

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Application for rate increase in Lee
County by Utilities, Inc. of Eagle Ridge.

DOCKET NO. 030445-SU
ORDER NO. PSC-04-1107-PAA-SU
ISSUED: November 8, 2004

The following Commissioners participated in the disposition of this matter:

BRAULIO L. BAEZ, Chairman
J. TERRY DEASON
RUDOLPH "RUDY" BRADLEY
CHARLES M. DAVIDSON

NOTICE OF PROPOSED AGENCY ACTION ORDER
APPROVING INCREASED WASTEWATER RATES AND CHARGES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for the four-year rate reduction and the requirement that the utility provide proof that it has adjusted its books for all adjustments approved herein, is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

Utilities, Inc. of Eagle Ridge (Eagle Ridge or utility) is a Class B utility providing wastewater service in Lee County, Florida. Water service is provided by Lee County. According to its 2002 annual report, Eagle Ridge serves approximately 2,792 customers with gross revenues of \$698,437 and a net operating income of \$59,661. The utility provides service to two areas: the Eagle Ridge Development and the Cross Creek Community Association, Inc. Each area has a separate wastewater treatment plant.

On November 17, 2003, the utility filed for approval of final and interim rate increases, pursuant to Sections 367.081 and 367.082, Florida Statutes. However, the information submitted did not satisfy the minimum filing requirements (MFRs) for a general rate increase. The utility resubmitted its MFRs on February 17, 2004, which was originally established as the official filing date. On May 12, 2004, however, the utility again revised its MFRs and the amount of its requested rate increase. May 12, 2004 was then designated as the official filing date pursuant to Section 367.083, Florida Statutes. The utility has requested that this case be processed under our proposed agency action (PAA) procedure.

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The test year for interim and final purposes is the historical test year ended December 31, 2002. By Order No. PSC-04-0720-PCO-SU, issued July 26, 2004, in this docket, we approved an interim revenue increase of \$62,666 (or 8.80%) for wastewater. The interim rates are subject to refund with interest, pending the conclusion of the rate case. The utility has requested final wastewater revenues of \$836,821. This represents an increase of \$124,485, or 17.48%. We have jurisdiction pursuant to Section 367.081, Florida Statutes.

QUALITY OF SERVICE

In accordance with Rule 25-30.433(1), Florida Administrative Code, our evaluation of the overall quality of service provided by the utility is derived from the evaluation of three separate components of water and wastewater operations: (1) the quality of the product; (2) the operating conditions of the plant and facilities; and (3) the utility's attempt to address customer satisfaction.

Quality of the Product and Operating Conditions

Our staff contacted the Department of Environment Protection (DEP) and performed field inspections at the Eagle Ridge and Cross Creek systems. According to the DEP, the utility is meeting all applicable wastewater treatment standards and all operating permits are current for both the Eagle Ridge and Cross Creek systems. The operating permit for the Eagle Ridge wastewater treatment plant, which was in effect during the test year, expired on January 14, 2003, and a new, revised operating permit was subsequently issued. The new permit requires the replacement of a standby filter by October 15, 2005. Our staff engineer inspected the utility's lift stations, treatment plants, and reuse facilities and found them to be in good working order, with the exception of some minor deficiencies which were subsequently corrected.

Customer Satisfaction

A customer meeting was held on July 15, 2004 near the utility service area and two customers attended. One of the customers indicated that he was not concerned about the rate increase; however, he was concerned that the Eagle Ridge plant might be over capacity and that occasionally the plant smells bad. Our staff explained that the plant does not appear to be over capacity and further described the steps taken by the utility to control the plant odor. The utility injects a chemical into the treatment system to control odor and recently enclosed a portion of the treatment plant with stainless steel boxes as an additional precautionary measure.

The DEP had received some odor complaints and, as a part of the operating permit renewal, the local homeowners and the utility developed an odor detection program to determine the source and cause of the odors. DEP was unable to confirm an odor problem and indicated that the homeowners did not want to pursue the issue further.

There are no outstanding complaints on our Complaint Tracking System. Only a few complaints were logged on the utility's complaint log and they have been resolved.

Summary

We find that the utility's wastewater effluent quality and plant operating conditions are satisfactory. Further, the utility is providing prompt responses to customer concerns. For all of the foregoing reasons, we find that Eagle Ridge's overall quality of service is satisfactory.

RATE BASE

Our calculation of the appropriate rate base for the purpose of this proceeding is shown on Schedule No. 1-A, and our adjustments are itemized on Schedule No. 1-B. 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.

