

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:** March 26, 2009

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

**FROM:** Division of Economic Regulation (Crawford, Bulecza-Banks, Fletcher, Redemann)  
Office of the General Counsel (Bennett)

**RE:** Docket No. 080247-SU – Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge.

**AGENDA:** 04/07/09 – Regular Agenda – Proposed Agency Action Except Issues 15 and 16 – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Argenziano

**CRITICAL DATES:** 5-Month Effective Date 04/07/09

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\ECR\WP\080247.RCM.DOC

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### **Case Background**

Eagle Ridge Utilities, Inc. (Eagle Ridge or Utility) is a Class B utility providing wastewater service to approximately 969 customers in Lee County. Water service is provided in the area by Lee County. Wastewater rates were last established for the Utility in its 2003 rate proceeding.<sup>1</sup>

On August 22, 2008, Eagle Ridge filed an Application for Rate Increase pursuant to Sections 367.081 and 367.082, Florida Statutes (F.S.). However, the Utility had a few deficiencies in the Minimum Filing Requirements (MFRs). On November 10, 2008, the Utility filed documentation satisfying the deficiencies. As a result, November 10, 2008, was designated as the official filing date pursuant to Section 367.083, F.S. Eagle Ridge requested that the Commission process this case using the Proposed Agency Action (PAA) procedure.

The test year established for interim and final rates is the simple average period ending December 31, 2007. By Order No. PSC-08-0761-PCO-SU, issued November 17, 2008, the Commission approved interim rates designed to generate annual revenues of \$1,041,747. This represents a revenue increase on an annual basis of \$246,392 (30.98 percent). The interim rates are subject to refund with interest, pending the conclusion of the rate case. The Utility requested final rates designed to generate annual revenues of \$1,109,542. This represents a revenue increase of \$332,525 (42.80 percent).

The 5-month statutory deadline for the Commission to vote on the Eagle Ridge's requested final rates is April 7, 2009. This recommendation addresses the revenue requirement and rates that should be approved on a prospective basis. The Commission has jurisdiction pursuant to Section 367.081, F.S.

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<sup>1</sup> See Order No. PSC-04-1107-PAA-SU, issued November 8, 2004, in Docket No. 030445-SU, In re: Application for rate increase in Lee County by Utilities, Inc. of Eagle Ridge.

## Discussion of Issues

### QUALITY OF SERVICE

**Issue 1:** Is the quality of service provided by Eagle Ridge considered satisfactory?

**Recommendation:** Yes. The Utility's overall quality of service is satisfactory. (Redemann)

**Staff Analysis:** Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in every water and wastewater rate case, the Commission shall determine the overall quality of service provided by the utility by evaluating (1) the quality of the product, (2) the operating conditions of the plant and facilities and, (3) the utility's attempt to address customer satisfaction.

#### Quality of the Product and Operating Conditions

Staff contacted the Department of Environment Protection (DEP) and performed field inspections at the Eagle Ridge and Cross Creek systems. According to the DEP, the Utility is meeting all applicable wastewater treatment standards and all operating permits are current for both the Eagle Ridge and Cross Creek systems. The operating permits for the Eagle Ridge and Cross Creek wastewater treatment plants, which were in effect during the test year, expired on October 14, 2008, and a new operating permit was subsequently issued for Cross Creek that expires on July 1, 2013. A new operating permit was issued for Eagle Ridge that expires on September 13, 2013. Since the last rate case, the Utility has installed a reuse filter and a biological odor control system at Eagle Ridge. Staff inspected the Utility's lift stations, treatment plants, and reuse facilities and found them to be in good working order. There were no odors at either plant.

#### Customer Satisfaction

A customer meeting was held on February 19, 2009, near the Eagle Ridge service area. The Utility, a representative from the Office of Public Counsel, and one customer from the Eagle Ridge community attended. The customer indicated that he was concerned about the rate increase with the current economy and asked about plant additions and the cap for wastewater rates. Staff described the Utility's recent plant improvements and indicated that the rate cap would be reviewed.

There are no outstanding complaints on the Commission's Complaint Tracking System. Staff reviewed Eagle Ridge's complaint log and found only a few complaints which have been resolved.

#### Summary

Staff recommends that the Utility's wastewater effluent quality and plant operating conditions are satisfactory. Further, Eagle Ridge is providing prompt responses to customer concerns. Therefore, staff recommends that the Utility's overall quality of service is satisfactory.

**RATE BASE**

**Issue 2:** Should the audit adjustments to rate base and operating expense to which the Utility and staff agrees, be made?

**Recommendation:** Yes. Based on audit adjustments agreed to by the Utility and staff, the following adjustments are necessary.

<b>Audit Finding</b>	<b>Wastewater</b>
No. 1 - Decrease Plant in Service	\$106,670
No. 1 - Decrease Accumulated Depreciation	\$361,839
No. 1 - Decrease Accumulated Amortization of CIAC	\$441,386
No. 1 - Increase CIAC	\$252,084
No. 1 - Increase Depreciation Expense	\$2,124
No. 1 - Increase Amortization Expense	\$11,000
No. 5 - Decrease Depreciation Expense	\$456
No. 5 - Decrease Accumulated Depreciation	\$685

In addition, staff auditors performed an affiliate transactions' (AT) audit of Utilities, Inc. (UI), the parent company of Eagle Ridge and its sister companies. Based on Audit Finding No. 5, transportation expense should be decreased by \$2,265. (Crawford, Redemann)

**Staff Analysis:** Based on audit adjustments agreed to by the Utility and staff, the following adjustments are necessary.

<b>Audit Finding</b>	<b>Wastewater</b>
No. 1 - Decrease Plant in Service	\$106,670
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In addition, staff auditors performed an AT audit of UI, the parent company of Eagle Ridge and its sister companies. Based on Audit Finding No. 5, transportation expense should be decreased by \$2,265. The aforementioned adjustments related to rate base and operating expenses are reflected on Schedules 1-B and 3-B.

