

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in Duval County by Neighborhood Utilities. | DOCKET NO. 090060-WU
ORDER NO. PSC-10-0024-PAA-WU
ISSUED: January 11, 2010

The following Commissioners participated in the disposition of this matter:

MATTHEW M. CARTER II, Chairman
LISA POLAK EDGAR
NANCY ARGENZIANO
NATHAN A. SKOP
DAVID E. KLEMENT

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING INCREASE IN RATES AND CHARGES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

Neighborhood Utilities, Inc. (Neighborhood or Utility) 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). Neighborhood has not filed for an index or a pass through since the certificate was granted in 1984.

We have authority to consider this rate case pursuant to Section 367.0814, Florida Statutes (F.S.).

¹ 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.

DOCUMENT NUMBER-DATE

00251 JAN 11 2010

FPSC-COMMISSION NOTICE

DECISION

QUALITY OF SERVICE

Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), we determine the overall quality of service provided by a utility by evaluating three separate components of water operations, including the quality of the utility's product, the operational condition of the utility's plants and facilities, and the utility's attempt to address customer satisfaction. We review comments and complaints received from customers. The utility's current compliance with the Department of Environmental Protection (DEP) is also considered.

Quality of Utility's Product and Operational Condition of Plant and Facilities

Neighborhood is currently in compliance with DEP rules and regulations; however, there are several problems that the Utility needs to address which appear to result from the owner's failure to provide routine maintenance and upkeep of Utility property. There have been sporadic compliance problems related to maintaining chlorine residuals at points furthest from the water treatment plant. DEP has indicated that as recently as August of this year, tests showed coliform bacteria to be positive. The Utility has addressed the situation through increased line flushing. DEP now considers the Utility's system to be operating in normal condition.

According to a 2008 DEP Sanitary Survey, it was noted that there was excessive rusting and corrosion on structures and equipment. Our staff conducted an investigation of Neighborhood on May 14, 2009. As noted by DEP, we also found rusting and corrosion to exist throughout the facility. In addition, one of the three high service pumps and one of the two wells at the water treatment plant were out of service. Because of its relatively small pumping capability, the Utility does not intend to reactivate the well. The Utility's owner indicated that the deferred maintenance to the facility is the result of inadequate funds. The Utility has provided a reliable cost estimate to address the rusting and corrosion situation which we are including in the pro forma adjustments discussed below. The Utility has not produced sufficient documentation to support the cost of repair or replacement of the high service pump. Although we have not considered a pro forma cost estimate for high service pumping repair or replacement, an existing interconnection with JEA should provide adequate backup reliability in case of further equipment failure.

System reliability is maintained through an auxiliary power source (generator) and an emergency backup connection with a water system owned by JEA. As a result of a hydropneumatic tank malfunction, which occurred in April of 2009, the Utility purchased water from JEA while a replacement tank was manufactured and placed into service. The replacement tank was installed and the Utility's water treatment plant put back into service on July 9, 2009.

We find that the quality of the Utility's product and the operating condition of the Utility's water plant are marginal based on the Utility's failure to provide routine maintenance of its facilities. Accordingly, pro forma plant improvements shall be included in rate base to address the operational and maintenance needs of this facility.

The Utility's Attempt to Address Customer Satisfaction

A customer meeting was held on September 16, 2009, at the West Regional Library in Jacksonville, Florida. Six customers attended the evening meeting. All of the attendees raised concerns about the quality of service provided by the Utility. The customers were primarily upset over inconveniences related to the issuances of precautionary "boil water" notices as required by the DEP. These notices are usually issued in response to possible health risks related to low pressure due to line breakage or equipment failure and inadequate chlorine residuals. The customers believe that the incidences requiring notices occur much too frequently. In addition to the inconvenience of having to boil water, the customers were also concerned about how the Utility delivers notices. They noted that these hand delivered notices often fall off mail boxes to the ground and that some customers may never become aware of the situation. Also, follow-up rescinding notifications which indicate the "all clear" rarely occur.

Given what is considered unreliable service, the customers are distressed over health concerns related to the Utility's water quality. One customer spoke of problems regarding sulfuric odors and the Utility having difficulty maintaining chlorine residuals on his street. He pointed out that the Utility tries to sustain appropriate chlorine residuals through line flushing and expressed concern about the cost of the water used. Other customers spoke of problems with water pressure and being unable to contact the Utility to get information. Aware of JEA's existing backup supply connection with the Utility's system, all customers who provided comments stated that they would prefer to receive water service from JEA because of their perception that JEA has a better product and more reliable service.

Since 2003, there have been five customer complaints logged with the Commission. Four complaints were related to billing and have since been closed. A fifth closed complaint was about frequent outages, Utility contact problems, and the placement of boil water notices. It should be noted that this complainant spoke of the very same issues at the customer meeting.

Neighborhood's Response To Quality of Service Concerns

The Utility has noted that its equipment is over 25 years old and needs to be replaced. Neighborhood points out that the current rates are too low to generate revenues needed to pay for needed equipment replacements and upgrades, or to allow for staff to be hired to respond adequately to the customer calls. In reference to the noticing concerns, the Utility believes that it delivers the notices by the quickest and most effective method. It states that the best location for placement of individual notices is determined on a case by case basis by the person delivering the notices. However, DEP records do reflect incomplete information regarding the Utility's rescinding boil water notices.

The ability of the customers to more efficiently contact the Utility should improve with additional office staffing, as approved in the pro forma adjustments discussed below. Given the current status of the above mentioned customer service problems, we find that the Utility's ability to address customer satisfaction is marginal.

