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COMMISSION CLERK

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Public Service Commission

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

DATE: May 19, 2010

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Deason, Daniel, Fletcher, Maurey, Lingo, Stallcup, Rieger, Thompson)
Office of the General Counsel (Sayler, Brubaker)

RE: Docket No. 090392-WS – Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke.

AGENDA: 6/1/10 – Proposed Agency Action Except Issues Nos. 28 and 29 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Edgar

CRITICAL DATES: 5-Month Effective Date Waived Through 6/1/10

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\090392.RCM.DOC

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Case Background

Utilities, Inc. (UI or parent) is an Illinois corporation which owns approximately 75 subsidiaries throughout 15 states including 15 water and wastewater utilities within the State of Florida. Currently, UI has six separate rate case dockets pending before the Florida Public Service Commission (Commission). These dockets are as follows:

Docket No.	Utility Subsidiary
090349-WS	Cypress Lakes Utilities
090381-SU	Utilities Inc. of Longwood
090392-WS	Utilities Inc. of Pennbrooke
090402-WS	Sanlando Utilities Corporation
090462-WS	Utilities Inc. of Florida
090531-WS	Lake Placid Utilities, Inc.

This recommendation addresses Docket No. 090392-WS. Utilities Inc. of Pennbrooke (Pennbrooke or Utility) is a Class B utility providing service to approximately 1,468 water and 1,251 wastewater customers in Lake County. Pennbrooke is a wholly-owned subsidiary of UI. Water and wastewater rates were last established for this Utility in its 2006 rate case.[1]

On September 28, 2009, Pennbrooke filed its Application for Rate Increase at issue in the instant docket. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and requested interim rates. Pennbrooke had deficiencies in the Minimum Filing Requirements (MFRs). The deficiencies were corrected and November 18, 2009, was established as the official filing date. The test year established for interim and final rates is the simple average period ended December 31, 2008.

Pennbrooke requested interim rates for both its water and wastewater systems. By Order No. PSC-09-0844-PCO-WS, the Commission approved interim rates designed to generate annual water revenues of $525,098, an increase of $169,676 or 47.74 percent, and wastewater revenues of $569,357, an increase of $189,766 or 49.99 percent.[2] The Utility requested final rates designed to generate annual water revenues of $620,927, an increase of $265,505 or 74.70 percent, and annual wastewater revenues of $589,465, an increase of $209,874 or 55.29 percent.

On March 18, 2010, the Office of Public Counsel filed a Notice of Intervention in this docket. By Order No. PSC10-0201-PCO-WS, the Commission acknowledged OPC intervention.[3]

By letter dated April 13, 2010, the Utility waived the statutory 5-month deadline for this case through June 1, 2010. This recommendation addresses Pennbrooke's requested final rates. The Commission has jurisdiction pursuant to Section 367.081, Florida Statutes (F.S.).

[1] See Order No. PSC-07-0088-PAA-WS, issued January 31, 2007, in Docket No. 060261-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke.
[2] See Order No. PSC-09-0844-PCO-WS PSC, issued December 22, 2009.
[3] See Order No. PSC10-0201-PCO-WS, issued April 1, 2010.

Discussion of Issues

QUALITY OF SERVICE

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

Recommendation: The overall quality of service provided by Pennbrooke is satisfactory. (Rieger)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C), the Commission determines the overall quality of service provided by a Utility by evaluating three separate components of operations. These components include the quality of the Utility's product, the operational condition of the Utility's plants 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 Department of Environmental Protection (DEP) is also considered.

Quality of Utility's Product and Operational Condition of Plant and Facilities

Pennbrooke is current in all of its required chemical analyses, and the Utility has met all required standards for both water and wastewater. The water and wastewater treatment facilities are currently in compliance with the DEP rules and regulations. Although it appears to be meeting the customer's supply needs at this time, the operating condition of the water treatment plant is being negatively affected by one the facility's two wells which is showing signs of a casing failure. Until this problem is corrected, the Utility has changed its routine of rotating wells and is reserving the well in question for peak demand operational use only. The current operating status appears to be working, but because of long-term system reliability concerns, the Utility believes that a total well replacement is necessary. As part of this rate case, the Utility requested that the cost of the well replacement be considered as a pro forma plant improvement. It is expected that a replacement well will be on line by the end of 2010. The Utility also proposes an upgrade to its main wastewater collection lift station from a single phase to a three phase electrical supply service. This change should make the operation of the facility more energy efficient and help ensure system reliability.

The Utility's Attempt to Address Customer Satisfaction

Customer Meeting A customer meeting was held on February 24, 2010, at the Grand Hall at Pennbrooke Fairways (service area) in Leesburg, Florida. Over two hundred customers attended the evening meeting. The majority of those who attended were concerned with the proposed size of the rate increase, which they believe will produce a financial hardship to the residents that the Utility serves. Although there were customers attending the meeting who did not have problems with the quality of water, most of the twenty-one customers who spoke referred to water quality problems. They indicated that the water supplied to them is undesirable, had not improved since the last rate case, and that there was a credibility problem with the Utility. While concerns exist over the product being safe and useable, the customers mainly noted that the water tasted poorly, had odor, color, and sediment, stained fixtures and other property, had an oily residue, and in the case of one area in particular (Section K), had pressure problems. Photographs were presented that showed sediment from a hot water heater, and spent filters from home treatment and filtering devices as an indication of the extent of the problems. In reference to the pressure problems, customers pointed out that (particularly on Saturdays) there was not enough pressure to do laundry or take showers. They spoke of irrigation restrictions for certain days of the week and the fact that the St. Johns River Water Management District (SJRWMD) had granted their particular area a waiver to irrigate an extra day due to the pressure concerns. In addressing the pressure problems, one customer attributed inadequate pipe sizing within the homes, not the Utility's water system, as a probable cause. Another customer suggested that the Utility's water facilities were outdated and inefficient. The customer believes that submersible pumps would be more energy efficient than the turbine pumps currently in use. Also, an elevated storage tank would improve pressure, as well as eliminate the need for a hydropneumatic tank which could be a source of rusty water.

Correspondence The Commission received letters and e-mails from over two hundred and fifty customers who expressed similar concerns over the proposed rate increase and the resulting negative effect the increases would cause on their over fifty-five community. Customers also complained about low pressure and unacceptable water quality including excessive odor (sulfur and chlorine), taste, sediment, and fixture staining concerns. Some customers complained about the additional cost burden placed on them to install home treatment systems or to purchase bottle water.

Customer Complaints Since 2007, there have been eight customer complaints filed with the Commission. All were billing related. There are currently no active complaints on file.

In review of the customer complaints logged with the Utility during the test year, as reported in its filing, water pressure (14) and water quality (5) complaints were similar to the issues raised during the customer meeting and in correspondence. Concerning pressure, the Utility noted that the pressure readings recorded at the location of the complainants usually read in the mid 50's to low 70's pounds per square inch (psi). These readings are well above the 20 psi minimum required by the DEP. However, there was an incident during the test year (May 2008) that occurred at the Utility's water treatment plant which caused the water pressure system wide to be reduced. Even though a complete system failure did not occur, the Utility noted that during irrigation periods, the pressure was down to 52 psi. This event caused at least three pressure complaints. Another complaint service call found pressure to be 49 psi. This event prompted the service technician to note that the problem area was the furthest street from the water treatment plant and that pressure should be raised. Additional pressure complaints which occurred at other times during the test year appeared to be sporadic in nature. By the time the Utility responded to these complaints, it was noted that the system water pressure appeared to be operating normally. A recently serviced home filter was identified as the potential cause of the pressure problems at one customer's home. For another customer, house pressure was 64 psi until the washer came on and the pressure reduced to 10 psi. That customer was advised to call a plumber.

Other water quality complaints logged were about color, where sometimes extra line flushing was warranted, and odor. There were also at least five other complaints that were about broken meter boxes. The Utility repaired or replaced these units as needed. Although not frequent, there were several wastewater complaints dealing with lift station odor, alarms going off, and overflows. All of these problems appeared to have been corrected as they occurred.

Prior Rate Cases In the Utility's last rate case, Docket No. 060261-WS, overall quality of service was found to be marginally satisfactory. The quality of product and the condition of plants were adequate when it came to regulatory compliance standards; however, the customer satisfaction portion of the quality of service review found problems. With similarities to what currently exist, the Commission found that the Utility had attempted to reasonably address the areas of the customer's concerns at that time. However, it was apparent that additional attention was needed to enhance the water quality through continued, regular, line flushing and constant vigilance over pressure demands. A pressure study performed at that time revealed significant pressure loss to several residences. The possible cause of pressure loss was not attributed to the Utility's distribution system, but rather to internal piping restrictions within the customer's house plumbing. It was noted that the Utility had made an effort to be watchful for customer service problems. This determination was confirmed through review of records that showed reasonable responses to customer complaints, plus physical improvements that, along with an improved flushing program, enhanced customer service.

Pennbrooke's Response To Quality Of Service Concerns The Utility reported that, since its last rate case, a number of steps to address low water pressure have been taken. This includes the construction of a second point of connection from the water treatment plant to the distribution system to alleviate a hydraulic bottleneck, as well as replacing worn impellers on high service pumps in order to restore the designed pumping capacity of the equipment. Also, the Utility verified that all distribution system valves were in the "open" position. Pennbrooke believes that the recent improvements made to the water plant and distribution system rectified many customer pressure issues. The Utility has had little indication of current flow pressure complaints from the area of those who complained at the customer meeting. The Utility indicated that customers were placed on twice a week "even/odd" house numbering watering schedules. However, in November of 2009, a new irrigation rule imposed by the SJRWMD limited irrigation to once per week, either Saturday or Sunday. This has had the effect of concentrating irrigation demand on two days per week instead of four, causing the instantaneous demand to spike on those days. In order to limit possible pressure problem conflicts when high use events such as irrigation occurs, the Utility intends to propose a three zone irrigation plan to the local homeowners association (HOA). This plan is designed to reduce the number of homes irrigating at any one time, and would allow the high service pumping equipment to better meet instantaneous demand. The Utility is aware that these changes are only part of the solution to address peak demand. Pennbrooke believes that it is critical that the final water rates be structured in such a way that the customers are further encouraged to reduce water consumption so that the total groundwater withdrawal does not exceed the limits imposed by the SJRWMD in the Consumptive Use Permit.

In response to one particular customer's water pressure concerns, the Utility performed a recent pressure study at this customer's residence which showed reasonable pressure levels, with some moderate pressure dips during probable irrigation events. The Utility suggests that the customer would not see as much of a drop in pressure if irrigation times were adjusted to not be in conflict with the neighbor's home water usage patterns. Also, in consideration of the customer's suggestion for improving pressure by looping together nearby dead end lines, the Utility believes that apart from the legal and financial obstacles associated with looping, it would be imprudent to invest scarce capital resources on such a project when the cause is the timing and extent of the customer's water use pattern.

Regarding water quality, the Utility points out that the water delivered to the customers meets all current federal and state water quality requirements. It admits that the source water, the Upper Floridian Aquifer, contains relatively hard water. There is no additional treatment for hard water performed at the water treatment plant. For elevated iron content, the Utility does employ the use of polyphosphates to sequester iron in the water, as well as routinely flushing the system to help ease the situation. To further address the customer's water quality concerns, the Utility believes that any additional investment would require the support of the customer base, including an acknowledgement that additional investment would generally be recovered through higher water rates. Furthermore, the Utility believes that it would be imprudent to install additional treatment equipment and incur additional operating expenses that are not supported by the customers in a future rate proceeding when the Utility is already in full compliance with all regulatory requirements regarding water quality.

<u>Summary</u>

Pennbrooke is current in all of the required chemical analyses and the operating conditions of the facilities are currently in compliance with the DEP rules and regulations. Although customer satisfaction problems concerning pressure and water quality appear to have persisted since the last rate case, it appears that the Utility is attempting to address these issues. Concerning pressure, it appears that the Utility is doing what it can to remove any impediment under its control. However, given the SJRWMD involvement, high water use within the Utility's service area appears to be taxing both the Utility's peak demand service capabilities, as well as its permitted ground water supply capacities. The customers' concerns are mainly aesthetic problems, not health compliance issues. For systems with challenging water quality aesthetics, point-of-use home treatment systems are often the most cost effective mechanism to achieve customer aesthetic quality objectives. To treat the water provided by the Utility to the highest customer aesthetic expectation can come at significant cost to customers, particularly since a significant portion of the water used at Pennbrooke is for irrigation.

