

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in
Lee County by Mobile Manor Water
Company, Inc.

DOCKET NO. 090170-WU
ORDER NO. PSC-09-0790-PAA-WU
ISSUED: November 30, 2009

The following Commissioners participated in the disposition of this matter:

MATTHEW M. CARTER II, Chairman
LISA POLAK EDGAR
NANCY ARGENZIANO
NATHAN A. SKOP
DAVID E. KLEMENT

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING INCREASE IN RATES AND CHARGES
AND
FINAL ORDER GRANTING TEMPORARY RATES IN THE EVENT OF A PROTEST

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that, except for the granting of temporary rates, subject to refund, in the event of a protest, reducing rates at the end of the four-year amortization period, and requiring books to be kept in accordance with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA), the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.).

I. BACKGROUND

Mobile Manor Water Company, Inc. (Mobile Manor or Utility) is a Class C utility serving 313 water customers in Lee County. According to Mobile Manor's 2008 Annual Report, its total gross revenue was \$50,531 and its operating expenses were \$70,979. Mobile Manor, Inc. was granted water Certificate No. 56-W on February 16, 1972. We last established rate base for the Utility pursuant to Order No. 13067, issued March 8, 1984.¹ The Utility changed its name from Mobile Manor, Inc. to Mobile Manor Water Company, Inc. on November 29, 2004.²

¹ See Order No. 13067, issued March 8, 1984, in Docket No. 830402-W (TC), In re: Application for the transfer of Certificate No. 56-W from William P. and Peggy J. Bishop to Mobile Manor, Inc.

² See Order No. PSC-04-1104-FOF-WU, issued November 8, 2004, in Docket No. 040602-WU, In re: Application for name change on Certificate No. 56-W in Lee County from Mobile Manor, Inc. to Mobile Manor Water Company, Inc.

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FPSC-COMMISSION CLERK

On April 6, 2009, we received Mobile Manor's application for a staff-assisted rate case. In this application, the Utility requested interim rates. By Order No. PSC-09-0421-PCO-WU, issued June 15, 2009, in this docket, we approved a 47.09 percent increase, subject to refund with interest. Due to problems obtaining security, the Utility did not implement the interim rates until October 1, 2009.

A customer meeting was held on September 30, 2009. Our staff received letters before the meeting that the timing of the meeting precluded many customers who were still up north from participating. The timing of the customer meeting is dictated by Section 367.0814, Florida Statutes (F.S.). In order for our staff to timely file its recommendation and for us to comply with the statutory requirement to issue a final order, the customer meeting could not be rescheduled to a later date.

We have the authority to consider this rate case pursuant to Section 367.0814, F.S.

II. QUALITY OF SERVICE

Pursuant to Rule 25-30.433(1), F.A.C., we determine the overall quality of service provided by a utility by evaluating three separate components of water operations, including the quality of the utility's product, the operating condition of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. We also consider comments or complaints received from customers, and the utility's current compliance with the local health department.

A. Quality of the Utility's Product and Operating Condition of the Utility's Plant and Facilities

Mobile Manor is regulated by the Lee County Health Department (LCHD). The Utility is a consecutive system that purchases water from Lee County Utilities. The Utility's distribution system is a network of water mains that has existed since 1962. In the test year, boil water notices were issued on several occasions due to water line breaks. The Utility properly noticed its customers on each occasion. Although there was a significant amount of unaccounted for water during the test year, the Utility has embarked on repairs of the distribution lines and a meter replacement program. While the measures outlined by the Utility are expected to reduce the amount of unaccounted for water, we find later in this Order that an adjustment is needed to reduce the cost of purchased water related to excessive unaccounted for water losses during the test year. On February 20, 2008, the LCHD conducted a compliance inspection of the Utility and found no deficiencies. Currently, Mobile Manor does not have any outstanding violations. Therefore, it appears that the conditions of the Utility's product and the condition of the facilities are satisfactory.

B. Utility's Attempt to Address Customer Satisfaction

Our staff reviewed customer complaints from the Consumer Activity Tracking System over the past three years. Most of the complaints were related to the current owner requesting that existing customers complete an application for service in order to update the Utility's records. All of the complaints were resolved and closed.

A customer meeting was held on September 30, 2009, at the Mobile Manor Clubhouse in North Fort Myers, Florida. Approximately 48 customers attended and six spoke. Representatives of the Utility were also present. Several customers complained about mismanagement of the Utility and the decision of the Board of Directors of Mobile Manor, Inc., to hire a management company to run the Utility. We will address the appropriateness of the fees paid to the management company later in this Order. Customers also complained about the Utility's failure to shut off valves during water line breaks on a timely basis. The Utility's management company has set up an emergency hotline to allow customers to report line breaks after regular business hours. It appears that the Utility is attempting to respond to customer complaints; therefore, we find that the Utility's attempt to address customer satisfaction is satisfactory.

C. Overall Quality of Service

In summary, we find that the overall quality of service shall be considered satisfactory because the Utility is in compliance with all LCHD provisions and EPA testing, and the Utility has provided avenues to address quality of service concerns.

III. RATE BASE

The appropriate components of the Utility's rate base include utility plant in service (UPIS), contributions-in-aid-of-construction (CIAC), accumulated depreciation, amortization of CIAC, and working capital.

For this rate case, we have used the test year ended December 31, 2008. We last established the Utility's rate base by Order No. 13067. All rate base components established in Order No. 13067 have now been fully depreciated through December 31, 2008. Sufficient records of plant replacement and additions were not available. Absent these records, our staff auditor requested that an original cost study be performed by the staff engineer. The original cost study was derived by the use of an available map and county health department records. Adjustments have been made to match rate base component balances with the engineer's original cost study and to update rate base through December 31, 2008. A summary of each component and the adjustments follows:

A. Utility Plant in Service (UPIS)

The Utility recorded \$694, in UPIS for the test year ending December 31, 2008, for a water pump. Pursuant to Audit Finding No. 2, Mobile Manor was unable to provide support documentation for the pump. Therefore, the UPIS balance of \$694 shall be removed. However, we have increased UPIS by \$4,722 to reflect the appropriate plant balances per the original cost study completed by our staff engineer. Mobile Manor provided our staff with a meter replacement plan of 40 meters for the test year. Based on invoices provided by the Utility, the estimated costs associated with replacing a single metering system is \$261.77. Therefore, UPIS shall be increased by an additional \$10,471 (40 x \$261.77) to reflect the meters replaced during the test year. To reflect an averaging adjustment, we have decreased UPIS by \$5,236. Based on

these adjustments, the net adjustment to UPIS is an increase of \$9,263, for a UPIS balance of \$9,957.

