

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: July 21, 2017

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Accounting and Finance (Cicchetti, D. Buys, Richards) *DB*
Division of Economics (Friedrich, Hudson) *MF*
Division of Engineering (Ellis, Wooten) *FOE* *OW* *Q* *CS*
Office of the General Counsel (Murphy) *TM* *CM* *T3*

RE: Docket No. 20160222-WS – Application for staff-assisted rate case in Highlands County by LP Waterworks, Inc.

AGENDA: 08/03/17 – Regular Agenda – Proposed Agency Action – Except Issue Nos. 9, 13, and 14 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Polmann

CRITICAL DATES: 01/22/2018 (15-Month Statutory Deadline (SARC))

SPECIAL INSTRUCTIONS: None

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Case Background

LP Waterworks, Inc. (LP or Utility) is Class C water and wastewater utility serving approximately 444 water and 389 wastewater residential customers in the Camp Florida Resort RV Park (RV Park or Park) in Highlands County. The Utility also serves 21 water and 18 wastewater general service customers in Highlands County. The customer base is comprised of single-family homes, mobile homes, and RV sites. LP's service territory is located in the water use caution area of the Southwest Florida Water Management District (SWFWMD).

The Florida Public Service Commission (Commission) ordered that the transfer of Certificate Nos. 620-W and 533-S from LP Utilities Corporation to LP Waterworks, Inc., was in the public interest and was approved, in March 2014.¹ The Utility's rate base was last established in its 2013 staff assisted rate case (SARC) settlement with the Office of Public Counsel (OPC) by Order No. PSC 2014-0413-PAA-WS.² The water and wastewater rate increase was implemented in two phases. Phase I recovered only the recommended operation and maintenance expenses, property taxes, and regulatory assessment fee (RAF) expense. Phase II rates included the recovery of the Utility's return on rate base, including the modified water and wastewater pro forma plant additions, depreciation net of amortization, and recovery of the approved operation and maintenance expenses, property taxes, and RAF expense. The Utility agreed not to file a new rate case before one year after implementation of the Phase II rate increase. Phase II rates were implemented September 5, 2015.

In its application for the instant SARC, the Utility is requesting that a test year ended August 31, 2016, be used. In addition, LP is requesting the opportunity to recover all prudent expenses the Utility will incur on a going-forward basis, and generate a fair rate of return on its investments in all property considered used and useful in the public service. LP reports investing \$45,379 in water plant and \$70,034 in wastewater plant during the years 2014 and 2015. Furthermore, the Utility is requesting pro forma plant additions and recovery of the cost of manhole rehabilitation and repair which occurred in October 2016. In the Utility's application, it noted that another contributing factor for the need to request a SARC at this time is the significant decrease in water consumption.

The Commission has jurisdiction in this case pursuant to Sections 367.081(8), 367.0812, 367.0814, and 367.091, Florida Statutes, (F.S.).

¹Order No. PSC-2014-0130-PAA-WS, issued March 17, 2014, in Docket No. 20130055-WS, *In re: Application for approval of transfer of LP Utilities Corporation's water and wastewater systems and Certificate Nos. 620-W and 533-S, to LP Waterworks, Inc., in Highlands County.*

²Order No. PSC-2014-0413-PAA-WS, issued August 14, 2014, in Docket No. 20130153-WS, *In re: Application for staff-assisted rate case in Highlands County, by L.P. Utilities Corporation c/o LP Waterworks, Inc.*

Discussion of Issues

Issue 1: Is the quality of service provided by LP Waterworks, Inc. satisfactory?

Recommendation: Yes. Staff recommends that the overall quality of service provided by the Utility be considered satisfactory. (Wooten)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in water rate cases, the Commission shall determine the overall quality of service provided by the Utility. This is derived from an evaluation of three separate components of the Utility operations. These components are the quality of the Utility's product, the operating conditions of the Utility's plant and facilities, and the Utility's attempt to address customer satisfaction. The Rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with the Florida Department of Environmental Protection (DEP) and the county health department over the preceding three-year period shall be considered. In addition, input from DEP and health department officials and customer comments or complaints over the preceding five-year period shall be considered pursuant to Section 367.0812(1)(c), F.S.

The Utility is located in the water use caution area of the SWFWMD. A significant portion of LP's residential customer base is seasonal.

Quality of Utility's Product

In evaluation of LP's product quality, staff reviewed the Utility's compliance with DEP primary and secondary drinking water standards. Primary standards protect public health while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water. Staff reviewed the chemical analysis of samples dated May 27, 2015. All of the contaminants were below the maximum contaminant level set by DEP. However, in December 2015, there was a lead warning issued by the Utility because of failed lead testing results from DEP. The Utility completed corrosion control treatment for lead in April 2016, and was in compliance with DEP as of January 13, 2017.

Operating Condition of the Utility's and Facilities

The Utility's water treatment system has two wells. One well is rated at 850 gallons per minute (gpm) and the second well is rated at 350 gpm. LP's water system has two ground storage tanks totaling 25,000 gallons in capacity. There are two fire hydrants located in the service area. The distribution system is comprised of varying sizes of PVC pipes. The Utility only provides wastewater service to a portion of its service territory, which primarily serves seasonal customers, with peak flows from January through March. Staff reviewed the Utility's last DEP Sanitary Survey, dated November 28, 2016, and the facility was determined to be in compliance.

The Utility's Attempt to Address Customer Satisfaction

On April 18, 2017, a customer meeting was held at the Lake View Clubhouse within the Utility's service territory to receive customer comments concerning quality of service. There were approximately 51 customers in attendance, 19 of which made comments. The majority of the comments related to improper billing and a single customer had service quality concerns about notices of lead on their bills.

Staff requested a response from the Utility about the customer concerns regarding the notice on customer bills regarding an elevated lead presence in the drinking water in some of the homes and buildings. The Utility responded that due to a previously failed compliance test that DEP required the notice be placed on customers' bills. The Utility stated that it was now in compliance, but the notice had to remain on the bills for a set time period. Upon contacting DEP, staff determined that the Utility was currently in compliance and the issue had been resolved.

Staff confirmed with DEP that DEP received no complaints about the Utility in regards to either water or wastewater during the past five years. Staff reviewed all complaints filed with the Commission and determined that the Utility has resolved all of the complaints tracked by the Commission. The Commission's Consumer Activity Tracking System recorded 12 complaints during the past five years related to billing. All complaints were resolved in a timely manner.

Conclusion

The Utility has taken reasonable actions to comply with DEP's regulations and to address customer concerns. Staff recommends that the overall quality of service provided by the Utility be considered satisfactory.

Date: July 21, 2017

Issue 2: What are the used and useful percentages (U&U) of LP Waterworks, Inc. water treatment plant (WTP), water storage, wastewater treatment plant (WWTP), and distribution and collection systems?

Recommendation: The Utility's WTP, WWTP, water storage, water distribution system and wastewater collection system should all be considered 100 percent U&U. Staff recommends a 24 percent adjustment to purchased power and chemical expenses be made for excessive unaccounted for water. (Wooten)

Staff Analysis: LP's water treatment system has two wells. One well is rated at 850 gpm and the second well is rated at 350 gpm. The Utility's water system has two ground storage tanks totaling 25,000 gallons in capacity. There are two fire hydrants located in the service area. The distribution system is comprised of varying sizes of PVC pipes. The Utility's wastewater treatment plant is permitted by the DEP as a 50,000-gallon per day (gpd) annual average daily flow facility. According to the Utility, the wastewater collection system is comprised of 9,313 feet of PVC collection mains of varying sizes and 918 feet of force mains. There are 47 manholes present throughout the service area.

Excessive Unaccounted for Water

Rule 25-30.4325, F.A.C., defines Excessive Unaccounted for Water (EUW) as unaccounted for water in excess of 10 percent of the amount produced. Unaccounted for water is all water produced that is not sold, metered or accounted for in the records of the Utility. In determining whether adjustments to plant and operating expenses are necessary in accordance with Rule 25-30.4325(10), F.A.C., staff considers several factors. These include the causes of EUW, any corrective action taken, or the economical feasibility of a proposed solution. EUW is calculated by subtracting both the gallons sold to customers and the gallons used for other services, such as flushing, from the total gallons pumped for the test year.

The Monthly Operating Reports that the Utility files with DEP, indicate that the Utility treated 16,285,500 gallons during the test year. In response to a staff data request, the Utility indicated that it purchased no water and used 1,428,000 gallons for other uses during the test year. According to the staff audit report, the Utility sold 9,299,000 gallons of water for the test year. When both the gallons sold and water used for other uses is subtracted from the total gallons pumped, there are 5,558,500 gallons of unaccounted for water. The formula for unaccounted for water is given by gallons of unaccounted for water / (total gallons pumped + gallons purchased). The resulting unaccounted for water is 34 percent and the excessive unaccounted for water is 24 percent. Accordingly, staff recommends an adjustment to purchased power and chemical expenses due to 24 percent EUW.

Infiltration and Inflow

Rule 25-30.432, F.A.C., provides that in determining the amount of U&U plant, the Commission will consider Infiltration & Inflow (I&I). Infiltration typically 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 gpd per inch diameter pipe per mile, and an additional 10 percent of water sold is allowed for inflow. In addition, adjustments to operating expenses, such as chemical and electrical costs, are considered necessary if excessive. Excessive I&I is a

calculation that is based on a comparison of the allowable wastewater treated to the actual amount of wastewater treated.

Using the pipe lengths of the Utility's collection system, the infiltration allowance is calculated to be 3,761,436 gallons per year. Ten percent of the total gallons sold to customers is allowed for inflow, which totals 929,900 gallons. The total I&I allowance is then calculated as 4,691,336 gallons per year.

The amount of wastewater expected to be returned from the system is calculated. This figure is determined by summing 80 percent of water sold to residential users with 90 percent of water sold to non-residential users. The amount calculated for expected return is 7,692,300 gallons per year. In order to find the total amount of wastewater allowed, the I&I allowance and the expected return are summed, yielding 12,383,636 gallons per year. Finally, this total is compared to the total wastewater actually treated during the test year, which in this case is 9,289,000 gallons. The actual amount does not exceed the allowable amount, therefore, there is no excessive I&I.

