BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in Lake County by Pennbrooke Utilities, Inc.	DOCKET NO. 001382-WS ORDER NO. PSC-01-1246-PAA-WS ISSUED: June 4, 2001

The following Commissioners participated in the disposition of this matter:

E. LEON JACOBS, JR., Chairman
J. TERRY DEASON
LILA A. JABER
BRAULIO L. BAEZ
MICHAEL A. PALECKI

ORDER GRANTING TEMPORARY RATES IN THE EVENT OF A PROTEST
AND
NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING INCREASE IN WASTEWATER RATES, DENYING INCREASE IN WATER RATES, REQUIRING THE IMPLEMENTATION OF A WATER CONSERVATION PROGRAM, AND REQUIRING REPORTS

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the actions discussed herein, except holding rates subject to refund on a temporary basis in the event of a protest, are preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

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BACKGROUND

Pennbrooke Utilities, Inc. (Pennbrooke or utility) is a water and wastewater utility located in Lake County. Lake County became jurisdictional in June 1966. By Order No. PSC-93-0194-FOF-WS, issued February 9, 1993, in Docket No. 920588-WS, we transferred

operating Certificates Nos. 446-W and 400-S for water and wastewater, respectively, to Pennbrooke. We also approved the utility's rates that were in effect at the time the operating certificates were transferred.

The utility's service area is a retirement community built around a golf course in the West Lake County area. Pennbrooke is a subsidiary of Leisure Communities Ltd., which is the company developing the service area. The utility provided service to approximately 670 residential customers, a golf course, and a restaurant during the historic test year ending September 30, 2000. The majority of the residents are seasonal and reside in the community only a portion of the year. All of the residents' homes are individually metered.

On September 12, 2000, the utility filed an application for a staff assisted rate case, and paid the appropriate filing fee on November 3, 2000. We have the authority to consider this application under Section 367.0814, Florida Statutes. We have audited the utility's records for compliance with our rules and orders and determined the components necessary for rate setting. Our staff engineer conducted a field investigation of the utility's plant and service area. The utility's operation expenses, maps, files, and rate application were reviewed to obtain information about the physical plant operating cost.

We have selected a projected test year ended September 30, 2001 for this rate case. The selection of the projected test year is discussed in more detail later in this Order.

It was determined during a preliminary audit that Pennbrooke was a Class C utility and qualified for a staff assistance under Section 367.0814, Florida Statutes. After adjustments were made for unmetered water, it was determined that Pennbrooke qualifies as a Class B utility. Therefore, we used the NARUC account system designated for Class B utilities for this rate case.

The following is a list of acronyms which are used throughout this Order:

DEP	Department of Environmental Protection
FPSC	Florida Public Service Commission

NARUC National Association of Regulatory Utility Commissioners

SJRWMD St. Johns River Water Management District

BFC Base Facility Charge - The portion of the total expenses required to provide water and sewer service incurred whether or not the customer actually uses the services and regardless of how much is consumed.

CIAC Contributions In Aid Of Construction - Any amount or item of money, services, or property received by a utility, from any person or governmental agency, any portion of which is provided at no cost to the utility, and which is utilized to offset the acquisition, improvement, or construction costs of the utility's property, facilities, or equipment used to provide utility services to the public. The term includes, but is not limited to, system capacity charges, main extension charges, and customer connection charges.

CWIP Construction Work in Progress - The cost of plant in process of construction, but not ready for service.

ERCs Equivalent Residential Connections - A statistic used to determine the total number of water or wastewater connections that can be served by a plant of some specific capacity. The consumption of each connection size is compared to that of a single family residential connection, which is usually considered to be a unit comprised of 3.5 persons.

GPD Gallons Per Day - An expression of a measured amount of liquid that can be delivered or actually measured during a 24-hour period.

GPM Gallons Per Minute - An expression of a measured amount of liquid that can be delivered or actually measured during a one-minute time period.

O&M Operations and Maintenance Expense

RAF Regulatory Assessment Fees

UPIS Utility Plant in Service - The land, facilities, and equipment used to generate, transmit, and/or distribute utility service to customers.

Used and Useful — the amount of plant capacity that is used by current customers including an allowance for the margin reserve.

NARUC USOA — National Association of Regulatory Utility Commissioners Uniform System of Accounts - A list of accounts for the purpose of classifying all plant and expenses associated with a utility's operations.

PROJECTED TEST YEAR

For audit purposes we selected a historical test year ending September 30, 2000. Because the utility is growing at an exceptionally high rate (99 ERCs per year), rates based on historical data alone will be significantly different than rates based on current or even future conditions.

In Order No. 15725, issued February 21, 1986, in Docket No. 840315-WS, In re: Application of Martin Downs Utilities, Inc. for an increase in water and wastewater rates to its customers in Martin County, Florida, we stated:

> The test year is an analytical device used in rate making proceedings to compute current levels of investment and income in order to determine the amount of revenue that will be required to assure a company a fair return on its investment. Test year data must be adjusted to properly reflect conditions in the future period for which rates are being fixed. Based upon historical data we anticipate Martin Downs will continue to experience rapid growth of demand for its services.

Therefore, we found that a projected test year was appropriate.

A year end rate base should only be applied in extraordinary circumstances. Citizens of Florida v. Hawkins, 356 So. 2d 254, 257 (Fla. 1978). Extraordinary circumstances exist in this docket. The utility made additions to plant of $186,753 (19%) for water and $501,492 (42%) for wastewater during the historic test year, and the utility has requested pro forma additions to be made in the future test year of $116,000 (10%) for water and $173,097 (10%) for wastewater. The additions were made to meet the demand of the expanding customer base of the utility. We have determined

customer growth for next year of 99 ERCs, based on regression analysis of growth over the past five years. In Order PSC-98-0763-FOF-SU, issued June 3, 1998, in Docket No. 971182-SU, we found 36.07% of total plant to be an extraordinary circumstance, and in Order PSC-00-1774-PAA-WU, issued September 27, 2000, in Docket No. 991627-WU, we found improvements representing over 52% of the utility's rate base an extraordinary circumstance.

We find that a projected year end test year ending September 30, 2001, is appropriate in this case. A projected test year will better match increasing revenues with projected fixed and variable costs and will allow the utility an opportunity to earn a fair return on its investments. Therefore, a projected year end test year ending September 30, 2001, is approved.

QUALITY OF SERVICE

Rule 25-30.433(1), Florida Administrative Code, states that:

> The Commission in every rate case shall make a determination of the quality of service provided by the utility. This shall be derived from an evaluation of three separate components of water and wastewater utility operations: quality of utility's product (water and wastewater); operational conditions of utility's plant and facilities; and the utility's attempt to address customer satisfaction. Sanitary surveys, outstanding citations, violations and consent orders on file with the Department of Environmental Protection (DEP) and county health departments (HRS) or lack thereof over the proceeding 3-year period shall also be considered. DEP and HRS officials' testimony concerning quality of service as well as the testimony of the utility's customers shall be considered.

Each of these three components is addressed below.

The utility's service area is located along the north side of State Road 44, between Interstate 75 and Leesburg. The service area began as a modular home community, offering a contiguous golf course lifestyle. Today, the residential construction consists of wood framed homes specific to each lot. Pennbrooke is a retirement community with 1,276 home sites planned. Two neighborhood sectors

are entirely undeveloped at present, and have no water or wastewater installations. Currently, 1,005 home sites have service available from the water distribution mains and wastewater collection mains that are currently installed. There are two general service customers: an office/clubhouse, estimated at three ERCs, and a restaurant, estimated at five ERCs. The current network of mains has a potential customer base estimated to be 1,023 ERCs, which includes 10 ERCs for irrigation meters. During the historic test year, there was an average demand of 648 ERCs. Demand anticipated at the end of projected test year, September 30, 2001, is 797 ERCs for water and 787 ERCs for wastewater. Both include the usage of the office/clubhouse and the restaurant.

Quality of Utility's Product

In Lake County, both the potable water program and the domestic wastewater program are regulated by the St. Johns River District of the Florida Department of Environmental Protection (DEP) located in Orlando. According to the DEP, the water utility has had only minor deficiencies in its testing program over the past three years. Currently, the water utility is up-to-date with all its required chemical analysis, and the results of those tests are satisfactory. The most recent wastewater compliance report, dated October 2000, noted two minor discharge deficiencies that prevent the utility from using treated wastewater for irrigation. The DEP reports that Pennbrooke has taken the appropriate corrective action and, therefore, is not in violation of regulatory standards. Since the utility's treated water meets or exceeds all standards for safe drinking water and the wastewater treatment meets required standards, both the water quality and wastewater treatment are considered satisfactory.

Operational Conditions at the Plant

Maintenance of both plants and plant-site grounds appear to be normal and routine. During the engineering field inspection, plant equipment at both facilities was operating satisfactorily. The last sanitary survey report for the water plant was conducted on January 11, 2000, which noted that: 1) the operator had the incorrect number of customers noted on the Monthly Operating Reports; 2) operator visits were required for each weekend day; 3) the screen on the storage tank vent was missing; and 4) the screen

on the filter unit was torn. The utility has corrected these violations.

An inspection of the wastewater treatment plant was conducted on February 2, 2000, which noted that: 1) the plant was found to have solids in the clarification effluent; 2) the percolation ponds contained excessive solids; 3) the Discharge Monitoring Reports showed excessive total suspended solids; 4) fecal coliform exceeded the maximum limit twice since the last inspection; and 5) the latest groundwater monitoring report had not been received. According to the most recent compliance inspection on November 14, 2000, the utility had corrected these deficiencies to standards acceptable for percolation pond discharge and the wastewater plant was found to be satisfactory.

The utility is also required to obtain a consumptive use permit (CUP) from the SJRWMD. That permit was issued on September 30, 1999, and will expire on September 30, 2003. During August 2000, the utility exceeded its allowable residual usage limit of 65,700 million gallons for the period from January 30, 2000, to January 29, 2001. Our staff contacted the SJRWMD with this information. SJRWMD is reviewing the matter and is in the process of determinating if a citation for violation of permit limitations is substantiated. This will be discussed later in this Order.

Utility's Attempt to Address Customer Satisfaction

A customer meeting was held on March 1, 2001 at 6:00 p.m. in the Pennbrooke Clubhouse located in the Pennbrooke development. From a customer base of 670 residential customers at the end of the historic year, there were 228 persons who attended the customer meeting. Four representatives from the utility were in attendance. One Commissioner attended. No representative from the SJRWMD was present. Twenty-three customers gave comments. The meeting was dominated by concerns related to conservation, conservation rates, and a perception that contradictory information had been received from the SJRWMD. Two customers raised issues concerning quality of service. One customer spoke of a need to increase the water pressure, particularly as it would apply to fire flow. Another customer reported poor odor and flavor in his water and raised questions about being charged for irrigation for landscaping on adjacent easements.

In a follow-up investigation, we identified the presence of hydrogen sulfide as the cause of the odor and flavor problems. Hydrogen sulfide is a secondary organic compound that is not harmful to the public at the levels detected in Pennbrooke's water. The utility currently treats for hydrogen sulfide by aeration and chlorination. Our staff engineers noted that the utility's operator has the plant regulated to maintain average pressure of 55 psi. Records on file at DEP do not indicate pressure problems and contain no complaints of low pressure reported by customers. By all reports, it appears that the utility currently supplies water above the 20 psi minimum required by DEP. In addition, it appears that the current water supply is in compliance with Lake County's requirements for fire flow. By all appearances, the water supplied by Pennbrooke meets or exceeds safe drinking water requirements.

In regard to irrigation of the easement and charges for the water used, the customer's concerns have been resolved by negotiation with the developer. It was the activity of the developer that gave rise to the difficulty, rather than the activities of the utility. Because the developer is the owner of the water company, the separation of responsibility can pose some difficulty. There was no evidence that the utility has conducted business improperly.

The utility's effort to provide satisfactory service is successful by and large. In the view of the majority of the customers, the utility is providing safe drinking water in sufficient quantity and quality. Upon review of the three components, we find that the quality of service provided by Pennbrooke is satisfactory.

UNACCOUNTED FOR WATER

Each well is equipped with a three inch master meter. The total readings of the master meters for wells one and two averaged 319,135 gpd during the historic test year, while the total metered water sold for the same time period averaged 249,390 gpd. The difference amounts to 69,745 gpd. The 10% normally allowable as unaccounted for water amounts to 31,913 gpd. We have found additional water usage that amounts to approximately 38,670 gpd, but this usage was not included in the utility's reports of metered water sold.

Additional water usage was based on the following five situations, which are part of the routine activity of Pennbrooke. After discussions between utility personnel and our staff, Pennbrooke has made a commitment to keep records for the water used in all five situations on a going-forward basis, and properly accounts for costs and revenue associated with the water used.

First, Pennbrooke maintains approximately ten homes for models and guest houses. All ten homes receive some irrigation, and potential buyers may be housed for one or two nights in one of the two guest house units. The utility estimates water consumption at 6,000 gallons per month for this intermittent and varied usage. We find that an allowance of 200 gpd is reasonable.

