

State of Florida



Public Service Commission

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

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

DATE: February 18, 2010

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Roberts, Bruce, Bulecza-Banks, Fletcher, Hudson, Simpson) *ARW*
Office of the General Counsel (Williams, Brubaker) *JSB*

RE: Docket No. 090346-WU – Application for staff-assisted rate case in Lake County by Brendenwood Water System, Inc.

AGENDA: 03/02/10 – Regular Agenda – Proposed Agency Action except for Issues 13, 14 and 15 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Klement

CRITICAL DATES: 08/05/10 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

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Case Background

Brendenwood Water Systems, Inc. (Brendenwood or Utility) is a Class C utility which is currently providing water service to approximately 58 customers. Brendenwood is located in the St. Johns River Water Management District (SJRWMD). According to the Utility's 2008 Annual Report, Brendenwood had operating revenues of \$29,388 and operating expenses of \$23,086. The test period for setting rates is the historical twelve-month period ended June 30, 2009.

Brendenwood was granted Certificate No. 339-W in 1981.¹ The Utility's last staff-assisted rate case (SARC) was in 2000.² Pursuant to Rule 25-30.457, Florida Administrative Code (F.A.C.), Brendenwood was approved for a limited alternative rate increase in 2005.³

On June 24, 2009, Brendenwood filed an application for a SARC and paid the appropriate filing fee on June 25, 2009. Staff has also conducted a field investigation of the Utility's plant and service area.

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

¹ See Order No. 10184, issued August 5, 1981, in Docket No. 810079-WU, In Re: Application of Brendenwood Water System for a certificate to operate a water Utility in Lake County, Florida, pursuant to section 367.041, F.S.

² See Order No. PSC-00-0807-PAA-WU, issued April 25, 2000, in Docket No. 991290-WU, In Re: Application for a staff-assisted rate increase in Lake County by Brendenwood Water System.

³ See Order No. PSC-06-0444-PAA-WU, issued May 22, 2006, in Docket No. 050880-WU, In Re: Petition for limited alternative rate increase in Lake County by Brendenwood Water System, Inc.

Discussion of Issues

Issue 1: Is the quality of service provided by Brendenwood Water System, Inc. satisfactory?

Recommendation: Yes, the overall quality of service provided by the Utility should be considered satisfactory. (Simpson)

Staff Analysis: Pursuant to Rule 25-30.433(1), 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. The utility's current compliance with the Florida Department of Environmental Protection (DEP) and the water management district are also considered.

Brendenwood is regulated by DEP's Central District office in Orlando. DEP conducted a sanitary survey in 2008 and noted some minor deficiencies which were corrected by the Utility. In addition, DEP conducted an inspection of the hydropneumatic tank in 2009 and recommended some corrective actions to ensure compliance with Rule 62-555.350(2), F.A.C. The Utility has requested that the cost of repairing and painting the hydropneumatic tank be considered in this case. Staff's recommendation regarding the repair is addressed in Issue 12.

The Utility's service area is in a potential priority water resource caution area within the SJRWMD. The Utility reported withdrawals of 11.232 million gallons (mg) in 2008, which falls under the maximum annual withdrawal of 12.1 mg allowed in its consumptive use permit. The Utility's 2008 Annual Report indicated that about 14 percent of the water pumped was either used for line flushing or lost due to line breaks. The Utility, with the assistance of the Florida Rural Water Association, has implemented a program to test all meters within the next 12 months. In addition, the Utility plans to retest the master meter for accuracy.

A staff field investigation of the Utility's service area was conducted on September 23, 2009. The plant appeared to be operating normally and was well maintained. Based on review of the maintenance records and a physical inspection, the general condition of the facilities appeared to be adequate. Therefore, staff recommends that the quality of water and operational condition of the plant are satisfactory.

No complaints have been filed with the Commission in the last three years. A customer meeting was held on January 13, 2010, in Eustis, Florida. Representatives of the Utility were present; however, no customers attended the meeting. Therefore, staff recommends that the Utility's attempt to address customer satisfaction is satisfactory.

The Utility's product, the operating condition of the plant and the facilities, and customer satisfaction are satisfactory. Therefore, staff recommends that the overall quality of service for Brendenwood is satisfactory.

Issue 2: What are the used and useful percentages of the water treatment plant and distribution system?

Recommendation: The Brendenwood water treatment plant and distribution system should be considered 100 percent used and useful. (Simpson)

Staff Analysis: The Brendenwood water system has a 6-inch diameter well rated at 150 gallons per minute (gpm). The raw water is injected with liquid chlorine prior to entering the 3,500 gallon hydropneumatic tank and then is pumped into the water distribution system. The Utility's peak day of 85,000 gallons occurred on May 7, 2009. It does not appear that there was a fire, line break, or other unusual occurrence on that day. According to information gathered from the Utility, Brendenwood does not have excessive unaccounted for water; therefore, no adjustment is necessary. The Utility has no fire flow requirements. There was no growth in the service area during the last five years. The service area is built out and there are no plans for expansion. Therefore, pursuant to Rule 25-30.4325, F.A.C., it is recommended that the Brendenwood water treatment plant and distribution system be considered 100 percent used and useful.

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

Recommendation: The appropriate average test year rate base for the Utility is \$13,213. (Roberts)

Staff Analysis: Brendenwood's rate base was last established by Order No. PSC-00-0807-PAA-WU.⁴ Staff selected a test year ended June 30, 2009, for this rate case. A summary of each component and the adjustments follows:

Utility Plant In Service (UPIS): The Utility recorded \$11,679 in this account for the test year ended June 30, 2009. Staff has decreased this account by \$87 to reflect an averaging adjustment. Staff recommends UPIS balance for water of \$11,593.

Non-used and Useful Plant: As discussed in Issue No. 2 of this recommendation, Brendenwood's water treatment plant is built out and considered 100 percent used and useful. Therefore, no adjustments are necessary.

Accumulated Depreciation: The Utility recorded a test year accumulated depreciation balance of \$1,846. Staff has calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. As a result, this account was increased by \$1,593 to reflect depreciation calculated per staff. In addition, staff decreased this account by \$320 to reflect an averaging adjustment. These adjustments result in average accumulated depreciation balance of \$3,119.

Accumulated Amortization of Contribution in Aid of Construction (CIAC): Brendenwood recorded amortization of CIAC of \$1,333. Amortization of CIAC has been recalculated by staff using composite depreciation rates. This account has been decreased by \$56 to reflect amortization of CIAC as calculated by staff. Staff has decreased this account by \$44 to reflect an averaging adjustment. Staff's net adjustment to this account results in an amortization of CIAC balance of \$1,233.