While the level of customer dissatisfaction over water pressure and quality is a problem, it appears that customer water usage patterns may very well be the root cause of the pressure problems. Staff believes that excess water usage should be addressed before additional requirements are placed on the Utility. This could be achieved through the combined efforts of what the utility is already attempting to do, as well as the further structuring of the water rates to promote water conservation. Staff therefore recommends that the overall quality of service provided by Utilities Inc. of Pennbrooke be found satisfactory.

RATE BASE

Issue 2: Should the audit adjustments to rate base to which the Utility agrees be made?

Recommendation: Yes. Based on audit adjustments agreed to by the Utility and staff, staff recommends the following adjustments to rate base, O&M expenses, and taxes other than income (TOTI) for water and wastewater. (Deason)

Audit Finding	Plant	Accum. Depr.	Depr. Expense	O&M Expenses	TOTI
No. 1 - Plant Sample	($1,105)	$153	($97)	$948	
No. 2 - Plant Retirements	($807)	$807	($37)		
No. 6 - Sampling Errors	($223)	$14	($28)		
No. 9 - Employee Not Replaced				($398)	($28)
No. 11 - O&M Sample	$37	$114	$4	($1,010)	
Total Water Adjustments:	($2,098)	$1,088	($158)	($460)	($28)

Audit Finding	Plant	Accum. Depr.	Depr. Expense	O&M Expenses	TOTI
No. 1 - Plant Sample	($2,372)	$195	($121)	$938	
No. 2 - Plant Retirements	($2,100)	$2,100	($101)		
No. 6 - Sampling Errors	($190)	$12	($23)		
No. 9 - Employee Not Replaced				($338)	($23)
No. 11 - O&M Sample	$175	$535	$10	($1,920)	
Total Wastewater Adjustments:	($4,487)	$2,842	($235)	($1,320)	($23)

Staff Analysis: In its response to the staff's audit report, Pennbrooke agreed to the adjustment amounts listed below. Staff recommends the following adjustments to rate base, O&M expenses, and TOTI for water and wastewater, respectively.

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No. 11 - O&M Sample	$175	$535	$10	($1,920)	
Total Wastewater Adjustments:	($4,487)	$2,842	($235)	($1,320)	($23)

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

Recommendation: Yes. Plant should be reduced by $88,292 for water and $75,211 for wastewater. In addition, accumulated depreciation should be reduced by $25,608 for water and $21,815 for wastewater. (Deason)

Staff Analysis: Pennbrooke recorded test year Utility Plant in Service (UPIS) of $2,134,960 for water and $2,759,918 for wastewater. As discussed above in Issue 2, staff reduced UPIS by $2,098 for water and $4,487 for wastewater. Based on audit findings, staff adjustments, and Utility responses to data requests, further adjustments should be made to the test year UPIS.

Error in Pro Forma Adjustment to Change ERCs

UI's new accounting system automatically allocates costs each month using the monthly equivalent residential connections (ERCs) for each region. UI sold off some of its systems in 2009 and this changed its ERC calculations. The Utility personnel made a pro forma adjustment to the 2008 ledger to reflect this change. But in doing so, their calculation was only for plant additions and not for its accumulated depreciation balance. This caused an overstatement of allocated net plant to the Utility.

Pennbrooke agreed with Audit Finding No. 4 that an error was made. The Utility did not agree with audit staff's calculation. Pennbrooke provided its corrected calculations but staff was not able to reconcile its numbers. In the Utility's response to staff's data request dated January 5, 2010, Pennbrooke provided another calculation that did not match its own audit response. Therefore, staff agrees with Audit Finding No. 4. Based on audit staff's calculations to correct this error, plant should be reduced by $88,292 for water and $75,211 for wastewater. In addition, accumulated depreciation should be reduced by $25,608 for water and $21,815 for wastewater.

Issue 4: Should any adjustments be made to the Utility's Project Phoenix Financial/Customer Care Billing System (Phoenix Project)?

Recommendation: Yes. Plant should be reduced by $8,406 for water and $6,605 for wastewater. In addition, accumulated depreciation and depreciation expense both should be reduced $2,611 for water and $2,224 for wastewater, respectively. (Deason, Fletcher)

Staff Analysis: The purpose of the Phoenix Project was to improve accounting, customer service, customer billing, and financial and regulatory reporting functions of UI and its subsidiaries. The Phoenix Project became operational in December of 2008. UI allocated the cost of the Phoenix Project to all its subsidiaries based on each subsidiary's ERCs as of September 30, 2009.

Allocation of Phoenix Project Costs

During 2009, the Commission approved recovery of the cost of the Phoenix Project in seven UI rate cases.[4] The approved costs were allocated based on each subsidiary's specific test year ERCs to the total UI test year ERCs. With respect to the current UI cases before the Commission, UI allocated the Phoenix Project costs based on each subsidiary's ERCs at the end of the 2008 test year, in relation to UI's total 2008 ERCs. Pennbrooke divided its ERCs by UI's total ERCs resulting in an allocation percentage of 0.98. This percentage was multiplied by the total investment in the Phoenix Project. Based on total Phoenix Project costs of $21,364,569, Pennbrooke calculated its allocated share to be 0.98 percent, or $208,388. Of this amount, 56 percent or $116,697 was assigned to the water system, while $91,691 was assigned to the wastewater system.

As discussed in Issue 3, staff agreed with the adjustments recommended by the auditors in Audit Finding No. 4, to apply a more current ERC count provided by the Utility which recognized the divestitures of certain UI systems in 2009.

Divestiture of UI Subsidiaries

As discussed in Issue 4, staff used a more recent ERC count provided by Pennbrooke which recognized the divestitures of certain UI subsidiaries in 2009. According to Pennbrooke's March 22, 2010, response to staff's second data request, UI recently divested several Florida subsidiaries including Miles Grant Water and Sewer Company (Miles Grant), Utilities, Inc. of Hutchinson Island (Hutchinson), and Wedgefield Utilities, Inc. (Wedgefield), as well as subsidiaries in other states.

In addition, during a conference call on April 16, 2010, between staff, OPC, and the Utility, UI stated that it purchased a wastewater system in Louisiana[5] that was not included in the ERC count previously provided to the staff auditors. The Utility stated that the ERCs for the

[4] See Docket Nos. 080250-SU, 080249-WS, 080248-SU, 080247-SU, 070695-WS, 070694-WS, and 070693-WS.
[5] This wastewater system represented approximately 950 ERCs.

newly acquired system should be included in order to properly account for that system's share of cost of the Phoenix Project.

Staff agrees that allocating costs according to ERCs is an appropriate methodology to spread the cost of Phoenix Project. However, staff does not believe the Phoenix Project costs previously allocated to the divested subsidiaries should be reallocated to the surviving utilities. Wedgefield was sold for an amount significantly greater than its rate base.[6] Miles Grant and Hutchinson were sold collectively for an amount significantly greater than the rate base.[7] Staff believes the amounts allocated to the divested subsidiaries were recovered by the shareholders through the sale of those systems. Thus, staff believes the divested subsidiaries allocation amounts should be deducted from the total cost of the Phoenix Project before any such costs are allocated to the remaining UI subsidiaries.

According to Audit Finding No. 5, staff auditors determined that the correct ledger balance of the software is $21,617,487, not the $21,364,569 that Pennbrooke used to calculate its allocated share of the Phoenix Project. Based on the ERC percentages of all the divested subsidiaries immediately prior to their respective closing dates, staff determined the actual amount paid of $21,617,487 for the Phoenix Project should be reduced by $1,724,166 resulting in a remaining balance of $19,893,321. Based on the unrecovered cost of the Phoenix Project and the ECRs adjusted for divestiture, staff recommends that the appropriate amount of Pennbrooke's allocated share of the Phoenix Project is $193,377. As such, staff recommends that plant be reduced by $15,011, or $8,406 for water and $6,605 for wastewater.

Amortization Period

In previous UI cases, the Commission approved a 6-year amortization period for the Phoenix Project.[8] In subsequent UI cases,[9] staff determined and the Commission found that an 8-year amortization period was more appropriate for a software project of this magnitude. For several reasons, staff now believes that the amortization period for the Phoenix Project should be changed to 10 years. First, the Phoenix Project was specifically tailor-made to meet all of UI's needs. Such a project is not "off the shelf" software, but software designed to fulfill long term accounting, billing, and customer service needs. Second, staff believes the software will be used for at least 10 years. UI's legacy accounting system had been used for 21 years. Third, in a recent docket involving a UI subsidiary in Nevada,[10] UI responded that any amortization period between 4 and 10 years would be in compliance with Generally Accepted Accounting Principles. As such, staff believes 10 years is a more reasonable amortization period than the 8-year amortization period currently approved by this Commission. Thus, staff recommends that

[6] The sale price of Wedgefield Utilities, Inc. in April of 2009 was $7,300,000. Based on the rate base reported in its 2008 annual report, this amount is approximately 13.81 percent or $885,852 greater than rate base.
[7] The sale price of Miles Grant Water and Sewer Company and Utilities, Inc. of Hutchinson Island in August of 2009 was $7,500,000. Based on the rate base reported in their respective 2008 annual reports, this amount is approximately 33.88 percent or $1,897,837 greater than their collective rate bases.
[8] See Docket Nos. 070695-WS, 070694-WS, and 070693-WS.
[9] See Docket Nos. 080250-SU, 080249-WS, 080248-SU, and 080247-SU.
[10] Modified Final Order, issued January 15, 2009, in Docket No. 08-06036.

accumulated depreciation and depreciation expense be reduced $2,611 for water and $2,224 for wastewater, respectively.

Summary

In summary, staff recommends that plant be reduced by $8,406 for water and $6,605 for wastewater. In addition, the balances of accumulated depreciation and depreciation expense be reduced $2,611 for water and $2,224 for wastewater, respectively

Issue 5: Should adjustments be made to the Utility's pro forma plant additions and associated expenses?

Recommendation: Yes. The Utility's pro forma plant additions should be increased $4,538 for wastewater. Pro forma adjustments for water should be denied. Accordingly, accumulated depreciation and depreciation expense should be decreased by $15,488 for water, and accumulated depreciation and depreciation expense both should be increased by $138 for wastewater. (Deason)

Staff Analysis: Pennbrooke's filing reflected pro forma plant additions of $381,184 for water and $8,000 for wastewater.

Water

Pennbrooke included $408,750 of pro forma plant in its MFRs to replace Well No. 1. According to the Utility, Well No. 1 will need to be replaced due to the imminent failure of its well casing, which would result in a failure to produce sufficient amounts of water during peak day demand periods. The casing comes in contact with the pump bowls of Pump No. 1 each time the pump cycles off causing damage to the pump assembly and to the interior of the casing. Well No. 1 cannot be relied upon to function as designed, which significantly impairs the Utility's ability to maintain adequate pressure and volume during peak demand periods as required by rule. The Utility intends to have Well No. 1 replaced by the end of 2010. On January 19, 2010, the Utility provided an updated estimate of $408,250. Pennbrooke stated that the estimate was produced by comparing the cost of the proposed new well to a recent bid proposal submitted to the City of Eustis with similar aquifer characteristics and production zone. Staff requested several times for the Utility to provide an executed agreement showing the exact cost of the well replacement, but the Utility failed to provide the requested documentation. Based on Pennbrooke's failure to provide sufficient documentation, staff recommends that water plant be decreased by $408,750 and that accumulated depreciation and depreciation expense for water be decreased by $15,487.

The Utility included $37,250 of pro forma plant additions in its MFRs to replace electrical equipment at the Utility's water treatment plant (WTP). According to the Utility, it intends to replace an undersized 200 amp service with a new 400 amp service, appropriately sized breaker and a new pump control panel containing three HSP starters and two well pump starter controls. The Utility also intends to replace the existing 175 amp breaker at the emergency generator with a 350 amp breaker so that all of the generator's output can be used to its maximum and replace the existing 200 amp ATS with a 400 amp ATS so that the generator can supply power to all critical equipment. The Utility has been unable to provide the executed agreements for the electrical equipment at the Utility's WTP. Therefore, staff recommends that plant be reduced by $37,250.

