

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in Polk County by Pinecrest Ranches, Inc. | DOCKET NO. 090414-WU
ORDER NO. PSC-10-0681-PAA-WU
ISSUED: November 15, 2010

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, CHAIRMAN
LISA POLAK EDGAR
RONALD A. BRISÉ

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING INCREASED WATER RATES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that, except for the granting of temporary rates subject to refund in the event of a protest, reducing rates at the end of the four-year amortization period, and requiring books to be kept in accordance with the NARUC USOA, which are final agency action, the action discussed herein 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.).

I. BACKGROUND

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

Pinecrest was granted Certificate No. 588-W in 1997.¹ We last established rates for Pinecrest in 2003.² Pursuant to Rule 25-30.457, F.A.C., Pinecrest was approved for a limited alternative rate increase in 2006.³

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

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

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

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FPSC-COMMISSION CLERK

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

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

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

II. QUALITY OF SERVICE

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

A. Quality of Utility's Product and Operating Condition of the Plant

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

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

B. Utility's Attempt to Address Customer Satisfaction

Two customer complaints were filed with this Commission within the last three years. The complaints were related to billing issues which were subsequently resolved. A customer meeting was held on March 18, 2010, in Winter Haven, Florida. A representative of the Utility was present; however no customers attended the meeting. Subsequent to the customer meeting, three customers contacted the Commission to complain about the rusty color of the water. The raw water at Pinecrest contains iron, which gives a rusty color, and hydrogen sulfide, which causes an unpleasant taste and odor. The Utility sequesters the iron by injecting a polyphosphate solution into the water. In addition, the system is flushed twice a week which also helps address the rusty color in the water, as well as the unpleasant taste and odor from hydrogen sulfide. On August 19, 2010, our staff spoke to the three customers again and they indicated that the water quality has improved. It appears that the correct amount of polyphosphate solution for sequestering of the iron was applied leading to improvement of the water quality.

Conclusion as Regards Quality of service

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

III USED AND USEFUL PERCENTAGES (U&U)

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

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

IV. RATE BASE

Pinecrest's rate base was also established in the Utility's last rate case. The Utility used a test year ended June 30, 2009, for this rate case. A summary of each component and the adjustments follows:

⁴ See Order No. PSC-03-0008-PAA-WU.

A. Utility Plant In Service (UPIS)

The Utility recorded a UPIS balance of \$184,666. This account has been increased by \$774 to reflect the appropriate plant additions and retirements to UPIS, for a UPIS balance of \$185,440.

B. Non-used and Useful Plant

As discussed above, we found the WTP to be 100 percent U&U. Therefore, no used and useful adjustments are necessary.

C. Accumulated Depreciation

The Utility recorded an accumulated depreciation balance of \$165,612. Using the prescribed rates set forth in Rule 25-30.140, F.A.C., our staff auditors recalculated the appropriate accumulated depreciation. Based on this recalculation, this account shall be decreased by \$71,281 to reflect the correct rates found in the rule. In addition, this account shall be decreased by \$3,053 to reflect an averaging adjustment. These adjustments result in an accumulated depreciation balance of \$91,278.

D. Contributions in Aid of Construction (CIAC)

Pinecrest recorded no CIAC on its books. However, the Utility did not adjust its books and records to reflect the Commission approved CIAC from the last rate case. Therefore, we have increased this account by \$100,352 to reflect the appropriate CIAC from the Utility's last rate case.

E. Accumulated Amortization of CIAC

Pinecrest recorded no amortization of CIAC. In the Utility's last rate case, the amortization of CIAC balance was \$40,289. Therefore, we have started with the \$40,289 figure, and recalculated amortization of CIAC using composite depreciation rates. This results in an amortization of CIAC balance of \$61,816. To reflect the correct amortization rates, we have increased this account by an additional \$21,527. In addition, we have decreased this account by \$1,652 to reflect an averaging adjustment. Our net adjustments to this account result in amortization of CIAC of \$60,164.

F. Working Capital Allowance

Pinecrest recorded a working capital allowance of \$5,851. Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses or other going-concern requirements of the Utility. Consistent with Rule 25-30.433(2), F.A.C., we shall use the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating working capital allowance. Applying this formula, we calculate the working capital allowance to be \$5,548 (based on an O&M expense of \$44,383). Thus, working capital has been reduced by \$303, for a working capital balance of \$5,548.