**Issue 3:** Should any adjustments be made to test year plant-in-service?

**Recommendation:** Yes. Plant-in-service should be reduced by \$85,043. A corresponding adjustment should be made to decrease accumulated depreciation by \$85,043. (Crawford, Redemann)

**Staff Analysis:** Based on Audit Finding No. 6 the Utility's records reflect project costs for the engineering and installation of a new AquaDisc filter which replaced the former sand filter at Eagle Ridge. NARUC, Class B, Accounting Instruction 27.B (2) states when a retirement unit is retired from utility plant, with or without replacement, the book cost thereof shall be credited to the utility plant account in which it is included, determined in the manner set forth in paragraph D. NARUC, Class B, Accounting Instruction 27.D states that book cost shall be determined from the utility records and if that cannot be done it shall be estimated. Eagle Ridge agrees that a retirement entry is needed. As the Utility could not identify original cost booked in 1984, staff used the Handy-Whitman index to determine the proper retirement for the plant. Based on staff's calculation, the old sand filter, completed in 1983, would have cost \$6,246, and the old sand filter completed in 1984 should have cost \$78,797. Therefore, staff recommends plant-in-service be reduced by \$85,043 (\$6,246 + \$78,797). A corresponding adjustment should be made to decrease accumulated depreciation by \$85,043.

**Issue 4:** What are the used and useful percentages of the Utility's wastewater treatment plant, wastewater collection system, and reuse water system?

**Recommendation:** The Eagle Ridge wastewater treatment plant is 78.73 percent used and useful. The Cross Creek wastewater treatment plant is 100 percent used and useful. The wastewater collection and reuse systems should be considered 100 percent used and useful. The used and useful adjustments should be made to Account Nos. 354.4, Structures and Improvements, and Account No. 380.4, Treatment and Disposal Equipment. Staff has reduced rate base by \$20,286 and has made corresponding adjustments to reduce depreciation expense by \$5,598 and reduce property tax by \$55. Staff's adjustments to non-used and useful plant are shown on the rate base and operating income adjustment Schedules 1-B and 3-B. (Crawford, Redemann)

**Staff Analysis:** Pursuant to Rule 25-30.432, F.A.C., the used and useful calculation for a wastewater treatment plant is based on the test year flows and the DEP permitted capacity. The basis for the test year flows should be the same basis that DEP used to determine the permitted capacity. Other factors, including growth, infiltration, inflow, and design capacity should also be considered. Eagle Ridge system has two wastewater treatment plants which are identified as Eagle Ridge and Cross Creek.

The Utility proposed the following used and useful percentages for the Eagle Ridge and Cross Creek wastewater facilities:

	Wastewater Plant	Collection Lines	Reuse System
Eagle Ridge	78.73%	100%	100%
Cross Creek	100.00%	100%	100%

The Eagle Ridge wastewater treatment plant, which uses extended aeration for treatment, has a permitted capacity of 318,000 gallons per day (gpd) based on a three month average daily flow (TMADF). The three month average daily flow during the test year was 250,354 gpd. It appears that there is no excessive infiltration and inflow in the collection system. Treated effluent is disposed of at the Eagle Ridge Golf and Country Club golf course. The service area is virtually built out; therefore, the Utility did not include a growth allowance in its proposed used and useful analysis for the wastewater treatment plant. Staff recommends that the Utility's proposed used and useful calculations of 78.73 percent for the wastewater treatment plant and 100 percent for the collection system are reasonable and should be approved. In addition, pursuant to Section 367.0817(3), F.S., staff recommends that the Utility's reuse system should be considered 100 percent used and useful.

The Cross Creek wastewater treatment plant has a permitted capacity of 249,000 gpd based on a maximum month average daily flow (MMADF). The maximum month average daily flow during the test year of 164,097 gpd occurred in March 2007. There does not appear to be a problem with infiltration or inflow. The treated effluent is disposed of at Cross Creek's golf course. The service area is completely built out; therefore, staff recommends that the Cross Creek wastewater treatment plant and collection system be considered 100 percent used and

useful. Pursuant to Section 367.0817(3), F.S., the reuse systems should be considered 100 percent used and useful.

The Utility calculated a composite used and useful factor of 85.75 percent for the wastewater treatment plants based on the weighted average cost of the Eagle Ridge and Cross Creek treatment facilities. This methodology is consistent with the methodology used in the Utility's last rate case.<sup>2</sup> Used and useful adjustments should be made to Account Nos. 354.4, Structures and Improvements and Account No. 380.4, Treatment and Disposal Equipment. Staff has made corresponding adjustments to non-used and useful plant as shown on the rate base and operating income adjustment Schedules 1-B and 3-B.

Utilities, Inc. of Eagle Ridge – Eagle Ridge System  
January 1 – December 31, 2007  
Wastewater Treatment System Used and Useful Analysis

			Gallons Per Day
1	Permitted Capacity (TMADF)		318,000
2	Demand (TMADF)		250,354
3	Excessive Infiltration and Inflow		0
3a	Estimated Flow including I&I	99,712,804 gpd	
3b	Wastewater Treated	81,164,200 gpd	
4a	Average Test Year Customers	1176 ERCs	
4b	Historical Annual Customer Growth	0	
4c	Statutory Growth Period	5 Years	
4d	Gallons per ERC (250,354 – 0)/1176	213	
4e	Growth Allowance	0	0
5	<b>Used and Useful Wastewater Treatment Plant<sup>3</sup></b>		<b>78.73%</b>

<sup>2</sup> See Order No. PSC-04-1107-PAA-SU, issued November 4, 2004, in Docket No. 030445-SU, In re: Application for Rate Increase in Lee County by Utilities, Inc. of Eagle Ridge.

