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MARSHALL WILLIS, DIRECTOR  
DIVISION OF ECONOMIC REGULATION  
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Public Service Commission

April 12, 2012

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Regency Utilities, Inc.  
Attn: Ms. Alexa Daniels  
One Independent Drive, Suite 3120  
Jacksonville, Florida 32202

**Re: Staff-Assisted Rate Case for Regency Utilities, Inc. in Duval County, Docket No. 110282-WS**

Dear Ms. Daniels:

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

Regency Utilities, Inc.  
1 Independent Drive, Suite 3120  
Jacksonville, FL 32202

Should you have any questions about any of the matters contained herein, please do not hesitate to contact me at (850) 413-7021.

Sincerely,

A handwritten signature in black ink that reads "Shannon J. Hudson".

Shannon J. Hudson  
Regulatory Analyst IV

Enclosures

SH/as

cc: Division of Economic Regulation (Maurey, Smith, Daniel, Fletcher, Hudson, Simpson)  
Office of General Counsel (Teitzman, Robinson)  
Office of Commission Clerk (Docket No. 110282-WS)  
Mr. Martin S. Friedman, Esquire

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## Public Service Commission

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

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**DATE:** April 12, 2012

**TO:** Andrew Maurey, Bureau Chief Bureau of Rate Filings

**FROM:** Shannon Hudson, Regulatory Analyst IV *SH*  
Avy Smith, Regulatory Analyst II *AS*  
Robert Simpson, Engineering Specialist II *RS*  
Sonica Bruce, Regulatory Analyst III *SB*

**RE:** Docket No. 110282-WS – Application for staff-assisted rate case in Duval County by Regency Utilities, Inc.

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– STAFF REPORT –

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

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### Case Background

Regency Utilities, Inc. (Regency or Utility) is a Class C water and wastewater utility in Duval County. According to the Utility's 2010 Annual Report, total gross revenues were \$160,856 and \$94,471 for water and wastewater, respectively. The total operating expenses were \$256,246 for water and \$130,714 for wastewater. Regency operates the on-site water delivery, wastewater collection, and fire protection systems providing service to Regency Square Mall (Mall) in Jacksonville, Florida. Regency customers are all general service and tenants of the Mall. Regency serves approximately 138 water customers and 125 wastewater customers. The Utility is located in the St. Johns River Water Management District (SJRWMD or District), which does not have a water shortage order issued at this time; however, there is a year-round two-day a week irrigation rule.

Regency was previously granted water and wastewater certificates to serve the Mall in 1975.<sup>1</sup> The certificates were amended twice<sup>2</sup> to extend Regency's service territory to the area surrounding the Mall. On April 10, 2001, Regency and JEA closed on a transaction whereby Regency transferred its water and wastewater plants to JEA. All of Regency's service territory was transferred in the transaction except for the Mall, which JEA declined to serve directly. By Order No. PSC-02-0060-FOF-WS, the Commission approved the transfer.<sup>3</sup> Since Regency would thereafter be reselling water and wastewater services pursuant to a reseller exemption in Section 367.022(8), Florida Statutes (F.S.), the Order also cancelled Regency's water and wastewater certificates.

On February 26, 2008, Regency filed an application for water and wastewater certificates and authorization to charge rates in excess of the purchase price. As its reason, Regency stated that it could no longer support its operations while billing customers at the same rates for water and wastewater services which it pays to purchase the services from JEA. By Order No. PSC-08-0611-PAA-WS, the Commission approved Regency's application for water and wastewater certificates and issued certificate Nos. 641-W and 551-S.<sup>4</sup>

This Staff Report is a **preliminary** analysis of the Utility prepared by the Florida Public Service Commission (Commission) staff to give utility customers and the Utility an advanced look at what staff may be proposing. The final recommendation to the Commission (currently scheduled to be filed June 7, 2012, for the June 19, 2012, Commission Conference) will be revised as necessary using updated information and results of customer quality of service or

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<sup>1</sup> See Order No. 6448, issued January 9, 1975, in Docket Nos. 74425-W and 74426-S, In Re: Application of Regency Utilities, Inc., for certificates to operate a water and sewer utility in Duval County, Fla.

<sup>2</sup> See Order No. 8045, issued November 16, 1977, in Docket No. 770504-WS (EX), In Re: Application of Regency Utilities, Inc. for amendment of Water Certificate No. 197-W and Sewer Certificate No. 143-S in Duval County, Florida. Section 367.061, Florida Statutes and Order No. 9518, issued September 3, 1980, in Docket No. 800151-WS (EX), In Re: Application of Regency Utilities, Inc. for amendment of Certificate Nos. 143-S and 143-W (stet) to include territory in Duval County, Florida.

<sup>3</sup> See Order No. PSC-02-0060-FOF-WS, issued January 8, 2002, in Docket No. 010986-WS, In Re: Notice of sale of assets of Regency Utilities, Inc. in Duval County to Jacksonville Electric Authority, and request for cancellation of Certificate Nos. 197-W and 143-S.

<sup>4</sup> See Order No. PSC-08-0611-PAA-WS, issued September 22, 2008, in Docket No. 080113-WS, In re: Application for certificates to provide water and wastewater service in Duval County by Regency Utilities, Inc.

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other relevant comments received at the customer meeting. The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.0814, 367.101, and 367.121, F.S.

### **Discussion of Issues**

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

**Preliminary Recommendation:** The staff recommendation regarding customer satisfaction and overall quality of service will not be finalized until after the April 26, 2012, customer meeting. (Simpson)

**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 components of water and wastewater 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.

Regency is a consecutive system that purchases bulk water and wastewater service from the JEA and provides water, wastewater, and fire protection services to the Mall in Jacksonville. The Utility operates and maintains the water distribution and collection systems in the Mall. The Utility is in compliance with all state and local regulations for consecutive water and wastewater systems.

Staff reviewed the Commission's Customer Activity Tracking System for the past three years and found no complaints. The staff recommendation regarding customer satisfaction and overall quality of service will not be finalized until after the April 26, 2012 customer meeting.

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**Issue 2:** What are the used and useful percentages for Regency?

