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Public Service Commission

August 24, 2009

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09 AUG 24 PM 2:32
COMMISSION
CLERK

Mr. Larry O'Steen
Neighborhood Utilities, Inc.
300 West Adams Street, Suite 540
Jacksonville, Fla. 32202

Re: Docket No. 090060-WU, Staff Assisted Rate Case for Neighborhood Utilities, Inc., in Duval County

Dear Mr. O'Steen:

This will confirm that Commission Staff will hold a customer meeting at the **West Regional Library on September 16, 2009, starting at 6:00 pm**. We ask that, if at all possible, you or another knowledgeable representative of the utility attend the meeting in order to answer customer questions. The customer meeting may be adjourned early if no customers are present. The location of the meeting will be the:

West Regional Library
145 Chaffee Road South
Jacksonville, FL 32221

The original customer meeting notice is enclosed. Please note the date has been left blank so that you can fill in the date that the notice is sent to the customers. As required by Rule 25-22.0407(9)(b), Florida Administrative Code (F.A.C.), the utility shall provide, in writing, a customer meeting notice to all customers within its service area no less than 14 days and no more than 30 days prior to the date of a customer meeting. Please furnish me with a copy of the notice, as reproduced at the time it is distributed to your customers, together with a cover letter indicating the exact date(s) on which the notice was mailed or otherwise delivered to the customers.

Two copies of the staff report dated August 20, 2009, are enclosed. When you receive the staff report, please ensure that a copy of the completed Application for Staff Assistance and the staff

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Mr. Larry O'Steen

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August 24, 2009

report are available for review, pursuant to Rule 25-22.0407(9)(b), F.A.C., by all interested persons at the following location:

Neighborhood Utilities, Inc.
300 West Adams Street, Suite 540
Jacksonville, FL 32202

For your convenience, I have also enclosed a copy of Rule 25-22.0407(9)(b), F.A.C.

Should you have any questions about any of the matters contained herein, please do not hesitate to contact me at (850) 413-6193. In addition, you may contact Lynn Deamer at (850) 413-6416, with any questions.

Sincerely,



Jean Hartman
Senior Attorney

Enclosures

JH:db

cc: Division of Regulatory Compliance (Salak, Mailhot, Casey, Deamer)
Division of Economic Regulation (Bulecza-Banks, Daniel)
Office of Commission Clerk (Docket No. 090060-WU)
Office of General Counsel (Hartman)
Office of Public Counsel

Rule 25-22.0407(9), Florida Administrative Code

(9) When a utility applies for a staff-assisted rate case in accordance with Section 367.0814, Florida Statutes, and Rule 25-30.455, F.A.C., and staff-assistance is granted, the requirements of subsections (2), (3), (4), and (5) of this rule shall not apply.

(a) Upon receipt of the staff reports, the utility shall place two copies of its application for staff-assistance and the staff reports at any business offices it has in its service area. Such copies shall be available for public inspection during the utility's regular business hours. If the utility does not have a business office in its service area, the utility shall place two copies of its application and the staff reports at the main county library, the local community center or other appropriate location that is within or most convenient to the service area and that is willing to accept and provide public access to the copies.

(b) No less than 14 days and no more than 30 days prior to the date of a customer meeting conducted by the Commission staff, the utility shall provide, in writing, a customer meeting notice to all customers within its service area and to all persons in the same service areas who have filed a written request for service or who have been provided a written estimate for service within the 12 calendar months prior to the month the petition is filed.

(c) The customer meeting notice shall be approved by the Commission staff prior to distribution and shall include the following:

1. The date the notice was issued;
2. The time, date, location, and purpose of the customer meeting;
3. A statement that the utility has applied for a staff-assisted rate case and the general reasons for doing so;
4. A statement of the location where copies of the application and the staff reports are available for public inspection and the times during which inspection may be made;
5. A comparison of current rates and charges and the proposed new rates and charges;
6. The utility's address, telephone number, and business hours;
7. A statement that written comments regarding utility service or the proposed rates and charges should be addressed to the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0870, and that such comments should identify the docket number assigned to the proceeding;
8. A statement that complaints regarding service may be made to the Commission's Division of Consumer Affairs at the following toll-free number: 1(800)342-3552.
9. A statement that the Commission will be reviewing the utility's service availability charges in the pending case and that the Commission may adjust those charges.
10. The docket number assigned by the Commission's Division of the Commission Clerk and Administrative Services.

(d) The customer meeting notice shall be mailed to the out-of-town address of all customers who have provided the utility with an out-of-town address.

(e) If the proposed agency action order issued in the case is protested and any hearings are subsequently held, the utility shall give notice in accordance with subsections (6) and (7) above.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
NOTICE OF CUSTOMER MEETING
TO THE CUSTOMERS OF NEIGHBORHOOD UTILITIES, INC.
AND
ALL OTHER INTERESTED PERSONS
DOCKET NO. 090060-WU
APPLICATION OF NEIGHBORHOOD UTILITIES, INC.
FOR A STAFF-ASSISTED RATE CASE IN
DUVAL COUNTY

Issued:

Notice is hereby given that the Staff of the Florida Public Service Commission (Commission) will conduct a customer meeting to discuss the application of Neighborhood Utilities, Inc. (NUI) for a staff-assisted rate case (SARC) in Duval County. The meeting will be held at the following time and place:

6:00 p.m., Wednesday, September 16, 2009
West Regional Library
145 Chaffee Road South
Jacksonville, Florida 32221

All persons who wish to comment are urged to be present at the beginning of the meeting, since the meeting may be adjourned early if no customers are present. One or more of the Commissioners of the Commission may attend and participate in this meeting. The meeting will begin as scheduled and will continue until all the customers have been heard.