G. Rate Base Summary

Based on the forgoing, we calculate the appropriate average test year rate base to be \$66,022. Our calculation of rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

V. COST OF CAPITAL

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

Pursuant to Audit Finding No. 8, Pinecrest has a loan of \$43,349. This loan is from a 50 percent owner of the Utility. There is no interest on this loan, no loan documents, and Pinecrest is not making any payments on the principal. Because the loan payments are not being paid and it is from a related party, we find that this loan shall be treated as common equity in accordance with our practice.⁵ The Utility's capital structure has been reconciled with our approved rate base. Using our current leverage graph formula,⁶ we calculate the return on equity (ROE) to be 10.85 percent with an allowed range of plus or minus 100 basis points, and an overall rate of return of 7.49 percent. Our calculation of the ROE and overall rate of return is shown on Schedule No. 2.

VI. TEST YEAR REVENUE

Pinecrest recorded total revenues of \$51,497. This amount included \$48,342 for service revenue and \$3,156 for miscellaneous revenue. Based on review of the test year billing units, the correct test year service revenues are \$49,630. Therefore, we have increased test year revenues by \$1,289 (\$49,630 - \$48,342) to reflect the appropriate service revenues. Pursuant to Audit Finding No. 5, miscellaneous revenue should only be \$2,100, and not the \$3,156 recorded by the Utility. Therefore, we have decreased miscellaneous revenues by \$1,056 (\$3,156 - \$2,100). Based on the above adjustments, we find test year revenues to be \$51,730. Our calculation of test year revenue is shown on Schedule No. 3-A.

VII. OPERATING EXPENSES

The Utility recorded operating expenses of \$47,009 for the test year ended June 30, 2009. The test year O&M expenses have been reviewed through examination of invoices, canceled

⁵ See Order No. PSC-05-0621-PAA-WU, issued June 6, 2005, in Docket No. 041145-WU, In re: Application for staff-assisted rate case in Pasco County by Holiday Utility Company, Inc.; and PSC-09-0618-PAA-WS, issued September 11, 2009, in Docket No. 080709-WS, In re: Application for staff-assisted rate case in Highlands County by Damon Utilities, Inc.

⁶ See Order Nos. PSC-10-0401-PAA-WS, issued June 18, 2010, and PSC-10-0446-CO-WS, issued July 13, 2010, in Docket No. 100006-WS, In re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

checks, and other supporting documentation. Our adjustments to Pinecrest's operating expenses are set out below.

A. Purchased Power (615)

Pinecrest recorded purchased power expense of \$4,236. Pursuant to Audit Finding No. 6, we have decreased this account by \$525 to remove unsupported invoices. In addition, we have decreased purchased power expense by \$181 to remove a related party allocation. This results in a purchased power expense of \$3,530.

B. Fuel for Power Production (616)

The Utility recorded fuel for power production expense of \$0. However, due to an emergency generator and pump at the water plant, we have increased this account by \$48 to include the cost of fuel for testing the generator and pump. Therefore, the expense for fuel for power production is \$48.

C. Chemicals (618)

Pinecrest recorded chemical expense of \$2,296. Pursuant to Audit Finding No. 6, we have increased this account by \$332 to reflect the appropriate invoiced chemical expense, for a chemical expense of \$2,628 (\$2,296 + \$332).

D. Materials and Supplies (620)

The Utility recorded materials and supplies expense of \$487. Pursuant to Audit Finding No. 6, we have increased this account by \$203 to reflect the appropriate invoiced materials and supplies expense, for a materials and supplies expense of \$690 (\$487 + \$203).

E. Contractual Services – Billing (630)

Pinecrest recorded a Contractual Services - Billing expense of \$0. Based on invoices provided by the Utility, we have increased this account by \$2,976, for a Contractual Services - Billing expense of \$2,976.

F. Contractual Services - Professional (631)

Pinecrest recorded a Contractual Services - Professional expense of \$6,848. Pursuant to Audit Finding No. 6, we have decreased this account by \$6,098 to remove unsupported invoices. This results in a Contractual Services - Professional expense of \$750.