B. Used and Useful Percentage of the Water Distribution System

Mobile Manor's distribution system is a network of PVC water mains which have been in existence since 1962. A review of the Utility's annual reports indicates that there was no growth in the last five years; therefore, it appears that the system is built out, and we find that the water distribution system is 100 percent used and useful. Therefore, a non-used and useful adjustment is not necessary.

C. Contributions in Aid of Construction

The Utility recorded no CIAC on its books at the end of the test year. Rule 25-30.570, F.A.C, states:

If the amount of CIAC has not been recorded on the utility's books and the utility does not submit competent substantial evidence as to the amount of CIAC, the amount of CIAC shall be imputed to be the amount of plant costs charged to the cost of land sales for tax purposes if available, or the proportion of the cost of the facilities and plant attributable to the water transmission and distribution system and the sewage collection system.

Because Mobile Manor does not have adequate books to provide CIAC balances, we have imputed \$4,722 for CIAC to reflect the water transmission and distribution system as calculated by the original cost study.

D. Accumulated Depreciation

The Utility recorded a balance for accumulated depreciation of a negative \$694 for the test year. This amount relates to accumulated depreciation of unsupported plant items. Therefore, we have decreased this account by \$694. Using the prescribed depreciation rates set forth in Rule 25-30.140, F.A.C., we calculate accumulated depreciation from the original cost study to be \$4,328. However, we have decreased this amount by \$213 to reflect an averaging adjustment. These adjustments result in accumulated depreciation of \$4,115.

E. Amortization of CIAC

Mobile Manor recorded no amortization of CIAC at the end of the test year. Using the same prescribed rates used for depreciating the Utility's distribution system, we calculate amortization of CIAC to be \$4,064. However, we have decreased this amount by \$66 to reflect an averaging adjustment. These adjustments result in a total amount for this account of \$3,998 for amortization of CIAC.

F. Working Capital Allowance

Working Capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the Utility. Consistent with Rule 25-30.433(2), F.A.C., we have used the one-eighth of the operation and maintenance (O&M) expense formula approach. Applying this formula, we calculate the working capital allowance to be \$6,787 (based on O&M expenses of \$54,295).

G. Rate Base Summary

Based on the forgoing, we calculate the appropriate test year rate base to be \$11,905. Our calculation of rate base is shown on Schedule No. 1-A.

IV. COST OF CAPITAL

According to Audit Finding 4, Mobile Manor's capital structure for the test year consists of two debt issues and negative retained earnings. The Utility recorded negative retained earnings of \$17,497 for the test year. Including negative equity would penalize the Utility by understating the overall rate of return. Consistent with prior Commission practice, we have adjusted the negative equity to zero.³ The debt issues relate to two loans made to Mobile Manor from Mobile Manor, Inc.; one loan was for \$20,000 and the other was for \$3,000. As of December 31, 2008, the cumulative outstanding balance was \$23,000, with a cost rate of 5.25 percent.

The Utility's capital structure has been reconciled with our approved rate base. Consistent with the most recent Commission-approved leverage formula, the appropriate rate of return on equity (ROE) is 11.78 percent.⁴ Although we have decided not to use the rate base methodology for calculating rates, we find that the ROE shall be determined in this proceeding to be used in future cases.

³ See Order No. PSC-08-0652-PAA-WS, issued October 6, 2008, in Docket No. 070722-WS, In re: Application for staff-assisted rate case in Palm Beach County by W.P. Utilities, Inc.

⁴ See Order No. PSC-09-0430-PAA-WS, issued June 19, 2009, in Docket No. 090006-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. The order was consummated by Order No. PSC-09-0502-CO-WS, issued July 15, 2009.

Based on the above, we find that the appropriate ROE is 11.78 percent with a range of 10.78 percent to 12.78 percent, and that the overall rate of return is 5.25 percent. Our calculation of the ROE and overall rate of return is shown on Schedule No. 2.

V. NET OPERATING INCOME

A. Test Year Revenues

Mobile Manor recorded test year water revenue of \$48,290. The Utility did not bill its general service customers. Mobile Manor also received a price index increase after the test year. Annualizing test year revenues to account for additional billing determinants for the general service customers and the rate increase results in an increase of \$10,778 in revenues to reflect the appropriate test year revenue.

Test year revenue is shown on Schedule No. 3-A, and the adjustment is shown on Schedule No. 3-B.

B. Test Year Operating Expenses

Mobile Manor recorded operating expenses of \$72,175, for the test year ended December 31, 2008. The test year O&M expenses have been reviewed and invoices, canceled checks, and other supporting documentation have been examined. We have made several adjustments to the Utility's operating expenses as summarized below:

1. Operation and Maintenance Expenses

a. Salaries and Wages – Employee (601) - Mobile Manor recorded \$9,900 in this account during the test year. The Utility has only one employee, and she is contracted to serve as the office manager. Her duties include: billing and collection, handling customer contacts, and managing the Utility's day-to-day activities. Mobile Manor's contract states the office manager's salary is \$1,235 monthly (\$14,820 annually). Based on the duties performed, we find 70 percent, or \$10,374, of the office manager's salary shall be allocated to the Utility. Because the remaining portion of her duties and responsibilities include work for the Board of Directors of Mobile Manor, Inc., the remaining 30 percent of the office manager's salary shall be disallowed. Therefore, we have increased this account by \$474 (\$10,374 - \$9,900), to reflect the appropriate balance for Salaries and Wages – Employees expense of \$10,374.

b. Purchased Water (610) - Mobile Manor recorded \$23,259 in this account during the test year. Based on invoices provided by the Utility, the purchased water expense is \$24,003. Therefore, we have increased purchased water by \$744 (\$24,003 - \$23,259) to reflect the actual test year expense.

However, we note that Rule 25-30.4325(1)(e), F.A.C., provides that unaccounted for water in excess of 10 percent of the amount produced (or purchased) is excessive. Mobile Manor purchased 6,980,000 gallons of water during the test year and sold 5,261,962 gallons.