If a named storm or other disaster requires cancellation of the meeting, Commission staff will attempt to give timely direct notice to the parties. Notice of cancellation of the meeting will also be provided on the Commission's website (<http://www.psc.state.fl.us/>) under the Hot Topics link found on the home page. Cancellation can also be confirmed by calling the Office of the General Counsel at 850-413-6199.

Any person requiring some accommodation at the customer meeting(s) because of a physical impairment should call the Office of Commission Clerk at (850) 413-6770 at least five calendar days prior to the meeting(s). Any person who is hearing or speech impaired should

contact the Commission by using the Florida Relay Service, which can be reached at 1-800-955-8771 (TDD).

PURPOSE

The purpose of this meeting is to give customers and other interested persons an opportunity to offer comments to Commission staff regarding the quality of service the Utility provides, the proposed rate increase, and to ask questions and comment on staff's preliminary rates included in this notice as well as other issues. Staff members will summarize NUI's proposed filing, the preliminary work accomplished, and answer questions to the extent possible. A representative from the Utility has also been invited to respond to questions.

At the beginning of the meeting, procedures will be established for the order of comments. Commission staff will have sign-up sheets, and customers will be called to speak in the order that they sign-up. Staff will be available to coordinate customers' comments and to assist members of the public.

Any person who wishes to comment or provide information to staff may do so at the meetings, orally or in writing. Written comments may also be sent to the Commission at the address given at the end of this notice. Your letter will be placed in the correspondence file of this docket. You may also submit comments through the Commission's toll-free facsimile line at 1-800-511-0809.

BACKGROUND

Neighborhood Utilities, Inc. is a Class C water only Utility providing service to approximately 429 customers in Duval County. The Utility's revenues for the test period are \$88,344 with adjusted operating expenses of \$127,843, resulting in a net operating loss of (\$39,499) for the test period. The test period for setting rates is the historical twelve month period ending December 31, 2008.

CURRENT AND PRELIMINARY RATES AND CHARGES

Staff has compiled the following rates and charges for the purpose of discussion at the customer meeting. These rates are preliminary and subject to change based on information gathered at the customer meeting, further staff review, and the final decision by the Commissioners. The Utility's current and staff's preliminary rates and charges are as follows:

Residential Water Rates

	<u>UTILITY'S</u>	<u>UTILITY'S</u>	<u>STAFF</u>	<u>4 YEAR</u>
	<u>EXISTING</u>	<u>MONTHLY</u>	<u>RECOMMENDED</u>	<u>RATE</u>
	<u>RATES *</u>	<u>RATES**</u>	<u>RATES</u>	<u>REDUCTION</u>
<u>Residential Service</u>				
<u>Base Facility Charge All Meter Sizes</u>				
5/8"X3/4"	\$28.45	\$9.48	\$10.11	\$0.05
3/4"	\$0.00	\$0.00	\$15.17	\$0.08
1"	\$49.70	\$16.57	\$25.28	\$0.13
1-1/2"	\$87.09	\$29.03	\$50.55	\$0.26
2"	\$152.51	\$50.84	\$80.88	\$0.42
3"	\$266.79	\$88.93	\$161.76	\$0.83
4"	\$466.89	\$155.63	\$252.75	\$1.30
6"	\$816.97	\$272.32	\$505.50	\$2.60
<u>Residential Gallonage Charge</u>				
Per 1,000 Gallons	\$1.14			\$0.00
Per 1,000 Gallons, 0-6 Kgal			\$2.49	
Per 1,000 Gallons, 6 + Kgal			\$4.99	
<u>General Service</u>				
<u>Base Facility Charge by Meter Size:</u>				
5/8"X3/4"	\$28.45	\$9.48	\$10.11	\$0.05
3/4"	\$0.00	\$0.00	\$15.17	\$0.08
1"	\$49.70	\$16.57	\$25.28	\$0.13
1-1/2"	\$87.09	\$29.03	\$50.55	\$0.26
2"	\$152.51	\$50.84	\$80.88	\$0.42
3"	\$266.79	\$88.93	\$161.76	\$0.83
4"	\$466.89	\$155.63	\$252.75	\$1.30
6"	\$816.97	\$272.32	\$505.50	\$2.60
<u>Gallonage Charge (all gallons)</u>				
Per 1,000 Gallons	\$1.14		\$3.11	\$0.02
* BCF Charge is billed quarterly				
** For comparison the Utility's quarterly rate converted to monthly				

STAFF REPORTS AND UTILITY APPLICATION

The results of staff's preliminary investigation are contained in a staff report dated August 20, 2009. Copies of the report and the utility's application for a SARC may be examined by interested members of the public from 8:00 a.m. to 4:00 p.m. Monday through Friday at the following location:

Neighborhood Utilities, Inc.
300 West Adams Street, Suite 540
Jacksonville, Florida 32202
(904)-350-9824

PROCEDURES AFTER CUSTOMER MEETINGS

After the meetings, Commission staff will prepare a recommendation which is scheduled to be submitted to the Commission on October 15, 2009. The Commission will then vote on staff's recommendation at its October 27, 2009 agenda conference. The Commission will thereafter issue a proposed agency action (PAA) order containing rates which may be different from those contained in staff's final recommendation. Substantially affected persons have 21 days from the date the PAA order is issued to protest the Commission's PAA order. Five to ten customers or persons who attend the meeting and who wish to receive a copy of the recommendation and the order should so indicate at the meeting. Those individuals are expected to distribute the information in the recommendation and the order to other customers. Anyone who is unable to attend and who wishes to obtain a copy of the recommendation or the order may do so in writing to the Commission at the address at the end of this notice.