G. Contractual Services – Testing (635)

The Utility recorded a Contractual Services - Testing expense of \$1,084. Each utility must adhere to specific testing conditions prescribed within its operating permit. These testing requirements are tailored to each utility as required by Rule 62-550, F.A.C., for water and enforced by PCHD. Based on our staff engineer's review, Pinecrest did not include non-annual

testing costs. The tests are performed once every three years, at a cost of \$2,625. Amortizing this cost over three years, results in an increased testing expense of \$875 ($\$2,625/3$), for a total Contractual Services - Testing expense of \$1,959.

H. Contractual Services – Other (636)

The Utility recorded a Contractual Services - Other expense of \$14,470. Based on invoices provided by the Utility, we have increased this account by \$4,607. In addition, we have increased the Contractual Services - Other expense by \$525 to reflect the testing of the fire protection system, for a total Contractual Services - Other expense of \$19,602.

I. Rents (640)

The Utility recorded rent expense of \$1,440. Pinecrest operates one regulated system and two non-utility businesses from the building. Pursuant to Audit Finding No. 6, the rent is shared by three companies. We find the rent expense shall be split evenly between the three businesses. Therefore, we have decreased this account by \$240 to reflect the correct rent expense allocated to the Utility, for a total rent expense of \$1,200.

J. Transportation Expense (650)

Pinecrest recorded transportation expense of \$1,755. The Utility recorded truck insurance and fuel expense in this account. However, the trucks are owned by the management company which is a related party, and Pinecrest does not own any of the trucks. Therefore, we have decreased transportation expense by \$1,755 to remove the non-utility expense, which results in a transportation expense of \$0.

K. Insurance Expense (655)

The Utility recorded insurance expense of \$2,541. However, the actual liability insurance charges are \$3,430. We have therefore increased insurance expense by \$889, for a total insurance expense of \$3,430.

L. Regulatory Commission Expense (665)

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

M. Miscellaneous Expense (775)

The Utility recorded miscellaneous expense of \$5,881. We increased miscellaneous expenses by \$1,097 to include the correct bills that were provided by the Utility. However, we decreased this account by \$1,435 to remove non-utility expenses. Therefore, the net adjustment to miscellaneous expenses is a decrease of \$338, for a total miscellaneous expense for the test year of \$5,543.

N. O&M Expense Summary

Based on the above adjustments, O&M expense shall be decreased by \$2,424, for total O&M expenses of \$44,383. Our calculations are shown on Schedule No. 3-C.

O. Depreciation Expense (Net of Amortization of CIAC)

The Utility did not record depreciation expense. Using the prescribed rates set forth in Rule 25-30.140, F.A.C., depreciation expense is calculated to be \$5,581, and the CIAC amortization expense is calculated to be \$3,020. This results in a net depreciation expense of \$2,561 (\$5,581 - \$3,020).

P. Taxes Other Than Income (TOTI)

Pinecrest recorded a TOTI balance of \$202 for property taxes. The Utility did not take advantage of the property tax discount for payments made in November. It is our practice to include only the lowest property tax amount in expenses so the rate payers do not pay for Pinecrest's decision to pay late. Therefore, we have decreased TOTI by \$4 to reflect the appropriate discounted property taxes. Further, we have increased TOTI by \$2,328 to reflect the appropriate RAFs for the test year revenues approved in Section VI. Of this Order. As approved later in this Order, we have increased revenues by \$2,811 to reflect the change in revenue required to cover expenses and allow the approved return on investment. As a result, TOTI shall be increased by \$126 to reflect RAFs of 4.5 percent on the change in revenues. Accordingly, we calculate the TOTI to be \$2,652.

Q. Income Tax

The Utility did not have any income tax expense for the test year. Pinecrest is an S Corporation. The tax liability is passed on to the owner's personal tax returns. Therefore, we make no adjustment to this account.

R. Operating Expenses Summary

The application of our adjustments to the Utility's test year operating expenses results in operating expenses of \$49,596, shown on Schedule No. 3-A. The related adjustments are shown on Schedule No. 3-B.

VIII. REVENUE REQUIREMENT

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

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

IX. RATE STRUCTURE

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

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

Pinecrest is located in Polk County in the SWFWMD within the Southern Water Use Caution Area (SWUCA). In the Utility's last rate case, the customers' average monthly consumption was 18.879 kgal. The Utility at that time had a flat rate structure and was in the

process of installing meters.⁷ We ordered Pinecrest to complete meter installation for all of its customers within six months of the Consummating Order. In addition, we ordered the Utility to discontinue the flat rate charge once the meters were installed and implement the Phase II rates which consisted of a BFC/gallage charge rate structure.⁸ Since the installment of the meters, the customers have reduced their consumption significantly.

