

State of Florida



Public Service Commission

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DATE: November 29, 2012

TO: Office of Commission Clerk (Cole)

FROM: Division of Accounting and Finance (M. Brown, Fletcher, Maurey)
Division of Economics (Lingo) *DL*
Division of Engineering (Rieger) *SPR*
Office of the General Counsel (Lawson) *JSC, MRL*

RE: Docket No. 120037-WS – Application for increase in water and wastewater rates in Lake County by Utilities, Inc., of Pennbrooke.

AGENDA: 12/10/12 – Regular Agenda – Proposed Agency Action Except for Issue Nos. 19 & 20 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brown

CRITICAL DATES: 5-Month Effective Date Waived Through December 10, 2012

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\AFD\WP\120037.RCM.DOC

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Case Background

Utilities, Inc. of Pennbrooke (Pennbrooke or Utility) is a Class B utility providing water and wastewater service to approximately 1,368 water and 1,230 wastewater customers in Lake County. Pennbrooke is a wholly-owned subsidiary of Utilities, Inc. (UI). UI owns approximately 75 utilities in 15 states, including 14 water and wastewater utilities in the State of Florida. Water and wastewater rates were last established for this Utility in its 2009 rate case.¹

On March 29, 2012, Pennbrooke filed its application for an increase in its water and wastewater rates. This initial filing did not meet the minimum filing requirements (MFRs), and the Utility provided corrections to its MFRs on May 9, 2012. Staff determined that the MFRs were complete on that date, and that date was established as the official date of filing. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure.

By Order No. PSC-12-0265-PCO-WS, issued May 30, 2012 (Interim Order), the Commission denied the collection of interim water and wastewater rates, and required the Utility to hold \$75,385 or 15.34 percent of the current water revenues subject to refund, pursuant to Section 367.082, Florida Statutes (F.S.). The Utility was authorized to continue collecting previously authorized rates; however, revenues collected under those rates sufficient to reduce the achieved rate of return to the maximum of the rate of return were held subject to refund with interest.

The test year established for final rates is the simple-average period ended September 30, 2011. The Utility requested final revenue increases of \$162,305 (33.02 percent) for water and \$116,169 (23.78 percent) for wastewater.

This recommendation addresses Pennbrooke's request for final rates. The Commission has jurisdiction pursuant to Section 367.081, F.S.

¹ See Order No. PSC-10-0400-PAA-WS, issued June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke.

Discussion of Issues

Issue 1: Is the quality of service provided by Utilities, Inc. of Pennbrooke satisfactory?

Recommendation: Yes. The overall quality of service provided by Pennbrooke is satisfactory. However, due to localized water pressure concerns and the water quality aesthetics, staff recommends that Pennbrooke continue to engage the customers to discuss potential options and associated costs. (Rieger)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C), the Commission determines the overall quality of service provided by a Utility by evaluating three separate components of operations. These components include the quality of the Utility's product, the operational condition of the Utility's plant and facilities, and the Utility's attempt to address customer satisfaction. Comments or complaints received by the Commission from customers are reviewed, and the Utility's current compliance with the Department of Environmental Protection (DEP) is also considered.

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

With a rated maximum day capacity of 864,000 gallons, Pennbrooke's water system includes two supply wells rated at 600 gallons per minute (gpm) each, three 50,000-gallon steel ground storage tanks, two hydropneumatic tanks rated at 7,500 gallons and 10,152 gallons, respectively, and three 600 gpm high service pumps. The water is disinfected using hypo chlorination, and the chemical known as "Aquadene" is used for iron sequestration. Fire hydrants are located throughout the distribution system.

Pennbrooke is current in all of its required chemical analyses. However, in a December 2009 sanitary survey report, the DEP noted water treatment plant (WTP) deficiencies concerning the Utility's failure to operate the WTP within the designated maximum day operating capacity, failure to maintain certain water system components, and failure to have a written valve exercise program and valve exercise records. Although the Utility appeared to respond sufficiently at that time regarding the water system deficiencies, the Utility continued to exceed its operating capacity. As cited in an April 27, 2012 DEP letter, two deficiencies were identified concerning the Utility's backflow prevention policy and the Utility's continued failure to operate the WTP within the designated maximum day operating capacity.

According to DEP, the Utility's response concerning the outstanding deficiencies is satisfactory, and DEP does not intend to pursue any enforcement activity against the Utility concerning deficiencies at the WTP at this time. Additionally, the Saint John's River Water Management District (SJRWMD) has indicated to staff that although the Utility has come close to, or exceeded its withdrawal allocation as allowed in the Utility's Consumptive Use Permit, over recent years, no enforcement activity is planned at this time. It should be noted that although there has been a slight 2 percent decrease in the number of customers, the Utility has experienced an 11 percent increase in the amount of water pumped compared to the 2008 test year from the previous rate case.

Although it appears to be meeting the customer's supply needs at this time, the operating condition of the WTP is being negatively affected by one of the Utility's two wells which is showing signs of a casing failure. As part of this rate case, the Utility requested that the cost of the well replacement, approximately \$400,000, be considered as a pro forma plant improvement. However, in response to staff's first data request concerning this pro forma improvement, the Utility has since indicated that through further investigation it was determined that the replacement of the well would not be needed in its entirety. Instead, the existing 12-inch well pump assembly will be replaced by a new 10-inch assembly estimated to cost approximately \$20,000. The latest information obtained from the Utility indicated that well modification work was completed on August 9, 2012, and the well has been placed into full service. However, during the course of the actual well modification process, a problem occurred that prompted the Utility to implement a precautionary boil water notification (PBWN) to the entire Pennbrooke service area. A PBWN was issued on August 3, 2012. Once testing showed that water quality was not at risk, the PBWN was lifted on August 6, 2012. Further consideration of the Utility's request for the allowance of pro forma plant additions is discussed in Issue 4.

Pennbrooke's wastewater treatment plant (WWTP) is permitted for 180,000 gallons per day with filtrated effluent provided as reuse irrigation for a golf course and other common areas. A September 2, 2011 DEP noncompliance letter sent to the Utility indicated a need to address deficiencies. The deficiencies included flow and testing reporting discrepancies, and leaks at the seams of the treatment tanks. The Utility has since corrected the problems, and the DEP has indicated to staff that the facility has returned to compliance.

The Utility's Attempt to Address Customer Satisfaction

Customer Meeting A customer meeting was held on July 18, 2012 at the Grand Hall at Pennbrooke Fairways (service area) in Leesburg, Florida. Over 250 customers attended the meeting and 17 customers spoke. The majority of those who spoke expressed concerns with the proposed rate increase and the quality of water. The customers noted that the water tastes bad, has an odor (sometime chlorine odor) and dark color, there is sediment in the water, it leaves rust stains on fixtures, appliances and other property, and pressure problems often occur during designated irrigation periods. As an indication of the extent of the iron residue problems, customers spoke of their frustrations over cleaning dark rings or rust colored residue off water fixtures, as well as problems with sidewalks and other structures stained during watering. They also commented about what they considered abnormally high maintenance costs related to the upkeep of home treatment and filtering devices. One customer provided staff with a sample of water containing apparent rust particles. Staff was also given a copy of a survey developed by the Pennbrooke Homeowners' Association (PHOA). The survey, which had close to 500 respondents, showed that nearly 98 percent of the respondents indicated that the water quality had either not improved or had gotten worse since the previous rate case in 2010. Other survey questions reflected similar water quality problems which were discussed at the customer meetings.

Complaints and Correspondence In response to the Utility's rate case, the Commission has received letters and emails from approximately 30 customers, who expressed concerns about the proposed rate increase and the resulting negative effect a rate increase would have on their

community. The complaints also identified low pressure and unacceptable water quality, including excessive odor (sulfur and chlorine), unpleasant taste, sediment, fixture and clothes stains, and the personal cost of owning and maintaining home treatment devices.

Over the last three years, one customer filed a complaint with the Commission, which was billing related. There are currently no active complaints on file at the Commission.

As a part of its MFRs, the Utility provided a log showing approximately 50 customer complaints filed with the Utility during the test year. The complaints were consistent with the issues raised during the customer meeting and in correspondence, including 14 complaints related to water quality and 3 complaints related to water pressure. Although wastewater complaints were infrequent, there was one complaint about a sewer backup, which required a blockage to be cleaned out. The rest of the complaints filed with the Utility primarily dealt with high bills due to leaks on the customer's side of the meter, possible misreading of meters, or other unexplained water use. All of these problems appear to have been addressed by the Utility in a reasonable manner as they occurred.

