

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in water and
wastewater rates in Lake County by Utilities
Inc. of Pennbrooke.

DOCKET NO. 090392-WS
ORDER NO. PSC-10-0400-PAA-WS
ISSUED: June 18, 2010

The following Commissioners participated in the disposition of this matter:

NANCY ARGENZIANO, Chairman
LISA POLAK EDGAR
NATHAN A. SKOP

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING RATE INCREASE
AND
FINAL ORDER APPROVING RATE REDUCTION IN FOUR YEARS AND REQUIRING
PROOF OF ADJUSTMENT TO BOOKS AND RECORDS

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for the reduction in rates in four years and proof of adjustment of the utility's books and records, is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.).

BACKGROUND

Utilities, Inc. (UI or parent) is an Illinois corporation which owns approximately 75 subsidiaries throughout 15 states including 15 water and wastewater utilities within the State of Florida. Currently, UI has six 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>
090349-WS	Cypress Lakes Utilities
090381-SU	Utilities Inc. of Longwood
090392-WS	Utilities Inc. of Pennbrooke
090402-WS	Sanlando Utilities Corporation
090462-WS	Utilities Inc. of Florida
090531-WS	Lake Placid Utilities, Inc.

This order addresses Docket No. 090392-WS, Utilities Inc. of Pennbrooke (Pennbrooke or Utility), which is a Class B utility providing service to approximately 1,468 water and 1,251

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wastewater customers in Lake County. Pennbrooke is a wholly-owned subsidiary of UI. Water and wastewater rates were last established for this Utility in its 2006 rate case.¹

On September 28, 2009, 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. Pennbrooke had deficiencies in the Minimum Filing Requirements (MFRs). The deficiencies were corrected and November 18, 2009, was established as the official filing date. The test year established for interim and final rates is the simple average period ended December 31, 2008.

Pennbrooke requested interim rates for both its water and wastewater systems. By Order No. PSC-09-0844-PCO-WS, we approved interim rates designed to generate annual water revenues of \$525,098, an increase of \$169,676 or 47.74 percent, and wastewater revenues of \$569,357, an increase of \$189,766 or 49.99 percent.² The Utility requested final rates designed to generate annual water revenues of \$620,927, an increase of \$265,505 or 74.70 percent, and annual wastewater revenues of \$589,465, an increase of \$209,874 or 55.29 percent.

On March 18, 2010, the Office of Public Counsel (OPC) filed a Notice of Intervention in this docket. By Order No. PSC-10-0201-PCO-WS, we acknowledged OPC's intervention.³

By letter dated April 13, 2010, the Utility waived the statutory five-month deadline for this case through June 1, 2010. This order addresses Pennbrooke's requested final rates. We have jurisdiction pursuant to Section 367.081, Florida Statutes (F.S.).

QUALITY OF SERVICE

Quality of Utility's Product and Operational Condition of Plant and Facilities

Pennbrooke is current in all of its required chemical analyses, and the Utility has met all required standards for both water and wastewater. The water and wastewater treatment facilities are currently in compliance with the DEP rules and regulations. Although it appears to be meeting the customer's supply needs at this time, the operating condition of the water treatment plant is being negatively affected by one of the facility's two wells which is showing signs of a casing failure. Until this problem is corrected, the Utility has changed its routine of rotating wells and is reserving the well in question for peak demand operational use only. The current operating status appears to be working, but because of long-term system reliability concerns, the Utility believes that a total well replacement is necessary. As part of this rate case, the Utility requested that the cost of the well replacement be considered as a pro forma plant improvement. It is expected that a replacement well will be on line by the end of 2010. The Utility also proposes an upgrade to its main wastewater collection lift station from a single phase to a three

¹ See Order No. PSC-07-0088-PAA-WS, issued January 31, 2007, in Docket No. 060261-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke.

² See Order No. PSC-09-0844-PCO-WS PSC, issued December 22, 2009.

³ See Order No. PSC10-0201-PCO-WS, issued April 1, 2010.

phase electrical supply service. This change should make the operation of the facility more energy efficient and help ensure system reliability.

Customer Satisfaction

Customer Meeting A customer meeting was held on February 24, 2010, at the Grand Hall at Pennbrooke Fairways (service area) in Leesburg, Florida. Over two hundred customers attended the evening meeting. The majority of those who attended were concerned with the proposed size of the rate increase, which they believe will produce a financial hardship to the residents that the Utility serves. Although there were customers attending the meeting who did not have problems with the quality of water, most of the twenty-one customers who spoke referred to water quality problems. They indicated that the water supplied to them is undesirable, had not improved since the last rate case, and that there was a credibility problem with the Utility. While concerns exist over the product being safe and useable, the customers mainly noted that the water tasted poorly, had odor, color, sediment, stained fixtures and other property, had an oily residue, and in the case of one area in particular (Section K), had pressure problems. Photographs were presented that showed sediment from a hot water heater, and spent filters from home treatment and filtering devices as an indication of the extent of the problems. In reference to the pressure problems, customers pointed out that (particularly on Saturdays) there was not enough pressure to do laundry or take showers. They spoke of irrigation restrictions for certain days of the week and the fact that the St. Johns River Water Management District (SJRWMD) had granted their particular area a waiver to irrigate an extra day due to the pressure concerns. In addressing the pressure problems, one customer attributed inadequate pipe sizing within the homes, not the Utility's water system, as a probable cause. Another customer suggested that the Utility's water facilities were outdated and inefficient. The customer believes that submersible pumps would be more energy efficient than the turbine pumps currently in use. Also, an elevated storage tank would improve pressure, as well as eliminate the need for a hydropneumatic tank which could be a source of rusty water.

Correspondence We received letters and e-mails from over two hundred and fifty customers who expressed similar concerns over the proposed rate increase and the resulting negative effect the increases would cause on their over fifty-five community. Customers also complained about low pressure and unacceptable water quality including excessive odor (sulfur and chlorine), taste, sediment, and fixture staining concerns. Some customers complained about the additional cost burden placed on them to install home treatment systems or to purchase bottle water.

Customer Complaints Since 2007, there have been eight customer complaints filed with us. All complaints were billing related. There are currently no active complaints on file.

In review of the customer complaints logged with the Utility during the test year, as reported in its filing, water pressure (14) and water quality (5) complaints were similar to the issues raised during the customer meeting and in correspondence. Concerning pressure, the Utility noted that the pressure readings recorded at the location of the complainants usually read in the mid 50's to low 70's pounds per square inch (psi). These readings are well above the 20 psi minimum required by the DEP. However, there was an incident during the test year (May

2008) that occurred at the Utility's water treatment plant which caused the water pressure system wide to be reduced. Even though a complete system failure did not occur, the Utility noted that during irrigation periods, the pressure was down to 52 psi. This event caused at least three pressure complaints. Another complaint service call found pressure to be 49 psi. This event prompted the service technician to note that the problem area was the furthest street from the water treatment plant and that pressure should be raised. Additional pressure complaints which occurred at other times during the test year appeared to be sporadic in nature. By the time the Utility responded to these complaints, it was noted that the system water pressure appeared to be operating normally. A recently serviced home filter was identified as the potential cause of the pressure problems at one customer's home. For another customer, house pressure was 64 psi until the washer came on and the pressure reduced to 10 psi. That customer was advised to call a plumber.

Other water quality complaints logged were about color, where sometimes extra line flushing was warranted, and odor. There were also at least five other complaints that were about broken meter boxes. The Utility repaired or replaced these units as needed. Although not frequent, there were several wastewater complaints dealing with lift station odor, alarms going off, and overflows. All of these problems appeared to have been corrected as they occurred.

Prior Rate Cases In the Utility's last rate case, Docket No. 060261-WS, overall quality of service was found to be marginally satisfactory. The quality of product and the condition of plants were adequate when it came to regulatory compliance standards; however, the customer satisfaction portion of the quality of service review found problems. With similarities to what currently exist, we found that the Utility had attempted to reasonably address the areas of the customer's concerns at that time. However, it was apparent that additional attention was needed to enhance the water quality through continued, regular, line flushing and constant vigilance over pressure demands. A pressure study performed at that time revealed significant pressure loss to several residences. The possible cause of pressure loss was not attributed to the Utility's distribution system, but rather to internal piping restrictions within the customer's house plumbing. It was noted that the Utility had made an effort to be watchful for customer service problems. This determination was confirmed through review of records that showed reasonable responses to customer complaints, plus physical improvements that, along with an improved flushing program, enhanced customer service.

Pennbrooke's Response To Quality Of Service Concerns The Utility reported that, since its last rate case, a number of steps to address low water pressure have been taken. This includes the construction of a second point of connection from the water treatment plant to the distribution system to alleviate a hydraulic bottleneck, as well as replacing worn impellers on high service pumps in order to restore the designed pumping capacity of the equipment. Also, the Utility verified that all distribution system valves were in the "open" position. Pennbrooke believes that the recent improvements made to the water plant and distribution system rectified many customer pressure issues. The Utility has had little indication of current flow pressure complaints from the area of those who complained at the customer meeting. The Utility indicated that customers were placed on twice a week "even/odd" house numbering watering schedules. However, in November of 2009, a new irrigation rule imposed by the SJRWMD

limited irrigation to once per week, either Saturday or Sunday. This has had the effect of concentrating irrigation demand on two days per week instead of four, causing the instantaneous demand to spike on those days. In order to limit possible pressure problem conflicts when high use events such as irrigation occur, the Utility intends to propose a three zone irrigation plan to the local homeowners association (HOA). This plan is designed to reduce the number of homes irrigating at any one time, and would allow the high service pumping equipment to better meet instantaneous demand. The Utility is aware that these changes are only part of the solution to address peak demand. Pennbrooke believes that it is critical that the final water rates be structured in such a way that the customers are further encouraged to reduce water consumption so that the total groundwater withdrawal does not exceed the limits imposed by the SJRWMD in the Consumptive Use Permit.

In response to one particular customer's water pressure concerns, the Utility performed a recent pressure study at this customer's residence which showed reasonable pressure levels, with some moderate pressure dips during probable irrigation events. The Utility suggests that the customer would not see as much of a drop in pressure if irrigation times were adjusted to not be in conflict with the neighbor's home water usage patterns. Also, in consideration of the customer's suggestion for improving pressure by looping together nearby dead end lines, the Utility believes that apart from the legal and financial obstacles associated with looping, it would be imprudent to invest scarce capital resources on such a project when the cause is the timing and extent of the customer's water use pattern.

Regarding water quality, the Utility points out that the water delivered to the customers meets all current federal and state water quality requirements. It admits that the source water, the Upper Floridian Aquifer, contains relatively hard water. There is no additional treatment for hard water performed at the water treatment plant. For elevated iron content, the Utility does employ the use of polyphosphates to sequester iron in the water, as well as routinely flushing the system to help ease the situation. To further address the customer's water quality concerns, the Utility believes that any additional investment would require the support of the customer base, including an acknowledgement that additional investment would generally be recovered through higher water rates. Furthermore, the Utility believes that it would be imprudent to install additional treatment equipment and incur additional operating expenses that are not supported by the customers in a future rate proceeding when the Utility is already in full compliance with all regulatory requirements regarding water quality.

Conclusion

Pennbrooke is current in all of the required chemical analyses and the operating conditions of the facilities are currently in compliance with the DEP rules and regulations. Although customer satisfaction problems concerning pressure and water quality appear to have persisted since the last rate case, it appears that the Utility is attempting to address these issues. Concerning pressure, it appears that the Utility is doing what it can to remove any impediment under its control. However, given the SJRWMD involvement, high water use within the Utility's service area appears to be taxing both the Utility's peak demand service capabilities, as well as its permitted ground water supply capacities. The customers' concerns are mainly aesthetic problems, not health compliance issues. For systems with challenging water quality

aesthetics, point-of-use home treatment systems are often the most cost effective mechanism to achieve customer aesthetic quality objectives. To treat the water provided by the Utility to the highest customer aesthetic expectation can come at significant cost to customers, particularly since a significant portion of the water used at Pennbrooke is for irrigation.

