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Public Service Commission

September 16, 2009

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Bonita Vandall
Associa/Benson's Inc.
12650 Whitehall Drive
Fort Myers, Florida 33907

Re: Docket No. 090170-WU – Staff assisted Rate Case for Mobile Manor Water Company, Inc. in Lee County

Dear Ms. Vandall:

Enclosed are two copies of the staff report. Please ensure that a copy of the completed Application for Staff Assistance and the staff report are available for review, pursuant to Rule 25-22.0407 (9)(b), F.A.C., by all interested persons at the following location:

Mobile Manor Clubhouse
150 Lantern Lane
North Fort Myers, FL 33917

Should you have any questions about any of the matters contained herein, please do not hesitate to contact me at (850) 413-7021. In addition, you may contact Avy Smith at (850) 413-6425, with any questions.

Sincerely,

Handwritten signature of Shannon J. Hudson.
Shannon J. Hudson
Regulatory Analyst IV

Enclosures

SH/as

cc: Division of Economic Regulation (Bulecza-Banks, Bruce, Fletcher, Simpson, Smith)
Office of General Counsel (Jaeger)
Office of Commission Clerk (090170-WU)

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Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
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-M-E-M-O-R-A-N-D-U-M-

DATE: September 9, 2009

TO: Cheryl Bulecza-Banks, Bureau Chief, Bureau of Rate Filings

FROM: Avy Smith, Regulatory Analyst II AS *AS*
Robert Simpson, Engineering Specialist II *RS*
Sonica Bruce, Regulatory Analyst III *SB*

RE: Docket No. 090170-WU – Application for staff-assisted rate case in Lee County by Mobile Manor Water Company, 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 29, 2009 for the November 10, 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.

Mobile Manor Water Company, Inc. (Mobile Manor or Utility) is a Class C utility serving 315 water customers in Lee County. According to Mobile Manor's 2008 Annual Report, total gross revenue was \$50,531 for water. The Utility's operating expenses were \$70,979 for water.

Mobile Manor, Inc. was granted water Certificate No. 56-W on February 16, 1972. The Utility changed its name from Mobile Manor, Inc. to Mobile Manor Water Company, Inc. on November 29, 2004.¹

On April 6, 2009, the Commission received Mobile Manor's application for a SARC. In this application, the Utility requested interim rates. By Order No. PSC-09-0421-PCO-WU, issued June 15, 2009, in this docket, the Commission approved a 47.09 percent increase, subject to refund with interest. The Utility has not implemented the interim rates due to problems with obtaining security.

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

¹ See Order No. PSC-04-1104-FOF-WU, issued in Docket No. 040602-WU, In re: Application for name change on Certificate No. 56-W in Lee County from Mobile Manor, Inc. to Mobile Manor Water Company, Inc.

Discussion of Issues

QUALITY OF SERVICE

Issue 1: Is the quality of service provided by Mobile Manor Water Company, Inc. satisfactory?

Preliminary Recommendation: The staff recommendation regarding customer satisfaction and the overall quality of service will not be finalized until after the September 30, 2009 customer meeting. (Simpson)

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 plant and facilities, and the utility's attempt to address customer satisfaction. Comments or complaints received by the Commission from customers are reviewed. Staff also considers the utility's current compliance with the Lee County Health Department.

Mobile Manor is regulated by the Lee County Health Department (LCHD). The Utility is a consecutive system that purchases water from Lee County Utilities. The Utility's distribution system is a network of water mains that has existed since 1962. In the test year, boil water notices were issued on several occasions due to water line breaks. The Utility properly noticed its customers on each occasion. Also, the distribution system has a significant amount of unaccounted for water. The Utility has embarked on repairs of the distribution lines and a meter replacement program. The measures outlined by the Utility are expected to reduce the amount of unaccounted for water. On February 20, 2008, LCHD conducted a compliance inspection of the Utility and found no deficiencies. Currently, Mobile Manor does not have any outstanding violations. Therefore, it appears that the conditions of the Utility's product and the condition of the facilities are satisfactory.

Staff reviewed customer complaints received by the Commission over the past three years. Most of the complaints were related to the current owner requesting that existing customers complete an application for service in order to update the Utility's records. All of the complaints were resolved and closed. The staff recommendation regarding customer satisfaction and the overall quality of service will not be finalized until after the September 30, 2009 customer meeting.

RATE BASE

Issue 2: What is the used and useful percentage of the water distribution system?

Preliminary Recommendation: The water distribution system is 100 percent used and useful.
(Simpson)

Staff Analysis: Mobile Manor distribution system is a network of PVC water mains which have been in existence since 1962. A review of the Utility's annual reports indicates that there was no growth in the last 5 years; therefore, it appears that the system is built out. Staff recommends that the water distribution system is 100 percent used and useful.

Issue 3: Should an adjustment be made for excessive unaccounted for water?

Preliminary Recommendation: Yes. Mobile Manor has 14.61 percent excessive accounted for water. The cost of purchased water should be reduced by \$3,507 to reflect excessive unaccounted for water. (Simpson)

Staff Analysis: Rule 25-30.4325(e), F.A.C. provides that, unaccounted for water in excess of 10 percent of the amount produced (or purchased) is excessive. Mobile Manor purchased 6,980,000 gallons of water during the test year and sold 5,261,962 gallons. The 1,718,038 gallons of unaccounted for water represents 24.61 percent of the purchased water. Therefore, 14.61 percent of the purchased water is excessive unaccounted for water. The Utility's records indicate that the cost of purchased water for the test year is \$24,003; therefore, the cost of purchased water should be reduced by 14.61 percent or \$3,507 to reflect excessive unaccounted for water.

Issue 4: What is the appropriate average test year rate base for the Utility?

Preliminary Recommendation: The appropriate average test year rate base for Mobile Manor is \$13,779 for water. (Smith)

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, amortization of CIAC, and working capital.