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

Furthermore, for this initial phase, the revenue requirement increase is 5.43 percent. Due to the low revenue requirement increase coupled with a low overall average consumption, we find that a continuation of the BFC/uniform gallage charge rate structure is appropriate. This rate structure is considered conservation oriented because customers' bills increase as their consumption increases.

Because we are continuing the existing BFC/gallage rate structure, the 5.43 percent revenue requirement increase shall be applied as an across-the-board increase to the water system's BFC and gallage charges. This results in the BFC cost recovery percentage remaining at 45 percent, and a BFC and gallage charge of \$13.17 and \$3.97, respectively.

Finally, as discussed below, we are approving a Phase II revenue requirement increase of 7.35 percent associated with pro forma plant improvements. As in the initial phase (Phase I), the revenue requirement increase for Phase II is small. Therefore, the 7.35 percent increase shall be applied as an across-the-board increase to the water system's BFC and gallage charges. This will result in Phase II rates with a BFC of \$14.14 and a gallage charge of \$4.26 per kgal.

Based on the foregoing, the Utility's current residential and non-residential water system rate structure which consists of a monthly base facility charge (BFC)/uniform gallage charge rate structure shall remain unchanged, and the water system's BFC cost recovery shall remain unchanged at 45 percent.

X. REPRESSION ADJUSTMENT

Because there appears to be no significant amount of discretionary usage, we find a repression adjustment is not warranted in this case. However, monthly reports shall be prepared to monitor the effects from changes in revenue to the water system. These reports shall be filed with this Commission on a semi-annual basis for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the Utility makes adjustments to

⁷ See Docket No. 020406-WU, In re: Application for a staff-assisted rate case in Polk County by Pinecrest Ranches, Inc.

⁸ See Order No. PSC-03-0008-PAA-WU.

consumption in any month during the reporting period, the Utility shall file a revised monthly report for that month within 30 days of any revision.

XI. RATES

The approved Phase I rates are designed to produce revenues of \$54,541 for the water system excluding miscellaneous service revenues of \$2,100. As discussed above, the Utility's current residential and non-residential water system rate structure shall remain unchanged.

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

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

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

XII. PRO FORMA ADJUSTMENTS AND PHASE II RATES

The Utility requested recognition of additional pro forma items that it intends to complete. The following is a chart summarizing the pro forma items, the cost, and approved treatment:

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

* \$12,000 amortized over 5 years

The Utility is required by PCHD to inspect all tanks every five years and repair as needed. The Utility plans to refurbish its 5,000-gallon hydropneumatic tank as a result of a recent inspection. We find Pinecrest's proposal is reasonable and prudent because it would

allow the Utility to perform required maintenance of the tank, which will increase reliability and ensure continual service to the customers. In addition, the Utility requested funding for a meter replacement program. Due to the age of Pinecrest's meters, the Utility has initiated a 15 year program in which it will replace 10 meters each year. We find that a Phase II revenue requirement associated with the pro forma plant items is appropriate. First, it assures that the pro forma item is completed prior to the Utility's recovery in rates. In the past, there have been instances where we approved revenue requirements with pro forma items; however, the Utility failed to complete the pro forma items. If the Utility fails to complete the items or if the cost of the items is lower than the estimated cost, our staff shall bring the case back before us so that we may address the differences. In addition, addressing the pro forma items in a single case saves additional rate case expense to the customer because the Utility would not need to file another rate case or limited proceeding to seek recovery for them. We note that we have approved a Phase-In approach in Docket Nos. 080668-SU and 090072-WU.⁹

Therefore, we have calculated a Phase II revenue requirement associated with pro forma items. Pinecrest's appropriate return on equity, with the pro forma items, shall be 10.85 percent with a range of 9.85 to 11.85 percent. The appropriate overall rate of return is 7.49 percent. Based on the above expenses, we find that the Utility's Phase II revenue requirement is \$58,668. This equates to an increase of 7.57 percent over the Phase I revenue requirement.

Pinecrest shall complete the pro forma items within 12 months of the issuance of the consummating order. Our calculation of Phase II rate base is shown on Schedule Nos. 5-A and 5-B. The capital structure for Phase II is shown on Schedule No. 6. The revenue requirement is shown on Schedule Nos. 7-A, 7-B and 7-C. The resulting rates are shown on Schedule No. 8.

