

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: July 6, 2006

TO: Director, Division of the Commission Clerk & Administrative Services (Bayó)

FROM: Division of Economic Regulation (Merta, Rendell, Springer)
Office of the General Counsel (Brubaker)

RE: Docket No. 060261-WS – Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke.

AGENDA: 07/18/06 – Regular Agenda – Decision on Suspension of Rates and on Interim Rates – Participation is at the Discretion of the Commission

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Arriaga

CRITICAL DATES: 07/18/06 (60-Day Suspension Date)

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\060261.RCM.DOC

Case Background

Utilities, Inc. of Pennbrooke (Pennbrooke or utility) is a Class B utility providing service to approximately 1,344 water and 1,244 wastewater customers in Lake County. The utility is a wholly-owned subsidiary of Utilities, Inc. (UI). Rates were last established for Pennbrooke in its 2000 rate proceeding.¹ In 2003, Utilities, Inc. of Pennbrooke purchased the assets of Pennbrooke Utilities, Inc., and rate base was established for the utility.²

¹ See Order No. PSC-01-1246-PAA-WS, issued June 4, 2001, in Docket No. 001382-WS, In re: Application for staff-assisted rate case in Lake County by Pennbrooke Utilities, Inc.

² See Order No. PSC-03-1000-PAA-WS, issued September 5, 2003, in Docket No. 030236-WS, In re: Application for transfer of facilities and Certificate Nos. 466-W and 400-S from Pennbrooke Utilities, Inc. to Utilities, Inc. of Pennbrooke, in Lake County.

On May 15, 2006, Pennbrooke filed its Application for Rate Increase at issue in the instant docket. The utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and requested interim rates. The utility had deficiencies in the Minimum Filing Requirements (MFRs). The deficiencies will not be corrected until after the statutory 60-day timeframe to suspend the requested interim rates, therefore the official filing date has not been established. The test year established for interim and final rates is the historical twelve-month period ended December 31, 2005.

Pennbrooke requested interim rates for only its wastewater system. The utility requested interim rates designed to generate annual wastewater revenues of \$433,422, an increase of \$125,464 or 40.74%. The utility requested final rates designed to generate annual water revenues of \$367,418, an increase of \$26,233 or 7.69% and annual wastewater revenues of \$463,867, an increase of \$155,909 or 50.63%.

The original 60-day statutory deadline for the Commission to suspend the utility's requested final rates was July 14, 2006. However, by letter dated June 5, 2006, the utility agreed to extend the time by which the Commission is required to authorize interim rates. This recommendation addresses the suspension of Pennbrooke's requested final rates and the utility's requested interim rates. The Commission has jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes (F.S.).

Discussion of Issues

Issue 1: Should the utility's proposed final water and wastewater rates be suspended?

Recommendation: Yes. Pennbrooke's proposed final water and wastewater rates should be suspended. (Merta)

Staff Analysis: Section 367.081(6), F.S., provides that the Commission may, for good cause, withhold consent to the implementation of the requested rates by a vote to that effect within 60 days after the date the rate request is filed. Further, Section 367.081(8), F.S., permits the proposed rates to go into effect (secured and subject to refund) at the expiration of five months if: (1) the Commission has not acted upon the requested rate increase; or (2) if the Commission's PAA action is protested by a party other than the utility.

Staff has reviewed the filing and has considered the information filed in support of the rate application and the proposed final rates. Staff recommends that it is necessary to require further investigation of this information, including on-site investigations by staff accountants and engineers. Based on the foregoing, staff recommends that it is appropriate to suspend the utility's proposed rate increase.

Issue 2: Should an interim revenue increase be approved?

