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STATE OF FLORIDA



MARSHALL WILLIS, ACTING DIRECTOR
DIVISION OF ECONOMIC REGULATION
(850) 413-6900

Public Service Commission

February 26, 2010

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COMMISSION
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Mr. Mike Smallridge
Pinecrest Ranches, Inc.
15827 Cedar Elm Terrace
Land O' Lakes, FL 34638

Re: Docket No. 090414-WU, Staff Assisted Rate Case for Pinecrest Ranches, Inc. in Polk County.

Dear Mr. Smallridge:

Enclosed are two copies of the staff report. Please ensure that a copy of the completed Application for Staff Assistance and the staff report are available for review, pursuant to Rule 25-22.0407 (9)(b), F.A.C., by all interested persons at the following location:

Pinecrest Ranches, Inc.
6115 Highway 60 East
Bartow, FL 33830-4515

Should you have any questions about any of the matters contained herein, please do not hesitate to contact me at (850) 413-6877.

Sincerely,

A handwritten signature in black ink, appearing to read "Lydia Roberts".

Lydia Roberts
Regulatory Analyst II

Enclosures

/LR

cc: Division of Economic Regulation (Bulecza-Banks, Fletcher, Hudson, Simpson)
Office of General Counsel (Jaeger)
Office of Commission Clerk (090414-WU)

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Public Service Commission

February 26, 2010

Mr. Norman Duncan
Pinecrest Ranches, Inc.
6115 Highway 60 East
Bartow, FL 33830-4515

Re: Docket No. 090414-WU, Staff Assisted Rate Case for Pinecrest Ranches, Inc. in Polk County.

Dear Mr. Duncan:

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State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: February 26, 2010

TO: Cheryl R. Bulecza-Banks, Chief of Rate Filings, Division of Economic Regulation

FROM: Lydia Roberts, Regulatory Analyst, Division of Economic Regulation *LR*
Robert Simpson, Engineering Specialist, Division of Economic Regulation
Sonica Bruce, Regulatory Analyst III, Division of Economic Regulation

RE: Docket No. 090414-WU – Application for staff-assisted rate case in Polk County by Pinecrest Ranches, Inc.

- STAFF REPORT -

This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting.

DOCUMENT NUMBER - DATE

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Table of Contents

<u>Issue</u>	<u>Description</u>	<u>Page</u>
	Case Background	3
1	Quality of Service (Simpson).....	4
2	Used and Useful (Simpson)	5
3	Rate Base (Roberts).....	6
4	Rate of Return (Roberts)	8
5	Test Year Revenues (Bruce, Roberts).....	9
6	Operating Expense (Roberts)	10
7	Revenue Requirement (Roberts)	13
8	Rate Structure (Bruce).....	14
9	Repression (Bruce).....	16
10	Rates (Bruce, Roberts)	17
11	Pro Forma (Roberts, Bruce, Simpson)	18
12	Four-Year Rate Reduction (Roberts)	20
13	Temporary Rates (Roberts)	21
	Schedule No. 1-A	23
	Schedule No. 1-B	24
	Schedule No. 2	25
	Schedule No. 3-A	26
	Schedule No. 3-B	27
	Schedule No. 3-C	29
	Schedule No. 4	30
	Schedule No. 5-A	31
	Schedule No. 5-B	32
	Schedule No. 6	33
	Schedule No. 7-A	34
	Schedule No. 7-B	35
	Schedule No. 7-C	36
	Schedule No. 8	37

Case Background

This Staff Report is a **preliminary** analysis of the Utility prepared by the Florida Public Service Commission (PSC) staff to give Utility customers and the Utility an advanced look at what staff may be proposing. The final recommendation to the Commission (currently scheduled to be filed April 8, 2010, for the April 20, 2010, Agenda Conference) will be revised as necessary using updated information and results of customer quality of service or other relevant comments received at the customer meeting.

Pinecrest Ranches, Inc. (Pinecrest or Utility) is a Class C utility located in Polk County serving approximately 135 customers in the Citrus Highlands Community. Pinecrest is located in the Southern Water Use Caution Area of the Southwest Florida Water Management District (SWFWMD). According to the Utility's 2008 annual report, Pinecrest had operating revenues of \$48,523, operating expenses of \$46,382 and a net operating loss of \$7,984. The test period for setting rates is the historical twelve-month period ending June 30, 2009.

Pinecrest was granted Certificate No. 588-W in 1997.¹ The Utility's last staff-assisted rate case was in 2003.² Pursuant to Rule 25-30.457, Florida Administrative Code (F.A.C.), Pinecrest was approved for a limited alternative rate increase in 2006.³

On August 20, 2009, Pinecrest filed an application for a SARC and paid the appropriate filing fee on December 30, 2009. Staff has conducted a field investigation of the Utility's plant and service area. The Commission has jurisdiction in this case pursuant to Section 367.011, 367.0814, 367.101, and 367.121, Florida Statutes (F.S.).

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

² See Order No. PSC-03-0008-PAA-WU, issued January 2, 2003, in Docket No. 020406-WU, In Re: Application for staff-assisted rate case in Polk County by Pinecrest Ranches, Inc.

³ See Order No. PSC-06-0822-PAA-WU, issued October 6, 2006, in Docket No. 060416-WU, In Re: Petition for limited alternative rate increase in Polk County by Pinecrest Ranches, Inc.

Discussion of Issues

Issue 1: Is the quality of service provided by Pinecrest Ranches, Inc. satisfactory?

Preliminary Recommendation: The staff recommendation regarding the customer satisfaction and the overall quality of service will not be finalized until after the March 10, 2010 customer meeting. (Simpson)

Staff Analysis: Pursuant to Rule 25-30.433(1), F.A.C., the Commission determines the overall quality of service provided by a utility by evaluating three separate components of water operations, including the quality of the utility's product, the operating condition of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. Comments or complaints received by the Commission from customers are reviewed. The Utility's current compliance with the Polk County Health Department (PCHD) and the SWFWMD is also considered.

The raw water at Pinecrest contains iron, which gives the water a rusty color, and hydrogen sulfide, which causes an unpleasant taste and odor. The Utility sequesters the iron by injecting a polyphosphate solution into the raw water. In addition, the system is flushed twice a week which also helps address the rusty color in the water, as well as the unpleasant taste and odor from the hydrogen sulfide.