While the level of customer dissatisfaction over water pressure and quality is a problem, it appears that customer water usage patterns may very well be the root cause of the pressure problems. We believe that excess water usage should be addressed before additional requirements are placed on the Utility. This could be achieved through the combined efforts of what the Utility is already attempting to do, as well as the further structuring of the water rates to promote water conservation. Therefore, we find that the overall quality of service provided by Pennbrooke is satisfactory.

RATE BASE

Agreed Adjustments to Ratebase

In its response to our staff's audit report, Pennbrooke agreed to the adjustment amounts listed below. Therefore, the following adjustments shall be made to rate base, operation and maintenance (O&M) expenses, and taxes other than income (TOTI) for water and wastewater, respectively.

Audit Finding	Plant	Accum. Depr.	Depr. Expense	O&M Expenses	TOTI
No. 1 - Plant Sample	(\$1,105)	\$153	(\$97)	\$948	
No. 2 - Plant Retirements	(\$807)	\$807	(\$37)		
No. 6 - Sampling Errors	(\$223)	\$14	(\$28)		
No. 9 - Employee Not Replaced				(\$398)	(\$28)
No. 11 - O&M Sample	\$37	\$114	\$4	(\$1,010)	
Total Water Adjustments:	<u>(\$2,098)</u>	<u>\$1,088</u>	<u>(\$158)</u>	<u>(\$460)</u>	<u>(\$28)</u>

Audit Finding	Plant	Accum. Depr.	Depr. Expense	O&M Expenses	TOTI
No. 1 - Plant Sample	(\$2,372)	\$195	(\$121)	\$938	
No. 2 - Plant Retirements	(\$2,100)	\$2,100	(\$101)		
No. 6 - Sampling Errors	(\$190)	\$12	(\$23)		
No. 9 - Employee Not Replaced				(\$338)	(\$23)
No. 11 - O&M Sample	\$175	\$535	\$10	(\$1,920)	
Total Wastewater Adjustments:	<u>(\$4,487)</u>	<u>\$2,842</u>	<u>(\$235)</u>	<u>(\$1,320)</u>	<u>(\$23)</u>

Adjustments to Test Year Plant in Service

Pennbrooke recorded test year Utility Plant in Service (UPIS) of \$2,134,960 for water and \$2,759,918 for wastewater. As discussed above, we reduced UPIS by \$2,098 for water and \$4,487 for wastewater. Based on audit findings, our staff's recommended adjustments, and Utility responses to data requests, we find that further adjustments shall be made to the test year UPIS.

Error in Pro Forma Adjustment to Change ERCs

UI's new accounting system automatically allocates costs each month using the monthly equivalent residential connections (ERCs) for each region. UI sold off some of its systems in 2009 and this changed its ERC calculations. The Utility personnel made a pro forma adjustment to the 2008 ledger to reflect this change. In doing so, their calculation was only for plant additions and not for its accumulated depreciation balance. This caused an overstatement of allocated net plant to the Utility.

Pennbrooke agreed with Audit Finding No. 4 that an error was made. The Utility did not agree with our audit staff's calculation. Pennbrooke provided its corrected calculations but our staff was not able to reconcile its numbers. In the Utility's response to our staff's data request dated January 5, 2010, Pennbrooke provided another calculation that did not match its own audit response. Therefore, we agree with Audit Finding No. 4. Based on our audit staff's calculations to correct this error, plant shall be reduced by \$88,292 for water and \$75,211 for wastewater. In addition, accumulated depreciation shall be reduced by \$25,608 for water and \$21,815 for wastewater.

Phoenix Project Adjustments

The purpose of the Phoenix Project was to improve accounting, customer service, customer billing, and financial and regulatory reporting functions of UI and its subsidiaries. The Phoenix Project became operational in December of 2008. UI allocated the cost of the Phoenix Project to all its subsidiaries based on each subsidiary's ERCs as of September 30, 2009.

Allocation of Phoenix Project Costs

During 2009, we approved recovery of the cost of the Phoenix Project in seven UI rate cases.⁴ The approved costs were allocated based on each subsidiary's specific test year ERCs to the total UI test year ERCs. With respect to the current UI cases before the Commission, UI allocated the Phoenix Project costs based on each subsidiary's ERCs at the end of the 2008 test year, in relation to UI's total 2008 ERCs. Pennbrooke divided its ERCs by UI's total ERCs resulting in an allocation percentage of 0.98. This percentage was multiplied by the total investment in the Phoenix Project. Based on total Phoenix Project costs of \$21,364,569, Pennbrooke calculated its allocated share to be 0.98 percent, or \$208,388. Of this amount, 56

⁴ See Docket Nos. 080250-SU, 080249-WS, 080248-SU, 080247-SU, 070695-WS, 070694-WS, and 070693-WS.

percent or \$116,697 was assigned to the water system, while \$91,691 was assigned to the wastewater system.

As discussed above, we approved the adjustments recommended by our auditors in Audit Finding No. 4, to apply a more current ERC count provided by the Utility which recognized the divestitures of certain UI systems in 2009.

Divestiture of UI Subsidiaries

As discussed above, we used a more recent ERC count provided by Pennbrooke which recognized the divestitures of certain UI subsidiaries in 2009. According to Pennbrooke's March 22, 2010, response to our staff's second data request, UI recently divested several Florida subsidiaries including Miles Grant Water and Sewer Company (Miles Grant), Utilities, Inc. of Hutchinson Island (Hutchinson), and Wedgefield Utilities, Inc. (Wedgefield), as well as subsidiaries in other states.

In addition, during a conference call on April 16, 2010, between our staff, OPC, and the Utility, UI stated that it purchased a wastewater system in Louisiana⁵ that was not included in the ERC count previously provided to our staff auditors. The Utility stated that the ERCs for the newly acquired system should be included in order to properly account for that system's share of cost of the Phoenix Project.

We believe that allocating costs according to ERCs is an appropriate methodology to spread the cost of Phoenix Project. However, we do not believe the Phoenix Project costs previously allocated to the divested subsidiaries should be reallocated to the surviving utilities. Wedgefield was sold for an amount significantly greater than its rate base.⁶ Miles Grant and Hutchinson were sold collectively for an amount significantly greater than the rate base.⁷ We believe the amounts allocated to the divested subsidiaries were recovered by the shareholders through the sale of those systems. Thus, we determine that the divested subsidiaries allocation amounts shall be deducted from the total cost of the Phoenix Project before any such costs are allocated to the remaining UI subsidiaries.

According to Audit Finding No. 5, our auditors determined that the correct ledger balance of the software is \$21,617,487, not the \$21,364,569 that Pennbrooke used to calculate its allocated share of the Phoenix Project. Based on the ERC percentages of all the divested subsidiaries immediately prior to their respective closing dates, our staff determined the actual amount paid of \$21,617,487 for the Phoenix Project shall be reduced by \$1,724,166 resulting in a remaining balance of \$19,893,321. Based on the unrecovered cost of the Phoenix Project and the ERCs adjusted for divestiture, we determine that the appropriate amount of Pennbrooke's

⁵ This wastewater system represented approximately 950 ERCs.

⁶ The sale price of Wedgefield Utilities, Inc. in April of 2009 was \$7,300,000. Based on the rate base reported in its 2008 annual report, this amount is approximately 13.81 percent or \$885,852 greater than rate base.

⁷ The sale price of Miles Grant Water and Sewer Company and Utilities, Inc. of Hutchinson Island in August of 2009 was \$7,500,000. Based on the rate base reported in their respective 2008 annual reports, this amount is approximately 33.88 percent or \$1,897,837 greater than their collective rate bases.

allocated share of the Phoenix Project is \$193,377. As such, the plant shall be reduced by \$15,011, or \$8,406 for water and \$6,605 for wastewater.

Amortization Period

In previous UI cases, we approved a 6-year amortization period for the Phoenix Project.⁸ In subsequent UI cases,⁹ our staff determined and we found that an 8-year amortization period was more appropriate for a software project of this magnitude. For several reasons, we now believe that the amortization period for the Phoenix Project shall be changed to 10 years. First, the Phoenix Project was specifically tailor-made to meet all of UI's needs. Such a project is not "off the shelf" software, but software designed to fulfill long term accounting, billing, and customer service needs. Second, we believe the software will be used for at least 10 years. UI's legacy accounting system had been used for 21 years. Third, in a recent docket involving a UI subsidiary in Nevada,¹⁰ UI responded that any amortization period between 4 and 10 years would be in compliance with Generally Accepted Accounting Principles. As such, we believe 10 years is a more reasonable amortization period than the 8-year amortization period currently approved by this Commission. Thus, we determine that accumulated depreciation and depreciation expense shall be reduced \$2,611 for water and \$2,224 for wastewater, respectively.

Conclusion

In summary, plant shall be reduced by \$8,406 for water and \$6,605 for wastewater. In addition, the balances of accumulated depreciation and depreciation expense shall be reduced \$2,611 for water and \$2,224 for wastewater, respectively

Pro Forma Plant Additions and Associated Expenses

Pennbrooke's filing reflected pro forma plant additions of \$381,184 for water and \$8,000 for wastewater.

Pro Forma - Water

Pennbrooke included \$408,750 of pro forma plant in its MFRs to replace Well No. 1. According to the Utility, Well No. 1 will need to be replaced due to the imminent failure of its well casing, which would result in a failure to produce sufficient amounts of water during peak day demand periods. The casing comes in contact with the pump bowls of Pump No. 1 each time the pump cycles off causing damage to the pump assembly and to the interior of the casing. Well No. 1 cannot be relied upon to function as designed, which significantly impairs the Utility's ability to maintain adequate pressure and volume during peak demand periods as required by rule. The Utility intends to have Well No. 1 replaced by the end of 2010. On January 19, 2010, the Utility provided an updated estimate of \$408,250. Pennbrooke stated that the estimate was produced by comparing the cost of the proposed new well to a recent bid proposal submitted to the City of Eustis with similar aquifer characteristics and production zone.

⁸ See Docket Nos. 070695-WS, 070694-WS, and 070693-WS.

⁹ See Docket Nos. 080250-SU, 080249-WS, 080248-SU, and 080247-SU.

¹⁰ Modified Final Order, issued January 15, 2009, in Docket No. 08-06036.

Our staff requested several times for the Utility to provide an executed agreement showing the exact cost of the well replacement, but the Utility failed to provide the requested documentation. Based on Pennbrooke's failure to provide sufficient documentation, we determined that water plant shall be decreased by \$408,750 and that accumulated depreciation and depreciation expense for water shall be decreased by \$15,487.

The Utility included \$37,250 of pro forma plant additions in its MFRs to replace electrical equipment at the Utility's water treatment plant (WTP). According to the Utility, it intends to replace an undersized 200 amp service with a new 400 amp service, appropriately sized breaker and a new pump control panel containing three HSP starters and two well pump starter controls. The Utility also intends to replace the existing 175 amp breaker at the emergency generator with a 350 amp breaker so that all of the generator's output can be used to its maximum and replace the existing 200 amp ATS with a 400 amp ATS so that the generator can supply power to all critical equipment. The Utility has been unable to provide the executed agreements for the electrical equipment at the Utility's WTP. Therefore, we determine that plant shall be reduced by \$37,250.

Pro Forma - Wastewater

Pennbrooke included \$10,000 of pro forma plant in its MFRs to upgrade its Master Lift Station. According to the Utility, all influent flow generated daily within the community passes through this pump station. The existing submersible sewage pumps are undersized for peak flow generated during wet weather resulting in overflows into stormwater structures. The Utility's proposed solution is to replace the pumps with larger 5.0 HP 3-phase Flygt pumps that have a larger pumping capacity and install a control panel equipped to operate the larger pumps. The existing pumps will be stored and used as backup pumps for the Utility's other lift stations.