Conclusion

The Utility's quality of service efforts with respect to corrosion control and increased staffing should improve with the pro forma improvements approved herein. However, we are concerned that even with the improvements, system reliability, as well as the general quality of service provided to the customers, may continue to be plagued with sporadic problems. In response to customers' concerns, we have considered the possibility of JEA being a bulk water provider in lieu of having the Utility continue to operate its water treatment facility. We contacted JEA about the possibility of providing wholesale water service to Neighborhood. JEA indicated that it is willing and possibly able (pending additional pressure studies) to provide water supply. Initial costs associated with this service would include a meter set fee, gross capacity fee, and a plant capacity fee totaling approximately \$108,000. However, the expenses associated with converting to an alternate water supply source would result in higher rates. In addition, an interconnection has not been mandated by DEP and is not desired by the Utility.

We find that Neighborhood's quality of product, operational condition of its water treatment plant and facilities, and its attempt to address customer satisfaction are marginal. The Utility's deferred maintenance to its water treatment plant and distribution system has caused sporadic substandard service to its customers. While the Utility may have deferred improvements due to the lack of funds, these problems are the management's responsibility to correct, rather than the customers' fault. However, implementing fines and penalties on this small utility would most likely be counterproductive.

In order to monitor the customers' concerns about the precautionary "boil water" notices as required by the DEP, the Utility shall provide us with a copy of both the initial and rescinding boil water notifications for a period of one year following the issuance of this order. In addition, the Utility is hereby put on notice that the customers shall have reasonable access to contact the Utility during normal business hours as well as a means of emergency, after-hours contact.

USED AND USEFUL

The Utility serves 429 customers. The water treatment system has two wells rated at 257 gallons per minute (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 22 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. Pursuant to Rule 25-30.4325, F.A.C., with only ten lots left to be built upon, we find that the service territory the treatment plant and distribution system are designed to serve is built out. Accordingly, the treatment plant and distribution system shall be considered 100 percent used and useful.

RATE BASE

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.

We 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.² Sufficient records of the original construction and expansion of plant and subsequent additions were available and were included within the audit. A summary of each component and our adjustments follow.

Utility Plant in Service

The Utility recorded \$617,959 of UPIS for the test year ended December 31, 2008, for water. We increased UPIS by \$47,927 to reflect the appropriate plant balances per company documentation. This \$47,927 adjustment consists of the following: 1) an increase of \$9,560 to reflect the reclassification plant improvements that were previously expensed; 2) a decrease of \$3,350 to reflect the retirement of a turbine motor; 3) an increase of \$28,317 to reflect hydro tank replacement in 2009; 4) a 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.

Our net adjustment to UPIS is an increase of \$47,927 ($\$9,560 - \$3,350 + \$28,317 - \$90 + \$18,130 - \$4,640$). Accordingly, we approve a UPIS balance of \$665,886.

Non-used and Useful Plant

As discussed above, the Utility's water treatment plant is considered 100 percent used and useful. Therefore, a used and useful adjustment is unnecessary.

Contribution in Aid of Construction (CIAC)

The Utility recorded CIAC of \$786,578 for water for the test year ended December 31, 2008. We reviewed necessary documentation and find CIAC to be reasonable. Accordingly, we 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. We calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. As a result, this account shall be decreased by \$88,397 for water to reflect depreciation. Included within this amount is a decrease of \$7,020 to reflect averaging adjustments for water. Thus, we approve an Accumulated Depreciation balance of \$292,820.

² Order No. 13723, In Re: Application of Neighborhood Utilities, Inc. for a certificate to operate a water utility in Duval County, Florida.

Accumulated Amortization of CIAC

The Utility recorded \$462,313 for accumulated amortization of CIAC for water. We recalculated Accumulated Amortization of CIAC using composite depreciation rates. In order to reflect accumulated amortization of CIAC as per our calculations, this account has been decreased by \$63,665. Included within this amount is a decrease of \$10,126 to reflect averaging adjustments. Our net adjustments to this account result 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., we used the one-eighth of the Operations and Maintenance (O&M) expense formula approach for calculating working capital allowance. Applying this formula, working capital allowance shall be \$12,958 (based on O&M expense of \$103,664).

Conclusion

We calculate rate base to be (\$906). For rate setting purposes, we approve a test year average rate base of zero. Rate base is shown on Schedule No. 1-A, and our adjustments are shown on Schedule No. 1-B.

RATE OF RETURN

The Utility recorded long term debt of \$94,761 and customer deposits of \$9,127 in its capital structure for the test year. The Utility has \$94,761 in long term debt payable to various banks. The average interest rate for these loans is 10 percent. The Utility did not pay interest in 2008.

Using the leverage formula established 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., we approve a return on equity (ROE) of 11.30 percent with a range of 10.30 - 12.30 percent, and an overall rate of return of 9.65 percent. The approved ROE and overall rate of return are shown on Schedule No. 2.

TEST YEAR REVENUE

Neighborhood recorded total revenues of \$88,344 for water for the 12-month period ended December 31, 2008. We analyzed the Utility's reported revenues and determined that the water revenues were understated by \$1,331. Accordingly, we approve test year revenue of \$89,675 for water, which is shown on Schedule No. 3-A. The related adjustments are shown on Schedule No. 3-B.

TEST YEAR OPERATING EXPENSE

Per Schedule No. 3-A, the Utility recorded total Operating Expenses of \$115,320. We have reviewed test year expenses and examined invoices, canceled checks, and other supporting documentation. We have used recalculations when necessary. Accordingly, we made several adjustments to the Utility's operating expenses, as summarized below.

Salaries and Wages – Employees – (601)

The Utility recorded salaries and wages – employees as \$0 for the test year. We approve a test year balance of \$0.

