

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-**

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**DATE:** December 27, 2006

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

**FROM:** Division of Economic Regulation (Merta, Bulecza-Banks, Fletcher, Kyle, Lingo, Rendell, Rieger, 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:** 01/09/07 – Regular Agenda – Proposed Agency Action Except for Issues 27 and 28 - Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Arriaga

**CRITICAL DATES:** 01/23/07 (5-Month Effective Date (PAA Rate Case))

**SPECIAL INSTRUCTIONS:** None

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

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### Case Background

Utilities, Inc. (UI or parent) is an Illinois corporation which owns approximately 80 utility subsidiaries throughout 16 states including 16 water and wastewater utilities within the State of Florida. Currently UI has ten separate rate case dockets pending before the Florida Public Service Commission (Commission). These dockets are as follows:

<u>Docket No.</u>	<u>Utility Subsidiary</u>
060253-WS	Utilities Inc. of Florida
060254-SU	Mid-County Services, Inc.
060255-SU	Tierra Verde Utilities, Inc.
060256-SU	Alafaya Utilities, Inc.
060257-WS	Cypress Lakes Utilities, Inc.
060258-WS	Sanlando Utilities, Inc.
060260-WS	Lake Placid Utilities, Inc.
060261-WS	Utilities Inc. of Pennbrooke
060262-WS	Labrador Utilities, Inc.
060285-SU	Utilities Inc. of Sandalhaven

This recommendation addresses Docket No. 060261-WS. 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 UI. Rates were last established for Pennbrooke in its 2000 rate proceeding.<sup>1</sup> In 2003, Utilities, Inc. of Pennbrooke purchased the assets of Pennbrooke Utilities, Inc., and rate base was established for the utility.<sup>2</sup>

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 were corrected and August 22, 2006, was established as the official filing date. The test year established for interim and final rates is the historical twelve-month period ended December 31, 2005.

Although Pennbrooke is seeking rate relief for both its water and wastewater operations, Pennbrooke requested interim rates for only its wastewater system. On August 7, 2006, the Commission approved interim rates designed to generate annual wastewater revenues of \$422,113, an increase of \$114,155 or 37.07%.<sup>3</sup> The utility requested final rates designed to

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<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> See Order No. PSC-06-0670-FOF-WS, issued August 7, 2006, in Docket No. 060261-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke.

Docket No. 060261-WS  
Date: December 27, 2006

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 intervention of the Office of Public Counsel was acknowledged by Order No. PSC-06-0547, PCO-WS, issued June 27, 2006, in this docket. The Commission has jurisdiction pursuant to Section 367.081, Florida Statutes (F.S.).

## Discussion of Issues

### QUALITY OF SERVICE

**Issue 1:** Is the quality of service provided by Utilities, Inc. of Pennbrooke satisfactory?

**Recommendation:** Yes. The utility's overall quality of service is satisfactory. As part of a review concerning water pressure, the utility should be required to submit a report, within six months of the Consummating Order in this proceeding, of its flushing program, including dates, locations, duration, gallons of water used in flushing the system, customers complaints and utility responses concerning pressure. (Rieger)

**Staff Analysis:** Pursuant to Rule 25-30.433(1), Florida Administrative Code, in every water and wastewater rate case, the Commission shall determine the overall quality of service provided by the utility by evaluating three separate components of water and wastewater operations. The components are: 1) quality of utility's product; 2) the operational conditions of the utility's plant and facilities; and, 3) the utility's attempt to address customer satisfaction. The rule further states that sanitary surveys, outstanding citations, violations and consent orders on file with the Department of Environmental Protection (DEP) and the county health department over the preceding 3-year period shall also be considered, along with input from the DEP and health department officials and consideration of customer comments and complaints.

Our analysis of the overall quality of service provided by the utility is derived from the quality of the utility's water and wastewater product, operational condition of the utility's plants or facilities, and customer satisfaction. Comments or complaints received by the Commission from customers are reviewed. We have also considered the utility's current compliance with the DEP.

#### Quality of the product

In Lake County, the water and wastewater programs are regulated by the DEP Central District office located in Orlando. The utility is current in all of the required chemical analyses, and the utility has met all required standards for both water and wastewater. The quality of drinking water delivered to the customers and the wastewater effluent quality are both considered to be satisfactory by the DEP.

#### Condition of Plants

A field investigation for Pennbrooke was conducted September 14, 2006. Staff found no apparent problems with the operations of either the water or wastewater treatment facilities. The conditions of these facilities are currently in compliance with the DEP rules and regulations. A review of the maintenance records and the general condition of the facilities appear to be adequate. Therefore, staff believes that the quality of service for the condition of the water and wastewater plants is satisfactory.

### Customer Satisfaction

**Test Year Complaints** - In its filing, the utility provided copies of customer complaints received during the test year. The water quality complaints dealt with discoloration, residue and sediment, odor, taste, and low pressure. A review of these complaints found that the utility mainly responded with flushing the lines to help resolve all but the pressure problems. In some cases, the utility determined that malfunctioning filters installed by the customers were causing problems. Closed valves, customer filters, and customer irrigation were all identified as resulting in reduced water pressure.

Sewage back-ups and noise from the wastewater treatment plant were the main wastewater complaints. For the back-up problems, the utility mainly eliminated obstructions to correct problems. The noise problem was found to be coming from blowers used for the aeration portion of the treatment process. These blowers were serviced with mufflers installed in the spring of 2005.

**Correspondences** - Water quality concerns brought up in correspondences to the Commission from the customers dealt with low pressure and colored and cloudy water with residue and sediment. There was also a comment concerning wastewater treatment plant odor and noise.

**Customer Meeting** - A customer meeting was held in the utility's service area on October 10, 2006, in the Grand Hall at Pennbrooke Fairways. There were approximately one hundred customers who attended the meeting. Of the fifteen who spoke, seven brought up water quality concerns, including water pressure. Comments received were primarily the same in nature as those discussed above in this section. Five customers spoke about noticeably little pressure inside homes at faucets and showers at certain times. One customer spoke of poor irrigation coverage due to pressure. It was his opinion there was a need to be allowed to irrigate more often by the water management district due to the lack of irrigation coverage caused by the low pressure. He did note that the system has improved, but still considered it unsatisfactory. Therefore, the customer believed that no rate increase should be given until pressure is improved. Another customer spoke of safety concerns over pressure, by noting that fire hydrant color identifications indicate fire department concerns over poor pressure.

Concerning other water quality comments, two customers spoke of coffee pots ruined, shower heads blocked, discolored and stained fixtures and structures, and hot water heaters filled with sediment. One customer believed that the utility should be held responsible for the calcium, iron, and sulfur problems that occur in the water system. Overall, through the showing of hands, the general opinion of those who attended the meeting was that the quality of service provided by the utility was less than satisfactory.

**Utility Addresses Customer Satisfaction** - The utility responded to staff regarding the customers' concerns by indicating that the sequestrant that is injected at the water treatment plant prior to chlorination is designed to hold iron in suspension for a period of 48 to 72 hours. Beyond this time there could be some depositing of minerals such as iron. The utility believes that the comments received at the customer meeting were not unusual since most consumption at Pennbrooke is somewhat on the low side which allows water to remain within a residence for a



prolonged period. The utility has indicated that the water produced is extensively tested for iron and hydrogen sulfide and is in compliance with FDEP rules and regulations. It is reluctant to treat for hardness because it believes that it is cost prohibitive and it is unsure that the residential customers overall would want to pay the cost to provide that level of service. It noted that the water in Florida is typically higher in calcium hardness than other regions of the country. However, the utility continues to address the quality situation by implementing a flushing program that covers the entire distribution system. The utility indicated that the scheduling dates for this program are coordinated through the Homeowners Association (HOA), and subsequently placed on the HOA internal cable information system to eliminate potential conflicts between customer's watering schedules and the flushing.

However, as recently as late October of 2006, planned utility flushing caused significant problems in some areas of Pennbrooke. Review of this recent event uncovered problems with the noticing of scheduled flushing events. The utility assumed that its flushing schedule was being noticed to the residents of Pennbrooke. This has not occurred. The HOA representative indicated that regular notices are not aired via cable because the scheduling is much too complicated for local residents to understand. Therefore, further simplification of the scheduling of flushing events is necessary. The utility has been asked to meet with the homeowners' representative to work out a more simplified plan to notice upcoming flushing events.

Regarding pressure, the utility notes it is conducting further studies of the system to insure that all valves are open, since it has found several to be closed. The utility believes that system pressure has improved since it has replaced well pumps, checked for closed valves, installed a new 12" water main from the plant, and rerouted a fill line from the wells to the ground storage tanks. Even though demands have been high due to a lack of recent rainfall, the number of complaints has been reduced. As a result of the customer concerns about pressure brought up at the customer meeting, the utility has cooperated with staff by performing additional pressure checks in the areas considered the most susceptible to this kind of problem.

Results from seven day pressure monitoring periods showed that the system water pressure was maintained above the minimum 20 psi as required by DEP, with average pressures between 55 psi and 65 psi. Of the three residences that had pressure recording devices attached to the house plumbing systems, the lowest pressure dips for each were 28 psi, 33 psi, and 35 psi. It should be noted that the pressures are possibly affected by piping restrictions within the house plumbing, and would most likely be higher if recorded at the point of delivery near the customer meter. For the recorder connected to a fire hydrant, the water main pressure averaged between 58 psi and 64 psi, with low points that possibly reflect irrigation schedules going as low as 45 psi.

**Complaints on file** - The PSC Complaint Tracking System (CATS) was reviewed. Although there are currently no active complaints on file with the Commission, the most recent complaint (closed 12/01/06) dealt with the same problems as detailed above. In response to this complaint the utility reported that it has revised and simplified the schedule to reflect flushing activities through the end of the 2007 calendar year. The utility and the HOA are working together more closely to assure that the schedule is posted on the cable network so that residents can be aware

of and understand the routine flushing activities. Additional copies are to be provided for posting in common areas to provide customers with advanced notification.

Since obtaining ownership of the Pennbrooke water and wastewater system, staff believes that the utility has attempted to reasonably address the areas of concern brought up by the customers. It is obvious, through customer response, that complete satisfaction has not yet been obtained. Staff believes that realistic efforts have been made by the utility to enhance the quality of service provided to its customers. The quality of the water product delivered to the customers does meet DEP standards. However, it is apparent that additional attention is needed to enhance the water quality through continued regular line flushing with constant vigilance over pressure demands. The utility has made a noticeable effort to be watchful for the customer service problems mentioned above. This opinion is backed up through review of records that show reasonable utility response to customer complaints, plus the recent physical improvements made to enhance customer service.

In order to attempt to enhance and improve service to the customers, staff recommends that the utility continue with its flushing program and its efforts to improve water pressure. This includes keeping the customers informed of flushing schedules. The utility should be required to submit a record, within six months of the Consummating Order in this proceeding, of its flushing program.

#### Staff's Conclusion

Quality of service overall should be considered satisfactory. Staff believes that the quality of product and the condition of plants are adequate when it comes to regulatory compliance standards. However, the customer satisfaction portion of the quality of service review does have problems. As mentioned above, staff believes the utility is adequately addressing the customer concerns. Staff recommends the utility continue with its flushing program and its efforts to improve water pressure including a continued flushing schedule notification to the customers. Staff recommends the utility be required to submit a report, within six months of the Consummating Order in this proceeding of its flushing program, including dates, locations, duration, gallons of water used in flushing the system, customers' complaints and utility responses concerning pressure.

**RATE BASE**

**Issue 2:** Should the audit adjustments to rate base, net operating income and capital structure to which the utility agrees be made?

**Recommendation:** Yes. Based on uncontested audit adjustments, plant should be decreased by \$5,750 for water and increased by \$8,080 for wastewater; accumulated depreciation should be increased by \$7,360 for water and by \$10,640 for wastewater; net depreciation expense should be decreased by \$9,484 for water and \$5,270 for wastewater; accumulated amortization of contributions in aid of construction (CIAC) should be increased by \$18,651 for water and \$35,332 for wastewater; operation and maintenance (O&M) expenses should be decreased by \$5,200 for water and \$3,909 for wastewater; taxes other than income taxes (TOTI) should be decreased by \$4,194 for water and increased by \$4,543 for wastewater; common equity should be increased by \$3,093,004; deferred taxes should be increased by \$5,369; and finally, long-term debt should be decreased by 0.08 percent. (Merta)

**Staff Analysis:** In its response to Staff's Audit Report, Pennbrooke agreed to the audit findings and audit adjustment amounts listed below. Staff recommends the following adjustments to rate base, net operating income and capital structure:

Utilities Inc. of Pennbrooke Audit Adjustments Water								
Audit Adjustments	Water Plant	Water Accum. Depr./CIAC	Water Depr./Amort Expense	Misc. Expense	Taxes Other Than Income	Common Equity	Cost of Long Term Debt	Deferred Taxes
Finding No. 1 CIAC		\$18,651	(\$7,473)					
Finding No. 2 Org. Costs		(\$11,677)	(\$292)					
Finding No. 3 Plant Balances								
Finding No. 6 Transp. Equip.	(\$8,080)	\$4,353	(\$1,755)					
Finding No. 7 O & M Exp	\$2,330	(\$36)	\$36	(\$2,330) (\$1,037) (\$675) (\$1,158)				
Finding No. 9 Property Tax and RAF					(\$4,377) (\$183)			
Finding 12 Capital Struct.						\$3,093,004	(.08%)	
Finding 13 Deferred Tx's								\$5,369
Adjustment Totals	(\$5,750)	\$11,291	(\$9,484)	(\$5,200)	(\$4,194)	\$3,093,004	(.08%)	\$5,369

Utilities Inc. of Pennbrooke Audit Adjustments Wastewater								
Audit Adjustments	Waste-Water Plant	Waste-water Accum. Depr./CIAC	Waste-water Depr./Amort Expense	Waste-water Misc. Expense	Taxes Other Than Income	Common Equity	Cost of Long Term Debt	Deferred Taxes
Finding No. 1 CIAC		\$35,332	(\$10,154)					
Finding No. 2 Org. Costs		(\$3,158)						
Finding No. 3 Plant Balances		(\$3,129)	\$3,129					
Finding No. 6 Transp. Equip.	\$8,080	(\$4,353)	\$1,755					
Finding No. 7 O & M Exp				(\$3,909)				
Finding No. 9 Property Tax and RAF					\$4,377 \$166			
Finding 12 Capital Struct.						\$3,093,004	(.08%)	
Finding 13 Deferred Tx's								\$5,369
Adjustment Totals	\$8,080	\$27,821	(\$8,999)	(\$3,909)		\$3,093,004	(.08%)	\$5,369

The utility agrees with all of the above audit adjustments. Therefore, staff recommends that plant be decreased by \$5,750 for water and increased by \$8,080 for wastewater; accumulated depreciation should be increased by \$7,360 for water and by \$10,640 for wastewater; net depreciation expense should be decreased by \$9,484 for water and \$5,270 for wastewater; accumulated amortization of CIAC should be increased by \$18,651 for water and \$35,332 for wastewater; O&M expenses should be decreased by \$5,200 for water and \$3,909 for wastewater; TOTI should be decreased by \$4,194 for water and increased by \$4,543 for wastewater; common equity should be increased by \$3,093,004; deferred taxes should be increased by \$5,369; and finally, long-term debt should be decreased by 0.08 percent.