Staff selected a test year ended December 31, 2008, for this rate case. The Utility's rate base was last established by Order No. 13067.² All rate base components established in Order No. 13067 have now been fully depreciated through December 31, 2008. Sufficient records of plant replacement and additions were not available. Absent these records, the auditor requested that an original cost study be performed by the staff engineer. The original cost study was derived by the use of an available map, county health department records, and physical inspection of the facilities during the engineer's investigation. Adjustments have been made to match rate base component balances with the engineer's original cost study and to update rate base through December 31, 2008. A summary of each component and the adjustments follows:

Utility Plant in Service: The Utility recorded \$694, in UPIS for the test year ending December 31, 2008, for a water pump. Pursuant to Audit Finding No. 2, Mobile Manor was unable to provide support documentation for the pump. Staff decreased the UPIS balance by \$694. Staff has made an adjustment to increase UPIS by \$4,722 to reflect the appropriate plant balances per the original cost study completed by staff's engineer. Mobile Manor provided staff with a meter replacement plan of 40 meters for the test year. Based on invoices provided by the Utility, the estimated costs associated with replacing a single metering system is \$261.77. Staff believes UPIS should be increased by \$10,471 (40 X \$261.77) to reflect the meters replaced during the test year. Staff recommends decreasing UPIS by \$5,236 to reflect the averaging adjustment. Staff's net adjustment to UPIS is an increase of \$9,263. Staff's recommended UPIS balance is \$9,957.

Non-Used and Useful Plant: As discussed in Issue No. 2 of this recommendation, Mobile Manor's water distribution system is 100 percent used and useful. Therefore, a non-used and useful adjustment is not necessary.

Contribution in Aid of Construction: The Utility recorded no CIAC on its books at the end of the test year. Rule 25-30.570(1), F.A.C, states:

If the amount of CIAC has not been recorded on the utility's books and the utility does not submit competent substantial evidence as to the amount of CIAC, the amount of CIAC shall be imputed to be the amount of plant costs charged to the cost of land sales for tax purposes if available, or the proportion of the cost of the facilities and plant attributable to the water transmission and distribution system and the sewage collection system.

² See Order No. 13067, issued in Docket No. 830402-W, In re: Application for the transfer of Certificate No. 56-W from William P. and Peggy J. Bishop to Mobile Manor, Inc.

Since Mobile Manor did not have adequate books to provide CIAC balances, staff imputed \$4,722 for CIAC to reflect the water transmission and distribution system as calculated by the original cost study. Staff recommends CIAC of \$4,722.

Accumulated Depreciation: The Utility recorded a balance for accumulated depreciation of negative \$694 for the test year. This amount relates to accumulated depreciation of unsupported plant items. Therefore, staff has decreased this account by \$694. Staff has calculated accumulated depreciation from the original cost study using the prescribed rates set forth in Rule 25-30.140, F.A.C. As a result, staff has increased this account by \$4,328 to reflect accumulated depreciation calculated per staff. Staff decreased this account by \$213 to reflect an averaging adjustment. These adjustments result in accumulated depreciation of \$4,115.

Amortization of CIAC: Mobile Manor recorded no amortization of CIAC at the end of the test year. Amortization of CIAC has been calculated using the same prescribed rates used for depreciating the Utility's distribution system. This account has been increased by \$4,064 to reflect amortization of CIAC as calculated by staff. Staff has decreased this account by \$66 to reflect an averaging adjustment. Staff's net adjustments to this account results in Amortization of CIAC of \$3,998.

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 recommends that the one-eighth of the O&M expense formula approach be used for calculating working capital allowance. Applying this formula, staff recommends a working capital allowance of \$8,661 (based on O&M of \$69,288).

Rate Base Summary: Based on the forgoing, staff recommends that the appropriate test year rate base is \$13,779. Rate base is shown on Schedule No. 1-A.

COST OF CAPITAL

Issue 5: What is the appropriate return on equity and overall rate of return for this Utility?

Preliminary Recommendation: The appropriate return on equity (ROE) is 11.78 percent with a range of 10.78 percent to 12.78 percent. The appropriate overall rate of return is 5.25 percent. (Smith)

Staff Analysis: According to Audit Finding 4, Mobile Manor's capital structure for the test year consists of two debt issues and negative retained earnings. The Utility recorded negative retained earnings of \$17,497 for the test year. Since including negative equity would penalize the Utility's capital structure by understating the overall rate of return, staff has adjusted the negative equity to zero.³ The debt issues relate to two loans made to Mobile Manor from Mobile Manor, Inc.; one loan was for \$20,000 and the other was for \$3,000. As of December 31, 2008, the cumulative outstanding balance was \$23,000, with a cost rate of 5.25 percent.

The Utility's capital structure has been reconciled with staff's recommended rate base. Consistent with the most recent Commission-approved leverage formula, the appropriate rate of return on equity is 11.78 percent.⁴ Staff is not recommending the rate base methodology for calculating rates as addressed in Issue 8. However, staff believes that the rate of ROE should be determined in this proceeding to be used in future cases. Staff recommends an ROE of 11.78 percent with a range of 10.78 percent to 12.78 percent, and an overall rate of return of 5.25 percent.

The ROE and overall rate of return are shown on Schedule No. 2.

³ See Order No. PSC-08-0652-PAA-WS, issued October 6, 2008, in Docket No. 070722-WS, In re: Application for staff-assisted rate case in Palm Beach County by W.P. Utilities, Inc.

⁴ See 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 order was consummated by Order No. PSC-09-0502-CO-WS, issued July 15, 2009.

NET OPERATING INCOME

Issue 6: What is the appropriate amount of test year revenues in this case?

Preliminary Recommendation: The appropriate test year revenue for this Utility is \$58,832 for water. (Smith)

Staff Analysis: Mobile Manor recorded test year water revenue of \$48,290. The Utility did not bill its general service customers. Mobile Manor also received a price index increase after the test year. Staff has annualized test year revenues to account for additional billing determinants for the general service customers and the rate increase. This results in an increase of \$10,542 to reflect the appropriate test year revenue.