Recommendation: Yes. The utility should be authorized to collect annual wastewater revenues as indicated below. (Merta)

| | <u>Adjusted Test Year Revenues</u> | <u>\$ Increase</u> | <u>Revenue Requirement</u> | <u>% Increase</u> |
|------------|--|--------------------|--------------------------------|-------------------|
| Wastewater | 307,958 | 114,155 | 422,113 | 37.07% |

Staff Analysis: The utility filed rate base, cost of capital and operating statements to support its requested wastewater increase. Pursuant to Section 367.082(5)(b)1., F.S., the achieved rate of return for interim purposes must be calculated by applying adjustments consistent with those used in the utility's most recent rate proceeding and annualizing any rate changes. Staff reviewed the utility's interim request, as well as Order No. PSC-03-1000-PAA-WS, in which the Commission last established rate base, and Order No. PSC-01-1246-PAA-WS, in which the Commission last established rates. Staff's recommended adjustments are discussed below. Attached are accounting schedules to illustrate staff's recommended rate base, capital structure, and test year operating income amounts. The rate base schedule is labeled as No. 1-A, with adjustments shown on No. 1-B. The capital structure schedule is No. 2, and the operating income schedule is labeled as No. 3-A, with adjustments shown on No. 3-B. Schedule 4 reflects the monthly service rates.

RATE BASE

Based on an analysis of the MFRs and on Order Nos. PSC-03-1000-PAA-WS and PSC-01-1246-PAA-WS from the utility's last rate proceeding, staff believes that adjustments are necessary to the utility's rate base.

Construction Work in Progress (CWIP)

The utility included CWIP of \$2,235 in rate base. Pursuant to Rule 25-30.116, Florida Administrative Code (F.A.C.), CWIP may accrue an allowance for funds used during construction (AFUDC). AFUDC is an accounting entry designed to permit a utility to recover the cost associated with financing eligible construction activities. By Order No. PSC-04-0262-PAA-WS, issued March 8, 2004,³ Pennbrooke was granted a 9.03% AFUDC rate. Staff recommends that CWIP be removed from rate base because it is already earning a return through AFUDC. Further, in the last rate case, no CWIP was included in rate base. Based on the above, rate base should be decreased by \$2,235.

Working Capital

The utility used the formula approach (1/8 of operation and maintenance (O&M) expenses) to calculate working capital. Based on staff's recommended adjustments to O&M

³ Docket No. 031006-WS, In re: Petition by Utilities, Inc. for approval of allowance for funds used during construction (AFUDC) rate for its Florida subsidiaries including Water Service Corp.

expenses, staff recommends that working capital be decreased by \$953. Staff's recommended working capital should be \$27,690.

Based on the above adjustments, staff recommends an interim rate base of \$1,042,523.

COST OF CAPITAL

In its MFRs, Pennbrooke used a simple average capital structure, which consisted of allocated investor sources of capital from UI and Pennbrooke's actual accumulated deferred income taxes (ADIT) and customer deposits. In its interim request, Pennbrooke used an 11.78% return on equity (ROE). Staff believes the utility erred in reconciling capital structure to rate base and in using the midpoint ROE. The utility reconciled capital structure to a \$1,574,813 rate base. The utility's wastewater rate base reflected in MFR Interim Schedule A-2 is \$1,045,711. Pursuant to Section 367.082(5)(b)3., F.S., in calculating an interim increase, the minimum of the range of the last authorized ROE shall be used. Utilizing the 2005 leverage formula, the utility used the midpoint of its ROE instead of the minimum of the range.

Pennbrooke's ROE was last established at 9.94% by Order No. PSC-01-1246-PAA-WS. However, the ROE for Pennbrooke authorized by that order should not be used because the ROE does not survive a transfer.⁴ As mentioned in the case background, Order No. PSC-03-1000-PAA-WS, authorized the transfer of assets to Utilities, Inc. of Pennbrooke, a wholly owned subsidiary of UI. Therefore, staff believes that the current leverage formula should be used to determine ROE for Pennbrooke and the minimum of the range should be used.

Pennbrooke included a simple average balance of \$40,071 in credit ADITs in its capital structure. The utility's balance sheet, in MFR Schedules A-18 and A-19, reflected simple average balances of \$6,322 in debit ADITs and \$40,071 in credit ADITs. Rule 25-30.433(3), F.A.C., states:

Used and useful debit deferred taxes shall be offset against used and useful credit deferred taxes in capital structure. Any resulting net debit deferred taxes shall be included as a separate line item in the rate base calculation. Any resulting net credit deferred taxes shall be included in the capital structure calculation. No other deferred debits shall be considered in rate base when the formula method of working capital is used.