**Issue 3:** What are the appropriate Water Service Corporation (WSC) and Utilities, Inc. of Florida (UIF) rate base allocations for Pennbrooke?

**Recommendation:** The appropriate WSC net rate base allocation for Pennbrooke is \$5,972 for water and \$5,176 for wastewater. This represents an increase of \$1,597 and \$1,340 for water and wastewater, respectively. WSC depreciation expense should also be reduced by \$114 and \$98, for water and wastewater, respectively. Further, the appropriate UIF rate base allocation for Pennbrooke is \$14,222 for water and \$12,189 for wastewater. This represents water plant and accumulated depreciation decreases of \$17,715 and \$5,331, respectively, and wastewater plant and accumulated depreciation increases of \$17,450 and \$5,261, respectively. In addition, depreciation expense should be increased by \$362 for water and \$578 for wastewater. (Fletcher)

**Staff Analysis:** On MFR Schedule A-3, the utility reflected a WSC rate base allocation of \$7,569 for water and \$6,516 for wastewater. Pennbrooke also recorded \$38,076 of its UIF rate base allocation to the water system only. Staff performed an affiliate transactions (AT) audit of Utilities, Inc., the parent company of Pennbrooke and its sister companies. WSC (a subsidiary service company of UI) supplies most of accounting, billing, and other services required by UI's other subsidiaries. UIF (a subsidiary of UI) provides administrative support to its sister companies in Florida. As discussed below, staff believes several adjustments are necessary to the WSC and UIF rate bases before they are allocated to the utility. These adjustments include recommended audit adjustments and the use of an ERC-only methodology for several WSC allocation codes.

### Audit Adjustments

In Audit Finding No. 1 of the AT audit, the staff auditor recommended adjustments to WSC's rate base consistent with Order No. PSC-03-1440-FOF-WS<sup>4</sup>. First, deferred income taxes were removed because it should be a component of the capital structure. Second, the net computer plant balances were set to zero because WSC was unable to provide sufficient supporting evidence for inter-company transfers of computers and was unable to locate several missing invoices requested. Third, the office structure and furniture balances were adjusted because WSC was unable to locate several missing invoices the auditors had requested. In its response to the AT audit, UI agreed with the above recommended audit adjustments. Based on the above, staff recommends that the appropriate simple average WSC rate base before any allocation is \$2,122,628. As there were no audit findings in the AT audit regarding UIF's rate base, staff recommends that the appropriate simple average UIF rate base before any allocation is \$1,113,433 as reflected in UIF's general ledger.

### ERC Methodology

WSC utilizes 11 different allocation factors to allocate its rate base and expenses. Prior to January 1, 2004, WSC's allocation codes one, two, three, and five were based on customer equivalents (CEs). By Order No. PSC-03-1440-FOF-WS, pp. 23-30, the Commission found that WSC's method of allocating its common costs based on CEs is unsupported and unreasonable.

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<sup>4</sup> Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, In re: Application for rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

Further, the Commission found that UI shall use ERCs, measured at the end of the applicable test year, as the primary factor in allocating affiliate costs in Florida as of January 1, 2004.

In Audit Finding No. 4 of the AT Audit, staff auditors stated that WSC allocates its common plant and expenses quarterly as of June 30, 2005. In addition, WSC utilizes the following: “(1) If the operating system has both water and wastewater, the wastewater customer is counted as one half; (2) If the customer is an availability customer only, the customer is counted as one half; (3) If the water company is a distribution company only, the customer is counted as one half; and, (4) If the wastewater company is a collection company only, the customer is counted as one half.” Staff believes that these additional four factors unnecessarily complicate the allocation process versus the use of an ERC-only methodology. With this additional methodology, staff notes that WSC’s ERC count will not conform to the ERC count in each Florida subsidiaries’ annual report filed with the Commission. Further, the use of an ERC-only methodology is consistent with the methodology used by the Commission to set rates for water and wastewater utilities. Accordingly, staff recommends that UI should use the ERC-only methodology for its allocation codes one, two, three, and five.

#### Conclusion

Based on the above, staff recommends that the appropriate WSC net rate base allocation for Pennbrooke is \$5,972 for water and \$5,176 for wastewater. This represents an increase of \$1,597 and \$1,340 for water and wastewater, respectively. WSC depreciation expense should also be reduced by \$114 and \$98, for water and wastewater, respectively. Further, staff recommends the appropriate UIF rate base allocation for Pennbrooke is \$14,222 for water and \$12,189 for wastewater. This represents water plant and accumulated depreciation decreases of \$17,715 and \$5,331, respectively, and wastewater plant and accumulated depreciation increases of \$17,450 and \$5,261, respectively. In addition, depreciation expense should be increased by \$362 for water and \$578 for wastewater.

**Issue 4:** Should adjustments be made to the utility's pro forma plant and expense additions?

**Recommendation:** Yes. After staff's proposed adjustments, the total pro forma plant additions should be \$75,940 and pro forma expense should be \$2,825. As a result, plant should be decreased by \$52,178 for water and by \$32,004 for wastewater. Accordingly, accumulated depreciation and depreciation expense should both be decreased by \$2,419 for water and \$1,366 for wastewater. Miscellaneous expense should be increased by \$2,825 to amortize tank inspections. (Merta)

**Staff Analysis:** Pennbrooke's MFRs reflected pro forma plant additions of \$160,122. Staff reviewed the support documentation and prudence for these pro forma plant amounts. According to data request responses, all pro forma plant was completed and in service in 2006. Based on our review, staff believes adjustments are necessary to Pennbrooke's requested pro forma plant and expense additions.

According to information from the utility, the water treatment plant (WTP) system improvements, water pumps, and reuse services were estimates of normal recurring plant costs. There were no work orders, invoices or other supporting documentation for these items. Therefore, staff recommends that plant be decreased by \$3,457 (\$1,415 + \$894 + \$1,148) for these unsupported amounts (\$2,309 for water and \$1,148 for wastewater) and that accumulated depreciation and depreciation expense both be decreased by \$126 (\$88 for water and \$38 for wastewater).

In response to low pressure complaints from customers, Pennbrooke installed 600 linear feet of twelve-inch PVC water main in parallel with the existing eight-inch water main to allow more water to enter the system. Demolition and removal of the existing aerator/storage tank and the sand filter were also completed. The utility submitted invoices and supporting documentation reflecting a \$67,546 cost for this project. In its MFRs, the utility estimated \$121,780 for this project. Therefore, staff recommends that plant be decreased by \$54,234 and that accumulated depreciation and depreciation expense both be decreased by \$2,468.

Pennbrooke originally considered purchasing and placing an office trailer with bathroom facilities on the wastewater treatment plant (WWTP) property and estimated \$20,000 for the project. However, due to the extensive permitting required and a determination that the WWTP property did not have available space to accommodate the unit and still allow an electric utility easement, the decision was made to construct suitable office space within the existing WTP building. The utility submitted invoices and supporting documentation reflecting a \$8,394 cost for this project. Therefore, staff recommends that wastewater plant be decreased by \$11,606, and that accumulated depreciation and depreciation expense both be decreased by \$363.

Staff believes this office space should be allocated between water and wastewater based on the number of customers because the office space is used for field operations, file keeping, communications, and bathroom facilities for both water and wastewater personnel. Therefore, staff recommends that water plant, and both accumulated depreciation and depreciation expense be increased by \$4,365 and \$137, respectively, and that wastewater plant, accumulated depreciation and depreciation be decreased by those same amounts.

The utility included \$14,885 in the MFRs for the replacement of floating aerators with forced air blowers and header in order to meet operating permit requirements for reuse. According to information and invoices submitted by Pennbrooke, this project was completed and recorded in the books in 2005 and is therefore included in the MFRs. Thus, staff recommends that wastewater plant be decreased by \$14,885 and that accumulated depreciation and depreciation expense both be decreased by \$828.

Chapter 62-555, F.A.C., requires the inspection of water storage tanks at least every three years by a Florida-licensed professional engineer. None of the Pennbrooke tanks had been inspected according to DEP and utility records. Pennbrooke provided invoices and documentation supporting an expense of \$8,475 for the inspection of five tanks. This expense was not included in the utility's MFRs. Therefore, staff recommends that miscellaneous expenses be increased by \$2,825 to amortize \$8,475 over three years, the length of time between inspections.

In summary, staff recommends that total pro forma plant additions should be \$75,940 and pro forma expense should be \$2,825. As a result, plant should be decreased by \$56,543 for water and by \$27,639 for wastewater to remove unsupported projects. Accordingly, accumulated depreciation and depreciation expense should both be decreased by \$2,556 for water and \$1,229 for wastewater. Further, plant should be increased by \$4,365 for water and decreased by \$4,365 for wastewater and accumulated depreciation and depreciation expense should both be increased by \$137 for water and decreased by \$137 for wastewater to allocate pro forma office construction. Finally, miscellaneous expense should be increased by \$2,825 to amortize tank inspections. A breakdown of pro forma plant and expense is as follows:

Utilities Inc. of Pennbrooke Pro Form Plant Water Operation						
Pro Forma Plant Adjs.	Per MFRs	Staff Adjustments to Water Plant	Staff Adjusted Plant	Staff Adjustments to Water Accumulated Depreciation	Staff Adjustments to Water Depreciation Expense	Staff Adjustment to Miscellaneous Expense
No support for: WTP Sysem Improvements Water Pumps	\$1,415 \$894	(\$1,415) (\$894)	\$0 \$0	(\$88)	(\$88)	
PVC Water Main Cost Adj.	\$121,780	(\$54,234)	\$67,546	(\$2,468)	(\$2,468)	
Office Expansion Allocation	\$0	\$4,365	\$4,365	\$137	\$137	
Storage Tank Inspections						\$2,825
Adjustment Totals	\$124,089	(\$52,178)	\$71,911	(\$2,419)	(\$2,419)	\$2,825



Utilities Inc. of Pennbrooke Pro Forma Plant Wastewater Operations					
Pro Forma Plant Adjs.	Per MFRs	Staff Adjustment to Wastewater Plant	Staff Adjusted Plant	Staff Adjustments to Wastewater Accumulated Depreciation	Staff Adjustment to Wastewater Depreciation Expense
No support for: Reuse Services	\$1,148	(\$1,148)	\$0	(\$38)	(\$38)
Office Expansion	\$20,000	(\$11,606)	\$8,394	(\$363)	(\$363)
Office Expansion Allocation	\$0	(\$4,365)	(\$4,354)	(\$137)	(\$137)
Air Blowers & Header	\$14,885	(\$14,885)	\$0	(\$828)	(\$828)
Adjustment Totals	\$36,033	(\$32,004)	\$4,040	(\$1,366)	(\$1,366)

Utilities Inc. of Pennbrooke Summary Pro Forma Plant Combined Water & Wastewater Operations		
Total Plant Per MFR - Water	\$124,089	
Total Plant Per MFR - Wastewater	\$ 36,003	
<b>Total Combined Plant</b>		\$160,122
Staff Adjustments – Water	(\$52,178)	
Staff Adjustments – Wastewater	(\$32,004)	
<b>Total Combined Adjustments</b>		(\$ 84,182)
Total Adjusted Plant Balances		\$ 75,940

**Issue 5:** What are the used and useful percentages of the utility's water and wastewater systems?

**Recommendation:** Pennbrooke's water treatment plant is 100% used and useful, the wastewater plant is 100% used and useful, and the water distribution and wastewater collection systems are 100% used and useful as reflected in Attachment A. (Rieger)

**Staff Analysis:** In its application, the utility asserts the water and wastewater treatment plants, as well as the water distribution and wastewater collection systems, are all 100% used and useful. Attachment A contains a used and useful analysis for the water and wastewater plants.

### Water Treatment Plant

The used and useful calculation of the water treatment plant is determined by dividing the peak demand by the firm reliable capacity of the water treatment system, based on 12 hours of pumping. Consideration is given to fireflow, unaccounted for water, and growth. In accordance with the American Waterworks Association Manual of Water Supply Practices, the highest capacity well should be removed from the calculation to determine the plant's reliability. In this case, the firm reliable capacity is determined by assuming that one of the two 900 gpm wells is out of service. As detailed in Attachment A to this recommendation, unaccounted for water (8.21%) is not considered excessive and allowances for growth are not included because the system is at build out. Since the peak day (May 28, 2005) appeared to be associated with unusual occurrences, the average of the five highest days within a thirty-day period (November, 2005) was used for peak day demand. As reflected in Attachment A, the water treatment plant is considered 100% used and useful based on the five peak days demand of 739,000 gallons, required fireflow of 144,000 gallons, divided by the firm reliable plant capacity of 648,000 gallons. In addition, the water treatment plant should also be considered 100% used and useful because the system is built out and not considered oversized.

### Storage

Storage is 100% used and useful because the usable storage of the three-50,000 gallons steel reservoirs is less than the peak day demand of 739,000 gallons and not considered oversized.

### Wastewater Treatment Plant

The used and useful calculation of the wastewater treatment plant is determined by dividing the annual average daily flow by the permitted plant capacity based on the annual average daily flow. Consideration is given for growth and inflow and infiltration (I&I). The WWTP was 100% used and useful in the utility's last rate case. In this case, an allowance for growth is not a factor because the system is at build out. Due to recent improvements made to the collection system, I&I is also not a factor because flow records do not indicate any problems during wet weather events. As detailed in Attachment A, numerically the used and useful analysis based on the annual average daily flow during the test year reflects a 50% used and useful determination. However, the utility believes that this facility should be considered 100%

used and useful because the current flows into the plant (71 gpd/ERC) are significantly less than the historic flows into the plant (129 gpd/ERC).

The wastewater collection system was rehabilitated in 2004, which contributed to the overall reduced plant flows. In addition, the customer base increased by 70% since the prior test year (2001) and improvements have been made to the treatment plant. The utility believes the plant should be considered 100% used and useful because the system is at build out. It states that if the 2001 historic flow levels had continued with the addition of growth over the years, the flows would have approached the capacity of the plant.

Staff agrees with the utility that the plant was appropriately sized based on the historic flows prior to the 2004 rehabilitation improvements. It appears that the flow reduction per ERC is a good indication of how successful the collection rehabilitation project was. Also, Rule 25-30.432, F.A.C., provides allowances in determining the used and useful amount when the area served by the plant is built out. In addition, the plant was 100% used and useful in the utility's last rate case. Therefore, the wastewater treatment plant should be considered 100% used and useful.

#### Water Distribution and Wastewater Collection Systems

The used and useful calculations for the water distribution and wastewater collection systems are determined by the number of customers connected to the systems divided by the capacity of the systems. Consideration is given for growth. In this case, growth is not considered a factor since the systems are built out. Therefore, the water distribution and wastewater collection systems are considered 100% used and useful.

