

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in water and
wastewater rates in Lake County by Utilities,
Inc. of Pennbrooke.

DOCKET NO. 120037-WS
ORDER NO. PSC-12-0667-PAA-WS
ISSUED: December 26, 2012

The following Commissioners participated in the disposition of this matter:

RONALD A. BRISÉ, Chairman
LISA POLAK EDGAR
ART GRAHAM
EDUARDO E. BALBIS
JULIE I. BROWN

NOTICE OF PROPOSED AGENCY ACTION
ORDER GRANTING IN PART APPLICATION BY UTILITIES INC., OF PENNBROOKE
FOR INCREASE IN WATER AND WASTEWATER RATES IN LAKE COUNTY

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that except for the statutory four year rate reduction and the requirement for the Utility to adjust its books in accordance with our decisions in this Order 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).

Background

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

On March 29, 2012, Pennbrooke filed its application for an increase in its water and wastewater rates. This initial filing did not meet the minimum filing requirements (MFRs), and the Utility provided corrections to its MFRs on May 9, 2012. The MFRs were complete on that

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

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date, and that date was established as the official date of filing. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure.

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

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

We have jurisdiction pursuant to Section 367.081, F.S.

Decision

Quality of Product and Service

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

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

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

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

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

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

Efforts to Address Customer Satisfaction

A customer meeting was held on July 18, 2012 at the Grand Hall at Pennbrooke Fairways in Leesburg, Florida which is located within the Utility's service area. Over 250 customers attended the meeting and 17 customers spoke and the majority of those who spoke expressed concerns with the proposed rate increase and the quality of water. The customers noted that the water tastes bad, has an odor (sometime chlorine odor) and dark color, there is sediment in the water, it leaves rust stains on fixtures, appliances and other property, and pressure problems often occur during designated irrigation periods. As an indication of the extent of the iron residue problems, customers spoke of their frustrations over cleaning dark rings or rust colored residue off water fixtures, as well as problems with sidewalks and other structures stained during watering. They also commented about what they considered abnormally high maintenance costs related to the upkeep of home treatment and filtering devices. One customer provided Commission staff with a sample of water containing apparent rust particles. Commission staff

was also provided with a copy of a survey developed by the Pennbrooke Homeowners' Association (PHOA). The survey, which had close to 500 respondents, showed that nearly 98 percent of the respondents indicated that the water quality had either not improved or had gotten worse since the previous rate case in 2010. Other survey questions reflected similar water quality problems which were discussed at the customer meetings.

In response to the Utility's rate case, we received letters and emails from approximately 30 customers, who expressed concerns about the proposed rate increase and the resulting negative effect a rate increase would have on their community. The complaints also identified low pressure and unacceptable water quality, including excessive odor (sulfur and chlorine), unpleasant taste, sediment, fixture and clothes stains, and the personal cost of owning and maintaining home treatment devices.

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

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

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

In the Utility's August 7, 2012 response to Commission staff's second data request, Pennbrooke indicated that it had no prior knowledge that any of the items discussed at the customer meeting were of concern as there have been few, if any, complaints received. It explained that the iron residue comments are likely due to a high residence time in the distribution system that would permit sequestered iron to precipitate in the lines. The chlorine comments are likely due to the customers' proximity to the WTP or the customers' sensitivity to

chlorine. The Utility believes that low water pressure experienced by some customers is likely due to heavy irrigation usage. The Utility was not aware of the pressure problems; therefore, there has been no tracking of pressures.

Concerning any improvements or modification that could be done, the Utility has indicated that practically any water quality issue can be resolved by means of implementing additional treatment techniques and technologies. The limitations are capital cost, permitting, and the available footprint at the WTP. In lieu of additional treatment, the Utility suggested that it could revise the flushing program to increase the frequency and duration at each designated flushing point. Concerning the pressure situation the Utility indicated that an irrigation schedule could be implemented that would break the system into quadrants or some other configuration to reduce the peak demand on watering days, thus increasing the available pressure on irrigation days. The Utility believes that it would likely be best to implement the revised schedule than chart pressures at area hydrants. The concepts as discussed above would require the acquiescence of the customer base.

