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Public Service Commission

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-M-E-M-O-R-A-N-D-U-M-

DATE: November 18, 2008

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Kyle, Bruce, Bufecza-Banks, Fletcher, Redemann, Stallcup) *OK AB LS*
Office of the General Counsel (Klancke) *PR* *BF* *TS*

RE: Docket No. 070694-WS – Application for increase in water and wastewater rates in Orange County by Wedgefield Utilities, Inc.

AGENDA: 12/2/08 – Regular Agenda – Proposed Agency Action Except Issues Nos. 18 and 19 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Edgar

CRITICAL DATES: 5-Month Effective Date Waived Through 12/2/08

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\070694.RCM.DOC

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Table of Contents

| <u>Issue</u> | <u>Description</u> | <u>Page</u> |
|----------------|--|-------------|
| | Case Background | 3 |
| 1 | Quality of Service (Redemann)..... | 4 |
| 2 | Rate Base Allocation Adjustments (Kyle)..... | 8 |
| 3 | Test Year Plant in Service Adjustments (Kyle)..... | 9 |
| 4 | Used and Useful (Redemann, Kyle)..... | 10 |
| 5 | Working Capital Allowance (Kyle)..... | 11 |
| 6 | Net Debit Deferred Income Taxes (Kyle)..... | 12 |
| 7 | Rate Base (Kyle)..... | 13 |
| 8 | Return on Common Equity (Kyle)..... | 14 |
| 9 | Weighted Average Cost of Capital (Kyle)..... | 15 |
| 10 | Pro Forma Expense Adjustments (Kyle)..... | 16 |
| 11 | Rate Case Expense (Kyle, Fletcher)..... | 17 |
| 12 | Operating Income Before Any Increase (Kyle)..... | 23 |
| 13 | Pre-Repression Revenue Requirement (Kyle)..... | 24 |
| 14 | Rate Structure (Bruce)..... | 25 |
| 15 | Repression Adjustment (Bruce)..... | 29 |
| 16 | Water Rates (Bruce, Kyle)..... | 31 |
| 17 | Miscellaneous Service Charges (Kyle)..... | 32 |
| 18 | Four-Year Rate Reduction (Kyle)..... | 35 |
| 19 | Proof of Adjustments (Kyle)..... | 36 |
| 20 | Docket Closure (Klancke, Kyle)..... | 37 |
| | | |
| <u>Att/Sch</u> | <u>Description</u> | <u>Page</u> |
| A | Used and Useful | 38 |
| 1-A | Water Rate Base | 40 |
| 1-B | Adjustments to Rate Base | 41 |
| 2 | Capital Structure..... | 42 |
| 3-A | Water Operating Income | 43 |
| 3-B | Adjustments to Operating Income | 44 |
| 4 | Water Rates and Four-Year Rate Reduction..... | 45 |

Case Background

Utilities, Inc. (UI or parent) is an Illinois corporation which owns approximately 80 subsidiaries throughout 16 states, including 16 water and wastewater utilities within the State of Florida. Currently, UI has seven separate rate case dockets pending before the Commission. These dockets are as follows:

| <u>Docket No.</u> | <u>Utility Subsidiary</u> |
|-------------------|-------------------------------------|
| 070693-WS | Lake Utility Services, Inc. |
| 070694-WS | Wedgfield Utilities, Inc. |
| 070695-WS | Miles Grant Water and Sewer Company |
| 080247-SU | Utilities Inc. of Eagle Ridge |
| 080248-SU | Tierra Verde Utilities |
| 080249-WS | Labrador Utilities |
| 080250-SU | Mid-County Services |

This recommendation addresses Docket No. 070694-WS. Wedgfield Utilities, Inc. (Wedgfield or Utility) is a Class A utility providing water and wastewater service to approximately 1,597 water and 1,575 wastewater customers in Orange County. Water rates were last established for this Utility in its 1999 rate case.¹

On March 31, 2008, Wedgfield filed its application for a water-only rate increase at issue in the instant docket. The Utility's application did not meet the minimum filing requirements (MFRs). On May 30, 2008, Wedgfield filed responses to the deficiencies identified by Commission staff, and that date was established as the official filing date for this proceeding. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and did not request interim rates. The test year established for final rates is the 13-month average period ending June 30, 2007. Wedgfield requested a final revenue increase of \$446,607 (58.66percent) for water.

On July 29, 2008, the Office of Public Counsel filed a Notice of Intervention in this docket. The Commission has jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes (F.S.).

¹ See Order No. PSC-02-0391-AS-WU, issued March 22, 2002, in Docket No. 991437-WU, In re: Application for increase in water rates in Orange County by Wedgfield Utilities, Inc.

Discussion of Issues

QUALITY OF SERVICE

Issue 1: Is the quality of service provided by Wedgefield satisfactory?

Recommendation: Yes. The overall quality of the water service provided by Wedgefield is satisfactory. (Redemann)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in every water and wastewater rate case, the Commission shall determine the overall quality of service provided by a Utility by evaluating the quality of the Utility's product, the operational condition of the plant and facilities, and the Utility's attempt to address customer satisfaction. Field inspections of the system were conducted on June 30, July 1, and August 5, 2008. In addition, staff contacted the Department of Environmental Protection (DEP) to determine whether the Utility is in compliance with all environmental regulations.

Quality of the Product and Condition of Plant

In 2005, Wedgefield had a problem with elevated disinfection by-products, specifically total trihalomethanes (TTHM). On December 7, 2005, the water plant modification to convert disinfection from chlorine alone to chloramines was completed. The Utility came into compliance with TTHMs after the water plant was modified.

Wedgefield also had a problem with total sulfides. Sulfides are an aesthetic issue that make the water taste and smell unpleasant. The Utility investigated magnetic ion exchange (MIEX) for the removal of sulfides and organic material. The DEP received the Utility's Pilot Project results on July 27, 2007. It was determined from the pilot study that the MIEX-dissolved organic carbon (DOC) resin effectively removes both the DOCs and the total sulfide from the raw water. The DOCs were removed at an average rate of 61percent, while 98percent of the sulfides were removed on average. On July 28, 2008, two MIEX units were installed which has significantly improved the aesthetic quality of the water. In addition, the MIEX units have allowed the Utility to switch back to chlorine for disinfection.

Wedgefield is in compliance with all DEP requirements and the water treatment plants are in good working order. Based on the above, staff recommends that the quality of the Utility's water and the condition of the plant are satisfactory.

Customer Satisfaction

Staff reviewed the Commission's Complaint Tracking System and the Utility's customer complaint log. Three complaints have been filed with the Commission in the past three years and each has been resolved. Customer concerns directed to the Utility were related to water quality issues. Typically, the nearby fire hydrant was flushed and that resolved the problem. There are no unresolved complaints which were made directly to the Utility.

A customer meeting was held in Orlando on August 5, 2008. Approximately seventy customers attended and sixteen spoke. The customers expressed concerns about the amount of the proposed rate increase, as well as the hydrogen sulfide and chlorine odor and taste in the water. Some customers indicated that they had replaced faucets, shower heads, and water heaters. Concerns were expressed about the health issues associated with TTHMs and total dissolved solids in the water. Some customers had spent thousands of dollars for a water purification home treatment system. One customer was concerned with a lift station in his back yard and the ownership of the lift station property. Some customers were also concerned with power outages and the Utility's response when they called to find if the boil water notice had been lifted.

On August 25 and September 3, 2008, Wedgefield provided responses to the concerns raised at the customer meeting. In its response, the Utility indicated that the newly constructed MIEX equipment had been in use since July 28, 2008. Enough time has now passed that all parts of the distribution system now provide MIEX-treated water to the customers. Customers will undoubtedly perceive and observe the benefit of the new treatment equipment over time. MIEX is not designed to reduce the calcium hardness of the water and, as a result, Wedgefield's finished water will typically have 130-150 ppm of hardness at the point of entry.

Regarding the analysis of TTHM and Haloacetic Acids (HAA5) in the distribution system, the Utility notified customers by letter in June 2008 that it was reverting to free chlorine disinfection at that time in order to do a "burn" of the distribution system. This maintenance activity is designed to remove the buildup of nitrogen compounds in the piping system in order to make sure that adequate disinfection occurs and is customary with nearly all chloramine disinfection systems. Consequently, it is to be expected that TTHM and HAA5 levels would be elevated until the MIEX treated water is distributed throughout the system. With the removal of the Trihalomethane precursors from the source water, the resulting TTHM values in the distribution system will drop below the Maximum Contaminant Level of 80 ppm. DEP was notified ahead of time of this change in the disinfection process, which is now a permanent condition. MIEX removes the TTHM precursors very effectively and thereby reduces the formation of TTHM, which means that the Utility will not need to revert back to chloramine disinfection.

Samples have been taken upstream and downstream of the MIEX equipment to measure removal efficiency of total sulfides and dissolved organic chemicals. The samples indicate that the MIEX systems removes 96 percent of the total sulfides, and the TTHM's are below the Maximum Contaminant Level of 80 ppm. The amount of chlorine used daily before MIEX was placed in service averaged about 100 gallons per day. Since MIEX has been in service, chlorine usage has averaged about 25 gallons per day, a decrease of 75 percent. This is another indication that the MIEX equipment has effectively reduced chlorine demand.