**Issue 6:** Should adjustments be made to construction work in progress?

**Recommendation:** Yes. Construction Work in Progress (CWIP) should be decreased by \$12,253 for water and \$2,235 for wastewater. In addition, Account 675, Miscellaneous Expense, should be increased by \$1,897. (Merta)

**Staff Analysis:** In its MFRs, the utility included CWIP of \$12,253 in water rate base and \$2,235 in wastewater rate base. For water, the balance included two work orders, a Consumptive Use Permit (CUP) renewal and a hydraulic analysis with maps. The wastewater balance included a diffused aeration system project. According to data request responses, all of these projects earned AFUDC. Pursuant to Rule 25-30.116, F.A.C., CWIP that is not included in rate base may accrue AFUDC. Commission practice is to exclude CWIP that earned AFUDC at any time, past or future, from rate base.<sup>5</sup> Therefore as these projects are earning a return through AFUDC, staff believes they should be removed from rate base. Staff recommends that CWIP be decreased by \$12,253 for water and \$2,235 for wastewater.

According to information provided by the utility, the CUP renewal was completed and the permit received from DEP in 2005 at a cost of \$9,485. Consistent with prior Commission orders,<sup>6</sup> staff believes this expense should be recorded in Account 675, Miscellaneous Expense, and amortized over five years. Therefore, staff recommends that expenses be increased by \$1,897 ( $\$9,485/5$ ).

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<sup>5</sup> Order No. 8618, issued December 27, 1978, in Docket No. 72609-PU (GI), In re: Treatment by public utilities of construction work in progress, telephone plant under construction and allowance on funds used for construction (interest during construction).

<sup>6</sup> Order No. PSC-02-1111-PAA-WS, issued August 13, 2002, in Docket No. 010823-WS, In re: Application for staff-assisted rate case in Seminole County by CWS Communities, LP d/b/a/ Palm Valley.

**Issue 7:** What is the appropriate working capital allowance?

**Recommendation:** The appropriate amount of working capital is \$25,144 for water and \$27,462 for wastewater. (Merta)

**Staff Analysis:** Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, or one-eighth of O&M expenses, to calculate the working capital allowance. The utility has properly filed its allowance for working capital using the formula method. Staff has recommended several adjustments to the utility's O&M expenses. Due to the adjustments recommended in other issues, staff recommends that working capital of \$25,144 and \$27,462 be approved for water and wastewater, respectively. This reflects a decrease of \$86 to the utility's requested working capital allowance of \$25,230 for water and a decrease of \$3,645 to the utility's requested allowance of \$31,107 for wastewater.

**Issue 8:** What is the appropriate rate base for the December 31, 2005, test year?

**Recommendation:** Consistent with other recommended adjustments, the appropriate simple average rate base for the test year ending December 31, 2005 is \$590,646 for water and \$1,099,014 for wastewater. (Merta, Fletcher)

**Staff Analysis:** Consistent with other recommended adjustments, the appropriate simple average rate base for the test year ending December 31, 2005 is \$590,646 for water and \$1,099,014 for wastewater. Staff's recommended schedules for rate base are shown on Schedules 1-A and 1-B, respectively. The adjustments are shown on Schedule 1-C.

## **COST OF CAPITAL**

**Issue 9:** What is the appropriate return on common equity?

**Recommendation:** The appropriate return on common equity is 11.45% based on the Commission's leverage formula currently in effect. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. (Springer)

**Staff Analysis:** The return on equity (ROE) included in the utility's filing is 11.77%. This return is based on the application of the Commission's leverage formula approved in Order No. PSC-05-0680-PAA-WS and an equity ratio of 40.14%.<sup>7</sup>

As noted in Audit Finding No. 12, Utilities, Inc.'s average common equity balance of \$90,787,422 should be adjusted upward by \$3,093,004 to \$93,880,426. Per its response to the Audit Report, the utility is in agreement with the audit opinion. This adjustment increased the equity ratio as a percentage of investor-supplied capital from 40.14% to 40.95%.

Based on the current leverage formula approved in Order No. PSC-06-0476-PAA-WS and an equity ratio of 40.95%, the appropriate ROE is 11.45%.<sup>8</sup> Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

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<sup>7</sup> Order No. PSC-05-0680-PAA-WS, issued June 20, 2005, in Docket No. 050006-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.

<sup>8</sup> 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), Florida Statutes.

**Issue 10:** What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2005?

**Recommendation:** The appropriate weighted average cost of capital for the test year ended December 31, 2005 is 8.22%. (Springer, Kyle)

**Staff Analysis:** Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2005, staff recommends a weighted average cost of capital of 8.22%. The weighted average cost of capital included in the utility's filing is 8.38%. Schedule No. 2 details staff's recommendation.

The test year per book amounts were taken directly from Pennbrooke's MFR filing revised schedule D-2. Staff made specific adjustments to two components in the utility's proposed capital structure. As noted in Audit Finding No. 12, UI's average common equity balance should be adjusted upward by \$3,093,004. In addition, staff made an adjustment of \$5,369 to increase the balance of deferred income taxes. Staff auditors noted in Audit Finding No. 13 that the utility understated its calculation of deferred taxes for accelerated depreciation for state income tax purposes by \$5,253. Further, the auditors discovered that deferred taxes for intangible plant were understated by \$967 for state tax purposes and overstated by \$851 for federal tax purposes. Accordingly, staff recommends that the balance of deferred taxes be increased by \$5,369, the net of these amounts. Per its response to the Audit Report, the utility is in agreement with the audit opinions regarding these adjustments.

Staff used the respective cost rates proposed by the utility with two exceptions. The appropriate cost rate for common equity of 11.45% is discussed in Issue 9. In addition, in Audit Finding No. 12, the staff auditor was of the opinion that the cost rate for long-term debt should be reduced from the utility's proposed rate of 6.81% to 6.73%. Per its response to the Audit Report, the utility is in agreement with the audit opinion regarding this adjustment. Staff did not take issue with the proposed cost rates for short-term debt of 2.00% and customer deposits of 6.00%.

Based on the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2005, staff recommends a weighted average cost of capital of 8.22%. Schedule No. 2 details staff's recommendation.



## **NET OPERATING INCOME**

**Issue 11:** What is the appropriate amount of allocated WSC and UIF expenses for Pennbrooke?

**Recommendation:** Based on the audit adjustments and the ERC-only methodology, the appropriate WSC O&M expenses and taxes other than income for Pennbrooke are \$48,215 and \$2,329, respectively. As such, water O&M expenses and taxes other than income should be decreased by \$1,349 and \$4, respectively, and wastewater O&M expenses and taxes other than income should be decreased by \$1,157 and \$3, respectively. Further, the appropriate UIF O&M expenses for Pennbrooke are \$680 for water and \$583 for wastewater. As such, water and wastewater O&M expense should be decreased by \$20 and \$17, respectively. (Fletcher)

**Staff Analysis:** On MFR Schedule B-12, the utility reflected total WSC allocated O&M expenses of \$50,721 and taxes other than income of \$2,336. Pennbrooke also recorded total UIF allocated O&M expenses of \$1,300. As discussed below, staff believes adjustments are necessary to the WSC and UIF expenses before they are allocated to the utility. These adjustments include recommended audit adjustments and the use of an ERC-only methodology for several WSC allocation codes.

In Audit Finding No. 2 of the AT audit, the staff auditor recommended adjustments to WSC's expenses consistent with Order No. PSC-03-1440-FOF-WS, pp. 82-84. The auditor recommended removal of: (1) insurance premiums for former employee directors' life insurance policies; (2) fiduciary policies protecting directors, officers; and, (3) pension funds. The auditor believes these items should be eliminated because they were for the benefit of UI's shareholders. Second, the auditor recommended the removal of interest expense and interest income because they are included as components of UI's capital structure. In its response to the AT audit, UI agreed with the above recommended audit adjustments. Based on the above, staff recommends that the appropriate WSC expenses, before any allocation, are \$7,458,207. Further, there was no audit finding in the AT audit regarding UIF's expenses. Thus, staff recommends that the appropriate UIF O&M expenses before any allocation are \$266,650.

As recommended in Issue 3, UI should use the ERC-only methodology for its allocation codes one, two, three, and five. Based on the above audit adjustments and the ERC-only methodology, staff recommends that the appropriate WSC O&M expenses and taxes other than income for Pennbrooke are \$48,215 and \$2,329, respectively. As such, water O&M expenses and taxes other than income should be decreased by \$1,349 and \$4, respectively, and wastewater O&M expenses and taxes other than income should be decreased by \$1,157 and \$3, respectively. Further, staff recommends the appropriate UIF O&M expenses for Pennbrooke are \$680 for water and \$583 for wastewater. As such, water and wastewater O&M expense should be decreased by \$20 and \$17, respectively.

**Issue 12:** Should an adjustment be made to the utility's pro forma salaries and wages, pensions and benefits, and payroll taxes?

**Recommendation:** Yes. Pennbrooke's salaries and wages should be decreased by \$1,718 for water and \$1,240 for wastewater. Accordingly, pensions and benefits should be reduced by \$1,117 and \$936 for water and wastewater, respectively, and payroll taxes should be reduced by \$342 and \$310 for water and wastewater, respectively. (Fletcher)

**Staff Analysis:** On MFR Schedule B-5, Pennbrooke reflected historical water salaries and wages and pensions and benefits of \$65,512 and \$12,700, respectively. On MFR Schedule B-6, the utility reflected historical wastewater salaries and wages and pensions and benefits of \$61,703 and \$11,508, respectively. On MFR Schedule B-15, Pennbrooke reflected historical payroll taxes of \$5,860 for water and \$5,309 for wastewater.

On MFR Schedule B-3, the utility requested pro forma increases in water salaries and wages, pensions and benefits, and payroll taxes of \$4,672, \$1,690, and \$606, respectively, and requested increases in wastewater salaries and wages, pensions and benefits, and payroll taxes of \$4,022, \$1,455, and \$549, respectively. The pro forma salaries and wages represents increases of 7.13% for water and 6.52% for wastewater. The pro forma pensions and benefits represents increases of 13.31% for water and 12.64% for wastewater.

In Staff's First Data Request in Docket No. 060261-WS, the utility was asked to explain why its pro forma salaries and wages increases were significantly greater than the Commission's 2006 price index of 2.74%. In its response, the utility explained that its increases include all new employees' salaries, payroll taxes, and benefits for office employees and operators. The utility also stated that the salaries were annualized to reflect a full year of costs and a cost of living increase was applied across the board to all Florida office employees and operators.

In Staff's Fifth Data Request in Docket No. 060256-SU, UI was asked to provide the total number of full-time and part-time employees for its Florida subsidiaries, their average salary, and average salary percentage increases for all Florida managerial and non-managerial employees. According to the information provided, the historical average salary increases for all Florida Employees from 2001 to 2005 has been 4.51%. UI realized a net reduction of eight total Florida employees from 2005 to 2006. The total average salaries from 2005 to 2006 increased \$74,616; however, staff notes the total requested pro forma salary increases in UI's current docketed rate cases in Florida is \$332,883. If the salary increases for all Florida employees were limited to an across the board increase of the 4.51% historical five-year average, the pro forma salary increases for all of UI's current docketed cases would be \$105,776.

From the information provided by UI, staff is unable to attribute the 2006 employee changes to the respective pro forma salary increases in the UI docketed cases. The utility has the burden of proving that its costs are reasonable. See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (1982) Staff believes that UI has not met its burden of proof of showing how the employee changes from 2005 to 2006 effect the respective rate cases.

With the exception of Sandalhaven (a negative pro forma salary adjustment of \$573), staff believes the requested pro forma salary increases in UI's other respective rate cases are excessive. Staff notes the historical 5-year average salary increase of 4.51% is 177 basis points above the Commission's 2006 Price Index of 2.74%. With the exception of Sandalhaven, staff recommends that pro forma salary increases in all of UI's respective cases should be limited to the 4.51% above the 2005 historical salary amounts. The Commission has previously limited pro forma salary adjustments to a utility's historical average salary increases.<sup>9</sup> Thus, staff recommends that Pennbrooke's salaries and wages should be decreased by \$1,718 for water and \$1,240 for wastewater. Accordingly, pensions and benefits should be reduced by \$1,117 and \$936 for water and wastewater, respectively, and payroll taxes should be reduced by \$342 and \$310 for water and wastewater, respectively.

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<sup>9</sup> By Order No. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc., the Commission limited pro forma salaries to the utility's actual historical average wage increases of 3%.

**Issue 13:** Should adjustments be made to O&M expenses for nonutility and out-of-period expenses?

**Recommendation:** Yes. Account 775, Miscellaneous Expense, should be decreased by \$1,155 to remove non-utility expenses, and Account 635, Contractual Services – Testing, should be increased by \$330 to include 2005 testing expense paid in 2006. (Merta)

**Staff Analysis:** Audit Finding 7 reflected an adjustment to remove \$1,155 from expenses for sludge hauling from a sister subsidiary system. In its response to the audit report, the utility disagreed with this adjustment. Pennbrooke provided a copy of the invoice and stated that the invoice was miscoded when it was provided to audit staff. The audit report described the service provided as three tickets – Indian River Plantation Sludge Haul at \$385 each. Staff examined the invoice and it clearly indicated that the service was provided to Indian River Plantation. Staff’s research revealed that Utilities, Inc. of Hutchinson Island (UIHI) in Martin County acquired Indian River Plantation Co., d.b.a. Plantation Utilities. As such, staff believes that the expense should have been recorded on the books of UIHI. Therefore, staff recommends that expenses be decreased by \$1,155 to remove non-utility expenses.

In its response to Audit Finding 6, the utility provided a copy of an invoice for \$330 paid in January 2006, for well testing completed in 2005. As this expense was incurred in the test year, staff believes that it should be included in 2005 expenses. Therefore, staff recommends that expenses be increased by \$330.

**Issue 14:** Should an adjustment be made to normalize materials and supplies expense, and if so, what are the amounts?

**Recommendation:** Yes. To normalize the test year expense level, materials and supplies (M&S) expense should be decreased by \$7,902 for water and \$12,747 for wastewater. (Merta)

**Staff Analysis:** In its MFRs, the utility reflected a M&S test year amount of \$21,168 for the utility's water system and \$37,828 for wastewater, which represents an increase of 9,225.11% and 2,720.88% over the approved amount in Pennbrooke's last rate case. The utility stated that the reason for the increase in M&S was due to materials needed for operation and maintenance of the plant, distribution and collection systems. Pennbrooke calculated O&M expense benchmark indices of 2.16% for water and 1.86% for wastewater.

The O&M benchmark analysis is a comparison of the O&M expenses approved in the last rate proceeding, escalated for growth and inflation for the same time period to the level requested in the current case. Staff uses the benchmark analysis as a tool to measure the utility's growth and to highlight areas of concern. While all expense increases above the benchmark are not per se unreasonable or imprudent, O&M expense increases above the benchmark may signal the need for further justification by utilities for the increased cost levels being requested. See Order No. 17304, issued March 19, 1987, In Docket No. 850062-WS, In re: Application of Meadowbrook Utility Systems, Inc., for increased rates to its customers in Palm Beach County, Florida; and an Investigation into Overearnings, at p. 17.

Review of the M&S expense shows that it has fluctuated greatly since Pennbrooke's last rate case. To test the reasonableness of the test year level, staff compared M&S expenses for the two years prior to the 2005 test year. According to its annual reports from 2003-2004, the utility incurred average M&S expense of \$9,091 for water and \$18,275 for wastewater. To normalize the test year M&S expense, staff believes that the appropriate expense level for rate setting purposes should be a three-year average from 2003 to 2005, while also indexing the 2003 and 2004 expenses by the Commission-approved price indices. With the indexing adjustments, the three-year average is \$13,266 for water and \$25,073 for wastewater. Therefore, staff recommends that M&S expenses be decreased by \$7,902 (\$21,168 - \$13,266) for water and \$12,747 (\$37,828 - \$25,081) for wastewater. This treatment is consistent with the Commission's decision in the Indiantown Company, Inc. rate case.<sup>10</sup>

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<sup>10</sup> See Order No. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.