**Preliminary Recommendation:** The water distribution and the wastewater collection systems should be considered 100 percent used and useful (U&U). (Simpson)

**Staff Analysis:** There has been no growth in the past five years and there are no plans for service area expansion. Further, the existing distribution and collection systems are needed to serve the existing customers. Therefore, staff recommends that the water distribution and wastewater collection systems be considered 100 percent U&U.

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

**Preliminary Recommendation:** The appropriate average test year rate base for the Utility is \$361,362 for water and \$46,272 for wastewater. (Hudson)

**Staff Analysis:** Rate base for this Utility has not been established. Staff selected a test year ended September 30, 2011, for this rate case. Regency was unable to provide documentation for its water, wastewater and fire protection assets. In order to calculate an appropriate balance for UPIS, staff used documentation from the sale to JEA in 2001 and the certification docket in 2008. Based on the documentation, staff was able to determine appropriate rate base components for the Utility. A summary of each component and the recommended adjustments are discussed below.

**Utility Plant in Service (UPIS):** The Utility recorded a test year UPIS balance of \$1,131,493 for water and \$36,942 for wastewater. Staff has increased both water and wastewater by \$25,000 each to reflect organization costs incurred during the certification docket. Staff has increased water by \$11,401 to reflect the appropriate balance for meters. Also, staff has increased water and wastewater by \$373 to reflect the appropriate account balance for office equipment. Staff's recommended adjustments to UPIS result in increases of \$36,774 for water and \$25,373 for wastewater. Staff recommends UPIS balances of \$1,168,267 for water and \$62,315 for wastewater.

**Non-used and Useful Plant:** As discussed in Issue 2, Regency's water distribution and wastewater collection systems should be considered 100 percent U&U. Therefore, a U&U adjustment is not necessary.

**Contribution in Aid of Construction (CIAC):** The Utility recorded test year CIAC of \$0 for both water and wastewater. Staff has determined the appropriate CIAC to be \$21,980 for water and \$30,260 for wastewater and increased this account, accordingly.

**Accumulated Depreciation:** Regency recorded balances for accumulated depreciation of \$711,791 for water and \$28,079 for wastewater. Staff has calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff's calculated accumulated depreciation is \$840,717 for water and \$31,185 for wastewater. As a result, accumulated depreciation has been increased by \$128,926 for water and \$3,106 for wastewater. In addition, staff has decreased accumulated depreciation by \$11,588 for water and \$786 for wastewater to reflect averaging adjustments. Staff recommends accumulated depreciation of \$829,129 and \$30,399 for water and wastewater, respectively.

**Accumulated Amortization of CIAC:** The Utility recorded amortization of CIAC balances of \$0 for both water and wastewater. Amortization of CIAC has been calculated by staff using composite depreciation rates. As a result, accumulated amortization of CIAC should be increased by \$21,672 for water and \$27,933 for wastewater. In addition, this account should be decreased by \$218 for water and \$382 for wastewater to reflect averaging adjustments. Staff's adjustments to this account result in amortization of CIAC balances of \$21,454 for water and \$27,551 for wastewater.



Working Capital Allowance: Regency recorded working capital of \$34,741 for water and \$6,158 for wastewater. Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses or 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 the working capital allowance. Applying this formula, staff recommends a working capital allowance of \$22,750 for water and \$17,064 for wastewater (based on O&M expense of \$182,002/8 for water and \$136,513/8 for wastewater). Staff has decreased the working capital allowance by \$11,991 for water and increased it by \$10,906 for wastewater.

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate average test year rate base is \$361,362 for water and \$46,272 for wastewater. Water and wastewater rate base is shown on Schedule Nos. 1-A and 1-B, respectively. The related adjustments are shown on Schedule No. 1-C.

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

**Preliminary Recommendation:** The appropriate return on equity (ROE) is 8.74 percent with a range of 7.74 percent to 9.74 percent. The appropriate overall rate of return is 8.70 percent. (Hudson)

**Staff Analysis:** According to staff's audit, the Utility's capital structure consists of common equity of \$627,318 and customer deposits of \$5,400. The Utility currently does not have a tariff for customer deposits. Regency was collecting the customer deposits prior to being recertified by the Commission. The customer deposits were not addressed in the certification docket. The Utility continued to collect a \$50 customer deposit from its customers after its certification. For purposes of the staff report, staff has included the customer deposits in the capital structure. However, for the final recommendation, staff will evaluate the appropriate customer deposit level. In Issue 12, staff has recommended customer deposits on a going-forward basis for the Utility.

The Utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE is 8.74 percent using the Commission-approved leverage formula currently in effect.<sup>5</sup> Staff recommends an ROE of 8.74 percent, with a range of 7.74 percent to 9.74 percent, and an overall rate of return of 8.70 percent. The ROE and overall rate of return are shown on Schedule No. 2.

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<sup>5</sup> See Order Nos. PSC-11-0287-PAA-WS, issued July 5, 2011, and PSC-11-0326-CO-WS, issued August 2, 2011, in Docket No. 110006-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 in this case?

**Preliminary Recommendation:** The appropriate test year revenue for this Utility is \$161,764 for water and \$112,022 for wastewater. (Bruce, Smith)

**Staff Analysis:** Regency recorded total revenue of \$265,347 for water and \$0 for wastewater. Staff has annualized revenues based on test year billing determinants and existing rates and determined the Utility's recorded revenue to be \$161,764 for water and \$112,022 for wastewater. Staff has decreased test year revenues for water by \$103,583 and increased wastewater test year revenues by \$112,022. Staff recommends test year revenue of \$161,764 and \$112,022 for water and wastewater, respectively. Water and wastewater test year revenue is shown on Schedule Nos. 3-A and 3-B, respectively.