On August 13, 2009, the PCHD conducted a sanitary survey and noted minor deficiencies relating to plant operation which were corrected by the Utility. The PCHD indicated that the chemical and bacteriological analyses and the quality of the drinking water delivered to the customers is satisfactory. A staff field investigation of the Utility's service area was conducted on November 18, 2009. The plant appeared to be operating normally and all outstanding repairs relating to the deficiencies outlined in the sanitary survey were completed. It appears that the quality of the Utility's water and the operating condition of the plant are satisfactory.

In its last rate case, the Utility was required to install meters as a conservation measure and, subsequently, the Utility's annual water withdrawal has declined steadily. The Utility requested funding in this case for a meter replacement program for meters that were installed prior to the last rate case, as well as several shut off valves located throughout the distribution system. In addition, the Utility requested that the cost of cleaning and coating of its hydropneumatic tank be considered in this case. In accordance with Rule 62-555.350(2), F.A.C., an inspection of the Utility's 6,000 gallon hydropneumatic tank was performed by a professional engineer on September 16, 2008. Corrective action for cleaning and coating the interior of the tank was recommended. Staff's recommendations regarding a meter replacement program and funding for shutoff valves and refurbishing of the hydropneumatic tank are discussed in Issue 11.

Two customer complaints have been filed with the Commission within the last three years. The complaints were related to billing issues and were subsequently resolved. The staff recommendation regarding customer satisfaction and the overall quality of service will not be finalized until after the March 18, 2010 customer meeting.

Issue 2: What are the used and useful percentages of the water treatment plant and distribution system?

Preliminary Recommendation: The water treatment plant and the distribution system should be considered 100 percent used and useful. (Simpson)

Staff Analysis: Pinecrest has two wells, rated at 70 and 200 gallons per minute, which are used to provide potable water. Raw water is treated with liquid chlorine and a polyphosphate solution and then pumped into the water distribution system. In addition, a third well is available for fire protection using a separate distribution system. The Utility provides service to approximately 150 residential and 2 general service customers. The distribution system is designed to serve approximately 157 customers.

In the Utility's last rate case,⁴ the water treatment plant was found to be 100 percent used and useful and the distribution system was found to be 92 percent used and useful. The service area has had no growth in the past five years and there are no plans for expansion; therefore, staff recommends that the water treatment plant and distribution system be considered 100 percent used and useful.

⁴ See Order No. PSC-03-0008-PAA-WU, issued January 2, 2003, in Docket No. 020406-WU, In re: Application for staff-assisted rate case in Polk County by Pinecrest Ranches, Inc.

Issue 3: What is the appropriate average test year rate base for the Utility?

Preliminary Recommendation: The appropriate average test year rate base for the Utility is \$66,211. (Roberts)

Staff Analysis: Pinecrest's rate base was last established by Order No. PSC-03-0008-PAA-WU.⁵ Staff selected a test year ending June 30, 2009, for this rate case. A summary of each component and the adjustments follows:

Utility Plant In Service (UPIS): The Utility recorded \$184,666 in this account for the test year ended June 30, 2009. Staff has increased this account by \$774 to reflect the appropriate plant additions and retirements to UPIS. Staff recommends a balance of \$185,440 for UPIS.

Non-used and Useful Plant: As discussed in Issue No. 2 of this staff report, Pinecrest's water treatment plant is built out and considered 100 percent used and useful. Therefore, no adjustments are necessary.

Contribution in Aid of Construction CIAC: The Utility recorded no CIAC on its books at the end of the test year. The CIAC balance was determined in the last rate case. The Utility did not adjust books and records to reflect the Commission approved CIAC from its last rate case. Therefore, staff has increase this account by \$100,352. Staff recommends CIAC of \$100,352.

Accumulated Depreciation: The Utility recorded \$165,612 in this account for the test year. Staff has calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. As a result, this account was decreased by \$71,281 to reflect depreciation calculated per staff. In addition, staff decreased this account by \$3,053 to reflect an averaging adjustment. These adjustments result in an average accumulated depreciation balance of \$91,278.

Accumulated Amortization of Contribution in Aid of Construction (CIAC): Pinecrest recorded amortization of CIAC of \$0. The Amortization of CIAC balance of \$40,289 was determined in the last rate case. Staff has increased this account by \$40,289 to reflect the Commission approved balance. Amortization of CIAC has been calculated by staff using composite depreciation rates since last established by the Commission. This resulted in Amortization of CIAC balance of \$61,816. Staff has increased this account by \$21,527. In addition, staff has decreased this account by \$1,652 to reflect an averaging adjustment. Staff's net adjustment to this account result in an amortization of CIAC balance of \$60,164.

Working Capital Allowance: Pinecrest recorded working capital of \$5,851. Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses or ongoing-concern requirements of the Utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of \$5,737 (based on O&M expense of \$45,894). Accordingly, working capital should be reduced by \$114 to reflect one-eighth of staff's recommended O&M expenses.

⁵ Issued January 2, 2003, in Docket No. 020406-WU, In re: Application for a staff-assisted rate case in Polk County by Pinecrest Ranches, Inc.

Docket No. 090414-WU

Date: February 26, 2010

Rate Base Summary: Based on the forgoing, staff recommends that the appropriate test year average rate base is \$66,211. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

Issue 4: What is the appropriate return on equity and overall rate of return for this Utility?

Preliminary Recommendation: The appropriate return on equity (ROE) is 11.30 percent with a range of 10.30 percent to 12.30 percent. The appropriate overall rate of return is 7.49 percent. (Roberts)

Staff Analysis: According to staff's audit, Pinecrest recorded the following items in its capital structure: common stock of \$100; negative retained earnings of \$196,846; and paid-in-capital of \$111,317, as well as customer deposits of \$384. The Utility's capital structure consists of two long-term debt instruments that were recorded in the general ledger in the amount of \$43,349 and \$52,782.

Pursuant to Audit Finding No. 8, Pinecrest has a loan of \$43,349 from a 50 percent owner of the Utility. There is no interest on this loan, no loan documents, and Pinecrest is not making any payments on the principal. Because the loan payments are not being paid and it is from a related party, staff believes this loan should be treated as common equity in accordance with Commission practice.⁶ The Utility's capital structure has been reconciled with staff's recommended rate base. Using the Commission's current leverage graph formula,⁷ staff recommends an ROE of 11.30 percent with a range of 10.30 percent to 12.30 percent, and an overall rate of return of 7.49 percent. The ROE and overall rate of return are shown on Schedule No. 2.

