

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in  
Polk County by Pinecrest Utilities, LLC.

DOCKET NO. 120269-WU  
ORDER NO. PSC-13-0320-PAA-WU  
ISSUED: July 12, 2013

The following Commissioners participated in the disposition of this matter:

RONALD A. BRISÉ, Chairman  
LISA POLAK EDGAR  
ART GRAHAM  
EDUARDO E. BALBIS  
JULIE I. BROWN

NOTICE OF PROPOSED AGENCY ACTION ORDER  
APPROVING RATE INCREASE  
AND  
FINAL ORDER  
ESTABLISHING TEMPORARY RATES AND RATE CASE EXPENSE

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission (Commission) that, *except as identified as final agency action*, 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.

**BACKGROUND**

Pinecrest Utilities, LLC. (Pinecrest or Utility) is a Class C water utility serving approximately 145 customers in Polk County. The Utility is located in the Southern Water Use Caution Area of the Southwest Florida Water Management District (SWFWMD or District). However, there are no water use restrictions for the Utility because annual withdrawals are less than 100,000 gallons per day. The Utility's 2012 Annual Report lists annual revenues of \$54,594 and total operating expenses were \$54,645, resulting in a net loss of \$51.

The Utility was constructed in 1987. In 1997, Pinecrest was granted Certificate No. 588-W when Polk County turned over jurisdiction of privately-owned water and wastewater utilities to the Commission.<sup>1</sup> Pinecrest's subsequent certification actions include a name change

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<sup>1</sup> See Order No. PSC-97-0367-FOF-WU, issued April 2, 1997, in Docket No. 961253-WU, *In re: Application for grandfather certificate to provide water service in Polk County by Pinecrest Ranches*.

in 1997,<sup>2</sup> a transfer of majority organizational control in 2002,<sup>3</sup> and a quick-take territory amendment in 2003.<sup>4</sup> We last established rate base for rate making purposes in the Utility's 2010 staff-assisted rate case (SARC).<sup>5</sup> On September 18, 2012, we approved the transfer of Certificate No. 588-W from Pinecrest Ranches, Inc. to Pinecrest Utilities, LLC, and established rate base for transfer purposes.<sup>6</sup> On October 25, 2012, the Utility filed an application for a SARC and paid the appropriate filing fee on December 19, 2012.

We have jurisdiction in this case pursuant to Sections 367.011, 367.0814, 367.101, and 367.121, Florida Statutes (F.S.).

## DECISION

### **I. Quality of Service**

Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), we determine the overall quality of service a utility provides by evaluating the quality of its product, the operational condition of its plant and facilities, and its attempt to address customer satisfaction.

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

The Utility is located within the SWFWMD. Pinecrest's water treatment plant (WTP) operating permit was renewed by the SWFWMD on November 12, 2010, and will expire on January 22, 2018.

The Polk County Health Department (PCHD) conducted a sanitary survey of the WTP on February 12, 2013, and identified seven deficiencies. These included: the wiring of the chlorine pump was not properly tied to the well pumps; the raw tap for well AAC3937 was deficient; the hydropneumatic tank sight glass was missing; the system did not have an auxiliary power source; the system did not have a cross-connection control plan; the system did not have an emergency response plan; and the system did not have an up-to-date distribution map. PCHD issued a letter March 7, 2013, requesting a written response within 30 days to report that deficiencies had been corrected or to provide a schedule for corrective actions.

Our staff conducted a field inspection of the Utility's service area on April 24, 2013. The water treatment system appeared to be operating normally. The Utility filed a response to PCHD on April 25, 2013, indicating that all deficiencies had been corrected or were scheduled for

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<sup>2</sup> See Order No. PSC-97-1087-FOF-WU, issued September 17, 1997, in Docket No. 970635-WU, *In re: Application for name change on Certificate No. 588-W in Polk County from Pinecrest Ranches to Pinecrest Ranches, Inc.*

<sup>3</sup> See Order No. PSC-02-0893-FOF-WU, issued July 5, 2002, in Docket No. 011651-WU, *In re: Application for transfer of majority organizational control of Pinecrest Ranches, Inc., holder of Certificate No. 588-W in Polk County, from James O. Vaughn and Margaret S. Hankin to S. Norman Duncan and Richard S. Little.*

<sup>4</sup> See Order No. PSC-03-0318-FOF-WU, issued March 6, 2003, in Docket No. 020823-WU, *In re: Application for quick-take amendment of Certificate No. 588-W in Polk County by Pinecrest Ranches, Inc.*

<sup>5</sup> See Order No. PSC-10-0681-PAA-WU, issued November 15, 2010, in Docket No. 090414-WU, *In re: Application for staff-assisted rate case in Polk County by Pinecrest Ranches, Inc.*

<sup>6</sup> See Order No. PSC-12-0475-PAA-WU, issued September 18, 2012, in Docket No. 110311-WU, *In re: Application for transfer of Certificate No. 588-W from Pinecrest Ranches, Inc., in Polk County, to Pinecrest Utilities, LLC.*

correction. The wiring of the chlorine pump has been tied to the well pump, which will prevent excess chlorine from entering the system, and the raw tap for well AAC3937 has been repaired. An up-to-date distribution map has been posted at the plant facilities for review. The system operator anticipates addressing the remaining deficiencies, including installing the hydropneumatic tank sight, providing auxiliary power and completing plans for cross-connections and emergency response. The Utility is working with the PCHD to resolve the remaining deficiencies.

#### B. Utility's Attempt to Address Customer Satisfaction

A review of the customer's complaints over the last three years indicates that the Utility has resolved all of the complaints in a timely manner. There were six complaints filed with our Consumer Activity Tracking System (CATS) during the past three years, all regarding improper billing. A customer meeting was held on April 25, 2013, at the Bartow Public Library in Bartow, Florida. Two customers attended the customer meeting and commented that the water was of an undesirable quality due to odor issues and the staining or discoloration of laundry. Concerns were expressed regarding the health impacts to people and pets. We received one written comment, expressing water quality concerns regarding discoloration, odor, service outages, and poor customer service by the Utility.

The water quality concerns expressed by the customers may be related to the first deficiency noted by the PCHD, as the water system's chlorine pump wiring was not tied into the well pump. In the event of a water pump outage, the chlorine pump would continue operation and cause chlorine levels to build up within the water tank. The Utility has corrected this deficiency. The Utility performed a test of the two customers' chlorine levels, on April 30, 2013. Chlorine residuals registered at 1.49 mg/L and 1.29 mg/L which is below the maximum residual disinfectant level of 4.0 mg/L allowed by Rule 62-550.310(2)(a), F.A.C.