Pennbrooke did not net its debit and credit ADITs. Therefore, in accordance with Rule 25-30.433(3), F.A.C., staff recommends that the net credit ADIT balance of \$33,749 (\$40,071 less \$6,322) be included in the capital structure calculation. As such, the utility's ADIT balance should be decreased by \$6,322.

⁴ See PSC-01-2094-FOF-SU, issued October 22, 2001, in Docket No. 011190-SU, In re: Investigation of possible overearnings by Tierra Verde Utilities, Inc. in Pinellas County, p. 3.

The utility's capital structure was reconciled with staff's recommended rate base. Using the current approved leverage formula,⁵ the return on equity is 11.53% with a range of 10.53% - 12.53%. Using the 10.53% minimum of the range, staff recommends an interim weighted average cost of capital of 7.78%.

NET OPERATING INCOME

Based on its review, staff is recommending several adjustments to operating expenses. The utility included adjustments to increase expenses by \$4,022 for salaries and wages, \$1,455 for employee benefits, \$1,744 for purchased power costs, and \$400 for additional testing. Pursuant to Section 367.082(5)(b)1., F.S., only those adjustments consistent with the most recent individual rate proceeding of the utility and annualizing any rate changes occurring during such period may be made. Staff believes these increases are pro forma in nature and recommends that expenses be decreased by \$7,621.

The utility included an adjustment to Taxes Other Than Income (TOTI) to increase payroll taxes by \$549. Staff believes this increase is pro forma in nature and recommends that TOTI be decreased by \$549.

On MFR Schedule B-15, the utility included \$13,738 for regulatory assessment fees (RAFs) on historical per books revenues of \$308,977. Using the .045 RAF rate, pursuant to Section 367.145, F.S., and Rule 25-30.120, F.A.C., staff calculated RAFs of \$13,904. As such, the utility's historical per book RAFs are understated and should be increased by \$166.

Based on the adjustments discussed above, staff recommends that the appropriate test year operating income, before any revenue increase, for wastewater is \$13,141.

REVENUE REQUIREMENT

Based on the above adjustments, staff recommends a revenue requirement of \$422,113 for wastewater. This represents an interim increase in annual revenues of \$114,155 or 37.07%. This will allow the utility the opportunity to recover its operating expenses and earn a 7.78% return on its rate base.

⁵ Order No. PSC-06-0476-PAA-WS, issued June 5, 2006, in Docket No. 060006-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.; consummated by Order No. PSC-06-0554-CO-WS, issued June 27, 2006.

Issue 3: What are the appropriate interim wastewater rates?

Recommendation: The wastewater service rates for Pennbrooke in effect as of December 31, 2005, should be increased by 37.31% to generate the recommended revenue increase for the interim period. The approved rates should be effective for service rendered as of the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1)(a), F.A.C. The rates should not be implemented until staff verifies that the tariff sheets are consistent with the Commission decision, the proposed customer notice is adequate, and the required security has been filed. The utility should provide proof of the date notice was given within 10 days after the date of notice. (Merta)

Staff Analysis: Staff recommends that interim wastewater service rates for Pennbrooke should be designed to allow the utility the opportunity to generate annual operating revenues of \$422,113 for wastewater operations. This reflects an increase of \$114,155 for wastewater, or 37.07%, before removal of miscellaneous revenues. To determine the appropriate percentage increase to apply to the service rates, miscellaneous service revenues should be removed from the test year revenues. The calculation is as follows:

| | <u>Wastewater</u> |
|--|-------------------|
| 1 Total Test Year Revenues | \$307,958 |
| 2 Less: Miscellaneous Revenues | <u>\$2,029</u> |
| 3 Test Year Revenues from Service Rates | \$305,929 |
| 4 Revenue Increase | <u>\$114,155</u> |
| 5 % Service Rate Increase (Line 4/Line3) | <u>37.31%</u> |

The interim rate increase of 37.31% for wastewater should be applied as an across-the-board increase to the service rates in effect as of December 31, 2005. The approved rates should be effective for service rendered as of 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 staff verifies that the tariff sheets are consistent with the Commission decision, the proposed customer notice is adequate, and the required security has been filed. The utility should provide proof of the date notice was given within 10 days after the date of notice.