**Issue 15:** What is the appropriate amount of rate case expense?

**Recommendation:** The appropriate rate case expense is \$101,216. This expense should be recovered over four years for an annual expense of \$25,304. Thus rate case expense should be reduced by \$9,280 for water and \$8,001 for wastewater, respectively. (Merta)

**Staff Analysis:** The utility included in its MFRs, an estimate of \$170,338 for current rate case expense. Staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On November 14, 2006, the utility submitted a revised estimated rate case expense through completion of the PAA process of \$202,733. The components of the estimated rate case expense are as follows:

	<u>MFR</u> <u>Estimated</u>	<u>Actual</u>	<u>Additional</u> <u>Estimated</u>	<u>Total</u>
Legal and Filing Fees	56,300	24,739	47,250	71,989
Consultant Fees - AUS	49,840	38,963	11,948	50,911
Consultant Fees - Seidman	5,000	2,808	3,025	5,833
WSC In-house Fees	41,600	9,920	26,267	36,187
Office Temp Fees	0	2,106	17,894	20,000
Travel – WSC	3,200	0	3,200	3,200
Miscellaneous	12,000	577	11,423	12,000
Notices	<u>2,398</u>	<u>500</u>	<u>2,113</u>	<u>2,613</u>
Total Rate Case Expense	<u>\$170,338</u>	<u>\$79,613</u>	<u>\$123,120</u>	<u>\$202,733</u>

Pursuant to Section 367.081(7), F.S., the Commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. Staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on our review, staff believes several adjustments are necessary to the revised rate case expense estimate.

The first adjustment relates to costs incurred to correct deficiencies in the MFR filing. Based on staff's review of invoices, the utility's consultants, and the WSC employees, a combined amount of \$6,803 was billed for correcting the MFR deficiencies and revising the utility's filing. The amount associated with deficiency corrections (\$313) was easily identified in Mr. Seidman's invoices. However, the invoices of AUS Consultants (AUS) and the documentation provided for WSC employees did not provide sufficient detail to specifically identify work done on corrections. Staff estimated the deficiency corrections by removing invoice amounts during the months of June through August when the corrections were in progress. This amounted to \$1,943 for AUS and \$4,547 for WSC employees. The Commission has previously disallowed rate case expense associated with correcting MFR deficiencies

because of duplicate filing costs.<sup>11</sup> Accordingly, staff recommends that \$6,803 (\$1,943 + \$4,547) should be removed as duplicative and unreasonable rate case expense.

The second adjustment relates to the utility's estimated legal fees to complete the rate case. The utility's counsel estimated 150 hours or \$41,250 in fees plus \$6,000 in expenses to complete the rate case. A list of tasks to complete the case was provided by legal counsel, but no specific amount of time associated with each item. Counsel provided only a total number of hours and the total cost. While the descriptions of the activities or tasks appeared reasonable, staff had no basis to determine whether the individual hours estimated were reasonable. Staff reviewed these requested legal fees and expenses and believes these estimates reflect an overstatement. As noted in the case background, UI currently has ten pending rate cases with the Commission. In eight out of the ten rate cases, the same amount of estimated legal hours to complete was submitted for the estimated processing of each of the cases. Although the estimate to complete did not indicate the period of time it included, staff made the assumption it included November 2006 through February 2007. This would allow time for reviewing the recommendation, attending the agenda conference, reviewing the Commission's PAA order, and submitting the appropriate customer notice and tariffs for approval. The estimate for additional legal services for eight out of the ten rate cases was 150 hours for each rate case. Staff analyzed the reasonableness of this estimated time to complete each of these cases. Using the estimated amount of time to complete of four months for each of the eight rate cases, the legal office would have to work over 11 hours each day, including all holidays and all weekends. This would be exclusive work on just these cases. However, staff is aware of numerous other pending dockets, including the other two remaining UI rate cases, and undocketed projects also being worked on by this legal firm. Further, when the recognized holidays and weekends are removed, this firm would require work of approximately 18 hours everyday exclusively for these eight rate cases. Staff does not believe this is a reasonable assumption.

As discussed below, it is the utility's burden to justify its requested costs. Staff believes that 40 hours is a reasonable amount of time to respond to data requests, conference with the client and consultants, review staff's recommendation, travel to agenda and attend to miscellaneous post PAA matters. This is consistent with hours allowed for completion by the Commission in the 2004 Labrador Utilities, Inc. (Labrador) rate case.<sup>12</sup> This amounts to \$11,000 of rate case expense, a reduction of \$30,250.

There was no breakdown provided of the \$6,000 in disbursements required for legal counsel to complete the case. Thus, this amount is unsupported. However, staff calculated a travel allowance. Staff believes that a reasonable cost for one person traveling from Orlando to Tallahassee, including meals, vehicle mileage and one day's lodging is \$414. This was the amount of travel expense the Commission allowed for this law firm in the 2004 Labrador rate case supra. Staff calculated travel expenses of \$389, using the current state mileage rate (215

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<sup>11</sup> See Order No. PSC-05-0624-PAA-WS, issued Jun 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.; and Order No. PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, In Re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.

<sup>12</sup> See Order No. PSC-04-1281-PAA-WS, issued December 28, 2004, in Docket No. 030443-WS, In re: Application for rate increase in Pasco County by Labrador Utilities, Inc.

miles x 2 trips x \$.455 = \$215), hotel rates from a website (\$109) and a meal allowance (\$65), but recommends \$414 consistent with the Labrador case. Further, because legal counsel will also represent Tierra Verde Utilities, Inc., Docket No. 060255-SU, at this same agenda, staff believes that travel expenses should be allocated 50/50 between the two rate cases. Therefore, staff believes \$207 is the appropriate travel expense. In addition to travel expense, staff calculated an amount for miscellaneous disbursements. Staff added the actual and unbilled legal disbursements less the filing fee, divided by eight, the number of months represented by the data, then multiplied by two, the time remaining until the agenda. Thus, staff believes \$736 is a reasonable amount for miscellaneous disbursements. Therefore, staff believes disbursements should be decreased by \$5,057 (\$6,000 - \$207 - \$736). Accordingly, staff recommends that rate case expense be decreased by \$35,307 (\$30,250 + \$5,057).

The third adjustment relates to the utility's estimated consultant fees for Mr. Seidman to complete the rate case. Mr. Seidman estimated 24 hours or \$3,000 plus \$25 in expenses to complete the rate case. Specifically, Mr. Seidman estimated 20 hours to assist with and respond to data requests and four hours to prepare for and attend the agenda. Staff believes that four hours is a reasonable amount of time to prepare for and attend the agenda for this docket. This is consistent with the hours allowed for completion by the Commission in the Indiantown Company, Inc. and the Mid-County Services, Inc. rate cases.<sup>13</sup> However, staff is aware only of one subsequent data request from OPC regarding used and useful percentage. Staff believes that no more than two hours at \$125 per hour is reasonable for this data request. Therefore, staff recommends that rate case expense be decreased by \$2,250 (18 hours x \$125).

The fourth adjustment addresses the utility's estimated consulting fees for AUS to complete the rate case. AUS estimated 21 hours or \$4,348 for Mr. Fogelsanger and 40 hours or \$7,600 for Mr. Palko to assist with data requests and audit facilitation. The hours needed to complete data requests and audit facilitation was not broken down to estimate the hours needed to complete each item. Therefore, staff had no basis to determine whether the individual hours estimated are reasonable. Staff reviewed these requested fees and believes the estimates reflect an overstatement. As discussed below, it is the utility's burden to justify its requested costs. As of the last invoice from AUS, which was for services through October 1, 2006, the audit was complete and there were three data requests outstanding. Given the twelve WSC employees and the office temps also assisting with data requests, staff believes that four hours for Mr. Fogelsanger at \$185 per hour and two hours for Mr. Palko at \$190 per hour is reasonable for data request assistance from AUS. Therefore, staff recommends that rate case expense be decreased by \$10,828 (\$185 x 4 hours - \$4,348 + \$190 x 2 hours - \$7,600).

The fifth adjustment relates to the 428 hours and \$26,268 of estimated costs to complete this case by WSC employees. As of the October 4, 2006 date of the last General Ledger entry for WSC employees' rate case time, the audit was complete and there were three data requests outstanding. The utility failed to provide any detailed documentation of what tasks were involved in its estimate to complete the case for each employee. The utility simply stated that the

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<sup>13</sup> See Order No. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.  
Order No. PSC-04-0819-PAA-SU, issued August 23, 2004, in Docket No. 030446-SU, In re: Application for rate increase in Pinellas County by Mid-County Services, Inc.



\$26,268 was to assist with data requests and audit facilitation. The hours needed to complete data requests and audit facilitation was not broken down to estimate the hours needed to complete each item. In addition, there were no timesheets provided to show actual hours worked. Therefore, staff had no basis to determine whether the individual hours estimated were reasonable. Staff reviewed these requested expenses and believes the estimates reflect an overstatement. As discussed below, it is the utility's burden to justify its requested costs. Staff believes that 317 hours is reasonable to allow the utility to respond to data requests, review the PAA recommendation and travel to agenda. Further, staff believes the utility made mathematical errors in calculating its fees to complete the case. By applying the individual employee rates included in the MFRs, staff recommends that the estimated WSC fees to complete the case should be \$13,045. Thus, the utility's requested expense of \$26,268 should be decreased by \$13,223. In those cases where rate case expense has not been supported by detailed documentation, Commission practice has been to disallow some portion or remove all unsupported amounts.<sup>14</sup>

It is the utility's burden to justify its requested costs. Florida Power Corp. v. Cresce, 413 So. 2d 1187, 1191 (Fla. 1982). Further, the Commission has broad discretion with respect to allowance of rate case expense. It would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings. Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1<sup>st</sup> DCA 1987), review denied by 529 So. 2d 694 (Fla. 1988).

The sixth adjustment relates to WSC expenses for temporary office workers. The utility did not include this expense in its MFRs, however, in its update, \$20,000 was estimated to assist with data and audit requests. The hours needed to complete data and audit requests was not broken down to estimate the hours needed to complete each item. Therefore, staff had no basis to determine whether the individual hours estimated were reasonable. Staff reviewed these requested expenses and believes the estimates reflect an overstatement. As discussed above, it is the utility's burden to justify its requested costs. The actual costs incurred for office temps was \$2,106 for services through September 29, 2006. Staff believes that the additional \$17,894 estimated by Pennbrooke is excessive, given the number of hours the utility estimated for the WSC employees, consultants and law firm to complete the case. Therefore, staff recommends that rate case expense be decreased by \$17,894.

The seventh adjustment addresses WSC travel expenses. In its MFRs, the utility estimated \$3,200 for travel. Staff believes that a reasonable cost for one person traveling round trip from Chicago to Tallahassee, airfare, car rental, parking and lodging is \$750. This was the amount of travel expense the Commission allowed for WSC in the Labrador rate case. Staff calculated travel expenses of \$624, using the airfare for January 8, 2007 (\$346), current rental car rates (\$104), hotel rates from a website (\$109) and a meal allowance (\$65), but recommends

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<sup>14</sup> See Order No. PSC-94-0075-FOF-WS, issued January 21, 1994 in Docket No. 921261-WS, In re: Application for a Rate Increase in Lee County by Harbor Utilities Company, Inc.; Order No. PSC-96-0629-FOF-WS, issued May 10, 1996, in Docket No. 950515-WS, In re: Application for staff-assisted rate case in Martin County by Laniger Enterprises of America, Inc.; and Order No. PSC-96-0860-FOF-SU, issued July 2, 1996, in Docket No. 950967-SU, In re: Application for staff-assisted rate case in Highlands County by Fairmount Utilities, the 2<sup>nd</sup>, Inc. Staff notes that, in all of these cases, the Commission removed the entire unsupported amounts.

\$750 consistent with the Labrador case. Further, because WSC is also present on behalf of Tierra Verde Utilities, Inc. at this same agenda, staff believes that travel expenses should be allocated 50/50 between the two utilities. Therefore, staff believes \$375 is the appropriate travel expense. Accordingly, staff recommends that rate case expense be decreased by \$2,825.

The eighth adjustment relates to WSC expenses for FedEx Corporation (FedEx), copies and other miscellaneous costs. In its MFRs, the utility estimated \$12,000 for these items. In support of this expense, the utility provided only \$577 in costs from FedEx invoices for services through October 16, 2006. There was no breakdown or support for the remaining \$11,423. Staff is also concerned with the amount of requested costs for FedEx expense. UI has requested, and received authorization from the Commission, to keep its records outside the state in Illinois. This is pursuant to Rule 25-30.110(2)(b), FAC. However, when a utility receives this authorization, it is required to reimburse the Commission for the reasonable travel expense incurred by each Commission representative during the review and audit of the books and records. Further, these costs are not included rate case expense or recovered through rates. By Order No. PSC-93-1713-FOF-SU, p. 19., issued November 30, 1993, in Docket No. 921293-SU, In Re: Application for a Rate Increase in Pinellas County by Mid-County Services, Inc., the Commission found that the utility also requested recovery of the actual travel costs it paid for the Commission auditors. Because the utility's books are maintained out of state, the auditors had to travel out of state to perform the audit. We have consistently disallowed this cost in rate case expense. See Order No. 25821, issued February 27, 1991, and Order No. 20066, issued September 26, 1988. Staff believes that the requested amount of shipping costs in this rate case directly relates to the records being retained out of state. The utility typically ships its MFRs, answers to data request, etc. to its law firm located in central Florida. Then the documents are submitted to the Commission. Staff does not believe that the ratepayers should bear the related costs of having the records located out of state. This is a decision of the shareholders of the utility, and therefore, they should bear the related costs. Therefore, staff recommends that rate case expense be decreased by \$12,000.

The ninth adjustment relates to customer notices and postage thereof. The utility estimated \$285 for notices and \$2,113 for postage. Pennbrooke actually incurred \$500 for its interim notice and the combination initial notice and customer meeting notice. As the utility must also notice its customers of the final rate increase, staff increased rate case expense by \$150 for the final notice. Staff estimated the postage cost for the notices to be \$1,572 (1,344 customers x \$0.39 x 3 notices). Staff recommends that rate case expense be decreased by \$541 (\$2,113 - \$1,572) for postage costs. The net adjustment for notices and postage is a decrease of \$391 (\$541 - \$150).