Discoloration is due to the presence of iron in the water which the Utility addresses by using a chemical sequestrant. The Utility recently changed chemical formulations in an attempt to better address iron content and the resulting discoloration. Extended water pump power outages may have also interrupted some customers' service. The Utility is planning to correct this deficiency, most likely through the installation of an auxiliary power source. The Utility is attempting to contact customers to resolve any other water quality or customer service concerns.

#### C. Conclusion

Pinecrest is in compliance with PCHD rules and regulations, and the water treatment plant is operating normally and scheduled to correct remaining deficiencies. The Utility appears to be responding adequately to water quality concerns of its customers. Therefore, we find that the overall quality of service provided by Pinecrest is satisfactory.

## II. Used and Useful (U&U) Water Treatment and Distribution

Pinecrest has two wells rated at 70 and 200 gallons per minute, which are used to provide potable water. Raw water is treated with liquid chlorine and an injection of a polyphosphate solution for iron sequestration, and is then pumped into the water distribution system. A third well is available for fire protection using a separate distribution system. The Utility provides service to approximately 145 residential customers. The distribution system is designed to serve approximately 157 customers.

In the Utility's last rate case, both the water treatment plant (WTP) and the distribution system were found to be 100 percent U&U.<sup>7</sup> There has been no change in capacity at the WTP, the service area has had no growth in the past five years, and there are no plans for expansion; therefore, pursuant to Rule 25-30.4325(4), F.A.C., we find that the WTP and distribution system are both 100 percent U&U.

## III. Allocation of Common Costs

Pinecrest's owner currently provides billing and/or maintenance services to five other utilities.<sup>8</sup> As of January 1, 2013, the common costs related to these six utilities have been recorded in a company called Florida Utility Service (Common Office). Our practice is to allocate common administrative and general expenses based on the number of equivalent residential connections (ERCs).<sup>9</sup> Since the Common Office provides billing services to all six utilities, but only provides maintenance services to four utilities, two sets of allocation percentages are required. The appropriate allocation percentages are calculated as follows:

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<sup>7</sup> See Order No. PSC-10-0681-PAA-WU, issued November 15, 2010, in Docket No. 090414-WU, *In re: Application for staff-assisted rate case in Polk County by Pinecrest Ranches, Inc.*

<sup>8</sup> Specifically, Pinecrest's owner also owns and operates West Lakeland Wastewater, LLC, serves as the court-appointed receiver for Four Points Utility Corporation and Bimini Bay Utilities, and provides billing services for Lake Forest Utility and East Marion Sanitary Systems.

<sup>9</sup> See e.g., Order No. PSC-01-0323-PAA-WU, issued February 5, 2001, in Docket No. 000580-WU, *In re: Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc. (Alturas Water Works)*; PSC-05-0442-PAA-WU, issued April 25, 2005, in Docket No. 040254-WU, *In re: Application for staff-assisted rate increase in Polk County by Keen Sales, Rentals and Utilities, Inc.*; PSC-09-0716-PAA-WU, issued October 28, 2009, in Docket No. 090072-WU, *In re: Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc.*

<u>Name of System</u>	<u>Number of ERCs</u>	<u>Percentage of Allocation</u>
<u>Allocation of Billing and Fixed Costs:</u>		
Bimini Bay Utilities	201	18.73%
East Marion Sanitary Systems	91	8.48%
Four Points Utility Corporation	258	24.04%
Lake Forest Utilities	66	6.15%
Pinecrest Utilities	145	13.51%
West Lakeland Wastewater	<u>312</u>	<u>29.08%</u>
Total	<u>1,073</u>	<u>100.00%</u>
<u>Allocation of Maintenance Related Costs:</u>		
Bimini Bay Utilities	201	21.94%
Four Points Utility Corporation	258	28.17%
Pinecrest Utilities	145	15.83%
West Lakeland Wastewater	<u>312</u>	<u>34.06%</u>
Total	<u>916</u>	<u>100.00%</u>

As set forth above, Pinecrest represents 13.51 percent of the ERCs for all six utilities receiving billing services and 15.83 percent of the ERCs for the four utilities receiving maintenance services. Upon review, we find that the Common Office's reasonable and prudent common expenses shall be allocated to the Pinecrest system based on the allocated portion of 13.51 percent for billing and fixed costs and 15.83 percent for maintenance costs. This equitably reflects the distribution of costs between these systems and these allocation percentages also apply to common plant allocations.

#### **IV. Test Year Rate Base**

The appropriate components of the Utility's rate base include utility plant in service, accumulated depreciation, contribution-in-aid-of-construction (CIAC), amortization of CIAC and working capital. We last established Pinecrest's rate base in its 2011 transfer case.<sup>10</sup> For the instant rate case, we have selected the test year ended September 30, 2012. A summary of each component and the approved adjustments follows:

<sup>10</sup> See Order No. PSC-12-0475-PAA-WU, issued September 18, 2012, in Docket No. 110311-WU, *In re: Application for transfer of Certificate No. 588-W from Pinecrest Ranches, Inc. in Polk County, to Pinecrest Utilities, LLC.*

A. Utility Plant in Service (UPIS)

The Utility recorded a UPIS balance of \$214,658. We increased UPIS by \$1,589 to reflect the allocation of a Common Office that handles the billing and administrative functions for Pinecrest. We decreased UPIS by \$8,000 to remove a pick-up truck that was totaled after the test year. We also increased plant to reflect pro forma additions for 2 gate valves that occurred outside of the test year. Our net adjustment to UPIS is a decrease of \$4,549. Upon review, we approve a UPIS balance of \$210,109.

B. Land & Land Rights

The Utility recorded a test year land value of \$6,500. No adjustments are necessary, therefore, we approve a land balance of \$6,500.

C. Non-Used and Useful Plant

Pinecrest's water treatment plant and distribution system are 100 percent U&U. Therefore, a used and useful adjustment is not necessary.

D. Contributions In Aid of Construction (CIAC)

Pinecrest recorded a CIAC balance of \$100,351. Our staff has verified that CIAC was properly recorded in compliance with our rules and the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA). Thus, we approve the CIAC balance of \$100,351.