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. We find that the owner is entitled to the \$24,000 per year and that the amount is reasonable; therefore, no adjustment was 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. We find that the purchased power amount is reasonable; therefore, no adjustments were made to this account.

Chemicals – (618)

The Utility provided invoices that indicated the chemicals for the test year were \$4,847 for water. We find that the chemical amount is reasonable; therefore, 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 Utility's changing from quarterly to monthly billing, we made an adjustment to increase materials and supplies by \$3,440. Therefore, we approve \$7,151 for materials and supplies.

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. We find that this amount is reasonable; therefore, 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. We approve an additional annualized expense of \$785(\$2,356/3) to be included in account 635 - Contractual Services - Testing for additional testing requirements. These tests are required by DEP every three or more years. We approve contractual services – testing of \$3,758 (\$2,973+\$785).

Contractual Services – Other – (636)

The Utility provided invoices that indicate contractual services – other for the test year was \$32,647. We approve contractual services – other of \$32,647.

Rents – (640)

The Utility recorded \$8,479 in this account during the test year. We made a \$257 adjustment to remove parking fees at the Utility office in downtown Jacksonville for weekend parking. We approve rent of \$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. We find that the transportation amount is reasonable; therefore, no adjustment was made to this account.

Insurance Expense – (655)

The Utility recorded \$5,069 in this account during the test year. We made a decreasing adjustment of \$3,346 to remove the non-utility life insurance coverage. We approve insurance expense of \$1,723.

Regulatory Commission Expense – (665)

The Utility recorded \$1,200 in this account during the test year. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a 4-year period. In addition, 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, we adjusted this account by \$856 to include these notices that will be amortized over four years. We also made an increasing adjustment of \$250 (\$1,000/4) for a filing fee that will be amortized over four years. Therefore, we approve total regulatory commission expense of \$764 (\$1,200+\$1,000+\$856)/4.

Miscellaneous Expense – (675)

The Utility recorded \$13,286 for miscellaneous expense for the test year. We made a decreasing adjustment of \$7,516 for the test year. We approve total miscellaneous expense of \$5,770. The related adjustments are shown on Schedule No. 3-B.

Operation and Maintenance Expense (O&M) Summary

The Utility recorded \$110,994 for total O&M expense. We approve O&M expenses of \$103,664. O&M expense adjustments are shown on Schedule No. 3-B.

Depreciation Expense

The Utility recorded \$17,417 for depreciation expense. We calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. We decreased depreciation expense by \$3,399 to reflect the changes in rates and for \$383 to reflect the depreciation on reclassified plant additions and retirements. We calculated depreciation expense for the hydrotank item paid for in 2009 to be \$943. We approve depreciation expense of \$14,578.

Amortization of CIAC

The Utility recorded \$31,463 for amortization of CIAC. We calculated amortization of CIAC using composite rates from the prescribed rates set forth in Rule 25-30.140, F.A.C. We approve amortization of CIAC of \$19,900.

Taxes Other Than Income (TOTI)

The Utility recorded \$18,373 for TOTI. Our adjustments to TOTI are as follows: 1) decrease TOTI by \$14,808 to remove Right of Way and Public Service Utility taxes, which are stated separately on the customer bill and are established by the county (10 and 5 percent, respectively); 2) increase TOTI by \$3,975 to reflect Regulatory Assessment Fees (RAFs) on test year per Utility; and 3) increase TOTI by \$60 to reflect RAFs on test year revenues per audit. We approve TOTI of \$7,600.

Operating Expenses Summary

The application of our approved adjustments to the audited test year operating expenses results in operating expenses of \$105,942. Operating expenses are shown on Schedule No. 3-A. The related adjustments are shown on Schedule No. 3-B.

REVENUE REQUIREMENTS

We hereby approve an annual increase in revenue of \$17,033 (18.99 percent). The calculations are as follows:

	<u>Water</u>
Adjusted Rate Base	\$0
Rate of Return	X 9.65%
Return on Investment	<hr/> \$0
+ Adjusted O&M Expense	\$103,664
+ Depreciation Expense	\$14,578
+ Amortization Expense	(\$19,900)
+ TOTI	<hr/> \$8,366
Revenue Requirement	\$106,708
Less Test Year Revenues	<hr/> \$89,675
Annual Increase/Decrease	\$17,033
Percent Increase/Decrease	18.99%

RATE STRUCTURE

The Utility's current rate structure consists of 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.

In prior cases, it has been our 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 our past practice, the Utility shall change its quarterly billing to monthly billing.

We performed a detailed analysis of the Utility's billing data to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential rate class. The goal of our 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 our goals and practices.

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

Based on our analysis of the billing data, the customers' overall average monthly consumption is 6.7 kgal. Our staff's preliminary recommended rate structure consisted of a two-tier inclining block rate structure with usage blocks set at 0-6 kgals and usage in excess of 6 kgal. However, we re-evaluated the billing data, which indicated that 13 percent of the gallons are at 12 kgals and above. Therefore, we approve a three-tier inclining block rate structure with

usage blocks set at a) 0-6 kgals, b) 6-12 kgals, and c) usage in excess of 12 kgals, with usage block rate factors of 1.0, 1.5, and 2.0, respectively.

Furthermore, the Utility's service area is comprised of a mobile home park and two subdivisions that consist of single family homes. According to the Utility owner, Neighborhood serves retirees, single young adults, and families that consist of at least three to four people. For this reason, we find it appropriate to increase the threshold for a customer's essential usage to approximately 3,375 gallons per month. This number is derived based on the average number of persons per household, gallons per day, and days per month ($2.25 \times 50 \times 30$). Our approved rate structure is designed to minimize the price increase for customers with low consumption in the first block, target working families' consumption in the second block, and target customers with consumption over 12 kgals in the third block. Our approved rate design for the water system is presented in Attachment A.