A corrosion inhibitor must be added to the finished water in order for the Utility to comply with the Lead and Copper Rule. The corrosion inhibitor is a polyphosphate compound that acts to coat the interior surfaces of the distribution system and household plumbing fixtures, thus preventing the dissolution of lead and copper into the drinking water. It will be necessary to

continue the application of the corrosion inhibitor indefinitely in order to comply with regulatory requirements.

The Utility indicated that it has not received any odor complaints regarding the lift station other than the one customer's comments made at the customer meeting. Consequently, the Utility has not considered it necessary to install odor blocks or any other odor control measures at this particular lift station. The lift station pumps were last pulled in November 2007 for repairs. This was the only time in the last two years that the pumps have been pulled. The wet well is cleaned about one to two times per year. In addition, the Utility provided proof of easements for the lift stations. All properties have a platted utility easement and all lift stations are located within the easements.

With regard to customer concerns about estimated bills, the Utility explained that there were 2 estimated bills in Wedgefield between January and May, out of 7,841 bills. In June and July, about 85 percent of the 2,731 bills were estimated as the Utility worked through the implementation phase of the new billing system. In August, 287 bills out of 1,373 (21 percent) were estimated. The Utility expected to have a minimal number of estimated bills in September.

According to the Utility's records, the last two instances where a power outage occurred and the water treatment plant generator failed to run were in August and September of 2004 in connection with Hurricanes Charley and Frances. When Hurricane Charley struck on Friday, August 13, 2004, a circuit board failed in the generator panel, causing an extended water outage. A number of hours passed before the Utility was able to get the generator to run properly and restore pressure in the distribution system. Due to the widespread devastation that impacted the Orlando Utility Commission's (OUC) service area, OUC did not restore normal power for a couple of days. The Utility was able to maintain system pressure during that time interval.

Before the Utility was able to complete permanent repairs to the generator panel after Hurricane Charley, which entailed the replacement of electrical components, Hurricane Frances struck central Florida on September 5, 2004, and caused another power outage and loss of pressure. In that instance, the Utility's operator was able to manually start the generator and transfer power once he arrived at the plant site. The outage lasted only a short while. In both instances, the customers were notified through the media, primarily radio and television stations, which were very good at repeatedly delivering the messages and updating the status of the precautionary boil water advisories. Once DEP received the results of the water samples, the boil water advisory was lifted and the customers were notified through the media. There was no problem with the operation of the water treatment plant's generator when Hurricane Jeanne impacted the area on September 26, 2004, or in any subsequent storms over the last four years.

With respect to the Utility's procedure when a system-wide loss of pressure occurs or when pressure drops below 20 psi, the Utility notifies DEP immediately of the situation and then follows DEP's rule regarding customer notification. In the case of Wedgefield, it is customary to send a news release to the media and request that various local radio and television stations broadcast a precautionary boil water advisory (BWA) in the greater Orlando area that includes Wedgefield. Additionally, the Utility utilizes a reverse-911 calling system to deliver a pre-recorded message to customers that describes who is calling, the reason for the call, and the precautionary steps that customers may take to minimize health risk. The Utility also posts signs

at the entrances to the neighborhood. Because of the large number of customers in Wedgefield, it is appropriate to use the media, reverse-911, and street signage to communicate the BWA to the customers. In the event of a more localized scheduled or unscheduled water outage, customers are notified by door hanger in addition to reverse-911. Once DEP lifts the BWA, the Utility again notifies the customers. Past experience with the use of the reverse-911 system indicates that about 70-80 percent of the customers are reached in this manner, and therefore, it is an excellent tool to deliver timely information to the majority of the customers.

Customers only had about one week to enjoy the benefits of the MIEX treated water before the customer meeting and they remembered the past history of the water quality. All indications are that the drinking water quality is vastly improved since the MIEX treatment began. The MIEX DOC resin effectively removes both the DOCs and total sulfide from the raw water. The amount of chlorine used daily since the MIEX system was installed has decreased by 75percent. In addition, it appears the Utility has responded satisfactorily to its customers' concerns. The DEP has indicated that they have not received any recent water quality complaints. Therefore, staff recommends that the Utility's attempts to address customer satisfaction is satisfactory.

Summary

Based on all of the above, staff recommends that the overall quality of water service provided by Wedgefield is satisfactory.

RATE BASE

Issue 2: Should any adjustment be made to rate base allocations for Wedgefield?

Recommendation: Yes. Rate Base should be increased by \$34,297 for water. The appropriate net rate base allocation for Wedgefield is \$133,514 for water. (Kyle)

Staff Analysis: In its filing, the Utility reflected Water Service Corporation (WSC) and Utilities, Inc. of Florida (UIF) allocated rate base of \$99,217 for water. WSC (a subsidiary service company of UI) supplies most of accounting, billing, and other services required by UI's other subsidiaries. UIF (a subsidiary of UI) provides administrative support to its sister companies in Florida. Staff auditors performed an affiliate transactions' (AT) audit of UI, the parent company of Wedgefield and its sister companies.

Subsequent to the issuance of staff's AT audit, staff auditors discovered that several employees from UIF's division office in Altamonte Springs worked on treatment plants in Louisiana, and allocated the capitalized salaries in current rate cases in Louisiana. Staff believes that the allocated capitalized salary should be removed, and the Utility agrees to the adjustment. This results in an allocated rate base increase of \$34,297 (Plant Increase of \$46,451 less Accumulated Depreciation increase of \$12,154) for water. Based on the above, staff recommends that the appropriate net rate base allocation for Wedgefield is \$133,514 for water.

Issue 3: Should any additional adjustments be made to the Utility's test year Plant in Service balance and test year expenses?

Recommendation: Yes. Based on Staff's recalculation of the Utility's plant in service, plant in service should be reduced by \$128,021 for water. Corresponding adjustments should be made to decrease accumulated depreciation by \$33,327 for water. Depreciation expense should be decreased by \$5,825 for water. (Kyle)

Staff Analysis: According to staff's audit report, the Utility provided only partial responses to staff auditors' requests for support documentation relating to plant in service. In its response to the audit report, Wedgefield disagreed with the audit findings regarding plant in service, and provided over 900 pages of support documentation. In its response, the Utility acknowledged that it could not provide support for requested documentation totaling \$128,021. Based on the support documentation provided by the Utility, staff recalculated plant in service, accumulated depreciation, operating and maintenance (O&M) expense, and depreciation expense. Based on the above, staff recommends the following adjustments:

| | <u>Water</u> |
|--------------------------|---------------------|
| Plant in Service | (\$128,021) |
| Accumulated Depreciation | (\$33,327) |
| Depreciation Expense | (\$5,825) |

Issue 4: What are the used and useful percentages of the Utility's water system?

Recommendation: Wedgefield's water treatment plant and storage tank should be considered 100 percent used and useful. The transmission and distribution mains should be considered 87.4 percent used and useful. (Redemann, Kyle)

Staff Analysis: In its filing, the Utility requested that the used and useful percentage for the water treatment plant, ground storage, and transmission and distribution mains be considered 100 percent, 100 percent, and 87.4 percent, respectively. The Utility's calculations include a growth allowance.

The water treatment system has two wells rated at 400 and 600 gallons per minute (gpm). Raw water is pumped through one of two MIEX units to remove organics and total sulfides found in the source water, then into a second ion exchange unit to remove hardness, and then into the 350,000 gallon ground storage tank. The ground storage tank has usable capacity of 315,000 gallons. The single maximum day in the test year of 881,000 gallons occurred on May 31, 2007. It does not appear that there was a fire, line break, or other unusual occurrence on that day. The Utility's records indicate unaccounted for water of 7.54 percent of the amount produced, which is not excessive. A growth allowance of 44,881 gallons should be added to the used and useful calculation, pursuant to Rule 25-30.431, F.A.C. The Utility has 82 working fire hydrants in the service area and is required by Orange County to have fire flow capacity of 500 gpm for 2 hours. The firm reliable capacity of the water system is 384,000 gpd, pursuant to Rule 25-30.4325(6)(b), F.A.C. Pursuant to Rule 25-30.4325, F.A.C., the water treatment plant is 100 percent used and useful as shown on Attachment A, Page 1 of 2. In addition, because the usable storage capacity is less than the peak day demand, the storage tank should be considered 100 percent used and useful pursuant to Rule 25-30.4325(8), F.A.C.

According to the Utility, the water distribution system was designed to serve approximately 1,911 ERCs based on the number of lots in the service area. The Utility served an average of 1,590 ERCs during the test year including 12 general service customers. The Utility's historical growth rate has been approximately 16.2 ERCs per year. As shown on Attachment A, Page 2 of 2, the transmission and distribution mains are 87.4 percent used and useful. The service area is close to being built out.

Based on the analysis above, staff recommends the Wedgefield water treatment plant and storage tank should be considered to be 100 percent used and useful. The transmission and distribution mains should be considered to be 87.4 percent used and useful. In its MFRs, the Utility included used and useful adjustments of \$150,245 for plant, \$63,150 for accumulated depreciation, \$3,530 for depreciation expense, and \$2,463 for property tax expense. Staff reviewed the Utility's calculations and believes that they are reasonable. Accordingly, no further adjustment is needed.

Issue 5: What is the appropriate working capital allowance.