In two letters to the Commission identifying its concerns, the Office of Public Counsel (OPC) noted that it was obvious that the customers who attended the customer meeting considered the quality of the water to be poor. OPC believes that this observation is further supported by the high level of dissatisfaction over the quality of water as reflected in the survey discussed above and the general customer belief that the service provided by the Utility is too expensive. OPC points out that the customer testimony included issues such as poor water pressure, excessive iron and chlorine in the water, black sludge, and damaged appliances. OPC believes that it is unreasonable that customers should pay as much as the Utility is requesting when so many customers cannot drink the water and must incur additional costs to buy bottled water and water softeners. OPC urges the Commission to consider the quality of service as marginal, because of continued quality of water and pressure problems experienced by the customers. It believes that the Utility should be required to develop a method to more closely monitor customer satisfaction in a cost effective manner.

In the Utility's August 7, 2012 response to staff's second data request, Pennbrooke indicated that it had no prior knowledge that any of the items discussed at the customer meeting were of concern as there have been few if any complaints received. It explained that the iron residue comments are likely due to a high residence time in the distribution system that would permit sequestered iron to precipitate in the lines. The chlorine comments are likely due to the customers' proximity to the WTP or the customer's sensitivity to chlorine. The Utility believes that low water pressure experienced by some customers is likely due to heavy irrigation usage. The Utility was not aware of the pressure problems; therefore, there has been no tracking of pressures.

Concerning any improvements or modification that could be done, the Utility has indicated that practically any water quality issue can be resolved by means of implementing additional treatment techniques and technologies. The limitations are capital cost, permitting, and the available footprint at the WTP. In lieu of additional treatment, the Utility suggested that it could revise the flushing program to increase the frequency and duration at each designated flushing point. Concerning the pressure situation the Utility indicated that an irrigation schedule

could be implemented that would break the system into quadrants or some other configuration to reduce the peak demand on watering days, thus increasing the available pressure on irrigation days. The Utility believes that it would likely be best to implement the revised schedule than chart pressures at area hydrants. The concepts as discussed above would require the acquiescence of the customer base. Since no meetings between the Utility and the customers to seek resolution have taken place, staff recommends that the Utility meet with the customers.

Commission orders in prior rate cases acknowledged the existence of the customers' dissatisfaction over water quality and pressure. However, in Docket No. 060261-WS, the Commission noted that the Utility was adequately addressing the concerns of the customers, and encouraged the Utility to continue its line flushing program.² In Docket No. 090392-WS, it was determined that the Utility apparently was doing what it could to remove any water quality and pressure impediments under its control and that the customers' concerns were mainly aesthetic problems, not health compliance issues. The Commission noted that point of use home treatment systems are often the most cost effective mechanism to achieve customer aesthetic quality objectives, and that to treat the water provided by the Utility to the highest customer expectation could come at significant cost to customers, particularly since a significant portion of the water used at Pennbrooke is for irrigation.³

Summary

Pennbrooke is current in all of the required chemical analyses. The operating conditions of the facilities have had deficiencies that are being timely dealt with by the Utility and there is currently no enforcement activity as DEP appears satisfied with the Utility's progress. Although options to improve the areas of concern, as described above, do have limitations, staff believes that the Utility continues to address these issues in a responsible manner. Concerning possible improvements to enhance water quality, staff agrees with the Utility that any improvements or modification that could be made by implementing additional treatment techniques and technologies, do come at a cost. Concerning pressure, it appears that the Utility is doing what it can to remove any impediments under its control. However, despite the SJRWMD involvement concerning water use restrictions, large amounts of water use during designated irrigation usage times within the Utility's service area continue to tax both the Utility's peak demand capabilities, as well as its permitted ground water supply capacity.

Staff believes that the customers' concerns are mainly aesthetic problems, not health compliance issues. Staff is aware that the cost to own and maintain home treatment systems is significant for the individual users. The cost of a home treatment unit could average \$1,000, plus additional routine maintenance costs. However, to require the Utility to treat the water to the highest customer aesthetic expectation could result in significant additional costs being passed on to customers in the form of rate increases. The Utility has estimated that to improve both water pressure and water quality, plant improvement costs would be approximately \$900,000. Regarding water pressure concerns, the community manager of the PHOA has indicated to staff

² See Order No. PSC-07-0088-PAA-WS, issued January 31, 2007, in Docket No. 060261-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke.

³ See Order No. PSC-10-0400-PAA-WS, issued June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke.

that in order to curtail usage, certain customer usage changes are being made. Irrigation usage within the “common areas” of the service area is currently being curtailed through the implementation of a water conservation program known as “Florida Friendly Landscaping.” This is a conservation technique encouraged by the SJRWMD, where drip irrigation is used, and water thirsty sod is replaced with mulch and more drought resistant native plants. As a result of the landscaping improvements, the PHOA has seen the volume of water used in those areas noticeably reduced. Also, between 40 to 50 individual residences within Pennbrooke’s service area have adopted the same conservation technique used by the PHOA. In addition to the above noted changes in irrigation usage, the PHOA has expressed interest in improving on the twice a week “even/odd” house numbering watering schedule that is currently in place. Staff learned, through contact with the SJRWMD, that even though the twice per week watering restriction is a policy of the SJRWMD, the enforcement of the watering restriction is under the control of Lake County through a County ordinance. Variances to the watering restriction are possible through Lake County. Staff has suggested to the PHOA to make contact with Lake County to see what irrigation scheduling changes are possible to help alleviate the pressure problems that occur during irrigation.

Conclusion

Staff believes that Pennbrooke’s overall quality of service is satisfactory based on the quality of its product that conforms with DEP health standards, the operating condition of its plant and facilities, and its attempt to address customer satisfaction. However, due to localized water pressure concerns and the water quality aesthetics, staff recommends that Pennbrooke continue to engage the customers to discuss potential options and associated costs.

Issue 2: Should the audit adjustments to rate base and operating expense to which the Utility and staff agree be made?

Recommendation: Yes. Based on the audit adjustments agreed to by the Utility and staff, the following adjustments should be made to rate base and net operating expense as set forth in staff's analysis below. (M. Brown)

Staff Analysis: In its response to the staff's audit report and other correspondence, Pennbrooke agreed to the audit adjustments as set forth in the tables below.

Table 2-1

Pennbrooke Audit Adjustments	Description of Adjustments
Finding No. 1	To reflect appropriate land balance
Finding No. 2	To reflect appropriate taxes other than income expense

Based on the audit adjustments agreed to by the Utility, staff recommends that the adjustments set forth in Table 2-2 and Table 2-3 be made to rate base and net operating expense.

Table 2-2

Water	
Audit Adjustments	Taxes Other Than Income (TOTI)
Finding No. 2	(\$3,732)
Adjustment Totals	<u>(\$3,732)</u>

Table 2-3

Wastewater		
Audit Adjustments	Land	TOTI
Finding No. 1	\$28,511	
Finding No. 2		(\$3,054)
Adjustment Totals	<u>\$28,511</u>	<u>(\$3,054)</u>

Issue 3: Should any adjustment be made to the Utility's Project Phoenix Financial / Customer Care Billing System (Phoenix Project)?

Recommendation: Yes. Plant should be reduced by \$12,251 for water and \$9,814 for wastewater. Corresponding adjustments should be made to increase accumulated depreciation by \$5,012 for water and \$4,147 for wastewater and to decrease depreciation expense by \$1,562 for water and \$1,262 for wastewater. O&M expenses should be decreased by \$2,623 for water and \$2,189 for wastewater. In addition, consistent with the Commission's previous decisions, Pennbrooke should be authorized to create a regulatory asset or liability for costs associated with the Phoenix Project, and to accrue interest on the regulatory asset or liability at the 30-day commercial paper rate until the establishment of rates in Pennbrooke's next rate proceeding. Furthermore, the regulatory asset or liability should be amortized over four years. (M. Brown)

Staff Analysis: The purpose of the Phoenix Project is to improve accounting, customer service, customer billing, and financial and regulatory reporting functions of UI and its subsidiaries. The Phoenix Project became operational in December 2008. Since 2009, the Commission has approved recovery of the cost of the Phoenix Project in several UI rate cases.⁴ In those cases, UI allocated the Phoenix Project costs based on each subsidiary's equivalent residential connections (ERCs) to UI's total ERCs.

Allocation of Phoenix Project Costs

In the instant case, UI allocated 1 percent of its costs to Pennbrooke based on the ratio of Pennbrooke's total ERCs to UI's total ERCs. According to UI, the total Phoenix Project costs for the test year are \$22,397,283, of which Pennbrooke calculated its allocated share to be 1 percent, or \$224,809.