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

Future Efforts to Address Water Quality Issues

Based on the foregoing, we find that despite the efforts of the Utility to address water quality and water pressure, there is still a significant amount of customer dissatisfaction. Understanding that efforts to improve water quality and water pressure must be placed in the context of costs and benefits, we instruct the Utility to work with its customers through the relevant homeowners' associations to discuss and determine ways to address the customer concerns involving water quality and water pressure while educating the customers on the technical aspects and economic impact of improving water quality and water pressure. At a minimum, the Utility shall engage the Pennbrooke Homeowners Association to discuss options for addressing consumer concerns involving water quality and water pressure. No later than six months from the date of this Order, the Utility shall provide Commission staff with a report

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

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

detailing its efforts to engage its customers and demonstrating compliance with this section of the Order.

Conclusion

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

Audit Adjustments to Rate Base and Operating Expense

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

Table 1

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

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

Table 2

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

Table 3

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

Allocation of Phoenix Project Costs

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

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

2009 Divestitures of UI Subsidiaries

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

Commission-Ordered Adjustments

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

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

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

⁶ See Order No. PSC-10-0407-PAA-SU, issued on June 21, 2010, in Docket No. 090381-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida, at p.6.

expense shall also be decreased by \$841 for water and \$660 for wastewater. The depreciation calculation is based on a depreciation life of ten years for the Phoenix Project.

2010 Divestitures of UI Subsidiaries

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

Computer Maintenance Expense

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

Creation of a Regulatory Asset or Liability

In Docket No. 110153-SU, as part of a proposed settlement of PAA protests, Utilities, Inc. (Pennbrooke's parent company) with the consent and support of the Office of Public Counsel (OPC) petitioned this Commission to open a separate generic docket to address the protested issue relating to the Utility's Phoenix Project.⁸ In that Agreement, the Parties agreed, and we subsequently ordered,⁹ that if there is an upward or downward adjustment to the previously approved revenue requirement for Utilities Inc. of Eagle Ridge resulting from a final decision in Docket No. 120161-WS, the Utility shall be authorized to create a regulatory asset or liability, and accrue interest on the regulatory asset¹⁰ or liability,¹¹ at the 30-day commercial

⁷ See Order No. PSC-12-0206-PAA-WS, issued April 17, 2012, in Docket No. 110264-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.

⁸ On May 24, 2012, Utilities, Inc. of Eagle Ridge, on behalf of its Florida-subsiaries and pursuant to a stipulation and settlement agreement entered into with the Office of Public Counsel, filed a petition for the establishment of a generic docket to address the this Commission's treatment of the Phoenix Project's costs. This generic docket has been assigned Docket No. 120161-WS.

⁹ See Order No. PSC-12-0346-FOF-SU, issued July 5, 2012, in Docket No. 110153-SU, In re: Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge, at pp. 2, 9.

¹⁰ A regulatory asset typically involves a cost incurred by a regulated utility that would normally be expensed currently but for an action by the regulator or legislature to defer the cost as an asset to the balance sheet. This

paper rate until the establishment of rates in Utilities Inc. of Eagle Ridge's next rate proceeding. We also ordered that the regulatory asset or liability be amortized over four years. Therefore, consistent with the our actions in Docket No. 110153-SU, Pennbrooke is authorized to create a regulatory asset or liability for costs associated with the Phoenix Project, and to accrue interest on the regulatory asset or liability at the 30-day commercial paper rate until the establishment of rates in Pennbrooke's next rate proceeding. Furthermore, the regulatory asset or liability shall be amortized over four years.

Conclusion

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

Pro Forma Plant Adjustments

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

allows a utility to amortize the regulatory asset over a period greater than one year. For example, unamortized rate case expense in the water and wastewater industry is a regulatory asset. Normally, the costs of a rate case would be expensed when incurred. However, Section 367.0816, F.S., requires that water and wastewater utilities amortize rate case expense over a four-year period, thus creating a regulatory asset. This Commission's approval to defer entitled revenues and amortize the recovery of those revenues over a period greater than one year can also create a regulatory asset.