Test year revenue is shown on Schedule No. 3-A, and the adjustment is shown on Schedule No. 3-B.

Issue 7: What is the appropriate amount of test year operating expenses?

Preliminary Recommendation: The appropriate amount for operating expenses for this Utility is \$74,144. (Smith)

Staff Analysis: Mobile Manor recorded operating expenses of \$72,175, for the test year ending December 31, 2008. The test year O&M expenses have been reviewed and invoices, canceled checks, and other supporting documentation have been examined. Staff made several adjustments to the Utility's operating expenses as summarized below:

Operation and Maintenance Expenses (O&M)

Purchased Water (610) - Mobile Manor recorded \$23,259 to this account during the test year. Based on invoices provided by the Utility, staff calculated total purchased water expenses of \$24,003. Staff has increased purchased water by \$744 to reflect the actual test year expense. Also, as discussed in Issue 2, staff has decreased this account by \$3,507 ($\$24,003 \times 14.61$ percent) for excessive unaccounted for water. Staff recommends total purchased water for the test year of \$20,496.

Chemicals (618) - Mobile Manor recorded \$0 in this account during the test year. The Utility provided invoices that indicated test year chemical expenses of \$32. Staff recommends increasing this account by \$32. As a result of the excessive unaccounted for water adjustment recommended above, staff recommends reducing chemical expense by \$5 (32×14.61 percent). Staff's recommended chemical expense is \$27.

Materials and Supplies (620) - Mobile Manor recorded \$0 in this account during the test year. The Utility provided staff auditor with invoices totaling \$106 for materials purchased during the test year. Staff recommends increasing material and supplies by \$106.

Contractual Services - Billing (630) - Mobile Manor recorded \$1,365 in this account for meter reading work performed during the test year. Based on invoices provided by the Utility, staff estimates that the total cost of meter reading for one month is \$280. Staff recommends annualizing this amount for a total of \$3,360. Therefore, staff has increased this account by \$1,995 ($\$3,360 - \$1,365$). Staff recommends contractual services - billing expense of \$3,360.

Contractual Services - Professional (631) - Mobile Manor recorded \$11,831 in this account. This amount consists of fees for management services provided by Associa Benson's. The National Association of Regulatory Commissioners (NARUC) Uniform System of Accounts (USOA) states:

Contractual Services - Professional

This account shall include the cost of accounting, legal, and engineering if such work is not performed by employees of the utility.

Contractual Services - Other

This account shall include the cost of operation and maintenance work not performed by utility employees. This account shall also include the cost of management and data processing if such work is not performed by employees of the utility.

The amount the Utility included for contractual services – professional is misclassified. Staff recommends reclassifying the \$11,831 to contractual services – other.

Per the staff audit, Mobile Manor's books are not in conformance with the NARUC USOA. Staff has estimated a one-time cost of \$800 for converting the Utility's books and records to conform to NARUC USOA and for reconciling Mobile Manor's books in this case.⁵ This amount has been amortized over five years allowing the recovery of \$160 annually. Staff has estimated an annual allowance of \$575 for accounting duties to oversee the books and records for continual compliance. Additionally, staff has increased this account by \$1,325 to reclassify accounting expenses from miscellaneous expense. The total adjustment for this expense is a decrease of \$9,771. Staff recommends contractual services – professional of \$2,060.

Contractual Services - Testing (635) - Each utility must adhere to specific testing conditions prescribed within its operating permit. These testing requirements are tailored to each utility as required by the Florida Administrative Code and enforced by DEP. The Utility recorded \$6,877 in contractual testing expense. Based on staff engineer's review, the appropriate testing expense is \$6,529. Therefore, staff has reduced this account by \$348 (\$6,877 - \$6,529). Staff recommends contractual services – testing of \$6,529.

Contractual Services - Other (636) – Mobile Manor recorded \$4,694 in this account. This amount is unsupported. Staff recommends reducing this account by \$4,694, to remove the unsupported balance. As mentioned above in the contractual services – professional, management fees should have been included as contractual services – other expense. The amount reclassified to contractual services – other is \$11,831. However, based on the Utility's contract with Associa Bensons, Mobile Manor is billed at \$6.00 per unit per month. The total annual management fee is \$22,536 (313 X \$6.00 X 12). The contract, further, states that 70 percent is billed to the Utility and 30 percent is billed to Mobile Manor, Inc. The Utility's allocated portion is \$15,775 (\$22,536 X 70 percent). Staff believes this amount is reasonable. Therefore, staff has increased this account by \$3,944 (\$15,775 - \$11,831) to reflect the appropriate management fee. Also, the Utility provided three separate invoices for repair work totaling \$309. Staff believes this amount is reasonable. Staff has increased this account by \$309. The net adjustments to this account is an increase of \$11,390 (\$-4,694 + \$11,831 + \$3,944 + \$309). Staff recommends contractual services – other of \$16,084.

Regulatory Commission Expense (665) - Mobile Manor recorded \$0 in this account during the test year. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a 4-year

⁵ See Order No. PSC-00-0807-PAA-WU, issued April 25, 2000, in Docket No. 991290-WU, In re: Application for staff-assisted rate case in Lake County by Brendenwood Water System.

period. The Utility is required by Rule 25-22.0407, F.A.C., to mail notices of the customer meeting and notices of final rates in this case to its customers. For these notices, staff has estimated \$275 for postage expense, \$219 for printing expense, and \$32 for envelopes. The above results in a total rate case expense for noticing of \$526. Mobile Manor paid a \$1,000 rate case filing fee. Based on the above, staff recommends that total rate case expense is \$1,526 (\$526 + \$1,000), which amortized over four years is \$382.