Recommendation: The appropriate amount of working capital is \$128,081 for water. (Kyle)

Staff Analysis: Rule 25-30.433(2), F.A.C., requires that Class A utilities use the balance sheet method to calculate the working capital allowance. The Utility has properly filed its allowance for working capital using the balance sheet method. In MFR Schedule A-17, Wedgefield calculated total company working capital as \$317,596 and allocated 50.37 percent, or \$159,980, to water, based on ERCs. Staff agrees with the Utility's calculation, except as related to deferred rate case expense. The Utility included deferred rate case expense in the amount of \$213,778 in the amount subject to allocation. However, staff believes that, because this case relates to water only, the full amount of Commission-approved deferred rate case expense should be allocated to water.

As noted in Issue 11, staff has recommended adjustments to Wedgefield's rate case expense, reducing the total recommended amount to \$151,575. Further, it has been the Commission's practice to include only 50 percent of total deferred rate case expense in working capital. As such, the amount to be included in working capital should be \$75,788. Staff's calculation of working capital is summarized as follows:

| | | |
|--|--------------|-------------------|
| Total Company Working Capital, per MFRs | | \$317,596 |
| Remove Deferred Rate Case Expense | | <u>(213,778)</u> |
| | | \$103,818 |
| Allocation Percentage Based on ECRs | | <u>X 50.37%</u> |
| Total Company Working Capital Allocable to Water | | \$52,293 |
| Staff Adjusted Rate Case Expense | \$151,575 | |
| | <u>X 50%</u> | |
| Average Deferred Rate Case Expense | | <u>\$75,788</u> |
| Adjusted Water Working Capital | | \$128,081 |
| Water Working Capital per MFRs | | <u>159,980</u> |
| Adjustment Required | | <u>(\$31,899)</u> |

In summary, staff recommends that working capital of \$128,081 be approved for water. This reflects a decrease of \$31,899 from the Utility's requested working capital allowance of \$159,980 for water.

Issue 6: Should any additional adjustments be made to the Utility's rate base?

Recommendation: Yes. An adjustment should be made to include accumulated net debit deferred income taxes in the amount of \$314,739 in rate base. (Kyle)

Staff Analysis: In its MFRs, Wedgefield included net debit deferred income taxes in the amount of \$321,823 in its capital structure. Staff reviewed the relevant MFR schedules and the Utility's Annual Reports for 2006 and 2007, and agrees with this amount. Rule 25-30.433(3), F.A.C., states:

Used and useful debit deferred taxes shall be offset against used and useful credit deferred taxes in the capital structure. Any resulting net debit deferred taxes shall be included as a separate line item in the rate base calculation. Any resulting net credit deferred taxes shall be included in the capital structure calculation. No other deferred debits shall be considered in rate base when the formula method of working capital is used.

As noted in Issue 4, the Utility made an adjustment for non-used and useful plant in the amount of \$150,245. In order to determine the appropriate used and useful adjustment for deferred taxes, we have taken the ratio of non-used and useful plant to depreciable plant (per books) and applied this ratio to the amount of net debit deferred income taxes, resulting in a reduction of \$7,084. Staff, therefore, recommends that rate base be increased to include used and useful net debit deferred income taxes in the amount of \$314,739 (\$321,823 less \$7,084).

Docket No. 070694-WS
Date: November 18, 2008

Issue 7: What is the appropriate rate base for the June 30, 2007, test year?

Recommendation: Consistent with other recommended adjustments, the appropriate 13-month average rate base for the test year ending December 30, 2007, is \$4,779,794 for water. (Kyle)

Staff Analysis: Consistent with other recommended adjustments, the appropriate 13-month average rate base for the test year ending December 30, 2007, is \$4,779,794 for water. Staff's recommended rate base is shown on Schedule No. 1-A. The adjustments are shown on Schedule No. 1-B.

COST OF CAPITAL

Issue 8: What is the appropriate return on common equity?

Recommendation: The appropriate return on common equity is 11.86 percent, based on the Commission's leverage formula currently in effect. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. (Kyle)

Staff Analysis: The return on equity (ROE) requested in the Utility's filing is 11.86 percent. This return is based on the application of the Commission's leverage formula approved in Order No. PSC-07-0472-PAA-WS, and an equity ratio of 41.23 percent.²

Based on the current leverage formula approved in Order No. PSC-07-0472-PAA-WS and an equity ratio of 41.23 percent, the appropriate ROE is 11.86 percent. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

² See Order No. PSC-07-0472-PAA-WS, issued June 1, 2007, in Docket No. 070006-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.

Issue 9: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year ended June 30, 2007?

Recommendation: The appropriate weighted average cost of capital for the test year ended June 30, 2007, is 8.68 percent. (Kyle)

Staff Analysis: Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended June 30, 2007, staff recommends a weighted average cost of capital of 8.68 percent. The weighted average cost of capital included in the Utility's filing is 9.29 percent. Schedule No. 2 details staff's recommendation.

The test year per book amounts were taken directly from Wedgefield's MFR filing Schedule D-2. As previously noted in Issue 6, the Utility included net debit deferred income taxes in the amount of \$321,823 in its cost of capital. Rule 25-30.433(3), F.A.C., states that net debit deferred income taxes are to be included in rate base rather than in the capital structure. Staff made an adjustment of \$321,823 to remove net debit deferred income taxes from Wedgefield's capital structure.

Based on the proper components, amounts, and cost rates associated with the capital structure for the test year ended June 30, 2007, staff recommends a weighted average cost of capital of 8.68 percent. Schedule No. 2 details staff's recommendation.

NET OPERATING INCOME

Issue 10: Should any changes be made to pro forma expenses?

Recommendation: Yes. Pro forma expenses should be decreased by a total of \$24,457. (Kyle, Redemann)

Staff Analysis: In Schedule B-3 of its MFRs, Wedgefield included a pro forma adjustment of \$66,453 for the annual cost of additional chemicals associated with the new water treatment process. As a result of discussions at the customer meeting, staff's engineer learned that the MIEX system would actually use approximately 75 percent less chlorine than the previous system. In response to staff's inquiry, the Utility calculated the annual savings from this reduction to be \$19,395. Staff reviewed the Utility's calculation and believes that it is reasonable. Therefore, staff recommends that an adjustment should be made to reduce pro forma chemicals by \$19,395.

In its filing, Wedgefield also reflected several pro forma expense adjustments for inflation totaling \$5,062. As discussed below, staff believes the inflation adjustments should be removed.

In the Utility's test year approval letter dated November 9, 2007, UIF stated that its historic test year ending June 30, 2007, is representative of a normal full year operation. However, on Schedule B-3, the Utility made adjustments to increase its purchased power, chemicals, materials and supplies, contractual services – accounting, contractual services – legal, contractual services – testing, contractual services – other, transportation expenses, insurance – other, bad debt expense, and miscellaneous expense. More than 20percent of the total Consumer Price Index (CPI) adjustment was for miscellaneous expense alone. Staff does not believe the Utility has adequately supported its CPI adjustments to the O&M expenses. Staff recommends that UIF's O&M expenses should be decreased by \$5,062 to reflect the removal of the Utility's CPI adjustments. This recommended adjustment is consistent with the Commission's decisions in two recent rate cases for two sister companies of Wedgefield.³

In summary, staff recommends adjustments to pro forma chemicals in the amount of \$19,935 and to pro forma O&M expenses in the amount of \$5,062, for a total reduction of \$24,457.

³ See Order Nos. PSC-07-0505-SC-WS, issued June 13, 2007, in Docket No. 060253-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida. and PSC-07-0130-SC-SU, issued February 15, 2007, in Docket No. 060256-SU, In re: Application for increase in wastewater rates in Seminole County by Alafaya Utilities, Inc.

Issue 11: What is the appropriate amount of rate case expense?

Recommendation: The appropriate rate case expense is \$151,575. This expense should be recovered over four years for an annual expense of \$37,894. Thus, rate case expense should be reduced by \$15,686 for water. (Kyle, Fletcher)

Staff Analysis: The Utility included in its MFRs, an estimate of \$214,318 for current rate case expense. Staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On November 6, 2008, the Utility submitted a revised estimated rate case expense through completion of the PAA process of \$196,589. The components of the estimated rate case expense are as follows:

| | MFR | | Additional | |
|-------------------------|------------------|------------------|------------------|------------------|
| | <u>Estimated</u> | <u>Actual</u> | <u>Estimated</u> | <u>Total</u> |
| Legal and Filing Fees | \$45,240 | \$20,605 | \$12,789 | \$33,394 |
| Consultant Fees - MSA | 84,880 | 82,321 | 4,130 | 86,451 |
| Consultant Fees - M & R | 8,790 | 4,027 | 5,450 | 9,477 |
| WSC In-house Fees | 53,350 | 23,660 | 10,553 | 34,213 |
| Filing Fee | 4,000 | 2,000 | 0 | 2,000 |
| Travel - WSC | 3,200 | | 3,200 | 3,200 |
| Miscellaneous | 12,000 | 13,756 | 12,000 | 25,756 |
| Notices | <u>2,858</u> | <u>898</u> | <u>1,200</u> | <u>2,098</u> |
| Total Rate Case Expense | <u>\$214,318</u> | <u>\$147,267</u> | <u>\$49,322</u> | <u>\$196,589</u> |

Pursuant to Section 367.081(7), F.S., the Commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. Staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on our review, staff believes several adjustments are necessary to the revised rate case expense estimate.