Working Capital Allowance: Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses or ongoing-concern requirements of the utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of \$3,984 (based on O&M expense of \$31,874). Working capital has been increased by \$3,984 to reflect one-eighth of staff's recommended O&M expenses.

Rate Base Summary: Based on the forgoing, staff recommends that the appropriate test year average rate base is \$13,213. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

⁴ See Order No. PSC-00-0807-PAA-WU, issued April 25, 2000, in Docket No. 991290-WU, In re: Application for a staff assisted rate case in Lake County by Brendenwood Water System.

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

Recommendation: The appropriate return on equity (ROE) is 9.67 percent with a range of 8.67 percent to 10.67 percent. The appropriate overall rate of return is 9.67 percent. (Roberts)

Staff Analysis: The Utility's capital structure consists of only common equity of \$12,438. Therefore, Brendenwood's capital structure is 100 percent equity. The appropriate rate of return on equity is 9.67 percent using the most recent Commission-approved leverage formula.⁵ Staff is not recommending the rate base methodology for calculating rates as addressed in Issue 7. However, staff believes that the ROE should be determined in this proceeding to be used in future cases. Staff recommends an ROE of 9.67 percent. Since the Utility's capital structure is 100 percent equity, the overall rate of return is also 9.67 percent with a range of 8.67 percent to 10.67 percent. The ROE and overall rate of return are shown on Schedule No. 2.

⁵ 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.

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

Recommendation: The appropriate test year revenues for this Utility are \$29,816. (Bruce, Roberts)

Staff Analysis: Brendenwood recorded revenues of \$30,373 for the 12-month period ended June 30, 2009. Based on staff's review of the test year billing units, staff has determined test year revenue to be \$29,816. Staff has decreased test year revenue by \$557. Test year revenue is shown on Schedule No. 3-A.

Issue 6: What are the appropriate total operating expenses?

Recommendation: The appropriate amount of total operating expenses for the Utility is \$34,932. (Roberts)

Staff Analysis: Brendenwood recorded total operating expenses of \$29,478 during the test year ended June 30, 2009. 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:

Salaries and Wages Employees (601) – Brendenwood recorded \$0 in this account during the test year. The Utility has requested a salary of \$9,520 for its bookkeeper. Based on the bookkeeper's duties and responsibilities, staff believes that the appropriate salary should be in accordance with the last rate case. The bookkeeper's salary in the last rate case was \$3,310. Staff has escalated the bookkeeper's salary by the Commission-approved price indices from 2001 to 2008. This results in a salary of \$3,851, which represents an increase of \$541. This methodology is consistent with the Commission's decisions in two prior SARCs for Sunshine Utilities of Central Florida, Inc. and Betmar Utilities, Inc.⁶ In addition, staff has increased this account by \$671 for Sunshine One-Call related work. This is an additional duty that was not performed in the last rate case. Based on the above, staff recommends increasing employee salaries by \$4,522 (\$3,310+\$541+\$671).

Contractual Services – Testing (635) – Brendenwood recorded \$1,070 in this account during the test year. Each utility must adhere to specific testing conditions prescribed within its operating permit. These testing requirements are tailored to each Utility as required by Rule 62-550, F.A.C., for water and enforced by DEP. Based on the staff engineer's review, the Utility did not include non-annual testing costs. The tests have to be performed once every three years, at an annual cost of \$2,023. Staff recommends amortizing the cost over three years. Therefore, staff has increased testing by \$674 (\$2,023/3). Based on the above, the appropriate Contractual Services - Testing expense is \$1,744.

Contractual Services – Other (636) – Brendenwood recorded \$18,024 in this account during the test year. This amount included \$7,700 for a management fee. The Utility has requested increasing to the management fee to \$9,520. Staff believes the duties and responsibilities covered by the fee have not changed significantly from the last rate case. Therefore, staff believes it is appropriate to escalate the management fee approved in the last rate case, \$5,700, by the Commission-approved price index rate adjustment factors for 2001 to 2008. This results in a management fee of \$6,631. As stated earlier in this issue, this escalation methodology is consistent with the Commission's decisions in two prior SARCs. In addition, staff has increased the management fee by \$353 to include Sunshine One-Call related work. This results in a total management fee of \$6,984. Based on the above, staff calculated a decrease to the management fee of \$716 (\$6,631+\$353-\$7,700). Additionally, staff has increased this account by \$421 to reflect the appropriate operator fee by escalating the amount approved in the last rate case using

⁶ See Order No. PSC-02-0656-PAA-WU, issued May 14, 2002, in Docket No. 992015-WU, In re: Application for limited proceeding to recover costs of water system improvements in Marion County by Sunshine Utilities of Central Florida, Inc.; and PSC-95-0986-FOF-WS, issued August 10, 1995, in Docket No. 941280-WS, In re: Application for rate increase in Pasco County by Betmar Utilities, Inc.

the Commission-approved price indices from 2001 to 2008. Therefore, staff's total recommended contractual services – other is \$17,729 (\$18,024-\$716-\$421).

Regulatory Commission Expense (665) – During the test year, Brendenwood recorded \$200 in this account for its SARC filing fee. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a four-year period. The Utility is required by Rule 25-22.0407(9)(b), F.A.C., to mail notices of the customer meeting in this case to its customers. Staff has estimated noticing expense of \$77 for postage expense, \$52 for printing expense, and \$8 for envelopes. Based on the above, total rate case expense for the filing and noticing is \$337 with a resulting four-year amortization of \$84. Staff has decreased this account by \$116 (\$200-\$84). Staff recommends regulatory commission expense for the test year of \$84.

Operation and Maintenance Expense (O&M Summary) – Based on the above adjustments, O&M expense should be increased by \$4,786. Staff's recommended O&M expenses are shown on Schedule No. 3-C.

Depreciation Expense (Net of Amortization of CIAC) – Brendenwood recorded depreciation expense of \$718. Staff calculated test year depreciation expense using the rates prescribed in Rule 25-30.140, F.A.C. and determined depreciation expense to be \$639. Therefore, staff has decreased this account by \$79 (\$639-\$718) to reflect test year depreciation expense. Brendenwood recorded amortization of CIAC of \$95. Staff calculated the amortization of CIAC based on composite rates. Staff's calculated amortization of CIAC is \$87. Staff has decreased amortization of CIAC by \$8. Staff recommends net depreciation expense of \$552 (\$639-\$87).