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

**Preliminary Recommendation:** The appropriate amount of operating expense for Regency is \$217,097 for water and \$146,507 for wastewater. (Smith)

**Staff Analysis:** Regency recorded operating expense of \$325,513 for water and \$57,439 for wastewater, for the test year ended September 30, 2011. The test year O&M expenses have been reviewed, and invoices, canceled checks, and other supporting documentation have been examined. Staff has made several adjustments to the Utility's operating expenses as summarized below:

Salaries and Wages - Employees (601/701) – Regency recorded \$17,484 in this account for water and \$10,269 for wastewater. The Utility provided recent W-2 forms for support documentation of the salaries and wages for two staff accountants who are responsible for customer relations and accounting duties. The Utility also included the salary of \$6,339 for water and \$174 for wastewater in this account for Ms. Alexa Daniels, the Utility's Chief Financial Officer (CFO). Staff believes that Ms. Daniels' salary should be reclassified to salaries and wages – officers. Accordingly, staff has reclassified these amounts to salaries and wages - officers. Staff recommends salaries and wages – employees expense of \$11,145 for water and \$10,095 for wastewater.

Salaries and Wages - Officers (603/703) – Regency did not record any amount of salaries and wages – officers in this account. As stated above, staff has made an adjustment to reclassify \$6,339 and \$174 for water and wastewater, respectively to this account for the CFO's salary. Ms. Daniels' salary is allocated at five percent to the Utility. Based on copies of W-2 forms provided by the Utility, the CFO's total salary allocated to Regency should be \$6,850. The Utility's allocation methodology was 63 percent for water and 37 percent for wastewater. It is Commission practice to allocate common costs between water and wastewater based on the number of customers. Therefore, staff has determined the appropriate allocation to be 52.5 percent for water and 47.5 percent for wastewater based on the number of customers. As such, staff has made an adjustment to decrease water by \$2,743 and increase wastewater by \$3,080 to reflect the appropriate salary allocation for Regency's CFO.

Robert Stein serves as the president for Regency, and performs 15 hours of consulting work per week, for an annual total of \$12,600. Staff believes this amount is reasonable. The Utility recorded Mr. Stein's fees in contractual services – other. However, staff has determined that Mr. Stein's salary should be included in salaries and wages – officers based on the fact that the Utility recorded benefits and paid payroll taxes for Mr. Stein. To reflect the reclassification adjustment, staff has increased this account by \$7,938 for water and \$4,662 for wastewater. Based on the allocation methodology mentioned above, staff believes the appropriate salary for Mr. Stein is \$6,615 ( $\$12,600 \times 52.5$  percent) for water and \$5,985 ( $\$12,600 \times 47.5$  percent) for wastewater. Therefore, staff has decreased this account by \$1,327 ( $\$6,615 - \$7,938$ ) for water and increased this account by \$1,327 ( $\$5,985 - \$4,662$ ) for wastewater to reflect staff's recommended allocation. Staff recommends salaries and wages – officers expense of \$10,208 ( $\$6,339 - \$2,743 + \$7,938 - \$1,327$ ) for water and \$9,242 ( $\$174 + \$3,080 + \$4,662 + \$1,327$ ) for wastewater.

Employee Pensions and Benefits (604/704) – Regency recorded \$7,428 for water and \$4,363 for wastewater in this account for employee pensions and benefits. The Utility’s records supported annual pensions and benefits totaling \$8,635 for water and \$7,821 for wastewater. Accordingly, staff has made an adjustment to increase water by \$1,207 for water and \$3,458 for wastewater. Staff recommends employee pensions and benefits expense of \$8,635 for water and \$7,821 for wastewater.

Purchased Water and Purchased Wastewater Treatment (610/710) – Regency recorded \$182,610 in this account for purchased water and \$0 for purchased wastewater treatment. Staff has reviewed invoices from JEA and determined purchased water of \$102,049 and purchased wastewater treatment expense of \$81,501. As such, staff has reduced this account by \$80,561 for water and increased this account by \$81,501 for wastewater. Staff recommends total purchased water and wastewater treatment of \$102,049 and \$81,501, respectively.

Purchased Power (615/715) – Regency did not record any purchased power for either water or wastewater in this account. Staff has reviewed invoices totaling \$281 for electric charges for the Utility’s fire pump, and increased this account by \$281 for water. Also, staff has reviewed invoices totaling \$1,715 for electric charges for the Utility’s lift station, and increased this account by \$1,715 for wastewater. Staff recommends purchased power expense of \$281 for water and \$1,715 for wastewater.

Materials and Supplies (620/720) – Regency recorded \$5,525 for water and \$3,245 for wastewater in this account for materials and supplies. The Utility’s records substantiated materials and supplies expense of \$1,921 for water and \$1,740 for wastewater. Therefore, staff had made an adjustment to decrease this account by \$3,604 for water and \$1,505 for wastewater to remove the unsupported balance. Staff recommends materials and supplies expense of \$1,921 for water and \$1,740 for wastewater.

Contractual Services – Professional (631/731) – Regency recorded \$2,834 for water and \$1,665 for wastewater in this account for contractual services – professional. Staff has reviewed the following invoices in Table 6-1:

Table 6-1

Contractual Services - Professional		
Name	Description	Amount
KPMG	U.S. Income Tax Return Review	\$850
Burton & Associates	Certificate Application	64
Burton & Associates	Valuation Analysis	<u>3,533</u>
Total		<u>\$4,447</u>

The Utility utilized an allocation methodology of 63 percent for water and 37 percent for wastewater. As stated above, staff has determined the appropriate allocation to be 52.5 percent for water 47.5 percent for wastewater. Thus, contractual services – professional should be \$2,333 for water and \$2,113 for wastewater. Staff has decreased this account by \$501 for water and increased this account by \$448 for wastewater to reflect the appropriate allocation. Staff

recommends contractual services – professional expense of \$2,333 for water and \$2,113 for wastewater.

Contractual Services – Testing (635) – Regency recorded \$1,213 for water in this account for testing expense. The Utility provided staff with an \$85 invoice from W.W. Gay Fire Protection, Inc. for the annual testing of a backflow preventer. Accordingly, staff has increased this account by \$85 to reflect this amount. Additionally, the Utility has provided staff with another invoice from W.W. Gay Fire Protection, Inc. for the annual fire pump test and hydrant flush and maintenance. Staff has increased this account by \$1,128 to reflect the annual fire pump test. Staff recommends contractual services – testing expense of \$2,426.

