

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in
Lake County by Lakeside Waterworks, Inc. | DOCKET NO. 130194-WS
ORDER NO. PSC-15-0013-PAA-WS
ISSUED: January 2, 2015

The following Commissioners participated in the disposition of this matter:

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

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING SETTLEMENT AND ESTABLISHING RATES
AND
FINAL ORDER GRANTING TEMPORARY RATES IN THE EVENT OF A PROTEST
AND ADDRESSING RATE CASE EXPENSE

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission (Commission) that the 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.

Case Background

Lakeside Waterworks, Inc. (Lakeside or Utility) is a Class C water and wastewater utility serving approximately 187 water and 176 wastewater customers in Lake County. Lakeside's service territory is located in the St. Johns River Water Management District (SJRWMD) and general water use restrictions apply. The Utility's 2013 annual report shows total gross revenues of \$41,056 for water and \$33,341 for wastewater, with net operating losses of \$28,103 and \$23,759 for water and wastewater, respectively.

Shangri-La By The Lake Utilities, Inc. (Shangri-La) began providing service in 1983. The system was originally certificated in 1996. In 2012, an application was filed for the transfer of Shangri-La's water and wastewater systems, and Certificate Nos. 567-W and 494-S, to Lakeside. The transfer was approved in 2013. The last staff assisted rate case (SARC) for the system was in Docket No. 110130-WS, which was withdrawn by Shangri-La. There have not

been any other rate cases for this system, thus, we have not previously set used and useful percentages.

In the instant docket, Lakeside filed its application for a SARC on July 19, 2013, and subsequently completed our filing requirements. September 17, 2013, was established as the official filing date in this case. On August 13, 2014, our staff filed a preliminary recommendation (Staff Report) pending further review of this case. A customer meeting was held on September 11, 2014, at the Shangri-La by the Lake Clubhouse in Leesburg, Florida. The Office of Public Counsel has worked with our staff, the Utility, and the Shangri-La by the Lake, Homeowners' Association (Homeowners) to resolve issues in this docket. On November 21, 2014, OPC and the Utility filed a Joint Motion Requesting Approval of Settlement Agreement between OPC, the Utility, and the Homeowners (Joint Motion) which we approved at our November 25, 2014 Agenda Conference.

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

Review and Decision

Quality of Service

In water and wastewater rate cases, we determine the overall quality of service pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.). There are three separate components of this review: the quality of a utility's product, the operational conditions of a utility's plant and facilities, and a utility's attempt to address customer satisfaction. We also review DEP and SJRWMD regulations, and customer comments or complaints we have received.

Quality of Product and Operating Condition of Plant and Facilities

Lakeside's service area is located next to Lake Eustis, near Leesburg, Florida, in Lake County. The raw water source is ground water, which is obtained from two wells in the service area. The water treatment processing sequence is to pump raw water from the aquifer, perform an aeration process, inject calcium hypochlorite, store the treated water in a tank, and distribute.

In addition to primary contaminants, newly enacted amendments to Section 367.0812, F.S., require us to consider secondary contaminants as part of the overall quality of service. Secondary contaminants are those contaminants a customer would likely notice because they impact things like color or smell. However, secondary contaminants are not a health risk and DEP does not typically undertake enforcement actions for secondary standards, unless another type of contaminant exceeds the maximum contaminant levels (MCL).

Lakeside is current in all of its required chemical analyses. We reviewed the chemical analysis with samples dated March 13, 2012. Laboratory tests show that Lakeside's finished

water product is well below the MCLs allowed by DEP for all primary and secondary contaminants, and there appear to be no water quality compliance issues with this facility.

We also reviewed the Utility's last two DEP Sanitary Survey Reports, dated June 5, 2012, and November 26, 2013. The earlier report, issued prior to Lakeside's acquisition of the system, noted failure to clean and inspect the finished-water storage tank, and failure to maintain some required documentation. The second report, issued just after Lakeside assumed responsibility for the system, found no physical deficiencies, but requested documentation that the finished drinking water meter had been calibrated. We verified that the documentation was provided to DEP. Upon review, we find that the operational condition of the water treatment plant (WTP) is satisfactory.

The wastewater treatment plant (WWTP) is an extended aeration activated sludge facility, with chlorinated effluent sent to a spray field with a backup percolation pond for wet weather conditions. We reviewed the last Compliance Evaluation Inspection performed by DEP, dated April 9, 2012. DEP found a small hole in the digester tank wall that was leaking. On May 9, 2012, the Utility reported that the hole had been repaired. We inspected the plant and it appears that patches have been applied effectively. No subsequent compliance issues were reported by DEP.

Although this facility appears to have no current compliance issues with DEP, Lakeside had initially sought recovery of several pro forma items in this proceeding to cover needed repairs to the system. During our site visit we observed that the condition of the aging system appears to warrant the repairs contemplated by Lakeside. However, Lakeside elected to withdraw the request for recovery of these particular repair costs from this proceeding. We also observed that Lakeside is actively monitoring the condition of the system, and making temporary repairs, as necessary, to ensure the continued safe operation of the WWTP until permanent measures can be completed. Lakeside intends to proceed with the repairs and seek recovery in a future proceeding. Based on Lakeside's proactive approach to ensuring the safe operation of the system now and in the future, and on Lakeside's status with DEP, we find the operational condition of the WWTP to be satisfactory.

Customer Satisfaction

A customer meeting was held in Leesburg, Florida on September 11, 2014. Eighty-five residents of Lakeside's territory attended the meeting and twenty-three residents spoke. Letters from two residents who were unable to attend were read. A representative of Senator Hays addressed the group and questioned the appropriateness of a large rate increase. All of the customers who spoke were concerned about the rate increase.¹ Customers also expressed concerns regarding (1) additional services they would get for the higher-priced water; (2) black rings in the toilet; (3) water quality and safety; (4) three years of identical numbers in test results; (5) affiliate transactions; and (6) irrigation meters. Affiliate transactions are discussed below

¹ We also received written comments from customers, primarily addressing concerns over rates.

under the heading “Test Year Rate Base” and the rates for irrigation meters are discussed below under the heading “Rate Structures.” Questions regarding additional services appear to assume that Lakeside’s request for rate relief is driven by providing new services; the Utility’s need for rate relief is addressed throughout this Order. Regarding water quality, Lakeside’s last water quality test showed that the water was well below the MCLs for all primary and secondary water quality standards required by DEP, ensuring that the water is safe to drink. Regarding identical test year results, DEP requires the tests to be performed every three years, and the last test was performed in 2012. Thus, the results reported in the annual CCRs are expected to reflect the same test results until new tests are conducted in 2015. Regarding black rings that form in the toilets, we find the Utility’s suggestion that the black rings are caused by mold that grows quickly in Florida’s warm, moist climate, and not by poor water quality, to be reasonable. After the customer meeting, Lakeside met with customers and followed up on quality of service comments made at the meeting. The Utility reported its actions in response to these concerns and we find the disposition of these issues to be acceptable.

There are no outstanding complaints in the Commission’s Complaint Tracking System, no complaints were filed with DEP during the test year, and Lakeside stated that no complaints have been filed with the Utility.

Upon review, we find that the condition of the water and wastewater treatment facilities is satisfactory, and that the water provided by Lakeside is meeting applicable water quality standards, including primary and secondary standards, as prescribed in the DEP rules. We also find that the Utility has attempted to address customer concerns. Therefore, we find that the overall quality of service for the Lakeside water and wastewater systems in Lake County is satisfactory.

Used and Useful (U&U)

Lakeside’s water system has an 8-inch well rated at 850 gallons per minute (gpm) and a 6-inch well rated at 270 gpm, for a total capacity of 1,120 gpm. Storage consists of a 20,000-gallon concrete ground storage tank with aeration, and two steel hydropneumatic tanks with capacities of 3,000 gallons and 5,000 gallons. A hypochlorination system is used for disinfection and water from the tanks is pumped into the water distribution system. The distribution system is a composite network of approximately 2,820 linear feet of 10-inch PVC pipe, 2,828 linear feet of 8-inch PVC pipe, 3,450 linear feet of 6-inch PVC pipe, 1,700 linear feet of 4-inch PVC pipe, and 2,800 linear feet of 1.5-inch PVC pipe. According to the Utility, there are 11 fire hydrants in its service area.

The WWTP is a 50,000 gallon per day (gpd) extended aeration activated sludge facility. The chlorinated effluent is sent to a 3.2 acre restricted public access spray field with a backup percolation pond for wet weather conditions. The collection system is a composite network of force mains, collecting mains, and four lift stations. The force mains consist of approximately 3,211 linear feet of 4-inch PVC pipe and 2,324 linear feet of 3-inch PVC pipe. The collecting mains consist of approximately 9,768 linear feet of 4-inch PVC pipe and 4,277 linear feet of 3-inch PVC pipe. According to the Utility, there are 15 manholes.

Excessive Unaccounted for Water (EUW)

Rule 25-30.4325(1)(e), F.A.C., defines EUW as unaccounted for water in excess of 10 percent of the amount produced. Unaccounted for water is all water that is produced that is not sold, metered, or accounted for in the records of the utility. Rule 25-30.4325(10), F.A.C., provides that to determine whether adjustments to plant and operating expenses, such as purchased electrical power and chemicals cost, are necessary, we must consider all relevant reasons for EUW, solutions implemented to correct the problem, and whether a proposed solution is economically feasible. EUW is calculated by subtracting both the gallons used for other purposes, such as flushing, and the gallons sold to customers from the total gallons pumped for the test year. As discussed below under the heading, "Rate Structures," the 12-month period following the test year, referred to herein as the "post test year," was used for EUW and WTP U&U calculations. The Utility's records indicated 9,229,662 gallons of water were produced during the post test year, 8,160,000 gallons of water were sold to customers, and 440,780 gallons were used for other purposes. Thus, unaccounted for water is 6.8 percent of the amount produced, resulting in no EUW.

