

# Ferraioli, Wielkotz, Cerullo & Cuva, P.A.

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CASE MANAGEMENT

VIA E-MAIL & FIRST CLASS MAIL

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SEP 04 2014

September 5, 2014

State of New Jersey  
Division of Rate Counsel  
140 East Front Street, 4<sup>th</sup> Floor  
P.O. Box 003  
Trenton, NJ 08625

Attention: Ms. Susan E. McClure, Esq.

**Re: I/M/O the Application of Fayson Lake Water Company for the Approval of an Increase in Rates and Other Appropriate Relief  
BPU Docket No.: WR14050405**

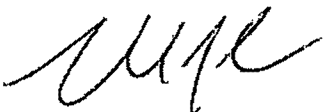
Dear Ms. McClure:

I have reviewed the previous rate increase filing exhibits with Mr. Wood and Mr. Paterson and have revised the test year to 2013.

Enclosed please find Exhibits A-K for the 2013 test year with adjustments.

Should you have any further questions, please do not hesitate to contact me.

Very truly yours,



Paul J. Cuva, C.P.A.  
Registered Municipal Accountant

PJC:ms

Enclosures

cc: See Attached "Service List"

*21/14  
JKANE*



**I/M/O**  
**Application of Fayson Lake Water**  
**Company for the Approval of an**  
**Increase in Rates and Other**  
**Appropriate Relief**  
**BPU Docket No. WR14050405**

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**SERVICE LIST**

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\*Receives all correspondence except  
discovery.

\*\*Receives all documents by  
e-mail only.

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U.S. DEPARTMENT OF JUSTICE  
FEDERAL BUREAU OF INVESTIGATION

**2013 TEST YEAR**

**EXHIBITS A-K**

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FAYSON LAKE WATER COMPANY  
ASSUMPTIONS FOR THE ADJUSTMENTS  
TO THE PROJECTED 2014 REVENUES AND EXPENSES

1. Operating revenues -- the increase in operating revenues represents the additional income required to meet the desired rate of return and an increase in cell tower revenue for 2014.
2. Operating expenses -- there is no increase in operating cost from the actual 2013 expenses.
3. Amortization -- this figure represents the estimated cost of filing for a rate increase (\$35,000) amortized over a two year period, adjusted to include a 50/50 sharing cost between the Company and the ratepayers.
4. Franchise, gross receipt and excise tax -- was calculated by taking the gross revenues from the whole of its water lines, and multiplying by 14.0626%.
5. Interest expense -- this is calculated by taking the rate base of \$1,793,911 and multiplying it by the long-term debt effective cost of 4.04%.
6. The additional cost added to the capital rate base was for capital costs incurred in the amount of \$417,790 for the replacement of the water plant filter system and other anticipated capital costs.
7. Additional depreciation was calculated as follows:

	<u>Cost</u>	<u>Useful Life</u>	<u>Depreciation</u>
Purchase of New Truck	\$34,163	5	\$6,833
Water Plant Improvements	<u>417,790</u>	25	<u>8,356<sup>(1)</sup></u>
Total	<u>\$451,953</u>		<u>\$15,189</u>

<sup>(1)</sup>One half year convention.

8. Taxes -- other than income, licenses and fees, includes an additional increase for the NJDES permits from \$3,880 to \$8,406 or \$4,526.

FAYSON LAKE WATER COMPANY  
COMPARATIVE BALANCE SHEETS  
AS OF DECEMBER 31, 2011, 2012 AND 2013

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Exhibit A

SEP 30 2014

CLASS C	ACCOUNT DESCRIPTION	2011	2012	2013
<u>ASSETS</u>				
101	1-Water Utility Plant	3,510,146	3,628,804	3,703,564
110	2-Accumulated Reserve for Depreciation	1,431,441	1,537,564	1,607,055
	3-Net Plant	2,078,705	2,091,240	2,096,509
131	4-Cash and Working Funds	146,826	90,337	53,341
142	5-Customer Accounts Receivable	147,517	156,571	168,768
165	7-Prepayments	3,500		
	8-Total Assets	<u>2,376,548</u>	<u>2,338,148</u>	<u>2,318,618</u>
<u>Liabilities and Stockholder's Equity</u>				
231	9-Notes Payable	902,950	885,412	878,729
232	10-Accounts Payable	11,524	9,029	11,411
236	11-Taxes Accrued			
238	12-Other Current & Accrued Liabilities	116,778	96,978	67,178
	13-Total Liabilities	<u>1,031,252</u>	<u>991,419</u>	<u>957,318</u>
201	14-Capital Stock	88,000	88,000	88,000
216	15-Earned Surplus	458,422	459,855	474,426
271	16-Contribution in Aid of Construction	798,874	798,874	798,874
	17-Total Equity	<u>1,345,296</u>	<u>1,346,729</u>	<u>1,361,300</u>
	18-Total Liabilities and Stockholder's Equity	<u>2,376,548</u>	<u>2,338,148</u>	<u>2,318,618</u>