2009 Divestitures of UI Subsidiaries

In 2009, UI divested several Florida subsidiaries including Miles Grant Water and Sewer Company, Utilities, Inc. of Hutchinson Island, and Wedgefield Utilities, Inc., as well as subsidiaries in other states. In Order No. PSC-10-0585-PAA-WS, the Commission found that allocating costs according to ERCs is an appropriate methodology to spread the cost of the Phoenix Project, but it did not believe the Phoenix Project costs previously allocated to the divested subsidiaries should be reallocated to the surviving utilities.⁵ Because no added benefit was realized by the remaining subsidiaries, the Commission found that it was not fair, just, or reasonable for ratepayers to bear any additional allocated Phoenix Project costs. Thus, the Commission ruled that the divested subsidiaries' allocation amounts should be deducted from the total cost of the Phoenix Project before any such costs are allocated to the remaining UI subsidiaries.

⁴ See Docket Nos. 110264-WS, 110153-SU, 100426-WS, 090531-WS, 090462-WS, 090402-WS, 090392-WS, 080250-SU, 080249-WS, 080248-SU, 080247-SU, 070695-WS, 070694-WS, and 070693-WS.

⁵ See Order No. PSC-10-0585-PAA-WS, issued September 22, 2010, in Docket No. 090462-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida, at p. 10.

Commission-Ordered Adjustments

In Order No. PSC-10-0407-PAA-SU, the Commission established the total cost of the Phoenix Project as of December 31, 2008, at \$21,617,487 and required UI to deduct \$1,724,166 from the total cost of the Phoenix Project to account for the divestiture of several subsidiaries resulting in a remaining balance of \$19,893,321.⁶ In the Utility's last rate case, the Commission ordered an adjustment of \$15,011, or \$8,406 for water and \$6,605 for wastewater to account for these divestitures. In this case, staff determined that the Utility did not make the adjustment for the Phoenix Project that the Commission had previously ordered. Therefore, staff adjusted water and wastewater plant by \$8,406 and \$6,605 for water and wastewater, respectively. Corresponding adjustments should also be made to decrease accumulated depreciation by \$4,291 for water and \$3,545 for wastewater. Depreciation expense should also be decreased by \$841 for water and \$660 for wastewater. The depreciation calculation is based on a depreciation life of ten years for the Phoenix Project.

2010 Divestitures of UI Subsidiaries

In Order No. PSC-12-0206-PAA-WS, the Commission further reduced the total cost of the Phoenix Project for systems divested in 2010. Consistent with prior Commission decisions, the adjustment to deduct the proportional amount of the divested companies from the total cost of the Phoenix Project should also be made for subsequent divestitures. As such, staff calculated that the total cost of the Phoenix Project for UI should be reduced by an additional \$702,703 to account for the divestiture of subsidiaries through 2010. The effect on the filing is a decrease to water and wastewater plant of \$3,845 and \$3,209, respectively. Corresponding adjustments should also be made to decrease both accumulated depreciation and depreciation expense by \$721 for water and \$602 for wastewater.

Computer Maintenance Expense

In a recent rate case involving Pennbrooke's sister company, Labrador Utilities, Inc., the Commission recognized the volatility of computer maintenance expense, and determined that a five-year average is an appropriate basis for ratemaking purposes, and excluded the portion of Phoenix Project IT maintenance charges associated with UI divested systems, consistent with the Commission's treatment of the Phoenix Project costs per ERC.⁷ Based on the five-year average (2007-2011) and Pennbrooke's ERC allocation percentage, staff calculates a reduction of \$2,545 for water and \$2,124 for wastewater. Moreover, removing the Phoenix Project computer maintenance charges for the divested systems share, staff determined that computer maintenance expense should be further reduced by \$78 and \$65 for water and wastewater, respectively.

⁶ See Order No. PSC-10-0407-PAA-SU, issued on September 22, 2010, in Docket No. 090381-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida, at p.6.

⁷ See Order No. PSC-12-0206-PAA-WS, issued April 19, 2012, in Docket No. 110264-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.

Creation of a Regulatory Asset or Liability

In Docket No. 110153-SU, as part of a proposed settlement of PAA protests, Utilities, Inc. (Pennbrooke's parent company) with the consent and support of OPC, petitioned this Commission to open a separate generic docket to address the protested issue relating to the Utility's Phoenix Project.⁸ In that Agreement, the Parties agreed, and this Commission subsequently ordered,⁹ that if there is an upward or downward adjustment to the previously approved revenue requirement for Utilities Inc. of Eagle Ridge resulting from a final Commission decision in Docket No. 120161-WS, the Utility should be authorized to create a regulatory asset or liability, and accrue interest on the regulatory asset¹⁰ or liability,¹¹ at the 30-day commercial paper rate until the establishment of rates in Utilities Inc. of Eagle Ridge's next rate proceeding. The Commission also ordered that the regulatory asset or liability be amortized over four years. Therefore, consistent with the Commission's actions in Docket No. 110153-SU, staff recommends that Pennbrooke be authorized to create a regulatory asset or liability for costs associated with the Phoenix Project, and to accrue interest on the regulatory asset or liability at the 30-day commercial paper rate until the establishment of rates in Pennbrooke's next rate proceeding. Furthermore, the regulatory asset or liability should be amortized over four years.

Conclusion

Based on the above, plant should be reduced by \$12,251 for water and \$9,814 for wastewater. Corresponding adjustments should be made to increase accumulated depreciation by \$5,012 for water and \$4,147 for wastewater and to decrease depreciation expense by \$1,562 for water and \$1,262 for wastewater. O&M expenses should be decreased by \$2,623 for water and \$2,189 for wastewater. In addition, consistent with the Commission's previous decisions, Pennbrooke should be authorized to create a regulatory asset or liability for costs associated with the Phoenix Project, and to accrue interest on the regulatory asset or liability at the 30-day commercial paper rate until the establishment of rates in Pennbrooke's next rate proceeding. Furthermore, the regulatory asset or liability should be amortized over four years.

⁸ On May 23, 2012, Utilities, Inc. of Eagle Ridge, on behalf of its Florida-subsiaries and pursuant to a stipulation and settlement agreement entered into with the Office of Public Counsel, filed a petition for the establishment of a generic docket to address the this Commission's treatment of the Pheonix Project's costs. This generic docket has been assigned Docket No. 120161-WS.

⁹ See Order No. PSC-12-0346-FOF-SU, issued July 10, 2012, in Docket No. 110153-SU, In re: Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge, at pp. 2, 9.

¹⁰ A regulatory asset typically involves a cost incurred by a regulated utility that would normally be expensed currently but for an action by the regulator or legislature to defer the cost as an asset to the balance sheet. This allows a utility to amortize the regulatory asset over a period greater than one year. For example, unamortized rate case expense in the water and wastewater industry is a regulatory asset. Normally, the costs of a rate case would be expensed when incurred. However, Section 367.0816, F.S., requires that water and wastewater utilities amortize rate case expense over a four-year period, thus creating a regulatory asset. The Commission's approval to defer entitled revenues and amortize the recovery of those revenues over a period greater than one year can also create a regulatory asset.

¹¹ An example of a regulatory liability would be the deferral of past overearnings to future periods.

Issue 4: Should any adjustments be made to the Utility's pro forma plant?

Recommendation: Yes. Plant should be reduced by \$386,696 for water. In addition, corresponding adjustments should be made to increase accumulated depreciation by \$19,461, decrease depreciation expense by \$13,006, and increase TOTI by \$163. Finally, accumulated deferred income taxes (ADITs) should be increased by \$5,907. (M. Brown, Rieger)

Staff Analysis: Pennbrooke included \$397,947 of pro forma plant in its MFRs to replace Well No. 1. However, in response to staff's first data request concerning this pro forma improvement, the Utility has since indicated that through further investigation it was determined that the replacement of the well would not be needed in its entirety. Instead, the existing 12-inch well pump assembly will be replaced by a new 10-inch assembly. The latest information obtained from the Utility indicated that well modification work was completed on August 9, 2012, and the well has been placed into full service. The Utility provided an invoice for the completed well modification in the amount of \$11,252. As a result, staff made an adjustment to reduce plant by \$386,696 for water. In addition, corresponding adjustments should be made to increase accumulated depreciation by \$19,461, decrease depreciation expense by \$13,006, and increase TOTI by \$163. Finally, ADITs should be increased by \$5,907.

Issue 5: What are the used and useful percentages for the Utility's water and wastewater systems?

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

Staff Analysis: In its application, the Utility indicated that the water and wastewater treatment plants, as well as the water distribution and wastewater collection systems, are all 100 percent U&U. In the Utility's last two rate cases, the water and wastewater systems were found to be 100 percent U&U.