HOW TO CONTACT THE COMMISSION

Written comments regarding the Utility and the proposed rates and charges, and requests to be placed on the mailing list for this case, may be directed to this address:

Director, Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

All correspondence should refer to "Docket No. 090060-WU, Neighborhood Utilities, Inc." If you wish to contact the Commission regarding complaints about service, you may call the Commission's Division of Service, Safety and Consumer Assistance at the following toll-free number: 1-800-342-3552. This notice was prepared by Commission staff for distribution by the Utility to its customers.

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: August 20, 2009

TO: Dale Mailhot
Assistant Director
Division of Regulatory Compliance

FROM: Donna Brown, Professional Accountant *DB*
Stan Rieger, US Engineering Specialist *SR*
Sonica Bruce, Regulatory Analyst III *SB*

RE: Docket No. 090060-WU – Application for staff assisted rate case in Duval County by Neighborhood Utilities, Inc.

STAFF REPORT

This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting.

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Case Background

This Staff Report is a **preliminary** analysis of the utility prepared by the Florida Public Service Commission (PSC) staff to give utility customers and the utility an advanced look at what staff may be proposing. The final recommendation to the Commission (currently scheduled to be filed October 15, 2009, for the October 27, 2009 Agenda Conference) will be revised as necessary using updated information and results of customer quality of service or other relevant comments received at the customer meeting.

Neighborhood Utilities, Inc. is a Class C utility serving 429 water customers in Duval County. According to the utility's 2008 Annual Report, total gross revenues were \$86,556 for water. The utility's operating expenses were \$121,837 for water.

The utility was granted water Certificate No. 430-W in 1984, in Docket No. 840063-WU.¹ Rate Base, was also established in that docket. On January 30, 2009, the utility filed a request for a staff-assisted rate case (SARC).

The Commission has the authority to consider this rate case pursuant to Section 367.0814, Florida Statutes (F.S.).

¹ See Order No. 13723, issued September 28, 1984, in Docket No. 840063-WU, In Re: Application of Neighborhood Utilities, Inc. for a certificate to operate a water utility in Duval County, Florida.

Discussion of Issues

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

Preliminary Recommendation: The staff recommendation regarding customer satisfaction and the overall quality of service will not be finalized until after the September 16, 2009 customer meeting. (Rieger)

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

Neighborhood Utilities Inc., is current in all of the required chemical analyses, and the Utility has met all required drinking water standards. The quality of drinking water delivered to the customers is considered to be satisfactory by the DEP. Currently there are no enforcement activities for non compliance with DEP rules and regulations. However, DEP has noted that there is excessive rusting and corrosion on structures and equipment. A staff field investigation of Neighborhood was conducted on May 14, 2009. As noted by DEP, staff also found rusting and corrosion to exist throughout the facility. In addition, one of the three high service pumps was found to be out of service. The Utility's owner indicated to staff that the deferred maintenance to the facility is the result of inadequate funds. The Utility has provided staff with cost estimates to make the necessary repairs. Also, one of the two wells at the water treatment plant was found to be out of service. Because of its relatively small pumping capability, the Utility does not intend to reactivate the well. System reliability is maintained through an emergency backup interconnection with a water system owned by Jacksonville Electric Authority (JEA). As a result of a hydro pneumatic tank malfunction, which occurred in April of 2009, the utility has been purchasing water from JEA while a replacement tank is being manufactured and placed into service. The Utility's water treatment plant was placed back into service on July 09, 2009. Staff recommends that the operating condition of the Utility's water plant is unsatisfactory; however, no adjustments are recommended at this time. Instead, staff recommends that pro forma plant improvements be included in rate base to address the operation and maintenance needs of this facility.

Since 2003, there have been three customer complaints logged with the Commission. They were all related to billing and have been closed. Currently, there are no outstanding complaints on the Commission's Complaint Tracking System. The staff recommendation regarding customer satisfaction and the overall quality of service will not be finalized until after the September 16, 2009, customer meeting.

Issue 2: What are the used and useful percentages of the Utility's water system?

Preliminary Recommendation: The treatment plant and distribution system is considered 100% used and useful (Rieger)

Staff Analysis: The Utility serves 429 customers. The water treatment system has two wells rated at 257 gpm and 90 gpm, although the smaller well is inactive. Raw water is treated with liquid chlorine for disinfection purposes. This facility has two storage tanks totaling 40,000 gallons. There are twenty-two fire hydrants located throughout the service area. There has been no prior rate case for this utility; therefore, used and useful has not been previously established by the Commission. Pursuant to Rule 25-30.4325, F.A.C., with only ten lots left to be built upon, staff believes that the service territory the treatment plant and distribution system are designed to serve is built out. Therefore, it is recommended that the treatment plant and distribution system be considered 100% used and useful.

Issue 3: What is the appropriate average test year rate base for the utility?

Preliminary Recommendation: The appropriate average test year rate base for the utility is \$3,577 for water. (Brown)

Staff Analysis: The appropriate components of the utility's rate base include, Utility Plant in Service (UPIS), Contributions-In-Aid-of-Construction (CIAC), Accumulated Depreciation, Accumulated Amortization of CIAC, and a Working Capital allowance.

Staff selected a test year ended December 31, 2008, for this rate case. Rate base for this utility was established as of September 28, 1984 in Docket No. 840063-WU. Sufficient records of the original construction were available and were included within the audit and expansion of plant and subsequent additions. A summary of each component and the adjustments follows.