The 1,718,038 gallons of unaccounted for water represents 24.61 percent of the purchased water. Therefore, 14.61 percent of the purchased water is excessive unaccounted for water. Using the \$24,003 figure for purchased water, and reducing that amount by 14.61 percent, we calculate that the purchased water expense shall be reduced by \$3,507 ($\$24,003 \times 14.61$ percent) to reflect excessive unaccounted for water. Therefore, our net adjustment to this account is \$2,763, for a total cost for purchased water for the test year of \$20,496.

c. Chemicals (618) - Mobile Manor recorded \$0 in this account during the test year. The Utility provided invoices that indicated test year chemical expenses of \$32. However, because of excessive unaccounted for water, the chemical expense shall be reduced by 14.61 percent or \$5 (32×14.61 percent). This results in a total chemical expense of \$27.

d. Materials and Supplies (620) - Mobile Manor recorded \$0 in this account during the test year. The Utility provided our staff auditor with invoices totaling \$106 for materials purchased during the test year. Therefore, material and supplies shall be increased by \$106.

e. Contractual Services - Billing (630) - Mobile Manor recorded \$1,365 in this account for meter reading work performed during the test year. Based on invoices provided by the Utility, our staff estimates that the total cost of meter reading for one month is \$280. Annualizing this amount results in a total annual cost for meter reading of \$3,360. Therefore, we have increased this account by \$1,995 ($\$3,360 - \$1,365$), for a total Contractual Services - Billing expense of \$3,360.

f. Contractual Services - Professional (631) - Mobile Manor recorded \$11,831 in this account. This amount consists of fees for management services provided by Associa Benson's. The NARUC USOA states:

Contractual Services - Professional

This account shall include the cost of accounting, legal, and engineering if such work is not performed by employees of the utility.

Contractual Services - Other

This account shall include the cost of operation and maintenance work not performed by utility employees. This account shall also include the cost of management and data processing if such work is not performed by employees of the utility.

We find that the amount the Utility included for Contractual Services – Professional is misclassified, and the \$11,831 figure shall be reclassified to Contractual Services – Other.

The staff audit shows that Mobile Manor's books are not in conformance with the NARUC USOA. Our staff estimates a one-time cost of \$800 for converting the Utility's books and records to conform to NARUC USOA and for reconciling Mobile Manor's books in this

case.⁵ We agree, and this amount shall be amortized over five years, allowing the recovery of \$160 annually. We also find that \$575 shall be allowed on an annual basis for accounting duties to oversee the books and records for continual compliance. Additionally, we have increased this account by \$1,325 to reclassify accounting expenses from miscellaneous expense for the preparation of income tax returns. However, based on an invoice submitted, the annual expense for the preparation of income tax returns is only \$375. Therefore, we have reduced this account by \$950. The total adjustment for the Contractual Services - Professional is a decrease of \$10,721(- \$11,831 + \$160 + \$575 +\$1,325 - \$950) for a Contractual Services – Professional expense of \$1,110.

g. Contractual Services - Testing (635) - Each utility must adhere to specific testing conditions prescribed within its operating permit. These testing requirements are tailored to the Utility as required by the Florida Administrative Code and enforced by the LCHD. The Utility recorded \$6,877 in contractual testing expense. Based on our staff engineer's review, Mobile Manor has to adhere to new EPA testing. The tests have to be performed once every four years, at a cost of \$3,899. Amortizing the amount over four years reduces testing by \$2,924. Based on the above, the appropriate Contractual Services – Testing expense is \$3,953.

h. Contractual Services - Other (636) – Mobile Manor recorded \$4,694 in this account. This amount is unsupported. Therefore, this amount shall be removed. As mentioned above, management fees should have been included as Contractual Services – Other expense. The amount reclassified to Contractual Services – Other is \$11,831. Based on the Utility's contract with the community management company, Associa Benson's Inc., Mobile Manor is billed at \$6 per unit per month. The total annual management fee is \$22,536 (313 customers x \$6 x 12 months). The contract further states that 70 percent is billed to the Utility and 30 percent is billed to Mobile Manor, Inc. The bulk of Associa Benson's obligations relate to implementing decisions and policies established by the Board of Directors of Mobile Manor, Inc. After reviewing comments made at the customer meeting, and reviewing the contractual duties of Associa Benson's Inc., we find the appropriate allocation is 70 percent for Mobile Manor, Inc. and 30 percent for the Utility. The Utility's allocated portion is \$6,761 (\$22,536 x 30 percent). Therefore, we have decreased this account by \$5,070 (\$6,761 - \$11,831) to reflect the appropriate management fee. Additionally, the Utility provided three separate invoices for repair work totaling \$309. These amount appears to be reasonable, and we have increased this account by \$309. The net adjustments to this account is an increase of \$2,376 (- \$4,694 + \$11,831 - \$5,070 + \$309), for a Contractual Services – Other expense of \$7,070.

i. Rents (640) - Mobile Manor recorded \$9,600 in this account during the test year. The Utility's office is located in a building owned and shared by Mobile Manor, Inc. The rent is for the availability of the clubhouse building and two storage sheds. Consistent with our finding concerning the office manager's salary, 30 percent of rents shall be disallowed, and rents shall be reduced by \$2,880 (\$9,600 x .30), for a rent expense of \$6,720.

⁵ See Order No. PSC-00-0807-PAA-WU, issued April 25, 2000, in Docket No. 991290-WU, In re: Application for staff-assisted rate case in Lake County by Brendenwood Water System.

j. Regulatory Commission Expense (665) - Mobile Manor recorded \$0 in this account during the test year. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a 4-year period. The Utility is required by Rule 25-22.0407, F.A.C., to mail notices of the customer meeting and notices of final rates in this case to its customers. For these notices, we estimate \$275 for postage expense, \$219 for printing expense, and \$32 for envelopes. The above results in a total rate case expense for noticing of \$526. Also, Mobile Manor paid a \$1,000 rate case filing fee. Based on the above, we find the total rate case expense to be \$1,526 (\$526 + \$1,000), which amortized over four years is \$382.

k. Miscellaneous Expense (675) - The Utility recorded \$2,157 in this account. This expense has been decreased by \$1,325 to reflect a reclassification of an accounting expense to Contractual Services – Professional. Mobile Manor included \$486 for telephone expenses. Subsequent to the staff audit, the Utility provided our staff with additional invoices to support an annual telephone expense of \$514, and so telephone expense shall be increased by \$28. Mobile Manor included \$346 for office expenses. However, only \$184 of this amount is supported, and the unsupported expense of \$162 is removed. The total adjustment for miscellaneous expenses is a decrease of \$1,459 (- \$1,325 +\$28 - \$162), for a total miscellaneous expense of \$698 (\$2,157 - \$1,459).

l. Operation and Maintenance Expenses (O&M) Summary - Total O&M adjustments result in a decrease of \$15,388, for a total O&M expense of \$54,295. Our calculation of O&M expenses is shown on Schedule No. 3-B.