Miscellaneous Expense (675) - The Utility recorded \$2,157 in this account. This expense has been decreased by \$1,325 to reflect a reclassification of an accounting expense to contractual services – professional. Mobile Manor included \$451 for telephone expenses. Subsequent to the staff audit, the Utility provided staff with additional invoices to support an annual telephone expense of \$521. Staff recommends increasing miscellaneous expense by \$70 to reflect the appropriate telephone expense. Mobile Manor included \$381 for office expenses. However, only \$184 of this amount is supported. Staff recommends reducing this expense by \$197. Staff has increased this account by \$40, for the annual membership dues. The total adjustment for miscellaneous expenses is a decrease of \$1,412. Staff recommends miscellaneous expense of \$745 (\$2,157 - \$1,412)

Operation and Maintenance Expenses (O&M) Summary - Total operation and maintenance adjustments results in a decrease of \$395. Staff's recommended O&M expense is \$69,288. O&M expenses are shown on Schedule No. 3-B.

Depreciation Expense (Net of Related Amortization of CIAC) – The Utility did not record depreciation expense. Staff has calculated depreciation expense from the original cost study using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff's calculated depreciation is \$426. Staff's calculated amortization of CIAC is \$202. This results in a net depreciation expense of \$224.

Taxes Other Than Income – Mobile Manor recorded \$2,492 in this account. This expense has been increased by \$474 to reflect the regulatory assessment fee of 4.5 percent on the increase in revenue. It has also been increased by \$757 to reflect payroll taxes on the recommended salary for the office manager. The total adjustment for taxes other than income is an increase of \$1,231.

Income Tax - The Utility is an 1120C Corporation and did not record income tax for the test year. Based on its current income tax return, Mobile Manor has a large amount of net loss carry forwards. These net loss carry forwards are sufficient enough to offset any income tax liability for the next couple of years. Therefore, staff has not made any adjustments to this account.

Operating Expenses Summary - The application of staff's recommended adjustments to Mobile Manor's recorded test year operating expenses results in staff's operating expenses of \$74,144. Operating expenses are shown on Schedule No. 3-A, and adjustments are shown on Schedule No. 3-B.

METHODOLOGY FOR CALCULATING REVENUE REQUIREMENT

Issue 8: Should the Commission utilize the operating ratio methodology as an alternative means to calculate the revenue requirement for Mobile Manor, and, if so, what is the appropriate margin?

Preliminary Recommendation: Yes, the Commission should utilize the operating ratio methodology for calculating the revenue requirement for the Utility water system. The margin should be 10 percent of operation and maintenance expenses. (Smith)

Staff Analysis: Section 367.0814(9), F.S., provides that the Commission may, by rule, establish standards and procedures for setting rates and charges of small utilities using criteria other than those set forth in Sections 367.081(1), (2)(a) and (3), F.S. Rule 25-30.456, F.A.C., provides, in part, as an alternative to a staff assisted rate case as described in Rule 25-30.455, F.A.C., utilities whose total gross annual operating revenues are \$250,000 or less per system, may petition the Commission for staff assistance in alternative rate setting.

Although, Mobile Manor did not petition the Commission for alternative rate setting under the aforementioned rule, staff believes that the Commission should exercise its discretion to employ the operating ratio methodology as an alternative means to set rates in this case. The operating ratio methodology is an alternative to the traditional calculation of revenue requirements. Under this methodology, instead of applying a return on the Utility's rate base, the revenue requirement is based on the margin of Mobile Manor's O&M expenses. This methodology has been applied in cases where the traditional calculation of revenue requirements would not provide sufficient revenues to protect against potential variances in revenues and expenses.

By Order No. PSC-96-0357-FOF-WU, issued March 13, 1996, in Docket No. 950641-WU, the Commission, for the first time, utilized the operating ratio methodology as an alternative means for setting rates. This order also established criteria to determine the use of the operating ratio methodology and a guideline margin of 10 percent of operation and maintenance expense.

In addition, by Order No. PSC-97-0130-FOF-SU, issued February 10, 1997, in Docket No. 960561-WU, the Commission utilized the operating ratio methodology for setting rates. The same criteria and 10 percent margin of O&M expense was approved as in Order No. PSC-96-0357-FOF-WU.

In Order No. PSC-96-0357-FOF-WU, the Commission established criteria to determine whether to utilize the operating ratio methodology for those utilities with low or non-existent rate base. The following discusses the qualifying criteria established by Order No. PSC-96-0357-FOF-WU, and how they apply to the Utility.

1) **Whether utility's O&M expense exceed rate base.** In the instant case, the rate base is substantially lower than the level of O&M expense. Based on the staff audit, the adjusted rate base for the test year is \$13,779, while adjusted O&M expenses are \$69,288.

2) Whether the utility is expected to become a Class B in the foreseeable future. According to Chapter 367.0814(9), F.S., the alternative forms of regulation being considered in this case only apply to small utilities whose gross annual revenues are \$150,000 or less. Mobile Manor is a Class C utility and the recommended revenue requirement of \$79,023 is substantially below the threshold level for Class B status (\$200,000 per system). The Utility's service area has not had any growth in the last five years and is essentially built out. Therefore, the Utility will not become a Class B utility in the foreseeable future.

OTHER FACTORS

3) Quality of service and condition of plant. A review of the DEP records shows no compliance problems. The quality of service appears satisfactory.

4) Whether the utility is developer owned. The current utility owner is not a developer. The service territory is not in the early stages of growth, and there has not been any customer growth in the last five years.

5) Whether the utility operates treatment facilities or is simply a distribution and/or collection system. Mobile Manor purchases and resells water from Lee County. Staff has calculated the operating ratio method without consideration of the purchase water costs. Staff believes a more conservative approach is appropriate in the initial implementation of the operating ratio methodology.