Taxes Other Than Income (TOTI) – The Utility's records reflect a TOTI balance of \$1,767. Based on staff's recommended test year revenues in Issue 5, regulatory assessment fees (RAFs) should be increased by \$20. Based on the recommended salaries above, the appropriate payroll taxes are \$346. Moreover, RAFs were increased by \$374 for the recommended revenue increase discussed in Issue 8. Staff's recommended TOTI is \$2,506.

Income Tax – Brendenwood did not have any income tax expense for the test year. The Utility is an S Corporation. The tax liability is passed on to the owner's personal tax returns. Therefore, staff did not make an adjustment to this account.

Operating Expenses Summary – The application of staff's recommended adjustments to Brendenwood's test year operating expenses result in operating expenses of \$34,932, shown on Schedule No. 3-A. The related adjustments are shown on Schedule No. 3-B.

Issue 7: Should the Commission utilize the operating ratio methodology as an alternative means to calculate the revenue requirement for Brendenwood, and, if so, what is the appropriate margin?

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

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, an alternative to a staff assisted rate case as described in Rule 25-30.455, F.A.C. As an alternative, 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 Brendenwood 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 Brendenwood'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. In Brendenwood's last rate case, the operating ratio was used for setting rates.⁷

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-SU, 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. Most recently, the Commission approved the operating ratio methodology for setting rates in Order No. PSC-09-0790-PAA-WU.⁸

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.

⁷ See Order No. PSC-00-0807-PAA-WU, issued April 25, 2000, in Docket No. 991290-WU, In Re: Application for a staff-assisted rate increase in Lake County by Brendenwood Water System.

⁸ See Order No. PSC-09-0790-PAA-WU, issued November 30, 2009, in Docket No. 090170-WU, In Re: Application for a staff-assisted rate increase in Lee County by Mobile Manor Water Company, Inc.

- 1) Whether utility's O&M expenses exceed rate base. In the instant case, the rate base is lower than the level of O&M expense. Based on the staff audit, the adjusted rate base for the test year is \$13,213, while adjusted O&M expenses are \$31,874.
- 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. Brendenwood is a Class C utility and the recommended revenue requirement of \$38,119 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.
- 3) Quality of service and condition of plant. A review of the Lake County Health Department 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. Brendenwood operates a water treatment plant and a water distribution system.

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. Brendenwood's capital structure is 100 percent equity and has no interest expense. However, due to the considerably low rate base, the Utility's return on rate base results in a relatively low operating income.

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

Brendenwood amounts to only \$1,278, which is enough to cover only a 4.01 percent variance in O&M expenses. Given this Utility's circumstances, staff believes \$1,278 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 revenues or expenses vary from staff's estimates, Brendenwood 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. Since the Utility's capital structure is 100 percent equity, the return on rate base method would provide Brendenwood only \$1,278 in operating income to cover revenue and expense variances. If the Utility's operating expenses increase, Brendenwood would not have the funds required for day to day operations.

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 Brendenwood 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.

Issue 8: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirement is \$38,119. (Roberts)

Staff Analysis: Brendenwood should be allowed an annual increase of \$8,303 (27.85 percent). This will allow the Utility the opportunity to recover its expenses and earn a 10.00 percent return on its investment. The calculations are as follows:

	<u>Water</u>
O & M Expenses	\$31,874
Rate of Return	10.00%
Operating Margin	<u>\$3,187</u>
Adjusted O & M Expense	31,874
Depreciation expense (Net)	552
Amortization	0
Taxes Other Than Income	2,506
Income Tax	<u>0</u>
Revenue Requirement	\$38,119
Less Adjusted Test Year Revenues	<u>\$29,816</u>
Annual Increase	<u>\$8,303</u>
Percent Increase/(Decrease)	<u>27.85%</u>

Issue 9: Should the Utility's current water system rate structure be changed, and, if so, what is the appropriate adjustment?

Recommendation: No. The Utility's current residential water rate structure consists of a two-tiered inclining block rate structure with usage blocks set at 0-10 kgal and usage in excess of 10 kgal, with rate factors of 1.0 and 2.0, respectively. While staff is not recommending that these rate blocks or rate factors be changed, we recommend that the rate charged for non-discretionary usage (0 to 5 kgal) within the first block not include any cost recovery attributable to the effects of repression. The base facility charge (BFC) allocation should be set at 30 percent. The recommended rate structure for the system's non-residential class consists of a traditional monthly BFC/uniform gallonage charge rate structure and should remain unchanged. (Bruce)

Staff Analysis: Brendenwood Water System, Inc. currently has a two-tier inclining block rate structure which includes a monthly BFC of \$13.05. The usage blocks are set at: a) 0-10 kgal, and b) usage in excess of 10 kgal, with usage block rate factors of 1.0 and 2.0, respectively. The usage charges are \$1.86 per kgal and \$2.64 per kgal, respectively.

The Utility serves 57 residential customers and one general service customer. According to the billing data, 5 of the residential customers are served through a 1" meter while the remaining residential and general service customers are served through a 5/8" x 3/4" meter. However, the customers who are served through a 1" meter are charged the same rate as the 5/8" x 3/4" customers. This rate was stipulated by Order No. 16134, issued May 21, 1986, in Docket No. 830584-WU. The Commission approved the same rate for all residential customers irrespective of the meter size. In a subsequent order, the Commission continued to allow the residential customers with 1" meters to pay the residential rate until the 1" meter is replaced.⁹ At that time, the customer will begin paying the applicable rate based on meter size.

Staff believes that it is inappropriate to allow a customer to utilize a 1" meter and pay a lower BFC. According to Rule 25-30.437(6), F.A.C., the rates are first established with the 5/8" x 3/4" meter as the foundation. For meter sizes larger than 5/8" x 3/4", the BFC shall be based on the usage characteristics. The Commission refers to the American Water Work Association's (AWWA) meter equivalency factors for usage characteristics when calculating rates for meter sizes larger than 5/8" x 3/4".