2. Depreciation Expense (Net of Related Amortization of CIAC)

The Utility did not record depreciation expense. Using the prescribed rates set forth in Rule 25-30.140, F.A.C., we calculate depreciation expense from the original cost study to be \$426. With the Amortization of CIAC calculated to be \$202, the net depreciation expense is \$224.

3. Taxes Other Than Income

Mobile Manor recorded \$2,492 in this account. The Utility included \$2,173 in this account for regulatory assessment fees (RAFs). Based on our adjusted test year revenue, the correct figure for RAFs is \$2,658. Therefore, this account shall be increased by \$485 to reflect the appropriate test year RAFs. Further, we have increased this account by \$794 to reflect payroll taxes on the salary for the office manager. The total adjustment for taxes other than income is an increase of \$1,279.

4. Income Tax

The Utility is an 1120C Corporation and did not record income tax for the test year. Based on its current income tax return, Mobile Manor has a large amount of net loss carry forwards. These net loss carry forwards are sufficient enough to offset any income tax liability for the next couple of years. Therefore, we have not made any adjustments to this account.

5. Operating Expenses Summary –

The application of our adjustments to Mobile Manor's recorded test year operating expenses results in operating expenses of \$58,289. Our calculation of operating expenses is shown on Schedule No. 3-A, and our adjustments are shown on Schedule No. 3-B.

VI. USE OF OPERATING RATIO METHODOLOGY

Section 367.0814(9), F.S., provides that we may, by rule, establish standards and procedures for setting rates and charges of small utilities using criteria other than those set forth in Sections 367.081(1), (2)(a) and (3), F.S. Rule 25-30.456, F.A.C., provides, in part, as an alternative to a staff-assisted rate case as described in Rule 25-30.455, F.A.C., utilities whose total gross annual operating revenues are \$250,000 or less per system, may petition the Commission for staff assistance in alternative rate setting.

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

By Order No. PSC-96-0357-FOF-WU,⁶ we utilized for the first time the operating ratio methodology as an alternative means for setting rates. This order also established criteria to determine the use of the operating ratio methodology and a guideline margin of 10 percent of operation and maintenance expense.

⁶ See Order No. PSC-96-0357-FOF-WU, issued March 13, 1996, in Docket No. 950641-WU, In re: Application for staff-assisted rate case in Palm Beach County by Lake Osborne Utilities Company, Inc.

In addition, by Order No. PSC-97-0130-FOF-SU,⁷ we utilized the operating ratio methodology for setting rates. The same criteria and 10 percent margin of O&M expense was approved as in Order No. PSC-96-0357-FOF-WU.

In Order No. PSC-96-0357-FOF-WU, we established criteria to determine whether to utilize the operating ratio methodology for those utilities with low or non-existent rate base. The following discusses the qualifying criteria established by Order No. PSC-96-0357-FOF-WU, and how they apply to the Utility:

- 1) Whether utility's O&M expense exceed rate base. In the instant case, the rate base is substantially lower than the level of O&M expense. Based on the staff audit, the adjusted rate base for the test year is \$11,905, while adjusted O&M expenses are \$54,295.
- 2) Whether the utility is expected to become a Class B in the foreseeable future. According to Chapter 367.0814(9), F.S., the alternative forms of regulation being considered in this case only apply to small utilities whose gross annual revenues are \$250,000 or less. Mobile Manor is a Class C utility and the recommended revenue requirement of \$61,792 is substantially below the threshold level for Class B status (\$200,000 per system). The Utility's service area has not had any growth in the last five years and is essentially built out. Therefore, the Utility will not become a Class B utility in the foreseeable future.
- 3) Quality of service and condition of plant. A review of the Lee County Health Department records shows no compliance problems. The quality of service appears satisfactory.
- 4) Whether the utility is developer-owned. The current Utility owner is not a developer. The service territory is not in the early stages of growth, and there has not been any customer growth in the last five years.
- 5) Whether the utility operates treatment facilities or is simply a distribution and/or collection system. Mobile Manor purchases and resells water from Lee County. We have calculated the operating ratio method without consideration of the purchased water costs.

⁷ See Order No. PSC-97-0130-FOF-SU, issued February 10, 1997, in Docket No. 960561-SU, In re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.

By Order Nos. PSC-96-0357-FOF-WS and PSC-97-0130-FOF-WU, we determined that a margin of 10 percent shall be used unless unique circumstances justify the use of a greater or lesser margin. We settled on the 10-percent margin due to lack of economic guidance on developing an operating ratio method rate of return. We thought that it would be a futile and unwarranted exercise to try to establish a precise return applicable to all small utilities. The important question was not what the return percentage should be, but what level of operating margin will allow the utility to provide safe and reliable service and remain a viable entity. The answer to this question requires a great deal of judgment based upon the particular circumstances of the Utility.

Several factors must be considered in determining the reasonableness of a margin. First, the margin must provide sufficient revenues for the Utility to cover its interest expense. Mobile Manor's interest expense is approximately \$1,208.

Second, use of the operating ratio methodology rests on the contention that the principal risk to the Utility resides in operating cost rather than in capital cost of the plant. The fair return on a small rate base may not adequately compensate the Utility owner for incurring the risk associated with covering the much larger operating cost. Therefore, the margin should adequately compensate the Utility owner for that risk. Under the rate base method, the return to Mobile Manor amounts to only \$625, which is enough to cover only a one percent variance in O&M expenses. Given this Utility's circumstances, we find \$625 is too little of a cushion.