Wastewater

Pennbrooke included $10,000 of pro forma plant in its MFRs to upgrade its Master Lift Station. According to the Utility, all influent flow generated daily within the community passes through this pump station. The existing submersible sewage pumps are undersized for peak flow generated during wet weather resulting in overflows into stormwater structures. The Utility's proposed solution is to replace the pumps with larger 5.0 HP 3-phase Flygt pumps that have a larger pumping capacity and install a control panel equipped to operate the larger pumps. The existing pumps will be stored and used as backup pumps for the Utility's other lift stations.

The original control panel for the master lift station, installed in 1986, will be retired. An underground electric service will be installed to connect the pump station to the wastewater treatment plant's emergency generator in order to insure the operability of the Master Lift Station during power outages. This will allow for more efficient use of the Utility's trailer mounted generator at the five remaining lift stations so as to avoid overflow of raw sewage and the resulting health hazard. On January 19, 2010, the Utility provided an updated estimate of $45,846. Pennbrooke provided an executed agreement with Thompson Electric Company and ITT Water & Wastewater Florida, LLC. Based on Pennbrooke's executed agreement, staff recommends that wastewater plant be increased by an additional $35,846.

The Utility included a retirement of $2,000 for lift station components. Pennbrooke failed to provide the documentation for the associated retirement. Therefore, consistent with Commission practice, staff recommends that 75 percent of the replacement cost of $45,846 be used for the retirement amount. Therefore staff recommends that accumulated depreciation and depreciation expense for wastewater be decreased by $32,385.

In summary, staff recommends pro forma plant additions of $11,462 for wastewater. Pro Forma water plant should be denied. As a result, plant should be decreased by $381,184 for water and $3,462 for wastewater. Accordingly, accumulated depreciation and depreciation expense should be decreased by $15,488 for water, and increased by $138 for wastewater. Staff's recommended pro forma plant and expense is as follows:

Utilities Inc. of Pennbrooke Pro Form Plant					
Pro Forma Plant Adjs.	Per MFRs	Staff Adjustments to Plant	Staff Adjusted Plant	Staff Adjustments to Accumulated Depreciation	Staff Adjustments to Depreciation Expense
Replace Well # 1	$408,750	($408,750)	$0	($13,625)	($13,625)
Electric and Pumping Equipment Improvements	37,250	(37,250)	0	(1,863)	(1,863)
Retire Well No. 1	(43,730)	43,730	0	0	0
Retire Pumping Equipment	(19,086)	19,086	0	0	0
Retire Electrical Components	(2,000)	2,000	0	0	0
Lift Station Upgrade	10,000	35,846	45,846	1,434	1,434
Retire Lift Station Components	(2,000)	(32,385)	(34,385)	(1,295)	(1,295)
Adjustment Totals	$389,184	($377,722)	$11,461	($15,349)	($15,349)

Utilities Inc. of Pennbrooke Summary Pro Forma Plant Combined Water & Wastewater Operations		
Total Plant Per MFR - Water	$381,184	
Total Plant Per MFR - Wastewater	8,000	
Total Combined Plant		$389,184
Staff Adjustments – Water	($381,184)	
Staff Adjustments – Wastewater	$3,462	
Total Combined Adjustments		($377,722)
Total Adjusted Plant Balances		$11,461

Issue 6: What are the used and useful percentages for the Utility's water and wastewater systems?

Recommendation: The Utility's water and wastewater systems are 100 percent used and useful. (Rieger)

Staff Analysis: In its application, the Utility asserts that the water and wastewater treatment plants, as well as the water distribution and wastewater collection systems, are all 100 percent used and useful. In the Utility's last rate case, the Commission evaluated the water and wastewater systems and found them to be 100 percent used and useful. However, in Order No. PSC-07-0534-AS-WS,[11] a settlement agreement was approved which recognized that the Parties (Pennbrooke and the Office of Public Counsel (OPC)) agreed to eliminate the language regarding a used and useful calculation in the PAA Order. This was done so that the used and useful determination in the PAA Order would have no precedential value. The Commission allowed the language to be stricken because it was noted that each rate case is decided on its own merits.

Water Treatment Plant & Storage

In its filing, the Utility provided a used and useful analysis of the water treatment plant pursuant to Rule 25-30.4325, F.A.C. According to the Utility's analysis, both the water treatment plant and storage facilities are 100 percent used and useful. The used and useful calculation of the water treatment plant is determined by dividing the peak demand (1,044,000 gallons per day (gpd)) by the firm reliable capacity of the water treatment system based on 16 hours of pumping (844,000 gpd). Consideration is given to fireflow (144,000 gpd), unaccounted for water (7.32 percent), and growth (0 gpd). The used and useful storage capacity is determined by dividing the peak demand (1,044,000 gpd) by the usable storage capacity (135,000 gallons). The peak day (May 17, 2008) appears to be appropriate since it is not associated with unusual occurrences. Also, unaccounted for water is not considered excessive and allowances for growth are not included because the system is at build out. Additionally, Rule 25-30.4325(4), F.A.C., provides that a water treatment system is 100 percent used and useful if the service territory the system is designed to serve is built out and there is no apparent potential for expansion of the service territory. Therefore, pursuant to Rule 25-30.4325, F.A.C., staff recommends that both the water treatment plant and storage facilities should be considered 100 percent used and useful.

Wastewater Treatment Plant

Pursuant to Rule 25-30.432, F.A.C., the used and useful analysis of the Utility's wastewater treatment plant is determined by dividing the daily flow (97,005 gpd) by the DEP permitted plant capacity (180,000 gpd) based on the annual average daily flow. Consideration is given for growth (0 gpd) and inflow and infiltration (I&I). The filing reflected that, based on the annual average daily flow during the test year, the wastewater treatment plant is 54 percent used

[11] See Order No. PSC-07-0534-AS-WS, issued June 26, 2007, in Docket No 060261-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke.

and useful. However, the Utility believes that this facility should be considered 100 percent used and useful because the number of customers has remained virtually unchanged since the 2005 test year of the last rate case, the wastewater gallons treated per equivalent residential connection (ERC), including I&I, remains a low 77 gpd/ERC as compared to water gallons treated of 326 gpd/ERC, and the system is built out. There appears to be no apparent problem with I&I. Rule 25-30.432, F.A.C., provides that the Commission will also consider factors including the extent to which the area served by the plant is builtout. Therefore, pursuant to Rule 25-30.432, F.A.C., staff recommends that the wastewater treatment plant be considered 100 percent used and useful.

Water Distribution and Wastewater Collection Systems

The used and useful analysis for the water distribution and wastewater collection systems are determined by the number of customers connected to the systems divided by the capacity of the systems. Consideration is given for growth. In this case, growth is not considered a factor since the systems are built out. Therefore, staff believes that the water distribution and wastewater collection systems should be considered 100 percent used and useful.

Issue 7: What is the appropriate working capital allowance?

Recommendation: The appropriate amount of working capital is $31,537 for water and $34,566 for wastewater. (Deason)

Staff Analysis: Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, or one-eighth of O&M expenses, to calculate the working capital allowance. The Utility has properly filed its allowance for working capital using the formula method. Staff has recommended adjustments to Pennbrooke's O&M expenses. As a result, staff recommends that working capital of $31,537 and $34,566 be approved for water and wastewater, respectively. This reflects a decrease of $7,175 to the Utility's requested working capital allowance of $38,712 for water and a decrease of $4,445 to its requested allowance of $39,011 for wastewater.

Issue 8: What is the appropriate rate base for the December 31, 2008, test year?

Recommendation: Consistent with other recommended adjustments, the appropriate simple average rate base for the test year ended December 31, 2008, is $810,184 for water and $1,132,356 for wastewater. (Deason)

Staff Analysis: Consistent with other recommended adjustments, the appropriate simple average rate base for the test year ending December 31, 2008, is $810,184 for water and $1,132,356 for wastewater. Staff's recommended schedules for rate base are shown on Schedules Nos. 1-A and 1-B, respectively. The adjustments are shown on Schedule No. 1-C.

COST OF CAPITAL

Issue 9: What is the appropriate return on equity?

Recommendation: The appropriate return on equity is 11.13 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. (Deason)

Staff Analysis: The return on equity (ROE) requested in the Utility's filing is 11.13 percent. Based on the current leverage formula approved in Order No. PSC-09-0430-PAA-WS[12] and an equity ratio of 42.80 percent, the appropriate ROE is 11.13 percent. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

[12] 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), Florida Statutes.

Issue 10: 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 December 31, 2008?

Recommendation: The appropriate weighted average cost of capital for the test year ended December 31, 2008, is 8.08 percent. (Deason)

Staff Analysis: In its filings, the Utility requested an overall cost of capital of 8.16 percent. Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2008, staff recommends a weighted average cost of capital of 8.08 percent. This represents an 8 basis points reduction from Pennbrooke's requested overall cost of capital of 8.16 percent. Schedule No. 2 details staff's recommended overall cost of capital.

NET OPERATING INCOME

Issue 11: What are the appropriate annualized revenue adjustments?

Recommendation: The appropriate water and wastewater annualized revenue adjustments are $40,970 and $66,557, respectively. The Utility's annualized revenue adjustments of $7,164 and $6,080 for water and wastewater, respectively, should be increased by $33,806 for water and $60,477 for wastewater. (Deason, Fletcher, Lingo, Rieger, Thompson)

Staff Analysis: In its filing, the Utility included water and wastewater annualized revenue adjustments of $7,164 and $6,080, respectively. Using test year billing units, staff calculated water and wastewater annualized revenue adjustments of $40,970 and $43,909, respectively.

The Pennbrooke Fairways golf course (PFGC) is located within the Pennbrooke service area. A review of the Utility's Consumptive Use Permit (CUP) issued by the St. Johns River Water Management District (SJRWMD) indicates that the primary source of irrigation for the PFGC is reclaimed water from the Utility's wastewater treatment plant (WWTP). Furthermore, according to the Utility's WWTP permit issued by the DEP, the Utility must dispose of its treated wastewater via land application reuse primarily onto the golf course. The Utility's current tariffed rates for reuse service specifically available to the PFGC are a BFC of $0, plus $.09 per kgal. Therefore, staff believes there should be reuse revenues listed in the Utility's MFRs.

The Utility records revenue information both on: (1) MFR Schedule B-4 (Test Year Operating Revenues); and (2) Schedule E-2 (Revenue Schedule at Present and Proposed Rates). However, the Utility has reported no reuse revenues on either schedule. Therefore, staff reviewed the Utility's 2008 Annual Report in an effort to obtain information regarding the number of reuse kgals sold and/or the resulting revenues during the test year. Detailed information regarding the sources of reuse water sales should be itemized on page S-9(b) of the Utility's 2008 Annual Report; however, no reuse revenues were listed. Page S-13 of the 2008 Annual Report details other wastewater system information. In response to a question on page S-13 regarding whether the Utility is required by DEP or a Water Management District to implement reuse, the Utility responded "N/A." However, the Utility also indicated on page S-13 that it provided 0.073 mgd (or 73 kgals per day) of reuse to the PFGC.

A customer is defined by Section 25-30.210, F.A.C., as "any person, firm, association, corporation, governmental agency, or similar organization who has an agreement to receive service from the utility." As discussed above, the Utility is required to utilize, as its primary source of irrigation, reclaimed water from the Utility's WWTP. Although Pennbrooke has not listed any reuse customers or corresponding revenues, staff believes nevertheless that the PFGC meets the definition of a customer of the Utility.

The Utility currently has a tariffed rate of $.09 per kgal for reuse. As will be discussed in Issue 24, for those nonresidential reuse systems in Lake County that have gallonage charges, the average non-residential reuse charge is $0.85 per kgal. Since the only application of the Utility's reuse is to irrigate a nearby golf course, staff believes it is reasonable to continue with a usage-only charge.

As such, staff recommends that reuse revenues of $22,648 (73 kgal/day x 365 days x $0.85) be imputed. Therefore, staff recommends that test year revenues be increased by $33,806 ($40,970-$7,164) for water and $60,477 ($43,909-$6,080+$22,648) for wastewater.

Issue 12: Should any audit adjustments contested by the Utility be made to test year O&M expenses?

Recommendation: Yes. O&M expenses should be decreased by $3,668 for water and $3,104 for wastewater. Accordingly, corresponding adjustments should be made to increase plant by $69 for water and $58 for wastewater. Finally, accumulated depreciation and depreciation expense both should be increased by $3 for water and $3 for wastewater. (Deason)

Staff Analysis: Pennbrooke's MFRs reflected test year O&M expenses in the amount of $331,885 for water and $330,973 for wastewater. As discussed in Issue 2, staff reduced O&M expenses by $460 for water and $1,320 for wastewater. Based on another audit finding, an adjustment should be made to the test year O&M expenses.