Utility Plant in Service (UPIS): The utility recorded \$617,959 of UPIS for the test year ended December 31, 2008, for water. Staff has made an adjustment to increase UPIS by \$47,927 to reflect the appropriate plant balances per company documentation. This \$47,927 adjustment consists of the following: 1). increase of \$9,560 to reflect the reclassification plant additions that were previously expensed, 2). decrease of \$3,350 to reflect the retirement of a turbine motor, 3). increase of \$28,317 to reflect pro forma hydro tank replacement, 4). decrease of \$90 to reflect averaging adjustment, 5). An increase of \$18,130 to reflect invoices that were not recorded and 6). a decrease of \$4,640 to reflect unsupported invoices.

Staff's net adjustment to UPIS is an increase of \$47,927 ($\$9,560 - \$3,350 + \$28,317 - \$90 + \$18,130 - \$4,640$). Staff's recommended UPIS balance is \$665,886.

Non-used and Useful Plant: As discussed in Issue No. 2 of this staff report, the utility's water treatment plant should be considered 100% used and useful. Therefore, a used and useful adjustment is unnecessary.

Contribution in Aid of Construction (CIAC): The utility recorded CIAC of \$787,578 for water, for the test year ended December 31, 2008. Staff reviewed necessary documentation and found a variance of \$85.00 which was deemed immaterial. Therefore, staff did not make an adjustment to this account.

Accumulated Depreciation: The utility recorded a balance for accumulated depreciation of \$381,217 for water for the test year. Staff has calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. As a result, staff has decreased this account by \$88,397 for water to reflect depreciation calculated per staff. Included within this amount is a decrease of \$7,020 to reflect averaging adjustments for water. Staff's recommended Accumulated Depreciation balance is \$292,820.

Accumulated Amortization of CIAC: The utility recorded \$462,313 for accumulated amortization of CIAC for water. Accumulated Amortization of CIAC has been recalculated by staff using composite depreciation rates. In order to reflect accumulated amortization of CIAC as calculated by staff, this account has been decreased by \$63,665. Included within this amount

is a decrease of \$10,126 to reflect averaging adjustments. Staff's net adjustments to this account results in Accumulated Amortization of CIAC of \$398,648.

Working Capital Allowance: Working capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the O&M expense formula approach for calculating working capital allowance. Applying this formula, staff recommends a working capital allowance of \$18,441 (based on O&M expense of \$147,526). Working capital has been increased by \$18,441 to reflect one-eighth of staff's recommended O&M expenses.

Rate Base Summary: Based on the forgoing, staff recommends that the appropriate test year average rate base is \$3,577 for water. Rate base is shown on Schedule No. 1-A, and staff's adjustments are shown on Schedule 1-C.

Issue 4: What is the appropriate rate of return on equity and overall rate of return for this utility?

Preliminary Recommendation: The appropriate return on equity is 11.30% with a range of 10.30% - 12.30%. The appropriate overall rate of return is 9.65%. (Brown)

Staff Analysis: The utility recorded long term debt of \$94,761 and customer deposits of \$9,127 in its capital structure for the test year.

Using the leverage formula approved by Order No. PSC-09-0430-PAA-WS issued June 19, 2009 in Docket No. 090006-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., the appropriate rate of return is 9.65%.

Staff recommends a return on equity of 11.30% with a range of 10.30% - 12.30%, and an overall rate of return of 9.65%. The return on equity and overall rate of return are shown on Schedule No. 2.

Issue 5: What are the appropriate amount of test year revenues?

Preliminary Recommendation: The appropriate test year revenue for this Utility is \$89,675 for water. (Bruce, Brown)

Staff Analysis: Neighborhood Utilities recorded total revenues of \$88,344 for water for the 12-month period ended December 31, 2008. Staff analyzed the Utility's reported revenues and determined that the water revenues were understated by \$1,331. Based on the above, staff recommends test year revenue of \$89,675 for water. Test year revenue is shown on Schedule 3-A. The related adjustments are shown on Schedule 3-C.

Issue 6: What is the appropriate amount of test year operating expense?

Preliminary Recommendation: The appropriate amount of operating expense for the utility is \$153,269 for water. (Brown)

Staff Analysis: Per Schedule 3A, the utility recorded total Operating Expenses of \$127,843. The test year expenses have been reviewed and invoices, canceled checks, and other supporting documentation have been examined. Recalculations have been used when necessary. Staff made several adjustments to the utility's operating expenses, as summarized below:

Operation and Maintenance Expenses

Salaries and Wages – Employees – (601) – The utility recorded salaries and wages – employees as \$0 for the test year. The utility is in the process of changing its billing practices from quarterly to monthly, which will require additional help. Staff has increased salaries and wages – employees by \$20,000 to reflect the pro forma addition of a part-time employee. Staff recommends a test year balance of \$20,000.

Salaries and Wages – Officers – (603) – The utility owner claims a salary of \$24,000 per year, but paid himself less than \$24,000 in the test year. Staff believes owner is entitled to the \$24,000 per year and that the amounts are reasonable, therefore no adjustments were made to the account.

Purchased Power – (615) – The utility provided invoices that indicated the purchased power for the test year was \$7,671 for water. Staff believes the purchased power amounts are reasonable and no adjustments were made to this account.

Chemicals – (618) – The utility provided invoices that indicated the chemicals for the test year were \$3,423 for water. Staff believes the chemical amounts are reasonable and no adjustments were made to this account.

Materials and Supplies – (620) – The utility provided invoices that indicate material and supplies for the test year was \$3,711 for water. To facilitate the company to go quarterly billing to monthly billing, staff made an adjustment to increase materials and supplies account by \$3,440. Staff's recommended materials and supplies is \$7,151.

Contractual Services - Professional – (631) – The utility provided invoices indicating its accounting services for the test year was \$5,284. The accounting services consisted of the year-end closing of the books and the preparation of the utility's annual report and tax return. Staff believes this amount is reasonable and no adjustments were made to this account.