Water Treatment Plant (WTP) and Storage

In its filing, the Utility provided a U&U analysis of the WTP, pursuant to Rule 25-30.4325, F.A.C. According to the Utility's analysis, both the WTP and storage facilities are 100 percent U&U. The U&U calculation for the WTP is determined by dividing the peak demand by the firm reliable capacity (FRC) of the wells. Consideration is given to fireflow, excessive unaccounted for water (UFW), and growth. The water system has two wells rated at 1,000 and 1,050 gpm, respectively, and storage capacity of 150,000 gallons. Because the Utility has storage capacity, the FRC is based on 16 hours of pumping. The peak day of 979,000 gallons, which occurred on September 1, 2011, appears to be appropriate since it is not associated with unusual occurrences. The Lake County fire flow requirement for the Utility's service area is 1,200 gpm for 2 hours or 144,000 gallons. There does not appear to be excessive UFW, and the Utility did not request an allowance for growth because the service area system is built out. Therefore, pursuant to Rule 25-30.4325, F.A.C., staff recommends that the WTP and storage be considered 100 percent U&U based on a peak day of 979,000 gallons, fire flow of 144,000 gallons, FRC of 960,000 gpd, and the ground storage tank usable capacity of 135,000 gallons.

Wastewater Treatment Plant (WWTP)

Pursuant to Rule 25-30.432, F.A.C., the U&U analysis of the Utility's WWTP is based on the customer demand compared with the permitted plant capacity, with customer demand measured on the same basis as the permitted capacity. Consideration is given for growth and inflow and infiltration (I&I). The Utility's filing reflected that, based on the annual average daily flow during the test year of 80,792 gallons and the DEP permitted plant capacity of 180,000 gpd, the WWTP is 44.88 percent U&U. However, according to the Utility, the WWTP should be considered 100 percent U&U because the number of customers has remained virtually unchanged from 2005 forward, the wastewater gallons treated per equivalent residential connection (ERC), including I&I, remains a low 64 gpd/ERC as compared to water gallons treated of 354 gpd/ERC. Also, there appears to be no apparent problem with I&I.

Rule 25-30.432, F.A.C., provides that the Commission will also consider factors including the extent to which the area served by the plant is built out. In the previous two rate cases, the WWTP was found to be 100 percent U&U even though U&U calculation based on flows was significantly less than 100 percent. The same built out consideration still exists today.

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Therefore, pursuant to Rule 25-30.432, F.A.C., staff recommends that the WWTP be considered 100 percent U&U, consistent with the prior rate cases.

Water Distribution and Wastewater Collection Systems

The U&U analysis for the water distribution and wastewater collection systems are determined by dividing the number of lots connected to the systems by the number of lots fronting mains in the service area. Consideration is given for growth. In this case, consistent with the Commission's finding in the Utility's prior rate cases, the service area is built out. Therefore, staff recommends that the water distribution and wastewater collection systems be considered 100 percent U&U, consistent with the prior rate cases.

Issue 6: What is the appropriate working capital allowance?

Recommendation: The appropriate working capital allowance is \$36,249 for water and \$36,233 for wastewater. As such, the working capital allowance should be decreased by \$701 for water and increased by \$1,619 for wastewater. (M. Brown)

Staff Analysis: Rule 25-30.433(2), F.A.C., requires Class B utilities use the formula method, or one-eighth of O&M expense, to calculate the working capital allowance. The Utility has properly filed its allowance for working capital using the formula method. Staff has recommended adjustments to Pennbrooke's O&M expense. As a result, staff recommends working capital of \$36,249 for water and \$36,233 for wastewater. This reflects a decrease of \$701 for water and an increase of \$1,619 for wastewater to the Utility's requested working capital allowance of \$36,950 and \$34,614 for water and wastewater, respectively.

Issue 7: What is the appropriate rate base for the test year ended September 30, 2011?

Recommendation: The appropriate simple average rate base for the test year ended September 30, 2011, is \$724,794 for water and \$1,184,747 for wastewater. (M. Brown)

Staff Analysis: In its MFRs, the Utility recorded rate base of \$1,138,890 for water and \$1,160,284 for wastewater. Staff has calculated Pennbrooke's water and wastewater rate bases using the Utility's MFRs with adjustments as recommended in the preceding issues. Accordingly, staff recommends that the appropriate simple average rate base for the test year ended September 30, 2011, is \$724,794 for water and \$1,184,747 for wastewater. Staff's recommended water and wastewater rate bases are shown on Schedule Nos. 1-A and 1-B, respectively. The adjustments are shown on Schedule No. 1-C.

Issue 8: What is the appropriate return on equity?

Recommendation: Based on the Commission leverage formula currently in effect, the appropriate return on equity (ROE) is 10.37 percent with an allowed range of plus or minus 100 basis points. (M. Brown)

Staff Analysis: The ROE included in the Utility's filing is 10.37 percent. Based on the current leverage formula in effect and an equity ratio of 49.73 percent, the appropriate ROE is 10.37 percent.¹² Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

¹² See Order No. PSC-12-0339-PAA-WS, issued June 28, 2012, in Docket No. 120006-WS, In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.

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Issue 9: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure?

Recommendation: The appropriate weighted average cost of capital for the test year ended September 30, 2011 is 7.89 percent. (M. Brown)

Staff Analysis: In its filing, the Utility requested an overall cost of capital of 8.02 percent. Based upon the proper components, amounts, and cost rates associated with the capital structure, staff recommends a weighted average cost of capital of 7.89 percent. Schedule No. 2 details staff's recommended overall cost of capital.

Issue 10: Should any adjustment be made to the Utility's salaries and wages expense?

Recommendation: Yes. O&M expense should be reduced by \$34,536 and \$18,471 for water and wastewater, respectively. Further, corresponding adjustments should be made to reduce payroll taxes by \$2,149 and \$1,149 for water and wastewater, respectively. (M. Brown)

Staff Analysis: In its MFRs, the Utility reflected water and wastewater salaries and wages of \$109,835 and \$91,676, respectively. Given the tumultuous state of the economy, and considering how recent the Utility's last rate case was, staff believes that any pay increase, beyond that already granted in prior index applications, at this time should not be borne by the ratepayers. The Commission has previously allowed recovery of O&M expenses that reflect increases associated with inflation, and recognized that reducing expenses back to the amount approved in the Utility's last rate case would effectively remove an increase the Commission has already granted in prior index applications. Therefore, staff recommends allowing recovery of the portion of salary and wages expense associated with previously approved indices. Utilizing Pennbrooke's approved price indices from 2008 through 2011, staff calculated an increase of \$1,403 for water and \$1,316 for wastewater. In Pennbrooke's last rate case, the Commission approved total salaries and wages expense of \$80,343 and \$75,337 for water and wastewater, respectively. Accounting for the approved price indices results in a total salaries and wages expense of \$81,746 for water and \$76,653 for wastewater. Therefore, staff recommends salaries and wages expense be reduced by \$28,089 (\$109,835-\$81,746) and \$15,023 (\$91,676-\$76,653) for water and wastewater, respectively. In addition, pensions and benefits expense should be reduced by \$6,447 for water and \$3,448 for wastewater.¹³

In summary, staff recommends O&M expense be reduced by \$34,536 (\$28,089+\$6,447) and \$18,471 (\$15,023+\$3,448) for water and wastewater, respectively. Further, a corresponding adjustment should be made to reduce payroll taxes by \$2,149 and \$1,149 for water and wastewater, respectively.

¹³ Staff notes that it utilized the Utility's test year ratio of pensions and benefits expense to salaries expense in order to determine the corresponding adjustments for pensions and benefits expense.

Issue 11: Should further adjustments be made to the Utility's O&M expense?

Recommendation: Yes. O&M expense should be reduced by \$11,205 for water and \$2,390 for wastewater to reflect the appropriate level of purchased power expense, regulatory commission expense, bad debt expense, and miscellaneous expenses. (M. Brown)

Staff Analysis: In its filing, Pennbrooke recorded purchased power expense of \$23,513 for water, regulatory commission expense of \$4,203 for water and \$3,506 for wastewater, bad debt expense of \$119 for water and \$99 for wastewater, and miscellaneous expenses of \$28,529 for water and \$34,745 for wastewater. Staff believes adjustments to these accounts are necessary as discussed below.

Purchased Power

In its MFRs, the Utility reflected purchased power of \$23,513 for water. In response to a staff data request, the Utility stated that purchased power for water was erroneously recorded, and acknowledged that there was a \$500 omission in the original adjustment. Given the Utility's response, staff made a \$500 reduction to purchased power expense for water.