The original control panel for the master lift station, installed in 1986, will be retired. An underground electric service will be installed to connect the pump station to the wastewater treatment plant's emergency generator in order to insure the operability of the Master Lift Station during power outages. This will allow for more efficient use of the Utility's trailer mounted generator at the five remaining lift stations so as to avoid overflow of raw sewage and the resulting health hazard. On January 19, 2010, the Utility provided an updated estimate of \$45,846. Pennbrooke provided an executed agreement with Thompson Electric Company and ITT Water & Wastewater Florida, LLC. Based on Pennbrooke's executed agreement, we determine that wastewater plant shall be increased by an additional \$35,846.

The Utility included a retirement of \$2,000 for lift station components. Pennbrooke failed to provide the documentation for the associated retirement. Therefore, consistent with our practice, 75 percent of the replacement cost of \$45,846 shall be used for the retirement amount. Therefore, accumulated depreciation and depreciation expense for wastewater shall be decreased by \$32,385.

In summary, we approve pro forma plant additions of \$11,462 for wastewater. Pro Forma water plant shall be denied. As a result, plant shall be decreased by \$381,184 for water and \$3,462 for wastewater. Accordingly, accumulated depreciation and depreciation expense

shall be decreased by \$15,488 for water, and increased by \$138 for wastewater. Our approved pro forma plant and expense adjustments are as follows:

Utilities Inc. of Pennbrooke Pro Form Plant					
Pro Forma Plant Adjs.	Per MFRs	Adjustments to Plant	Adjusted Plant	Adjustments to Accumulated Depreciation	Adjustments to Depreciation Expense
Replace Well # 1	\$408,750	(\$408,750)	\$0	(\$13,625)	(\$13,625)
Electric and Pumping Equipment Improvements	37,250	(37,250)	0	(1,863)	(1,863)
Retire Well No. 1	(43,730)	43,730	0	0	0
Retire Pumping Equipment	(19,086)	19,086	0	0	0
Retire Electrical Components	(2,000)	2,000	0	0	0
Lift Station Upgrade	10,000	35,846	45,846	1,434	1,434
Retire Lift Station Components	(2,000)	(32,385)	(34,385)	(1,295)	(1,295)
Adjustment Totals	\$389,184	(\$377,722)	\$11,461	(\$15,349)	(\$15,349)

Utilities Inc. of Pennbrooke Summary Pro Forma Plant Combined Water & Wastewater Operations		
Total Plant Per MFR - Water	\$381,184	
Total Plant Per MFR - Wastewater	8,000	
Total Combined Plant		\$389,184
Adjustments – Water	(\$381,184)	
Adjustments – Wastewater	\$3,462	
Total Combined Adjustments		(\$377,722)
Total Adjusted Plant Balances		\$11,461

Used and Useful

In its application, the Utility asserts that the water and wastewater treatment plants, as well as the water distribution and wastewater collection systems, are all 100 percent used and useful. In the Utility's last rate case, we evaluated the water and wastewater systems and found them to be 100 percent used and useful. However, in Order No. PSC-07-0534-AS-WS,¹¹ a settlement agreement was approved which recognized that the Parties (Pennbrooke and OPC) agreed to eliminate the language regarding a used and useful calculation in the PAA Order. This was done so that the used and useful determination in the PAA Order would have no precedential value. We allowed the language to be stricken because it was noted that each rate case is decided on its own merits.

¹¹ See Order No. PSC-07-0534-AS-WS, issued June 26, 2007, in Docket No 060261-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke.

Water Treatment Plant & Storage

In its filing, the Utility provided a used and useful analysis of the water treatment plant pursuant to Rule 25-30.4325, F.A.C. According to the Utility's analysis, both the water treatment plant and storage facilities are 100 percent used and useful. The used and useful calculation of the water treatment plant is determined by dividing the peak demand (1,044,000 gallons per day (gpd)) by the firm reliable capacity of the water treatment system based on 16 hours of pumping (844,000 gpd). Consideration is given to fireflow (144,000 gpd), unaccounted for water (7.32 percent), and growth (0 gpd). The used and useful storage capacity is determined by dividing the peak demand (1,044,000 gpd) by the usable storage capacity (135,000 gallons). The peak day (May 17, 2008) appears to be appropriate since it is not associated with unusual occurrences. Also, unaccounted for water is not considered excessive and allowances for growth are not included because the system is at build out. Additionally, Rule 25-30.4325(4), F.A.C., provides that a water treatment system is 100 percent used and useful if the service territory the system is designed to serve is built out and there is no apparent potential for expansion of the service territory. Therefore, pursuant to Rule 25-30.4325, F.A.C., we determine that both the water treatment plant and storage facilities shall be considered 100 percent used and useful.

Wastewater Treatment Plant

Pursuant to Rule 25-30.432, F.A.C., the used and useful analysis of the Utility's wastewater treatment plant is determined by dividing the daily flow (97,005 gpd) by the DEP permitted plant capacity (180,000 gpd) based on the annual average daily flow. Consideration is given for growth (0 gpd) and inflow and infiltration (I&I). The filing reflected that, based on the annual average daily flow during the test year, the wastewater treatment plant is 54 percent used and useful. However, the Utility believes that this facility should be considered 100 percent used and useful because the number of customers has remained virtually unchanged since the 2005 test year of the last rate case, the wastewater gallons treated per ERC, including I&I, remains a low 77 gpd/ERC as compared to water gallons treated of 326 gpd/ERC, and the system is built out. There appears to be no apparent problem with I&I. Rule 25-30.432, F.A.C., provides that we shall also consider factors including the extent to which the area served by the plant is built out. Therefore, pursuant to Rule 25-30.432, F.A.C., we determine that the wastewater treatment plant shall be considered 100 percent used and useful.

Water Distribution and Wastewater Collection Systems

The used and useful analysis 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, we determine that the water distribution and wastewater collection systems shall be considered 100 percent used and useful.

Working Capital Allowance

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. We have approved adjustments to Pennbrooke's O&M expenses. As a result, we determine that working capital of \$31,537 and \$34,566 shall be approved for water and wastewater, respectively. This reflects a decrease of \$7,175 to the Utility's requested working capital allowance of \$38,712 for water and a decrease of \$4,445 to its requested allowance of \$39,011 for wastewater.

Rate Base for the December 31, 2008, Test Year

Consistent with other adjustments, the appropriate simple average rate base for the test year ending December 31, 2008, shall be \$810,184 for water and \$1,132,356 for wastewater. Our approved schedules for rate base are shown on Schedules Nos. 1-A and 1-B, respectively. The adjustments are shown on Schedule No. 1-C.

COST OF CAPITAL

Return on Equity

The return on equity (ROE) requested in the Utility's filing is 11.13 percent. Based on the current leverage formula approved in Order No. PSC-09-0430-PAA-WS¹² and an equity ratio of 42.80 percent, the approved ROE is 11.13 percent. We recognize an allowed range of plus or minus 100 basis points for ratemaking purposes.

Weighted Average Cost of Capital

In its filings, the Utility requested an overall cost of capital of 8.16 percent. Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2008, we approve a weighted average cost of capital of 8.08 percent. This represents an 8 basis points reduction from Pennbrooke's requested overall cost of capital of 8.16 percent. Schedule No. 2 details the approved overall cost of capital.

NET OPERATING INCOME

Appropriate Annualized Revenue Adjustment

¹² See Order No. PSC-09-0430-PAA-WS, issued June 19, 2009, in Docket No. 090006-WS, In re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

In its filing, the Utility included water and wastewater annualized revenue adjustments of \$7,164 and \$6,080, respectively. Using test year billing units, we calculated water and wastewater annualized revenue adjustments of \$40,970 and \$43,909, respectively.

The Pennbrooke Fairways golf course (PFGC) is located within the Pennbrooke service area. A review of the Utility's Consumptive Use Permit (CUP) issued by the St. Johns River Water Management District (SJRWMD) indicates that the primary source of irrigation for the PFGC is reclaimed water from the Utility's wastewater treatment plant (WWTP). Furthermore, according to the Utility's WWTP permit issued by the DEP, the Utility must dispose of its treated wastewater via land application reuse primarily onto the golf course. The Utility's current tariffed rates for reuse service specifically available to the PFGC are a BFC of \$0, plus \$.09 per kgal. Therefore, reuse revenues should be listed in the Utility's MFRs and shall be listed going forward.

The Utility records revenue information both on: (1) MFR Schedule B-4 (Test Year Operating Revenues); and (2) Schedule E-2 (Revenue Schedule at Present and Proposed Rates). However, the Utility has reported no reuse revenues on either schedule. Therefore, we reviewed the Utility's 2008 Annual Report in an effort to obtain information regarding the number of reuse kgal sold and/or the resulting revenues during the test year. Detailed information regarding the sources of reuse water sales should be itemized on page S-9(b) of the Utility's 2008 Annual Report; however, no reuse revenues were listed. Page S-13 of the 2008 Annual Report details other wastewater system information. In response to a question on page S-13 regarding whether the Utility is required by DEP or a Water Management District to implement reuse, the Utility responded "N/A." However, the Utility also indicated on page S-13 that it provided 0.073 mgd (or 73 kgal per day) of reuse to the PFGC.

A customer is defined by Section 25-30.210, F.A.C., as "any person, firm, association, corporation, governmental agency, or similar organization who has an agreement to receive service from the utility." As discussed above, the Utility is required to utilize, as its primary source of irrigation, reclaimed water from the Utility's WWTP. Although Pennbrooke has not listed any reuse customers or corresponding revenues, we find that the PFGC meets the definition of a customer of the Utility.

The Utility currently has a tariffed rate of \$.09 per kgal for reuse. As will be discussed below, for those nonresidential reuse systems in Lake County that have gallonage charges, the average non-residential reuse charge is \$0.85 per kgal. Since the only application of the Utility's reuse is to irrigate a nearby golf course, we find that it is reasonable to continue with a usage-only charge.

As such, we determine that reuse revenues of \$22,648 (73 kgal/day x 365 days x \$0.85) shall be imputed. Therefore, we determine that test year revenues shall be increased by \$33,806 (\$40,970-\$7,164) for water and \$60,477 (\$43,909-\$6,080+\$22,648) for wastewater.

Contested Audit Adjustments to O&M Expenses

Pennbrooke's MFRs reflected test year O&M expenses in the amount of \$331,885 for water and \$330,973 for wastewater. As discussed above, we reduced O&M expenses by \$460 for water and \$1,320 for wastewater. Based on another audit finding, we determine that an adjustment shall be made to the test year O&M expenses.

Our audit staff sampled entries for O&M expenses taken from UI's headquarters in Northbrook, Illinois, to trace to support documentation. Our audit staff identified items that should have been capitalized, were non-reoccurring in nature, or did not have any support documentation provided. Pennbrooke agreed with the audit that some entries should have been capitalized and others should have been removed. The Utility did provide support documentation for some of the entries. Therefore, we determine that O&M expenses shall be reduced by \$3,668 for water and \$3,104 for wastewater. Accordingly, corresponding adjustments shall be made to increase plant by \$69 for water and \$58 for wastewater. Finally, accumulated depreciation and depreciation expense both shall be increased by \$3 for water and \$3 for wastewater.

Adjustments to Salaries, Wages, Pensions and Benefits, and Payroll Taxes

On MFR Schedules B-5 and B-6, the Utility reported water salaries and wages, pensions and benefits, and payroll taxes of \$128,971, \$27,223, and \$9,711, respectively, and reflected wastewater salaries and wages, pensions and benefits, and payroll taxes of \$109,779, \$23,172, and \$8,266, respectively. The proposed salaries and wages expense represents an increase of 88.52 percent for water and 70.36 percent for wastewater over the levels reflected in the Utility's last rate case in 2006. The proposed pensions and benefits expense represents increases of 99.55 percent for water and 87.73 percent for wastewater over the same period.

