

VOTE SHEET

January 9, 2007

Docket No. 060261-WS – Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke.

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

Recommendation: Yes. The utility's overall quality of service is satisfactory. As part of a review concerning water pressure, the utility should be required to submit a report, within six months of the Consummating Order in this proceeding, of its flushing program, including dates, locations, duration, gallons of water used in flushing the system, customers' complaints and utility responses concerning pressure.

MODIFIED

modified

Approved as modified

COMMISSIONERS ASSIGNED: All Commissioners

COMMISSIONERS' SIGNATURES

MAJORITY

DISSENTING

[Handwritten signatures in the Majority column]

REMARKS/DISSENTING COMMENTS:

DOCUMENT NUMBER-DATE

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Issue 2: Should the audit adjustments to rate base, net operating income and capital structure to which the utility agrees be made?

Recommendation: Yes. Based on uncontested audit adjustments, plant should be decreased by \$5,750 for water and increased by \$8,080 for wastewater; accumulated depreciation should be increased by \$7,360 for water and by \$10,640 for wastewater; net depreciation expense should be decreased by \$9,484 for water and \$5,270 for wastewater; accumulated amortization of contributions in aid of construction (CIAC) should be increased by \$18,651 for water and \$35,332 for wastewater; operation and maintenance (O&M) expenses should be decreased by \$5,200 for water and \$3,909 for wastewater; taxes other than income taxes (TOTI) should be decreased by \$4,194 for water and increased by \$4,543 for wastewater; common equity should be increased by \$3,093,004; deferred taxes should be increased by \$5,369; and finally, long-term debt should be decreased by 0.08 percent.

APPROVED

Issue 3: What are the appropriate Water Service Corporation (WSC) and Utilities, Inc. of Florida (UIF) rate base allocations for Pennbrooke?

Recommendation: The appropriate WSC net rate base allocation for Pennbrooke is \$5,972 for water and \$5,176 for wastewater. This represents an increase of \$1,597 and \$1,340 for water and wastewater, respectively. WSC depreciation expense should also be reduced by \$114 and \$98, for water and wastewater, respectively. Further, the appropriate UIF rate base allocation for Pennbrooke is \$14,222 for water and \$12,189 for wastewater. This represents water plant and accumulated depreciation decreases of \$17,715 and \$5,331, respectively, and wastewater plant and accumulated depreciation increases of \$17,450 and \$5,261, respectively. In addition, depreciation expense should be increased by \$362 for water and \$578 for wastewater.

APPROVED

Issue 4: Should adjustments be made to the utility's pro forma plant and expense additions?

Recommendation: Yes. After staff's proposed adjustments, the total pro forma plant additions should be \$75,940 and pro forma expense should be \$2,825. As a result, plant should be decreased by \$52,178 for water and by \$32,004 for wastewater. Accordingly, accumulated depreciation and depreciation expense should both be decreased by \$2,419 for water and \$1,366 for wastewater. Miscellaneous expense should be increased by \$2,825 to amortize tank inspections.

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

Recommendation: Pennbrooke's water treatment plant is 100% used and useful, the wastewater plant is 100% used and useful, and the water distribution and wastewater collection systems are 100% used and useful as reflected in Attachment A of staff's December 27, 2006 memorandum.

APPROVED

Issue 6: Should adjustments be made to construction work in progress?

Recommendation: Yes. Construction Work in Progress (CWIP) should be decreased by \$12,253 for water and \$2,235 for wastewater. In addition, Account 675, Miscellaneous Expense, should be increased by \$1,897.

APPROVED

Issue 7: What is the appropriate working capital allowance?

Recommendation: The appropriate amount of working capital is \$25,144 for water and \$27,462 for wastewater.

APPROVED

Issue 8: What is the appropriate rate base for the December 31, 2005, test year?

Recommendation: Consistent with other recommended adjustments, the appropriate simple average rate base for the test year ending December 31, 2005 is \$590,646 for water and \$1,099,014 for wastewater.

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Issue 9: What is the appropriate return on common equity?

Recommendation: The appropriate return on common equity is 11.45% based on the Commission's leverage formula currently in effect. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

APPROVED

Issue 10: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2005?

Recommendation: The appropriate weighted average cost of capital for the test year ended December 31, 2005 is 8.22%.