Audit staff sampled entries for O&M expenses taken from UI's headquarters in Northbrook, IL to trace to support documentation. Audit staff identified items that should have been capitalized, were non-reoccurring in nature, or did not have any support documentation provided. Pennbrooke agreed with the audit that some entries should have been capitalized and others should have been removed. The Utility did provide support documentation for some of the entries. Therefore, staff recommends that O&M expenses be reduced by $3,668 for water and $3,104 for wastewater. Accordingly, corresponding adjustments should be made to increase plant by $69 for water and $58 for wastewater. Finally, accumulated depreciation and depreciation expense both should be increased by $3 for water and $3 for wastewater.

Issue 13: Should an adjustment be made to the Utility's salaries and wages, pensions and benefits, and payroll taxes?

Recommendation: Yes. Pennbrooke's salaries and wages expense should be decreased by $48,628 for water and $34,442 for wastewater. Accordingly, pensions and benefits expense should be reduced by $10,264 for water and $7,270 for wastewater. Finally, payroll taxes should be reduced by $3,720 for water and $2,635 for wastewater. (Deason, Fletcher)

Staff Analysis: On MFR Schedules B-5 and B-6, the Utility reported water salaries and wages, pensions and benefits, and payroll taxes of $128,971, $27,223, and $9,711, respectively, and reflected wastewater salaries and wages, pensions and benefits, and payroll taxes of $109,779, $23,172, and $8,266, respectively. The proposed salaries and wages expense represents an increase of 88.52 percent for water and 70.36 percent for wastewater over the levels reflected in the Utility's last rate case in 2006. The proposed pensions and benefits expense represents increases of 99.55 percent for water and 87.73 percent for wastewater over the same period.

Staff's review of O&M expenses included a comparison of reported expenses with those approved in Pennbrooke's last rate case. Schedules B-7 and B-8 requires the Utility to explain why any increases in expenses exceed customer growth and inflation (collectively, "benchmark"). Pennbrooke calculated a benchmark of 17.43 percent for water and 16.91 percent for wastewater. For salaries and wages and pensions and benefits, the Utility stated that the reason for the increases was due to the number of employees and available positions that have increased between the 2005 and 2008 year-end test periods, as well as the associated cost of living increases. In addition, the number of affiliate companies has decreased, thus, increasing the allocation percentage to Pennbrooke.

In staff's data request dated February 15, 2010, the Utility was asked to explain why its salaries and wages expense was significantly greater than the relative level of salaries the Commission approved in its 2006 rate case. In its response, Pennbrooke explained that its increases are attributable to several reasons. First, the Utility gives a standard cost of living increase to its employees on an annual basis. Second, the salary adjustment in 2008 has been annualized to account for a full year of salaries for all allocated personnel. Third, between 2003 and 2007, six new positions were created within the Utility, including a regional vice president serving the Florida and South Regions, a business manager serving the same, a cross connection specialist, an operator, and a part-time operator, all of whom are allocated to various Florida companies. These new employees alone account for much of the difference between 2003 and 2008. In response to staff auditors' data request, Pennbrooke provided an updated salary request that reflects annualized adjustments of 2.25 percent and 3.5 percent increases in September of 2009 and April 2010, respectively. As discussed in Issue 4, UI has divested numerous subsidiaries. As a result, staff would expect the number of allocated employees to decrease, not increase, as stated above by the Utility.

In its response dated April 9, 2010, to a staff data request, Pennbrooke stated that a major cost saving measure since the last rate case was the closure of three call centers in various states in the first quarter of 2010. These closures were part of its parent company's customer service optimization program. The personnel from those closed call centers were terminated. All customer service is now being maintained by the remaining call centers in Nevada, North Caroline, and Florida. The costs for these remaining call centers are now being allocated based on total parent company ERCs. Because the costs for the Florida call center were previously being allocated by only ERCs from Florida and Louisiana, the effect of the above-mentioned customer service optimization program should result in cost savings to all of UI's Florida subsidiaries. However, to date, Pennbrooke failed to provide staff with any adjustments to salaries and wages related to these cost savings.

Based on the above, staff believes the requested increase in salaries and wages expense is excessive. The Utility has the burden of proving that its costs are reasonable.[13] Staff believes that the Utility has not met its burden of proof that the proposed increase in salaries and wages from 2005 to 2008. Further, staff believes Pennbrooke has not demonstrated any substantial benefit to the Utility as a result of the additional allocated personnel since the last rate case.

Staff has used the benchmark analysis found on Schedules B-7 and B-8 of the MFRs to support a reduction to salaries and wages expense. The Commission has utilized the benchmark analysis found on MFR Schedules B-7 and B-8 in previous rate cases.[14] Accordingly, staff believes salaries and wages expense be decreased by $48,628 for water and $34,442 for wastewater. In addition, pensions and benefits expense should be reduced by $10,264 for water and $7,270 for wastewater.[15] Finally, payroll taxes should be reduced by $3,720 for water and $2,635 for wastewater.

[13] See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (1982)
[14] See Order Nos. PSC-92-0578-FOF-SU, issued June 29, 1992, in Docket No. 910540-SU, In re: Application for sewer service rate adjustment in Aloha Gardens service area by Aloha Utilities, Inc. in Pasco County; and PSC-92-0336-FOF-WS, issued May 12, 1992, in Docket No. 911194-WS, In re: Application for a rate increase in Collier County by Florida Cities Water Company, Golden Gate Division.
[15] Staff notes that it utilized the Utility's test year ratio of pensions and benefits to salaries in order to determine the corresponding adjustments for pensions and benefits.

Issue 14: Should any adjustment be made to allocated relocation expense?

Recommendation: Yes. Consistent with Commission practice, relocation expense should be based on a 4-year average. Accordingly, Pennbrooke's relocation expense of $1,535 should be reduced by $470 for water and $400 for wastewater. (Deason)

Staff Analysis: UI's relocation expenses for the 2008 test year was $156,647, a 59 percent increase from 2007. Pennbrooke's allocated portion of this expense was $1,535. The relocation expenses for 2008 was for the relocation of one headquarter employee. UI's relocation expenses have varied significantly from year to year. In 2004 and 2005, UI did not have any relocation expenses. UI's relocation expense was $16,145 for 2006 and $98,577 for 2007. The year over year increase from 2006 to 2007 represented a 511 percent increase.

Recognizing that relocation expenses have varied significantly from year to year, it has been Commission practice to base this expense on a 4-year average of actual experience rather than the specific expense in any given year. To be consistent with Commission practice,[16] relocation expenses should be based on UI's 4-year average. Accordingly, staff believes that relocation expenses be reduced by $470 for water and $400 for wastewater.

[16] See Order Nos. PSC-04-1110-PAA-GU, issued November 8, 2004, in Docket No. 040216-GU, In re: Application for a rate increase by Florida Public Utilities Company; and PSC-02-0787-FOF-EI, issued June 10, 2002, in Docket No. 010949-EI, In re: Request for rate increase by Gulf Power Company, and PSC-92-0924-FOF-GU, issued September 3, 1992, in Docket No. 91150-GU, In re: Application for a rate increase by Peoples Gas System, Inc.

Issue 15: Should any adjustments be made to transportation expenses?

Recommendation: Yes. Transportation expense should be decreased by $954 for water and $812 for wastewater. (Deason, Fletcher)

Staff Analysis: On MFR Schedules B-5 and B-6, Pennbrooke recorded transportation expenses of $9,937 for water and $8,458 for wastewater in the test year. Staff requested in its March 10, 2010 data request for the Utility to provide the amount of its transportation expense that related to fuel purchases and the total gallons of fuel purchased. In its response, the Utility stated that $13,710 was booked to fuel with $7,406 allocated to water and $6,304 allocated to wastewater. The Utility further stated that it could not determine the total gallons of fuel purchased for Pennbrooke because its parent company (Utilities, Inc.) recently switched vendors and the information relating to purchased gallons from the past was no longer available.

By e-mail dated March 31, 2010, from an employee of UI to staff, UI asserted that the total gallons for Pennbrooke was 20,765. Based on the total dollar amount of $13,710 for fuel, the cost per gallon would be approximately $0.66 per gallon.

In its April 9, 2010, response to a staff data request, Pennbrooke proposed that the appropriate fuel costs for the Utility was $15,520. In support of its position, Pennbrooke provided workpapers for its calculations. Specifically, the Utility multiplied the gallons per vehicle by the nominal price per gallon of $3.27 in 2008, then allocated the costs based on 2008 year-end ERC percentages for allocated employees and assigned the full amount for direct employees of the Utility. However, staff believes the gallons reported on the Pennbrooke's workpapers are unreliable. First, staff applied the ERC percentages for all allocated employees to determine the Utility's gallons associated with those employees and added all the gallons associated with the direct employees of Pennbrooke. Using this method, staff calculated total gallons attributable to the Utility of 4,746. Applying the initial dollar of $13,710 yields an approximate cost of $2.89 per gallon.

It is the Utility's burden to prove that its costs are reasonable.[17] Based on the above, staff believes the Utility's gallonage data is unreliable in determining the appropriate level of fuel costs for prospective ratemaking purposes.

Based on the recent United States Energy Information Administration Short-Term Energy Outlook Report dated April 6, 2010, retail gasoline prices are expected to be an annual average of $2.84 for 2010 per gallon while the annual average for 2008 was $3.26 per gallon. The Commission has utilized the United States Energy Information Administration Short-Term Energy Outlook Report in recent formal file and suspend rate case to determine the appropriate level of fuel cost.[18] The difference between the annual average price in 2008 and 2010 is 42 cents or 12.88 percent. In the absence of reliable gallonage data, staff believes a reasonable

[17] See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982)

[18] See Order No. PSC-09-0385-FOF-WS, issued May 29, 2009, in Docket No. 080121-WS, In re: Application for increase in water and wastewater rates in Alachua, Brevard, DeSoto, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.

method to determine the prospective fuel expense for ratemaking purposes is to decrease test year fuel costs by 12.88 percent. Therefore, staff recommends that the Utility's transportation expense be decreased by $954 for water and $812 for wastewater.

Issue 16: Should any adjustments be made to irrigation billing expense?

Recommendation: Yes. The costs of mailing 1,358 duplicate irrigation bills in the amount of $6,642 for water should be removed from water O&M expense. (Deason)

Staff Analysis: According to Pennbrooke's MFRs, a total of 1,358 bills were mailed out to customers that have irrigation meters. According to information received from customers at the customer meeting, the same customers also receive a separate irrigation bill in addition to their regular water and wastewater bill. Staff believes that the Utility's billing system should be efficient enough to generate one bill per customer, not two bills per customer. The general body of customers should not have to pay the additional cost of the Utility's duplicative billing. Therefore, the costs associated with the mailing of the irrigation bills should be disallowed.

Staff calculated a rate of $4.89 per irrigation bill. This was calculated by using the costs of postage, envelopes, and the employee overhead. The method used to determine appropriate salary is the same method the Utility would use to charge a customer a late payment fee. Accordingly, staff determined that the cost of mailing 1,358 bills that should be removed from water O&M expense is $6,642.

Issue 17: Should any adjustment be made to unamortized rate case expense from the Utility's prior case?

Recommendation: Yes. Consistent with Order No. PSC-07-0088-PAA-WS, test year rate case expense for the Utility's prior case should reduce expenses by $9,641 for water and $8,057 for wastewater. (Deason)

Staff Analysis: Based on an analysis of the MFRs and Order No. PSC-07-0088-PAA-WS, staff believes an adjustment is necessary for prior rate case expense included in the Utility's test year O&M expenses. In its last rate proceeding, the Commission approved annual amortization of rate case expense of $13,588 for water and $11,716 for wastewater. In its MFRs, the Utility recorded rate case expense from their prior case of $23,229 for water and $19,773 for wastewater.[19] Consistent with Order No. PSC-07-0088-PAA-WS, staff recommends that test year rate case expense associated with the Utility's prior case be reduced by $9,641 for water and $8,057 for wastewater.

[19] For informational purposes, the prior rate case expense four-year rate reduction for Pennbrooke's last rate case will occur on June 25, 2011.

Issue 18: What is the appropriate amount of current rate case expense?