Regulatory Commission Expense

On MFR Schedules B-5 and B-6, the Utility reflected water and wastewater regulatory commission expense of \$4,203 and \$3,506, respectively. In review of O&M expenses, staff compared these expenses to those in the Utility's last rate case, as well as expenses included in the Utility's annual reports from 2008 to 2011. Staff determined that these amounts exceed those approved in Pennbrooke's last rate case by \$3,895 and \$3,244 for water and wastewater, respectively. In addition, staff notes that these expenses also fluctuate significantly from year to year, even decreasing in the 3-month span between the Utility's test year of September 30, 2011 and December 31, 2011, as evidenced in the Utility's 2011 annual report. On MFR Schedules B-7 and B-8, the Utility states that the increase is attributable to "Certain regulatory expenses, such as researching tariff changes, acquisition policies, etc." As such, staff believes this significant increase to be a one-time expense, and recommends the expense be amortized over a four-year period to be consistent with the treatment of regulatory commission expense for Pennbrooke's sister company, Mid-County Services, Inc.¹⁴ Based on the above, staff recommends regulatory commission expense be reduced by \$3,152 for water and \$2,630 for wastewater.

Bad Debt Expense

The Utility recorded bad debt expense of \$119 for water and \$99 for wastewater in the test year. In numerous decisions, the Commission has set bad debt expense using the 3-year average in electric,¹⁵ gas,¹⁶ and water and wastewater cases.¹⁷ The Commission approved a 3-

¹⁴ See Order No. PSC-12-0389-PAA-SU, issued July 27, 2012, in Docket No. 120076-SU, In re: Investigation of rates of Mid-County Services, Inc. in Pinellas County for possible overearnings, at pp. 9-10

¹⁵ See Order Nos. PSC-94-0170-FOF-EI, issued February 10, 1994, in Docket No. 930400-EI, In re: Application for a Rate Increase for Marianna electric operations by Florida Public Utilities Company, at p. 20; PSC-93-0165-FOF-EI, issued February 2, 1993, in Docket No. 920324-EI, In re: application for a rate increase by Tampa Electric

year average in these cases based on the premise that a 3-year average fairly represented the expected bad debt expense. Overall, the basis for determining bad debt expense has been whether the amount is representative of the bad debt expense to be incurred by the Utility.

Staff calculated the 3-year average using the bad debt expense reported in the Utility's annual reports for 2009, 2010, and 2011. Based on the 3-year average calculation, Pennbrooke should be entitled to bad debt expense of \$400 for water and \$339 for wastewater, which staff believes is representative of the Utility's bad debt expense. As a result, staff recommends that Pennbrooke's bad debt expense of \$119 for water and \$99 for wastewater be increased by \$281 and \$240, respectively.

Miscellaneous Expense

According to Pennbrooke's MFRs, a total of 1,602 bills were mailed out to customers that have irrigation meters, and the associated costs were recorded in the miscellaneous expense account. According to information received from customers in the past, the same customers also receive a separate irrigation bill in addition to their regular water and wastewater bill. In the Utility's last rate case, the Commission disallowed the costs associated with the mailing of the irrigation bills, stating that the Utility's billing system should be efficient enough to include both irrigation and their regular water and wastewater service in a single bill, and that the general body of ratepayers should not have to pay the additional cost of the Utility's duplicative billing.¹⁸

Staff calculated a rate of \$4.89 per irrigation bill. This was calculated by using the costs of postage, envelopes, and the employee overhead. The method used to determine appropriate salary is the same method the Utility would use to charge a customer a late payment fee. Accordingly, staff determined that the cost of mailing 1,602 bills that should be removed from water O&M expense is \$7,834.

Summary

Based on the above, staff recommends that O&M expense be reduced by \$11,205 [(\$500)+(\$3,152)+\$281+(\$7,834)] for water and \$2,390 [(\$2,630)+\$240] for wastewater to reflect the appropriate level of purchased power expense, regulatory commission expense, bad debt expense, and miscellaneous expense.

Company, at pp. 69-70; and PSC-92-1197-FOF-EI, issued October 22, 1992, in Docket No. 910890-EI, In re: Petition for a rate increase by Florida Power Corporation, at p. 48.

¹⁶ See Order Nos. PSC-92-0924-FOF-GU, issued September 3, 1992, in Docket No. 911150-GU, In re: Application for a rate increase by Peoples Gas System, Inc., at p. 6; and PSC-92-0580-FOF-GU, issued June 29, 1992, in Docket No. 910778-GU, In re: Petition for a rate increase by West Florida Natural Gas Company, at pp. 30-31.

¹⁷ See Order No. PSC-07-0505-SC-WS, issued June 13, 2007, in Docket No. 060253-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida, at pp. 41-42.

¹⁸ See Order No. PSC-10-0400-PAA-WS, issued June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke, at p. 18.

Issue 12: Should an adjustment be made to recognize unamortized rate case expense from the Utility's prior rate case?

Recommendation: Yes. O&M expenses should be reduced by \$10,815 for water and \$8,708 for wastewater. (M. Brown)

Staff Analysis: Based on an analysis of the MFRs and Order No. PSC-10-0400-PAA-WS, staff believes an adjustment is necessary for prior rate case expense included in the Utility's test year O&M expenses. In its last rate proceeding, the Commission approved annual amortization of rate case expense of \$17,684 for water and \$15,064 for wastewater.¹⁹ In its MFRs, the Utility recorded rate case expense from their prior case of \$28,499 for water and \$23,772 for wastewater. In accordance with the Commission-approved amounts, staff reduced expenses by \$10,815 (\$28,499-\$17,684) for water and \$8,708 (\$23,772-\$15,064) for wastewater.

¹⁹ See Order No. PSC-10-0400-PAA-WS, issued June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke, at p. 18.

Issue 13: What is the appropriate amount of rate case expense for the current case?

Recommendation: The appropriate amount of rate case expense is \$49,814. This expense should be recovered over four years for an annual expense of \$12,453, or \$6,788 for water and \$5,665 for wastewater. Therefore, annual rate case expense should be reduced by \$24,431 for water and \$20,388 for wastewater from the amounts requested in the Utility’s MFRs. (M. Brown)

Staff Analysis: In its MFRs, Pennbrooke requested \$229,091 for current rate case expense. Staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On August 15, 2012, the Utility submitted a revised estimated rate case expense as of July 31, 2012, through completion of the PAA process of \$100,983.

Table 13-1

	MFR B-10 Estimated	Actual as of 8/15/2012	Additional Estimated	Revised Total
Legal Fees	\$80,688	\$9,453	\$11,095	\$20,548
Engineering Consultant Fees	36,150	24,950	1,650	26,600
WSC In-house Fees	88,053	32,466	15,000	47,466
Filing Fee	4,000	4,000	0	4,000
WSC Travel	3,200	0	0	0
FedEx & Other Misc.	12,000	2,069	100	2,169
Customer Notices	<u>5,000</u>	<u>0</u>	<u>200</u>	<u>200</u>
Total Rate Case Expense	<u>\$229,091</u>	<u>\$72,938</u>	<u>\$28,045</u>	<u>\$100,983</u>

Pursuant to Section 367.081(7), F.S., the Commission should determine the reasonableness of rate case expense and should disallow all rate case expense determined to be unreasonable. Staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. In addition, staff reviewed the Commission Order in the Utility’s prior rate case. Based on its review, staff believes the following adjustments to Pennbrooke’s rate case expense estimate are appropriate.

Legal Consultant Fees

The first adjustment relates to the Utility’s legal fees. The Utility included in its MFRs \$80,688 in legal fees to complete the rate case. The Utility provided invoices through July 31, 2012, showing legal expenses associated with the rate case totaling \$9,453. According to the invoices, the law firm of Sundstrom, Friedman & Fumero, LLP, billed the Utility .80 hours related to the correction of MFR deficiencies. Based on the law’s firm hourly rate of \$340 per hour, the total amount billed to Pennbrooke was \$272 (\$340x.80). The Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of

duplicate filing costs.²⁰ Accordingly, staff believes that \$272 should be removed as duplicative and unreasonable rate case expense. In its estimate to complete the rate case, the Utility requested 7 hours to “respond to formal and informal data requests from staff and OPC and any other discovery requests.” At the time the Utility filed its estimate to complete, however, there was only one outstanding data request, and staff anticipates needing no further information from the Utility through completion of the PAA process. As a result, staff believes 2 hours to be more reasonable, and recommends a reduction of \$1,700 (\$340x5). Based on the above, staff recommends that legal fees be reduced by a total of \$1,972 (\$272+\$1,700).

Engineering Consultant Fees

The second adjustment relates to the Utility’s engineering consulting fees. The Utility included in its MFRs \$36,150 in engineering fees to complete the rate case. The Utility provided invoices through July 31, 2012, showing expenses associated with the rate case totaling \$24,950. According to the invoices, Management & Regulatory Consultants, Inc. erroneously billed the Utility \$750 (\$150x5) related to another utility. Accordingly, staff believes that \$750 should be removed as non-utility rate case expense.