The BFC is charged to customers to recover the Utility's fixed costs. The size of a customer's meter is indicative of the potential demand that a customer can place on the system, thus it determines the pro rata share of the fixed costs the customer is responsible for paying. In other words, the larger the meter size, the greater the potential demand that the customer can place on the system, so the greater the BFC that the customer must pay. The AWWA has determined that potential demand for meter sizes other than 5/8" x 3/4" is measured as a function of equivalent residential units (connections). Based on the AWWA meter equivalency chart, a 1" meter is equivalent to 2.5 equivalent residential connections (ERCs), meaning that a 1" meter can place 2.5 times more demand on the system than the 5/8 x 3/4" meter. In a recent case, there was a customer

⁹ See Order No. PSC-00-0807-PAA, issued April 2, 2000, in Docket No. 991290-WU, In re: Application for staff assisted rate case in Lake County by Brendenwood Water System.

who utilized a 2" meter and paid a lower BFC.¹⁰ However, at the Commission's January 26, 2010, Agenda conference, the Commission voted to have this customer pay a BFC consistent with the AWWA meter equivalency chart. Therefore, to be consistent with prior cases, staff believes that it is appropriate for the 1" customers of Brendenwood Water System, Inc. to pay a BFC that is 2.5 times greater than the corresponding charge for a 5/8" x 3/4" meter. Furthermore, staff proposes that if the 1" customer wants to change its meter from a 1" to a 5/8" x 3/4" meter, that customer would need to pay the meter change-out fee.

Staff performed a detailed analysis of the Utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential rate class. The goal of the evaluation was to select 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 conservation rate structures consistent with the Commission's Memorandum of Understanding (MOU) with the state's five Water Management Districts.

Brendenwood Water System, Inc. is located in Lake County in the St. Johns River Water Management District (SJRWMD or District). Over the past few years, the District has requested, whenever possible, that an inclining block rate structure be implemented. In a prior rate case, the Utility implemented a two-tier inclining block rate structure.¹¹ Based on the billing analysis, the customers' average consumption is 13.73 kgals per month. This is an indication that the customers are using a significant amount of discretionary consumption.

Based on information provided by the Utility, the appropriate threshold for a customer's discretionary usage is 4.5 kgals per month. This number is derived based on the average number of persons per household, gallons per day per person, and the number of days per month (3 x .050 x 30). At the Commission's January 26, 2010, Agenda conference, the Commission voted to restrict the application of any repression adjustment to non-discretionary usage for the Peoples Water Service Company of Florida, Inc. and the Comachee Cove Utility rate cases (Docket Nos. 080695-WU and 090230-WU, respectively). This restriction prevents the price per kgal for non-discretionary usage from rising due to the effects of repression, thereby shifting the entire burden of cost recovery due to repression to higher consumption levels. Staff's recommended rate structure implements the Commission's decision to restrict any cost recovery attributable to the effects of repression from impacting non-discretionary usage. The effect of this implementation is to minimize any necessary rate increases for non-discretionary usage while targeting necessary rate increases to those customers who use larger quantities of water.

Staff's recommended rate design for the water system is shown on Table 9-1 on the following page. Furthermore, staff presented two alternative rate structures to illustrate other recovery methodologies which include the effects of the repression adjustment applied to all levels of consumption.

¹⁰ See Docket No. 090230-WU, In re: Application for a staff assisted rate case in St. Johns County by Camachee Island Company, Inc. d/b/a Camachee Cove Yacht Harbor Utility.

¹¹ 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.

TABLE 9-1

BRENDENWOOD WATER SYSTEMS, INC. STAFF'S RECOMMENDED AND ALTERNATIVE WATER RATE STRUCTURES AND RATES				
Current Rate Structure and Rates		Recommended Rate Structure and Rates		
2-Tier Inclining Block Rate Structure Rate Factors 1.00 and 2.00 BFC = 29%		2-Tier Inclining Block Rate Structure Rate Factors 1.00 and 2.00 BFC = 30%		
BFC	\$13.05	BFC		\$14.48
0-10 kgals	\$1.86	1 st tier (non-discretionary)	0-5 kgals	\$1.97
10+ kgals	\$2.64	1 st tier (discretionary)	5-10 kgal	\$2.20
		2 nd tier (discretionary)	10+	\$4.40
Typical Monthly Bills (1)		Typical Monthly Bills		
Cons (kgals)		Cons (kgals)		
0	\$13.05	0		\$14.48
1	\$14.91	1		\$16.45
3	\$18.63	3		\$20.39
5	\$22.35	5		\$24.33
10	\$31.65	10		\$35.33
20	\$58.05	20		\$79.33
Alternative 1		Alternative 2		
2-Tier Inclining Block Rate Structure Rate Factors 1.00 and 2.00 BFC = 30%		3- Tier Inclining Block Rate Structure Rate Factors 1.00,1.50 and 2.00 BFC =30%		
BFC	\$14.46	BFC		\$14.46
0-10 kgals	\$2.17	0-5 kgals		\$2.00
10 + kgals	\$4.33	5-10 kgals		\$3.00
		10 kgals		\$4.00
Typical Monthly Bills		Typical Monthly Bills		
Cons (kgals)		Cons (kgals)		
0	\$14.46	0		\$14.46
1	\$16.63	1		\$16.46
3	\$20.97	3		\$20.46
5	\$25.31	5		\$24.46
10	\$36.16	10		\$39.46
20	\$79.46	20		\$79.46

Staff recommends that the initial BFC cost recovery of 47.21 percent be reduced to 30 percent. Staff's recommended BFC allocation is appropriate because it sends the appropriate pricing signals. Furthermore, the recommended BFC cost recovery will enable customers at nondiscretionary levels of consumption to pay a lower price for their water consumption. The Commission has an MOU with the five Water Management Districts to set the BFC such that the utilities recover no more than 40 percent of the revenues to be generated from monthly service.

Moreover, as discussed in Issue 12, staff recommends a Phase II revenue requirement associated with proforma plant improvements. However, the revenue requirement increase is very small. Therefore, staff recommends that the 1.8 percent revenue requirement increase be applied as an across-the-board increase to the water system's BFC and gallonage charges.

Based on the foregoing, staff recommends that the Utility's current residential water rate structure, which consists of a two-tiered inclining block rate structure with usage blocks set at 0-10 kgals and usage in excess of 10 kgals, with rate factors of 1.0 and 2.0, respectively, remain unchanged. While staff is not recommending that these rate blocks or rate factors be changed, we are recommending that the rate charged for non-discretionary usage (0 to 5 kgals) within the first block not include any cost recovery attributable to the effects of repression. The BFC allocation should be set at 30 percent. The recommended rate structure for the system's non-residential class consists of a traditional monthly BFC/uniform gallonage charge rate structure and should remain unchanged.

Issue 10: Is a repression adjustment appropriate in this case, and if so, what are the appropriate adjustments to make for this Utility, what are the appropriate corresponding expense adjustments to make, and what are the final revenue requirements?

