

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:** June 13, 2013

**TO:** Office of Commission Clerk (Cole)

**FROM:** Division of Economics (Bruce, Daniel, Hudson) *AB SGT*  
 Division of Accounting and Finance (Barrett, Mouring, Prestwood) *al mcb J.w*  
 Division of Engineering (Ellis, Vickery) *POE PV*  
 Office of the General Counsel (Teitzman, Murphy) *TS AT Cm*

**RE:** Docket No. 120269-WU – Application for staff-assisted rate case in Polk County by Pinecrest Utilities, LLC.

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**AGENDA:** 06/25/13 – Regular Agenda – Proposed Agency Action – Except Issue Nos. 12 and 13 - Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Balbis

**CRITICAL DATES:** 03/26/14 (15-Month Effective Date (SARC))

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\ECO\WP\120269.RCM.DOC

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### Case Background

Pinecrest Utilities, LLC. (Pinecrest or Utility) is a Class C water utility serving approximately 145 customers in Polk County. The Utility is located in the Southern Water Use Caution Area of the Southwest Florida Water Management District (SWFWMD or District). However, there are no water use restrictions for the Utility because annual withdrawals are less than 100,000 gallons per day. The Utility's 2012 Annual Report lists annual revenues of \$54,594 and total operating expenses were \$54,645, resulting in a net loss of \$51.

The Utility was constructed in 1987. In 1997, Pinecrest was granted Certificate No. 588-W when Polk County turned over jurisdiction of privately-owned water and wastewater utilities to the Commission.<sup>1</sup> Pinecrest's subsequent certification actions include a name change in 1997,<sup>2</sup> a transfer of majority organizational control in 2002,<sup>3</sup> and a quick-take territory amendment in 2003.<sup>4</sup> Rate base was last established by the Commission for rate making purposes in the Utility's 2010 staff-assisted rate case (SARC).<sup>5</sup> On September 18, 2012, the Commission approved the transfer of Certificate No. 588-W from Pinecrest Ranches, Inc. to Pinecrest Utilities, LLC, and established rate base for transfer purposes.<sup>6</sup> On October 25, 2012, the Utility filed an application for a SARC and paid the appropriate filing fee on December 19, 2012.

The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.0814, 367.101, and 367.121, F.S.

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<sup>1</sup> See Order No. PSC-97-0367-FOF-WU, issued April 2, 1997, in Docket No. 961253-WU, In re: Application for grandfather certificate to provide water service in Polk County by Pinecrest Ranches.

<sup>2</sup> See Order No. PSC-97-1087-FOF-WU, issued September 17, 1997, in Docket No. 970635-WU, In re: Application for name change on Certificate No. 588-W in Polk County from Pinecrest Ranches to Pinecrest Ranches, Inc.

<sup>3</sup> See Order No. PSC-02-0893-FOF-WU, issued July 5, 2002, in Docket No. 011651-WU, In re: Application for transfer of majority organizational control of Pinecrest Ranches, Inc., holder of Certificate No. 588-W in Polk County, from James O. Vaughn and Margaret S. Hankin to S. Norman Duncan and Richard S. Little.

<sup>4</sup> See Order No. PSC-03-0318-FOF-WU, issued March 6, 2003, in Docket No. 020823-WU, In re: Application for quick-take amendment of Certificate No. 588-W in Polk County by Pinecrest Ranches, Inc.

<sup>5</sup> See Order No. PSC-10-0681-PAA-WU, issued November 15, 2010, in Docket No. 090414-WU, In re: Application for staff-assisted rate case in Polk County by Pinecrest Ranches, Inc.

<sup>6</sup> See Order No. PSC-12-0475-PAA-WU, issued September 18, 2012, in Docket No. 110311-WU, In re: Application for transfer of Certificate No. 588-W from Pinecrest Ranches, Inc., in Polk County, to Pinecrest Utilities, LLC.

### Discussion of Issues

**Issue 1:** Is the quality of service provided by Pinecrest satisfactory?

**Recommendation:** Yes. Pinecrest is in compliance with Polk County Health Department (PCHD) rules and regulations, and the water treatment plant is operating normally and scheduled to correct remaining deficiencies within 30 days. The Utility appears to be responding adequately to water quality concerns of the customers. Therefore, staff recommends that the overall quality of service provided by Pinecrest be considered satisfactory. (Ellis, McRoy)

**Staff Analysis:** Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission determines the overall quality of service a utility provides by evaluating the quality of its product, the operational condition of its plant and facilities, and its attempt to address customer satisfaction.

#### Quality of Utility's Product and Operating Condition of the Utility's Facilities

As discussed in the case background, the Utility is located within the SWFWMD. Pinecrest's water treatment plant (WTP) operating permit was renewed by the SWFWMD on November 12, 2010, and will expire on January 22, 2018.

PCHD conducted a sanitary survey of the WTP on February 12, 2013, which identified seven deficiencies. These included: the wiring of the chlorine pump was not properly tied to the well pumps; the raw tap for well AAC3937 was deficient; the hydropneumatic tank sight glass was missing; the system did not have an auxiliary power source; the system did not have a cross-connection control plan; the system did not have an emergency response plan; and the system did not have an up-to-date distribution map. PCHD issued a letter March 7, 2013, requesting a written response within 30 days to report that deficiencies had been corrected or to provide a schedule for corrective actions.

Staff conducted a field inspection of the Utility's service area on April 24, 2013. The water treatment system appeared to be operating normally. The Utility filed a response to PCHD on April 25, 2013, indicating that all deficiencies had been corrected or were scheduled for correction within 30 days. The wiring of the chlorine pump has been tied to the well pump, which will prevent excess chlorine from entering the system, and the raw tap for well AAC3937 has been repaired. An up-to-date distribution map has been posted at the plant facilities for review. The system operator anticipates addressing the remaining deficiencies, including installing the hydropneumatic tank sight, providing auxiliary power and completing plans for cross-connections and emergency response within 30 days. The Utility is working with the PCHD to resolve resolving these remaining deficiencies.

#### Utility's Attempt to Address Customer Satisfaction

A review of the customer's complaints over the last three years indicates that the Utility has resolved all of the complaints in a timely manner. There were six complaints filed, all regarding improper billing, with the Commission's Consumer Activity Tracking System (CATS) during the past three years. A customer meeting was held on April 25, 2013, at the Bartow

Public Library in Bartow, Florida. There were two customers who attended the customer meeting, who commented that the water was of an undesirable quality due to odor issues, the staining or discoloration of laundry, and concerns regarding the health impacts to people and pets. Staff received one written comment, expressing water quality concerns regarding discoloration, odor, service outages, and poor customer service by the company.