Second, a restaurant is located within the development. The establishment has a seating capacity of 120 and is open to the public. Practically speaking, it is primarily exclusive to the neighborhood. The clientele consists mainly of residents, their guests, and prospective homeowners who are guests of the developer. The usage pattern has mealtime peaks and relatively low usage between meals. The restaurant meter measures some landscape irrigation, as well as food preparation and patron usage. We find that an allowance of 1,400 gpd for this use is reasonable.

Third, the utility has a sand filter for water purification, and backwash is a standard maintenance procedure. Typically, back washing is done five days per week, and some 30,000 gallons of water is used each time. This calculates to an allowance of 21,370 gpd.

Fourth, the wastewater operator maintains five hose lines at the wastewater treatment plant for wash down and to maintain consistent sedimentation. These lines are flowing 24 hours per day, 365 days per year, at a rate of 1.5 to 2 gallons per minute, minimum, each. We find that an allowance of 12,960 gpd for this use, based on an estimate of nine gallons per minute, is a reasonable average amount of water used in the wastewater plant operations.

Fifth, the developer reports that 100 homes have been constructed during the test year. The water for the early stages of construction is obtained from taps on or near the site and has not been metered. The estimated usage of 2,500 gallons per month,

for a four month period for each house built, amounts to one million gallons per year. Spread over 365 days, this results in an allowance of 2,740 gpd. On a going forward basis, the utility is in the process of providing metering capability under a temporary service tariff, so that this usage will be metered and accounted for as water used and billed.

These five situations account for an estimated daily usage amount of 38,670 gallons, so unaccounted for water is approximately 31,075 gpd. Thus, the unaccounted for water is less than the 10%, or 31,913 gpd, typically allowed for our calculations.

On a prospective basis, there will be some alterations to these situations. Most obvious is the fact that the water usage for construction will not exist after the developer achieves build-out. Records of the water usage for the restaurant, as well as any water used for models or guest houses, will be kept in the future. Thus, the amount of unbilled water used will decrease as the Pennbrooke operation becomes more settled.

USED AND USEFUL

For approximately two years, growth at Pennbrooke has amounted to 100 residential customers per year, which is more than 20% annual growth for the first year. Section 367.081(2)(a)2, Florida Statutes, requires us to consider utility property to be used and useful in service to the public if it is needed to serve customers within the five-year period after the test year used in our final order. That same statute, however, caps the annual growth rate at 5%. Our analysis procedures incorporate these allowances into the calculations relating to used and useful portions of investment.

As previously discussed, a projected test year ending September 30, 2001, was used so that actual growth to date can be incorporated into the rates.

The historic year provides an actual count of 670 residential meters read at year end. In working from that base, standard allowances are made for general service customers and two 1 1/2 inch irrigation meters. For the projected test year, actual growth of 99 new ERCs is anticipated, based on utility planning and recent growth which includes the historic year. For end of the test year, we find that allowances for 797 ERCs for water and 787 ERCs for

wastewater are reasonable. The difference between water and wastewater is due to the two 1 1/2 inch meters installed to provide irrigation water.

Water Treatment Plant

The water treatment plant is an open system with two 12 inch wells that are rated at 650 gallons per minute (gpm) and 800 gpm. Water is directly transmitted from the wells to an aeration/ground storage unit capable of storing 10,000 gallons. From the aeration/storage unit, the water is passed, by gravity, through a sand filtration bed and stored in three 50,000 gallon ground storage tanks (total of 150,000 gallons). Three high service (HS) pumps, each rated at 600 gpm, are used to pump treated water to a 7,500 gallon hydropneumatic tank and then to the distribution system. We find that the proper capacity to use in the used and useful calculation is the output capabilities of the HS pumps.

The firm reliable capacity is calculated by using the capacity of the HS pumps, with the deduction of the highest volume capacity pump, which is 1,200 gpm times a normal 12 hour day (864,000 gpd) plus the storage capacity of all storage units (167,500 gallons), minus the dead storage space (1,963 gallons). The firm reliable capacity of the Pennbrooke plant was determined to be 1,029,537 gpd. The utility provides fire protection via fire hydrants throughout the distribution system. The Lake County fire code requires a minimum of 1,000 gpm, sustainable for a period of 2 hours (120,000 gallons), which is added to the maximum daily average demand.

Using an annual growth rate of 5% over the five-year period beyond the test year brings the estimate for daily demand up to 881,827 gallons. This includes an estimated peak usage for the test year of 661,470 gpd, along with a 100,357 gpd allowance for the growth. At that level of demand, the water treatment plant would be 85.65% used and useful. This is depicted in Attachment A, which is incorporated herein by reference. This percentage shall be applied to:

Account No. 303 (Land and Land Rights)
Account No. 304 (Structures and Improvements)
Account No. 307 (Wells and Springs)
Account No. 309 (Supply Mains)

Account No. 311 (Pumping Equipment)
Account No. 320 (Water Treatment Equipment)
Account No. 339 (Other Plant and Misc Equipment)

Water Distribution System

The water distribution system has the potential of serving 1,005 residences, two general service customers, and two irrigation installations (estimated to be 1,023 ERCs total) in a subdivision that (by current planning) will have reached its potential customer capacity by the end of the statutory growth period. Using the estimate of 797 ERCs to be served at the end of the projected test year and the annual growth of 40 ERCs for the 5-year statutory growth period, an estimate of 997 ERCs is obtained. By the formula approach, we find that the distribution system is 97.5% used and useful. This is depicted in Attachment A. Based on utility planning and the precision of estimates underlying the calculation, 100% shall be applied to:

Account No. 330 (Distribution Reservoirs and Standpipes)
Account No. 331 (Transmission and Distribution Mains)
Account No. 333 (Services)
Account No. 334 (Meters and Meter Installations)

Wastewater Treatment Plant

The existing sewage treatment plant at Pennbrooke is permitted by the DEP as a 0.110 million gallons per day (110,000 gpd) annual average daily flow (AADF) extended aeration treatment facility. During the historic test year, the highest five day average occurred in January 2000, and averaged 183,200 gpd. This, by itself, raises questions concerning the capability of the wastewater treatment plant in its ability to properly treat existing flows. There are, however, two 120,000 gpd aeration units with two 18,000 gpd clarification units. Converting the old 30,000 gpd wastewater treatment plant to a 30,000 gpd digester allows greater capacity for the settling sludge to be drawn off from the clarifiers, extending the clarification capability for a better quality effluent. The limiting factor is the rated capacity of the percolation pond system for discharge of treated effluent.

The annual average daily flow for the historic year was 77,200 gpd, which represents the demand of a very seasonal customer base.

For the projected test year, using the estimated 787 ERCs, the estimated AADF is 95,728 gpd. By using the annual growth rate of 40 ERCs, we estimate that the demand for wastewater treatment will grow by 24,327 gpd over the five year statutory growth period. It appears that the utility will need to increase its discharge capacity. This issue is addressed later in this Order. In accordance with the calculation sheet, infiltration is subtracted from the demand and the growth. However, there does not appear to be excessive infiltration occurring within the collection system. Therefore, the formula used on the calculation sheet, which is depicted in Attachment A, indicates a used and useful of 100%. This percentage shall be applied to:

Account No. 355 Power Generation Equipment
Account No. 364 Flow Measuring Devices
Account No. 365 Flow Measuring Installations
Account No. 380 Treatment and Disposal Equipment
Account No. 381 Plant Sewers
Account No. 382 Outfall Sewer Lines
Account No. 489 Other Plant and Miscellaneous Equipment

Wastewater Collection System

For the wastewater collection system, the utility's potential customer base is 1,013 ERCs. This differs from the water distribution system by the 10 ERCs associated with two large irrigation service meters. For the projected test year, the estimated number of customers in ERCs is 787, and the allowance for growth over the statutory five years brings the number of ERCs served up to 987. It is anticipated that the utility will actually reach its potential customer capacity by the end of the statutory growth period, if not prior to that time. In accordance with the formula method used on the calculation sheet, depicted on Attachment A, used and useful is calculated to be more than 97%. Recognizing the level of precision associated with the estimates underlying the calculation, in addition to utility planning, we find that the wastewater collection system shall be considered 100% used and useful, and that that percentage shall be applied to the following accounts:

Account No. 360 Collection Sewers - Force
Account No. 361 Collection Sewers - Gravity
Account No. 362 Special Collecting Structures

Account No. 363 Services to Customers
Account No. 370 Receiving Wells

PROJECTED TEST YEAR END RATE BASE

We set rate base for this utility by Order No. PSC-93-0194-FOF-WS, issued February 9, 1993, in Docket No. 920588-WS. The utility adjusted its books and records to match the rate base set forth in that order and has maintained its books and records under the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) for Class B utilities.

We have selected a projected test year ending September 30, 2001, and the rate base components have been calculated using the utility's books and records for a plant balance through September 30, 2001. Because we have selected a projected year end rate base, no averaging adjustments have been made.

Rate base is shown on Schedules 1-A and 1-B. Related adjustments are shown on Schedule 1-C. These schedules are incorporated herein by reference. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Utility Plant-in-Service (UPIS)

The utility recorded a UPIS balance of $1,110,101 for water and $1,693,393 for wastewater during the historical test year. We increased UPIS for water by reclassifying $4,626 from operations and maintenance expense (O&M) ($1,217 from purchased power and $3,408 from materials and supplies) to account number 334 to capitalize meters. We also increased this account for water by reclassifying $7,101 from O&M ($6,748 from repairs and maintenance and $353 from materials and supplies) to account number 311 for pumping equipment. We increased this account for wastewater by reclassifying $209 from O&M expenses to account number 354.

The utility recorded $1,391 each for water and wastewater in the miscellaneous expense account for pipe finding equipment. We increased UPIS for both water and wastewater by $1,391 to reclassify and capitalize pipe finding equipment from the miscellaneous expense account.

The utility recorded $49,771 in Construction Work in Progress (CWIP) for the historical test year ended September 30, 2000, for work on a new pump. During the audit, we determined that the new pump was complete and in use. We increased UPIS by $49,771 for water to reclassify CWIP to UPIS.

The utility installed 480 residential meters since the last rate case. The utility capitalized the cost of the meters but did not record the cost of the meter installation. We increased water account 334 by $12,425 to capitalize unrecorded meter installation cost.

During the audit and engineering evaluation of this utility, we discovered that the utility's spray field was no longer in use and would not be used in the future. The utility switched exclusively to percolation ponds per an agreement with DEP. We find that the spray field should be retired and that this retirement shall be considered an abandonment/early retirement. We decreased this account for wastewater by $28,626 to remove the cost of the spray field from UPIS. The utility only capitalized the cost of the pipes and pumps associated with the spray field, not the value of the land. Loss calculations and amortization of the early retirement will be discussed later in this Order.

Pro Forma Plant

As previously discussed, the utility is experiencing extraordinary growth and thus has provided us with a list of pro forma plant additions to be installed during the projected test year. The utility has requested $32,000 for a generator to provide auxiliary power to both the water and wastewater plants. We find this amount to be reasonable, and we increased UPIS by $16,000 for both water and wastewater. The utility has requested $100,000 for a hydropneumatic tank for its water plant and $157,097 to construct additional percolation ponds and install a surge tank at the wastewater plant to handle excess effluent during peak flows. We find these amounts to be reasonable, and we increased UPIS by $100,000 for water and $157,097 for wastewater.

The total adjustment for pro forma plant is $116,000 for water and $173,097 for wastewater. The net adjustment to UPIS is an increase of $191,314 for water and $146,071 for wastewater. UPIS is $1,301,415 for water and $1,839,464 for wastewater.

Land

Land values for this utility of $21,115 for water and $57,035 for wastewater were determined by Order No. PSC-93-0194-FOF-WS. There have been no changes in land since that order. Therefore, no adjustments to this account were made.

Non-used and Useful Plant

Our staff engineer determined the used and useful percentages for each plant account including pro forma plant items. Applying the non-used and useful percentages to the water treatment plant results in non-used and useful plant of $91,307 for water. The non-used and useful accumulated depreciation is $56,871 for the water treatment plant. This results in a net non-used and useful adjustment of $34,436 for water. The water distribution system was determined to be 100% used and useful. The wastewater treatment plant and collection system were also determined to be 100% used and useful, therefore, no adjustments have been made to wastewater.

Contribution in Aid of Construction (CIAC)

The utility recorded CIAC of $506,218 for water and $903,278 for wastewater during the historical test year. The utility has added 480 new residential connections since Order No. PSC-93-0194-FOF-WS was issued. The utility's current tariffed meter installation charge is $75 for residential customers. The utility, however, did not collect the meter installation fee from any of its new customers. We increased CIAC for water by $36,000 to reflect CIAC that should have been collected by the utility.

The utility's current meter installation charge for general service customers is actual cost. The utility added two 1 1/2 inch meters for general service customers at a total cost of $758. We increased CIAC for water by $758 to reflect CIAC that should have been collected by the utility.

Accumulated Depreciation

The utility recorded $412,581 for water and $369,409 for wastewater during the historical test year. Consistent with our practice, we calculated accumulated depreciation using the prescribed rates in Rule 25-30.140, Florida Administrative Code.

