants and the rates that were in effect during the test year, staff recommends the Utility increase service revenues by \$726 and \$227 for water and wastewater, respectively, to reflect the appropriate test year revenues. Based on the above, staff recommends that the appropriate test year revenues for water and wastewater are \$38,806 ($\$38,050 + 726 + \30) and \$32,176 ($\$31,949 + 227$), respectively. Test year revenues are shown on Schedule Nos. 3-A and 3-B and adjustments are shown on Schedule No. 3-C.

Issue 6: What is the appropriate amount of operating expense?

Recommendation: The appropriate amounts of operating expense for Lakeside Waterworks, Inc. are \$61,297 for water and \$60,999 for wastewater. (Barrett)

Staff Analysis: Lakeside Waterworks, Inc. recorded operating expense of \$44,358 for water and \$42,164 for wastewater for the test year ended June 30, 2013. The test year O&M expenses have been reviewed, and invoices, canceled checks, and other supporting documentation have been examined. Staff has made several adjustments to the Utility's operating expenses as summarized below:

Salaries and Wages - Employees (601/701) - Lakeside Waterworks, Inc. recorded \$1,799 for water and \$1,799 for wastewater employee salaries expense in these accounts. Staff has made adjustments to remove these amounts because the amounts are captured in the Contractual Services – Other account. Staff recommends \$0 for these accounts for water and wastewater.

Salaries and Wages - Officers (603/703) – The Utility recorded \$1,727 for water and \$849 for wastewater officer salaries expense. Staff has made adjustments to increase water by \$773 and wastewater by \$1,651 because the officers administer and oversee the Utilities' management services agreement, which is addressed in the discussion of Contractual Services – Other (636/736). Staff recommends salaries and wages for officers of \$2,500 for water and \$2,500 for wastewater.

Purchased Power (615/715) - Lakeside Waterworks, Inc. recorded \$1,916 for purchased power expense for water and \$3,519 for wastewater in these accounts. Staff increased these balances by \$739 for water and \$1,336 for wastewater based on invoices for purchased power. Staff also made an additional adjustment to remove \$266 for excessive unaccounted for water. Staff notes that excessive unaccounted for water was previously discussed in Issue 2. The net of the water adjustments is \$474, and the wastewater adjustment is \$1,336. Staff recommends purchased power expense of \$2,390 for water and \$4,855 for wastewater.

Fuel For Power Production (616) - The Utility recorded \$437 for this expense. Based on a lack of documentation, staff has made an adjustment to remove \$108 from this account. Staff recommends a balance of \$329 for this account.

Chemicals (618/718) - The Utility recorded \$269 for water and \$404 for wastewater for chemicals expense. Staff increased the water balance by \$49 and the wastewater balance by \$393 based on invoices for chemicals. Staff also made an adjustment to remove \$32 of water expense for excessive unaccounted for water. Staff notes that the excessive unaccounted for water topic was previously discussed in Issue 2. The net of the water adjustments is \$17, and the wastewater adjustment is \$393. Staff recommends chemical expense of \$286 for water and \$797 for wastewater.

Materials and Supplies (620/720) - The Utility recorded \$1,767 for materials and supplies for water and \$77 for wastewater. Staff has made adjustments to remove \$926 from the water

balance, and increased wastewater by \$63, based on invoices for materials and supplies. Staff recommends balances of \$841 for water and \$140 for wastewater.

Contractual Services - Billing (630/730) - Lakeside Waterworks, Inc. recorded \$2,030 for water and \$18,230 for wastewater. Staff has made adjustments to remove these amounts because the amounts are captured in the Contractual Services – Other account (636/736). Staff recommends \$0 for these accounts for water and wastewater.

Contractual Services - Professional (631/731) - Lakeside Waterworks, Inc. recorded \$6,318 for water and \$1,334 for wastewater. Staff made adjustments on the water balance to remove \$3,698 due to a lack of documentation. Staff made an adjustment to increase wastewater by \$2,620 to correct an allocation between water and wastewater balances. Staff recommends balances of \$2,620 for water and \$3,954 for wastewater for this account.

Contractual Services – Other (636/736) – Lakeside Waterworks, Inc. recorded \$18,259 for water and \$4,824 in this account for wastewater. Staff has increased these accounts by \$19,938 for water and \$30,906 for wastewater for adjustments and to account for the Utilities’ management services agreement.

Staff notes that the prior owner of this Utility paid outside sources for operating and billing services for the water and wastewater utilities. On November 16, 2012, the Utility signed a five year management services agreement with U.S. Water Services Corporation (“U.S. Water contract”). Table 4 of the U.S. Water contract provides a summary of the scope of the agreement, setting forth the respective cost responsibilities for the Utility’s owner and U.S. Water Services Corporation.⁴ The U.S. Water agreement:

- Puts in place certified utility operators with a focus on preventative and prescriptive maintenance services.
- States that all Customer Service/Billing/Collection functions are provided by the same entity (U.S. Water Services Corporation).
- Covers the costs of minor repairs (up to a \$400 threshold).
- States that testing services and permitting expenses are covered by U.S. Water.
- States that meter/hydrant testing is provided by U.S. Water.
- Record keeping & governmental relations are addressed as well.