Our review of O&M expenses included a comparison of reported expenses with those approved in Pennbrooke's last rate case. Schedules B-7 and B-8 require the Utility to explain why any increases in expenses exceed customer growth and inflation (collectively, "benchmark"). Pennbrooke calculated a benchmark of 17.43 percent for water and 16.91 percent for wastewater. For salaries and wages and pensions and benefits, the Utility stated that the reason for the increases was due to the number of employees and available positions that have increased between the 2005 and 2008 year-end test periods, as well as the associated cost of living increases. In addition, the number of affiliate companies has decreased, thus, increasing the allocation percentage to Pennbrooke.

In our staff's data request dated February 15, 2010, the Utility was asked to explain why its salaries and wages expense was significantly greater than the relative level of salaries approved by this Commission in the Utility's 2006 rate case. In its response, Pennbrooke explained that its increases are attributable to several reasons. First, the Utility provides a standard cost of living increase to its employees on an annual basis. Second, the salary adjustment in 2008 has been annualized to account for a full year of salaries for all allocated personnel. Third, the Utility stated that between 2003 and 2007 six new positions were created within the Utility, including a regional vice president serving the Florida and South Regions, a business manager serving the same, a cross connection specialist, an operator, and a part-time

operator, all of whom are allocated to various Florida companies. These new employees alone account for much of the difference between 2003 and 2008. In response to our staff auditors' data request, Pennbrooke provided an updated salary request that reflects annualized adjustments of 2.25 percent and 3.5 percent increases in September of 2009 and April 2010, respectively. As discussed above, UI has divested a number of subsidiaries. As a result of the divestiture of subsidiaries, we would expect the number of allocated employees to decrease and not increase.

In its April 9, 2010, response to a follow-up data request by our staff, Pennbrooke stated that, since the last rate case, a major cost saving measure was the closure of three call centers in various states in the first quarter of 2010. These closures were part of its parent company's customer service optimization program. The personnel from those closed call centers were terminated. All customer service is now being maintained by the remaining call centers in Nevada, North Carolina, and Florida. The costs for these remaining call centers are now being allocated based on total parent company ERCs. Because the costs for the Florida call center were previously being allocated by only ERCs from Florida and Louisiana, the effect of the above-mentioned customer service optimization program should result in cost savings to all of UI's Florida subsidiaries. However, to date, Pennbrooke failed to provide any adjustments to salaries and wages related to these cost savings.

Based on the above, we believe the requested increase in salaries and wages expense is excessive. The Utility has the burden of proving that its costs are reasonable.¹³ We believe that the Utility has not met its burden of proof that the proposed increase in salaries and wages from 2005 to 2008. Further, we believe Pennbrooke has not demonstrated any substantial benefit to the Utility as a result of the additional allocated personnel since the last rate case.

We used the benchmark analysis found on Schedules B-7 and B-8 of the MFRs to support a reduction to salaries and wages expense. This Commission has utilized the benchmark analysis found on MFR Schedules B-7 and B-8 in previous rate cases.¹⁴ Accordingly, we determine that salaries and wages expense shall be decreased by \$48,628 for water and \$34,442 for wastewater. In addition, pensions and benefits expense shall be reduced by \$10,264 for water and \$7,270 for wastewater.¹⁵ Finally, payroll taxes shall be reduced by \$3,720 for water and \$2,635 for wastewater.

Allocated Relocation Expenses

UI's relocation expenses for the 2008 test year was \$156,647, a 59 percent increase from 2007. Pennbrooke's allocated portion of this expense was \$1,535. The relocation expenses for 2008 was for the relocation of one headquarter employee. UI's relocation expenses have varied

¹³ See Florida Power Corp. v. Cresce, 413 So. 2d 1187, 1191 (1982)

¹⁴ See Order Nos. PSC-92-0578-FOF-SU, issued June 29, 1992, in Docket No. 910540-SU, In re: Application for sewer service rate adjustment in Aloha Gardens service area by Aloha Utilities, Inc. in Pasco County; and PSC-92-0336-FOF-WS, issued May 12, 1992, in Docket No. 911194-WS, In re: Application for a rate increase in Collier County by Florida Cities Water Company, Golden Gate Division.

¹⁵ Staff notes that it utilized the Utility's test year ratio of pensions and benefits to salaries in order to determine the corresponding adjustments for pensions and benefits.

significantly from year to year. In 2004 and 2005, UI did not have any relocation expenses. UI's relocation expense was \$16,145 for 2006 and \$98,577 for 2007. The year over year increase from 2006 to 2007 represented a 511 percent increase.

Recognizing that relocation expenses have varied significantly from year to year, it has been our practice to base this expense on a 4-year average of actual experience rather than the specific expense in any given year. To be consistent with our prior practice,¹⁶ relocation expenses shall be based on UI's 4-year average. Accordingly, we determine that relocation expenses shall be reduced by \$470 for water and \$400 for wastewater.

Transportation Expenses

On MFR Schedules B-5 and B-6, Pennbrooke recorded transportation expenses of \$9,937 for water and \$8,458 for wastewater in the test year. In its March 10, 2010, data request, our staff requested that the Utility provide the amount of its transportation expense that related to fuel purchases and the total gallons of fuel purchased. In its response, the Utility stated that \$13,710 was booked to fuel with \$7,406 allocated to water and \$6,304 allocated to wastewater. The Utility further stated that it could not determine the total gallons of fuel purchased for Pennbrooke because its parent company (Utilities, Inc.) recently switched vendors and the information relating to purchased gallons from the past was no longer available.

By e-mail dated March 31, 2010, from an employee of UI to our staff, UI asserted that the total gallons for Pennbrooke was 20,765. Based on the total dollar amount of \$13,710 for fuel, the cost per gallon would be approximately \$0.66 per gallon.

In its April 9, 2010, response to a subsequent data request by our staff, Pennbrooke proposed that the appropriate fuel costs for the Utility was \$15,520. In support of its position, Pennbrooke provided workpapers for its calculations. Specifically, the Utility multiplied the gallons per vehicle by the nominal price per gallon of \$3.27 in 2008, then allocated the costs based on 2008 year-end ERC percentages for allocated employees and assigned the full amount for direct employees of the Utility. However, we believe the gallons reported on the Pennbrooke's workpapers are unreliable. First, we applied the ERC percentages for all allocated employees to determine the Utility's gallons associated with those employees, and second we added all the gallons associated with the direct employees of Pennbrooke. Using this method, we calculated total gallons attributable to the Utility of 4,746. Applying the initial dollar of \$13,710 then yields an approximate cost of \$2.89 per gallon.

It is the Utility's burden to prove that its costs are reasonable.¹⁷ Based on the above, we believe the Utility's gallonage data is unreliable in determining the appropriate level of fuel costs for prospective ratemaking purposes.

¹⁶ See Order Nos. PSC-04-1110-PAA-GU, issued November 8, 2004, in Docket No. 040216-GU, In re: Application for a rate increase by Florida Public Utilities Company; and PSC-02-0787-FOF-EI, issued June 10, 2002, in Docket No. 010949-EI, In re: Request for rate increase by Gulf Power Company, and PSC-92-0924-FOF-GU, issued September 3, 1992, in Docket No. 91150-GU, In re: Application for a rate increase by Peoples Gas System, Inc.

¹⁷ See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982)

Based on the recent United States Energy Information Administration Short-Term Energy Outlook Report dated April 6, 2010, retail gasoline prices are expected to be an annual average of \$2.84 for 2010 per gallon while the annual average for 2008 was \$3.26 per gallon. We have previously utilized the United States Energy Information Administration Short-Term Energy Outlook Report in recent formal file and suspend rate case to determine the appropriate level of fuel cost.¹⁸ The difference between the annual average price in 2008 and 2010 is 42 cents or 12.88 percent. In the absence of reliable gallonage data, we believe a reasonable method to determine the prospective fuel expense for ratemaking purposes is to decrease test year fuel costs by 12.88 percent. Therefore, we determine that the Utility's transportation expense shall be decreased by \$954 for water and \$812 for wastewater.

Irrigation Billing Expense

According to Pennbrooke's MFRs, a total of 1,358 bills were mailed out to customers that have irrigation meters. According to information received from customers at the customer meeting, the same customers also receive a separate irrigation bill in addition to their regular water and wastewater bill. We believe that the Utility's billing system should be efficient enough to generate one bill per customer, not two bills per customer. Further, we believe that the general body of ratepayers should not have to pay the additional cost of the Utility's duplicative billing. Therefore, we determine that the costs associated with the mailing of the irrigation bills shall be disallowed.

We calculated a rate of \$4.89 per irrigation bill. This was calculated by using the costs of postage, envelopes, and the employee overhead. The method used to determine appropriate salary is the same method the Utility would use to charge a customer a late payment fee. Accordingly, we determined that the cost of mailing 1,358 bills that shall be removed from water O&M expense is \$6,642.

Treatment of Unamortized Rate Case Expense from Prior Rate Case

Based on an analysis of the MFRs and Order No. PSC-07-0088-PAA-WS, we find an adjustment is necessary for prior rate case expense included in the Utility's test year O&M expenses. In its last rate proceeding, we approved annual amortization of rate case expense of \$13,588 for water and \$11,716 for wastewater. In its MFRs, the Utility recorded rate case expense from their prior case of \$23,229 for water and \$19,773 for wastewater.¹⁹ Consistent with Order No. PSC-07-0088-PAA-WS, we determine that test year rate case expense associated with the Utility's prior case shall be reduced by \$9,641 for water and \$8,057 for wastewater.

Current Rate Case Expense

¹⁸ See Order No. PSC-09-0385-FOF-WS, issued May 29, 2009, in Docket No. 080121-WS, In re: Application for increase in water and wastewater rates in Alachua, Brevard, DeSoto, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.

¹⁹ For informational purposes, the prior rate case expense four-year rate reduction for Pennbrooke's last rate case will occur on June 25, 2011.

With regards to rate case expense, it is the Utility's burden to justify its requested costs.²⁰ Further, we have broad discretion with respect to allowance of rate case expense and 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.²¹

The Utility included in its MFRs an estimate of \$187,758 for current rate case expense. Our 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 April 14, 2010, the Utility submitted a revised estimated rate case expense through completion of the PAA process of \$187,758 with \$92,951 already incurred. 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	\$68,625	\$27,349	\$30,033	\$68,625
Consultant Fees – M&R	35,000	30,305	4,495	35,000
WSC In-house Fees	62,311	30,269	22,555	62,311
Filing Fee	4,000	0	0	0
Travel – WSC	3,200	0	3,200	3,200
Miscellaneous	12,000	14	100	12,000
Notices	<u>2,622</u>	<u>0</u>	<u>2,622</u>	<u>2,622</u>
Total Rate Case Expense	<u>\$187,758</u>	<u>\$92,951</u>	<u>\$63,604</u>	<u>\$187,758</u>

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

The first adjustment relates to the Utility's legal fees. The Utility included in its MFRs \$68,625 in legal fees to complete the rate case. The Utility provided invoices through March 10, 2010, showing legal expenses associated with the rate case totaling \$33,910. According to the invoices, the law firm of Rose, Sundstrom & Bentley, LLP, billed the Utility 8.6 hours related to the correction of MFR deficiencies. Based on the law's firm hourly rate of \$290 per hour, the total amount billed to Pennbrooke was \$2,494 (\$290x8.6). We have previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.²²

²⁰ See *Florida Power Corp. v. Cresse*, 413 So. 2d 1187, 1191 (Fla. 1982).

²¹ See *Meadowbrook Util. Sys., Inc. v. FPSC*, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), rev. den. by 529 So. 2d 694 (Fla. 1988).

²² See Order Nos. 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 PSC-01-0326-FOF-SU, issued February 6, 2001, in

Accordingly, we determine that \$2,494 shall be removed as duplicative and unreasonable rate case expense. Additionally, the Utility's January 19, 2010, response letter indicated that the \$4,000 filing fee was included in the legal fees. We determined that the \$4,000 filing fee was counted twice and thus shall be removed from legal fees. Therefore, the appropriate invoiced legal fees shall be \$27,416 (\$33,910-\$2,494-\$4,000).