Third, if the return on rate base method were applied, a normal return would generate such a small level of revenues that in the event revenues or expenses vary from our estimates, Mobile Manor could be left with insufficient funds to cover operating expenses. Therefore, the margin should provide adequate revenues to protect against potential variability in revenues and expenses. The return on rate base method would provide the Utility only \$1,833 in operating income to cover revenue and expense variances. Deducting interest expense from this total leaves only \$625 to cover revenue and expense variances.

In conclusion, we find the above factors show that the Utility needs a higher margin of revenues over operating expenses than the traditional return on rate base method would allow. Therefore, in order to provide Mobile Manor with adequate cash flow to satisfy environmental requirements and to provide some assurance of safe and reliable service, we approve application of the operating ratio methodology at a margin of 10 percent of operation and maintenance expenses, excluding purchased water expense.

VII. REVENUE REQUIREMENT

Using the operating ratio method for calculating the revenue requirement, the Utility shall be allowed an annual increase in revenue of \$2,724 (4.61 percent), for total revenues of \$61,792. This will allow Mobile Manor the opportunity to recover its expenses and earn a 10-percent operating margin on its adjusted operation and maintenance expense. The calculations are as follows:

	<u>Water</u>
Adjusted O & M Expenses	\$54,295
Less Purchased Water	(20,496)
Adjusted O&M less purchased water	<u>33,799</u>
Rate of Return	x .10
Operating Margin	<u>\$ 3,380</u>
Adjusted O & M expense	54,295
Depreciation expense (Net)	224
Amortization	0
Taxes Other Than Income	3,893
Income Taxes	<u>0</u>
Revenue Requirement	\$61,792
Less Test Year Revenues	<u>59,068</u>
Annual Increase	<u>\$2,724</u>
Percent Increase/(Decrease)	<u><u>4.61%</u></u>

VIII. RATE STRUCTURE

The Utility currently has a BFC uniform/gallonage charge rate structure for the water systems' residential and non-residential class. The BFC is \$6.94 per month and the monthly usage charge is \$6.24 per thousand gallons (kgal).

Our staff performed a detailed analysis of the Utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the water system's residential class. The goal of the evaluation was to select rate design parameters that: 1) allows the utility to recover its revenue requirement; 2) equitably distributes cost recovery among the Utility's customers; and 3) sets the BFC between 25 percent and 40 percent whenever possible.

Water use in the Utility's service area is under the jurisdiction of the South Florida Water Management District. However, Mobile Manor purchases its water from Lee County Utilities and resells this service to the customers of the Utility. Therefore, the Utility is considered non-jurisdictional by the SFWMD.

As discussed above, the Utility has excessive unaccounted for water. According to the purchased water invoices provided by the Utility, the total gallons purchased were 6,980,000. However, our staff's analysis of the consumption data provided by the Utility indicated total residential gallons sold in 2008 were only 5,251,792 gallons. Also, during the test year, the two general service customers were unmetered and had not been billed for their water service. The Utility has now metered the two general service customers. Based on information provided by the utility, the appropriate test year gallons for the general service class are 11,170. Therefore, total gallons sold in 2008 were 5,262,962.

Further analysis of the consumption data indicates that the customer base is extraordinarily seasonal, wherein 73 percent of the bills are at two kgal or less. Also, the customer's average consumption per month is 1.4 kgal. This is considered a very low overall average consumption, and suggests that an inclining block rate structure is not appropriate at this time due to the low levels of consumption. Therefore, we find that a continuation of the BFC/uniform gallonage charge rate structure is appropriate. This rate structure is considered a conservation-oriented rate structure because customers' bills increase as their consumption increases.

Furthermore, as discussed above, the revenue requirement increase is very small. Therefore, the 4.61 percent revenue requirement increase shall be applied as an across-the-board increase to the water system's BFC and gallonage charges. This results in the BFC cost recovery percentage remaining at 44.41 percent, and a BFC and gallonage charge of \$7.26 and \$6.53, respectively.

IX. REPRESSION ADJUSTMENT

Based on all the above, we find that a repression adjustment is not warranted in this case due to the fact there is no significant amount of discretionary usage. The overall average consumption is 1.4 kgal and the customer base is extraordinarily seasonal. Furthermore, while the seasonal customers are in residence, the average consumption is only 2.5 kgal. This is an indication that there is virtually no consumption above 3 kgal. However, monthly reports shall be prepared to monitor the effects from changes in revenue to the water system, detailing the number of bills rendered, the consumption billed and revenues billed. In addition, the reports shall be prepared by customer class and meter size. These reports shall be filed with the Commission, on a semi-annual basis, for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the Utility makes adjustments to consumption in any month during the reporting period, the Utility shall file a revised monthly report for that month within 30 days of any revision.

X. RATES

The approved rates are designed to produce revenue of \$61,792 for water, excluding miscellaneous service charges, and were calculated rates using test-year number of bills and consumption. The approved rates shall be effective for service rendered on or after the stamped

approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers. The utility shall provide proof of the date notice was given no less than 10 days after the date of the notice.

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.

Based on the foregoing, the appropriate rates for monthly service for the water are shown on Schedule No. 4.

XI. PARTIAL REFUND OF INTERIM RATES

By Order No. PSC-09-0421-PCO-WU, issued June 15, 2009, we authorized the collection of interim water rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirement was \$74,324, which represents an increase of \$23,793, or 47.09 percent.

According to Section 367.082, F.S., 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 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.

To establish the proper refund amount, we calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period.

Using the principles discussed above, we calculate that the \$74,324 water revenue requirement granted in Order No. PSC-09-0421-PCO-WU for the interim test year is greater than the revenue requirement for the interim collection period of \$61,792. This results in a 17.40 percent refund of interim rates. The Utility shall refund 17.40 percent of water revenues collected under interim rates. The refund shall be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility shall submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility shall treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C.

XII. STATUTORY FOUR-YEAR RATE REDUCTION

Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of

rate case expense and the gross-up for RAFs which is \$382. Using the Utility's current revenues, expenses, capital structure and customer base, the reduction in revenues will result in the rate decreases as shown on Schedule No. 4.

Mobile Manor shall file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The Utility shall also file a proposed customer notice setting forth the lower rates and the reason for the reduction.