The water quality issues noted by the customers may be related to the first deficiency noted by PCHD, as the water system's chlorine pump wiring was not tied into the well pump. In the event of a water pump outage, the chlorine pump would continue operation and cause chlorine levels to build up within the water tank. As noted above, the Utility has corrected this deficiency. Staff directed the utility to perform a test of the two customer's chlorine levels, which was performed on April 30, 2013, with chlorine residuals registered at 1.49 mg/L and 1.29 mg/L. Both levels are below the maximum residual disinfectant level of 4.0 mg/L allowed by Rule 62-550.310(2)(a), F.A.C.

Discoloration is a separate issue, and is due to the presence of iron in the water, which the Utility addresses using a chemical sequestrant. The Utility has recently changed chemical formulations in an attempt to better address iron content and the resulting discoloration. Extended water pump power outages may have also interrupted some customer's service. As noted above, the Utility is planning to correct this deficiency, most likely through the installation of an auxiliary power source. The Utility states that it is attempting to contact customers to resolve any other water quality or customer service concerns.

#### Summary

Pinecrest is in compliance with PCHD rules and regulations, and the water treatment plant is operating normally and scheduled to correct remaining deficiencies within 30 days. The Utility appears to be responding adequately to water quality concerns of the customers. Therefore, staff recommends that the overall quality of service provided by Pinecrest be considered satisfactory.

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

**Recommendation:** Consistent with the Commission's decision in the Utility's last rate case proceeding, the WTP and the distribution system should be considered 100 percent used and useful (U&U). (Ellis, McRoy)

**Staff Analysis:** Pinecrest has two wells rated at 70 and 200 gallons per minute, which are used to provide potable water. Raw water is treated with liquid chlorine and an injection of polyphosphate solution for iron sequestration, and is then pumped into the water distribution system. In addition, a third well is available for fire protection using a separate distribution system. The Utility provides service to approximately 145 residential customers. The distribution system is designed to serve approximately 157 customers.

In the Utility's last rate case, both the WTP and the distribution system were found to be 100 percent U&U.<sup>7</sup> There has been no change in capacity at the WTP, the service area has had no growth in the past five years, and there are no plans for expansion; therefore, pursuant to Rule 25-30.4325(4), F.A.C., staff recommends that the WTP and distribution system both be considered 100 percent U&U.

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<sup>7</sup> See Order No. PSC-10-0681-PAA-WU, issued November 15, 2010, in Docket No. 090414-WU, In re: Application for staff-assisted rate case in Polk County by Pinecrest Ranches, Inc.

**Issue 3:** What is the appropriate allocation of common costs from Florida Utility Service to Pinecrest Utilities, LLC?

**Recommendation:** The appropriate allocation of common costs from Florida Utility Service to Pinecrest is 13.51 percent for billing and fixed costs, and 15.83 percent for maintenance costs. (Barrett)

**Staff Analysis:** Pinecrest's owner currently provides billing and/or maintenance services to five other utilities. Specifically, Pinecrest's owner also owns and operates West Lakeland Wastewater, LLC serves as the court-appointed receiver for Four Points Utility Corporation and Bimini Bay Utilities, and provides billing services for Lake Forest Utility and East Marion Sanitary Systems. As of January 1, 2013, the common costs related to these six utilities have been recorded in a company called Florida Utility Service (Common Office). Commission practice is to allocate common administrative and general expenses based on the number of Equivalent Residential Connections (ERCs).<sup>8</sup> Since the Common Office provides billing services to all six utilities, but only provides maintenance services to four utilities, two sets of allocation percentages need to be developed. The appropriate allocation percentages are calculated as follows:

Table 3-1

<u>Name of System</u>	<u>Number of ERCs</u>	<u>Percentage of Allocation</u>
<u>Allocation of Billing and Fixed Costs:</u>		
Bimini Bay Utilities	201	18.73%
East Marion Sanitary Systems	91	8.48%
Four Points Utility Corporation	258	24.04%
Lake Forest Utilities	66	6.15%
Pinecrest Utilities	145	13.51%
West Lakeland Wastewater	312	29.08%
Total	<u>1,073</u>	<u>100.00%</u>
<u>Allocation of Maintenance Related Costs:</u>		
Bimini Bay Utilities	201	21.94%
Four Points Utility Corporation	258	28.17%
Pinecrest Utilities	145	15.83%
West Lakeland Wastewater	312	34.06%
Total	<u>916</u>	<u>100.00%</u>

<sup>8</sup> See e.g., Order No. PSC-01-0323-PAA-WU, issued February 5, 2001, in Docket No. 000580-WU, In re: Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc. (Alturas Water Works); PSC-05-0442-PAA-WU, issued April 25, 2005, in Docket No. 040254-WU, In re: Application for staff-assisted rate increase in Polk County by Keen Sales, Rentals and Utilities, Inc.; PSC-09-0716-PAA-WU, issued October 28, 2009, in Docket No. 090072-WU, In re: Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc.

As shown above, Pinecrest represents 13.51 percent of the ERCs for all six utilities receiving billing services and 15.83 percent of the ERCs for the four utilities receiving maintenance services. Therefore, staff recommends that Florida Utility Service's reasonable and prudent common expenses should be allocated to the Pinecrest system based on the allocated portion of 13.51 percent for billing and fixed costs and 15.83 percent for maintenance costs. This equitably reflects the distribution of costs between these systems. It should be noted that the allocation percentages also apply to common plant allocations.



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

**Recommendation:** The appropriate average test year rate base for the Utility is \$82,734. (Barrett)

**Staff Analysis:** The appropriate components of the Utility's rate base include utility plant in service, accumulated depreciation, contribution-in-aid-of-construction (CIAC), amortization of CIAC and working capital. Pinecrest's rate base was last established in its 2011 transfer case by Order No. PSC-12-0475-PAA-WU.<sup>9</sup> Staff selected the test year ended September 30, 2012, for the instant rate case. A summary of each component and the recommended adjustments follows:

**Utility Plant in Service (UPIS):** The Utility recorded a UPIS balance of \$214,658. Staff has increased UPIS by \$1,589 to reflect the allocation of a common office that handles the billing and administrative functions for Pinecrest. Staff decreased UPIS by \$8,000 to remove a pick-up truck that was totaled after the test year. Staff also increased plant to reflect pro forma additions for 2 gate valves that occurred outside of the test year. Staff's net adjustment to UPIS is a decrease of \$4,549. As a result, staff recommends a UPIS balance of \$210,109.

**Land & Land Rights:** The Utility recorded a test year land value of \$6,500. No adjustments are necessary, therefore, staff recommends a land balance of \$6,500.