Our staff auditors reviewed the utility's rate base accounts to determine the appropriate balances at the end of the test year. The audit report contained several recommended adjustments, the majority of which the utility agreed to make. In its revised MFRs submitted on May 12, 2004, the utility made many of the auditor's recommended adjustments. We discuss below the audit adjustments not made by the utility and the additional adjustments approved herein.

Organization Costs

In Audit Exception No. 2, the auditors recommended reductions to plant, accumulated depreciation, and depreciation expense for acquisition and undocumented costs. The utility agreed with the adjustments and made the majority of the audit reductions with the exception of \$14,483. We find it appropriate to reduce plant by \$14,483, with corresponding reductions of \$543 and \$362 for accumulated depreciation and depreciation expense, respectively.

Miscellaneous Plant

In Audit Exception No. 3, the auditors recommended several adjustments to remove misclassified plant and unsupported plant. The utility agreed that adjustments should be made to these accounts. We have made additional adjustments to accumulated depreciation and depreciation expense to correct the depreciation rate. In Audit Exception No. 4, the auditors recommended that unapproved charges for allowance for funds used during construction (AFUDC) be removed for the years 1998-2001. The utility did not have an authorized AFUDC rate approved by this Commission for those years. Therefore, pursuant to Rule 25-30.116(5), Florida Administrative Code, the utility could not capitalize AFUDC. The adjustments are shown below:

Miscellaneous Plant -Exception No. 3 and 4	Adj. per <u>Audit</u>	Add'l Adj. <u>per Comm.</u>	Total Comm. <u>Adjustment</u>
Decrease Plant	(\$27,081)	\$0	\$(27,081)
Decrease Accumulated Depreciation	\$2,484	\$1,955	\$4,439
Decrease Depreciation Expense	(\$2,484)	\$1,069	(\$1,415)

Plant Retirements

In Audit Disclosure No. 3, the auditors stated that the utility failed to make proper retirements for plant improvements and requested that the utility provide the proper retirement entries. The utility subsequently provided a response to this disclosure, which included the dates that the original plant items were placed in service and a copy of the original invoice for a retired filter on the Eagle Ridge plant. The utility also provided calculations for proper retirement entries consistent with its policy. We have reviewed the utility's calculations and we made one correction to make all of the entries consistent with the utility's methodology. Based on the above, plant and accumulated depreciation shall each be decreased by \$306,117 and depreciation expense shall be decreased by \$16,789. The adjustments are shown below:

Plant Retirements -Disclosure No. 3	Adj. per <u>Audit</u>	Add'l Adj. <u>per Comm.</u>	Total Comm. <u>Adjustment</u>
Decrease Plant	\$0	(\$306,117)	(\$306,117)
Decrease Accumulated Depreciation	\$0	\$306,117	\$306,117
Decrease Depreciation Expense	\$0	(\$16,789)	(\$16,789)

Pro Forma Plant

In its MFRs, the utility requested pro forma plant additions of \$209,780. In Audit Disclosure No. 1, the auditors recommended adjustments to reflect the actual costs above those projected, and removed those projects that were improperly supported or scheduled to be completed in 2005. The auditors recommended total pro forma plant of \$42,011. After reviewing the utility responses to several data requests, we find it appropriate to increase pro forma plant by \$130,000 to reflect the estimated cost of installing an aqua disk filter, as required by DEP. We have also reduced the pro forma plant to retire the old filter at its original cost. Moreover, we have made corresponding adjustments to accumulated depreciation and depreciation expense. The adjustments are shown below:

Pro Forma Plant Additions -Disclosure No. 1	Adj. per <u>Audit</u>	Add'l Adj. <u>per Comm.</u>	Total Comm. <u>Adjustment</u>
Decrease Pro Forma Plant-per MFRs	(\$167,769)	\$122,484	(\$45,285)
Decrease Accumulated Depreciation	\$8,718	(\$6,812)	\$1,906
Decrease Depreciation Expense	(\$8,718)	\$6,812	(\$1,906)
Decrease Related Plant Retirements	\$0	(\$25,399)	(\$25,399)
Decrease Related Plant Accumulated	\$0	\$25,399	\$25,399
Decrease Related Plant Depreciation Expense	\$0	(\$1,412)	(\$1,412)

Common Plant Allocation

In Audit Exception No. 5, the auditors stated that the utility's general ledger did not include any common plant allocations from Water Services Corporation (WSC). WSC provides administrative services to the operating subsidiaries of Utilities, Inc. and Eagle Ridge's share of common plant was \$25,263. We find it appropriate to increase Eagle Ridge's plant by \$25,263 to reflect the appropriate allocation of WSC common plant, net of accumulated depreciation. No adjustment to depreciation expense is necessary because the utility correctly included those costs in allocated expenses.