The estimate to complete the rate case included \$1,350 for 9 hours for assisting with and responding to data requests and new information and \$300 for 2 hours to prepare for and attend the Commission Conference. Staff notes that there would be no work remaining for engineering responding to data requests and new information. Also, staff believes any remaining data requests would be more appropriately addressed by WSC In-house Employees. In the Utility’s last rate case, the Commission allowed 4 hours for the engineering consultant to prepare for and attend the Commission Conference.²¹ Thus, staff believes the estimated hours for the engineering consultant should be 4 hours, which results in a reduction of \$1,050 (\$150x7). Accordingly, staff recommends that engineering fees be reduced by a total of \$1,800 (\$750+\$1,050).

WSC In-house Employee Fees

The third adjustment relates to the WSC In-house Employee fees. In its revised rate case expense estimate, the Utility requested \$47,466 for expenses related to WSC In-house Employees to process the instant case. Staff audit finding no. 3 determined there was \$27,089 in total annualized salaries for WSC and Florida personnel allocated to Pennbrooke for employees that worked on the rate case whose salaries are included in both rate case expense and various other accounts. In its response to the staff audit, the Utility stated that it did not object to this finding. In addition, in several cases involving Pennbrooke’s sister companies, the Commission has disallowed WSC In-house Employee fees. Therefore, staff recommends that all of the cost associated with WSC In-house Employee fees of \$47,466 related to the instant rate case above the amount already allocated to Pennbrooke be disallowed.

²⁰ See Order Nos. PSC-05-0624-PAA-WS, issued Jun 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.; and PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, In re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.

²¹ See Order No. PSC-10-0400-PAA-WS, issued June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke, at p. 22.

WSC FedEx Expenses

The fourth adjustment relates to WSC expenses for FedEx Corporation (FedEx) and other miscellaneous costs. In its revised rate case expense estimate, the Utility requested \$2,169 for these items, but did not provide any support of these expenses. Therefore, staff recommends that rate case expense be decreased by \$2,169.

Customer Notices and Postage

The Utility included expenses of \$5,000 for customer notices and postage. In its revised rate case expense schedule, Pennbrooke reflected no actual charges incurred, and provided a revised estimate of \$200. In recent UI rate cases, the Commission has allowed expenses of \$0.05 per envelope, \$0.34 for postage,²² and \$0.10 per copy.²³

Pennbrooke is responsible for sending 3 notices: the initial notice, customer meeting notice, and notice of the final rate increase. The initial notice and customer meeting notice were combined in this docket. As such, staff estimated the postage cost for the notices to be approximately \$933 (1,368 customers x \$0.34 pre-sorted rate x 2 notices). Staff estimates envelope costs to be \$137 (1,368 customers x \$0.05 per envelope x 2 notices) and copying costs to be \$1,368 (1,368 customers x \$0.10 per copy x 10 pages).²⁴ Based on these components, the total cost for customer notices and postage is \$2,438 (\$933+\$137+\$1,368). Accordingly, staff recommends rate case expense be increased by \$2,238 (\$2,438-\$200).

Conclusion

It is the Utility's burden to justify its requested costs.²⁵ Further, the Commission has broad discretion with respect to the allowance of rate case expense. Based upon the above, staff recommends that Pennbrooke's revised rate case expense of \$100,983 be decreased by \$51,169 for unnecessary and unsupported rate case expense. The appropriate total rate case expense is \$49,814. A breakdown of rate case expense is as follows:

²² UI has a presorted postage rate of \$0.341.

²³ See Order No. PSC-11-0514-PAA-WS, Issued November 03, 2011, in Docket No. 100426-WS, In re: Application for increase in water and wastewater rates in Lake County by Lake Utility Services, Inc., at p. 31.

²⁴ The combined initial and customer meeting notice sent by the Utility was six pages, and staff anticipates that the final notice will be approximately four pages.

²⁵ See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982)

Table 13-2

	<u>MFR B-10 Estimated</u>	<u>Utility Revised Actual & Estimated</u>	<u>Staff Adjustments</u>	<u>Total</u>
Legal Fees	\$80,688	\$20,548	\$(1,972)	\$18,576
Engineering Consultant Fees	36,150	26,600	(1,800)	24,800
WSC In-house Fees	88,053	47,466	(47,466)	0
Filing Fee	4,000	4,000	0	4,000
WSC Travel	3,200	0	0	0
FedEx & Other Misc.	12,000	2,169	(2,169)	0
Customer Notices	<u>5,000</u>	<u>200</u>	<u>2,238</u>	<u>2,438</u>
Total Rate Case Expense	<u>\$229,091</u>	<u>\$100,983</u>	<u>\$(51,169)</u>	<u>\$49,814</u>
Total Amortization	<u>\$57,273</u>	<u>\$25,246</u>	<u>\$(12,792)</u>	<u>\$12,453</u>

The appropriate amount of rate case expense is \$49,814. This expense should be recovered over four years for an annual expense of \$12,453, or \$6,788 for water and \$5,665 for wastewater. Therefore, annual rate case expense should be reduced by \$24,431 for water and \$20,388 for wastewater from the amounts requested in the Utility's MFRs.

Issue 14: What are the appropriate revenue requirements?

Recommendation: The following revenue requirement should be approved.

	Test Year		Revenue	
	<u>Revenue</u>	<u>\$ Increase</u>	<u>Requirement</u>	<u>% Increase</u>
Water	\$491,577	\$4,687	\$496,264	0.95%
Wastewater	\$488,477	\$56,445	\$544,922	11.56%

(M. Brown)

Staff Analysis: In its filing, Pennbrooke requested revenue requirements to generate annual revenue of \$653,882 and \$604,646 for water and wastewater, respectively. These requested revenue requirements represent revenue increases of \$162,305, or approximately 33 percent, for water and \$116,169, or approximately 15 percent, for wastewater.

Consistent with staff's recommendations concerning the underlying rate base, cost of capital, and operating income issues, staff recommends approval of rates designed to generate a water revenue requirement of \$496,264 and a wastewater revenue requirement of \$544,922. The recommended water revenue requirement exceeds staff's adjusted test year revenue by \$4,687, or 0.95 percent, for water. The recommended wastewater revenue requirement exceeds staff's adjusted test year revenue by \$56,445 or 11.56 percent. These recommended pre-repression revenue requirements will allow the Utility the opportunity to recover its expenses and earn a 7.89 percent return on its investment in water and wastewater rate base.

Issue 15: What are the appropriate rate structures for the Utility's water and wastewater systems?

Recommendation: The appropriate rate structure for the water system's residential class is a continuation of its four-tier inclining block rate structure, with no changes being made to the monthly consumption usage blocks of: a) 0-3 kgals, b) 3.001-6 kgals, c) 6.001-12 kgals, and d) for all usage in excess of 12 kgals. The usage block rate factors in the second, third and fourth usage blocks should change to 1.0, 1.23 and 1.48, respectively. The appropriate rate structure for all non-residential classes is a continuation of the BFC/uniform gallonage charge rate structure. The appropriate rate structure for the wastewater system is a continuation of the BFC/gallonage charge rate structure. The residential wastewater gallonage cap for monthly consumption should remain at 6 kgals, while the general service gallonage charge should remain 1.2 times greater than the corresponding residential charge. (Lingo)

Staff Analysis: The Utility's current water system rate structure for its residential class is a four-tier inclining block rate structure with usage blocks for monthly usage of: a) 0-3 kgals, b) 3.001-6 kgals, c) 6.001-12 kgals, and d) for all usage in excess of 12 kgals. The usage block rate factors established in the Utility's prior case for the second, third and fourth usage blocks were 1.0, 1.25 and 1.5, respectively. As a result of implementation of price index and pass through rate adjustments since the Utility's last case, plus the application in the current case of an across the board increase as discussed in a prior issue, the second, third and fourth usage block rate factors change slightly, to 1.0, 1.23 and 1.48, respectively. The appropriate rate structure for all non-residential classes is a continuation of the BFC/uniform gallonage charge rate structure.

The appropriate rate structure for the wastewater system is a continuation of the BFC/gallonage charge rate structure. The residential wastewater gallonage cap for monthly consumption should remain at 6 kgals, while the general service gallonage charge should remain 1.2 times greater than the corresponding residential charge.

Issue 16: Is a repression adjustment for the water system appropriate in this case, and, if so, what is the appropriate adjustment?

Recommendation: No, a repression adjustment is not appropriate in this case. (Lingo)

Staff Analysis: As discussed in prior issues, staff is recommending an increase in water system revenue requirements of 0.95%. Staff does not believe that the recommended increase will be sufficient to result in a repression of consumption. The Commission does not make repression adjustments to wastewater systems due to the nondiscretionary nature of residential wastewater usage. Therefore, no repression adjustment is appropriate.