Water Treatment Plant Used & Useful

Pursuant to Rule 25-30.4325(8), F.A.C., the U&U percentage of a WTP with storage is calculated by dividing the peak system demand by the firm reliable capacity (FRC). The system demand is based on the single maximum day in the test year less EUW, plus a fire flow and a growth allowance. Because the Utility has storage capacity, the FRC is based on 16 hours of pumping excluding the largest well. The Utility has two wells rated at 850 gpm and 270 gpm. Thus, using the capacity of the smaller well, the Utility's FRC is 259,200 gpd (270 gpm x 60 min/hr. x 16 hrs.). The peak day of 42,300 gallons, which occurred on August 15, 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 gpd. As discussed above, under the heading "Excessive Unaccounted for Water," the Utility's EUW is zero. Pursuant to Rule 25-30.431, F.A.C., a linear regression analysis of the Utility's historical growth pattern results in 12 equivalent residential connections (ERCs) for the five-year statutory growth period. The Utility had an average of 187 ERCs for the post test year, resulting in 226 gpd/ERC (42,300gpd/187ERCs). Thus, a growth allowance of 2,712 gpd is also considered. Therefore, pursuant to Rule 25-30.4325, F.A.C., we find that the WTP is 40.5 percent U&U. $[(42,300 \text{ gpd} - 0 \text{ gpd} + 60,000 \text{ gpd} + 2,712 \text{ gpd}) / 259,200 \text{ gpd}]$

Storage Used & Useful

Pursuant to Rule 25-30.4325(8), F.A.C., for water systems with storage, if the storage capacity is less than the peak demand, the storage system is considered 100 percent U&U. For Lakeside, since the storage capacity (20,000 gallons) is less than the peak demand (42,300 gallons), the storage system is considered 100 percent U&U.

Inflow & Infiltration (I&I)

Typically, infiltration results from groundwater entering a wastewater collection system through broken or defective pipes and joints; whereas, inflow results from water entering a wastewater collection system through manholes or lift stations. The allowance for infiltration is 500 gallons per day per inch diameter pipe per mile, and an additional 10 percent of water sold is allowed for inflow. The Utility's records indicated that it had approximately 153,000 gallons of total I&I, much less than the 3,401,890 gallons of allowable I&I. Therefore, we find that the Utility had no excessive I&I for the test year.

Wastewater Treatment Plant Used & Useful

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 permitted capacity. Consideration is given for growth and I&I. Pursuant to Rule 25-30.431, F.A.C., a linear regression analysis of the Utility's historical growth pattern results in 9 ERCs for the five-year statutory growth period. The Utility had an average of 176 ERCs for the test year, resulting in 45 gpd/ERC (8,000 gpd/176 ERCs). Thus, a growth allowance of 405 gpd is also considered. Based on the annual average daily flow during the test year of 8,000 gpd and the DEP permitted plant capacity of 50,000 gpd, and pursuant to Rule 25-30.432, F.A.C., we find that the WWTP is 16.8 percent U&U. $[(8,000 \text{ gpd} + 405 \text{ gpd})/50,000 \text{ gpd}]$

Water Distribution and Wastewater Collection Systems Used & Useful

The U&U for the water distribution and wastewater collection systems is 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, if applicable. However, we find that the lines that are currently recognized in the Utility's rate base serve an area in the service territory that appears to be built out. Therefore, we find that the water distribution and wastewater collection systems are 100 percent U&U.

Summary

In sum, we find that Lakeside's WTP is 40.5 percent U&U, its water storage facilities is 100 percent U&U, its WWTP is 16.8 percent U&U, and its water distribution and wastewater collection systems are 100 percent U&U. There is no indication of excessive I&I or EUW.

Test Year Rate Base

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.

940653-WS.² We 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 wastewater UPIS. Our adjustments to UPIS are identified in Table 1 below:

<u>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 net pro forma plant repairs	<u>3,512</u>	<u>923</u>
Total		<u>(\$251)</u>	<u>(\$1,598)</u>

The pro forma plant balances in UPIS reflect the plant items that have been completed, less their associated retirement values, as shown in Table 2 below:

<u>Description</u>		<u>Water</u>	<u>Wastewater</u>
1.	Installed Mercoid switch on Hydro Tank #2, 4 new chlorine pumps (one as a replacement and 3 as new units), a chlorine injection system and saddle taps. Also, installed new conduit, cleaned up electrical panel and performed other minor repairs.	\$7,062	\$0
2.	Repair work on water distribution mains.	3,013	0
3.	Installed new stenner pumps (2). Repaired diffusers (4) and manifold at Wastewater Treatment Plant. Repaired and reinforced steel walkways and handrails. Repaired air header, and other minor repairs.	0	<u>3,690</u>
Total Pro forma Plant		<u>\$10,075</u>	<u>\$3,690</u>

Discussion of Pro forma Plant

As shown in Table 2, the Utility is requesting cost recovery for \$10,075 in water and \$3,690 in wastewater pro forma plant. The Utility has completed the work described below and provided invoices which we have reviewed.

² See Order No. PSC-96-0062-FOF-WS, issued January 12, 1996, in Docket No. 940653-WS, *In re: Application for certificate to provide water and wastewater services in Lake County by Shangri-La by the Lake Utilities, Inc.*

Lakeside provided two invoices for repairs at the water treatment plant, asserting the replacements and repairs were necessary to comply with a regulatory mandate.³ The first invoice was for \$5,296 and the second was for \$1,766, for a total of \$7,062. In a data request response filed June 5, 2014, the Utility stated that there are no specific cost savings associated with completing this project. In a data request response filed October 15, 2014, the Utility stated that the additional pumps will improve the removal of hydrogen sulfides, improve chlorine residuals in the tank and distribution system, and also discourage algae growth in the treatment system components. We have reviewed the invoices and description of the work performed, and find that the pro forma plant repairs are justified and prudent. Thus, we shall approve \$7,062 in pro forma water plant.

Lakeside provided two invoices related to repair work on water mains. The first invoice was for \$1,233 for an emergency repair of a 6-inch water main and the second was for \$1,780 for repairing a 4-inch water main. The total of these two invoices is \$3,013. We have reviewed the invoices and description of the work performed, and find that these pro forma items are justified and prudent. Thus, we shall approve \$3,013 in pro forma water plant.

Lakeside provided an invoice for \$3,690 for work at the wastewater treatment plant. Two new stenner pumps were installed, and repair work was performed on the air header, the four diffusers, and the manifold at the plant. In addition, the steel walkways and handrails were reinforced, as needed, and other minor repairs were performed. The Utility asserted the work at the wastewater treatment plant was necessary to comply with a regulatory mandate.⁴ In a data request response filed June 5, 2014, the Utility stated that there are no specific cost savings associated with completing this project. We have reviewed the invoice and description of the work performed, and find that this pro forma item is justified and prudent. Thus, we shall approve \$3,690 in wastewater pro forma plant.

Lakeside has requested cost recovery for the pro forma plant as shown in Table 2. We note that the associated retirements are \$6,563 for water and \$2,768 for wastewater. The Utility has completed the work described for these projects and provided invoices which we have reviewed. Thus, we shall approve \$10,075 in water and \$3,690 in wastewater pro forma plant.

Our net adjustments to UPIS are decreases of \$251 for water and \$1,598 for wastewater. We shall approve UPIS balances of \$138,048 for water and \$145,817 for wastewater.

Land & Land Rights: The Utility recorded no test year land value for water and wastewater. No adjustments are necessary, therefore, we shall approve land balances of \$0 for water and wastewater.

Non-Used and Useful Plant: Non-used and useful plant is discussed above under the heading, "Used and Useful." Our adjustments to these accounts are identified in Table 3 below:

³ Pursuant to Rule 62-555.320(12)(d), F.A.C.

⁴ Pursuant to Rules 62-600.410(1), 62-600.410(6), and 62-600.410(8), F.A.C.

Table 3 Adjustments to Non-Used and Useful Plant			
<u>Description</u>		<u>Water</u>	<u>Wastewater</u>
1.	To reflect non-used and useful plant	(\$30,388)	(\$68,885)
2.	To reflect non-used and useful accumulated depreciation	23,793	44,065
Total		(\$6,595)	(\$24,821)

Contributions In Aid of Construction (CIAC): Lakeside recorded CIAC balances of \$13,776 for water and \$18,257 for wastewater. We made no adjustments to CIAC, and shall approve CIAC balances of \$13,776 and \$18,257 for water and wastewater, respectively.

Accumulated Depreciation: Lakeside recorded balances for accumulated depreciation of \$106,153 and \$95,725 for water and wastewater, respectively. Our adjustments to accumulated depreciation are identified in Table 4 below:

Table 4 Adjustments to Accumulated Depreciation			
<u>Description</u>		<u>Water</u>	<u>Wastewater</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 pro forma plant repairs	5,277	2,522
Total		\$7,209	\$8,322

We have calculated accumulated depreciation using the prescribed criteria set forth in Rule 25-30.140, F.A.C., and determined that net accumulated depreciation should be decreased by \$7,209 for water and \$8,322 for wastewater. We shall approve accumulated depreciation balances of \$98,944 for water and \$87,404 for wastewater.

Amortization of CIAC: Lakeside recorded balances for amortization of CIAC of \$5,830 for water and \$11,929 for wastewater. Our adjustments to amortization of CIAC are identified in Table 5 below:

Table 5 Adjustments to Amortization of CIAC			
<u>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	(245)	(139)
Total		\$0	(\$5,830)

Our adjustments for water were off-setting amounts. The amortization of CIAC for wastewater was decreased by \$5,830. We shall approve amortization of CIAC balances of \$5,830 for water and \$6,099 for wastewater.

Working Capital Allowance: Lakeside 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., we used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, we shall approve working capital allowances of \$6,250 for water (based on O&M expense of \$50,001/8), and \$6,493 for wastewater (based on O&M expense of \$51,947/8). Thus, we shall increase working capital allowances by \$6,250 for water and \$6,493 for wastewater.

Rate Base Summary: Based on the foregoing, we find that the appropriate average test year rate bases are \$30,813 for water and \$27,928 for wastewater. Rate base for water is 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.

Rate of Return on Equity (ROE)

The Utility's capital structure consists of \$181,898 of common stock. The Utility has no long-term debt or customer deposits. As discussed below under the heading, "Operating Ratio Method" the operating ratio methodology shall be used in this case. Although the traditional rate of return method is not used when the operating ratio methodology is used, we shall, nonetheless, establish an ROE for this Utility. The appropriate ROE is 8.74 percent using our approved leverage formula currently in effect.⁵ The Utility's capital structure has been reconciled with our approved rate base. Thus, we shall approve 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.

Test Year Revenues

Lakeside recorded total revenues for water of \$38,080, which includes \$30 of miscellaneous revenues. Lakeside recorded \$31,949 of wastewater service revenues, and no miscellaneous revenues. Based on our review of the Utility's billing determinants and the rates that were in effect during the test year, the Utility shall increase service revenues by \$726 and \$227 for water and wastewater, respectively, to reflect the appropriate test year revenues. Thus, the approved 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.