Contributions-in-Aid-of-Construction (CIAC)

After the test year, a large church was added as a new general service customer. Because the growth in the service area is low, we find it appropriate to make this change as a pro forma adjustment to the test year. Accordingly, we have increased CIAC by \$7,008 and have made corresponding adjustments to accumulated amortization of CIAC, test year amortization of CIAC and test year revenues.

Summary

Below is a summary of our approved adjustments to rate base:

	<u>Plant</u>	<u>Accumulated Depreciation</u>	<u>Depreciation Expense</u>
Organization Cost (A/E 2)	(\$14,483)	\$543	(\$362)
Miscellaneous Plant (A/E 3 & 4)	(\$27,081)	4,439	(\$1,415)
Retirements (A/D 3)	(\$306,117)	306,117	(\$16,789)
Pro Forma Plant (A/D 1)	(45,285)	1,906	(1,906)
Retirement on Pro Forma	(25,399)	25,399	(1,412)
WSC Common Plant (A/E 5)	<u>25,263</u>	<u>0</u>	<u>0</u>
Total:	<u>(\$393,102)</u>	<u>\$338,404</u>	<u>(\$22,268)</u>

An adjustment is also approved to reflect a post-test year customer, as follows:

	<u>CIAC</u>	<u>Accum. Amort. of CIAC</u>	<u>Test Year Amortization</u>	<u>Test Year Revenues</u>
Post-Test Year Customer	<u>(\$7,008)</u>	<u>\$304</u>	<u>(\$304)</u>	<u>\$1,563</u>

Used and Useful

Pursuant to Rule 25-30.432, Florida Administrative Code, used and useful for a wastewater treatment plant is to be calculated by comparing the test year flows and the DEP permitted capacity. The basis for the test year flows should be the same basis that DEP used to determine the permitted capacity. Other factors including growth, infiltration, inflow, and design capacity should also be considered. Eagle Ridge has two wastewater treatment plants, which are identified as Eagle Ridge and Cross Creek.

The utility proposed the following used and useful percentages for the Eagle Ridge and Cross Creek wastewater treatment facilities:

	<u>Wastewater Plant</u>	<u>Collection Lines</u>	<u>Reuse System</u>
Eagle Ridge	90.25%	100%	100%

The utility did not include a growth allowance in its calculations. The Eagle Ridge community is almost built out. There are four residential lots and a commercial parcel that have not yet been developed. **The Cross Creek community is completely built out.** Neither wastewater system appears to have a problem with infiltration or inflow. Section 367.0817(3),

Florida Statutes, requires that all prudent costs of a reuse project be recovered in rates. We find that the costs of the reuse systems are prudent. Therefore, the reuse plant is 100% used and useful.

The utility calculated a composite used and useful factor of 94.06% to apply to the combined system plant, accumulated depreciation and depreciation expense accounts. We find that the utility's proposed used and useful calculations are reasonable and we accept them. Therefore, the Eagle Ridge wastewater treatment plant is 90.25% used and useful and the Cross Creek wastewater treatment plant is 100% used and useful. The wastewater collection and reuse systems are 100% used and useful. To reflect adjustments to rate base and reclassifications of reuse related plant, we have made corresponding adjustments to non-used and useful plant, as shown on the rate base and operating income adjustment Schedules 1-B and 3-B, attached hereto.

Working Capital

Rule 25-30.433(2), Florida Administrative Code, requires that Class B utilities use the formula method, or one-eighth of O&M expenses, to calculate the working capital allowance. The utility has properly filed its allowance for working capital using the formula method. We have made several adjustments to the utility's operations and maintenance expenses (O&M). Due to those adjustments, we hereby approve a working capital allowance of \$68,800. This reflects an increase of \$899 to the utility's requested working capital allowance of \$67,901.

Rate Base Summary

Based on our adjustments discussed herein, we find that Eagle Ridge's rate base is \$1,413,897.

COST OF CAPITAL

Our calculation of the appropriate cost of capital, including our adjustments, is shown on Schedule No. 2. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on that schedule without further discussion in the body of this Order. The major adjustments are discussed below.

In its MFRs, the utility used the debt and equity ratios of its parent, UI, to prorate Eagle Ridge's share of the parent's capital. The utility reflected accumulated deferred income taxes that are specifically attributable to Eagle Ridge and included the actual balance of customer deposits. Using the Commission's 2003 leverage formula, the utility reflected a cost of 11.97% for equity, and requested an overall cost of capital of 8.85%.