Section 4 of the U.S. Water contract addresses the monthly fees for service. Per the contract, Lakeside Waterworks is obligated to pay U.S. Water Services Corporation \$3,183 monthly for the water operation, and \$2,978 monthly for the wastewater operation (for a monthly total of \$6,161).

⁴ The complete U.S. Water contract is in the audit staff’s work papers. Table 4 is on Audit work paper 43-3.21.

Staff recommends Contractual Services – Other expenses of \$38,197 for water and \$35,730 for wastewater.

Rents (640/740) – Lakeside Waterworks, Inc. recorded rent expense of \$2,996 for water and \$0 for wastewater. Staff has made audit-related adjustments to remove \$428 from water, and to increase the wastewater balance by \$2,568. The land lease is \$5,136 annually, and is allocated equally between water and wastewater. Staff recommends rent expense of \$2,568 for water and \$2,568 for wastewater.

Insurance Expense (655/755) – Lakeside Waterworks, Inc. recorded \$576 insurance expense for water and \$424 for wastewater. Staff has made audit-related adjustments to remove \$54 from water increased this account by \$97 for wastewater. Staff notes that the insurance expense is allocated equally between water and wastewater, and recommends insurance expense of \$522 for water and \$521 for wastewater.

Regulatory Commission Expense (665/765) - Lakeside Waterworks, Inc. recorded \$0 for regulatory Commission expense in these accounts. Regarding the current rate case, pursuant to Rule 25-22.0407, F.A.C., the Utility is required to mail notices of the customer meeting and notices of final rates to its customers. For these notices, staff has estimated \$91 for postage expense, \$93 for printing expense, and \$9 for envelopes, for a total cost of \$193 for a notice of the customer meeting to water and wastewater customers. In addition, staff has estimated \$91 for postage expense, \$37 for printing expense, and \$9 for envelopes, for a total of \$137. The Utility paid a \$1,000 rate case filing fee for the water utility, and a \$1,000 rate case filing fee for the wastewater utility. The total rate case expense including postage, notices, envelopes, and filing fee is \$2,330. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a four-year period, which is \$583 per year (\$2,330/4). Staff's net adjustment to this account is an increase of \$292 for water, and \$292 for wastewater. Staff recommends regulatory commission expense of \$292 for water and \$292 for wastewater.

Bad Debt Expense (670/770) – Lakeside Waterworks, Inc. recorded bad debt expense of \$865 for water and \$638 for wastewater. In addition, the Utility requested that its bad debt expense be 2 percent of revenue. Staff believes bad debt expense of 2 percent of revenues is reasonable, and has increased these accounts by \$369 for water and \$622 for wastewater. Staff recommends bad debt expense of \$1,234 for water and \$1,260 for wastewater.

Miscellaneous Expense (675/775) – Lakeside Waterworks, Inc. recorded \$1,480 for water and \$2,273 for wastewater for miscellaneous expense. Staff has made audit-related adjustments to remove \$433 for water and \$2,088 for wastewater due to a lack of documentation. Staff recommends miscellaneous expense of \$1,047 for water and \$185 for wastewater.

Sludge Removal Expense (711) – The Utility recorded \$0 for wastewater sludge removal. Based on prior invoices, staff made an adjustment to increase this account by \$2,500. Staff recommends a sludge removal expense of \$2,500 for wastewater.

Transportation Expense (750) – Lakeside Waterworks, Inc. recorded \$19 for transportation expense. Staff has made an adjustment to remove this amount due to a lack of documentation. Staff recommends a transportation expense of \$0 for wastewater.

Operation and Maintenance Expenses (O&M) Summary – Total adjustments to O&M expense result in an increase of \$12,386 for water and \$20,912 for wastewater. Staff's recommended O&M expense is \$52,825 for water and \$55,302 for wastewater. O&M expenses are shown on Schedule Nos. 3-A and 3-B for water and wastewater, respectively.

Depreciation Expense (Net of Related Amortization of CIAC) – The Utility recorded depreciation expense of \$1,932 for water and \$6,068 for wastewater during the test year. Staff has calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C., and recommends adjustments to increase the water balance by \$2,956 and decrease the wastewater balance by \$3,762. Staff recommends depreciation expense balances of \$4,888 for water and \$2,306 for wastewater. The Utility recorded no Amortization of CIAC for water and wastewater during the test year. Staff has made adjustments to increase this account by \$490 for water, and \$278 for wastewater. Therefore, staff recommends net depreciation expense of \$4,398 for water and \$2,028 for wastewater.

Taxes Other Than Income (TOTI) – The Utility recorded \$1,987 for water and \$1,706 for wastewater for TOTI. Staff has increased these amounts by a net of \$1,107 and \$1,407 for water and wastewater, respectively. These adjustments are primarily due to staff's recommended increase. Therefore, staff recommends TOTI balances for the test year of \$3,094 for water and \$3,113 for wastewater.