The calculated accumulated depreciation on September 30, 2000, is $451,685 for water and $346,287 for wastewater. Therefore, we increased this account by $39,104 for water and decreased this account by $23,112 for wastewater. We also decreased this account by $4,487 for wastewater to remove the depreciation associated with the spray field abandonment.

We increased this account by $51,359 for water and $75,002 for wastewater to reflect accumulated depreciation for the one year period ending September 30, 2001. We also increased this account by $2,135 for water and $5,710 for wastewater to reflect one half year of depreciation on pro forma plant. The net adjustment to this account is an increase of $92,598 for water and $53,113 for wastewater.

Amortization of CIAC

The utility recorded amortization of CIAC of $105,071 for water and $184,932 for wastewater during the historical test year. Consistent with our practice, we calculated amortization of CIAC using composite depreciation rates. The calculated historical test year-end amortization of CIAC is $116,866 for water and $166,111 for wastewater. We increased this account by $11,795 for water and decreased this account by $18,821 for wastewater to reflect the calculated amortization of CIAC as of September 30, 2000.

We increased this account by $23,525 for water and $40,656 for wastewater to reflect amortization of CIAC for the one year period ending September 30, 2001.

Working Capital Allowance

Consistent with Rule 25-30.433(2), Florida Administrative Code, the one-eighth of operation and maintenance (O&M) expense formula approach was used to calculate working capital allowance. Applying this formula, we determined a working capital allowance of $15,939, based on O&M of $127,515, for water and $12,898, based on O&M of $103,187, for wastewater. The utility did not record a working capital allowance. Working capital increased by $15,939 and $12,898 for water and wastewater, respectively, to reflect one-eighth of O&M expenses.

Based on the foregoing, we find that the appropriate projected test year end rate base is $396,269 for water and $790,364 for wastewater. The utility shall complete all pro forma additions, as discussed above, within twelve months of the effective date of this Order.

COST OF CAPITAL

Based on the utility's records, as of September 30, 2000, Pennbrooke's capital structure consisted of the following: common stock of $50; paid-in-capital of $249,950; negative retained earnings of $599,388; and long term debt of $827,228. The utility also had an unrecorded loan of $71,076 with the related party developer. This amount was not supported by a debt instrument with a stated interest rate. Order No. PSC-00-1165-PAA-WS, issued June 27, 2000, in Docket No. 990243-WS, classifies utility debt that is not supported by a debt instrument or an interest cost as other common equity.

As previously noted, Pennbrooke is a wholly-owned subsidiary of Leisure Communities, Ltd., the developer of the service territory served by the utility. According to the utility, the source of funds for utility operations comes entirely from Leisure Communities, Ltd., and the utility's actual capital structure is essentially 100% debt. Leisure Communities, Ltd.'s loans to the utility are at a rate of Prime plus 1%. We find that the loan rates from the parent company are reasonable. In a similar situation, by Order No. PSC-01-0327-PAA-WU, issued February 6, 2001, in Docket No. 000295-WU, we approved the use of the utility's capital structure rather than the parent company's capital structure. Likewise, the utility's capital structure in lieu of the parent company's capital structure was used in this instance.

We increased other common equity by $71,076 to reflect the cost of the related party loan not supported by a debt instrument. We adjusted capital structure by increasing total common equity by $278,312 to remove the negative equity amount. The utility has requested pro forma plant additions in the amount of $289,097. The utility plans to fund the pro forma additions with debt. We increased pro forma debt by $289,097 at a cost of Prime plus 1%.

None of the utility's total capital structure is represented by common equity. Using the current leverage formula approved by

Order No. PSC-00-1162-PAA-WS, issued June 26, 2000, in Docket No. 000006-WS, for all equity ratios less than 40%, the rate of return on common equity shall be 9.94% with a range of 8.94% - 10.94%.

The utility's long-term debt, which is 100% of the utility's capital structure, consists of an existing loan (74.1%) with a variable interest cost of Prime plus 1%, and pro forma debt (25.9%) at an interest cost of Prime plus 1%. The Prime interest rate as of March 21, 2001 is 8%. Based upon a current Prime rate of 8%, the interest rate on loans from the parent company is 9%. We have determined weighted average cost of debt to be 9.00%.

The utility currently has a tariffed charge for customer deposits. Pennbrooke has never charged its customers a deposit and does not plan on charging its new customers an initial deposit. Nevertheless, the utility would like to keep its customer deposit tariff to charge customers with a poor payment record pursuant to Rule 25-30.311(7), Florida Administrative Code. Therefore, we did not increase customer deposits in the calculation of capital structure for future customers. The appropriate rate for customer deposits will be discussed later in this Order.

The utility's capital structure has been reconciled with the rate base. Applying the cost of each capital component multiplied by the pro-rata share of each component results in an overall rate of return of 9.00%.

We find that the appropriate rate of return on equity for this utility is 9.94% with a range of 8.94% - 10.94%, and the appropriate overall rate of return for this utility is 9.00%.

The return on equity and overall rate of return are shown on Schedule 2, which by reference is incorporated herein.

NET OPERATING INCOME

The utility recorded revenues for the 12-month period ending September 30, 2000, of $195,574 and $100,434 for water and wastewater, respectively.

The utility's current residential tariff authorizes a base facility charge of $5.78 and a gallonage charge of $1.76 per 1,000 gallons for water and a base facility charge of $5.66 and a

gallonage charge of $1.21 per 1,000 gallons for wastewater. The utility's current general service tariff authorizes a base facility charge of $5.78 and a gallonage charge of $1.76 per 1,000 gallons for water and a base facility charge of $5.66 and a gallonage charge of $1.45 per 1,000 gallons for wastewater. The utility's existing rates became effective November 1, 2000.

We calculated annualized revenue for the historical test period using the current rates multiplied by the number of bills and consumption provided in the billing analysis. Test year revenues were increased by $6,370 for water and $7,220 for wastewater to reflect annualized revenue based on the existing rates.

The utility did not bill three related party customers during the historic test year. We increased revenues by $2,374 for water and $1,660 for wastewater to reflect uncollected revenue from related parties. The utility must include billing for related parties to fairly represent all revenues received by the utility.

We increased historical test year revenues by $59,152 for water and $29,114 for wastewater to reflect revenues based on the total number of additional residential ERCs at projected test year end and average use for those additional ERCs. We find that the appropriate test year revenues are $263,470 for water and $138,428 for wastewater.

Test year revenues are shown on Schedules 3-A and 3-B. The related adjustments are shown on Schedule 3-C. These schedules are incorporated herein by reference.

OPERATING EXPENSE

As previously noted, Pennbrooke is a subsidiary of a larger development company. In many cases, companies fail to allocate a proper percentage of their operating expenses to the utility. We requested and received an allocation from the utility for additional expenses not included in the audit that should be allocated to the utility for the projected test year. The utility also included an account titled Repairs and Maintenance that is not an account under the NARUC USOA. We reallocated amounts from this account to the proper NARUC accounts.

The utility provided the auditor with all invoices, canceled checks, and other utility records to verify its O&M and taxes other than income expense for the 12-month period ended September 30, 2000. Using the documents provided by the utility and the audit, we determined the appropriate operating expenses for the projected test year and a breakdown of expenses by account class. The utility recorded O&M expenses of $62,905 for water and $49,162 for wastewater and taxes other than income of $21,735 for water and $16,061 for wastewater. Adjustments have been made to reflect the appropriate annual operating expenses that are required for utility operations on a going-forward basis.

Operations and Maintenance Expenses (O&M)

Salaries and Wages - Employees

The utility recorded salaries and wages expense of $5,397 for both water and wastewater during the historic test year. These amounts include $2,480 per system for a contracted meter reader. We decreased this account by $2,480 for both water and wastewater to reallocate meter reader expense to Contractual Services - Other.

The remaining $2,917 each for water and wastewater consists of employee expenses for billing, accounts payable, and accounting services. The utility did not allocate salaries and wages expense properly from the parent company during the historic test year. The utility provided the following allocations for both water and wastewater: 1) $4,116 for a billing clerk; 2) $704 for an accounts payable clerk, and 3) $16,440 for an accountant.

We find that $16,440 for an accountant is excessive based on what we have allowed for other utilities of this size. We find that $8,940 per year per system is an appropriate amount for the accountant. We find that the rates and hours for the billing clerk and the accounts payable clerk to be reasonable and in line with amounts allowed for other utilities of this size. We increased this account by $10,843 for both water and wastewater to reflect the proper allocation of employee expenses.

The net adjustment to this account is an increase of $8,363 for both water and wastewater. We have determined salaries and wages expense to be $13,760 for water and wastewater each.

Salaries and Wages - Officers

The utility did not record an amount in this account for water and wastewater during the historic test year. As stated above, the utility did not allocate expenses properly from the parent company. The utility provided the following annual allocations per system: 1) $17,150 for the president/general manager; and 2) $10,200 for the vice president.

We find that 590 hours for the president is excessive for a utility this size. We have previously allowed 490 hours per year, resulting in an allowance of $17,150 per system for a utility of this size. We also find that $60 an hour for the vice president is excessive. Instead we have allowed a $35 an hour rate for the vice president and an annual allowance of $5,950 per system. We increased this account by $23,100 for both water and wastewater.

Employee and Pension Benefits

The utility did not record an amount in this account for water and wastewater during the historic test year. As stated above, the utility did not allocate expenses properly from the parent company. The utility provided the following annual allocations per system: 1) $483 for the billing clerk; 2) $89 for the accounts payable clerk; 3) $759 for the accountant; 4) $255 for the president/general manager; and 5) $220 for the vice president.

We finds these amounts to be reasonable and have increased this account by $1,806 for both water and wastewater.

Purchased Sludge Hauling

The utility did not record any amount in this account during the historic test year. We increased this account by $4,800 to reclassify sludge hauling expense from repairs and maintenance, which is not a NARUC account. We also increased this account by $4,712 to allow for additional sludge hauling. We included an increase of $103 to allow for an inflation adjustment for the projected test year giving the utility an annual expense of $9,512 for sludge hauling. This amount will allow the utility to remove sludge from its facility twice a year.

Purchased Power

The utility recorded $18,196 for water and $17,874 for wastewater in this account during the historic test year. We increased this account by $1,127 for water and decreased this account by $1,127 for wastewater to reallocate electric expense associated with the water system. We decreased this account by $2,151 for water and $1,533 for wastewater to remove non-utility electric expense. We also decreased this account by $1,217 for water to reclassify the cost of meters recorded in this account to UPIS.

The utility received a rate increase in its electrical service and added a new lift station during the historic test year. We increased this account by $5,745 for water and $3,086 for wastewater to reflect the increased rates and the cost of providing power to the new lift station. We also included a projected test year inflation adjustment of $238 and $249 for water and wastewater, respectively.

The net adjustment to purchased power is an increase of $3,742 for water and an increase of $675 for wastewater.

Fuel for Power Production

The utility maintains a 200KW diesel backup generator at its water plant. The utility will be installing a similar generator during the projected test year for the wastewater plant. The utility runs the generator periodically to verify ongoing operational capability. We added this account and increased it by $260 for both water and wastewater to reflect the cost associated with running the generator for general maintenance tests.

Chemicals

The utility recorded $10,799 for water and $3,713 for wastewater in this account during the historic test year. We decreased this account by $210 for water and increased this account by $210 for wastewater to reallocate chemical expense recorded in the water account. We increased this account by $805 for water to reclassify chemical expense from materials and supplies. Our staff engineer calculated the projected gallons to be used by the utility and the cost per gallon. We increased this account by $4,255 for

water and $2,712 for wastewater to reflect chemicals needed to treat projected gallons. We included an increase of $213 and $90 for water and wastewater, respectively, for an inflation adjustment for the projected test year

The net adjustment to this account is an increase of $5,063 for water and $3,012 for wastewater.

Materials and Supplies

The utility recorded $4,790 for water and $1,532 for wastewater in this account during the historic test year. We decreased this account by $3,408 for water to reclassify the cost of meters recorded in this account to UPIS. We also decreased this account by $353 for water and $209 for wastewater to capitalize pumping equipment and a new catwalk/stairway. We reclassified $805 for water from this account to chemicals to remove chemical expense. We increased these accounts $3 and $18 for water and wastewater, respectively, to reflect a projected test year inflation adjustment.

Contractual Services - Testing

The utility did not record any amount in this account for either the water or wastewater system. Each utility must adhere to specific testing conditions prescribed within its operating permit. These testing requirements are tailored to each utility as required by Rules 62-550 and 551, Florida Administrative Code, and enforced by the DEP. The tests and the frequency at which those tests must be repeated for this utility are:

Water

Test	Frequency	Amount
Microbiological	Monthly	$360
Lead & Copper	2 Years	$250
Sub Total		$610

The following tests are paid by the utility as a lump sum:

Test	Frequency	Amount
Nitrate & Nitrite	Yearly	
VOC's	3 Years	
Radionuclide	3 Years	
Asbestos	9 Years	
Unregulated Organics	3 Years	
P&S Inorganic	3 Years	
Pest $ PCB's	3 Years	
Lump Sum Total		$532
Total		$1,142

Wastewater

Test	Frequency	Amount
Sludge Analysis	Yearly	$300
CBOD (includes Nitrates)	Monthly	$660
TSS	Monthly	$146
Test Well Monitoring	Yearly	$250
Fecal Coli	Monthly	$180
Total		$1,536

We increased contractual services testing by $1,142 for water and $1,536 for wastewater to reflect annual DEP required testing.