MARGIN PERCENTAGE

By Order Nos. PSC-96-0357-FOF-WS and PSC-97-0130-FOF-WU, the Commission determined that a margin of 10 percent shall be used unless unique circumstances justify the use of a greater or lesser margin. The Commission settled on the 10 percent margin due to lack of economic guidance on developing an operating ratio method rate of return. The Commission believed that it would be a futile and unwarranted exercise to try to establish a precise return applicable to all small utilities. The important question was not what the return percentage should be, but what level of operating margin will allow the utility to provide safe and reliable service and remain a viable entity. The answer to this question requires a great deal of judgment based upon the particular circumstances of the utility.

Several factors must be considered in determining the reasonableness of a margin. First, the margin must provide sufficient revenues for the Utility to cover its interest expense. Mobile Manor's interest expense is approximately \$1,208.

Second, use of the operating ratio methodology rests on the contention that the principal risk to the Utility resides in operating cost rather than in capital cost of the plant. The fair return on a small rate base may not adequately compensate the Utility owner for incurring the risk associated with covering the much larger operating cost. Therefore, the margin should adequately compensate the Utility owner for that risk. Under the rate base method, the return to

Mobile Manor amounts to only \$723, which is enough to cover only a 1 percent variance in O&M expenses. Given this Utility's circumstances, staff believes \$723 is too little of a cushion.

Third, if the return on rate base method were applied, a normal return would generate such a small level of revenues that in the event staff estimates revenues or expenses incorrectly, Mobile Manor could be left with insufficient funds to cover operating expenses. Therefore, the margin should provide adequate revenues to protect against potential variability in revenues and expenses. The return on rate base method would provide the Utility only \$1,931 in operating income to cover revenue and expense variances. Deducting interest expense from this total leaves only \$723 to cover revenue and expense variances. The following gives an indication of the level of risk facing Mobile Manor under the return on rate base approach. If as a result of the rate increase the customers reduce consumption by 10 percent, which is 43,850 gallons per month, revenues would drop by approximately \$3,283. By the same token, an expense variance of only 5 percent amounts to approximately \$3,464.

In conclusion, staff believes the above factors show that the Utility needs a higher margin of revenues over operating expenses than the traditional return on rate base method would allow. Therefore, in order to provide Mobile Manor with adequate cash flow to satisfy environmental requirements and to provide some assurance of safe and reliable service, staff recommends application of the operating ratio methodology at a margin of 10 percent of operation and maintenance expenses.

REVENUE REQUIREMENT

Issue 9: What is the appropriate revenue requirement?

Preliminary Recommendation: The appropriate revenue requirement using the operating ratio methodology for calculating the revenue requirement is \$79,023. (Smith)

Staff Analysis: Using the operating ratio method for calculating the revenue requirement, the Utility should be allowed an annual increase in revenue of \$20,191 (34.32 percent). This will allow Mobile Manor the opportunity to recover its expenses and earn a 10 percent operating margin on its adjusted operation and maintenance expense. The calculations are as follows:

	<u>Water</u>
Adjusted O & M Expenses	\$69,288
Less Purchased Water	(20,496)
Adjusted O&M less purchased water	48,792
Rate of Return	x .10
Operating Margin	\$ 4,879
Adjusted O & M expense	69,288
Depreciation expense (Net)	224
Amortization	0
Taxes Other Than Income	4,632
Income Taxes	0
Revenue Requirement	\$79,023
Less Test Year Revenues	58,832
Annual Increase	\$20,191
Percent Increase/(Decrease)	<u>34.32%</u>

Issue 10: What is the appropriate rate structure for this Utility?

Preliminary Recommendation: The appropriate rate structure for the water systems' residential and non-residential class is a continuation of the base facility charge (BFC)/uniform gallonage charge rate structure. The water system's BFC cost recovery should be set at 58.45 percent. (Bruce)

Staff Analysis: The Utility currently has a BFC uniform/gallonage charge rate structure for the water systems' residential and non-residential class. The BFC is \$6.94 per month and the monthly usage charge is \$6.24 per kgal.

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 water system's residential class. The goal of the evaluation was to select rate design parameters that: 1) allows the utility to recover its revenue requirement; 2) equitably distributes cost recovery among the Utility's customers; and 3) setting the BFC between 25 percent and 40 percent whenever possible.

Water use in the Utility's service area is under the jurisdiction of the South Florida Water Management. However, Mobile Manor purchases its water from Lee County Utilities and resells this service to the customers of the Utility. Therefore, the Utility is considered non-jurisdictional by the SFWMD.

As discussed in Issue 3, the utility has excessive unaccounted for water. According to the purchased water invoices provided by the Utility, the total gallons purchased were 6,980,000. However, staff's analysis of the consumption data provided by the utility indicated total residential gallons sold in 2008 were 5,251,792 gallons. Also, during the test year, the two general service customers were unmetered and had not been billed for their water service. Since then the utility has metered the two general service customers. Based on information provided by the utility, staff determined that the appropriate test year gallons for the general service class are 11,170. Therefore, total gallons sold in 2008 were 5,262,962.

Further analysis of the consumption data indicates that the customer base is extraordinarily seasonal wherein 73 percent of the bills are at 2 kgal or less. Also, the customer's average consumption per month is 1.4 kgal. This is considered a very low overall average consumption and suggests that an inclining block rate structure is not appropriate at this time due to the low levels of consumption. Therefore, staff recommends a continuation of the BFC/uniform gallonage charge rate structure. This rate structure is considered conservation oriented rate structure because customers' bills increase as their consumption increases.

Staff's recommended rate design for the water system is shown on Table 10-1 on the following page. Staff also presented two alternative rate structures to illustrate other recovery methodologies. The proposed rate structure results in a price increase while Alternatives 1 and 2 result in price decreases at all levels of consumption.