Contractual Services – Other (636/736) – Regency recorded \$32,705 for water and \$13,209 for wastewater in this account for contractual services – other. Staff has reclassified \$7,938 for water and \$4,662 for wastewater to salaries and wages – officers for the Utility’s president, Mr. Robert Stein. While calculating the appropriate total for this account, staff discovered that Mr. Stein’s salary was recorded twice. Therefore, staff has made a separate adjustment to remove the duplication of his salary. Finally, staff has made an adjustment to decrease water by \$1,368 and increase wastewater by \$868 to reflect staff’s recommended allocation. Staff recommends contractual services – other expense of \$15,461 ( $\$32,705 - \$7,938 - \$7,938 - \$1,368$ ) for water and \$4,753 ( $\$13,209 - \$4,662 - \$4,662 + \$868$ ) for wastewater.

Regulatory Commission Expense (665/765) – Regency recorded \$0 for both water and wastewater in this account. Pursuant to Rule 25-22.0407, F.A.C., the Utility is required to mail notices of the customer meeting and notices of final rates in this case to its customers. For these notices, staff has estimated \$223 for postage expense, \$202 for printing expense, and \$25 for envelopes. The above results in \$450 for postage, mailing notices, and envelopes. The Utility paid a \$2,000 rate case filing fee. The Utility has estimated through completion consultant fees totaling \$8,010. However, staff has made an adjustment to remove: 1) 1 hour out of the requested 6 hours for attending the customer meeting, and 2) 5 hours out of the requested 10 hours for attending the Commission Conference. These adjustments to consultant fees total \$1,980. Based on the above adjustments, staff recommends consulting fees of \$6,020.

The total rate case expense including postage, mailing notices, envelopes, filing fees and consultant fees is \$8,470 or, \$4,235 each for water and wastewater. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a four-year period. Staff recommends regulatory commission expense of \$1,059 each for water and wastewater.

Miscellaneous Expense (675/775) – Regency recorded \$4,525 for water and \$2,657 for wastewater in this account for miscellaneous expense. The Utility included annual membership fees for employee credit cards, and membership renewal fees to the Florida Institute of Certified Public Accountants. Staff believes that these expenses are not utility related. Therefore, staff has made an adjustment to decrease water by \$1,719 and wastewater by \$116 for various memberships that are non-utility related expenses. The Utility incurred \$150 for filing its corporate annual report with the Florida Department of State and included this amount in taxes other than income. Again, staff has determined the appropriate allocation to be 52.5 percent for water and 47.5 percent for wastewater. As such, staff has reclassified this amount to this account and increased this account by \$79 ( $\$150 \times 52.5$  percent) for water and \$71 ( $\$150 \times 47.5$  percent)

for wastewater to reflect the annual filing fee. Staff recommends miscellaneous expense of \$2,884 (\$4,525 - \$1,719 + \$79) for water and \$2,613 (\$2,657 - \$116 + \$71) for wastewater.

Operation and Maintenance Expenses (O&M) Summary – Total adjustments to O&M expense result in a decrease of \$95,922 for water and an increase of \$87,245 for wastewater. Staff's recommended O&M expense is \$182,002 for water and \$136,513 for wastewater. O&M expenses are shown on Schedule Nos. 3-A and 3-B.

Depreciation Expense (Net of Related Amortization of CIAC) – Regency recorded \$35,183 for water and \$885 for wastewater in this account for net depreciation expense. Staff has calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. Also, staff has calculated amortization of CIAC based on composite rates. Staff has decreased net depreciation by \$14,404 for water and \$76 for wastewater. Staff recommends net depreciation expense of \$20,779 for water and \$809 for wastewater.

Taxes Other Than Income (TOTI) – As shown on Table 6-2 below, Regency recorded \$12,406 for water and \$7,286 for wastewater in this account for TOTI.

Table 6-2

	Water	Wastewater
Property Taxes	\$4,577	\$2,688
Payroll Taxes	0	0
Local Business Tax	496	291
Annual Report Filing Fee	95	56
Regulatory Assessment Fees	7,239	4,251
Total	\$12,406	\$7,286

Staff has reviewed Duval County's non-ad valorem and ad valorem tax assessment notices. Based on these notices, staff has determined the appropriate property taxes are \$1,180 for water and \$1,068 for wastewater. Therefore, staff has reduced this account by \$3,396 (\$1,180 - \$4,577) for water and \$1,620 (\$1,068 - \$2,688) for wastewater to reflect property taxes paid by the Utility. Staff has calculated payroll tax of \$1,362 for water and \$996 for wastewater. Accordingly, staff has increased this account by \$1,362 and \$996 for water and wastewater, respectively to reflect staff's calculated payroll tax.

Based on staff's recommended test year revenues, the Utility's RAFs should be \$7,279 for water and \$5,041 for wastewater. Staff has increased this account by \$40 and \$790 for water and wastewater, respectively, to reflect the appropriate RAFs. As discussed in Issue 7, revenues have been increased by \$86,772 for water and \$38,511 for wastewater to reflect the change in revenue required to cover expenses and afford the Utility an opportunity to earn the recommended return of investment. As a result, TOTI should be increased by \$3,905 for water and \$1,733 for wastewater to reflect RAFs of 4.5 percent on the recommended incremental change in revenues. Staff recommends TOTI of \$14,317 (\$12,406 - \$3,396 + \$1,362 + \$40 + \$3,905) for water and \$9,185 (\$7,286 - \$1,620 + \$996 + \$790 + \$1,733) for wastewater.

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

Operating Expenses Summary – The application of staff's recommended adjustments to Regency's recorded test year operating expenses result in staff's recommended operating expenses of \$217,097 for water and \$146,507 for wastewater. Operating expenses are shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule No. 3-C.