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

Used and Useful Percentages

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

Water Treatment Plant (WTP) and Storage

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

Wastewater Treatment Plant (WWTP)

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

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

Water Distribution and Wastewater Collection Systems

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

Working Capital Allowance

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

Rate Base

In its MFRs, the Utility recorded rate base of \$1,138,890 for water and \$1,160,284 for wastewater. We calculated Pennbrooke's water and wastewater rate bases using the Utility's MFRs with adjustments as previously established in this Order. Accordingly, we find that the appropriate simple average rate base for the test year ended September 30, 2011, is \$724,794 for water and \$1,184,747 for wastewater. The water and wastewater rate bases are shown on Schedules A and B, respectively. The adjustments are shown on Schedule C.

Return on Equity (ROE)

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

Appropriate Weighted Average Cost of Capital

In its filing, the Utility requested an overall cost of capital of 8.02 percent. Based upon the proper components, amounts, and cost rates associated with the capital structure, we order a weighted average cost of capital of 7.89 percent. Schedule D details the overall cost of capital.

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

Salaries and Wages Expense

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

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

O&M Expense

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

Purchased Power

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

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

Regulatory Commission Expense

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

Bad Debt Expense

The Utility recorded bad debt expense of \$119 for water and \$99 for wastewater in the test year. In numerous decisions, we have set bad debt expense using the 3-year average in electric,¹⁵ gas,¹⁶ and water and wastewater cases.¹⁷ We approved a 3-year average in these cases based on the premise that a 3-year average fairly represented the expected bad debt expense. Overall, the basis for determining bad debt expense has been whether the amount is representative of the bad debt expense to be incurred by the Utility.

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

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

¹⁵ See Order Nos. PSC-94-0170-FOF-EI, issued February 10, 1994, in Docket No. 930400-EI, In re: Application for a Rate Increase for Marianna electric operations by Florida Public Utilities Company, at p. 20; PSC-93-0165-FOF-EI, issued February 2, 1993, in Docket No. 920324-EI, In re: application for a rate increase by Tampa Electric Company, at pp. 69-70; and PSC-92-1197-FOF-EI, issued October 22, 1992, in Docket No. 910890-EI, In re: Petition for a rate increase by Florida Power Corporation, at p. 48.

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

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

Miscellaneous Expense

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

We calculate a rate of \$4.89 per irrigation bill by using the costs of postage, envelopes, and employee overhead. The method used to determine appropriate salary is the same method the Utility would use to charge a customer a late payment fee. Accordingly, we find that the cost of mailing 1,602 separate irrigation bills which shall be removed from water O&M expense is \$7,834.

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

Unamortized Rate Case Expense from the Utility's Prior Rate Case

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

Rate Case Expense

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

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

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

Table 4

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

Pursuant to Section 367.081(7), F.S., this Commission shall determine the reasonableness of rate case expense and shall disallow all rate case expense determined to be unreasonable. We have examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. In addition, we reviewed our order in the Utility's prior rate case. We find the following adjustments to Pennbrooke's rate case expense estimate are appropriate.

Legal Consultant Fees

The first adjustment relates to the Utility's legal fees. The Utility included in its MFRs \$80,688 in legal fees to complete the rate case. The Utility provided invoices through July 31, 2012, showing legal expenses associated with the rate case totaling \$9,453. According to the invoices, the law firm of Sundstrom, Friedman & Fumero, LLP, billed the Utility .80 hours related to the correction of MFR deficiencies. Based on the law's firm hourly rate of \$340 per hour, the total amount billed to Pennbrooke was \$272 (\$340x.80). We have previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.²⁰ Accordingly, we find that \$272 shall be removed as a duplicative and unreasonable rate case expense. In its estimate to complete the rate case, the Utility requested 7 hours to "respond to formal and informal data requests from Commission staff and the Office of Public Counsel (OPC) and any other discovery requests." At the time the Utility filed its estimate to complete, however, there was only one outstanding data request, and Commission staff anticipates needing no further information from the Utility through completion of the PAA

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

process. As a result, we find 2 hours to be more reasonable, and order a reduction of \$1,700 (\$340x5). Based on the above, we find that legal fees shall be reduced by a total of \$1,972 (\$272+\$1,700).