Income Tax – The Utility is a limited liability company and did not record income tax for the test year. As a limited liability company, the Utility pays no income tax. Therefore, staff has not made any adjustments to this account.

Operating Expenses Summary – The application of staff's recommended adjustments to Lakeside Waterworks, Inc.'s recorded test year operating expenses results in staff's recommended operating expenses of \$61,297 for water and \$60,999 for wastewater. Operating expenses are shown on Schedule No. 3-A for water and Schedule 3-B for wastewater. The related adjustments for water and wastewater are shown on Schedule No. 3-C.

Issue 7: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirement is \$64,366 for water and \$64,782 for wastewater, resulting in an annual increase of \$25,560 for water (65.87 percent), and an annual increase of \$32,606 for wastewater (101.34 percent). (Barrett)

Staff Analysis: Lakeside Waterworks, Inc. should be allowed an annual increase of \$25,560 for water (65.87 percent), and \$32,606 for wastewater (101.34 percent). This will allow the Utility the opportunity to recover its expenses and earn an 8.74 percent return on its investment. The calculations are shown in Table 7-1 and Table 7-2 for water and wastewater, respectively:

Table 7-1

<u>Water Revenue Requirement</u>	
Adjusted Rate Base	\$35,117
Rate of Return	x .0874
Return on Rate Base	\$ 3,069
Adjusted O&M expense	52,825
Depreciation expense	4,888
Amortization	490
Taxes Other Than Income	3,094
Income Taxes	0
Revenue Requirement	\$64,366
Less Test Year Revenues	38,806
Annual Increase	\$25,560
Percent Increase/(Decrease)	65.87%

Table 7-2

<u>Wastewater Revenue Requirement</u>	
Adjusted Rate Base	43,292
Rate of Return	x .0874
Return on Rate Base	\$3,784
Adjusted O&M expense	55,302
Depreciation expense	2,306
Amortization	278
Taxes Other Than Income	3,113
Income Taxes	0
Revenue Requirement	\$64,782
Less Test Year Revenues	32,176
Annual Increase	\$32,606
Percent Increase/(Decrease)	101.34%

Issue 8: What are the appropriate rate structures and rates for Lakeside's water and wastewater systems?

Preliminary Recommendation: The preliminary recommended rate structure and monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, respectively. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for services rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within ten days of the date of the notice. (Roberts)

Staff Analysis:

Water Rates

Lakeside is located in Lake County within the SJRWMD. The Utility provides service to approximately 183 water customers. Approximately 22 percent of the residential bills during the test year had zero gallons indicating a somewhat seasonal customer base. The average residential water demand is 3,450 gallons per month. The average residential water demand, excluding zero gallon bills, is 4,438 gallons per month. Currently, Lakeside's water system rate structure consists of a BFC and gallonage charge for both residential and general service customers, and only a gallonage charge for irrigation customers.

Staff performed an analysis of the Utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential rate class. The goal of the evaluation was to select the rate design parameters that: (1) produce the recommended revenue requirement; (2) equitably distribute cost recovery among the utility's customers; (3) establish the appropriate non-discretionary usage threshold for restricting repression; and (4) implement, where appropriate, water conserving rate structures consistent with Commission practice.

Due to the customers' low average monthly consumption and the seasonal nature of the customers, staff recommends that 54 percent of the water revenues should be generated from the BFC in order to ensure that the Utility will have sufficient cash flow to cover fixed costs. The average people per household served by the water system is 2.18; therefore, based on the number of persons per household, 50 gallons per day per person, and the number of days per month the non-discretionary usage threshold should be 4,000 gallons per month. Staff recommends a traditional BFC and gallonage charge rate structure with an additional gallonage charge for non-discretionary usage for residential water customers. General service and irrigation customers should be billed a BFC and uniform gallonage charge. Staff's recommended rate structure and resulting water rates are shown on Schedule No. 4-A.

Based on billing data provided by the Utility and an assumption of 4,000 gallons per month of non-discretionary usage, approximately 43 percent of total residential consumption is discretionary and, therefore, subject to the effects of repression. A repression adjustment quantifies changes in consumption patterns in response to an increase in price. Customers will

typically reduce their discretionary consumption in response to price changes, while non-discretionary consumption remains relatively unresponsive to price changes. Based on a recommended revenue increase of 66 percent, the residential discretionary consumption can be expected to decline by 1,683,000 gallons resulting in anticipated average residential demand of 3,433 gallons per month, excluding zero gallon bills. Staff recommends a 23 percent reduction in total residential consumption and corresponding reductions of \$525 for purchased power, \$63 for chemicals, and \$28 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$63,720.

Based on the above, staff recommends that all residential, general service, and irrigation customers be billed a BFC based on meter size. In addition, 54 percent of the revenue requirement should be recovered through the BFC. Residential rates should include a non-discretionary threshold of 4,000 gallons and discretionary usage should be reduced by 1,683,000 gallons to reflect the anticipated reduction in demand. Staff's recommended rate structure, and the resulting rates are shown on Schedule No. 4-A.