Operating Expense

Lakeside 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

⁵ See Order Nos. PSC-14-0272-PAA-WS, issued May 29, 2014, and PSC-14-0323-CO-WS, issued June 24, 2014, in Docket No. 140006-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.*

invoices, canceled checks, and other supporting documentation have been examined. We have made several adjustments to the Utility's operating expenses as summarized below:

Salaries and Wages - Employees (601/701) - Lakeside recorded \$1,799 for water and \$1,799 for wastewater employee salaries expense in these accounts. We have made adjustments to remove these amounts because the amounts are captured in the Contractual Services – Other account. Thus we shall approve \$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. We have made adjustments to increase water by \$773 and wastewater by \$1,651 because the officers administer and oversee the Utilities' management services agreement.⁶ Thus, we shall approve salaries and wages for officers of \$2,500 for water and \$2,500 for wastewater.

Purchased Power (615/715) - Lakeside recorded \$1,916 for purchased power expense for water and \$3,519 for wastewater in these accounts. Our adjustments to these accounts are identified in Table 6 below:

<u>Description</u>		<u>Water</u>	<u>Wastewater</u>
1.	To reflect the appropriate test year purchased power (AF5)	\$739	\$1,336
2.	To reflect an increase in electric rates	51	1,307
Total		<u>\$790</u>	<u>\$2,643</u>

We increased these balances by \$738 for water and \$1,336 for wastewater based on invoices for purchased power in the historic test year. On June 5, 2014, the Utility provided bills from July 2013 through June 2014 (exactly one year more current than the bills from the historic test year), and requested that we include the impact of a January 1, 2014, rate increase of its electric provider. Using the more current usage data and the new rates, we made additional adjustments to increase purchased power expense for water by \$51 and by \$1,307 for wastewater. These adjustments increase purchased power expense by \$790 for water, and by \$2,643 for wastewater. Thus, we shall approve purchased power expense of \$2,706 for water and \$6,162 for wastewater.

Fuel for Power Production (616) The Utility recorded \$437 for this expense. Based on a lack of documentation, we have made an adjustment to remove \$108 from this account. We shall approve a balance of \$329 for this account.

Chemicals (618/718) The Utility recorded \$269 for water and \$404 for wastewater for chemicals expense. We made an adjustment to increase the balance for water by \$201 and the balance for wastewater by \$116 based on invoices for chemicals. We shall approve chemical expense of \$470 for water and \$520 for wastewater.

⁶ See discussion at Contractual Services – Other (636/736).

Materials and Supplies (620/720) The Utility recorded \$1,767 for materials and supplies for water and \$77 for wastewater. We have made adjustments to remove \$926 from the water balance, and increased the wastewater balance by \$63, based on invoices for materials and supplies. Thus, we shall approve balances of \$841 for water and \$140 for wastewater.

Contractual Services - Billing (630/730) - Lakeside recorded \$2,030 for water and \$18,230 for wastewater for this account. We have made adjustments to remove these amounts because the amounts are captured in the Contractual Services – Other account (636/736). We shall approve a balance of \$0 for these accounts for water and wastewater.

Contractual Services - Professional (631/731) - Lakeside recorded \$6,318 for water and \$1,334 for wastewater for this account. Our adjustments to these accounts are identified in Table 7 below:

Table 7			
Adjustments to Contractual Services - Professional			
	Description	Water	Wastewater
1.	To reflect reclassified expense from 632 (AF5)	(\$1,250)	\$0
2.	To reflect reclassified expense from 633/733 (AF5)	0	1,286
3.	To reflect the appropriate Contractual Serv. – Professional expense (AF5)	(2,448)	0
4.	To reflect the amortization of CAD mapping	0	280
5.	To reflect the appropriate legal expenses	(2,511)	(2,534)
	Total	<u>(\$6,209)</u>	<u>(\$968)</u>

We made the following adjustments; 1) removed a reclassified expense of \$1,250 for water due to a lack of documentation; 2) increased this expense for wastewater by \$1,286 to correct an allocation between water and wastewater; 3) removed \$2,448 due to a lack of documentation; 4) increased wastewater by \$280 to amortize a CAD mapping project; and 5) removed legal expenses of \$2,511 for water and \$2,534 for wastewater, since these amounts were incurred by the former owner to effectuate the sale of the Utility and are non-recurring. These adjustments result in net decreases of \$6,209 for water and \$968 for wastewater. Thus, we shall approve balances of \$109 for water and \$366 for wastewater for this account.

Contractual Services – Other (636/736) – Lakeside recorded balances of \$18,259 for water and \$4,824 for wastewater in this account. We have increased these accounts by \$19,938 for water and \$30,906 for wastewater for adjustments and to account for the Utility’s management services agreement.

Background Information

The prior owner of this Utility paid outside sources for operating and billing services for the water and wastewater utilities. Lakeside purchased the assets of Shangri-La in October 2012. On November 16, 2012, the Utility signed a 5-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 (U.S. Water). The U.S. Water contract provides that:

- There are certified utility operators with a focus on preventative and prescriptive maintenance services.
- All Customer Service/Billing/Collection functions are provided by U.S. Water.
- Costs of minor repairs are covered (up to a \$400 threshold per occurrence) by U.S. Water.
- Testing services and permitting expenses are covered by U.S. Water.
- Meter/hydrant testing is provided by U.S. Water.
- Record keeping and governmental relations are provided by U.S. Water.

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

Bids for Management Service and Pricing

The Utility sought other bidders for the management services provided in the U.S. Water contract. Bids were solicited from two local companies. These contractors stated they were "not capable or interested in providing the required services." As a result, the Utility entered into the management services agreement with U.S. Water.

In reviewing the U.S. Water contract, we developed Table 8 using summary data the Utility provided. Table 8 provides a comparison of the annual costs per account for services from water and wastewater utilities, as presented in a 2011 study conducted by Wetzel Consulting, LLC (WetCon) for the Florida Governmental Utility Authority (FGUA). In early 2013, the FGUA Board hired WetCon, an independent consultant, to evaluate FGUA systems against other water and wastewater systems in the South, using American Water Works Association (AWWA) Performance Indicators. Nine indicators were captured in the WetCon study, of which two related to operating costs.⁷ Lakeside provided a schedule comparing its contract costs to the data contained in the WetCon Benchmarking Study conducted for FGUA. In the schedule, Lakeside calculated the average per customer cost of the U.S. Water contract to be \$395. This amount represents the average contract cost per customer on a combined water and wastewater basis. The Utility noted at that time that \$395 compared favorably with the

⁷ The nine metrics include: Customer Service Costs, O&M Costs, Debt Ratio, Water Rates, Sewer Rates, Number of Employees, Water Loss Rate, Sewer Overflow Rate, and Customer Complaints.

benchmark because the amount fell between the highest cost and median groupings of the survey sample results, as shown below in Table 8.

The Utility revised its calculation based on updated customer counts. In addition, instead of presenting the costs on a combined system basis, Lakeside classified the costs for water and wastewater separately. The Utility claims the revised calculation matches what was done in the WetCon study, and shows that the average cost per customer, per service, is lower than previously identified.

The major difference between Lakeside's original calculation and its revised calculation is strictly in presentation. The total annual cost of the U.S. Water contract for both water and wastewater service is \$73,932. This amount is used in both calculations. In its original calculation, Lakeside took this total and divided by 187 water and wastewater ERCs. The result was a per customer cost of \$395. In the revised calculation, Lakeside took the total contract cost of \$73,932, and divided by the combined water and wastewater ERCs of 358. This results in an average cost per service of \$207. The revised calculation was necessary in order to properly compare the numbers contained in the WetCon Study to those of Lakeside. In the WetCon Study, the costs are calculated on an average cost per service.

Table 8 shows a summary of the data in the WetCon Study, plus various calculations of average costs:

<p style="text-align: center;">Table 8 Summary of WetCon study showing Annual Average Cost per account of utilities in the South (\$/account) Compared to Lakeside</p>				
Utilities sampled	Customer Service Costs in Study (a)	O&M Costs Water & Wastewater in Study (b)	Total Costs as reflected in Study (c) = (a) + (b)	Comparison of Average Cost
Lakeside (Staff's calculation)	Not separately identified	N/A	N/A	\$202.55*
Lakeside (Utility's calculation)	Not separately identified	N/A	N/A	\$206.51
FGUA West	\$38.51	\$225.00	\$263.51	\$263.51
FGUA South	\$50.58	\$213.00	\$263.58	\$263.58
Top Grouping (Lowest Cost of Benchmark)	\$36.43	\$246.00	\$282.43	\$282.43
Median Grouping (Median Cost of Benchmark)	\$41.16	\$301.00	\$342.16	\$342.16
Bottom Grouping (Highest Cost of Benchmark)	\$52.38	\$379.00	\$431.38	\$431.38

* In order to mirror the comparative analysis the Utility applied in the response it filed on May 2, 2014, we calculated an average cost using the customer counts derived from the 2012 Annual Report. Our calculation shows that the average cost per customer is \$202.55, as shown in Table 9. The difference in our calculation and the Utility's (\$202.55 versus \$206.51) is due to using different customer counts. We performed this calculation using data from the Utility's 2012 Annual Report, as shown in Column C in Table 9 below. The Utility's calculation was developed based on 183 water customers and 175 wastewater customers; the Utility did not reference the source for those numbers.

Contracted Service	Annual Contracted Amounts (a)	Mathematical Average of Column (a) (\$73,932/2) (b)	Customer Counts (per 2012 Annual Report) (c)	Mathematical Average of Column (c) (365/2) (d)	Annual Cost per Customer for each Contracted Service (e) = (b)/(d)
Water	\$38,196		186		
Wastewater	<u>35,736</u>	\$36,966	<u>179</u>	182.50	\$202.55
Total	<u>\$73,932</u>		<u>365</u>		

The Utility recalculated the cost of the U.S. Water contract to show that the average cost per customer is significantly lower than previously represented. In its revised calculation, the Utility determines the average cost per customer to be \$207, which it claims puts it well under the FGUA figures captured in the WetCon study. The Utility asserts that comparing Lakeside to any of the FGUA systems in the WetCon study is difficult for the following reasons:

1. All of the FGUA systems have a much larger customer base than Lakeside (under 200 water customers for Lakeside versus over 12,000 for the largest of the FGUA systems identified).
2. A similar disparity exists for the respective wastewater customer bases.
3. The level of repair, renewal, and replacement of utility plant is much different for the FGUA (the U.S. Water contract with Lakeside has a \$400 threshold per occurrence, and the FGUA threshold is \$7,500).
4. Staffing needs are much greater for the FGUA systems compared to Lakeside.
5. The FGUA contracts with U.S. Water include the costs for chemicals, whereas chemicals are not included in Lakeside's contract with U.S. Water.
6. The FGUA is not an entity regulated by the FPSC.