<sup>3</sup> (TMADF – I&I + Growth)/Permitted Capacity = (250,354 – 0 + 0)/ 318,000 = 78.73%



**Issue 5**: What is the appropriate working capital allowance?

**Recommendation**: The appropriate working capital allowance is \$80,100. (Crawford)

**Staff Analysis**: Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, whereby the working capital allowance is based on one-eighth of Operation and Maintenance (O&M) expense. The Utility has properly filed its allowance for working capital using the formula method. Staff has recommended adjustments to Eagle Ridge's O&M expenses. As a result, staff recommends that working capital of \$80,100 be approved. This reflects a decrease of \$1,430 to the Utility's requested working capital allowance of \$81,530 for wastewater.

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**Issue 6:** What is the appropriate rate base for the test year period ending December 31, 2007?

**Recommendation:** Consistent with other recommended adjustments, the appropriate rate base is \$1,824,626. (Crawford)

**Staff Analysis:** Based on staff's recommended adjustments, the appropriate rate base is \$1,824,626. The schedule for rate base is attached as Schedule No. 1-A, and the adjustments are shown on Schedule No. 1-B.

## **COST OF CAPITAL**

**Issue 7:** What is the appropriate return on common equity?

**Recommendation:** The appropriate return on common equity is 12.34 percent based on the Commission's 2008 leverage formula and an equity ratio of 42.59 percent. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. (Crawford)

**Staff Analysis:** The return on equity (ROE) requested in the Utility's filing is 11.70 percent. This return is based on the application of the Commission's leverage formula approved in Order No. PSC-07-0472-PAA-WS and an equity ratio of 42.59 percent.<sup>4</sup>

Staff believes the Company's proposed return on equity of 11.70 percent should be updated to reflect the cost rate yielded by the Commission's 2008 leverage formula.<sup>5</sup> Based on the approved methodology and an equity ratio of 42.59 percent, staff recommends a ROE of 12.34 percent. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

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<sup>4</sup> See Order No. PSC-07-0472-PAA-WS, issued June 1, 2007, in Docket No. 070006-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>5</sup> See Order No. PSC-08-0846-FOF-WS, issued December 31, 2008, in Docket No. 080006-WS, In re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081 (4)(f), F.S.

**Issue 8:** What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure?

**Recommendation:** Based on the resolution of the previous issues, the appropriate weighted average cost of capital, including the proper components, amounts, and cost rates associated with the capital structure, is 8.11 percent. (Crawford)

**Staff Analysis:** As shown on MFR Schedule D-1, Eagle Ridge originally proposed an overall cost of capital of 8.09 percent for the test year ending December 31, 2007. Based on the resolution of the preceding issues, staff's recommended capital structure yields an overall cost of capital of 8.11 percent. Schedule No. 2 contains staff's recommended capital structure.

## **NET OPERATING INCOME**

**Issue 9:** What is the appropriate amount of rate case expense?

**Recommendation:** The appropriate rate case expense is \$84,373. This expense should be recovered over four years for an annual expense of \$21,093. Thus, rate case expense should be reduced by \$21,679. (Crawford)

**Staff Analysis:** The Utility included in its MFRs an estimate of \$171,087 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 January 8, 2009, the Utility submitted a revised estimated rate case expense through completion of the PAA process of \$164,525.

	<u>MFR Estimated</u>	<u>Actual</u>	<u>Additional Estimated</u>	<u>Total</u>
Legal and Filing Fees	\$45,200	\$6,887	\$45,200	\$52,087
Consultant Fees - MSA	0	740	0	740
Consultant Fees – M&R	43,650	19,891	43,500	63,391
WSC In-house Fees	60,700	16,337	58,288	74,625
Filing Fee	4,000	3,500	0	3,500
Travel – WSC	3,200	54	3,200	3,254
Miscellaneous	12,000	602	12,000	12,602
Notices	<u>2,337</u>	<u>96</u>	<u>2,337</u>	<u>2,433</u>
Total Rate Case Expense	<u>\$171,087</u>	<u>\$48,107</u>	<u>\$164,525</u>	<u>\$212,632</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 and the Utility's consultants, a combined amount of \$633 was billed for correcting the MFR deficiencies and revising the Utility's filing. The Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.<sup>6</sup> Accordingly, staff recommends that \$633 be removed as

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<sup>6</sup> See Order Nos. 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.; and 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.

duplicative and unreasonable legal fees.

The second adjustment relates to the Utility's estimated legal fees to complete the rate case. Eagle Ridge estimated 160 hours or \$45,200 in fees to complete the rate case. However, staff's list of tasks historically used to complete the case came to 48 hours. The specific amount of time associated with each item is listed below:

### **Estimated Legal Fees To Complete Through PAA Process**

<u>Description</u>	<u>Time</u>	<u>Rate</u>	<u>Total</u>
Telephone conferences and communications with client regarding rate case issues	2.00	290	\$580
Respond to staff's data request; Telephone conferences with client, consultants and staff regarding same	6.00	290	1,740
Review audit report; Conference with client regarding response to same; prepare response to same	4.50	290	1,305
Travel to Lee County and attend customer meeting; Respond to customer complaints	10.00	290	2,900
Review Staff's recommendations; Conferences with client and consultants regarding same	1.50	290	435
Prepare for and travel to Tallahassee to attend Agenda	14.00	290	4,060
Telephone conferences and communications with client and consultants	1.00	290	290
Review PAA Order	0.50	290	145
Telephone conferences and communications with client, consultants and Commission staff	2.00	290	580
Draft revised tariff sheets, notice of new rates and other implementing documentation	2.00	275	550
Letter, telephone conferences and communications with Commission Staff	1.50	275	413
Miscellaneous post-PAA noticing and filing matters, COA's Final Rate Case Expense, reports, etc.	<u>3.00</u>	275	<u>825</u>
<b>Total estimated fees</b>	<b><u>48.00</u></b>		<b><u>\$13,823</u></b>

The burden to justify requested costs lies with the Utility. Staff believes that 48 hours is a reasonable amount of time to respond to data requests, conference with the client and consultants, review staff's recommendation, travel to the customer meeting, and attend to miscellaneous post-PAA matters. Eagle Ridge estimated legal fees of \$45,200. Staff estimates an additional \$13,823 in legal fees going forward to completion of the PAA. As a result, staff believes the legal fees should be reduced by \$31,377 (\$45,200 less \$13,823). Staff therefore recommends a further reduction to rate case expense of \$31,377.