⁶ See Order No. PSC-05-0621-PAA-WU, issued June 6, 2005, in Docket No. 041145-WU, In re: Application for staff-assisted rate case in Pasco County by Holiday Utility Company, Inc.; and PSC-09-0618-PAA-WS, issued September 11, 2009, in Docket No. 080709-WS, In re: Application for staff-assisted rate case in Highlands County by Damon Utilities, Inc.

⁷ See Order No. PSC-09-0430-PAA-WS, issued June 19, 2009, in Docket No. 090006-WS, In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.

Issue 5: What are the appropriate amount of test year revenues?

Preliminary Recommendation: The appropriate test year revenues for this Utility are \$51,730.
(Bruce, Roberts)

Staff Analysis: Pinecrest recorded revenues of \$51,497 for the 12-month period ending June 30, 2009. This amount included \$48,342 for service revenue and \$3,156 for miscellaneous revenues. Based on staff's review of the test year billing units, staff has determined test year service revenues to be \$49,630. Staff has increased test year revenues by \$1,289 (\$49,630-\$48,342) to reflect the appropriate service revenues. Pursuant to Audit Finding No. 5, miscellaneous revenues should be \$2,100. Staff has decreased test year revenues by \$1,056 (\$3,156-\$2,100). Based on the above adjustments, staff recommends test year revenues of \$51,730. Test year revenue is shown on Schedule No. 3-A.

Issue 6: What are the appropriate operating expenses?

Preliminary Recommendation: The appropriate amount of operating expenses for the Utility is \$51,179. (Roberts)

Staff Analysis: Pinecrest recorded operating expenses of \$47,009 during the test year ending June 30, 2009. The test year O&M expenses have been reviewed, and invoices, canceled checks, and other supporting documentation have been examined. Staff made several adjustments to the Utility's operating expenses, as summarized below:

Purchased Power (615) – Pinecrest recorded \$4,236 in this account. Pursuant to Audit Finding No. 6, staff decreased purchased power by \$525 to remove a related party expense. Staff recommends purchased power expense for the test year of \$3,711.

Fuel for Power Production (616) – The Utility recorded a balance of \$0 in this account. An emergency generator and pump is located at the water plant. Staff has increased this account by \$48 to include the cost of fuel for testing the generator and pump. Therefore, staff recommends fuel for power production expense for the test year of \$48.

Chemicals (618) – Pinecrest recorded \$2,296 in this account. Pursuant to Audit Finding No. 6, staff increased chemicals by \$332 to reflect the appropriate invoiced chemical expense. Staff recommends chemical expense for the test year of \$2,628.

Material and Supplies (620) – The Utility recorded \$487 in this account. Pursuant to Audit Finding No. 6, staff increased material and supplies by \$203 to reflect the appropriate invoiced materials and supplies. Staff recommends material and supplies expense for the test year of \$690.

Contractual Services – Billing (630) – Pinecrest recorded \$0 in this account. Based on invoices provided by the Utility, staff increased this account by \$2,976. Therefore, staff recommends contractual services - billing expense of \$2,976.

Contractual Services - Professional (631) – Pinecrest recorded \$6,848 in this account. Pursuant to Audit Finding No. 6, staff decreased contractual services professional by \$6,098 to remove unsupported invoices during the test year. Staff recommends contractual services - professional expense of \$750.

Contractual Services – Testing (635) – The Utility recorded \$1,084 in this account. Each utility must adhere to specific testing conditions prescribed within its operating permit. These testing requirements are tailored to each utility as required by Rule 62-550, F.A.C., for water and enforced by DEP. Based on staff engineer's review, Pinecrest did not include non-annual testing costs. The tests have to be performed once every three years, at a cost of \$2,625. Staff recommends amortizing the cost over three years. Therefore, staff has increased testing by \$875 (\$2,625/3). Based on the above, the appropriate contractual services - testing expense is \$1,959.

Contractual Services – Other (636) – The Utility recorded \$14,470 in this account. Pinecrest provided invoices that indicate contractual services - other for the test year should be \$19,077.

Therefore, staff has increased this account by \$4,607 (\$19,077-\$14,470). Staff recommends contractual services - other of \$19,077 (\$14,470+\$4,607).

Rents (640) – The Utility recorded \$1,440 in this account. Pinecrest operates one regulated system and two non-utility businesses from the building. Pursuant to Audit Finding No. 6, the rent is shared by three companies. The Utility pays 45 percent of the rent expense. Staff has determined the rent expense for Pinecrest to be \$1,620. Staff has increased this account by \$180 to reflect the correct rent expense allocated to the Utility. Therefore, staff recommends rent for the test year of \$1,620 (\$1,440+\$180).

Transportation Expense (650) – Pinecrest recorded \$1,755 in this account during the test year. The Utility recorded truck insurance and fuel expense in this account. However, Pinecrest does not own any of the trucks; they are owned by the management company which is a related party. Therefore, staff decreased this account by \$1,755 to remove expenses. Staff recommends transportation expense for the test year of \$0.

Insurance Expense (655) – The Utility recorded \$2,541 in this account. Staff increased this account by \$889 to reflect the actual liability insurance charges. Staff recommends insurance expense of \$3,430.

Regulatory Commission Expense (665) – Pinecrest recorded \$3,942 in this account. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a 4-year period. The Utility paid a \$500 rate case filing fee. Pinecrest is required by Rule 25-22.0407(9)(b), F.A.C., to mail notices of the customer meeting in this case to its customers. Staff has estimated noticing expense of \$170 for postage expense, \$116 for printing expense, and \$20 for envelopes. Based on the above, total rate case expense for the filing and noticing is \$806 with a resulting four-year amortization of \$201. Staff has decreased this account by \$3,741 (\$3,942-\$201). Staff recommends regulatory commission expense for the test year of \$201.

Miscellaneous Expense (775) – The Utility recorded \$5,881 for miscellaneous expense. Pinecrest provided invoices that indicate miscellaneous expenses for the test year should be \$6,978. Therefore, staff has increased Account No. 775 by \$1,097 (\$6,978-\$5,881). Staff recommends miscellaneous expense for the test year of \$6,978 (\$5,881+\$1,097).

Operation and Maintenance Expense (O&M Summary) – Based on the above adjustments, O&M expense should be decreased by \$913. Staff's recommended O&M expenses are shown on Schedule No. 3-C.