Contractual Services – Testing – (635) – The utility provided invoices indicating its contractual services for testing services for the test year was \$2,973. State and local authorities require that several analyses be submitted in accordance with Chapter 62-550, F.A.C. Testing costs incurred during the test year did not include these non-annual testing costs. For additional testing costs incurred during the test year, staff recommends that an additional annualized expense of \$785 be included in Acct. 635 Testing: These tests are required by DEP every three or more years. Staff's recommended contractual services – testing is \$3,758 (\$2,973 +785).

Docket No. 090060-WU

Date: August 20, 2009

Projected estimated costs include:

Primary Inorganics	\$301	
Volatile Organics	\$246	
Secondaries	\$218	
Radiologicals	\$634	
Lead and Copper	\$671	
Disinfection By Products	<u>\$286</u>	
Total 3 yr cost =	\$2,356	3 yr Annualized Cost = \$785

Contractual Services – Other – (636) – The utility provided invoices that indicate contractual services –other for the test year was \$34,015. In order for the company to efficiently replace meters under a new replacement program, a staff adjustment was to increase the account by \$7,883 for this pro forma. Staff’s recommend contractual services – other is \$41,898.

Rents – (640) – The utility recorded \$8,479 in this account during the test year. A staff adjustment of \$257 was made to remove parking fees associated with weekend parking when there is no charge. Staff’s recommended rent account balance is \$8,222.

Transportation – (650) – The utility recorded \$1,826 in this account during the test year. The utility provided invoices that indicated that transportation for the test year was \$1,826. Staff believes the transportation amounts are reasonable and no adjustment was made to this account.

Insurance Expense – (655) – The utility recorded \$5,349 in this account during the test year. The audit staff made a decreasing adjustment of \$3,346 to remove the non-utility life insurance coverage. Staff’s recommended insurance expense balance is \$2,003.

Regulatory Commission Expense – (665) – The utility recorded \$1,200 in this account during the test year. Pursuant to Section 367.0816, Florida Statutes, rate case expense is amortized over a 4-year period. In addition, utility is also required by Rule 25-22.0407, Florida Administrative Code, to mail notices of the customer meeting and notices of final rates in this case to its customers. For these notices, staff has adjusted amount by \$204 to include these notices that will be amortized over four years. Staff also made a decreasing adjustment of \$900 for consulting fee that will be amortized over four years and an increase of \$250 ($\$1,000/4$) for the filing fee that will be amortized over four years. Staff recommends that total regulatory commission expense is \$754 ($\$1,200+\$204+\$250-\900).

Miscellaneous Expense – (675) – The utility recorded \$25,585 for miscellaneous expense for the test year. Audit staff made a decreasing adjustment of \$4,049 for the test year. Staff recommends that total miscellaneous expense is \$21,536. The related adjustments are shown on Schedule 3-C.

Neighborhood Utilities, Inc.’s water treatment plant is in critical need of painting. The utility provided an estimate of \$17,334 to paint these facilities. This is a non yearly expense and should be amortized over 5 years in accordance to Rule 25-30.433, F.A.C. The amortization applicable to the test year is \$3,467 ($\$17,334/5$).

Operation and Maintenance Expense (O & M Summary) – The utility recorded \$123,516 for total O&M expense. Staff’s recommended O&M expenses are \$147,526. O&M expenses are shown on Schedule 3-C.

Depreciation Expense

Depreciation Expense – The utility recorded \$17,417 for depreciation expense. Staff has calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff decreased depreciation expense by \$3,399 to reflect the changes in rates over the years and for \$383 to reflect the changes in pre 2008 additions and retirements. Staff's recommended depreciation expense is \$13,635.

Amortization of CIAC

Amortization of CIAC – The utility recorded \$31,463 for amortization of CIAC. Staff has calculated amortization of CIAC using composite rates from the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff's recommended amortization of CIAC is \$19,900.

Taxes Other Than Income

Taxes Other Than Income (TOTI) – The utility recorded \$18,373 for taxes other than income. Staff's adjustments to TOTI are as follows:

- Increase payroll tax by \$1,530 to correspond with the additional employee recommended previously in this issue.
- Decrease TOTI by \$14,808 to remove Right of Way and Public Service Utility taxes. These taxes are applied by the county for business operations in the specified county. These taxes are 10% and 5% respectively. These are included in taxes on the customer bill and are outside the scope of regulation.
- Increase by \$3,975 to reflect RAF on test year per utility.
- Increase by \$60 to reflect RAF on test year revenues per audit
- Increase by \$2,877 to reflect RAF on proposed revenues .

The recommended taxes other than income is \$12,007.

Operating Expenses Summary – The application of staff's recommended adjustments to the audited test year operating expenses results in staff's calculated operating expenses of \$153,269. Operating expenses are shown on Schedule No. 3-A. The related adjustments are shown on Schedule 3-C.

Issue 7: What are the appropriate revenue requirements?

Preliminary Recommendation: The appropriate revenue requirements are \$153,553. As discussed in Issue 5, staff recommends the appropriate test year revenues to be \$153,553. (Brown, Bruce)

Staff Analysis: As discussed in Issue 5, staff recommends the appropriate test year revenues are \$89,675. According to staff's calculations, the appropriate revenue change is an increase of \$63,878 (or 71.23%). This would allow the utility the opportunity to recover its expenses and earn a 9.65% return on its investment. Staff's recommended revenue is as follows:

	<u>Water</u>
Adjusted Rate Base	\$3,577
Rate of Return	9.65%
Return on Rate Base	<u>\$345</u>
Adjusted O & M Expense	\$147,526
Depreciation expense (Net)	(\$6,265)
Taxes Other Than Income	<u>\$12,007</u>
Revenue Requirement	\$153,553
Less Adjusted Test Year Revenues	<u>\$89,675</u>
Annual Increase/(Decrease)	<u>\$63,878</u>
Percent Increase/(Decrease)	<u>71.23%</u>

Issue 8: Should the Utility's current rate structure be changed, and if so, what is the appropriate rate structure for the Utility's water system?