The third adjustment relates to the Utility's estimated consultant fees for Mr. Frank Seidman with Management & Regulatory Consultants, Inc., to complete the rate case. Mr. Seidman estimated 300 hours or \$43,500 (300 X \$145) to complete the rate case. No justification was provided for the estimate of the number of hours worked. According to the analysis of rate case expense as of December 15, 2008, Mr. Seidman's services included used and useful analysis, assisting with MFRs, data requests, and audit facilitation. Staff believes the majority of the work performed by Mr. Seidman was accounted for in the \$19,891 total provided by the Utility in the updated rate case expense. Staff believes that four hours is a reasonable amount of time to prepare for and attend the Agenda Conference 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>7</sup> Therefore, staff recommends that rate case expense be decreased by \$42,920 (296 hours x \$145).

The fourth adjustment relates to the 1,500 hours and \$60,700 of estimated costs to complete this case by Water Service Corp. (WSC) employees. The last General Ledger entry for WSC employees' rate case time was on December 10, 2008. Eagle Ridge asserts that additional hours were required to respond to the staff auditors' requests and to the staff analyst's data requests. However, the Utility failed to provide any detailed documentation of what tasks were involved in its estimate to complete the case for each employee. 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 above, it is the Utility's burden to justify its requested costs. Staff believes that 204 hours is reasonable to allow Eagle Ridge to respond to data requests, facilitate the audit, and review the PAA recommendation. By applying the individual employee rates and the average number of hours worked by WSC employees, staff recommends that the estimated WSC fees to complete the case should be \$21,363. Eagle Ridge has already incurred \$16,337 through December 15, 2008. 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>8</sup> Thus, the Utility's requested expense of \$74,625 should be decreased by \$36,925 (\$74,625 less \$21,363 less \$16,337).

The fifth adjustment addresses WSC travel expenses. In its MFRs, Eagle Ridge requested \$3,254 for travel. Based on several previous UI rates cases, it is staff's experience for PAA rate cases that UI does not send a representative from its Illinois office to attend the Agenda Conference; therefore, the entire amount of estimated travel expense should be removed. Accordingly, staff recommends that rate case expense be decreased by \$3,254. This

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<sup>7</sup> See Order Nos. 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.; and 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.

<sup>8</sup> See Order Nos. 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.; 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 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.

recommended adjustment is consistent with the Commission's recent decisions for two of Eagle Ridge's sister companies.<sup>9</sup>

The sixth adjustment relates to WSC expenses for FedEx Corporation (FedEx), copies and other miscellaneous costs. In its MFRs, the Utility reflect actual and estimated costs of \$602 and \$12,000, respectively for copies and other miscellaneous costs in order to complete the rate case. The Utility provided no breakdown or support for these costs. UI has requested and received authorization from the Commission to keep its records outside the state in Illinois, pursuant to Rule 25-30.110(2)(b), F.A.C. 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 in rate case expense or recovered through rates. In 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 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. The Commission has consistently disallowed this cost in rate case expense.<sup>10</sup> 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 requests, 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; therefore, they should bear the related costs. Therefore, staff recommends that miscellaneous rate case expense be decreased by \$12,602.

The seventh adjustment relates to customer notices and postage. The Utility estimated \$2,337 for the customer notices, postage, and stock. The Utility did not provide any support for its postage costs; therefore, staff estimated the costs related to notices and postage. Eagle Ridge is responsible for sending four notices: the interim notice, the initial notice, customer meeting notice, and notice of the final rate increase. Staff estimated the postage cost for the notices to be \$1,211 (875 customers x \$0.346 pre-sorted rate x 4 notices). Based on the invoice submitted by Eagle Ridge, a two page notice costs \$96.25 (\$96.25 Interim Notice and \$96.25 Customer Meeting Notice). Accordingly, a four page notice costs \$192.50 (\$192.50 Initial Notice and \$192.50 Final Notice). Staff estimated the total stock costs to be \$578. Therefore, staff recommends a total cost for customer notices postage and stock to be \$1,789 (\$1,211 + \$578). As such, rate case expense should be decreased by \$548 (\$2,337 - \$1,789).

In summary, staff recommends that the Utility's revised rate case expense be decreased by \$128,259 for MFR deficiencies, and for unsupported and unreasonable rate case expense.

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<sup>9</sup> See Order Nos. PSC-08-0812-PAA-WS, issued December 16, 2008, in Docket No. 070695-WS, In re: Application for Increase in Water and Wastewater Rates in Martin County by Miles Grant Water and Sewer Company, and PSC-09-0101-PAA-WS, issued February 16, 2009, in Docket No. 070693-WS, In re: Application for Increase in Water and Wastewater Rates in Lee County by Lake Utility Services, Inc.

<sup>10</sup> See Order Nos. 25821, issued February 27, 1991, in Docket No. 910020-WS, In re: Petition for rate increase in Pasco County by UTILITIES, INC. OF FLORIDA; and 20066, issued September 26, 1988, in Docket No. 870981-WS, In re: Application of MILES GRANT WATER AND SEWER COMPANY for an increase in Water and Sewer Rates in Martin County.