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

**Preliminary Recommendation:** The appropriate revenue requirement is \$248,535 for water and \$150,532 for wastewater. (Hudson, Smith)

**Staff Analysis:** Regency should be allowed an annual increase of \$86,772 (53.64 percent) for water and an annual increase of \$38,511 (34.38 percent) for wastewater. This will allow the Utility the opportunity to recover its expenses and earn a return of 8.70 percent on its investment. The calculations are as follows:

Table 7-1

	<u>Water</u>	<u>Wastewater</u>
Adjusted Rate Base	\$361,362	\$46,272
Rate of Return	x .0870	x .0870
Return on Rate Base	\$31,439	\$4,026
Adjusted O&M expense	182,002	136,513
Depreciation expense (Net)	20,779	809
Amortization	0	0
Taxes Other Than Income	14,317	9,185
Income Taxes	0	0
Revenue Requirement	\$248,535	\$150,532
Less Test Year Revenues	161,764	112,022
Annual Increase	\$86,772	\$38,511
Percent Increase/(Decrease)	53.64%	34.38%

**Issue 8:** What are the appropriate rate structures for the Utility's water and wastewater systems?

**Preliminary Recommendation:** The appropriate rate structures for the Utility's water and wastewater systems' non-residential class is a continuation of the base facility charge (BFC)/gallage charge rate structure. The water system's BFC cost recovery should be set at 40 percent and the wastewater BFC cost recovery should be set at 50 percent. (Bruce)

**Staff Analysis:** Order No. PSC-02-0060-FOF-WS addressed the transfer of the Regency's water and wastewater plants to JEA on April 1, 2001. This transfer included all of the Utility's service area except for the Regency Square Mall. For this reason, the Utility purchases its water and wastewater treatment from JEA and resells these services to the tenants of the Mall. Furthermore, the transfer did not include the facilities and wells associated with the fire protection services. Therefore, the Utility continues to maintain and monitor the fire protection system as required to provide fire protection water to the service area.

**Water:** Currently, the Utility serves 128 non-residential customers and 10 irrigation customers. Regency's rates for the non-residential class consist of a BFC/gallage charge rate structure. The BFC is \$16.99 and the gallage charge is \$1.60 per 1,000 gallons.

The Utility is located in the SJRWMD. Since the Utility purchases its potable water and wastewater treatment from JEA and resells these services to the tenants of the Mall, the Utility is considered non-jurisdictional to the District for the potable water system. However, the District does have jurisdiction of the facilities associated with the fire protection services.

Based on staff's analysis of the non-residential customer base, the average monthly consumption is 32.29 kgals. However, given that the customer base consists of non-residential customers only, staff recommends a continuation of the current BFC/charge rate structure. This rate structure is typical for non-residential customers. Furthermore, this rate structure is considered conservation-oriented because customers' bills increase as their consumption increases. Also, the water system's fixed cost recovery should be set at 40 percent.

Regency provides water for the Mall's fire protection system. The water is supplied from a dedicated well and is piped, without treatment, to a storage tank. The water is available for use upon demand by the Mall. Typically, private fire protection rates are one-twelfth of the base facility charge of the meter supplying the water. In this instance, the water is not measured by a meter. Therefore, staff is unable to design a private fire protection rate using this methodology. The Mall is the exclusive user of the non-potable water provided for fire protection. The tenants of the Mall benefit from the existence of the fire protection system. Staff's recommended revenue requirement allows Regency to recover a return on its investment and expenses related to fire protection. Based on the above, staff believes the costs associated with the fire protection service are best recovered through the monthly rates of the customers.

Based on the foregoing, staff recommends that the appropriate rate structure for the water system's non-residential class is a continuation of the monthly base facility charge (BFC)/uniform gallage charge rate structure. The water system's BFC cost recovery should be set at 40 percent.

Wastewater: Regency's current rate structure consists of a BFC/gallage rate structure for the wastewater systems' non-residential. The monthly BFC is \$18.96 and the usage charge is \$3.54 per 1,000 gallons.

Staff's initial allocation for the wastewater BFC cost recovery for the non-residential class is 29.73 percent. This BFC allocation is lower than the Commission's practice of setting the BFC allocation to at least 50 percent. For this reason, staff recommends setting the BFC allocation to 50 percent due to the capital intensive nature of wastewater plants.

In addition, typically it is Commission practice to set a monthly wastewater gallage cap. However, it is not appropriate in this case due to the fact that the customers are non-residential only.

Based on the foregoing, staff recommends that the appropriate rate structure for the wastewater system's non-residential class is a continuation of the monthly base facility charge (BFC)/uniform gallage charge rate structure. The wastewater system's BFC cost recovery should be set at 50 percent.

**Issue 9:** What are the appropriate rates for Regency?

**Preliminary Recommendation:** The appropriate monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B. The recommended rates should be designed to produce revenue of \$248,535 for water and \$150,532 for wastewater, excluding miscellaneous service charges. Regency 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 within 10 days of the date of the notice. (Bruce)

**Staff Analysis:** The recommended rates should be designed to produce revenue of \$248,535 for the water system and \$150,532 for the wastewater system. There are no miscellaneous service revenues for the water and wastewater systems. The appropriate rate structure for Regency's non-residential customers is a continuation of the BFC/uniform gallonage charge rate structure.

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 water and wastewater rates are shown on Schedule Nos. 4-A and 4-B.

**Issue 10:** What is the appropriate amount by which rates should be reduced four years after the published effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816 F.S.?

**Preliminary Recommendation:** The water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Regency 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 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 rates due to the amortized rate case expense. (Hudson, Smith)

**Staff Analysis:** Section 367.0816, F.S., requires that the 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 revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for RAFs. The total reduction is \$1,121 each for water and wastewater. Using Regency's current revenue, expenses, capital structure and customer base, the reduction in revenue will result in the rate decreases as shown on Schedule Nos. 4-A and 4-B.

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. Regency also should be required to file a proposed customer notice setting forth the lower rates 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 rates due to the amortized rate case expense.

**Issue 11:** 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 the Utility?

**Preliminary 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. Regency 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 temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. Prior to implementation of any temporary rates, the Utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the Utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased 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. (Hudson, Smith)

**Staff Analysis:** This recommendation proposes an increase in water and wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the Utility, staff recommends that the recommended rates be approved as temporary rates. Regency 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 temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. The recommended rates collected by the Utility should be subject to the refund provisions discussed below.

Regency should be authorized to collect the temporary rates upon staff's approval of an 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 \$83,594. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

If Regency 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 Regency 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 monies 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 Regency;
- 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 Regency, 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.

Regency 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

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Date: April 12, 2012

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 12:** What are the appropriate customer deposits for Regency?