The utility agrees that Eagle Ridge's MFRs do not reflect the effect of the utility's claim of a special tax depreciation allowance. We find it appropriate to increase Eagle Ridge's deferred taxes by \$47,014 to reflect the impact of the utility's claim of the special tax

depreciation allowance on historical plant, as well as for the pro forma plant allowance approved herein. Thus, the appropriate balance of deferred taxes is \$85,742.

The current leverage formula was approved by Order No. PSC-04-0587-PAA-WS, issued June 10, 2004, in Docket No. 040006-WS, In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S. Based on the current leverage formula and the utility's equity ratio, we approve a cost of equity of 11.21%, with a range of 10.21% to 12.21%. Based on the above, the overall cost of capital for Eagle Ridge is 8.25%, with a range of 7.86% to 8.63%.

NET OPERATING INCOME

Our calculation of the appropriate net operating income for the purpose of this proceeding is shown on Schedule No. 3-A and our adjustments are itemized on Schedule No. 3-B. 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.

In its MFRs, Eagle Ridge made pro forma adjustments to employee salaries of \$4,696, which represented an increase of 3.00%. The utility also made pro forma adjustments to increase health costs by \$7,154, employee insurance costs by \$4,333 and payroll taxes by \$397. The health and employee insurance pro forma adjustments represented increases of 25.86% and 36.88%, respectively, over test year expenses.

In Audit Disclosure No. 2, our staff auditors stated that the 3.00% increase in salaries was not warranted because the utility's 2003 historical salaries actually decreased by 14.55% over the corresponding 2002 test year salaries. The auditors state that the decrease was the result of personnel reassignments and may be temporary in nature; however, they recommend that the pro forma increase of \$4,696 should be removed. Additionally, the staff auditors stated that actual health costs increased by 9.83% and actual insurance costs increased by 42.93%. As a result, the auditors recommended that health costs be reduced by \$4,491 and employee insurance be increased by \$711, and payroll taxes be reduced by \$397.

The utility did not dispute these audit adjustments, and we agree that these adjustments should be made. Therefore, employee salaries and health cost shall be decreased by \$4,696 and \$4,491, respectively and employee insurance cost shall be increased by \$711. A corresponding reduction of \$397 shall also be made to payroll taxes.

Rate Case Expense

In its MFRs, the utility reflected a \$103,634 estimate for rate case expense to process this case. Our staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. The utility submitted a

revised estimated rate case expense through completion of the PAA process of \$73,336. Pursuant to Section 367.081(7), Florida Statutes, this Commission determines the reasonableness of rate case expenses and disallows all rate case expenses determined to be unreasonable. We have examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. We find that the revised estimate is reasonable after adjustments are made to remove duplications associated with MFR revisions and a revised filing.

We have reviewed the utility's discovery responses and calculated that the consultant spent 35 hours responding to MFR deficiencies and revising the utility's filing. We find it appropriate to reduce fees by \$3,500 and expenses by \$129. Our analysis reflects that the utility's attorneys billed the utility \$5,592 for legal fees and expenses associated with duplicative filings. A corresponding reduction shall also be made to reduce the WSC in-house fees and miscellaneous expenses by \$1,260 and \$210, respectively. In total, \$10,690 shall be removed as duplicative and unreasonable rate case expense.

We find that the appropriate total rate case expense is \$62,646. A breakdown of the allowance of rate case expense is as follows:

	MFR Estimated	Utility Revised Actual & Estimated	Comm. Adjustments	Total
Filing Fee	\$3,500	\$3,500	\$0	\$3,500
Legal Fees	42,750	24,531	(5,592)	18,939
Consultant Fees	25,000	28,097	(3,629)	24,468
WSC In-house Fees	13,137	13,029	(1,260)	11,769
Miscellaneous Expense	<u>19,250</u>	<u>4,179</u>	<u>(210)</u>	<u>3,969</u>
Total Rate Case Expense	<u>\$103,634</u>	<u>\$73,336</u>	<u>(\$10,690)</u>	<u>\$62,646</u>
Amortization	<u>\$25,909</u>			<u>\$15,661</u>

The approved total rate case expense shall be amortized over four years, pursuant to Section 367.0816, Florida Statutes. Based on the data provided by the utility and our approved adjustments discussed above, we hereby approve an annual rate case expense of \$15,661.

In its MFRs, the utility requested total rate case expense of \$103,634, which amortized over four years would be \$25,909. The utility's revenue calculation should have reflected \$25,909 in annual amortization, but only reflected \$6,477. In order to reflect the correct test year amortization, we hereby increase O&M expenses by \$9,184.