Affiliate Relationship

Because there is a nexus⁸ between the Utility's owners and U.S. Water Services Corporation, we considered how this Commission has addressed affiliate transactions in other cases. By Order No. PSC-12-0102-FOF-WS,⁹ we stated that in "evaluating whether and how much affiliate costs should be included in rates, we are aware of the relevant statutes and cases on rates and affiliate transactions," and reasoned that Section 367.081(2)(a)1, F.S., sets forth the Commission's responsibility in rate setting as follows:

The commission shall, either upon request or upon its own motion, fix rates which are just, reasonable, compensatory, and not unfairly discriminatory. In every such proceeding, the commission shall consider the value and quality of the service and the cost of providing the service, which shall include, but not be limited to, debt interest; the requirements of the utility for working capital; maintenance, depreciation, tax, and operating expenses incurred in the operation of all property used and useful in the public service; and a fair return on the investment of the utility in property used and useful in the public service.

In this same order at pp. 99-100, we interpreted Section 367.081(2)(a)1, F.S., as follows:

As reflected in [Section 367.081(2)(a)1., F.S], we are required to set reasonable rates, but we must also set rates that are compensatory. The provisions in the statute require that we consider the cost of providing service, which includes operating expenses incurred in the operation of all property used and useful in the public service, as well as a fair return on the investment of the Utility in property used and useful in the public service. In conducting our analysis of the appropriate operating expenses to be included, we are mindful of two Florida Supreme Court cases. In the case of *Keystone Water Co v. Bevis*, 278 So. 2d 606 (Fla. 1973), the Court held that a utility is entitled to a fair rate of return on property used or useful in public service. In *Keystone*, the Court further found that rates which do not yield a fair rate of return are unjust, unreasonable, and confiscatory and their enforcement deprives a utility of due process.¹⁰ Additionally, in *GTE v. Deason*, 642 So. 2d 545 (Fla. 1994), the Florida Supreme Court laid out the standard of review for affiliate transactions, stating:

The mere fact that a utility is doing business with an affiliate does not mean that unfair or excess profits are being generated, without more. We believe the standard must be whether the transactions exceed the going market rate or are otherwise inherently unfair. . . .

⁸ Three of the four Utility shareholders are Corporate Officers of U.S. Water Services Corporation.

⁹ Issued March 5, 2012, in Docket No. 100330-WS, *In re: Application for increase in water/wastewater rates in Alachua, Brevard, DeSoto, Hardee, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.* at pp. 99.

¹⁰ Order No. PSC-12-0102-FOF-WS, at 99-100.

If the answer is “no,” then the PSC may not reject the utility’s position. *Id.*, at 547-548 (Internal citation omitted).

Although a related party relationship exists between the Utility’s owners and U.S. Water, the decisions in *Keystone v. Bevis* and *GTE v. Deason* reflect that such a relationship is not unfair on its face. As noted previously, no other service companies provided bids for the services included in the U.S. Water contract.

In letters filed with this Commission, OPC expressed concern about the fairness of the charges the Utility pays U.S. Water for contracted services. OPC asserts that “because there is no market based on similar bids, we believe that the Utility should, at a minimum, provide any contracts (with all Appendices) between USWSC and non-affiliated utilities, especially all smaller utilities with 2,000 or fewer water accounts and 2,000 or fewer wastewater accounts.” The Utility filed a response to OPC noting that OPC’s request is actually to a non-regulated Florida corporation, and not to the regulated utility, Lakeside. In its response letter, the Utility generally described the scope of three contracts U.S. Water has with non-related regulated utilities. Separately, the Utility filed a request for confidential classification for these three contracts. We have reviewed the Utility’s response and observe that, while all three contracts are between U.S. Water and various regulated utilities in Florida, the scope of contractual arrangements appear to be quite different than that between U.S. Water and Lakeside. Because of the request for confidential classification for the requested contracts, we will describe them only generally, using information disclosed in the Utility’s letter, and refer to the contracts as “Contracts 1, 2, and 3.” Specifically, we note that the scope of services discussed below is described in the cover letter that accompanied the contracts, for which no confidential treatment was requested. Pursuant to “Contract 1,” U.S. Water provides daily visits to the water and wastewater treatment facilities, and a limited amount of testing. U.S. Water does not provide any services for maintenance, line flushing, meter testing, or service order work. In accordance with “Contract 2,” U.S. Water provides 6 visits per week to the water and wastewater facilities, and some testing services. As in “Contract 1,” no other services are provided. “Contract 3” is with a water only utility, and specifies daily visits and specific arrangements for testing services. We observe that the contractual arrangement between U.S. Water and Lakeside is more comprehensive in nature and provides for more extensive services than Contract 1, 2, or 3.¹¹ The Utility represents that “there is zero amount (no portion) of the monthly contractual services charge that includes compensation for any owner of the utility.” Upon review, we find that the U.S. water contract is appropriate and shall approve it because no other company was willing to provide operations, preventive maintenance, and billing and customer care services as set forth in the management contract, and Lakeside customers will be receiving an array of services that they did not previously receive. Lakeside has expressed its commitment to providing safe and reliable services as demonstrated by performing preventive and prescriptive maintenance. Lakeside has undertaken needed improvements necessary to ensure the continued reliable functioning of the systems and we find that Lakeside’s proactive approach for managing and operating the water and wastewater systems will provide long term benefits to Lakeside’s customers.

¹¹ By separate letter, the Utility described the scope of another contract between U.S. Water and another non-related regulated utility (“Contract 4”) which is also quite different from the U.S. Water contract with Lakeside.

Summary

We understand that the U.S Water contract is a significant operating expense. However, the U.S Water contract is comprehensive in nature, and provides the Utility's customers with services that prior owners/operators did not. We recognize that such services in rates is the primary reason that the water and wastewater expenses have increased. Upon review, we shall approve contractual services – other expenses of \$38,197 for water and \$35,730 for wastewater.

Rents (640/740) – Lakeside recorded rent expense of \$2,996 for water and \$0 for wastewater. We have 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.

OPC wrote to express concern about the Utility's land lease. Specifically, OPC states that the transfer order¹² did not include any land, and no other order addresses the value of the land lease. OPC contends that Commission's precedent favors limiting the lease expense to the recovery of the annual rate of return times the original cost of the land when placed into service. In addition, the OPC argues that the escalation clause in the lease agreement, which is tied to the Consumer Price Index (CPI) and adjusted for state taxes, is unreasonable.

The Utility responded to OPC and argued that 1) Order No. PSC-96-0062-FOF-WS,¹³ established land rental values of \$3,750 for water and \$3,750 for wastewater, 2) the land lease arrangement is between two non-associated parties, and is an arms-length transaction, and 3) the rent expense amounts our staff included in its August 13, 2014 Staff Report (\$2,568 for water and \$2,568 for wastewater) is below the amounts referenced in the aforementioned order.

Upon review, we shall approve a total rent expense of \$5,136 annually, split equally between water and wastewater (i.e., rent expense of \$2,568 for water and \$2,568 for wastewater). The agreed-upon land lease amounts, even with the escalation clause that OPC found objectionable, is less than the values included in our order referenced above. Moreover, the land lease agreement is between two non-associated parties.

Insurance Expense (655/755) – Lakeside recorded \$576 of insurance expense for water and \$424 for wastewater. We made audit-related adjustments to remove \$54 from water and increase the amount for wastewater by \$97. The insurance expense is allocated equally between water and wastewater; thus, we shall approve insurance expense of \$522 for water and \$521 for wastewater.

Regulatory Commission Expense (665/765) - Lakeside recorded \$0 for regulatory commission expense in these accounts. Regarding the current rate case, pursuant to Rule 25-22.0407, F.A.C.,

¹² 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.*

¹³ Issued on January 12, 1996, in Docket No. 940653-WS: *In re: Application for certificates to provide water and wastewater service in Lake County by Shangri-La by the Lake Utilities, Inc.*

the Utility is required to mail notices of the customer meeting and notices of rates to its customers. For the customer meeting notices, we estimate \$91 for postage expense, \$93 for printing expense, and \$9 for envelopes, for a total cost of \$193. Lakeside is required to mail notices for both Phase I and Phase II rates. For each rate change notification, we estimate \$91 for postage expense, \$37 for printing expense, and \$9 for envelopes, for a total cost of \$276 for both notices. The Utility paid a \$1,000 rate case filing fee for the water system, and a \$1,000 filing fee for the wastewater system. The total rate case expense including postage, notices, envelopes, and filing fee is \$2,469. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a four-year period, which is \$617 per year ($\$2,469/4$). Our net adjustment to this account is an increase of \$309 for water and \$309 for wastewater. We shall approve a regulatory commission expense of \$309 for water and \$309 for wastewater.

Bad Debt Expense (670/770) – Lakeside recorded bad debt expense of \$865 for water and \$638 for wastewater. Separately, the Utility requested that its bad debt expense be increased to 2 percent of revenue.

OPC filed a letter expressing concern about the bad debt expense, and argued that the Utility has not substantiated its request for bad debt to be increased to 2 percent of revenue. OPC asserts that bad debt expense has averaged about 0.72 percent of revenue in other cases it has studied.

The Utility filed a response to OPC's letter and explained its three-step process for addressing bad debt, and attached an Aged Accounts Receivable Report to demonstrate that its Inactive Write-Offs (as of July 31, 2014) were approximately \$494 for water and wastewater systems combined. In order to facilitate a resolution on this matter, the Utility states that it will agree to bad debt expense in that amount, with an additional allowance for bad debt based on the increase in the revenue requirement approved by the Commission.

We reviewed the Utility's proposal and compared it to what OPC proposed and found that the Utility's proposal yielded a lower percentage (0.695 percent versus 0.72 percent). Accordingly, we shall approve the Utility's proposal. We have made adjustments to decrease these accounts by \$462 for water and \$191 for wastewater and shall approve bad debt expense of \$403 for water and \$447 for wastewater.

Miscellaneous Expense (675/775) – Lakeside recorded \$1,480 for water and \$2,273 for wastewater for miscellaneous expense. We have made audit-related adjustments to remove \$433 for water and \$2,088 for wastewater due to lack of documentation. We shall approve 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, we made an adjustment to increase this account by \$2,500. We shall approve sludge removal expense of \$2,500 for wastewater.

Transportation Expense (750) – Lakeside recorded \$19 for transportation expense. We have made an adjustment to remove this amount due to lack of documentation. We shall approve transportation expense of \$0.