We typically set the BFC allocation no greater than 40 percent. However, due to the small revenue requirement increase, setting the BFC allocation at 40 percent or less results in price decreases at 5 kgals and below. Our approved BFC allocation will allow the BFC to remain unchanged while increasing the gallonage charge, thereby making rates more conservation-oriented. Furthermore, customers will receive a price increase rather than a price decrease at non-discretionary levels of consumption. Therefore, the BFC allocation of 53.80 percent shall remain unchanged for Phase I rates.

Moreover, as discussed below, we approve a Phase II revenue requirement associated with pro forma plant improvements. The only change in rate structure between Phase I and II shall be a reduction in the BFC to 40 percent to conform to how we typically set rates.

Based on the foregoing, the Utility's current rate structure, which includes a quarterly BFC, shall be changed to a monthly BFC, and a three-tier inclining block rate structure shall be implemented. The usage blocks shall be set at a) 0-6 kgals, b) 6-12 kgals, and c) usage in excess of 12 kgals, with usage block rate factors of 1.0, 1.5, and 2.0, respectively, for the water system's residential class. The approved rate structure for the water system's non-residential class is a traditional monthly BFC/uniform gallonage charge rate structure. The billing system shall be changed to a monthly basis. The water system's BFC cost recovery shall be set at 53.80 percent.

REPRESSION ADJUSTMENT

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.

We 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. Our analysis showed that average residential monthly consumption per customer was 6.7 kgal. As discussed above, the threshold for the customer's essential usage shall be set at approximately 3,375 gallons per month. Thus,

our approved repression adjustment shall apply only to water consumption above 3,375 gallons per month.

Using our database of utilities that have previously had repression adjustments made, we calculated a repression adjustment for this utility based upon the approved 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 we have approved in prior cases. Based on this methodology, test year residential water sold shall be reduced by 1,117 kgals, or 3.3 percent. Purchased power expense shall be reduced by \$251, chemical expense shall be reduced by \$158, and RAFs shall be reduced by \$19. The final post-repression revenue requirement for the water system shall be \$106,281.

In order to monitor the effect of the changes to rate structure and revenue, the Utility shall file reports detailing the number of bills rendered, the consumption billed and the revenues billed on a monthly basis. In addition, the reports shall be prepared by customer class and meter size. The reports shall 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 shall file a revised monthly report for that month within 30 days of any revision.

RATES

The Utility's current rate structure, which includes a quarterly BFC, shall be changed to a monthly BFC, and a three-tier inclining block rate structure shall be implemented. The usage blocks shall be set at a) 0-6 kgals, b) 6-12 kgals, and c) usage in excess of 12 kgals, with appropriate usage block rate factors of 1.0, 1.5, and 2.0, respectively, for the water system's residential class. The rate structure for the water system's non-residential class shall be a traditional monthly BFC/uniform gallonage charge rate structure. The billing system shall be changed to a monthly basis. The water system's BFC cost recovery shall be set at 53.80 percent.

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

Excluding miscellaneous service revenues, the approved rates are designed to produce revenue of \$106,281 for the water system. The approved rates for monthly service for water are shown on Schedule No. 4.

PRO FORMA PLANT AND EXPENSES

The Utility requested additional pro forma plant and expenses that it intends to complete. The following is a chart summarizing the pro forma item, the cost, and our approved treatment:

<u>Pro forma</u>	<u>Commission Approved</u>
Meter replacement program – 40 meters per year	\$5,255
Office Staff	\$20,000
Painting and Repairing of Facilities – 1/5 amortization of total	\$3,467
Total	\$28,722

Meter Replacement Program. To replace aging meters, the Utility intends to replace 40 meters per year at a cost of \$5,255 annually. This pro forma improvement will enhance customer billing accuracy.

Part-time Employee. The Utility intends to hire additional office staffing to aid in increased customer billing as a result of changing from quarterly to monthly billing. This \$20,000 pro forma expense will also help improve customer service by providing reasonable access to the Utility during normal business hours. To reflect the appropriate payroll taxes that will result from the hire of an additional employee, we adjusted TOTI by \$1,530 to account for this future employee.

Painting of Facilities. To eliminate a rusting and corrosion situation on structures and equipment at the water treatment plant, the Utility requested \$17,334 for painting and related improvements. This pro forma improvement will help extend the operating life of these structures and is amortized over five years. The amount per year is \$3,467 ($\$17,334/5$).

Neighborhood's proposed pro forma improvement items are reasonable and prudent because they will allow the Utility to provide improved quality of service. With the pro forma items, Neighborhood's appropriate ROE shall be 11.30 percent with a range of 10.30 percent to 12.30 percent. The approved overall rate of return is 9.65 percent. The Utility's revenue requirement shall be \$138,658. Neighborhood shall complete the pro forma improvements within no more than 12 months of the issuance of the consummating order. Phase II rate base is shown on Schedule Nos. 5A and 5B. The capital structure for Phase II is shown on Schedule No. 6. Finally, the revenue requirement is shown on Schedule Nos. 7A and 7B. The resulting rates are shown on the chart on page 15 of this Order.

The Utility may implement the above rates once all pro forma improvement items have been completed and verified. Once verified, the rates shall be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. The rates shall not be implemented until notice has been received by the customers. Neighborhood shall provide proof of the date notice was given within ten days after the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma improvements, the Utility shall immediately notify this Commission.