Depreciation Expense (Net of Amortization of CIAC) – The Utility did not record depreciation expense. Staff has calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff's calculated depreciation expense is \$5,581. Staff's calculated amortization of CIAC is \$3,020. This results in a net depreciation expense of \$2,561 (\$5,581-\$3,020).

Taxes Other Than Income (TOTI) – Pinecrest recorded a TOTI balance of \$202. Based on staff's recommended test year revenues in Issue 5, regulatory assessment fees (RAFs) should be \$2,328. This account has been increased by \$2,328 to reflect the appropriate RAFs. The Utility

did not take advantage of the property tax discount for payments made in November. It is Commission practice to include only the lowest property tax amount in expenses so the rate payers do not pay for Pinecrest's decision to pay late. Staff has decreased this account by \$4 to reflect the appropriate property taxes. Moreover, RAFs were increased by \$198 for the recommended revenue increase discussed in Issue 8. Accordingly, staff's recommend TOTI is \$2,724.

Income Tax – The Utility did not have any income tax expense for the test year. Pinecrest is an S Corporation. The tax liability is passed on to the owner's personal tax returns. Therefore, staff did not make an adjustment to this account.

Operating Expenses Summary – The application of staff's recommended adjustments to the Utility's test year operating expenses result in staff's calculated operating expenses of \$51,179, shown on Schedule No. 3-A. The related adjustments are shown on Schedule No. 3-B

Issue 7: What is the appropriate revenue requirement?

Preliminary Recommendation: The appropriate revenue requirement is \$56,138. (Roberts)

Staff Analysis: Pinecrest should be allowed an annual increase of \$4,408 (8.52 percent). This will allow the Utility the opportunity to recover its expenses and earn a 7.49 percent return on its investment. The calculations are as follows:

	<u>Water</u>
Rate Base	\$66,211
Rate of Return	7.49
Operating Margin	\$4,959
Adjusted O & M Expense	45,894
Depreciation expense (Net)	2,561
Amortization	0
Taxes Other Than Income	2,724
Income Tax	0
Revenue Requirement	\$56,138
Less Adjusted Test Year Revenues	\$51,730
Annual Increase	\$4,408
Percent Increase/(Decrease)	8.52%

Issue 8: Should the Utility's current water system rate structure be changed, and, if so, what is the appropriate adjustment?

Preliminary Recommendation: No. The Utility's current residential and non-residential water system rate structure which consists of a monthly base facility charge (BFC)/uniform gallonage charge rate structure should remain unchanged. The water system's BFC cost recovery should be set 46.21 percent. (Bruce)

Staff Analysis: The Utility currently has a BFC uniform/gallonage charge rate structure for the water systems' residential and non-residential class. The BFC is \$13.60 per month and the monthly usage charge is \$4.11 per kgal.

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 rate class. The goal of the evaluation was to select rate design parameters that: 1) allow the utility to recover its revenue requirement; 2) equitably distribute cost recovery among the utility's customers; and 3) setting the BFC between 25 percent and 40 percent whenever possible.

Pinecrest is located in Polk County in the SWFWMD within the Southern Water Use Caution Area (SWUCA). In the Utility's last rate case, the customers' average monthly consumption was 18.879 kgals. The Utility at that time had a flat rate structure and was in the process of installing meters. The Commission ordered Pinecrest to complete meter installation for all of its customers within six months of the Consummating Order. Furthermore, the Commission ordered the Utility to discontinue the flat rate charge once the meters were installed and implement the Phase II rates which consisted of a BFC/gallonage charge rate structure.⁸ Since then the customers have reduced their consumption significantly.

Based on staff's analysis of the billing data, the customers' monthly overall consumption is 3.9 kgals. Although, the customer base is predominately non-seasonal, the billing analysis indicates a moderate seasonal customer base. This is due to a high turnover of vacancies the Utility has experienced with their customers during the test year. According to the consumptive use permit (CUP), Pinecrest is well below their permitted gallons per day (GPD), and therefore is not required to implement an inclining block rate structure.

Furthermore, as discussed in Issue 7, the revenue requirement increase is 8.52 percent. Due to the low revenue requirement increase coupled with a low overall average consumption staff recommends that a continuation of the BFC/uniform gallonage charge rate structure is appropriate. This rate structure is considered conservation oriented because customers' bills increase as their consumption increases.

Because staff is recommending a continuation of the existing BFC/gallonage rate structure, staff recommends that the 8.52 percent revenue requirement increase be applied as an across-the-board to the water system's BFC and gallonage charges. This results in the BFC

⁸ See Order No. PSC-03-0008-PAA-WU, issued January 2, 2003, in Docket No. 020406-WU, In re: Application for staff assisted rate case in Polk County by Pinecrest Ranches, Inc.

across-the-board to the water system's BFC and gallonage charges. This results in the BFC cost recovery percentage remaining at 46.21 percent, and the BFC and gallonage charge of \$13.60 and \$4.11, respectively.

Moreover, as discussed in Issue 11, staff recommends a Phase II revenue requirement associated with proforma plant improvement. As in Phase I, the revenue requirement is small. Therefore, staff recommends that the 9.58 percent increase be applied as an across-the-board increase to the water system's BFC and gallonage charges.

Based on the foregoing, staff recommends that the Utility's current residential and non-residential water system rate structure which consists of a monthly base facility charge (BFC)/uniform gallonage charge rate structure should remain unchanged. The water system's BFC cost recovery should be set 46.21 percent.

Issue 9: Is a repression adjustment appropriate in this case, and if so, what are the appropriate adjustments to make for this Utility, what are the appropriate corresponding expense adjustments to make, and what are the final revenue requirements?

Preliminary Recommendation: No, a repression adjustment is not appropriate in this case. However, 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 semi-annual basis for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the utility makes adjustments to consumption in any month during the reporting period, the utility should be ordered to file a revised monthly report for that month within 30 days of any revision (Bruce)

Staff Analysis: Based on staff's analysis, a repression adjustment is not warranted in this case due to the fact that there is no significant amount of discretionary usage. However, staff recommends that monthly reports be prepared to monitor the effects from changes in revenue to the water and wastewater systems. These reports should be filed with the Commission, on a semi-annual basis for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the utility makes adjustments to consumption in any month during the reporting period, the utility should be ordered to file a revised monthly report for that month within 30 days of any revision.

Issue 10: What are the appropriate rates for this Utility?