Operation and Maintenance Expenses (O&M) Summary – Total adjustments to O&M expense result in an increase of \$9,545 for water and \$17,540 for wastewater. We shall approve O&M expense of \$49,984 for water and \$51,930 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. We have calculated depreciation expense using the prescribed criteria set forth in Rule 25-30.140, F.A.C., and approve adjustments to increase the water balance by \$1,412 and decrease the wastewater balance by \$5,167. We shall approve depreciation expense balances of \$3,344 for water and \$902 for wastewater. The Utility recorded no amortization of CIAC for water and wastewater during the test year. We have made adjustments to increase these accounts by \$490 for water and \$278 for wastewater. Therefore, we shall approve net depreciation expense of \$2,854 for water and \$624 for wastewater.

Taxes Other Than Income (TOTI) – The Utility recorded \$1,987 for water and \$1,706 for wastewater for TOTI. We have made adjustments to the test year balances to decrease these amounts by \$43 and \$61 for water and wastewater, respectively. We increased TOTI by \$754 for water and \$1,039 for wastewater, based on our approved Phase I revenue increases for water and wastewater. Thus, we shall approve TOTI balances for the Phase I test year of \$2,697 for water and \$2,684 for wastewater. With respect to the Phase II increase, we increased TOTI by \$236 for water and \$245 for wastewater, based on our approved Phase II revenue increase, resulting in approved TOTI balances of \$2,933 and \$2,929, for water and wastewater, respectively.

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, we have not made any adjustments to this account.

Operating Expenses Summary – The application of our approved adjustments to Lakeside's recorded test year operating expenses results in approved operating expenses for Phase I of \$55,552 for water and \$55,255 for wastewater. Operating expenses are shown on Phase I Schedule No. 3-A for water and Phase I Schedule 3-B for wastewater. The related adjustments for water and wastewater are shown on Schedule No. 3-C. With respect to Phase II, we approve total operating expenses of \$55,788 and \$55,500 for water and wastewater, respectively, which are shown on Phase II Schedule No. 3-A for water and Phase II Schedule 3-B for wastewater.

Operating Ratio Method

Section 367.0814(9), F.S., provides that we may, by rule, establish standards and procedures for setting rates and charges of small utilities using criteria other than those set forth in Sections 367.081(1), (2)(a), and (3), F.S. Rule 25-30.456, F.A.C., provides an alternative to a staff-assisted rate case as described in Rule 25-30.455, F.A.C. As an alternative, utilities with total gross annual operating revenue of less than \$275,000 per system may petition this Commission for staff assistance in alternative rate setting.

Although Lakeside did not petition for alternative rate setting under the aforementioned rule, we shall exercise our discretion to employ the operating ratio methodology to set rates in this case. The operating ratio methodology is an alternative to the traditional calculation of revenue requirements. Under this methodology, instead of applying a return on the Utility's rate base, the revenue requirement is based on the margin of Lakeside's O&M expenses. This methodology has been applied in cases such as this, in which the traditional calculation of revenue requirements would not provide sufficient revenue to protect against potential variances in revenues and expenses.

By Order No. PSC-96-0357-FOF-WU,¹⁴ this Commission, for the first time, utilized the operating ratio methodology as an alternative means for setting rates. By that order, we also established criteria to determine the use of the operating ratio methodology and a guideline margin of 10 percent of O&M expense. The criteria have been utilized many times over the years and are applied to the instant case as follows:

Whether the Utility's O&M expense exceeds rate base. The operating ratio method substitutes O&M expense for rate base in calculating the amount of return. A utility generally would not benefit from the operating ratio method if rate base exceeds O&M expense. The decision to use the operating ratio method depends on the determination of whether the primary risk resides in capital costs or operating expenses. In the instant case, the rate base is less than the level of O&M expense. We find that the Utility's primary risk resides with covering its operating expenses. The rate base for the test year is \$30,811 for water and \$27,925 for wastewater, while adjusted O&M expenses are \$49,984 for water and \$51,930 for wastewater.

Whether the Utility is expected to become a Class B utility in the foreseeable future. Lakeside is a Class C utility and the approved revenue requirements of \$60,768 for water and \$60,675 for wastewater are substantially below the threshold level for Class B status (\$200,000 per system). The Utility's service area has not had any significant growth in the last five years. Therefore, we anticipate that the Utility will not become a Class B utility in the foreseeable future.

Quality of service and condition of plant. The quality of service is satisfactory.

Whether the Utility is developer-owned. The current owner of this Utility is not a developer.

Whether the Utility operates treatment facilities or is simply a distribution and/or collection system. The Utility does not purchase water and also operates its wastewater treatment plant and collection system.

Based upon our review of the Utility's situation and the criteria discussed above, we find Lakeside to be a viable candidate for the operating ratio methodology. In prior orders, we have found that, when the operating ratio methodology is used, a margin of 10 percent should be used unless unique circumstances justify the use of a greater or lesser margin. The operating margin

¹⁴ See Order No. PSC-96-0357-FOF-WU, issued March 13, 1996, in Docket No. 950641-WU: *In re: Application for staff-assisted rate case in Palm Beach County by Lake Osborne Utilities Company, Inc.*

should be set at a level which allows the utility to provide safe and reliable service and remain a viable entity. Establishing the level of the operating margin requires a great deal of judgment based upon the particular circumstances of the utility. Several factors must be considered in determining the reasonableness of a margin.

First, the margin must provide sufficient revenue for the Utility to cover its interest expense. However, in this case, the Utility is not paying interest expense.

Second, use of the operating ratio methodology rests on the contention that the principal risk to the utility resides in operating cost rather than in capital cost of the plant. The fair return on a small rate base may not adequately compensate a utility owner for incurring the risk associated with covering the much larger operating cost. Under the rate base method, the return on rate base would be \$2,693 for water and \$2,441 for wastewater, compared to \$4,998 for water and \$5,193 for wastewater, using the operating ratio method. We find that the margins under the rate base method do not provide a sufficient financial cushion, and do not adequately compensate the Utility owner for that risk.

Third, if the return on rate base method were applied, Lakeside could be left with insufficient funds to cover operating expenses. The margin should provide adequate revenue to protect against potential variability in revenue and expenses. If the Utility's operating expenses increase and revenue decreases, the Utility would not have the funds required for day-to-day operations.

We find that the foregoing factors reflect that the Utility needs a higher margin of revenue over operating expenses than the traditional return on rate base method would allow. Therefore, in order to provide Lakeside with adequate cash flow to meet environmental requirements and to provide some assurance of safe and reliable service, we shall approve use of the operating ratio methodology at a margin of 10 percent of O&M expense for determining the water and wastewater revenue requirements.

In order to help phase in the rate increase approved in this docket, the Utility has agreed to forego collection of the operating ratio portion of the revenue requirement of \$4,998 for water service and \$5,193 for wastewater service for the first year after implementation of this rate increase. While this reduced Phase I rate increase will be in effect for one year, the operating ratio discussed above will go into effect at the conclusion of the year, without further action by the Commission. The Phase II increase should be applied across the board to Phase I rates. These increased Phase II rates, including the operating ratio for water and wastewater service, will not be collected any sooner than 1 year after implementation of the Phase I rates.

Revenue Requirement

Based on an allowed 10 percent operating margin, Lakeside is entitled to annual increases of \$21,962 for water (56.59 percent), and \$28,499 for wastewater (88.57 percent). However, in accordance with the Joint Motion, Lakeside will forego the collection of the operating ratio portion of the revenue requirement of \$5,000 for water service and \$5,195 for wastewater service for the first year after implementation of this rate increase. As a result, Lakeside shall be

allowed to increase water rates by \$16,746 (43.15 percent), and wastewater rates by \$23,079 (71.73 percent) for one year (Phase I rates). After Phase I rates have been in place one year, Lakeside shall be allowed to increase its rates to incorporate the operating ratio portion of the revenue requirement. This results in an incremental increase for water of \$5,236 (9.42 percent) and an incremental increase for wastewater of \$5,440 (9.85 percent). The Phase I water and wastewater revenue increase calculations are shown below in Tables 10 and 11, respectively. The Phase II water and wastewater revenue increase calculations are shown in Tables 12 and 13, respectively.

Table 10 Water Revenue Requirement (Phase I)	
Adjusted O&M expense	\$50,001
Operating Ratio	10.00%
Operating Margin (Forgone per Joint Motion)	\$0
Adjusted O&M expense	\$50,001
Depreciation expense	3,344
Amortization	(490)
Taxes Other Than Income	2,697
Income Taxes	0
Revenue Requirement	\$55,552
Less Test Year Revenues	38,806
Annual Increase	\$16,746
Percent Increase	43.15%

Table 11	
Wastewater Revenue Requirement (Phase I)	
Adjusted O&M expense	\$51,947
Operating Ratio	10.00%
Operating Margin (Forgone per Joint Motion)	\$0
Adjusted O&M expense	51,947
Depreciation expense	902
Amortization	(278)
Taxes Other Than Income	2,684
Income Taxes	0
Revenue Requirement	\$55,255
Less Test Year Revenues	32,176
Annual Increase	\$23,079
Percent Increase	71.73%

Table 12 Water Revenue Requirement (Phase II)	
Adjusted O&M expense	\$50,001
Operating Ratio	10.00%
Operating Margin	\$5,000
Taxes Other Than Income	236
Income Taxes	0
Incremental Annual Increase	\$5,236
Incremental Percent Increase	9.42%

Table 13 Wastewater Revenue Requirement (Phase II)	
Adjusted O&M expense	\$51,947
Operating Ratio	10.00%
Operating Margin	\$5,195
Taxes Other Than Income	245
Income Taxes	0
Incremental Annual Increase	\$5,440
Incremental Percent Increase	9.85%

Rate Structures

Water Rates

Lakeside is located in Lake County within the SJRWMD. The Utility provides service to approximately 182 residential water customers; approximately 75 of the residential customers have an irrigation meter. The Utility was unable to distinguish the irrigation usage from the household usage during the test year. However, the new owner's billing system is able to make that distinction. Therefore, we relied on the 12 months ended June 30, 2014, for purposes of designing rates. The difference in water demand during the test year and the post test year is immaterial.

Approximately 21 percent of the residential bills during the post test year had zero gallons indicating a somewhat seasonal customer base. The average residential water demand is 3,553 gallons per month. The average residential water demand, excluding zero gallon bills, is 4,479 gallons per month. Currently, Lakeside's water system rate structure consists of a base facility charge (BFC) and gallonage charge for both residential and general service customers, and only a gallonage charge for residential irrigation customers.

We 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 our practice.