The list of remaining tasks to complete the case through the end of the PAA process provided by the Utility's legal counsel came to 61.8 hours. The specific amount of time associated with each item and the associated fees based on an hourly rate of \$330 is listed below:

<u>Description</u>	<u>Estimate To Complete Through PAA Process</u>	
	<u>Hours</u>	<u>Fees</u>
Unbilled hours through date of filing	17.3	\$5,709
Respond to formal data requests from Commission staff (staff) and informal requests for information from staff and/or OPC	17.5	\$5,775
Respond to formal data requests from Lorne Hunsberger/Pennbrooke HOA	4.0	\$1,320
Legal Research and documentation regarding confidentiality of work papers, NSF tariffs, WSC allocation issues, water quality and customer concerns	6.0	\$1,980
Review staff recommendation; conference with client and consultant regarding recommendation; conference with staff regarding recommendation	3.5	\$1,155
Prepare for and attend Agenda conference; discuss Agenda with client and staff	7.5	\$2,475
Review PAA Order; Conference with client and consultant regarding PAA Order	2.0	\$660
Prepare revised tariff sheets; Obtain staff approval of tariffs; Draft and revise customer notice; Obtain staff approval of notice; Coordinate mailing of notices and implementation of tariffs; Facilitate compliance with Order	4.0	\$1,320
Total Estimated Fees	<u>61.8</u>	<u>\$20,394</u>

As discussed below, it is the Utility's burden to justify its requested costs. We find that 61.8 hours is a reasonable amount of time to respond to data requests, conference with the client and consultants, review our staff's recommendation, travel to the Agenda Conference, and attend to miscellaneous post-PAA matters. In its breakdown of estimated legal fees, the Utility applied an hourly rate of \$330 for all estimated legal fees. The law firm representing Pennbrooke has a partner billing at a rate of \$330 per hour and an associate lawyer billing at a rate of \$305 per hour. In its breakdown for estimated legal fees, the Utility stated that, with the exception of the Agenda Conference hours, the associate lawyer would be handling the remaining estimated legal activities which represent a total of 54.3 hours. As such, we determine that legal fees shall be reduced by \$1,358 $[(\$330-\$305)\times 54.3]$. Thus, we determine that the appropriate amount of estimated legal fees to complete the PAA process shall be \$19,036 (\$20,394-\$1,358). In addition, \$719 in miscellaneous expenses, which include estimated costs to attend the Agenda Conference, unbilled photocopier costs, estimated photocopier costs, and unbilled and estimated courier costs, shall be denied due to lack of support documentation. Based on the above adjustments to legal fees, we determine that the total legal fees shall be decreased by \$21,454 (\$68,625-\$27,416-\$19,036-\$719).

The second adjustment relates to duplicative legal fees and WSC In-house fees. As discussed above, in our staff's first data request dated December 18, 2009, our staff requested a copy of all support documentation, including contracts or invoices, for the Utility's pro forma plant additions. In its response dated January 19, 2010, Pennbrooke provided unexecuted contracts dated January 11, 2009, and dated January 8, 2009, between Thompson Electric Company (Thompson) and the Utility's sister company Utilities, Inc. of Florida (UIF); and ITT Water and Wastewater Florida, LLC (ITT) and UIF relating to the wastewater treatment plant improvements. In a conference call with the Utility, OPC, and our staff on April 16, 2010, our staff requested again a copy of the executed contract between Thompson and UIF as well as ITT and UIF. By e-mail dated April 20, 2010, the Utility provided the executed contracts between Thompson and UIF as well as ITT and UIF for the wastewater treatment plant improvements signed by UIF on March 1, 2010.

Because of the duplicative requests before the Utility finally provided the executed contract, we find there was unwarranted and duplicative rate case expense incurred to respond to our staff's data requests in this matter. Although the estimated breakdown for legal fees and WSC in-house fees do not isolate the duplicative time spent, we find that one hour for each Utility attorney and WSC employee that participated in the April 16, 2010, conference call shall be disallowed. However, we find that this disallowance shall be split between two sister companies of the Utility because our staff also requested supporting documentation related to these companies as well. Thus, we determine that legal fees and WSC in-house fees shall be reduced by \$212 and \$42, respectively.

The third adjustment relates to the consultant fees for Frank Seidman with Management & Regulatory Consultants, Inc. The Utility included in its MFRs \$35,000 for consulting fees for Mr. Seidman. A review of the invoices provided by the Utility showed a total of \$30,160, of which \$580 was billed for correcting the MFR deficiencies and revising the Utility's filing. As stated above, we have previously disallowed rate case expense associated with correcting MFR

deficiencies because of duplicate filing costs. Accordingly, we determine that \$580 shall be removed as duplicative and unreasonable rate case expense. Therefore, the total amount allowed of by Mr. Seidman shall be \$29,580.

Additionally, Mr. Seidman estimated 40 hours or \$5,800 (40x\$145) to complete the case. Specifically, Mr. Seidman estimated 25 hours to assist with and respond to data requests, and five hours to prepare for and attend the Agenda Conference, and 10 hours to respond to OPC discovery and protest. However, we find that four hours, not five 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 in the Indiantown Company, Inc. and the Mid-County Services, Inc. rate cases.²³ Therefore, we determine that rate case expense shall be decreased by \$145 (1 hour x \$145). As such the total amount of cost to complete for Mr. Seidman shall be \$5,655 (39x\$145). Based on the above adjustments, we determine that the total amount of consulting fees for Mr. Seidman shall be increased by \$235 (\$29,580+\$5,655-\$35,000).

The fourth adjustment relates to the cost associated with the 856 hours of estimated time to complete this case by WSC employees. The last General Ledger entry for WSC employees' rate case time was on March 31, 2010. Pennbrooke asserts that additional hours were required to respond to our staff auditors' requests and to our 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. Pennbrooke simply stated that the \$32,042 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. Therefore, we had no basis to determine whether the individual hours estimated are reasonable. We reviewed these requested expenses and find the estimates reflect an overstatement. It is the Utility's burden to justify its requested costs.²⁴ In those cases where rate case expense has not been supported by detailed documentation, our practice has been to disallow some portion or remove all unsupported amounts.²⁵ We determine that 281 hours is reasonable to allow Pennbrooke to respond to data requests, facilitate the audit, review our staff's recommendation, and travel to agenda. By applying the individual employee rates and the actual average number of hours worked by WSC employees, we determine that the estimated WSC fees to complete the case shall be \$11,258. Thus, the Utility's requested expense of \$32,042 shall be decreased by \$20,784.

The fifth adjustment addresses WSC travel expenses. In its MFRs, Pennbrooke estimated \$3,200 for travel. However, there was no support provided for the travel expenses. It is our

²³ 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.

²⁴ See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982).

²⁵ 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 2nd, Inc. Staff notes that, in all of these cases, the Commission removed the entire unsupported amounts.

experience based on previous PAA UI rates cases, that UI does not send a representative from their Illinois office to attend the Agenda Conference. Therefore, we determine that rate case expense shall be decreased by \$3,200.

The sixth 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 Pennbrooke's January 19, 2010 response letter, the Utility states that only \$14 has been incurred. The Utility provided no other breakdown or support for the remaining \$11,986 estimate. We are also concerned with the amount of requested costs for FedEx expense. UI has requested, and received authorization from this Commission, to keep its records outside the state in Illinois, pursuant to Rule 25-30.110(1)(c), F.A.C. However, when a utility receives this authorization, it is required to reimburse this 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. This is consistent with prior decisions. 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., we found that the Utility also requested recovery of the actual travel costs it paid for the our auditors. Because the Utility's books were 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.²⁶ In this case, we believe that the requested amount of shipping costs in this rate case is directly related to the records being retained out of state. The Utility typically ships its MFRs, answers to data requests, along with other items, to its law firm located in central Florida. Then, the documents are submitted to us for review. We do 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 shall bear the related costs. Therefore, we determine that miscellaneous rate case expense shall be decreased by \$11,986.

The seventh adjustment relates to customer notices and postage. The Utility estimated \$2,662 for notices, postage and stock. We estimated the postage cost for the interim notice, the combination initial notice, customer meeting notice, and notice of the final rate increase to be \$3,337. Thus, we determine that rate case expense shall be increased by \$675 (\$3,337-\$2,662) for postage costs.

The eighth adjustment relates to the Utility's estimated completion costs from PricewaterhouseCoopers, LLC of \$1,500. This expense is for the review of audit work papers. No support documentation was provided. Accordingly, we determine that \$1,500 shall be removed as unsupported rate case expense.

In summary, we determine that the Utility's revised rate case expense shall be decreased by \$56,768 for MFR deficiencies, and for unsupported and unreasonable rate case expense. The

²⁶See 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 Order No. 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.

appropriate total rate case expense is \$130,990. A breakdown of approved rate case expense is as follows:

	Utility MFR <u>Estimated</u>	Commission <u>Adjustments</u>	<u>Total</u>
Legal Fees	\$68,625	(\$21,666)	\$46,959
Consultant Fees- M&R	35,000	235	35,235
WSC In-house Fees	62,311	(20,826)	41,485
Filing Fee	4,000	0	4,000
WSC Travel	3,200	(3,200)	0
Miscellaneous	12,000	(11,986)	14
Notices	<u>2,622</u>	<u>\$675</u>	<u>3,297</u>
Total Rate Case Expense	<u>\$187,758</u>	<u>(\$56,768)</u>	<u>\$130,990</u>
Annual Amortization	<u>\$46,940</u>	<u>(\$14,192)</u>	<u>\$32,747</u>

In its MFRs, Pennbrooke requested total rate case expense of \$187,758, which amortized over four years would be \$46,940. The Utility included in its MFRs \$25,356 (\$46,940x.54) and \$21,583 (\$46,940x.46) for rate case expense in the test year for water and wastewater, respectively. Based on the adjustments approved above, annual rate case expense shall be decreased by \$7,664 and \$6,528 for water and wastewater, respectively.

The approved total rate case expense shall be amortized over four years, pursuant to Section 367.016, F.S. Based on the data provided by Pennbrooke and the approved adjustments discussed above, we approve annual rate case expense of \$32,747, or \$17,684 for water and \$15,064 for wastewater.

Bad Debt Expense

The Utility recorded bad debt expense of \$476 for the test year. Consistent with our practice, bad debt expense shall be based on a 3-year average. We have previously approved the application of a 3-year average to determine the appropriate level of bad debt expense. We have set bad debt expense using the 3-year average in three electric cases,²⁷ two gas cases,²⁸ and one

²⁷ See Order Nos. PSC-94-0170-FOF-EI, issued February 10, 1994, in Docket No. 930400-EI, In re: Application for a Rate Increase for Marianna electric operations by Florida Public Utilities Company, at p. 20; PSC-93-0165-FOF-EI, issued February 2, 1993, in Docket No. 920324-EI, In re: application for a rate increase by Tampa Electric Company, at pp. 69-70; and PSC-92-1197-FOF-EI, issued October 22, 1992, in Docket No. 910890-EI, In re: Petition for a rate increase by Florida Power Corporation, at p. 48.

water and wastewater case.²⁹ We approved a 3-year average in these cases based on the premise that a 3-year average fairly represented the expected bad debt expense. In Docket No. 060253-WS, related to utilities in Pasco County, we approved the use of a 3-year average based on calendar years 2001-2004, but deleted the highest year's bad debt expense in calculating the average. In other cases, we applied a 3-year average. Overall, the basis for determining bad debt expense has been whether the amount is representative of the bad debt expense expected to be incurred by the Utility. Based on this calculation, Pennbrooke shall be entitled to bad debt expense of \$365, which we believe is representative of Pennbrooke's bad debt expense. As a result, we determine that Pennbrooke's bad debt expense of \$476 shall be reduced by \$111 or \$60 for water and \$51 for wastewater.

Test Year Water and Wastewater Operating Income Before Any Revenue Increase

As shown on Schedule Nos. 3-A and 3-B, after applying our adjustments, the Utility's net operating income is \$29,766 for water and \$49,024 for wastewater. Our adjustments to operating income are shown on Schedule No. 3-C.