Preliminary Recommendation: The appropriate monthly water rates are shown on Schedules No. 4. The recommended rates should be designed to produce revenue \$54,038 for water, excluding miscellaneous service revenues. 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, Roberts)

Staff Analysis: The recommended rates should be designed to produce revenue of \$56,138 for the water system excluding miscellaneous service revenues of \$2,100. This results in revenues from monthly service of \$54,038 for the water system.

As discussed in Issue 8, staff recommends that the Utility's current residential and non-residential water system rate structure which consists of a monthly base facility charge (BFC)/uniform gallonage charge rate structure should remain unchanged. The water system's BFC cost recovery should be set 46.21 percent.

The approved rates should be effective for service rendered on or after 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.

If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. The old charge shall be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge shall be prorated based on the number of days in the billing cycle on and after the effective date of the new rates. In no event shall the rates be effective for service rendered prior to the stamped approval date.

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

Issue 11: Should the Commission approve pro forma plant and expenses for the Utility, and if so, what is the appropriate return on equity, overall rate of return, revenue requirement and date for implementing the new rates?

Preliminary Recommendation: Yes. The Commission should approve a Phase II revenue requirement associated with pro forma plant additions. Pinecrest's appropriate return on equity, with the pro forma items, should be 7.49 percent with a range of 10.30 – 12.30 percent. The appropriate overall rate of return is 7.49 percent. The Utility's Phase II revenue requirement is \$61,519 which equates to an increase of 9.58 percent over Phase I. Pinecrest should complete the pro forma additions within 12 months of the issuance of the consummating order. The Utility should be allowed to implement the resulting rates once the pro forma additions have been completed and verified by staff. Once verified, the rates should be effective for service rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until notice has been received by the customers. Pinecrest should provide proof of the date notice was given within 10 days after the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma additions, the Utility should immediately notify the Commission. (Roberts, Bruce, Simpson)

Staff Analysis: The Utility requested additional pro forma plant that it intends to complete. The following is a chart summarizing the pro forma plant, the cost, and staff's recommended treatment:

	Pro forma Plant	Utility Requested	Staff Recommended	
			Capitalized	Expensed
1.	Plant refurbishment	\$12,000	\$0	\$2,400*
2.	Fire protection System testing	700	0	700
3.	Replace 9 valves	7,650	7,650	0
4.	Meter replacement program	1,500	0	1,500
5.	Averaging adjustment	0	(3,825)	0
	Total	<u>\$17,675</u>	<u>\$3,825</u>	<u>\$4,600</u>

* Amortized \$12,000 over 5 years

Staff believes Pinecrest's proposed proforma plant is reasonable and prudent because it would allow the Utility to extend the life of the plant, which will help maintain the reliability and ensure continual service to the customers. Staff is recommending a Phase II revenue requirement associated with the pro forma plant additions for a couple of reasons. First, it assures that the pro forma additions is completed prior to the Utility realizing a return on the investment. In the past, there have been instances where the Commission approved revenue

requirements with pro forma additions; but, the Utility failed to complete the pro forma additions. Further, addressing the pro forma additions in a single case saves additional rate case expense to the customer because the Utility would not need to file another rate case to recognize the additional investment. The Commission has approved a Phase-In approach in Docket Nos. 080668-SU and 090072-WU.¹⁰

With the pro forma items, Pinecrest's appropriate return on equity should be 7.49 percent with a range of 10.30 percent – 12.30 percent. The appropriate overall rate of return is 7.49 percent. The Utility's revenue requirement should be \$61,519. Pinecrest should complete the pro forma additions within 12 months of the issuance of the consummating order. Phase II rate base is shown on Schedules Nos. 5-A and 5-B. The capital structure for Phase II is shown on Schedule No. 6. The revenue requirement is shown on Schedule Nos. 7-A and 7-B. The resulting rates are shown on Schedule No. 8.

The Utility should be allowed to implement the above rates once all pro forma plant items and expenses have been completed and verified by staff. Once verified, the 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. The rates should not be implemented until notice has been received by the customers. Pinecrest should provide proof of the date notice was given within ten days after the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma additions, the Utility should immediately notify the Commission.

¹⁰ See Order Nos. PSC-09-0628-PAA-SU, issued September 17, 2009, in Docket No. 080668-SU, In re: Application for staff-assisted rate case in Highlands County by Fairmount Utilities, The 2nd Inc; and PSC-09-0716-PAA-WU, issued October 28, 2009, In re: Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc.

Issue 12: 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.?

Preliminary Recommendation: The water rate should be reduced, as shown on Schedule No. 4, to remove rate case expense grossed-up for the regulatory assessment fee and amortized over a four-year period. The rate decrease should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Pinecrest should be required to file revised tariffs and a proposed customer notice setting forth the lower rate and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rate due to the amortized rate case expense. (Roberts)

Staff Analysis: Section 367.0816, F.S., requires that rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rate. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, the associated return included in working capital, and the gross-up for RAFs which is \$213. Using the Utility's current revenues, expenses, capital structure and customer base, the reduction in revenues will result in a rate decrease as shown on Schedule No. 4.

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

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 the reduction in the rate due to the amortized rate case expense.

Issue 13: Should the recommended rate be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility?

Preliminary Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rate should be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility. Prior to implementation of any temporary rates, the utility should provide appropriate security. If the recommended rate is approved on a temporary basis, the rates collected by the utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rate is in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Roberts)

Staff Analysis: This recommendation proposes an increase in rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the utility, staff recommends that the recommended rates be approved as temporary rates. The recommended rates collected by the utility should be subject to the refund provisions discussed below.

The utility should be authorized to collect the temporary rates upon the staff's approval of appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount \$2,943. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

- 1) The Commission approves the rate increase; or
- 2) If the Commission denies the increase, the utility shall refund the amount collected that is attributable to the increase.

If the utility chooses a letter of credit as a security, it should contain the following conditions:

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

If security is provided through an escrow agreement, the following conditions should be part of the agreement:

- 1) No refunds in the escrow account may be withdrawn by the utility without the express approval of the Commission;
- 2) The escrow account shall be an interest bearing account;
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility;
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments;
- 8) The Commission Clerk must be a signatory to the escrow agreement; and
- 9) The account must specify by whom and on whose behalf such monies were paid.