Engineering Consultant Fees

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

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

WSC In-House Employee Fees

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

WSC FedEx Expenses

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

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

Customer Notices and Postage

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

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

Conclusion

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

Table 5

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

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

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

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

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

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

Appropriate Revenue Requirements

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

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

The following revenue requirement shall be approved.

Table 6

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

Rate Structure

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

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

Repression Adjustment

As discussed in previously in this Order, we find an increase in water system revenue requirements of 0.95% is appropriate. We do not find that the approved increase is sufficient to result in a repression of consumption. This Commission does not make repression adjustments to wastewater systems due to the nondiscretionary nature of residential wastewater usage. Therefore, no repression adjustment is appropriate.

Water and Wastewater Rates

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

Refund Determination and Calculation

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

According to Section 367.082, F.S., any refund 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 a cost which is recovered only after final rates are established.

Using the principles discussed above, we calculate an adjusted interim revenue requirement of \$489,156 for water and \$538,990 for wastewater utilizing the same data used to establish final rates. Rate case expense is excluded because this item is prospective in nature and does not occur during the interim collection period. The adjusted water interim revenue

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

requirement of \$489,156 is greater than the interim revenue requirement of \$416,192 granted in the Interim Order. This results in no required refund for water. The adjusted wastewater interim revenue requirement of \$538,990 is greater than the interim revenue requirement of \$498,581 granted in the Interim Order. This results in no required refund for wastewater. As such, the corporate undertaking shall be released.

Removal of Four Year Amortized Rate Case Expense

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

The Utility shall be required to file revised tariff sheets and a proposed customer notice to reflect the 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 25-30.475(1), F.A.C. The rates shall not be implemented until Commission staff has approved the proposed customer notice. Pennbrooke shall provide proof of the date notice was given within 10 days of the date of the notice.

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

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

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission the Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke is granted in part as set out in the body of this Order. It is further

ORDERED that the findings set forth in the body of this Order are hereby approved. It is further

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

ORDERED that the Utility shall file revised tariff sheets and a proposed customer notice to reflect the 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 25-30.475(1), F.A.C. In addition, the rates shall not be implemented until Commission staff has approved the proposed customer notice. The Utility shall provide proof of the date the notice was given within 10 days of the date of the notice. It is further

ORDERED that in accordance with Section 367.0816, F.S. the decrease in rates shall become effective upon the expiration of the four year rate case recovery period. The Utility shall be required to file revised tariff sheets and a proposed customer notice to reflect the 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 25-30.475(1), F.A.C. The rates shall not be implemented until Commission staff has approved the proposed customer notice. Pennbrooke shall provide proof of the date notice was given within 10 days of the date of the notice. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data 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 the Utility shall provide proof, within 90 days of the final order in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made.

ORDERED that Utilities, Inc. of Pennbrooke is ordered to engage its customers through the Pennbrooke Homeowners Association to discuss options and costs for addressing customer concerns involving water quality and water pressure. Within six months the Utility shall file a report with Commission staff demonstrating compliance with this Order. It is further

ORDERED that if no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order will be issued. The docket shall remain open for Commission staff's verification that the revised tariff sheets, customer notice and report demonstrating compliance with this order in regards to consumer complaints involving water quality and water pressure have been filed by the Utility and approved by Commission staff. Once these actions are complete, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 26th day of December, 2012.



DOROTHY E. MENASCO
Commission Deputy Clerk II
Florida Public Service Commission
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Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

MTL

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 statutory four year rate reduction and the requirement for the Utility to adjust its books in accordance with our decisions in this Order 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, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on January 16, 2013. 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 procedural or intermediate action in this matter may request: (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code, if issued by a Prehearing Officer; (2) reconsideration within 15 days pursuant to Rule 25-22.060, Florida Administrative Code, if issued by the Commission; or (3) 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. A motion for reconsideration shall be filed with the Office of Commission Clerk, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

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

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

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

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

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

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

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

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

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