

State of Florida



# Public Service Commission

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

2010 OCT 14 11:59  
COMMISSION CLERK

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

**DATE:** October 14, 2010

**TO:** Office of Commission Clerk (Cole)

**FROM:** Division of Economic Regulation (Roberts, Bruce, Fletcher, Hudson, Maurey, Simpson) *PRO*  
Office of the General Counsel (Jaeger) *KEF for JSC*

*Handwritten initials: RA, BJ, SH, ALM, WA, etc.*

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

**AGENDA:** 10/26/10 – Regular Agenda – Proposed Agency Action except for Issues 12, 13 and 14 – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** ~~All Commissioners~~ *Edgar, Graham, Brice'*

**PREHEARING OFFICER:** Edgar

**CRITICAL DATES:** 07/11/11 (15-Month Effective Date (SARC))

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\ECR\WP\090414.RCM.DOC

DOCUMENT NUMBER-CASE  
08610 OCT 14 2  
FPSC-COMMISSION CLERK

**Table of Contents**

<u>Issue</u>	<u>Description</u>	<u>Page</u>
	Case Background .....	3
1	Quality of Service (Simpson).....	4
2	Used and Useful (Simpson) .....	6
3	Rate Base (Roberts).....	7
4	Rate of Return (Roberts) .....	9
5	Test Year Revenues (Bruce, Roberts).....	10
6	Operating Expense (Roberts) .....	11
7	Revenue Requirement (Roberts) .....	14
8	Rate Structure (Bruce).....	15
9	Repression (Bruce).....	17
10	Rates (Bruce, Roberts) .....	18
11	Pro Forma (Roberts, Simpson).....	19
12	Four-Year Rate Reduction (Roberts) .....	21
13	Temporary Rates (Roberts) .....	22
14	Proof of Adjustments (Roberts) .....	24
15	Close Docket (Jeager) .....	25
1-A	Water Rate Base .....	26
1-B	Adjustments to Rate Base .....	27
2	Capital Structure.....	28
3-A	Water Operating Income .....	29
3-B	Adjustments to Operating Income .....	30
3-C	Operation and Maintenance Expenses .....	32
4	Water Rates .....	33
5-A	Proforma Water Rates Base .....	34
5-B	Proforma Adjustments to Rate Base .....	35
6	Proforma Capital Structure .....	36
7-A	Proforma Operating Income.....	37
7-B	Proforma Adjustments to Operating Income .....	38
7-C	Proforma Water O&M Expense.....	39
8	Proforma Water Rates .....	40

### Case Background

Pinecrest Ranches, Inc. (Pinecrest or Utility) is a Class C utility located in Polk County serving approximately 152 water customers in the Citrus Highlands Community. Pinecrest is located in the Southern Water Use Caution Area of the Southwest Florida Water Management District (SWFWMD). According to the Utility's 2009 annual report, Pinecrest had operating revenues of \$52,667, and operating expenses of \$59,266. The test period for setting rates is the historical twelve-month period ended June 30, 2009.

Pinecrest was granted Certificate No. 588-W in 1997.<sup>1</sup> The Commission last established rates for Pinecrest in 2003.<sup>2</sup> Pursuant to Rule 25-30.457, Florida Administrative Code (F.A.C.), Pinecrest was approved for a limited alternative rate increase in 2006.<sup>3</sup>

On August 20, 2009, Pinecrest filed an application for a staff-assisted rate case (SARC) and paid the appropriate filing fee on December 30, 2009. Staff has conducted a field investigation of the Utility's plant and service area.

On June 4, 2010, staff extended the deadline for the Utility to pay its regulatory assessment fees (RAFs) and submit its 2009 annual report until June 18, 2010. The Utility did not meet the deadline due to the owner's health. Therefore, staff extended the deadline to July 2, 2010. Staff received the RAFs and annual report on July 15, 2010. On August 25, 2010, the Utility waived the requirement of section 367.0814(2), F.S., for the Commission to enter a final order within 15 months, and gave the Commission until July 11, 2011, to issue such an order.

The Commission has jurisdiction in this case pursuant to Section 367.011, 367.0814, 367.101, and 367.121, Florida Statutes (F.S.).

---

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

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

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

### Discussion of Issues

**Issue 1:** Is the quality of service provided by Pinecrest Ranches satisfactory?

**Recommendation:** Yes, the quality of service provided by Pinecrest Ranches is satisfactory. (Simpson)

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

#### Quality of Utility's Product

On August 13, 2009, the PCHD conducted a sanitary survey and noted minor deficiencies relating to plant operation which were subsequently corrected by the Utility. The PCHD indicated that the chemical and bacteriological analyses and the quality of the drinking water delivered to the customers is satisfactory. A staff field investigation of the Utility's service area was conducted on November 18, 2009. The water treatment plant, using an iron sequestration system, appeared to be operating normally and all outstanding repairs relating to the deficiencies outlined in the sanitary survey were completed. Staff communicated with PCHD on August 18, 2010, and was informed that Pinecrest does not have any outstanding compliance issues at this time. Therefore, it appears that the quality of the Utility's water and the operating condition of the plant are satisfactory.

#### Operational Condition of the Plant

The Utility has requested that the cost of a meter replacement program and a hydropneumatic tank refurbishment be included in this rate case. In accordance with Rule 62-555.350(2), F.A.C., an inspection of the Utility's 5,000-gallon hydropneumatic tank was performed by a professional engineer on September 16, 2008. Corrective action for cleaning and coating of the interior of the tank was recommended. Staff's recommendations regarding a meter replacement program and the refurbishment of the hydropneumatic tank are discussed in Issue 11.