APPROVED

Issue 11: What is the appropriate amount of allocated WSC and UIF expenses for Pennbrooke?

Recommendation: Based on the audit adjustments and the ERC-only methodology, the appropriate WSC O&M expenses and taxes other than income for Pennbrooke are \$48,215 and \$2,329, respectively. As such, water O&M expenses and taxes other than income should be decreased by \$1,349 and \$4, respectively, and wastewater O&M expenses and taxes other than income should be decreased by \$1,157 and \$3, respectively. Further, the appropriate UIF O&M expenses for Pennbrooke are \$680 for water and \$583 for wastewater. As such, water and wastewater O&M expense should be decreased by \$20 and \$17, respectively.

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Issue 12: Should an adjustment be made to the utility's pro forma salaries and wages, pensions and benefits, and payroll taxes?

Recommendation: Yes. Pennbrooke's salaries and wages should be decreased by \$1,718 for water and \$1,240 for wastewater. Accordingly, pensions and benefits should be reduced by \$1,117 and \$936 for water and wastewater, respectively, and payroll taxes should be reduced by \$342 and \$310 for water and wastewater, respectively.

APPROVED

Issue 13: Should adjustments be made to O&M expenses for nonutility and out-of-period expenses?

Recommendation: Yes. Account 775, Miscellaneous Expense, should be decreased by \$1,155 to remove non-utility expenses, and Account 635, Contractual Services – Testing, should be increased by \$330 to include 2005 testing expense paid in 2006.

APPROVED

Issue 14: Should an adjustment be made to normalize materials and supplies expense, and if so, what are the amounts?

Recommendation: Yes. To normalize the test year expense level, materials and supplies (M&S) expense should be decreased by \$7,902 for water and \$12,747 for wastewater.

APPROVED

Issue 15: What is the appropriate amount of rate case expense?

Recommendation: The appropriate rate case expense is \$101,216. This expense should be recovered over four years for an annual expense of \$25,304. Thus rate case expense should be reduced by \$9,280 for water and \$8,001 for wastewater, respectively.

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Issue 16: Should an adjustment be made to Account No. 668, Water Resource Conservation Expense, and, if so, what is the appropriate adjustment?

Recommendation: Yes. Account No. 668, Water Resource Conservation Expense, should be increased by \$20,845.

APPROVED

with modification that overrecovery is subject to refund and escrow.

Issue 17: Should an adjustment be made to property taxes to reflect a change in millage rate?

Recommendation: Yes. Taxes Other Than Income Taxes (TOTI) should be decreased by \$186 for water and \$255 for wastewater to reflect a change in the property tax millage rate.

APPROVED

Issue 18: What is the test year pre-repression water and wastewater operating income or loss before any revenue increase?

Recommendation: Based on the adjustments discussed in previous issues, staff recommends that the test year pre-repression water operating income before any provision for increased or decreased revenues should be \$48,542 for water and \$13,934 for wastewater.

APPROVED

Issue 19: What is the appropriate pre-repression revenue requirement for the December 31, 2005 test year?

Recommendation: The following pre-repression revenue requirement should be approved.

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Issue 20: What is the appropriate disposition of the overearnings associated with the water system?

Recommendation: Staff recommends that the entire amount of overearnings – \$20,845 – be treated as a projected conservation expense, with the requirement that these monies be used to enhance the utility's conservation program. The utility should, within 90 days from the date the order in this case becomes final, submit a plan to both the St. Johns River Water Management District (SJRWMD or District) and the Commission. Upon Commission approval of the plan, it should be implemented within 90 days of the date of the order approving it. The utility should, at a minimum, spend the recommended amount for each of the first four years of the plan, and be required to file quarterly reports with both the Commission and the SJRWMD on its conservation program covering the same four-year period. These reports should list during each reporting period: (1) the conservation measures that were implemented during the period; (2) the associated amounts expended; and (3) the kgal of water pumped. Staff should also confer with the SJRWMD in reviewing the reports in order to evaluate the effectiveness of the program and ensure that the program and amounts spent are consistent with the Commission order.

APPROVED

With modification that overearning is subject to refund and escrow.

Issue 21: What are the appropriate rate structures for the utility's water and wastewater systems?