REVENUE REQUIREMENT

Pennbrooke requested annual revenue requirements of \$620,927 and \$589,465 for water and wastewater, respectively. These requested revenue requirements represent revenue increases of \$265,505 or 74.70 percent for water and \$209,874 or 55.29 percent for wastewater.

Consistent with our decisions concerning the underlying rate base, cost of capital, and operating income issues, we approve rates designed to generate a water revenue requirement of \$449,063, and a wastewater revenue requirement of \$511,347. The approved water revenue requirement exceeds our adjusted test year revenues by \$59,835, or 15.37 percent, for water. The approved wastewater revenue requirement exceeds our adjusted test year revenues by \$71,279, or 16.20 percent, for wastewater. These approved pre-repression revenue requirements will allow the Utility the opportunity to recover its expenses and earn an 8.08 percent return on its investment in water and wastewater rate base.

RATES AND CHARGES

Rate Structure for Water and Wastewater Systems

The Utility's current residential water system rate structure consists of a two-tier inclining block rate structure. The BFC prior to filing for rate relief for its 5/8" x 3/4" meter customers was \$5.20 per month, with usage blocks for monthly consumption of: (a) 0-10 kgal

²⁸ See Order Nos. PSC-92-0924-FOF-GU, issued September 3, 1992, in Docket No. 911150-GU, In re: Application for a rate increase by Peoples Gas System, Inc., at p. 6; and PSC-92-0580-FOF-GU, issued June 29, 1992, in Docket No. 910778-GU, In re: Petition for a rate increase by West Florida Natural Gas Company, at pp. 30-31.

²⁹ See Order No. PSC-07-0505-SC-WS, issued June 13, 2007, in Docket No. 060253-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida, at pp. 41-42.

in the first block; and (b) usage in excess of 10 kgal in the second block. The monthly usage charges prior to filing were \$1.76 for usage in the first block and \$2.20 for usage in the second block. The usage block rate factors are 1.0 and 1.25, respectively. The Utility's current general service water rate structure is the traditional BFC/uniform kgal rate structure. These rate structures were established in Pennbrooke's previous rate case.³⁰

Pennbrooke is located in Lake County within the SJRWMD. The entire District has been designated a water resource caution area. Furthermore, many areas of the SJRWMD, including the Pennbrooke service area, are identified as priority water resource caution areas. These are areas where existing and reasonably anticipated sources of water and water conservation efforts may not be adequate to supply water for all existing legal uses and anticipated future needs, or to sustain the water resources and related natural systems. In 1991, we 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.

Water Rates

We performed a detailed analysis of the Utility's billing data. Based on this analysis, we believe that it is appropriate to implement a three-tiered inclining block rate structure for this Utility's residential rate class. During the 2008 test year, average residential consumption was 8.883 kgal/month, with approximately 20 percent of residential customers consuming over 12 kgal/month. This level of usage is indicative of a very high level of discretionary, or non-essential, usage that is relatively sensitive to price increases. Therefore, we determine that it is appropriate to implement a three-tiered inclining block rate structure for this Utility in order to encourage water conservation.

We performed additional analyses of the Utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential rate class. The goal of the evaluation was to select the rate design parameters that: (1) allow the Utility to recover its revenue requirement; (2) equitably distribute cost recovery among the Utility's customers; and (3) implement where appropriate water conserving rate structures consistent with our MOU with the five WMDs.

To increase the water-conserving nature of the rate structure, we determine that the increase in water system revenue requirements shall be allocated to the gallonage charge, and that the BFC cost recovery percentage shall be set at 20 percent or \$5.20 for a 5/8" x 3/4" meter customer. By shifting cost recovery to the water system gallonage charge while holding the BFC fairly constant, we are able to design a more effective water conserving rate structure. Furthermore, by setting the rate factors at 1.0, 1.25, and 1.50 for the three usage blocks, we are able to target the water conserving rate structure to customers who use more than 3 kgal/month.

³⁰ See Order No. PSC-07-0088-PAA-WS, issued January 31, 2007, in Docket No. 060261-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke.

At the same time, this will also minimize price increases to customers who use less than 3 kgal/month.

The traditional BFC/uniform gallonage charge rate structure has been our water rate structure of choice for nonresidential customer classes. The uniform gallonage charge shall 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 shall 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.

Table 22-1

UTILITIES INC. OF PENNBROOKE CURRENT & APPROVED WATER RATE STRUCTURES AND RATES FOR TYPICAL RESIDENTIAL CUSTOMERS ON 5/8" X 3/4" METERS			
<u>Current Rate Structure and Rates</u>		<u>Approved Rate Structure and Rates</u>	
2-Tier Inclining Block Rate Structure Rate Factors 1.00 and 1.25 BFC = 25%		3-Tier Inclining Block Rate Structure Rate Factors 1.00, 1.25 and 1.50 BFC = 20.22%	
BFC	\$5.20	BFC	\$5.20
0-10 kgals	\$1.76	0-3 kgals (no repression)	\$1.86
10+ kgals	\$2.20	3-6 kgals	\$1.95
		6-12 kgals	\$2.43
		12+ kgals	\$2.92
<u>Typical Monthly Bills</u>		<u>Typical Monthly Bills</u>	
<u>Cons (kgal)</u>		<u>Cons (kgal)</u>	
0	\$5.20	0	\$5.20
1	\$6.96	1	\$7.06
3	\$10.48	3	\$10.78
5	\$14.00	5	\$14.68
10	\$22.80	10	\$26.35
20	\$44.80	20	\$55.57

Wastewater Rates

The Utility's current 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 customers was \$11.47 per month. The corresponding monthly gallonage charge for residential service was \$3.57, capped at 6 kgal of usage, while the general service gallonage charge rate was 1.2 times greater than the residential charge, at \$4.29 per kgal, with no usage cap.

We determine that the rate structure shall continue as a BFC/gallonage charge with a 6 kgal cap for residential customers and for the BFC cost recovery allocation to continue at 40 percent. We determine that the general service customer's kgal charge shall be 1.2 times greater than the residential charge with no usage cap. As discussed above, we approve a kgal-only based charge for reuse service.

Our rate design for the wastewater system is shown in Table 22-2.

Table 22-2

UTILITIES INC. OF PENNBROOKE CURRENT & APPROVED RESIDENTIAL WASTEWATER RATE STRUCTURES AND RATES			
Current Rate Structure and Rates		Approved Rate Structure and Rates	
BFC = 40% Gallonage Charge Maximum Charge at 6,000 Gallons		BFC = 40% Gallonage Charge Maximum Charge at 6,000 Gallons	
BFC	\$11.47	BFC	\$13.15
\$/kgal	\$3.57	\$/kgal	\$4.24
Typical Monthly Bills		Typical Monthly Bills	
Cons (kgals)		Cons (kgals)	
0	\$11.47	0	\$13.15
1	\$15.04	1	\$17.39
2	\$18.61	2	\$21.63
3	\$22.18	3	\$25.87
4	\$25.75	4	\$30.11
5	\$29.32	5	\$34.35
6	\$32.89	6	\$38.59

Based on the foregoing, the appropriate rate structure for the water system's residential class is a three-tier inclining-block rate structure. The usage blocks shall be set for monthly consumption at: (a) 0-6 kgals; (b) 6.001-12 kgals; and (c) usage in excess of 12 kgals. The usage block rate factors shall be set at 1.00, 1.25, and 1.50 respectively. The appropriate rate structure for the water system's general service customers is a continuation of the traditional base facility charge (BFC)/uniform gallonage charge rate structure. The BFC cost recovery percentage for the water system shall be set at 20 percent. The appropriate rate structure for the wastewater system is a continuation of the BFC/gallonage charge rate structure. The residential wastewater monthly gallonage cap shall continue at 6 kgals. The general service gallonage charge shall remain 1.2 times greater than the corresponding residential charge. The post-

repression BFC cost recovery percentage shall be set at 40 percent. The appropriate rate structure for the reuse system is a pure consumption-only based charge per kgal.

Repression Adjustment

We conducted a detailed analysis of the consumption patterns of the Utility's residential customers as well as the increase in residential bills resulting from the increase in revenue requirements. This analysis showed that average residential consumption per customer was 8.883 kgal per month. This level of consumption indicates that there is a high level of discretionary, or non-essential, consumption of approximately 5.883 kgal per customer per month. Discretionary usage, such as outdoor irrigation, is relatively responsive to changes in price, and is therefore subject to the effects of repression.

Using our database of utilities that have previously had repression adjustments made, we calculated a repression adjustment for this Utility based upon the approved increase in revenue requirements in this case, and the historically observed response rates of consumption to changes in price. The methodology for calculating repression adjustments is same methodology that this Commission has approved in prior cases.³¹ This methodology also restricts any price changes due to repression from being applied to non-discretionary consumption (consumption less than 3 kgal per month), and allocates all cost recovery due to repression to discretionary levels of consumption (consumption above 3 kgal per month).

Based on our analysis, a repression adjustment to the Utility's water system is appropriate. Residential water consumption shall be reduced by 4.0 percent, resulting in a consumption reduction of approximately 5,125 kgal. Total post-repression residential water consumption for ratesetting is 134,043 kgal. The resulting water system reductions to revenue requirements are \$1,192 in purchased power expense, \$622 in chemicals expense and \$85 in RAFs. The post-repression revenue requirement for the water system is \$446,381.

In order to monitor the effect of the rate changes, the Utility shall 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 shall be prepared by customer class, usage block, and meter size. The reports shall be filed with our staff, on a semi-annual basis, for a period of two years beginning with 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 shall be ordered to file a revised monthly report for that month within 30 days of any revision.

Monthly Rates for the Water, Wastewater, and Reuse Systems

³¹ See Order No. PSC-01-2385-PAA-WU, issued December 10, 2001, in Docket No. 010403-WU, In re: Application for staff-assisted rate case in Highlands County by Holmes Utilities, Inc.; and Order No. PSC-02-1168-PAA-WS, issued August 26, 2002, in Docket No. 010869-WS, In re: Application for staff-assisted rate case in Marion County by East Marion Sanitary Systems, Inc.

Excluding miscellaneous service revenues, the approved water rates shown on Schedule No. 4-A are designed to produce revenues of \$446,381. Approximately 20 percent (or \$90,222) of the water monthly service revenues is recovered through the base facility charges, while approximately 80 percent (or \$360,889) represents revenue recovery through the consumption charges. Excluding miscellaneous service and reuse revenues, the approved wastewater rates shown on Schedule No. 4-B are designed to produce annual revenues of \$488,033. Approximately 40 percent (or \$195,213) of the wastewater monthly service revenues is recovered through the base facility charges, while approximately 60 percent (or \$292,820) represents revenue recovery through the consumption charges. The approved reuse rate, which is based 100 percent on consumption, is designed to produce annual revenues of \$22,648.

The Utility currently has a tariffed rate of \$.09 per kgal for reuse. For those nonresidential reuse systems in Lake County that have gallonage charges, the average non-residential reuse charge is \$0.85 per kgal. Since the only application of the Utility's reuse is to irrigate a nearby golf course, we find that it is reasonable to continue with a usage-only charge.

The Utility shall file revised water, wastewater and reuse tariff sheets and a proposed customer notice to reflect the Commission-approved rates for the respective systems. The approved water, wastewater and reuse rates shall 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 water, wastewater and reuse rates shall not be implemented until our staff has approved the proposed customer notice. The Utility shall 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 our approved water, wastewater and reuse rates are shown on Schedules Nos. 4-A and 4-B, respectively.