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

Two customer complaints were filed with the Commission within the last three years. The complaints were related to billing issues which were subsequently resolved. A customer meeting was held on March 18, 2010, in Winter Haven, Florida. A representative of the Utility was present; however no customers attended the meeting. Subsequent to the customer meeting, three customers contacted the Commission to complaint about the rusty color of the water. The raw water at Pinecrest contains iron, which gives a rusty color, and hydrogen sulfide, which causes an unpleasant taste and odor. The Utility sequesters the iron by injecting a polyphosphate solution into the water. In addition, the system is flushed twice a week which also helps address

Docket No. 090414-WU  
Date: October 14, 2010

the rusty color in the water, as well as the unpleasant taste and odor from hydrogen sulfide. On August 19, 2010, staff spoke to the three customers again and they indicated that the water quality has improved. Staff believes that the correct amount of polyphosphate solution for sequestering of the iron was applied leading to improvement of the water quality.

#### Conclusion

In summary, Pinecrest is current in all of the required chemical and bacteriological analyses, the water treatment plant is operating properly, and the Utility appears to address customer complaints satisfactorily. Therefore, staff recommends that the overall quality of service provided by Pinecrest should be found satisfactory.

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

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

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

In the Utility's last rate case,<sup>4</sup> the WTP was found to be 100 percent U&U and the distribution system was found to be 92 percent U&U. The service area has had no growth in the past five years and there are no plans for expansion; therefore, pursuant to Rule 25-30.4325(4), F.A.C., staff recommends that the WTP and distribution system both be considered 100 percent U&U.

---

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

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

**Recommendation:** The appropriate average test year rate base for the Utility is \$66,022. (Roberts)

**Staff Analysis:** Pinecrest's rate base was last established by Order No. PSC-03-0008-PAA-WU.<sup>5</sup> The Utility used a test year ended June 30, 2009, for this rate case. A summary of each component and the adjustments follows:

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

**Non-used and Useful Plant:** As discussed in Issue 2, Pinecrest's WTP is built out and should be considered 100 percent U&U. Therefore, no adjustments are necessary.

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

**Contribution in Aid of Construction (CIAC):** Pinecrest recorded no CIAC on its books. However, a CIAC balance was determined in the last rate case. The Utility did not adjust its books and records to reflect the Commission approved CIAC from its last rate case. Therefore, staff has increased this account by \$100,352. Staff recommends CIAC of \$100,352.

**Accumulated Amortization of CIAC:** Pinecrest recorded no amortization of CIAC. In the Utility's last rate case, the amortization of CIAC balance was \$40,289. Staff has increased this account by \$40,289 to reflect the Commission-approved balance. Amortization of CIAC has been recalculated by staff using composite depreciation rates. This resulted in an amortization of CIAC balance of \$61,816. Thus, staff has increased this account by \$21,527. In addition, staff has decreased this account by \$1,652 to reflect an averaging adjustment. Staff's net adjustments to this account result in amortization of CIAC of \$60,164.

**Working Capital Allowance:** Pinecrest recorded a working capital allowance of \$5,851. Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses or other going-concern requirements of the Utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating working capital allowance. Applying this formula, staff recommends a working capital allowance of \$5,548 (based on O&M expense of \$44,383). Thus, working capital has been reduced by \$303. Staff's adjustment to this account results in a working capital balance of \$5,548.

---

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

Docket No. 090414-WU

Date: October 14, 2010

Rate Base Summary: Based on the forgoing, staff recommends that the appropriate average test year rate base is \$66,022. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.



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

**Recommendation:** The appropriate return on equity (ROE) is 10.85 percent with an allowed range of plus or minus 100 basis points. The appropriate overall rate of return is 7.49 percent. (Roberts)

**Staff Analysis:** According to staff's audit, Pinecrest recorded the following items in its capital structure: long-term debt of \$96,131; common stock of \$100; negative retained earnings of \$196,846; paid-in-capital of \$111,317; and customer deposits of \$384. The Utility's long-term debt consists of two long-term debt instruments that were recorded in the general ledger in the amounts of \$43,349 and \$52,782.

Pursuant to Audit Finding No. 8, Pinecrest has a loan of \$43,349. This loan is from a 50 percent owner of the Utility. There is no interest on this loan, no loan documents, and Pinecrest is not making any payments on the principal. Because the loan payments are not being paid and it is from a related party, staff believes this loan should be treated as common equity in accordance with Commission practice.<sup>6</sup> The Utility's capital structure has been reconciled with staff's recommended rate base. Using the Commission's current leverage graph formula,<sup>7</sup> staff recommends an ROE of 10.85 percent with an allowed range of plus or minus 100 basis points, and an overall rate of return of 7.49 percent. The ROE and overall rate of return are shown on Schedule No. 2.

---

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

<sup>7</sup> See Order Nos. PSC-10-0401-PAA-WS, issued June 18, 2010, and PSC-10-0446-CO-WS, issued July 13, 2010, in Docket No. 100006-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 5:** What is the appropriate amount of test year revenue?

**Recommendation:** The appropriate test year revenue for this Utility is \$51,730. (Bruce, Roberts)

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

**Issue 6:** What is the appropriate amount of operating expenses?

**Recommendation:** The appropriate amount of operating expenses for the Utility is \$49,596. (Roberts)

**Staff Analysis:** The Utility recorded operating expenses of \$47,009 for the test year ended June 30, 2009. The test year O&M has been reviewed through staff's examination of invoices, canceled checks, and other supporting documentation. Staff made several adjustments to Pinecrest's operating expenses, as summarized below:

Purchased Power (615) – Pinecrest recorded purchased power expense of \$4,236. Pursuant to Audit Finding No. 6, staff decreased this account by \$525 to remove unsupported invoices. In addition, staff has decreased purchased power expense by \$181 to remove a related party allocation. Staff recommends purchased power expense of \$3,530.