Contractual Services - Other

The utility recorded $5,306 for water and $9,057 for wastewater in this account during the historic test year. These amounts include fees for the contracted operator. We increased this account by $2,765 for water and $1,373 for wastewater to reclassify miscellaneous repairs from repairs and maintenance, which is not a NARUC account.

We increased this account by $2,480 for both water and wastewater to reclassify meter reader expense from salaries and employees expense. The utility contracts a meter reader at $0.60

per meter. We increased this account by $332 for both water and wastewater to reflect meter reading expense based on 781 meters. We increased this account by $1,498 for water and by $1,282 for wastewater to meet operator services for the projected test year.

We increased this account by $429 for both water and wastewater to reflect accounting services rendered for annual reports and taxes. We also increased this account by $900 for water and $1,100 for wastewater to allow for grounds keeping expense. We increased this account by $56 for water and $39 for wastewater to allow for an inflation adjustment for the projected test year.

The net adjustment to this account is an increase of $8,460 for water and $7,035 for wastewater.

Rents

The utility did not record an amount in this account for water and wastewater during the historic test year. The utility did not allocate rent expense properly from its parent company. The utility provided us with an allocation of $1,800 per year for both water and wastewater. The utility allocated an additional $370 for the projected test year that we find unnecessary. The proposed rent allocation should not increase in correlation with the annual increase in customers. The net adjustment to this account is an increase of $1,800 each for water and wastewater.

Transportation Expense

The utility did not record an amount in this account for water and wastewater during the historic test year. We have determined that this utility incurs transportation expense during the year. In the performance of utility duties, the local manager is required to attend meetings with regulatory personnel, run errands, make bank deposits, and make visits to the home office. We find that an allowance of 250 miles per week is reasonable for these activities. We find that the appropriate amount for transportation expense is $0.29 per mile or $1,885 annually per system.

The utility also uses a golf cart to tour the service area. We find that $50 per month or $600 annually per system is a reasonable amount for the use of the golf cart. We also find that a projected test year inflation increase of $34 for each system is appropriate.

The net adjustment to this account is an increase of $2,519 each for both water and wastewater.

Repairs and Maintenance

As previously discussed, NARUC USOA does not contain such an account classification. The utility recorded $9,513 for water and $6,173 for wastewater in this account during the historic test year. We reallocated $6,748 to UPIS and $2,765 to Contractual Services - Other for water and $4,800 to Sludge Removal Expense and $1,373 to Contractual Services - Other for wastewater to remove all amounts from this account.

Insurance General Liability

The utility did not record an amount in this account for water and wastewater during the historic test year. The utility did not allocate insurance expense properly from its parent company. The utility provided an allocation of $1,544 ($944 General Liability and $600 Property Coverage) for water and $1,055 ($455 General Liability and $600 Property Coverage) for wastewater for this account. We find these amounts to be reasonable, and we increased this account by $1,544 for water and $1,055 for wastewater. We included an additional increase of $170 and $82 for water and wastewater, respectively to meet allocations for the projected test year.

Insurance - Workers' Compensation

The utility did not record an amount in this account for water and wastewater during the historic test year. As stated above, the utility did not allocate expenses properly from its parent company. The utility provided an allocation of $168 for both water and wastewater for this account. We find this amount to be reasonable, and we have increased this account by $168 for both water and wastewater.

Permits and Fees

The utility recorded $6,855 for water and $3,671 for wastewater in this account during the historic test year. We decreased this account by $6,830 for water and $3,321 for wastewater to reclassify regulatory assessment fees (RAFs) to taxes other than income.

Regulatory Commission Expense

The utility did not record an amount in this account for water and wastewater during the historic test year. The utility paid a $1,000 rate case filing fee per system pursuant to Rule 25-30.020, Florida Administrative Code. We increased this account by $250 each for water and wastewater to recognize the filing fee over a four year period.

Water Resource Conservation

The utility's customers on average use an excessive amount of water. We allowed an amount of $25,000 for water resource conservation expense so that the utility can invest in conservation programs to reduce the amount of water consumed by its customers. This matter is discussed in more detail later in this Order.

Miscellaneous Expense

The utility recorded $2,049 for water and $1,421 for wastewater in this account during the historic test year. Of this amount, the utility recorded $408 for office supplies in the water account only. We increased this account by $1,392 for water and $1,800 for wastewater to reflect an appropriate allocation of office supplies from the parent company.

We increased this account by $1,523 for both water and wastewater to reflect postage based on 769 non-related party customers at $0.33 per stamp. We decreased this account by $1,391 for both water and wastewater to capitalize pipe finding equipment. We have allowed an increase of $605 for each system to adjust for the projected test year.

O&M Summary

Total O&M adjustments result an increase of $64,610 for water and $54,025 for wastewater. Thus, we find that O&M expenses are $127,515 for water and $103,187 for wastewater. O&M expenses are shown on Schedules 3-E and 3-F, which by reference are incorporated herein.

Depreciation Expense

The utility recorded depreciation expense of $41,555 for water and $45,446 for wastewater and CIAC amortization of $25,942 for water and $38,724 for wastewater during the historic test year. We have calculated depreciation expense using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Calculated depreciation is $55,630 for water and $86,421 for wastewater. Therefore, we increased this account by $14,075 for water and $40,975 for wastewater.

Non-used and useful depreciation and amortization of CIAC has a negative impact on depreciation expense. We decreased this account by $5,110 for water to reflect non-used and useful depreciation. Wastewater is 100% used and useful. Calculated amortization of CIAC is $23,210 for water and $42,438 for wastewater. Therefore, we increased this account by $2,732 for water and decreased this account by $3,714 for wastewater. The calculated net depreciation expense is $27,310 for water and $43,983 for wastewater.

Amortization

As previously noted, the utility has abandoned its spray field. We find that this is a prudent retirement. Rule 25-30.433(9), Florida Administrative Code, specifies that:

> the amortization period for a forced abandonment or the prudent retirement, in accordance with the NARUC Uniform System of Accounts, of plant assets prior to the end of their depreciable life shall be calculated by taking the ratio of the net loss (original cost less accumulated depreciation and contributions in aid of construction (CIAC) plus accumulated amortization of CIAC plus any cost incurred to remove the asset less any salvage value) to the sum of the annual depreciation expense, net of amortization of CIAC, plus an amount equal to the rate of return that would have been allowed on the net invested plant that would have been included in rate base before the abandonment or retirement. This formula shall be used unless the specific circumstances surrounding the abandonment or retirement demonstrate a more appropriate amortization period.

Based on Rule 25-30.433(9), Florida Administrative Code, we determined an amortization period of seven years. The utility's net loss is the original cost of the asset less accumulated depreciation, less salvage value, plus the cost of removal. The original cost of the spray field as recorded by the utility consisted of piping and pumping equipment. The utility recorded no salvage values for these items. The related party developer removed the piping and equipment at no cost to the utility. Therefore, the net loss equals $24,139. The appropriate annual amortization expense is $3,448.

Taxes Other Than Income

The utility recorded $21,735 for water and $16,061 for wastewater in this account during the historic test year. We made the following adjustments to this account:

Taxes Other Than Income - Water

Description	Per Utility		Commission Adjustment	Total
Payroll	$413	A	$1,976	$2,389
RAFs	$0	B	$11,856	$11,856
Ad valorem	$21,213	C	($21,069)	$144
Florida Sec. Of State - Ann. Rpt.	$79		$ 0	$79
County Occupation License	$30		$0	$30
Tangible Property	$0	C	$20,598	$20,598
Totals	$21,735		$13,361	$35,096

Taxes Other Than Income - Wastewater

Description	Per Utility		Commission Adjustment	Total
Payroll	$413	A	$1,976	$2,389
RAFs	$0	B	$6,229	$6,229
Ad valorem	$15,539	C	($15,068)	$471
Florida Sec. Of State - Ann. Rpt.	$79		$0	$79
County Occupation License	$30		$0	$30
Tangible Property	$0	C	$15,539	$15,539
Totals	$16,061		$8,676	$24,737

A. The utility included $190 for both water and wastewater for the contracted meter reader. We removed this amount from both water and wastewater. We calculated social security taxes of $1,734 and unemployment tax of $432 for both water and wastewater, based the allowances for employee expense. We increased this account by $1,976 for both water and wastewater.

B. We increased this account by $6,830 for water and $3,321 for wastewater to reclassify RAFs from the permits and fees expense account. We also increased this account by $5,026 for water and $2,908 for wastewater to reflect RAFs calculated on projected annualized revenue. The net adjustment to this account is an increase of $11,856 for water and $6,229 for wastewater.

C. We reclassified $20,598 for water and $15,068 for wastewater from ad valorem taxes to tangible property taxes. We also reclassified ad valorem taxes of $471 from the water to wastewater.

Income Tax

Pennbrooke is a 1120 corporation. Because the utility's capital structure is 100% debt, the rate of return is equal to

interest expense. Therefore, the utility will not incur income tax liability based on rates approved by this Order.

Operating Revenues

Revenues have been decreased by $39,671 for water and increased by $113,194 for wastewater to reflect the increase in revenue required to cover expenses and allow the return on investment set forth in this Order.

Taxes Other Than Income

This expense has been decreased by $1,785 for water and increased by $5,094 for wastewater to reflect regulatory assessment fees of 4.5% on the increase/decrease in revenues.

Operating Expenses Summary

The application of the adjustments to the audited test year operating expenses results in operating expenses of $188,136 for water and $180,489 for wastewater.

Operating expenses are shown on Schedules 3-A and 3-B. The related adjustments are shown on Schedules 3-C and 3-D. These schedules are incorporated herein by reference.

REVENUE REQUIREMENT

Based on the revenue requirement set forth below, the utility earned in excess of the rate of return set forth in this Order for its water system. The utility is overearning on its water system and a revenue decrease is normally the appropriate action under these circumstances. According to our calculations, the appropriate revenue annual decrease is $39,670 (-15.06%) for water and an annual increase is $113,194 (81.77%) for wastewater. This will allow the utility the opportunity to recover its expenses and earn a 9.0% return on its investment. Our current practice for calculating revenue is as follows:

	Water	Wastewater
Adjusted rate base	$396,269	$790,364
Rate of Return	x .090	x .090
Return on investment	$ 35,664	$ 71,133
Adjusted O & M expense	$127,515	$103,187
Depreciation expense (Net)	$ 27,310	$ 43,983
Amortization	$0	$ 3,488
Taxes Other Than Income	$ 33,311	$ 29,831
Revenue Requirement	$223,800	$251,622
Projected Test Year Revenues	$263,470	$138,428
Percent Increase/(Decrease)	(15.06)%	81.77%

As previously discussed, the utility's projected test year revenues are $263,470 for water and $138,428 for wastewater. The above calculation results in an 15.06% annual decrease of $39,670 for water and an 81.77% annual increase of $113,194 for wastewater. However, we are not approving a rate decrease for water. The wastewater system shall absorb the reduction in revenue requirement from the water system.

Lake County has been designated as a water caution area by the SJRWMD. Several of the utility's customers use an excessive amount of water. A reduction in water rates would promote more of this behavior. Through our Memorandum of Understanding (MOU) with the Water Management Districts, we have set rates with conservation in mind. According to the utility's CUP, September 30, 1999, the utility must implement a conservation rate structure within two years of permit issuance. Reducing the water revenue requirement would not allow us to construct a meaningful conservation rate structure. The water and wastewater systems have the same customer base, therefore, a reallocation of revenue requirement between systems will have the same net effect on customers. A reduction of water rates, when a logical alternative exists, would not be

consistent with either the utility's CUP or our MOU with the Water Management Districts in this instance.

In Order No. PSC-97-1501-FOF-WS, issued November 25, 1997, in Docket No. 961364-WS, and in Order No. PSC-96-1205-FOF-WS, issued September 23, 1996, in Docket No. 960011-WS, we used net revenue requirement to determine over earnings. We recalculated revenue requirement for rate setting purposes as follows:

	Water	Wastewater
Adjusted rate base	$396,269	$790,364
Rate of Return	x .090	x .090
Return on investment	$ 35,664	$ 71,133
Adjusted O & M expense	$127,515	$103,187
Depreciation expense (Net)	$ 27,310	$ 43,983
Amortization	$ 0	$ 3,488
Taxes Other Than Income	$ 33,311	$ 29,831
Reallocation of Negative Revenue Requirement	$ 39,670	($39,670)
Revenue Requirement	$263,470	$211,952
Projected Test Year Revenues	$263,470	$138,428
Percent Increase/(Decrease)	0.00%	53.11%

The revenue requirements are shown on Schedules 3-A and 3-B, which are incorporated herein by reference.