Miscellaneous Service Charges

Pennbrooke's miscellaneous service charges were approved on January 31, 2007, and have not changed since that date. The Utility does not currently have an after hours charge for initial connections. The Utility believes that the after hours charge for initial connections should be updated to reflect current costs. Pennbrooke provided the following cost estimates for the expenses associated with connections during after hours:

	<u>After Hours</u>	
<u>Item:</u>		<u>Cost:</u>
Labor (\$46.88/hr.x0.75 hours) ³²		\$35.16
Transportation		<u>6.00</u>
Total		<u>\$41.16</u>

A \$42 charge for the Utility's Normal Reconnection, Violation Reconnection, and Premises Visit Charge were previously approved in the Utility's last rate case.³³ Pennbrooke

³² Represents time-and-a-half wage and the additional time it takes an employee to get to the customer's property after hours.

requested that the after hour charge for Initial Connections be consistent with the other after hours miscellaneous service charges previously approved by the Commission. We agree with this request and determine that Pennbrooke shall be allowed to implement a water and wastewater initial connection charges for work performed during after working hours of \$42.

In summary, we approve the Utility's proposed after hours charge for initial connections of \$42 because the increased charges are cost-based, reasonable, and consistent with fees this Commission has approved for Pennbrooke and its sister companies.³⁴ The Utility shall file a proposed customer notice to reflect the Commission-approved charges. The approved charges shall 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 our staff. Within ten days of the date the order is final, the Utility shall be required to provide notice of the tariff changes to all customers. Pennbrooke shall provide proof the customers have received notice within ten days after the date the notice was sent.

Non-Sufficient Funds Fee

Section 367.091, F.S., requires that rates, charges, and customer service policies be approved by this Commission and we have authority to establish, increase, or change a rate or charge. Pennbrooke has requested an NSF fee in accordance with the Section 832.08(5), F.S.

Approval of an NSF fee is consistent with our prior decisions.³⁵ As such, we determine that Pennbrooke shall be authorized to collect an NSF fee and that the NSF fee shall be established consistent with Section 68.065, F.S., which allows for the assessment of charges for the collection of worthless checks, drafts, or orders of payment. As currently set forth in Sections 68.065(2) and 832.08(5) F.S., the following fees may be assessed:

- 1.) \$25, if the face value does not exceed \$50,
- 2.) \$30, if the face value exceeds \$50 but does not exceed \$300,
- 3.) \$40, if the face value exceeds \$300, or
- 4.) Five percent of the face amount of the check, whichever is greater.

³³ See Order No. PSC-07-0088-PAA-WS, issued January 31, 2007, in Docket No. 060261-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke.

³⁴ See Order Nos. 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 Lake County by Lake Utility Services, Inc.; PSC-09-0264-PAA-SU, issued April 27, 2009, in Docket No. 080247-SU, In re: Application for increase in water and wastewater rates in Lee County by Utilities Inc. of Eagle Ridge.; and PSC-09-0462-PAA-WS, issued June 22, 2009, in Docket No. 080249-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.

³⁵ See Order Nos. PSC-08-0831-PAA-WS, issued December 23, 2008, in Docket No. 070680-WS, In re: Application for staff-assisted rate case in Pasco County by Orangewood Lakes Services, Inc.; and PSC-97-0531-FOF-WU, issued May 9, 1997, in Docket No. 960444-WU, In re: Application for rate increase and for increase in service availability charges in Lake County by Lake Utility Services, Inc., at p.20.

We determine that Pennbrooke's tariff for an NSF fee shall be revised to reflect the charges set by Sections 68.065(2) and 832.08(5) F.S. This fee shall be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C.

OTHER ISSUES

Calculation of Required Interim Refund

By Order No. PSC-09-0844-PCO-WS, we authorized the collection of interim water and wastewater rates, subject to refund, pursuant to Section 367.082, F.S.³⁶ The approved interim revenue requirement is \$525,098 for water and \$569,357 for wastewater, which represents an increase of \$169,676 or 47.74 percent for water and \$189,766 or 49.99 percent for wastewater.

According to Section 367.082, F.S., any refund shall 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 shall 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 ended December 31, 2008. 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, we 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, the \$525,098 water and \$569,357 wastewater revenue requirements granted in Order No. PSC-09-0844-PCO-WS for the interim test year are greater than the revenue requirements for the interim collection period of \$414,440 and \$473,305 for water and wastewater, respectively. This results in a 22.05 percent refund of interim rates for water and a 16.77 percent refund of interim rates for wastewater, after miscellaneous revenues have been removed. Therefore, the Utility shall be required to refund 22.05 percent of the water and 16.77 percent of the wastewater revenues collected under interim rates, respectively. The refund shall be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility shall be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility shall treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. Further, the surety bond shall be released upon our staff's verification that the required refunds have been made.

Four-Year Rate Reduction

³⁶ See Order No. PSC-09-0844-PCO-WS, issued December 22, 2009.

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 \$18,704 for water and \$15,933 for wastewater. The decreased revenue will result in the rate reductions approved by us on Schedule Nos. 4-A and 4-B.

The Utility shall be required to file revised tariff sheets and a proposed customer notice to reflect our approved rates. The approved rates shall 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 shall not be implemented until our staff has approved the proposed customer notice. Pennbrooke shall 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 shall 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.

Proof of Compliance with NARUC Uniform System of Accounts

To ensure that the Utility adjusts its books in accordance with our decision, Pennbrooke shall 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 (NARUC) Uniform System of Accounts primary accounts have been made.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Utilities Inc. of Pennbrooke's application for increased rates and charges is approved to the extent set forth in the body of this Order. Utilities, Inc. of Pennbrooke is hereby authorized to charge the approved rates and service charges as set forth in the body of this Order. It is further

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

ORDERED that all matters contained in the attachments and schedules attached hereto are incorporated herein by reference. It is further

ORDERED that the approved monthly water rates are shown on Schedule No. 4-A, and the approved monthly wastewater rates are shown on Schedule No. 4-B. It is further

ORDERED that Utilities, Inc. of Pennbrooke shall file revised water, wastewater, and reuse tariff sheets and a proposed customer notice to reflect the approved rates for the respective systems. It is further

ORDERED that the approved water, wastewater, and reuse rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. It is further

ORDERED that the approved water, wastewater and reuse rates shall not be implemented until our staff has approved the proposed customer notice. Utilities Inc. of Pennbrooke shall provide proof of the date notice was given no less than 10 days after the date of the notice. It is further

ORDERED that Utilities Inc. of Pennbrooke shall file reports detailing the number of bills rendered, the consumption billed, and the revenues billed on a monthly basis. In addition, the reports shall be prepared by customer class, usage block, and meter size. The reports shall be filed with our staff, on a semi-annual basis, for a period of two years beginning with the first billing period after the approved rates go into effect. To the extent Utilities Inc. of Pennbrooke makes adjustments to consumption in any month during the reporting period, Utilities Inc. of Pennbrooke shall be ordered to file a revised monthly report for that month within 30 days of any revision. It is further

ORDERED that Utilities, Inc. of Pennbrooke shall be authorized to revise its miscellaneous service charges and shall file a proposed customer notice to reflect the approved miscellaneous service charges. It is further

ORDERED that the approved charges shall 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 our staff. It is further

ORDERED that this notice may be combined with the notice required pursuant to this Order and Utilities, Inc. of Pennbrooke shall provide proof the customers have received notice within 10 days after the date that the notice was sent. It is further

ORDERED that Utilities Inc. of Pennbrooke shall be required to refund 22.05 percent of water revenues and 16.77 percent of wastewater revenues collected under interim rates and the refunds shall be made with interest in accordance with Rule 25-30.360(4), Florida Administrative Code. Utilities Inc. of Pennbrooke shall be required to submit proper refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code. Utilities Inc. of Pennbrooke shall treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. Further, the surety bond shall be released upon our staff's verification that the required refunds have been made. It is further

ORDERED that the water and wastewater rates shall be reduced as shown on Schedule Nos. 4-A and 4-B to remove \$18,704 for water and \$15,933 for wastewater for rate case expense, grossed-up for regulatory assessment fees, which is being amortized over a four-year period. The decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, Florida Statutes. It is further

ORDERED that Utilities Inc. of Pennbrooke shall file revised tariffs and a proposed customer notice setting forth the lower rates as shown on Schedule Nos. 4-A and 4-B and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates shall not be implemented until our staff has approved the proposed customer notice. Utilities Inc. of Pennbrooke shall provide proof of the date notice was given no less than 10 days after the date of the notice. It is further

ORDERED that if Utilities Inc. of Pennbrooke files this reduction as shown on Schedule Nos. 4-A and 4-B in conjunction with a price index or pass-through rate adjustment, separate data shall 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. It is further

ORDERED that Utilities Inc. of Pennbrooke shall provide proof, within 90 days of the Consummating Order finalizing this docket, that the adjustments for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts primary accounts have been made. It is further

ORDERED that the provisions of this Order, issued as a proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that if no person whose substantial interests are affected by the proposed agency action issues files a protest within twenty-one days of the issuance of the order, a consummating order will be issued, and this docket shall remain open for our staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by our staff, and that the interim refund has been completed and verified by our staff. It is further

ORDERED that once these actions are complete, this docket shall be closed administratively.

ORDER NO. PSC-10-0400-PAA-WS
DOCKET NO. 090392-WS
PAGE 36

By ORDER of the Florida Public Service Commission this 18th day of June, 2010.



ANN COLE
Commission Clerk

(S E A L)

ELS

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

As identified in the body of this order, our action, except for the four-year rate reduction and proof of adjustment of books and records, is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on July 9, 2010. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Any party adversely affected by the Commission's procedural or intermediate action in this matter may request: (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code, if issued by a Prehearing Officer; (2) reconsideration within 15 days pursuant to Rule 25-22.060, Florida Administrative Code, if issued by the Commission; or (3) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Office of Commission Clerk, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

Utilities Inc. of Pennbrooke Schedule of Water Rate Base Test Year Ended 12/31/08			Schedule No. 1-A Docket No. 090392-WS		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year
1 Plant in Service	\$2,134,960	\$436,532	\$2,571,492	(\$479,912)	\$2,091,580
2 Land and Land Rights	21,972	263	22,235	0	22,235
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(906,138)	89,778	(816,360)	44,798	(771,562)
5 CIAC	(772,606)	(122,479)	(895,085)	0	(895,085)
6 Amortization of CIAC	315,164	16,315	331,479	0	331,479
7 Net Debit Deferred Income Taxes	0	0	0	0	0
8 Acquisition Adjustment	476,560	(476,560)	0	0	0
9 Working Capital Allowance	<u>41,486</u>	<u>(2,774)</u>	<u>38,712</u>	<u>(7,752)</u>	<u>30,960</u>
Rate Base	<u>\$1,311,398</u>	<u>\$58,925</u>	<u>\$1,252,473</u>	<u>(\$442,866)</u>	<u>\$809,607</u>

Utilities Inc. of Pennbrooke Schedule of Wastewater Rate Base Test Year Ended 12/31/08			Schedule No. 1-B Docket No. 090392-WS		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year
1 Plant in Service	\$2,759,918	\$82,001	\$2,841,919	(\$82,784)	\$2,759,135
2 Land and Land Rights	57,035	223	57,258	0	57,258
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(998,974)	(17,911)	(1,016,885)	26,745	(990,140)
5 CIAC	(1,312,363)	95,603	(1,216,760)	0	(1,216,760)
6 Amortization of CIAC	455,023	33,273	488,296	0	488,296
7 CWIP	0	00	0	0	0
8 Advances for Construction	0	0	0	0	0
9 Working Capital Allowance	<u>41,372</u>	<u>(2,361)</u>	<u>39,011</u>	<u>(4,445)</u>	<u>34,566</u>
Rate Base	<u>\$1,002,011</u>	<u>(\$190,828)</u>	<u>\$1,192,839</u>	<u>(\$60,483)</u>	<u>\$1,132,356</u>