Fuel for Power Production (616) – The Utility recorded fuel for power production expense of \$0. However, due to an emergency generator and pump at the water plant, staff has increased this account by \$48 to include the cost of fuel for testing the generator and pump. Therefore, staff recommends fuel for power production expense of \$48.

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

Materials and Supplies (620) – The Utility recorded materials and supplies expense of \$487. Pursuant to Audit Finding No. 6, staff increased this account by \$203 to reflect the appropriate invoiced materials and supplies expense. As a result, staff recommends materials and supplies expense of \$690.

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

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

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

Contractual Services – Other (636) – The Utility recorded contractual services - other expense of \$14,470. Based on invoices provided by the Utility, staff increased this account by \$4,607. In addition, staff increased contractual services - other expense by \$525 to reflect the testing of the fire protection system. Staff recommends contractual services - other expense of \$19,602.

Rents (640) – The Utility recorded rent expense of \$1,440. Pinecrest operates one regulated system and two non-utility businesses from the building. Pursuant to Audit Finding No. 6, the rent is shared by three companies. Staff believes the rent expense should be split evenly between the three businesses. Therefore, staff has decreased this account by \$240 to reflect the correct rent expense allocated to the Utility. Therefore, staff recommends rent expense of \$1,200.

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

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

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

Miscellaneous Expense (775) – The Utility recorded miscellaneous expense of \$5,881. Staff increased miscellaneous expenses by \$1,097 to include the correct bills that were provided by the Utility. In addition, staff decreased this account by \$1,435 to remove non-utility expenses. Staff's net adjustment to miscellaneous expenses is a decrease of \$338. Staff recommends miscellaneous expense for the test year of \$5,543.

Operation and Maintenance Expense (O&M Summary) – Based on the above adjustments, O&M expense should be decreased by \$2,424. Staff's recommended O&M expenses of \$44,383 are shown on Schedule No. 3-C.

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

Taxes Other Than Income (TOTI) – Pinecrest recorded a TOTI balance of \$202 for property taxes. The Utility did not take advantage of the property tax discount for payments made in November. It is Commission practice to include only the lowest property tax amount in expenses so the rate payers do not pay for Pinecrest’s decision to pay late. Staff has decreased TOTI by \$4 to reflect the appropriate discounted property taxes. Staff has increased TOTI by \$2,328 to reflect the appropriate RAFs for the test year revenues recommended in Issue 5. As discussed in Issue 7, revenues have been increased by \$2,811 to reflect the change in revenue required to cover expenses and allow the recommended return on investment. As a result, TOTI should be increased by \$126 to reflect RAFs of 4.5 percent on the change in revenues. Accordingly, staff’s recommend TOTI is \$2,652.

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

Operating Expenses Summary – The application of staff’s recommended adjustments to the Utility’s test year operating expenses results in staff’s calculated operating expenses of \$49,596, shown on Schedule No. 3-A. The related adjustments are shown on Schedule No. 3-B.

**Issue 7:** What is the appropriate revenue requirement?

**Recommendation:** The appropriate revenue requirement is \$54,541. (Roberts)

**Staff Analysis:** Pinecrest should be allowed an annual increase of \$2,811 (5.43 percent). This will allow the Utility the opportunity to recover its expenses and earn a 7.49 percent return on its investment. The calculations are as follows:

	<u>Water</u>
Rate Base	\$66,022
Rate of Return	7.49
Operating Margin	\$4,945
Adjusted O & M Expense	44,383
Depreciation expense (Net)	2,561
Amortization	0
Taxes Other Than Income	2,652
Income Tax	0
Revenue Requirement	<u>\$54,541</u>
Less Adjusted Test Year Revenues	<u>\$51,730</u>
Annual Increase	<u>\$2,811</u>
Percent Increase/(Decrease)	<u>5.43%</u>

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

**Recommendation:** No. The Utility's current residential and non-residential water system rate structure, which consists of a monthly base facility charge (BFC)/uniform gallonage charge rate structure, should remain unchanged. The water system's BFC cost recovery should be set at 45 percent. (Bruce)

**Staff Analysis:** The Utility currently has a BFC uniform/gallonage charge rate structure for the water system's residential and non-residential classes. The BFC is \$12.49 per month and the monthly usage charge is \$3.77 per kgal.

Staff performed a detailed analysis of the Utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential rate class. The goal of the evaluation was to select rate design parameters that: 1) allow the Utility to recover its revenue requirement; 2) equitably distribute cost recovery among the Utility's customers; and 3) results in the BFC between 25 percent and 40 percent whenever possible.

Pinecrest is located in Polk County in the SWFWMD within the Southern Water Use Caution Area (SWUCA). In the Utility's last rate case, the customers' average monthly consumption was 18.879 kgal. The Utility at that time had a flat rate structure and was in the process of installing meters.<sup>8</sup> The Commission ordered Pinecrest to complete meter installation for all of its customers within six months of the Consummating Order. In addition, the Commission ordered the Utility to discontinue the flat rate charge once the meters were installed and implement the Phase II rates which consisted of a BFC/gallonage charge rate structure.<sup>9</sup> Since the installment of the meters, the customers have reduced their consumption significantly.

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

Furthermore, as discussed in Issue 7, the revenue requirement increase is 5.43 percent. Due to the low revenue requirement increase coupled with a low overall average consumption, staff recommends that a continuation of the BFC/uniform gallonage charge rate structure is appropriate. This rate structure is considered conservation oriented because customers' bills increase as their consumption increases.

---

<sup>8</sup> See Docket No. 020406-WU, In re: Application for a staff-assisted rate case in Polk County by Pinecrest Ranches, Inc.