E. Accumulated Depreciation

Pinecrest recorded a balance for accumulated depreciation of \$107,209. We calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C., and increased accumulated depreciation by \$6,054. In addition, we decreased accumulated depreciation by \$834 to reflect the retirement of the totaled pick-up truck, and further decreased accumulated depreciation by \$2,780 to reflect the retirements associated with pro forma plant replacements. We increased accumulated depreciation by \$244 to reflect the appropriate amount for the allocated common office that handles the billing and administrative functions for Pinecrest. Our net adjustment to accumulated depreciation is an increase of \$2,684. Upon review, we approve an accumulated depreciation balance of \$109,893.

F. Amortization of CIAC

Pinecrest recorded a balance for amortization of CIAC of \$68,020. We increased amortization of CIAC by \$2,104 to include amortization of CIAC recorded by the Utility during the test year. We approve a CIAC balance of \$70,124.

### G. Working Capital Allowance

Pinecrest's working capital balance for the test year was \$2,436. Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses or going-concern requirements of the Utility. Consistent with Rule 25-30.433(2), F.A.C., we used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, we approve a working capital allowance of \$6,245 (based on O&M expense of \$49,959/8). Thus, we have increased the working capital allowance by \$3,809.

### H. Rate Base Summary

Based on the foregoing, we find that the appropriate average test year rate base is \$82,734. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

### **V. Return on Equity and Overall Rate of Return**

The Utility's capital structure consists of long-term debt of \$85,092 at 6.27 percent, \$384 of customer deposits, and negative common equity. Consistent with our prior practice, we set the Utility's common equity balance to \$0.<sup>11</sup> The appropriate ROE is 11.16 percent using the leverage formula currently in effect.<sup>12</sup> The Utility's capital structure has been reconciled with the approved rate base. We approve an ROE of 11.16 percent, with a range of 10.16 percent to 12.16 percent, and an overall rate of return of 6.27 percent. The ROE and overall rate of return are shown on Schedule No. 2.

### **VI. Test Year Revenues for Water System**

Pinecrest recorded total test year revenues of \$12,945, including water service revenues of \$12,107 and \$838 of miscellaneous revenues. The Utility's test year is October 2011 to September 2012. The Utility did not record any revenues in its general ledger for January 2012 through September 2012.

Based on our review of the Utility's billing determinants and the rates that were in effect during the test year, we approve adjustments to the test year service revenues. The Utility incorrectly billed the base facility and gallonage charge in effect from October 2011 to February 2012 of the test year, resulting in an under billing. In March 2012, the Utility corrected its billing to reflect our approved tariff rates. The rates also changed in September 2012 to implement a Phase II rate increase. When there is a rate change, service revenues are annualized to reflect the change. Subsequent to the test year, in October 2012, the Utility implemented a

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<sup>11</sup> 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.*

<sup>12</sup> See Order Nos. PSC-12-0339-PAA-WS, issued June 28, 2012, and PSC-12-0372-CO-WS, issued July 20, 2012, in Docket No. 120006-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), Florida Statutes.*

price index rate adjustment. Our test year revenues reflect the rates in effect at September 30, 2012. Based on our review of the Utility's billing determinants and rate change in the test year, service revenues are increased by \$43,398 to reflect total test year service revenues of \$55,505.

In addition, we made adjustments to test year miscellaneous revenues. Pinecrest recorded \$838 of miscellaneous revenues during the test year; however, pursuant to our audit, miscellaneous revenues are increased by \$2,960 to reflect unrecorded miscellaneous revenues. Thus, the test year miscellaneous revenues were \$3,798.

Based on our adjustments, we approve total test year revenues of \$59,303 for the water system. Thus, test year revenues are increased by \$46,358 (\$43,398 + \$2,960). Test year revenues are shown on Schedule 3-A.

## **VII. Operating Expenses**

Pinecrest recorded operating expense of \$48,246 for the test year ended September 30, 2012. Having reviewed the test year O&M expenses and examined invoices, canceled checks, and other supporting documentation, we have made several adjustments to the Utility's operating expenses as summarized below:

### A. Salaries and Wages - Employees (601)

Pinecrest recorded \$0 for employee salaries expense in this account. As of January 1, 2013, common costs are recorded on the books of Florida Utility Service. Currently, Florida Utility Service pays two employees: a maintenance employee, and a customer service and billing employee, with salaries of \$22,880 and \$19,760, respectively. The employees' duties are allocated based on the percentages set forth in Section III, above. We have determined that the maintenance employee's salary attributable to Pinecrest is \$3,622 ( $\$22,880 \times 15.83$  percent). In addition, we have determined that the customer service and billing employee's salary attributable to Pinecrest is \$2,670 ( $\$19,760 \times 13.51$  percent). The sum of these salaries is \$6,292 which we approve as the salaries and wages for employees expense for the test year of \$6,292.

### B. Salaries and Wages - Officers (603)

Pinecrest recorded \$7,120 for officer's salaries expense in this account. The Utility's owner/president has requested a salary of \$60,000 to be allocated across all the utilities that he owns or manages. This amount is below the average salary range provided in the 2012 Compensation Survey issued by the American Water Works Association. We have determined that the president's salary attributable to Pinecrest is \$8,108 ( $\$60,000 \times 13.51$  percent). Thus, we have increased this account by \$988 to arrive at the approved salary expense of \$8,108.



C. Employee Pensions and Benefits (604)

Pinecrest recorded \$0 for employee pensions and benefits expense in this account. The Utility's owner/president has requested benefits of \$5,500 for contribution to a pension fund for himself, and health insurance for the maintenance employee at an annual cost of \$1,476. Based upon the appropriate allocation of costs, Pinecrest's allocation of the president's pension benefit is \$743 ( $\$5,500 \times 13.51$  percent) and the health insurance benefit is \$234 ( $\$1,476 \times 15.83$  percent), for a total adjustment of \$977. We approve employee pensions and benefits expense for the test year of \$977.

D. Purchased Power (615)

Pinecrest recorded \$2,668 for purchased power expense. We made an adjustment to purchased power to remove \$141 of late fees and penalties and reclassify them to non-utility expense. In addition, the common purchased power expense for the common office is \$1,385. Pinecrest's allocated share of the purchased power expense is \$187 ( $\$1,385 \times 13.51$  percent). The result of these adjustments is a net increase of \$46. We approve purchased power expense of \$2,715.

E. Chemicals (618)

The Utility recorded \$782 for chemicals expense. No adjustment is necessary, therefore, we approve a chemical expense of \$782.