The first adjustment relates to costs incurred to correct deficiencies in the MFR filing. Based on staff's review of invoices and the Utility's consultants, a combined amount of \$4,063 was billed for correcting the MFR deficiencies and revising the Utility's filing. The amount associated with deficiency corrections (\$4,063) was identified in staff's review of the invoices. According to the invoices, Christian Marcelli and Martin Friedman of Rose, Sundstrom & Bentley, LLP, billed the Utility a total of \$2,838 related to the correction of MFR deficiencies. Additionally, Maria Bravo of Milian, Swain & Associates, billed the Utility \$1,225 related to the correction of MFR deficiencies. The Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.⁴ Accordingly, staff recommends that \$4,063 (\$2,838 + \$1,225) be removed as duplicative and unreasonable rate case expense.

⁴ See Order Nos. PSC-05-0624-PAA-WS, issued Jun 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.; and PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, In Re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.

The second adjustment relates to the Utility's estimated legal fees to complete the rate case. Wedgefield estimated 44.1 hours or \$12,789 in fees to complete the rate case. The specific amounts of time associated with each item are listed below:

| <u>Estimate To Complete Through PAA Process</u> | | |
|--|--------------------|------------------------|
| <u>Description</u> | <u>Hours</u> | <u>Fees</u> |
| Unbilled time through date of filing estimate | 6.6 | \$1,914 |
| Respond to staff's data requests | 16.0 | 4,640 |
| Review Staff's recommendations; Conferences with client and consultants regarding same; Conference with Staff | 2.0 | 580 |
| Prepare for and travel to Tallahassee to attend Agenda; discuss agenda with client and staff | 15.0 | 4,350 |
| Review PAA Order; conference with client and consultants regarding PAA Order | 2.0 | 580 |
| Prepare revised tariff sheets; obtain staff approval of tariffs; draft and revise customer notice, obtain staff approval; coordinate mailing of customer notices and implementation of tariffs | 2.5 | 725 |
| Total estimated fees | <u>44.1</u> | <u>\$12,789</u> |

As discussed below, it is the Utility's burden to justify its requested costs. Staff believes that 44.1 hours is a reasonable amount of time to respond to data requests, conference with the client and consultants, review staff's recommendation, travel to the Agenda Conference, and attend to miscellaneous post-PAA matters.

Wedgefield did not include estimated travel costs for legal representation at the Agenda Conference. Staff believes that a reasonable cost for one person traveling from Orlando to Tallahassee, including meals, vehicle mileage, and one day's lodging is \$425. Staff calculated travel expenses of \$425, using the current state mileage rate (215 miles x 2 trips x \$.455 = \$196), hotel rates from a website (\$149) and a meal allowance (\$80). Accordingly, staff recommends that rate case expense for Legal Fees should be increased by \$425.

The third adjustment relates to the Utility's estimated consultant fees for Frank Seidman with Management & Regulatory Consultants, Inc., to complete the rate case. Mr. Seidman documented \$4,027 in actual fees and costs to date (based on his normal billing rate of \$135 per hour) and estimated 54 hours or \$5,400 (54 X \$100) plus \$50 in expenses to complete the rate case, for a total cost of \$9,477. Specifically, Mr. Seidman estimated 50 hours to assist with and respond to data requests and new information, and four hours to prepare for and attend the Agenda Conference. Staff believes that four hours is a reasonable amount of time to prepare for and attend the Agenda for this docket. This is consistent with the hours allowed for completion by the Commission in the Indiantown Company, Inc. and the Mid-County Services, Inc. rate cases.⁵ However, staff believes the 50 hours to assist with and respond to data requests and new information is not supported by specific tasks and time estimates and should be removed. Staff

⁵ See Order Nos. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.; and PSC-04-0819-PAA-SU, issued August 23, 2004, in Docket No. 030446-SU, In re: Application for rate increase in Pinellas County by Mid-County Services, Inc.

believes that a reasonable amount to complete this docket is \$540 (4 hours x \$135), resulting in a total cost of \$4,567 (\$4,027 plus \$540). Accordingly, staff recommends that rate case expense be decreased by \$4,910 (\$9,477 less \$4,567).

The fourth adjustment relates to the 240 hours and \$10,552 of estimated costs to complete this case by WSC employees. Wedgefield asserts that additional hours were required to respond to our staff's auditors' requests and to the staff analyst's data requests. However, the Utility failed to provide any detailed documentation of what tasks were involved in its estimate to complete the case for each employee. Wedgefield simply stated that the \$10,552 was to assist with data requests and audit facilitation. Staff notes that the audit and the Utility's response have already been completed. The hours needed to complete data requests were not broken down to estimate the hours needed to complete each item. In addition, there were no timesheets provided to show actual hours worked. Therefore, staff had no basis to determine whether the individual hours estimated were reasonable. Staff reviewed these requested expenses and believes the estimates reflect an overstatement. As discussed below, it is the Utility's burden to justify its requested costs. Staff believes that 36 hours is reasonable to allow Wedgefield to respond to data requests, review the PAA recommendation, and travel to the Agenda Conference. By applying the individual employee rates and the average number of hours worked by WSC employees, staff recommends that the estimated WSC fees to complete the case should be \$1,296. Thus, the Utility's requested expense of \$10,552 should be decreased by \$9,256. In those cases where rate case expense has not been supported by detailed documentation, Commission practice has been to disallow some portion or remove all unsupported amounts.⁶

The fifth adjustment relates to the 28 hours and \$4,130 of estimated consulting fees to complete this case by Milian, Swain and Associates, Inc. Wedgefield asserts that additional hours were required to respond to the staff auditor and staff analyst's data requests. However, the Utility failed to provide any detailed documentation of what tasks were involved in its estimate to complete the case for each employee. Wedgefield simply stated that the \$4,130 was to assist with data requests and audit facilitation. Staff notes that the audit and the Utility's response have already been completed. The hours needed to complete data requests were not broken down to estimate the hours needed to complete each item. In addition, there were no timesheets provided to show actual hours worked. Therefore, staff had no basis to determine whether the individual hours estimated were reasonable. Staff reviewed these requested expenses and believes the estimates reflect an overstatement. As discussed below, it is the Utility's burden to justify its requested costs. Staff believes that 3 hours each by Deborah Swain and Maria Bravo (at \$180 per hour and \$140 per hour respectively) is reasonable to allow Wedgefield to respond to data requests. Staff recommends that the estimated Milian, Swain and Associates, Inc. fees to complete the case should be \$960. Thus, the Utility's requested expense of \$4,130 should be decreased by \$3,170.

⁶ See Order Nos. PSC-94-0075-FOF-WS, issued January 21, 1994 in Docket No. 921261-WS, In re: Application for a Rate Increase in Lee County by Harbor Utilities Company, Inc.; PSC-96-0629-FOF-WS, issued May 10, 1996, in Docket No. 950515-WS, In re: Application for staff-assisted rate case in Martin County by Laniger Enterprises of America, Inc.; and PSC-96-0860-FOF-SU, issued July 2, 1996, in Docket No. 950967-SU, In re: Application for staff-assisted rate case in Highlands County by Fairmount Utilities, the 2nd, Inc. Staff notes that, in all of these cases, the Commission removed the entire unsupported amounts.

It is the Utility's burden to justify its requested costs. Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). Further, the Commission has broad discretion with respect to allowance of rate case expense. It would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings. Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), rev. den. by 529 So. 2d 694 (Fla. 1988).

The sixth adjustment addresses WSC's travel expenses. In its MFRs, Wedgefield estimated \$3,200 for travel. Staff believes that a reasonable cost for one person traveling round trip from Chicago to Tallahassee, airfare, car rental, parking, and lodging is \$750. This was the amount of travel expense the Commission allowed for WSC in the Labrador rate case. Staff calculated travel expenses of \$590, using the airfare for December 1, 2008 (\$324), current rental car rates (\$37), hotel rates from a website (\$149) and a meal allowance (\$80), but recommends \$750 consistent with the Labrador case. Therefore, staff believes \$750 is the appropriate travel expense. However, based on several previous UI rate cases, it is staff's experience for PAA rate cases that UI does not send a representative from their Illinois office to attend the Agenda Conference; therefore the entire amount of estimated travel expense should be removed. Accordingly, staff recommends that rate case expense be decreased by \$3,200.

The seventh adjustment relates to WSC expenses for FedEx Corporation (FedEx), copies and other miscellaneous costs. In its MFRs, the Utility estimated \$12,000 for these items. In its updated estimate Wedgefield claimed \$13,756 in actual costs and estimated another \$12,000 in FedEx Corporation (FedEx), copies and other miscellaneous costs in order to complete the rate case. The Utility provided no breakdown or support for the \$12,000. Staff is also concerned with the amount of requested costs for FedEx expense. UI has requested and received authorization from the Commission to keep its records outside the state in Illinois, pursuant to Rule 25-30.110(2)(b), F.A.C. However, when a Utility receives this authorization, it is required to reimburse the Commission for the reasonable travel expense incurred by each Commission representative during the review and audit of the books and records. Further, these costs are not included in rate case expense or recovered through rates. By Order No. PSC-93-1713-FOF-SU, issued November 30, 1993, in Docket No. 921293-SU, In Re: Application for a Rate Increase in Pinellas County by Mid-County Services, Inc., at p. 1, the Commission found that the utility also requested recovery of the actual travel costs it paid for the Commission auditors. Because the utility's books were maintained out of state, the auditors had to travel out of state to perform the audit. We have consistently disallowed this cost in rate case expense.⁷ Staff believes that the requested amount of shipping costs in this rate case directly relates to the records being retained out of state. The Utility typically ships its MFRs, answers to data requests, etc., to its law firm located in central Florida. Then the documents are submitted to the Commission. Staff does not believe that the ratepayers should bear the related costs of having the records located out of state. This is a decision of the shareholders of the Utility, and therefore, they should bear the related costs. Therefore, staff recommends that miscellaneous rate case expense be decreased by \$12,000.