FAYSON LAKE WATER COMPANY  
COMPARATIVE INCOME STATEMENT  
FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013

Exhibit B  
**RECEIVED**  
SEP 03 2014

CLASS C.	ACCOUNT DESCRIPTION	2011	2012	2013
<u>OPERATING REVENUES</u>				
400	OPERATING REVENUES	653,115	717,479	694,555
<u>OPERATING EXPENSES</u>				
401-2	Operation Expense	373,710	436,719	417,612
403-4	Depreciation and Amortization Expense	106,180	106,123	97,210
408	Taxes Other Than Income Taxes	110,703	115,918	128,452
	Total Operating Expense	590,593	658,760	643,274
<u>OTHER INCOME</u>				
419	Interest and Dividends	1,029	190	22
421	Miscellaneous Nonoperating Income	10,768	10,768	9,231
	Total Other Income	1,029	10,958	9,253
<u>NON-OPERATING EXPENSES</u>				
427	Interest Expense	69,335	68,244	45,963
	Total Non Operating Expenses	69,335	68,244	45,963
	<b>NET INCOME</b>	<b>(5,784)</b>	<b>1,433</b>	<b>14,571</b>
<u>Operation and Maintenance Expense Accounts</u>				
601	Purchased Water	277	183	
620	Operation Labor - Pumping	83,275	127,455	132,997
621	Fuel for Power Consumption	64,397	60,714	61,400
631	Chemicals	4,131	3,949	5,066
632	Operation Supplies and Expenses	8,517	4,670	2,441
650	Maintenance of Distribution System	54,091	84,881	44,357
901	Meter Reading Labor	4,980	4,820	4,740
904	Uncollectible Accounts			10,082
920	Administration and General Salaries	42,372	41,392	44,024
921	Office Supplies and Other Expenses	9,977	4,550	5,631
923	Outside Services Employed	23,405	29,853	27,076
924	Property Insurance	38,057	39,840	42,234
926	Employee Pensions and Benefits	24,863	23,921	28,965
930	Miscellaneous General Expenses	12,890	8,148	5,667
933	Transportation Expenses	2,478	2,343	2,932
	Total Operation and Maintenance Expenses	373,710	436,719	417,612

FAYSON LAKE WATER COMPANY  
COMPARATIVE BALANCE SHEETS  
AS OF DECEMBER 31, 2013

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<u>CLASS</u> <u>C</u>	<u>ACCOUNT DESCRIPTION</u>	<u>2013</u>
<u>ASSETS</u>		
101	1-Water Utility Plant	3,703,564
110	2-Accumulated Reserve for Depreciation	1,607,055
	3-Net Plant	2,096,509
131	4-Cash and Working Funds	53,341
142	5-Customer Accounts Receivable	168,768
	8-Total Assets	<u>2,318,618</u>
<u>Liabilities and Stockholder's Equity</u>		
231	9-Notes Payable	878,729
232	10-Accounts Payable	11,411
236	11-Taxes Accrued	
238	12-Other Current & Accrued Liabilities	67,178
	13-Total Liabilities	<u>957,318</u>
201	14-Capital Stock	88,000
216	15-Earned Surplus	474,426
271	16-Contribution in Aid of Construction	798,874
	17-Total Equity	<u>1,361,300</u>
	18-Total Liabilities and Stockholder's Equity	<u>2,318,618</u>

Exhibit D

FAYSON LAKE WATER COMPANY  
Statement of Revenue Derived  
For the Year Ended December 31, 2013

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STATE OF MICHIGAN  
DEPARTMENT OF TREASURY

Metered Sales to General Customers (Including Hydrants)	\$579,078
Miscellaneous	3,801
Hook up fees	2,818
Turn off fees	280
Lease Tower Lines - Verizon	26,971
Lease Tower Lines - Sprint	28,566
Lease Tower Lines - AT&T	33,241
Lease Tower Lines - T-Mobile	19,800
	<hr/>
Total Revenue Derived	<u><u>\$694,555</u></u>