F. Materials and Supplies (620)

The Utility recorded \$2,756 for material and supplies. We have reclassified a \$90 credit from revenue to this account to reflect the reimbursement for cutting a pipe. We also removed undocumented expenses totaling \$1,794. Our net adjustment to this account is a decrease of \$1,884. Thus, we approve a materials and supplies expense of \$871.

G. Contractual Services - Billing (630)

Pinecrest recorded \$290 for contractual services - billing. We decreased this account by \$290 to reclassify meter reading expenses from contractual services - billing, to contractual services - other. In addition, by a letter dated April 10, 2013, the Utility's owner/president requested a \$204 increase in customer monthly billing expense to provide customer bills by envelope instead of providing customer bills by post cards. The Utility's owner/president requested this change to address a reported problem from customers that the post card bills were not being received. While we do not find that the requested change will provide any real benefit to Pinecrest's customers, we do find that if the monthly bills were sent out in an envelope, with a return envelope included, it would provide a benefit to the customers. We estimate that providing customer bills in that manner would increase Pinecrest's customer billing expense by approximately \$300 per year. The Utility's owner/president has agreed to include return envelopes; thus, we have increased this account by \$300 to include the expense for sending

monthly bills out in an envelope, with a return envelope included. Our net adjustment to this account is an increase of \$10. We approve contractual services - billing expense of \$300.

H. Contractual Services - Professional (631)

Pinecrest recorded \$4,507 for contractual services - professional. Florida Utility Service employs a bookkeeper on a contractual basis for \$36,400 per year. We determined that Pinecrest's allocated share of the bookkeeping expense is \$4,918 ( $\$36,400 \times 13.51$  percent). As Pinecrest only included \$2,640 for the bookkeeper's expense, we increased this account by \$2,279 to include the appropriate allocation of expense for the bookkeeper that performs work for Pinecrest. We approve a contractual services - professional expense of \$6,785.

I. Contractual Services - Testing (635)

The Utility recorded \$4,593 in this account for testing expense. We decreased this account by \$192 to remove the amount of testing expenses that were incorrectly allocated to Pinecrest, and by \$1,400 to normalize a triennial testing expense of \$2,100. Our net adjustment to this account is a decrease of \$1,592. We approve a contractual services - testing expense of \$3,002.

J. Contractual Services – Other (636)

Pinecrest recorded \$12,458 for contractual services – other. We increased this account by \$2,117 to reflect the appropriate amount of meter reading expense. We reduced this account by \$600 ( $\$750 \times 4/5$ ) to normalize a tank inspection which cost \$750, and occurs every five years. We have also decreased this account by \$4,869 to reflect the appropriate amount of allocated expense for the common office that handles the billing and administrative functions for Pinecrest, resulting in a net decrease of \$3,352. We approve a contractual services – other expense of \$9,107.

K. Rents (640)

Pinecrest recorded rent expense of \$793. We reclassified \$126 from this account to miscellaneous expense related to the rental of an air valve. We increased this account by \$251 to include the appropriate allocation of rent expense for the common office that handles the billing and administrative functions for Pinecrest, resulting in a net increase of \$125. We approve a rent expense of \$918.

L. Transportation Expense (650)

Pinecrest recorded transportation expense of \$1,077. We increased this account by \$410 to remove an out of period journal entry credit to transportation expense. We also increased this account to by \$197 to reflect the appropriate amount of allocated transportation expense for Pinecrest. Our net adjustment to this account is an increase of \$606. We approve a transportation expense of \$1,684.

M. Insurance Expense (655)

Pinecrest recorded insurance expense of \$3,404. We increased this account by \$322 to remove an out of period journal entry credit to insurance expense. We also increased this amount by \$792 to reflect the appropriate annual cost of insuring the plant. We decreased this account by \$2,831 to reflect the appropriate allocation of insurance expense for the common office that handles the billing and administrative functions for Pinecrest, resulting in a net decrease of \$1,717. We approve an insurance expense of \$1,686.

N. Regulatory Commission Expense (665)

Pinecrest recorded \$0 for regulatory commission expense in this account. Regarding the current rate case, pursuant to Rule 25-22.0407, F.A.C., the Utility is required to provide notices of the customer meeting and notices of final rates to its customers. For these notices, we estimated \$135 for postage expense, \$103 for printing expense, and \$15 for envelopes, for a total noticing cost of \$253. The Utility paid a \$500 rate case filing fee. The total rate case expense including postage, notices, envelopes, and filing fee is \$753. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a four-year period, which is \$188 per year (\$753/4). In addition, there is an unamortized rate case expense of \$201 from a prior rate case.<sup>13</sup> Our net adjustment to this account is an increase of \$389. We approve a regulatory commission expense of \$389.

O. Bad Debt Expense (670)

Pinecrest recorded bad debt expense of \$640. Consistent with our precedent,<sup>14</sup> we increased this account by \$267 to reflect a three-year average of bad debt expense. We approve a bad debt expense of \$907.

P. Miscellaneous Expense (675)

Pinecrest recorded \$4,908 for miscellaneous expense. We increased this account by \$126 to reflect the reclassification of expenses related to the rental of an air valve. We decreased miscellaneous expense to reclassify \$227 of undocumented journal entries to non-utility expenses. We increased this account by \$630 to reflect the appropriate allocation of miscellaneous expense for the common office that handles the billing and administrative functions for Pinecrest. The result of these adjustments is a net increase of \$529. We approve a miscellaneous expense of \$5,437.

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<sup>13</sup> See Order No. PSC-10-0721-CO-WU, Consummating Order, issued December 9, 2010, in Docket No. 090414-WU, *In re: Application for staff-assisted rate case by Pinecrest Ranches, Inc.*

<sup>14</sup> See e.g., Order No. PSC-12-0667-PAA-WS, issued December 26, 2012, in Docket No. 120037-WS, *In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke.*

Q. Operation and Maintenance Expenses Summary

Total adjustments to O&M expense result in an increase of \$3,964. We approve an O&M expense of \$49,959. O&M expenses are shown on Schedule No. 3-A.

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

The Utility recorded depreciation expense of \$0 during the test year. We calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C., and determined depreciation expense to be \$7,634. Pinecrest's amortization of CIAC is \$2,806. Thus, we approve a net depreciation expense of \$4,828.

S. Taxes Other Than Income

The Utility recorded \$2,251 for taxes other than income (TOTI). We increased this account by \$423 to reflect the appropriate test year RAFs. We reduced this account by \$681 for property taxes on a piece of property that is non-utility related. We also increased this account by \$1102 to reflect the appropriate allocation of payroll taxes for the president and the common office employees that handle the billing and administrative functions for Pinecrest. This results in a net increase of \$844. We approve TOTI of \$3,095.