⁷See Order Nos. 25821, issued February 27, 1991, in Docket No. 910020-WS, In re: Petition for rate increase in Pasco County by UTILITIES, INC. OF FLORIDA; and 20066, issued September 26, 1988, in Docket No. 870981-WS, In re: Application of MILES GRANT WATER AND SEWER COMPANY for an increase in Water and Sewer Rates in Martin County

The eighth adjustment relates to miscellaneous costs. The only invoices provided for miscellaneous costs were from CPH Engineering, Inc. regarding the service area mapping for Miles Grant Water and Sewer Company, Wedgefield, and Lake Utility Services, Inc., an invoice for \$280 from CPH Engineering for small projects, and invoices from Office Team totaling \$680 for temporary help. The mapping invoice was for \$13,051; however, because the invoice related to two other utilities, Wedgefield's share of the invoice should be one-third of the invoice or \$4,350. Staff believes that the Utility has documented \$5,310 of actual costs (\$4,350 + \$280 + \$680). Therefore, staff recommends that miscellaneous rate case expense be decreased by \$8,446 (\$13,756 - \$5,310).

The ninth adjustment relates to customer notices and postage. Wedgefield stated in its revised analysis of rate case expense that it had already incurred \$348 for copying, and estimated an additional \$1,200 for copying and postage costs to complete the rate case. The Utility did not provide any support for its postage costs; therefore, staff estimated the costs related to notices and postage. Wedgefield is responsible for sending two notices, the combination initial notice and customer meeting notice, and the notice of the final rate increase. Staff estimated the postage cost for the notices to be \$1,100 (1,591 customers x \$0.346 x 2 notices). Staff also estimated the copying cost for the final notice to be \$257. Staff believes the appropriate cost for copying and mailing customer notices is \$1,705 (\$348 + \$1,100 + \$257). Therefore, staff recommends that rate case expense be decreased by \$393 (\$2,098 - \$1,705) for postage and copying costs.

In summary, staff recommends that the Utility's revised rate case expense be decreased by \$45,013 for MFR deficiencies, and for unsupported and unreasonable rate case expense. The appropriate total rate case expense is \$151,575. A breakdown of rate case expense is as follows:

| | MFR Estimated | Utility Revised Actual & Estimated | Staff Adjustments | Total |
|-------------------------|------------------|---|----------------------|------------------|
| Legal and Filing Fees | \$45,240 | \$33,394 | (\$2,413) | \$30,981 |
| Consultant Fees - MSA | 84,880 | 86,451 | (4,395) | 82,056 |
| Consultant Fees - M & R | 8,790 | 9,477 | (4,910) | 4,567 |
| WSC In-house Fees | 53,350 | 34,213 | (9,256) | 24,956 |
| Filing Fee | 4,000 | 2,000 | 0 | 2,000 |
| Travel - WSC | 3,200 | 3,200 | (3,200) | 0 |
| Miscellaneous | 12,000 | 25,756 | (20,446) | 5,310 |
| Notices | <u>2,858</u> | <u>2,098</u> | <u>(393)</u> | <u>1,705</u> |
| Total Rate Case Expense | <u>\$214,318</u> | <u>\$196,589</u> | <u>(\$45,013)</u> | <u>\$151,575</u> |
| Annual Amortization | <u>\$53,580</u> | <u>\$49,147</u> | <u>(\$11,253)</u> | <u>\$37,894</u> |

In its MFRs, Wedgefield requested total rate case expense of \$214,318, which amortized over four years would be \$53,580. The Utility included in its MFRs \$53,580 for rate case expense in the test year for water. Thus, rate case expense should be decreased by \$15,686 for water.

Docket No. 070694-WS
Date: November 18, 2008

The recommended total rate case expense should be amortized over four years, pursuant to Section 367.016, F.S. Based on the data provided by Wedgefield and the staff recommended adjustments discussed above, staff recommends annual rate case expense of \$37,894 for water.

Docket No. 070694-WS
Date: November 18, 2008

Issue 12: What is the test year water operating income before any revenue increase?

Recommendation: Based on the adjustments discussed in previous issues, the test year operating income is \$185,017 for water. (Kyle)

Staff Analysis: As shown on Schedule No. 3-A, after applying staff's adjustments, the Utility's net operating income is \$185,017 for water. Staff's adjustments to operating income are shown on Schedule No. 3-B.

Issue 13: What is the appropriate pre-repression revenue requirement for the June 30, 2007 test year?

Recommendation: The following pre-repression revenue requirement should be approved. (Kyle)

| | <u>Test Year</u> <u>Revenues</u> | <u>\$ Increase</u> | <u>Revenue</u> <u>Requirement</u> | <u>% Increase</u> |
|-------|-------------------------------------|--------------------|--------------------------------------|-------------------|
| Water | \$761,328 | \$385,914 | \$1,147,242 | 50.69% |

Staff Analysis: Wedgefield's requested revenue requirement generates annual revenues of \$1,207,935 for water. This requested revenue requirement represents a revenue increase of \$446,607, or 58.66 percent, for water.

Consistent with staff's recommendations concerning the underlying rate base, cost of capital, and operating income issues, staff recommends approval of rates that are designed to generate a water revenue requirement of \$1,147,242. The recommended water revenue requirement exceeds staff's adjusted test year revenues by \$385,914, or 50.69 percent, for water. This recommended pre-repression revenue requirement will allow the Utility the opportunity to recover its expenses and earn an 8.68 percent return on its investment in water rate base.

Issue 14: What is the appropriate rate structure for the Utility's water system?

Recommendation: The appropriate rate structure for the water system's residential class is a three-tier inclining block rate structure. The usage blocks should be set for consumption at: 1) 0-5 kgal; 2) 5-10 kgal; 3) usage in excess of 10 kgal, with appropriate usage block rate factors of 1.0, 1.25, and 2.0, respectively. The appropriate rate structure for the water system's non-residential class is a traditional base facility charge (BFC)/uniform gallonage charge rate structure. The water system's BFC cost recovery percentage should be set at 40 percent. (Bruce)

Staff Analysis: Wedgefield Utilities, Inc. provides both water and wastewater for its residential and general service customers. However, in its current filing, the Utility has requested a rate increase for the water system only. The current rate structure for the water system's residential and non-residential classes consists of a monthly base facility charge (BFC)/uniform gallonage charge rate structure, in which the BFC is \$21.12 and a gallonage charge of \$2.19 per kgal. As indicated in the MFRs Schedule E-2, page 1, Wedgefield has proposed a continuation of this rate structure for all its customers.

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 residential class. The goal of the evaluation was to select parameters such that the rate design: 1) allows the Utility to recover its revenue requirement; 2) equitably distributes cost recovery among the Utility's customers; 3) sets the BFC between 25 percent and 40 percent whenever possible; and 4) recognizes various conditions of the Utility's Consumptive Use Permit.

The Utility is located in Orange County, within the St. John's River Water Management District (SJRWMD or District) in the Central Florida Caution Area (CFCA). Over the past few years the Districts have requested, whenever possible that an inclining block rate structure be implemented.

As indicated in the District's Consumptive Use Staff Report, the Utility has a low per capita of 110 gallons per day per capita (gpcd) water use which is 34.6 percent below the District benchmark of 150 gpcd. However, based on staff's analysis of the billing data, the residential customers' average monthly consumption is 8.3 kgals. This is an indication that there are high levels of discretionary usage that is relatively sensitive to price increases. Moreover, an analysis of the billing data shows that 20 percent of the customers consume over 10 kgals per month. Staff is in favor of designing a rate structure that will target customers with consumption over 10 kgals while customers with low monthly consumption benefit by paying a lower rate. Therefore, staff believes that implementing an inclining block rate structure is appropriate for the residential class of service. An inclining block rate structure is effective in reducing average demand. Demand in the higher usage block should be more responsive to price than demand in the first usage block.

The service area is comprised of a diverse group of residential customers with single family homes that range in size. The customers are working families and also retirees. For this reason, staff believes that it is necessary to implement a three-tiered rate structure to accomplish the goals of minimizing the price increases for residential customers with low monthly consumption as well as targeting the customers who use high volumes of water. Staff's analysis

indicates that a three-tiered rate structure with usage blocks set at: 1) 0-5 kgals; 2) 5-10 kgals; and 3) usage in excess of 10 kgals is appropriate. The appropriate usage rate factors are 1.0, 1.25, and 2.0, respectively. This rate structure is designed to minimize the price increase for customers with low consumption such as retirees in the first block; the second block is designed to target working families' consumption; and the third block is designed to target consumption over 10 kgals.