The appropriate total rate case expense is \$84,373. A breakdown of rate case expense is as follows:

<u>Description</u>	<u>MFR Estimated</u>	<u>Utility Revised Actual &amp; Estimated</u>	<u>Staff Adjustments</u>	<u>Total</u>
Legal Fees	\$45,200	\$52,087	(\$32,010)	\$20,077
Consultant Fees-M&R	43,650	63,391	(42,920)	20,471
Consultant Fees-MSS	0	740	0	740
WSC In-House Fees	60,700	74,625	(36,925)	37,700
Filing Fee	4,000	3,500	0	3,500
WSC Travel	3,200	3,254	(3,254)	0
Miscellaneous	12,000	12,602	(12,602)	0
Notices	<u>2,337</u>	<u>2,433</u>	<u>(548)</u>	<u>1,885</u>
<b>Total Rate Case Expense</b>	<u>\$171,087</u>	<u>\$212,632</u>	<u>(\$128,259)</u>	<u>\$84,373</u>
<b>Annual Amortization</b>	<u>\$42,772</u>	<u>\$53,158</u>	<u>(\$32,065)</u>	<u>\$21,093</u>

In its MFRs, Eagle Ridge requested total rate case expense of \$171,087, which amortized over four years would be \$42,772. The recommended total rate case expense should be amortized over four years, pursuant to Section 367.016, F.S. Based on the data provided by Eagle Ridge and the staff-recommended adjustments discussed above, staff recommends annual rate case expense of \$21,093. Thus, staff recommends that rate case expense should be reduced by \$21,679.

**Issue 10:** Should any further adjustments be made to test year net depreciation expense?

**Recommendation:** Yes. Net depreciation expense should be increased by \$2,302 (\$39,510 less \$18,643 less \$18,565). The corresponding adjustments should include an increase to accumulated depreciation of \$302,433 (\$46,571 plus \$255,862) and an increase to accumulated amortization of CIAC of \$54,137. (Crawford)

**Staff Analysis:** According to Audit Finding No. 1, the Utility did not correctly book prior Commission ordered adjustments. Eagle Ridge provided a workpaper that showed the accumulated depreciation rolled forward through 2007, as well as the associated depreciation expense. As such, staff recommends accumulated depreciation should be increased by \$46,571, and depreciation expense should be decreased by \$18,565.

Based on Audit Finding No. 3, the Utility did not amortize its CIAC in accordance with Rule 25-30.140, F.A.C. The rule states that CIAC can be specifically associated with a corresponding plant account to be allocated and amortized using the same depreciation rates as the corresponding plant account. In Eagle Ridge's response to Audit Finding No. 3, the Utility rolled forward the accumulated amortization based on audit staff's recalculation of CIAC through 2007. Rolling the entry forward through 2007 allows for adjustments to the test year to correct accumulated amortization and amortization expense. Thus, staff recommends accumulated amortization of CIAC and amortization of CIAC be increased by \$54,137 and \$18,643 respectively.

According to Audit Finding No. 8, the Utility did not depreciate all of its plant in accordance with Rule 25-30.140, F.A.C. In its response to Audit Finding No. 8, Eagle completed a roll forward including plant balances for the years 2003-2006, showing what the depreciation calculations for each year should be. Consistent with the Utility's analysis and in accordance with Rule 25-30.140, F.A.C., staff recommends accumulated depreciation and depreciation expense be increased by \$255,862 and \$39,510 respectively.

In its filing, Eagle Ridge reflected net depreciation expense of \$117,041. Based on the above recommended adjustments, depreciation expense should be increased by \$2,302 (\$39,510 less \$18,643 less \$18,565). The corresponding adjustments include an increase to accumulated depreciation of \$302,433 (\$46,571 plus \$255,862) and an increase to accumulated amortization of CIAC of \$54,137. All adjustments related to net depreciation expense are shown on Schedule 3-B.

Docket No. 080247-SU

Date: March 26, 2009

**Issue 11:** What is the test year wastewater operating income or loss before any revenue increase?

**Recommendation:** The test year operating income is \$3,348 for wastewater before any revenue increase. (Crawford)

**Staff Analysis:** The issue is subject to resolution of other issues related to revenues and operating expenses and rate base, and is primarily a "fall-out" number. Based on the adjustments discussed in previous issues, staff recommends that the test year operating income before any provision for increased revenues should be \$3,348 for wastewater. The schedule for wastewater operating income is attached as Schedule No. 3-A, and the adjustments are shown on Schedule No. 3-B.

**REVENUE REQUIREMENT**

**Issue 12:** What is the appropriate revenue requirement?

**Recommendation:** The following revenue requirement should be approved:

	<u>Test Year</u>		<u>Revenue</u>	
	<u>Revenues</u>	<u>\$ Increase</u>	<u>Requirement</u>	<u>% Increase</u>
Wastewater (Crawford)	\$777,017	\$242,790	\$1,019,807	31.25%

**Staff Analysis:** The issue is a summary computation that is subject to the resolution of other issues related to rate base, and cost of capital, and is primarily a “fall-out” number. The computation of the revenue requirement is shown on Schedule No. 3-A and is \$1,019,807, which represents an increase of \$242,790 or 31.25 percent.

**RATES**

**Issue 13:** What are the appropriate wastewater rates for the Utility?

**Recommendation:** The appropriate monthly rates are shown on Schedule No. 4. Staff’s recommended rates are designed to produce revenues of \$1,018,993, excluding miscellaneous service charge revenues. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(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 ten days after the date of the notice. (Crawford)

**Staff Analysis:** Staff’s recommended revenue requirement is \$1,019,863. After excluding miscellaneous service charges of \$870, the revenue to be recovered through base rates is \$1,018,993.

The rate calculations used for this case are consistent with the standard methodology used by the Commission with one exception. The Utility’s facilities consist of the Eagle Ridge and Cross Creek systems which have separate but adjacent service areas. Each system has its own wastewater treatment plant, but each share personnel and equipment. The Eagle Ridge system has a traditional customer mix of single family, multi-residential, and general service customers, and the existing rate structure is consumption-based with a base facility and gallonage charge. Residential rates for the Eagle Ridge system have a 10,000 gallonage cap for wastewater, and the residential and general service gallonage rates are equal. The Cross Creek system provides dedicated service to the Cross Creek Community Association, Inc. (Association), and it receives one bill per month based on a flat rate per condominium unit. This charge in the past has been less than the base facility charge for residential customers in the Eagle Ridge system. The Utility has not requested a change from either of the existing rate structures.