Recommendation: The appropriate amount of rate case expense is $130,990. This expense should be recovered over four years for an annual expense of $32,747. Thus, annual rate case expense should be reduced by $7,664 for water and $6,528 for wastewater, respectively. (Deason)

Staff Analysis: The Utility included in its MFRs an estimate of $187,758 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 April 14, 2010, the Utility submitted a revised estimated rate case expense through completion of the PAA process of $187,758 with $92,951 already incurred. The components of the estimated rate case expense are as follows:

	MFR Estimated	Actual	Additional Estimated	Total
Legal and Filing Fees	$68,625	$27,349	$30,033	$68,625
Consultant Fees – M&R	35,000	30,305	4,495	35,000
WSC In-house Fees	62,311	30,269	22,555	62,311
Filing Fee	4,000	0	0	0
Travel – WSC	3,200	0	3,200	3,200
Miscellaneous	12,000	14	100	12,000
Notices	2,622	0	2,622	2,622
Total Rate Case Expense	$187,758	$92,951	$63,604	$187,758

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 the Utility's legal fees. The Utility included in its MFRs $68,625 in legal fees to complete the rate case. The Utility provided invoices through March 10, 2010, showing legal expenses associated with the rate case totaling $33,910. According to the invoices, the law firm of Rose, Sundstrom & Bentley, LLP, billed the Utility 8.6 hours related to the correction of MFR deficiencies. Based on the law's firm hourly rate of $290 per hour, the total amount billed to Pennbrooke was $2,494 ($290x8.6). The Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.[20] Accordingly, staff recommends that $2,494 be removed as duplicative and

[20] 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

unreasonable rate case expense. Additionally, the Utility's January 19, 2010, response letter indicated that the $4,000 filing fee was included in the legal fees. Staff has determined that the $4,000 filing fee was counted twice and thus should be removed from legal fees. Therefore, the appropriate invoiced legal fees should be $27,416 ($33,910-$2,494-$4,000).

The list of remaining tasks to complete the case through the end of the PAA process provided by the Utility's legal counsel came to 61.8 hours. The specific amount of time associated with each item and the associated fees based on an hourly rate of $330 is listed below:

Estimate To Complete Through PAA Process

Description	Hours	Fees
Unbilled hours through date of filing	17.3	$5,709
Respond to formal data requests from Staff and informal requests for information from staff and/or OPC	17.5	$5,775
Respond to formal data requests from Lorne Hunsberger/Pennbrooke HOA	4.0	$1,320
Legal Research and documentation regarding confidentiality of work papers, NSF tariffs, WSC allocation issues, water quality and customer concerns	6.0	$1,980
Review staff recommendation; conference with client and consultant regarding recommendation; conference with staff regarding recommendation	3.5	$1,155
Prepare for and attend Agenda conference; discuss Agenda with client and staff	7.5	$2,475
Review PAA Order; Conference with client and consultant regarding PAA Order	2.0	$660
Prepare revised tariff sheets; Obtain staff approval of tariffs; Draft and revise customer notice; Obtain staff approval of notice; Coordinate mailing of notices and implementation of tariffs; Facilitate compliance with Order	4.0	$1,320
Total Estimated Fees	61.8	$20,394

Docket No. 991643-SU, In re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.

As discussed below, it is the Utility's burden to justify its requested costs. Staff believes that 61.8 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. In its breakdown of estimated legal fees, the Utility applied an hourly rate of $330 for all estimated legal fees. The law firm representing Pennbrooke has a partner billing at a rate of $330 per hour and an associate lawyer billing at a rate of $305 per hour. In its breakdown for estimated legal fees, the Utility stated that, with the exception of the agenda conference hours, the associate lawyer would be handling the remaining estimated legal activities which represent a total of 54.3 hours. As such, staff recommends that legal fees be reduced by $1,358 [($330-$305)x54.3]. Thus, staff believes the appropriate amount of estimated legal fees to complete the PAA process should be $19,036 ($20,394-$1,358). In addition, $719 in miscellaneous expenses, which include estimated costs to attend the Agenda Conference, unbilled photocopier costs, estimated photocopier costs, and unbilled and estimated courier costs, should be denied due to lack of support documentation. Based on the above adjustments to legal fees, staff believes the total legal fees should be decreased by $21,454 ($68,625-$27,416-$19,036-$719).

The second adjustment relates to duplicative legal fees and WSC In-house fees. As discussed in Issue 5, in its first data request dated December 18, 2009, staff requested a copy of all support documentation, including contracts or invoices, for the Utility's pro forma plant additions. In its response dated January 19, 2010, Pennbrooke provided unexecuted contracts dated January 11, 2009, and dated January 8, 2009, between Thompson Electric Company (Thompson) and the Utility's sister company Utilities, Inc. of Florida (UIF); and ITT Water and Wastewater Florida, LLC (ITT) and UIF relating to the wastewater treatment plant improvements. In a conference call with the Utility, OPC, and staff on April 16, 2010, staff requested again a copy of the executed contract between Thompson and UIF as well as ITT and UIF. By e-mail dated April 20, 2010, the Utility provided the executed contracts between Thompson and UIF as well as ITT and UIF for the wastewater treatment plant improvements signed by UIF on March 1, 2010.

Because of the duplicative requests before the Utility finally provided the executed contract, staff believes there was unwarranted and duplicative rate case expense incurred to respond to staff's data requests in this matter. Although the estimated breakdown for legal fees and WSC in-house fees do not isolate the duplicative time spent, staff believes one hour for each Utility attorney and WSC employee that participated in the April 16, 2010, conference call should be disallowed. However, staff believes this recommended disallowance should be split between two sister companies of the Utility because staff also requested supporting documentation related to these companies as well. Thus, staff recommends that legal fees and WSC In-house fees should be reduced by $212 and $42, respectively.

The third adjustment relates to the consultant fees for Frank Seidman with Management & Regulatory Consultants, Inc. The Utility included in its MFRs $35,000 for consulting fees for Mr. Seidman. A review of the invoices provided by the Utility showed a total of $30,160, of which $580 was billed for correcting the MFR deficiencies and revising the Utility's filing. As stated above, the Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs. Accordingly, staff recommends that $580 be removed as duplicative and unreasonable rate case expense. Therefore, the total amount allowed of by Mr. Seidman should be $29,580.

Additionally, Mr. Seidman estimated 40 hours or $5,800 (40x$145) to complete the case. Specifically, Mr. Seidman estimated 25 hours to assist with and respond to data requests, and five hours to prepare for and attend the Agenda Conference, and 10 hours to respond to OPC discovery and protest. However, staff believes that four hours, not five 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.[21] Therefore, staff recommends that rate case expense be decreased by $145 (1 hour x $145). As such the total amount of estimated hours for Mr. Seidman should be $5,655 (39x$145). Based on the above adjustments, the total amount of consulting fees for Mr. Seidman should be increased by $235 ($29,580+$5,655-$35,000).

The fourth adjustment relates to the cost associated with the 856 hours of estimated time to complete this case by WSC employees. The last General Ledger entry for WSC employees' rate case time was on March 31, 2010. Pennbrooke asserts that additional hours were required to respond to staff 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. Pennbrooke simply stated that the $32,042 was to assist with data requests and audit facilitation. The hours needed to complete data requests and audit facilitation was not broken down to estimate the hours needed to complete each item. Therefore, staff had no basis to determine whether the individual hours estimated are 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 281 hours is reasonable to allow Pennbrooke to respond to data requests, facilitate the audit, review the PAA recommendation and travel to agenda. By applying the individual employee rates and the actual average number of hours worked by WSC employees, staff recommends that the estimated WSC fees to complete the case should be $11,258. Thus, the Utility's requested expense of $32,042 should be decreased by $20,784. 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.[22]

It is the Utility's burden to justify its requested costs.[23] Further, the Commission has broad discretion with respect to allowance of rate case expense. It would constitute an abuse of

[21] 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.

[22] 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.

[23] See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982).

discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings.[24]

The fifth adjustment addresses WSC travel expenses. In its MFRs, Pennbrooke estimated $3,200 for travel. However, there was no support provided for the travel expenses. Based on several previous UI rates 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, staff recommends that rate case expense be decreased by $3,200.

The sixth 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 Pennbrooke's January 19, 2010 response letter, the Utility states that only $14 has been incurred. The Utility provided no other breakdown or support for the remaining $11,986 estimate. 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(1)(c), 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, p. 19., issued November 30, 1993, in Docket No. 921293-SU, In re: Application for a Rate Increase in Pinellas County by Mid-County Services, Inc., 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. The Commission has consistently disallowed this cost in rate case expense.[25] Staff believes that the requested amount of shipping costs in this rate case is directly related 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 $11,986.

The seventh adjustment relates to customer notices and postage. The Utility estimated $2,662 for notices, postage and stock. Staff estimated the postage cost for the interim notice, the combination initial notice, customer meeting notice, and notice of the final rate increase to be $3,337. Staff recommends that rate case expense be increased by $675 ($3,337-$2,662) for postage costs.

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[24] See Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), rev. den. by 529 So. 2d 694 (Fla. 1988).
[25] See 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 Order No. 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 the Utility's estimated completion costs from PriceWaterhouseCoopers, LLC of $1,500. This expense is for the review of audit work papers. No support documentation was provided. Accordingly, staff recommends that $1,500 be removed as unsupported rate case expense.

In summary, staff recommends that the Utility's revised rate case expense be decreased by $56,768 for MFR deficiencies, and for unsupported and unreasonable rate case expense. The appropriate total rate case expense is $130,990. A breakdown of rate case expense is as follows:

	Utility MFR Estimated	Staff Adjustments	Total
Legal Fees	$68,625	($21,666)	$46,959
Consultant Fees- M&R	35,000	235	35,235
WSC In-house Fees	62,311	(20,826)	41,485
Filing Fee	4,000	0	4,000
WSC Travel	3,200	(3,200)	0
Miscellaneous	12,000	(11,986)	14
Notices	2,622	$675	3,297
Total Rate Case Expense	$187,758	($56,768)	$130,990
Annual Amortization	$46,940	($14,192)	$32,747

In its MFRs, Pennbrooke requested total rate case expense of $187,758, which amortized over four years would be $46,940. The Utility included in its MFRs $25,356 ($46,940x.54) and $21,583 ($46,940x.46) for rate case expense in the test year for water and wastewater, respectively. Based on the adjustments recommended above, annual rate case expense should be decreased by $7,664 and $6,528 for water and wastewater, respectively.

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 Pennbrooke and the recommended adjustments discussed above, staff recommends annual rate case expense of $32,747, or $17,684 for water and $15,064 for wastewater.

Issue 19: Should any adjustment be made to bad debt expense?

Recommendation: Yes. Pennbrooke should be entitled to bad debt expense of $365. As a result, Pennbrooke's bad debt expense of $476 should be reduced by $111 or $60 for water and $51 for wastewater. (Deason)

Staff Analysis: The Utility recorded bad debt expense of $476 for the test year. Consistent with Commission practice, bad debt expense should be based on a 3-year average. The Commission has previously approved the application of a 3-year average to determine the appropriate level of bad debt expense. The Commission has set bad debt expense using the 3-year average in three electric cases,[26] two gas cases,[27] and one water and wastewater case.[28] The Commission approved a 3-year average in these cases based on the premise that a 3-year average fairly represented the expected bad debt expense. In Docket No. 060253-WS, related to utilities in Pasco County, the Commission approved the use of a 3-year average based on calendar years 2001-2004, but deleted the highest year's bad debt expense in calculating the average. In other cases, the Commission applied a 3-year average based on previous Commission decisions. Overall, the basis for determining bad debt expense has been whether the amount is representative of the bad debt expense expected to be incurred by the utility. Based on this calculation, Pennbrooke should be entitled to bad debt expense of $365 which staff believes is representative of Pennbrooke's bad debt expense. As a result, staff recommends that Pennbrooke's bad debt expense of $476 be reduced by $111 or $60 for water and $51 for wastewater.

[26] See Order Nos. PSC-94-0170-FOF-EI, issued February 10, 1994, in Docket No. 930400-EI, In re: Application for a Rate Increase for Marianna electric operations by Florida Public Utilities Company, at p. 20; PSC-93-0165-FOF-EI, issued February 2, 1993, in Docket No. 920324-EI, In re: application for a rate increase by Tampa Electric Company, at pp. 69-70; and PSC-92-1197-FOF-EI, issued October 22, 1992, in Docket No. 910890-EI, In re: Petition for a rate increase by Florida Power Corporation, at p. 48.