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

XIII. CUSTOMER DEPOSITS

Mobile Manor currently does not have a tariff charge for customer deposits. The purpose of customer deposits is to establish credit with the Utility. Deposits are to be paid by new Utility customers. Rule 25-30.311, F.A.C., provides guidelines for collecting, administering, and refunding customer deposits. The rule also authorizes customer deposits to be calculated using an average monthly bill for a 2-month period. Based on the approved rates and an average monthly bill for a 2-month period, we calculate the appropriate customer deposits to be as follows:

Water Customer Deposits

Residential and General Service

Meter Size	Existing Deposit	Approved Deposit
5/8" x 3/4"	N/A	\$16.39*
All over 5/8" x 3/4"	N/A	2 x average bill

*Based on average billing consumption for 2008 of 1,398 gallons.

After a customer has established a satisfactory payment record and has had continuous service for a period of 23 months, the Utility shall refund the customer's deposit pursuant to Rule 25-30.311(5), F.A.C. The Utility shall pay interest on customer deposits pursuant to Rule 25-30.311(4), F.A.C.

Mobile Manor shall file revised tariff sheets which are consistent with our decision above. Our staff may administratively approve the revised tariff sheets upon verification that the tariffs are consistent with our decision. If revised tariff sheets are filed and approved, the customer deposit shall become effective for connections made on or after the stamped approval date of the revised tariff sheets.

XIV. TEMPORARY RATES IN THE EVENT OF PROTEST

This Order proposes an increase in water rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the Mobile Manor, the approved rates shall be approved as temporary rates. The approved rates collected by the Utility shall be subject to the refund provisions discussed below.

Mobile Manor shall be authorized to collect the temporary rates upon our staff's approval of 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 \$1,819. Alternatively, the Utility may establish an escrow agreement with an independent financial institution.

If Mobile Manor 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 Mobile Manor chooses a letter of credit as a security, it shall contain the following conditions:

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

If security is provided through an escrow agreement, the following conditions 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 Mobile Manor;

- 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; and
- 8) The Commission Clerk must be a signatory to the escrow agreement; and
- 9) The account must specify by whom and on whose behalf such monies were paid.

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

Mobile Manor shall maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility shall file reports with the Commission 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 filed shall also indicate the status of the security being used to guarantee repayment of any potential refund.

XV. PROOF OF ADJUSTMENT OF BOOKS FOR ALL THE APPLICABLE NARUC USOA PRIMARY ACCOUNTS

During the staff audit, the auditors discovered that the Utility did not maintain its accounts and records in conformance with the NARUC USOA. Despite the state of the Utility's books and records, our staff was able to perform the audit. The errors determined by the auditors constitute apparent violations of Rule 25-30.115, F.A.C., "Uniform System of Accounts for Water and Wastewater Utilities," which provides:

Water and wastewater utilities shall, effective January 1, 1998, maintain their accounts and records in conformity with the 1996 NARUC Uniform System of Accounts adopted by the National Association of Regulatory Utility Commissioners.

Although the Utility's failure to keep its books and records in conformance with the NARUC USOA is an apparent violation of Rule 25-30.115, F.A.C., the Utility shall first be directed to maintain its books and records in conformance with the NARUC USOA by March 31, 2010. If the Utility fails to adjust its books and records by this date, then a show cause proceeding may be warranted. The Utility has been operating at a loss and the existing rates do not provide an allowance for accounting services. Therefore, the Utility shall be given time and, as set out above, we have given the Utility an accounting allowance for setting up its books to conform to the NARUC USOA and to reconcile the Utility's books with our Order.

Based on the above, the Utility shall maintain its books and records in conformance with the 1996 NARUC USOA and submit a statement from its accountant by March 31, 2010, along with its 2009 annual report, stating that its books are in conformance with the NARUC USOA and have been reconciled with the Commission Order.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Mobile Manor Water Company, Inc.'s application for a staff-assisted rate case is hereby approved as set forth in the body of this Order. It is further

ORDERED that each of the findings made in the body of this Order are 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 Mobile Manor Water Company, Inc. shall file revised tariff sheets and the proposed customer notices to reflect the approved rates. It is further

ORDERED that the approved rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers. It is further

ORDERED that the Utility shall provide proof of the date notice was given no less than 10 days after the date of the notice. It is further

ORDERED that the approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. The tariff sheets shall be approved upon our staff's verification that the tariffs are consistent with this Order and that the customer notices are adequate. It is further

ORDERED that the Utility shall refund 17.40 percent of water revenues collected under interim rates. It is further

ORDERED that the refund shall be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility shall submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. It is further

ORDERED that the Utility shall treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. It is further

ORDERED that to allow this Commission to monitor the effects from changes in revenue to the water system, monthly reports shall be prepared detailing the number of bills rendered, the consumption billed and revenues billed. In addition, the reports shall be prepared by customer class and meter size. It is further

ORDERED that these reports shall be filed with the Commission, on a semi-annual basis, for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the Utility makes adjustments to consumption in any month during the reporting period, the Utility shall file a revised monthly report for that month within 30 days of any revision. It is further

ORDERED that the rates shall be reduced at the end of the four-year rate case expense amortization period as set forth in the body of this Order and Schedule No. 4. It is further

ORDERED that the decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. It is further

ORDERED that the Utility shall file revised tariff sheets and a proposed customer notice setting forth the lower rates and the reason for the reductions no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease, and for the reduction in rates due to the amortized rate case expense. It is further

ORDERED that the Utility shall file revised tariff sheets which are consistent with our decision above concerning customer deposits. It is further

ORDERED that our staff may administratively approve the revised tariff sheets upon verification that the tariffs are consistent with our decision. It is further

ORDERED that if revised tariff sheets are filed and approved, the customer deposit shall become effective for connections made on or after the stamped approval date of the revised tariff sheets. It is further

ORDERED that after a customer has established a satisfactory payment record and has had continuous service for a period of 23 months, the Utility shall refund the customer's deposit pursuant to Rule 25-30.311(5), F.A.C. It is further

ORDERED that the Utility shall pay interest on customer deposits pursuant to Rule 25-30.311(4), F.A.C. It is further

ORDERED that pursuant to Section 367.0814(7), F.S., the rates approved herein shall be approved for the Utility on a temporary basis, subject to the refund provisions set forth in the body of this Order, in the event of a protest filed by a party other than the Utility. It is further