Table 10-1

MOBILE MANOR WATER COMPANY, INC. STAFF'S RECOMMENDED AND ALTERNATIVE WATER RATE STRUCTURES AND RATES			
Current Rate Structure and Rates		Recommended Rate Structure and Rates	
Monthly BFC/ uniform kgal charge BFC =45%		Monthly BFC/ uniform kgal charge BFC = 58.45%	
BFC	\$6.94	BFC	\$12.22
All kgals	\$6.24	All kgals	\$6.24
Typical Monthly Bills (1)		Typical Monthly Bills	
Cons (kgal)		Cons (kgal)	
0	\$6.94	0	\$12.22
5	\$38.14	5	\$43.42
10	\$69.34	10	\$74.62
15	\$100.54	15	\$105.82
20	\$131.74	20	\$137.02
25	\$162.94	25	\$168.22
Alternative 1		Alternative 2	
Monthly BFC/ uniform kgal charge BFC = 60%		Monthly BFC/ uniform kgal charge BFC =70%	
BFC	\$12.54	BFC	\$14.63
All kgals	\$6.01	All kgals	\$4.51
Typical Monthly Bills		Typical Monthly Bills	
Cons (kgal)		Cons (kgal)	
0	\$12.54	0	\$14.63
5	\$42.59	5	\$37.18
10	\$72.64	10	\$59.73
15	\$102.69	15	\$82.28
20	\$132.74	20	\$104.83
25	\$162.79	25	\$127.38

Staff recommends that staff's initial BFC cost recovery of 49.43 percent be increased to 58.45 percent. The Commission typically sets BFC cost recovery no greater than 40 percent. However, in this case, the customer base is extraordinarily seasonal wherein 73 percent of the bills are at 2 kgals or less. Since a vast majority of the customers are at a consumption level of 2 kgal and below, staff designed a BFC allocation that will produce sufficient monthly cash flow while seasonal customers are not in residence. Furthermore, the recommended BFC allocation

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Date: September 9, 2009

results in price increases at all levels of consumption while Alternatives 1 and 2 result in price decreases at higher levels of consumption. In recent cases, the Commission has approved a BFC greater than 40 percent.

Based on the foregoing, staff recommends a continuation of the BFC/uniform gallonage charge rate structure. The water system's BFC cost recovery should be set at 58.45 percent.

Issue 11: Is a repression adjustment appropriate in this case, and if so, what is the appropriate adjustment to make for this utility, what are the corresponding expense adjustments, and what is the final revenue requirements for the respective water system?

Preliminary Recommendation: No, a repression adjustment is not appropriate for this utility. However, in order to monitor the effects resulting from the changes in revenues, the utility should prepare monthly reports for the water system, detailing the number of bills rendered, the consumption billed and revenues billed. 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: Based on staff's analysis, a repression adjustment is not warranted in this case due to the fact there is no significant amount of discretionary usage. The overall average consumption is 1.4 kgals and the customer base is extraordinarily seasonal. Furthermore, while the seasonal customers are in residence, the average consumption is only 2.5 kgals. This is an indication that there is virtually no consumption above 3 kgal. However, staff recommends that monthly reports be prepared to monitor the effects from changes in revenue to the water system. These reports should be filed with the Commission, on a semi-annual basis, for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the Utility makes adjustments to 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 12: What are the appropriate rates for this Utility?

Preliminary Recommendation: The appropriate monthly water rates are shown on Schedules Nos. 4-A. The recommended rates should be designed to produce revenue \$79,023 for water, excluding miscellaneous service charges. 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, Smith)

Staff Analysis: Excluding miscellaneous service revenues, the recommended rates should be designed to produce of revenue \$79,023 for the water system.

The appropriate rate structure for the Utility's residential and non-residential class is a continuation of the BFC/uniform gallonage charge rate structure. The water system's BFC cost recovery should be set at 58.45 percent.

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.

Issue 13: In determining whether any portion of the interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

Preliminary Recommendation: Mobile Manor is in the process of implementing interim rates. The amount of the refund would be determined in staff's final recommendation. (Smith)

Staff Analysis: In Order No. PSC-09-0421-PCO-WU, issued on June 15, 2009, interim water rates were approved subject to refund, pursuant to Section 367.0814(4), F.S. The approved interim revenue from rates is shown below:

<u>Water</u>	<u>Revenues</u>	<u>Increase</u>	<u>Percentage</u>
	\$50,531	\$23,793	47.09%

The Utility is in the process of implementing interim rates. The amount of the refund would be determined in staff's final recommendation.

Issue 14: 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, F.S.?

Preliminary Recommendation: The water rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for regulatory assessment fees and 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 one month prior to the actual date of the required rate reduction. If Mobile Manor files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Smith)

Staff Analysis: Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for RAFs which is \$382. Using the Utility's current revenues, expenses, capital structure and customer base the reduction in revenues will result in the rate decreases as shown on Schedule No. 4.

Mobile Manor should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The Utility also should be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction.

If Mobile Manor files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Issue 15: What are the appropriate customer deposits for Mobile Manor?

Preliminary Recommendation: Yes. The Mobile Manor should be authorized to collect customer deposits. The appropriate customer deposit should be the recommended charge as specified in the staff analysis. The Utility should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the customer deposit should become effective for connections made on or after the stamped approval date of the revised tariff sheets. (Smith)

Staff Analysis: Mobile Manor currently does not have a tariffed charge for customer deposits. The purpose of customer deposits is to establish credit with the Utility. Deposits are to be paid by new Utility customers. Rule 25-30.311, F.A.C., provides guidelines for collecting, administering, and refunding customer deposits. The rule also authorizes customer deposits to be calculated using an average monthly bill for a 2-month period. Staff has calculated customer deposits based on the recommended rates and an average monthly bill for a 2-month period. A schedule of staff's recommended deposits follows:

Water Customer Deposits		
<u>Residential and General Service</u>		
Meter Size	Existing Deposit	Recommended Deposit
5/8" x 3/4"	N/A	\$20.94*
All over 5/8" x 3/4"	N/A	2 x average bill

*Based on average billing consumption for 2008 of 1,398 gallons.

After a customer has established a satisfactory payment record and has had continuous service for a period of 23 months, the Utility should refund the customer's deposit pursuant to Rule 25-30.311(5), F.A.C. The Utility should pay interest on customer deposits pursuant to Rule 25-30.311(4), F.A.C.