NEIGHBORHOOD UTILITIES, INC.				
TEST YEAR ENDING 12/31/08			DOCKET NO. 090060-WU	
MONTHLY WATER RATES – PHASE II				
	UTILITY'S EXISTING RATES *	UTILITY'S MONTHLY RATES**	COMMISSION APPROVED RATES	4 YEAR RATE REDUCTION
Residential Service				
Base Facility Charge All Meter Sizes				
5/8"X3/4"	\$28.45	\$9.48	\$9.07	\$0.04
3/4"	\$0.00	\$0.00	\$13.61	\$0.07
1"	\$49.70	\$16.57	\$22.68	\$0.11
1-1/2"	\$87.09	\$29.03	\$45.35	\$0.22
2"	\$152.51	\$50.84	\$72.56	\$0.36
3"	\$266.79	\$88.93	\$145.12	\$0.72
4"	\$466.89	\$155.63	\$226.75	\$1.12
6"	\$816.97	\$272.32	\$453.50	\$2.24
Residential Gallonage Charge				
Per 1,000 Gallons, 0-6 kgal	\$1.14		\$2.37	\$0.02
Per 1,000 Gallons, 6-12 kgal			\$3.55	
Per 1,000 Gallons, 12+ kgal			\$4.74	
General Service				
Base Facility Charge by Meter Size:				
5/8"X3/4"	\$28.45	\$9.48	\$9.07	\$0.04
3/4"	\$0.00	\$0.00	\$13.61	\$0.07
1"	\$49.70	\$16.57	\$22.68	\$0.11
1-1/2"	\$87.09	\$29.03	\$45.35	\$0.22
2"	\$152.51	\$50.84	\$72.56	\$0.36
3"	\$266.79	\$88.93	\$145.12	\$0.72
4"	\$466.89	\$155.63	\$226.75	\$1.12
6"	\$816.97	\$272.32	\$453.50	\$2.24
Gallonage Charge (all gallons)	\$1.14		\$2.43	\$0.02
Per 1,000 Gallons				
Typical Residential 5/8" x 3/4" Meter Bill Comparison				
<u>3,000 Gallons</u>		\$12.90	\$16.18	
<u>5,000 Gallons</u>		\$15.18	\$20.92	
<u>10,000 Gallons</u>		\$20.88	\$37.49	
* BCF Charge is billed quarterly				
** For comparison the Utility's quarterly rate converted to monthly				

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Neighborhood Utilities, Inc.'s application for increased rates and charges is hereby approved as set forth in the body of this Order. It is further

ORDERED that each of the findings made in the body of this Order are hereby approved in every respect. It is further

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

ORDERED that Neighborhood Utilities, Inc. is hereby authorized to charge the new rates and charges as set forth in Schedule No. 4 and as approved in the body of this Order. It is further

ORDERED that the Utility shall prepare monthly reports to monitor the effects resulting from changes in revenue to the water system. These reports shall reflect the number of bills rendered, the consumption billed, and the revenues billed. The reports shall be prepared by customer class and meter size. The reports shall be filed with our staff, on a quarterly basis, for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the Utility makes adjustments to consumption in any month during the reporting period, the utility shall file a revised monthly report for that month within 30 days of any revision. It is further

ORDERED that Neighborhood Utilities, Inc. shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. It is further

ORDERED that the approved rates shall not be implemented until our staff has approved the proposed customer notice and the customers have received the notice. The Utility shall provide our staff with proof of the date notice was given within 10 days after the date of the notice. It is further

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

ORDERED that 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. It is further

ORDERED that pursuant to Section 367.0816, Florida Statutes, the water rates shall be reduced to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period at the end of the four-year rate case expense amortization period as set forth in the body of this Order. It is further

ORDERED that the utility shall file revised tariff sheets and a proposed customer notice setting forth the lower rates and the reason for the reductions no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease, and for the reduction in rates due to the amortized rate case expense. It is further

ORDERED that the decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, Florida Statutes. It is further

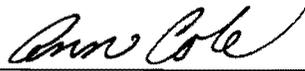
ORDERED that Neighborhood Utilities, Inc. shall provide this Commission with a copy of both the initial and rescinding boil water notifications for a period of one year after the issuance of this Order. It is further

ORDERED that Neighborhood Utilities, Inc. shall complete the pro forma improvements discussed herein within no more than 12 months of the issuance of the consummating order. The Utility shall be allowed to implement the resulting Phase II rates once the pro forma improvements have been completed and verified by Commission staff. However, the Utility shall not implement the revised rates until it has submitted a revised tariff and a proposed customer notice reflecting the rates approved herein. The revised rates shall be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. The rates shall not be implemented until notice has been received by the customers. Neighborhood Utilities, Inc. shall provide proof of the date notice was given within 10 days after the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma improvements, the Utility shall notify this Commission immediately. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that upon expiration of the protest period, if a timely protest is not received from a substantially affected person, this docket shall be closed.

By ORDER of the Florida Public Service Commission this 11th day of January, 2010.