Based on the customers' low average monthly consumption and the seasonal nature of the customers, we find 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 2.15; 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. We approve a traditional BFC and gallonage charge rate structure with an additional gallonage charge for non-discretionary usage for residential water customers. Residential irrigation customers shall continue being billed only a gallonage charge. We previously found that the separate irrigation meter did not place any additional demand on the Utility's water system and irrigation customers should only be assessed the gallonage charge for the water usage registered by the separate irrigation meter.¹⁵ Based on our review of the post test year data, we find that this is still appropriate. General service customers and general service irrigation customers shall be billed a BFC and uniform gallonage charge.

¹⁵ See Order No. PSC-00-0259-PAA-WS, issued February 8, 2000, in Docket No. 990080-WS, *In re: Complaint and request for hearing by Linda J. McKenna and 54 petitioners regarding unfair rates and charges of Shangri-La by the Lake Utilities, Inc. in Lake County*, p. 28.

Based on billing data provided by the Utility and an assumption of 4,000 gallons per month of non-discretionary usage, approximately 40 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 approximately 43 percent, the residential discretionary consumption can be expected to decline by 780,000 gallons resulting in anticipated average residential demand of 4,031 gallons per month, excluding zero gallon bills. We shall approve a 10 percent reduction in total residential consumption and corresponding reductions of \$258 for purchased power, \$45 for chemicals, and \$14 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$55,235.

Based on the foregoing, find that 54 percent of the water revenues should be generated from the BFC. We also approve a traditional BFC and gallonage charge rate structure with an additional gallonage charge for non-discretionary usage threshold of 4,000 gallons for residential customers. Residential irrigation customers shall be billed only a gallonage charge. A 10 percent reduction in total residential consumption and corresponding reductions of \$258 for purchased power, \$45 for chemicals, and \$14 for RAFs shall be made to reflect the anticipated repression. General service customers and general service irrigation customers should continue to be billed a BFC and uniform gallonage charge. Our approved rate structure and resulting Phase I water rates are shown on Schedule Nos. 4-A and 4-B.

Wastewater Rates

The Utility provides wastewater service to approximately 176 residential customers. 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.

We 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 approved 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, our practice is to set the BFC allocation for wastewater to at least 50 percent due to the capital intensive nature of wastewater plants. Based on the seasonality of Lakeside's customers and the significant increase in the revenue requirement, we find that 50 percent of the revenue requirement should be generated from the BFC in order to mitigate the impact of the rate increase. In addition, based on the expected reduction in water demand described above, a repression adjustment shall 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 must also be adjusted.

Therefore, a repression adjustment for the discretionary water usage shall also be made to calculate wastewater rates. Based on the billing analysis for the wastewater system, discretionary usage shall be reduced by 136,864 gallons to reflect the anticipated reduction in water demand used to calculate wastewater rates. We approve a 2.88 percent reduction in total residential consumption and corresponding reductions of \$178 for purchased power, \$15 for chemicals, \$72 for sludge removal, and \$12 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$54,978. Further, there shall be 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 shall continue to be billed a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge.

Based on the foregoing, 50 percent of the wastewater revenues shall be generated from the BFC. The residential wastewater customers' rate structure shall consist of a BFC for all meter sizes, with a cap of 6,000 gallons. A 2.88 percent reduction in total residential consumption and corresponding reductions of \$178 for purchased power, \$15 for chemicals, \$72 for sludge removal, and \$12 for RAFs shall be made to reflect the anticipated repression. General service wastewater customers shall be billed a BFC and gallonage charge that is 1.2 times higher than the residential gallonage charge. The approved rate structure and the resulting Phase I wastewater rates are shown on Schedule Nos. 4-C and 4-D.

Rate Case Expense

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 \$617 (\$309 for water and \$309 for wastewater). Using Lakeside's current revenue, expenses, capital structure and customer base, the reduction in revenue will result in the rate decreases as shown on Schedule Nos. 4-B for water and 4-D for wastewater.

The Utility shall file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. Lakeside also shall 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 shall 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.

Initial Customer Deposits

Rule 25-30.311, F.A.C., provides the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the Utility and, ultimately, the general body of ratepayers. Historically, we have set initial customer deposits equal to two times the average estimated bill. Currently, the Utility's initial deposits are \$45 for water and \$55 for wastewater. Based on our approved rates, the

existing initial customer deposits are not sufficient to cover two months' bills for water and wastewater, respectively. Therefore, the existing initial customer deposit shall 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 the cost causer.

We find that the appropriate initial customer deposits to be \$55 and \$76 for the residential 5/8 inch x 3/4 inch meter size for water and wastewater, respectively. The initial customer deposits for all other residential meter sizes and all general service meter sizes shall be two times the average estimated bill for water and wastewater. Initial customer deposits shall 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 shall be required to collect the approved deposits until authorized to change them by this Commission in a subsequent proceeding.

Late Payment Charge

The Utility is requesting a \$5.25 late payment charge to recover the cost of supplies and labor associated with processing late payment notices. The Utility's request for a late payment charge was accompanied by its reason for requesting the charge, as well as the cost justification required by Section 367.091, F.S.

Since the late 1990s, we have approved late payment charges ranging from \$2.00 to \$7.00. The purpose of this charge is not only to provide an incentive for customers to make timely payment, thereby reducing the number of delinquent accounts, but also to place the cost burden of processing delinquent accounts solely upon those who are cost causers.

Upon review, we shall approve Lakeside's request to implement a \$5.25 late payment charge. Lakeside shall be required to file a proposed customer notice to reflect the approved charge. The approved charge shall be effective for services rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved charge 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.

Service Availability Charges

Service availability charges for Lakeside were last approved in Docket No. 940653-WS.¹⁶ The Utility is currently authorized to charge a meter installation charge of \$125. Rule 25-30.580, F.A.C., establishes guidelines for designing service availability charges. A main extension charge allows the Utility to recover a portion of the cost of the Utility's transmission and distribution system from future customers. Based on the average historical cost of the existing distribution system, we shall approve main extension charges per ERC of \$210 for water and \$131 for wastewater. Our approved main extension charge is consistent with the guidelines in

¹⁶ See Order No. PSC-96-0062-FOF-WS, issued January 12, 1996, Docket No. 940653-WS, *In re: Application for certificates to provide water and wastewater services in Lake County by Shangri-La by the Lake Utilities, Inc.*

Rule 25-30.580, F.A.C. 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.

Temporary Rates

By this Order, we approve 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, the rates shall be approved as temporary rates. Lakeside shall file revised tariff sheets and a proposed customer notice to reflect the approved rates which 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. In addition, the temporary rates shall not be implemented until our staff has approved the proposed notice, and the notice has been received by the customers. The rates collected by the Utility shall be subject to the refund provisions discussed below.

Lakeside shall be authorized to collect the temporary rates upon our staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security shall be in the form of a bond or letter of credit in the amount of \$33,650. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

If Lakeside chooses a bond as security, the bond shall contain wording to the effect that it will be terminated only under 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 chooses a letter of credit as a security, it must 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 must 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.
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 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 shall the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and shall be borne by, the Utility. Irrespective of the form of security chosen by Lakeside, an account of all monies received as a result of the rate increase shall be maintained by the Utility. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

Lakeside shall 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 shall file reports with the 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 shall also indicate the status of the security being used to guarantee repayment of any potential refund.

Uniform System of Accounts

To ensure that the Utility adjusts its books in accordance with our decision, Lakeside shall provide proof, within 90 days of the final order in this docket, that the adjustments for all applicable National Association of Regulatory Commissioners Uniform System of Accounts (NARUC USOA) primary accounts have been made.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the overall quality of service for Lakeside Waterworks, Inc.'s water and wastewater systems in Lake County is satisfactory. It is further,

ORDERED that Lakeside Waterworks, Inc.'s WTP is 40.5 percent U&U, its water storage facilities are considered 100 percent U&U, its WWTP is 16.8 percent U&U, and its water distribution and wastewater collection systems is 100 percent U&U. It is further,

ORDERED that the appropriate average test year rate base for Lakeside Waterworks, Inc. is \$30,811 for water and \$27,925 for wastewater. It is further,

ORDERED that Lakeside Waterworks, Inc.'s appropriate return on equity (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. It is further,

ORDERED that the approved test year revenues for Lakeside Waterworks, Inc. are \$38,806 for water and \$32,176 for wastewater. It is further,

ORDERED that the approved Phase I operating expense for Lakeside Waterworks, Inc. is \$55,552 for water and \$55,255 for wastewater, and the approved Phase II operating expense is \$55,788 for water and \$55,500 for wastewater. It is further,

ORDERED that, based on the operating ratio method, the revenue requirement for Lakeside Waterworks, Inc. shall be 10 percent of O&M expense for water and wastewater. As discussed in the body of Order, Lakeside Waterworks, Inc. will forego recovery of the operating margin for the first year the approved rates are in effect. It is further,

ORDERED that Lakeside Waterworks, Inc.'s appropriate Phase I revenue requirement is \$55,552 for water and \$55,255 for wastewater, resulting in an annual increase of \$16,746 for water (43.15 percent), and an annual increase of \$23,079 for wastewater (71.73 percent). It is further,

ORDERED that Lakeside Waterworks, Inc.'s appropriate Phase II incremental revenue increase is \$5,236 for water (9.42 percent) and the incremental revenue increase for wastewater is \$5,440 (9.85 percent). It is further,

ORDERED that the rate structures and Phase I rates for Lakeside Waterworks, Inc.'s water and wastewater systems are approved as shown in Schedule Nos. 4-A through 4-D. Lakeside Waterworks, Inc. shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. The approved rates shall be effective for services rendered on or after the stamped approval date on the tariff sheets. The approved rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers. Lakeside Waterworks, Inc. shall provide proof of the date notice was given within 10 days of the date of the notice. It is further,

ORDERED that Phase II rates shall be implemented one year after Phase I rates have been in place. The approved Phase II rates are shown in Schedule No. 5-A and 5-B. Lakeside Waterworks, Inc. shall file revised tariff sheets and a proposed customer notice to reflect the approved Phase II rates one month prior to the expiration of the Phase I rates. The approved rates shall be effective for services rendered on or after the stamped approval date on the tariff sheets. The approved rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers. Lakeside Waterworks, Inc. shall provide proof of the date notice was given within 10 days of the date of the notice.