**Non-Used and Useful Plant:** As discussed in Issue 2, Pinecrest's water treatment plant and distribution system should be considered 100 percent used and useful. Therefore, a used and useful adjustment is not necessary.

**Contributions In Aid of Construction (CIAC):** Pinecrest recorded a CIAC balance of \$100,351. Staff has verified that CIAC was properly recorded in compliance with Commission rules and the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA). Staff recommends a CIAC balance of \$100,351.

**Accumulated Depreciation:** Pinecrest recorded a balance for accumulated depreciation of \$107,209. Staff has calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C., and determined that accumulated depreciation should be increased by \$6,054. In addition, staff has decreased accumulated depreciation by \$834 to reflect the retirement of the totaled pick-up truck, and further decreased accumulated depreciation by \$2,780 to reflect the retirements associated with pro forma plant replacements. Staff also increased accumulated depreciation by \$244 to reflect the appropriate amount for the allocated common office that handles the billing and administrative functions for Pinecrest. Staff's net adjustment to accumulated depreciation is an increase of \$2,684. Staff recommends an accumulated depreciation balance of \$109,893.

**Amortization of CIAC:** Pinecrest recorded a balance for amortization of CIAC of \$68,020. Staff has increased amortization of CIAC by \$2,104 to include amortization of CIAC recorded by the Utility during the test year. Staff recommends a CIAC balance of \$70,124.

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<sup>9</sup> See Order No. PSC-12-0475-PAA-WU, issued September 18, 2012, in Docket No. 110311-WU, In re: Application for transfer of Certificate No. 588-W from Pinecrest Ranches, Inc. in Polk County, to Pinecrest Utilities, LLC.

Working Capital Allowance: Pinecrest's working capital balance for the test year was \$2,436. Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses or going-concern requirements of the Utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of \$6,245 (based on O&M expense of \$49,959/8). Staff has increased the working capital allowance by \$3,809.

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate average test year rate base is \$82,734. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

**Issue 5:** What is the appropriate return of equity and overall rate of return for Pinecrest?

**Recommendation:** The appropriate return on equity (ROE) is 11.16 percent with a range of 10.16 percent to 12.16 percent. The appropriate overall rate of return is 6.27 percent. (Barrett)

**Staff Analysis:** The Utility's capital structure consists of long-term debt of \$85,092 at 6.27 percent, \$384 of customer deposits, and negative common equity. Consistent with prior Commission practice, staff has set the Utility's common equity balance to \$0.<sup>10</sup> The appropriate ROE is 11.16 percent using the Commission-approved leverage formula currently in effect.<sup>11</sup> The Utility's capital structure has been reconciled with staff's recommended rate base. Staff recommends an ROE of 11.16 percent, with a range of 10.16 percent to 12.16 percent, and an overall rate of return of 6.27 percent. The ROE and overall rate of return are shown on Schedule No. 2.

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<sup>10</sup> See Order No. PSC-08-0652-PAA-WS, issued October 6, 2008, in Docket No. 070722-WS, In re: Application for staff-assisted rate case in Palm Beach County by W.P. Utilities, Inc.

<sup>11</sup> See Order Nos. PSC-12-0339-PAA-WS, issued June 28, 2012, and PSC-12-0372-CO-WS, issued July 20, 2012, in Docket No. 120006-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), Florida Statutes.

**Issue 6:** What is the appropriate amount of test year revenue?

**Recommendation:** The appropriate test year revenues for the Pinecrest water system are \$59,303. (Bruce)

**Staff Analysis:** Pinecrest recorded total test year revenues of \$12,945, including water service revenues of \$12,107 and \$838 of miscellaneous revenues. The Utility's test year is October 2011 to September 2012. The Utility did not record any revenues in its general ledger for January 2012 through September 2012.

Based on staff's review of the Utility's billing determinants and the rates that were in effect during the test year, staff recommends adjustments to the test year service revenues. The Utility incorrectly billed the base facility and gallonage charge in effect from October 2011 to February 2012 of the test year, resulting in an under billing. In March 2012, the Utility corrected its billing to reflect the Commission-approved tariff rates. The rates also changed in September 2012 to implement a Phase II rate increase. When there is a rate change, service revenues are annualized to reflect the change. Subsequent to the test year, in October 2012, the Utility implemented a price index rate adjustment. Staff's test year revenues reflect the rates in effect at September 30, 2012. Based on staff's review of the Utility's billing determinants and rate change in the test year, staff determined service revenues should be increased by \$43,398 to reflect total test year service revenues of \$55,505.

In addition, staff made adjustments to test year miscellaneous revenues. As mentioned earlier, Pinecrest recorded \$838 of miscellaneous revenues during the test year. However, according to the audit, miscellaneous revenues should be increased by \$2,960 to reflect unrecorded miscellaneous revenues. The test year miscellaneous revenues were \$3,798.

Based on the above adjustments, staff recommends total test year revenues of \$59,303 for the water system. Test year revenues should be increased by \$46,358 (\$43,398 + \$2,960). Test year revenues are shown on Schedule 3-A.

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

**Recommendation:** The appropriate amount of operating expense for Pinecrest is \$58,059. (Barrett)

**Staff Analysis:** Pinecrest recorded operating expense of \$48,246 for the test year ended September 30, 2012. The test year O&M expenses have been reviewed, and invoices, canceled checks, and other supporting documentation have been examined. Staff has made several adjustments to the Utility's operating expenses as summarized below:

**Salaries and Wages - Employees (601)** - Pinecrest recorded \$0 for employee salaries expense in this account. As discussed in Issue 3, as of January 1, 2013, common costs are recorded on the books of Florida Utility Service. Currently, Florida Utility Service pays two employees: a maintenance employee, and a customer service and billing employee, with salaries of \$22,880 and \$19,760, respectively. Both of the employees' duties are allocated based on the percentages discussed in Issue 3. Staff has determined that the maintenance employee's salary attributable to Pinecrest is \$3,622 ( $\$22,880 \times 15.83$  percent). In addition, staff determined that the customer service and billing employee's salary attributable to Pinecrest is \$2,670 ( $\$19,760 \times 13.51$  percent). The sum of these salaries is \$6,292. Therefore, staff recommends salaries and wages - employee's expense for the test year of \$6,292.

**Salaries and Wages - Officers (603)** - Pinecrest recorded \$7,120 for officer's salaries expense in this account. The Utility's owner/president has requested a salary of \$60,000 to be allocated across all the utilities that he owns or manages. This amount is below the average salary range provided in the 2012 Compensation Survey issued by the American Water Works Association. Staff has determined that the president's salary attributable to Pinecrest is \$8,108 ( $\$60,000 \times 13.51$  percent). Staff increased this account by \$988 to arrive at a recommended officer's salaries expense of \$8,108.

