

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge. | DOCKET NO. 080247-SU  
ORDER NO. PSC-09-0264-PAA-SU  
ISSUED: April 27, 2009

The following Commissioners participated in the disposition of this matter:

MATTHEW M. CARTER II, Chairman  
LISA POLAK EDGAR  
KATRINA J. McMURRIAN  
NANCY ARGENZIANO  
NATHAN A. SKOP

NOTICE OF PROPOSED AGENCY ACTION  
ORDER GRANTING EAGLE RIDGE UTILITIES, INC.'S  
APPLICATION FOR RATE INCREASE  
AND  
FINAL ORDER  
APPROVING INTERIM REFUND AND FOUR-YEAR RATE REDUCTION

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for the action approving an interim refund and a four-year rate reduction, is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.).

Background

Eagle Ridge Utilities, Inc. (Eagle Ridge or Utility) is a Class B utility providing wastewater service to approximately 969 customers in Lee County. Water service is provided in the area by Lee County. Wastewater rates were last established for the Utility in its 2003 rate proceeding.<sup>1</sup>

On August 22, 2008, Eagle Ridge filed an Application for Rate Increase pursuant to Sections 367.081 and 367.082, Florida Statutes (F.S.). However, the Utility had a few deficiencies in the Minimum Filing Requirements (MFRs). On November 10, 2008, the Utility filed documentation satisfying the deficiencies. As a result, November 10, 2008, was designated as the official filing date pursuant to Section 367.083, F.S. Eagle Ridge requested that we process this case using the Proposed Agency Action (PAA) procedure.

<sup>1</sup> See Order No. PSC-04-1107-PAA-SU, issued November 8, 2004, in Docket No. 030445-SU, In re: Application for rate increase in Lee County by Utilities, Inc. of Eagle Ridge.

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FPSC-COMMISSION CLERK

The test year established for interim and final rates is the simple average period ending December 31, 2007. By Order No. PSC-08-0761-PCO-SU, issued November 17, 2008, we approved interim rates designed to generate annual revenues of \$1,041,747. This represents a revenue increase on an annual basis of \$246,392 (30.98 percent). The interim rates are subject to refund with interest, pending the conclusion of the rate case. The Utility requested final rates designed to generate annual revenues of \$1,109,542. This represents a revenue increase of \$332,525 (42.80 percent). We have jurisdiction pursuant to Section 367.081, F.S.

### Quality of Service

Pursuant to Rule 25-30.433(1), F.A.C., in every water and wastewater rate case, we determine the overall quality of service provided by the utility by evaluating (1) the quality of the product, (2) the operating conditions of the plant and facilities and, (3) the utility's attempt to address customer satisfaction. Accordingly, we contacted the Department of Environment Protection (DEP) and performed field inspections at the Eagle Ridge and Cross Creek systems. According to the DEP, the Utility is meeting all applicable wastewater treatment standards and all operating permits are current for both the Eagle Ridge and Cross Creek systems. The operating permits for the Eagle Ridge and Cross Creek wastewater treatment plants, which were in effect during the test year, expired on October 14, 2008, and a new operating permit was subsequently issued for Cross Creek that expires on July 1, 2013. A new operating permit was issued for Eagle Ridge that expires on September 13, 2013. Since the last rate case, the Utility has installed a reuse filter and a biological odor control system at Eagle Ridge. We inspected the Utility's lift stations, treatment plants, and reuse facilities and found them to be in good working order. There were no odors at either plant.

We conducted a customer meeting on February 19, 2009, near the Eagle Ridge service area. The Utility, a representative from the Office of Public Counsel, and one customer from the Eagle Ridge community attended. The customer indicated that he was concerned about the rate increase with the current economy and asked about plant additions and the cap for wastewater rates. We described the Utility's recent plant improvements and indicated that the rate cap would be reviewed.

We reviewed both this Commission and the utility's complaint systems. There are no outstanding customer complaints on our Complaint Tracking System. We reviewed Eagle Ridge's complaint log and found only a few complaints, which have been resolved.

Based on our review, the Utility's wastewater effluent quality and plant operating conditions are satisfactory. Further, Eagle Ridge is providing prompt responses to customer concerns. Therefore, we find that the Utility's overall quality of service is satisfactory.

### Rate Base

We performed an audit of the Utility. Prior to our decision in this Order, the Utility agreed to certain adjustments, as follows:

| <u>Audit Finding</u>                              | <u>Wastewater</u> |
|---|-------------------|
| No. 1 - Decrease Plant in Service                 | \$106,670         |
| No. 1 - Decrease Accumulated Depreciation         | \$361,839         |
| No. 1 - Decrease Accumulated Amortization of CIAC | \$441,386         |
| No. 1 - Increase CIAC                             | \$252,085         |
| No. 1 - Increase Depreciation Expense             | \$2,124           |
| No. 1 - Increase Amortization Expense             | \$11,000          |
| No. 5 - Decrease Depreciation Expense             | \$456             |
| No. 5 - Decrease Accumulated Depreciation         | \$685             |

In addition, we performed an affiliate transactions (AT) audit of Utilities, Inc. (UI), the parent company of Eagle Ridge and its sister companies. Based on Audit Finding No. 5, transportation expense shall be decreased by \$2,265. The aforementioned adjustments related to rate base and operating expenses are reflected on Schedules 1-B and 3-B.

There were additional adjustments that were included in the audit, to which the Utility did not agree prior to our decision in this Order. Those additional adjustments are discussed below. Based on the agreed adjustments listed above and the additional adjustments addressed below, the appropriate rate base is \$1,824,626. The schedule for rate base is attached as Schedule No. 1-A, and the adjustments are shown on Schedule No. 1-B.

#### Plant in Service

Based on Audit Finding No. 6 the Utility's records reflect project costs for the engineering and installation of a new AquaDisc filter which replaced the former sand filter at Eagle Ridge. NARUC, Class B, Accounting Instruction 27.B (2) states when a retirement unit is retired from utility plant, with or without replacement, the book cost thereof shall be credited to the utility plant account in which it is included, determined in the manner set forth in paragraph D. NARUC, Class B, Accounting Instruction 27.D states that book cost shall be determined from the utility records, and if that cannot be done, book cost shall be estimated. Eagle Ridge agrees that a retirement entry is needed. As the Utility could not identify original cost booked in 1984, we used the Handy-Whitman index to determine the proper retirement for the plant. Based on our calculation, the old sand filter, completed in 1983, would have cost \$6,246, and the old sand filter completed in 1984 should have cost \$78,797. Therefore, plant-in-service shall be reduced by \$85,043 (\$6,246 + \$78,797). A corresponding adjustment shall be made to decrease accumulated depreciation by \$85,043.