Water Treatment Plant

LP's water service territory covers approximately 125 acres. The WTP is a closed system with two wells and permitted capacity at 200,000 gallons per day. There are two fire hydrants located in the service area which must meet a minimum of 500 gallons per minute for a four-hour period of time. In the previous rate case, Docket No. 20130153-WS the water treatment facility was determined to be 100 percent U&U.³ Staff evaluated the circumstances and determined that there has been no change and the system should still be considered 100 percent U&U.

Water Distribution System and Storage

The distribution system is evaluated based on equivalent residential connections (ERCs) consisting of customer demand, growth and system capacity. The customer demand is the sum of the 499 ERCs (444 residential ERCs plus 21 general service customers equal to 55 ERCs) for the 2016 test year, and a growth of 8 ERCs over the statutory five-year period. System capacity is 519 ERCs. This is a calculated 98 percent U&U, but as the system appears built out, it should be considered 100 percent U&U. The Utility has two useable storage tanks with a total capacity of 25,000 gallons. Rule 25-30.4325(8), F.A.C., states that usable storage capacity less than or equal to the peak day demand shall be considered 100 percent used and useful. The peak day demand was found to be 125,000 gallons per day. The storage should be considered 100 percent U&U.

Wastewater Treatment Plant

The Utility only provides wastewater service to a portion of its service territory, and serves seasonal customers which have peak flows from January through March. The formula for calculating U&U for the WWTP is (average daily flow + growth – excessive I&I) / permitted plant capacity. The average daily flow for the Utility is 48,032 gallons per day. There is no excessive I&I and no growth based on a linear regression. The permitted capacity of the plant is 50,000 gallons per day. Based on this calculation, WWTP is 96 percent U&U. However, as is

³Order No. PSC-2014-0474-CO-WS, issued September 8, 2014, in Docket No. 20130153-WS, *In re: Application for staff-assisted rate case in Highlands County.*

consistent with prior Commission practice when a system is calculated over 95 percent U&U, staff recommends that the WWTP be considered 100 percent U&U.⁴

Wastewater Collection System

LP's wastewater service territory provides wastewater service to customers within park boundaries. Using the linear regression formula, there is no estimated growth over the next statutory five-year growth period. As there has been no significant customer growth and the system is built out as established in the previous SARC (Docket No. 20130153-WS), staff recommends the wastewater collection system still be considered 100 percent U&U.

Conclusion

The Utility's WTP, WWTP, water storage, water distribution system, and wastewater collection system should all be considered 100 percent U&U. Staff recommends a 24 percent adjustment to purchased power and chemical expenses be made for EUW.

⁴Order No. PSC-2012-0357-PAA-WU, issued July 10, 2012, in Docket No. 20100048-WU, *In re: Application for increase in water rates in Marion County by Sunshine Utilities of Central Florida, Inc.*

Issue 3: What is the appropriate simple average rate base for the test year ended August 31, 2016 for LP Waterworks, Inc.?

Recommendation: The appropriate simple average rate base for the test year ended August 31, 2016 is \$109,264 for water and \$162,724 for wastewater. (Richards, Wooten)

Staff Analysis: The appropriate components of the Utility's rate base include utility plant in service, land, accumulated depreciation, contributions-in-aid-of-construction (CIAC), amortization of CIAC, and working capital. The last proceeding that established balances for rate base was Docket No. 20130153-WS. Staff selected the test year ended August 31, 2016, for the instant rate case. A summary of each component and staff's recommended adjustments are explained below.

Utility Plant in Service (UPIS)

The Utility recorded \$527,435 for water and \$441,119 for wastewater. In a response to a staff data request, the Utility stated that "all repairs and/or replacements below the \$400 limit are covered in the annual contract with [U.S. Water Services Corporation]." Therefore, only pro forma items costing more than \$400 were included in the pro forma plant balance. Pro forma projects over \$400 for water and wastewater are listed below in Table 3-1. Staff's adjustments to UPIS are identified in Table 3-2 below.

Audit Finding Adjustments

The Utility recorded an invoice for control panel and pumps in 2014 for \$18,477 in Account 371; however there was no retirement associated with this invoice. Staff made an adjustment of \$13,858 to reflect this retirement (75 percent). Additionally, the Utility recorded an invoice for replacing diffusers in the wastewater tanks in June 2015, for \$4,571 in Account 380 but inadvertently did not record a related retirement. Staff made an adjustment of \$3,428 to reflect this retirement (75 percent).

Pro Forma Plant Additions

The Utility was required to perform an emergency rehabilitation of a sewer line due to a leaking manhole which caused a customer's yard to sink around the manhole. The Utility installed a new surge pump and replaced the contactor and overload protector in the surge pump control panel. These repairs were necessary to maintain proper operation of the wastewater treatment plant. The Utility also performed an emergency replacement of the chlorine injector to maintain the required disinfection and chlorine residual to preserve water quality. As these were emergency repairs, the procurement of three bids was not necessary per Commission practice. Repair of the wash-down well in the wastewater treatment plant was also included by LP as a pro forma addition. The wash-down well is a necessary component in the wastewater treatment process and the repairs were made pursuant to the existing Operations and Maintenance Agreement with U.S. Water Services Corporation. The values in Table 3-1 are from the final invoices for the pro forma projects. As shown in Table 3-1 below, staff made a net adjustment increasing UPIS by \$279 and \$9,544 for water and wastewater pro forma plant additions, respectively.

**Table 3-1
 Pro Forma Plant Additions**

Project	Acct. No.	Description	Amount	
			Water	Wastewater
Manhole Repair	354	Materials, Labor and Equipment for Sanitary Sewer Rehabilitation.	\$0	\$8,236
Replaced Contactor & Overload Switch	371	Replaced contactor and overload switch in surge pump control panel.	0	519
		Associated Retirement	0	(390)
Surge Pump at WWTP	371	Installed new pump at WWTP in surge tank.	0	3,303
		Associated Retirement	0	(2,477)
WWTP Wash-down Well Repair	371	Repairs to the Wash-down well. Installed new water pump. Repaired water line and replaced check valve.	0	1,408
		Associated Retirement	0	(1,055)
Replace Gas Chlorine Injector # 2	320	Replaced chlorine injector at WTP #2.	1,116	0
		Associated Retirement	(837)	0
Net Adjustment			<u>\$279</u>	<u>\$9,544</u>

Source: Responses to staff data requests.

*The total retirements associated with the pro forma projects are \$837 for water and \$3,922 (\$390 + \$2,477 + \$1,055) for wastewater.

Staff's adjustments to UPIS result in net reductions of \$230 for water and \$7,742 for wastewater as shown in Table 3-2 below. Staff recommends a UPIS balance of \$527,205 (\$527,435 – \$230) for water and \$433,377 (\$441,119 - \$7,742) for wastewater.

**Table 3-2
 Staff Adjustment to UPIS**

	Adjustment Description	Water	Wastewater
1.	To reflect retirement of Control Panel and Pumps to Acct. 371.	\$0	(\$13,858)
2.	To reflect retirement of replacement Diffuser to Acct. 380.	0	(3,428)
3.	To reflect net amount of pro forma projects.	279	9,544
4.	To reflect an averaging adjustment.	(509)	0
	Total	<u>(\$230)</u>	<u>(\$7,742)</u>

Source: Utility Records, Response to Staff Data Requests, and Staff Audit Report.

Land & Land Rights

The Utility recorded a test year land value of \$27,412 for water and \$36,000 for wastewater. No adjustments are necessary, and therefore, staff recommends a land balance of \$27,412 for water and \$36,000 for wastewater.

Non-Used and Useful Components

As discussed in Issue 2, LP's water and wastewater systems are both considered 100 percent U&U. Therefore, a U&U adjustment is not necessary.

Accumulated Depreciation

The Utility recorded a balance for accumulated depreciation of \$362,984 and \$311,950 for water and wastewater, respectively. Staff reduced wastewater accumulated depreciation by \$17,286 (\$13,858 + \$3,428) for the retirement of the control panel, pumps, and diffusers. Staff increased accumulated depreciation for water by \$40, and wastewater by \$293 for pro forma plant. Staff reduced accumulated depreciation associated with the retirement or pro forma projects by \$837 for water and \$3,922 for wastewater. Staff further adjusted wastewater accumulated depreciation by \$4,921 to reconcile the Utility's beginning accumulated depreciation balance to that approved by the Commission in Order PSC-2014-0413-PAA-WS.⁵ Staff also adjusted wastewater accumulated depreciation by \$457 (\$383 + \$39 + \$35) for additions to Structures and Improvements, Collection Sewers, and Pumping Equipment. Staff has calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C., and has also made an averaging adjustment of \$9,295 for water and \$8,227 for wastewater. Based on the above adjustments, staff recommends an accumulated depreciation balance of \$352,892 (\$362,984 - \$10,092) for water and \$277,430 (\$311,950 - \$34,520) for wastewater. Staff's adjustments are reflected in Table 3-3 below.

Table 3-3
Accumulated Depreciation Adjustments

Staff Adjustments	Water	Wastewater
Retirement of control panel, pumps, and diffusers	\$0	\$17,286
Depreciation on Pro Forma Plant	(40)	(293)
Retirement of Plant associated with Pro Forma Plant	837	3,922
Reconciliation of wastewater beginning balance	0	4,921
Additions to Structures and Improvements, Collection Sewers, and Pumping Equipment	0	457
Averaging Adjustment	<u>9,295</u>	<u>8,227</u>
Total	<u>\$10,092</u>	<u>\$34,520</u>

Source: Utility Records, Response to Staff Data Requests, and Staff Audit Report.

Contribution In Aid of Construction (CIAC)

The Utility recorded a CIAC balance of \$266,480 for water and \$92,400 for wastewater. Commission audit staff noted that an adjustment of \$417 for water is necessary to reflect a simple average balance for rate base, pursuant to Rule 25-30.433, F.A.C. No adjustment is necessary for wastewater. Staff recommends a CIAC balance of \$266,063 (\$266,480 - \$417) for water and \$92,400 for wastewater.