The utility's test year, proposed interim and final wastewater rates, and staff's recommended interim wastewater rates are shown on Schedule No. 4.

Issue 4: What is the appropriate security to guarantee the interim increase?

Recommendation: A corporate undertaking is acceptable contingent upon receipt of the written guarantee of the parent company, Utilities, Inc. (UI), and written confirmation of UI's continued attestation that it does not have any outstanding guarantees on behalf of UI-owned utilities in other states. UI should be required to file a corporate undertaking on behalf of its subsidiaries to guarantee any potential refunds of revenues collected under interim conditions. UI's total guarantee should be a cumulative amount of \$718,575, which includes an amount of \$67,566 subject to refund in this docket. Pursuant to Rule 25-30.360(6), F.A.C., the utility should provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, F.A.C. (Merta, Springer)

Staff Analysis: Pursuant to Section 367.082, F.S., revenues collected under interim rates shall be placed under bond, escrow, letter of credit, or corporate undertaking subject to refund with interest at a rate ordered by the Commission. As recommended in Issue 2, the total annual interim increase is \$114,155 for wastewater. In accordance with Rule 25-30.360, F.A.C., staff has calculated the potential refund of revenues and interest collected, under interim conditions to be \$67,566. This amount is based on an estimated seven months of revenue being collected from staff's recommended interim rates over the utility's current authorized rates shown on Schedule No. 4.

Pennbrooke is a wholly-owned subsidiary of UI, which provides all investor capital to its subsidiaries. UI has requested a corporate undertaking to secure any interim increases granted in Dockets Nos. 060254-SU, 060255-SU, 060256-SU, 060257-WS, 060258-WS, 060260-WS, 060261-WS, and 060262-WS. As such, staff reviewed the financial statements of the parent company. As a result of staff's interim recommendations in all of the above dockets, the total requested cumulative corporate undertaking amount is \$718,575, which includes \$67,566 subject to refund for this docket.

The criteria for a corporate undertaking includes sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. Staff has reviewed UI's financial statements from 2003 to 2005 to determine the financial condition of the parent company. Staff's analysis shows that UI has experienced a significant decline in liquidity and interest coverage during 2005 compared to prior years. However, UI's average equity ratio over the three-year period has been 40%. Additionally, net income has been on average six times greater than the requested cumulative corporate undertaking amount. UI's financial performance has demonstrated adequate levels of both profitability and equity capitalization to offset the recent decline in liquidity and interest coverage. Based upon this analysis, staff recommends that a cumulative corporate undertaking of \$718,575 is acceptable contingent upon the receipt of the written guarantee of UI and written confirmation that UI does not have any outstanding guarantees on behalf of UI-owned utilities in other states.

Pursuant to Rule 25-30.360(6), F.A.C., the utility shall provide a report by the 20th day of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, F.A.C.

Docket No. 060261-WS

Date: July 6, 2006

In no instance should maintenance and administrative costs associated with any refund be borne by the customers. The costs are the responsibility of, and should be borne by, the utility.

Docket No. 060261-WS

Date: July 6, 2006

Issue 5: Should this docket be closed?

Recommendation: No. The docket should remain open pending the Commission's final action on the utility's requested rate increase. (Merta, Brubaker)

Staff Analysis: The docket should remain open pending the Commission's final action on the utility's requested rate increase.