#### Used and Useful Percentages

Pursuant to Rule 25-30.432, F.A.C., the used and useful calculation for a wastewater treatment plant is based on the test year flows and the DEP permitted capacity. The basis for the test year flows shall be the same basis that DEP used to determine the permitted capacity. Other factors, including growth, infiltration, inflow, and design capacity are also considered. Eagle

Ridge system has two wastewater treatment plants which are identified as Eagle Ridge and Cross Creek.

The Utility proposed the following used and useful percentages for the Eagle Ridge and Cross Creek wastewater facilities:

|             | <u>Wastewater Plant</u> | <u>Collection Lines</u> | <u>Reuse System</u> |
|-------------|-------------------------|-------------------------|---------------------|
| Eagle Ridge | 78.73%                  | 100%                    | 100%                |
| Cross Creek | 100.00%                 | 100%                    | 100%                |

The Eagle Ridge wastewater treatment plant, which uses extended aeration for treatment, has a permitted capacity of 318,000 gallons per day (gpd) based on a three month average daily flow (TMADF). The three month average daily flow during the test year was 250,354 gpd. It appears that there is no excessive infiltration and inflow in the collection system. Treated effluent is disposed of at the Eagle Ridge Golf and Country Club golf course. The service area is virtually built out; therefore, the Utility did not include a growth allowance in its proposed used and useful analysis for the wastewater treatment plant. Accordingly, the Utility's proposed used and useful calculations of 78.73 percent for the wastewater treatment plant and 100 percent for the collection system are reasonable and are approved. In addition, pursuant to Section 367.0817(3), F.S., the Utility's reuse system is considered 100 percent used and useful.

The Cross Creek wastewater treatment plant has a permitted capacity of 249,000 gpd based on a maximum month average daily flow (MMADF). The MMADF during the test year of 164,097 gpd occurred in March 2007. There does not appear to be a problem with infiltration or inflow. The treated effluent is disposed of at Cross Creek's golf course. The service area is completely built out; therefore, the Cross Creek wastewater treatment plant and collection system is considered 100 percent used and useful. Pursuant to Section 367.0817(3), F.S., the reuse system is considered 100 percent used and useful.

The Utility calculated a composite used and useful factor of 85.75 percent for the wastewater treatment plants based on the weighted average cost of the Eagle Ridge and Cross Creek treatment facilities. This methodology is consistent with the methodology used in the Utility's last rate case.<sup>2</sup> Used and useful adjustments are made to Account No. 354.4, Structures and Improvements and Account No. 380.4, Treatment and Disposal Equipment. We have made corresponding adjustments to non-used and useful plant as shown on the rate base and operating income adjustment Schedules 1-B and 3-B.

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<sup>2</sup> See Order No. PSC-04-1107-PAA-SU, issued November 4, 2004, in Docket No. 030445-SU, In re: Application for Rate Increase in Lee County by Utilities, Inc. of Eagle Ridge.

**Utilities, Inc. of Eagle Ridge – Eagle Ridge System  
January 1 – December 31, 2007  
Wastewater Treatment System Used and Useful Analysis**

|    |   | Gallons Per Day          |
|----|---|--------------------------|
| 1  | Permitted Capacity (TMADF)                              | 318,000                  |
| 2  | Demand (TMADF)  | 250,354                  |
| 3  | Excessive Infiltration and Inflow                       | 0                        |
| 3a | Estimated Flow including I&I                            | 99,712,804 gpd           |
| 3b | Wastewater Treated                                      | 81,164,200 gpd           |
| 4a | Average Test Year Customers                             | 1176 ERCs                |
| 4b | Historical Annual Customer Growth                       | 0                        |
| 4c | Statutory Growth Period                                 | 5 Years                  |
| 4d | Gallons per ERC (250,354 – 0)/1176                      | 213                      |
| 4e | Growth Allowance  | 0                      0 |
| 5  | Used and Useful Wastewater Treatment Plant <sup>3</sup> | 78.73%                   |

In summary for the used and useful percentages, the Eagle Ridge wastewater treatment plant is 78.73 percent used and useful. The Cross Creek wastewater treatment plant is 100 percent used and useful. The wastewater collection and reuse systems are considered 100 percent used and useful. The used and useful adjustments are made to Account No. 354.4, Structures and Improvements, and Account No. 380.4, Treatment and Disposal Equipment. We have reduced rate base by \$20,286 and have made corresponding adjustments to reduce depreciation expense by \$5,598 and reduce property tax by \$55. Our adjustments to non-used and useful plant are shown on the rate base and operating income adjustment Schedules 1-B and 3-B.

Working Capital Allowance

Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, whereby the working capital allowance is based on one-eighth of Operation and Maintenance (O&M) expense. The Utility has properly filed its allowance for working capital using the formula method. We have made adjustments to Eagle Ridge’s O&M expenses pursuant to Rule 25-30.433(2), F.A.C. As a result of applying the formula from the rule, the Utility’s working

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<sup>3</sup> (TMADF – I&I + Growth)/Permitted Capacity = (250,354 – 0 + 0)/ 318,000 = 78.73%

capital allowance of \$81,530 for wastewater is decreased by \$1,430 resulting in a working capital allowance of \$80,100. The Utility's working capital allowance of \$80,100 is approved.

### Cost of Capital

The return on equity (ROE) requested in the Utility's filing is 11.70 percent. This return is based on the application of our leverage formula approved in Order No. PSC-07-0472-PAA-WS and an equity ratio of 42.59 percent.<sup>4</sup>

The Company's proposed return on equity of 11.70 percent is updated to reflect the cost rate yielded by our 2008 leverage formula.<sup>5</sup> Based on the approved methodology and an equity ratio of 42.59 percent, a ROE of 12.34 percent is appropriate. We approve an allowed range of plus or minus 100 basis points to be recognized for ratemaking purposes.

As shown on MFR Schedule D-1, Eagle Ridge originally proposed an overall cost of capital of 8.09 percent for the test year ending December 31, 2007. Based on our decisions above, the capital structure yields an overall cost of capital of 8.11 percent. Schedule No. 2 contains the Utility's capital structure.

### Net Operating Income

#### Rate Case Expense

The Utility included in its MFRs an estimate of \$171,087 for current rate case expense. We requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On January 8, 2009, the Utility submitted a revised estimated rate case expense through completion of the PAA process of \$164,525.

Pursuant to Section 367.081(7), F.S., we determine the reasonableness of rate case expenses and disallow all rate case expenses determined to be unreasonable. We have examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on our review, several adjustments are necessary to the revised rate case expense estimate.