Staff analyzed several methods for allocating the revenue requirements between the two systems. Because the Cross Creek system is dedicated fully to this one customer, staff believes that it is reasonable to continue the flat rate structure. In order to allocate the revenue requirement between the Cross Creek and Eagle Ridge customers, staff believes it is reasonable to use gallons of wastewater treated. Staff’s recommended allocation of the revenues from rates is as follows:

<u>Allocation of Revenues Recovered from Rates</u>	Gallons		<u>Revenues from Rates</u>
	<u>Wastewater Treated</u>	<u>% to Total</u>	
Eagle Ridge	81,164	75.01%	\$764,347
Cross Creek	<u>27,030</u>	<u>24.99%</u>	<u>254,646</u>
Total	<u>108,194</u>	<u>100.00%</u>	<u>\$1,018,993</u>

In calculating the Cross Creek rates staff took the allocated revenue requirement and divided it by the number of units in the Association, then divided by twelve for a monthly rate. For the Eagle Ridge system, rates were calculated using test year data for the total number of

bills and gallons of water used for both residential and general customers. Staff then allocated 40 percent of the Eagle Ridge revenue requirement to the base facility and 60 percent to the gallonage charge. A comparison of the Utility's original rates and requested final rates, the Commission-approved interim rates, and staff's recommended rates are shown on Schedule No. 4.

The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date 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 ten days after the date of the notice.

**Issue 14:** Should the Utility be authorized to revise its miscellaneous service charges, and, if so, what are the appropriate charges?

**Recommendation:** Yes. Eagle Ridge should be authorized to revise its miscellaneous service charges. 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), F.A.C., provided the notice has been approved by staff. Within ten days of the date the order is final, Eagle Ridge 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 that the notice was sent. The appropriate charges are reflected below.

Wastewater Miscellaneous Service Charges

Wastewater

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

(Crawford)

**Staff Analysis:** Miscellaneous service charges were approved for Eagle Ridge on July 31, 1998, and have not changed since that date. The Utility believes these charges should be updated to reflect current costs. Staff agrees with this update.

Eagle Ridge provided the following cost estimates for the expenses associated with connections, reconnections, and premises visits:

<u>During Business Hours</u>		<u>After Hours</u>	
Item:	Cost:	Item:	Cost:
Labor (\$31.50/hr. X 0.5 hours)	\$15.63	Labor (\$31.50/hr. X 0.5 hours) <sup>11</sup>	\$35.16
Transportation	<u>5.00</u>	Transportation	<u>6.00</u>
Total	<u>\$20.63</u>	Total	<u>\$41.16</u>

Staff recommends that Eagle Ridge 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. The current and recommended wastewater charges are shown below.

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<sup>11</sup> Represents time and a half wage and the longer time it takes an employee to get to the customer's property after hours.

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

Eagle Ridge’s miscellaneous service charges have not been updated in over 11 years and costs for fuel and labor have risen substantially since that time. Further, the Commission’s price index has increased approximately 65 percent 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, 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.”<sup>12</sup> 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 that their miscellaneous service charges be indexed. Staff applied the approved price indices from 1990 through 2008 to Eagle Ridge’s \$15 miscellaneous service charge and the result was a charge of \$23.88. Therefore, staff believes a \$21 charge is reasonable and is cost-based.

The Utility’s current tariff includes a Premises Visit (in lieu of disconnection) charge. This charge is levied when a service representative visits a premise 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, “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 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, the Commission approved a Premises Visit Charge to be levied when a service representative visits a premises at the customer’s request for a complaint and the problem is found to be the customer’s responsibility.<sup>13</sup> Based on the foregoing, staff recommends the Premises Visit (in lieu of

<sup>12</sup> See 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>13</sup> See 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.



disconnection) be eliminated and the Premises Visit charge be approved.

In summary, staff recommends the Utility's miscellaneous service charge of \$21 and after hours charge 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 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. Eagle Ridge should provide proof the customers have received notice within ten days after the date the notice was sent.

**Issue 15:** In determining whether any portion of the 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 revenue requirement granted. Based on this calculation, the Utility should be required to refund 2.81 percent of wastewater revenues collected under interim rates. The refund should be made with interest in accordance with Rule 25-30.3604, F.A.C. The Utility should be required to submit proper refund reports pursuant to Rule 25-30.3607, F.A.C. The Utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.3608, F.A.C. Further, the corporate undertaking should be released upon staff's verification that the required refunds have been made. (Crawford)

**Staff Analysis:** By Order No. PSC-08-0761-PCO-SU, issued November 17, 2008, the Commission authorized the collection of interim wastewater rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirement was \$1,041,747, which represents an increase of \$246,392, or 30.98 percent.

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 simple average ending December 31, 2007. Eagle Ridge'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, staff calculates that the \$1,041,747 wastewater revenue requirement granted in Order No. PSC-08-0761-PCO-SU for the interim test year is greater than the revenue requirement for the interim collection period of \$1,012,526. This results in a 2.81 percent refund of interim rates. The Utility should be required to refund 2.81 percent of wastewater revenues collected under interim rates. The refund should be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility should be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. Further, the corporate undertaking should be released upon staff's verification that the required refunds have been made.

**Issue 16:** 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?

**Recommendation:** The rates should be reduced as shown on Schedule No. 4 to remove \$6,953 for rate case expense, grossed-up for regulatory assessment fees (RAFs), 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 one month prior to the actual date of the required rate reduction. (Crawford)

**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 RAFs, which is \$7,281 for wastewater. The decreased revenue will result in the rate reduction recommended by staff on Schedule No. 4.