| Utilities, Inc. of Pennbrooke Schedule of Wastewater Rate Base Test Year Ended 12/31/05 | | | Schedule No. 1-A Docket No. 060261-WS Interim | | |
|---|-----------------------------|-----------------------------|---|---------------------------|--------------------------------|
| Description | Test Year Per Utility | Utility Adjust- ments | Adjusted Test Year Per Utility | Staff Adjust- ments | Staff Adjusted Test Year |
| 1 Plant in Service | \$2,464,671 | \$29,568 | \$2,494,239 | \$0 | \$2,494,239 |
| 2 Land and Land Rights | \$57,035 | \$0 | 57,035 | 0 | 57,035 |
| 3 Non-used and Useful Components | \$0 | \$0 | 0 | 0 | 0 |
| 4 Construction Work in Progress | \$2,235 | \$0 | 2,235 | -2,235 | 0 |
| 5 Accumulated Depreciation | -\$673,618 | -\$9,724 | -683,342 | 0 | -683,342 |
| 6 CIAC | \$1,216,875 | \$0 | -1,216,875 | 0 | -1,216,875 |
| 7 Amortization of CIAC | \$363,776 | \$0 | 363,776 | 0 | 363,776 |
| 8 Acquisition Adjustments | \$0 | \$0 | 0 | 0 | 0 |
| 9 Accum. Amort. of Acq. Adj.. | \$0 | \$0 | 0 | 0 | 0 |
| 10 Working Capital Allowance | \$27,690 | \$953 | 28,643 | -953 | 27,690 |
| 11 Other | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| 12 Rate Base | <u>\$1,024,914</u> | <u>\$20,797</u> | <u>\$1,045,711</u> | <u>-\$3,188</u> | <u>\$1,042,523</u> |

| Utilities, Inc. of Pennbrooke Adjustments to Rate Base Test Year Ended 12/31/05 | | Schedule No. 1-B Docket No. 060261-WS Interim |
|---|------------------|---|
| Explanation | Wastewater | |
| <u>Plant In Service</u> | | |
| 1 | \$0 | |
| 2 | \$0 | |
| 3 | \$0 | |
| Total | <u>\$0</u> | |
| <u>Land</u> | | |
| 1 | \$0 | |
| 2 | \$0 | |
| 3 | \$0 | |
| Total | <u>\$0</u> | |
| <u>Non-used and Useful</u> | | |
| To reflect net non-used and useful adjustment | | |
| | <u>\$0</u> | |
| <u>Construction Work in Progress</u> | | |
| 1 Remove CWIP | <u>(\$2,235)</u> | |
| <u>Accumulated Depreciation</u> | | |
| 1 | \$0 | |
| 2 | \$0 | |
| 3 | \$0 | |
| 4 | \$0 | |
| Total | <u>\$0</u> | |
| <u>CIAC</u> | | |
| 1 | \$0 | |
| 2 | \$0 | |
| 3 | \$0 | |
| Total | <u>\$0</u> | |
| <u>Accumulated Amortization of CIAC</u> | | |
| 1 | \$0 | |
| 4 | \$0 | |
| 5 | \$0 | |
| Total | <u>\$0</u> | |
| <u>Working Capital</u> | | |
| To reflect 1/8 staff adjusted O&M expense | | |
| | <u>(\$953)</u> | |

Utilities, Inc. of Pennbrooke
Capital Structure-Simple Average
Test Year Ended 12/31/05