Test Year Operating Income

Based on our adjustments discussed herein, we find that the test year operating income before any revenue increase is \$57,642.

REVENUE REQUIREMENT

Eagle Ridge requested final rates designed to generate annual revenues of \$836,821. These revenues exceed test year revenues by \$124,485, or 17.48%.

Based upon the adjustments approved herein to the underlying rate base, cost of capital, and operating income, we find it appropriate to approve rates that are designed to generate a revenue requirement of \$812,854. These revenues exceed the adjusted test year revenues by \$98,955, or 13.86%. This increase will allow the utility the opportunity to recover its expenses and earn a 8.25% return on its investment in rate base. Based upon the foregoing, the following revenue requirement is hereby approved.

<u>Test Year</u> <u>Revenues</u>	<u>\$ Increase</u>	<u>Revenue</u> <u>Requirement</u>	<u>% Increase</u>
<u>\$713,889</u>	<u>\$98,955</u>	<u>\$812,854</u>	<u>13.86%</u>

RATES AND RATE STRUCTURE

The revenue requirement approved herein is \$812,854. After excluding miscellaneous service charges of \$1,555, the revenue to be recovered through rates is \$811,299.

The rate calculations used for this case are consistent with the standard methodology used by this Commission with one exception. The utility's facilities consist of the Eagle Ridge and Cross Creek systems which have separate but adjacent service areas. Each system has its own wastewater treatment plant, but each share personnel and equipment. The Eagle Ridge system has a traditional customer mix of single family, multi-residential and general service customers and the existing rate structure is consumption-based with a base facility and gallonage charge. Residential rates for the Eagle Ridge system have a 10,000 gallonage cap for wastewater and the residential and general service gallonage rates are equal. The Cross Creek system provides dedicated service to the Cross Creek Community Association, Inc. (Association), and it receives one bill per month based on a flat rate per condominium unit. This charge in the past has been less than the base facility charge for residential customers in the Eagle Ridge system. The utility has not requested a change from either of the existing rate structures.

We have analyzed several methods for allocating the revenue requirements between the two systems. Because the Cross Creek system is dedicated fully to this one customer, we find that it is reasonable to continue the flat rate structure. In order to allocate the revenue requirement between the Cross Creek and Eagle Ridge customers, we find it reasonable to use gallons of wastewater treated. Our approved allocation of the revenues from rates is as follows:

<u>Allocation of Revenues Recovered from Rates</u>	Gallons Wastewater <u>Treated</u>	% to <u>Total</u>	Revenues from <u>Rates</u>
Eagle Ridge	88,833	75.97%	\$616,305
Cross Creek	28,106	24.03%	\$194,994
Total	116,939	100.00%	\$811,299

In calculating the Cross Creek rates, we divided the allocated revenue requirement by the number of units in the Association and then by twelve for a monthly rate. For the Eagle Ridge system, rates were calculated using test year data for the total number of bills and gallons of water used for both residential and general customers. We allocated 38% of the Eagle Ridge revenue requirement to the base facility and 62% to the gallonage charge. We then applied the general service gallonage differential to recognize that residential customers return approximately 80% of water to the wastewater system compared to 96% for general service. A comparison of the utility's original rates and requested final rates and our approved interim and final rates is shown on Schedule No. 4.

The utility shall file revised tariff sheets and a proposed customer notice to reflect the rates approved herein. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), Florida Administrative Code, provided the customers have received notice. The rates shall not be implemented until our staff has approved the proposed customer notice. The utility shall provide proof of the date notice was given no less than ten days after the date of the notice.

Interim Refund Not Required

By Order No. PSC-04-0415-PCO-SU, issued April 22, 2004, we authorized the collection of interim wastewater rates, subject to refund, pursuant to Section 367.082, Florida Statutes. The approved interim revenue requirements are shown below:

	Revenue <u>Requirement</u>	Revenue <u>Increase</u>	Percentage <u>Increase</u>
Wastewater	\$775,002	\$62,666	8.80%

In accordance with Section 367.082, Florida Statutes, any refund shall be calculated to reduce the rate of return of the utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period that interim rates are in effect shall be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates is the twelve-month period ended December 31, 2002. Eagle Ridge's approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the floor of the last

authorized range for equity earnings. To establish the proper refund amount, we have calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate case expense and the pro forma adjustments for a plant filter were excluded because those items are prospective in nature and did not occur during the interim collection period.

Using the principles discussed above, we have calculated the interim revenue requirement for the interim collection period to be \$778,309. The wastewater revenues for the interim collection period are greater than the interim revenues granted by Order No. PSC-04-0720-PCO-SU. Therefore, no interim refund is required.