**Employee Pensions and Benefits (604)** - Pinecrest recorded \$0 for employee pensions and benefits expense in this account. The Utility's owner/president has requested benefits of \$5,500 for contribution to a pension fund for himself, and health insurance for the maintenance employee at an annual cost of \$1,476. Based upon the appropriate allocation of costs, Pinecrest's allocation of the president's pension benefit is \$743 ( $\$5,500 \times 13.51$  percent) and the health insurance benefit is \$234 ( $\$1,476 \times 15.83$  percent), for a total adjustment of \$977. Staff recommends employee pensions and benefits expense for the test year of \$977.

**Purchased Power (615)** - Pinecrest recorded \$2,668 for purchased power expense in this account. Staff has made an adjustment to purchased power to remove \$141 of late fees and penalties and reclassify them to non-utility expense. In addition, the common purchased power expense for the common office is \$1,385. Pinecrest's allocated share of the purchased power expense is \$187 ( $\$1,385 \times 13.51$  percent). The result of these adjustments is a net increase of \$46. Staff recommends purchased power expense of \$2,715.

**Chemicals (618):** The Utility recorded \$782 for chemicals expense. No adjustments are necessary, therefore, staff recommends a chemical expense of \$782.

Materials and Supplies (620) - The Utility recorded \$2,756 for material and supplies in this account. Staff has reclassified a \$90 credit from revenue to this account to reflect the reimbursement for cutting a pipe. Staff has also removed undocumented expenses totaling \$1,794. Staff's net adjustment to this account is a decrease of \$1,884. Staff recommends materials and supplies expense of \$871.

Contractual Services - Billing (630) - Pinecrest recorded \$290 in this account for contractual services - billing. Staff has decreased this account by \$290 to reclassify meter reading expenses from contractual services - billing, to contractual services - other. In addition, by a letter dated April 10, 2013, the Utility's owner/president requested a \$204 increase in customer monthly billing expense to provide customer bills by envelope instead of providing customer bills by post cards. The Utility's owner/president requested this change to address a reported problem from customers that the post card bills were not being received. Staff responded to the Utility's owner/president stating that it does not believe that the requested change will provide any real benefit to Pinecrest's customers. However, staff does believe that if the monthly bills are sent out in an envelope, with a return envelope included, it would provide a benefit to the customers. Staff has estimated that providing customer bills in that manner would increase Pinecrest's customer billing expense by approximately \$300 per year. The Utility's owner/president has agreed to include return envelopes. Staff has increased this account by \$300 to include the expense for sending monthly bills out in an envelope, with a return envelope included. Staff's net adjustment to this account is an increase of \$10. Staff recommends contractual services - billing expense of \$300.

Contractual Services - Professional (631) - Pinecrest recorded \$4,507 in this account for contractual services - professional. Florida Utility Service employs a bookkeeper on a contractual basis for \$36,400 per year. Staff has determined that Pinecrest's allocated share of the bookkeeping expense is \$4,918 ( $\$36,400 \times 13.51$  percent). As Pinecrest only included \$2,640 for the bookkeeper's expense, staff has increased this account by \$2,279 to include the appropriate allocation of expense for the bookkeeper that performs work for Pinecrest. Staff recommends contractual services - professional expense of \$6,785.

Contractual Services - Testing (635) - The Utility recorded \$4,593 in this account for testing expense. Staff has decreased this account by \$192 to remove the amount of testing expenses that were incorrectly allocated to Pinecrest, and by \$1,400 to normalize a triennial testing expense of \$2,100. Staff's net adjustment to this account is a decrease of \$1,592. Staff recommends contractual services - testing expense of \$3,002.

Contractual Services - Other (636) - Pinecrest recorded \$12,458 in this account for contractual services - other. Staff has increased this account by \$2,117 to reflect the appropriate amount of meter reading expense. Staff has reduced this account by \$600 ( $\$750 \times 4/5$ ) to normalize a tank inspection which cost \$750, and occurs every five years. Staff has also decreased this account by \$4,869 to reflect the appropriate amount of allocated expense for the common office that handles the billing and administrative functions for Pinecrest, resulting in a net decrease of \$3,352. Staff recommends contractual services - other expense of \$9,107.

Rents (640) – Pinecrest recorded rent expense of \$793. Staff has reclassified \$126 from this account to miscellaneous expense related to the rental of an air valve. Staff has increased this account by \$251 to include the appropriate allocation of rent expense for the common office that handles the billing and administrative functions for Pinecrest, resulting in a net increase of \$125. Staff recommends rent expense of \$918.

Transportation Expense (650) – Pinecrest recorded transportation expense of \$1,077. Staff has increased this account by \$410 to remove an out of period journal entry credit to transportation expense. Staff has also increased this account to by \$197 to reflect the appropriate amount of allocated transportation expense for Pinecrest. Staff's net adjustment to this account is an increase of \$606. Staff recommends transportation expense of \$1,684.

Insurance Expense (655) – Pinecrest recorded insurance expense of \$3,404. Staff has increased this account by \$322 to remove an out of period journal entry credit to insurance expense. Staff also increased this amount by \$792 to reflect the appropriate annual cost of insuring the plant. Staff has decreased this account by \$2,831 to reflect the appropriate allocation of insurance expense for the common office that handles the billing and administrative functions for Pinecrest, resulting in a net decrease of \$1,717. Staff recommends insurance expense of \$1,686.

Regulatory Commission Expense (665) - Pinecrest recorded \$0 for regulatory commission expense in this account. Regarding the current rate case, pursuant to Rule 25-22.0407, F.A.C., the Utility is required to provide notices of the customer meeting and notices of final rates to its customers. For these notices, staff has estimated \$135 for postage expense, \$103 for printing expense, and \$15 for envelopes, for a total noticing cost of \$253. The Utility paid a \$500 rate case filing fee. The total rate case expense including postage, notices, envelopes, and filing fee is \$753. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a four-year period, which is \$188 per year ( $\$753/4$ ). In addition, there is an unamortized rate case expense of \$201 from a prior rate case.<sup>12</sup> Staff's net adjustment to this account is an increase of \$389. Staff recommends regulatory commission expense of \$389.

Bad Debt Expense (670) – Pinecrest recorded bad debt expense of \$640. Staff has increased this account by \$267 to reflect a three-year average of bad debt expense. Consistent with prior Commission practice,<sup>13</sup> staff recommends utilizing a three-year historical average of bad debt expense as a reasonable estimation of future bad debt expense. Staff recommends bad debt expense of \$907.