ANN COLE
Commission Clerk

(S E A L)

JSB

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on February 1, 2010.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Neighborhood Utilities, Inc.
 Docket No. 090060-WU

Attachment A

WATER

	Current Rates		Current rates converted to Monthly	Commission Approved
				BFC = 53.80%
				3-Tier Inclining Block
				0-6 Kgal; 6-12 Kgal; 12+Kgal
				2nd Tier Rate Factor = 1.50
				3 rd Tier Rate Factor = 2.00
Quarterly BFC	\$28.45	BFC	\$9.48	\$9.48
Per kgal	\$1.14	Per Kgal	\$1.14	0-6 Kgal \$1.22
				6-12 Kgal \$1.82
				12+ \$2.43
	<u>Typical Quarterly Bills</u>		<u>Typical Monthly Bills</u>	<u>Typical Monthly Bills</u>
0 kgal	\$28.45	0 kgal	\$9.48	\$9.48
3 kgals	\$38.71	3 kgals	\$12.90	\$13.14
5 kgals	\$45.55	5 kgals	\$15.18	\$15.58
10 kgals	\$62.65	10 kgals	\$20.88	\$24.08
15 kgals	\$79.75	15 kgals	\$26.58	\$35.01

Note: All approved rates are based on rate factors of 1.0, 1.50 and 2.00

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

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

DESCRIPTION	BALANCE PER UTILITY	COMMISSION ADJUST. TO UTIL. BAL.	BALANCE PER COMMISSION
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	(\$786,578)	\$0	(\$786,578)
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>\$12,958</u>	<u>\$12,958</u>
8. WATER RATE BASE	<u>(\$86,523)</u>	<u>\$85,617</u>	<u>(\$906)</u>
9. WATER RATE BASE FOR RATE SETTING			<u>\$0</u>

NEIGHBORHOOD UTILITIES, INC.
TEST YEAR ENDING 12/31/08
ADJUSTMENTS TO RATE BASE – PHASE I

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

	<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 from Acct No. 636	4,467
3. To reclassify plant addition from Acct No. 720	0
4. To reclassify plant addition from Acct No. 675	1,717
5. To reclassify plant addition from Acct No. 618	854
6. To reclassify plant addition from Acct No. 620	2,522
7. To reflect invoices that were not recorded	18,130
8. To reflect the retirement of turbine motor	(3,350)
9. To reflect pro forma hydro tank replacement	28,317
10. To reflect averaging adjustment	(90)
11. 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>	
1. To reflect accumulated depreciation per Rule 25-30.0140	\$81,377
2. 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>	
1. To reflect 1/8 of test year O & M expenses.	<u>\$12,958</u>

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

SCHEDULE NO. 2
DOCKET NO. 090060-WU

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER COMMISSION	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$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						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>10.30%</u>	<u>12.30%</u>	
OVERALL RATE OF RETURN						<u>9.65%</u>	<u>9.65%</u>	

NEIGHBORHOOD UTILITIES, INC.				SCHEDULE NO. 3-A	
TEST YEAR ENDING 12/31/08				DOCKET NO. 090060-WU	
SCHEDULE OF WATER OPERATING INCOME					
PHASE I					
	TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$88,344</u>	<u>\$1,331</u>	<u>\$89,675</u>	<u>\$17,034</u> 18.99%	<u>\$106,709</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	110,994	(7,329)	103,664	0	103,664
3. DEPRECIATION	17,417	(2,839)	14,578	0	14,578
4. AMORTIZATION OF CIAC	(31,463)	11,563	(19,900)	0	(19,900)
5. TAXES OTHER THAN INCOME	18,373	(10,773)	7,600	767	8,366
6. INCOME TAXES	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0</u>	<u>\$0</u>
7. TOTAL OPERATING EXPENSES	<u>\$115,320</u>	<u>(\$9,378)</u>	<u>\$105,942</u>	<u>\$767</u>	<u>\$106,709</u>
8. OPERATING INCOME (LOSS)	<u>(\$26,977)</u>		<u>(\$16,267)</u>		<u>\$0</u>
9. WATER RATE BASE	<u>(\$86,523)</u>		<u>(\$906)</u>		<u>\$0</u> (1)
10. RATE OF RETURN					<u>9.65%</u>

(1) Water rate base for rate setting.

NEIGHBORHOOD UTILITIES, INC.
 TEST YEAR ENDING 12/31/08
 ADJUSTMENTS TO OPERATING INCOME - PHASE I

SCHEDULE NO. 3-B
 DOCKET NO. 090060-WU
 PAGE 1 OF 2

		<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. Not used	0
	Subtotal	<u>\$0</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	\$0
	Subtotal	<u>\$0</u>
4.	Chemicals (618)	
	a. Not used	\$0
	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>
8.	Contractual Services - Other (636)	
	a. Not used	\$0
	Subtotal	<u>\$0</u>
9.	Rents (640)	
	a. To remove parking fees associated with weekend parking	<u>(\$257)</u>
	Subtotal	<u>(\$257)</u>
10.	Transportation Expense (650)	
	b. Not used	0
	Subtotal	<u>\$0</u>
11.	Insurance Expense (655)	
	a. To remove non-utility life insurance coverage	(\$3,346)
	Subtotal	<u>(\$3,346)</u>
(O & M EXPENSES CONTINUED ON NEXT PAGE)		