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

XIII. STATUTORY FOUR-YEAR RATE REDUCTION

Section 367.0816, F.S., requires that rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenues associated with the amortization of rate

⁹ See Order Nos. PSC-09-0628-PAA-SU, issued September 17, 2009, in Docket No. 080668-SU, In re: Application for staff-assisted rate case in Highlands County by Fairmount Utilities, The 2nd Inc.; PSC-09-0716-PAA-WU, issued October 28, 2009, in Docket No. 090072-WU, In re: Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc.

case expense, the associated return included in working capital, and the gross-up for RAFs which is \$213. Using the Utility's current revenues, expenses, capital structure and customer base, the reduction in revenues will result in a rate decrease as shown on Schedule Nos. 4 and 8.

The rate decrease shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Pinecrest 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. 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 the reduction in the rate due to the amortized rate case expense.

XIV. TEMPORARY RATES IN THE EVENT OF PROTEST

This Order proposes an increase in water rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than Pinecrest, the rates shall be approved as temporary rates, subject to the refund provisions discussed below.

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

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

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

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

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

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

- 1) No refunds in the escrow account may be withdrawn by the Utility without the express approval of the Commission;

- 2) The escrow account shall be an interest bearing account;
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the Utility;
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments;
- 8) The Commission Clerk must be a signatory to the escrow agreement; and
- 9) The account must specify by whom and on whose behalf such monies were paid.

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

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

XV. PROOF OF ADJUSTMENT OF BOOKS FOR ALL THE APPLICABLE NARUC USOA PRIMARY ACCOUNTS

To ensure that the Utility adjusts its books in accordance with our decisions, Pinecrest shall provide proof within 90 days of the final order issued in this docket that the adjustments for all the applicable NARUC USOA primary accounts have been made.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that, Pinecrest Ranches, Inc.'s application for a staff-assisted rate case is hereby 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 are hereby approved in every respect. It is further

ORDERED that all matters contained in the attachments and schedules appended hereto are incorporated herein by reference. It is further

ORDERED that Pinecrest Ranches, Inc. shall file revised tariff sheets and the proposed customer notices to reflect the approved Phase I rates. It is further

ORDERED that the approved rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers. It is further

ORDERED that the Utility shall provide proof of the date notice was given no less than 10 days after the date of the notice. It is further

ORDERED that the approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. The tariff sheets shall be approved upon our staff's verification that the tariffs are consistent with this Order and that the customer notices are adequate. It is further

ORDERED that to allow this Commission to monitor the effects from changes in revenue to the water system, monthly reports shall be prepared detailing the number of bills rendered, the consumption billed, and revenues billed. In addition, the reports shall be prepared by customer class and meter size. It is further

ORDERED that these reports shall be filed with our staff, on a semi-annual basis, for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the Utility makes adjustments to consumption in any month during the reporting period, the Utility shall file a revised monthly report for that month within 30 days of any revision. It is further

ORDERED that the Utility shall complete the pro forma items within 12 months of the issuance of the Consummating Order. It is further

ORDERED that the Utility shall be allowed to implement the Phase II rates once all pro forma items have been completed and documentation provided showing the improvements made to the system. It is further

ORDERED that the Utility shall submit a copy of the final invoice and cancelled checks for the refurbishment of the hydropneumatic tank and the installation of 10 meters for the meter replacement program. It is further

ORDERED that the Utility shall submit documentation from a professional engineer indicating that the refurbishment was done in compliance with AWWA standards. It is further

ORDERED that, once verified, the Phase II rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. It is further

ORDERED that the Phase II rates shall not be implemented until notice has been received by the customers. It is further

ORDERED that the Utility shall provide proof of the date notice was given within 10 days after the date of the notice. It is further

ORDERED that if the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility shall immediately notify the Commission. It is further

ORDERED that the rates shall be reduced at the end of the four-year rate case expense amortization period as set forth in the body of this Order and Schedule Nos. 4 and 8. 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. It is further

ORDERED that the Utility shall file revised tariff sheets and a proposed customer notice setting forth the lower rates and the reason for the reductions no later than one month prior to the actual date of the required rate reduction. It is further

ORDERED 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 rates due to the amortized rate case expense. It is further

ORDERED that our staff may administratively approve the revised tariff sheets upon verification that the tariffs are consistent with our decision. It is further