Schedule No. 2
Docket No. 060261-WS
Interim

| Description | Total Capital | Specific Adjustments | Subtotal Adjusted Capital | Prorata Adjustments | Capital Reconciled to Rate Base | Ratio | Cost Rate | Weighted Cost | |
|--------------------------|----------------------|----------------------|---------------------------|-----------------------|---------------------------------|----------------|---------------|---------------|--|
| Per Utility | | | | | | | | | |
| 1 Long-term Debt | \$124,044,203 | \$0 | \$124,044,203 | -\$123,207,566 | \$836,637 | 53.13% | 6.81% | 3.62% | |
| 2 Short-term Debt | 11,347,000 | 0 | \$11,347,000 | -11,270,468 | \$76,532 | 4.86% | 2.00% | 0.10% | |
| 3 Preferred Stock | 0 | 0 | \$0 | 0 | \$0 | 0.00% | 0.00% | 0.00% | |
| 4 Common Equity | 90,787,422 | 0 | \$90,787,422 | -90,175,091 | \$612,331 | 38.88% | 11.78% | 4.58% | |
| 5 Customer Deposits | 9,242 | 0 | \$9,242 | 0 | \$9,242 | 0.59% | 6.00% | 0.04% | |
| 6 Deferred Income Taxes | <u>40,071</u> | <u>0</u> | <u>\$40,071</u> | <u>0</u> | <u>\$40,071</u> | <u>2.54%</u> | 0.00% | <u>0.00%</u> | |
| 7 Total Capital | <u>\$226,227,938</u> | <u>\$0</u> | <u>\$226,227,938</u> | <u>-\$224,653,125</u> | <u>\$1,574,813</u> | <u>100.00%</u> | | <u>8.33%</u> | |
| Per Staff | | | | | | | | | |
| 8 Long-term Debt | \$124,044,203 | \$0 | \$124,044,203 | -\$123,496,025 | \$548,178 | 52.58% | 6.81% | 3.58% | |
| 9 Short-term Debt | 11,347,000 | 0 | \$11,347,000 | -\$11,296,855 | 50,145 | 4.81% | 2.00% | 0.10% | |
| 10 Preferred Stock | 0 | 0 | \$0 | \$0 | 0 | 0.00% | 0.00% | 0.00% | |
| 11 Common Equity | 90,787,422 | 0 | \$90,787,422 | -\$90,386,213 | 401,209 | 38.48% | 10.53% | 4.05% | |
| 12 Customer Deposits | 9,242 | 0 | \$9,242 | \$0 | 9,242 | 0.89% | 6.00% | 0.05% | |
| 13 Deferred Income Taxes | <u>40,071</u> | <u>-6,322</u> | <u>\$33,749</u> | <u>\$0</u> | <u>33,749</u> | <u>3.24%</u> | 0.00% | <u>0.00%</u> | |
| 14 Total Capital | <u>\$226,227,938</u> | <u>-\$6,322</u> | <u>\$226,221,616</u> | <u>-\$225,179,093</u> | <u>\$1,042,523</u> | <u>100.00%</u> | | <u>7.78%</u> | |
| | | | | | | LOW | HIGH | | |
| RETURN ON EQUITY | | | | | | <u>10.53%</u> | <u>12.53%</u> | | |
| OVERALL RATE OF RETURN | | | | | | <u>7.78%</u> | <u>8.55%</u> | | |

| Utilities, Inc. of Pennbrooke Statement of Wastewater Operations Test Year Ended 12/31/05 | | | | | | Schedule No. 3-A Docket No. 060261-WS Interim | |
|---|-----------------------------|-----------------------------|--------------------------------------|---------------------------|--------------------------------|---|------------------------|
| Description | Test Year Per Utility | Utility Adjust- ments | Adjusted Test Year Per Utility | Staff Adjust- ments | Staff Adjusted Test Year | Revenue Increase | Revenue Requirement |
| 1 Operating Revenues: | <u>\$308,977</u> | <u>\$124,445</u> | <u>\$433,422</u> | <u>\$125,464</u> | <u>\$307,958</u> | <u>\$114,155</u> | <u>\$422,113</u> |
| | | | | | | 37.07% | |
| Operating Expenses | | | | | | | |
| 2 Operation & Maintenance | \$221,517 | \$7,621 | \$229,138 | -\$7,621 | \$221,517 | | \$221,517 |
| 3 Depreciation | 45,071 | 3,981 | 49,052 | 0 | 49,052 | | 49,052 |
| 4 Amortization | 268 | 0 | 268 | 0 | 268 | | 268 |
| 5 Taxes Other Than Income | 39,394 | 6,315 | 45,709 | -6,195 | 39,514 | 5,137 | 44,651 |
| 6 Income Taxes | <u>-20,668</u> | <u>42,815</u> | <u>22,147</u> | <u>-37,681</u> | <u>-15,534</u> | <u>41,024</u> | <u>25,489</u> |
| 7 Total Operating Expense | <u>285,582</u> | <u>60,732</u> | <u>346,314</u> | <u>-51,497</u> | <u>294,817</u> | <u>46,161</u> | <u>340,977</u> |
| 8 Operating Income | <u>\$23,395</u> | <u>\$63,713</u> | <u>\$87,108</u> | <u>-\$73,967</u> | <u>\$13,141</u> | <u>\$67,995</u> | <u>\$81,136</u> |
| 9 Rate Base | <u>\$1,024,914</u> | | <u>\$1,045,711</u> | | <u>\$1,042,523</u> | | <u>\$1,042,523</u> |
| 10 Rate of Return | <u>2.28%</u> | | <u>8.33%</u> | | <u>1.26%</u> | | <u>7.78%</u> |