DISPOSITION OF OVEREARNINGS

As mentioned above, we entered into a MOU with the Water Management Districts, in which our agencies recognized that it is in the public interest to engage in a joint goal to ensure the efficient and conservative utilization of water resources in

Florida, and that a joint cooperative effort is necessary to implement an effective, state-wide water conservation policy. Since entering into the MOU, we have increased our efforts in assisting the Water Management Districts in achieving conservation goals. More recently, we worked with the SJRWMD and the Southwest Florida Water Management District (SWFWMD) in tailoring conservation programs for jurisdictional utilities that are designed to achieve significant and lasting water use reductions. We find that reasonable expenses for such programs should be included in utility rates, because the Water Management Districts hold the utilities, rather than utilities' customers, responsible for reductions in water use.

As previously discussed, Pennbrooke is located in a designated water resource caution area. Furthermore, a "declared water shortage" condition has been issued in numerous Florida counties, including Lake County. This means that mandatory watering restrictions are now in place, and law enforcement agencies may issue citations to anyone violating those restrictions.

As one means of addressing the high residential usage, and absent an increase in water system revenue requirement, Pennbrooke shall implement an aggressive, proactive water conservation program geared to achieve significant, lasting reductions in consumption. We have taken a similar approach in prior cases involving excess earnings, low rates and high consumption. See, e.g., Order No. 23809, issued November 27, 1990, in Docket No. 900338, wherein, we required Sanlando Utilities Corporation (Sanlando) to set aside $25,008 in annual revenues for future expenses specifically related to water conservation. Additionally, by Order No. PSC-93-1771-FOF-WS, issued on December 10, 1993, in Docket No. 930256-WS, we approved an inclining block rate structure for Sanlando for the purpose of funding future capital investment related solely to conservation.

Moreover, we recently made a similar finding in a case involving excess earnings, low rates and high consumption utility located in Lake County. In Order No. PSC-00-1165-PAA-WS, issued June 27, 2000, in Docket No. 990243-WS, we required Sun Communities Finance Limited Partnership to implement a conservation program developed in conjunction with the utility, our staff and the SJRWMD. Specifically, we approved an aggressive conservation program which included such items as xeriscape consulting and

rebates, installation of moisture sensors, meter replacements and irrigation audits. There are similar circumstances regarding the need for conservation in the instant proceeding. Although the conservation program ultimately decided upon will come at some material cost for a utility of this size, we find that the circumstances in this case warrant such measures.

Pennbrooke is an established utility with usage patterns consistently showing excess consumption. Furthermore, the utility is able to comply with District and Commission requirements and implement conservation measures. Additionally, as discussed below, we will monitor the utility's progress on a quarterly basis in order to ensure compliance with this Order. These factors provide sufficient assurance that the conservation program will, in fact, be implemented.

Before settling on a conservation program for this utility, our staff will meet with the utility and the SJRWMD in order to assess the consumption habits and needs of the utility's customers, and discuss measures that would best achieve the District's conservation goals. The conservation measures and associated estimated costs listed below, developed in conjunction with the SJRWMD, represents a range of alternatives regarding the selection of a conservation program.

CONSERVATION PRACTICES FOR PENNBROOKE UTILITIES, INC.			
SPECIFIC CONSERVATION PRACTICE	**PURPOSE**	**PRACTICE**	**ESTIMATED COST**
SYSTEM AUDITS	To provide baseline information to identify opportunities to improve water use efficiency and reduce system losses and unnecessary or wasteful uses, and to assess progress toward improving efficiency and reducing waste.	Perform annual audits of production, treatment and distribution systems and develop measurements of end-user water use for indoor and outdoor uses. System audits are now required as part of the SJRWMD consumptive permit.	$500 to $10,000, depending on whether a consultant is needed.

METER REPLACEMENT PROGRAM	To assure that water distributed through the utility system is accounted for by accurate customer meters and meter reading procedures. Accurate data utilized in synchrony with accurate billing methods should provide a methodology that will allow the utility to identify problems or losses throughout the distribution system and ultimately reduce any unaccounted for water losses. It also assures that the water user is appropriately charged for the water, thereby increasing incentive to conserve.	If not already in practice, implement a periodic meter replacement or reconditioning program for all meters with an error rate exceeding 5% OR for all meters that have exceeded the manufacturer's recommended use volume or age.	$5,000 annually
UTILITY SYSTEM LEAK DETECTION AND REPAIR	To reduce the loss of unused water resulting from leakage in the transmission and distribution system.	If the annual water audit indicates that greater than 10% of the water leaving the treatment facility cannot be accounted for by an end use, implement a leak detection and repair program for older parts of the utility's transmission and distribution system.	$0 to $20,000, depending on the system's condition.
MONTHLY CUSTOMER BILLING	To allow customers the ability to associate monthly water use patterns with water use and the resulting water and wastewater costs. Also, it allows customers the ability to monitor the effectiveness of implemented water conservation or water use pattern changes by providing them with the tools to visualize water use reductions and reduced water charges.	If not already in place, implement an envelope style monthly style billing system. Include, at a minimum, the following information in each monthly bill: a) water conservation tip or bill stuffer; b) water use for the current billing month; c) previous month's water use; d) corresponding month's water use for the previous year; e) rate per unit volume charged for water.	$0 to $5,000, depending on current billing practice.

WATER CONSERVATION EDUCATION	To enhance public consciousness on the importance of water conservation, water conservation practices, and its value of water conservation to individual home owners and business people.	Participate in the SJRWMD cooperative water conservation education project. Areas of education include, but are not limited to: 1) arrange for local broadcast of public service announcements provided by SJRWMD on local radio and TV stations; 2) construct, maintain and publicize a water efficient landscape demonstration project in a highly visible location; 3) provide water conservation exhibits in public places such as shopping malls and government buildings; 4) provide landscape irrigation audits and irrigation system operating instructions to local small businesses and residents; and 5) establish a water audit customer assistance program which addresses both indoor and outdoor water use.	$15,000 to $25,000
UTILITY OWNED IRRIGATION SYSTEMS	To reduce landscape wastage.	Have all landscape irrigation equipment owned or operated by the utility or its successor inspected annually by a professionally certified irrigation designer or installation contractor and correct any deficiencies found within 30 days of identification.	$1,000 to $5,000 annually depending on extent of area.
MAINTAINING RECORDS AND REPORTING OF ACTIVITIES	To maintain records of when and where all conservation practices are implemented and submit activity reports on a regular basis to the PSC and the SJRWMD.		$1,000 annually

The utility shall spend $25,000 of the overearnings to implement a water conservation program. The utility shall, at a minimum, spend the money for each of the first two years of its

conservation program, and shall file quarterly reports with this Commission on its program covering the same two year period. These reports shall list the conservation measures that were implemented during the period and the amounts expended. Our staff will confer with the SJRWMD in reviewing the reports in order to evaluate the effectiveness of the program and ensure that the program and amounts spent are consistent with this Order. As previously discussed, the remainder of the water system overearnings shall be used to offset the wastewater system revenue requirement increase.

RATE STRUCTURE, RATES AND TARIFF CHARGES

The utility's current rate structures for both its water and wastewater systems consist of a traditional base facility charge (BFC) and uniform gallonage charge rate structure. Pennbrooke's CUP contains a condition that the utility "develop, and obtain District approval of, a proposed water conserving rate structure within two years of permit issuance. The evaluation must include a demographic study of the service area and graphically illustrate the percentage of users per increasing 1,000 gallon unit." Based on Pennbrooke's high average consumption per customer, coupled with the water shortage in Lake County, it is the District's desire that Pennbrooke implement an inclining-block rate structure. In addition, for over the past five years the District has advocated rate structures that provide pricing incentives to conserve.

An analysis of Pennbrooke's residential customers' consumption data during the 12-month period ended September 30, 2000, indicates that they are using excessive amounts of water. The overall average residential consumption is approximately 13,000 gallons per month. Compared to the District's target usage of 130 gallons per day per capita (gpdpc), Pennbrooke's residential customers' average monthly usage is approximately 42% greater than the District's resulting average monthly usage target of 9.0 kgal. Further, almost 40% of residential consumption occurs at usage of 10 kgals per month and above. Under these circumstances, we would typically implement an aggressive inclining-block rate structure.

Although the water system is overearning and the utility's rates are low, due to the high average usage per customer coupled with the extraordinary drought and water shortage conditions in Lake County, we find that it is appropriate to implement some form of inclining-block rate structure.

By this Order, we require the utility to implement an aggressive water conservation program. This program is expected to have a material effect on consumption. In a similar case in Lake County involving Sun Communities Finance Limited Partnership, we implemented a conservation program with no change in rate structure. See Order No. PSC-00-1165-PAA-WS, issued June 27, 2000, in Docket NO. 990243-WS. When a conservation program is concurrently initiated with a rate structure change, customers' subsequent consumption habits should be affected both by the conservation program and by price changes resulting from the change in rate structure. In Order No. PSC-00-1165-PAA-WS, we continued the utility's current rate structure during the introduction of the conservation program to better isolate the effects of the conservation program on consumption. This information will then be considered in designing consumption charges when the rate structure issue is subsequently revisited.

We believe the current circumstances in Lake County warrant more aggressive conservation measures. Since the time that Order No. PSC-00-1165-PAA-WS was issued, Lake County's water supply problem has escalated to a "declared water shortage" condition. In addition, based on the latest U.S. Drought Monitor Report, Lake County is in an area where drought conditions are considered extreme. Finally, Lake County's population growth, coupled with predictions of continued above-average temperature and below-average precipitation for the area, place further strains on Lake County's water supply. We find that these circumstances warrant the most aggressive conservation measures possible; therefore, the concurrent implementation of an inclining-block rate structure shall be coupled with an aggressive conservation program.

The goal of the inclining-block rate structure is to reduce average demand. Under this rate structure, it is anticipated that demand in the higher usage block(s) will be more elastic (responsive to price) than demand in the first block. Water users with low monthly usage will benefit, while water users with higher monthly use will pay increasingly higher rates, thereby creating a greater incentive to conserve. There are several factors to consider when designing inclining-block rates including, but not limited to, the selection of the appropriate: a) conservation adjustment; b) usage blocks; and c) usage block rate factors. Consideration of other rate structure issues, such as a target usage established by environmental regulators, elasticity of demand

and revenue stability will also have an impact on how each of the components in the inclining-block rate structure should be designed.

Conservation Adjustment

An important rate design goal is to minimize, to the extent possible, the price increases for low-usage, nondiscretionary consumption. Based on engineering and accounting allocations, and absent a conservation adjustment, the approved rates are $11.12 for the BFC and $1.33 for the gallonage charge. These rates result in monthly usage at 12 kgal and below receiving price increases, while monthly usage above 12 kgal will receive price decreases. This pricing scheme -- the more water used, the less the price impact -- is completely contrary to conservation pricing. Another important rate design goal, consistent with the rate structure guidelines established by the SWFWMD and supported by the SJRWMD, is to recover no more than 40% of the overall revenue requirement through the BFC. To accomplish these goals, different conservation adjustments were used to shift varying portions of cost recovery from the BFC to the gallonage charge. The results of the analysis shown in the table below.

PRICE INCREASES BASED ON UNIFORM GALLONAGE CHARGES AT VARIOUS CONSERVATION ADJUSTMENTS (RATES BEFORE REPRESSION ADJUSTMENT)					
	Conservation Adjustments				
Monthly Consumption	**0%**	**35%**	**40%**	**45%**	**50%**
1 kgal	65.1%	17.6%	10.9%	4.0%	-2.7%
5 kgal	21.9%	5.8%	3.7%	1.2%	-0.8%
10 kgal	4.4%	1.1%	0.8%	0.1%	-0.1%
15 kgal	-3.4%	-1.1%	-0.5%	-1.4%	0.2%
20 kgal	-8.0%	-2.3%	-1.2%	-0.7%	0.4%
25 kgal	-10.9%	-3.1%	-1.7%	-0.8%	0.6%
30 kgal	-12.9%	-3.7%	-2.1%	-1.0%	0.6%
50 kgal	-17.2%	-4.9%	-2.8%	-1.2%	0.8%

75 kgal	-19.5%	-5.5%	-3.2%	-1.4%	0.9%
100 kgal	-20.7%	-5.8%	-3.4%	-1.5%	1.0%

As shown above, the 50% conservation adjustment (relative to the other adjustments) is the only adjustment which results in price increases above 10 kgal of usage, compared to price decreases above 10 kgal for the other adjustments. In fact, the 50% adjustment is the only adjustment which results in price impacts consistent with conservation pricing -- the more water used, the greater the percentage price increase.

Usage Blocks

It is our practice to consider revenue stability as the primary criteria when designing the first usage block. Based on our practice, the first usage block should capture approximately 50% of total gallons sold, thereby mitigating the revenue stability concerns. Based on consumption patterns of other utilities which have been subject to an inclining-block rate structure, this has resulted in the first usage block typically being set at the 10 kgal consumption level. In this case, the utility has captured approximately 60% of total gallons sold at the 10 kgal consumption level; therefore, the first usage block shall be set for monthly consumption at 0-10 kgal.