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

The Utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

PINECREST RANCHES INC. TEST YEAR ENDING 6/30/09 SCHEDULE OF WATER RATE BASE (PHASE D)		SCHEDULE NO. 1-A DOCKET NO. 090414-WU	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$184,666	\$774	\$185,440
LAND & LAND RIGHTS	6,500	0	6,500
NON-USED AND USEFUL COMPONENTS	0	0	0
CIAC	0	(100,352)	(100,352)
ACCUMULATED DEPRECIATION	(165,612)	74,334	(91,278)
AMORTIZATION OF CIAC	0	60,164	60,164
WORKING CAPITAL ALLOWANCE	<u>5,851</u>	<u>(114)</u>	<u>5,737</u>
WATER RATE BASE	<u>\$31,405</u>	<u>\$34,806</u>	<u>\$66,211</u>

PINECREST RANCHES INC.
TEST YEAR ENDING 6/30/09
ADJUSTMENTS TO RATE BASE
(PHASE I)

SCHEDULE NO. 1-B
DOCKET NO. 090414-WU
PAGE 1 OF 1

	<u>WATER</u>
<u>UTILITY PLANT IN SERVICE</u>	
To reflect the appropriate UPIS balance.	<u>\$774</u>
<u>CIAC</u>	
To reflect Commission-approved CIAC from last rate case.	<u>(\$100,352)</u>
<u>ACCUMULATED DEPRECIATION</u>	
1 To reflect accumulated depreciation per Rule 25-30.140,F.A.C.	\$71,281
2 To reflect an averaging adjustment.	<u>3,053</u>
Total	<u>\$74,334</u>
<u>AMORTIZATION OF CIAC</u>	
1 To reflect the Commission-approved Amortization of CIAC from last rate case.	\$40,289
2 To reflect the appropriate Amortization of CIAC.	21,527
3 To reflect an averaging adjustment.	<u>(1,652)</u>
Total	<u>\$60,164</u>
<u>WORKING CAPITAL ALLOWANCE</u>	
To reflect 1/8 of test year O & M expenses.	<u>(\$114)</u>

PINECREST RANCHES INC.
TEST YEAR ENDING 6/30/09
SCHEDULE OF CAPITAL STRUCTURE
(PHASE I)

SCHEDULE NO. 2
DOCKET NO. 090414-WU

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
			BEFORE PRO RATA ADJUSTMENTS					
1. COMMON STOCK	\$100	(\$100)	\$0					
2. RETAINED EARNINGS	(196,846)	196,846	0					
3. PAID IN CAPITAL	111,317	(111,317)	0					
4. OTHER COMMON EQUITY	<u>0</u>	<u>0</u>	<u>0</u>					
5. TOTAL COMMON EQUITY	(\$85,429)	\$85,429	\$0	\$0	\$0	0.00%	11.30%	0.00%
6. LONG TERM DEBT	43,349	(43,349)	0	0	0	0.00%	0.00%	0.00%
7. NOTE-PAYABLE-CENTER STATE	<u>52,782</u>	<u>0</u>	<u>52,782</u>	<u>0</u>	<u>65,763</u>	<u>99.32%</u>	7.50%	7.45%
8. TOTAL LONG TERM DEBT	96,131	(43,349)	52,782	0	65,763	99.32%		
9. CUSTOMER DEPOSITS	<u>384</u>	<u>64</u>	<u>448</u>	<u>0</u>	<u>448</u>	<u>0.68%</u>	6.00%	<u>0.04%</u>
10. TOTAL	<u>\$11,086</u>	<u>\$42,144</u>	<u>\$53,230</u>	<u>\$0</u>	<u>\$66,211</u>	<u>100.00%</u>		<u>7.49%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>10.30%</u>	<u>12.30%</u>	
OVERALL RATE OF RETURN						<u>7.49%</u>	<u>7.49%</u>	

PINECREST RANCHES INC.		SCHEDULE NO. 3-A			
TEST YEAR ENDING 6/30/09		DOCKET NO. 090414-WU			
SCHEDULE OF WATER OPERATING INCOME					
(PHASE I)					
	TEST YEAR	STAFF	STAFF	ADJUST.	REVENUE
	PER UTILITY	ADJUSTMENTS	ADJUSTED	FOR	REQUIREMENT
			TEST YEAR	INCREASE	
1. OPERATING REVENUES	<u>\$51,497</u>	<u>\$233</u>	<u>\$51,730</u>	<u>\$4,408</u>	<u>\$56,138</u>
				8.52%	
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	46,807	(913)	45,894	0	45,894
3. DEPRECIATION (NET)	0	2,561	2,561	0	2,561
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	202	2,324	2,526	198	2,724
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$47,009</u>	<u>\$3,972</u>	<u>\$50,981</u>	<u>\$198</u>	<u>\$51,179</u>
8. OPERATING INCOME/(LOSS)	<u>\$4,488</u>		<u>\$749</u>		<u>\$4,959</u>
9. WATER RATE BASE	<u>\$31,405</u>		<u>\$66,211</u>		<u>\$66,211</u>
10. RATE OF RETURN	<u>14.29%</u>		<u>1.13%</u>		<u>7.49%</u>

PINECREST RANCHES INC.
TEST YEAR ENDING 6/30/09
ADJUSTMENTS TO OPERATING INCOME
(PHASE I)

SCHEDULE NO. 3-B
DOCKET NO. 090414-WU
PAGE 1 OF 2

WATER

OPERATING REVENUES

a. To reflect the appropriate test year revenues.	\$1,289
b. To reflect an appropriate Mis. Service revenues.	<u>(1,056)</u>
Subtotal	<u>\$233</u>

OPERATION AND MAINTENANCE EXPENSES

1. Purchased Power (615)	
a. To remove a related party expense.	<u>(\$525)</u>
2. Fuel for Power Production (616)	
To include a \$4.00 a month charge to test generators and pumps in case of emergencies.	<u>\$48</u>
3. Chemicals (618)	
To reflect the appropriate invoiced chemical expense.	<u>\$332</u>
4. Materials and Supplies (620)	
To reflect the appropriate invoiced material and supplies expense.	<u>\$203</u>
5. Contractual Services - billing (630)	
To increase this account to include billing service.	<u>\$2,976</u>
6. Contractual Services - Professional (631)	
To reduce this account for unsupported documentation.	<u>(\$6,098)</u>
7. Contractual Services - Testing (635)	
To reflect the appropriate DEP testing requirements.	<u>\$875</u>
8. Contractual Services - Other (636)	
a. To reflect the appropriate contractual services-other.	<u>\$4,607</u>
9. Rents (640)	
To increase account for office rent.	<u>\$180</u>
10. Transportation Expense (650)	
To remove all transportation expense since pinecrest has no employees.	<u>(\$1,755)</u>