Wastewater Rates

The Utility provides wastewater service to approximately 175 residential customers. Approximately 23 percent of the residential wastewater bills during the test year had zero gallons. The average water demand for wastewater customers is 3,243 gallons per month. Currently, the residential rate structure for the wastewater system consists of a uniform BFC for all meter sizes and a gallonage charge with a 6,000 gallon cap. General service customers are billed a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge.

Staff performed an analysis of the Utility's billing data to evaluate various BFC cost recovery percentages and gallonage caps for the residential customers. The goal of the evaluation was to select the rate design parameters that: (1) produce the recommended revenue requirement; (2) equitably distribute cost recovery among the Utility's customers; and (3) implement a gallonage cap that considers the amount of water that may return to the wastewater system.

Typically, Commission practice is to set the BFC allocation to at least 50 percent due to the capital intensive nature of wastewater plants. Based on the seasonality of Lakeside's wastewater customers and the significant increase in the revenue requirement, staff recommends that 50 percent of the revenue requirement should be generated from the BFC in order to mitigate the rate increase. In addition, based on the expected reduction in water demand described above, staff recommends that a repression adjustment also be made for wastewater. Because wastewater rates are calculated based on customers' water demand, if those customers' water demand is expected to decline, then the billing determinants used to calculate wastewater rates should also be adjusted. Therefore, staff recommends that a repression adjustment for the discretionary usage should also be made to calculate wastewater rates. Based on the billing analysis for the wastewater system, staff recommends that discretionary usage be reduced by 304,264 gallons to reflect the anticipated reduction in water demand used to calculate wastewater rates. Staff recommends a 6.7 percent reduction in total residential consumption and corresponding reductions of \$325 for purchased power, \$53 for chemicals, \$168 for sludge

removal, and \$25 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$64,211. Further, staff recommends no change to the Utility's existing residential cap of 6,000 gallons because a reduction to the cap would result in fewer gallons to spread the revenue requirement across and an additional increase in the wastewater gallonage charge. General service customers should continue to be billed a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge. Staff's recommended rate structure, and the resulting wastewater rates are shown on Schedule No. 4-B.

Summary

Based on the foregoing, staff recommends 54 percent of the water revenues should be generated from the BFC. Staff also recommends a traditional BFC and gallonage charge rate structure with an additional gallonage charge for non-discretionary usage threshold of 4,000 gallons should be approved for residential and irrigation customers. A 23 percent reduction in total residential consumption and corresponding reductions of \$525 for purchased power, \$63 for chemicals, and \$28 for RAFs should be made to reflect the anticipated repression. General service customers should continue to be billed a BFC and gallonage charge.

Staff recommends that 50 percent of the wastewater revenues be generated from the BFC. The residential wastewater customers' rate structure should consist of a BFC for all meter sizes, with a cap of 6,000 gallons. A 6.7 percent reduction in total residential consumption and corresponding reductions of \$325 for purchased power, \$53 for chemicals, \$168 for sludge removal, and \$25 for RAFs should be made to reflect the anticipated repression. General service wastewater customers should be billed a BFC and gallonage charge that is 1.2 times higher than the residential gallonage charge.

The preliminary recommended rate structure and monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, respectively. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within ten days of the date of the notice.

Issue 9: What is the appropriate amount by which rates should be reduced in four years after the published effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S.?

Recommendation: The water rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for regulatory assessment fees (RAFs) and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Lakeside Waterworks, Inc. should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Barrett)

Staff Analysis: Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for RAFs. The total reduction is \$618 (\$309 for water and \$309 for wastewater). Using Lakeside Waterworks, Inc.'s current revenue, expenses, capital structure and customer base, the reduction in revenue will result in the rate decreases as shown on Schedule No. 4.

The Utility should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. Lakeside Waterworks, Inc. also should be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction.

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

Issue 10: What are the appropriate initial customer deposits for Lakeside?

Preliminary Recommendation: The appropriate initial customer deposits should be \$50 and \$77 for the residential 5/8" x 3/4" meter size for water and wastewater, respectively. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water and wastewater. The approved customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475, F.A.C. The Utility should be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding. (Roberts)

Staff Analysis: Rule 25-30.311, F.A.C., contains the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the Utility and, ultimately, the general body of ratepayers. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill.⁵ Currently, the Utility's existing initial deposits are \$45 for water and \$55 for wastewater. Based on staff's recommended rates, the existing initial customer deposits are not sufficient to cover two months' bills for water and wastewater, respectively. Staff recommends the existing initial customer deposit be increased to reflect two times the average estimated bill for both water and wastewater to ensure that the cost of providing service is recovered from those that incurred cost.

Staff recommends the appropriate initial customer deposits should be \$55 and \$80 for the residential 5/8" x 3/4" meter size for water and wastewater, respectively. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water and wastewater. The approved customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475, F.A.C. The Utility should be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding.