When designing an inclining-block structure of three blocks (tiers), the second usage block is typically capped at usage no less than twice the usage in the first block. In this case, the second block would be capped at 20 kgal. The third block would then capture consumption in excess of 20 kgal. Unfortunately, with no increase in water system revenue requirement, and based on the utility's customers' consumption patterns, we were unable to design a three-tier inclining-block structure which promotes conservation. Based on a three-tier structure, the majority of customers would have received price reductions sufficient to purchase additional kgals of water, which is contrary to the goal of conservation pricing.

Therefore, we find that a two-tier structure, with usage blocks established at 0-10 kgal and in excess of 10 kgal is appropriate.

Usage Block Rate Factors

Once the conservation adjustment and usage blocks are selected, we typically analyze possible combinations of usage block rate factors. However, absent a water system revenue requirement increase, we first selected a factor for the second usage block which represents the weakest usage block rate factor (25% greater than the first usage block). We then calculated preliminary rates based on usage block rate factors of 1.0 and 1.25, respectively. Although customers using less than 16 kgal will receive price reductions under this rate structure, it is unlikely that the reductions will promote customers to purchase additional water. Our analysis is shown in the table below.

Kgals Purchased	Current Price @ $1.76 per Kgal	Commission Approved Price @ $1.61/Kgal Blk 1 and $2.01/Kgal Blk 2	Price Reduction	Commission Approved Price of 1 Additional Kgal
0	$1.76	$1.61	($0.15)	$1.61
5	$8.80	$8.05	($0.75)	$1.61
10	$17.60	$16.10	($1.50)	$1.61
15	$26.40	$26.15	($0.25)	$2.01
16	$28.16	$28.16	40.00	$2.01

For example, a customer with 0 kgal of usage currently pays $1.76 per kgal, compared to the approved price of $1.61. The savings is $0.15, which is less than the $1.61 required to purchased an additional kgal under the approved structure. Similarly, a customer currently using 15 kgal pays $26.40, compared to the approved price of $26.15. The savings is $0.25, which is less than the $2.01 required to purchase an additional kgal. In fact, each of the price reductions listed is less than the corresponding price to purchase one additional kgal. Therefore, as we stated before, the savings for usage under 16 kgal will promote is unlikely to result in additional consumption.

The utility's current wastewater rate structure is the traditional BFC and gallonage charge rate structure. This is the

rate structure we prefer for wastewater systems; therefore, the rate structure shall remain unchanged.

Based upon the foregoing, we find that the appropriate rate structures for this utility are an inclining-block rate structure for the water system and a continuation of the traditional base facility and uniform gallonage charge rate structure for the wastewater system. For the water system, the usage blocks shall be 0-10,000 gallons and over 10 kgal, with usage block rate factors of 1.0 and 1.25, respectively. A 50% conservation adjustment shall also be implemented.

NO ADJUSTMENT FOR REPRESSION OR CONSERVATION PROGRAM

As previously discussed, the water system is overearning; therefore, there will be no revenue requirement increase for that system. Also, as previously noted, absent an increase in water revenue requirement in conjunction with customers' consumption patterns, customers with less than 16 kgal of usage, which accounts for approximately 75% of consumption, will receive price decreases. The remaining 25% of consumption will receive nominal price increases ranging from 0% to 14%. Therefore, we find that a repression adjustment is not warranted.

It is not possible to appropriately quantify the magnitude of the conservation program's effects on consumption at this time. The conservation measures set forth in this Order are very aggressive. There are ranges of consumption reductions that might reasonably be expected to occur, and this information is critical in order to appropriately design rates. However, since we lack any historical information in this regard, a change in rate structure is inappropriate at this time.

We find that neither a repression nor a conservation program adjustment is appropriate in this docket. In order to monitor the effects of the conservation programs and rate structure changes on consumption, the utility shall prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports shall be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the initial conservation program monies are expended. The utility shall file a rate restructuring case with this Commission no earlier than one

year but no later than two years after the implementation of the conservation program, at which time the water system rate structure issue shall be revisited.

RATES AND CHARGES

During the historic test year the utility provided service to approximately 625 water and wastewater customers. The customer base includes 624 residential customers with 5/8" x 3/4" meters and 3 general service customers.

The general service customers are a developer's office and a clubhouse with a swimming pool and irrigation system. We have calculated rates using test year number of bills and consumption for water.

The rates approved herein are designed to produce revenue of $263,470 for the water system and $211,952 and for the wastewater system, excluding miscellaneous service charges.

Schedules of the utility's existing rates and rate structure and the approved rates and rate structure are as follows:

Monthly Rates - Water
Residential and General Service

Base Facility Charge
Meter Sizes

	Existing Rates	Approved Rates
5/8" x 3/4"	$5.78	$5.56
1"	$14.44	$13.90
1 ½"	$28.87	$27.80
2"	$46.20	$44.48
3"	$92.42	$88.96
4"	$144.40	$139.00

Gallonage Charge per 1,000 gallons

0 - 10,000 gallons	$1.76	$1.61
0ver 10,000 gallons	$1.76	$2.01

Monthly Rates - Wastewater
Residential and General Service

Base Facility Charge
Meter Sizes

	Existing Rates	Approved Rates
5/8" x 3/4"	$5.66	$7.85
1"	$14.17	$19.62
1 ½"	$28.31	$39.23
2"	$45.30	$62.77
3"	$90.61	$125.54
4"	$141.56	$196.15

Gallonage Charge Per 1,000 Gallons

Residential (10,000 gallon cap)	$1.21	$1.96
General Service	$1.45	$2.35

Approximately 20% ($52,756) of the water system revenue requirement is recovered through the approved BFC. The fixed costs are recovered through the BFC based on the number of factored ERCs. The remaining 80% of the revenue requirement ($210,714) represents revenues collected through the consumption charge based on the number of gallons. Approximately 35% ($75,534) of the wastewater system revenue requirement is recovered through the approved BFC. The fixed costs are recovered through the BFC based on the number of factored ERCs. The remaining 65% of the revenue requirement ($138,417) represents revenues collected through the consumption charge based on the number of factored gallons.

The following is a comparison of residential rates at various usage levels:

Monthly Rates - Water
Residential

Gallons	Existing Rates	Approved Rates
3,000	$11.06	$10.39
5,000	$14.58	$13.61
10,000	$23.38	$21.66

Monthly Rates - Wastewater
Residential

Gallons	Existing Rates	Approved Rates
3,000	$9.29	$13.73
5,000	$11.71	$17.65
10,000	$17.76	$27.45

These rates shall be effective for service rendered as of the stamped approval date on the tariff sheets provided customers have received notice. The tariff sheets shall be approved upon our staff's verification that the tariffs are consistent with this Order and the customer notice is adequate.

If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. The old charge shall be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge shall be prorated based on the number of days in the billing cycle on and after the effective date of the new rates. In no event shall the rates be effective for service rendered prior to the stamped approval date.

CUSTOMER DEPOSITS

Rule 25-30.311, Florida Administrative Code, provides guidelines for collecting, administering and refunding customer deposits. It also authorizes customer deposits to be calculated using an average monthly bill for a two-month period. The utility's current customer deposit does not represent a deposit based on an average monthly bill for a two-month period. We have

calculated customer deposits using the approved rates and an average monthly bill for a two-month period. A schedule of the utility's existing and approved deposits follows:

Water

Residential Service

Meter Size	Existing Deposit	Approved Deposit
5/8" x 3/4"	$14.00	$56.00
All over 5/8" x 3/4"	N/A	2 x average bill

Water

General Service

Meter Size	Existing Deposit	Approved Deposit
5/8" x 3/4"	$14.00	$56.00
1"	$25.00	N/A
1 ½"	$50.00	N/A
2"	$75.00	N/A
3"	$150.00	N/A
4"	$225.00	N/A
All over 5/8" x 3/4"	N/A	2 x average bill

Wastewater

Residential Service

Meter Size	Existing Deposit	Approved Deposit
5/8" x 3/4"	$18.00	$45.00
All over 5/8" x 3/4"	N/A	2 x average bill

Wastewater

General Service

Meter Size	Existing Deposit	Approved Deposit
5/8" x 3/4"	$18.00	$51.00
1"	$35.00	N/A
1 ½"	$70.00	N/A
2"	$100.00	N/A
3"	$200.00	N/A
4"	$300.00	N/A
All over 5/8" x 3/4"	N/A	2 x average bill

Although the utility currently has a tariffed charge for customer deposits, Pennbrooke has never charged its customers a deposit and does not plan on charging its new customers an initial deposit. Nevertheless, the utility would like to keep its customer deposit tariff to charge customers with a poor payment record, pursuant to Rule 25-30.311(7), Florida Administrative Code. Therefore, we have not increased customer deposits in the calculation of capital structure for future customers.

The utility shall file revised tariff sheets, which are consistent with this Order. The revised tariff sheets shall be approved administratively upon our staff's verification that the tariffs are consistent with this Order. If revised tariff sheets are filed and approved, the customer deposits shall become effective for connections made on or after the stamped approval date on the revised tariff sheets, if no protest is filed.

MISCELLANEOUS CHARGES

The charges approved below are designed to defray the costs associated with each service and place the responsibility of the cost on the person creating it rather than on the rate paying body as a whole. No expenses incurred for miscellaneous service charges were included in the calculation of test year operating expenses. A schedule of the approved charges follows:

Water

Description	Existing Charges	Approved Charges
Initial Connection	$10.00	$15.00
Normal Reconnection	$10.00	$15.00
Violation Reconnection	$10.00	$15.00
Premises Visit(in lieu of disconnection)	$8.00	$10.00

Wastewater

Description	Existing Charges	Approved Charges
Initial Connection	$10.00	$15.00
Normal Reconnection	$10.00	$15.00
Violation Reconnection	$10.00	Actual Cost
Premises Visit(in lieu of disconnection)	$8.00	$10.00

Definition of each charge is provided for clarification:

Initial Connection - this charge would be levied for service initiation at a location where service did not exist previously.

Normal Reconnection - this charge would be levied for transfer of service to a new customer account, a previously served location or reconnection of service subsequent to a customer requested disconnection.

Violation Reconnection - this charge would be levied prior to reconnection of an existing customer after disconnection of service for cause according to Rule 25-30.320(2), Florida Administrative Code, including a delinquency in bill payment.

Premises Visit Charge (in lieu of disconnection) - this charge would be levied when a service representative visits a premises for the purpose of discontinuing service for non-payment 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.

The utility shall file revised tariff sheets which are consistent with this Order. The revised tariff sheets shall be approved administratively upon our staff's verification that the tariffs are consistent with this Order. If revised tariff sheets are filed and approved, the miscellaneous service charges shall be effective for connections made on or after the stamped approval date on the revised tariff sheets, if no protest is filed.

TEMPORARY RATES IN THE EVENT OF PROTEST

This Order proposes an increase in 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), Florida Statutes, in the event of a protest filed by a party other than the utility, the utility shall be authorized to collect the rates approved herein as temporary rates. The rates approved herein shall be collected by the utility subject to the refund provisions discussed below.

The utility shall be authorized to collect the temporary rates upon our staff's approval of the appropriate security for the potential refund and the proposed customer notice. Security shall be in the form of a bond or letter of credit in the amount of $78,254 for water and wastewater combined. Alternatively, the utility can establish an escrow agreement with an independent financial institution.

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

1) The Commission approves the rate increase; 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 security, it shall contain the following conditions:

1) The letter of credit is irrevocable for the period it is in effect.

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

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

1) No refunds in the escrow account may be withdrawn by the utility without the express approval of the Commission.

2) The escrow account shall be an interest bearing account.

3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.

4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility.

5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.

6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.

7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.

8) The Director of Records and Reporting must be a signatory to the escrow agreement.

This account must specify by whom and on whose behalf such monies were paid.

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

The utility shall maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility shall file reports with the Division of Economic Regulation 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 shall also indicate the status of the security being used to guarantee repayment of any potential refund.