Miscellaneous Expense (675) – Pinecrest recorded \$4,908 in this account for miscellaneous expense. Staff has increased this account by \$126 to reflect the reclassification of expenses related to the rental of an air valve. Staff has decreased miscellaneous expense to reclassify \$227 of undocumented journal entries to non-utility expenses. Staff has increased this account by \$630 to reflect the appropriate allocation of miscellaneous expense for the common office that

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<sup>12</sup> See Order No. PSC-10-0721-CO-WU, Consummating Order, issued December 9, 2010, in Docket No. 090414-WU, In re: Application for staff-assisted rate case by Pinecrest Ranches, Inc.

<sup>13</sup> See e.g., Order No. PSC-12-0667-PAA-WS, issued December 26, 2012, in Docket No. 120037-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke.

handles the billing and administrative functions for Pinecrest. The result of these adjustments is a net increase of \$529. Staff recommends miscellaneous expense of \$5,437.

Operation and Maintenance Expenses (O&M) Summary – Total adjustments to O&M expense result in an increase of \$3,964. Staff's recommended O&M expense is \$49,959. O&M expenses are shown on Schedule No. 3-A.

Depreciation Expense (Net of Related Amortization of CIAC) – The Utility recorded depreciation expense of \$0 during the test year. Staff has calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C., and determined depreciation expense to be \$7,634. Pinecrest's amortization of CIAC is \$2,806. Therefore, staff recommends net depreciation expense of \$4,828.

Taxes Other Than Income (TOTI) – The Utility recorded \$2,251 in this account for TOTI. Staff has increased this account by \$423 to reflect the appropriate test year RAFs. Staff reduced this account by \$681 for property taxes on a piece of property that is non-utility related. Staff also increased this account by \$1102 to reflect the appropriate allocation of payroll taxes for the president and the common office employees that handle the billing and administrative functions for Pinecrest, resulting in a net increase of \$844. Staff recommends TOTI of \$3,095.

Income Tax – The Utility is a limited liability company and did not record income tax for the test year. As a limited liability company, Pinecrest pays no income tax. Therefore, staff has not made any adjustments to this account.

Operating Expenses Summary – The application of staff's recommended adjustments to Pinecrest's recorded test year operating expenses results in staff's recommended operating expenses of \$58,059. Operating expenses are shown on Schedule No. 3-A. The related adjustments are shown on Schedule No. 3-B.



**Issue 8:** What is the appropriate revenue requirement?

**Recommendation:** The appropriate revenue requirement is \$63,247 resulting in an annual increase of \$3,944 (6.65 percent). (Barrett)

**Staff Analysis:** Pinecrest should be allowed an annual increase of \$3,944 (6.65 percent). This will allow the Utility the opportunity to recover its expenses and a 6.27 percent return on its investment. The calculations are as follows:

Table 7-1

<u>Water Revenue Requirement</u>	
Adjusted Rate Base	\$82,734
Rate of Return	x .0627
Return on Rate Base	\$ 5,187
Adjusted O&M expense	49,959
Depreciation Expense	7,634
Amortization	(2,806)
Taxes Other Than Income	3,272
Income Taxes	0
Revenue Requirement	\$63,247
Less Test Year Revenues	59,303
Annual Increase	\$3,944
Percent Increase/(Decrease)	6.65%

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

**Recommendation:** No. Pinecrest's water system rate structure, which consists of a monthly base facility charge (BFC) and uniform gallonage charge rate structure, should remain unchanged. (Bruce)

**Staff Analysis:** Currently, the Utility's rate structure is a BFC and uniform gallonage charge. Staff performed a detailed analysis of the Utility's billing data in order to evaluate various BFC cost recovery percentages 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 conserving rate structures consistent with the Commission's goals and practices and memorandum of understanding (MOU) with the states' five Water Management Districts.

As discussed earlier, the Utility is located in the SWFWMD. The water management districts have requested, whenever possible, that an inclining block rate structure be implemented. However, based on staff's analysis of the billing data, the residential customers' overall average consumption is 4,057 gallons per month and the customer base is non-seasonal. A review of the Utility consumptive use permit (CUP) indicates that Pinecrest is well below its permitted gallons per day (GPD) allocation. Therefore, an inclining block rate structure is not needed.

Due to the low revenue requirement increase of 6.65 percent coupled with low average consumption, staff recommends that a continuation of the BFC and uniform gallonage charge rate structure is appropriate in this case. This rate structure is considered conservation oriented because customers' bills increase as their consumption increases. This rate structure minimizes the impact on customers using only non-discretionary water while increasing the gallonage charge for conservation purposes.

Based on the foregoing, staff recommends that Pinecrest's water system rate structure, which consists of a monthly BFC and uniform gallonage charge rate structure, should remain unchanged.

**Issue 10:** Are repression adjustments for Pinecrest's water system appropriate in this case, and, if so, what are the appropriate adjustments to make, what are the corresponding expense adjustments to make, and what are the final revenue requirements for the water system?

**Recommendation:** No, a repression adjustment is not appropriate in this case. (Bruce)

**Staff Analysis:** Based on staff's analysis, a repression adjustment is not warranted in this case because that there is not a significant amount of discretionary usage.

**Issue 11:** What are the appropriate rates for Pinecrest?

**Recommendation:** The appropriate monthly water rates are shown on Schedule No. 4. The water rates for Pinecrest should be increased by 7.11 percent to produce service revenues of \$59,449. 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 within 10 days of the date of the notice. (Bruce)

**Staff Analysis:** The recommended revenue requirement of \$63,247 should be adjusted to remove miscellaneous revenues of \$3,798. The resulting rates should be designed to produce service revenues of \$59,449. Due to the relatively low revenue increase, staff recommends that the percentage increase be applied as an across-the-board increase to the service rates in effect as of September 30, 2012. To determine the appropriate percentage increase to apply to the service rates, miscellaneous revenues should be removed from the test year revenues. The calculation is as follows:

	<u>Water</u>
1. Total Test Year Revenues	\$59,303
2. Less: Miscellaneous Revenues	<u>\$3,798</u>
3. Test Year Revenues from Service Rates	\$55,505
4. Revenue Increase	<u>\$3,944</u>
5. % Service Rate Increase (Line 4/Line 3)	<u>7.11%</u>

Based on the foregoing, the appropriate monthly water rates are shown on Schedule No. 4. The water rates for Pinecrest, in effect as of September 30, 2012, should be increased by 7.11 percent to produce service revenues of \$59,449. 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 within 10 days of the date of the notice.