In summary, staff recommends that the utility's revised rate case expense be decreased by \$101,520 for MFR deficiencies, and for unsupported and unreasonable rate case expense. The appropriate total rate case expense is \$101,216. A breakdown of rate case expense is as follows:

	MFR <u>Estimated</u>	Utility Revised <u>Actual &amp; Estimated</u>	Staff <u>Adjustments</u>	<u>Total</u>
Legal and Filing Fee	\$56,300	\$71,989	(\$35,307)	\$36,682
Consultant Fees - AUS	49,840	50,911	(12,771)	38,141
Consultant Fees- Seidman	5,000	5,833	(2,563)	3,271
WSC In-house Fees	41,600	36,187	(17,770)	18,418
Office Temp Fees	0	20,000	(17,894)	2,106
WSC Travel	3,200	3,200	(2,825)	375
Miscellaneous	12,000	12,000	(12,000)	0
Notices	<u>2,398</u>	<u>2,613</u>	<u>(391)</u>	<u>2,222</u>
Total Rate Case Expense	<u>\$170,338</u>	<u>\$202,733</u>	<u>(\$101,520)</u>	<u>\$101,216</u>
Annual Amortization	<u>\$42,585</u>		<u>(\$17,281)</u>	<u>\$25,304</u>

In its MFRs, the utility requested total rate case expense of \$170,338, which amortized over four years would be \$42,585. The utility actually included in its MFRs \$22,868 and \$19,717 for rate case expense in the test year for water and wastewater. Thus rate case expense should be decreased by \$9,280 and \$8,001 for water and wastewater, respectively.

The recommended total rate case expense should be amortized over four years, pursuant to Section 367.016, Florida Statutes. Based on the data provided by the utility and the staff recommended adjustments discussed above, staff recommends annual rate case expense of \$25,304, or \$13,588 for water and \$11,716 for wastewater.

The Commission has previously disallowed rate case expense in a limited proceeding where the rate increase was denied.<sup>15</sup> Although the Commission has broad discretion with respect to the allowance of rate case expense, whether a rate increase is granted is not the sole criteria on which that discretion rests.<sup>16</sup> In Pennbrooke's case, the utility's water system overearned in the test year, however, staff is not recommending a rate decrease. Instead, staff is recommending that the overearnings be used to fund conservation programs which is discussed in Issue 20. Therefore, staff believes that it is appropriate to allow rate case expense for water.

<sup>15</sup> See Order No. PSC-98-1583-FOF-WS, issued November 25, 1998, in Docket No. 971663-WS, In re: Application for Florida Cities Water Company for Recovery of Environmental Litigation Costs; and Order No. PSC-99-1917-PAA-WS, issued September 28, 1999, in Dockets Nos. 970536-WS and 980245-WS, In re: Application for limited proceeding increase in water and wastewater rates in Pasco County by Aloha Utilities, Inc.

<sup>16</sup> See Florida Crown Utility Services, Inc. v. Utility Regulatory Board of Jacksonville, 274 So.2d 597, 298 (Fla. 1<sup>st</sup> DCA 1973).

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**Issue 16:** Should an adjustment be made to Account No. 668, Water Resource Conservation Expense, and, if so, what is the appropriate adjustment?

**Recommendation:** Yes. Account No. 668, Water Resource Conservation Expense, should be increased by \$20,845. (Merta)

**Staff Analysis:** As discussed in Issue 20, staff believes that the utility's customers on average use an excessive amount of water. Staff recommends that \$20,845 be allowed for water resource conservation expense so that the utility can invest in conservation programs to reduce the amount of water consumed by its customers. The \$20,845 is a fall out number based on other adjustments. It is the amount needed to bring the water system revenue increase to zero.

**Issue 17:** Should an adjustment be made to property taxes to reflect a change in millage rate?

**Recommendation:** Yes. Taxes Other Than Income Taxes (TOTI) should be decreased by \$186 for water and \$255 for wastewater to reflect a change in the property tax millage rate. (Merta)

**Staff Analysis:** According to the Lake County Tax Collector's website, the 2006 property tax millage rate for Pennbrooke has changed from 16.6059 to 16.4389, a decrease of .167. Staff believes this represents a known and measurable change from 2005 expenses and is an appropriate pro forma adjustment similar to the pro forma plant and expense adjustments proposed by the utility. As mentioned in the case background, the test year for this case is the year ended December 31, 2005. As such, staff calculated the decrease in TOTI by multiplying the change in the millage rate times the 2005 assessed property value. Staff allocated the tangible property tax between water and wastewater based on plant. Based on the foregoing, staff recommends that TOTI be decreased by \$186 for water and \$255 for wastewater.

**Issue 18:** What is the test year pre-repression water and wastewater operating income or loss before any revenue increase?

**Recommendation:** Based on the adjustments discussed in previous issues, staff recommends that the test year pre-repression water operating income before any provision for increased or decreased revenues should be \$48,542 for water and \$13,934 for wastewater. (Merta)

**Staff Analysis:** As shown on Schedule 3-A and 3-B, after applying staff's adjustments, pre-repression net operating income before any revenue increase is \$48,542 for water and \$13,934 for wastewater. Staff's adjustments to pre-repression operating income are shown on Schedule 3-C.

**REVENUE REQUIREMENT**

**Issue 19:** What is the appropriate pre-repression revenue requirement for the December 31, 2005 test year?

**Recommendation:** The following pre-repression revenue requirement should be approved. (Merta)

	<u>Test Year Revenues</u>	<u>\$ Increase</u>	<u>Revenue Requirement</u>	<u>% Increase</u>
Water	\$341,185	\$0	\$341,185	(0.00%)
Wastewater	\$307,958	\$128,249	\$436,207	41.64%

**Staff Analysis:** Pennbrooke's requested final rates are designed to generate annual revenues of \$367,783 and \$464,471, for water and wastewater, respectively. These revenues exceed historical test year revenues by \$26,598 (or 7.80%) for water and \$156,513 (or 50.82%) for wastewater.

Based on staff's initial calculated revenue requirement, the utility earned in excess of the recommended rate of return on its water system. The utility was overearning by \$22,143 (6.49%) on its water system and a revenue decrease and/or an offset to the wastewater increase is normally the appropriate action under these circumstances. However, staff is not recommending a rate decrease for water. After adjustments and taxes, staff has determined the amount of overearnings available to fund conservation programs is \$20,845 as discussed in Issue Nos. 16 and 20. This action is consistent with Pennbrooke's prior rate case,<sup>17</sup> where an amount of overearnings was allowed for conservation expenses.

Consistent with staff's recommendations concerning the underlying rate base, cost of capital, and operating income issues, staff recommends approval of rates that are designed to generate a pre-repression water revenue requirement of \$341,185, and a pre-repression wastewater revenue requirement of \$436,207. The recommended pre-repression water revenue requirement is equal to staff's adjusted test year revenues. The recommended wastewater revenue requirement exceeds staff's adjusted test year revenues by \$128,249 or 41.64%, for wastewater. These recommended pre-repression revenue requirements will allow the utility the opportunity to recover its expenses and earn a 8.22% return on its investment in water and wastewater rate base.

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<sup>17</sup> Order No. PSC-01-1246-PAA-WS, issued June 4, 2001, in Docket No. 001382-WS, In re: Application for a staff-assisted rate case in Lake County by Pennbrooke Utilities, Inc.

## **RATES AND CHARGES**

**Issue 20:** What is the appropriate disposition of the overearnings associated with the water system?

**Recommendation:** Staff recommends that the entire amount of overearnings -- \$20,845 -- be treated as a projected conservation expense, with the requirement that these monies be used to enhance the utility's conservation program. The utility should, within 90 days from the date the order in this case becomes final, submit a plan to both the St. Johns River Water Management District (SJRWMD or District) and the Commission. Upon Commission approval of the plan, it should be implemented within 90 days of the date of the order approving it. The utility should, at a minimum, spend the recommended amount for each of the first four years of the plan, and be required to file quarterly reports with both the Commission and the SJRWMD on its conservation program covering the same four year period. These reports should list during each reporting period: (1) the conservation measures that were implemented during the period; (2) the associated amounts expended; and (3) the kgal of water pumped. Staff should also confer with the SJRWMD in reviewing the reports in order to evaluate the effectiveness of the program and ensure that the program and amounts spent are consistent with the Commission order. (Lingo)

**Staff Analysis:** In 1991, the Commission entered into a Memorandum of Understanding (MOU) with the five Water Management Districts (WMDs), in which the agencies recognized that it is in the public interest to engage in a joint goal to ensure the efficient and conservative utilization of water resources in Florida, and that a joint cooperative effort is necessary to implement an effective, state-wide water conservation policy. For example, staff has worked with the SJRWMD and the Southwest Florida Water Management District in tailoring conservation programs for jurisdictional utilities that are designed to achieve significant and lasting water use reductions.

Pennbrooke is located in Lake County within the SJRWMD. The entire District has been designated a water resource caution area, and a District-wide water shortage warning has been in effect since April 1999. Furthermore, approximately 39% of SJRWMD, including the Pennbrooke service area, is identified as priority water resource caution areas (PWRCAs). These are areas where existing and reasonably anticipated sources of water and water conservation efforts may not be adequate to: (1) supply water for all existing legal uses and anticipated future needs; and (2) sustain the water resources and related natural systems.

There are two major reasons why staff believes the utility should spend the overearnings on an aggressive water conservation plan. First, Pennbrooke has a history of exceeding the District's permitted annual water withdrawals. As shown on Attachment B, the utility has exceeded the District's annual permitted quantities in four of the past five years (2001 – 2004). Furthermore, despite receiving an increase in its permitted withdrawal by 54 million gallons in its new permit issued in 2005, Pennbrooke has, over just an 11-month period (January through November) already exceeded the permitted amount in 2006 by almost 12%. If Pennbrooke's rate of water pumping continues through December, then the utility will have exceeded its 2006 permitted withdrawal by 22%.



The second reason is, despite the magnitude of water pumped, only a small percentage of water is actually returned to the wastewater system, indicating the potential for conservation, as demonstrated in part [C] of Attachment C. In part [A] of Attachment C, staff calculated the number of water kgal pumped per ERC during the period 2001 – 2005. Similarly, in part [B] of the attachment, staff calculated the number of wastewater kgal treated per ERC over the same 2001 – 2005 period. Part [C] of the attachment indicates, on a per ERC basis, the number of water kgal that are pumped for each kgal of wastewater treated. This is accomplished by dividing the per ERC figures from part [A] by the corresponding figures from part [B] to arrive at the per ERC ratios shown in part [C] (e.g., in 2005, 114.3 water kgal pumped per ERC from part [A] divided by 26.2 kgal wastewater treated from part [B] equals a ratio of 4.4 as shown in part [C]). As shown in part [C] of the attachment, the ratio has increased by approximately 32% over the past four years, from 3.3 in 2001 to 4.4 in 2005. The ratios in part [C] indicate a high percentage of water pumped that is not returned to the wastewater system, and, therefore, should respond to conservation efforts.

As one means of addressing the high usage, and absent an increase in water system revenue requirement, staff is recommending that the utility implement an aggressive, proactive water conservation program geared to achieve significant, lasting reductions in consumption. The Commission has taken similar approaches in prior cases involving excess earnings, low rates and high consumption.<sup>18</sup> Staff believes there are similar circumstances regarding the need for conservation in the instant proceeding. Pennbrooke is a seasonal community with low rates. Although the conservation program ultimately recommended will come at some material cost, staff and the SJRWMD believe the circumstances in this case warrant such measures. Furthermore, if the Commission were to require Pennbrooke to reduce its already low rates, it would send an adverse signal to the utility's customers. At a time when the utilities in the state need to encourage customers to conserve water, staff believes it would be inappropriate to provide an incentive for customers to use more water.

Therefore, staff recommends that the entire amount of overearnings -- \$20,845 -- be treated as a projected conservation expense, with the requirement that these monies be used to enhance the utility's conservation program. The utility should, within 90 days from the date the order in this case becomes final, submit a plan to both the SJRWMD and the Commission. Upon Commission approval of the plan, it should be implemented within 90 days of the date of the order approving it. The utility should, at a minimum, spend the recommended amount for each of the first four years of the plan, and be required to file quarterly reports with both the Commission and the SJRWMD on its conservation program covering the same four year period. These reports should list during each reporting period: (1) the conservation measures that were implemented during the period; (2) the associated amounts expended; and (3) the kgal of water

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<sup>18</sup> See Order No. 23809, issued November 27, 1990, in Docket No. 900338, In re: Application for a rate increase in Seminole County by Sanlando Utilities Corporation, p. 19; Order No. PSC-01-1488-PAA-WS, issued July 18, 2001 in Docket No. 981147-WS, In re: Investigation into potential overearnings in Highlands County by Highlands Ridge Associates, Inc., pp. 14-17; Order No. PSC-01-1246-PAA-WS, issued June 4, 2004 in Docket No. 001382-WS, In re: Application for staff-assisted rate case in Lake County by Pennbrooke Utilities, Inc., pp. 35-40; Order No. PSC-00-1165-PAA-WS, issued June 27, 2000 in Docket No. 990243-WS, In re: Application for limited proceeding increase and restructuring of water rates by Sun Communities Finance Limited Partnership in Lake County, and overearnings investigation, pp. 41-45.

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pumped. Staff should also confer with the SJRWMD in reviewing the reports in order to evaluate the effectiveness of the program and ensure that the program and amounts spent are consistent with the Commission order.

**Issue 21:** What are the appropriate rate structures for the utility's water and wastewater systems?

**Recommendation:** The appropriate rate structure for the water system's residential class is a continuation of its two-tier inclining-block rate structure. The current usage blocks and usage block rate factors should also remain unchanged. The two-tier inclining-block rate structure currently applicable to the general service customers should be eliminated and replaced with the traditional base facility charge (BFC)/uniform gallonage charge rate structure. The BFC cost recovery percentage for the water system should be set at 25%. The appropriate rate structure for the wastewater system is a continuation of the BFC/gallonage charge rate structure. The residential wastewater monthly gallonage cap should be reduced to 6 kgal. The general service gallonage charge should be 1.2 times greater than the corresponding residential charge, and the post-repression BFC cost recovery percentage should be set at 40%. (Lingo)

**Staff Analysis:** The utility's water system rate structure consists of a two-tier inclining block rate structure applicable to all customer classes. The BFC prior to filing for rate relief for its 5/8" x 3/4" meter customer was \$5.56 per month, with usage blocks for monthly consumption of: a) 0-10 kgal in the first block; and b) usage in excess of 10 kgal in the second block. The monthly usage charges prior to filing were \$1.61 for usage in the first block and \$2.01 for usage in the second block. The usage block rate factors are 1.0 and 1.25, respectively.

As discussed in Issue 20, staff recommends that the utility's water system's revenues not be reduced, but instead that the revenues remain the same and that the overearnings be applied toward an aggressive conservation program. As also discussed in Issue 20, the majority of Pennbrooke's customers exhibit a high degree of discretionary usage. In a "revenue neutral" situation such as this, the challenge faced by staff is to attempt to design rates that send stronger conservation signals to some customers, while at the same time minimizing, to the extent possible, the price reductions that will be received by other customers. As shown on Attachment D, based on retaining the current usage blocks, staff examined BFC cost recovery percentages of 30%, 25% and 20%. In addition, two usage block rate factor combinations were analyzed. Based on the results of this analysis, staff recommends that the BFC cost recovery percentage be set at 25%, and that the current usage block rate factors be continued. This recommended rate structure will result in a price change pattern that is consistent with prior Commission decisions, and will minimize price reductions received by customers.

The traditional BFC/uniform gallonage charge rate structure has been the Commission's water rate structure of choice for classes other than the residential service class. The uniform gallonage charge should be calculated by dividing the total revenues to be recovered through the gallonage charge by the total of gallons attributable to all rate classes. This should be the same methodology used to determine the general service gallonage charge in this case. With this methodology, the general service customers would continue to pay their fair share of the cost of service.