<sup>9</sup> See Order No. PSC-03-0008-PAA-WU, issued January 2, 2003, in Docket No. 020406-WU, In re: Application for staff assisted rate case in Polk County by Pinecrest Ranches, Inc.

Because staff is recommending a continuation of the existing BFC/gallonge rate structure, staff recommends that the 5.43 percent revenue requirement increase be applied as an across-the-board increase to the water system's BFC and gallonge charges. This results in the BFC cost recovery percentage remaining at 45 percent, and the BFC and gallonge charge of \$13.17 and \$3.97, respectively.

Finally, as discussed in Issue 11, staff recommends a Phase II revenue requirement increase associated with pro forma plant improvements. As in Phase I, the revenue requirement increase for Phase II is small. Therefore, staff recommends that the 7.35 percent increase be applied as an across-the-board increase to the water system's BFC and gallonge charges. This will result in Phase II rates with a BFC of \$14.14 and a gallonge charge of \$4.26 per kgal.

Based on the foregoing, staff recommends that the Utility's current residential and non-residential water system rate structure which consists of a monthly base facility charge (BFC)/uniform gallonge charge rate structure should remain unchanged. The water system's BFC cost recovery should be set at 45 percent.



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

**Recommendation:** No, a repression adjustment is not appropriate in this case. However, in order to monitor the effect of the change to revenue, the Utility should be ordered to file reports detailing the number of bills rendered, the consumption billed and the revenues billed on a monthly basis. In addition, the reports should be prepared, by customer class and meter size. The reports should be filed with staff, on a semi-annual basis for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the Utility makes adjustments to consumption in any month during the reporting period, the Utility should be ordered to file a revised monthly report for that month within 30 days of any revision. (Bruce)

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

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

**Recommendation:** The appropriate monthly water rates are shown on Schedule No. 4. The recommended rates should be designed to produce revenues of \$54,541 for water, excluding miscellaneous service revenues. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Bruce, Roberts)

**Staff Analysis:** The recommended rates should be designed to produce revenues of \$54,541 for the water system excluding miscellaneous service revenues of \$2,100. This results in revenues from monthly service of \$54,541 for the water system.

As discussed in Issue 8, staff recommends that the Utility's current residential and non-residential water system rate structure which consists of a monthly base facility charge (BFC)/uniform gallonage charge rate structure should remain unchanged. The water system's BFC cost recovery should be set at 45 percent.

The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days of the date of the notice.

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

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

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

**Recommendation:** Yes. The Commission should approve a Phase II revenue requirement associated with pro forma items. Pinecrest's appropriate return on equity, with the pro forma items, should be 10.85 percent with a range of 9.85 to 11.85 percent. The appropriate overall rate of return is 7.49 percent. The Utility's Phase II revenue requirement is \$58,668 which equates to an increase of 7.57 percent over Phase I revenue requirement. Pinecrest should complete the pro forma items within 12 months of the issuance of the consummating order. The Utility should be allowed to implement the resulting rates once the pro forma items have been completed and documentation provided showing that all improvements have been made to the system.

The Utility should be required to submit a copy of the final invoice and cancelled checks for the refurbishment of the hydropneumatic tank and the meter replacement program. In addition, the Utility should be required to submit documentation from a professional engineer indicating that the refurbishment was done in compliance with American Water Works Association (AWWA) standards.

Once verified, the rates should be effective for service rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until notice has been received by the customers. Pinecrest should provide proof of the date notice was given within 10 days after the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission. (Roberts, Simpson)

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

Table 11-1

	<u>Pro forma Items</u>	<u>Utility Requested</u>	<u>Staff Recommended</u>	
			<u>Capitalized</u>	<u>Expensed</u>
1.	Tank refurbishment	\$12,000	\$0	\$2,400*
2.	Meter replacement program (10 meters annually)	1,500	0	1,500
	Total	<u>\$13,500</u>	<u>\$0</u>	<u>\$3,900</u>
* \$12,000 amortized over 5 years				

The Utility is required by PCHD to inspect all tanks every five years and repair as needed. The Utility plans to refurbish its 5,000-gallon hydropneumatic tank as a result of a

recent inspection. Staff believes Pinecrest's proposal is reasonable and prudent because it would allow the Utility to perform required maintenance of the tank, which will increase reliability and ensure continual service to the customers. In addition, the Utility requested funding for a meter replacement program. Due to the age of Pinecrest's meters, the Utility has initiated a 15 year program in which it will replace 10 meters each year. Staff is recommending a Phase II revenue requirement associated with the pro forma plant items for a couple of reasons. First, it assures that the pro forma item is completed prior to the Utility's recovery in rates. In the past, there have been instances where the Commission approved revenue requirements with pro forma items; however, the Utility failed to complete the pro forma items. If the Utility fails to complete the items or if the cost of the items is lower than the estimated cost, staff will recommend that the case be brought before the Commission to address the differences. In addition, addressing the pro forma items in a single case saves additional rate case expense to the customer because the Utility would not need to file another rate case or limited proceeding to seek recovery for them. The Commission has approved a Phase-In approach in Docket Nos. 080668-SU and 090072-WU.<sup>10</sup>

The Utility's revenue requirement Phase II should be \$58,668. Pinecrest should complete the pro forma items within 12 months of the issuance of the consummating order. Phase II rate base is shown on Schedule Nos. 5-A and 5-B. The capital structure for Phase II is shown on Schedule No. 6. The revenue requirement is shown on Schedule Nos. 7-A, 7-B and 7-C. The resulting rates are shown on Schedule No. 8.