[27] See Order Nos. PSC-92-0924-FOF-GU, issued September 3, 1992, in Docket No. 911150-GU, In re: Application for a rate increase by Peoples Gas System, Inc., at p. 6; and PSC-92-0580-FOF-GU, issued June 29, 1992, in Docket No. 910778-GU, In re: Petition for a rate increase by West Florida Natural Gas Company, at pp. 30-31.

[28] See Order No. 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, at pp. 41-42.

Issue 20: What is the test year water and wastewater operating income before any revenue increase?

Recommendation: Based on the adjustments discussed in previous issues, the test year operating income is $26,894 for water and $49,024 for wastewater. (Deason)

Staff Analysis: As shown on Schedule Nos. 3-A and 3-B, after applying staff's adjustments, the Utility's net operating income is $26,894 for water and $49,024 for wastewater. Staff's adjustments to operating income are shown on Schedule No. 3-C.

REVENUE REQUIREMENT

Issue 21: What is the appropriate revenue requirement for the December 31, 2008 test year?

Recommendation: The following revenue requirement should be approved. (Deason)

	Test Year Revenues	$ Increase	Revenue Requirement	% Increase
Water	$389,228	$64,736	$453,964	16.63%
Wastewater	$440,068	$71,279	$511,347	16.20%

Staff Analysis: Pennbrooke requested annual revenue requirements of $620,927 and $589,465 for water and wastewater, respectively. These requested revenue requirements represent revenue increases of $265,505 or 74.70 percent for water and $209,874 or 55.29 percent for wastewater.

Consistent with staff's recommendations concerning the underlying rate base, cost of capital, and operating income issues, staff recommends approval of rates designed to generate a water revenue requirement of $453,964, and a wastewater revenue requirement of $511,347. The recommended water revenue requirement exceeds staff's adjusted test year revenues by $64,736, or 16.63 percent, for water. The recommended wastewater revenue requirement exceeds staff's adjusted test year revenues by $71,279, or 16.20 percent, for wastewater. These recommended pre-repression revenue requirements will allow the Utility the opportunity to recover its expenses and earn an 8.08 percent return on its investment in water and wastewater rate base.

RATES AND CHARGES

Issue 22: What are the appropriate rate structures for the Utility's water and wastewater systems?

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 monthly consumption at: (a) 0-6 kgals; (b) 6.001-12 kgals; and (c) usage in excess of 12 kgals. The usage block rate factors should be set at 1.00, 1.25, and 1.50 respectively. As discussed in the following issue, by restricting any cost recovery due to repression to discretionary usage, an additional fourth tier will be created for non-discretionary usage at or below 3 kgals per month. The appropriate rate structure for the water system's general service customers is a continuation of the traditional base facility charge (BFC)/uniform gallonage charge rate structure. The BFC cost recovery percentage for the water system should be set at 20 percent. The appropriate rate structure for the wastewater system is a continuation of the BFC/gallonage charge rate structure. The residential wastewater monthly gallonage cap should continue at 6 kgals. The general service gallonage charge should remain 1.2 times greater than the corresponding residential charge. The post-repression BFC cost recovery percentage should be set at 40 percent. The appropriate rate structure for the reuse system is a pure consumption-only based charge per kgal. (Stallcup, Lingo, Thompson)

Staff Analysis: The Utility's current residential water system rate structure consists of a two-tier inclining block rate structure. The BFC prior to filing for rate relief for its 5/8" x 3/4" meter customers was $5.20 per month, with usage blocks for monthly consumption of: (a) 0-10 kgals in the first block; and (b) usage in excess of 10 kgals in the second block. The monthly usage charges prior to filing were $1.76 for usage in the first block and $2.20 for usage in the second block. The usage block rate factors are 1.0 and 1.25, respectively. The Utility's current general service water rate structure is the traditional BFC/uniform kgal rate structure. These rate structures were established in Pennbrooke's previous rate case.[29]

Pennbrooke is located in Lake County within the St. Johns River Water Management District (SJRWMD or District). The entire District has been designated a water resource caution area. Furthermore, many areas of the SJRWMD, including the Pennbrooke service area, are identified as priority water resource caution areas. These are areas where existing and reasonably anticipated sources of water and water conservation efforts may not be adequate to supply water for all existing legal uses and anticipated future needs, or to sustain the water resources and related natural systems. In 1991, the Commission entered into a Memorandum of Understanding (MOU) with the five Water Management Districts (WMDs), in which the agencies recognized that it is in the public interest to engage in a joint goal to ensure the efficient and conservative utilization of water resources in Florida, and that a joint cooperative effort is necessary to implement an effective, state-wide water conservation policy.

[29] See Order No. PSC-07-0088-PAA-WS, issued January 31, 2007, in Docket No. 060261-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke.

Water Rates Staff performed a detailed analysis of the Utility's billing data. Based on this analysis, staff believes that it is appropriate to implement a three-tiered inclining block rate structure for this Utility's residential rate class. During the 2008 test year, average residential consumption was 8.883 kgal/month, with approximately 20 percent of residential customers consuming over 12 kgal/month. This level of usage is indicative of a very high level of discretionary, or non-essential, usage that is relatively sensitive to price increases. Therefore, staff believes that it is appropriate to implement a three-tiered inclining block rate structure for this Utility in order to encourage water conservation.

Staff performed additional analyses 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 the rate design parameters that: (1) allow the Utility to recover its revenue requirement; (2) equitably distribute cost recovery among the Utility's customers; and (3) implement where appropriate water conserving rate structures consistent with the Commission's Memorandum of Understanding with the state's Water Management Districts.

To increase the water-conserving nature of the rate structure, staff recommends that the increase in water system revenue requirements be allocated to the gallonage charge, and that the BFC cost recovery percentage be set at 20 percent or $5.20 for a 5/8" x 3/4" meter customer. By shifting cost recovery to the water system gallonage charge while holding the BFC fairly constant, staff is able to design a more effective water conserving rate structure. Furthermore, by setting the rate factors at 1.0, 1.25, and 1.50 for the three usage blocks, staff is able to target the water conserving rate structure to customers who use more than 3 kgal/month. At the same time, this will also minimize price increases to customers who use less than 3 kgal/month.

The traditional BFC/uniform gallonage charge rate structure has been the Commission's water rate structure of choice for nonresidential customer classes. The uniform gallonage charge should be calculated by dividing the total revenues to be recovered through the gallonage charge by the total of gallons attributable to all rate classes. This should be the same methodology used to determine the general service gallonage charge in this case. With this methodology, the general service customers would continue to pay their fair share of the cost of service.

In addition to the recommended rate structure described above, staff also evaluated two alternative water rate structures. The first alternative rate structure consists of the same three-tiered rate structure described above, but with a BFC of 30 percent. This leads to a high percentage increase in rates for discretionary usage (3 kgals or less). The second alternative represents a continuation of the Utility's current two-tiered rate structure with the rate factor for usage above 10 kgals being twice that for below 10 kgals and a BFC of 20 percent. This rate structure allows minimal change in bills under 12 kgals. This rate structure would not encourage water conservation. These rate structures and their resulting bills are shown in Table 22-1.

Table 22-1

**UTILITIES INC. OF PENNBROOKE
STAFF'S RECOMMENDED AND ALTERNATIVE RATE STRUCTURES
FOR TYPICAL RESIDENTIAL CUSTOMERS ON 5/8" x 3/4" METERS**

Current Rate Structure and Rates		**Recommended Rate Structure and Rates**	
2-Tier Inclining Block Rate Structure Rate Factors 1.00 and 1.25 BFC = 25%		3-Tier Inclining Block Rate Structure Rate Factors 1.00, 1.25 and 1.50 BFC = 20%	
BFC	$5.20	BFC	$5.20
0-10 kgals	$1.76	0-3 kgals (no repression)	$1.89
10+ kgals	$2.20	3-6 kgals	$1.98
		6-12 kgals	$2.48
		12+ kgals	$2.97
Typical Monthly Bills		**Typical Monthly Bills**	
Cons (kgal)		**Cons (kgal)**	
0	$5.20	0	$5.20
1	$6.96	1	$7.09
3	$10.48	3	$10.87
5	$14.00	5	$14.83
10	$22.80	10	$26.73
20	$44.80	20	$55.45
Alternative 1		**Alternative 2**	
3-Tier Inclining Block Rate Structure Rate Factors 1.00, 1.25 and 1.50 BFC = 30%		2-Tier Inclining Block Rate Structure Rate Factors 1.00 and 2.00 BFC = 20%	
BFC	$7.79	BFC	$5.20
0-3 kgals (no repression)	$1.65	0-3 kgals (no repression)	$1.70
3-6 kgals	$1.73	3.001-10 kgals	$1.81
6-12 kgals	$2.17	10+ kgals	$3.61
12+ kgals	$2.60		
Typical Monthly Bills		**Typical Monthly Bills**	
Cons (kgal)		**Cons (kgal)**	
0	$7.79	0	$5.20
1	$9.44	1	$6.90
3	$12.74	3	$10.30
5	$16.20	5	$13.92
10	$26.61	10	$22.97
20	$51.75	20	$59.10

Wastewater Rates The Utility's current wastewater system rate structure consists of a BFC/gallonage charge rate structure. The BFC prior to filing for rate relief for its 5/8" x 3/4" meter customers was $11.47 per month. The corresponding monthly gallonage charge for residential service was $3.57, capped at 6 kgal of usage, while the general service gallonage charge rate was 1.2 times greater than the residential charge, at $4.29 per kgal, with no usage cap.

Staff recommends the rate structure continue as a BFC/gallonage charge with a 6 kgal cap for residential customers and for the BFC cost recovery allocation to continue at 40 percent. Staff recommends the general service customer's kgal charge be 1.2 times greater than the residential charge with no usage cap. As discussed in Issue 11, staff recommends a kgal-only based charge for reuse service.

Staff's recommended rate design for the wastewater system is shown in Table 22-2.

Table 22-2

UTILITIES INC. OF PENNBROOKE STAFF'S RECOMMENDED RESIDENTIAL WASTEWATER RATE STRUCTURES AND RATES				
Current Rate Structure and Rates			**Recommended Rate Structure and Rates**	
BFC = 40% Gallonage Charge Maximum Charge at 6,000 Gallons			BFC = 40% Gallonage Charge Maximum Charge at 6,000 Gallons	
BFC	$11.47		BFC	$13.15
$/kgal	$3.57		$/kgal	$4.24
Typical Monthly Bills			**Typical Monthly Bills**	
Cons (kgals)			**Cons (kgals)**	
0	$11.47		0	$13.15
1	$15.04		1	$17.39
2	$18.61		2	$21.63
3	$22.18		3	$25.87
4	$25.75		4	$30.11
5	$29.32		5	$34.35
6	$32.89		6	$38.59

Based on the foregoing, 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 monthly consumption at: (a) 0-6 kgals; (b) 6.001-12 kgals; and (c) usage in excess of 12 kgals. The usage block rate factors should be set at 1.00, 1.25, and 1.50 respectively. The appropriate rate structure for the water system's general service customers is a continuation of the traditional base facility charge (BFC)/uniform gallonage charge rate structure. The BFC cost recovery percentage for the water system should be set at 20 percent. The appropriate rate structure for the wastewater system is a continuation of the BFC/gallonage charge rate structure. The residential wastewater monthly gallonage cap should continue at 6 kgals. The general service gallonage charge should remain 1.2 times greater than the corresponding residential charge. The post-repression BFC cost recovery percentage should be set at 40 percent. The appropriate rate structure for the reuse system is a pure consumption-only based charge per kgal.

Issue 23: Is a repression adjustment to the Utility's water system appropriate in this case, and, if so, what is the appropriate adjustment to make for this Utility?

Recommendation: Yes, a repression adjustment is appropriate. Residential water consumption should be reduced by 4.0 percent, resulting in a consumption reduction of approximately 5,587 kgals. Total post-repression residential water consumption for ratesetting is 133,581 kgals. The resulting water system reductions to revenue requirements are $1,299 in purchased power expense, $678 in chemicals expense and $93 in RAFs. The post-repression revenue requirement for the water system is $451,111.