The utility's wastewater system rate structure consists of a BFC/gallonage charge rate structure. The BFC prior to filing for rate relief for its 5/8" x 3/4" meter customer was \$7.85 per month. The corresponding monthly gallonage charge for residential service was \$1.96, capped at

10 kgal of usage, while the general service gallonage charge rate was 1.2 times greater than the residential charge, at \$2.35 per kgal, with no usage cap.

Several customers noted during the customer meeting that the great majority of most residential consumption was for irrigation, not indoor consumption, and, therefore, that the wastewater gallonage charges capped at 10 kgal should be reduced. Upon initial analysis, the percentage of residential kgal captured at 10 kgal is approximately 80%, which is the target percentage typically used when designing residential wastewater rates. However, staff performed further analysis, shown on Attachment E. The ratio of total water kgal sold to wastewater kgal treated is approximately 4.3 to 1, or said differently, for every 4.3 kgal of water sold, only 1 kgal is returned to the wastewater system -- the remaining 3.3 kgal is used for irrigation. (Although general service water kgal are included in this analysis, because those kgal represent only 11% of total water kgal sold, inclusion of general service kgal results in an immaterial change to the 4.3 to 1 ratio shown.) Therefore, the customers' assertions appear to be correct. Since the residential wastewater 10 kgal cap appears to be too high, staff believes a reasonable calculation to determine the recommended cap is as follows:

	Average number of persons per residential household	2
x	Number of water gal per capita per day of indoor use	100
x	Number of days in month	30
=	Kgal per month indoor use for residential customers	6 kgal

Based on initial accounting allocations, the wastewater BFC cost recovery percentage was 36%. However, due to the capital-intensive nature of wastewater plants, staff recommends that the BFC cost recovery allocation be increased to 40%.

Based on the foregoing, the appropriate rate structure for the water system's residential class is a continuation of its a two-tier inclining-block rate structure. The current usage blocks and usage block rate factors should also remain unchanged. The two-tier inclining-block rate structure currently applicable to the general service customers should be eliminated and replaced with the traditional base facility charge (BFC)/uniform gallonage charge rate structure. The post-repression BFC cost recovery percentage for the water system should be set at 25%. The appropriate rate structure for the wastewater system is a continuation of the BFC/gallonage charge rate structure. The residential wastewater monthly gallonage cap should be reduced to 6 kgal. The general service gallonage charge should be 1.2 times greater than the corresponding residential charge, and the post-repression BFC cost recovery percentage should be set at 40%.

**Issue 22:** Are repression adjustments appropriate in this case, and, if so, what are the appropriate adjustments to make for this utility, what are the corresponding expense adjustments to make, and what are the final revenue requirements for the respective water and wastewater systems?

**Recommendation:** Due to the 0% increase recommended for the water system, no repression adjustments are recommended for either the water or wastewater systems. There are no resulting expense adjustments. However, the current rates will change due to the changes in the recommended BFC cost recovery percentages for the water and wastewater systems. Therefore, in order to monitor the effect of the rate changes, the utility should be ordered to file reports detailing the number of bills rendered, the consumption billed and the revenues billed on a monthly basis. In addition, the reports should be prepared, by customer class, usage block and meter size. The reports should be filed with staff, on a quarterly basis, for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the utility makes adjustments to consumption in any month during the reporting period, the utility should be ordered to file a revised monthly report for that month within 30 days of any revision.  
(Lingo)

**Staff Analysis:** In order to monitor the effect of the rate changes, the utility should be ordered to file reports detailing the number of bills rendered, the consumption billed and the revenues billed on a monthly basis. In addition, the reports should be prepared, by customer class, usage block and meter size. The reports should be filed with staff, on a quarterly basis, for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the utility makes adjustments to consumption in any month during the reporting period, the utility should be ordered to file a revised monthly report for that month within 30 days of any revision.

**Issue 23:** What are the appropriate monthly rates for the water and wastewater systems for the utility?

**Recommendation:** The appropriate monthly water rates are a continuation of current rates, shown on Schedule No. 4-A. The appropriate wastewater monthly rates are shown on Schedule No. 4-B. Excluding miscellaneous service charges, the recommended water rates produce revenues of \$338,947. Excluding miscellaneous service and reuse charges, the recommended wastewater rates produce revenues of \$432,035. The utility should file revised wastewater tariff sheets and a proposed customer notice to reflect the Commission-approved rates for the wastewater system. The approved wastewater rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved wastewater rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Lingo, Merta)

**Staff Analysis:** The appropriate revenue requirements, excluding miscellaneous service charges, are \$338,947 for the water system and \$432,035 for the wastewater system. As discussed in Issue 21, staff recommends that the appropriate rate structure for the water system's residential class is a continuation of its two-tier inclining-block rate structure, with no changes made to the usage blocks or usage block rate factors. The BFC cost recovery percentage should be set at 25%. Staff recommends that the traditional BFC/uniform gallonage charge rate structure be applied to the general service class. As also discussed in Issue 21, staff recommends that the residential wastewater gallonage cap be reduced to 6 kgal, and that the BFC cost recovery percentage be set at 40%. As discussed in Issue 22, staff recommends that no repression adjustments be made to either the water or wastewater systems. Approximately 25% of the monthly water service revenues (or \$85,328) and 40% of the monthly wastewater service revenues (or \$174,047) are recovered through the base facility charges, while approximately 75% of water system revenues and 60% of wastewater system revenues (\$253,619 and \$257,988, respectively) represents revenue recovery through the consumption charges.

The utility should file revised wastewater tariff sheets and a proposed customer notice to reflect the Commission-approved wastewater rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The approved wastewater rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

A comparison of the utility's original rates, requested rates, and staff's recommended water and wastewater rates are shown on Schedules Nos. 4-A and 4-B, respectively.

**Issue 24:** What are the appropriate reuse rates?

**Recommendation:** The appropriate reuse rate for this utility should be \$0.09 per 1,000 gallons of usage. The utility should file tariff sheets which are consistent with the Commission's decision within 30 days from the Commission's vote. The tariff sheets should be approved upon staff's verification that the tariffs are consistent with the Commission's decision. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. (Merta)

**Staff Analysis:** Pennbrooke operates a 180,000 gallon per day annual average daily flow wastewater treatment plant. The utility's reclaimed water goes into four percolation ponds owned by the utility and a reclaimed water storage pond owned by the golf course. The percolation ponds are defined as rapid-rate infiltration basins (RIBS), and have a disposal capacity of approximately .110 MGD. The utility is permitted to use the reclaimed water to irrigate The Club at Pennbrooke Fairways (golf course), landscape areas and other common areas within the Pennbrooke Fairways Community and roadway medians, where practical. Due to the limited amount of reclaimed water, only the golf course is currently receiving the service. During periods when the reclaimed water is not needed for irrigation or does not meet reclaimed water standards, the water is discharged into the RIBS for disposal. The reuse provided to the golf course is metered.

The golf course is not a related party to Pennbrooke. The utility executed a Reclaimed Water Service Agreement with the golf course for golf course irrigation in 2003. According to the Agreement, the golf course agrees it will not use potable or non-potable water for irrigation if the utility has sufficient quantity and does not charge for reclaimed water. In addition, the Agreement states that there shall be no charge to the club unless a charge is established by the PSC or other agency. Further the utility agrees it will not request the establishment of a charge for reuse.

Pursuant to Order No. PSC-03-1000-PAA-WS<sup>19</sup>, issued September 5, 2003, a zero cost rate was established for reuse to the golf course. The utility did not request an increase in the tariffed reuse rate in its filing. A condition of the SJRWMD Consumptive Use Permit (CUP) requires the utility to use reclaimed water in place of higher quality sources when it is readily available. The utility believes that it is a fair trade-off to provide reuse without charge, as the alternative would require significant capital investment in land for additional percolation ponds by the utility or construction of a reuse storage facility.

Generally, reuse rates cannot be determined in the same fashion as other water and wastewater rates set by the Commission. Reuse rates based on rate base and revenue requirement would typically be so high that it would be impractical to use reuse at all based on the revenue needed to supply the service. Staff recognizes the need to promote reuse and that reuse is a valuable water source which should not be wasted. When staff considers recommending reuse rates, staff must consider factors such as whether or not the utility and the

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<sup>19</sup> 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.

reuse customer have a contract including a negotiated rate, the reuse rates that are charged by other utilities in the region, and cost avoidance. Staff must also consider the type of customer being served and balance the disposal needs of the utility with the consumption needs of the customer. In this case, the only reuse customer is the golf course and the utility does not plan to expand its reuse service in the near future.

Staff looked at the disposal needs of the utility and customer. In cases where a utility has excess reuse capacity, rates typically would be set lower than potable water rates to promote reuse at a level sufficient to meet the utility's disposal needs. In cases where a utility's reuse capacity is unable to meet demand, rates would be set higher or rate structure would be changed in order to promote conservation. As stated above, the golf course demand is more than adequate to meet the utility's current effluent disposal needs. In fact, the utility cannot meet all of the irrigation needs of the golf course and the golf course has its own CUP for irrigation purposes. A condition of the golf club's CUP is that all available reclaimed water from Pennbrooke Utilities must be used prior to using surface water; then, all available surface water from Retention Pond 28 must be used prior to the use of ground water. Further, as stated above, the utility would have to construct additional percolation ponds for effluent disposal if the golf course did not take reuse. Therefore, a high rate to encourage conservation would not be appropriate for this utility.

The rationale behind setting reuse rates is rapidly changing. Initially, reuse rates were set very low or at a rate of \$0 to encourage acceptance and use. As reuse becomes more widely accepted and demand rises, utilities can consider charging or increasing existing rates to balance demand. In Order No. PSC-99-0513-FOF-WS, issued March 12, 1999, in Docket No. 980214-WS, In re: Application for rate increase in Duval, St. Johns and Nassau Counties by United Water Florida Inc., at 68, the Commission stated, "We believe from a policy standpoint that reclaimed water should be regarded as a valuable resource for which a charge should apply when possible." In this case, it is clear that the utility views the golf course as a disposal site rather than a reuse customer. Having a reliable disposal site is obviously a benefit to the utility; however, the current rate of zero implies that there is no benefit to the golf course. Staff believes that there are some benefits to the golf course such as those associated with obtaining future consumptive use permits and a reduction in pumping costs to the golf course.

Although the golf course's CUP specifically cites Pennbrooke as a source for 65.7 million gallons of reclaimed water, it appears from the CUP that the golf course may also use 65.7 million gallons of storm water from Retention Pond 28. The CUP also provides that 10.95 million gallons of ground water (from wells) may be used as a backup source for golf course irrigation. However, as stated above, all available reclaimed water from Pennbrooke must be used prior to the use of surface water or ground water. Therefore, instead of setting higher rates to promote conservation, staff believes a nominal amount should be considered for the reuse rate because this golf course has other options for irrigation. A reuse rate of \$0.09 per 1,000 gallons would produce an annual charge of \$2,143 to the golf course.

In determining the rate for this utility, staff compared the non-residential rates of a number of utilities that provide reuse for customers. Staff compared reuse rates from the four county area which included Sumter, Volusia, Osceola, and Lake Counties as they are listed in the



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2005 Reuse Inventory Directory issued by DEP in June 2006. In those counties, approximately 17 utilities provide non-residential reuse for customers. Staff's investigation revealed that of those 17 utilities, two of them instituted only a base facility charge, five used a BFC/gallorage charge and ten used a gallorage charge only for billing purposes. The average gallorage charge per 1,000 gallons was \$0.32 and the range was \$0.09 to \$1.00.

The following table contains rates from other non-residential reuse providers in Lake County:

<u>Reuse System Name</u>	<u>Charge/Month</u>	<u>Charge/1000 gal</u>
Eustis	\$0.00	\$0.14
Mount Dora	\$7.00	0.00

All things considered, staff believes the appropriate rate for reuse is \$0.09 per 1,000 gallons of usage. The utility should file tariff sheets which are consistent with the Commission's decision within 30 days from the Commission's vote. The tariff sheets should be approved upon staff's verification that the tariffs are consistent with the Commission's decision. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C.

**Issue 25:** Should the utility be authorized to revise its miscellaneous service charges, and, if so, what are the appropriate charges?

**Recommendation:** Yes. The utility should be authorized to revise its miscellaneous service charges. The appropriate charges are reflected below. The utility should file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the notice has been approved by staff. Within 10 days of the date the order is final, the utility should be required to provide notice of the tariff changes to all customers. The utility should provide proof the customers have received notice within 10 days after the date that the notice was sent. (Merta)

**Staff Analysis:** The miscellaneous service charges were approved for Pennbrooke on November 4, 2003, and have not changed since that date. The approved charges have been the standard charge since at least 1990 – a period of 16 years. Staff believes these charges should be updated to reflect current costs. The utility agrees with this update. Staff recommends that Pennbrooke be allowed to increase its water and wastewater miscellaneous service charges from \$15 to \$21 and from \$15 to \$42 for after hours, and to modify its Premises Visit (in lieu of disconnection) charge. If both water and wastewater services are provided, a single charge is appropriate unless circumstances beyond the control of the utility requires multiple actions. The current and recommended charges are shown below.

Water Miscellaneous Service Charges

	<u>Current Charges</u>		<u>Staff Recommended</u>	
	<u>Normal Hrs</u>	<u>After Hrs</u>	<u>Normal Hrs</u>	<u>After Hrs</u>
Initial Connection	\$15	N/A	\$21	N/A
Normal Reconnection	\$15	N/A	\$21	\$42
Violation Reconnection	\$15	N/A	\$21	\$42
Premises Visit (in lieu of disconnection)	\$10	N/A	N/A	N/A
Premises Visit	N/A	N/A	\$21	\$42

Wastewater Miscellaneous Service Charges

	<u>Current Charges</u>		<u>Staff Recommended</u>	
	<u>Normal Hrs</u>	<u>After Hrs</u>	<u>Normal Hrs</u>	<u>After Hrs</u>
Initial Connection	\$15	N/A	\$21	N/A
Normal Reconnection	\$15	N/A	\$21	\$42
Violation Reconnection	Actual Cost	N/A	Actual Cost	Actual Cost
Premises Visit (in lieu of disconnection)	\$10	N/A	N/A	N/A
Premises Visit	N/A	N/A	\$21	\$42

Miscellaneous service charges have not been updated in over 16 years and costs for fuel and labor have risen substantially since that time. Further, the Commission's price index has increased approximately 60% in that period of time. The Commission has expressed concern with miscellaneous service charges that fail to compensate utilities for the cost incurred. By Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, involving Southern States Utilities Inc.,<sup>20</sup> the Commission expressed "concern that the rates [miscellaneous service charges] are eight years old and cannot possibly cover current costs" and directed staff to "examine whether miscellaneous service charges should be indexed in the future and included in index applications." Currently, miscellaneous service charges may be indexed if requested in price index applications pursuant to Rule 25-30.420, F.A.C. However, few utilities request their miscellaneous service charges be indexed. Staff applied the approved price indices from 1990 through 2005 to Pennbrooke's \$15 miscellaneous service charge and the result was a charge of \$21.00. Therefore, staff believes a \$21 charge is reasonable and is cost based. By Order No. PSC-06-0684-PAA-WS, issued August 8, 2006,<sup>21</sup> and by Order No. PSC-05-0776-TRF-WS, issued July 26, 2005,<sup>22</sup> the Commission approved a \$20 charge for connection and reconnections during normal hours and a \$40 after hours charge for Mad Hatter Utility, Inc.