**Recommendation:** The appropriate customer deposits for 5/8" x 3/4" meters are \$226.14 and \$145.08 for water and wastewater, respectively. The approved customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475, F.A.C. The Utility should be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding. (Bruce)

**Staff Analysis:** Pursuant to Section 367.091, F.S., this statute authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or service availability charges.

Rule 25-30.311, F.A.C., contains the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the Utility and, ultimately, the general body of ratepayers. Historically, the Commission has set initial customer deposits equal to the amount of two months' bills based on estimated average consumption for the customer class.<sup>6</sup>

Staff notes that consumption-based charges are based on the prior month's meter readings. It generally takes five to seven days from the meter reading date until customers are billed. Pursuant to Rule 25-30.335(4), F.A.C., payment may not be considered delinquent until 21 days after the bill is mailed or presented. Pursuant to Rule 25-30.320(2)(g), F.A.C., a utility may discontinue service for nonpayment of bills, provided there has been a diligent attempt to have the customer comply and the customer has been provided at least five working days' written notice. It is likely that the service would not be disconnected until well after two months subsequent to the service being rendered. Not only is collecting a customer deposit to recover this two-month period of service consistent with our past practice, it is also consistent with one of the fundamental principles of rate making – ensuring that the cost of providing service is recovered from the cost causer.<sup>7</sup>

The Utility's proposed initial customer deposits are \$226.14 and \$145.08 for water and wastewater, respectively. These amounts were calculated in compliance with Rule 25-30.311(7), F.A.C. These charges are consistent with Commission rules and staff recommends their approval.

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<sup>6</sup> See Order Nos. PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 021228-WS, In re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc.; and PSC-03-0845-PAA-WS, issued July 21, 2003, in Docket No. 021192-WS, In re: Application for staff-assisted rate case in Highlands County by Damon Utilities, Inc.

<sup>7</sup> See Order Nos. PSC-03-1119-PAA-SU, issued October 7, 2003, in Docket No. 030106-SU, In re: Application for staff-assisted rate case in Lee County by Environmental Protection Systems of Pine Island, Inc.; and PSC-96-1409-FOF-WU, issued November 20, 1996, in Docket No. 960716-WU, In Re: Application for transfer of Certificate No. 123-W in Lake County from Theodore S. Jansen d/b/a Ravenswood Water System to Crystal River Utilities, Inc.

**Issue 13:** Should the Utility be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all applicable National Association of Regulatory Commissioners Uniform System of Accounts (NARUC USOA) primary accounts associated with the Commission approved adjustments?

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

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

REGENCY UTILITIES, INC. TEST YEAR ENDED 9/30/11 SCHEDULE OF WATER RATE BASE			SCHEDULE NO. 1-A DOCKET NO. 110282-WS
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$1,131,493	\$36,774	\$1,168,267
2. LAND & LAND RIGHTS	0	0	0
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	0	(21,980)	(21,980)
5. ACCUMULATED DEPRECIATION	(711,791)	(117,338)	(829,129)
6. AMORTIZATION OF CIAC	0	21,454	21,454
7. WORKING CAPITAL ALLOWANCE	<u>34,741</u>	<u>(11,991)</u>	<u>22,750</u>
8. WATER RATE BASE	<u>\$454,443</u>	<u>(\$93,081)</u>	<u>\$361,362</u>

REGENCY UTILITIES, INC. TEST YEAR ENDED 9/30/11 SCHEDULE OF WASTEWATER RATE BASE		SCHEDULE NO. 1-B DOCKET NO. 110282-WS	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST TO UTIL BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$36,942	\$25,373	\$62,315
2. LAND & LAND RIGHTS	0	0	0
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	0	(30,260)	(30,260)
5. ACCUMULATED DEPRECIATION	(28,079)	(2,320)	(30,399)
6. AMORTIZATION OF CIAC	0	27,551	27,551
7. WORKING CAPITAL ALLOWANCE	<u>6,158</u>	<u>10,906</u>	<u>17,064</u>
8. WASTEWATER RATE BASE	<u>\$15,021</u>	<u>\$31,251</u>	<u>\$46,272</u>

<b>REGENCY UTILITIES, INC.</b>		<b>SCHEDULE NO. 1-C</b>	
<b>TEST YEAR ENDED 9/30/11</b>		<b>DOCKET NO. 110282-WS</b>	
<b>ADJUSTMENTS TO RATE BASE</b>			
	<u><b>WATER</b></u>	<u><b>WASTEWATER</b></u>	
<b><u>UTILITY PLANT IN SERVICE</u></b>			
1. To reflect the appropriate balance to Acct. Nos. 301/351.	\$25,000	\$25,000	
2. To reflect the appropriate balance to Acct. No. 334.	11,401	0	
3. To reflect the appropriate balance to Acct. Nos. 340/390.	<u>373</u>	<u>373</u>	
Total	<u>\$36,774</u>	<u>\$25,373</u>	
<b><u>CIAC</u></b>			
To reflect the appropriate CIAC.	<u>(\$21,980)</u>	<u>(\$30,260)</u>	
<b><u>ACCUMULATED DEPRECIATION</u></b>			
1. To reflect accumulated depreciation per Rule 25-30.140, F.A.C.	(\$128,926)	(\$3,106)	
2. To reflect averaging adjustments.	<u>11,588</u>	<u>786</u>	
Total	<u>(\$117,338)</u>	<u>(\$2,320)</u>	
<b><u>AMORTIZATION OF CIAC</u></b>			
1. To reflect amortization of CIAC based on composite rates.	\$21,672	\$27,933	
2. To reflect averaging adjustments.	<u>(218)</u>	<u>(382)</u>	
Total	<u>\$21,454</u>	<u>\$27,551</u>	
<b><u>WORKING CAPITAL ALLOWANCE</u></b>			
To reflect 1/8 of test year O & M expenses.	<u>(\$11,991)</u>	<u>\$10,906</u>	