In order to monitor the effects of both the changes in revenues and rate structure, the Utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenues billed for each system. 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. (Stallcup, Thompson)

Staff Analysis: Staff conducted a detailed analysis of the consumption patterns of the Utility's residential customers as well as the increase in residential bills resulting from the increase in revenue requirements. This analysis showed that average residential consumption per customer was 8.883 kgal per month. This level of consumption indicates that there is a high level of discretionary, or non-essential, consumption of approximately 5.883 kgal per customer per month. Discretionary usage, such as outdoor irrigation, 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 revenue requirements in this case, and the historically observed response rates of consumption to changes in price. The methodology for calculating repression adjustments is same methodology that the Commission has approved in prior cases.[30] This methodology also restricts any price changes due to repression from being applied to non-discretionary consumption (consumption less than 3 kgals per month), and allocates all cost recovery due to repression to discretionary levels of consumption (consumption above 3 kgals per month).

Based on staff's analysis, a repression adjustment to the Utility's water system is appropriate. Residential water consumption should be reduced by 4.0 percent, resulting in a consumption reduction of approximately 5,587 kgals. Total post-repression residential water consumption for ratesetting is 133,581 kgals. The resulting water system reductions to revenue

[30] See Order No. PSC-01-2385-PAA-WU, issued December 10, 2001, in Docket No. 010403-WU, In re: Application for staff-assisted rate case in Highlands County by Holmes Utilities, Inc.; and Order No. PSC-02-1168-PAA-WS, issued August 26, 2002, in Docket No. 010869-WS, In re: Application for staff-assisted rate case in Marion County by East Marion Sanitary Systems, Inc.

requirements are $1,299 in purchased power expense, $678 in chemicals expense and $93 in RAFs. The post-repression revenue requirement for the water system is $451,111.

In order to monitor the effect of the rate changes, 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, usage block, and meter size. The reports should be filed with staff, on a semi-annual basis, for a period of two years beginning with 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 24: What are the appropriate monthly rates for the water, wastewater and reuse systems for the Utility?

Recommendation: The appropriate monthly water rates are shown on Schedule No. 4-A, and the appropriate monthly wastewater rates are shown on Schedule No. 4-B. Excluding miscellaneous service charges, the recommended rates for the water system are designed to produce annual revenues of $451,111. The recommended reuse rate of $0.85 per kgal is designed to produce annual revenues of $22,648, which should be used as an offset to wastewater revenues from rates. Therefore, excluding miscellaneous service charges, the recommended rates for the wastewater system are designed to produce annual revenues of $488,033. The Utility should file revised water, wastewater and reuse tariff sheets and a proposed customer notice to reflect the Commission-approved rates for the respective systems. The approved water, wastewater and reuse 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. In addition, the approved water, wastewater and reuse rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Thompson, Lingo, Deason)

Staff Analysis: Excluding miscellaneous service revenues, the recommended water rates shown on Schedule No. 4-A are designed to produce revenues of $451,111. Approximately 20 percent (or $90,222) of the water monthly service revenues is recovered through the base facility charges, while approximately 80 percent (or $360,889) represents revenue recovery through the consumption charges. Excluding miscellaneous service and reuse revenues, the recommended wastewater rates shown on Schedule No. 4-B are designed to produce annual revenues of $488,033. Approximately 40 percent (or $195,213) of the wastewater monthly service revenues is recovered through the base facility charges, while approximately 60 percent (or $292,820) represents revenue recovery through the consumption charges. The recommended reuse rate, which is based 100 percent on consumption, is designed to produce annual revenues of $22,648.

The Utility currently has a tariffed rate of $.09 per kgal for reuse. For those nonresidential reuse systems in Lake County that have gallonage charges, the average non-residential reuse charge is $0.85 per kgal. Since the only application of the Utility's reuse is to irrigate a nearby golf course, staff believes it is reasonable to continue with a usage-only charge.

The Utility should file revised water, wastewater and reuse tariff sheets and a proposed customer notice to reflect the Commission-approved rates for the respective systems. The approved water, wastewater and reuse 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. In addition, the approved water, wastewater and reuse rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

A comparison of the Utility's original rates, requested rates, and staff's recommended water, wastewater and reuse rates are shown on Schedules Nos. 4-A and 4-B, respectively.

Issue 25 Should the Utility be authorized to revise its miscellaneous service charges, and, if so, what are the appropriate charges?

Recommendation: Yes. Pennbrooke 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. 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. This notice may be combined with the notice required in Issue 24.

Miscellaneous Service Charges

	After Hrs
Water Initial Connection	$42
Wastewater Initial Connection	$42

(Deason)

Staff Analysis: Pennbrooke's miscellaneous service charges were approved on January 31, 2007, and have not changed since that date. The Utility does not currently have an after hours charge for initial connections. The Utility believes that the after hours charge for initial connections should be updated to reflect current costs. Staff agrees with this request. Pennbrooke provided the following cost estimates for the expenses associated with connections during after hours:

After Hours

Item:	Cost:
Labor ($46.88/hr.x0.75 hours)[31]	$35.16
Transportation	6.00
Total	$41.16

Staff recommends that Pennbrooke be allowed to implement a water and wastewater initial connection charges for work performed during after working hours of $42. A $42 charge for the Utility's Normal Reconnection, Violation Reconnection, and Premises Visit Charge were previously approved in the Utility's last rate case.[32] Pennbrooke requested that the after hour charge for Initial Connections be consistent with the other after hours miscellaneous service charges previously approved by the Commission.

In summary, staff recommends the Utility's proposed after hours charge for initial connections of $42 be approved because the increased charges are cost-based, reasonable, and

[31] Represents time-and-a-half wage and the additional time it takes an employee to get to the customer's property after hours.

[32] See Order No. PSC-07-0088-PAA-WS, issued January 31, 2007, in Docket No. 060261-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke.

consistent with fees the Commission has approved for Pennbrooke and its sister companies.[33] 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. Pennbrooke should provide proof the customers have received notice within ten days after the date the notice was sent.

[33] See Order Nos. PSC-09-0101-PAA-WS, issued February 16, 2009, in Docket No. 070693-WS, In re: Application for increase in water and wastewater rates in Lake County by Lake Utility Services, Inc.; PSC-09-0264-PAA-SU, issued April 27, 2009, in Docket No. 080247-SU, In re: Application for increase in water and wastewater rates in Lee County by Utilities Inc. of Eagle Ridge.; and PSC-09-0462-PAA-WS, issued June 22, 2009, in Docket No. 080249-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.

Issue 26: Should the Utility's request for approval of a Non-Sufficient Funds fee be granted?

Recommendation: Yes. The Utility's requested Non-Sufficient Funds (NSF) fee should be approved. The NSF fee should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given no less than 10 days after the date of the notice. This notice may be combined with the notice required in Issue 24. (Deason)

Staff Analysis: Section 367.091, F.S., requires that rates, charges, and customer service policies be approved by the Commission. The Commission has authority to establish, increase, or change a rate or charge. Pennbrooke has requested an NSF fee in accordance with the Section 832.08(5), F.S.

Staff believes that Pennbrooke should be authorized to collect an NSF fee. Staff believes the NSF fee should be established consistent with Section 68.065, F.S., which allows for the assessment of charges for the collection of worthless checks, drafts, or orders of payment. As currently set forth in Sections 68.065(2) and 832.08(5) F.S., the following fees may be assessed:

1.) $25, if the face value does not exceed $50,

2.) $30, if the face value exceeds $50 but does not exceed $300,

3.) $40, if the face value exceeds $300, or

4.) five percent of the face amount of the check, whichever is greater.

Staff recommends that Pennbrooke's tariff for an NSF fee be revised to reflect the charges set by Sections 68.065(2) and 832.08(5) F.S.

Approval of an NSF fee is consistent with prior Commission decisions.[34] As such, staff recommends that Pennbrooke's proposed NSF fee should be approved. This fee should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C.

[34] See Order Nos. PSC-08-0831-PAA-WS, issued December 23, 2008, in Docket No. 070680-WS, In re: Application for staff-assisted rate case in Pasco County by Orangewood Lakes Services, Inc.; and PSC-97-0531-FOF-WU, issued May 9, 1997, in Docket No. 960444-WU, In re: Application for rate increase and for increase in service availability charges in Lake County by Lake Utility Services, Inc., at p.20.

OTHER ISSUES

Issue 27: In determining whether any portion of the water and wastewater interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

Recommendation: The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense and other items not in effect during the interim period. This revised revenue requirement for the interim collection period should be compared to the amount of interim revenue requirement granted. Based on this calculation, the Utility should be required to refund 20.96 percent of water revenues and 16.77 percent of wastewater revenues collected under interim rates. The refunds should be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility should be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. Further, the surety bond should be released upon staff's verification that the required refunds have been made. (Deason)

Staff Analysis: By Order No. PSC-09-0844-PCO-WS, the Commission authorized the collection of interim water and wastewater rates, subject to refund, pursuant to Section 367.082, F.S.[35] The approved interim revenue requirement is $525,098 for water and $569,357 for wastewater, which represents an increase of $169,676 or 47.74 percent for water and $189,766 or 49.99 percent for wastewater.

According to Section 367.082, F.S., any refund should be calculated to reduce the rate of return of the Utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates are in effect should be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates is the 12-month period ended December 31, 2008. Pennbrooke's approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the floor of the last authorized range for equity earnings.

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

Using the principles discussed above, the $525,098 water and $569,357 wastewater revenue requirements granted in Order No. PSC-09-0844-PCO-WS for the interim test year are greater than the revenue requirements for the interim collection period of $414,440 and $473,305 for water and wastewater, respectively. This results in a 20.96 percent refund of interim rates for water and a 16.77 percent refund of interim rates for wastewater, after miscellaneous revenues

[35] See Order No. PSC-09-0844-PCO-WS, issued December 22, 2009.

have been removed. The Utility should be required to refund 20.96 percent of the water and 16.77 percent of the wastewater revenues collected under interim rates, respectively. The refund should be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility should be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. Further, the surety bond should be released upon staff's verification that the required refunds have been made.

Issue 28: 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 and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B to remove $18,704 of water and $15,933 of wastewater rate case expense, grossed-up for regulatory assessment fees. 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 25-40.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. Pennbrooke should provide proof of the date notice was given no less than 10 days after the date of the notice. (Deason)

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 regulatory assessment fees which is $18,704 for water and $15,933 for wastewater. The decreased revenue will result in the rate reductions recommended by staff on Schedule Nos. 4-A and 4-B.

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 25-40.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. Pennbrooke 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 29: 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 the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) primary accounts associated with the Commission approved adjustments?

Recommendation: Yes. To ensure that the Utility adjusts its books in accordance with the Commission decision, Pennbrooke 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. (Deason)

Staff Analysis: To ensure that the Utility adjusts its books in accordance with the Commission decision, Pennbrooke 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.

Issue 30: 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, and that the interim refund has been completed and verified by staff. Once these actions are complete, this docket should be closed administratively. (Sayler, Deason)

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, and that the interim refund has been completed and verified by staff. Once these actions are complete, this docket should be closed administratively.