⁵ Order No. PSC-2014-0413-PAA-WS, issued August 14, 2014, in Docket No. 20130153-WS, *in re: Application for staff-assisted rate case in Highlands County, by LP Utilities Corporation c/o LP Waterworks, Inc.*

Accumulated Amortization of CIAC

The Utility recorded a balance for accumulated amortization of CIAC of \$167,447 for water and \$55,709 for wastewater. Staff decreased accumulated amortization of CIAC by \$4,930 for water and \$1,717 for wastewater, to reflect the simple average for the test year. Staff recommends an accumulated amortization of CIAC balance of \$162,517 (\$167,447 - \$4,930) for water and \$53,992 (\$55,709 - \$1,717) for wastewater.

Working Capital Allowance

Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Staff also removed the unamortized balance of rate case expense of \$421 for water and \$351 for wastewater pursuant to Section 367.081(9), F.S.⁶ Applying this formula, staff recommends a working capital allowance of \$11,084 for water (based on O&M expense of \$92,044 ÷ 8 - \$421 for water) and \$9,186 for wastewater (based on O&M expense of \$76,295 ÷ 8 - \$351 for wastewater).

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base is \$109,264 for water and \$162,724 for wastewater. Rate base is shown on Schedule No. 1-A for water and on Schedule No. 1-B for wastewater. The related adjustments for water and wastewater are shown on Schedule No. 1-C.

⁶Section 367.081(9), F.S., which became effective July 1, 2016, states, "A utility may not earn a return on the unamortized balance of the rate case expense. Any unamortized balance of rate case expense shall be excluded in calculating the utility's rate base." Therefore, staff excluded rate case expense from the working capital calculations.

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

Recommendation: The appropriate mid-point ROE is 9.27 percent with a range of 8.27 percent to 10.27 percent. The appropriate overall rate of return is 7.89 percent. (Cicchetti, Richards)

Staff Analysis: Rule 25-30.433(4), F.A.C., requires that a simple average method be used to calculate the cost of capital for Class C utilities. The simple average capital structure per the staff auditor report included common equity of \$147,317, long-term debt of \$63,547, and customer deposits of \$3,353.

The Utility indicated that it is funding the pro forma project additions of \$14,582 with equity contributions from the shareholders. Staff made an adjustment to increase common equity to reflect the equity infusion from the shareholders.

Finally, staff made a pro rata adjustment to reconcile the average rate base to the average capital structure by increasing common equity and long-term debt by \$40,136 and \$3,053, respectively. The resulting average capital structure based on investor sources only used to determine the ROE consists of common equity of \$202,035 (\$147,317 + \$14,582 + 40,136) and long-term debt of \$66,660 (\$63,547 + 3,053). The equity ratio used for determining the allowed mid-point ROE is 75.21 percent of investors' sources which excludes customer deposits.

The appropriate ROE is 9.27 percent using the Commission approved leverage formula currently in effect and an equity ratio of 75.21 percent.⁷ The Utility's capital structure has been reconciled with staff's recommended rate base. Staff recommends a mid-point ROE of 9.27 percent, with a range of 8.27 percent to 10.27 percent and an overall rate of return of 7.89 percent. The appropriate ROE and overall rate of return are shown on Schedule No. 2.

⁷Order No. PSC-2017-0249-PAA-WS, issued June 26, 2017, in Docket No. 20170006-WS, *In Re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*

Issue 5: What are the appropriate test year revenues for the water and wastewater systems of LP Waterworks, Inc.?

Recommendation: The appropriate test year revenues for LP's water and wastewater systems are \$105,065 and \$85,659, respectively. (Friedrich)

Staff Analysis: The Utility recorded total test year revenues of \$107,183 for water and \$84,240 for wastewater. The water revenues included \$104,515 of service revenues and \$2,668 of miscellaneous revenues. The wastewater revenues included \$84,240 of service revenues and no miscellaneous revenues. Based on staff's review of the LP's billing determinants and the service rates that were in effect during the test year, staff determined test year service revenues should be \$103,452 for water and \$84,228 for wastewater. This results in decreases of \$1,063 and \$12 for water and wastewater test year service revenues, respectively. Staff also made adjustments to miscellaneous revenues for water and wastewater. Staff increased the Utility's miscellaneous revenues by \$376 and allocated these revenues to the Utility's water and wastewater systems consistent with each system's corresponding ERCs to reflect the approved miscellaneous service charges. Therefore, there are miscellaneous revenues of \$1,613 for the water system and \$1,431 for the wastewater system. Based on the above, the appropriate test year revenues for LP's water and wastewater systems are \$105,065 and \$85,659 respectively.

Issue 6: What is the appropriate amount of Operating Expense for the test year ended August 31, 2016?

Recommendation: The appropriate amount of operating expense for the LP Waterworks, Inc. is \$110,945 for water and \$96,863 for wastewater. (Richards)

Staff Analysis: The Utility recorded operating expense of \$110,497 for water and \$96,385 for wastewater for the test year ended August 31, 2016. The test year O&M expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. Staff has made several adjustments to the Utility's operating expenses as summarized below.

Salaries and Wages – Officers, Directors (603/703)

The Utility recorded a balance of \$6,120 for water and \$5,880 for wastewater in Accounts 603 and 703 respectively. This represents compensation for the officers and directors of the Utility. The amount of officer and director compensation for the Utility is \$12.07 and \$13.91 per ERC for water and wastewater respectively. The average amount of officer's and director's salaries for LP Waterworks, Inc.'s affiliated utilities is approximately \$27 per ERC for water and \$28 per ERC for wastewater.⁸ The total amount included in Accounts 603 and 703 is \$12,000, which is the same amount approved in Order No. PSC-2014-0413-PAA-WS.⁹ Therefore, staff recommends no adjustments for salaries and wages - officers and directors expense.

Sludge Removal Expense (711)

The Utility recorded \$2,312 for sludge hauling expenses.¹⁰ Staff reviewed the source documentation and agrees with the amount. Staff recommends no adjustment to sludge removal expense.

Purchased Power (615/715)

The Utility recorded \$2,770 for purchased power expense for water and \$4,528 for wastewater in Accounts 615 and 715, respectively. Staff made an adjustment of \$99 to increase purchased power expense for water to reflect the actual amount of purchased power expense of \$2,869. Staff made a second adjustment to decrease water purchased power expense by \$689 to reflect excessive unaccounted for water as discussed in Issue 2. Finally, staff increased purchase power expense for wastewater by \$323 to reflect actual amount of purchased power expense of \$4,851 for the test year. Staff recommends purchased power expense of \$2,180 ($\$2,770 + \$99 - \689) for water and \$4,851 ($\$4,528 + \323) for wastewater.

Chemicals (618/718)

The Utility recorded chemical expense of \$650 for water and \$525 for wastewater. Staff decreased chemical expense for water by \$156 to reflect excessive unaccounted for water as discussed in Issue 2. Staff recommends a balance of \$494 ($\$650 - \156) for water. There were no adjustments for wastewater. Staff recommends chemical expense for the test year of \$494 for water and \$525 for wastewater.

⁸Staff Audit Report Control No. 16-320-4-1, Audit Request No. 6.

⁹Order No. PSC-2014-0413-PAA-WS, issued August 14, 2014, in Docket No. 20130153-WS, *In re: Application for staff-assisted rate case in Highlands County, by L.P. Utilities Corporation c/o LP Waterworks, Inc.*

¹⁰Document No. 00039-2017, filed January 3, 2017.

Contractual Services – Accounting Fees (632/732)

The Utility recorded a credit (negative balance) of \$638 for water and \$613 for wastewater in these accounts for accounting fees. The Utility explained this relates to an over accrual from a prior period and currently there are no outside accounting fees. Staff made adjustments to remove these amounts because they are outside the test year period. Staff recommends accounting expense of zero for both water and wastewater.

Contractual Services – Legal Fees (633/733)

The Utility recorded legal fees of \$2,575 for water and \$835 for wastewater. Staff reduced legal fees by \$1,808 for water and \$195 for wastewater to remove out-of-period expenses. The staff audit noted that some of the legal fees may be non-recurring. In response to a staff data request, the Utility provided invoices showing that legal fees of \$287 for water and \$240 for wastewater are recurring expenses.¹¹ In addition to the recurring legal fees, the Utility also had non-recurring legal fees for utility-related corporate purposes of \$480 for water and \$400 for wastewater. Because these fees are non-recurring, staff believes they should be amortized over five years, or \$96 per year for water and \$80 per year for wastewater. Consequently, staff reduced legal fees by \$384 for water and \$320 for wastewater to reflect the five-year amortization of the non-recurring legal fees. Staff's total adjustments result in reductions of \$2,192 (\$1,808 + \$384) for water and \$515 (\$195 + \$320) for wastewater. Therefore, staff recommends contractual services – legal of \$383 (\$287 + \$96) for water and \$320 (\$240 + \$80) for wastewater.

Contractual Services – Other (636/736)

The Utility recorded \$79,598 for water and \$60,530 for wastewater for operating, maintenance and customer service fees. The Utility receives all of its operational and administrative services under a contract with an affiliated company, U.S. Water Services Corporation (USWSC). The Commission previously reviewed and approved expenses related to the USWSC management services contract for the Utility in its last SARC.¹² The Commission also approved the expenses related to the USWSC management service contract for five of LP Waterworks, Inc.'s affiliated utility systems.¹³ In those dockets, the Commission found USWSC's costing and allocation model to be reasonable with the exception of some allocated expenses related to salary overtime, fuel, and vehicle maintenance which were adjusted in those dockets.

¹¹ Document No. 01528-2017, filed on February 7, 2017.