Staff attempts to design rates such that customers who are at average consumption will receive a price increase approximately equal to the revenue requirement increase. A review of the effect of staff's recommended rate structure indicates that customers at the average level of consumption will receive a price increase in their monthly bill of 50.6 percent, which is equivalent to the overall pre-repression revenue requirement increase for water.

The Utility proposed a BFC allocation of 59 percent. However, staff recommends that the BFC be set at 40 percent for the residential and general service classes. The Commission typically does not set the BFC allocation greater than 40 percent. In the past, when the customer base is seasonal, the Commission has approved a BFC greater than 40 percent. However, in this case, the Utility's residential customer base is not seasonal. Furthermore, the recommended BFC allocation allows the rates to be more conservation oriented.

Staff's recommended rate design for the water system is shown on Table 14-1 on the following page. Staff also presented two alternative rate structures to illustrate other recovery methodologies. The recommended and alternative rates are based on a BFC allocation of 40 percent and the rate factors are all 1.0, 1.25, and 2.0. The current rate structure and alternatives 1 and 2 result in price increases at all levels of consumption.

| WEDGEFIELD UTILITIES, INC. STAFF'S RECOMMENDED AND ALTERNATIVE WATER RATE STRUCTURES AND RATES | | | |
|---|----------|---|----------|
| Current Rate Structure and Rates | | Recommended Rate Structure and Rates | |
| Bi-Monthly BFC/ uniform kgal charge BFC = 54% | | 3-Tier Inclining Block Rate Structure Rate Factors 1.0, 1.25 and 2.00 BFC = 40% | |
| BFC | \$21.12 | BFC | \$23.15 |
| All kgals | \$2.19 | 0-5 kgals | \$4.00 |
| | | 5-10 kgals | \$5.00 |
| | | 10 + kgals | \$8.01 |
| Typical Monthly Bills (1) | | Typical Monthly Bills | |
| Cons (kgal) | | Cons (kgal) | |
| 0 | \$21.12 | 0 | \$23.15 |
| 1 | \$23.31 | 1 | \$27.15 |
| 3 | \$27.69 | 3 | \$35.15 |
| 5 | \$32.07 | 5 | \$43.15 |
| 10 | \$43.02 | 10 | \$68.15 |
| 20 | \$64.92 | 20 | \$148.25 |
| Alternative 1 | | Alternative 2 | |
| 3- Tier Inclining Block Rate Structure Rate Factors 1.0, 1.25 and 2.00 BFC = 40% | | 4-Tier Inclining Block Rate Structure Rate Factors 1.0,1.25, and 2.00 | |
| BFC | \$23.23 | BFC | \$23.17 |
| 0-10 kgals | \$4.48 | 0-6 kgals | \$4.29 |
| 10-20 kgals | \$5.60 | 6-12 kgals | \$5.36 |
| 20 + | \$8.95 | 12-18 kgals | \$6.44 |
| | | 18 + | \$8.58 |
| Typical Monthly Bills | | Typical Monthly Bills | |
| Cons (kgal) | | Cons (kgal) | |
| 0 | \$23.23 | 0 | \$23.17 |
| 1 | \$27.71 | 1 | \$27.46 |
| 3 | \$36.67 | 3 | \$36.04 |
| 5 | \$45.63 | 5 | \$44.62 |
| 10 | \$68.03 | 10 | \$70.35 |
| 20 | \$124.03 | 20 | \$136.87 |

Docket No. 070694-WS
Date: November 18, 2008

Based on the foregoing, staff recommends that the current as well as the Utility's proposed rate structure be changed to a three-tier inclining block rate structure with usage blocks set at: 1) 0-5 kgals; 2) 5-10 kgals; and 3) usage in excess of 10 kgals, with appropriate usage block rate factors of 1.0, 1.25, and 2.0, respectively. The appropriate rate structure for the water system's non-residential class is a traditional base facility charge BFC/uniform gallonage charge rate structure. The water system's BFC cost recovery percentage should be set at 40 percent.

Issue 15: Are repression adjustments appropriate in this case, and, if so, what are the appropriate adjustments to make for this Utility, what are the corresponding expense adjustments, and what is the final revenue requirement for the water system?

Recommendation: Yes, a repression adjustment is appropriate for this Utility. Test year consumption should be reduced by 24,729 kgals or 16 percent. Purchased power expense should be reduced by \$6,223, chemical expense should be reduced by \$18,331, and regulatory assessment fees (RAFs) should be reduced by \$1,157. The final post-repression revenues from monthly service, which excludes miscellaneous revenues of \$3,847, should be \$1,117,684.

In order to monitor the effect of the changes to rate structure and revenue, the Utility should be ordered to file reports detailing the number of bills rendered, the consumption billed and the revenues billed on a monthly basis. In addition, the reports should be prepared, by customer class and meter size. The reports should be filed with staff, on a quarterly 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 should be ordered to file a revised monthly report for that month within 30 days of any revision. (Bruce)

Staff Analysis: The price elasticity of demand is defined as the anticipated change in quantity demanded resulting from a change in price. All other things equal, as price increases, demand decreases.

Staff conducted a detailed analysis of the consumption patterns of the Utility's residential customers as well as the effect of increased revenue requirements on the amount paid by residential customers at varying levels of consumption. This analysis showed that approximately 25 percent of the residential bills rendered during the test year were for consumption levels at or below 3 kgal per month. This does not indicate a highly seasonal customer base. Staff's analysis also showed that average residential monthly consumption per customer was 8.3 kgal, indicating that there is some level of discretionary, or non-essential, consumption, such as outdoor irrigation. Non-essential consumption is relatively responsive to changes in price, and is therefore subject to the effects of repression.

Using our database of utilities that have previously had repression adjustments made, staff calculated a repression adjustment for this Utility based upon the recommended increase in revenues from monthly service in this case, and the historically observed response rates of consumption to changes in price. This is the same methodology for calculating repression adjustments that the Commission has approved in prior cases. Based on this methodology, staff calculated that test year residential water sold should be reduced by 24,729 kgals, or 16 percent. Purchased power expense should be reduced by \$6,223, chemical expense should be reduced by \$18,331, and RAFs should be reduced by \$1,157. The final post-repression revenues from monthly service, which excludes miscellaneous revenues of \$3,847, should be \$1,117,664.

In order to monitor the effect of the changes to rate structure and revenue, the Utility should be ordered to file reports detailing the number of bills rendered, the consumption billed, and the revenues billed on a monthly basis. In addition, the reports should be prepared, by

Docket No. 070694-WS
Date: November 18, 2008

customer class and meter size. The reports should be filed with staff, on a quarterly 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 should be ordered to file a revised monthly report for that month within 30 days of any revision.

Issue 16: What are the appropriate monthly rates for the water system for the Utility?

Recommendation: The appropriate monthly water rates are shown on Schedule No. 4. Excluding miscellaneous service charges, the recommended water rates produce revenues of \$1,117,684. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should 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 should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Bruce, Kyle)

Staff Analysis: The appropriate pre-repression revenue requirement, excluding miscellaneous service charges, is \$1,143,395. As discussed in Issue 14, staff recommends that the current as well as the Utility's proposed rate structure be changed to a three-tier inclining block rate structure with usage blocks set at: a) 0-5 kgals; b) 5-10 kgals; c) usage in excess of 10 kgals, with appropriate usage block rate factors of 1.0, 1.25, and 2.0, respectively. The appropriate rate structure for the water system's non-residential class is a traditional BFC/uniform gallonage charge rate structure. The water system's BFC cost recovery percentage should be set at 40 percent. As discussed in Issue 15, staff recommends that a repression adjustment of 24,729 kgals be made to the water system. Applying these rate design and repression adjustments to the recommended pre-repression revenues from monthly service results in the final rates contained in Schedule No. 4. These rates are designed to recover post-repression revenues for the water system of \$1,117,684.

The Utility should file revised water tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should 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 should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date the 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 should be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge should 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 should 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 system are shown on Schedule 4.

Issue 17: Should the Utility be authorized to revise its miscellaneous service charges, and, if so, what are the appropriate charges?

Recommendation: Yes. Wedgefield should be authorized to revise its miscellaneous service charges. The Utility should file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by staff. Within 10 days of the date the order is final, Wedgefield should be required to provide notice of the tariff changes to all customers. The Utility should provide proof the customers have received notice within 10 days after the date that the notice was sent. The appropriate charges are reflected below.

Water and Wastewater Miscellaneous Service Charges

| | <u>Water</u> | | <u>Wastewater</u> | |
|---|-------------------|------------------|-------------------|------------------|
| | <u>Normal Hrs</u> | <u>After Hrs</u> | <u>Normal Hrs</u> | <u>After Hrs</u> |
| Initial Connection | \$21 | N/A | \$21 | N/A |
| Normal Reconnection | \$21 | \$42 | \$21 | \$42 |
| Violation Reconnection | \$21 | \$42 | Actual Cost | Actual Cost |
| Premises Visit (in lieu of disconnection) | N/A | N/A | N/A | N/A |
| Premises Visit | \$21 | \$42 | \$21 | \$42 |

(Kyle)

Staff Analysis: The miscellaneous service charges were approved for Wedgefield on September 23, 1996, and have not changed since that date – a period of 12 years. The Utility believes these charges should be updated to reflect current costs. Staff agrees with this update.