Issue 17: What are the appropriate water and wastewater rates for the Utility?

Recommendation: The appropriate water and wastewater rates are shown in Schedule Nos. 4-A and 4-B, respectively. Excluding miscellaneous service revenues, the recommended rates are designed to produce total Utility revenues of \$494,962 for the water system and \$543,835 for the wastewater system. 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 of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given within 10 days of the date of the notice. (Lingo, M. Brown)

Staff Analysis: Excluding miscellaneous service revenues, the recommended rates are designed to produce total Utility revenues of \$494,962 for the water system, and \$543,835 for the wastewater system. 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 of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given within 10 days of the date of the notice.

Issue 18: In determining whether any portion of the current water revenue held subject to refund should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

Recommendation: Based on the staff recommendation in other issues, there is no refund required for water. Therefore, the corporate undertaking should be released. (M. Brown)

Staff Analysis: By Order No. PSC-12-0265-PCO-WS (Interim Order), the Commission denied the collection of interim water and wastewater rates, and required the Utility to hold \$75,385 or 15.34 percent of the current water revenues subject to refund, pursuant to Section 367.082, F.S.²⁶ The Utility was authorized to continue collecting previously authorized rates; however, revenues collected under those rates sufficient to reduce the achieved rate of return to the maximum of the rate of return were held subject to refund with interest.

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

Using the principles discussed above, staff calculated an adjusted interim revenue requirement of \$489,156 for water and \$538,990 for wastewater utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period. The adjusted water interim revenue requirement of \$489,156 is greater than the interim revenue requirement of \$416,192 granted in the Interim Order. This results in no required refund for water. The adjusted wastewater interim revenue requirement of \$538,990 is greater than the interim revenue requirement of \$498,581 granted in the Interim Order. This results in no required refund for wastewater. As such, the corporate undertaking should be released.

²⁶ See Order No. PSC-12-0265-PCO-WS, issued May 30, 2012, in Docket No. 120037-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke.

Issue 19: 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, Florida Statutes?

Recommendation: The rates should be reduced as shown on Schedule Nos. 4-A and 4-B to remove \$7,178 for water and \$5,991 for wastewater related the annual rate case expense, grossed-up for RAFs, which is being amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction.

(M. Brown)

Staff Analysis: Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return included in working capital, and the gross-up for RAFs, which is \$7,178 for water and \$5,991 for wastewater. The decreased revenue will result in the rate reduction recommended by staff on Schedule Nos. 4-A and 4-B.

The Utility should be required to file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. Pennbrooke should provide proof of the date notice was given within 10 days of the date of the notice.

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

Issue 20: 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 the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) primary accounts associated with the Commission approved adjustments?

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

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

Issue 21: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Once these actions are complete, this docket should be closed administratively. (Lawson, M. Brown)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Once these actions are complete, this docket should be closed administratively.

Utilities, Inc. of Pennbrooke Schedule of Water Rate Base Test Year Ended 09/30/2011		Schedule No. 1-A Docket No. 120037-WS			
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$2,319,543	\$376,616	\$2,696,159	(\$398,946)	\$2,297,213
2 Land and Land Rights	22,054	9	22,063	0	22,063
3 Non-U&U Components	0	0	0	0	0
4 Accumulated Depreciation	(1,184,730)	75,098	(1,109,632)	(14,449)	(1,124,081)
5 CIAC	(353,117)	(543,946)	(897,063)	0	(897,063)
6 Amortization of CIAC	248,942	141,471	390,413	0	390,413
7 Construction Work in Progress	1,482	(1,482)	0	0	0
8 Acquisition Adjustments	476,560	(476,560)	0	0	0
9 Working Capital Allowance	<u>37,655</u>	<u>(705)</u>	<u>36,950</u>	<u>(701)</u>	<u>36,249</u>
10 Rate Base	<u>(\$1,568,389)</u>	<u>(\$429,499)</u>	<u>\$1,338,890</u>	<u>(\$414,096)</u>	<u>\$724,794</u>

Utilities, Inc. of Pennbrooke Schedule of Wastewater Rate Base Test Year Ended 09/30/2011				Schedule No. 1-B Docket No. 120037-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$3,000,682	(\$13,337)	\$2,987,345	(9,814)	\$2,977,531
2 Land and Land Rights	28,518	7	28,525	28,511	57,036
3 Non-U&U Components	0	0	0	0	0
4 Accumulated Depreciation	(1,249,707)	6,767	(1,242,940)	4,147	(1,238,793)
5 CIAC	(1,733,772)	517,012	(1,216,760)	0	(1,216,760)
6 Amortization of CIAC	840,579	(271,079)	569,500	0	569,500
7 Working Capital Allowance	<u>35,792</u>	<u>(1,178)</u>	<u>34,614</u>	<u>1,619</u>	<u>36,233</u>
8 Rate Base	<u>\$922,092</u>	<u>\$238,192</u>	<u>\$1,160,284</u>	<u>\$24,463</u>	<u>\$1,184,747</u>

Utilities, Inc. of Pennbrooke Adjustments to Rate Base Test Year Ended 09/30/2011		Schedule No. 1-C Docket No. 120037-WS	
Explanation	Water	Wastewater	
<u>Plant In Service</u>			
1 Phoenix Project Adjustment (Issue 3)	(\$12,251)	(\$9,814)	
2 Reflect Appropriate Pro Forma Plant (Issue 4)	<u>(386,696)</u>	<u>0</u>	
Total	<u>(\$398,946)</u>	<u>(\$9,814)</u>	
<u>Land</u>			
Audit adjustments agreed to by Utility. (Issue 2)	<u>\$0</u>	<u>\$28,511</u>	
<u>Accumulated Depreciation</u>			
1 Phoenix Project Adjustment (Issue 3)	\$5,012	\$4,147	
2 Reflect Appropriate Pro Forma Accum. Depr. (Issue 4)	<u>(19,461)</u>	<u>0</u>	
Total	<u>(\$14,449)</u>	<u>\$4,147</u>	
<u>Working Capital</u>			
Reflect the appropriate working capital allowance. (Issue 6)	<u>(\$701)</u>	<u>\$1,619</u>	

Utilities Inc., of Pennbrooke Capital Structure-Simple Average Test Year Ended 09/30/2011							Schedule No. 2 Docket No. 120037-WS		
Description	Total Capital	Specific Adjust- ments	Subtotal Adjusted Capital	Prorata Adjust- ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
Per Utility									
1 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$178,912,220)	\$1,087,780	47.31%	6.65%	3.15%	
2 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%	
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
4 Common Equity	178,088,281	0	178,088,281	(177,012,054)	1,076,227	46.81%	10.37%	4.85%	
5 Customer Deposits	6,515	0	6,515	0	6,515	0.28%	6.00%	0.02%	
6 Deferred Income Taxes	<u>128,651</u>	<u>0</u>	<u>128,651</u>	<u>0</u>	<u>128,651</u>	<u>5.60%</u>	0.00%	<u>0.00%</u>	
7 Total Capital	<u>\$358,223,447</u>	<u>\$0</u>	<u>\$358,223,447</u>	<u>(\$355,924,274)</u>	<u>\$2,299,173</u>	<u>100.00%</u>		<u>8.02%</u>	
Per Staff									
8 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$179,111,045)	\$888,955	46.55%	6.65%	3.10%	
9 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%	
10 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
11 Common Equity	178,088,281	0	178,088,281	(177,208,768)	879,513	46.06%	10.37%	4.78%	
12 Customer Deposits	6,515	0	6,515	0	6,515	0.34%	6.00%	0.02%	
13 Deferred Income Taxes	<u>128,651</u>	<u>5,907</u>	<u>134,558</u>	<u>0</u>	<u>134,558</u>	<u>7.05%</u>	0.00%	<u>0.00%</u>	
14 Total Capital	<u>\$358,223,447</u>	<u>\$5,907</u>	<u>\$358,229,354</u>	<u>(\$356,319,813)</u>	<u>\$1,909,541</u>	<u>100.00%</u>		<u>7.89%</u>	
						<u>LOW</u>	<u>HIGH</u>		
RETURN ON EQUITY						<u>9.37%</u>	<u>11.37%</u>		
OVERALL RATE OF RETURN						<u>7.43%</u>	<u>8.35%</u>		