⁵ See Order No. PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 021228-WS, In re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc., and PSC-03-0845-PAA-WS, issued July 21, 2003, in Docket No. 021192-WS, In re: Application for staff-assisted rate case in Highlands County by Damon Utilities, Inc.

Issue 11: Should the recommended rates be approved for the Utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility?

Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the Utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility. Lakeside Waterworks, Inc. should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. Prior to implementation of any temporary rates, the Utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the Utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Barrett)

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

Lakeside Waterworks, Inc. should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$34,409, based upon the non-financial commercial paper rate for April, 2014. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

If Lakeside Waterworks, Inc. chooses a bond as security, the bond should contain wording to indicate that it will be terminated under one the following conditions:

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

If Lakeside Waterworks, Inc. chooses a letter of credit as a security, it should contain the following conditions:

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

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

- 1) No monies in the escrow account may be withdrawn by the Utility without the express approval of the Commission.
- 2) The escrow account shall be an interest bearing account.
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to Lakeside Waterworks, Inc.
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.
- 8) The Florida Public Service Commission Clerk must be a signatory to the escrow agreement.
- 9) The account must specify by whom and on whose behalf such monies were paid.

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

Docket No. 130194-WS

Date: April 15, 2014

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

Docket No. 130194-WS

Date: April 15, 2014

Issue 12: Should the Utility be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all applicable National Association of Regulatory Commissioners Uniform System of Accounts (NARUC USOA) primary accounts associated with the Commission approved adjustments?

Recommendation: Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, Lakeside Waterworks, Inc. should provide proof, within 90 days of the final order in this docket, that the adjustments for all applicable NARUC USOA primary accounts have been made. (Barrett)

Staff Analysis: To ensure that the Utility adjusts its books in accordance with the Commission's decision, Lakeside Waterworks, Inc. should provide proof, within 90 days of the final order in this docket, that the adjustments for all applicable NARUC USOA primary accounts have been made.

Docket No. 130194-WS

Date: April 15, 2014

Issue 13: Should this docket be closed?

Recommendation: No. 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 should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Once these actions are complete, this docket should be closed administratively. (Murphy)

Staff Analysis: 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 should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Once these actions are complete, this docket should be closed administratively.

LAKESIDE WATERWORKS, INC.		SCHEDULE NO. 1-A	
TEST YEAR ENDED 6/30/2013		DOCKET NO. 130194-WS	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$138,299	(\$2,131)	\$136,168
2. LAND & LAND RIGHTS	0	0	0
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(13,776)	0	(13,776)
5. ACCUMULATED DEPRECIATION	(106,153)	6,445	(99,708)
6. AMORTIZATION OF CIAC	5,830	0	5,830
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>6,603</u>	<u>6,603</u>
8. WATER RATE BASE	<u>\$24,200</u>	<u>\$10,917</u>	<u>\$35,117</u>

Docket No. 130194-WS

Date: April 15, 2014

LAKESIDE WATERWORKS, INC.		SCHEDULE NO. 1-B	
TEST YEAR ENDED 6/30/2013		DOCKET NO. 130194-WS	
SCHEDULE OF WASTEWATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$147,414	(\$773)	\$146,641
2. LAND & LAND RIGHTS	36,000	0	36,000
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(65,600)	0	(65,600)
5. ACCUMULATED DEPRECIATION	(95,725)	8,964	(86,761)
6. AMORTIZATION OF CIAC	11,929	(5,830)	6,099
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>6,913</u>	<u>6,913</u>
8. WASTEWATER RATE BASE	<u>\$34,018</u>	<u>\$9,274</u>	<u>\$43,292</u>

LAKESIDE WATERWORKS, INC.	SCHEDULE NO. 1-C	
TEST YEAR ENDED 6/30/2013	DOCKET NO. 130194-WS	
ADJUSTMENTS TO RATE BASE		
	<u>WATER</u>	<u>WASTEWATER</u>
<u>UTILITY PLANT IN SERVICE</u>		
1. To reflect plant balance (301) per Order No. PSC-13-0425-PAA-WS	(\$3,160)	\$0
2. To reflect plant balance (310) per Order No. PSC-13-0425-PAA-WS	(603)	0
3. To reflect plant balance (351) per Order No. PSC-13-0425-PAA-WS	0	(1,125)
4. To reflect plant balance (371) per Order No. PSC-13-0425-PAA-WS	0	(1,057)
5. To reflect plant balance (393) per Order No. PSC-13-0425-PAA-WS	0	(245)
6. To reflect an averaging adjustment	0	(93)
7. To reflect proforma plant repairs	<u>1,632</u>	<u>1,747</u>
Total	<u>(\$2,131)</u>	<u>(\$773)</u>
<u>LAND</u>		
Not applicable	<u>\$0</u>	<u>\$0</u>
<u>NON-USED AND USEFUL PLANT</u>		
Not applicable	<u>\$0</u>	<u>\$0</u>
<u>CIAC</u>		
Not applicable	<u>\$0</u>	<u>\$0</u>
<u>ACCUMULATED DEPRECIATION</u>		
1. To reflect the appropriate test year accumulated depreciation (AF2)	(\$464)	\$5,534
2. To reflect an averaging adjustment	2,396	266
3. To reflect proforma plant repairs	<u>4,513</u>	<u>3,164</u>
Total	<u>\$6,445</u>	<u>\$8,964</u>
<u>AMORTIZATION OF CIAC</u>		
1. To reflect the appropriate Amortization of CIAC (AF3)	\$245	(\$5,691)
2. To reflect an averaging adjustment	<u>(245)</u>	<u>(139)</u>
Total	<u>\$0</u>	<u>(\$5,830)</u>
<u>WORKING CAPITAL ALLOWANCE</u>		
To reflect 1/8 of test year O&M expenses.	<u>\$6,603</u>	<u>\$6,913</u>