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. Eagle Ridge should provide proof of the date notice was given no less than ten 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.

Docket No. 080247-SU

Date: March 26, 2009

**Issue 17:** Should the Utility be required to provide proof that it has adjusted its books for all Commission approved adjustments?

**Recommendation:** Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, Eagle Ridge should provide proof, within 90 days of the final order in this docket, that the adjustments for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts (NARUC USOA) primary accounts have been made. (Crawford)

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

**Issue 18:** Should this docket be closed?

**Recommendation:** No. If no person whose substantial interests are affected by the PAA files a protest within 21 days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, and that the interim refund has been completed and verified by staff. Once these actions are complete, this docket should be closed administratively, and the corporate undertaking should be released. (Bennett, Crawford)

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

Utilities, Inc. of Eagle Ridge Schedule of Wastewater Rate Base Test Year Ended 12/31/07			Schedule No. 1-A Docket No. 080247-SU		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$6,267,052	\$136,193	\$6,403,245	(\$191,713)	\$6,211,532
2 Land and Land Rights	39,579	0	39,579	0	39,579
3 Non-used and Useful Components	0	(303,511)	(303,511)	(20,286)	(323,797)
4 Accumulated Depreciation	(2,626,722)	25,894	(2,600,828)	145,134	(2,455,694)
5 CIAC	(3,556,830)	0	(3,556,830)	(252,084)	(3,808,914)
6 Amortization of CIAC	2,469,069	0	2,469,069	(387,249)	2,081,820
7 CWIP	97,371	(97,371)	0	0	0
8 Acquisition Adjustment	310,957	(310,957)	0	0	0
9 Accum. Amort. Of Acq. Adjustments	(44,192)	44,192	0	0	0
10 Working Capital Allowance	<u>0</u>	<u>81,530</u>	<u>81,530</u>	<u>(1,430)</u>	<u>80,100</u>
11 <b>Rate Base</b>	<u>\$2,956,284</u>	<u>(\$424,030)</u>	<u>\$2,532,254</u>	<u>(\$707,628)</u>	<u>\$1,824,626</u>

Utilities, Inc. of Eagle Ridge Adjustments to Rate Base Test Year Ended 12/31/07		Schedule No. 1-B Docket No. 080247-SU
Explanation		Wastewater
<u>Plant In Service</u>		
1	To reflect appropriate amount of plant from prior rate case not booked. (Issue 2-A/F 1)	(\$106,670)
2	To reflect the appropriate plant retirements. (Issue 3-A/F 6)	(85,043)
	Total	<u>(\$191,713)</u>
<u>Non-used and Useful</u>		
	To reflect net non-used and useful adjustment. (Issue 4)	<u>(\$20,286)</u>
<u>Accumulated Depreciation</u>		
1	To reflect appropriate amount of Acc. Dep. from prior rate case. (Issue 2-A/F 1)	\$361,839
2	To remove Acc. Dep. of misclassified easement. (Issue 2-A/F 5)	685
3	To reflect the appropriate plant retirements. (Issue 3-A/F 6)	85,043
4	To reflect prior rate case ordered adjustments. (Issue 10-A/F 2)	(46,571)
5	To reflect corrections to Acc. Dep. (Issue 10-A/F 8)	<u>(255,862)</u>
	Total	<u>\$145,134</u>
<u>CIAC</u>		
	To reflect appropriate amount of CIAC from prior rate case. (Issue 2-A/F1)	<u>(\$252,084)</u>
<u>Accumulated Amortization of CIAC</u>		
1	To reflect appropriate amount of Acc. Amort. of CIAC from prior rate case. (Issue 2-A/F 1)	(\$441,386)
2	To reflect roll forward Acc. Amortization of CIAC allocation adjustment. (Issue 10-A/F 3)	54,137
	Total	<u>(\$387,249)</u>
<u>Working Capital</u>		
	To reflect the appropriate working capital allowance. (Issue 5)	<u>(\$1,430)</u>

Utilities, Inc. of Eagle Ridge Capital Structure-Simple Average Test Year Ended 12/31/07						Schedule No. 2 Docket No. 080247-SU		
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
<b>Per Utility</b>								
1 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$178,718,888)	\$1,281,112	50.59%	6.65%	3.36%
2 Short-term Debt	7,750,000	0	7,750,000	(7,694,836)	55,164	2.18%	2.44%	0.05%
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4 Common Equity	139,282,132	0	139,282,132	(138,290,807)	991,325	39.15%	11.70%	4.58%
5 Customer Deposits	42,656	0	42,656	0	42,656	1.68%	6.00%	0.10%
6 Deferred Income Taxes	<u>161,998</u>	<u>0</u>	<u>161,998</u>	<u>0</u>	<u>161,998</u>	<u>6.40%</u>	0.00%	<u>0.00%</u>
7 <b>Total Capital</b>	<u>\$327,236,786</u>	<u>\$0</u>	<u>\$327,236,786</u>	<u>(\$324,704,531)</u>	<u>\$2,532,255</u>	<u>100.00%</u>		<u>8.10%</u>
<b>Per Staff</b>								
8 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$179,108,360)	\$891,640	48.87%	6.65%	3.25%
9 Short-term Debt	7,750,000	0	7,750,000	(7,711,610)	38,390	2.10%	2.44%	0.05%
10 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
11 Common Equity	139,282,132	0	139,282,132	(138,592,190)	689,942	37.81%	12.34%	4.67%
12 Customer Deposits	42,656	0	42,656	0	42,656	2.34%	6.00%	0.14%
13 Deferred Income Taxes	<u>161,998</u>	<u>0</u>	<u>161,998</u>	<u>0</u>	<u>161,998</u>	<u>8.88%</u>	0.00%	<u>0.00%</u>
14 <b>Total Capital</b>	<u>\$327,236,786</u>	<u>\$0</u>	<u>\$327,236,786</u>	<u>(\$325,412,160)</u>	<u>\$1,824,626</u>	<u>100.00%</u>		<u>8.11%</u>
						<b>LOW</b>	<b>HIGH</b>	
RETURN ON EQUITY						<u>11.34%</u>	<u>13.34%</u>	
OVERALL RATE OF								
RETURN						<u>7.73%</u>	<u>8.49%</u>	