REGENCY UTILITIES, INC.  
 TEST YEAR ENDED 9/30/11  
 SCHEDULE OF CAPITAL STRUCTURE

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. TOTAL COMMON EQUITY	\$627,318	\$0	\$627,318	(\$225,084)	\$402,234	98.68%	8.74%	8.62%
2. CUSTOMER DEPOSITS	<u>5,400</u>	<u>0</u>	<u>5,400</u>	<u>0</u>	<u>5,400</u>	<u>1.32%</u>	6.00%	<u>0.08%</u>
3. TOTAL	<u>\$632,718</u>	<u>\$0</u>	<u>\$632,718</u>	<u>(\$225,084)</u>	<u>\$407,634</u>	<u>100.00%</u>		<u>8.70%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>7.74%</u>	<u>9.74%</u>	
OVERALL RATE OF RETURN						<u>7.72%</u>	<u>9.69%</u>	

REGENCY UTILITIES, INC. TEST YEAR ENDED 9/30/11 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 110282-WS		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$265,347</u>	<u>(\$103,583)</u>	<u>\$161,764</u>	<u>\$86,772</u> 53.64%	<u>\$248,535</u>
<b>OPERATING EXPENSES:</b>					
2. OPERATION & MAINTENANCE	\$277,924	(\$95,922)	\$182,002	\$0	\$182,002
3. DEPRECIATION (NET)	35,183	(14,404)	20,779	0	20,779
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	12,406	(1,994)	10,412	3,905	14,317
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$325,513</u>	<u>(\$112,321)</u>	<u>\$213,192</u>	<u>\$3,905</u>	<u>\$217,097</u>
8. OPERATING INCOME/(LOSS)	<u>(\$60,166)</u>		<u>(\$51,428)</u>		<u>\$31,439</u>
9. WATER RATE BASE	<u>\$454,443</u>		<u>\$361,362</u>		<u>\$361,362</u>
10. RATE OF RETURN	<u>(13.24%)</u>		<u>(14.23%)</u>		<u>8.70%</u>

REGENCY UTILITIES, INC.			SCHEDULE NO. 3-B		
TEST YEAR ENDED 9/30/11			DOCKET NO. 110282-WS		
SCHEDULE OF WASTEWATER OPERATING INCOME					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	\$0	\$112,022	\$112,022	\$38,511 34.38%	\$150,532
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$49,268	\$87,245	\$136,513	\$0	\$136,513
3. DEPRECIATION (NET)	885	(76)	809	0	809
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	7,286	166	7,452	1,733	9,185
6. INCOME TAXES	0	0	0	0	0
7. TOTAL OPERATING EXPENSES	\$57,439	\$87,335	\$144,774	\$1,733	\$146,507
8. OPERATING INCOME/(LOSS)	(\$57,439)		(\$32,752)		\$4,026
9. WASTEWATER RATE BASE	\$15,021		\$46,272		\$46,272
10. RATE OF RETURN	(382.39%)		(70.78%)		8.70%



**REGENCY UTILITIES, INC.**  
**TEST YEAR ENDED 9/30/11**  
**ADJUSTMENTS TO OPERATING INCOME**

**SCHEDULE NO. 3-C**  
**DOCKET NO. 110282-WS**  
**PAGE 1 OF 2**

	<u>WATER</u>	<u>WASTEWATER</u>
<b>OPERATING REVENUES</b>		
To reflect the appropriate test year revenues.	( <u>\$103,583</u> )	<u>\$112,022</u>
<b>OPERATION AND MAINTENANCE EXPENSES</b>		
1. Salaries and Wages Employees (601/701)		
To reclassify A. Daniels' salaries to Acct. No. 603/703.	( <u>\$6,339</u> )	( <u>\$174</u> )
2. Salaries and Wages Officers (603/703)		
a. To reclassify A. Daniels' salary from Acct. Nos. 601/701.	\$6,339	\$174
b. To reflect appropriate salary for A. Daniels.	(2,743)	3,080
c. To reclassify R. Stein's salary from Acct. Nos. 636/736.	7,938	4,662
d. To reflect appropriate allocation of R. Stein's salary.	( <u>1,327</u> )	<u>1,327</u>
Subtotal	<u>\$10,208</u>	<u>\$9,242</u>
3. Employees Pension and Benefits (604/704)		
To reflect the appropriate allocation between systems.	<u>\$1,207</u>	<u>\$3,458</u>
4. Purchased Water/Purchased Wastewater (610/710)		
To reflect test year purchased water/purchased wastewater.	( <u>\$80,561</u> )	<u>\$81,501</u>
5. Purchased Power (615/715)		
To reflect invoices for electric charges.	<u>\$281</u>	<u>\$1,715</u>
6. Materials & Supplies (620/720)		
To remove unsupported balance.	( <u>\$3,604</u> )	( <u>\$1,505</u> )
7. Contractual Services - Professional (631/731)		
To reflect invoices for professional services.	( <u>\$501</u> )	<u>\$448</u>
8. Contractual Services - Testing (635/735)		
a. To reflect testing of backflow preventer.	\$85	\$0
b. To reflect annual fire pump test & hydrant flush and maintenance.	<u>1,128</u>	<u>0</u>
Subtotal	<u>\$1,213</u>	<u>\$0</u>

(O&M EXPENSES CONTINUED ON NEXT PAGE)

<b>REGENCY UTILITIES, INC.</b> <b>TEST YEAR ENDED 9/30/11</b> <b>ADJUSTMENTS TO OPERATING INCOME</b>		<b>SCHEDULE NO. 3-C</b> <b>DOCKET NO. 110282-WS</b> <b>PAGE 2 OF 2</b>	
O&M EXPENSES CONTINUED	<u>WATER</u>	<u>WASTEWATER</u>	
9. Contractual Services - Other (636/736)			
a. To reclassify R. Stein's salary to Account Nos. 603/703.	(\$7,938)	(\$4,662)	
b. To remove R. Stein's salary recorded twice.	(7,938)	(4,662)	
c. To reflect the appropriate allocation between systems.	(1,368)	868	
Subtotal	<u>(\$17,244)</u>	<u>(\$8,456)</u>	
11. Regulatory Expense (665/765)			
To amortize rate case expense over 4 years.	<u>\$1,059</u>	<u>\$1,059</u>	
12. Miscellaneous Expense (675/775)			
a. To remove non-utility expenses.	(\$1,719)	(\$116)	
b. To include annual filing fee.	79	71	
Subtotal	<u>(\$1,641)</u>	<u>(\$44)</u>	
<b>TOTAL OPERATION &amp; MAINTENANCE ADJUSTMENTS</b>	<u>(\$95,922)</u>	<u>\$87,245</u>	
<b>DEPRECIATION EXPENSE</b>			
To reflect the appropriate net depreciation expense.	<u>(\$14,404)</u>	<u>(\$76)</u>	
<b>TAXES OTHER THAN INCOME</b>			
1. To reflect the appropriate property taxes.	(\$3,396)	(\$1,620)	
2. To reflect the appropriate payroll taxes.	1,362	996	
3. To reflect the appropriate RAFs.	40	790	
Total	<u>(\$1,994)</u>	<u>\$166</u>	