The first adjustment relates to costs incurred to correct deficiencies in the MFR filing. Based on our review of invoices and the Utility's consultants, a combined amount of \$633 was billed for correcting the MFR deficiencies and revising the Utility's filing. We have previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate

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<sup>4</sup> See Order No. PSC-07-0472-PAA-WS, issued June 1, 2007, in Docket No. 070006-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.

<sup>5</sup> See Order No. PSC-08-0846-FOF-WS, issued December 31, 2008, in Docket No. 080006-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.

filing costs.<sup>6</sup> Accordingly, the \$633 for correcting MFR deficiencies and revising the Utility's filing shall be removed as duplicative and unreasonable legal fees.

The second adjustment relates to the Utility's estimated legal fees to complete the rate case. Eagle Ridge estimated 160 hours or \$45,200 in fees to complete the rate case. However, our list of tasks historically used to complete a case came to 48 hours.

The burden to justify requested costs lies with the Utility. The 48 hours is a reasonable amount of time to respond to data requests, conference with the client and consultants, review our staff's recommendation, travel to the customer meeting, and attend to miscellaneous post-PAA matters. Eagle Ridge estimated legal fees of \$45,200 to completion of the PAA. We estimate an additional \$13,823 in legal fees going forward to completion of the PAA. As a result, the legal fees are reduced by an additional \$31,377 (\$45,200 less \$13,823).

The third adjustment relates to the Utility's estimated consultant fees for Mr. Frank Seidman with Management & Regulatory Consultants, Inc., to complete the rate case. Mr. Seidman estimated 300 hours or \$43,500 (300 X \$145) to complete the rate case. No justification was provided for the estimate of the number of hours worked. According to the analysis of rate case expense as of December 15, 2008, Mr. Seidman's services included used and useful analysis, assisting with MFRs, data requests, and audit facilitation. We find that the majority of the work performed by Mr. Seidman was accounted for in the \$19,891 total provided by the Utility in the updated rate case expense. Four hours is a reasonable amount of time to prepare for and attend the Agenda Conference for this docket. This is consistent with the hours we allowed for completion in the Indiantown Company, Inc. and the Mid-County Services, Inc. rate cases.<sup>7</sup> Therefore, rate case expense is decreased by \$42,920 (296 hours x \$145).

The fourth adjustment relates to the 1,500 hours and \$60,700 of estimated costs to complete this case by Water Service Corp. (WSC) employees. The last General Ledger entry for WSC employees' rate case time was on December 10, 2008. Eagle Ridge asserts that additional hours were required to respond to our staff auditor and staff analyst's data requests. However, the Utility failed to provide any detailed documentation of what tasks were involved in its estimate to complete the case for each employee. The hours needed to complete data requests and audit facilitation was not broken down to estimate the hours needed to complete each item. In addition, there were no timesheets provided to show actual hours worked. Therefore, we had no basis to determine whether the individual hours estimated were reasonable. We reviewed these requested expenses and find that the estimates reflect an overstatement. As discussed above, it is the Utility's burden to justify its requested costs. We find 204 hours is reasonable to allow Eagle Ridge to respond to data requests, facilitate the audit, and review the PAA

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<sup>6</sup> See Order Nos. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.; and PSC-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.

<sup>7</sup> See Order Nos. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.; and PSC-04-0819-PAA-SU, issued August 23, 2004, in Docket No. 030446-SU, In re: Application for rate increase in Pinellas County by Mid-County Services, Inc.

recommendation in this docket. By applying the individual employee rates and the average number of hours worked by WSC employees, the WSC fees to complete the case are \$21,363. Eagle Ridge has already incurred \$16,337 through December 15, 2008. In those cases where rate case expense has not been supported by detailed documentation, our practice has been to disallow some portion or remove all unsupported amounts.<sup>8</sup> Thus, the Utility's requested expense of \$74,625 is decreased by \$36,925 (\$74,625 less \$21,363 less \$16,337).

The fifth adjustment addresses WSC travel expenses. In its MFRs, Eagle Ridge requested \$3,254 for travel. Based on several previous UI rates cases, it is our experience for PAA rate cases that UI does not send a representative from its Illinois office to attend the Agenda Conference; therefore, the entire amount of estimated travel expense shall be removed. Accordingly, rate case expenses are decreased by \$3,254. This adjustment is consistent with our recent decisions for two of Eagle Ridge's sister companies.<sup>9</sup>

The sixth adjustment relates to WSC expenses for FedEx Corporation (FedEx), copies and other miscellaneous costs. In its MFRs, the Utility reflects actual and estimated costs of \$602 and \$12,000, respectively for copies and other miscellaneous costs in order to complete the rate case. The Utility provided no breakdown or support for these costs. UI has requested and received our authorization to keep UI's records outside the state, in Illinois, pursuant to Rule 25-30.110(2)(b), F.A.C. However, when a utility receives this authorization, it is required to reimburse us for the reasonable travel expense incurred by each of our representatives during the review and audit of the books and records. Further, these costs are not included in rate case expense or recovered through rates. In Order No. PSC-93-1713-FOF-SU, p. 19., issued November 30, 1993, in Docket No. 921293-SU, In Re: Application for a Rate Increase in Pinellas County by Mid-County Services, Inc., the utility also requested recovery of the actual travel costs it paid for our auditors. Because the utility's books are maintained out of state, our auditors had to travel out of state to perform the audit. We have consistently disallowed this cost in rate case expense.<sup>10</sup> Likewise, the requested amount of shipping costs in this rate case directly relates to the records being retained out of state. The Utility typically ships its MFRs, answers to data requests, etc. to its law firm located in central Florida. Then, the documents are submitted to us. The ratepayers shall not bear the related costs of having the records located out of state. This is a decision of the shareholders of the Utility; therefore, they shall bear the related costs. Accordingly, miscellaneous rate case expense is decreased by \$12,602.

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<sup>8</sup> See Order Nos. PSC-94-0075-FOF-WS, issued January 21, 1994 in Docket No. 921261-WS, In re: Application for a Rate Increase in Lee County by Harbor Utilities Company, Inc.; PSC-96-0629-FOF-WS, issued May 10, 1996, in Docket No. 950515-WS, In re: Application for staff-assisted rate case in Martin County by Laniger Enterprises of America, Inc.; and PSC-96-0860-FOF-SU, issued July 2, 1996, in Docket No. 950967-SU, In re: Application for staff-assisted rate case in Highlands County by Fairmount Utilities, the 2<sup>nd</sup>, Inc. We note that, in all of these cases, we removed the entire unsupported amounts.

<sup>9</sup> See Order Nos. PSC-08-0812-PAA-WS, issued December 16, 2008, in Docket No. 070695-WS, In re: Application for Increase in Water and Wastewater Rates in Martin County by Miles Grant Water and Sewer Company, and PSC-09-0101-PAA-WS, issued February 16, 2009, in Docket No. 070693-WS, In re: Application for Increase in Water and Wastewater Rates in Lee County by Lake Utility Services, Inc.