Wedgefield provided the following cost estimates for the expenses associated with connections, reconnections, and premises visits:

| <u>During Business Hours</u> | | <u>After Hours</u> | |
|---------------------------------|-----------------------|--|-----------------------|
| Item: | Cost: | Item: | Cost: |
| Labor (\$23.00/hr. X 0.6 hours) | \$13.80 | Labor (\$23/hr. X 1.5 X 1 hour) ⁸ | \$34.50 |
| Transportation | 7.00 | Transportation | 7.00 |
| Total | <u>\$20.80</u> | Total | <u>\$41.50</u> |

Staff recommends that Wedgefield be allowed to increase its water miscellaneous service charges from \$10 to \$21 and from \$15 to \$42 for after hours, and to modify its Premises Visit (in lieu of disconnection) charge. The current and recommended water and wastewater charges are shown below.

⁸ Represents time-and-a-half wage and the longer time it takes an employee to get to the customer's property after hours.

Water Miscellaneous Service Charges

| | <u>Current Charges</u> | | <u>Staff Recommended</u> | |
|---|------------------------|------------------|--------------------------|------------------|
| | <u>Normal Hrs</u> | <u>After Hrs</u> | <u>Normal Hrs</u> | <u>After Hrs</u> |
| Initial Connection | \$10 | \$15 | \$21 | \$42 |
| Normal Reconnection | \$10 | \$15 | \$21 | \$42 |
| Violation Reconnection | \$10 | \$15 | \$21 | \$42 |
| Premises Visit (in lieu of disconnection) | \$5 | \$5 | N/A | N/A |
| Premises Visit | N/A | N/A | \$21 | \$42 |

Wedgfield's miscellaneous service charges have not been updated in over 12 years, and costs for fuel and labor have risen substantially since that time. Further, the Commission's price index has increased approximately 25 percent in that period of time. The Commission has expressed concern with miscellaneous service charges that fail to compensate utilities for the cost incurred. By Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, the Commission expressed "concern that the rates [miscellaneous service charges] are eight years old and cannot possibly cover current costs" and directed staff to "examine whether miscellaneous service charges should be indexed in the future and included in index applications."⁹ Currently, miscellaneous service charges may be indexed if requested in price index applications pursuant to Rule 25-30.420, F.A.C. However, few utilities request that their miscellaneous service charges be indexed. In view of the above considerations and the data provided by the Utility, staff believes that the Utility's requested charges are reasonable and are cost based.

The Utility's current tariff includes a Premises Visit (in lieu of disconnection) charge. This charge is levied when a service representative visits a premises for the purpose of discontinuing service for non-payment of a due and collectible bill and does not discontinue service, because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill. Staff recommends the "Premises Visit In Lieu of Disconnection" charge should be replaced with what will be called, "Premises Visit." In addition to those situations described in the definition of the current Premises Visit In Lieu of Disconnection, the new Premises Visit charge will also be levied when a service representative visits a premises at a customer's request for complaint resolution or for other purposes and the problem is found to be the customer's responsibility. This charge is consistent with Rule 25-30.460(1)(d), F.A.C. In addition, by Order No. PSC-05-0397-TRF-WS, issued April 18, 2005, the Commission approved a Premises Visit Charge to be levied when a service representative visits a premises at the customer's request for a complaint and the problem is found to be the customer's responsibility.¹⁰ Based on the foregoing, staff recommends the Premises Visit (in lieu of disconnection) be eliminated and the Premises Visit charge be approved.

⁹ See Docket No. 950495-WS, In Re: Application for rate increase and increase in service availability charges by Southern States Utilities, Inc. for Orange-Osceola Utilities, Inc. in Osceola County, and in Bradford, Brevard, Charlotte, Citrus, Clay, Collier, Duval, Highlands, Lake, Lee, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties.

¹⁰ See Docket 050096-WS, In re: Request for revision of Tariff Sheets 14.0 and 15.1 to change request for meter test by customer and premise visit charge, by Marion Utilities, Inc.

In summary, staff recommends the Utility's miscellaneous service charge of \$21 and after hours charge of \$42 be approved, because the increased charges are cost-based, reasonable, and consistent with fees the Commission has approved for other utilities. The Utility should file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by staff. Within ten days of the date the order is final, the Utility should be required to provide notice of the tariff changes to all customers. Wedgefield should provide proof the customers have received notice within ten days after the date the notice was sent.

Issue 18: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S.?

Recommendation: The water rates should be reduced as shown on Schedule Nos. 4-A to remove \$39,678 of water rate case expense, grossed-up for RAFs, which is being amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than 30 days prior to the actual date of the required rate reduction. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. Wedgefield should provide proof of the date notice was given no less than 10 days after the date of the notice. (Kyle)

Staff Analysis: Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for RAFs which is \$39,678 for water. The decreased revenue will result in the rate reduction recommended by staff on Schedule No. 4-A.

The Utility should be required to file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. Wedgefield should provide proof of the date notice was given no less than 10 days after the date of the notice.

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

Issue 19: Should the Utility be required to provide proof, within 90 days of the final order issued in this docket, that it has adjusted its books for all applicable National Association of Regulatory Commissioners (NARUC) Uniform System of Accounts (USOA) primary accounts associated with Commission approved adjustments?

Recommendation: Yes. To ensure that the Utility adjusts its books in accordance with the Commission decision, Wedgefield should provide proof, within 90 days of the final order issued in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made. (Kyle)

Staff Analysis: To ensure that the Utility adjusts its books in accordance with the Commission decision, Wedgefield should provide proof, within 90 days of the final order issued in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made.

Docket No. 070694-WS
Date: November 18, 2008

Issue 20: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Once these actions are complete, this docket should be closed administratively. (Klancke, Kyle)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Once these actions are complete, this docket should be closed administratively.

| | | | |
|---|----|--|---|
| Wedgefield Utilities Inc. | | | Attachment A Page 1 of 2 |
| Docket No: 070694-WS | | | |
| Test Year: July 1, 2006 to June 30, 2007 | | | |
| WATER TREATMENT PLANT USED AND USEFUL ANALYSIS | | | |
| 1) | | Firm Reliable Capacity (400 x 60 x 16) | 384,000 gpd |
| 2) | | Maximum Day | 881,000 gpd |
| 3) | a) | Total Unaccounted for Water | 7.54% |
| | b) | Unaccounted for Water Allowance | 10.00% |
| | c) | Excessive Unaccounted for Water (EUW) | 0 gpd |
| 4) | | Required Fire Flow (500 x 60 x 2) | 60,000 gpd |
| 5) | a) | Average Test Year Connections | 1,590 ERCs |
| | b) | Annual Customer Growth | 16.2 ERCs |
| | c) | Statutory Growth Period | 5 Years |
| | d) | Growth Allowance [(2\5a)x(5b)x(5c)] | 44,881 gpd |

$$\frac{(\text{Max day} - \text{EUW} + \text{FF} + \text{Growth})}{\text{Firm Reliable Capacity}}$$

$$\frac{(881,000 - 0 + 60,000 + 44,881)}{384,000} \Rightarrow 100\% \text{ Used \& Useful}$$

| | |
|--|---|
| Wedgefield Utilities Inc. Docket No: 070694-WS Test Year: July 1, 2006 to June 30, 2007 | Attachment A Page 2 of 2 |
|--|---|

**WATER DISTRIBUTION SYSTEM
USED AND USEFUL ANALYSIS**

| | | | | |
|----|----|-------------------------------|-----------|------------|
| 1) | | Capacity | | 1,911 ERCs |
| 2) | | Average Test Year Connections | | 1,590 ERCs |
| 3) | a) | Annual Customer Growth | 16.2 ERCs | |
| | b) | Statutory Growth Period | 5 Years | |
| | c) | Growth Allowance | | 81 ERCs |

$$(1,590 + 81)/1,911 = 87.4\% \text{ Used and Useful}$$

| Wedgefield Utilities, Inc. Schedule of Water Rate Base Test Year Ended 6/30/2007 | | | Schedule No. 1-A Docket No. 070694-WS | | |
|--|-----------------------------|-----------------------------|--|---------------------------|--------------------------------|
| Description | Test Year Per Utility | Utility Adjust- ments | Adjusted Test Year Per Utility | Staff Adjust- ments | Staff Adjusted Test Year |
| 1 Plant in Service | \$3,755,562 | \$3,216,180 | \$6,971,742 | (\$81,570) | \$6,890,172 |
| 2 Land and Land Rights | 4,718 | (3,964) | 754 | 0 | 754 |
| 3 Non-used and Useful Components | 0 | (87,095) | (87,095) | 0 | (87,095) |
| 4 Construction Work in Progress | 91,996 | (91,996) | | | |
| 5 Accumulated Depreciation | (1,513,093) | 25,235 | (1,487,858) | 21,173 | (1,466,685) |
| 6 CIAC | (1,390,449) | 0 | (1,390,449) | 0 | (1,390,449) |
| 7 Amortization of CIAC | 390,278 | 0 | 390,278 | 0 | 390,278 |
| 8 Net Debit Deferred Income Taxes | 0 | 0 | 0 | 314,739 | 314,739 |
| 9 Advances for Construction | 0 | 0 | 0 | 0 | 0 |
| 10 Working Capital Allowance | 0 | 159,980 | 159,980 | (31,899) | 128,081 |
| 11 Other | 0 | 0 | 0 | 0 | 0 |
| 12 Rate Base | <u>\$1,339,012</u> | <u>\$3,218,340</u> | <u>\$4,557,352</u> | <u>\$222,442</u> | <u>\$4,779,794</u> |

| Wedgefield Utilities, Inc. Adjustments to Rate Base Test Year Ended 6/30/2007 | | Schedule No. 1-B Docket No. 070694-WS |
|--|--------------|--|
| Explanation | Water | |
| <u>Plant In Service</u> | | |
| 1 To adjust Allocated Plant per WSC Audit | | 46,451 |
| 2 To adjust Plant per Audit Finding 1 | | (128,021) |
| Total | | <u>(81,570)</u> |
| <u>Accumulated Depreciation</u> | | |
| 1 To adjust Allocated Acc Depr per WSC Audit | | (12,154) |
| 2 To adjust Acc Depr per Audit Finding 1 | | 33,327 |
| Total | | <u>21,173</u> |
| <u>Net Debit Deferred Income Taxes</u> | | |
| To reclassify debit deferred income taxes from Cost of Capital | | <u>314,739</u> |
| <u>Working Capital</u> | | |
| To adjust working capital | | <u>(31,899)</u> |