Preliminary Recommendation: Yes. The Utility's current base facility charge (BFC)/uniform gallonage charge rate structure which is billed on a quarterly basis should be changed to a two-tier inclining block rate structure with usage blocks set at: a) 0-6 and b) usage in excess of 6 Kgals for water system's residential class. The appropriate rate structure for the water system's non-residential class is a traditional BFC/uniform gallonage charge. The billing system should be changed to a monthly basis. The water system's BFC cost recovery should be set at 40%. (Bruce)

Staff Analysis: Neighborhood Utilities, Inc. currently has a BFC/uniform gallonage charge rate structure for the water system's residential and non-residential class. The BFC is \$28.45 and is billed on a quarterly basis. The monthly usage charge is \$1.14 per Kgal.

Water Rates: As mentioned above, the utility's current rate structure consists of a BFC/uniform gallonage charge rate structure which is billed quarterly. In prior cases, it has been Commission practice to convert the utility's billing system to a monthly system. By billing on a monthly basis, customers receive a more timely price signal that will allow them to adjust their consumption accordingly. Therefore, in order to promote a rate design that is consistent with past Commission practice, staff recommends changing the utility's quarterly billing to monthly.

Staff performed a detailed analysis of the utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential rate class. The goal of the evaluation was to select the rate design parameters that: 1) allow the utility to recover its revenue requirement; 2) equitably distribute cost recovery among the utility's customers; and 3) implement, where appropriate, water conserving rate structures consistent with the Commission's goals and practices.

Neighborhood Utilities, Inc. is located in Duval County in the St. Johns River Water Management District (SJRWMD) or District. In its consumptive use permit (CUP), Condition No. 26 states the next rate case brought before the Commission must include a request for approval of a District approved rate structure that is designed to encourage water conservation. Staff contacted the District in regards to an approved rate structure for the utility and District staff indicated, if possible, that an inclining block rate structure be implemented for a water conserving rate structure.

Based on staff's analysis of the billing data, the customer's overall average monthly consumption is 6.7 Kgals. Furthermore, the billing data indicates that one-third of the customers consume well over 7 Kgals per month. Although, there are customers using a greater amount of discretionary usage, the utility is well below their permitted quantity. For this reason, staff recommends that a two-tier inclining block rate structure with usage blocks set at 0-6 Kgals and usage in excess of 6 Kgal is appropriate. The two-tiered rate structure will lower bills for customers using less than 6 Kgals per month, while also sending a water conserving price signal to customers using more than 6 Kgals per month. Staff's recommended rate design for the

water system is presented in Attachment A. Staff also presented two alternative rate structures to illustrate other recovery methodologies.

Staff recommends that the fixed cost recovery be reduced to 40% from the initial allocation of 56.64%. This shifts more of the cost recovery to the gallonage charge thereby making rates more conservation oriented.

Based on the foregoing, staff recommends that the Utility's current rate structure which includes a quarterly BFC be changed to a two-tier inclining block rate structure with usage blocks set at: a) 0-6 and b) usage in excess of 6 Kgals for water system's residential class. The appropriate rate structure for the water system's non-residential class is a traditional BFC/uniform gallonage charge. The water system's BFC cost recovery should be set at 40%.

Issue 9: Is a repression adjustment appropriate in this case, and if so, what are the appropriate adjustments to make for this utility, what are the appropriate corresponding expense adjustments to make, and what are the final revenue requirements?

Preliminary Recommendation: Yes, a repression adjustment is appropriate for this utility. Test year consumption should be reduced by 4,782 Kgals or 14 percent. Purchased power expense should be reduced by \$1,073 and regulatory assessment fees (RAFs) should be reduced by \$50. The final post-repression revenue requirement for the water system should be \$152,430.

In order to monitor the effect of the changes to rate structure and revenue, 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 and meter size. The reports should be filed with staff, on a semi-annual basis, for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the utility makes adjustments to consumption in any month during the reporting period, the utility should be ordered to file a revised monthly report for that month within 30 days of any revision (Bruce)

Staff Analysis: The price elasticity of demand is defined as the anticipated change in quantity demanded resulting from a change in price. All other things equal, as price increases, the quantity demanded decreases.

Staff conducted a detailed analysis of the consumption patterns of the utility's residential customers as well as the effect of increased revenue requirements on the amount paid by residential customers at varying levels of consumption. As discussed in Issue 8, staff's analysis showed that average residential monthly consumption per customer was 6.7 Kgal. Furthermore, the billing data indicates that one-third of the customers consume well over 7 Kgals per month. This is an indication that there is some level of discretionary, or non-essential, consumption, such as outdoor irrigation. Non-essential consumption is relatively responsive to changes in price, and is therefore subject to the effects of repression.

Using our database of utilities that have previously had repression adjustments made, staff calculated a repression adjustment for this utility based upon the recommended increase in revenues from monthly service in this case, and the historically observed response rates of consumption to changes in price. This is the same methodology for calculating repression adjustments that the Commission has approved in prior cases. Based on this methodology, staff calculated that test year residential water sold should be reduced by 4,782 Kgals, or 14%. Purchased power expense should be reduced by \$1,073 and regulatory assessment fees (RAFs) should be reduced by \$50. The final post-repression revenue requirement for the water system should be \$152,430.

In order to monitor the effect of the changes to rate structure and revenue, 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 and meter size. The reports should be filed with staff, on a semi-annual basis, for a period of two years beginning the first billing period after the approved rates go into effect. To

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Date: August 20, 2009

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.