<sup>10</sup> See Order Nos. 25821, issued February 27, 1991, in Docket No. 910020-WS, In re: Petition for rate increase in Pasco County by UTILITIES, INC. OF FLORIDA; and 20066, issued September 26, 1988, in Docket No. 870981-WS, In re: Application of MILES GRANT WATER AND SEWER COMPANY for an increase in Water and Sewer Rates in Martin County.



The seventh adjustment relates to customer notices and postage. The Utility estimated \$2,337 for the customer notices, postage, and stock. The Utility did not provide any support for its postage costs; therefore, we estimated the costs related to notices and postage using available information. Eagle Ridge is responsible for sending four notices: the interim notice, the initial notice, customer meeting notice, and notice of the final rate increase. We estimated the postage cost for the notices to be \$1,211 (875 customers x \$0.346 pre-sorted rate x 4 notices). Based on the invoice submitted by Eagle Ridge, a two page notice costs \$96.25 (\$96.25 Interim Notice and \$96.25 Customer Meeting Notice). Accordingly, a four page notice costs \$192.50 (\$192.50 Initial Notice and \$192.50 Final Notice). We estimated the total stock costs to be \$578. Therefore, we conclude that a reasonable estimate of the total cost for customer notices postage and stock is \$1,789 (\$1,211 + \$578). As such, rate case expenses are decreased by \$548 (\$2,337 - \$1,789).

In summary, the Utility's revised rate case expense is decreased by \$128,259 for MFR deficiencies, and for unsupported and unreasonable rate case expense. The appropriate total rate case expense is \$84,373. A breakdown of rate case expense is as follows:

**Breakdown of Rate Case Expenses**

| <u>Description</u>      | <u>MFR<br/>Estimated</u> | <u>Utility<br/>Revised<br/>Actual &amp;<br/>Estimated</u> | <u>Commission<br/>Adjustments</u> | <u>Total</u>    |
|-------------------------|--------------------------|---|-----------------------------------|-----------------|
| Legal Fees              | \$45,200                 | \$52,087  | (\$32,010)                        | \$20,077        |
| Consultant Fees-M&R     | 43,650                   | 63,391  | (42,920)                          | 20,471          |
| Consultant Fees-MSS     | 0                        | 740   | 0                                 | 740             |
| WSC In-House Fees       | 60,700                   | 74,625  | (36,925)                          | 37,700          |
| Filing Fee              | 4,000                    | 3,500   | 0                                 | 3,500           |
| WSC Travel              | 3,200                    | 3,254   | (3,254)                           | 0               |
| Miscellaneous           | 12,000                   | 12,602  | (12,602)                          | 0               |
| Notices                 | <u>2,337</u>             | <u>2,433</u>  | <u>(548)</u>                      | <u>1,885</u>    |
| Total Rate Case Expense | <u>\$171,087</u>         | <u>\$212,632</u>  | <u>(\$128,259)</u>                | <u>\$84,373</u> |
| Annual Amortization     | <u>\$42,772</u>          | <u>\$53,158</u>   | <u>(\$32,065)</u>                 | <u>\$21,093</u> |

In its MFRs, Eagle Ridge requested total rate case expense of \$171,087, which amortized over four years would be \$42,772. We have determined that the appropriate rate case expense is

\$84,373. This expense is recovered over four years for an annual expense of \$21,093. The total rate case expense is to be amortized over four years, pursuant to Section 367.016, F.S. Based on the data provided by Eagle Ridge and our adjustments discussed above, the annual rate case expense is \$21,093. Thus, the Utility's rate case expense is reduced by \$21,679.

#### Additional Adjustments to Net Test Year

According to Audit Finding No. 1, the Utility did not correctly book our previously-ordered adjustments. Eagle Ridge provided a workpaper that showed the accumulated depreciation rolled forward through 2007, as well as the associated depreciation expense. Accordingly, accumulated depreciation is increased by \$46,571, and depreciation expense is decreased by \$18,565.

Based on Audit Finding No. 3, the Utility did not amortize its CIAC in accordance with Rule 25-30.140, F.A.C. The rule states that CIAC can be specifically associated with a corresponding plant account to be allocated and amortized using the same depreciation rates as the corresponding plant account. In Eagle Ridge's response to Audit Finding No. 3, the Utility rolled forward the accumulated amortization based on our audit staff's recalculation of CIAC through 2007. Rolling the entry forward through 2007 allows for adjustments to the test year to correct accumulated amortization and amortization expense. Thus, accumulated amortization of CIAC and amortization of CIAC is increased by \$54,137 and \$18,643 respectively.

According to Audit Finding No. 8, the Utility did not depreciate all of its plant in accordance with Rule 25-30.140, F.A.C. In its response to Audit Finding No. 8, Eagle Ridge completed a roll forward including plant balances for the years 2003-2006, showing what the depreciation calculations for each year should be. Consistent with the Utility's analysis and in accordance with Rule 25-30.140, F.A.C., accumulated depreciation and depreciation expense is increased by \$255,862 and \$39,510 respectively.

In its filing, Eagle Ridge reflected net depreciation expense of \$117,041. Based on the above recommended adjustments, depreciation expense is increased by \$2,302 (\$39,510 less \$18,643 less \$18,565). The corresponding adjustments include an increase to accumulated depreciation of \$302,433 (\$46,571 plus \$255,862) and an increase to accumulated amortization of CIAC of \$54,137. All adjustments related to net depreciation expense are shown on Schedule 3-B.

#### Test Year Operating Income or Loss

Based on the adjustments discussed above, the test year operating income before any provision for increased revenues is \$3,348 for wastewater. The schedule for wastewater operating income is attached as Schedule No. 3-A, and the adjustments are shown on Schedule No. 3-B.

Revenue Requirement

Based on our decisions relating to rate base, operations, and cost of capital, our decision on the Revenue Requirement is a summary computation. The computation of the revenue requirement is shown on Schedule No. 3-A and is \$1,019,807, which represents an increase of \$242,790 or 31.25 percent.

Rates

As stated above, the revenue requirement is \$1,019,807. After excluding miscellaneous service charges of \$870, the revenue to be recovered through base rates is \$1,018,937.

The rate calculations used for this case are consistent with the standard methodology used by us with one exception. The Utility’s facilities consist of the Eagle Ridge and Cross Creek systems which have separate but adjacent service areas. Each system has its own wastewater treatment plant, but each share personnel and equipment. The Eagle Ridge system has a traditional customer mix of single family, multi-residential and general service customers, and the existing rate structure is consumption-based with a base facility and gallonage charge. Residential rates for the Eagle Ridge system have a 10,000 gallonage cap for wastewater, and the residential and general service gallonage rates are equal. The Cross Creek system provides dedicated service to the Cross Creek Community Association, Inc. (Association), and it receives one bill per month based on a flat rate per condominium unit. This charge in the past has been less than the base facility charge for residential customers in the Eagle Ridge system. The Utility has not requested a change from either of the existing rate structures.