Pennbrooke's current tariff includes a Premises Visit (in lieu of disconnection) charge. This charge is levied when a service representative visits a premises for the purpose of discontinuing service for non-payment of a due and collectible bill and does not discontinue service, because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill. Staff recommends the "Premises Visit In Lieu of Disconnection" charge should be replaced with what will be called a "Premises Visit." In addition to those situations described in the definition of the current Premises Visit In Lieu of Disconnection, the new Premises Visit charge will also be levied when a service representative visits a premises at a customer's request for a complaint resolution or for other purposes and the problem is found to be the customer's responsibility. This charge is consistent with Rule 25-30.460(1)(d), F.A.C. In addition, by Order No. PSC-05-0397-TRF-WS, issued April 18, 2005,<sup>23</sup> the Commission approved a Premises Visit Charge to be levied when a service representative visits a premises at the customer's request for complaint and the problem is found to be the customer's responsibility. Based on the foregoing, staff recommends the Premises Visit (in lieu of disconnection) be eliminated and the Premises Visit charge is reasonable and should be approved.

In summary, staff recommends the utility's miscellaneous service charges of \$21 and after hours charges of \$42, be approved because the increased charges are cost-based, reasonable, and consistent with fees the Commission has approved for other utilities. The utility should file a proposed customer notice to reflect the Commission-approved charges. The

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<sup>20</sup> Docket No. 950495-WS, In Re: Application for rate increase and increase in service availability charges by Southern States Utilities, Inc. for Orange-Osceola Utilities, Inc. in Osceola County, and in Bradford, Brevard, Charlotte, Citrus, Clay, Collier, Duval, Highlands, Lake, Lee, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties.

<sup>21</sup> Docket 050587-WS, In re: Application for staff-assisted rate case in Charlotte County by MSM Utilities, LLC.

<sup>22</sup> Docket No. 050369-TRF-WS, In re: Request for approval of change in meter installation fees and proposed changes in miscellaneous services charges in Pasco County by Mad Hatter Utility, Inc.

<sup>23</sup> Docket 050096-WS, In re: Request for revision of Tariff Sheets 14.0 and 15.1 to change request for meter test by customer and premise visit charge, by Marion Utilities, Inc.

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approved charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by staff. Within ten days of the date the order is final, the utility should be required to provide notice of the tariff changes to all customers. The utility should provide proof the customers have received notice within ten days after the date the notice was sent.

**Issue 26:** In determining whether any portion of the wastewater interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

**Recommendation:** The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense and other items not in effect during the interim period. This revised revenue requirement for the interim collection period should be compared to the amount of interim revenues granted. Based on this calculation, no refund is required. Further, upon issuance of the Consummating Order in this docket, the corporate undertaking should be released. (Merta)

**Staff Analysis:** By Order No. PSC-06-0670-FOF-WS, issued August 7, 2006, the Commission authorized the collection of interim wastewater rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirement is \$422,113, which represents an increase of \$114,155 or 37.07%. The interim collection period is September 2006 through January 2007.

According to Section 367.082, F.S., any refund should be calculated to reduce the rate of return of the utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates are in effect should be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates is the 12-month period ending December 31, 2005. Pennbrooke's approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the floor of the last authorized range for equity earnings.

To establish the proper refund amount, staff has calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period.

Using the principles discussed above, as the \$422,113 revenue requirement granted in Order No. PSC-06-0670-FOF-WS, for the interim test year is less than the revenue requirement for the interim collection period of \$423,768, staff recommends that no refund is required. Further, upon issuance of the Consummating Order in this docket, the corporate undertaking should be released.

**Issue 27:** 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, Florida Statutes?

**Recommendation:** The water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B to remove \$14,229 of water and \$12,268 of rate case expense, grossed-up for regulatory assessment fees, which is being amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than 30 days prior to the actual date of the required rate reduction. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Merta)

**Staff Analysis:** Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is \$14,229 for water and \$12,268 for wastewater. The decreased revenue will result in the rate reduction recommended by staff on Schedule No. 4-A and Schedule No. 4-B.

The utility should be required to 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 of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

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 for the reduction in the rates due to the amortized rate case expense.

**OTHER ISSUES**

**Issue 28:** Should the utility be required to provide proof, within 90 days of the final order issued in this docket, that it has adjusted its books for all the applicable 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, Pennbrooke should provide proof, within 90 days of the final order issued in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made. (Merta)

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

**Issue 29:** Should this docket be closed?

**Recommendation:** No. If no timely protest is filed by a substantially affected person within 21 days of the Proposed Agency Action Order, a Consummating Order should be issued and the corporate undertaking released. However, 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, and to allow time for staff to present an appropriate conservation plan to the Commission for its consideration. (Brubaker, Merta)

**Staff Analysis:** If no timely protest is filed by a substantially affected person within 21 days of the Proposed Agency Action Order, a Consummating Order should be issued and the corporate undertaking released. However, 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, and to allow time for staff to present an appropriate conservation plan to the Commission for its consideration..



Water Treatment System With Storage  
 Used and Useful Analysis

1	Firm Reliable Capacity		648,000 gpd
2	Demand		739,000 gpd
	a Maximum Day	887,000 gpd	
	b 5 Max Day Average	739,000 gpd	
	c Average Daily Flow	442,950 gpd	
3	Excessive Unaccounted for Water = a-b		0 gpd
	a Total Unaccounted for Water (8.21%)	36,348 gpd	
	b 10% of Average Daily Flow	44,295 gpd	
4	Required Fire Flow		144,000 gpd
5	Growth = ((2/5a) X 5b X 5 yrs.)		0 gpd
	a Average Test Year Customers	1393 ERCs	
	b Annual Customer Growth	Built Out	
6	Used and Useful = (2 – 3 + 4 + 5)/1		100%
	(739,000 – 0 + 144,000 + 0)/648,000		

Wastewater Treatment System  
 Used and Useful Analysis

1	Permitted Capacity (AADF)		180,000 gpd
2	Demand (AADF)		90,090 gpd
3	Excessive Infiltration and Inflow		0 gpd
	a Water demand per ERC	207 gpd	
	b AADF per ERC	71 gpd	
4	Growth = ((2/4a) X 4b X 5 yrs.)		0 gpd
	a Average Test Year Customers	1266 ERCs	
	b Customer Growth	Built Out	
5	Used and Useful = (2 – 3 + 4)/1		50%*
	(90,090 – 0 + 0)/180,000		

\* The system is built out, therefore it is 100% used and useful.

UTILITIES, INC. OF PENNBROOKE  
 DOCKET NO. 060261-WS  
 HISTORICAL TEST YEAR ENDED DECEMBER 31, 2005

ATTACHMENT B

**WATER PUMPED vs.  
 WATER PERMITTED: 2001 - 2006**

	(a)	(b)	(c) = (a) - (b)	(d) = (c) / (b)
<u>Year</u>	<u>Kgal Water Pumped</u>	<u>Kgal Water Permitted</u>	<u>Pumped Exceeded Permit:</u>	
			<u>Amount</u>	<u>Percent</u>
2001	107,477	95,985	11,492	12.0%
2002	122,261	105,830	16,431	15.5%
2003	160,326	109,840	50,486	46.0%
2004	174,771	109,840	64,931	59.1%
2005 (1)	161,947	163,890	(1,943)	-1.2%
2006 (2)	185,500	165,710	19,790	11.9%

(1): New permit issued in 2005 -- increased permitted annual withdrawal by 54 million gallons.

(2): 2006 kgal water pumped based on actual data for the eleven-month period of January through November.

**Sources:** Utilities, Inc. of Pennbrooke, Consumptive Use Permits; Florida Department of Environmental Protection, Monthly Operating Reports for Public Water Systems, July 2006 - November 2006; St. Johns River Water Management District, Compliance Submittal Record, Consumptive Use Technical Staff Report, July 18, 2005.

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**RATIO OF WATER PUMPED vs.  
 WASTEWATER TREATED: 2001 - 2005**

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**[A] WATER SYSTEM KGALS PUMPED**

<u>Year</u>	<u>Kgal Pumped</u>	<u>Avg ERCs</u>	<u>Kgal Pumped per ERC</u>
2001	107,477	757	142.0
2002	122,261	867	141.0
2003	160,326	1,096	146.3
2004	174,771	1,322	132.2
2005	161,947	1,417	114.3

**[B] WASTEWATER SYSTEM KGALS TREATED**

<u>Year</u>	<u>Kgal Treated</u>	<u>Avg ERCs</u>	<u>Kgal Treated per ERC</u>
2001	32,432	757	42.8
2002	35,675	867	41.1
2003	41,866	1,037	40.4
2004	31,952	1,203	26.6
2005	32,883	1,255	26.2

**[C] PUMPED vs. TREATED RATIOS**

<u>Year</u>	<u>Per ERC Ratio: Water Pumped to Wastewater Treated</u>	<u>Per ERC Ratio Increase</u>
2001	3.3	
2002	3.4	
2003	3.6	
2004	5.0	
2005	4.4	31.6%

**Sources:** Utilities, Inc. of Pennbrooke, MFRs, Schedules Nos. F-1, F-2, Annual Reports, 2001 - 2004.

**SELECTION OF APPROPRIATE RESIDENTIAL WATER RATE STRUCTURE**

**BFC = 30%, Rate Factors = 1 / 1.25**

(000) Cons	Price Increase (Decrease)	Comments
0	6.5%	
1	4.7%	
2	3.6%	
3	2.9%	
5	1.9%	
6	1.6%	
10	0.7%	As customers use more water, the magnitude of the percentage price change <b>decreases</b> . Is <b>inconsistent</b> and <b>opposite</b> to Commission's typical price increase pattern: increasingly
12	0.4%	greater usage should pay increasingly
15	0.1%	greater percentage increases.
20	-0.2%	
22	-0.2%	
30	-0.5%	

**BFC = 30%, Rate Factors = 1 / 1.5**

(000) Cons	Price Increase (Decrease)	Comments
0	6.5%	
1	3.5%	
2	1.6%	
3	0.3%	Customers using between 4 kgal and 13 kgal receive price decreases, while customers using less than 4 kgal receive price increases. Is <b>inconsistent</b> with Commission's typical price increase pattern: increasingly
5	-1.4%	greater usage should pay increasingly
6	-2.0%	greater percentage increases.
10	-3.4%	
12	-1.0%	
15	1.5%	
20	4.0%	
22	4.7%	
30	6.6%	

**BFC = 25%, Rate Factors = 1 / 1.25 = RECOMMENDED**

(000) Cons	Price Increase (Decrease)	Comments
0	-10.3%	
1	-6.8%	
2	-4.7%	
3	-3.2%	
5	-1.2%	
6	-0.6%	Customers using between 0 kgal and 7 kgal receive price decreases, while customers using greater than 7 kgal receive price increases. Is <b>consistent</b> with Commission's typical price increase pattern: increasingly
10	1.1%	greater usage should pay increasingly
12	1.7%	greater percentage increases.
15	2.3%	
20	3.0%	
22	3.2%	
30	3.7%	

**BFC = 20%, Rate Factors = 1 / 1.25**

(000) Cons	Price Increase (Decrease)	Comments
0	-27.0%	
1	-18.3%	Excessive price decreases below 3 kgal.
2	-12.8%	Customers using between 0 kgal and 7 kgal receive price decreases, while customers using greater than 7 kgal receive price increases. Is <b>consistent</b> with Commission's typical price increase pattern: increasingly
3	-9.0%	greater usage should pay increasingly
5	-4.0%	greater percentage increases.
6	-2.4%	
10	1.8%	
12	3.4%	
15	5.0%	
20	6.7%	
22	7.2%	
30	8.4%	

**Sources:** Utilities, Inc. of Pennbrooke, MFRs, Schedules Nos. E-2, E-14.

UTILITIES, INC. OF PENNBROOKE  
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HISTORICAL TEST YEAR ENDED DECEMBER 31, 2005

ATTACHMENT E

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**COMPARISON OF WATER Kgal SOLD TO  
WASTEWATER Kgal TREATED**

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	Residential Kgal Water Sold	125,207
+	General Service Kgal of Water Sold	<u>15,852</u>
=	Total Kgal of Water Sold	141,059
/	Total Kgal Wastewater Treated	32,883
=	Number of Water Kgal Sold per Wastewater Kgal Treated	<b>4.3</b>

**Sources:** Utilities, Inc. of Pennbrooke, MFRs, Schedules Nos. E-2 and F-2.

Utilities, Inc. of Pennbrooke Schedule of Water Rate Base Test Year Ended 12/31/05			Schedule No. 1-A Docket No. 060261-WS		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$1,829,054	\$31,125	\$1,860,179	-\$74,046	\$1,786,133
2 Land and Land Rights	21,115	0	21,115	0	21,115
3 Non-used and Useful Components	0	0	0	0	0
4 Construction Work in Progress	12,253	0	12,253	-12,253	0
5 Accumulated Depreciation	-695,593	75,060	-620,533	390	-620,143
6 CIAC	-888,448	0	-888,448	0	-888,448
7 Amortization of CIAC	248,194	0	248,194	18,651	266,845
8 Acquisition Adjustments	476,560	-476,560	0	0	0
9 Accum. Amort. of Acquisition Adjs.	0	0	0	0	0
10 Working Capital Allowance	<u>21,393</u>	<u>3,837</u>	<u>25,230</u>	<u>-86</u>	<u>25,144</u>
<b>Rate Base</b>	<u>\$1,024,528</u>	<u>-\$366,538</u>	<u>\$657,990</u>	<u>-\$67,344</u>	<u>\$590,646</u>

Utilities, Inc. of Pennbrooke Schedule of Wastewater Rate Base Test Year Ended 12/31/05			Schedule No. 1-B Docket No. 060261-WS		
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	\$72,117	\$2,536,788	-\$5,134	\$2,531,654
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	-11,216	-684,834	-14,536	-699,370
6 CIAC	-1,216,875	0	-1,216,875	0	-1,216,875
7 Amortization of CIAC	363,776	0	363,776	35,332	399,108
8 Acquisition Adjustments	0	0	0	0	0
9 Working Capital Allowance	<u>27,690</u>	<u>3,417</u>	<u>31,107</u>	<u>-3,645</u>	<u>27,462</u>
<b>Rate Base</b>	<u>\$1,024,914</u>	<u>\$64,318</u>	<u>\$1,089,232</u>	<u>\$9,782</u>	<u>\$1,099,014</u>