ORDERED that after the increased rates are in effect on a temporary basis, pursuant to Rule 25-30.360(6), F.A.C., Mobile Manor Water Company, Inc. shall file reports with the Commission's 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 filed shall also indicate the status of the security being used to guarantee repayment of any potential refund. It is further

ORDERED that prior to implementation of any temporary rates, Mobile Manor Water Company, Inc. shall provide the proposed customer notices and appropriate security for the potential refund. Security shall be in the form of a bond or letter of credit in the amount of \$1,819. Alternatively, the Utility may establish an escrow agreement with an independent financial institution. It is further

ORDERED that irrespective of the form of security chosen by the Utility, an account of all monies received as a result of the rate increase shall be maintained by the Utility. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C. It is further

ORDERED that Mobile Manor Water Company, Inc. shall maintain its books and records in conformance with the 1996 NARUC USOA and submit a statement from its accountant by March 31, 2010, along with its 2009 annual report, stating that its books are in conformance with the NARUC USOA and have been reconciled with the Commission Order. It is further

ORDERED that, except for the granting of temporary rates, subject to refund, in the event of a protest, reducing rates at the end of the four-year amortization period, and requiring books to be kept in accordance with the NARUC USOA which are final agency action, 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, F.A.C., is received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that this docket shall remain open until a Consummating Order or other final order has been issued, our staff has approved the revised tariff sheets and customer notices, the Utility has sent the notices to its customers, our staff has received proof that the customers have received notice, and the Utility has provided our staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. It is further

ORDERED that once our staff has verified all of the above actions are complete, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 30th day of November, 2009.



ANN COLE
Commission Clerk

(S E A L)

RRJ

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, except for the granting of temporary rates, subject to refund, in the event of a protest, reducing rates at the end of the four-year amortization period, and requiring books to be kept in accordance with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) which are final agency action, our actions approving increased rates and charges are preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on December 21, 2009. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

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

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

MOBILE MANOR WATER COMPANY, INC.		SCHEDULE NO. 1-A	
TEST YEAR ENDING 12/31/08		DOCKET NO. 090170-WU	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	COMMISSION ADJUST. TO UTIL. BAL.	BALANCE PER COMMISSION
1. UTILITY PLANT IN SERVICE	\$694	\$9,263	\$9,957
2. LAND & LAND RIGHTS	0	0	0
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	0	(4,722)	(4,722)
5. ACCUMULATED DEPRECIATION	(694)	(3,421)	(4,115)
6. AMORTIZATION OF CIAC	0	3,998	3,998
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>6,787</u>	<u>6,787</u>
8. WATER RATE BASE	<u>\$0</u>	<u>\$11,905</u>	<u>\$11,905</u>

MOBILE MANOR WATER COMPANY, INC.
TEST YEAR ENDING 12/31/08
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1-B
DOCKET NO. 090170-WU

	<u>WATER</u>
1. <u>UTILITY PLANT IN SERVICE</u>	
a. To reflect original cost study per staff engineer.	\$4,722
b. Remove existing utility plant in service.	(694)
c. Adjust for replacing 40 metering systems per year.	10,471
d. To reflect averaging adjustment.	<u>(5,236)</u>
Total	<u>\$9,263</u>
2. <u>CIAC</u>	
a. To reflect appropriate CIAC.	<u>(\$4,722)</u>
3. <u>ACCUMULATED DEPRECIATION</u>	
a. To reflect test year depreciation calculated per 25-30.140, F.A.C.	(\$4,328)
b. To remove existing utility plant in service.	694
c. To reflect averaging adjustment.	<u>213</u>
Total	<u>(\$3,421)</u>
4. <u>AMORTIZATION OF CIAC</u>	
a. To reflect appropriate amortization of CIAC.	\$4,064
b. To reflect averaging adjustment.	<u>(66)</u>
Total	<u>\$3,998</u>
5. <u>WORKING CAPITAL ALLOWANCE</u>	
a. To reflect 1/8 of test year O & M expenses.	<u>\$6,787</u>

MOBILE MANOR WATER COMPANY, INC.
TEST YEAR ENDING 12/31/08
SCHEDULE OF CAPITAL STRUCTURE

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER COMMISSION	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$0	\$0	\$0					
2. RETAINED EARNINGS	(17,497)	17,497	0					
3. PAID IN CAPITAL	0	0	0					
4. OTHER COMMON EQUITY	<u>0</u>	<u>0</u>	<u>0</u>					
5. TOTAL COMMON EQUITY	(\$17,497)	\$17,497	\$0	\$0	\$0	0.00%	11.78%	0.00%
6. LONG TERM DEBT	\$23,000	\$0	\$23,000	(\$11,095)	\$12,227	100.00%	5.25%	5.25%
7. OTHER LONG TERM DEBT	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	0.00%
8. TOTAL LONG TERM DEBT	\$23,000	\$0	\$23,000	(\$11,095)	\$12,227	100.00%		
9. CUSTOMER DEPOSITS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	0.00%
10. TOTAL	<u>\$5,503</u>	<u>\$17,497</u>	<u>\$23,000</u>	<u>(\$11,095)</u>	<u>\$12,227</u>	<u>100.00%</u>		<u>5.25%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>10.78%</u>	<u>12.78%</u>	
OVERALL RATE OF RETURN						<u>5.25%</u>	<u>5.25%</u>	

MOBILE MANOR WATER COMPANY, INC. TEST YEAR ENDING 12/31/08 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 090170-WU		
	TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$48,290</u>	<u>\$10,778</u>	<u>\$59,068</u>	<u>\$2,724</u> 4.61%	<u>\$61,792</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	69,683	(15,388)	54,295	0	54,295
3. DEPRECIATION (NET)	0	224	224	0	224
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	2,492	1,279	3,771	123	3,893
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$72,175</u>	<u>(\$13,886)</u>	<u>\$58,289</u>	<u>\$123</u>	<u>\$58,412</u>
8. OPERATING MARGIN	<u>(\$23,885)</u>		<u>(\$779)</u>		<u>\$3,380</u>
9. WATER RATE BASE	<u>\$0</u>		<u>\$11,905</u>		<u>\$11,905</u>
10. OPERATING RATIO			<u>6.54%</u>		<u>10.00%</u>