(O & M EXPENSES CONTINUED ON NEXT PAGE)

PINECREST RANCHES INC.
TEST YEAR ENDING 6/30/09
ADJUSTMENTS TO OPERATING INCOME
(PHASE I)

WATER

11.	Insurance Expense (655)		
	To increase account to include all bills for insurance.		<u>\$889</u>
	Regulatory Commission Expense (665)		
	To reflect the appropriate rate case expense.		<u>(\$3,741)</u>
12.	Miscellaneous Expense (675)		
	To increase account to include correct bills.		<u>\$1,097</u>
	TOTAL OPERATION & MAINTENANCE ADJUSTMENTS		<u>(\$913)</u>
	DEPRECIATION EXPENSE		
1	To reflect test year depreciation calculated per 25-30.140, F.A.C.		\$5,581
2	To reflect the appropriate the appropriate amortization of CIAC.		<u>(3,020)</u>
	Subtotal		<u>\$2,561</u>
	TAXES OTHER THAN INCOME		
1	To reflect the appropriate property taxes.		(\$4)
2	To reflect the appropriate RAFs.		<u>2,328</u>
	Subtotal		<u>\$2,324</u>

PINECREST RANCHES INC. TEST YEAR ENDING 6/30/09 ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE (PHASE I)		SCHEDULE NO. 3-C DOCKET NO. 090414-WU	
	TOTAL PER UTILITY	STAFF PER ADJUST.	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	4,236	(525)	3,711
(616) FUEL FOR POWER PRODUCTION	0	48	48
(618) CHEMICALS	2,296	332	2,628
(620) MATERIALS AND SUPPLIES	487	203	690
(630) CONTRACTUAL SERVICES - BILLING	0	2,976	2,976
(631) CONTRACTUAL SERVICES - PROFESSIONAL	6,848	(6,098)	750
(635) CONTRACTUAL SERVICES - TESTING	1,084	875	1,959
(636) CONTRACTUAL SERVICES - OTHER	14,470	4,607	19,077
(640) RENTS	1,440	180	1,620
(650) TRANSPORTATION EXPENSE	1,755	(1,755)	0
(655) INSURANCE EXPENSE	2,541	889	3,430
(665) REGULATORY COMMISSION EXPENSE	3,942	(3,741)	201
(670) BAD DEBT EXPENSE	1,827	0	1,827
(675) MISCELLANEOUS EXPENSES	<u>5,881</u>	<u>1,097</u>	<u>6,978</u>
	<u>\$46,807</u>	<u>(\$913)</u>	<u>\$45,894</u>

PINECREST RANCHES INC. TEST YEAR ENDING 6/30/09 MONTHLY WATER RATES (PHASE I)		SCHEDULE NO. 4 DOCKET NO. 090414-WU	
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED PHASE I RATES	MONTHLY RATE REDUCTION
<u>Residential Service</u>			
Base Facility Charge All Meter Sizes			
5/8"X3/4"	\$12.49	\$13.60	\$0.05
3/4"	\$18.75	\$20.40	\$0.08
1"	\$31.24	\$34.00	\$0.13
1-1/2"	\$62.46	\$68.00	\$0.26
2"	\$99.94	\$108.80	\$0.41
3"	\$199.87	\$217.60	\$0.82
4"	\$312.30	\$340.00	\$1.29
6"	\$624.58	\$680.00	\$2.57
Per 1,000 Gallons	\$3.77	\$4.11	\$0.02
<u>General Service</u>			
Base Facility Charge by Meter Size:			
5/8"X3/4"	\$12.49	\$13.60	\$0.05
3/4"	\$18.75	\$20.40	\$0.08
1"	\$31.24	\$34.00	\$0.13
1-1/2"	\$62.46	\$68.00	\$0.26
2"	\$99.94	\$108.80	\$0.41
3"	\$199.87	\$217.60	\$0.82
4"	\$312.30	\$340.00	\$1.29
6"	\$624.58	\$680.00	\$2.57
Gallonge Charge (all gallons) Per 1,000 Gallons	\$3.77	\$4.11	\$0.02
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$23.80	\$25.93	
5,000 Gallons	\$31.34	\$34.15	
10,000 Gallons	\$37.70	\$54.70	

PINECREST RANCHES INC. TEST YEAR ENDING 6/30/09 SCHEDULE OF WATER RATE BASE (PHASE II)		SCHEDULE NO. 5-A DOCKET NO. 090414-WU		
DESCRIPTION	STAFF RECOMMENDED PHASE I RATE BASE	STAFF ADJUSTMENTS	STAFF PHASE II RATE BASE	
1. UTILITY PLANT IN SERVICE	\$185,440	\$3,825	\$189,265	
2. LAND & LAND RIGHTS	6,500	0	6,500	
3. NON-USED AND USEFUL COMPONENTS	0	0	0	
4. CIAC	(100,352)	0	(100,352)	
5. ACCUMULATED DEPRECIATION	(91,278)	(101)	(91,378)	
6. AMORTIZATION OF CIAC	60,164	0	60,164	
7. WORKING CAPITAL ALLOWANCE	<u>5,737</u>	<u>575</u>	<u>6,312</u>	
8. WATER RATE BASE	<u>\$66,211</u>	<u>\$4,299</u>	<u>\$70,510</u>	

PINECREST RANCHES INC.
TEST YEAR ENDING 6/30/09
ADJUSTMENTS TO RATE BASE
(PHASE II)

SCHEDULE NO. 5-B
DOCKET NO. 090414-WU
PAGE 1 OF 1

	<u>WATER</u>
<u>UTILITY PLANT IN SERVICE</u>	
1 To reflect pro forma plant refurbishment.	\$7,650
2 To reflect pro forma averaging adjustment.	<u>(3,825)</u>
Total	<u>\$3,825</u>
 <u>ACCUMULATED DEPRECIATION</u>	
To reflect proforma accumulated depreciation.	<u>(\$101)</u>
 <u>WORKING CAPITAL ALLOWANCE</u>	
To reflect 1/8 of test year O & M expenses.	<u>\$575</u>

PINECREST RANCHES INC.
TEST YEAR ENDING 6/30/09
SCHEDULE OF CAPITAL STRUCTURE
(PHASE II)