<b>Utilities, Inc. of Pennbrooke</b> <b>Adjustments to Rate Base</b> <b>Test Year Ended 12/31/05</b>		<b>Schedule No. 1-C</b> <b>Docket No. 060261-WS</b>	
<b>Explanation</b>	<b>Water</b>	<b>Wastewater</b>	
<u>Plant In Service</u>			
1 Include net plant for WSC allocation (AF-4)	\$1,597	\$1,340	
2 Reflect appropriate UIF allocated plant to wastewater (AF-5)	(17,715)	17,450	
3 Allocate transportation equipment to wastewater 341/391 (AF-6)	(8,080)	8,080	
4 Increase to capitalize a fence that was expensed 304 (AF-7)	2,330		
5 Remove unsupported pro forma plant and reflect actual costs	(56,543)	(27,639)	
6 Allocate pro forma office construction 304/354	<u>4,365</u>	<u>(4,365)</u>	
Total	<u>(\$74,046)</u>	<u>(\$5,134)</u>	
<u>CWIP</u>			
1 Decrease for projects earning AFUDC	<u>(\$12,253)</u>	<u>(\$2,235)</u>	
<u>Non-used and Useful</u>			
	<u>\$0</u>	<u>\$0</u>	
<u>Accumulated Depreciation</u>			
1 Include accum. depreciation of organizational costs (AF-2)	(\$11,677)	(\$3,158)	
2 Increase to include expense on average plant balances (AF-3)	0	(3,129)	
3 Reflect appropriate UIF allocated plant to wastewater (AF-5)	5,331	(5,261)	
4 Allocate transportation equipment to wastewater (AF-6)	4,353	(4,353)	
5 Increase for fence capitalized (AF-7)	(36)	0	
6 Decrease for unsupported pro forma plant	2,556	1,229	
7 Allocate pro forma office construction	<u>(137)</u>	<u>137</u>	
Total	<u>\$390</u>	<u>(\$14,536)</u>	
<u>CIAC</u>			
	<u>\$0</u>	<u>\$0</u>	
<u>Accumulated Amortization of CIAC</u>			
1 Increase to allocate to appropriate plant accounts (AF-1)	<u>\$18,651</u>	<u>\$35,332</u>	
<u>Working Capital</u>			
	<u>(\$86)</u>	<u>(\$3,645)</u>	

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

Schedule No. 2  
 Docket No. 060261-WS

Description	Total Capital	Specific Adjust-Ments	Subtotal Adjusted Capital	Prorata Adjust-ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility								
1 Long-term Debt	\$124,044,203	\$0	\$124,044,203	-\$123,109,544	\$934,659	53.49%	6.81%	3.64%
2 Short-term Debt	11,347,000	0	11,347,000	-11,261,502	85,498	4.89%	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	-90,103,348	684,074	39.15%	11.77%	4.61%
5 Customer Deposits	9,242	0	9,242	0	9,242	0.53%	6.00%	0.03%
6 Deferred Income Taxes	<u>33,750</u>	<u>0</u>	<u>33,750</u>	<u>0</u>	<u>33,750</u>	<u>1.93%</u>	<u>0.00%</u>	<u>0.00%</u>
10 Total Capital	<u>\$226,221,617</u>	<u>\$0</u>	<u>\$226,221,617</u>	<u>-\$224,474,394</u>	<u>\$1,747,223</u>	<u>100.00%</u>		<u>8.38%</u>
Per Staff								
11 Long-term Debt	\$124,044,203	\$0	\$124,044,203	-\$123,156,201	\$888,002	52.56%	6.73%	3.54%
12 Short-term Debt	11,347,000	0	11,347,000	-11,265,770	81,230	4.81%	2.00%	0.10%
13 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
14 Common Equity	90,787,422	3,093,004	93,880,426	-93,208,359	672,067	39.78%	11.45%	4.55%
15 Customer Deposits	9,242	0	9,242	0	9,242	0.55%	6.00%	0.03%
16 Deferred Income Taxes	<u>33,750</u>	<u>5,369</u>	<u>39,119</u>	<u>0</u>	<u>39,119</u>	<u>2.32%</u>	<u>0.00%</u>	<u>0.00%</u>
20 Total Capital	<u>\$226,221,617</u>	<u>\$3,098,373</u>	<u>\$229,319,990</u>	<u>-\$227,630,330</u>	<u>\$1,689,660</u>	<u>100.00%</u>		<u>8.22%</u>
						<u>LOW</u>	<u>HIGH</u>	
						RETURN ON EQUITY	10.45%	12.45%
						OVERALL RATE OF RETURN	<u>7.82%</u>	<u>8.62%</u>

Utilities, Inc. of Pennbrooke Statement of Water Operations Test Year Ended 12/31/05								Schedule No. 3-A Docket No. 060261-WS
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>\$340,926</u>	<u>\$26,857</u>	<u>\$367,783</u>	<u>-\$26,598</u>	<u>\$341,185</u>	<u>\$0</u> 0.00%	<u>\$341,185</u>	
Operating Expenses								
2 Operation & Maintenance	\$171,140	\$30,702	\$201,842	\$-689	\$201,153		\$201,153	
3 Depreciation	43,655	3,628	47,283	-11,363	35,920		35,920	
4 Amortization	292	0	292	-292	0		0	
5 Taxes Other Than Income	43,472	1,997	45,469	-6,123	39,346	0	39,346	
6 Income Taxes	<u>25,019</u>	<u>-7,294</u>	<u>17,725</u>	<u>-1,501</u>	<u>16,224</u>	<u>0</u>	<u>16,224</u>	
7 Total Operating Expense	<u>\$283,578</u>	<u>\$29,033</u>	<u>\$312,611</u>	<u>-\$19,968</u>	<u>\$292,643</u>	<u>\$0</u>	<u>\$292,643</u>	
8 Operating Income	<u>\$57,348</u>	<u>-\$2,176</u>	<u>\$55,172</u>	<u>-\$6,630</u>	<u>\$48,542</u>	<u>\$0</u>	<u>\$48,543</u>	
9 Rate Base	<u>\$1,024,528</u>		<u>\$657,990</u>		<u>\$590,646</u>		<u>\$590,646</u>	
10 Rate of Return	<u>5.60%</u>		<u>8.38%</u>		<u>8.22%</u>		<u>8.22%</u>	

Utilities, Inc. of Pennbrooke Statement of Wastewater Operations Test Year Ended 12/31/05								
	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>\$155,494</u>	<u>\$464,471</u>	<u>-\$156,513</u>	<u>\$307,958</u>	<u>\$128,249</u> 41.64%	<u>\$436,207</u>
2	Operating Expenses Operation & Maintenance	\$221,517	\$27,338	\$248,855	-\$29,162	\$219,693		\$219,693
3	Depreciation	45,071	7,177	52,248	-6,156	46,092		46,092
4	Amortization	268	0	268	0	268		268
5	Taxes Other Than Income	39,394	7,712	47,106	-3,234	43,872	5,771	49,643
6	Income Taxes	<u>-20,668</u>	<u>45,330</u>	<u>24,662</u>	<u>-40,563</u>	<u>-15,901</u>	<u>46,088</u>	<u>30,187</u>
7	Total Operating Expense	<u>\$285,582</u>	<u>\$87,557</u>	<u>\$373,139</u>	<u>-\$79,115</u>	<u>\$294,024</u>	<u>\$51,860</u>	<u>\$345,884</u>
8	Operating Income	<u>\$23,395</u>	<u>\$67,937</u>	<u>\$91,332</u>	<u>-\$77,398</u>	<u>\$13,934</u>	<u>\$76,389</u>	<u>\$90,323</u>
9	Rate Base	<u>\$1,024,914</u>		<u>\$1,089,232</u>		<u>\$1,099,014</u>		<u>\$1,099,014</u>
10	Rate of Return	<u>2.28%</u>		<u>8.38%</u>		<u>1.27%</u>		<u>8.22%</u>

Utilities, Inc. of Pennbrooke Adjustment to Operating Income Test Year Ended 12/31/05		Schedule 3-C Docket No. 060261-WS	
Explanation	Water	Wastewater	
<u>Operating Revenues</u>			
1 Remove requested final revenue increase	<u>(\$26,598)</u>	<u>(\$156,513)</u>	
<u>Operation and Maintenance Expense</u>			
1 Decrease to remove fence expensed instead of capitalized 675 (AF-7)	(\$2,330)	\$0	
2 Decrease to amortize legal exp for tariff app over 4 yrs 633 (AF-7)	(1,037)	0	
3 Decrease to remove prior period expenses 675/775/735 (AF-7)	(675)	(3,909)	
4 Decrease to remove payments beyond test year 675/636 (AF-7)	(1,158)	0	
5 Decrease to remove nonutility expense 775 (AF-7)	0	(1,155)	
6 Decrease to allocate WSC expense (AF-8)	(1,349)	(1,157)	
7 Decrease to allocate UIF expense	(20)	(17)	
8 Increase to include pro forma tank inspection and amortize 675	2,825	0	
9 Increase to include 2005 testing paid in 2006 635	330	0	
10 Decrease to normalize Materials & Supplies Expenses 620/720	(7,902)	(12,747)	
11 Increase to include CUP amortized over 5 years 675	1,897	0	
12 Decrease to amortize rate case expense 666/766	(9,280)	(8,001)	
13 To reflect the appropriate amount of pro forma salary & pensions	(2,835)	(2,176)	
14 To reflect conservation programs described in Issue 19 (Acct. 668)	<u>20,845</u>	<u>0</u>	
Total	<u>(\$689)</u>	<u>(\$29,162)</u>	
<u>Depreciation Expense - Net</u>			
1 Increase CIAC amort to allocate to proper plant accts (AF-1)	(\$7,473)	(\$10,154)	
2 Increase to include deprec. exp. on average plant balances (AF-3)	0	3,129	
3 Reflect appropriate UIF allocated plant to wastewater (AF-5)	362	578	
4 Include deprec on WSC allocated plant	(114)	(98)	
5 Allocate transportation equipment deprec exp to wastewater (AF-6)	(1,755)	1,755	
6 Include deprec exp on fence (AF-7)	36	0	
7 Decrease for unsupported pro forma plant	(2,556)	(1,229)	
8 Allocate office construction	<u>137</u>	<u>(137)</u>	
Total	<u>(\$11,363)</u>	<u>(\$6,156)</u>	
<u>Amortization-Other Expense</u>			
1 Decrease for organization costs fully amortized (AF-2)	(\$292)	<u>\$0</u>	
<u>Taxes Other Than Income</u>			
1 RAFs on revenue adjustments above	(\$1,397)	(\$7,209)	
2 Decrease to allocate WSC expense (AF-8)	(4)	(3)	
3 To record property tax based on actual property tax records (AF-9)	(4,377)	4,377	
4 To reflect the appropriate test year RAFs (AF-9)	183	166	
5 Decrease to reflect change in property tax millage rate	(186)	(255)	
6 To reflect appropriate payroll tax on pro forma salaries	<u>(342)</u>	<u>(310)</u>	
Total	<u>(\$6,123)</u>	<u>(\$3,234)</u>	
<u>Income Taxes</u>			
1 To reflect the appropriate amount of income taxes	<u>(\$1,501)</u>	<u>(\$40,563)</u>	

<b>Utilities, Inc. of Pennbrooke Water Monthly Service Rates Test Year Ended 12/31/05</b>	<b>Schedule No. 4-A Docket No. 060261-WS</b>				
	<b>Rates Prior to Filing</b>	<b>Commission Approved Interim</b>	<b>Utility Requested Final</b>	<b>Staff Recomm. Final</b>	<b>4-year Rate Reduction</b>
<b><u>Residential and General Service</u></b>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$5.56	\$0.00	\$5.97	\$4.99	\$0.21
1"	\$13.90	\$0.00	\$14.92	\$12.48	\$0.52
1-1/2"	\$27.80	\$0.00	\$29.85	\$24.95	\$1.04
2"	\$44.48	\$0.00	\$47.72	\$39.92	\$1.66
3"	\$88.96	\$0.00	\$95.45	\$79.84	\$3.33
4"	\$139.00	\$0.00	\$149.13	\$124.75	\$5.20
6"	\$0.00	\$0.00	\$0.00	\$249.50	\$10.41
8"	\$0.00	\$0.00	\$0.00	\$399.20	\$16.65
<b><u>Residential Service</u></b>					
Gallonge Charge, per 1,000 Gallons					
0 - 10,000 gallons	\$1.61		\$1.74	\$1.69	\$0.07
Over 10,000 gallons	\$2.01		\$2.17	\$2.11	\$0.09
<b><u>General Service</u></b>					
per 1,000 Gallons	-----	-----	-----	\$1.80	\$0.08
<b><u>Private Fire Protection</u></b>					
Base Facility Charge by Meter Size:					
2"	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
3"	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
4"	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
6"	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
8"	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
<b><u>Typical Residential Bills 5/8" x 3/4" Meter</u></b>					
3,000 Gallons	\$10.39	\$0.00	\$11.19	\$10.06	
5,000 Gallons	\$13.61	\$0.00	\$14.67	\$13.44	
10,000 Gallons	\$21.66	\$0.00	\$23.37	\$21.89	

**Utilities, Inc. of Pennbrooke  
 Wastewater Monthly Service Rates  
 Test Year Ended 12/31/05**

**SCHEDULE NO. 4-B  
 Docket No. 060261-WS**

	<b>Rates Prior to Filing</b>	<b>Commission Approved Interim</b>	<b>Utility Requested Final</b>	<b>Staff Recomm. Final</b>	<b>4-year Rate Reduction</b>
<b><u>Residential Service</u></b>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$7.85	\$10.78	\$11.85	\$11.65	\$0.33
1"	\$19.62	\$26.94	\$29.62	\$11.65	\$0.33
1-1/2"	\$39.23	\$53.87	\$59.22	\$11.65	\$0.33
2"	\$62.77	\$86.19	\$94.72	\$11.65	\$0.33
3"	\$125.54	\$172.38	\$189.52	\$11.65	\$0.33
4"	\$196.15	\$269.34	\$296.11	\$11.65	\$0.33
6"	\$0.00	\$0.00	\$0.00	\$11.65	\$0.33
8"	\$0.00	\$0.00	\$0.00	\$11.65	\$0.33
Gallorage Charge, per 1,000 Gallons					
(10,000 gallon cap)	\$1.96	\$2.69	\$2.96		
(6,000 gallon cap)	----	----	----	\$3.61	\$0.10

**General  
 Service**

Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$7.85	\$10.78	\$11.85	\$11.65	\$0.33
1"	\$19.62	\$26.94	\$29.62	\$29.12	\$0.82
1-1/2"	\$39.23	\$53.87	\$59.22	\$58.24	\$1.64
2"	\$62.77	\$86.19	\$94.72	\$93.19	\$2.62
3"	\$125.54	\$172.38	\$189.52	\$186.38	\$5.24
4"	\$196.15	\$269.34	\$296.11	\$291.22	\$8.19
6"	\$0.00	\$0.00	\$0.00	\$582.45	\$16.38
8"	\$0.00	\$0.00	\$0.00	\$932.00	\$26.21
Gallorage Charge, per 1,000 Gallons					
	\$2.35	\$3.23	\$3.54	\$4.33	\$0.12

**Typical Residential Bills 5/8" x 3/4" Meter**

3,000 Gallons	\$13.73	\$18.85	\$20.73	\$22.48	
5,000 Gallons	\$17.65	\$24.23	\$26.65	\$29.70	
6,000 Gallons	\$19.61	\$26.92	\$29.61	\$33.31	
10,000 Gallons	\$27.45	\$37.68	\$41.45	\$33.31	
(Current Wastewater Gal Cap 10,000 Gals)					
(Recom Wastewater Gal Cap 6,000 Gals)					