¹² Order No. PSC-2014-0413-PAA-WS, issued August 14, 2014, in Docket No. 20130153-WS, *In re: Application for staff-assisted rate case in Highlands County, by L.P. Utilities Corporation c/o LP Waterworks, Inc.*

¹³ Order No. PSC-2015-0013-PAA-WS, issued January 2, 2015, in Docket No. 20130194-WS, *In re: Application for staff-assisted rate case in Lake County by Lakeside Waterworks, Inc.*; Order No. PSC-2015-0282-PAA-WS, issued July 8, 2015, in Docket No. 20140158-WS, *In re: Application for increase in water/wastewater rates in Highlands County by HC Waterworks, Inc.*; Order No. PSC-2015-0329-PAA-WU, issued August 14, 2015, in Docket No. 20140186-WU, *In re: Application for staff-assisted rate case in Brevard County by Brevard Waterworks, Inc.*; Order No. PSC-2015-0335-PAA-WS, issued August 20, 2015, in Docket No 20140147-WS, *In re: Application for staff-assisted rate case in Sumter County by Jumper Creek Utility Company*; Order No. PSC-2016-0256-PAA-WU, issued June 30, 2016, in Docket No. 20150199-WU, *In re: Application for staff-assisted rate case in Lake County by Raintree Waterworks, Inc.*

Consumer Price Index

The Utility submitted invoices to show an increase in the annual contract of \$557 for water and \$424 for wastewater to reflect an increase in the Consumer Price Index.¹⁴ Consistent with the Commission's prior decisions staff increased these accounts by \$557 and \$424 for water and wastewater, respectively.

Salaried Employees Overtime

The Commission found USWSC's costing and allocation model reasonable in four related dockets with the exception of some allocated expense related to salary overtime, fuel, and vehicle maintenance which were adjusted in those dockets. In the Utility's supplemental response to staff's data request, the Utility acknowledged an overtime expense to salaried employees of \$1,278 for water and \$747 for wastewater, which staff believes should be disallowed.

Staff's adjustment to this account results in a net decrease of \$721 (\$557 - \$1,278) for water and a net decrease of \$323 (\$424 - \$747) for wastewater. For water, the adjusted annual contract fee of \$78,877 results in an average of \$156 per ERC. For wastewater, the adjusted annual contract fee of \$60,207 results in an average of \$142 per ERC. These amounts are comparable to the amounts approved by the Commission for LP's affiliated utilities which ranged from \$171 to \$247 per water ERC and \$138 to \$383 per wastewater ERC.

The Utility confirmed that USWSC's current cost model for the contract continues to include 1,000 additional projected ERCs for all systems for which USWSC provides service. Inclusion of the 1,000 potential future ERCs that are expected to be added through growth or acquisitions serves to spread the costs over a larger base and lowers the cost per ERC. USWSC and its managers bring considerable management and operator experience and expertise at a comparably reasonable cost. By spreading costs over multiple systems, and adding ERCs to recognize potential future growth, LP's customers are realizing operational and cost benefits that would not be available if the Utility operated on a stand-alone basis. Staff believes the adjusted cost of the USWSC management services contract is reasonable. Therefore, staff recommends Contractual Services – Other Expense of \$78,877 for water and \$60,207 for wastewater.

Rent Expense (640/740)

The Utility recorded rent expense of \$220 for water and \$0 for wastewater. The rent expense amount was reclassified to Account 675 for miscellaneous expense. Therefore, the recommended rent expense for water and wastewater should be zero for the test year.

Insurance Expense (655/755)

The Utility recorded insurance expense of \$619 for water and \$619 for wastewater. Staff increased the insurance expense \$26 for water and \$26 for wastewater to reflect the April 2016, invoice which totaled \$1,290. This amount was allocated 50 percent to water and 50 percent to wastewater to follow both the methodology used by the Utility and Order No. PSC-2014-0413-

¹⁴Document No. 03483-2017, filed on March 10, 2017.

Date: July 21, 2017

PAA-WS.¹⁵ Thus, staff recommends insurance expense of \$645 for water and \$645 for wastewater.

Regulatory Commission Expense (665/765)

The Utility, in its initial SARC filing, recorded \$430 for water and wastewater for regulatory commission expense (RCE).¹⁶ Staff recommends current annual RCE of \$421 for water and \$351 for wastewater.

Filing Fees and Customer Notices

Pursuant to Rule 25-22.0407, F.A.C., the Utility is required to mail notices of the customer meeting, final rates and the four-year rate reduction to its customers. For these notices, staff has estimated \$686 for postage expense, \$467 for printing expense, and \$70 for envelopes, resulting in noticing expense of \$1,223. The Utility paid a \$1,000 rate case filing fee for water, and a \$500 rate case filing fee for wastewater.

Travel Expenses

The Utility recorded rate case travel expense of \$250 to attend the customer meeting and \$250 to attend the Commission Conference. In its support documentation, the Utility submitted copies of two hotel reservation receipts for a total of \$247 to attend the Customer Meeting and one hotel reservation receipt for \$120 to attend the Commission Conference.¹⁷ After reviewing invoices submitted by the Utility, staff has decreased the travel expense to attend the customer meeting by \$3 and decreased the travel expense to attend the Commission Conference by \$130.

Rate Case Expense Amortization

Staff's recommended total current rate case expense including postage, notices, envelopes, filing and travel costs are \$3,090. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a four-year period, which is \$772 per year ($\$3,090 \div 4$). In the Utility's previous rate case, staff allocated rate case expense equally between water and wastewater based on the settlement agreement between OPC and the Utility. In this docket, staff believes it is more appropriate to follow Commission practice and allocate rate case expense based on the appropriate level of ERCs for water (481) and wastewater (393). Staff's adjustments to these accounts, described above, results in a decrease of \$9 for water and a decrease of \$79 for wastewater. Staff recommends Regulatory Commission Expense of \$421 ($\$430 - \9) for water and \$351 ($\$430 - \79) for wastewater. Rate Case Expense is delineated in Table 6-1.

¹⁵Order No. PSC-2014-0413-PAA-WS, issued August 14, 2014, in Docket No. 20130153-WS, *In re: Application for staff-assisted rate case in Highlands County, by L.P. Utilities Corporation c/o LP Waterworks, Inc.*

¹⁶Document No. 08270-2016, filed October 17, 2016.

¹⁷Document No. 04599-2017, filed May 3, 2017.

**Table 6-1
 Current Rate Case Expense Breakdown**

Item	Staff		
	Recommended	Water	Wastewater
Filing Fee	\$1,500	\$818	\$682
Travel – Customer Meeting	247	135	112
Travel – Agenda Conference	120	65	55
Notices – Customer Meeting	533	291	242
Notices – Final Rates	345	188	157
Notices – Four-Year Rate Reduction	345	188	157
Total Rate Case Expense	<u>\$3,090</u>	<u>\$1,685</u>	<u>\$1,405</u>
Annual Rate Case Expense	\$772	\$421	\$351

Source: Response to staff data requests

Prior Rate Case Expense

In its previous rate case filing, the Utility was authorized a total rate case expense including postage, notices, envelopes, and filing fee of \$2,774.¹⁸ The rate case expense was amortized over a four-year period, or \$694 per year ($\$2,774 \div 4$) allocated equally between water and wastewater. The approved Commission expense was \$347 for water and \$347 for wastewater. The Utility has one year remaining of this previous rate case expense.

Therefore, staff recommends annual regulatory commission expense of \$768 ($\$421 + \347) for water and \$698 ($\$351 + \347) for wastewater.

Bad Debt Expense (670/770)

The Utility recorded negative bad debt expense of \$408 for water and positive bad debt expense of \$157 for wastewater. Staff could not take the average of the last three years bad debt expense because the Utility’s 2014 and 2016 bad debt expense were credits (negative amounts) for both water and wastewater. The credit balances result from the bad debt accrual method used by the Utility. In LP’s previous SARC, a settlement was reached between the Utility and the OPC in which they agreed to a bad debt expense of 1 percent of test year revenue. Staff analyzed the previous years’ bad debt expense and believes basing bad debt expense on 1 percent of test year revenue is reasonable. Staff adjusted bad debt expense to reflect 1 percent of test year revenue and results in an increase of \$1,459 for water and \$700 for wastewater. Staff recommends a bad debt expense of \$1,051 ($\$1,459 - \408) for water and \$857 ($\$157 + \700) for wastewater which is equivalent to 1 percent of test year revenues.

Miscellaneous Expense (675/775)

The Utility recorded \$1,306 of miscellaneous expense for water. This amount included \$500 representing the Florida DEP Operating License Fee, and \$750 for three quarters of annual property owner’s association fees from Camp Florida POA, Inc. The Utility owns lots for egress to its facilities and must pay the property owners’ association fees assessed by Camp Florida

¹⁸Order No. PSC-2014-0413-PAA-WS, issued August 14, 2014, in Docket No. 20130153-WS, *In re: Application for staff-assisted rate case in Highlands County, by L.P. Utilities Corporation c/o LP Waterworks, Inc.*

POA, Inc. for those lots. The other quarter of the annual property owner's association fees is \$220 which was moved to Account 675 Miscellaneous Expense from Account 640 as discussed under Rent Expense (640). The Utility does not report any miscellaneous expense for wastewater. Therefore, staff recommends miscellaneous expense of \$1,526 ($\$1,306 + \220) for water and \$0 for wastewater.

Operating and Maintenance Expense Summary

The Utility recorded O&M expenses of \$93,242 for water and \$75,203 for wastewater. Total adjustments to O&M expense result in a decrease of \$1,198 for water and an increase of \$1,092 for wastewater. Staff's recommended O&M expense is \$92,044 ($\$93,242 - \$1,198$) for water and \$76,295 ($\$75,203 + \$1,092$) for wastewater. O&M expenses are shown on Schedule Nos. 3-A and 3-B for water and wastewater, respectively.