ORDERED that pursuant to Section 367.0814(7), F.S., the rates approved herein shall be approved for the Utility on a temporary basis, subject to the refund provisions set forth in the body of this Order, in the event of a protest filed by a party other than the Utility. It is further

ORDERED that prior to implementation of any temporary rates, Pinecrest Ranches, Inc. shall provide the proposed customer notices and appropriate security for the potential refund. Security shall be in the form of a bond or letter of credit in the amount of \$1,876. Alternatively, as set forth in the body of this Order, the Utility may establish an escrow agreement with an independent financial institution. It is further

ORDERED that after the increased rates are in effect on a temporary basis, pursuant to Rule 25-30.360(6), F.A.C., Pinecrest Ranches, Inc., shall file reports with the Commission's Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed shall also indicate the status of the security being used to guarantee repayment of any potential refund. It is further

ORDERED that irrespective of the form of security chosen by the Utility, an account of all monies received as a result of the rate increase shall be maintained by the Utility. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C. It is further

ORDERED that Pinecrest Ranches, Inc. shall maintain its books and records in conformance with the 1996 NARUC USOA and provide proof, within 90 days of the final order issued in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made and have been reconciled with the Commission Order. It is further


ORDERED that, except for the granting of temporary rates, subject to refund, in the event of a protest, reducing rates at the end of the four-year amortization period, and requiring books to be kept in accordance with the NARUC USOA which are final agency action, 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, F.A.C., is received by the Office of 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 the docket shall remain open for our staff's verification that the revised tariff sheets and customer notice have been filed by the Utility. Also, the docket shall remain open until the Utility has provided our staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made, and to allow our staff to verify that the pro forma items have been completed and the Phase II rates properly implemented. It is further

ORDERED that once our staff has verified all of the above actions are complete, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 15th day of November, 2010.

ANN COLE
Commission Clerk

By: 
Dorothy E. Menasco
Chief Deputy Commission Clerk

(S E A L)

RRJ

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 granting of temporary rates subject to refund in the event of a protest, reducing rates at the end of the four-year amortization period, and requiring books to be kept in accordance with the NARUC USOA, which are final agency action, 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 December 6, 2010. 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.

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

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

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

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

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

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

SCHEDULE NO. 3-B
PAGE 1 OF 2
DOCKET NO. 090414-WU

		<u>WATER</u>
OPERATING REVENUES		
a.	To reflect the appropriate test year revenues.	\$1,289
b.	To reflect appropriate Mis. service revenues	<u>(1,056)</u>
	Subtotal	<u>\$233</u>
OPERATION AND MAINTENANCE EXPENSES		
1	a. To remove a unsupported bill.	(\$525)
	b. To reflect the appropriate common expense allocated to related parties.	<u>(181)</u>
	Subtotal	<u>(\$706)</u>
2	Fuel for Power Production (616) To include a \$4.00 a month charge to test generators and pumps in case of emergencies.	<u>\$48</u>
3	Chemicals (618) To increase account due to calculation error.	<u>\$332</u>
4	Materials and Supplies (620) To increase account due to calculation error.	<u>\$203</u>
5	Contractual Services - billing (630) To increase this account to include billing service.	<u>\$2,976</u>
6	Contractual Services - Professional (631) To reduce this account for unsupported documentation.	<u>(\$6,098)</u>
7	Contractual Services - Testing (635) To reflect the appropriate DEP testing requirements.	<u>\$875</u>
8	Contractual Services - Other (636) a. To reflect the appropriate contractual services - other	\$4,607
	b. Fire protection System testing	<u>525</u>
	Subtotal	<u>\$5,132</u>
(O & M EXPENSES CONTINUED ON NEXT PAGE)		

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

PINECREST RANCHES INC.