**Issue 12:** 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 regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Pinecrest should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If 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 rates due to the amortized rate case expense. (Barrett, Bruce)

**Staff Analysis:** Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for RAFs. The total reduction is \$411.

The water rates should be reduced as shown on Schedule No. 4 to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Pinecrest should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If 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 rates due to the amortized rate case expense.

**Issue 13:** Should the recommended rates be approved for Pinecrest on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility?

**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 with interest, in the event of a protest filed by a party other than the Utility. Pinecrest 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 temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. Prior to implementation of any temporary rates, the Utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by 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., the Utility should file reports with the Commission's Office of Commission Clerk 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. (Barrett)

**Staff Analysis:** This recommendation proposes an increase in water rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the Utility, staff recommends that the recommended rates be approved as temporary rates. Pinecrest 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 temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. The recommended rates collected by the Utility should be subject to the refund provisions discussed below.

Pinecrest should be authorized to collect the temporary rates upon staff's approval of an 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 \$2,787. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

If Pinecrest 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 Pinecrest 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 monies 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 Pinecrest;
- 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 Pinecrest, 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.

Pinecrest 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 Office of Commission Clerk no later than the 20th of each month indicating the monthly and total amount of money

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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 14:** Should Pinecrest's tariff be revised to reflect a non-sufficient funds (NSF) fee?

**Recommendation:** Yes. The Utility should be required to file revised tariffs to reflect NSF fees as set forth in Sections 68.065 and 832.08(5), F.S. The revised tariffs should be approved upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariffs are filed and approved, the NSF fees should be effective on or after the stamped approval date on the revised tariffs, pursuant to Rule 25-30.475, F.A.C., if no protest is filed and provided customers have been noticed. (Bruce)

**Staff Analysis:** Pursuant to Order No. PSC-97-0367-FOF-WU, the Commission approved a grandfather certificate to provide water service in Polk County for Pinecrest. With grandfather certificates, the Utility continues its existing rates and charges until a change is authorized by the Commission. The Utility had a NSF fee of \$15 prior to the Commission's jurisdiction. It appears the NSF fee was inadvertently not included during the approval of the grandfather certificate and the Utility has not collected an NSF from its customers. Staff believes that the Utility's tariff should be revised to reflect an NSF fee. However, it should be updated in accordance with Sections 68.065 and 832.08(5), F.S., which allows for the assessment of charges for the collection of worthless checks, drafts, or orders of payment. As currently set forth in Section 832.08(5), the following fees may be assessed:

1. \$25, if the face value does not exceed \$50,
2. \$30, if the face value exceeds \$50 but does not exceed \$300,
3. \$40, if the face value exceeds \$300,

Staff recommends that the Utility should be required to file revised tariffs to reflect NSF fees as set forth in Sections 68.065 and 832.08(5), F.S. The revised tariffs should be approved upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariffs are filed and approved, the NSF fees should be effective on or after the stamped approval date on the revised tariffs, pursuant to Rule 25-30.475, F.A.C., if no protest is filed and provided customers have been noticed.

**Issue 15:** What are the appropriate customer deposits for Pinecrest?

**Recommendation:** Staff recommends an initial customer deposit for water should be \$67 for 5/8" x 3/4" meters. All other classes should be two times the average estimated monthly bill for water. The approved customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475, F.A.C. The Utility should be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding. (Bruce)

**Staff Analysis:** The Utility requested authority to collect initial customer deposits pursuant to Section 367.091, F.S. This statute authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or service availability charges.

Rule 25-30.311, F.A.C., contains the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the Utility and, ultimately, the general body of ratepayers. Historically, the Commission has set initial customer deposits equal to the amount of two months' bills based on estimated average consumption for the customer class.<sup>14</sup>

Staff notes that consumption-based charges are based on the prior month's meter readings. It generally takes five to seven days from the meter reading date until customers are billed. Pursuant to Rule 25-30.335(4), F.A.C., payment may not be considered delinquent until 21 days after the bill is mailed or presented. Pursuant to Rule 25-30.320(2)(g), F.A.C., a utility may discontinue service for nonpayment of bills, provided there has been a diligent attempt to have the customer comply and the customer has been provided at least five working days' written notice. It is likely that the service would not be disconnected until well after two months subsequent to the service being rendered. Not only is collecting a customer deposit to recover this two-month period of service consistent with our past practice, it is also consistent with one of the fundamental principles of rate making – ensuring that the cost of providing service is recovered from the cost causer.<sup>15</sup>

Staff recommends an initial customer deposit for water should be \$67 for 5/8" x 3/4" meters. All other classes should be two times the average estimated monthly bill for water. The approved customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475, F.A.C. The Utility should be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding.

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<sup>14</sup> See e.g., Order No. PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 021228-WS, In re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc. Order No. PSC-03-0845-PAA-WS, issued July 21, 2003, in Docket No. 021192-WS, In re: Application for staff-assisted rate case in Highlands County by Damon Utilities, Inc.

<sup>15</sup> See e.g., Order No. PSC-03-1119-PAA-SU, issued October 7, 2003, in Docket No. 030106-SU, In re: Application for staff-assisted rate case in Lee County by Environmental Protection Systems of Pine Island, Inc. Order No. PSC-96-1409-FOF-WU, issued November 20, 1996, in Docket No. 960716-WU, In Re: Application for transfer of Certificate No. 123-W in Lake County from Theodore S. Jansen d/b/a Ravenswood Water System to Crystal River Utilities, Inc.

**Issue 16:** Should Pinecrest be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all applicable National Association of Regulatory 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, Pinecrest should provide proof, within 90 days of the final order in this docket, that the adjustments for all applicable NARUC USOA primary accounts have been made. (Barrett)

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

**Issue 17:** Should this docket be closed?

**Recommendation:** No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Once these actions are complete, this docket should be closed administratively. (Murphy)

**Staff Analysis:** If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Once these actions are complete, this docket should be closed administratively.