Wedgefield Utilities, Inc.
Capital Structure-Thirteen Month Average
Test Year Ended 6/30/2007

Schedule No. 2
Docket No. 070694-WS

| Description | Total Capital | Specific Adjustments | Subtotal Adjusted Capital | Prorata Adjustments | Capital Reconciled to Rate Base | Ratio | Cost Rate | Weighted Cost | |
|--------------------------|----------------------|----------------------|---------------------------|------------------------|---------------------------------|----------------|---------------|---------------|--|
| Per Utility | | | | | | | | | |
| 1 Long-term Debt | \$173,636,578 | \$0 | \$173,636,578 | (\$170,870,643) | \$2,765,935 | 60.69% | 6.63% | 4.02% | |
| 2 Short-term Debt | 5,439,769 | 0 | 5,439,769 | (5,352,879) | 86,890 | 1.91% | 1.54% | 0.03% | |
| 3 Preferred Stock | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% | |
| 4 Common Equity | 125,643,139 | 0 | 125,643,139 | (123,641,744) | 2,001,395 | 43.92% | 11.86% | 5.21% | |
| 5 Customer Deposits | 24,954 | 0 | 24,954 | 0 | 24,954 | 0.55% | 6.00% | 0.03% | |
| 6 Deferred Income Taxes | (321,823) | 0 | (321,823) | 0 | (321,823) | -7.06% | 0.00% | 0.00% | |
| 7 Total Capital | <u>\$304,422,617</u> | <u>\$0</u> | <u>\$304,422,617</u> | <u>(\$299,865,266)</u> | <u>\$4,557,351</u> | <u>100.00%</u> | | <u>9.29%</u> | |
| Per Staff | | | | | | | | | |
| 8 Long-term Debt | \$173,636,578 | \$0 | \$173,636,578 | (\$170,927,154) | \$2,709,424 | 56.68% | 6.63% | 3.76% | |
| 9 Short-term Debt | 5,439,769 | 0 | 5,439,769 | (5,354,887) | 84,882 | 1.78% | 1.54% | 0.03% | |
| 10 Preferred Stock | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% | |
| 11 Common Equity | 125,643,139 | 0 | 125,643,139 | (123,682,604) | 1,960,535 | 41.02% | 11.86% | 4.86% | |
| 12 Customer Deposits | 24,954 | 0 | 24,954 | 0 | 24,954 | 0.52% | 6.00% | 0.03% | |
| 13 Deferred Income Taxes | (321,823) | 321,823 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% | |
| 14 Total Capital | <u>\$304,422,617</u> | <u>\$321,823</u> | <u>\$304,744,440</u> | <u>(\$299,964,644)</u> | <u>\$4,779,796</u> | <u>100.00%</u> | | <u>8.68%</u> | |
| | | | | | | LOW | HIGH | | |
| RETURN ON EQUITY | | | | | | <u>10.86%</u> | <u>12.86%</u> | | |
| OVERALL RATE OF RETURN | | | | | | <u>8.27%</u> | <u>9.09%</u> | | |

| Wedgefield Utilities, Inc. Statement of Water Operations Test Year Ended 6/30/2007 | | | | | | | |
|--|-----------------------------|-----------------------------|--------------------------------------|---------------------------|--------------------------------|---------------------|------------------------|
| Description | Test Year Per Utility | Utility Adjust- ments | Adjusted Test Year Per Utility | Staff Adjust- ments | Staff Adjusted Test Year | Revenue Increase | Revenue Requirement |
| 1 Operating Revenues: | <u>\$746,325</u> | <u>\$461,610</u> | <u>\$1,207,935</u> | <u>(\$446,607)</u> | <u>\$761,328</u> | <u>\$385,914</u> | <u>\$1,147,242</u> |
| | | | | | | 50.69% | |
| Operating Expenses | | | | | | | |
| 2 Operation & Maintenance | \$543,807 | (\$99,766) | \$444,041 | (\$40,143) | \$403,898 | | \$403,898 |
| 3 Depreciation | 98,040 | 7,206 | 105,246 | (5,825) | 99,421 | | 99,421 |
| 4 Amortization | 0 | 0 | 0 | 0 | 0 | | 0 |
| 5 Taxes Other Than Income | 200,421 | (108,886) | 91,535 | (20,097) | 71,438 | 17,366 | 88,804 |
| 6 Income Taxes | <u>46,818</u> | <u>96,516</u> | <u>143,334</u> | <u>(141,779)</u> | <u>1,555</u> | <u>138,684</u> | <u>140,239</u> |
| 7 Total Operating Expense | <u>\$889,086</u> | <u>(\$104,930)</u> | <u>\$784,156</u> | <u>(\$207,845)</u> | <u>\$576,311</u> | <u>\$156,051</u> | <u>\$732,362</u> |
| 8 Operating Income | <u>(\$142,761)</u> | <u>\$566,540</u> | <u>\$423,779</u> | <u>(\$238,762)</u> | <u>\$185,017</u> | <u>\$229,863</u> | <u>\$414,880</u> |
| 9 Rate Base | <u>\$1,339,012</u> | | <u>\$4,557,352</u> | | <u>\$4,779,794</u> | | <u>\$4,779,794</u> |
| 10 Rate of Return | <u>-10.66%</u> | | <u>9.30%</u> | | <u>3.87%</u> | | <u>8.68%</u> |

Wedgefield Utilities, Inc.
Adjustment to Operating Income
Test Year Ended 6/30/2007

Schedule 3-B
Docket No. 070694-WS

| Explanation | Water |
|---|------------------|
| <u>Operating Revenues</u> | |
| To remove requested final revenue increase. | <u>(446,607)</u> |
| <u>Operation and Maintenance Expense</u> | |
| 1 To adjust Chemical Cost for Decreased Usage. | (19,395) |
| 2 To adjust for pro forma O & M Expense. | (5,062) |
| 3 To adjust amortization of rate case expense. | <u>(15,686)</u> |
| Total | <u>(40,143)</u> |
| <u>Depreciation Expense - Net</u> | |
| To adjust Depreciation Expense per Audit Finding 1. | <u>(5,825)</u> |
| <u>Taxes Other Than Income</u> | |
| RAFs on revenue adjustments above. | <u>(20,097)</u> |

| Wedgefield Utilities, Inc. | | Schedule No. 4 | | |
|---|--------------------------------------|--|------------------------------------|--------------------------------------|
| Water Monthly Service Rates | | Docket No. 070694-WS | | |
| Test Year Ended 6/30/2007 | | | | |
| | Rates Prior to Filing | Utility Requested Final | Staff Recomm. Final | 4-year Rate Reduction |
| <u>Residential, General Service and Irrigation</u> | | | | |
| Base Facility Charge by Meter Size: | | | | |
| 5/8" x 3/4" | \$21.12 | \$36.85 | \$23.15 | \$0.80 |
| 3/4" | \$31.74 | \$55.28 | \$34.73 | \$1.20 |
| 1" | \$52.92 | \$92.13 | \$57.88 | \$2.00 |
| 1-1/2" | \$105.41 | \$184.25 | \$115.75 | \$4.00 |
| 2" | \$169.30 | \$294.80 | \$185.20 | \$6.41 |
| 3" | \$241.48 | \$552.75 | \$370.40 | \$12.81 |
| 4" | \$377.34 | \$921.25 | \$578.75 | \$20.02 |
| 6" | \$754.69 | \$1,842.50 | \$1,157.50 | \$40.03 |
| Gallonage Charge, per 1,000 Gallons | | | | |
| Residential | | | | |
| 0-5,000 Gallons | \$2.19 | \$3.09 | \$4.00 | \$0.14 |
| 5,001-10,000 Gallons | \$2.19 | \$3.09 | \$5.00 | \$0.17 |
| Over 10,000 Gallons | \$2.19 | \$3.09 | \$8.01 | \$0.28 |
| General Service | | | | |
| All Gallons | \$2.19 | \$3.09 | \$4.97 | \$0.17 |
| <u>Typical Residential Bills 5/8" x 3/4" Meter</u> | | | | |
| 3,000 Gallons | \$27.69 | \$46.12 | \$35.15 | |
| 5,000 Gallons | \$32.07 | \$52.30 | \$43.15 | |
| 10,000 Gallons | \$43.02 | \$67.75 | \$68.15 | |