ORDERED that Lakeside Waterworks, Inc.'s rates shall be reduced as shown on Schedule Nos. 4-B for water and 4-D for wastewater, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period. Lakeside Waterworks, Inc. shall 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 Lakeside Waterworks, 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 the reduction in the rates due to the amortized rate case expense. It is further

ORDERED that initial customer deposits for Lakeside Waterworks, Inc. shall be \$55 and \$76 for the residential 5/8 inch x 3/4 inch meter size for water and wastewater, respectively. The initial customer deposits for all other residential meter sizes and all general service meter sizes shall be two times the average estimated bill for water and wastewater. The initial customer deposits shall be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets. Lakeside Waterworks, Inc. is required to collect the approved deposits until authorized by this Commission to change them. It is further

ORDERED that Lakeside Waterworks, Inc.'s request to implement a \$5.25 late payment charge is hereby approved subject to the requirements set forth in the body of this Order. It is further,

ORDERED that Lakeside Waterworks, Inc.'s existing service availability charges are hereby revised and shall reflect a main extension charge per ERC of \$210 for water and \$131 for wastewater. 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, subject to the requirements set forth in the body of this Order, rates are hereby approved for Lakeside Waterworks, Inc., on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than Lakeside Waterworks, Inc. It is further,

ORDERED that Lakeside Waterworks, Inc. shall 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. 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 shall be issued. The docket shall remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by our staff, and that the adjustments for all applicable NARUC USOA primary accounts have been made. Once these actions are complete for Phases I and II, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 2nd day of January, 2015.



HONG WANG
Chief Deputy 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.

CWM

COMMISSIONER JULIE I. BROWN DISSENTS FROM THIS DECISION WITHOUT
OPINION

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 granting of temporary rates in the event of a protest and proof of adjustments, 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 January 23, 2015. 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.

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	ADJUSTMENTS TO UTIL. BAL.	BALANCE AFTER ADJUSTMENTS
UTILITY PLANT IN SERVICE	\$138,299	(\$251)	\$138,048
LAND & LAND RIGHTS	0	0	0
NON-USED AND USEFUL COMPONENTS	0	(6,595)	(6,595)
CIAC	(13,776)	0	(13,776)
ACCUMULATED DEPRECIATION	(106,153)	7,209	(98,944)
AMORTIZATION OF CIAC	5,830	0	5,830
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>6,250</u>	<u>6,250</u>
WATER RATE BASE	<u>\$24,200</u>	<u>\$6,613</u>	<u>\$30,813</u>

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	ADJUST. TO UTIL. BAL.	BALANCE AFTER ADJUSTMENTS
1. UTILITY PLANT IN SERVICE	\$147,414	(\$1,598)	\$145,817
2. LAND & LAND RIGHTS	0	0	0
3. NON-USED AND USEFUL COMPONENTS	0	(24,821)	(24,821)
4. CIAC	(18,257)	0	(18,257)
5. ACCUMULATED DEPRECIATION	(95,725)	8,322	(87,404)
6. AMORTIZATION OF CIAC	11,929	(5,830)	6,099
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>6,493</u>	<u>6,493</u>
8. WASTEWATER RATE BASE	<u>\$45,361</u>	<u>(\$17,433)</u>	<u>\$27,928</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 net pro forma plant repairs	<u>3,512</u>	<u>923</u>	
Total	<u>(\$251)</u>	<u>(\$1,598)</u>	
<u>LAND</u>			
Not applicable	<u>\$0</u>	<u>\$0</u>	
<u>NON-USED AND USEFUL PLANT</u>			
1. To reflect non-used and useful plant	(\$30,388)	(\$68,885)	
2. To reflect non-used and useful accumulated depreciation	<u>23,793</u>	<u>44,065</u>	
Total	<u>(\$6,595)</u>	<u>(\$24,821)</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 pro forma plant repairs	<u>5,277</u>	<u>2,522</u>	
Total	<u>\$7,209</u>	<u>\$8,322</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>\$6,250</u>	<u>\$6,493</u>	

Lakeside Waterworks, Inc. TEST YEAR ENDED 6/30/2013 SCHEDULE OF CAPITAL STRUCTURE		SCHEDULE NO. 2 DOCKET NO. 130194-WS						
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE AFTER ADJUSTMENTS	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$181,898	\$0	\$181,898					
2. RETAINED EARNINGS	0	0	0					
3. PAID IN CAPITAL	0	0	0					
4. TREASURY STOCK	0	0	0					
5. TOTAL COMMON EQUITY	\$181,898	\$0	\$181,898	(\$123,157)	\$58,741	100.00%	8.74%	8.74%
6. LONG TERM DEBT	\$0	\$0	\$0	0	0	0.00%	0.00%	0.00%
7. LONG TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%
TOTAL LONG TERM DEBT	\$0	\$0	\$0	0	0	0.00%		
8. CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	0.00%	0.00%
9. TOTAL	<u>\$181,898</u>	<u>\$0</u>	<u>\$181,898</u>	<u>(\$123,157)</u>	<u>\$58,741</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.				SCHEDULE NO. 3-A (Phase I)	
TEST YEAR ENDED 6/30/2013				DOCKET NO. 130194-WS	
SCHEDULE OF WATER OPERATING INCOME					
	TEST YEAR PER UTILITY	ADJUSTMENTS	ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$38,080</u>	<u>\$726</u>	<u>\$38,806</u>	<u>\$16,746</u> 43.15%	<u>\$55,552</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$40,439	\$9,562	\$50,001	\$0	\$50,001
3. DEPRECIATION (NET)	1,932	1,412	3,344	0	3,344
4. AMORTIZATION	0	(490)	(490)	0	(490)
5. TAXES OTHER THAN INCOME	1,987	(43)	1,944	754	2,697
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>\$10,440</u>	<u>\$54,798</u>	<u>\$754</u>	<u>\$55,552</u>
8. OPERATING MARGIN	<u>\$0</u>		<u>\$0</u>		<u>\$0 (Forgone per Joint Motion)</u>
9. WATER RATE BASE	<u>\$24,200</u>	<u>\$6,613</u>	<u>\$30,813</u>		<u>\$30,813</u>
10. OPERATING RATIO					<u>10.00%</u>

Lakeside Waterworks, Inc.					SCHEDULE NO. 3-B (Phase I)	
TEST YEAR ENDED 6/30/2013					DOCKET NO. 130194-WS	
SCHEDULE OF WASTEWATER OPERATING INCOME						
	TEST YEAR PER UTILITY	ADJUSTMENTS	ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	<u>\$31,949</u>	<u>\$227</u>	<u>\$32,176</u>	<u>\$23,079</u> 71.73%	<u>\$55,255</u>	
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$34,390	\$17,557	\$51,947	\$0	\$51,947	
3. DEPRECIATION (NET)	6,068	(5,167)	902	0	902	
4. AMORTIZATION	0	(278)	(278)	0	(278)	
5. TAXES OTHER THAN INCOME	1,706	(61)	1,645	1,039	2,684	
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>\$12,052</u>	<u>\$54,216</u>	<u>\$1,039</u>	<u>\$55,255</u>	
8. OPERATING MARGIN	<u>\$0</u>		<u>\$0</u>		<u>\$0 (Forgone per Joint Motion)</u>	
9. WASTEWATER RATE BASE	<u>\$45,361</u>	<u>(\$17,433)</u>	<u>\$27,928</u>		<u>\$27,928</u>	
10. OPERATING RATIO					<u>10.00%</u>	

Lakeside Waterworks, Inc.		SCHEDULE NO. 3-A (Phase II)				
TEST YEAR ENDED 6/30/2013		DOCKET NO. 130194-WS				
SCHEDULE OF WATER OPERATING INCOME						
	APPROVED PHASE I AMOUNTS	PHASE II ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	<u>\$55,552</u>	<u>\$0</u>	<u>\$55,552</u>	<u>\$5,236</u> 9.42%	<u>\$60,788</u>	
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$50,001	\$0	\$50,001	\$0	\$50,001	
3. DEPRECIATION (NET)	3,344	\$0	3,344	0	3,344	
4. AMORTIZATION	(490)	\$0	(490)	0	(490)	
5. TAXES OTHER THAN INCOME	2,697	\$0	2,697	236	2,933	
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
7. TOTAL OPERATING EXPENSES	<u>\$55,552</u>	<u>\$236</u>	<u>\$55,788</u>	<u>\$0</u>	<u>\$55,788</u>	
8. OPERATING MARGIN	<u>\$0</u>	<u>\$5,000</u>	<u>\$5,000</u>		<u>\$5,000</u>	
9. WATER RATE BASE	<u>\$30,813</u>		<u>\$30,813</u>		<u>\$30,813</u>	
10. OPERATING RATIO	<u>10.00%</u>				<u>10.00%</u>	

Lakeside Waterworks, Inc.		SCHEDULE NO. 3-B (Phase II)				
TEST YEAR ENDED 6/30/2013		DOCKET NO. 130194-WS				
SCHEDULE OF WASTEWATER OPERATING INCOME						
	APPROVED PHASE I AMOUNTS	PHASE II ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	<u>\$55,255</u>	<u>\$0</u>	<u>\$55,255</u>	<u>\$5,440</u> 9.85%	<u>\$60,695</u>	
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$51,947	\$0	\$51,947	\$0	\$51,947	
3. DEPRECIATION (NET)	902	0	902	0	902	
4. AMORTIZATION	(278)	0	(278)	0	(278)	
5. TAXES OTHER THAN INCOME	2,684	0	2,684	245	2,929	
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
7. TOTAL OPERATING EXPENSES	<u>\$55,255</u>	<u>\$0</u>	<u>\$55,255</u>	<u>\$245</u>	<u>\$55,500</u>	
8. OPERATING MARGIN	<u>\$0</u>	<u>\$5,195</u>	<u>\$5,195</u>		<u>\$5,195</u>	
9. WASTEWATER RATE BASE	<u>\$45,361</u>	<u>(\$17,433)</u>	<u>\$27,928</u>		<u>\$27,928</u>	
10. OPERATING RATIO					<u>10.00%</u>	

Lakeside Waterworks, Inc.