NEIGHBORHOOD UTILITIES, INC.		SCHEDULE NO. 3-B
TEST YEAR ENDING 12/31/08		DOCKET NO. 090060-WU
ADJUSTMENTS TO OPERATING INCOME – PHASE I		PAGE 2 OF 2
12	Regulatory Commission Expense (665)	
	a. To adjust amount of consulting fee that should be amortized over four years	<u>(900)</u>
	b. To adjust amount to include filing fee that will be amortized over four years	<u>250</u>
	c. To adjust amount to include noticing expenses that will be amortized over four years	<u>214</u>
	Subtotal	<u>(\$436)</u>
13	Miscellaneous Expense (675)	
	a. To remove utility's finance charges	(2,950)
	b. To remove utility's late payments	(489)
	c. To remove utility's charge backs due to payments declared NSF	(2,256)
	d. To remove utility's returned deposited items	(180)
	e. To remove non utility Comcast Service Bundle - removed cable	(669)
	f. To remove non utility newspaper - Florida Time	(200)
	g. To remove non utility newspaper - Morris Paper	(16)
	h. To remove non utility dental visits - Scott Watson	(95)
	i. To remove non utility vitamin purchase - Swanson Health	(35)
	j. To remove non utility Sunbiz payment - for Colt Development	(150)
	k. To remove non utility - Swamp Holly Shop - retail store	(266)
	l. To remove non utility - S&K Internet	(205)
	m. To remove non utility - late fee - Verizon	(5)
	Subtotal	<u>(\$7,516)</u>
	TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>(\$7,329)</u>
	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	<u>(383)</u>
	To reflect the adjustment due to changes in post 2008 additions and retirements	<u>943</u>
	Subtotal	<u>(\$2,839)</u>
	AMORTIZATION of CIAC	
	To reflect the adjustment due to rate changes over the years.	<u>\$11,563</u>
	Subtotal	<u>\$11,563</u>
	TAXES OTHER THAN INCOME	
	To reflect the appropriate RAFs for the test year revenues per utility	\$3,975
	To reflect the appropriate RAFs for the test year revenues per audit	\$60
	To reflect the appropriate property taxes - Not used	0
	To reflect the appropriate payroll taxes	0
	To remove right of way and public service utility tax	<u>(14,808)</u>
		<u>(\$10,773)</u>
	<u>INCOME TAX</u>	
	Income Tax Per Commission	<u>\$0</u>

NEIGHBORHOOD UTILITIES, INC.		SCHEDULE NO: 3-C	
TEST YEAR ENDING 12/31/08		DOCKET NO. 090060-WU	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE – PHASE 1			
	TOTAL PER UTILITY	COMMISSION ADJUST.	TOTAL PER COMMISSION
(601) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(603) SALARIES AND WAGES - OFFICERS	24,000	0	24,000
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	7,671	0	7,671
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	4,847	0	4,847
(620) MATERIALS AND SUPPLIES	3,711	3,440	7,151
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	5,284	0	5,284
(635) CONTRACTUAL SERVICES - TESTING	2,973	785	3,758
(636) CONTRACTUAL SERVICES - OTHER	32,647	0	32,647
(640) RENTS	8,479	(257)	8,222
(650) TRANSPORTATION EXPENSE	1,826	0	1,826
(655) INSURANCE EXPENSE	5,069	(3,346)	1,723
(665) REGULATORY COMMISSION EXPENSE	1,200	(436)	764
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSES	<u>13,286</u>	<u>(7,516)</u>	<u>5,770</u>
	<u>\$110,994</u>	<u>(\$7,329)</u>	<u>\$103,664</u>

NEIGHBORHOOD UTILITIES, INC.	SCHEDULE NO. 4
TEST YEAR ENDING 12/31/08	DOCKET NO. 090060-WU
MONTHLY WATER RATES – PHASE I	

	UTILITY'S EXISTING RATES *	UTILITY'S MONTHLY RATES**	COMMISSION APPROVED RATES	4 YEAR RATE REDUCTION
<u>Residential Service</u>				
Base Facility Charge All Meter Sizes				
5/8"X3/4"	\$28.45	\$9.48	\$9.48	\$0.05
3/4"	\$0.00	\$0.00	\$14.22	\$0.07
1"	\$49.70	\$16.57	\$23.70	\$0.11
1-1/2"	\$87.09	\$29.03	\$47.40	\$0.23
2"	\$152.51	\$50.84	\$75.84	\$0.36
3"	\$266.79	\$88.93	\$151.68	\$0.73
4"	\$466.89	\$155.63	\$237.00	\$1.14
6"	\$816.97	\$272.32	\$474.00	\$2.27
<u>Residential Gallonage Charge</u>				
Per 1,000 Gallons, 0-6 kgal	\$1.14	\$1.14	\$1.22	\$0.01
Per 1,000 Gallons, 6-12 kgal			\$1.82	
Per 1,000 Gallons, 12 + kgal			\$2.43	
<u>General Service</u>				
Base Facility Charge by Meter Size:				
5/8"X3/4"	\$28.45	\$9.48	\$9.48	\$0.05
3/4"	\$0.00	\$0.00	\$14.22	\$0.07
1"	\$49.70	\$16.57	\$23.70	\$0.11
1-1/2"	\$87.09	\$29.03	\$47.40	\$0.23
2"	\$152.51	\$50.84	\$75.84	\$0.36
3"	\$266.79	\$88.93	\$151.68	\$0.73
4"	\$466.89	\$155.63	\$237.00	\$1.14
6"	\$816.97	\$272.32	\$474.00	\$2.27
Gallonage Charge (all gallons)	\$1.14	\$1.14	\$1.44	\$0.02
Per 1,000 Gallons				
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
<u>3,000 Gallons</u>		\$12.90	\$13.14	
<u>5,000 Gallons</u>		\$15.18	\$15.58	
<u>10,000 Gallons</u>		\$20.88	\$24.08	
* BCF Charge is billed quarterly				
** For comparison the Utility's quarterly rate converted to monthly				

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

SCHEDULE NO. 5-A
DOCKET NO. 090060-WU

DESCRIPTION	BALANCE PER UTILITY	COMMISSION ADJUST. TO UTIL. BAL.	BALANCE PER COMMISSION
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	(\$786,578)	\$0	(\$786,578)
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>\$16,548</u>	<u>\$16,548</u>
8. WATER RATE BASE	<u>(\$86,523)</u>	<u>\$89,208</u>	<u>\$2,685</u>

NEIGHBORHOOD UTILITIES, INC.