FAYSON LAKE WATER COMPANY  
STATEMENT OF INCOME AT PRESENT AND PROPOSED RATES

	Actual 12 Month Ended 12-31-2013	PRO FORMA			
		Under Present Rates		Under Proposed Rates	
		Adjustments to Column (1)	Pro-Forma Amounts	Adjustments to Column (3)	Pro-Forma Amount
OPERATING REVENUES	694,555		694,555		819,802
OPERATING EXPENSES					
Operation Labor - Pumping	132,997		132,997		132,997
Fuel for Power Consumption	61,400		61,400		61,400
Chemicals	5,066		5,066		5,066
Operation Supplies and Expenses	2,441		2,441		2,441
Maintenance of Distribution System	44,357		44,357		44,357
Meter Reading Labor	4,740		4,740		4,740
Uncollectible Accounts	10,082		10,082		10,082
Administration and General Salaries	44,024		44,024		44,024
Office Supplies and Other Expenses	5,631		5,631		5,631
Outside Services Employed	27,076		27,076		27,076
Property Insurance	42,234		42,234		42,234
Employee Pensions and Health Benefits	28,965		28,965		28,965
Miscellaneous General Expenses	5,667		5,667		5,667
Transportation Expenses	2,932		2,932		2,932
Depreciation and Amortization expense	97,210		97,210	15,189	112,399
Rate case amortization expense				8,750	8,750
Franchise, gross receipts and excise tax	79,846		79,846	19,123	98,969
Taxes - other than income, licenses and fees	48,606	4,526	53,132		53,132
Total operating expenses before federal income taxes	643,274	4,526	647,800	43,062	690,862
Utility operating income (loss) before federal income taxes	51,281	(4,526)	46,755	(43,062)	128,940
Non-operating income (expenses)					
Interest income	22		22		22
Miscellaneous Nonoperating Income	9,231	(9,231)			
Interest expense	(45,963)		(45,963)	(26,511)	(72,474)
Net Income before federal income tax	14,571	(13,757)	814	(69,573)	56,488
Federal income taxes					
Net income after federal income taxes	14,571	(13,757)	814	(69,573)	56,488

FAYSON LAKE WATER COMPANY

Exhibit F

Statement of Payments and Accruals to Affiliated Companies or Organizations  
and to Those Who Own in Excess of Five Per Cent of the Company's Capital Stock.

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Payments:			
Management fees	10,000		10,000

FAYSON LAKE WATER COMPANY  
 Calculation of Actual Rate of Return  
 On the Average Net Investment

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Proforma Adjustment</u>	<u>Proforma Amount</u>
Investment in Plant Facilities					
Water Utility Plant @ December 31,	\$3,510,146	\$3,628,804	\$3,703,564	372,983	4,076,547
Materials and supplies			5,000		5,000
Working Capital @ 1/8 of annual operation and maintenance expenses	46,714	54,590	52,202		52,202
	<u>3,556,860</u>	<u>3,683,394</u>	<u>3,760,766</u>	<u>372,983</u>	<u>4,133,749</u>
Less: Contributions for facilities	(802,274)	(802,274)	(802,274)		(802,274)
Depreciation Reserve @ December 31,	<u>(1,431,441)</u>	<u>(1,537,564)</u>	<u>(1,607,055)</u>		<u>(1,537,564)</u>
Rate Base	1,323,145	1,343,556	1,351,437	372,983	1,793,911
Utility Operating Income (Loss) Before Interest Exp.)	<u>(\$5,784)</u>	<u>\$1,433</u>	<u>\$14,571</u>		<u>128,940</u>
Rate of Return	-0.44%	0.11%	1.08%		7.19%

FAYSON LAKE WATER COMPANY  
Calculation of Indicated Rate of Return  
On the Average Net Investment

Exhibit H

2013

Investment in Plant Facilities

Water Utility Plant	\$4,076,547
Materials and supplies	5,000
Working Capital @ 1/8 of annual operation and maintenance expenses	<u>52,202</u>
	4,133,749
Less: Contributions for facilities	(802,274)
Depreciation Reserve at December 31, 2013	<u>(1,537,564)</u>
Average Net Investment	1,793,911
<u>Indicated Rate of Return</u>	
Pro-Forma net income before interest expense	<u>\$128,940</u>
Indicated Rate of Return on Investment in Plant Facilities	7.19%

Exhibit I

FAYSON LAKE WATER COMPANY  
Calculation of Billing Rate Required  
to Meet Desired Rate of Return

Total Income Required	\$819,802
Less:	
Lease Tower Lines - Sprint	28,568
Lease Tower Lines - AT&T	37,295
Lease Tower Lines - T-Mobile	19,800
Lease Tower Lines - Verizon	30,367
Amount needed from customers	<u>703,772</u>

FAYSON LAKE WATER COMPANY  
Effective Rate of Return

<u>Source</u>	<u>Amount</u>	<u>%</u>	<u>Cost</u>	<u>Effective Cost</u>
Long-term Debt	1,200,584	66.80%	6.00	4.01%
Ford Motor Note	34,163	1.90%	6.74	0.13%
Common Equity	562,426	31.30%	9.75	3.05%
	<u>\$1,797,173</u>	<u>100.00%</u>		<u>7.19%</u>

FAYSON LAKE WATER COMPANY  
Proof of Revenues

Present Rates					Proposed Rates					
Rate Element	Meter Ratio	Units	Rate	Revenue	Rate Element	Meter Ratio	Units	Rate	Revenue	% Increase
5/8"		794	28.37	90,103	5/8"		794	34.67	110,100	22.19%
1"		82	70.93	23,265	1"		82	86.67	28,428	22.19%
1 1/2"		2	141.85	1,135	1 1/2"		2	173.33	1,387	22.19%
2"		2	226.86	1,816	2"		2	277.33	2,218	22.19%
Consumption		52,700	7.87	414,749	Consumption		52,700	9.62	508,797	22.19%
Hydrants		85	528.00	44,880	Hydrants		85	645.18	54,841	22.19%
Total				575,948	Total				703,772	22.19%