T. Income Tax

The Utility is a limited liability company and did not record income tax for the test year. As a limited liability company, Pinecrest pays no income tax; therefore, we have made no adjustments to this account.

U. Operating Expenses Summary

Applying our adjustments to Pinecrest's recorded test year operating expenses results in approved operating expenses of \$58,059. Operating expenses are shown on Schedule No. 3-A. The related adjustments are shown on Schedule No. 3-B.

**VIII. Revenue Requirement**

Upon review, Pinecrest shall be granted an annual increase of \$3,944 (6.65 percent). This will allow the Utility the opportunity to recover its expenses and a 6.27 percent return on its investment. The calculations are as follows:

<u>Water Revenue Requirement</u>	
Adjusted Rate Base	\$82,734
Rate of Return	x .0627
Return on Rate Base	\$ 5,187
Adjusted O&M expense	49,959
Depreciation Expense	7,634
Amortization	(2,806)
Taxes Other Than Income	3,272
Income Taxes	0
Revenue Requirement	\$63,247
Less Test Year Revenues	59,303
Annual Increase	\$3,944
Percent Increase/(Decrease)	6.65%

### **IX. Water System Rate Structure**

Currently, the Utility's rate structure is a base facilities charge (BFC) and uniform gallonage charge. We reviewed the Utility's billing data in order to evaluate various BFC cost recovery percentages for the residential rate class. The goal of the evaluation was to select rate design parameters that: 1) allow the Utility to recover its revenue requirement; 2) equitably distribute cost recovery among the Utility's customers; and 3) implement, where appropriate, water conserving rate structures consistent with our goals and practices and with the memorandum of understanding (MOU) with the states' five Water Management Districts.

The water management districts have requested, whenever possible, that an inclining block rate structure be implemented. However, based on our review of the billing data, the residential customers' overall average consumption is 4,057 gallons per month and the customer base is non-seasonal. A review of the Utility's consumptive use permit indicates that Pinecrest is well below its permitted gallons per day allocation. Therefore, an inclining block rate structure is not needed.

Due to the low revenue requirement increase of 6.65 percent coupled with low average consumption, we find that a continuation of the BFC and uniform gallonage charge rate structure is appropriate in this case. This rate structure is considered conservation oriented because

customers' bills increase as their consumption increases. This rate structure minimizes the impact on customers using only non-discretionary water while increasing the gallonage charge for conservation purposes.

Based on the foregoing, the Pinecrest's water system rate structure, which consists of a monthly BFC and uniform gallonage charge rate structure, shall remain unchanged.

#### **X. Repression Adjustment**

Upon review, a repression adjustment is not warranted in this case because there is not a significant amount of discretionary usage by the Utility's customers.

#### **XI. Rates**

The revenue requirement of \$63,247 is adjusted to remove miscellaneous revenues of \$3,798. The resulting rates are designed to produce service revenues of \$59,449. Due to the relatively low revenue increase, the increase is applied as an across-the-board increase to the service rates in effect as of September 30, 2012. To determine the appropriate percentage increase to apply to the service rates, miscellaneous revenues are removed from the test year revenues. The calculation is as follows:

	<u>Water</u>
A. Total Test Year Revenues	\$59,303
B. Less: Miscellaneous Revenues	<u>\$3,798</u>
C. Test Year Revenues from Service Rates	\$55,505
D. Revenue Increase	<u>\$3,944</u>
E. % Service Rate Increase (Line 4/Line 3)	<u>7.11%</u>

Based on the foregoing, the appropriate monthly water rates are shown on Schedule No. 4. The water rates for Pinecrest, in effect as of September 30, 2012, are increased by 7.11 percent to produce service revenues of \$59,449. The Utility shall file revised tariff sheets and a proposed customer notice to reflect our approved rates. The approved rates are 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 within 10 days of the date of the notice.

**XII. Rate Reduction for Amortized Rate Case Expense**  
(Final Agency Action)

Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of a four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for RAFs. Upon review, the total reduction is \$411. The water rates are reduced as shown on Schedule No. 4 to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. 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. Pinecrest is required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data 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. Temporary Rates**  
(Final Agency Action)

By this Order, we propose an increase in water rates. A timely protest of our decision might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the Utility, the proposed rates are approved as temporary rates. Pinecrest shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. Pursuant to Rule 25-30.475(1), F.A.C, the approved rates are effective for service rendered on or after the stamped approval date on the tariff sheet. The temporary rates are not to be implemented until our staff has approved the proposed notice, and the notice has been received by the customers. The temporary rates collected by the Utility are subject to the refund provisions discussed below.

Pinecrest is authorized to collect the temporary rates upon staff's approval of an 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 \$2,787. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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

- A. This Commission approves the rate increase; or,
- B. If this Commission denies the increase, the Utility shall refund the amount collected that is attributable to the increase.

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

- A. The letter of credit is irrevocable for the period it is in effect, and,
- B. 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:

- A. No monies in the escrow account may be withdrawn by the Utility without the express approval of this Commission;
- B. The escrow account shall be an interest bearing account;
- C. If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
- D. If a refund to the customers is not required, the interest earned by the escrow account shall revert to Pinecrest;
- E. All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
- F. The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
- G. 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;
- H. The Commission Clerk must be a signatory to the escrow agreement; and,
- I. 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 Pinecrest, 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.

Pinecrest 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 our Office of Commission Clerk no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed shall also indicate the status of the security being used to guarantee repayment of any potential refund.

#### **XIV. Non-Sufficient Funds Fee**

By Order No. PSC-97-0367-FOF-WU, we approved a grandfather certificate to provide water service in Polk County for Pinecrest. With grandfather certificates, the Utility continues its existing rates and charges until a change is authorized by this Commission. The Utility had a Non Sufficient Funds (NSF) fee of \$15 prior to our jurisdiction. It appears the NSF fee was inadvertently not included during our approval of the grandfather certificate and the Utility has not collected an NSF fee from its customers. Upon review, the Utility's tariff shall be revised to reflect an NSF fee. However, it shall be updated in accordance with Sections 68.065 and 832.08(5), F.S., which permit the assessment of charges for the collection of worthless checks, drafts, or orders of payment. As currently set forth in Section 832.08(5), the following fees may be assessed:

- A. \$25, if the face value does not exceed \$50,
- B. \$30, if the face value exceeds \$50 but does not exceed \$300,
- C. \$40, if the face value exceeds \$300,

The Utility shall file revised tariffs to reflect NSF fees as set forth in Sections 68.065 and 832.08(5), F.S. The revised tariffs shall be approved upon our staff's verification that the tariffs are consistent with our decision. If revised tariffs are filed and approved, the NSF fees shall be effective on or after the stamped approval date on the revised tariffs, pursuant to Rule 25-30.475, F.A.C., if no protest is filed and provided customers have been noticed.