Recommendation: Yes, a repression adjustment is appropriate for this utility. Test year consumption should be reduced by 576 kgals or 6.2 percent. Purchased power expense should be reduced by \$152, chemical expense should be reduced by \$23, and regulatory assessment fees (RAFs) should be reduced by \$8. The final post-repression revenue requirement for the water system should be \$37,936. This repression adjustment is based upon a methodology that restricts cost recovery due to repression to discretionary usage only.

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

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

Staff conducted a detailed analysis of the consumption patterns of the Utility's residential customers as well as the effect of increased revenue requirements on the amount paid by residential customers at varying levels of consumption. As discussed in Issue 9, staff's analysis showed that average residential monthly consumption per customer was 13.73 kgal. This is an indication that there is some level of discretionary, or non-essential, consumption, such as outdoor irrigation. Non-essential consumption is relatively responsive to changes in price and, therefore, subject to the effects of repression.

Using our database of utilities that have previously had repression adjustments made, staff calculated a repression adjustment for this utility based upon the recommended increase in revenues from monthly service in this case and the historically observed response rates of consumption to changes in price. This is the same methodology for calculating repression adjustments that the Commission has approved in prior cases. Based on this methodology, staff calculated that test year residential water sold should be reduced by 576 kgals, or 6.2%. Purchased power expense should be reduced by \$152, chemical expense should be reduced by \$23 and regulatory assessment fees (RAFs) should be reduced by \$8. The final post-repression revenue requirement for the water system should be \$37,936. This repression adjustment is based upon a methodology that restricts cost recovery due to repression to discretionary usage only.

In order to monitor the effect of the changes to rate structure and revenue, the Utility should be ordered to file reports detailing the number of bills rendered, the consumption billed and the revenues billed on a monthly basis. In addition, the reports should be prepared by

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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.

Issue 11: What are the appropriate rates for this Utility?

Recommendation: The appropriate monthly water rates are shown on Schedule No. 4. The recommended rates should be designed to produce revenues of \$37,936 for water, excluding miscellaneous service revenues. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Bruce, Roberts)

Staff Analysis: Excluding miscellaneous service revenues, the recommended rates should be designed to produce revenues of \$37,936 for the water system.

As discussed in Issue 9, staff recommends that the Utility's current residential water rate structure which consists of a two-tiered inclining block rate structure with usage blocks set at 0-10 kgals and usage in excess of 10 kgals, with rate factors of 1.0 and 2.0, respectively, remain unchanged. While staff is not recommending that these rate blocks or rate factors be changed, staff recommends that the rate charged for non-discretionary usage (0 to 5 kgals) within the first block not include any cost recovery attributable to the effects of repression. The BFC allocation should be set at 30 percent. The recommended rate structure for the system's non-residential class consists of a traditional monthly BFC/uniform gallonage charge rate structure and should remain unchanged.

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 water are shown on Schedule No. 4.

Issue 12: Should the Commission approve pro forma plant and expenses for the Utility, and if so, what is the appropriate return on equity, overall rate of return, revenue requirement and date for implementing the new rates?

Recommendation: Yes. The Commission should approve a Phase II revenue requirement associated with pro forma plant additions. Brendenwood’s appropriate return on equity, with the pro forma items, should be 9.67 percent with a range of 8.67 – 10.67 percent. The appropriate overall rate of return is 9.67 percent. The Utility’s phase II revenue requirement is \$38,806 which equates to an increase of 1.80 percent over phase I and was determined consistent with the operating ratio method discussed in Issue 7. Brendenwood should complete the pro forma additions within 12 months of the issuance of the consummating order. The Utility should be allowed to implement the resulting rates once the pro forma additions have been completed and verified by staff. Once verified, the rates should be effective for service rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until notice has been received by the customers. Brendenwood should 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 additions, the Utility should immediately notify the Commission. (Roberts)

Staff Analysis: The Utility requested additional pro forma plant that it intends to complete. The following is a chart summarizing the pro forma plant, the cost, and staff’s recommended treatment:

	<u>Pro forma Plant</u>	<u>Utility Requested</u>	<u>Staff Recommended</u>
1.	Plant refurbishment	\$8,800	\$8,800

The Utility is required by DEP to inspect all storage tanks every five years and repair as needed. The Utility plans to refurbish its 3,500 gallon hydroneumatic tank as a result of a recent inspection. Staff believes Brendenwood’s proposal is reasonable and prudent because it would allow the Utility to extend the life of the tank, which will help maintain the reliability and ensure continual service to the customers. Staff is recommending a Phase II revenue requirement associated with the pro forma plant addition for a couple of reasons. First, it assures that the pro forma addition is completed prior to the Utility realizing a return on the investment. In the past, there have been instances where the Commission approved revenue requirements with pro forma additions; but, the Utility failed to complete the pro forma additions. Further, addressing the pro forma additions in a single case saves additional rate case expense to the customer because the Utility would not need to file another rate case to recognize the additional investment. The Commission has approved a Phase-In approach in Docket Nos. 080668-SU and 090072-WU.¹²

With the pro forma items, Brendenwood’s appropriate return on equity should be 9.67 percent with a range of 8.67 percent – 10.67 percent. The appropriate overall rate of return is

¹² See Order Nos. PSC-09-0628-PAA-SU, issued September 17, 2009, in Docket No. 080668-SU, In re: Application for staff-assisted rate case in Highlands County by Fairmount Utilities, The 2nd Inc. and PSC-09-0716-PAA-WU, issued October 28, 2009, In re: Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc.

9.67 percent. The Utility's revenue requirement should be \$38,806 and was determined consistent with the operating ratio method discussed in Issue 7. Brendenwood should complete the pro forma additions within 12 months of the issuance of the consummating order. Phase II rate base is shown on Schedule Nos. 5-A and 5-B. The capital structure for Phase II is shown on Schedule No. 6. The revenue requirement is shown on Schedule Nos. 7-A and 7-B. The resulting rates are shown on Schedule No. 8.

The Utility should be allowed to implement the above rates once all pro forma plant items and expense have been completed and verified by staff. Once verified, the 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. The rates should not be implemented until notice has been received by the customers. Brendenwood should 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 additions, the Utility should immediately notify the Commission.

Issue 13: 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.?

Recommendation: The water rates should be reduced, as shown on Schedule No. 4, to remove rate case expense grossed-up for the regulatory assessment fee and amortized over a four-year period. The rate decrease should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Brendenwood should be required to file revised tariffs and a proposed customer notice setting forth the lower rate and the reason for the reduction 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 should be filed for the price index and/or pass-through increase or decrease and the reduction in the rate due to the amortized rate case expense. (Roberts)

Staff Analysis: Section 367.0816, F.S., requires that rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rate. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, the associated return included in working capital, and the gross-up for RAFs which is \$97. Using the Utility's current revenues, expenses, capital structure and customer base, the reduction in revenues will result in a rate decrease as shown on Schedule No. 4.