Four-Year Rate Reduction

Section 367.0816, Florida Statutes, requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees (RAFs), which is \$16,339. The decreased revenues will result in the rate reduction approved herein as shown on Schedule No. 4.

The utility shall reduce its rates at the end of the four-year rate case expense amortization period, consistent with our decision herein. The utility shall file revised tariff sheets no later than one month prior to the actual date of the reduction and shall file a proposed customer notice of the rate decrease and the reason therefor. The utility shall provide proof of the date notice was given no less than ten days after the date of the notice.

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

BOOKS AND RECORDS

To ensure that the utility adjusts its books in accordance with our decision made herein, within 90 days of the issuance date of a final order in this docket, Eagle Ridge shall provide proof that the adjustments for all the applicable primary accounts have been made.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Utilities, Inc. of Eagle Ridge's application for increased wastewater rates is granted to the extent set forth in the body of this Order. 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 herein, whether set forth in the body of this Order or in the schedules attached hereto, are incorporated herein by reference. It is further

ORDERED that Utilities, Inc. of Eagle Ridge shall file revised tariff sheets and a proposed customer notice to reflect the rates approved herein. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), Florida Administrative Code, provided the customers have received notice. It is further

ORDERED that prior to the implementation of the rates and charges approved herein, Utilities, Inc. of Eagle Ridge shall obtain our staff's approval of a proposed customer notice of the increased rates and charges. The notice will be approved upon our staff's verification that it is consistent with our decision herein. It is further

ORDERED that the rates and charges approved herein shall not be implemented until the approved customer notice has been received by the customers. The utility shall provide proof of the date notice was given no less than ten days after the date of the notice. It is further

ORDERED that the rates shall be reduced at the end of the four-year rate case expense amortization period, consistent with our decision herein. Utilities, Inc. of Eagle Ridge shall file revised tariff sheets no later than one month prior to the actual date of the reduction and shall file a customer notice of the rate decrease and the reason therefor. The utility shall provide proof of the date notice was given no less than ten days after the date of the notice. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense. It is further

ORDERED that Utilities, Inc. of Eagle Ridge shall provide proof, within 90 days of the issuance of a final order in this docket, that the adjustments for all applicable primary accounts have been made to its books and records in accordance with our decision herein. It is further

ORDERED that the provisions of this Order issued as proposed agency action shall become final unless an appropriate petition in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director of the Division of the Commission Clerk and Administrative Services by the date set forth in the Notice of Further Proceedings below. It is further

ORDERED that if no timely protest is received from a substantially affected person, a consummating order will be issued and this docket shall be closed administratively upon our staff's verification that the revised tariff sheets and customer notice have been filed in accordance with our decision herein. Once the tariff sheets and customer notice have been approved, the corporate undertaking may be released.

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By ORDER of the Florida Public Service Commission this 8th day of November, 2004.

BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

By: Kay Flynn
Kay Flynn, Chief
Bureau of Records

(S E A L)

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

As identified in the body of this order, our action discussed herein, except for the four-year rate reduction and the requirement that the utility provide proof that it has adjusted its books for all adjustments approved herein, is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on November 29, 2004. 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.

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

Any party adversely affected by the Commission's final action in this matter may request:

- (1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of the Commission Clerk and Administrative Services 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 the Commission Clerk and Administrative Services 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.

**Utilities, Inc. of Eagle Ridge
Schedule of Wastewater Rate Base
Test Year Ended 12/31/02**

Schedule No. 1-A

	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year
1 Utility Plant in Service	\$5,501,501	\$103,112	\$5,604,613	(\$393,102)	\$5,211,511
2 Land and Land Rights	\$38,246	\$0	\$38,246	\$0	\$38,246
3 Less: Non-used and Useful Plant	\$0	(\$132,313)	(\$132,313)	\$16,114	(\$116,199)
4 Construction Work in Progress	\$5,194	(\$5,194)	\$0	\$0	\$0
5 Less: Accumulated Depreciation	(\$2,138,558)	\$419,850	(\$1,718,708)	\$338,404	(\$1,380,304)
6 CIAC	(\$3,542,656)	(\$252,084)	(\$3,794,740)	(\$7,008)	(\$3,801,748)
7 Amortization of CIAC	\$1,924,053	(\$530,765)	\$1,393,288	\$304	\$1,393,592
8 Acquisition Adjustment-Net	\$133,383	(\$133,383)	\$0	\$0	\$0
9 Working Capital Allowance	\$0	\$67,901	\$67,901	\$899	\$68,800
Rate Base	<u>\$1,921,163</u>	<u>(\$462,876)</u>	<u>\$1,458,287</u>	<u>(\$44,390)</u>	<u>\$1,413,897</u>