Utilities, Inc. of Pennbrooke Statement of Water Operations Test Year Ended 09/30/2011						Schedule No. 3-A Docket No. 120037-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$425,271</u>	<u>\$228,611</u>	<u>\$653,882</u>	<u>(\$162,305)</u>	<u>\$491,577</u>	<u>\$4,687</u> 0.95%	<u>\$496,264</u>
Operating Expenses							
2 Operation & Maintenance	\$301,241	\$72,364	\$373,605	(\$83,610)	\$289,995		\$289,995
3 Depreciation	255,918	(161,663)	94,255	(14,568)	79,687		79,687
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	52,527	8,789	61,316	(13,021)	48,295	211	48,506
6 Income Taxes	<u>21,055</u>	<u>12,314</u>	<u>33,369</u>	<u>(14,172)</u>	<u>19,197</u>	<u>1,685</u>	<u>20,881</u>
7 Total Operating Expense	<u>630,741</u>	<u>(68,196)</u>	<u>562,545</u>	<u>(125,372)</u>	<u>437,173</u>	<u>1,895</u>	<u>439,069</u>
8 Operating Income	<u>(\$205,470)</u>	<u>\$296,807</u>	<u>\$91,337</u>	<u>(\$36,933)</u>	<u>\$54,404</u>	<u>\$2,792</u>	<u>\$57,196</u>
9 Rate Base	<u>\$1,568,389</u>		<u>\$1,138,890</u>		<u>\$724,794</u>		<u>\$724,794</u>
10 Rate of Return	<u>-13.10%</u>		<u>8.02%</u>		<u>7.51%</u>		<u>7.89%</u>

Utilities, Inc. of Pennbrooke Statement of Wastewater Operations Test Year Ended 09/30/2011						Schedule No. 3-B Docket No. 120037-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$488,552</u>	<u>\$116,094</u>	<u>\$604,646</u>	<u>(\$116,169)</u>	<u>\$488,477</u>	<u>\$56,445</u> 11.56%	<u>\$544,922</u>
Operating Expenses							
2 Operation & Maintenance	\$286,338	\$55,670	\$342,008	(\$52,147)	\$289,861		\$289,861
3 Depreciation	(184,717)	266,490	81,773	(1,262)	80,511		80,511
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	43,814	10,002	53,816	(9,431)	44,385	2,540	46,925
6 Income Taxes	<u>17,563</u>	<u>16,433</u>	<u>33,996</u>	<u>(20,148)</u>	<u>13,848</u>	<u>20,284</u>	<u>34,132</u>
7 Total Operating Expense	<u>162,998</u>	<u>348,595</u>	<u>511,593</u>	<u>(82,988)</u>	<u>428,605</u>	<u>22,824</u>	<u>451,430</u>
8 Operating Income	<u>\$325,554</u>	<u>(\$232,501)</u>	<u>\$93,053</u>	<u>(\$33,181)</u>	<u>\$59,872</u>	<u>\$33,621</u>	<u>\$93,492</u>
9 Rate Base	<u>\$922,092</u>		<u>\$1,160,284</u>		<u>\$1,184,747</u>		<u>\$1,184,747</u>
10 Rate of Return	<u>35.31%</u>		<u>8.02%</u>		<u>5.05%</u>		<u>7.89%</u>

Utilities, Inc. of Pennbrooke Adjustment to Operating Income Test Year Ended 09/30/2011		Schedule No. 3-C Docket No. 120037-WS	
Explanation	Water	Wastewater	
<u>Operating Revenues</u>			
Remove requested final revenue increase.	<u>(\$162,305)</u>	<u>(\$116,169)</u>	
<u>Operation and Maintenance Expense</u>			
1 Reflect appropriate amount of computer maintenance expense (Issue 3)	(\$2,623)	(\$2,189)	
2 To reflect appropriate salaries and benefits. (Issue 10)	(34,536)	(18,471)	
3 To reflect appropriate level of certain expenses (Issue 11)	(11,205)	(2,390)	
4 To reflect the appropriate rate case expense for last case. (Issue 12)	(10,815)	(8,708)	
5 To reflect the appropriate rate case expense for instant case. (Issue 13)	<u>(24,431)</u>	<u>(20,388)</u>	
Total	<u>(\$83,610)</u>	<u>(\$52,147)</u>	
<u>Depreciation Expense - Net</u>			
1 Pheonix Project Adjustment (Issue 3)	(\$1,562)	(\$1,262)	
2 Appropriate Pro Forma depreciation expense (Issue 4)	<u>(13,006)</u>	0	
Total	<u>(\$14,568)</u>	<u>(\$1,262)</u>	
<u>Taxes Other Than Income</u>			
1 RAFs on revenue adjustments above.	(\$7,304)	(\$5,228)	
2 Audit adjustments agreed to by Utility. (Issue 2)	(3,732)	(3,054)	
3 To Reflect the appropriate property taxes (Issue 4)	163	0	
4 To reflect appropriate payroll tax for salaries. (Issue 10)	<u>(2,149)</u>	<u>(1,149)</u>	
Total	<u>(\$13,021)</u>	<u>(\$9,431)</u>	

Utilities, Inc. of Pennbrooke Water Monthly Service Rates Test Year Ended 09/30/2011		Schedule No. 4-A Docket No. 120037-WS			
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	4-year Rate Reduction
<u>Residential/General Service</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$5.03	\$5.03	\$6.70	\$5.08	\$0.07
3/4"	\$7.34	\$7.34	\$9.77	\$7.41	\$0.11
1"	\$12.07	\$12.07	\$16.07	\$12.19	\$0.17
1-1/2"	\$24.57	\$24.57	\$32.70	\$24.80	\$0.35
2"	\$38.61	\$38.61	\$51.39	\$38.98	\$0.56
3"	\$78.69	\$78.69	\$104.74	\$79.44	\$1.14
4"	\$120.66	\$120.66	\$160.60	\$121.81	\$1.74
6"	\$245.51	\$245.51	\$326.79	\$247.86	\$3.54
RS/IRR Gallonage Charge, per 1,000 Gallons					
0-3kgal	\$1.86	\$1.86	\$2.48	\$1.88	\$0.03
3-6kgal	\$1.95	\$1.95	\$2.60	\$1.97	\$0.03
6-12kgal	\$2.40	\$2.40	\$3.19	\$2.42	\$0.03
Over 12kgal	\$2.88	\$2.88	\$3.83	\$2.91	\$0.04
<u>Irrigation Residential/General Service</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$5.03	\$5.03	\$6.70	\$5.08	\$0.07
2"	\$38.61	\$38.61	\$51.39	\$38.98	\$0.56
3"	\$78.69	\$78.69	\$104.74	\$79.44	\$1.14
4"	\$120.66	\$120.66	\$160.60	\$121.81	\$1.74
GS/IRR Gallonage Charge, per 1,000 Gallons					
	\$2.22	\$2.22	\$2.95	\$2.24	\$0.03
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$10.61	\$10.61	\$14.14	\$10.72	\$0.15
5,000 Gallons	\$14.78	\$14.78	\$19.70	\$14.66	\$0.21
10,000 Gallons	\$29.03	\$29.03	\$38.60	\$26.31	\$0.42
Average Usage of 8,895 Gallons	\$23.41	\$23.41	\$31.17	\$23.64	

Utilities, Inc. of Pennbrooke		Schedule No. 4-B			
Wastewater Monthly Service Rates		Docket No. 120037-WS			
Test Year Ended 09/30/2011					
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	Four-year Rate Reduction
<u>Residential</u>					
Base Facility Charge All Meter Sizes:	\$12.92	\$12.92	\$16.00	\$14.42	\$0.16
Gallage Charge - Per 1,000 gallons (6,000 gallon cap)	\$4.17	\$4.17	\$5.16	\$4.65	\$0.05
<u>General Service</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$12.92	\$12.92	\$16.00	\$14.42	\$0.16
3/4"	\$19.06	\$19.06	\$23.60	\$21.27	\$0.23
1"	\$31.49	\$31.49	\$39.00	\$35.14	\$0.38
1-1/2"	\$63.63	\$63.63	\$78.80	\$71.00	\$0.77
2"	\$100.76	\$100.76	\$124.78	\$112.43	\$1.23
3"	\$203.83	\$203.83	\$252.41	\$227.44	\$2.48
4"	\$314.88	\$314.88	\$389.93	\$351.35	\$3.83
6"	\$636.55	\$636.55	\$788.02	\$710.27	\$7.75
Gallage Charge, per 1,000 Gallons	\$5.01	\$5.01	\$6.20	\$5.59	\$0.06
Reuse Service	\$0.85	\$0.85	\$1.05	\$0.95	\$0.01
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$25.43	\$25.43	\$31.48	\$28.37	\$0.31
5,000 Gallons	\$33.77	\$33.77	\$41.80	\$37.67	\$0.41
10,000 Gallons (Wastewater Gallage Cap - 6,000 Gallons)	\$54.62	\$54.62	\$67.60	\$42.32	\$0.46
Average Billed Gallons of 4,588	\$32.05	\$32.05	\$39.67	\$35.75	\$0.39