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

If the Utility 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 rate due to the amortized rate case expense.

Issue 14: 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 Brendenwood?

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 the Utility. Prior to implementation of any temporary rates, Brendenwood should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the Utility 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., Brendenwood 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. (Roberts)

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 Brendenwood, 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.

Brendenwood should be authorized to collect the temporary rates upon the staff's approval of the 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 \$5,543. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

If Brendenwood 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 the Utility 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 the Utility;
- 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;
- 8) The Commission Clerk must be a signatory to the escrow agreement; and
- 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 Brendenwood, 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.

Brendenwood 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'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.

Issue 15: Should the Utility be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts (NARUC USOA) primary accounts associated with the Commission-approved adjustments?

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

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

Issue 16: Should this docket be closed?

Recommendation: No. If no timely protest is received from a substantially affected person upon expiration of the protest period, the PAA Order will become final upon the issuance of a Consummating Order. However, this docket should remain open for an additional 12 months from the date of the Consummating Order to allow staff to verify completion of pro forma plant items described in Issue No. 12. Once staff has verified that the pro forma items have been completed, the docket should be closed administratively. (Williams)

Staff Analysis: Staff has recommended that the Utility complete pro forma items described in Issue No. 12. If no timely protest is received from a substantially affected person upon expiration of the protest period, the PAA Order will become final upon issuance of a Consummating Order. However, this docket should remain open for an additional 12 months from the effective date of the Consummating Order to verify completion of the pro forma items. Once staff has verified that the work has been completed, this docket should be closed administratively.

BRENDENWOOD WATER SYSTEM, INC. TEST YEAR ENDING 06/30/09 SCHEDULE OF WATER RATE BASE (PHASE I)		SCHEDULE NO. 1-A DOCKET NO. 090346-WU	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$11,679	(\$87)	\$11,593
2. LAND & LAND RIGHTS	1,100	0	1,100
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(1,577)	0	(1,577)
5. ACCUMULATED DEPRECIATION	(1,846)	(1,273)	(3,119)
6. AMORTIZATION OF CIAC	1,333	(100)	1,233
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>3,984</u>	<u>3,984</u>
8. WATER RATE BASE	<u>\$10,689</u>	<u>\$2,524</u>	<u>\$13,213</u>

BRENDENWOOD WATER SYSTEM, INC.		SCHEDULE NO. 1-B
TEST YEAR ENDING 06/30/09		DOCKET NO. 090346-WU
ADJUSTMENTS TO RATE BASE		
(PHASE I)		
		<u>WATER</u>
<u>UTILITY PLANT IN SERVICE</u>		
	To reflect an averaging adjustment.	(<u>\$87</u>)
<u>ACCUMULATED DEPRECIATION</u>		
1.	To reflect accumulated depreciation per Rule 25-30.140, F.A.C.	(\$1,593)
2.	To reflect an averaging adjustment.	<u>320</u>
	Total	<u>(\$1,273)</u>
<u>AMORTIZATION OF CIAC</u>		
1.	To reflect the appropriate amort of CIAC.	(\$56)
2.	To reflect an averaging adjustment.	<u>(44)</u>
	Total	<u>(\$100)</u>
<u>WORKING CAPITAL ALLOWANCE</u>		
	To reflect 1/8 of test year O & M expenses.	<u>\$3,984</u>

BRENDENWOOD WATER SYSTEM, INC.
TEST YEAR ENDING 06/30/09
SCHEDULE OF CAPITAL STRUCTURE
(PHASE I)

SCHEDULE NO. 2
DOCKET NO. 090346-WU

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE		BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
			BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS				
1. COMMON STOCK	\$0	\$0	\$0	\$0	\$0			
2. RETAINED EARNINGS	0	0	0	0	0			
3. PAID IN CAPITAL	0	0	0	0	0			
4. OTHER COMMON EQUITY	<u>12,438</u>	<u>0</u>	<u>12,438</u>	<u>775</u>	<u>13,213</u>			
5. TOTAL COMMON EQUITY	\$12,438	\$0	\$12,438	\$775	\$13,213	100.00%	9.67%	9.67%
6. LONG TERM DEBT	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	0.00%
7. CUSTOMER DEPOSITS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>
8. TOTAL	<u>\$12,438</u>	<u>\$0</u>	<u>\$12,438</u>	<u>\$775</u>	<u>\$13,213</u>	<u>100.00%</u>		<u>9.67%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>8.67%</u>	<u>10.67%</u>	
OVERALL RATE OF RETURN						<u>8.67%</u>	<u>10.67%</u>	

BRENDENWOOD WATER SYSTEM, INC. TEST YEAR ENDING 06/30/09 SCHEDULE OF WATER OPERATING INCOME (PHASE I)			SCHEDULE NO. 3-A DOCKET NO. 090346-WU		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$30,373</u>	<u>(\$557)</u>	<u>\$29,816</u>	<u>\$8,303</u> 27.85%	<u>\$38,119</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	27,088	4,786	31,874	0	31,874
3. DEPRECIATION (NET)	623	(71)	552	0	552
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	1,767	366	2,133	374	2,506
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$29,478</u>	<u>\$5,080</u>	<u>\$34,558</u>	<u>\$374</u>	<u>\$34,932</u>
8. OPERATING INCOME/(LOSS)	<u>\$895</u>		<u>(\$4,742)</u>		<u>\$3,187</u>
9. WATER RATE BASE	<u>\$10,689</u>		<u>\$13,213</u>		<u>\$13,213</u>
10. RATE OF RETURN	<u>8.37%</u>		<u>-35.89%</u>		<u>10.00%</u>

BRENDENWOOD WATER SYSTEM, INC.
TEST YEAR ENDING 06/30/09
ADJUSTMENTS TO OPERATING INCOME
(PHASE I)