**Utilities, Inc. of Eagle Ridge
 Adjustments to Rate Base
 Test Year Ended 12/31/02**

Schedule No. 1-B

Explanation

Wastewater

Plant in Service

1	Remove acquisition costs and unsupported additions (A/E 2)	(\$14,483)
2	Remove unsupported, misclassified and improper plant additions (A/E 3&4)	(\$27,081)
3	Adjust for retirements not made	(\$306,117)
4	Adjust for pro forma additions to plant	(\$45,285)
5	Adjust for pro forma retirement	(\$25,399)
6	To reflect adjustment to WSC allocation	<u>\$25,263</u>
7	Total	<u>(\$393,102)</u>

Non-Used and Useful

To reflect Commission approved adjustment	<u>\$16,114</u>
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Accumulated Depreciation

1	Remove acquisition costs	\$543
2	Remove unsupported, misclassified and improper plant additions (A/E 3&4)	\$4,439
3	Adjust for retirements not made	\$306,117
4	Adjust for pro forma additions to plant	\$1,906
5	Retirement related to pro forma plant	<u>\$25,399</u>
6	Total	<u>\$338,404</u>

CIAC

To record CIAC for new church in service area	<u>(\$7,008)</u>
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Accumulated Amortization of CIAC

To record CIAC Amortization for new church	<u>\$304</u>
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Working Capital

To reduce to 1/8 O&M expense	<u>\$899</u>
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**Utilities, Inc. of Eagle Ridge
Capital Structure
Test Year Ended 12/31/02**

Schedule No. 2

<u>Description</u>	<u>Total Capital</u>	<u>Specific Adjustments</u>	<u>Pro Rata Adjustments</u>	<u>Capital Reconciled To Rate Base</u>	<u>Ratio</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>
Per Utility							
1 Long-term Debt	94,090,081	0	(93,380,094)	709,987	48.69%	7.56%	3.68%
2 Short-term Debt	11,824,500	0	(11,735,338)	89,162	6.11%	3.93%	0.24%
4 Common Equity	77,021,455	0	(76,440,381)	581,074	39.85%	11.97%	4.77%
5 Customer Deposits	39,336	0	0	39,336	2.70%	6.00%	0.16%
6 Deferred Income Taxes	<u>38,728</u>	<u>0</u>	<u>0</u>	<u>38,728</u>	<u>2.66%</u>	0.00%	<u>0.00%</u>
7 Total Capital	<u>183,014,100</u>	<u>0</u>	<u>(181,555,813)</u>	<u>1,458,287</u>	<u>100.00%</u>		<u>8.85%</u>
Per Commission							
8 Long-term Debt	94,090,081	0	(93,427,199)	662,882	46.88%	7.56%	3.54%
9 Short-term Debt	11,824,500	0	(11,741,194)	83,306	5.89%	3.93%	0.23%
11 Common Equity	77,021,455	0	(76,478,824)	542,631	38.38%	11.21%	4.30%
12 Customer Deposits	39,336	0	0	39,336	2.78%	6.00%	0.17%
13 Deferred Income Taxes	<u>38,728</u>	<u>47,014</u>	<u>0</u>	<u>85,742</u>	<u>6.06%</u>	0.00%	<u>0.00%</u>
14 Total Capital	<u>183,014,100</u>	<u>47,014</u>	<u>(181,647,217)</u>	<u>1,413,897</u>	<u>100.00%</u>		<u>8.25%</u>
					<u>Low</u>	<u>High</u>	
			Return on Equity		10.21%	12.21%	
			Overall Rate of Return		7.86%	8.63%	
Commission Adjustment							
Adjust deferred taxes for bonus depreciation			\$47,014				

Utilities, Inc. of Eagle Ridge
Statement of Wastewater Operations
Test Year Ended 12/31/02

