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Public Service Commission

June 7, 2006

Mr. Martin Friedman
Rose, Sunstrom & Bentley, LLP
Sanlando Center
2180 W. State Road 434, Suite 2118
Longwood, FL 32779

Re: Docket No. 060261-WS - Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke

Dear Mr. Friedman:

We have reviewed the minimum filing requirements (MFRs) submitted on May 11, 2006, on behalf of Utilities, Inc. of Pennbrooke (Pennbrooke or utility). After reviewing this information, we find the MFRs to be deficient. The specific deficiencies are identified below:

Rule 25-30.437, Florida Administrative Code (F.A.C.), requires that each utility applying for a rate increase shall provide the information required by Commission Form PSC/ECR 19 (11/93), entitled "Class A Water and/or Wastewater Utilities Financial, Rate and Engineering Minimum Filing Requirements." Further, Rule 25-30.110, F.A.C., requires that each utility shall furnish any information the Commission requests or requires for determining rates of the utility and that the information be consistent with and reconcilable with the utility's annual report to the Commission.

1. Schedule A-4, Water and Wastewater Plant in Service Annual Balances Subsequent to Last Established Rate Base

The utility is required to provide the annual balance of the original cost of plant in service for all years since rate base was last established by this Commission and yearly additions, retirements, and adjustments up to the end of the test year. Rate base was last established by Order No. PSC-03-1000-FOF-WS, issued September 5, 2000, in Docket No. 030236-WS. Please provide reconciliation from the April 30, 2003 balance reflected in Order No. PSC-03-1000-FOF-WS to the December 31, 2003, balance reflected in MFR Schedule A-4 for water and wastewater.

2. Schedule A-5, Water Plant in Service, Test Year Average Balance

The utility is required to provide the plant in service balances for the year ending December 31, 2004. The 2004 plant in service balance (\$1,792,943) does not equal the balance reflected in the

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2004 Annual Report W-2 (\$1,818,802). Pursuant to Rule 25-30.110, F.A.C., please provide the reconciliation of the balances in the 2004 Annual Report and the MFR Schedule A-5.

3. Schedule A-8, Water and Wastewater Accumulated Depreciation Annual Balances Subsequent to Last Established Rate Base

The utility is required to provide the annual balance of accumulated depreciation for all years since rate base was last established by this Commission and yearly additions, retirements, and adjustments up to the end of the test year. Please provide a reconciliation from the April 30, 2003, balance reflected in Order No. PSC-03-1000-FOF-WS to the December 31, 2003, balance reflected in Schedule A-8.

4. Schedule A-11, Contributions in Aid of Construction (CIAC) Annual Balances Subsequent to Last Established Rate Base

The utility is required to provide the annual balance of CIAC for all years since rate base was last established by this Commission and yearly additions, retirements, and adjustments up to the end of the test year. Please provide a reconciliation from the April 30, 2003 balance reflected in Order No. PSC-03-1000-FOF-WS to the December 31, 2003 balance reflected in Schedule A-11.

5. Schedule A-13, Accumulated Amortization of CIAC Annual Balances Subsequent to Last Established Rate Base

The utility is required to provide the annual balance of accumulated amortization of CIAC for all years since rate base was last established by this Commission and yearly additions, retirements, and adjustments up to the end of the test year. Please provide a reconciliation from the April 30, 2003 balance reflected in Order No. PSC-03-1000-FOF-WS to the December 31, 2003, balance reflected in Schedule A-13.

6. Schedule A-15, Annual Allowance for Funds Used During Construction (AFUDC) Rates Used

The utility is required to describe its AFUDC practices. The utility did not describe its AFUDC practices. Please provide a description of Pennbrooke's AFUDC practices

7. Schedule A-18 and A-19, Balance Sheet

The utility is required to provide the balances of all assets, equity capital and liabilities for the years ended December 31, 2004, and December 31, 2005, as well as, their average. The following are deficiencies on Schedule A-18 and A-19:

- a) The 2004 plant in service amount (\$4,724,677) does not equal the balance reflected in Schedule A-5 plus A-6 (\$4,219,140). It also does equal the amount reflected in the 2004 Annual Report (4,244,999).
- b) The 2005 test year plant in service amount (\$5,001,162) does not equal the balance reflected in Schedule A-5 plus A-6 (\$4,524,602). It also does equal the amount reflected in the 2005 Annual Report W-2 plus S-2 (\$4,524,602).

- c) 2005 test year accumulated depreciation (1,434,637) does not equal the balance reflected in Schedule A-8 (1,418,302). It does equal the amount reflected in the 2005 Annual Report W-2 plus S-2.
- d) The 2005 average accumulated depreciation (1,385,664) does not equal the balance reflected in Schedule A-1 plus A-2 (1,369,211).

8. Schedule B-1 and B-2, Water and Wastewater Net Operating Income

This schedule requires the utility to submit an additional schedule showing a description and calculation of charges, if amortization on line 4 is related to any amount other than an acquisition adjustment. The utility did not provide this information.

9. Schedule B-11, Analysis of Major Maintenance Projects

This schedule requires that the utility provide an analysis of all maintenance projects greater than 2% of test year revenues per system which occurred during the two years prior to the test year and the budgeted amount for one year subsequent to the test year. The utility did not state whether projects are planned for 2006.