Mobile Manor should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the customer deposit should become effective for connections made on or after the stamped approval date of the revised tariff sheets.

OTHER ISSUES

Issue 16: Should the recommended rates be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than Mobile Manor?

Preliminary Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than Mobile Manor. Prior to implementation of any temporary rates, the Utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by Mobile Manor should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's Division of Economic Regulation no later than the 20th of each month, indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Smith)

Staff Analysis: This recommendation proposes an increase in water rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the Mobile Manor, staff recommends that the recommended rates be approved as temporary rates. The recommended rates collected by the Utility should be subject to the refund provisions discussed below.

Mobile Manor should be authorized to collect the temporary rates upon the staff's approval of appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$13,485. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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

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

If Mobile Manor chooses a letter of credit as a security, it should contain the following conditions:

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

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

- 1) No refunds in the escrow account may be withdrawn by the Utility without the express approval of the Commission;
- 2) The escrow account shall be an interest bearing account;
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to Mobile Manor;
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments; and
- 8) The Commission Clerk must be a signatory to the escrow agreement.
- 9) The account must specify by whom and on whose behalf such monies were paid.

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

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

Issue 17: Should the Utility be required to provide proof that it has adjusted its books for all Commission approved adjustments?

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

Staff Analysis: To ensure that the Utility adjusts its books in accordance with the Commission's decision, Mobile Manor should provide proof, within 90 days of the final order in this docket, that the adjustments for all applicable NARUC USOA primary accounts have been made.

MOBILE MANOR WATER COMPANY, INC.
TEST YEAR ENDING 12/31/08
SCHEDULE OF WATER RATE BASE

SCHEDULE NO. 1-A
DOCKET NO. 090170-WU

DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$694	\$9,263	\$9,957
2. LAND & LAND RIGHTS	0	0	0
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	0	(4,722)	(4,722)
5. ACCUMULATED DEPRECIATION	(694)	(3,421)	(4,115)
6. AMORTIZATION OF CIAC	0	3,998	3,998
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>8,661</u>	<u>8,661</u>
8. WATER RATE BASE	<u>\$0</u>	<u>\$13,779</u>	<u>\$13,779</u>

MOBILE MANOR WATER COMPANY, INC.
TEST YEAR ENDING 12/31/08
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1-B
DOCKET NO. 090170-WU

	<u>WATER</u>
1. <u>UTILITY PLANT IN SERVICE</u>	
a. To reflect original cost study per staff engineer.	\$4,722
b. Remove existing utility plant in service.	(694)
c. Adjust for replacing 40 metering systems per year.	10,471
d. To reflect averaging adjustment.	<u>(5,236)</u>
Total	<u>\$9,263</u>
2. <u>CIAC</u>	
a. To reflect appropriate CIAC.	<u>(\$4,722)</u>
3. <u>ACCUMULATED DEPRECIATION</u>	
a. To reflect test year depreciation calculated per 25-30.140, F.A.C.	(\$4,328)
b. To remove existing utility plant in service.	694
c. To reflect averaging adjustment.	<u>213</u>
Total	<u>(\$3,421)</u>
4. <u>AMORTIZATION OF CIAC</u>	
a. To reflect appropriate amortization of CIAC.	\$4,064
b. To reflect averaging adjustment.	<u>(66)</u>
Total	<u>\$3,998</u>
5. <u>WORKING CAPITAL ALLOWANCE</u>	
a. To reflect 1/8 of test year O & M expenses.	<u>\$8,661</u>

MOBILE MANOR WATER COMPANY, INC.
TEST YEAR ENDING 12/31/08
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 090170-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	(17,497)	17,497	0					
3. PAID IN CAPITAL	0	0	0					
4. OTHER COMMON EQUITY	0	0	0					
5. TOTAL COMMON EQUITY	(\$17,497)	\$17,497	\$0	\$0	\$0	0.00%	11.78%	0.00%
6. LONG TERM DEBT	\$23,000	\$0	\$23,000	(\$9,221)	\$13,779	100.00%	5.25%	5.25%
LONG TERM DEBT (PRO-FORMA)	0	0	0	0	0	0.00%	0.00%	0.00%
TOTAL LONG TERM DEBT	\$23,000	\$0	\$23,000	(\$9,221)	\$13,779	100.00%		
7. CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	0.00%	0.00%
8. TOTAL	<u>\$5,503</u>	<u>\$17,497</u>	<u>\$23,000</u>	<u>-\$9,221</u>	<u>\$13,779</u>	<u>100.00%</u>		<u>5.25%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>10.78%</u>	<u>12.78%</u>	
OVERALL RATE OF RETURN						<u>5.25%</u>	<u>5.25%</u>	

MOBILE MANOR WATER COMPANY, INC. TEST YEAR ENDING 12/31/08 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 090170-WU		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$48,290</u>	<u>\$10,542</u>	<u>\$58,832</u>	<u>\$20,191</u> 34.32%	<u>\$79,023</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	69,683	(395)	69,288	0	69,288
3. DEPRECIATION (NET)	0	224	224	0	224
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	2,492	1,231	3,723	909	4,632
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$72,175</u>	<u>\$1,060</u>	<u>\$73,235</u>	<u>\$909</u>	<u>\$74,144</u>
8. OPERATING MARGIN	<u>(\$23,885)</u>		<u>(\$14,403)</u>		<u>\$4,879</u>
9. WATER RATE BASE	<u>\$0</u>		<u>\$13,779</u>		<u>\$13,779</u>
10. OPERATING RATIO	<u>#DIV/0!</u>		<u>-104.53%</u>		<u>10.00%</u>