The Utility should be allowed to implement the above rates once all pro forma items have been completed and documentation provided showing improvements made to the system. The Utility should be required to submit a copy of the final invoice and cancelled checks for the refurbishment of the hydropneumatic tank and the installation of 10 meters for the meter replacement program. In addition, the Utility should be required to submit documentation from a professional engineer indicating that the refurbishment was done in compliance with AWWA standards. Once verified, the rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until notice has been received by the customers. Pinecrest should provide proof of the date notice was given within 10 days of the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission.

---

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

**Issue 12:** What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S.?

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

**Staff Analysis:** Section 367.0816, F.S., requires that rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, the associated return included in working capital, and the gross-up for RAFs which is \$213. Using the Utility's current revenues, expenses, capital structure and customer base, the reduction in revenues will result in a rate decrease as shown on Schedule Nos. 4 and 8.

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

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

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

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

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

The Utility should be authorized to collect the temporary rates upon the staff's approval of appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$1,876. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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

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

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

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

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

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

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

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

**Issue 14:** Should the Utility be required to provide proof, within 90 days of an order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts (NARUC USOA) primary accounts associated with the Commission-approved adjustments?

**Recommendation:** Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, Pinecrest 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. (Roberts)

**Staff Analysis:** To ensure that the Utility adjusts its books in accordance with the Commission's decision, staff recommends that Pinecrest 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 15:** 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 should 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. Also, the docket should remain open to allow staff to verify that the pro forma items have been completed and the Phase II rates properly implemented. Once these actions are complete, this docket should be closed administratively. (Jaeger)

**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 should 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. Also, the docket should remain open to allow staff to verify that the pro forma items have been completed and the Phase II rates properly implemented. Once these actions are complete, this docket should be closed administratively.

<b>PINECREST RANCHES INC.                  TEST YEAR ENDED 6/30/09                  SCHEDULE OF WATER RATE BASE                  (PHASE I)</b>	<b>SCHEDULE NO. 1-A                  DOCKET NO. 090414-WU</b>		
<b>DESCRIPTION</b>	<b>BALANCE                  PER                  UTILITY</b>	<b>STAFF                  ADJUST.                  TO UTIL. BAL.</b>	<b>BALANCE                  PER                  STAFF</b>
1. UTILITY PLANT IN SERVICE	\$184,666	\$774	\$185,440
2. LAND & LAND RIGHTS	6,500	0	6,500
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. ACCUMULATED DEPRECIATION	(165,612)	74,334	(91,278)
5. CIAC	0	(100,352)	(100,352)
6. AMORTIZATION OF CIAC	0	60,164	60,164
7. WORKING CAPITAL ALLOWANCE	<u>5,851</u>	<u>(303)</u>	<u>5,548</u>
8. WATER RATE BASE	<u>\$31,405</u>	<u>\$34,617</u>	<u>\$66,022</u>

<b>PINECREST RANCHES INC.                      TEST YEAR ENDED 6/30/09                      ADJUSTMENTS TO RATE BASE                      (PHASE I)</b>	<b>SCHEDULE NO. 1-B                      DOCKET NO. 090414-WU</b>
	<b><u>WATER</u></b>
<b><u>UTILITY PLANT IN SERVICE</u></b>	
To reflect the appropriate UPIS balance	<u>\$774</u>
<b><u>ACCUMULATED DEPRECIATION</u></b>	
1 To reflect accumulated depreciation per Rule 25-30.0140	\$71,281
2 To reflect averaging adjustment.	<u>3,053</u>
Total	<u>\$74,334</u>
<b><u>CIAC</u></b>	
To reflect the Commission-approved CIAC balance from previous rate case	<u>(\$100,352)</u>
<b><u>AMORTIZATION OF CIAC</u></b>	
To reflect the Commission-approved Amortization of CIAC balance from previous	
1 rate case	\$40,289
2 To reflect the appropriate test year amortization of CIAC	21,527
3 To reflect an averaging adjustment	<u>(1,652)</u>
Total	<u>\$60,164</u>
<b><u>WORKING CAPITAL ALLOWANCE</u></b>	
To reflect 1/8 of test year O & M expenses.	<u>(\$303)</u>

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

**SCHEDULE NO. 2**  
**DOCKET NO. 090414-WU**

<b>CAPITAL COMPONENT</b>	<b>PER UTILITY</b>	<b>SPECIFIC ADJUSTMENTS</b>	<b>BALANCE BEFORE PRO RATA ADJUSTMENTS</b>	<b>PRO RATA ADJUSTMENTS</b>	<b>BALANCE PER STAFF</b>	<b>PERCENT OF TOTAL</b>	<b>COST</b>	<b>WEIGHTED COST</b>
1. COMMON STOCK	\$100	(\$100)	\$0					
2. RETAINED EARNINGS	(196,846)	153,497	(43,349)					
3. PAID IN CAPITAL	111,317	(111,317)	0					
4. OTHER COMMON EQUITY	<u>0</u>	<u>43,349</u>	<u>43,349</u>					
5. TOTAL COMMON EQUITY	(\$85,429)	\$85,429	\$0	\$0	\$0	0.00%	10.85%	0.00%
6. LONG TERM DEBT	43,349	(43,349)	0	0	0	0.00%	0.00%	0.00%
7. NOTE-PAYABLE-CENTER STATE	<u>52,782</u>	<u>0</u>	<u>52,782</u>	<u>0</u>	65,574	<u>99.32%</u>	7.50%	7.45%
TOTAL LONG TERM DEBT	\$96,131	(\$43,349)	\$52,782	\$0	\$65,574	99.32%		
8. CUSTOMER DEPOSITS	<u>384</u>	<u>64</u>	<u>448</u>	<u>0</u>	<u>448</u>	<u>0.68%</u>	6.00%	<u>0.04%</u>
9. TOTAL	<u>\$11,086</u>	<u>\$42,144</u>	<u>\$53,230</u>	<u>\$0</u>	<u>\$66,022</u>	<u>100.00%</u>		<u>7.49%</u>
<b>RANGE OF REASONABLENESS</b>						<b><u>LOW</u></b>	<b><u>HIGH</u></b>	
RETURN ON EQUITY						<u>9.85%</u>	<u>11.85%</u>	
OVERALL RATE OF RETURN						<u>7.49%</u>	<u>7.49%</u>	