DOCKET TO REMAIN OPEN

If no timely protest is received upon expiration of the protest period, this Order shall become final upon the issuance of a Consummating Order. However, the docket shall remain open for an additional 12 months from the effective date of this Order to allow our staff to verify the completion of the pro forma items as described herein. Once our staff has verified that this work has been completed, the docket shall be closed administratively.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Pennbrooke Utilities, Inc.'s application for increased wastewater rates is hereby approved as set forth in the body of this Order. It is further

ORDERED that Pennbrooke Utilities, Inc.'s application for increased water rates is hereby denied. It is further

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

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

ORDERED that Pennbrooke Utilities, Inc., is authorized to charge the new rates and charges as set forth in the body of this Order. It is further

ORDERED that Pennbrooke Utilities, Inc.'s rates and charges shall be effective for services rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. It is further

ORDERED that if the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. The old charge shall be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge shall be prorated based on the number of days in the billing cycle on and after the effective date of the new rates. In no event shall the rates be effective for service rendered prior to the stamped approval date. It is further

ORDERED that Pennbrooke Utilities, Inc., shall provide proof that the customers have received notice. It is further

ORDERED that in the event of a protest by a substantially affected person other than the utility, Pennbrooke Utilities, Inc., is authorized to collect the rates approved herein on a temporary basis, subject to refund in accordance with Rule 25-30.360, Florida Administrative Code, provided that the utility first furnishes and has approved by Commission staff, adequate security for any potential refund and a proposed customer notice. It is further

ORDERED that, prior to its implementation of the rates and charges approved herein, Pennbrooke Utilities, Inc., shall submit and have approved revised tariff sheets. The revised tariff pages

shall be approved upon Commission staff's verification that the tariff sheets are consistent with this Order, that the customer notice is adequate, and that any required security has been provided. It is further

ORDERED that in the event of a protest, Pennbrooke Utilities, Inc., shall submit and have approved a bond or letter of credit in the amount of $78,254 as a guarantee of any potential refund of revenues collected on a temporary basis prior to implementation of the rates and charges approved in the body of this Order. Alternatively, the utility may establish an escrow account with an independent financial institution. It is further

ORDERED that in the event of a protest, Pennbrooke Utilities, Inc., shall submit monthly reports no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the proceeding month. This report shall also indicate the status of the security being used to guarantee repayment of any potential refund. It is further

ORDERED that Pennbrooke Utilities, Inc., shall complete all pro forma additions, as set forth in the body of this Order, within 12 months of the issuance date of this Order. It is further

ORDERED that Pennbrooke Utilities, Inc., shall spend $25,000 of its overearnings to implement a water conservation program. The utility shall, at a minimum, spend the $25,000 for each of the first two years of its conservation program. It is further

ORDERED that the remainder of the water system overearnings shall be used to offset the wastewater system revenue requirement increase. It is further

ORDERED that the appropriate rate structure for Pennbrooke Utilities, Inc., is an inclining-block rate structure for the water system and a continuation of the traditional base facility and uniform gallonage charge rate structure for the wastewater system. It is further

ORDERED that for the water system, the usage blocks shall be 0-10,000 gallons and over 10,000 gallons, with usage block rate factors of 1.0 and 1.25, respectively. A 50 percent conservation adjustment shall be implemented. It is further

ORDERED that in order to monitor the effects of the conservation programs and the rate structure changes on consumption, the utility shall prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports shall be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the initial conservation program monies are expended. The utility shall file a rate restructuring case with this Commission no earlier than one year but no later than two years after the implementation of the conservation program, at which time the water system rate structure issue shall be revisited. It is further

ORDERED that Pennbrooke Utilities, Inc., shall be authorized to charge the customer deposits set forth in the body of this Order. It is further

ORDERED that prior to implementing the customer deposits set forth in the body of this Order, the utility shall file revised tariff sheets, which are consistent with this Order. The revised tariff sheets shall be approved administratively upon Commission staff's verification that the tariffs are consistent with this Order. If revised tariff sheets are filed and approved, the customer deposits shall become effective for connections made on or after the stamped approval date on the revised tariff sheets, if no protest is filed. It is further

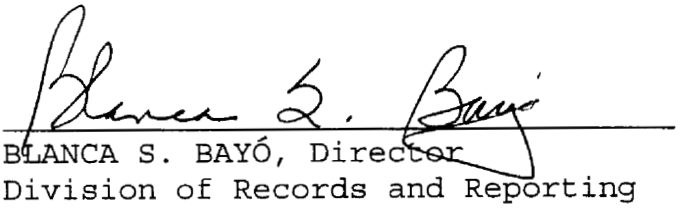
ORDERED that Pennbrooke Utilities, Inc., shall be authorized to collect miscellaneous service charges as set forth in the body of this Order. It is further

ORDERED that prior to implementing the miscellaneous service charges set forth in the body of this Order, Pennbrooke Utilities, Inc., shall file revised tariff sheets which are consistent with this Order. The revised tariff sheets shall be approved administratively upon Commission staff's verification that the tariffs are consistent with this Order. If revised tariff sheets are filed and approved, the miscellaneous service charges shall be effective for connections made on or after the stamped approval date on the revised tariff sheets, if no protest is filed. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

ORDERED if no timely protest is received from a substantially affected person within the 21 day protest period, this docket shall remain open for an additional 12 months for the issuance date of this Order to allow Commission staff to verify the completion of the pro forma additions as described in the body of this Order. Once Commission staff has verified that this work has been completed, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 4th day of June, 2001.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

SMC

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

As identified in the body of this order, the actions discussed herein, except for the granting of temporary rates, subject to refund, in the event of protest, are preliminary in nature. Any person whose substantial interests are affected by the actions proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on June 25, 2001. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

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

Any party adversely affected by the Commission's final actions in this matter may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

WATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 001382-WS - Pennbrooke Utilities, Inc.

For test year ending September 30, 2001 and annual growth = 5%

1)	**Firm Reliable Capacity of Plant**	1,029,537	gallons per day	
2)	**Average of 5 Highest Days From Maximum Month**	661,470	gallons per day	
3)	**Average Daily Flow**	395,908	gallons per day	
4)	**Fire Flow Capacity**	120,000	gallons per day	
	a) Required Fire Flow: 1,000 gallons per minute for 2 hours			
5)	**Growth**	100,357	gallons per day	
	a) Test year Customers in ERCs: ERCs include 670 residents, 10 models, 2 general service and 2 irrigation meters [size: 1 1/2"]	Begin		698
		End		797
			Average	N/A
	(Use end of Test Year number of ERCs)			
	b) Customer Growth in ERCs using statutory limit of 5%	40		ERCs
	c) Statutory Growth Period	5		Years
	(b)x(c)x [3\(a)]= 100,357 gallons per day for growth			
6)	**Excessive Unaccounted for Water**	N/A	gallons per day	
	a) Total Unaccounted for Water	31,500	gallons per day	
	Percent of Average Daily Flow	10%		
	b) Reasonable Amount	31,914	gallons per day	
	(10% of average Daily Flow)			
	c) Excessive Amount	N/A	gallons per day	

USED AND USEFUL FORMULA

[(2)+(4)+(5)-(6)]/(1) = 85.65% Used and Useful

[(661,470) + (120,000) + (100,357) + (0)]/ 1,029,537 = 85.65%

WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA

Docket No. 001382-WS - Pennbrooke Utilities, Inc.

For test year ending September 30, 2001 and annual growth = 5%

1)	**Capacity of System** (Number of Potential ERCs Without Expansion) (Includes irrigation meters)	1,023	ERCs
2)	**Test year connections**		
	a) Beginning of Test Year	698	ERCs
	b) End of Test Year	797	ERCs
	c) Average Test Year	N/A	ERCs
3)	**Growth**	200	ERCs
	a) customer growth in connections for last 5 years including Test Year using Regression Analysis	40	ERCs
	b) Statutory Growth Period	5	Years

(a)x(b) = 200 connections allowed for growth

USED AND USEFUL FORMULA

[2+3]/(1) = 100.0% Used and Useful

[797 + 200] / 1,023 = 97.5% Used and Useful, calculated
Based on the level of precision in the estimation, 100% recommended

Attachment A, page 3 of 4

WASTEWATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 001382-WS - Pennbrooke Utilities, Inc.

For test year ending September 30, 2001 and annual growth = 5%

1)	**Permitted Capacity of Plant**	110,000	gallons per day
2)	**Maximum Daily Flow**	227,168	gallons per day
3)	**Average Daily Flow**	95,728	gallons per day
4)	**Growth**	24,327	gallons per day
	a) Test year Customers in ERCs:	Beginning 688	
		Ending	787
		Average	NA
	b) Customer Growth in ERCs using statutory limit of 5%	40	ERCs
	c) Statutory Growth Period	5	Years

(b)x (c) x [3\(a)]= 24,327 gallons per day for growth

5)	Excessive Infiltration or Inflow (I&I)	N/A	gallons per day
	a) Total I&I:	N/A	gallons per day
	Percent of Average Daily Flow	0.00%	
	b) Reasonable Amount	23,632	gallons per day
	(500 gpm per inch dia pipe per mile)		
	c) Excessive Amount	N/A	gallons per day

USED AND USEFUL FORMULA

[(3)+(4)-(5)]/(1) = 100% Used and Useful

(95,728 + 24,327 - 0) / 110,000 = 100% Used and Useful

WASTEWATER COLLECTION SYSTEM - USED AND USEFUL DATA

Docket No. 001382-WS - Pennbrooke Utilities, Inc.

For test year ending September 30, 2001
and annual growth = 5%

1)	Capacity of System (Number of potential ERCs to be served, without expansion)	1,013	ERCs
2)	Test year connections		
	a) Beginning of Test Year	688	ERCs
	b) End of Test Year	787	ERCs
	c) Average Test Year	NA	ERCs
3)	Growth	200	ERCs
	a) customer growth in connections for last 5 years including Test Year using Regression Analysis	40	ERCs
	b) Statutory Growth Period	5	Years

(a)x(b) = 200 connections allowed for growth

USED AND USEFUL FORMULA

[(2)+(3)]/(1) = 100% Used and Useful

[787 + 200] / 1,013 = 97.43% Used and Useful, by calculation
Based on precision of the estimation, 100% recommended

PENNBROOKE UTILITIES, INC.
TEST YEAR ENDING 9/30/01
SCHEDULE OF WATER RATE BASE

SCHEDULE NO. 1-A
DOCKET NO. 001382-WS

DESCRIPTION	BALANCE PER UTILITY	COMMISSION ADJUST. TO UTIL. BAL.	BALANCE PER COMMISSION
1. UTILITY PLANT IN SERVICE	$1,110,101	$191,314	$1,301,415
2. LAND & LAND RIGHTS	$21,115	$0	$21,115
3. NON-USED AND USEFUL COMPONENTS	$0	($34,436)	($34,436)
4. CIAC	($506,218)	($36,758)	($542,976)
5. ACCUMULATED DEPRECIATION	($412,581)	($92,598)	($505,179)
6. AMORTIZATION OF CIAC	$105,071	$35,320	$140,391
7. WORKING CAPITAL ALLOWANCE	$0	$15,939	$15,939
8. WATER RATE BASE	$317,488	$78,781	$396,269

PENNBROOKE UTILITIES, INC.
TEST YEAR ENDING 9/30/01
SCHEDULE OF WASTEWATER RATE BASE

SCHEDULE NO. 1-B
DOCKET NO. 001382-WS

DESCRIPTION	BALANCE PER UTILITY	COMM. ADJUST. TO UTIL. BAL.	BALANCE PER COMMISSION
1. UTILITY PLANT IN SERVICE	$1,693,393	$146,071	$1,839,464
2. LAND & LAND RIGHTS	$57,035	$0	$57,035
3. NON-USED AND USEFUL COMPONENTS	$0	$0	$0
4. CIAC	($903,278)	$0	($903,278)
5. ACCUMULATED DEPRECIATION	($369,409)	($53,113)	($422,522)
6. AMORTIZATION OF CIAC	$184,932	$21,835	$206,767
7. WORKING CAPITAL ALLOWANCE	$0	$12,898	$12,898
8. WASTEWATER RATE BASE	$662,673	$127,691	$790,364

PENNBROOKE UTILITIES, INC. TEST YEAR ENDING 9/30/01 ADJUSTMENTS TO RATE BASE	SCHEDULE NO. 1-C DOCKET NO. 001382-WS	
	WATER	WASTEWATER
UTILITY PLANT IN SERVICE		
1. Capitalized Plant from repairs and maint. and Act# 620 and 720	$7,101	$209
2. Capitalized Meters from Act# 615 and 620	4,626	0
3. Capitalized pipe finding equipment from Act# 675 and 775	1,391	1,391
4. From CWIP	49,771	0
5. Unrecorded labor to be capitalized	12,425	0
6. Remove Abandoned Spray field	0	(28,626)
7. Pro-forma additions	116,000	173,097
Total	$191,314	$146,071
LAND		
1. To reflect land value per original cost study.	$0	$0
NON-USED AND USEFUL PLANT		
1. To reflect projected year end non-used and useful plant	($91,307)	$0
2. To reflect projected year end non-used and useful acc. depr.	56,871	0
Total	($34,436)	$0
CIAC		
1. To reflect CIAC based on number of new connections	($36,000)	$0
2. Reflect Meter Installation (Actual Cost)	(758)	0
Total	($36,758)	$0
ACCUMULATED DEPRECIATION		
1. To reflect accumulated depreciation per staff	($39,104)	$23,112
2. Remove Depr. on Spray field	0	4,487
3. Adjustment for projected test year	(51,359)	(75,002)
4. Pro-forma adjustment	(2,135)	(5,710)
Total	($92,598)	($53,113)
AMORTIZATION OF CIAC		
1. To reflect accumulated amortization of CIAC	$11,795	($18,821)
2. Adjustment for projected test year	23,525	40,656
Total	$35,320	$21,835
WORKING CAPITAL ALLOWANCE		
1. To reflect 1/8 of test year O & M expenses	$15,939	$12,898