Depreciation Expense

The Utility's records reflect test year water depreciation expense of \$19,511 and CIAC amortization expense of \$9,861, resulting in a net water depreciation expense of \$9,650 ($\$19,511 - \$9,861 = \$9,650$). Also, the Utility's records reflect test year wastewater depreciation expense of \$16,426 and CIAC amortization expense of \$3,434, resulting in a net wastewater depreciation expense of \$12,992 ($\$16,426 - \$3,434 = \$12,992$). Staff calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C., and also determined the adjustments necessary to reflect the pro forma additions and retirements discussed previously in Issue 3. Based on the staff audit adjustments and recalculated depreciations expense, staff decreased water depreciation expense by \$40 and decreased wastewater depreciation expense by \$648. In addition, staff calculated CIAC amortization based on composite rates, and determined that no adjustments are necessary. This results in a net depreciation expense of \$9,610 ($\$9,650 - \40) for water, and a net depreciation expense of \$12,344 ($\$12,992 - \648) for wastewater. Therefore, staff recommends net depreciation expense of \$9,610 and \$12,344 for water and wastewater, respectively.

Taxes Other Than Income (TOTI)

LP recorded taxes other than income (TOTI) for the test year of \$7,605 and \$8,190 for water and wastewater, respectively. The Utility recorded regulatory assessment fees (RAFs) of \$4,823 and \$3,791 for water and wastewater, respectively. Staff determined that RAFs should be decreased by \$95 for water and increased by \$64 for wastewater to reflect the appropriate amount of RAFs for the test year.

Utility recorded property tax expense of \$2,782 for water and \$4,399 for wastewater. Audit staff determined that the Utility's actual property taxes for the test year were \$3,907 for water and \$3,141 for wastewater. Therefore, staff increased water property taxes by \$1,125 and decreased wastewater property taxes by \$1,258 to reflect the proper amounts for the test year.

Staff also made an adjustment to reflect the appropriate property taxes related to the pro forma plant additions discussed in Issue 3. The pro forma plant additions increased property taxes by \$4 and \$146 for water and wastewater, respectively. Staff's net adjustments to TOTI are an increase of \$1,034 for water and a decrease of \$1,048 for wastewater.

In addition, as discussed in Issue 7, revenues have been increased by \$14,501 for water and \$24,043 for wastewater to reflect the change in revenue required to cover expenses and allow the recommended rate of return. As a result, TOTI should be increased by \$653 for water and \$1,082 for wastewater to reflect RAFs of 4.5 percent for the increase in revenues.

Therefore, staff recommends TOTI of \$9,291 ($\$7,605 + \$1,034 + \653) for water and \$8,224 ($\$8,190 - \$1,048 + \$1,082$) for wastewater.

Operating Expense Summary

The application of staff's recommended adjustments to the Utility's adjusted test year operating expenses results in staff's recommended operating expenses of \$110,946 for water and \$96,863 for wastewater. Operating expenses are shown on Schedule Nos. 3-A and 3-B for water and wastewater, respectively. The related adjustments for water and wastewater are shown on Schedule No. 3-C.

Issue 7: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirement is \$119,566 for water and \$109,702 for wastewater, resulting in an annual increase of \$14,501 (13.80 percent) for water and an annual increase of \$24,043 (28.07 percent) for wastewater. (Richards)

Staff Analysis: The Utility should be allowed an annual increase of \$14,501 (13.80 percent) for water and \$24,043 (28.07 percent) for wastewater. This will allow the Utility the opportunity to recover its expenses as well as a 7.89 percent return on its investment. The calculations are shown in Table 7-1 for water and Table 7-2 for wastewater.

**Table 7-1
 Water Revenue Requirement**

Adjusted Rate Base	\$109,264
Rate of Return	<u>7.89%</u>
Return on Rate Base	8,621
Adjusted O&M Expense	92,044
Depreciation Expense (Net)	9,610
Taxes Other Than Income	9,291
Income Taxes	<u>0</u>
Revenue Requirement	\$119,566
Less Test Year Revenues	<u>105,065</u>
Annual Increase / (Decrease)	<u>\$14,501</u>
Percent Increase / Decrease	13.80%

Source: Staff Analysis

**Table 7-2
 Wastewater Revenue Requirement**

Adjusted Rate Base	\$162,724
Rate of Return	<u>7.89%</u>
Return on Rate Base	12,840
Adjusted O&M Expense	76,295
Depreciation Expense (Net)	12,344
Taxes Other Than Income	8,224
Income Taxes	<u>0</u>
Revenue Requirement	\$109,702
Less Test Year Revenues	<u>85,659</u>
Annual Increase / (Decrease)	<u>\$24,043</u>
Percent Increase / Decrease	28.07%

Source: Staff Analysis

Issue 8: What are the appropriate rate structures and rates for the water and wastewater systems of LP Waterworks, Inc.?

Recommendation: The recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of this notice. (Friedrich)

Staff Analysis:

Water Rates

The Utility is located in Highlands County within the SWFWMD. LP provides water service to approximately 444 residential customers and 21 general service customers. Approximately 57.15 percent of the residential customer bills during the test year had zero gallons, indicating a highly seasonal customer base. The average residential water demand is 1,336 gallons per month. The average residential water demand excluding zero gallon bills is 3,117 gallons per month.

The Utility's current water system rate structure for residential customers consists of a base facility charge (BFC) and two-tier inclining block rate structure. The rate blocks are: (1) 0-3,000 gallons and (2) all usage in excess of 3,000 gallons per month. The general service rate structure consists of a BFC and uniform gallonage charge. In addition, the Utility's private fire protection service rates are based on one-twelfth of the Utility's BFC for each meter size pursuant to Rule 25-30.465, F.A.C.

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

Staff believes an across-the-board increase to the Utility's existing rates is appropriate because of the low revenue requirement percentage increase. In addition, the existing rate structure appears reasonable and no significant repression is anticipated. To determine the appropriate percentage increase to apply to the service rates, miscellaneous revenues were removed from the test year revenues, resulting in a 13.97 percent increase in the service rates. Staff's recommended rate structure and rates for LP Waterworks, Inc.'s water system are shown on Schedule No. 4-A.

Wastewater Rates

The Utility provides wastewater service to 389 residential customers and 18 general service customers. Currently, the residential wastewater rate structure consists of a uniform BFC for all meter sizes and a gallonage charge with an 8,000-gallon cap per month. The general service rate

structure consists of a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge.

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

The Commission's practice is to allocate at least 50 percent of the wastewater revenue to the BFC due to the capital-intensive nature of wastewater plants. However, staff believes a BFC allocation of 65 percent is more appropriate and would increase revenue stability due to the high seasonality of the Utility's customer base. Additionally, in the Utility's last rate case, a BFC allocation of 60 percent was approved and attributed partly to the Utility's seasonal customer base.¹⁹

LP's current residential wastewater cap is 8,000 gallons per month. It is Commission practice to set the wastewater cap at approximately 80 percent of residential water gallons sold, which typically results in gallonage caps of 6,000, 8,000, or 10,000. The wastewater gallonage cap recognizes that not all water used by the residential customers is returned to the wastewater system. However, due to the seasonality of the Utility's customer base, 83 percent of the total water sold is captured at 3,000 gallons, which is lower than gallonage caps typically approved for wastewater. Although staff typically bases its recommended residential wastewater cap on 80 percent of the total water sold, in this case, it would yield an exceptionally low residential wastewater cap. In addition, staff believes that lowering the gallonage cap below 6,000 gallons would have an adverse effect on the residential gallonage charge and resulting customer bills. Therefore, staff believes that 6,000 gallons per month is a reasonable residential wastewater cap.

Additionally, staff recommends that the general service gallonage charge be 1.2 times greater than the residential gallonage charge which is consistent with Commission practice. Staff's recommended rate structure and rates for LP's wastewater system are shown on Schedule No. 4-B.

Conclusion

Based on the above, the recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of this notice.

¹⁹Order No. PSC-2014-0413-PAA-WS, issued August 14, 2014, in Docket No. 20130153-WS, *In re: Application for staff-assisted rate case in Highlands County, by L.P. Utilities Corporation c/o LP Waterworks, Inc.*

Issue 9: What is the appropriate amount by which rates should be reduced in four years after the published effective date to reflect the removal of the amortized rate case expense as required by Section 367.081(8), F.S.?

Recommendation: The water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B, respectively, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.081(8), F.S. The Utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Friedrich, Richards)

Staff Analysis: Section 367.081(8), 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 unless a longer period can be justified and is in the public interest. The reduction will reflect the removal of revenue associated with the amortization of rate case expense and the gross-up for RAFs. The total reductions are \$441 for water and \$368 for wastewater.

The water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B, respectively, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.081(8), F.S. The Utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Issue 10: What are the appropriate miscellaneous service charges for LP Waterworks, Inc.?

Recommendation: The miscellaneous service charges identified in Table 10-5 are appropriate and should be approved. The charges should be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved changes should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice. (Friedrich)

Staff Analysis: LP's current miscellaneous service charges were approved on February 22, 2002.²⁰ Section 367.091, F.S., authorizes the Commission to change miscellaneous service charges. The Utility's request to revise its miscellaneous charges was accompanied by its reason for requesting the charges, as well as the cost justification required by Section 367.091(6), F.S.

Within its cost justification, the Utility requested recovery of benefits and overhead for the utility technician who performs the miscellaneous services. The Utility did not request recovery of overhead and benefits for the administrative employee since this is a contracted employee of Opus 21, an outside billing contractor. Therefore, the field labor component displayed in the tables below reflects the hourly salary of the utility technician marked up to include benefits and overhead consistent with the Utility's Commission-approved contract with USWSC.

Additionally, within its cost justification, the Utility requested recovery of vehicle costs associated with performing miscellaneous services. However, it is Commission practice to calculate transportation costs of miscellaneous services using the Internal Revenue Service mileage rate and the average miles the field employee will travel to the Utility's territory during and after hours. The calculations for staff's recommended charges for miscellaneous services are shown in Tables 10-1 through 10-4 and are rounded up to the nearest tenth. The Utility's current and staff's recommended miscellaneous service charges are shown in Table 10-5.

Initial Connection Charge

The initial connection charge is levied for service initiation at a location where service did not exist previously. A Utility representative makes one trip when performing the service of an initial connection. Based on labor and transportation to and from the service territory, staff recommends initial connection charges for LP's water and wastewater systems of \$31.10 for normal hours and \$36.20 for after hours. Staff's calculations are shown in Table 10-1.