We analyzed several methods for allocating the revenue requirements between the two systems. Because the Cross Creek system is dedicated fully to this one customer, we find that it is reasonable to continue the flat rate structure. In order to allocate the revenue requirement between the Cross Creek and Eagle Ridge customers, we find that it is reasonable to use gallons of wastewater treated. Accordingly, the allocation of the revenues from rates is as follows:

**Allocation of Revenues Recovered from Rates**

| <u>System</u> | <u>Gallons<br/>Wastewater<br/>Treated</u> | <u>% to<br/>Total</u> | <u>Revenues<br/>from Rates</u> |
|---------------|---|-----------------------|--------------------------------|
| Eagle Ridge   | 81,164                                    | 75.01%                | \$764,305                      |
| Cross Creek   | <u>27,030</u>                             | <u>24.99%</u>         | <u>254,632</u>                 |
| Total         | <u>108,194</u>                            | <u>100.00%</u>        | <u>\$1,018,937</u>             |

In calculating the Cross Creek rates we took the allocated revenue requirement and divided it by the number of units in the Association, then divided by twelve for a monthly rate. For the Eagle Ridge system, rates were calculated using test year data for the total number of bills and gallons of water used for both residential and general customers. We then allocated 40 percent of the Eagle Ridge revenue requirement to the base facility and 60 percent to the

gallonage charge. A comparison of the Utility's original rates and requested final rates, the Commission-approved interim rates, and our final approved rates are shown on Schedule No. 4.

The Utility shall file revised tariff sheets and a proposed customer notice to reflect the final approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates shall not be implemented until our staff has approved the proposed customer notice. The Utility shall provide proof of the date notice was given no less than ten days after the date of the notice.

Miscellaneous Service Charges

Miscellaneous service charges were approved for Eagle Ridge on July 31, 1998, and have not changed since that date. The Utility believes these charges should be updated to reflect current costs. We agree with this update.

Eagle Ridge provided the following cost estimates for the expenses associated with connections, reconnections, and premises visits:

**Utility's Cost Estimates for Miscellaneous Service Charges**

| <u>During Business Hours</u>    |                | <u>After Hours</u>                            |                |
|---------------------------------|----------------|---|----------------|
| Item:                           | Cost:          | Item:   | Cost:          |
| Labor (\$31.50/hr. X 0.5 hours) | \$15.63        | Labor (\$31.50/hr. X 0.5 hours) <sup>11</sup> | \$35.16        |
| Transportation                  | <u>5.00</u>    | Transportation                                | <u>6.00</u>    |
| Total                           | <u>\$20.63</u> | Total   | <u>\$41.16</u> |

We find that Eagle Ridge shall be allowed to increase its water and wastewater miscellaneous service charges from \$15 to \$21 and from \$15 to \$42 for after hours, and to modify its Premises Visit (in lieu of disconnection) charge. The current and approved wastewater charges are shown below.

**Wastewater Miscellaneous Service Charges**

|                            | <u>Current Charges</u> |              | <u>Commission Approved</u> |                  |
|----------------------------|------------------------|--------------|----------------------------|------------------|
|                            | <u>Normal</u>          | <u>After</u> | <u>Normal Hrs</u>          | <u>After Hrs</u> |
| Initial Connection         | \$15                   | N/A          | \$21                       | N/A              |
| Normal Reconnection        | \$15                   | N/A          | \$21                       | \$42             |
| Violation Reconnection     | Actual                 | N/A          | Actual Cost                | Actual Cost      |
| Premises Visit (in lieu of | \$10                   | N/A          | N/A                        | N/A              |
| Premises Visit             | N/A                    | N/A          | \$21                       | \$42             |

<sup>11</sup> Represents time and a half wage and the longer time it takes an employee to get to the customer's property after hours.

Eagle Ridge's miscellaneous service charges have not been updated in over 11 years and costs for fuel and labor have risen substantially since that time. Further, our price index has increased approximately 65 percent in that period of time. We have expressed concern with miscellaneous service charges that fail to compensate utilities for the cost incurred. By Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, we expressed "concern that the rates [miscellaneous service charges] are eight years old and cannot possibly cover current costs," and directed our staff to "examine whether miscellaneous service charges should be indexed in the future and included in index applications."<sup>12</sup> Currently, miscellaneous service charges may be indexed if requested in price index applications pursuant to Rule 25-30.420, F.A.C. However, few utilities request that their miscellaneous service charges be indexed. We applied the approved price indices from 1990 through 2008 to Eagle Ridge's \$15 miscellaneous service charge and the result was a charge of \$23.88. Therefore, a \$21 charge is reasonable and is cost-based.

The Utility's current tariff includes a Premises Visit (in lieu of disconnection) charge. This charge is levied when a service representative visits a premise for the purpose of discontinuing service for non-payment of a due and collectible bill and does not discontinue service, because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill. We find that the "Premises Visit In Lieu of Disconnection" charge shall be replaced with what will be called, "Premises Visit." In addition to those situations described in the definition of the current Premises Visit In Lieu of Disconnection, the new Premises Visit charge will also be levied when a service representative visits a premise at a customer's request for complaint resolution or for other purposes and the problem is found to be the customer's responsibility. This charge is consistent with Rule 25-30.460(1)(d), F.A.C. In addition, by Order No. PSC-05-0397-TRF-WS, issued April 18, 2005, we approved a Premises Visit Charge to be levied when a service representative visits a premises at the customer's request for a complaint and the problem is found to be the customer's responsibility.<sup>13</sup> Based on the foregoing, the Premises Visit (in lieu of disconnection) is eliminated and the Premises Visit charge is approved.

In summary, the Utility's miscellaneous service charge of \$21 and after hours charge of \$42 is approved because the increased charges are cost-based, reasonable, and consistent with fees we have approved for other utilities. The Utility shall file a proposed customer notice to reflect the approved charges. The approved charges shall be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475, F.A.C., provided the notice has been approved by our staff. Within ten days of the date the order is issued, the Utility shall provide notice of the tariff changes to all customers. Eagle Ridge shall provide proof the customers have received notice within ten days after the date the notice was sent.

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<sup>12</sup> See Docket No. 950495-WS, In Re: Application for rate increase and increase in service availability charges by Southern States Utilities, Inc. for Orange-Osceola Utilities, Inc. in Osceola County, and in Bradford, Brevard, Charlotte, Citrus, Clay, Collier, Duval, Highlands, Lake, Lee, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties.