Recommendation: The appropriate rate structure for the water system's residential class is a continuation of its two-tier inclining-block rate structure. The current usage blocks and usage block rate factors should also remain unchanged. The two-tier inclining-block rate structure currently applicable to the general service customers should be eliminated and replaced with the traditional base facility charge (BFC)/uniform gallonage charge rate structure. The BFC cost recovery percentage for the water system should be set at 25%. The appropriate rate structure for the wastewater system is a continuation of the BFC/gallonage charge rate structure. The residential wastewater monthly gallonage cap should be reduced to 6 kgal. The general service gallonage charge should be 1.2 times greater than the corresponding residential charge, and the post-repression BFC cost recovery percentage should be set at 40%.

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Issue 22: Are repression adjustments appropriate in this case, and, if so, what are the appropriate adjustments to make for this utility, what are the corresponding expense adjustments to make, and what are the final revenue requirements for the respective water and wastewater systems?

Recommendation: Due to the 0% increase recommended for the water system, no repression adjustments are recommended for either the water or wastewater systems. There are no resulting expense adjustments. However, the current rates will change due to the changes in the recommended BFC cost recovery percentages for the water and wastewater systems. Therefore, in order to monitor the effect of the rate changes, the utility should be ordered to file reports detailing the number of bills rendered, the consumption billed and the revenues billed on a monthly basis. In addition, the reports should be prepared, by customer class, usage block and meter size. The reports should be filed with staff, on a quarterly 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 should be ordered to file a revised monthly report for that month within 30 days of any revision.

APPROVED

Issue 23: What are the appropriate monthly rates for the water and wastewater systems for the utility?

Recommendation: The appropriate monthly water rates are a continuation of current rates, shown on Schedule No. 4-A of staff's December 27, 2006 memorandum. The appropriate wastewater monthly rates are shown on Schedule No. 4-B of staff's memorandum. Excluding miscellaneous service charges, the recommended water rates produce revenues of \$338,947. Excluding miscellaneous service and reuse charges, the recommended wastewater rates produce revenues of \$432,035. The utility should file revised wastewater tariff sheets and a proposed customer notice to reflect the Commission-approved rates for the wastewater system. The approved wastewater rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved wastewater rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

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Issue 24: What are the appropriate reuse rates?

Recommendation: The appropriate reuse rate for this utility should be \$0.09 per 1,000 gallons of usage. The utility should file tariff sheets which are consistent with the Commission's decision within 30 days from the Commission's vote. The tariff sheets should be approved upon staff's verification that the tariffs are consistent with the Commission's decision. The approved rates should 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.

APPROVED

Issue 25: Should the utility be authorized to revise its miscellaneous service charges, and, if so, what are the appropriate charges?

Recommendation: Yes. The utility should be authorized to revise its miscellaneous service charges. The appropriate charges are reflected in staff's memorandum. The utility should file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the notice has been approved by staff. Within 10 days of the date the order is final, the utility should be required to provide notice of the tariff changes to all customers. The utility should provide proof the customers have received notice within 10 days after the date that the notice was sent.

APPROVED

Issue 26: In determining whether any portion of the wastewater interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

Recommendation: The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense and other items not in effect during the interim period. This revised revenue requirement for the interim collection period should be compared to the amount of interim revenues granted. Based on this calculation, no refund is required. Further, upon issuance of the Consummating Order in this docket, the corporate undertaking should be released.

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Issue 27: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

Recommendation: The water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B of staff's December 27, 2006 memorandum, to remove \$14,229 of water and \$12,268 of rate case expense, grossed up for regulatory assessment fees, which is being amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than 30 days prior to the actual date of the required rate reduction. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

APPROVED

Issue 28: Should the utility be required to provide proof, within 90 days of the final order issued in this docket, that it has adjusted its books for all the applicable NARUC USOA primary accounts associated with the Commission approved adjustments?

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

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Issue 29: Should this docket be closed?

Recommendation: No. If no timely protest is filed by a substantially affected person within 21 days of the Proposed Agency Action Order, a Consummating Order should be issued and the corporate undertaking released. However, the docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff, and to allow time for staff to present an appropriate conservation plan to the Commission for its consideration.

APPROVED