PINECREST UTILITIES, LLC			SCHEDULE NO. 1-A
TEST YEAR ENDED 09/30/12			DOCKET NO. 120269-WU
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$214,658	(\$4,549)	\$210,109
LAND & LAND RIGHTS	6,500	0	6,500
NON-USED AND USEFUL COMPONENTS	0	0	0
CIAC	(100,351)	0	(100,351)
ACCUMULATED DEPRECIATION	(107,209)	(2,684)	(109,893)
AMORTIZATION OF CIAC	68,020	2,104	70,124
WORKING CAPITAL ALLOWANCE	<u>2,436</u>	<u>3,809</u>	<u>6,245</u>
WASTEWATER RATE BASE	<u>\$84,054</u>	<u>(\$1,320)</u>	<u>\$82,734</u>

PINECREST UTILITIES, LLC		SCHEDULE NO. 1-B
TEST YEAR ENDED 09/30/12		DOCKET NO. 120269-WU
ADJUSTMENTS TO RATE BASE		
<b><u>UTILITY PLANT IN SERVICE</u></b>		
1.	To reflect the appropriate Allocated Plant (AF 8 - WP 15).	\$1,589
2.	To remove utility pick-up truck.	(8,000)
3.	To reflect pro forma plant repairs.	<u>1,861</u>
	Total	<u>(\$4,549)</u>
<b><u>ACCUMULATED DEPRECIATION</u></b>		
1.	To remove utility pick-up truck (AF 8 - WP 15).	\$834
2.	To reflect the appropriate test year accumulated depreciation (Audit Finding 1).	(6,054)
3.	To reflect the appropriate AD of allocated plant.	(244)
4.	To reflect pro forma plant repairs.	<u>2,780</u>
	Total	<u>(\$2,684)</u>
<b><u>AMORTIZATION OF CIAC</u></b>		
	To reflect the appropriate amortization of CIAC (Audit Finding 2).	<u>\$2,104</u>
<b><u>WORKING CAPITAL ALLOWANCE</u></b>		
	To reflect 1/8 of test year O & M expenses.	<u>\$3,809</u>

PINECREST UTILITIES, LLC TEST YEAR ENDED 09/30/12 SCHEDULE OF CAPITAL STRUCTURE							SCHEDULE NO. 2 DOCKET NO. 120269-WU		
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST	
1. TOTAL COMMON EQUITY	0	0	0	0	0	0.00%	11.16%	0.00%	
2. TOTAL LONG TERM DEBT	85,092	0	85,092	(2,742)	82,350	99.54%	6.27%	6.24%	
3. CUSTOMER DEPOSITS	384	0	384	0	384	0.46%	6.00%	0.03%	
4. TOTAL	<u>85,476</u>	<u>0</u>	<u>85,476</u>	<u>(2,742)</u>	<u>82,734</u>	<u>100.00%</u>		<u>6.27%</u>	
<b>RANGE OF REASONABLENESS</b>						<b><u>LOW</u></b>	<b><u>HIGH</u></b>		
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>		
OVERALL RATE OF RETURN						<u>6.27%</u>	<u>6.27%</u>		

PINECREST UTILITIES, LLC			SCHEDULE NO. 3-A		
TEST YEAR ENDED 09/30/12			DOCKET NO. 120269-WU		
SCHEDULE OF WATER OPERATING INCOME					
	TEST YEAR	STAFF	STAFF	ADJUST.	REVENUE
	PER UTILITY	ADJUSTMENTS	ADJUSTED	FOR	REQUIREMENT
			TEST YEAR	INCREASE	
1. OPERATING REVENUES	<u>\$12,945</u>	<u>\$46,358</u>	<u>\$59,303</u>	<u>\$3,944</u> 6.65%	<u>\$63,247</u>
<b>OPERATING EXPENSES:</b>					
2. OPERATION & MAINTENANCE	<u>\$45,995</u>	<u>\$3,964</u>	<u>\$49,959</u>	0	<u>49,959</u>
3. DEPRECIATION (NET)	0	7,634	7,634	0	7,634
4. AMORTIZATION	0	(2,806)	(2,806)	0	(2,806)
5. TAXES OTHER THAN INCOME	2,251	844	3,095	177	3,272
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$48,246</u>	<u>\$9,636</u>	<u>\$57,882</u>	<u>\$177</u>	<u>\$58,059</u>
8. OPERATING INCOME/(LOSS)	<u>(\$35,301)</u>		<u>\$2,041</u>		<u>\$5,187</u>
9. WATER RATE BASE	<u>\$84,054</u>		<u>\$82,734</u>		<u>\$82,734</u>
10. RATE OF RETURN	<u>-42.00%</u>		<u>1.72%</u>		<u>6.27%</u>



PINECREST UTILITIES, LLC TEST YEAR ENDING 09/30/12 ADJUSTMENTS TO OPERATING INCOME	SCHEDULE NO. 3-B PAGE 1 OF 3
	<u>WATER</u>
<b>OPERATING REVENUES</b>	
To adjust utility revenues to audited test year amount.	<u>\$46,358</u>
<b>OPERATION AND MAINTENANCE EXPENSES</b>	
Salaries and Wages - Employees (601)	
To reflect allocated salaries (Audit Finding 8)	<u>\$6,292</u>
Salaries and Wages - Officers (603)	
1. Remove loan payments & credits (Audit Finding 6)	\$230
2. Remove out of period expenses (Audit Finding 6)	(150)
3. To reflect allocated salaries (Audit Finding 8)	<u>908</u>
Total	<u>\$988</u>
EMPLOYEE PENSION & BENEFITS (604)	
To reflect pro forma health insurance expense	<u>\$977</u>
Purchased Power (615)	
1. To reflect allocated expense (Audit Finding 8)	\$187
2. To reflect actual test year expense.	<u>(141)</u>
Total	<u>\$46</u>
Chemicals (618)	
Removed undocumented amount.	<u>\$0</u>
Materials and Supplies (620)	
1. Transfer credit from revenue to Account 620	(\$90)
2. Remove undocumented expenses	<u>(1,794)</u>
Total	<u>(\$1,884)</u>
Contractual Services - Billing (630)	
1. Reclassify meter reading expenses to Account 636	(\$290)
2. To include expense for using envelopes for bills	<u>300</u>
Total	<u>\$10</u>
Contractual Services - Professional (631)	
To reflect allocated expense (Audit Finding 8)	<u>\$2,279</u>
(CONTINUED ON NEXT PAGE)	

**PINECREST UTILITIES, LLC**  
**TEST YEAR ENDING 09/30/12**  
**ADJUSTMENTS TO OPERATING INCOME**

**SCHEDULE NO. 3-B**  
**PAGE 2 OF 3**

(CONTINUED FROM PREVIOUS PAGE)

Contractual Services - Testing (635)

- |                                                    |                  |
|----------------------------------------------------|------------------|
| 1. To reflect allocated expense (Audit Finding 8). | (\$192)          |
| 2. To normalize triennial testing.                 | <u>(1,400)</u>   |
| Total                                              | <u>(\$1,592)</u> |

Contractual Services - Other (636)