²⁰Order No. PSC-2002-0250-PAA-WS, issued February 26, 2002, in Docket No. 19990374-WS, *In re: Application for certificates to operate a water and wastewater utility in Highlands County by the Woodlands of Lake Placid, L.P., and for deletion of portion of wastewater territory in Certificate No.361-S held by Highlands Utilities Corporation.*

**Table 10-1
 Initial Connection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$28/hr x 1/4 hr)	\$7.00	Labor (Administrative) (\$28/hr x 1/4 hr)	\$7.00
Labor (Field) (\$30.42/hr x 1/3 hr)	\$10.14	Labor (Field) (45.63/hr x 1/3 hr)	\$5.21
Transportation (\$0.535/mile x 26 miles-to/from)	\$13.91	Transportation (\$0.535/mile x 26 miles-to/from)	\$13.91
Total	\$31.05	Total	\$36.12

Source: Staff Analysis

Normal Reconnection Charge

A normal reconnection charge is levied for the transfer of service to a new customer account at a previously served location, or reconnection of service subsequent to a customer requested disconnection. A normal reconnection requires two trips, which includes one to turn service on and the other to turn service off.

Based on labor and transportation to and from the service territory, staff recommends normal reconnection charges for LP's water and wastewater systems of \$57.10 for normal hours and \$64.70 for after hours. Staff's calculations are shown in Table 10-2.

**Table 10-2
 Normal Reconnection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$28/hr x 1/4hr x 2)	\$14.00	Labor (Administrative) (\$28/hr x 1/4hr)	\$14.00
Labor (Field) (\$30.42/hr x 1/4 hr x 2)	\$15.21	Labor (Field) (\$45.63/hr x 1/4hr x 2)	\$22.81
Transportation (\$0.535/mile x 26 miles-to/from x 2)	\$27.82	Transportation (\$0.535/mile x 26 miles-to/from x 2)	\$27.82
Total	\$57.03	Total	\$64.63

Source: Staff Analysis

Date: July 21, 2017

Violation Reconnection Charge

The violation reconnection charge is levied prior to reconnection of an existing customer after discontinuance of service for cause. The service performed for violation reconnection requires two trips, which includes one trip to turn off service and a subsequent trip to turn on service once the violation has been remedied. Based on labor and transportation to and from the service territory, staff recommends violation reconnection charges for LP's water system of \$57.10 for normal hours and \$64.70 for after hours. However for LP's wastewater system, this charge should remain at actual cost pursuant to Rule 25-30.460(1)(c), F.A.C. Staff's calculations are shown in Table 10-3.

Table 10-3
Violation Reconnection Charge Calculation

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$28/hr x 1/4hr x 2)	\$14.00	Labor (Administrative) (\$28/hr x 1/4hr x 2)	\$14.00
Labor (Field) (\$30.42/hr x 1/4 hr x 2)	\$15.21	Labor (Field) (\$45.63hr x 1/4 hr x 2)	\$22.81
Transportation (\$0.535/mile x 26 miles-to/from) x 2	\$27.82	Transportation (\$0.535/mile x 26 miles-to/from) x 2	\$27.82
Total	\$57.03	Total	\$64.63

Source: Staff Analysis

Premises Visit Charge

The premises visit charge is levied when a service representative visits premises at the customer's request for complaint resolution and the problem is found to be the customer's responsibility. In addition, the premises visit charge can be levied when a service representative visits premises for the purpose of discontinuing service for nonpayment of a due and collectible bill, and does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill. A premises visit requires one trip.

Based on labor and transportation to and from the service territory, staff recommends a premises visit charge of \$31.10 for normal hours and \$36.20 for after hours. Staff's calculations are shown in Table 10-4.

**Table 10-4
 Premises Visit Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$28.00/hr x 1/4hr)	\$7.00	Labor (Administrative) (\$28.00/hr x 1/4hr)	\$7.00
Labor (Field) (\$30.42/hr x 1/3 hr)	\$10.14	Labor (Field) (\$45.63/hr x 1/3 hr)	\$15.21
Transportation (\$0.535/mile x 26 miles-to/from)	\$13.91	Transportation (\$0.535/mile x 26 miles-to/from)	\$13.91
Total	\$31.05	Total	\$36.12

Source: Staff Analysis

Conclusion

Based on the aforementioned, the miscellaneous service charges identified in Table 10-5 are appropriate and should be approved. The charges should be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved changes should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice.

**Table 10-5
 Miscellaneous Service Charges**

	Current	Staff Recommended	
	Normal and After Hours	Normal Hours	After Hours
Initial Connection Charge	\$15.00	\$31.10	\$36.20
Normal Reconnection Charge	\$15.00	\$57.10	\$64.70
Violation Reconnection Charge (Water Only)	\$15.00	\$57.10	\$64.70
Violation Reconnection Charge (Wastewater Only)	Actual Cost	Actual Cost	
Premises Visit Charge	\$10.00	\$31.10	\$36.20

Source: Staff Analysis

Issue 11: Should LP Waterworks, Inc. be authorized to collect Non-Sufficient Funds Charges (NSF)?

Recommendation: Yes. LP should be authorized to collect NSF charges. The charges should be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved changes should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice. (Friedrich)

Staff Analysis: Section 367.091, F.S., authorizes the Commission to approve miscellaneous service charges. Staff believes that the Utility should be authorized to collect NSF charges consistent with Section 68.065, F.S., which allows for the assessment of charges for the collection of worthless checks, drafts, or orders of payment. As currently set forth in Section 68.065(2), F.S., the following NSF charges may be assessed:

- 1) \$25, if the face value does not exceed \$50,
- 2) \$30, if the face value exceeds \$50 but does not exceed \$300,
- 3) \$40, if the face value exceeds \$300,
- 4) or five percent of the face amount of the check, whichever is greater

Approval of NSF charges is consistent with prior Commission decisions.²¹ Furthermore, NSF charges place the cost on the cost-causer, rather than requiring that the costs associated with the return of the NSF checks to be spread across the general body of ratepayers.

Conclusion

The Utility should be authorized to collect NSF charges. The charges should be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved changes should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice.

²¹Order Nos. PSC-2014-0198-TRF-SU, issued May 2, 2014, in Docket No. 20140030-SU, *In re: Request for approval to amend Miscellaneous Service charges to include all NSF charges by Environmental Protection Systems of Pine Island, Inc.*; and PSC-2013-0646-PAA-WU, issued December 5, 2013, in Docket No. 20130025-WU, *In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.*

Issue 12: What are the appropriate main extension charges for the water and wastewater systems of LP Waterworks, Inc.?

Recommendation: The appropriate main extension charges for LP’s water and wastewater systems are \$510 and \$390 per equivalent residential connection (ERC), respectively. The recommended service availability charge should be based on an estimated 350 gallons per day of water. The Utility should file revised tariff sheets and a proposed customer notice. LP should provide notice to customers who have requested service within the 12 calendar months prior to the month the application was filed to the present. The approved charges should be effective for connections made on or after the stamped approval date on the tariff sheets. The Utility should provide proof of the date notice was given within 10 days of the date of the notice. (Friedrich)

Staff Analysis: The Utility’s current service availability charges were approved in 2002 and include customer connection (tap-in) and main extension charges for LP’s water and wastewater systems; as well as a meter installation charge for LP’s water system.²² Rule 25-30.580, F.A.C., establishes guidelines for designing service availability charges. Pursuant to the rule, the maximum amount of contributions-in-aid-of construction (CIAC), net of amortization, should not exceed 75 percent of the total original cost, net of accumulated depreciation, of the Utility’s facilities and plant when the facilities and plant are at their designed capacity. The minimum amount of CIAC should not be less than the percentage of such facilities and plant that is represented by the sewage collection systems. The Utility’s current contribution levels for the water and wastewater systems are 52 percent and 20 percent, respectively.

A main extension charge allows a utility to recover a portion of the cost of the utility’s distribution and collection systems from future customers. The costs of LP’s distribution and collection systems are \$264,875 and \$181,057 for water and wastewater, respectively. Additionally, the water distribution system has a design capacity of 519 ERCs and the wastewater collection system has a design capacity of 464 ERCs. Therefore, based on the average historical cost of the existing distribution and collection systems, and the capacity of those systems, staff recommends main extension charges of \$510 and \$390 per ERC for LP’s water and wastewater systems in lieu of its current charges at actual cost. The Utility’s current and staff’s recommended service availability charges are shown in Table 12-1.

**Table 12-1
 Service Availability Charges**

Service Availability Charges	Current		Staff Recommended	
	Water	Wastewater	Water	Wastewater
Main Extension Charge	Actual Cost	Actual Cost	\$510	\$390
Customer Connection (Tap-in) Charge	\$200	\$400	\$200	\$400
Meter Installation Charge	\$189	N/A	\$189	N/A

Source: Staff Analysis

²² Order No. PSC-2002-0250-PAA-WS, issued February 26, 2002, in Docket No. 19990374-WS, *In re: Application for certificates to operate a water and wastewater utility in Highlands County by The Woodlands of Lake Placid, L.P., and for deletion of portion of wastewater territory in Certificate No. 361-S held by Highlands Utilities Corporation.*

Conclusion

Based on the above, the appropriate main extension charges for LP's water and wastewater systems are \$510 and \$390 per ERC, respectively. The recommended service availability charge should be based on an estimated 350 gallons per day of water. The Utility should file revised tariff sheets and a proposed customer notice. The Utility should provide notice to customers who have requested service within the 12 calendar months prior to the month the application was filed to the present. The approved charges should be effective for connections made on or after the stamped approval date on the tariff sheets. The Utility should provide proof of the date notice was given within 10 days of the date of the notice.

Date: July 21, 2017

Issue 13: Should the recommended rates be approved for LP Waterworks, Inc. on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility?