<sup>13</sup> See Docket 050096-WS, In re: Request for revision of Tariff Sheets 14.0 and 15.1 to change request for meter test by customer and premise visit charge, by Marion Utilities, Inc.

### Calculation of Interim Refund Amount

By Order No. PSC-08-0761-PCO-SU, issued November 17, 2008, we authorized the collection of interim wastewater rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirement was \$1,041,747, which represents an increase of \$246,392, or 30.98 percent.

According to Section 367.082, F.S., any refund shall 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 shall be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates is the simple average ending December 31, 2007. Eagle Ridge's approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs and the floor of the last authorized range for equity earnings.

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

Using the principles discussed above, we calculate that the \$1,041,747 wastewater revenue requirement granted in Order No. PSC-08-0761-PCO-SU for the interim test year is greater than the revenue requirement for the interim collection period of \$1,012,526. This results in a 2.81 percent refund of interim rates. The Utility is required to refund 2.81 percent of wastewater revenues collected under interim rates. The refund shall be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility shall be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility shall treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. Further, the corporate undertaking shall be released upon our staff's verification that the required refunds have been made.

### Rate Case Expense Reduction

Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees (RAFs), which is \$7,281 for wastewater. The decreased revenue will result in the rate reduction included on Schedule No. 4.

The Utility is required to file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates shall not be implemented until our staff has approved the proposed

customer notice. Eagle Ridge shall provide proof of the date notice was given no less than ten days after the date of the notice.

If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall 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.

Proof of Book Adjustments

To ensure that the Utility adjusts its books in accordance with our decision, Eagle Ridge shall provide proof, within 90 days of the final order in this docket, that the adjustments for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts primary accounts have been made.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application for increased wastewater rates and miscellaneous service charges of Eagle Ridge Utilities, Inc. is approved as set forth in the body of this Order. It is further

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

ORDERED that the schedules and attachments to this Order are incorporated by reference herein. It is further

ORDERED that Eagle Ridge Utilities, Inc. shall file revised wastewater tariff sheets and a proposed customer notice to reflect the approved wastewater rates shown on Schedule 4. It is further

ORDERED that the tariffs shall be approved upon our staff's verification that the tariffs are consistent with our decision herein. It is further

ORDERED that the approved rates shall 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. It is further

ORDERED that the approved wastewater rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers as set forth in the body of this Order. It is further

ORDERED that Eagle Ridge Utilities, Inc. shall provide proof of the date notice was given no less than ten days after the date of the notice. It is further

ORDERED that Eagle Ridge Utilities, Inc. is required to refund 2.81 percent of wastewater revenues collected under interim rates. The refund shall be made with interest in

accordance with Rule 25-30.360(4), F.A.C. The Utility shall be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility shall treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. Further, the corporate undertaking shall be released upon our staff's verification that the required refunds have been made. It is further

ORDERED that the wastewater rates shall be reduced as shown on Schedule No. 4 to remove rate case expense, grossed-up for regulatory assessment fees, which is being amortized over a four-year period. It is further

ORDERED that the decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility shall 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. It is further

ORDERED that if the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall 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. It is further

ORDERED that Eagle Ridge Utilities, Inc. shall provide proof, within 90 days of the final order in this docket, that the adjustments for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts primary accounts have been made. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event this Order becomes final, the docket shall remain open for Commission staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by Commission staff, and that the interim refund has been completed and verified by Commission staff. Once these actions are complete, this docket shall be closed administratively, and the corporate undertaking shall be released.



ORDER NO. PSC-09-0264-PAA-SU  
DOCKET NO. 080247-SU  
PAGE 17

By ORDER of the Florida Public Service Commission this 27th day of April, 2009.



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ANN COLE  
Commission Clerk

( S E A L )

LCB

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

As identified in the body of this order, our action, except for the action approving an interim refund and a four-year rate reduction, is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on May 18, 2009. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Any party adversely affected by the Commission's final action in this matter may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Office of Commission Clerk, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Office of Commission Clerk and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

| Utilities, Inc. of Eagle Ridge<br>Schedule of Wastewater Rate Base<br>Test Year Ended 12/31/07 |                             |                             | Schedule No. 1-A<br>Docket No. 080247-SU |                           |                                |
|--|-----------------------------|-----------------------------|--|---------------------------|--------------------------------|
| Description  | Test Year<br>Per<br>Utility | Utility<br>Adjust-<br>ments | Adjusted<br>Test Year<br>Per Utility     | Comm.<br>Adjust-<br>ments | Comm.<br>Adjusted<br>Test Year |
| 1 Plant in Service   | \$6,267,052                 | \$136,193                   | \$6,403,245                              | (\$191,713)               | \$6,211,532                    |
| 2 Land and Land Rights   | 39,579                      | 0                           | 39,579                                   | 0                         | 39,579                         |
| 3 Non-used and Useful Components   | 0                           | (303,511)                   | (303,511)                                | (20,286)                  | (323,797)                      |
| 4 Accumulated Depreciation   | (2,626,722)                 | 25,894                      | (2,600,828)                              | 145,134                   | (2,455,694)                    |
| 5 CIAC   | (3,556,830)                 | 0                           | (3,556,830)                              | (252,084)                 | (3,808,914)                    |
| 6 Amortization of CIAC   | 2,469,069                   | 0                           | 2,469,069                                | (387,249)                 | 2,081,820                      |
| 7 CWIP   | 97,371                      | (97,371)                    | 0  | 0                         | 0                              |
| 8 Acquisition Adjustment   | 310,957                     | (310,957)                   | 0  | 0                         | 0                              |
| 9 Accum. Amort. Of Acq. Adjustments  | (44,192)                    | 44,192                      | 0  | 0                         | 0                              |
| 10 Working Capital Allowance   | <u>0</u>                    | <u>81,530</u>               | <u>81,530</u>                            | <u>(1,430)</u>            | <u>80,100</u>                  |
| 11 <b>Rate Base</b>  | <b><u>\$2,956,284</u></b>   | <b><u>(\$424,030)</u></b>   | <b><u>\$2,532,254</u></b>                | <b><u>(\$707,628)</u></b> | <b><u>\$1,824,626</u></b>      |

Utilities, Inc. of Eagle Ridge  
Adjustments to Rate Base  
Test Year Ended 12/31/07