10. Schedule B-12, Schedule of Allocated Expenses

The instructions for this schedule require the utility to provide a schedule detailing expenses which are subject to allocation between systems showing allocation percentages, gross amounts, amounts allocated, and detailed description of the method of allocation. The total allocated amount from Water Service Corp. listed on this schedule does not agree with the total allocated amount reflected in Utilities, Inc.'s cost allocation manuals for June 30, 2005, September 30, 2005, and December 31, 2005. Further, the total allocated amount from Utilities, Inc. of Florida listed on this schedule does not agree with the total allocated amount reflected in Utilities, Inc.'s cost allocation manuals for June 30, 2005, September 30, 2005, and December 31, 2005

11. Schedule D-1, Requested Cost of Capital
Schedule D-2, Reconciliation of Capital Structure Requested Rate Base

Rule 25-30.436(4)(g), F.A.C., requires that the provisions of Rule 25-30.433, F.A.C. shall be followed in preparing the utility's application. Specifically, Rule 25-30.433(3), F.A.C., requires that used and useful debit deferred taxes shall be offset against used and useful credit deferred taxes, with any resulting net credit deferred balance included in the capital structure calculation and any resulting net debit balance included as a separate line item in the rate base calculation.

The utility did not offset the debit accumulated deferred income taxes reflected on MFR Schedule A-18 with the utility's credit accumulated deferred income taxes on MFR Schedule A-19.

12. Interim Schedule D-1, Requested Cost of Capital (Interim Rates)
Interim Schedule D-2, Reconciliation of Capital Structure to Requested Rate Base

Schedule D-1 requires the utility to provide a schedule which calculates the requested cost of capital. Column 2 requires a reconciliation to the requested rate base. Schedule D-2 requires the utility to provide a reconciliation of simple average capital structure to requested rate base. The utility did not reconcile to the requested wastewater rate base.

13. Schedule F-7, Used and Useful calculations

The instructions for this schedule require the utility to provide all calculations, analyses and governmental requirements used to determine the used and useful percentages for the water distribution and wastewater collection systems for the historical and the projected test year (if applicable). The capacity should be in terms of ability to serve a designated number of connections. It should then be related to actual connected density for historical year calculations. Explain all assumptions for projected calculations. If the distribution and collection systems are entirely contributed or build-out, this schedule is not required.

Pennbrooke stated that the service area is essentially built out. (emphasis added) Because the service area is not entirely built out, the utility must complete this schedule as required by the above instructions.

Rule 25-30.440, F.A.C., requires that each utility applying for a rate increase shall provide two copies of the following engineering information to the Commission, with the exception of item (6) of which only one copy is required. Numbers 14-17 of the following list are deficiencies pursuant to this rule.

14. Rule 25-30.440(1)(a), F.A.C., requires that each applicant for a rate increase shall provide to Commission one copy of a detailed map showing the location and size of the applicant's distribution and collection lines as well as its plant sites. For both water and wastewater, the line sizes are not clearly identified.

15. Rule 25-30.440(2), F.A.C., requires that each applicant for a rate increase shall provide to the Commission a list of chemicals used for water and wastewater treatment, by type, showing the dollar amount and quantity purchased, the unit prices paid and the dosage rates utilized. The utility provided a list of chemicals used for wastewater treatment that does not have the dosage rates utilized for treatment. The utility did not provide a list of chemicals that has the dosage rates utilized for wastewater treatment as required by this rule. The utility stated that dosage rates vary. There are no actual numbers given.

16. Rule 25-30.440(3), F.A.C., requires that each applicant for a rate increase shall provide the most recent analysis for each water system conducted by a certified laboratory covering the inorganic organic turbidity, microbiological, radionuclide, secondary and unregulated contaminants specified in Chapter 17-550, F.A.C. Please provide all possible water testing results. Staff believes there are more tests than just Nitrates/Nitrites and Disinfection byproducts.

17. Rule 25-30.440(8), F.A.C., requires that each applicant for a rate increase shall provide to the Commission one copy of a list of all field employees, their duties, responsibilities, and certificates held, and an explanation of each employee's salary allocation method to the utility's capital or expense accounts. The utility provided a list of employees that does not completely reconcile to the employees

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reflected in Utilities, Inc.'s cost allocation manuals for June 30, 2005, September 30, 2005, and December 31, 2005. Further, the total salaries from the 2005 cost allocation manuals are greater than the total water and wastewater salaries reflected in the MFR Schedules B-7 and/or B-8. Staff believes the difference between them may be the amount that was capitalized by the utility. However, the cost allocation manuals and the list provided by the utility do not reflect which employee's salaries were capitalized. Please provide a list that has an explanation of each employee's salary allocation method to the utility's capital or expense accounts as required by this rule.

If any above corrections require a corresponding change to any MFR schedules, those corrected schedules must also be submitted. Your petition will not be deemed filed until the deficiencies identified in this letter have been corrected. These corrections should be submitted no later than July 7, 2006.


Sincerely,



Timothy Devlin
Director

TD:sm

cc:


Office of the General Counsel (Brubaker)
Division of Economic Regulation (Willis, Rendell, Massoudi, Merta)