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

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

The Utility should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$25,850. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

If the Utility chooses a bond as security, the bond should contain wording to the effect that it will be terminated only under the following conditions:

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

If the Utility chooses a letter of credit as a security, it should contain the following conditions:

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

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

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

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

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

Issue 14: Should LP Waterworks, Inc. be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision?

Recommendation: Yes. LP should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. The Utility should submit a letter within 90 days of the final order in this docket confirming that the adjustments to all applicable NARUC USOA primary accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. (Richards)

Staff Analysis: The Utility should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. LP should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA primary accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days.

Issue 15: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Once these actions are complete, this docket should be closed administratively. (Murphy)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Once these actions are complete, this docket should be closed administratively.

LP WATERWORKS, INC.		SCHEDULE NO. 1-A	
TEST YEAR ENDED 08/31/2016		DOCKET NO. 20160222-WS	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$527,435	(\$230)	\$527,205
2. LAND & LAND RIGHTS	27,412	0	27,412
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. ACCUMULATED DEPRECIATION	(362,984)	10,092	(352,892)
5. CIAC	(266,480)	417	(266,063)
6. AMORTIZATION OF CIAC	167,447	(4,930)	162,517
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>11,084</u>	<u>11,084</u>
8. WATER RATE BASE	<u>\$92,830</u>	<u>\$16,434</u>	<u>\$109,264</u>

LP WATERWORKS, INC.		SCHEDULE NO. 1-B	
TEST YEAR ENDED 08/31/2016		DOCKET NO. 20160222-WS	
SCHEDULE OF WASTEWATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$441,119	(\$7,742)	\$433,377
2. LAND & LAND RIGHTS	36,000	0	36,000
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. ACCUMULATED DEPRECIATION	(311,950)	34,520	(277,430)
5. CIAC	(92,400)	0	(92,400)
6. AMORTIZATION OF CIAC	55,709	(1,717)	53,992
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>9,186</u>	<u>9,186</u>
8. WASTEWATER RATE BASE	<u>\$128,478</u>	<u>\$34,246</u>	<u>\$162,724</u>

LP WATERWORKS, INC.		SCHEDULE NO. 1-C	
TEST YEAR ENDED 08/31/2016		DOCKET NO. 20160222-WS	
ADJUSTMENTS TO RATE BASE			
		<u>WATER</u>	<u>WASTEWATER</u>
<u>UTILITY PLANT IN SERVICE</u>			
1.	To reflect retirement of Control Panel and Pumps to Acct. 371 per Audit Request 5.	\$0	(\$13,858)
2.	To reflect retirement of replacement Diffuser to Acct. 380 per Audit Finding 1.	0	(3,428)
3.	To reflect pro forma Manhole repair to Acct. 354.	0	8,236
4.	To reflect pro forma replacement of Contactor and Overload to Acct. 371.	0	519
5.	To reflect pro forma Surge Pump at WWTP to Acct. 371.	0	3,303
6.	To reflect pro forma repairs to Wash-down Well at WWTP to Acct. 371.	0	1,408
7.	To reflect pro forma replacement of Chlorine Injector at WTP # 2 to Acct. 320.	1,116	0
8.	To reflect 75 percent retirement on pro forma projects.	(837)	(3,922)
9.	To reflect an averaging adjustment.	<u>(509)</u>	<u>0</u>
	Total	<u>(\$230)</u>	<u>(\$7,742)</u>
<u>ACCUMULATED DEPRECIATION</u>			
1.	To reflect retirement of Control Panel and Pumps to Acct. 371 per Audit Request 5.	\$0	\$13,858
2.	To reflect retirement of replacement Diffuser to Acct. 380 per Audit Finding 1.	0	3,428
3.	To reflect an addition to Structure Improvements to Acct. 354 per Audit Finding 2.	0	383
4.	To reflect an addition to Collection Sewers - Gravity Acct. 361 per Audit Finding 2.	0	39
5.	To reflect an addition to Pumping Equipment Acct. 371 per Audit Finding 2.	0	35
6.	Adjustment to reconcile with Order No. PSC-2014-0413-PAA-WS per Audit Finding 1.	0	4,921
7.	To reflect 75 percent retirement on pro forma projects.	837	3,922
8.	To reflect pro forma accumulated depreciation per Rule 25-30.140.	(40)	(293)
9.	To reflect an averaging adjustment.	<u>9,295</u>	<u>8,227</u>
	Total	<u>\$10,092</u>	<u>\$34,520</u>
<u>CIAC</u>			
	To reflect an averaging adjustment.	<u>\$417</u>	<u>\$0</u>
<u>AMORTIZATION OF CIAC</u>			
	To reflect an averaging adjustment.	<u>(\$4,930)</u>	<u>(\$1,717)</u>
<u>WORKING CAPITAL ALLOWANCE</u>			
	To reflect 1/8 of test year O&M expenses.	<u>\$11,084</u>	<u>\$9,186</u>

LP WATERWORKS, INC. TEST YEAR ENDED 08/31/2016 SCHEDULE OF CAPITAL STRUCTURE			SCHEDULE NO. 2 DOCKET NO. 20160222-WS			
CAPITAL COMPONENT	TEST YEAR AVERAGE CAPITAL STRUCTURE	ADJUSTMENT FOR PRO FORMA PLANT*	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON EQUITY	\$147,317	\$54,718	\$202,035	74.28%	9.27%	6.89%
2. LONG TERM DEBT	63,547	3,053	66,600	24.49%	4.00%	0.98%
3. CUSTOMER DEPOSITS	<u>3,353</u>	<u>0</u>	<u>3,353</u>	<u>1.23%</u>	2.00%	<u>0.02%</u>
4. TOTAL	<u>\$214,217</u>	<u>\$57,771</u>	<u>\$271,988</u>	<u>100.00%</u>		<u>7.89%</u>
	RANGE OF REASONABLENESS			<u>LOW</u>	<u>HIGH</u>	
				<u>8.27%</u>	<u>10.27%</u>	
				<u>7.15%</u>	<u>8.63%</u>	

*Pro rata adjustment to reconcile rate base and capital structure of \$40,136, plus \$14,582 added to equity for pro forma plant, for a total adjustment of \$54,718.

LP WATERWORKS, INC.		SCHEDULE NO. 3-A				
TEST YEAR ENDED 08/31/2016		DOCKET NO. 20160222-WS				
SCHEDULE OF WATER OPERATING INCOME						
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	<u>\$107,183</u>	<u>(\$2,118)</u>	<u>\$105,065</u>	<u>\$14,501</u> 13.80%	<u>\$119,566</u>	
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$93,242	(\$1,198)	\$92,044	\$0	\$92,044	
3. DEPRECIATION (NET)	9,650	(40)	9,610	0	9,610	
4. TAXES OTHER THAN INCOME	7,605	1,034	8,639	653	9,291	
5. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
6. TOTAL OPERATING EXPENSES	<u>\$110,497</u>	<u>(\$204)</u>	<u>\$110,293</u>	<u>\$653</u>	<u>\$110,945</u>	
7. OPERATING INCOME/(LOSS)	<u>(\$3,314)</u>		<u>(\$5,228)</u>		<u>\$8,621</u>	
8. WATER RATE BASE	<u>\$92,830</u>		<u>\$109,264</u>		<u>\$109,264</u>	
9. RATE OF RETURN	<u>-3.57%</u>		<u>-4.78%</u>		<u>7.89%</u>	

LP WATERWORKS, INC.		SCHEDULE NO. 3-B				
TEST YEAR ENDED 08/31/2016		DOCKET NO. 20160222-WS				
SCHEDULE OF WASTEWATER OPERATING INCOME						
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	<u>\$84,240</u>	<u>\$1,419</u>	<u>\$85,659</u>	<u>\$24,043</u> 28.07%	<u>\$109,702</u>	
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$75,203	\$1,092	\$76,295	\$0	\$76,295	
3. DEPRECIATION (NET)	12,922	(648)	12,344	0	12,344	
4. TAXES OTHER THAN INCOME	8,190	(1,048)	7,142	1,082	8,224	
5. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
6. TOTAL OPERATING EXPENSES	<u>\$96,385</u>	<u>(\$604)</u>	<u>\$95,781</u>	<u>\$1,082</u>	<u>\$96,863</u>	
7. OPERATING INCOME/(LOSS)	<u>(\$12,145)</u>		<u>(\$10,122)</u>		<u>\$12,839</u>	
8. WASTEWATER RATE BASE	<u>\$128,478</u>		<u>\$162,724</u>		<u>\$162,724</u>	
9. RATE OF RETURN	<u>-9.45%</u>		<u>-6.22%</u>		<u>7.89%</u>	

LP WATERWORKS, INC.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 08/31/2016		DOCKET NO. 20160222-WS	
ADJUSTMENTS TO OPERATING INCOME		Page 1 of 2	
	WATER	WASTEWATER	
OPERATING REVENUES			
1.	To reflect the appropriate amount of service revenues.	(\$1,063)	(\$12)
2.	To reflect the appropriate amount of miscellaneous revenues.	<u>(1,055)</u>	<u>1,431</u>
	Subtotal	<u>(\$2,118)</u>	<u>\$1,419</u>
OPERATION AND MAINTENANCE EXPENSES			
1.	Purchase Power (615/715)		
	a. To reflect actual amount per auditor.	\$99	\$323
	b. To reflect 24 percent excessive unaccounted for water.	<u>(689)</u>	<u>0</u>
	Subtotal	<u>(\$590)</u>	<u>\$323</u>
2.	Chemicals (618/718)		
	To reflect 24 percent excessive unaccounted for water.	<u>(\$156)</u>	<u>\$0</u>
3.	Contractual Services - Accounting (632/732)		
	To reflect auditor's adjustments.	<u>\$638</u>	<u>\$613</u>
4.	Contractual Services – Legal Fees (633/733)		
	a. To reflect removal of out-of-period expenses	(\$1,808)	(\$195)
	b. To reflect non-recurring legal fees.	<u>(384)</u>	<u>(320)</u>
	Subtotal	<u>(\$2,192)</u>	<u>(\$515)</u>
5.	Contractual Services - Other (636/736)		
	a. To reflect CPI adjustment to contractual services - other.	\$557	\$424
	b. To reflect removal of overtime for Salaried Employees.	<u>(1,278)</u>	<u>(747)</u>
	Subtotal	<u>(\$721)</u>	<u>(\$323)</u>
6.	Rent Expense (640)		
	To reflect auditor's adjustments.	<u>(\$220)</u>	<u>\$0</u>