Issue 10: What are the appropriate rates for this utility?

Recommendation: The appropriate monthly water rates are shown on Schedules Nos. 4-A. The recommended rates should be designed to produce revenue \$152,430 for water, excluding miscellaneous service revenues. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Bruce, Brown)

Staff Analysis: Excluding miscellaneous service revenues, the recommended rates should be designed to produce of revenue \$152,430 for the water system.

As discussed in Issue 8, staff recommends that the Utility's current rate structure which includes a quarterly BFC be changed to a two-tier inclining block rate structure with usage blocks set at: a) 0-6 and b) usage in excess of 6 Kgals for water system's residential class. The appropriate rate structure for the water system's and non-residential class is a traditional BFC/uniform gallonage charge. The water system's BFC cost recovery should be set at 40%.

The approved rates should be effective for service rendered on or after stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

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

Based on the foregoing, the appropriate rates for monthly service for the water is shown on Schedules 4-A.

NEIGHBORHOOD UTILITIES, INC..
TEST YEAR ENDING 12/31/08
SCHEDULE OF RATE BASE

SCHEDULE NO. 1-A
DOCKET NO. 090060-WU

DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$617,959	\$47,927	\$665,886
2. LAND & LAND RIGHTS	\$1,000	\$0	\$1,000
3. NON-USED AND USEFUL COMPONENTS	\$0	\$0	\$0
4. CIAC	(\$787,578)	\$0	(\$787,578)
5. ACCUMULATED DEPRECIATION	(\$381,217)	\$88,397	(\$292,820)
6. ACCUM. AMORTIZATION OF CIAC	\$462,313	(\$63,665)	\$398,648
7. WORKING CAPITAL ALLOWANCE	<u>\$0</u>	<u>\$18,441</u>	<u>\$18,441</u>
8. WATER RATE BASE	<u>\$(87,523)</u>	<u>\$91,100</u>	<u>\$3,577</u>

NEIGHBORHOOD UTILITIES, INC. ADJUSTMENTS TO RATE BASE		SCHEDULE NO. 1-C SCHEDULE NO. 1-A
		<u>WATER</u>
<u>UTILITY PLANT IN SERVICE</u>		
1 To reflect plant balance as per utility as of as 12/31/2008		\$0
2 To reclassify plant addition previously expensed		4,467
3 To reclassify plant addition previously expensed		1,717
4 To reclassify plant addition previously expensed		854
5 To reclassify plant addition previously expensed		2,522
6 To reflect invoices that were not recorded		18,130
7 To reflect the retirement of turbine motor		(3,350)
8 To reflect pro forma hydro tank replacement		28,317
9 To reflect averaging adjustment		(90)
10 To reflect non supported invoices		(4,640)
Total		<u>\$47,927</u>
<u>LAND</u>		
1 To reflect the appropriate land purchase price		<u>\$0</u>
<u>CIAC</u>		
1 To reflect CIAC balance per utility as of 12/31/2008		\$0
2 To reflect an averaging adjustment		\$0
Total		<u>\$0</u>
		<u>WATER</u>
<u>ACCUMULATED DEPRECIATION</u>		
To reflect accumulated depreciation per Rule 25-30.0140		\$81,377
To reflect an averaging adjustment		7,020
Total		<u>\$88,397</u>
<u>ACCUMULATED AMORTIZATION OF CIAC</u>		
1 To reflect the appropriate amort of CIAC per utility as of 12/31/2008		(\$53,539)
2 To reflect an averaging adjustment		(10,126)
Total		<u>(\$63,665)</u>
<u>WORKING CAPITAL ALLOWANCE</u>		
To reflect 1/8 of test year O & M expenses.		<u>\$18,441</u>

NEIGHBORHOOD UTILITIES, INC.
TEST YEAR ENDING 12/31/08
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 090060-WU

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$0	\$0	\$0					
2. RETAINED EARNINGS	\$0	\$0	\$0					
3. PAID IN CAPITAL	\$0	\$0	\$0					
4. TREASURY STOCK	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>					
5. TOTAL COMMON EQUITY	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
6. LONG TERM DEBT	\$94,761	\$0	\$94,761	\$0	\$94,761	91.21%	10.00%	9.12%
7. LONG TERM DEBT	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0	\$0	<u>0.00%</u>	0.00%	0.00%
TOTAL LONG TERM DEBT	\$94,761	\$0	\$94,761	\$0	\$94,761	91.21%		
8. CUSTOMER DEPOSITS	<u>\$9,127</u>	<u>\$0</u>	<u>\$9,127</u>	<u>\$0</u>	<u>\$9,127</u>	<u>8.79%</u>	6.00%	<u>0.53%</u>
9. TOTAL	<u>\$103,888</u>	<u>\$0</u>	<u>\$103,888</u>	<u>\$0</u>	<u>\$103,888</u>	<u>100.00%</u>		<u>9.65%</u>
RANGE OF REASONABLENESS						LOW	HIGH	
RETURN ON EQUITY						<u>9.67%</u>	<u>11.30%</u>	
OVERALL RATE OF RETURN						<u>9.65%</u>	<u>9.65%</u>	