SCHEDULE NO. 6
DOCKET NO. 090414-WU

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE		BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
			BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS				
1. COMMON STOCK	\$100	(\$100)	\$0					
2. RETAINED EARNINGS	(196,846)	196,846	0					
3. PAID IN CAPITAL	111,317	(111,317)	0					
4. OTHER COMMON EQUITY	<u>0</u>	<u>0</u>	<u>0</u>					
5. TOTAL COMMON EQUITY	(85,429)	\$85,429	0	\$0	\$0	0.00%	11.30%	0.00%
6. LONG TERM DEBT	43,349	(43,349)	0	0	\$0	0.00%	0.00%	0.00%
7. Note-Payable-center state	<u>52,782</u>	<u>0</u>	<u>52,782</u>	<u>0</u>	70,062	<u>99.36%</u>	7.50%	7.45%
TOTAL LONG TERM DEBT	96,131	(43,349)	52,782	0	70,062	99.36%		
8. CUSTOMER DEPOSITS	<u>384</u>	<u>64</u>	<u>448</u>	<u>0</u>	<u>448</u>	<u>0.64%</u>	6.00%	<u>0.04%</u>
9. TOTAL	<u>\$11,086</u>	<u>\$42,144</u>	<u>\$53,230</u>	<u>\$0</u>	<u>\$70,510</u>	<u>100.00%</u>		<u>7.49%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>10.30%</u>	<u>12.30%</u>	
OVERALL RATE OF RETURN						<u>7.49%</u>	<u>7.49%</u>	

PINECREST RANCHES INC. TEST YEAR ENDING 6/30/09 SCHEDULE OF WATER OPERATING INCOME (PHASE II)			SCHEDULE NO. 7-A DOCKET NO. 090414-WU		
	PHASE I REVENUE REQUIREMENT	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	PHASE II REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$56,138</u>	<u>\$0</u>	<u>\$56,138</u>	<u>\$5,380</u> 9.58%	<u>\$61,519</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	45,894	4,600	50,494	0	50,494
3. DEPRECIATION (NET)	2,561	216	2,777	0	2,777
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	2,724	0	2,724	242	2,966
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$51,179</u>	<u>\$4,816</u>	<u>\$55,996</u>	<u>\$242</u>	<u>\$56,238</u>
8. OPERATING INCOME/(LOSS)	<u>\$4,959</u>		<u>\$143</u>		<u>\$5,281</u>
9. WATER RATE BASE	<u>\$66,211</u>		<u>\$70,510</u>		<u>\$70,510</u>
10. RATE OF RETURN	<u>7.49%</u>		<u>0.20%</u>		<u>7.49%</u>

PINECREST RANCHES INC.
TEST YEAR ENDING 6/30/09
ADJUSTMENTS TO OPERATING INCOME
(PHASE II)

SCHEDULE NO. 7-B
DOCKET NO. 090414-WU
PAGE 1 OF 2

	<u>WATER</u>
1 Contractual Services - Other (636)	
a. To reflect proforma meter replacement program of 10 per year.	\$1,500
b. To reflect proforma exterior repair and paint to the water tank.	2,400
c. Fire protection System testing.	<u>700</u>
Subtotal	<u>\$4,600</u>
 TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	 <u>\$4,600</u>
 DEPRECIATION EXPENSE	
1 To reflect test year depreciation calculated per 25-30.140, F.A.C.	\$201
2 To reflect the appropriate amortization of CIAC.	<u>15</u>
Subtotal	<u>\$216</u>

PINECREST RANCHES INC. TEST YEAR ENDING 6/30/09 ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE (PHASE II)		SCHEDULE NO. 7-C DOCKET NO. 090414-WU	
	TOTAL PER UTILITY	STAFF PER ADJUST.	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	3,711	0	3,711
(616) FUEL FOR POWER PRODUCTION	48	0	48
(618) CHEMICALS	2,628	0	2,628
(620) MATERIALS AND SUPPLIES	690	0	690
(630) CONTRACTUAL SERVICES - BILLING	2,976	0	2,976
(631) CONTRACTUAL SERVICES - PROFESSIONAL	750	0	750
(635) CONTRACTUAL SERVICES - TESTING	1,959	0	1,959
(636) CONTRACTUAL SERVICES - OTHER	19,077	4,600	23,677
(640) RENTS	1,620	0	1,620
(650) TRANSPORTATION EXPENSE	0	0	0
(655) INSURANCE EXPENSE	3,430	0	3,430
(665) REGULATORY COMMISSION EXPENSE	201	0	201
(670) BAD DEBT EXPENSE	1,827	0	1,827
(675) MISCELLANEOUS EXPENSES	<u>6,978</u>	<u>0</u>	<u>6,978</u>
	<u>\$45,894</u>	<u>\$4,600</u>	<u>\$50,494</u>

PINECREST RANCHES INC. TEST YEAR ENDING 6/30/09 MONTHLY WATER RATES (PHASE II)		SCHEDULE NO. 8 DOCKET NO. 090414-WU	
	STAFF'S RECOMMENDED PHASE I RATES	STAFF'S RECOMMENDED PHASE II RATES	MONTHLY RATE REDUCTION
<u>Residential Service</u>			
Base Facility Charge All Meter Sizes			
5/8"X3/4"	\$13.60	\$13.84	\$0.05
3/4"	\$20.40	\$20.76	\$0.07
1"	\$34.00	\$34.60	\$0.12
1-1/2"	\$68.00	\$69.20	\$0.24
2"	\$108.80	\$110.72	\$0.38
3"	\$217.60	\$221.44	\$0.76
4"	\$340.00	\$346.00	\$1.19
6"	\$680.00	\$692.00	\$2.39
Per 1,000 Gallons	\$4.11	\$4.18	\$0.01
<u>General Service</u>			
Base Facility Charge by Meter Size:			
5/8"X3/4"	\$13.60	\$13.84	\$0.05
3/4"	\$20.40	\$20.76	\$0.07
1"	\$34.00	\$34.60	\$0.12
1-1/2"	\$68.00	\$69.20	\$0.24
2"	\$108.80	\$110.72	\$0.38
3"	\$217.60	\$221.44	\$0.76
4"	\$340.00	\$346.00	\$1.19
6"	\$680.00	\$692.00	\$2.39
Gallonge Charge (all gallons) Per 1,000 Gallons	\$4.11	\$4.18	\$0.01
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$23.80	\$26.38	
5,000 Gallons	\$31.34	\$34.74	
10,000 Gallons	\$37.70	\$55.64	