	Utilities Inc. of Pennbrooke Schedule of Water Rate Base Test Year Ended 12/31/08				Schedule No. 1-A Docket No. 090392-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	$2,134,960	$436,532	$2,571,492	($479,912)	$2,091,580
2	Land and Land Rights	21,972	263	22,235	0	22,235
3	Non-used and Useful Components	0	0	0	0	0
4	Accumulated Depreciation	(906,138)	89,778	(816,360)	44,798	(771,562)
5	CIAC	(772,606)	(122,479)	(895,085)	0	(895,085)
6	Amortization of CIAC	315,164	16,315	331,479	0	331,479
7	Net Debit Deferred Income Taxes	0	0	0	0	0
8	Acquisition Adjustment	476,560	(476,560)	0	0	0
9	Working Capital Allowance	41,486	(2,774)	38,712	(7,175)	31,537
	Rate Base	$1,311,398	$58,925	$1,252,473	($442,289)	$810,184

Utilities Inc. of Pennbrooke Schedule of Wastewater Rate Base Test Year Ended 12/31/08					Schedule No. 1-B Docket No. 090392-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	$2,759,918	$82,001	$2,841,919	($82,784)	$2,759,135
2	Land and Land Rights	57,035	223	57,258	0	57,258
3	Non-used and Useful Components	0	0	0	0	0
4	Accumulated Depreciation	(998,974)	(17,911)	(1,016,885)	26,745	(990,140)
5	CIAC	(1,312,363)	95,603	(1,216.760)	0	(1,216,760)
6	Amortization of CIAC	455,023	33,273	488,296	0	488,296
7	CWIP	0	00	0	0	0
8	Advances for Construction	0	0	0	0	0
9	Working Capital Allowance	41,372	(2,631)	39,011	(4,445)	34,566
	Rate Base	$1,002,011	($190,828)	$1,192,839	($60,483)	$1,132,356

	Utilities Inc. of Pennbrooke Adjustments to Rate Base Test Year Ended 12/31/08	Schedule No. 1-C Docket No. 090392-WS	
	Explanation	**Water**	**Wastewater**
	Plant In Service		
1	Reflect Agreed-Upon Audit Adjustments.(Issue 2)	($2,098)	($4,487)
2	Reflect Contested Rate Base Audit Adjustment. (Issue 3)	(88,292)	(75,211)
3	Reflect Project Phoenix Adjustment. (Issue 4)	(8,406)	(6,605)
4	Reflect Appropriate Pro Forma Plant. (Issue 5)	(381,184)	3,462
5	Reflect Contested NOI Audit Adjustment. (Issue12)	69	58
	Total	($479,912)	($82,784)
	Accumulated Depreciation		
1	Reflect Agreed-Upon Audit Adjustments.(Issue 2)	$1,088	$2,842
2	Reflect Contested Rate Base Audit Adjustment. (Issue 3)	25,608	21,815
3	Reflect Project Phoenix Adjustment. (Issue 4)	2,611	2,224
4	Reflect Appropriate Pro Forma Accum. Depr. (Issue 5)	15,488	(138)
5	Reflect Contested NOI Audit Adjustment. (Issue12)	3	3
	Total	($44,798)	($26,745)
	Working Capital		
	Reflect Appropriate Working Capital Allowance. (Issue 7)	($7,175)	($4,445)

Docket No. 090392-WS
Date: May 19, 2010

Utilities Inc. of Pennbrooke
Capital Structure-Simple Average
Test Year Ended 12/31/08

Schedule No. 2
Docket No. 090392-WS

	Description	Total Capital	Specific Adjust-Ments	Subtotal Adjusted Capital	Prorata Adjust-ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility									
1	Long-term Debt	$180,000,000	$0	$180,000,000	($178,853,204)	$1,146,796	46.90%	6.65%	3.12%
2	Short-term Debt	32,637,500	0	32,637,500	(32,429,564)	207,936	8.50%	5.23%	0.44%
3	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4	Common Equity	158,054,717	0	158,054,717	(157,047,736)	1,006,981	41.18%	11.13%	4.58%
5	Customer Deposits	5,233	0	5,233	0	5,233	0.21%	6.00%	0.01%
6	Tax Credits-Zero Cost	0	0	0	0	0	0.00%	0.00%	0.00%
7	Tax Credits-Weighted Costs	0	0	0	0	0	0.00%	0.00%	0.00%
8	Deferred Income Taxes	78,365	0	78,365	0	78,365	3.20%	0.00%	0.00%
9	Total Capital	$370,775,815	$0	$370,775,815	($368,330,504)	$2,445,311	100.00%		8.16%
Per Staff									
10	Long-term Debt	$180,000,000	$0	$180,000,000	($179,097,339)	$902,661	46.47%	6.63%	3.08%
11	Short-term Debt	32,637,500	0	32,637,500	(32,473,830)	163,670	8.43%	5.23%	0.44%
12	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
13	Common Equity	158,054,717	0	158,054,717	(157,262,107)	792,610	40.80%	11.13%	4.54%
14	Customer Deposits	5,233	0	5,233	0	5,233	0.27%	6.00%	0.02%
15	Tax Credits-Zero Cost	0	0	0	0	0	0.00%	0.00%	0.00%
16	Tax Credits-Weighted Costs	0	0	0	0	0	0.00%	0.00%	0.00%
17	Deferred Income Taxes	78,365	0	78,365	0	78,365	4.03%	0.00%	0.00%
18	Total Capital	$370,775,815	$0	$370,775,815	($368,833,275)	$1,942,540	100.00%		8.08%

	LOW	HIGH
RETURN ON EQUITY	10.13%	12.13%
OVERALL RATE OF RETURN	7.67%	8.49%

Docket No. 090392-WS
Date: May 19, 2010

Utilities Inc. of Pennbrooke
Statement of Water Operations
Test Year Ended 12/31/08

Schedule No. 3-A
Docket No. 090392-WS

	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:	$391,699	$229,228	$620,927	($231,699)	$389,228	$64,736 16.63%	$453,964
	Operating Expenses							
2	Operation & Maintenance	$331,885	$8,863	$340,748	($88,450)	$252,298	0	$252,298
3	Depreciation	54,404	21,619	76,023	(18,252)	57,771	0	57,771
4	Amortization	0	12,000	12,000	0	12,000	0	12,000
5	Taxes Other Than Income	45,721	9,785	55,506	(14,174)	41,332	2,913	44,245
6	Income Taxes	(32,463)	67,036	34,573	(35,640)	(1,067)	23,264	22,197
7	Total Operating Expense	$399,547	$119,303	$518,850	($156,516)	$362,334	$26,177	$388,511
8	Operating Income	($7,848)	$109,925	$102,077	($75,183)	$26,894	$38,559	$65,453
9	Rate Base	$1,311,398		$1,252,473		$810,184		$810,184
10	Rate of Return	(0.60%)		8.15%		3.32%		8.08%

Docket No. 090392-WS
Date: May 19, 2010

Utilities Inc. of Pennbrooke
Statement of Wastewater Operations
Test Year Ended 12/31/08

Schedule No. 3-B
Docket No. 090392-WS

	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:	$417,902	$171,563	$589,465	($149,397)	$440,068	$71,279 16.20%	$511,347
	Operating Expenses							
2	Operation & Maintenance	$330,973	$7,543	$338,516	($61,985)	$276,531	0	$276,531
3	Depreciation	54,860	15,955	70,815	(2,318)	68,497	0	68,497
4	Amortization	0	0	0	0	0	0	0
5	Taxes Other Than Income	38,918	11,071	49,989	(9,381)	40,608	3,208	43,815
6	Income Taxes	(27,633)	60,561	32,928	(27,519)	(5,409)	25,615	31,024
7	Total Operating Expense	$397,118	$95,130	$492,248	($101,204)	$391,044	$28,823	$419,867
8	Operating Income	$20,784	$76,433	$97,217	($48,193)	$49,024	$42,456	$91,480
9	Rate Base	$1,002,011		$1,192,839		$1,132,356		$1,132,356
10	Rate of Return	2.07%		8.15%		4.33%		8.08%

Utilities Inc. of Pennbrooke Adjustment to Operating Income Test Year Ended 12/31/08		Schedule No. 3-C Docket No. 090392-WS	
	Explanation	**Water**	**Wastewater**
	Operating Revenues		
1	To remove Utility's requested final revenue increase.	($265,505)	($209,874)
2	To reflect the appropriate annualized revenues. (Issue 11)	33,806	60,477
	Total	($231,699)	($149,397)
	Operation and Maintenance Expense		
1	Reflect Agreed-Upon Audit Adjustments.(Issue 2)	($460)	($1,320)
2	Reflect Contested NOI Audit Adjustment. (Issue12)	(3,668)	(3,104)
3	Reflect the appropriate amount of employee salaries. (Issue 13)	(48,628)	(34,442)
4	Reflect the appropriate amount of employee benefits. (Issue 13)	(10,264)	(7,270)
5	Reflect the appropriate amount of relocation expenses. (Issue 14)	(470)	(400)
6	Reflect the appropriate amount of transportation expenses. (Issue 15)	(954)	(812)
7	Reflect adjustment for irrigation mailing bills. (Issue 16)	(6,642)	0
8	Reflect rate case expense from last rate case. (Issue 17)	(9,641)	(8,057)
9	Reflect the appropriate amount of current rate case expense. (Issue 18)	(7,664)	(6,528)
10	Reflect the appropriate amount of bad debt expense. (Issue 19)	(60)	(51)
	Total	($88,450)	($61,985)
	Depreciation Expense - Net		
1	Reflect Agreed-Upon Audit Adjustments.(Issue 2)	($158)	($236)
2	Reflect Project Phoenix Adjustment. (Issue 4)	(2,611)	(2,224)
3	Reflect Appropriate Pro Forma Plant. (Issue 5)	(15,488)	138
4	Reflect Contested NOI Audit Adjustment. (Issue12)	3	3
	Total	($18,252)	$2,318
	Taxes Other Than Income		
1	RAFs on revenue adjustments above.	($10,426)	($6,723)
2	Reflect Agreed-Upon Audit Adjustments.(Issue 2)	(28)	(23)
3	Reflect the appropriate amount of payroll taxes. (Issue 13)	(3,720)	(2,635)
	Total	($14,174)	($9,381)

Utilities Inc. of Pennbrooke Water Monthly Service Rates Test Year Ended 12/31/08					Schedule No. 4-A Docket No. 090392-WS
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	4-Year Rate Reduction
Residential, General Service and Multi-Family					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	$5.20	$7.51	$8.87	$5.20	$0.21
3/4"	$0.00	$0.00	$0.00	$7.80	$0.32
1"	$12.99	$18.78	$22.15	$13.00	$0.53
1-1/2"	$25.97	$37.54	$44.29	$26.00	$1.06
2"	$41.55	$60.05	$70.86	$41.60	$1.70
3"	$83.10	$120.11	$141.72	$83.20	$3.39
4"	$129.84	$187.66	$221.43	$130.00	$5.30
6"	$0.00	$0.00	$0.00	$260.00	$10.61
Gallonage Charge, per 1,000 gallons					
GS - Gallonage Charge, per 1,000 Gallons	$1.87	$2.71	$3.19	$2.32	$0.09
RS - Gallonage Charge, 0-10,000 gallons	$1.76	$2.54	$3.00	$0.00	$0.00
RS - Gallonage Charge, over 10,000 gallons	$2.20	$3.18	$3.75	$0.00	$0.00
RS - Gallonage Charge, 0-3,000 gallons	$0.00	$0.00	$0.00	$1.89	$0.08
RS - Gallonage Charge, 3,000-6,000 gallons	$0.00	$0.00	$0.00	$1.98	$0.08
RS - Gallonage Charge, 6,000-12,000 gallons	$0.00	$0.00	$0.00	$2.48	$0.10
RS - Gallonage Charge, over 12,000 gallons	$0.00	$0.00	$0.00	$2.97	$0.12
Irrigation-General Service					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	$5.20	$7.51	$8.87	$5.20	$0.21
2"	$41.55	$60.05	$70.86	$41.60	$1.70
3"	$83.10	$120.11	$141.72	$83.20	$3.39
4"	$129.84	$187.66	$221.43	$130.00	$5.30
	Typical Residential Bills 5/8" x 3/4" Meter				
3,000 Gallons	$10.48	$15.13	$17.87	$10.87	
5,000 Gallons	$14.00	$20.21	$23.87	$14.83	
10,000 Gallons	$22.80	$32.91	$38.87	$26.73	

Utilities Inc. of Pennbrooke Wastewater Monthly Service Rates Test Year Ended 12/31/08					SCHEDULE NO. 4-B Docket No. 090392-WS
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	Four-Year Rate Reduction
Residential					
Base Facility Charge All Meter Sizes:	$11.47	$16.82	$17.25	$13.15	$0.42
Gallonage Charge - Per 1,000 gallons (6,000 gallon cap)	$3.57	$5.24	$5.37	$4.24	$0.14
General Service					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	$11.47	$16.82	$17.25	$13.15	$0.42
3/4"	$0.00	$0.00	$0.00	$19.73	$0.64
1"	$28.69	$42.08	$43.14	$32.88	$1.06
1-1/2"	$57.37	$84.15	$86.26	$65.75	$2.12
2"	$91.77	$134.62	$137.98	$105.20	$3.40
3"	$183.55	$269.26	$275.98	$210.40	$6.79
4"	$286.81	$420.72	$431.24	$328.75	$10.61
6"	$0.00	$0.00	$0.00	$657.50	$21.22
Gallonage Charge, per 1,000 Gallons	$4.29	$6.29	$6.45	$5.09	$0.16
Reuse					
Gallonage Charge, per 1,000 Gallons	$0.09	$0.14	$0.09	$0.85	$0.03
	Typical Residential Bills 5/8" x 3/4" Meter				
3,000 Gallons	$22.18	$32.54	$33.36	$25.87	
5,000 Gallons	$29.32	$43.02	$44.10	$34.35	
10,000 Gallons	$32.89	$48.26	$49.47	$38.59	
(Wastewater Gallonage Cap - 6,000 Gallons)					