PINECREST RANCHES INC. TEST YEAR ENDED 6/30/09 SCHEDULE OF WATER OPERATING INCOME (PHASE I)		SCHEDULE NO. 3-A DOCKET NO. 090414-WU			
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
<b>OPERATING REVENUES</b>	<u>\$51,497</u>	<u>\$233</u>	<u>\$51,730</u>	<u>\$2,811</u> 5.43%	<u>\$54,541</u>
<b>OPERATING EXPENSES:</b>					
OPERATION & MAINTENANCE	46,807	(2,424)	44,383	0	44,383
DEPRECIATION (NET)	0	2,561	2,561	0	2,561
AMORTIZATION	0	0	0	0	0
TAXES OTHER THAN INCOME	202	2,324	2,526	126	2,652
INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>\$47,009</u>	<u>\$2,460</u>	<u>\$49,469</u>	<u>\$126</u>	<u>\$49,596</u>
<b>OPERATING INCOME/(LOSS)</b>	<u>\$4,488</u>		<u>\$2,261</u>		<u>\$4,945</u>
<b>WATER RATE BASE</b>	<u>\$31,405</u>		<u>\$66,022</u>		<u>\$66,022</u>
<b>RATE OF RETURN</b>	<u>14.29%</u>		<u>3.42%</u>		<u>7.49%</u>

<b>PINECREST RANCHES INC.</b> <b>TEST YEAR ENDED 6/30/09</b> <b>ADJUSTMENTS TO OPERATING INCOME</b> <b>(PHASE I)</b>	<b>SCHEDULE NO. 3-B</b> <b>PAGE 1 OF 2</b> <b>DOCKET NO. 090414-WU</b>
	<b><u>WATER</u></b>
<b>OPERATING REVENUES</b>	
a. To reflect the appropriate test year revenues.	\$1,289
b. To reflect appropriate Mis. service revenues	<u>(1,056)</u>
Subtotal	<u>\$233</u>
<b>OPERATION AND MAINTENANCE EXPENSES</b>	
1 a. To remove a unsupported bill.	(\$525)
b. To reflect the appropriate common expense allocated to related parties.	<u>(181)</u>
Subtotal	<u>(\$706)</u>
2 Fuel for Power Production (616)	
To include a \$4.00 a month charge to test generators and pumps in case of emergencies.	<u>\$48</u>
3 Chemicals (618)	
To increase account due to calculation error.	<u>\$332</u>
4 Materials and Supplies (620)	
To increase account due to calculation error.	<u>\$203</u>
5 Contractual Services - billing (630)	
To increase this account to include billing service.	<u>\$2,976</u>
6 Contractual Services - Professional (631)	
To reduce this account for unsupported documentation.	<u>(\$6,098)</u>
7 Contractual Services - Testing (635)	
To reflect the appropriate DEP testing requirements.	<u>\$875</u>
8 Contractual Services - Other (636)	
a. To reflect the appropriate contractual services - other	\$4,607
b. Fire protection System testing	<u>525</u>
Subtotal	<u>\$5,132</u>
(O & M EXPENSES CONTINUED ON NEXT PAGE)	

<b>PINECREST RANCHES INC.</b> <b>TEST YEAR ENDED 6/30/09</b> <b>ADJUSTMENTS TO OPERATING INCOME</b>	<b>SCHEDULE NO. 3-B</b> <b>PAGE 2 OF 2</b> <b>DOCKET NO. 090414-WU</b>
	<b><u>WATER</u></b>
9 Rents (640) To reflect the appropriate amount of office rent expense.	<u>(\$240)</u>
10 Transportation Expense (650) To remove all transportation expense since Pinecrest has no employees.	<u>(\$1,755)</u>
11 Insurance Expense (655) To increase account to include all bills for insurance.	<u>\$889</u>
12 Regulatory Commission Expense (665) To reflect the appropriate rate case expense	<u>(\$3,741)</u>
13 Miscellaneous Expense (675)	
a. To increase account to include correct bills	\$1,097
b. To reflect the appropriate common expense allocated to related parties.	<u>(1,435)</u>
Subtotal	<u>(\$338)</u>
<b>TOTAL OPERATION &amp; MAINTENANCE ADJUSTMENTS</b>	<b><u>(\$2,424)</u></b>
<b>DEPRECIATION EXPENSE</b>	
1 To reflect test year depreciation calculated per 25-30.140, F.A.C.	\$5,581
2 To reflect the appropriate the appropriate amortization of CIAC	<u>(3,020)</u>
Subtotal	<u>\$2,561</u>
<b>TAXES OTHER THAN INCOME</b>	
1 To reflect the appropriate property taxes	(\$4)
2 To reflect the appropriate RAFs	<u>2,328</u>
Subtotal	<u>\$2,324</u>