LAKESIDE WATERWORKS, INC.						SCHEDULE NO. 2		
TEST YEAR ENDED 6/30/2013						DOCKET NO. 130194-WS		
SCHEDULE OF CAPITAL STRUCTURE								
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE		BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
			BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS				
1. COMMON STOCK	\$181,898	\$0	\$181,898					
2. RETAINED EARNINGS	0	0	0					
3. PAID IN CAPITAL	0	0	0					
4. TREASURY STOCK	<u>0</u>	<u>0</u>	<u>0</u>					
5. TOTAL COMMON EQUITY	\$181,898	\$0	\$181,898	-\$103,489	\$78,409	100.00%	8.74%	8.74%
6. LONG TERM DEBT	\$0	\$0	\$0	0	0	0.00%	7.00%	0.00%
7. LONG TERM DEBT	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	6.00%	0.00%
TOTAL LONG TERM DEBT	\$0	\$0	\$0	0	0	0.00%		
8. CUSTOMER DEPOSITS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	2.00%	<u>0.00%</u>
9. TOTAL	<u>\$181,898</u>	<u>\$0</u>	<u>\$181,898</u>	<u>-\$103,489</u>	<u>\$78,409</u>	<u>100.00%</u>		<u>8.74%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>7.74%</u>	<u>9.74%</u>	
OVERALL RATE OF RETURN						<u>7.74%</u>	<u>9.74%</u>	

LAKESIDE WATERWORKS, INC. TEST YEAR ENDED 6/30/2013 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 130194-WS		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$38,806</u>	<u>\$726</u>	<u>\$38,806</u>	<u>\$25,560</u> 65.87%	<u>\$64,366</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$40,439	\$12,386	\$52,825	\$0	\$52,825
3. DEPRECIATION (NET)	1,932	2,956	4,888	0	4,888
4. AMORTIZATION	0	490	490	0	490
5. TAXES OTHER THAN INCOME	1,987	(43)	1,944	1,150	3,094
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$44,358</u>	<u>\$15,789</u>	<u>\$60,147</u>	<u>\$1,150</u>	<u>\$61,297</u>
8. OPERATING INCOME/(LOSS)	<u>(\$6,278)</u>		<u>(\$21,341)</u>		<u>\$3,069</u>
9. WATER RATE BASE	<u>\$24,200</u>		<u>\$35,117</u>		<u>\$35,117</u>
10. RATE OF RETURN	<u>-25.94%</u>		<u>-60.77%</u>		<u>8.74%</u>

LAKESIDE WATERWORKS, INC.			SCHEDULE NO. 3-B		
TEST YEAR ENDED 6/30/2013			DOCKET NO. 130194-WS		
SCHEDULE OF WASTEWATER OPERATING INCOME					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$31,929</u>	<u>\$227</u>	<u>\$32,176</u>	<u>\$32,606</u> 101.34%	<u>\$64,782</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$34,390	\$20,912	\$55,302	\$0	\$55,302
3. DEPRECIATION (NET)	6,068	(3,762)	2,306	0	2,306
4. AMORTIZATION	0	278	278	0	278
5. TAXES OTHER THAN INCOME	1,706	(61)	1,645	1,467	3,113
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$42,164</u>	<u>\$17,367</u>	<u>\$59,531</u>	<u>\$1,467</u>	<u>\$60,999</u>
8. OPERATING INCOME/(LOSS)	<u>(\$10,215)</u>		<u>(\$27,355)</u>		<u>\$3,784</u>
9. WASTEWATER RATE BASE	<u>\$34,018</u>		<u>\$43,292</u>		<u>\$43,292</u>
10. RATE OF RETURN	<u>-30.03%</u>		<u>-63.19%</u>		<u>8.74%</u>

LAKESIDE WATERWORKS, INC.
TEST YEAR ENDED 6/30/2013
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-C
DOCKET NO. 130194-WS
PAGE 1 OF 3