Schedule No. 1-B  
Docket No. 080247-SU

| Explanation  | Wastewater         |
|--|--------------------|
| <u>Plant In Service</u>  |                    |
| 1 To reflect appropriate amount of plant from prior rate case not booked.    | (\$106,670)        |
| 2 To reflect the appropriate plant retirements.                              | <u>(85,043)</u>    |
| Total  | <u>(\$191,713)</u> |
| <u>Non-used and Useful</u>   |                    |
| To reflect net non-used and useful adjustment.                               | <u>(\$20,286)</u>  |
| <u>Accumulated Depreciation</u>  |                    |
| 1 To reflect appropriate amount of Acc. Dep. from prior rate case.           | \$361,839          |
| 2 To remove Acc. Dep. of misclassified easement.                             | 685                |
| 3 To reflect the appropriate plant retirements.                              | 85,043             |
| 4 To reflect prior rate case ordered adjustments.                            | (46,571)           |
| 5 To reflect corrections to Acc. Dep.  | <u>(255,862)</u>   |
| Total  | <u>\$145,134</u>   |
| <u>CIAC</u>  |                    |
| To reflect appropriate amount of CIAC from prior rate case.                  | <u>(\$252,084)</u> |
| <u>Accumulated Amortization of CIAC</u>                                      |                    |
| 1 To reflect appropriate amount of Acc. Amort. of CIAC from prior rate case. | (\$441,386)        |
| 2 To reflect roll forward Acc. Amortization of CIAC allocation adjustment.   | <u>54,137</u>      |
| Total  | <u>(\$387,249)</u> |
| <u>Working Capital</u>   |                    |
| To reflect the appropriate working capital allowance. (Issue 5)              | <u>(\$1,430)</u>   |

| Utilities, Inc. of Eagle Ridge<br>Capital Structure-Simple Average<br>Test Year Ended 12/31/07 |                             |                      |                             |                               |                                 | Schedule No. 2<br>Docket No. 080247-SU |                      |                     |
|--|-----------------------------|----------------------|-----------------------------|-------------------------------|---------------------------------|--|----------------------|---------------------|
| Description  | Total Capital               | Specific Adjustments | Subtotal Adjusted Capital   | Prorata Adjustments           | Capital Reconciled to Rate Base | Ratio                                  | Cost Rate            | Weighted Cost       |
| <b>Per Utility</b>   |                             |                      |                             |                               |                                 |  |                      |                     |
| 1 Long-term Debt   | \$180,000,000               | \$0                  | \$180,000,000               | (\$178,718,888)               | \$1,281,112                     | 50.59%                                 | 6.65%                | 3.36%               |
| 2 Short-term Debt  | 7,750,000                   | 0                    | 7,750,000                   | (7,694,836)                   | 55,164                          | 2.18%                                  | 2.44%                | 0.05%               |
| 3 Preferred Stock  | 0                           | 0                    | 0                           | 0                             | 0                               | 0.00%                                  | 0.00%                | 0.00%               |
| 4 Common Equity  | 139,282,132                 | 0                    | 139,282,132                 | (138,290,807)                 | 991,325                         | 39.15%                                 | 11.70%               | 4.58%               |
| 5 Customer Deposits  | 42,656                      | 0                    | 42,656                      | 0                             | 42,656                          | 1.68%                                  | 6.00%                | 0.10%               |
| 6 Deferred Income Taxes  | <u>161,998</u>              | <u>0</u>             | <u>161,998</u>              | <u>0</u>                      | <u>161,998</u>                  | <u>6.40%</u>                           | 0.00%                | <u>0.00%</u>        |
| 7 <b>Total Capital</b>   | <b><u>\$327,236,786</u></b> | <b><u>\$0</u></b>    | <b><u>\$327,236,786</u></b> | <b><u>(\$324,704,531)</u></b> | <b><u>\$2,532,255</u></b>       | <b><u>100.00%</u></b>                  |                      | <b><u>8.10%</u></b> |
| <b>Per Comm.</b>   |                             |                      |                             |                               |                                 |  |                      |                     |
| 8 Long-term Debt   | \$180,000,000               | \$0                  | \$180,000,000               | (\$179,108,360)               | \$891,640                       | 48.87%                                 | 6.65%                | 3.25%               |
| 9 Short-term Debt  | 7,750,000                   | 0                    | 7,750,000                   | (7,711,610)                   | 38,390                          | 2.10%                                  | 2.44%                | 0.05%               |
| 10 Preferred Stock   | 0                           | 0                    | 0                           | 0                             | 0                               | 0.00%                                  | 0.00%                | 0.00%               |
| 11 Common Equity   | 139,282,132                 | 0                    | 139,282,132                 | (138,592,190)                 | 689,942                         | 37.81%                                 | 12.34%               | 4.67%               |
| 12 Customer Deposits   | 42,656                      | 0                    | 42,656                      | 0                             | 42,656                          | 2.34%                                  | 6.00%                | 0.14%               |
| 13 Deferred Income Taxes   | <u>161,998</u>              | <u>0</u>             | <u>161,998</u>              | <u>0</u>                      | <u>161,998</u>                  | <u>8.88%</u>                           | 0.00%                | <u>0.00%</u>        |
| 14 <b>Total Capital</b>  | <b><u>\$327,236,786</u></b> | <b><u>\$0</u></b>    | <b><u>\$327,236,786</u></b> | <b><u>(\$325,412,160)</u></b> | <b><u>\$1,824,626</u></b>       | <b><u>100.00%</u></b>                  |                      | <b><u>8.11%</u></b> |
|  |                             |                      |                             |                               |                                 | <b><u>LOW</u></b>                      | <b><u>HIGH</u></b>   |                     |
| RETURN ON EQUITY   |                             |                      |                             |                               |                                 | <b><u>11.34%</u></b>                   | <b><u>13.34%</u></b> |                     |
| OVERALL RATE OF  |                             |                      |                             |                               |                                 |  |                      |                     |
| RETURN   |                             |                      |                             |                               |                                 | <b><u>7.73%</u></b>                    | <b><u>8.49%</u></b>  |                     |