**REGENCY UTILITIES, INC.**  
**TEST YEAR ENDED 9/30/11**

**SCHEDULE NO. 3-D**  
**DOCKET NO. 110282-WS**

**ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE**

	<b>TOTAL PER UTILITY</b>	<b>STAFF ADJUST- MENT</b>	<b>TOTAL PER STAFF</b>
(601) SALARIES AND WAGES - EMPLOYEES	\$17,484	(\$6,339)	\$11,145
(603) SALARIES AND WAGES - OFFICERS	0	10,208	10,208
(604) EMPLOYEE PENSIONS AND BENEFITS	7,428	1,207	8,635
(610) PURCHASED WATER	182,610	(80,561)	102,049
(615) PURCHASED POWER	0	281	281
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	0	0	0
(620) MATERIALS AND SUPPLIES	5,525	(3,604)	1,921
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	2,834	(501)	2,333
(635) CONTRACTUAL SERVICES - TESTING	1,213	1,213	2,426
(636) CONTRACTUAL SERVICES - OTHER	32,705	(17,244)	15,461
(640) RENTS	9,412	0	9,412
(650) TRANSPORTATION EXPENSE	0	0	0
(655) INSURANCE EXPENSE	12,884	0	12,884
(665) REGULATORY COMMISSION EXPENSE	0	1,059	1,059
(670) BAD DEBT EXPENSE	1,304	0	1,304
(675) MISCELLANEOUS EXPENSES	<u>4,525</u>	<u>(1,641)</u>	<u>2,884</u>
TOTAL	<u>\$277,924</u>	<u>(\$95,922)</u>	<u>\$182,002</u>

REGENCY UTILITIES, INC.		SCHEDULE NO. 3-E	
TEST YEAR ENDED 9/30/11		DOCKET NO. 110282-WS	
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$10,269	(\$174)	\$10,095
(703) SALARIES AND WAGES - OFFICERS	0	9,242	9,242
(704) EMPLOYEE PENSIONS AND BENEFITS	4,363	3,458	7,821
(710) PURCHASED SEWAGE TREATMENT	0	81,501	81,501
(711) SLUDGE REMOVAL EXPENSE	0	0	0
(715) PURCHASED POWER	0	1,715	1,715
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	0	0	0
(720) MATERIALS AND SUPPLIES	3,245	(1,505)	1,740
(730) CONTRACTUAL SERVICES - BILLING	0	0	0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	1,665	448	2,113
(735) CONTRACTUAL SERVICES - TESTING	0	0	0
(736) CONTRACTUAL SERVICES - OTHER	13,209	(8,456)	4,753
(740) RENTS	5,527	0	5,527
(750) TRANSPORTATION EXPENSE	0	0	0
(755) INSURANCE EXPENSE	7,567	0	7,567
(765) REGULATORY COMMISSION EXPENSES	0	1,059	1,059
(770) BAD DEBT EXPENSE	766	0	766
(775) MISCELLANEOUS EXPENSES	<u>2,657</u>	<u>(44)</u>	<u>2,613</u>
TOTAL	<u>\$49,268</u>	<u>\$87,245</u>	<u>\$136,513</u>

REGENCY UTILITIES, INC.		SCHEDULE NO. 4-A	
TEST YEAR ENDED 9/30/11		DOCKET NO. 110282-WS	
MONTHLY WATER RATES			
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	MONTHLY RATE REDUCTION
<b><u>General Service</u></b>			
<u>Base Facility Charge by Meter Size:</u>			
5/8" X 3/4"	\$16.99	\$22.88	\$0.10
3/4"	\$25.49	\$34.32	\$0.15
1"	\$42.48	\$57.20	\$0.26
1-1/2"	\$84.96	\$114.40	\$0.51
2"	\$135.93	\$183.04	\$0.82
3"	\$271.87	\$366.08	\$1.63
4"	\$424.79	\$572.00	\$2.55
6"	\$849.58	\$1,144.00	\$5.10
<b><u>General Service Gallonage Charge</u></b>			
Per 1,000 Gallons	\$1.60	\$2.77	\$0.01
<u>Typical 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$21.79	\$31.19	
5,000 Gallons	\$24.99	\$36.73	
10,000 Gallons	\$32.99	\$50.58	

REGENCY UTILITIES, INC.		SCHEDULE NO. 4B	
TEST YEAR ENDED 9/30/11		DOCKET NO. 110282-WS	
MONTHLY WASTEWATER RATES			
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	MONTHLY RATE REDUCTION
<b><u>General Service</u></b>			
Base Facility Charge by Meter Size:			
5/8" X 3/4"	\$18.96	\$22.10	\$0.16
3/4"	\$28.44	\$33.15	\$0.24
1"	\$47.40	\$55.25	\$0.41
1-1/2"	\$94.80	\$110.50	\$0.81
2"	\$151.68	\$176.80	\$1.30
3"	\$303.37	\$353.60	\$2.60
4"	\$474.01	\$552.50	\$4.07
6"	\$948.03	N/A	N/A
<b><u>General Service Gallonage Charge</u></b>			
Per 1,000 Gallons	\$3.54	\$5.50	\$0.04
<b><u>Typical 5/8" x 3/4" Meter Bill Comparison</u></b>			
3,000 Gallons	\$29.58	\$38.60	
5,000 Gallons	\$36.66	\$49.60	
10,000 Gallons	\$54.36	\$77.10	