	<u>WATER</u>	<u>WASTEWATER</u>
OPERATING REVENUES		
. To adjust utility revenues to audited test year amount.	<u>\$726</u>	<u>\$227</u>
OPERATION AND MAINTENANCE EXPENSES		
1. Salaries and Wages - Employees (601/ 701)		
To reflect the appropriate Salaries & Wages exp. for Employees	<u>(\$1,799)</u>	<u>(\$1,799)</u>
2. Salaries and Wages - Officers (603/ 703)		
To reflect the appropriate Salaries & Wages exp. for Officers	<u>\$773</u>	<u>\$1,651</u>
3. Purchased Power (615/715)		
a. To reflect the appropriate Purchased Power expense (AF5)	\$739	\$1,336
b. To reflect adjustment for excessive unaccounted water	<u>(266)</u>	<u>\$0</u>
Subtotal	<u>\$474</u>	<u>\$1,336</u>
4. Fuel For Power Production (616)		
To reflect the appropriate Purchased Power expense (AF5)	<u>(\$108)</u>	<u>\$0</u>
5. Chemicals (618/718)		
a. To reflect the appropriate Chemicals expense (AF5)	\$49	\$393
b. To reflect an adjustment for excessive unaccounted water	<u>(32)</u>	<u>\$0</u>
Subtotal	<u>\$17</u>	<u>\$393</u>
6. Materials & Supplies (620)		
To reflect the appropriate Materials & Supplies expense (AF5)	<u>(\$926)</u>	<u>\$63</u>
7. Contractual Services - Billing (630/730)		
To reclassify these expenses to 636/736	<u>(\$2,030)</u>	<u>(\$18,230)</u>
(O & M EXPENSES CONTINUED ON NEXT PAGE)		

LAKESIDE WATERWORKS, INC.**TEST YEAR ENDED 06/30/2013****ADJUSTMENTS TO OPERATING INCOME****(O & M EXPENSES CONTINUED)****SCHEDULE NO. 3-C****DOCKET NO. 130194-WS****PAGE 2 OF 3**

	<u>WATER</u>	<u>WASTEWATER</u>
8. Contractual Services – Professional (631/731)		
a. To reflect reclassified expense from 633/733 (AF5)	\$0	\$1,334
b. To reflect the appropriate expense (AF5)	<u>(3,698)</u>	<u>1,286</u>
Subtotal	<u>(\$3,698)</u>	<u>\$2,620</u>
9. Contractual Services - Other (636/736)		
To reflect the U.S. Water management services agreement	<u>\$19,938</u>	<u>\$30,906</u>
10. Rents (640/ 740)		
To reflect the appropriate rental expense (AF6)	<u>(\$428)</u>	<u>\$2,568</u>
11. Insurance Expense (655/755)		
To reflect the appropriate insurance expense	<u>(\$54)</u>	<u>\$97</u>
12. Regulatory Commission Expense (765/765)		
To reflect 4-year amortization of rate case expense (\$2,336/4)	<u>\$292</u>	<u>\$292</u>
13. Bad Debt Expense (670/770)		
To reflect the appropriate bad debt expense	<u>\$369</u>	<u>\$622</u>
14. Miscellaneous Expense (675/775)		
To reflect the appropriate miscellaneous expenses (AF5)	<u>(\$433)</u>	<u>(\$2,088)</u>
15. Sludge Removal Expense (711)		
To reflect the appropriate sludge removal expense (AF5)	<u>\$0</u>	<u>\$2,500</u>
16. Transportation Expense (750)		
To reflect the appropriate transportation expense (AF5)	\$0	(\$19)
TOTAL O & M EXPENSE ADJUSTMENTS	<u>\$12,386</u>	<u>\$20,912</u>

LAKESIDE WATERWORKS, INC.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 06/30/2013		DOCKET NO. 130194-WS	
<u>ADJUSTMENTS TO OPERATING INCOME</u>		<u>PAGE 3 OF 3</u>	
		<u>WATER</u>	<u>WASTEWATER</u>
DEPRECIATION EXPENSE			
1.	To reflect test year depreciation calculated per 25-30.140, FAC (AF2)	\$2,860	(\$3,878)
2.	To reflect the depreciation expense of proforma plant	<u>96</u>	<u>116</u>
	Total	<u>\$2,956</u>	<u>(\$3,762)</u>
AMORTIZATION OF CIAC			
1.	To reflect the appropriate amount of amortization expense (AF3)	<u>\$490</u>	<u>\$278</u>
TAXES OTHER THAN INCOME			
1.	To reflect the appropriate RAFs	\$186	\$287
2.	To reflect the appropriate payroll taxes	<u>(230)</u>	<u>(348)</u>
	Total	<u>(\$43)</u>	<u>(\$61)</u>