- |                                                                              |                  |
|------------------------------------------------------------------------------|------------------|
| 1. To reflect appropriate amount of meter reading expense (Audit Finding 7). | \$1,827          |
| 2. To reflect allocated expense (Audit Finding 8).                           | (4869)           |
| 3. Include amount for meter reading incorrectly recorded in Account 630.     | 290              |
| 4. Amortization of tank inspection costs.                                    | <u>(600)</u>     |
| Total                                                                        | <u>(\$3,352)</u> |

Rents (640)

- |                                                    |              |
|----------------------------------------------------|--------------|
| 1. Reclassified air valve rental to Account 675.   | (\$126)      |
| 2. To reflect allocated expense (Audit Finding 8). | <u>251</u>   |
| Total                                              | <u>\$125</u> |

Transportation Expense (650)

- |                                                                     |              |
|---------------------------------------------------------------------|--------------|
| 1. Removed an out of period journal adjustment.                     | \$410        |
| 2. To reflect the appropriate allocation of transportation expense. | 172          |
| 3. To reflect allocated expense (Audit Finding 8).                  | <u>25</u>    |
| Total                                                               | <u>\$606</u> |

Insurance Expenses (655)

- |                                                                   |                  |
|-------------------------------------------------------------------|------------------|
| 1. Removed an out of period journal adjustment (Audit Finding 6). | \$322            |
| 2. To reflect pro forma expense. (Audit Finding 7).               | 792              |
| 3. To reflect allocated expense (Audit Finding 8).                | <u>(2,831)</u>   |
| Total                                                             | <u>(\$1,717)</u> |

Regulatory Commission Expense (665)

- |                                                                    |              |
|--------------------------------------------------------------------|--------------|
| 1. To reflect the appropriate amount of rate case expense.         | \$188        |
| 2. To reflect the appropriate unamortized prior rate case expense. | <u>201</u>   |
| Total                                                              | <u>\$389</u> |

Bad Debt Expense (670)

- |                                            |              |
|--------------------------------------------|--------------|
| To reflect the appropriate 3-year average. | <u>\$267</u> |
|--------------------------------------------|--------------|

(CONTINUED ON NEXT PAGE)

PINECREST UTILITIES, LLC		SCHEDULE NO. 3-B
TEST YEAR ENDING 09/30/12		PAGE 3 OF 3
ADJUSTMENTS TO OPERATING INCOME		
(CONTINUED FROM PREVIOUS PAGE)		
1. Air valve rental.		\$126
2. Removing an undocumented adjustment.		(145)
3. Removed an undocumented adjustment - late fee.		(82)
4. To reflect allocated expense (Audit Finding 8).		<u>630</u>
Total		<u>\$529</u>
<b>TOTAL OPERATION &amp; MAINTENANCE ADJUSTMENTS</b>		<u>\$5,163</u>
		<u>WATER</u>
<b>DEPRECIATION EXPENSE</b>		
1. To reflect the appropriate test year depreciation expense (Audit Finding 1).		\$8,386
2. Include depreciation for pro-forma plant.		464
3. To remove utility pick-up truck.		(1,334)
4. To reflect pro forma plant repairs depreciation expense.		<u>118</u>
Total		<u>\$7,634</u>
<b>AMORTIZATION</b>		
To reflect the appropriate Amortization of CIAC (Audit Finding 2).		<u>(\$2,806)</u>
<b>TAXES OTHER THAN INCOME</b>		
1. To include regulatory assessment fees on test year revenue.		\$423
2. To reflect allocated payroll taxes (Audit Finding 8).		1102
3. To adjust property taxes to audited amount. (Audit Finding 11).		<u>(681)</u>
Total		<u>\$844</u>

PINECREST UTILITIES, LLC TEST YEAR ENDING 09/30/12 ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE		SCHEDULE NO. 3-C DOCKET NO. 120269-WU	
	TOTAL PER UTILITY	STAFF PER ADJUST.	TOTAL PER STAFF
(601) SALARIES AND WAGES – EMPLOYEES	\$0	\$6,292	\$6,292
(603) SALARIES AND WAGES – OFFICERS	7,120	988	8,108
(604) EMPLOYEE PENSION & BENEFITS	0	977	977
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	2,668	46	2,715
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	782	0	782
(620) MATERIALS AND SUPPLIES	2,756	(1,884)	871
(630) CONTRACTUAL SERVICES – BILLING	290	10	300
(631) CONTRACTUAL SERVICES - PROFESSIONAL	4,507	2,279	6,785
(635) CONTRACTUAL SERVICES – TESTING	4,593	(1,592)	3,002
(636) CONTRACTUAL SERVICES – OTHER	12,458	(3,352)	9,107
(640) RENTS	793	125	918
(650) TRANSPORTATION EXPENSE	1,077	606	1,684
(655) INSURANCE EXPENSE	3,404	(1,717)	1,686
(665) REGULATORY COMMISSION EXPENSE	0	389	389
(670) BAD DEBT EXPENSE	640	267	907
(675) MISCELLANEOUS EXPENSES	<u>4,908</u>	<u>529</u>	<u>5,437</u>
	<u>\$45,995</u>	<u>\$3,964</u>	<u>\$49,959</u>

**PINECREST UTILITIES, LLC.**  
**TEST YEAR ENDED SEPTEMBER 30, 2012**  
**MONTHLY WATER RATES**

	RATES AT 9/30/2012 (1)	UTILITY'S CURRENT RATES (2)	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<b><u>Residential</u></b>				
<b><u>All Meter Sizes</u></b>				
<b><u>Base Facility Charge by Meter Size:</u></b>				
5/8"X3/4"	\$14.14	\$14.45	\$15.14	\$0.10
3/4"	\$21.21	\$21.68	\$22.71	\$0.16
1"	\$35.35	\$36.13	\$37.85	\$0.26
1-1/2"	\$70.70	\$72.26	\$75.70	\$0.52
2"	\$113.12	\$115.61	\$121.12	\$0.84
3"	\$226.24	\$231.22	\$242.24	\$1.67
4"	\$353.50	\$361.28	\$378.50	\$2.61
6"	\$707.00	\$722.55	\$757.00	\$5.23
<b><u>Residential and General Service Gallonage Chg.</u></b>				
Per 1,000 gallons	\$4.26	\$4.35	\$4.56	\$0.03
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>				
3,000 Gallons	\$26.92	\$27.50	\$28.82	
5,000 Gallons	\$35.44	\$36.20	\$37.94	
10,000 Gallons	\$56.74	\$57.95	\$60.74	
(1) The recommended rate increase was applied to the rates at 9/30/2012.				
(2) The current rates became effective 10/3/2012 as a result of a price index rate adjustment.				