#### **XV. Customer Deposits**

The Utility requested authority to collect initial customer deposits pursuant to Section 367.091, F.S., which authorizes this Commission to establish, increase, or change a rate or charge other than monthly rates or service availability charges.

Rule 25-30.311, F.A.C., contains the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the Utility and, ultimately, the general body of ratepayers. Historically, we have set initial customer deposits equal to the amount of two months' bills based on estimated average consumption for the customer class.<sup>15</sup>

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<sup>15</sup> See e.g., Order No. PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 021228-WS, *In re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc.* Order No. PSC-03-0845-PAA-WS, issued July 21, 2003, in Docket No. 021192-WS, *In re: Application for staff-assisted rate case in Highlands County by Damon Utilities, Inc.*

We observe that consumption-based charges are based on the prior month's meter readings. It generally takes five to seven days from the meter reading date until customers are billed. Pursuant to Rule 25-30.335(4), F.A.C., payment may not be considered delinquent until 21 days after the bill is mailed or presented. Pursuant to Rule 25-30.320(2)(g), F.A.C., a utility may discontinue service for nonpayment of bills, provided there has been a diligent attempt to have the customer comply and the customer has been provided at least five working days' written notice. It is likely that the service will not be disconnected until well after two months subsequent to the service being rendered. Not only is collecting a customer deposit to recover this two-month period of service consistent with our past practice, it is also consistent with one of the fundamental principles of rate making – ensuring that the cost of providing service is recovered from the cost causer.<sup>16</sup>

Upon review, an initial customer deposit for water is \$67 for 5/8" x 3/4" meters. All other classes are two times the average estimated monthly bill for water. The approved customer deposits are effective for services rendered or connections made on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475, F.A.C. The Utility is required to charge the approved charges until authorized by this Commission, in a subsequent proceeding, to change them.

#### **XVI. Adjusting Books to Reflect Commission's Decision**

To ensure that the Utility adjusts its books in accordance our decision, Pinecrest shall provide proof, within 90 days of the final order in this Docket, that the adjustments for all applicable NARUC USOA primary accounts have been made.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the overall quality of service provided by Pinecrest Utilities, LLC is satisfactory. It is further,

ORDERED that the Water Treatment Plant and distribution system are 100 percent used and useful. It is further,

ORDERED that the allocation of common costs from Florida Utility Service to Pinecrest Utilities, LLC is 13.51 percent for billing and fixed costs, and 15.83 percent for maintenance costs. It is further,

ORDERED that the average test year rate base for the Pinecrest Utilities, LLC is \$82,734. It is further,

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<sup>16</sup> See e.g., Order No. PSC-03-1119-PAA-SU, issued October 7, 2003, in Docket No. 030106-SU, *In re: Application for staff-assisted rate case in Lee County by Environmental Protection Systems of Pine Island, Inc.* Order No. PSC-96-1409-FOF-WU, issued November 20, 1996, in Docket No. 960716-WU, *In Re: Application for transfer of Certificate No. 123-W in Lake County from Theodore S. Jansen d/b/a Ravenswood Water System to Crystal River Utilities, Inc.*

ORDERED that the return on equity for Pinecrest Utilities, LLC is 11.16 percent with a range of 10.16 percent to 12.16 percent. The overall rate of return is 6.27 percent. It is further,

ORDERED that the test year revenue for the Pinecrest Utilities, LLC water system is \$59,303. It is further,

ORDERED that the operating expense for Pinecrest Utilities, LLC is \$58,059. It is further,

ORDERED that the revenue requirement for Pinecrest Utilities, LLC is \$63,247 resulting in an annual increase of \$3,944 (6.65 percent). It is further,

ORDERED that Pinecrest Utilities, LLC's water system rate structure is unchanged. It is further,

ORDERED that a repression adjustment is not appropriate in this case. It is further,

ORDERED that, subject to the conditions set forth in the body of this Order, the approved monthly water rates are shown on Schedule No. 4. It is further,

ORDERED that, subject to the conditions set forth in the body of this Order, following the expiration of the four-year rate case expense recovery period, water rates shall be reduced as shown on Schedule No. 4 to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. (Final Agency Action). It is further,

ORDERED that, subject to the conditions set forth in the body of this Order, rates approved for Pinecrest Utilities, LLC are also approved on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than Pinecrest Utilities, LLC. (Final Agency Action). It is further,

ORDERED that subject to the conditions set forth in the body of this Order, Pinecrest Utilities, LLC shall file revised tariffs to reflect NSF fees as set forth in Sections 68.065 and 832.08(5), F.S. It is further,

ORDERED that subject to the conditions set forth in the body of this Order, an initial customer deposit for water shall be \$67 for 5/8" x 3/4" meters. All other classes shall be two times the average estimated monthly bill for water. It is further,

ORDERED that Pinecrest Utilities, LLC shall adjust its books in accordance with this Order and shall provide proof within 90 days of the final order in this Docket, that the adjustments for all applicable National Association of Regulatory Commissioners Uniform System of Accounts primary accounts have been made. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, 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 for our staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by our staff. Once these actions are complete, this Docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 12th day of July, 2013.



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ANN COLE  
Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399  
(850) 413-6770  
[www.floridapsc.com](http://www.floridapsc.com)

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

CWM

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.

**Except as identified in the body of this Order at sections XII and XIII, and reflected in corresponding ordering paragraphs,** our action in this matter 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 Office of Commission Clerk, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on May 16, 2013. 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, identified in Sections XII and XIII and reflected in the corresponding ordering paragraphs,** 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.