<b>PINECREST RANCHES INC.</b> <b>TEST YEAR ENDED 6/30/09</b> <b>ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE</b> <b>(PHASE I)</b>	<b>SCHEDULE NO. 3-C</b> <b>DOCKET NO. 090414-WU</b>		
	<b>TOTAL</b> <b>PER</b> <b>UTILITY</b>	<b>STAFF</b> <b>PER</b> <b>ADJUST.</b>	<b>TOTAL</b> <b>PER</b> <b>STAFF</b>
(601) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	4,236	(706)	3,530
(616) FUEL FOR POWER PRODUCTION	0	48	48
(618) CHEMICALS	2,296	332	2,628
(620) MATERIALS AND SUPPLIES	487	203	690
(630) CONTRACTUAL SERVICES - BILLING	0	2,976	2,976
(631) CONTRACTUAL SERVICES - PROFESSIONAL	6,848	(6,098)	750
(635) CONTRACTUAL SERVICES - TESTING	1,084	875	1,959
(636) CONTRACTUAL SERVICES - OTHER	14,470	5,132	19,602
(640) RENTS	1,440	(240)	1,200
(650) TRANSPORTATION EXPENSE	1,755	(1,755)	0
(655) INSURANCE EXPENSE	2,541	889	3,430
(665) REGULATORY COMMISSION EXPENSE	3,942	(3,741)	201
(670) BAD DEBT EXPENSE	1,827	0	1,827
(675) MISCELLANEOUS EXPENSES	<u>5,881</u>	<u>(338)</u>	<u>5,543</u>
	<u>\$46,807</u>	<u>(\$2,424)</u>	<u>\$44,383</u>



<b>PINECREST RANCHES INC.                      TEST YEAR ENDED 6/30/09                      MONTHLY WATER RATES                      (PHASE I)</b>	<b>SCHEDULE NO. 4                      DOCKET NO. 090414-WU</b>		
	<b>UTILITY'S                      EXISTING                      RATES</b>	<b>STAFF                      RECOMMENDED                      PHASE I RATES</b>	<b>MONTHLY                      RATE                      REDUCTION</b>
<b><u>Residential Service</u></b>			
Base Facility Charge All Meter Sizes			
5/8"X3/4"	\$12.49	\$13.17	\$0.05
3/4"	\$18.75	\$19.76	\$0.08
1"	\$31.24	\$32.93	\$0.13
1-1/2"	\$62.46	\$65.85	\$0.26
2"	\$99.94	\$105.36	\$0.41
3"	\$199.87	\$210.72	\$0.82
4"	\$312.30	\$329.25	\$1.28
6"	\$624.58	\$658.50	\$2.56
Per 1,000 Gallons	\$3.77	\$3.97	\$0.02
<b><u>General Service</u></b>			
Base Facility Charge by Meter Size:			
5/8"X3/4"	\$12.49	\$13.17	\$0.05
3/4"	\$18.75	\$19.76	\$0.08
1"	\$31.24	\$32.93	\$0.13
1-1/2"	\$62.46	\$65.85	\$0.26
2"	\$99.94	\$105.36	\$0.41
3"	\$199.87	\$210.72	\$0.82
4"	\$312.30	\$329.25	\$1.28
6"	\$624.58	\$658.50	\$2.56
Gallonage Charge (all gallons) Per 1,000 Gallons	\$3.77	\$3.97	\$0.02
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
3,000 Gallons	\$15.11	\$26.34	
5,000 Gallons	\$18.57	\$32.30	
10,000 Gallons	\$27.22	\$47.20	

<b>PINECREST RANCHES INC.                  TEST YEAR ENDED 6/30/09                  SCHEDULE OF WATER RATE BASE                  (PHASE II)</b>	<b>SCHEDULE NO. 5-A                  DOCKET NO. 090414-WU</b>		
<b>DESCRIPTION</b>	<b>BALANCE                  PER                  UTILITY</b>	<b>STAFF                  ADJUST.                  TO UTIL. BAL.</b>	<b>BALANCE                  PER                  STAFF</b>
1. UTILITY PLANT IN SERVICE	\$185,440	\$0	\$185,440
2. LAND & LAND RIGHTS	6,500	0	6,500
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. ACCUMULATED DEPRECIATION	(91,278)	0	(91,278)
5. CIAC	(100,352)	0	(100,352)
6. AMORTIZATION OF CIAC	60,164	0	60,164
7. WORKING CAPITAL ALLOWANCE	<u>5,548</u>	<u>488</u>	<u>6,035</u>
8. WATER RATE BASE	<u>\$66,022</u>	<u>\$488</u>	<u>\$66,509</u>

<b>PINECREST RANCHES INC.</b> <b>TEST YEAR ENDED 6/30/09</b> <b>ADJUSTMENTS TO RATE BASE</b> <b>(PHASE II)</b>	<b>SCHEDULE NO. 5-B</b> <b>DOCKET NO. 090414-WU</b>
<b><u>WORKING CAPITAL ALLOWANCE</u></b> To reflect 1/8 of test year O & M expenses.	<b><u>WATER</u></b>  <b><u>\$488</u></b>

PINECREST RANCHES INC. TEST YEAR ENDED 6/30/09 SCHEDULE OF CAPITAL STRUCTURE (PHASE II)							SCHEDULE NO. 6 DOCKET NO. 090414-WU		
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST	
1. COMMON STOCK	\$100	(\$100)	\$0						
2. RETAINED EARNINGS	(196,846)	196,846	0						
3. PAID IN CAPITAL	111,317	(111,317)	0						
4. OTHER COMMON EQUITY	<u>0</u>	<u>0</u>	<u>0</u>						
5. TOTAL COMMON EQUITY	(85,429)	\$85,429	\$0	\$0	\$0	0.00%	11.30%	0.00%	
6. LONG TERM DEBT	43,349	(43,349)	0	0	\$0	0.00%	0.00%	0.00%	
7. NOTE-PAYABLE-CENTER STATE	<u>52,782</u>	<u>0</u>	<u>52,782</u>	<u>0</u>	66,061	<u>99.33%</u>	7.50%	7.45%	
TOTAL LONG TERM DEBT	96,131	(43,349)	52,782	0	66,061	99.33%			
8. CUSTOMER DEPOSITS	<u>384</u>	<u>64</u>	<u>448</u>	<u>0</u>	<u>448</u>	<u>0.67%</u>	6.00%	<u>0.04%</u>	
9. TOTAL	<u>\$11,086</u>	<u>\$42,144</u>	<u>\$53,230</u>	<u>\$0</u>	<u>\$66,509</u>	<u>100.00%</u>		<u>7.49%</u>	
<b>RANGE OF REASONABLENESS</b>						<b><u>LOW</u></b>	<b><u>HIGH</u></b>		
RETURN ON EQUITY						<u>10.30%</u>	<u>12.30%</u>		
OVERALL RATE OF RETURN						<u>7.49%</u>	<u>7.49%</u>		