SCHEDULE NO. 3-B
DOCKET NO. 090346-WU

		<u>WATER</u>
OPERATING REVENUES		
a.	To reflect the appropriate test year revenues.	<u>(\$557)</u>
OPERATION AND MAINTENANCE EXPENSES		
1.	Salaries and Wages - Employees (601)	
a.	To include staff's recommended salary for bookkeeper in the last rate case.	\$3,310
b.	To Increase salaries by the index amount.	541
c.	Additional duties for call Sunshine related work.	<u>671</u>
	Subtotal	<u>\$4,522</u>
2.	Contractual Services - Testing (635)	
	To reflect the appropriate DEP testing requirements.	<u>\$674</u>
3.	Contractual Services - Other (636)	
a.	To reflect the appropriate management fee.	(\$716)
b.	To reflect the appropriate operator fee.	<u>421</u>
	Subtotal	<u>(\$295)</u>
4.	Regulatory Commission Expense (665)	
	To reflect the 4-year amortization of rate case expense.	<u>(\$116)</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS		<u>\$4,786</u>
DEPRECIATION EXPENSE		
1.	To reflect test year depreciation calculated per 25-30.140, F.A.C.	(\$79)
2.	To reflect the appropriate the appropriate amortization of CIAC.	<u>8</u>
	Subtotal	<u>(\$71)</u>
TAXES OTHER THAN INCOME		
1.	To reflect the appropriate RAFs.	\$20
2.	To reflect the appropriate payroll taxes.	<u>346</u>
	Subtotal	<u>\$366</u>

BRENDENWOOD WATER SYSTEM, INC. TEST YEAR ENDING 06/30/09 ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE (PHASE I)		SCHEDULE NO. 3-C DOCKET NO. 090346-WU		
	TOTAL PER UTILITY	STAFF PER ADJUST.	TOTAL PER STAFF	
(601) SALARIES AND WAGES - EMPLOYEES	\$0	\$4,522	\$4,522	
(603) SALARIES AND WAGES - OFFICERS	0	0	0	
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0	
(610) PURCHASED WATER	0	0	0	
(615) PURCHASED POWER	2,480	0	2,480	
(616) FUEL FOR POWER PRODUCTION	0	0	0	
(618) CHEMICALS	383	0	383	
(620) MATERIALS AND SUPPLIES	897	0	897	
(630) CONTRACTUAL SERVICES - BILLING	0	0	0	
(631) CONTRACTUAL SERVICES - PROFESSIONAL	0	0	0	
(635) CONTRACTUAL SERVICES - TESTING	1,070	674	1,744	
(636) CONTRACTUAL SERVICES - OTHER	18,024	(295)	17,729	
(640) RENTS	0	0	0	
(650) TRANSPORTATION EXPENSE	3,095	0	3,095	
(655) INSURANCE EXPENSE	807	0	807	
(665) REGULATORY COMMISSION EXPENSE	200	(116)	84	
(670) BAD DEBT EXPENSE	0	0	0	
(675) MISCELLANEOUS EXPENSES	<u>132</u>	<u>0</u>	<u>132</u>	
	<u>\$27,088</u>	<u>\$4,786</u>	<u>\$31,874</u>	

BRENDENWOOD WATER SYSTEM, INC.		SCHEDULE NO. 4	
TEST YEAR ENDING 06/30/09		DOCKET NO. 090346-WU	
MONTHLY WATER RATES			
(PHASE I)			
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES PHASE I	MONTHLY RATE REDUCTION
<u>Residential Service</u>			
Base Facility Charge All Meter Sizes			
5/8"X3/4"	\$13.05	\$14.48	\$0.03
3/4"	\$19.57	\$21.72	\$0.05
1"	\$32.63	\$36.20	\$0.08
1-1/2"	\$65.24	\$72.40	\$0.17
2"	\$104.40	\$115.84	\$0.27
3"	\$208.76	\$231.68	\$0.54
4"	\$326.22	\$362.00	\$0.85
6"	\$652.44	\$724.00	\$1.69
Gallonage Charge (0-10,000 gallons)	\$1.86	\$0	\$0.00
Gallonage Charge (0-5,000 gallons)		\$1.97	\$0.00
Gallonage Charge (5,001-10,000 gallons)		\$2.20	\$0.01
Gallonage Charge (Over 10,000 gallons)	\$2.64	\$4.40	\$0.01
<u>General Service</u>			
Base Facility Charge by Meter Size:			
5/8"X3/4"	\$13.05	\$14.48	\$0.03
3/4"	\$19.57	\$21.72	\$0.05
1"	\$32.63	\$36.20	\$0.08
1-1/2"	\$65.24	\$72.40	\$0.17
2"	\$104.40	\$115.84	\$0.27
3"	\$208.76	\$231.68	\$0.54
4"	\$326.22	\$362.00	\$0.85
6"	\$652.44	\$724.00	\$1.69
Gallonage Charge (all gallons) Per 1,000 Gallons	\$2.18	\$3.00	\$0.01
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$18.63	\$20.39	
5,000 Gallons	\$22.35	\$24.33	
10,000 Gallons	\$31.65	\$35.33	

BRENDENWOOD WATER SYSTEM, INC. TEST YEAR ENDING 6/30/09 SCHEDULE OF WATER RATE BASE (PHASE II)		SCHEDULE NO. 5-A DOCKET NO. 090346-WU		
DESCRIPTION	STAFF RECCOMMEDED PHASE I RATE BASE	STAFF ADJUST. TO UTIL. BAL.	STAFF PHASE II RATEBASE	
1. UTILITY PLANT IN SERVICE	\$11,593	\$8,800	\$20,393	
2. LAND & LAND RIGHTS	1,100	0	1,100	
3. NON-USED AND USEFUL COMPONENTS	0	0	0	
4. CIAC	(1,577)	0	(1,577)	
5. ACCUMULATED DEPRECIATION	(3,119)	907)	(2,212)	
6. AMORTIZATION OF CIAC	1,233	0)	1,233	
7. WORKING CAPITAL ALLOWANCE	<u>3,984</u>	<u>9</u>	<u>3,993</u>	
8. WATER RATE BASE	<u>\$13,213</u>	<u>\$9,715</u>	<u>\$29,929</u>	

BRENDENWOOD WATER SYSTEM, INC. TEST YEAR ENDING 6/30/09 ADJUSTMENTS TO RATE BASE (PHASE II)		SCHEDULE NO. 5-B DOCKET NO. 090346-WU
		<u>WATER</u>
<u>UTILITY PLANT IN SERVICE</u>		
	To reflect pro forma plant refurbishment.	<u>\$8,800</u>
<u>ACCUMULATED DEPRECIATION</u>		
1.	To reflect accumulated depreciation per Rule 25-30.140, F.A.C.	\$587
2.	To reflect an averaging adjustment.	<u>320</u>
	Total	<u>\$907</u>
<u>AMORTIZATION OF CIAC</u>		
1.	To reflect the appropriate amort of CIAC.	\$44
2.	To reflect an averaging adjustment.	<u>(44)</u>
	Total	<u>\$0</u>
<u>WORKING CAPITAL ALLOWANCE</u>		
	To reflect 1/8 of test year O & M expenses.	<u>\$9</u>