PINECREST UTILITIES, LLC		SCHEDULE NO. 1-A	
TEST YEAR ENDED 09/30/12		DOCKET NO. 120269-WU	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	ADJUSTMENTS TO UTIL. BAL.	BALANCE
UTILITY PLANT IN SERVICE	\$214,658	(\$4,549)	\$210,109
LAND & LAND RIGHTS	6,500	0	6,500
NON-USED AND USEFUL COMPONENTS	0	0	0
CIAC	(100,351)	0	(100,351)
ACCUMULATED DEPRECIATION	(107,209)	(2,684)	(109,893)
AMORTIZATION OF CIAC	68,020	2,104	70,124
WORKING CAPITAL ALLOWANCE	<u>2,436</u>	<u>3,809</u>	<u>6,245</u>
WASTEWATER RATE BASE	<u>\$84,054</u>	<u>(\$1,320)</u>	<u>\$82,734</u>

<b>PINECREST UTILITIES, LLC</b>		<b>SCHEDULE NO. 1-B</b>
<b>TEST YEAR ENDED 09/30/12</b>		<b>DOCKET NO. 120269-WU</b>
<b>ADJUSTMENTS TO RATE BASE</b>		
<b><u>UTILITY PLANT IN SERVICE</u></b>		
1.	To reflect the appropriate Allocated Plant (AF 8 - WP 15).	\$1,589
2.	To remove utility pick-up truck.	(8,000)
3.	To reflect pro forma plant repairs.	1,861
	Total	<u>(\$4,549)</u>
<b><u>ACCUMULATED DEPRECIATION</u></b>		
1.	To remove utility pick-up truck (AF 8 - WP 15).	\$834
2.	To reflect the appropriate test year accumulated depreciation (Audit Finding 1).	(6,054)
3.	To reflect the appropriate AD of allocated plant.	(244)
4.	To reflect pro forma plant repairs.	2,780
	Total	<u>(\$2,684)</u>
<b><u>AMORTIZATION OF CIAC</u></b>		
	To reflect the appropriate amortization of CIAC (Audit Finding 2).	<u>\$2,104</u>
<b><u>WORKING CAPITAL ALLOWANCE</u></b>		
	To reflect 1/8 of test year O & M expenses.	<u>\$3,809</u>

**PINECREST UTILITIES, LLC**  
**TEST YEAR ENDED 09/30/12**  
**SCHEDULE OF CAPITAL STRUCTURE**

**SCHEDULE NO. 2**  
**DOCKET NO. 120269-WU**

<b>CAPITAL COMPONENT</b>	<b>PER UTILITY</b>	<b>SPECIFIC ADJUSTMENTS</b>	<b>BALANCE BEFORE PRO RATA ADJUSTMENTS</b>	<b>PRO RATA ADJUSTMENTS</b>	<b>BALANCE</b>	<b>PERCENT OF TOTAL</b>	<b>COST</b>	<b>WEIGHTED COST</b>
1. TOTAL COMMON EQUITY	0	0	0	0	0	0.00%	11.16%	0.00%
2. TOTAL LONG TERM DEBT	85,092	0	85,092	(2,742)	82,350	99.54%	6.27%	6.24%
3. CUSTOMER DEPOSITS	384	0	384	0	384	0.46%	6.00%	0.03%
4. TOTAL	<u>85,476</u>	<u>0</u>	<u>85,476</u>	<u>(2,742)</u>	<u>82,734</u>	<u>100.00%</u>		<u>6.27%</u>
<b>RANGE OF REASONABLENESS</b>						<b><u>LOW</u></b>	<b><u>HIGH</u></b>	
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>	
OVERALL RATE OF RETURN						<u>6.27%</u>	<u>6.27%</u>	



PINECREST UTILITIES, LLC			SCHEDULE NO. 3-A		
TEST YEAR ENDED 09/30/12			DOCKET NO. 120269-WU		
SCHEDULE OF WATER OPERATING INCOME					
	TEST YEAR PER UTILITY	ADJUSTMENTS	ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	\$12,945	\$46,358	\$59,303	\$3,944 6.65%	\$63,247
<b>OPERATING EXPENSES:</b>					
2. OPERATION & MAINTENANCE	\$45,995	\$3,964	\$49,959	0	49,959
3. DEPRECIATION (NET)	0	7,634	7,634	0	7,634
4. AMORTIZATION	0	(2,806)	(2,806)	0	(2,806)
5. TAXES OTHER THAN INCOME	2,251	844	3,095	177	3,272
6. INCOME TAXES	0	0	0	0	0
7. TOTAL OPERATING EXPENSES	\$48,246	\$9,636	\$57,882	\$177	\$58,059
8. OPERATING INCOME/(LOSS)	<u>(\$35,301)</u>		<u>\$2,041</u>		<u>\$5,187</u>
9. WATER RATE BASE	<u>\$84,054</u>		<u>\$82,734</u>		<u>\$82,734</u>
10. RATE OF RETURN	<u>-42.00%</u>		<u>1.72%</u>		<u>6.27%</u>

**PINECREST UTILITIES, LLC**  
**TEST YEAR ENDING 09/30/12**  
**ADJUSTMENTS TO OPERATING INCOME**

**SCHEDULE NO. 3-B**  
**PAGE 1 OF 3**

**WATER**

**OPERATING REVENUES**

To adjust utility revenues to audited test year amount. \$46,358

**OPERATION AND MAINTENANCE EXPENSES**

Salaries and Wages - Employees (601)

To reflect allocated salaries (Audit Finding 8) \$6,292

Salaries and Wages - Officers (603)

1. Remove loan payments & credits (Audit Finding 6) \$230

2. Remove out of period expenses (Audit Finding 6) (150)

3. To reflect allocated salaries (Audit Finding 8) 908

Total \$988

EMPLOYEE PENSION & BENEFITS (604)

To reflect pro forma health insurance expense \$977

Purchased Power (615)

1. To reflect allocated expense (Audit Finding 8) \$187

2. To reflect actual test year expense. (141)

Total \$46

Chemicals (618)

Removed undocumented amount. \$0

Materials and Supplies (620)

1. Transfer credit from revenue to Account 620 (\$90)

2. Remove undocumented expenses (1,794)

Total (\$1,884)

Contractual Services - Billing (630)

1. Reclassify meter reading expenses to Account 636 (\$290)

2. To include expense for using envelopes for bills 300

Total \$10

(CONTINUED ON NEXT PAGE)

**PINECREST UTILITIES, LLC**  
**TEST YEAR ENDING 09/30/12**  
**ADJUSTMENTS TO OPERATING INCOME**

**SCHEDULE NO. 3-B**  
**PAGE 2 OF 3**

(CONTINUED FROM PREVIOUS PAGE)