**Utilities, Inc. of Pennbrooke
Adjustment to Operating Income
Test Year Ended 12/31/05**

**Schedule No. 3-B
Docket No. 060261-WS
Interim**

| Explanation | Wastewater |
|---|--------------------|
| <u>Operating Revenues</u> | |
| 1 Remove requested final revenue increase | (\$125,464) |
| 2 | \$0 |
| 3 | \$0 |
| 4 | \$0 |
| Total | <u>(\$125,464)</u> |
| <u>Operation and Maintenance Expense</u> | |
| 1 Remove pro forma salaries and wages | (\$4,022) |
| 2 Remove pro forma employee benefits | (\$1,455) |
| 3 Remove proforma purchased power costs | (\$1,744) |
| 4 Remove proforma testing | (\$400) |
| 5 | \$0 |
| 6 | \$0 |
| 7 | \$0 |
| 8 | \$0 |
| 9 | \$0 |
| 10 Total | <u>(\$7,621)</u> |
| <u>Depreciation Expense - Net</u> | |
| 1 | \$0 |
| 2 | \$0 |
| 3 | \$0 |
| 4 | \$0 |
| 5 To remove net depreciation on non-U&U adjustment above. | \$0 |
| 6 | \$0 |
| Total | <u>\$0</u> |
| <u>Amotization-Other Expense</u> | |
| | <u>\$0</u> |
| <u>Taxes Other Than Income</u> | |
| 1 RAFs on revenue adjustments above | (\$5,812) |
| 2 To reflect the appropriate historical test year RAFs | \$166 |
| 3 To remove pro forma payroll taxes | (\$549) |
| 4 | \$0 |
| Total | <u>(\$6,195)</u> |
| <u>Income Taxes</u> | |
| 1 To adjust to test year income tax expense | <u>(\$37,681)</u> |

| Utilities, Inc. of Pennbrooke Wastewater Monthly Service Rates Test Year Ended 12/31/05 | | Schedule 4 Docket No. 060261-WS Interim | | |
|--|--------------------------------------|--|--|--------------------------------------|
| | Rates Prior to Filing | Utility Requested Interim | Utility Requested Final | Staff Recomm. Interim |
| <u>Residential</u> | | | | |
| Base Facility Charge by Meter Size: | | | | |
| 5/8" x 3/4" | \$7.85 | \$11.09 | \$11.85 | \$10.78 |
| 1" | \$19.62 | \$27.72 | \$29.62 | \$26.94 |
| 1-1/2" | \$39.23 | \$55.42 | \$59.22 | \$53.87 |
| 2" | \$62.77 | \$88.72 | \$94.74 | \$86.19 |
| 3" | \$125.54 | \$177.35 | \$189.52 | \$172.38 |
| 4" | \$196.15 | \$277.10 | \$296.11 | \$269.34 |
| Gallage Charge - Per 1,000 gallons (10,000 gallon cap) | | | | |
| | \$1.96 | \$3.32 | \$3.54 | \$2.69 |
| <u>General Service</u> | | | | |
| Base Facility Charge by Meter Size: | | | | |
| 5/8" x 3/4" | \$7.85 | \$11.09 | \$11.85 | \$10.78 |
| 1" | \$19.62 | \$27.72 | \$29.62 | \$26.94 |
| 1-1/2" | \$39.23 | \$55.41 | \$59.22 | \$53.87 |
| 2" | \$62.77 | \$88.71 | \$94.74 | \$86.19 |
| 3" | \$125.54 | \$177.35 | \$189.52 | \$172.38 |
| 4" | \$196.15 | \$277.10 | \$296.11 | \$269.34 |
| 6" | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| 8" | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| Gallage Charge, per 1,000 Gallons | | | | |
| | \$2.35 | \$3.32 | \$3.54 | \$3.23 |
| <u>Typical Residential Bills 5/8" x 3/4" Meter</u> | | | | |
| 3,000 Gallons | \$13.73 | \$21.05 | \$22.47 | \$18.84 |
| 5,000 Gallons | \$17.65 | \$27.69 | \$29.55 | \$24.23 |
| 10,000 Gallons | \$27.45 | \$44.29 | \$47.25 | \$37.68 |
| (Wastewater Gallage Cap - 10,000 Gallons) | | | | |