LAKESIDE WATERWORKS, INC.		SCHEDULE NO. 3-D	
TEST YEAR ENDED 06/30/2013		DOCKET NO. 130194-WS	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$1,799	(\$1,799)	\$0
(603) SALARIES AND WAGES - OFFICERS	1,727	773	2,500
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	1,916	474	2,390
(616) FUEL FOR POWER PRODUCTION	437	(108)	329
(618) CHEMICALS	269	17	286
(620) MATERIALS AND SUPPLIES	1,767	(926)	841
(630) CONTRACTUAL SERVICES - BILLING	2,030	(2,030)	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	6,318	(3,698)	2,620
(635) CONTRACTUAL SERVICES - TESTING	0	0	0
(636) CONTRACTUAL SERVICES - OTHER	18,259	19,938	38,197
(640) RENTS	2,996	(428)	2,568
(655) INSURANCE EXPENSE	576	(54)	522
(665) REGULATORY COMMISSION EXPENSE	0	292	292
(670) BAD DEBT EXPENSE	865	369	1,234
(675) MISCELLANEOUS EXPENSES	<u>1,480</u>	<u>(433)</u>	<u>1,047</u>
	<u>\$40,439</u>	<u>\$12,386</u>	<u>\$52,825</u>

LAKESIDE WATERWORKS, INC.		SCHEDULE NO. 3-E	
TEST YEAR ENDED 06/30/2013		DOCKET NO. 130194-WS	
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$1,799	(\$1,799)	\$0
(703) SALARIES AND WAGES - OFFICERS	849	1,651	2,500
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	0	2,500	2,500
(715) PURCHASED POWER	3,519	1,336	4,855
(718) CHEMICALS	404	393	797
(720) MATERIALS AND SUPPLIES	77	63	140
(730) CONTRACTUAL SERVICES - BILLING	18,230	(18,230)	0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	1,334	2,620	3,954
(735) CONTRACTUAL SERVICES - TESTING	0	0	0
(736) CONTRACTUAL SERVICES - OTHER	4,824	30,906	35,730
(740) RENTS	0	2,568	2,568
(750) TRANSPORTATION EXPENSE	19	(19)	0
(755) INSURANCE EXPENSE	424	97	521
(765) REGULATORY COMMISSION EXPENSES	0	292	292
(770) BAD DEBT EXPENSE	638	622	1,260
(775) MISCELLANEOUS EXPENSES	<u>2,273</u>	<u>(2,088)</u>	<u>185</u>
	<u>\$34,390</u>	<u>\$20,912</u>	<u>\$55,302</u>

LAKESIDE WATERWORKS, INC.		SCHEDULE NO. 4-A	
TEST YEAR ENDED 6/30/13		DOCKET NO. 130194-WS	
MONTHLY WATER RATES			
	UTILITY EXISTING RATES*	STAFF PRELIMINARY RATES	4 YEAR RATE REDUCTION
<u>Residential, General Service, and Irrigation</u>			
Base Facility Charge by Meter Size:			
5/8"X3/4"	\$12.96	\$15.19	\$0.07
3/4"	\$19.45	\$22.79	\$0.11
1"	\$32.42	\$37.98	\$0.18
1-1/2"	\$64.83	\$75.95	\$0.36
2"	\$103.73	\$121.52	\$0.58
3"	\$207.45	\$243.04	\$1.17
4"	\$324.16	\$379.75	\$1.82
6"	\$648.30	\$759.50	\$3.65
*Irrigation customers do not have a base facility charge.			
Charge per 1,000 Gallons - Residential and Irrigation			
All Gallons	\$1.23		
0 - 4,000 Gallons		\$3.86	\$0.02
Over 4,000 Gallons		\$8.85	\$0.04
Charge per 1,000 Gallons – General Service	\$1.23	\$4.90	\$0.02
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
4,000 Gallons	\$17.88	\$30.63	
6,000 Gallons	\$20.34	\$48.33	
10,000 Gallons	\$25.26	\$83.73	

LAKESIDE WATERWORKS, INC.		SCHEDULE NO. 4-B	
TEST YEAR ENDED 06/30/13		DOCKET NO. 130194-WS	
MONTHLY WASTEWATER RATES			
	UTILITY EXISTING RATES	STAFF PRELIMINARY RATES	4 YEAR RATE REDUCTION
<u>Residential</u>			
Base Facility Charge - All Meter Sizes	\$10.01	\$15.32	\$0.07
Charge per 1,000 Gallons- Residential*			
*6,000 gallon cap	\$2.46	\$7.56	\$0.04
<u>General Service</u>			
Base Facility Charge by Meter Size:			
5/8"X3/4"	\$10.01	\$15.32	\$0.07
3/4"	\$15.02	\$22.98	\$0.11
1"	\$25.05	\$38.30	\$0.18
1-1/2"	\$50.08	\$76.60	\$0.37
2"	\$80.14	\$122.56	\$0.59
3"	\$160.26	\$245.12	\$1.18
4"	\$250.41	\$383.00	\$1.84
6"	\$500.84	\$766.00	\$3.68
Charge per 1,000 Gallons - General Service	\$2.95	\$9.07	\$0.04
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
4,000 Gallons	\$19.85	\$45.56	
6,000 Gallons	\$24.77	\$60.68	
10,000 Gallons	\$24.77	\$60.68	