<b>Utilities, Inc. of Eagle Ridge Statement of Wastewater Operations Test Year Ended 12/31/07</b>						<b>Schedule No. 3-A Docket No. 080247-SU</b>	
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjust- ments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjust- ments</b>	<b>Staff Adjusted Test Year</b>	<b>Revenue Increase</b>	<b>Revenue Requirement</b>
1 <b>Operating Revenues:</b>	<u>\$787,117</u>	<u>\$322,425</u>	<u>\$1,109,542</u>	<u>(\$332,525)</u>	<u>\$777,017</u>	<u>\$242,790</u> 31.25%	<u>\$1,019,807</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$678,384	(\$13,641)	\$664,743	(\$23,944)	\$640,799		\$640,799
3 Depreciation	95,366	21,675	117,041	(12,628)	104,413		104,413
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	65,599	13,740	79,339	(15,019)	64,320	10,926	75,246
6 Income Taxes	<u>(53,924)</u>	<u>97,485</u>	<u>43,561</u>	<u>(79,424)</u>	<u>(35,863)</u>	<u>87,250</u>	<u>51,387</u>
7 <b>Total Operating Expense</b>	<u>\$785,425</u>	<u>\$119,259</u>	<u>\$904,684</u>	<u>(\$131,015)</u>	<u>\$773,669</u>	<u>\$98,176</u>	<u>\$871,845</u>
8 <b>Operating Income</b>	<u>\$1,692</u>	<u>\$203,166</u>	<u>\$204,858</u>	<u>(\$201,510)</u>	<u>\$3,348</u>	<u>\$144,614</u>	<u>\$147,962</u>
9 <b>Rate Base</b>	<u>\$2,956,284</u>		<u>\$2,532,254</u>		<u>\$1,824,626</u>		<u>\$1,824,626</u>
10 <b>Rate of Return</b>	<u>0.06%</u>		<u>8.09%</u>		<u>0.18%</u>		<u>8.11%</u>

<b>Utilities, Inc. of Eagle Ridge</b>		<b>Schedule No. 3-B</b>
<b>Adjustment to Operating Income</b>		<b>Docket No. 080247-SU</b>
<b>Test Year Ended 12/31/07</b>		
<b>Explanation</b>	<b>Wastewater</b>	
<u>Operating Revenues</u>		
To remove Utility's requested final revenue increase.		<u>(\$332,525)</u>
<u>Operation and Maintenance Expenses</u>		
1 To reflect appropriate transportation expense. (Issue 2-AT A/F 5)		(\$2,265)
2 To reflect the appropriate amount of rate case expense. (Issue 9)		<u>(21,679)</u>
Total		<u>(\$23,944)</u>
<u>Depreciation Expense - Net of CIAC</u>		
1 To reflect appropriate amount of net Dep. Exp. from prior rate case. (Issue 2-A/F 1)		(\$8,876)
2 To remove depreciation of misclassified easement. (Issue 2-A/F 5)		(456)
3 To reflect the appropriate non-U&U depreciation expense. (Issue 4)		(5,598)
4 To reflect prior rate case ordered adjustments. (Issue 10-A/F 2)		(18,565)
5 To reflect roll forward amortization allocation adjustment. (Issue 10-A/F 3)		(18,643)
6 To reflect corrections to Acc. Dep. (Issue 10-A/F 8)		<u>39,510</u>
Total		<u>(\$12,628)</u>
<u>Taxes Other Than Income</u>		
1 RAFs on revenue adjustments above.		(\$14,964)
2 To reflect the appropriate non-U&U property taxes. (Issue 4)		<u>(55)</u>
Total		<u>(\$15,019)</u>

<b>Utilities, Inc. of Eagle Ridge</b>				<b>Schedule No. 4</b>	
<b>Wastewater Monthly Service Rates</b>				<b>Docket No. 080247-SU</b>	
<b>Test Year Ended 12/31/07</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</u></b>					
Base Facility Charge All Meter Sizes:	\$16.91	\$22.15	\$24.15	\$20.26	\$0.14
Gallorage Charge - Per 1,000 gallons (10,000 gallon cap)	\$3.44	\$4.51	\$4.91	\$4.64	\$0.03
Cross Creek Flat Rate	\$18.42	\$24.13	\$26.31	\$23.57	\$0.17
<b><u>General Service</u></b>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$16.91	\$22.15	\$24.15	\$20.26	\$0.14
1"	\$42.29	\$55.41	\$60.41	\$50.66	\$0.36
1-1/2"	\$84.57	\$110.80	\$120.80	\$101.31	\$0.72
2"	\$135.31	\$177.27	\$193.28	\$162.10	\$1.16
3"	\$270.63	\$354.56	\$386.58	\$324.20	\$2.31
4"	\$422.86	\$554.00	\$604.03	\$506.57	\$3.62
6"	\$845.71	\$1,107.99	\$1,208.04	\$1,013.14	\$7.23
Gallorage Charge, per 1,000 kgal	\$4.12	\$5.40	\$5.89	\$5.57	\$0.04
<b><u>Typical Residential Bills 5/8" x 3/4" Meter</u></b>					
3,000 Gallons	\$27.23	\$35.68	\$38.88	\$34.56	
5,000 Gallons	\$34.11	\$44.70	\$48.70	\$43.86	
10,000 Gallons	\$51.31	\$67.25	\$73.25	\$67.11	
(Wastewater Gallorage Cap - 10,000 Gallons)					