| Utilities, Inc. of Eagle Ridge<br>Statement of Wastewater Operations<br>Test Year Ended 12/31/07 |                             |                             |                                      |                           |                                | Schedule No. 3-A<br>Docket No. 080247-SU |                        |
|--|-----------------------------|-----------------------------|--------------------------------------|---------------------------|--------------------------------|--|------------------------|
| Description  | Test Year<br>Per<br>Utility | Utility<br>Adjust-<br>ments | Adjusted<br>Test Year<br>Per Utility | Comm.<br>Adjust-<br>ments | Comm.<br>Adjusted<br>Test Year | Revenue<br>Increase                      | Revenue<br>Requirement |
| 1 <b>Operating Revenues:</b>   | <u>\$787,117</u>            | <u>\$322,425</u>            | <u>\$1,109,542</u>                   | <u>(\$332,525)</u>        | <u>\$777,017</u>               | <u>\$242,790</u><br>31.25%               | <u>\$1,019,807</u>     |
| <b>Operating Expenses</b>  |                             |                             |                                      |                           |                                |  |                        |
| 2 Operation & Maintenance  | \$678,384                   | (\$13,641)                  | \$664,743                            | (\$23,944)                | \$640,799                      |  | \$640,799              |
| 3 Depreciation   | 95,366                      | 21,675                      | 117,041                              | (12,628)                  | 104,413                        |  | 104,413                |
| 4 Amortization   | 0                           | 0                           | 0                                    | 0                         | 0                              |  | 0                      |
| 5 Taxes Other Than Income  | 65,599                      | 13,740                      | 79,339                               | (15,019)                  | 64,320                         | 10,926                                   | 75,246                 |
| 6 Income Taxes   | <u>(53,924)</u>             | <u>97,485</u>               | <u>43,561</u>                        | <u>(79,424)</u>           | <u>(35,863)</u>                | <u>87,250</u>                            | <u>51,387</u>          |
| 7 <b>Total Operating Expense</b>   | <u>\$785,425</u>            | <u>\$119,259</u>            | <u>\$904,684</u>                     | <u>(\$131,015)</u>        | <u>\$773,669</u>               | <u>\$98,176</u>                          | <u>\$871,845</u>       |
| 8 <b>Operating Income</b>  | <u>\$1,692</u>              | <u>\$203,166</u>            | <u>\$204,858</u>                     | <u>(\$201,510)</u>        | <u>\$3,348</u>                 | <u>\$144,614</u>                         | <u>\$147,962</u>       |
| 9 <b>Rate Base</b>   | <u>\$2,956,284</u>          |                             | <u>\$2,532,254</u>                   |                           | <u>\$1,824,626</u>             |  | <u>\$1,824,626</u>     |
| 10 <b>Rate of Return</b>   | <u>0.06%</u>                |                             | <u>8.09%</u>                         |                           | <u>0.18%</u>                   |  | <u>8.11%</u>           |

Utilities, Inc. of Eagle Ridge  
Adjustment to Operating Income  
Test Year Ended 12/31/07

Schedule No. 3-B  
Docket No. 080247-SU

| Explanation  | Wastewater         |
|--|--------------------|
| <u>Operating Revenues</u>  |                    |
| To remove Utility's requested final revenue increase.                  | <u>(\$332,525)</u> |
| <u>Operation and Maintenance Expenses</u>                              |                    |
| 1 To reflect appropriate transportation expense.                       | (\$2,265)          |
| 2 To reflect the appropriate amount of rate case expense.              | <u>(21,679)</u>    |
| Total  | <u>(\$23,944)</u>  |
| <u>Depreciation Expense - Net of CIAC</u>                              |                    |
| 1 To reflect appropriate amount of net Dep. Exp. from prior rate case. | (\$8,876)          |
| 2 To remove depreciation of misclassified easement.                    | (456)              |
| 3 To reflect the appropriate non-U&U depreciation expense.             | (5,598)            |
| 4 To reflect prior rate case ordered adjustments.                      | (18,565)           |
| 5 To reflect roll forward amortization allocation adjustment.          | (18,643)           |
| 6 To reflect corrections to Acc. Dep.                                  | <u>39,510</u>      |
| Total  | <u>(\$12,628)</u>  |
| <u>Taxes Other Than Income</u>   |                    |
| 1 RAFs on revenue adjustments above.                                   | (\$14,964)         |
| 2 To reflect the appropriate non-U&U property taxes.                   | <u>(55)</u>        |
| Total  | <u>(\$15,019)</u>  |

| <b>Utilities, Inc. of Eagle Ridge</b>                        |                                      |  |  |                                     | <b>Schedule No. 4</b>                |
|--|--------------------------------------|--|--|-------------------------------------|--------------------------------------|
| <b>Wastewater Monthly Service Rates</b>                      |                                      |  |  |                                     | <b>Docket No. 080247-SU</b>          |
| <b>Test Year Ended 12/31/07</b>                              |                                      |  |  |                                     |                                      |
|  | <b>Rates<br/>Prior to<br/>Filing</b> | <b>Commission<br/>Approved<br/>Interim</b> | <b>Utility<br/>Requested<br/>Final</b> | <b>Comm.<br/>Approved<br/>Final</b> | <b>4-Year<br/>Rate<br/>Reduction</b> |
| <b><u>Residential</u></b>                                    |                                      |  |  |                                     |                                      |
| Base Facility Charge All Meter<br>Sizes:                     | \$16.91                              | \$22.15                                    | \$24.15                                | \$20.26                             | \$0.14                               |
| Gallonge Charge - Per 1,000<br>gallons (10,000 gallon cap)   | \$3.44                               | \$4.51                                     | \$4.91                                 | \$4.64                              | \$0.03                               |
| Cross Creek Flat Rate  | \$18.42                              | \$24.13                                    | \$26.31                                | \$23.57                             | \$0.17                               |
| <b><u>General Service</u></b>                                |                                      |  |  |                                     |                                      |
| Base Facility Charge by Meter<br>Size:                       |                                      |  |  |                                     |                                      |
| 5/8" x 3/4"  | \$16.91                              | \$22.15                                    | \$24.15                                | \$20.26                             | \$0.14                               |
| 1"   | \$42.29                              | \$55.41                                    | \$60.41                                | \$50.66                             | \$0.36                               |
| 1-1/2"   | \$84.57                              | \$110.80                                   | \$120.80                               | \$101.31                            | \$0.72                               |
| 2"   | \$135.31                             | \$177.27                                   | \$193.28                               | \$162.10                            | \$1.16                               |
| 3"   | \$270.63                             | \$354.56                                   | \$386.58                               | \$324.20                            | \$2.31                               |
| 4"   | \$422.86                             | \$554.00                                   | \$604.03                               | \$506.57                            | \$3.62                               |
| 6"   | \$845.71                             | \$1,107.99                                 | \$1,208.04                             | \$1,013.14                          | \$7.23                               |
| Gallonge Charge, per 1,000 kgal                              | \$4.12                               | \$5.40                                     | \$5.89                                 | \$5.57                              | \$0.04                               |
| <b><u>Typical Residential Bills 5/8" x 3/4" Meter</u></b>    |                                      |  |  |                                     |                                      |
| 3,000 Gallons  | \$27.23                              | \$35.68                                    | \$38.88                                | \$34.56                             |                                      |
| 5,000 Gallons  | \$34.11                              | \$44.70                                    | \$48.70                                | \$43.86                             |                                      |
| 10,000 Gallons<br>(Wastewater Gallonge Cap - 10,000 Gallons) | \$51.31                              | \$67.25                                    | \$73.25                                | \$67.11                             |                                      |