Contractual Services - Professional (631)	
To reflect allocated expense (Audit Finding 8)	
	<u>\$2,279</u>
Contractual Services - Testing (635)	
1. To reflect allocated expense (Audit Finding 8).	(\$192)
2. To normalize triennial testing.	<u>(1,400)</u>
Total	<u>(\$1,592)</u>
Contractual Services - Other (636)	
1. To reflect appropriate amount of meter reading expense (Audit Finding 7).	\$1,827
2. To reflect allocated expense (Audit Finding 8).	(4869)
3. Include amount for meter reading incorrectly recorded in Account 630.	290
4. Amortization of tank inspection costs.	<u>(600)</u>
Total	<u>(\$3,352)</u>
Rents (640)	
1. Reclassified air valve rental to Account 675.	(\$126)
2. To reflect allocated expense (Audit Finding 8).	<u>251</u>
Total	<u>\$125</u>
Transportation Expense (650)	
1. Removed an out of period journal adjustment.	\$410
2. To reflect the appropriate allocation of transportation expense.	172
3. To reflect allocated expense (Audit Finding 8).	<u>25</u>
Total	<u>\$606</u>
Insurance Expenses (655)	
1. Removed an out of period journal adjustment (Audit Finding 6).	\$322
2. To reflect pro forma expense. (Audit Finding 7).	792
3. To reflect allocated expense (Audit Finding 8).	<u>(2,831)</u>
Total	<u>(\$1,717)</u>

(CONTINUED ON NEXT PAGE)

**PINECREST UTILITIES, LLC**  
**TEST YEAR ENDING 09/30/12**  
**ADJUSTMENTS TO OPERATING INCOME**

**SCHEDULE NO. 3-B**  
**PAGE 3 OF 3**

(CONTINUED FROM PREVIOUS PAGE)

Regulatory Commission Expense (665)

1. To reflect the appropriate amount of rate case expense.	\$188
2. To reflect the appropriate unamortized prior rate case expense.	<u>201</u>
Total	<u>\$389</u>

Bad Debt Expense (670)

To reflect the appropriate 3-year average.	<u>\$267</u>
1. Air Valve Rental.	126
2. Removing an undocumented adjustment.	(145)
3. Removed an undocumented adjustment - late fee.	(82)
4. To reflect allocated expense (Audit Finding 8).	<u>630</u>
Total	<u>\$529</u>

**TOTAL OPERATION & MAINTENANCE ADJUSTMENTS** \$5,163

WATER

**DEPRECIATION EXPENSE**

1. To reflect the appropriate test year depreciation expense (Audit Finding 1).	\$8,386
2. Include depreciation for pro-forma plant.	464
3. To remove utility pick-up truck.	(1,334)
4. To reflect pro forma plant repairs depreciation expense.	<u>118</u>
Total	<u>\$7,634</u>

**AMORTIZATION**

To reflect the appropriate Amortization of CIAC (Audit Finding 2). (\$2,806)

**TAXES OTHER THAN INCOME**

1. To include regulatory assessment fees on test year revenue.	\$423
2. To reflect allocated payroll taxes (Audit Finding 8).	1102
3. To adjust property taxes to audited amount. (Audit Finding 11).	<u>(681)</u>
Total	<u>\$844</u>

**PINECREST UTILITIES, LLC**  
**TEST YEAR ENDING 09/30/12**  
**ANALYSIS OF WATER OPERATION AND**  
**MAINTENANCE EXPENSE**

**SCHEDULE NO. 3-C**  
**DOCKET NO. 120269-WU**

	TOTAL PER UTILITY	ADJUST.	TOTAL
(601) SALARIES AND WAGES – EMPLOYEES	\$0	\$6,292	\$6,292
(603) SALARIES AND WAGES – OFFICERS	7,120	988	8,108
(604) EMPLOYEE PENSION & BENEFITS	0	977	977
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	2,668	46	2,715
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	782	0	782
(620) MATERIALS AND SUPPLIES	2,756	(1,884)	871
(630) CONTRACTUAL SERVICES – BILLING	290	10	300
(631) CONTRACTUAL SERVICES - PROFESSIONAL	4,507	2,279	6,785
(635) CONTRACTUAL SERVICES – TESTING	4,593	(1,592)	3,002
(636) CONTRACTUAL SERVICES – OTHER	12,458	(3,352)	9,107
(640) RENTS	793	125	918
(650) TRANSPORTATION EXPENSE	1,077	606	1,684
(655) INSURANCE EXPENSE	3,404	(1,717)	1,686
(665) REGULATORY COMMISSION EXPENSE	0	389	389
(670) BAD DEBT EXPENSE	640	267	907
(675) MISCELLANEOUS EXPENSES	<u>4,908</u>	<u>529</u>	<u>5,437</u>
	<u>\$45,995</u>	<u>\$3,964</u>	<u>\$49,959</u>

**PINECREST UTILITIES, LLC.**  
**TEST YEAR ENDED SEPTEMBER 30, 2012**  
**MONTHLY WATER RATES**

**SCHEDULE NO. 4**  
**DOCKET NO. 120269-WS**

	<b>RATES AT 9/30/2012 (1)</b>	<b>UTILITY'S CURRENT RATES (2)</b>	<b>APPROVED RATES</b>	<b>4 YEAR RATE REDUCTION</b>
<b><u>Residential</u></b>				
<b><u>All Meter Sizes</u></b>				
<b><u>Base Facility Charge by Meter Size:</u></b>				
5/8"X3/4"	\$14.14	\$14.45	\$15.14	\$0.10
3/4"	\$21.21	\$21.68	\$22.71	\$0.16
1"	\$35.35	\$36.13	\$37.85	\$0.26
1-1/2"	\$70.70	\$72.26	\$75.70	\$0.52
2"	\$113.12	\$115.61	\$121.12	\$0.84
3"	\$226.24	\$231.22	\$242.24	\$1.67
4"	\$353.50	\$361.28	\$378.50	\$2.61
6"	\$707.00	\$722.55	\$757.00	\$5.23
<b><u>Residential and General Service Gallonage Chg.</u></b>				
Per 1,000 gallons	\$4.26	\$4.35	\$4.56	\$0.03
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>				
3,000 Gallons	\$26.92	\$27.50	\$28.82	
5,000 Gallons	\$35.44	\$36.20	\$37.94	
10,000 Gallons	\$56.74	\$57.95	\$60.74	
(1) The recommended rate increase was applied to the rates at 9/30/2012.				
(2) The current rates became effective 10/3/2012 as a result of a price index rate adjustment.				