Schedule No. 3-A

	<u>Description</u>	<u>Test Year Per Utility</u>	<u>Utility Adjust- ments</u>	<u>Adjusted Test Year Per Utility</u>	<u>Comm. Adjust- ments</u>	<u>Comm. Adjusted Test Year</u>	<u>Revenue Increase</u>	<u>Revenue Requirement</u>
1	Operating Revenues	\$698,437	\$138,384	\$836,821	(\$122,922)	\$713,899	\$98,955 13.86%	\$812,854
	Operating Expenses							
2	Operation & Maintenance	\$527,028	\$22,660	\$549,688	\$708	\$550,396		\$550,396
3	Depreciation-Net	\$67,737	\$9,680	\$77,417	(\$22,268)	\$55,149		\$55,149
5	Taxes Other Than Income	\$47,710	\$6,970	\$54,680	(\$5,110)	\$49,570	\$4,453	\$54,023
6	Income Taxes	(\$3,699)	\$29,676	\$25,977	(\$24,835)	\$1,142	\$35,561	\$36,704
7	Total Operating Expenses	\$638,776	\$68,986	\$707,762	(\$51,505)	\$656,257	\$40,014	\$696,272
8	Operating Income	\$59,661	\$69,398	\$129,059	(\$71,417)	\$57,642	\$58,941	\$116,583
9	Rate Base	\$1,921,163		\$1,458,287		\$1,413,897		\$1,413,897
10	Rate of Return	3.11%		8.85%		4.08%		8.25%

Utilities, Inc. of Eagle Ridge		Schedule No. 3-B
Adjustments to Operating Income		
Test Year Ended 12/31/02		
<u>Explanation</u>	<u>Wastewater</u>	
<u>Operating Revenues</u>		
1 Remove requested final revenue increase	(\$124,485)	
2 Adjust for Revenue from new church in service area	\$1,563	
3 Total	<u>(\$122,922)</u>	
<u>Operation & Maintenance Expense</u>		
1 Remove pro forma salary adjustments & reflect 3 year average salary levels	(\$4,696)	
2 Remove pro forma health cost	(\$4,491)	
3 Remove pro forma insurance expense	\$711	
4 To reflect annual rate case expense amortization	\$9,184	
Total	<u>\$708</u>	
<u>Depreciation Expense – Net</u>		
1 Remove acquisition costs	(\$362)	
2 Remove unsupported, misclassified and improper plant additions (A/E 3&4)	(\$1,415)	
3 Adjust for retirements not made	(\$16,789)	
6 Adjust for pro forma additions to plant	(\$1,906)	
7 Retirement related to pro forma plant	(\$1,412)	
8 Non-used & useful depreciation	(\$80)	
9 Record CIAC amortization for new church	(\$304)	
Total	<u>(\$22,268)</u>	
<u>Taxes Other Than Income</u>		
1 RAFs on revenue adjustments above	(\$5,531)	
2 Remove taxes on salary adjustments	(\$397)	
3 Remove non-used & useful property taxes	\$818	
Total	<u>(\$5,110)</u>	
<u>Income Taxes</u>		
To adjust to test year income tax expense		<u>(\$24,835)</u>

**Utilities, Inc. of Eagle Ridge
Wastewater Monthly Bills
Test Year Ended 12/31/02**

Schedule 4

	Rates Prior to <u>Filing</u>	Commission Approved <u>Interim</u>	Utility Requested <u>Final</u>	Commission Approved <u>Final</u>	4-Year Rate <u>Reduction</u>
<u>Residential – Eagle Ridge</u>					
Base Facility Charge - All Meters:	\$14.18	\$15.43	\$16.66	\$16.49	\$0.33
Gallage charge(per 1,000 gallons) 10,000 gallons maximum	\$3.49	\$3.80	\$4.10	\$3.35	\$0.07
<u>General Service and Multi-Residential – Eagle Ridge</u>					
Base Facility Charge by Meter Size					
5/8" x 3/4"	\$14.18	\$15.43	\$16.66	\$16.49	\$0.33
1"	\$35.44	\$23.15	\$41.65	\$41.23	\$0.83
1-1/2"	\$70.87	\$77.12	\$83.28	\$82.45	\$1.66
2"	\$113.39	\$123.39	\$133.25	\$131.92	\$2.66
3"	\$226.80	\$246.80	\$266.52	\$263.85	\$5.32
4"	\$354.39	\$385.63	\$416.46	\$412.26	\$8.32
6"	\$708.80	\$771.29	\$832.94	\$824.52	\$16.63
Gallage Charge, per 1,000 Gallons	\$3.49	\$3.80	\$4.10	\$4.02	\$0.08
<u>Cross Creek</u>					
Flat Rate, per mo per unit	\$13.69	\$14.90	\$16.09	\$17.96	\$0.36
<u>Typical Residential Bills - Eagle Ridge</u>					
3,000 Gallons	\$24.65	\$26.83	\$28.96	\$26.54	
5,000 Gallons	\$31.63	\$34.43	\$37.16	\$33.24	
10,000 Gallons	\$49.08	\$53.43	\$57.66	\$49.99	