SCHEDULE NO. 5-B

TEST YEAR ENDING 12/31/08

DOCKET NO. 090060-WU

ADJUSTMENTS TO RATE BASE - PHASE II

	<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 from Acct No. 636	4,467
3. To reclassify plant addition from Acct No. 720	0
4. To reclassify plant addition from Acct No. 675	1,717
5. To reclassify plant addition from Acct No. 618	854
6. To reclassify plant addition from Acct No. 620	2,522
7. To reflect invoices that were not recorded	18,130
8. To reflect the retirement of turbine motor	(3,350)
9. To reflect pro forma hydro tank replacement	28,317
10. To reflect averaging adjustment	(90)
11. 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>	
1. To reflect accumulated depreciation per Rule 25-30.0140	\$81,377
2. 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>	
1. To reflect 1/8 of test year O & M expenses.	<u>\$16,548</u>

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

SCHEDULE NO. 6
DOCKET NO. 090060-WU

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER COMMISSION	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$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						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>10.30%</u>	<u>12.30%</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
PHASE II

SCHEDULE NO. 7-A
DOCKET NO. 090060-WU

	TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$88,344</u>	<u>\$1,331</u>	<u>\$89,675</u>	<u>\$48,983</u> 54.62%	<u>\$138,658</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	110,994	21,393	132,387	0	132,387
3. DEPRECIATION	17,417	(2,839)	14,578	0	14,578
4. AMORTIZATION OF CIAC	(31,463)	11,563	(19,900)	0	(19,900)
5. TAXES OTHER THAN INCOME	18,373	(9,243)	9,130	2,204	11,334
6. INCOME TAXES	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0</u>	<u>\$0</u>
7. TOTAL OPERATING EXPENSES	<u>\$115,321</u>	<u>\$20,874</u>	<u>\$136,195</u>	<u>\$2,204</u>	<u>\$138,399</u>
8. OPERATING INCOME (LOSS)	<u>(\$26,978)</u>		<u>(\$46,520)</u>		<u>\$259</u>
9. WATER RATE BASE	<u>(\$86,523)</u>		<u>\$2,685</u>		<u>\$2,685</u>
10. RATE OF RETURN					<u>9.65%</u>

NEIGHBORHOOD UTILITIES, INC.
TEST YEAR ENDING 12/31/08
ADJUSTMENTS TO OPERATING INCOME – PHASE II

		<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	20,000
	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	\$0
	Subtotal	<u>\$0</u>
4.	Chemicals (618)	
	a. Not used	\$0
	Subtotal	<u>\$0</u>
5.	Materials and Supplies (620)	
	a. To increase for mailing of bills to go from quarterly to monthly	\$3,440
	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	\$785
	Subtotal	<u>\$785</u>
8.	Contractual Services - Other (636)	
	a. To reflect pro forma meter replacement program – US Water	\$5,255
	Subtotal	<u>\$5,255</u>
9.	Rents (640)	
	a. To remove parking fees associated with weekend parking	(\$257)
	Subtotal	<u>(\$257)</u>
10.	Transportation Expense (650)	
	b. Not used	\$0
	Subtotal	<u>\$0</u>
11.	Insurance Expense (655)	
	a. To remove non-utility life insurance coverage	(\$3,346)
	Subtotal	<u>(\$3,346)</u>
 (O & M EXPENSES CONTINUED ON NEXT PAGE)		

NEIGHBORHOOD UTILITIES, INC.

SCHEDULE NO. 7-B

TEST YEAR ENDING 12/31/08

DOCKET NO. 090060-WU
PAGE 2 OF 2

ADJUSTMENTS TO OPERATING INCOME – PHASE II

12	Regulatory Commission Expense (665)	
	a. To adjust amount of consulting fee that should be amortized over four years	<u>\$(900)</u>
	b. To adjust amount to include filing fee that will be amortized over four years	<u>250</u>
	c. To adjust amount to include noticing expenses that will be amortized over four years	<u>214</u>
	Subtotal	<u>\$(436)</u>
13	Miscellaneous Expense (675)	
	a. To remove utility's finance charges	\$(2,950)
	b. To remove utility's late payments	(489)
	c. To remove utility's charge backs due to payments declared NSF	(2,256)
	d. To remove utility's returned deposited items	(180)
	e. To remove non utility Comcast Service Bundle - removed cable	(669)
	f. To remove non utility newspaper - Florida Time	(200)
	g. To remove non utility newspaper - Morris Paper	(16)
	h. To remove non utility dental visits - Scott Watson	(95)
	i. To remove non utility vitamin purchase - Swanson Health	(35)
	j. To remove non utility Sunbiz payment - for Colt Development	(150)
	k. To remove non utility - Swamp Holly Shop - retail store	(266)
	l. To remove non utility - S&K Internet	(205)
	m. To remove non utility - late fee - Verizon	(5)
	n. To increase I/ of painting of facilities	3,467
	Subtotal	<u>\$(4,049)</u>
	TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$21,393</u>
	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	<u>(383)</u>
	To reflect the depreciation expense applicable to post 2008 additions and retirements	<u>943</u>
	Subtotal	<u>\$(2,839)</u>
	AMORTIZATION of CIAC	
	To reflect the adjustment due to rate changes over the years.	<u>\$11,563</u>
	Subtotal	<u>\$11,563</u>
	TAXES OTHER THAN INCOME	
	To reflect the appropriate RAFs for the test year revenues per utility	\$3,975
	To reflect the appropriate RAFs for the test year revenues per audit	\$60
	To reflect the appropriate property taxes - Not used	0
	To reflect the appropriate payroll taxes	1,530
	To remove right of way and public service utility tax	<u>(14,808)</u>
		<u>\$(9,243)</u>
	INCOME TAX	
	Income Tax Per Commission	<u>\$0</u>