NEIGHBORHOOD UTILITIES, INC. TEST YEAR ENDING 12/31/08 SCHEDULE OF WATER OPERATING INCOME		SCHEDULE NO. 3-A DOCKET NO. 090060-WU				
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	<u>\$88,344</u>	<u>\$1,331</u>	<u>\$89,675</u>	<u>\$63,939</u> 71.30%	<u>\$153,553</u>	
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	123,516	24,010	147,526	0	147,526	
3. DEPRECIATION	17,417	(3,782)	13,635	0	13,635	
4. AMORTIZATION OF CIAC	(31,463)	11,563	(19,900)	0	(19,900)	
5. TAXES OTHER THAN INCOME	18,373	(9,243)	9,130	2,877	12,007	
6. INCOME TAXES	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0</u>	\$0	
7. TOTAL OPERATING EXPENSES	<u>\$127,843</u>	<u>\$22,548</u>	<u>\$150,391</u>	<u>\$2,877</u>	<u>\$153,269</u>	
8. OPERATING INCOME/(LOSS)	<u>(\$39,499)</u>		<u>(\$60,716)</u>		<u>\$345</u>	
9. WATER RATE BASE	<u>(\$87,523)</u>		<u>\$3,577</u>		<u>\$3,577</u>	
10. RATE OF RETURN	<u>45.13%</u>		<u>(1697.35)%</u>		<u>9.65%</u>	

NEIGHBORHOOD UTILITIES, INC. TEST YEAR ENDING 12/31/08 ADJUSTMENTS TO OPERATING INCOME		SCHEDULE NO. 3-C DOCKET NO. 090060-WU PAGE 1 OF 3
		<u>WATER</u>
OPERATING REVENUES		
1. To reflect the appropriate test year revenues		\$1,331
Subtotal		<u>\$1,331</u>
OPERATION AND MAINTENANCE EXPENSES		
1. Salaries and Wages - Employees (601)		
a. To reflect pro-forma addition of employee to assist the billing project to go from quarterly to monthly		<u>20,000</u>
Subtotal		<u>\$20,000</u>
2 Salaries and Wages - Officers, Directors and Major Stockholders (603)		
a. Not used		<u>\$0</u>
Subtotal		<u>\$0</u>
3 Purchased Power (615)		
a. Not used		<u>\$0</u>
Subtotal		<u>\$0</u>
4 Chemicals (618)		
a. Not used		<u>\$0</u>
Subtotal		<u>\$0</u>
5 Materials and Supplies (620)		
a. To increase for mailing of bills to go from quarterly to monthly		<u>3,440</u>
Subtotal		<u>\$3,440</u>
6 Contractual Services - Professional (631)		
a. Not used		0
Subtotal		<u>\$0</u>
7. Contractual Services - Testing (635)		
a. To amortize tests required by DEP every three or more years		<u>785</u>
Subtotal		<u>\$785</u>
(O & M EXPENSES CONTINUED ON NEXT PAGE)		

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NEIGHBORHOOD UTILITIES, INC. TEST YEAR ENDING 12/31/08 ADJUSTMENTS TO OPERATING INCOME	SCHEDULE NO. 3-C DOCKET NO. 090060-WU PAGE 3 OF 3
(O & M EXPENSES CONTINUED)	WATER
m. To remove no utility - late fee - Verizon	(\$5)
n. To increase 1/5 of painting of facilities	<u>\$3,467</u>
Subtotal	<u>(\$4,048)</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u><u>\$24,012</u></u>
1 DEPRECIATION EXPENSE	
To reflect the adjustment due to rate changes over the years.	(\$3,399)
To reflect the adjustment due to changes in pre 2008 additions and retirements	(\$383)
Subtotal	<u>(\$3,782)</u>
2 AMORTIZATION of CIAC	
To reflect the adjustment due to rate changes over the years.	<u>\$11,563</u>
Subtotal	<u>\$11,563</u>
3 TAXES OTHER THAN INCOME	
To reflect the appropriate RAFs for the test year revenues	\$3,975
To reflect the appropriate payroll taxes	\$1,530
To remove right of way and public service utility tax	<u>(\$14,808)</u>
Subtotal	<u>(\$9,303)</u>
INCOME TAX	
Income Tax Per Staff	\$0

NEIGHBORHOOD UTILITIES, INC.			SCHEDULE NO. 4-A	
TEST YEAR ENDING 12/31/08			DOCKET NO. 090060-WU	
MONTHLY WATER RATES				
	UTILITY'S EXISTING RATES *	UTILITY'S MONTHLY RATES**	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
Residential Service				
Base Facility Charge All Meter Sizes				
5/8"X3/4"	\$28.45	\$9.48	\$10.11	\$0.05
3/4"	\$0.00	\$0.00	\$15.17	\$0.08
1"	\$49.70	\$16.57	\$25.28	\$0.13
1-1/2"	\$87.09	\$29.03	\$50.55	\$0.26
2"	\$152.51	\$50.84	\$80.88	\$0.42
3"	\$266.79	\$88.93	\$161.76	\$0.83
4"	\$466.89	\$155.63	\$252.75	\$1.30
6"	\$816.97	\$272.32	\$505.50	\$2.60
Residential Gallonage Charge				
Per 1,000 Gallons	\$1.14			\$0.00
Per 1,000 Gallons, 0-6 Kgal			\$2.49	
Per 1,000 Gallons, 6 + Kgal			\$4.99	
General Service				
Base Facility Charge by Meter Size:				
5/8"X3/4"	\$28.45	\$9.48	\$10.11	\$0.05
3/4"	\$0.00	\$0.00	\$15.17	\$0.08
1"	\$49.70	\$16.57	\$25.28	\$0.13
1-1/2"	\$87.09	\$29.03	\$50.55	\$0.26
2"	\$152.51	\$50.84	\$80.88	\$0.42
3"	\$266.79	\$88.93	\$161.76	\$0.83
4"	\$466.89	\$155.63	\$252.75	\$1.30
6"	\$816.97	\$272.32	\$505.50	\$2.60
Gallonage Charge (all gallons)	\$1.14		\$3.11	\$0.02
* BCF Charge is billed quarterly				
** For comparison the Utility's quarterly rate converted to monthly				