LP WATERWORKS, INC.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 08/31/2016		DOCKET NO. 20160222-WS	
ADJUSTMENTS TO OPERATING INCOME		Page 2 of 2	
	WATER	WASTEWATER	
7. Insurance Expense (655/755) To reflect staff auditor's adjustments.	<u>\$26</u>	<u>\$26</u>	
8. Regulatory Commission Expense (665/765) a. To reflect the 4-year amortization of current RCE.	(\$9)	(\$79)	
b. To reflect 1 year of amortized prior rate case expense.	<u>347</u>	<u>347</u>	
Subtotal	<u>\$338</u>	<u>\$268</u>	
9. Bad Debt Expense (670/770) To reflect 1 percent of test year revenue.	<u>\$1,459</u>	<u>\$700</u>	
10. Miscellaneous Expense (675) Reclassification of Rent Expense per audit adjustment.	<u>\$220</u>	<u>\$0</u>	
TOTAL OPERATING & MAINTENANCE ADJUSTMENTS	<u>(\$1,198)</u>	<u>\$1,092</u>	
DEPRECIATION EXPENSE (NET)			
1. To reflect staff auditor's adjustments.	\$0	(\$355)	
2. To reflect Pro forma Plant Addition Projects Depreciation Expense.	<u>(40)</u>	<u>(293)</u>	
Total	<u>(\$40)</u>	<u>(\$648)</u>	
TAXES OTHER THAN INCOME			
1. To reflect appropriate Test Year RAFs.	(95)	64	
2. To Reflect appropriate Test Year Property Tax per Audit Finding 6.	\$1,125	(\$1,258)	
3. To reflect property taxes associated with pro forma plant additions.	<u>4</u>	<u>146</u>	
Total	<u>\$1,034</u>	<u>(\$1,048)</u>	

LP WATERWORKS, INC.		SCHEDULE NO. 3-D		
TEST YEAR ENDED 08/31/2016		DOCKET NO. 20160222-WS		
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE				
ACCT. #	DESCRIPTION	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
603	Salaries and Wages - Officers, Directors	\$6,120	\$0	\$6,120
615	Purchase Power	2,770	(590)	2,180
618	Chemicals	650	(156)	494
632	Contractual Services - Accounting	(638)	638	0
633	Legal Fees	2,575	(2,192)	383
636	Contractual Services - Other	79,598	(721)	78,877
640	Rent	220	(220)	0
655	Insurance Expense	619	26	645
665	Regulatory Commission Expense	430	338	768
670	Bad Debt Expense	(408)	1,459	1,051
675	Miscellaneous Expense	<u>1,306</u>	<u>220</u>	<u>1,526</u>
	Total O & M Expense	<u>\$93,242</u>	<u>(\$1,198)</u>	<u>\$92,044</u>

LP WATERWORKS, INC.		SCHEDULE NO. 3-E		
TEST YEAR ENDED 08/31/2016		DOCKET NO. 20160222-WS		
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE				
ACCT. #	DESCRIPTION	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
703	Salaries and Wages - Officers, Directors	\$5,880	\$0	\$5,880
711	Sludge Removal	2,312	0	2,312
715	Purchase Power	4,528	323	4,851
718	Chemicals	525	0	525
732	Contractual Services - Accounting	(613)	613	0
733	Legal Fees	835	(515)	320
736	Contractual Services - Other	60,530	(323)	60,207
755	Insurance Expense	619	26	645
765	Regulatory Commission Expense	430	268	698
770	Bad Debt Expense	<u>157</u>	<u>700</u>	<u>857</u>
	Total O & M Expense	<u>\$75,203</u>	<u>\$1,092</u>	<u>\$76,295</u>

LP WATERWORKS, INC.		SCHEDULE NO. 4-A	
TEST YEAR ENDED 8/31/2016		DOCKET NO. 20160222-WS	
MONTHLY WATER RATES			
	RATES AT TIME OF FILING	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$8.54	\$9.73	\$0.04
3/4"	\$12.82	\$14.60	\$0.06
1"	\$21.38	\$24.33	\$0.10
1-1/2"	\$42.74	\$48.65	\$0.20
2"	\$68.38	\$77.84	\$0.32
3"	\$136.77	\$155.68	\$0.64
4"	\$213.70	\$243.25	\$1.00
6"	\$427.40	\$486.50	\$2.00
Charge per 1,000 Gallons- Residential Service			
0-3,000 gallons	\$4.91	\$5.60	\$0.02
Over 3,000 gallons	\$7.21	\$8.22	\$0.03
Charge per 1,000 Gallons- General Service			
	\$5.91	\$6.74	\$0.03
<u>Private Fire Protection Service</u>			
5/8" x 3/4"	\$0.71	\$0.81	
3/4"	\$1.07	\$1.22	
1"	\$1.78	\$2.03	
1-1/2"	\$3.56	\$4.05	
2"	\$5.70	\$6.49	
3"	\$11.40	\$12.97	
4"	\$17.81	\$20.27	
6"	\$35.62	\$40.54	
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$23.27	\$26.53	
6,000 Gallons	\$44.90	\$51.19	
8,000 Gallons	\$59.32	\$67.63	

LP WATERWORKS, INC.		SCHEDULE NO. 4-B	
TEST YEAR ENDED 8/31/2016		DOCKET NO. 20160222-WS	
MONTHLY WASTEWATER RATES			
	RATES AT TIME OF FILING	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential</u>			
Base Facility Charge - All Meter Sizes	\$12.27	\$14.79	\$0.05
Charge per 1,000 gallons (8,000 gallon cap)	\$4.94		\$0.03
Charge per 1,000 gallons (6,000 gallon cap)		\$7.64	
-			
<u>General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$12.27	\$14.79	\$0.05
3/4"	\$18.41	\$22.19	\$0.08
1"	\$30.68	\$36.98	\$0.13
1-1/2"	\$61.35	\$73.95	\$0.25
2"	\$98.16	\$118.32	\$0.40
3"	\$196.32	\$236.64	\$0.80
4"	\$306.75	\$369.75	\$1.25
6"	\$613.51	\$739.50	\$2.50
Charge per 1,000 gallons	\$5.92	\$9.17	\$0.03
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$27.09	\$37.71	
6,000 Gallons	\$41.91	\$60.63	
8,000 Gallons	\$51.79	\$60.63	

LP WATERWORKS, INC.			SCHEDULE NO. 5-A	
TEST YEAR ENDED 08/31/2016			DOCKET NO. 20160222-WS	
SCHEDULE OF WATER PLANT, DEPRECIATION, CIAC & CIAC AMORTIZATION BALANCES				
ACCT. NO.	DEPR. RATE PER RULE 25-30.140	DESCRIPTION	UPIS 8/31/2016 (DEBIT)	ACCUM. DEPR. 8/31/2016 (CREDIT)*
301	2.50%	Organization	\$471	\$186
304	3.70%	Structures and Improvements	68,986	59,965
307	3.70%	Wells and Springs	41,707	29,852
309	3.13%	Supply Mains	1,040	559
310	5.88%	Power Generating Equipment	9,706	7,443
320	5.88%	Water Treatment Equipment	15,542	568
330	3.03%	Distribution Reservoirs & Standpipes	32,416	25,947
331	2.63%	Trans. & Dist. Mains	206,312	123,413
333	2.86%	Services	58,563	43,416
334	5.88%	Meter & Meter Installations	74,899	65,859
335	2.50%	Hydrants	5,364	3,543
336	10.00%	Backflow Prevention Devices	1,874	1,870
340	6.67%	Office Furniture and Equipment	698	462
346	10.00%	Communication Equipment	9,131	1,598
347	6.67%	Miscellaneous Equipment	<u>726</u>	<u>(2,082)</u>
		Total	<u>\$527,435</u>	<u>\$362,599</u>
			CIAC AMORT. 8/31/2016 (DEBIT)*	CIAC 8/31/2016 (CREDIT)
			<u>\$167,447</u>	<u>\$266,480</u>

*The plant and accumulated depreciation balances exclude the pro forma chlorine injector project. Staff-recommended averaging adjustments that are used only for rate setting purposes are excluded and should not be reflected on the Utility's books.

LP WATERWORKS, INC.			SCHEDULE NO. 5-B	
TEST YEAR ENDED 08/31/2016			DOCKET NO. 20160222-WS	
SCHEDULE OF WASTEWATER PLANT, DEPRECIATION, CIAC & CIAC AMORTIZATION BALANCES				
ACCT. NO.	DEPR. RATE PER RULE 25-30.140	DESCRIPTION	UPIS 8/31/2016 (DEBIT)	ACCUM. DEPR. 8/31/2016 (CREDIT)*
351	2.50%	Organization	\$400	\$134
354	3.70%	Structures and Improvements	43,191	41,286
360	3.70%	Collection Sewers - Force	11,557	10,880
361	2.50%	Collection Sewers - Gravity	161,264	94,297
362	2.70%	Special Collecting Structures	1,040	482
363	2.86%	Service to Customers	111,860	84,434
371	6.67%	Pumping Equipment	5,367	(10,299)
380	6.67%	Treatment and Disposal Equipment	87,561	67,918
390.7	6.67%	Office Furniture and Equipment	645	266
393.7	6.67%	Tools, Shop and Garage Equipment	<u>947</u>	<u>947</u>
		Total	<u>\$423,832</u>	<u>\$290,345</u>
			CIAC AMORT. 8/31/2016 (DEBIT)*	CIAC 8/31/2016 (CREDIT)
			\$55,709	\$92,400

*The plant and accumulated depreciation balances exclude the pro forma projects. Staff-recommended averaging adjustments that are used only for rate setting purposes are excluded and should not be reflected on the Utility's books.