BRENDENWOOD WATER SYSTEM, INC.
TEST YEAR ENDING 6/30/09
SCHEDULE OF CAPITAL STRUCTURE
(PHASE II)

SCHEDULE NO. 6
DOCKET NO. 090346-WU

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE		BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
			BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS				
1. COMMON STOCK	\$0	\$0	\$0	\$0	\$0			
2. RETAINED EARNINGS	0	0	0	0	0			
3. PAID IN CAPITAL	0	0	0	0	0			
4. OTHER COMMON EQUITY	<u>12,438</u>	<u>0</u>	<u>12,438</u>	<u>10,491</u>	<u>22,929</u>			
5. TOTAL COMMON EQUITY	\$12,438	\$0	\$12,438	\$10,491	\$22,929	100.00%	9.67%	9.67%
6. LONG TERM DEBT	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	0.00%
7. CUSTOMER DEPOSITS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>
8. TOTAL	<u>\$12,438</u>	<u>\$0</u>	<u>\$12,438</u>	<u>\$10,491</u>	<u>\$22,929</u>	<u>100.00%</u>		<u>9.67%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>8.67%</u>	<u>10.67%</u>	
OVERALL RATE OF RETURN						<u>8.67%</u>	<u>10.67%</u>	

BRENDENWOOD WATER SYSTEM, INC. TEST YEAR ENDING 6/30/09 SCHEDULE OF WATER OPERATING INCOME (PHASE II)			SCHEDULE NO. 7-A DOCKET NO. 090346-WU			
	PHASE I REVENUE REQUIREMENT	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	PHASE II REVENUE REQUIREMENT	
1.	OPERATING REVENUES	<u>\$38,119</u>	<u>\$0</u>	<u>\$38,119</u>	<u>\$687</u> 1.80%	<u>\$38,806</u>
	OPERATING EXPENSES:					
2.	OPERATION & MAINTENANCE	31,874	70	31,944	0	31,944
3.	DEPRECIATION (NET)	552	579	1,131	0	1,131
4.	AMORTIZATION	0	0	0	0	0
5.	TAXES OTHER THAN INCOME	2,506	0	2,506	31	2,537
6.	INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7.	TOTAL OPERATING EXPENSES	<u>\$34,932</u>	<u>\$649</u>	<u>\$35,581</u>	<u>\$31</u>	<u>\$35,612</u>
8.	OPERATING INCOME/(LOSS)	<u>\$3,187</u>		<u>\$2,539</u>		<u>\$3,194</u>
9.	WATER RATE BASE	<u>\$13,213</u>		<u>\$22,929</u>		<u>\$22,929</u>
10.	RATE OF RETURN	<u>10.00%</u>		<u>11.07%</u>		<u>10.00%</u>

BRENDENWOOD WATER SYSTEM, INC.		SCHEDULE NO. 7-B
TEST YEAR ENDING 6/30/09		DOCKET NO. 090346-WU
ADJUSTMENTS TO OPERATING INCOME		
(PHASE II)		
		<u>WATER</u>
OPERATION AND MAINTENANCE EXPENSES		
1.	Contractual Services - Other (636)	
	To reflect exterior repair and paint to water tank.	<u>\$70</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS		<u>\$70</u>
DEPRECIATION EXPENSE		
1.	To reflect test year depreciation calculated per 25-30.140, F.A.C.	\$587
2.	To reflect the appropriate the appropriate amortization of CIAC.	<u>(8)</u>
	Subtotal	<u>\$579</u>

BRENDENWOOD WATER SYSTEM, INC. TEST YEAR ENDING 6/30/09 ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE (PHASE II)		SCHEDULE NO. 7-C DOCKET NO. 090346-WU	
	TOTAL PER UTILITY	STAFF PER ADJUST.	TOTAL PER PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$4,522	\$0	\$4,522
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	2,480	0	2,480
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	383	0	383
(620) MATERIALS AND SUPPLIES	897	0	897
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	0	0	0
(635) CONTRACTUAL SERVICES - TESTING	1,744	0	1,744
(636) CONTRACTUAL SERVICES - OTHER	17,729	70	17,799
(640) RENTS	0	0	0
(650) TRANSPORTATION EXPENSE	3,095	0	3,095
(655) INSURANCE EXPENSE	807	0	807
(665) REGULATORY COMMISSION EXPENSE	84	0	84
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSES	<u>132</u>	<u>0</u>	<u>132</u>
	<u>\$31,874</u>	<u>\$70</u>	<u>\$31,944</u>

BRENDENWOOD WATER SYSTEM, INC.		SCHEDULE NO. 8	
TEST YEAR ENDING 6/30/09		DOCKET NO. 090346-WU	
MONTHLY WATER RATES			
(PHASE II)			
	STAFF'S RECOMMENDED RATES PHASE I	STAFF RECOMMENDED RATES PHASE II	MONTHLY RATE REDUCTION
<u>Residential Service</u>			
Base Facility Charge All Meter Sizes			
5/8"X3/4"	\$14.48	\$14.74	\$0.03
3/4"	\$21.72	\$22.11	\$0.05
1"	\$36.20	\$36.85	\$0.08
1-1/2"	\$72.40	\$73.70	\$0.17
2"	\$115.84	\$117.92	\$0.27
3"	\$231.68	\$235.84	\$0.54
4"	\$362.00	\$368.50	\$0.85
6"	\$724.00	\$737.00	\$1.69
Gallage Charge (0-5,000 gallons)	\$1.97	\$2.00	\$0.00
Gallage Charge (5,001 - 10,000 gallons)	\$2.20	\$2.24	\$0.01
Gallage Charge (Over 10,000 gallons)	\$4.40	\$4.48	\$0.01
<u>General Service</u>			
Base Facility Charge by Meter Size:			
5/8"X3/4"	\$14.48	\$14.74	\$0.03
3/4"	\$21.72	\$22.11	\$0.05
1"	\$36.20	\$36.85	\$0.08
1-1/2"	\$72.40	\$73.70	\$0.17
2"	\$115.84	\$117.92	\$0.27
3"	\$231.68	\$235.84	\$0.54
4"	\$362.00	\$368.50	\$0.85
6"	\$724.00	\$737.00	\$1.69
Gallage Charge (all gallons) Per 1,000 Gallons	\$2.18	\$3.05	\$0.01
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$20.39	\$20.74	
5,000 Gallons	\$24.33	\$24.74	
10,000 Gallons	\$35.33	\$35.94	