PINECREST RANCHES INC. TEST YEAR ENDED 6/30/09 SCHEDULE OF WATER OPERATING INCOME (PHASE II)		SCHEDULE NO. 7-A DOCKET NO. 090414-WU			
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
<b>OPERATING REVENUES</b>	<u>\$54,541</u>	<u>\$0</u>	<u>\$54,541</u>	<u>\$4,127</u> 7.57%	<u>\$58,668</u>
<b>OPERATING EXPENSES:</b>					
OPERATION & MAINTENANCE	44,383	3,900	48,283	0	48,283
DEPRECIATION (NET)	2,561	0	2,561	0	2,561
AMORTIZATION	0	0	0	0	0
TAXES OTHER THAN INCOME	2,652	0	2,652	191	2,843
INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>\$49,596</u>	<u>\$3,900</u>	<u>\$53,496</u>	<u>\$191</u>	<u>\$53,687</u>
<b>OPERATING INCOME/(LOSS)</b>	<u>\$4,945</u>		<u>\$1,045</u>		<u>\$4,982</u>
<b>WATER RATE BASE</b>	<u>\$66,022</u>		<u>\$66,509</u>		<u>\$66,509</u>
<b>RATE OF RETURN</b>	<u>7.49%</u>		<u>1.54%</u>		<u>7.49%</u>

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

Contractual Services - Other (636)

a. To reflect pro forma meter replacement program of 10 per year

**WATER**

\$1,500

b. To reflect pro forma exterior repair and paint to water tank

2,400

Subtotal

\$3,900

**TOTAL OPERATION & MAINTENANCE ADJUSTMENTS**

**\$3,900**

<b>PINECREST RANCHES INC.</b> <b>TEST YEAR ENDED 6/30/09</b> <b>ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE</b> <b>(PHASE II)</b>	<b>SCHEDULE NO. 7-C</b> <b>DOCKET NO. 090414-WU</b>		
	<b>TOTAL PER UTILITY</b>	<b>STAFF PER ADJUST.</b>	<b>TOTAL PER STAFF</b>
(601) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	3,530	0	3,530
(616) FUEL FOR POWER PRODUCTION	48	0	48
(618) CHEMICALS	2,628	0	2,628
(620) MATERIALS AND SUPPLIES	690	0	690
(630) CONTRACTUAL SERVICES - BILLING	2,976	0	2,976
(631) CONTRACTUAL SERVICES - PROFESSIONAL	750	0	750
(635) CONTRACTUAL SERVICES - TESTING	1,959	0	1,959
(636) CONTRACTUAL SERVICES - OTHER	19,602	3,900	23,502
(640) RENTS	1,200	0	1,200
(650) TRANSPORTATION EXPENSE	0	0	0
(655) INSURANCE EXPENSE	3,430	0	3,430
(665) REGULATORY COMMISSION EXPENSE	201	0	201
(670) BAD DEBT EXPENSE	1,827	0	1,827
(675) MISCELLANEOUS EXPENSES	<u>5,543</u>	<u>0</u>	<u>5,543</u>
	<u>\$44,383</u>	<u>\$3,900</u>	<u>\$48,283</u>

<b>PINECREST RANCHES INC.</b> <b>TEST YEAR ENDED 6/30/09</b> <b>MONTHLY WATER RATES</b> <b>(PHASE II)</b>	<b>SCHEDULE NO. 8</b> <b>DOCKET NO. 090414-WU</b>		
	<b>STAFF RECOMMENDED PHASE I RATES</b>	<b>STAFF RECOMMENDED PHASE II RATES</b>	<b>MONTHLY RATE REDUCTION</b>
<b><u>Residential Service</u></b>			
Base Facility Charge All Meter Sizes			
5/8"X3/4"	\$13.17	\$14.14	\$0.05
3/4"	\$19.76	\$21.21	\$0.08
1"	\$32.93	\$35.35	\$0.13
1-1/2"	\$65.85	\$70.70	\$0.26
2"	\$105.36	\$113.12	\$0.41
3"	\$210.72	\$226.24	\$0.82
4"	\$329.25	\$353.50	\$1.28
6"	\$658.50	\$707.00	\$2.56
Per 1,000 Gallons	\$3.97	\$4.26	\$0.02
<b><u>General Service</u></b>			
Base Facility Charge by Meter Size:			
5/8"X3/4"	\$13.17	\$14.14	\$0.05
3/4"	\$19.76	\$21.21	\$0.08
1"	\$32.93	\$35.35	\$0.13
1-1/2"	\$65.85	\$70.70	\$0.26
2"	\$105.36	\$113.12	\$0.41
3"	\$210.72	\$226.24	\$0.82
4"	\$329.25	\$353.50	\$1.28
6"	\$658.50	\$707.00	\$2.56
Gallonage Charge (all gallons)	\$3.97	\$4.26	\$0.02
Per 1,000 Gallons			
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
3,000 Gallons	\$26.34	\$29.66	
5,000 Gallons	\$32.30	\$36.10	
10,000 Gallons	\$47.20	\$52.20	