PENNBROOKE UTILITIES, INC.
TEST YEAR ENDING 9/30/01
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 001382-WS

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER COMMIS-SION	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	$50	$0	$50					
2. RETAINED EARNINGS	(599,388)	278,312	(321,076)					
3. PAID IN CAPITAL	249,950	0	249,950					
4. OTHER COMMON EQUITY	0	71,076	71,076					
5. TOTAL COMMON EQUITY	($349,388)	$349,388	0	0	0	0.00%	9.94%	0.00%
6. LONG TERM DEBT	827,228	0	827,228	52,101	879,329	74.10%	9.00%	6.67%
7. LONG TERM DEBT (Pro Forma)	0	289,097	289,097	18,208	307,305	25.90%	9.00%	2.33%
8. CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	6.00%	0.00%
9. TOTAL	$477,840	$638,485	$1,116,325	$70,309	$1,186,634	100.00%		9.00%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	8.94%	10.94%
OVERALL RATE OF RETURN	9.00%	9.00%

PENNBROOKE UTILITIES, INC.
TEST YEAR ENDING 9/30/01
SCHEDULE OF WATER OPERATING INCOME

SCHEDULE NO. 3-A
DOCKET NO. 001382-WS

	TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	$195,574	$67,896	$263,470	($39,670) -15.06%	$223,800
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	62,905	64,610	127,515	0	127,515
3. DEPRECIATION (NET)	15,613	11,697	27,310	0	27,310
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	21,735	13,361	35,096	(1,785)	33,311
6. INCOME TAXES	0	0	0	0	0
7. TOTAL OPERATING EXPENSES	$100,253	$89,668	$189,921	($1,785)	$188,136
8. OPERATING INCOME/(LOSS)	$95,321		$73,549		$35,664
9. WATER RATE BASE	$317,488		$396,269		$396,269
10. RATE OF RETURN	30.02%		18.56%		9.00%

PENNBROOKE UTILITIES, INC.
TEST YEAR ENDING 9/30/01
SCHEDULE OF WASTEWATER OPERATING INCOME

SCHEDULE NO. 3-B
DOCKET NO. 001382-WS

	TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	$100,434	$37,994	$138,428	$113,194 81.77%	$251,622
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	49,162	54,025	103,187	0	103,187
3. DEPRECIATION (NET)	6,722	37,261	43,983	0	43,983
4. AMORTIZATION	0	3,488	3,488	0	3,488
5. TAXES OTHER THAN INCOME	16,061	8,676	24,737	5,094	29,831
6. INCOME TAXES	0	0	0	0	0
7. TOTAL OPERATING EXPENSES	$71,945	$103,450	$175,395	$5,094	$180,489
8. OPERATING INCOME/(LOSS)	$28,489		($36,967)		$71,133
9. WASTEWATER RATE BASE	$662,673		$790,364		$790,364
10. RATE OF RETURN	4.30%		-4.68%		9.00%

PENNBROOKE UTILITIES, INC.
TEST YEAR ENDING 9/30/01
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-C
DOCKET NO. 001382-WS

	WATER	WASTEWATER
OPERATING REVENUES		
1. Annualize Historic Test year Revenue	$6,370	$7,220
2. Adjustment for unbilled services	2,374	1,660
3. To reflect projected annualized revenues based on existing rates	59,152	29,114
Sub-Total	$67,896	$37,994
OPERATION AND MAINTENANCE EXPENSES		
1. Salaries and Wages - Employees (601/701)		
a. Reclassify to Contractual Services-Other	($2,480)	($2,480)
b. Reflect utility allocation of salary	10,843	10,843
Sub-Total	$8,363	$8,363
2. Salaries and Wages - Management and Officers (603/703)		
a. President and Manager as allocated by utility	$17,150	$17,150
b. Vice President as allocated by utility	5,950	5,950
Sub-Total	$23,100	$23,100
3. Employee Pensions and Benefits (604/704)		
a. Add as allocated by the utility	$1,806	$1,806
4. Purchased Sludge Hauling (711)		
a. To include amount incorrectly recorded in Cont. Serv.-Other	$0	$4,800
b. Adjustment to meet engineer's recommendation	0	4,712
c. Inflation adjustment for projected test year	0	103
Sub-Total	$0	$9,512
5. Purchased Power (610/710)		
a. Reallocate amount incorrectly recorded in wastewater	$1,127	($1,127)
b. Non-utility expense	(2,151)	($1,533)
c. Reclassified to meters (337)	(1,217)	0
d. To reflect engineer's recommendation	5,745	3,086
e. Inflation adjustment for projected test year	238	249
Sub-Total	$3,742	$675
6. Fuel For Electric Power Generation (616/716)		
a. To reflect engineer's recommendation	$260	$260
7. Chemical Expense (618/718)		
a. Reclassified to (718) Wastewater	($210)	$210
b. Include amount incorrectly recorded in Materials and Supplies	805	0
c. To reflect engineer's recommendation	4,255	2,712
d. Inflation adjustment for projected test year	213	90
Sub-Total	$5,063	$3,012
8. Materials and Supplies (620/720)		
a. Reclassified to (334) Meters and Installation	($3,408)	$0
b. Reclassified to (311) Pumping and Equipment	(353)	0
c. Reclassified to (618) Chemical Expense	(805)	0
d. Reclassified to (354) Structures and Improvements	0	(209)
e. Inflation adjustment for projected test year	3	18
Sub-Total	($4,563)	($191)

PENNBROOKE UTILITIES, INC. TEST YEAR ENDING 9/30/01 ADJUSTMENTS TO OPERATING INCOME		SCHEDULE NO. 3-D DOCKET NO. 001382-WS
	Water	Wastewater
9. Contractual Services - Testing (635/735)		
a. To allow DEP required testing	$1,142	$1,536
10. Contractual Services Other (636/736)		
a. To include transfer from Repairs and Maintenance	$2,765	$1,373
b. To include meter reader expense from salaries (601)	2,480	2,480
1. Adjusted to meet future test year projections	332	332
c. To include accounting services	429	429
d. Increase operator services to meet projected test year	1,498	1,282
e. To include engineer's recommendation for mowing	900	1,100
f. Inflation adjustment for projected test year	56	39
Sub-Total	$8,460	$7,035
11. Rents (641/741)		
a. To meet utility allocation	$1,800	$1,800
12. Transportation Expense (650/750)		
a. To meet engineer's recommendation	$1,885	$1,885
b. Utility golf cart	600	600
c. Inflation adjustment for projected test year	34	34
Sub-Total	$2,519	$2,519
13. Repairs and Maintenance (NON NARUC ACCOUNT)		
a. Reclassified to (311) Pumping and Equipment	($6,748)	$0
b. Reclassified to (636/736) Contractual Services Other	(2,765)	(1,373)
c. Reclassified to (711) Sludge Hauling Expense	0	(4,800)
Sub-Total	($9,513)	($6,173)
14. Insurance - General Liability (657/757)		
a. To meet utility allocation	$1,544	$1,055
b. Adjusted allocation for projected test year	170	82
Sub-total	$1,714	$1,137
15. Insurance - Workman's Comp (658/758)		
a. To meet utility allocation	$168	$168
16. Permits and Fees (665/765)		
a. Reclassified RAFs to Taxes Other Than Income	($6,830)	($3,321)
17. Regulatory Commission Expense (667/767).		
a. To include amortized SARC fee	$250	$250
18. Water Resource Conservation		
a. To reflect conservation programs described in issue 10	$25,000	$0
19. Miscellaneous Expenses (675/775)		
a. Amount allocated by utility to include phone, supplies, etc.	$1,392	$1,800
b. To include postage expenses	1,523	1,523
c. Transfer to Tools and Equipment	(1,391)	(1,391)
d. Adjusted allocation for projected test year	605	605
Sub-Total	$2,129	$2,537
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	$64,610	$54,025

PENNBROOKE UTILITIES, INC. TEST YEAR ENDING 9/30/01 ADJUSTMENTS TO OPERATING INCOME		SCHEDULE NO. 3-D DOCKET NO. 001382-WS
	Water	Wastewater
DEPRECIATION EXPENSE		
1. To reflect test year depreciation calculated per 25-30.140, F.A.C.	$14,075	$40,975
2. To reflect test year amortization expense.	2,732	(3,714)
3. To reflect non-used and useful test year depreciation.	(5,110)	0
Total	$11,697	$37,261
1. AMORTIZATION OF EARLY RETIREMENT		
To reflect early retirement per 25-30.433(9), F.A.C.	$0	$3,488
TAXES OTHER THAN INCOME		
1. Payroll Taxes	$1,976	$1,976
2. Reclassified RAFs from (765) (665)	6,830	3,321
3. To reflect RAF on projected test year annualized revenue.	5,026	2,908
4. Tangible property tax reclassification	20,598	15,539
5. Remove Ad valorem taxes	(21,069)	(15,068)
Total	$13,361	$8,676

PENNBROOKE UTILITIES, INC.
TEST YEAR ENDING 9/30/01
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE

SCHEDULE NO. 3-E
DOCKET NO. 001382-WS

	TOTAL PER UTILITY	COMMISSION ADJUST.		TOTAL PER COMM.
(601) SALARIES AND WAGES - EMPLOYEES	$5,397	$8,363	[1]	$13,760
(603) SALARIES AND WAGES - OFFICERS	0	23,100	[2]	23,100
(604) EMPLOYEE PENSIONS AND BENEFITS	0	1,806	[3]	1,806
(610) PURCHASED WATER	0	0		0
(615) PURCHASED POWER	18,196	3,742	[5]	21,938
(616) FUEL FOR POWER PRODUCTION	0	260	[6]	260
(618) CHEMICALS	10,799	5,063	[7]	15,862
(620) MATERIALS AND SUPPLIES	4,790	(4,563)	[8]	227
(630) CONTRACTUAL SERVICES - BILLING	0	0		0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	0	0		0
(635) CONTRACTUAL SERVICES - TESTING	0	1,142	[9]	1,142
(636) CONTRACTUAL SERVICES - OTHER	5,306	8,460	[10]	13,766
(641) RENTS	0	1,800	[11]	1,800
(650) TRANSPORTATION EXPENSE	0	2,519	[12]	2,519
REPAIRS AND MAINTENANCE (NON NARUC ACCOUNT)	9,513	(9,513)	[13]	0
(657) INSURANCE EXPENSE - GENERAL LIABILITY	0	1,714	[14]	1,714
(658) INSURANCE EXPENSE - WORKMAN'S COMP	0	168	[15]	168
(665) PERMITS AND FEES	6,855	(6,830)	[16]	25
(667) REGULATORY COMMISSION EXPENSE	0	250	[17]	250
(668) WATER RESOURCE CONSERVATION	0	25,000	[18]	25,000
(670) BAD DEBT EXPENSE	0	0		0
(675) MISCELLANEOUS EXPENSES	2,049	2,129	[19]	4,178
	62,905	64,610		127,515

PENNBROOKE UTILITIES, INC.
TEST YEAR ENDING 9/30/01
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE

SCHEDULE NO. 3-F
DOCKET NO. 001382-WS

	TOTAL PER UTILITY	COMMISSION ADJUST-MENT		TOTAL PER COMMISSION
(701) SALARIES AND WAGES - EMPLOYEES	$5,397	$8,363	[1]	$13,760
(703) SALARIES AND WAGES - MANAGEMENT	0	23,100	[2]	$23,100
(704) EMPLOYEE PENSIONS AND BENEFITS	0	1,806	[3]	$1,806
(710) PURCHASED SEWAGE TREATMENT	0	0		$0
(711) SLUDGE REMOVAL EXPENSE	0	9,512	[4]	$9,512
(715) PURCHASED POWER	17,874	675	[5]	$18,549
(716) FUEL FOR POWER PRODUCTION	0	260	[6]	$260
(718) CHEMICALS	3,713	3,012	[7]	$6,725
(720) MATERIALS AND SUPPLIES	1,532	(191)	[8]	$1,341
(731) CONTRACTUAL SERVICES - PROFESSIONAL	0	0		$0
(735) CONTRACTUAL SERVICES - TESTING	0	1,536	[9]	$1,536
(736) CONTRACTUAL SERVICES - OTHER	9,057	7,035	[10]	$16,092
(741) RENTS	0	1,800	[11]	$1,800
(750) TRANSPORTATION EXPENSE	0	2,519	[12]	$2,519
REPAIRS AND MAINTENANCE (NOT NARUC ACCOUNT)	6,173	(6,173)	[13]	$0
(757) INSURANCE - GENERAL LIABILITY	0	1,137	[14]	$1,137
(758) INSURANCE - WORKMAN'S COMP	0	168	[15]	$168
(765) PERMITS AND FEES	3,671	(3,321)	[16]	$350
(767) REGULATORY COMMISSION EXPENSE		250	[17]	$250
(770) BAD DEBT EXPENSE	324	0		$324
(775) MISCELLANEOUS EXPENSES	1,421	2,537	[19]	3,958
	49,162	54,025		103,187