TEST YEAR ENDED 6/30/09

ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE

(PHASE I)

SCHEDULE NO. 3-C

DOCKET NO. 090414-WU

	TOTAL PER UTILITY	STAFF PER ADJUST.	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	4,236	(706)	3,530
(616) FUEL FOR POWER PRODUCTION	0	48	48
(618) CHEMICALS	2,296	332	2,628
(620) MATERIALS AND SUPPLIES	487	203	690
(630) CONTRACTUAL SERVICES - BILLING	0	2,976	2,976
(631) CONTRACTUAL SERVICES - PROFESSIONAL	6,848	(6,098)	750
(635) CONTRACTUAL SERVICES - TESTING	1,084	875	1,959
(636) CONTRACTUAL SERVICES - OTHER	14,470	5,132	19,602
(640) RENTS	1,440	(240)	1,200
(650) TRANSPORTATION EXPENSE	1,755	(1,755)	0
(655) INSURANCE EXPENSE	2,541	889	3,430
(665) REGULATORY COMMISSION EXPENSE	3,942	(3,741)	201
(670) BAD DEBT EXPENSE	1,827	0	1,827
(675) MISCELLANEOUS EXPENSES	<u>5,881</u>	<u>(338)</u>	<u>5,543</u>
	<u>\$46,807</u>	<u>(\$2,424)</u>	<u>\$44,383</u>

PINECREST RANCHES INC.		SCHEDULE NO. 4	
TEST YEAR ENDED 6/30/09		DOCKET NO. 090414-WU	
MONTHLY WATER RATES (PHASE I)			
	UTILITY'S EXISTING RATES	COMMISSION APPROVED PHASE I RATES	MONTHLY RATE REDUCTION
<u>Residential Service</u>			
Base Facility Charge All Meter Sizes			
5/8"X3/4"	\$12.49	\$13.17	\$0.05
3/4"	\$18.75	\$19.76	\$0.08
1"	\$31.24	\$32.93	\$0.13
1-1/2"	\$62.46	\$65.85	\$0.26
2"	\$99.94	\$105.36	\$0.41
3"	\$199.87	\$210.72	\$0.82
4"	\$312.30	\$329.25	\$1.28
6"	\$624.58	\$658.50	\$2.56
Per 1,000 Gallons	\$3.77	\$3.97	\$0.02
<u>General Service</u>			
Base Facility Charge by Meter Size:			
5/8"X3/4"	\$12.49	\$13.17	\$0.05
3/4"	\$18.75	\$19.76	\$0.08
1"	\$31.24	\$32.93	\$0.13
1-1/2"	\$62.46	\$65.85	\$0.26
2"	\$99.94	\$105.36	\$0.41
3"	\$199.87	\$210.72	\$0.82
4"	\$312.30	\$329.25	\$1.28
6"	\$624.58	\$658.50	\$2.56
Gallonage Charge (all gallons) Per 1,000 Gallons	\$3.77	\$3.97	\$0.02
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$15.11	\$25.08	
5,000 Gallons	\$18.57	\$33.02	
10,000 Gallons	\$27.22	\$52.87	

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

ORDER NO. PSC-10-0681-PAA-WU

DOCKET NO. 090414-WU

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

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

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER COMMISSION	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$100	(\$100)	\$0					
2. RETAINED EARNINGS	(196,846)	196,846	0					
3. PAID IN CAPITAL	111,317	(111,317)	0					
4. OTHER COMMON EQUITY	<u>0</u>	<u>0</u>	<u>0</u>					
5. TOTAL COMMON EQUITY	(85,429)	\$85,429	\$0	\$0	\$0	0.00%	11.30%	0.00%
6. LONG TERM DEBT	43,349	(43,349)	0	0	\$0	0.00%	0.00%	0.00%
7. NOTE-PAYABLE-CENTER STATE	<u>52,782</u>	<u>0</u>	<u>52,782</u>	<u>0</u>	66,061	<u>99.33%</u>	7.50%	7.45%
TOTAL LONG TERM DEBT	96,131	(43,349)	52,782	0	66,061	99.33%		
8. CUSTOMER DEPOSITS	<u>384</u>	<u>64</u>	<u>448</u>	<u>0</u>	<u>448</u>	<u>0.67%</u>	6.00%	<u>0.04%</u>
9. TOTAL	<u>\$11,086</u>	<u>\$42,144</u>	<u>\$53,230</u>	<u>\$0</u>	<u>\$66,509</u>	<u>100.00%</u>		<u>7.49%</u>
RANGE OF REASONABLENESS						LOW	HIGH	
RETURN ON EQUITY						<u>10.30%</u>	<u>12.30%</u>	
OVERALL RATE OF RETURN						<u>7.49%</u>	<u>7.49%</u>	

PINECREST RANCHES INC.
TEST YEAR ENDED 6/30/09
SCHEDULE OF WATER OPERATING INCOME
(PHASE II)

	TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
OPERATING REVENUES	<u>\$54,541</u>	<u>\$0</u>	<u>\$54,541</u>	<u>\$4,127</u> 7.57%	<u>\$58,668</u>
OPERATING EXPENSES:					
OPERATION & MAINTENANCE	44,383	3,900	48,283	0	48,283
DEPRECIATION (NET)	2,561	0	2,561	0	2,561
AMORTIZATION	0	0	0	0	0
TAXES OTHER THAN INCOME	2,652	0	2,652	191	2,843
INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>\$49,596</u>	<u>\$3,900</u>	<u>\$53,496</u>	<u>\$191</u>	<u>\$53,687</u>
OPERATING INCOME/(LOSS)	<u>\$4,945</u>		<u>\$1,045</u>		<u>\$4,982</u>
WATER RATE BASE	<u>\$66,022</u>		<u>\$66,509</u>		<u>\$66,509</u>
RATE OF RETURN	<u>7.49%</u>		<u>1.54%</u>		<u>7.49%</u>

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

SCHEDULE NO. 7-B
DOCKET NO. 090414-WU

	<u>WATER</u>
Contractual Services - Other (636)	
a. To reflect pro forma meter replacement program of 10 per year	\$1,500
b. To reflect pro forma exterior repair and paint to water tank	<u>2,400</u>
Subtotal	<u>\$3,900</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$3,900</u>

PINECREST RANCHES INC.
TEST YEAR ENDED 6/30/09
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE
(PHASE II)

	TOTAL PER UTILITY	COMMISSION ADJUST.	TOTAL PER COMMISSION
(601) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	3,530	0	3,530
(616) FUEL FOR POWER PRODUCTION	48	0	48
(618) CHEMICALS	2,628	0	2,628
(620) MATERIALS AND SUPPLIES	690	0	690
(630) CONTRACTUAL SERVICES - BILLING	2,976	0	2,976
(631) CONTRACTUAL SERVICES - PROFESSIONAL	750	0	750
(635) CONTRACTUAL SERVICES - TESTING	1,959	0	1,959
(636) CONTRACTUAL SERVICES - OTHER	19,602	3,900	23,502
(640) RENTS	1,200	0	1,200
(650) TRANSPORTATION EXPENSE	0	0	0
(655) INSURANCE EXPENSE	3,430	0	3,430
(665) REGULATORY COMMISSION EXPENSE	201	0	201
(670) BAD DEBT EXPENSE	1,827	0	1,827
(675) MISCELLANEOUS EXPENSES	<u>5,543</u>	<u>0</u>	<u>5,543</u>
	<u>\$44,383</u>	<u>\$3,900</u>	<u>\$48,283</u>

PINECREST RANCHES INC.		SCHEDULE NO. 8	
TEST YEAR ENDED 6/30/09		DOCKET NO. 090414-WU	
MONTHLY WATER RATES			
(PHASE II)			
	COMMISSION APPROVED PHASE I RATES	COMMISSION APPROVED PHASE II RATES	MONTHLY RATE REDUCTION
<u>Residential Service</u>			
Base Facility Charge All Meter Sizes			
5/8"X3/4"	\$13.17	\$14.14	\$0.05
3/4"	\$19.76	\$21.21	\$0.08
1"	\$32.93	\$35.35	\$0.13
1-1/2"	\$65.85	\$70.70	\$0.26
2"	\$105.36	\$113.12	\$0.41
3"	\$210.72	\$226.24	\$0.82
4"	\$329.25	\$353.50	\$1.28
6"	\$658.50	\$707.00	\$2.56
Per 1,000 Gallons	\$3.97	\$4.26	\$0.02
<u>General Service</u>			
Base Facility Charge by Meter Size:			
5/8"X3/4"	\$13.17	\$14.14	\$0.05
3/4"	\$19.76	\$21.21	\$0.08
1"	\$32.93	\$35.35	\$0.13
1-1/2"	\$65.85	\$70.70	\$0.26
2"	\$105.36	\$113.12	\$0.41
3"	\$210.72	\$226.24	\$0.82
4"	\$329.25	\$353.50	\$1.28
6"	\$658.50	\$707.00	\$2.56
Gallonage Charge (all gallons) Per 1,000 Gallons	\$3.97	\$4.26	\$0.02
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$25.08	\$26.92	
5,000 Gallons	\$33.02	\$35.44	
10,000 Gallons	\$52.87	\$56.74	