MOBILE MANOR WATER COMPANY, INC.
TEST YEAR ENDING 12/31/08
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-B
DOCKET NO. 090170-WU
PAGE 1 OF 2

	<u>WATER</u>
OPERATING REVENUES	
1. To reflect test year revenues per Commission.	<u>\$10,778</u>
OPERATION AND MAINTENANCE EXPENSES	
1. Salaries & Wages - Employees (601)	
a. To reflect appropriate office manager's salary.	<u>\$474</u>
2. Purchased Water (610)	
a. To reflect actual test year expense.	\$744
b. To reflect excessive unaccounted for water.	<u>(3,507)</u>
Subtotal	<u>(\$2,763)</u>
3. Chemicals (618)	
a. To reflect actual test year expense.	\$32
b. To reflect excessive unaccounted for water.	<u>(5)</u>
Subtotal	<u>\$27</u>
4. Materials and Supplies (620)	
a. To reflect actual test year expense.	<u>\$106</u>
5. Contractual Services - Billing (630)	
a. To reflect water meter reading work performed by Associa Benson's Inc.	<u>\$1,995</u>
6. Contractual Services - Professional (632)	
a. Remove misclassified management fees.	(\$11,831)
b. To reflect one-time accounting expense (Amortize over 5 years.)	\$160
c. To reflect one-time annual accounting allowance.	575
d. To include accounting expense in proper account.	1,325
e. To reflect preparation of income tax returns.	<u>(950)</u>
Subtotal	<u>(\$10,721)</u>
7. Contractual Services - Testing (635)	
a. To reflect actual test year expense.	<u>(\$2,924)</u>
8. Contractual Services - Other (636)	
a. Remove unsupported balance.	(\$4,694)
b. To include management fee in proper account.	\$11,831
c. To reflect the appropriate management fee.	<u>(\$5,070)</u>
d. To Include amount for repairs.	<u>\$309</u>
Subtotal	<u>\$2,376</u>
9. Rents - (640)	
a. To reflect the appropriate office rent.	<u>(\$2,880)</u>
10. Regulatory Commission Expense (665)	
a. To reflect 4 year amortization of rate case expense.	<u>\$382</u>
11. Miscellaneous Expense (675)	
a. Remove misclassified accounting expense.	(\$1,325)
b. To reflect telephone expense.	\$28
c. To reflect office expense.	<u>(\$162)</u>
Subtotal	<u>(\$1,459)</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>(\$15,388)</u>

MOBILE MANOR WATER COMPANY, INC.
TEST YEAR ENDING 12/31/08
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-B
DOCKET NO. 090170-WU
PAGE 2 OF 2

	<u>WATER</u>
1. DEPRECIATION EXPENSE	
a. To reflect the depreciation expense.	\$426
b. To reflect CIAC Amortization.	<u>(202)</u>
Total	<u>\$224</u>
2. TAXES OTHER THAN INCOME	
a. To include regulatory assessment fees on test year revenue.	\$485
b. To adjust payroll tax for approved salaries.	<u>794</u>
Total	<u>\$1,279</u>

MOBILE MANOR WATER COMPANY, INC.		SCHEDULE NO. 3-C		
TEST YEAR ENDING 12/31/08		DOCKET NO. 090170-WU		
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE				
	TOTAL PER UTILITY	COMMISSION ADJUST.		TOTAL PER COMMISSION
(601) SALARIES AND WAGES - EMPLOYEES	\$9,900	\$474	[1]	\$10,374
(603) SALARIES AND WAGES - OFFICERS	0	0		0
(604) EMPLOYEE PENSION & BENEFITS	0	0		0
(610) PURCHASED WATER	23,259	(2,763)	[2]	20,496
(615) PURCHASED POWER	0	0		0
(616) FUEL FOR POWER PRODUCTION	0	0		0
(618) CHEMICALS	0	27	[3]	27
(620) MATERIALS AND SUPPLIES	0	106	[4]	106
(630) CONTRACTUAL SERVICES - BILLING	1,365	1,995	[5]	3,360
(631) CONTRACTUAL SERVICES - PROFESSIONAL	11,831	(10,721)	[6]	1,110
(635) CONTRACTUAL SERVICES - TESTING	6,877	(2,924)	[7]	3,953
(636) CONTRACTUAL SERVICES - OTHER	4,694	2,376	[8]	7,070
(640) RENTS	9,600	(2,880)	[9]	6,720
(650) TRANSPORTATION EXPENSE	0	0		0
(655) INSURANCE EXPENSE	0	0		0
(665) REGULATORY COMMISSION EXPENSE	0	382	[10]	382
(670) BAD DEBT EXPENSE	0	0		0
(675) MISCELLANEOUS EXPENSES	<u>2,157</u>	<u>(1,459)</u>	[11]	<u>698</u>
	\$69,683	(\$15,388)		\$54,295

MOBILE MANOR WATER COMPANY, INC.
TEST YEAR ENDING 12/31/08
MONTHLY WATER RATES

	RATES PRIOR TO FILING	COMMISSION APPROVED INTERIM	COMMISSION APPROVED FINAL	4-YEAR RATE REDUCTION
Residential and General Service				
<u>Base Facility Charge by Meter Size:</u>				
5/8"X3/4"	\$6.94	\$10.21	\$7.26	\$0.05
3/4"	\$0.00	\$0.00	\$10.89	\$0.07
1"	\$0.00	\$0.00	\$18.15	\$0.12
1-1/2"	\$0.00	\$0.00	\$36.30	\$0.24
2"	\$0.00	\$0.00	\$58.08	\$0.38
3"	\$0.00	\$0.00	\$116.16	\$0.76
4"	\$0.00	\$0.00	\$181.50	\$1.18
6"	\$0.00	\$0.00	\$363.00	\$2.36
 <u>Residential Service Gallonage Charge</u>				
Gallonage Charge (per 1,000 gallons)	\$6.24	\$9.18	\$6.53	\$0.04
 <u>General Service Gallonage Charge</u>				
Gallonage Charge (per 1,000 gallons)	\$6.24	\$9.18	\$6.53	\$0.04
 <u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
3,000 Gallons	\$25.66	\$37.75	\$26.85	
5,000 Gallons	\$38.14	\$56.11	\$39.91	
10,000 Gallons	\$69.34	\$102.01	\$72.56	