TEST YEAR ENDED 6/30/2013

ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-C
DOCKET NO. 130194-WS

	<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>51</u>	<u>1307</u>
Subtotal	<u>\$790</u>	<u>\$2,643</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)		
To reflect the appropriate Chemicals expense (AF5)	<u>\$201</u>	<u>\$116</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 5/31/2013
ADJUSTMENTS TO OPERATING INCOME
(O & M EXPENSES CONTINUED)

SCHEDULE NO. 3-C
DOCKET NO. 130194-WS

	<u>WATER</u>	<u>WASTEWATER</u>
8. Contractual Services – Professional (631/731)		
a. To reflect reclassified expense from 632 (AF5)	(\$1,250)	\$0
b. To reflect reclassified expense from 633/733 (AF5)	0	1,286
c. To reflect the appropriate expense (AF5)	(2,448)	0
d. To reflect the amortization of CAD mapping	0	280
e. To reflect the appropriate legal expenses	<u>(2,511)</u>	<u>(2,534)</u>
Subtotal	<u>(\$6,209)</u>	<u>(\$968)</u>
9. Contractual Services - Other (636/736)		
a. To reflect reclassified expenses from 630/730	\$2,030	\$18,230
b. To reflect the appropriate expense	(\$2,030)	(18,230)
c. To reflect the U.S. Water management services agreement	<u>\$19,938</u>	<u>\$30,096</u>
Subtotal	<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 (\$2,469/4)	<u>\$309</u>	<u>\$309</u>
13. Bad Debt Expense (670/770)		
To reflect the appropriate bad debt expense	<u>(\$462)</u>	<u>(\$191)</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)	<u>\$0</u>	<u>(\$19)</u>

Lakeside Waterworks, Inc.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 5/31/2013		DOCKET NO. 130194-WS	
ADJUSTMENTS TO OPERATING INCOME			
(O & M EXPENSES CONTINUED)			
	<u>WATER</u>	<u>WASTEWATER</u>	
TOTAL O & M EXPENSE ADJUSTMENTS	<u>\$9,545</u>	<u>\$17,540</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 of pro forma plant	312	116	
3. To reflect the depreciation of non-used and useful plant	<u>(\$1,760)</u>	<u>(\$1,350)</u>	
Total	<u>\$1,412</u>	<u>(\$5,167)</u>	
AMORTIZATION OF CIAC			
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>	
INCOME TAX			
Income Tax per Staff	<u>\$0</u>	<u>\$0</u>	

Lakeside Waterworks, Inc.		SCHEDULE NO. 3-D	
TEST YEAR ENDED 5/31/2013		DOCKET NO. 130194-WS	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	ADJUSTMENT	TOTAL AFTER ADJUSTMENT
(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	790	2,706
(616) FUEL FOR POWER PRODUCTION	437	(108)	329
(618) CHEMICALS	269	201	470
(620) MATERIALS AND SUPPLIES	1,767	(926)	841
(630) CONTRACTUAL SERVICES - BILLING	2,030	(2,030)	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	6,318	(6,209)	109
(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	309	309
(670) BAD DEBT EXPENSE	865	(462)	403
(675) MISCELLANEOUS EXPENSES	<u>1,480</u>	<u>(433)</u>	<u>1,047</u>
	<u>\$40,439</u>	<u>\$9,562</u>	<u>\$50,001</u>

Lakeside Waterworks, Inc.		SCHEDULE NO. 3-E	
TEST YEAR ENDED 5/31/2013		DOCKET NO. 130194-WS	
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	ADJUSTMENT	TOTAL AFTER ADJUSTMENT
(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	2,643	6,162
(718) CHEMICALS	404	116	520
(720) MATERIALS AND SUPPLIES	77	63	140
(730) CONTRACTUAL SERVICES - BILLING	18,230	(18,230)	0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	1,334	(968)	366
(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	309	309
(770) BAD DEBT EXPENSE	638	(191)	447
(775) MISCELLANEOUS EXPENSES	<u>2,273</u>	<u>(2,088)</u>	<u>185</u>
	<u>\$34,390</u>	<u>\$17,557</u>	<u>\$51,947</u>

LAKESIDE WATERWORKS, INC. TEST YEAR ENDED 6/30/13		SCHEDULE NO. 4-A DOCKET NO. 130194-WS	
LAKESIDE WATERWORKS, INC. COMMISSION APPROVED WATER RATE STRUCTURES AND RATES			
Test Year Rate Structure and Rates		Approved Rate Structure and Rates	
BFC/ gallonage rate structure BFC generated from current rates = 54%		BFC/ gallonage rate structure BFC = 54%	
BFC	\$12.96	BFC	\$12.44
All Gallons	\$1.23	0-4 kgal (non-discretionary)	\$3.13
		Over 4 kgal	\$4.06
Typical Monthly Bills		Typical Monthly Bills	
Consumption (kgals)		Consumption (kgals)	
0	\$12.96	0	\$12.44
1	\$14.19	1	\$15.57
2	\$15.42	2	\$18.70
3	\$16.65	3	\$21.83
4	\$17.88	4	\$24.96
5	\$19.11	5	\$29.02
6	\$20.34	6	\$33.08
10	\$25.26	10	\$49.32

LAKESIDE WATERWORKS, INC.		SCHEDULE NO. 4-B	
TEST YEAR ENDED 6/30/13		DOCKET NO. 130194-WS	
MONTHLY WATER RATES			
	UTILITY EXISTING RATES*	COMMISSION APPROVED RATES*	4 YEAR RATE REDUCTION
<u>Residential, General Service, and Irrigation</u>			
Base Facility Charge by Meter Size			
5/8" X 3/4"	\$12.96	\$12.44	\$0.08
3/4"	\$19.45	\$18.66	\$0.12
1"	\$32.42	\$31.10	\$0.20
1-1/2"	\$64.83	\$62.20	\$0.40
2"	\$103.73	\$99.52	\$0.64
3"	\$207.45	\$199.04	\$1.27
4"	\$324.16	\$311.00	\$1.99
6"	\$648.30	\$622.00	\$3.98
*Residential irrigation customers do not pay a base facility charge.			
Charge per 1,000 Gallons - Residential and Residential Irrigation			
All Gallons	\$1.23		
0 - 4,000 Gallons		\$3.13	\$0.02
Over 4,000 Gallons		\$4.06	\$0.03
Charge per 1,000 Gallons – General Service and General Service Irrigation	\$1.23	\$3.44	\$0.02
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
4,000 Gallons	\$17.88	\$24.96	
6,000 Gallons	\$20.34	\$33.08	
10,000 Gallons	\$25.26	\$49.32	

LAKESIDE WATERWORKS, INC. TEST YEAR ENDED 6/30/13		SCHEDULE NO. 4-C DOCKET NO. 130194-WS	
LAKESIDE WATERWORKS, INC. COMMISSION APPROVED WASTEWATER RATE STRUCTURES AND RATES			
Test Year Rate Structure and Rates		Approved Rate Structure and Rates	
Monthly BFC/uniform kgals charge BFC generated from current rates = 50%		Monthly BFC/uniform kgals charge BFC = 50%	
BFC	\$10.01	BFC	\$13.02
per 1 kgal	\$2.46	per 1 kgal	\$5.61
(6 kgal cap)		(6 kgal cap)	
Typical Monthly Bills		Typical Monthly Bills	
Consumption (kgals)		Consumption (kgals)	
0	\$10.01	0	\$13.02
1	\$12.47	1	\$18.63
2	\$14.93	2	\$24.24
3	\$17.39	3	\$29.85
4	\$19.85	4	\$35.46
5	\$22.31	5	\$41.07
6	\$24.77	6	\$46.68
10	\$24.77	10	\$46.68

LAKESIDE WATERWORKS, INC.		SCHEDULE NO. 4-D	
TEST YEAR ENDED 6/30/13		DOCKET NO. 130194-WS	
MONTHLY WASTEWATER RATES			
	UTILITY EXISTING RATES	COMMISSION APPROVED PHASE I RATES	4 YEAR RATE REDUCTION
<u>Residential</u>			
Base Facility Charge - All Meter Sizes	\$10.01	\$13.02	\$0.08
Charge per 1,000 Gallons- Residential *6,000 gallon cap	\$2.46	\$5.61	\$0.04
<u>General Service</u>			
Base Facility Charge by Meter Size:			
5/8"X3/4"	\$10.01	\$13.02	\$0.08
3/4"	\$15.02	\$19.53	\$0.13
1"	\$25.05	\$32.55	\$0.21
1-1/2"	\$50.08	\$65.10	\$0.42
2"	\$80.14	\$104.16	\$0.68
3"	\$160.26	\$208.32	\$1.35
4"	\$250.41	\$325.50	\$2.12
6"	\$500.84	\$651.00	\$4.23
Charge per 1,000 Gallons - General Service	\$2.95	\$6.74	\$0.04
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
4,000 Gallons	\$19.85	\$35.46	
6,000 Gallons	\$24.77	\$46.68	
10,000 Gallons	\$24.77	\$46.68	

LAKESIDE WATERWORKS, INC.		SCHEDULE NO. 5-A	
TEST YEAR ENDED 6/30/13		DOCKET NO. 130194-WS	
MONTHLY WATER RATES			
	COMMISSION APPROVED PHASE I RATES*	COMMISSION APPROVED PHASE II RATES*	
<u>Residential, General Service, and Irrigation</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$12.44	\$13.61	
3/4"	\$18.66	\$20.42	
1"	\$31.10	\$34.03	
1 1/2"	\$62.20	\$68.05	
2"	\$99.52	\$108.88	
3"	\$199.04	\$217.76	
4"	\$311.00	\$340.25	
6"	\$622.00	\$680.50	
* Residential irrigation customers do not pay a base facility charge			
Charge per 1,000 gallons - Residential and Residential Irrigation			
0 - 4,000 Gallons	\$3.13	\$3.43	
Over 4,000 Gallons	\$4.06	\$4.44	
Charge per 1,000 gallons - General Service	\$3.44	\$3.76	
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
4,000 Gallons	\$24.96	\$27.33	
6,000 Gallons	\$33.08	\$36.21	
10,000 Gallons	\$49.32	\$53.97	

LAKESIDE WATERWORKS, INC. TEST YEAR ENDED 6/30/13 MONTHLY WASTEWATER RATES		SCHEDULE NO. 5-B DOCKET NO. 130194-WS	
	COMMISSION APPROVED PHASE I RATES	COMMISSION APPROVED PHASE II RATES	
<u>Residential</u>			
Base Facility Charge - All Meter Sizes	\$13.02	\$14.30	
Charge per 1,000 Gallons - Residential *6,000 gallon cap	\$5.61	\$6.16	
<u>General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$13.02	\$14.30	
3/4"	\$19.53	\$21.45	
1"	\$32.55	\$35.75	
1 1/2"	\$65.10	\$71.50	
2"	\$104.16	\$114.40	
3"	\$208.32	\$228.80	
4"	\$325.50	\$357.50	
6"	\$651.00	\$715.00	
Charge per 1,000 Gallons - General Service	\$6.74	\$7.40	
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
4,000 Gallons	\$35.46	\$38.94	
6,000 Gallons	\$46.68	\$51.26	
10,000 Gallons	\$46.68	\$51.26	