**MOBILE MANOR WATER COMPANY, INC.
 TEST YEAR ENDING 12/31/08
 ADJUSTMENTS TO OPERATING INCOME**

**SCHEDULE NO. 3-B
 DOCKET NO. 090170-WU
 PAGE 1 OF 2**

	<u>WATER</u>
OPERATING REVENUES	
1. To reflect test year revenues per staff.	<u>\$10,542</u>
OPERATION AND MAINTENANCE EXPENSES	
2. Purchased Water (610)	
a. To reflect actual test year expense.	\$744
b. To reflect excessive unaccounted for water.	<u>(3,507)</u>
Subtotal	<u>(\$2,763)</u>
3. Chemicals (618)	
a. To reflect actual test year expense.	\$32
b. To reflect excessive unaccounted for water.	<u>(5)</u>
Subtotal	<u>\$27</u>
4. Materials and Supplies (620)	
a. To reflect actual test year expense.	<u>\$106</u>
5. Contractual Services - Billing (630)	
a. To reflect water meter reading work performed by Benson's Inc.	<u>\$1,995</u>
6. Contractual Services - Professional (632)	
a. Remove misclassified management fees.	(\$11,831)
b. To reflect one-time accounting expense (Amortize over 5 years.)	160
c. To reflect annual accounting allowance.	575
d. To reflect reclassified accounting expense.	<u>1,325</u>
Subtotal	<u>(\$9,771)</u>
7. Contractual Services - Testing (635)	
a. To reflect actual test year expense.	<u>(\$348)</u>
8. Contractual Services - Other (636)	
a. Remove unsupported balance.	(\$4,694)
b. To include management fee in proper account.	11,831
c. To reflect appropriate management fee.	3,944
d. To include amount for repairs.	<u>309</u>
Subtotal	<u>\$11,390</u>
9. Regulatory Commission Expense (665)	
a. To reflect 4 year amortization of rate case expense.	<u>\$382</u>
10. Miscellaneous Expense (675)	
a. Remove misclassified accounting expense.	(\$1,325)
b. To reflect telephone expense.	70
c. To reflect office expense.	<u>(197)</u>
d. To include membership dues.	<u>40</u>
Subtotal	<u>(\$1,412)</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>(\$395)</u>

MOBILE MANOR WATER COMPANY, INC.		SCHEDULE NO. 3-B
TEST YEAR ENDING 12/31/08		DOCKET NO. 090170-WU
ADJUSTMENTS TO OPERATING INCOME		PAGE 2 OF 2
		<u>WATER</u>
1. DEPRECIATION EXPENSE		
a. To reflect the depreciation expense.		\$426
b. To reflect CIAC Amortization.		<u>(202)</u>
Total		<u>\$224</u>
2. TAXES OTHER THAN INCOME		
a. To include regulatory assessment fees on test year revenue.		\$474
b. To adjust payroll tax for recommended salaries.		<u>757</u>
Total		<u>\$1,231</u>

MOBILE MANOR WATER COMPANY, INC. TEST YEAR ENDING 12/31/08 ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE		SCHEDULE NO. 3-C DOCKET NO. 090170-WU		
	TOTAL PER UTILITY	STAFF PER ADJUST.		TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$9,900	\$0		\$9,900
(603) SALARIES AND WAGES - OFFICERS	0	0		0
(604) EMPLOYEE PENSION & BENEFITS	0	0		0
(610) PURCHASED WATER	23,259	(2,763)	[1]	20,496
(615) PURCHASED POWER	0	0		0
(616) FUEL FOR POWER PRODUCTION	0	0		0
(618) CHEMICALS	0	27	[2]	27
(620) MATERIALS AND SUPPLIES	0	106	[3]	106
(630) CONTRACTUAL SERVICES - BILLING	1,365	1,995	[4]	3,360
(631) CONTRACTUAL SERVICES - PROFESSIONAL	11,831	(9,771)	[5]	2,060
(635) CONTRACTUAL SERVICES - TESTING	6,877	(348)	[6]	6,529
(636) CONTRACTUAL SERVICES - OTHER	4,694	11,390	[7]	16,084
(640) RENTS	9,600	0		9,600
(650) TRANSPORTATION EXPENSE	0	0		0
(655) INSURANCE EXPENSE	0	0		0
(665) REGULATORY COMMISSION EXPENSE	0	382	[8]	382
(670) BAD DEBT EXPENSE	0	0		0
(675) MISCELLANEOUS EXPENSES	<u>2,157</u>	<u>(1,412)</u>	[9]	<u>745</u>
	<u>\$69,683</u>	<u>(\$395)</u>		<u>\$69,288</u>

MOBILE MANOR WATER COMPANY, INC.			SCHEDULE NO. 4	
TEST YEAR ENDING 12/31/08			DOCKET NO. 090170-WU	
MONTHLY WATER RATES				
	UTILITY'S EXISTING RATES	COMMISSION APPROVED INTERIM	STAFF RECOMMENDED RATES	4-YEAR RATE REDUCTION
<u>Residential and General Service</u>				
<u>Base Facility Charge by Meter Size:</u>				
5/8"X3/4"	\$6.94	\$10.21	\$12.22	\$0.06
3/4"	\$0.00	\$0.00	\$18.33	\$0.09
1"	\$0.00	\$0.00	\$30.55	\$0.16
1-1/2"	\$0.00	\$0.00	\$61.10	\$0.31
2"	\$0.00	\$0.00	\$97.76	\$0.50
3"	\$0.00	\$0.00	\$195.52	\$0.99
4"	\$0.00	\$0.00	\$305.50	\$1.55
6"	\$0.00	\$0.00	\$611.00	\$3.11
<u>Residential Service Gallonage Charge</u>				
Gallonage Charge (all gallons)	\$6.24	\$9.18	\$6.24	\$0.03
<u>General Service Gallonage Charge</u>				
Gallonage Charge (all gallons)	\$6.24	\$9.18	\$6.24	\$0.03
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
3,000 Gallons	\$25.66	\$37.75	\$30.94	
5,000 Gallons	\$38.14	\$56.11	\$43.42	
10,000 Gallons	\$69.34	\$102.01	\$74.62	