Utilities Inc. of Pennbrooke Adjustments to Rate Base Test Year Ended 12/31/08		Schedule No. 1-C Docket No. 090392-WS	
Explanation	Water	Wastewater	
<u>Plant In Service</u>			
1 Reflect Agreed-Upon Audit Adjustments.	(\$2,098)	(\$4,487)	
2 Reflect Contested Rate Base Audit Adjustment.	(88,292)	(75,211)	
3 Reflect Project Phoenix Adjustment.	(8,406)	(6,605)	
4 Reflect Appropriate Pro Forma Plant.	(381,184)	3,462	
5 Reflect Contested NOI Audit Adjustment.	69	58	
Total	<u>(\$479,912)</u>	<u>(\$82,784)</u>	
<u>Accumulated Depreciation</u>			
1 Reflect Agreed-Upon Audit Adjustments.	\$1,088	\$2,842	
2 Reflect Contested Rate Base Audit Adjustment.	25,608	21,815	
3 Reflect Project Phoenix Adjustment.	2,611	2,224	
4 Reflect Appropriate Pro Forma Accum. Depr.	15,488	(138)	
5 Reflect Contested NOI Audit Adjustment.	3	3	
Total	<u>(\$44,798)</u>	<u>(\$26,745)</u>	
<u>Working Capital</u>			
Reflect Appropriate Working Capital Allowance.	<u>(\$7,752)</u>	<u>(\$4,445)</u>	

Utilities Inc. of Pennbrooke Capital Structure-Simple Average Test Year Ended 12/31/08						Schedule No. 2 Docket No. 090392-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	\$180,000,000	\$0	\$180,000,000	(\$178,853,204)	\$1,146,796	46.90%	6.65%	3.12%
2 Short-term Debt	32,637,500	0	32,637,500	(32,429,564)	207,936	8.50%	5.23%	0.44%
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4 Common Equity	158,054,717	0	158,054,717	(157,047,736)	1,006,981	41.18%	11.13%	4.58%
5 Customer Deposits	5,233	0	5,233	0	5,233	0.21%	6.00%	0.01%
6 Tax Credits-Zero Cost	0	0	0	0	0	0.00%	0.00%	0.00%
7 Tax Credits-Weighted Costs	0	0	0	0	0	0.00%	0.00%	0.00%
8 Deferred Income Taxes	<u>78,365</u>	<u>0</u>	<u>78,365</u>	<u>0</u>	<u>78,365</u>	<u>3.20%</u>	0.00%	<u>0.00%</u>
9 Total Capital	<u>\$370,775,815</u>	<u>\$0</u>	<u>\$370,775,815</u>	<u>(\$368,330,504)</u>	<u>\$2,445,311</u>	<u>100.00%</u>		<u>8.16%</u>
Per Commission								
10 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$179,097,619)	\$902,381	46.47%	6.63%	3.08%
11 Short-term Debt	32,637,500	0	32,637,500	(32,473,881)	163,619	8.43%	5.23%	0.44%
12 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
13 Common Equity	158,054,717	0	158,054,717	(157,262,353)	792,364	40.80%	11.13%	4.54%
14 Customer Deposits	5,233	0	5,233	0	5,233	0.27%	6.00%	0.02%
15 Tax Credits-Zero Cost	0	0	0	0	0	0.00%	0.00%	0.00%
16 Tax Credits-Weighted Costs	0	0	0	0	0	0.00%	0.00%	0.00%
17 Deferred Income Taxes	<u>78,365</u>	<u>0</u>	<u>78,365</u>	<u>0</u>	<u>78,365</u>	<u>4.04%</u>	0.00%	<u>0.00%</u>
18 Total Capital	<u>\$370,775,815</u>	<u>\$0</u>	<u>\$370,775,815</u>	<u>(\$368,833,853)</u>	<u>\$1,941,962</u>	<u>100.00%</u>		<u>8.08%</u>
						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>10.13%</u>	<u>12.13%</u>	
OVERALL RATE OF RETURN						<u>7.67%</u>	<u>8.49%</u>	

Utilities Inc. of Pennbrooke Statement of Water Operations Test Year Ended 12/31/08						Schedule No. 3-A Docket No. 090392-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$391,699</u>	<u>\$229,228</u>	<u>\$620,927</u>	<u>(\$231,699)</u>	<u>\$389,228</u>	<u>\$59,835</u> 15.37%	<u>\$449,063</u>
2 Operating Expenses							
Operation & Maintenance	<u>\$331,885</u>	<u>\$8,863</u>	<u>\$340,748</u>	<u>(\$93,068)</u>	<u>\$247,680</u>	<u>0</u>	<u>\$247,680</u>
3 Depreciation	<u>54,404</u>	<u>21,619</u>	<u>76,023</u>	<u>(18,252)</u>	<u>57,771</u>	<u>0</u>	<u>57,771</u>
4 Amortization	<u>0</u>	<u>12,000</u>	<u>12,000</u>	<u>0</u>	<u>12,000</u>	<u>0</u>	<u>12,000</u>
5 Taxes Other Than Income	<u>45,721</u>	<u>9,785</u>	<u>55,506</u>	<u>(14,174)</u>	<u>41,332</u>	<u>2,693</u>	<u>44,024</u>
6 Income Taxes	<u>(32,463)</u>	<u>67,036</u>	<u>34,573</u>	<u>(33,894)</u>	<u>679</u>	<u>21,503</u>	<u>22,181</u>
7 Total Operating Expense	<u>\$399,547</u>	<u>\$119,303</u>	<u>\$518,850</u>	<u>(\$159,388)</u>	<u>\$359,462</u>	<u>\$24,195</u>	<u>\$383,657</u>
8 Operating Income	<u>(\$7,848)</u>	<u>\$109,925</u>	<u>\$102,077</u>	<u>(\$72,311)</u>	<u>\$29,766</u>	<u>\$35,640</u>	<u>\$65,453</u>
9 Rate Base	<u>\$1,311,398</u>		<u>\$1,252,473</u>		<u>\$809,607</u>		<u>\$809,607</u>
10 Rate of Return	<u>(0.60%)</u>		<u>8.15%</u>		<u>3.68%</u>		<u>8.08%</u>

Utilities Inc. of Pennbrooke Statement of Wastewater Operations Test Year Ended 12/31/08						Schedule No. 3-B Docket No. 090392-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$417,902</u>	<u>\$171,563</u>	<u>\$589,465</u>	<u>(\$149,397)</u>	<u>\$440,068</u>	<u>\$71,277</u> 16.20%	<u>\$511,345</u>
Operating Expenses							
2 Operation & Maintenance	\$330,973	\$7,543	\$338,516	(\$61,985)	\$276,531	0	\$276,531
3 Depreciation	54,860	15,955	70,815	(2,318)	68,497	0	68,497
4 Amortization	0	0	0	0	0	0	0
5 Taxes Other Than Income	38,918	11,071	49,989	(9,381)	40,608	3,207	43,815
6 Income Taxes	<u>(27,633)</u>	<u>60,561</u>	<u>32,928</u>	<u>(27,519)</u>	<u>(5,409)</u>	<u>25,615</u>	<u>31,024</u>
7 Total Operating Expense	<u>\$397,118</u>	<u>\$95,130</u>	<u>\$492,248</u>	<u>(\$101,204)</u>	<u>\$391,044</u>	<u>\$28,822</u>	<u>\$419,866</u>
8 Operating Income	<u>\$20,784</u>	<u>\$76,433</u>	<u>\$97,217</u>	<u>(\$48,193)</u>	<u>\$49,024</u>	<u>\$42,455</u>	<u>\$91,479</u>
9 Rate Base	<u>\$1,002,011</u>		<u>\$1,192,839</u>		<u>\$1,132,356</u>		<u>\$1,132,356</u>
10 Rate of Return	<u>2.07%</u>		<u>8.15%</u>		<u>4.33%</u>		<u>8.08%</u>

Utilities Inc. of Pennbrooke Adjustment to Operating Income Test Year Ended 12/31/08		Schedule No. 3-C Docket No. 090392-WS	
Explanation	Water	Wastewater	
<u>Operating Revenues</u>			
1 To remove Utility's requested final revenue increase.	(\$265,505)	(\$209,874)	
2 To reflect the appropriate annualized revenues.	<u>33,806</u>	<u>60,477</u>	
Total	<u>(\$231,699)</u>	<u>(\$149,397)</u>	
<u>Operation and Maintenance Expense</u>			
1 Reflect Agreed-Upon Audit Adjustments.	(\$460)	(\$1,320)	
2 Reflect Contested NOI Audit Adjustment.	(3,668)	(3,104)	
3 Reflect the appropriate amount of employee salaries.	(48,628)	(34,442)	
4 Reflect the appropriate amount of employee benefits.	(10,264)	(7,270)	
5 Reflect the appropriate amount of relocation expenses.	(470)	(400)	
6 Reflect the appropriate amount of transportation expenses.	(954)	(812)	
7 Reflect adjustment for irrigation mailing bills.	(6,642)	0	
8 Reflect rate case expense from last rate case.	(9,641)	(8,057)	
9 Reflect the appropriate amount of current rate case expense.	(7,664)	(6,528)	
10 Reflect the appropriate amount of bad debt expense.	(60)	(51)	
11 Reflect the appropriate pro forma deferred maintenance expenses	<u>(4,617)</u>	<u>0</u>	
Total	<u>(\$93,068)</u>	<u>(\$61,985)</u>	
<u>Depreciation Expense - Net</u>			
1 Reflect Agreed-Upon Audit Adjustments.	(\$158)	(\$236)	
2 Reflect Project Phoenix Adjustment.	(2,611)	(2,224)	
3 Reflect Appropriate Pro Forma Plant.	(15,488)	138	
4 Reflect Contested NOI Audit Adjustment.	<u>3</u>	<u>3</u>	
Total	<u>(\$18,252)</u>	<u>\$2,318</u>	
<u>Taxes Other Than Income</u>			
1 RAFs on revenue adjustments above.	(\$10,426)	(\$6,723)	
2 Reflect Agreed-Upon Audit Adjustments.	(28)	(23)	
3 Reflect the appropriate amount of payroll taxes.	(3,720)	(2,635)	
Total	<u>(\$14,174)</u>	<u>(\$9,381)</u>	

Utilities Inc. of Pennbrooke					Schedule No. 4-A
Water Monthly Service Rates					Docket No. 090392-WS
Test Year Ended 12/31/08					
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	4-Year Rate Reduction
<u>Residential, General Service and Multi-Family</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$5.20	\$7.51	\$8.87	\$5.20	\$0.21
3/4"	\$0.00	\$0.00	\$0.00	\$7.80	\$0.32
1"	\$12.99	\$18.78	\$22.15	\$13.00	\$0.53
1-1/2"	\$25.97	\$37.54	\$44.29	\$26.00	\$1.06
2"	\$41.55	\$60.05	\$70.86	\$41.60	\$1.70
3"	\$83.10	\$120.11	\$141.72	\$83.20	\$3.39
4"	\$129.84	\$187.66	\$221.43	\$130.00	\$5.30
6"	\$0.00	\$0.00	\$0.00	\$260.00	\$10.61
<u>Gallonge Charge, per 1,000 gallons</u>					
GS - Gallonge Charge, per 1,000 Gallons	\$1.87	\$2.71	\$3.19	\$2.28	\$0.09
RS - Gallonge Charge, 0-10,000 gallons	\$1.76	\$2.54	\$3.00	\$0.00	\$0.00
RS - Gallonge Charge, over 10,000 gallons	\$2.20	\$3.18	\$3.75	\$0.00	\$0.00
RS - Gallonge Charge, 0-3,000 gallons	\$0.00	\$0.00	\$0.00	\$1.86	\$0.08
RS - Gallonge Charge, 3,000-6,000 gallons	\$0.00	\$0.00	\$0.00	\$1.95	\$0.08
RS - Gallonge Charge, 6,000-12,000 gallons	\$0.00	\$0.00	\$0.00	\$2.43	\$0.10
RS - Gallonge Charge, over 12,000 gallons	\$0.00	\$0.00	\$0.00	\$2.92	\$0.12
<u>Irrigation-General Service</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$5.20	\$7.51	\$8.87	\$5.20	\$0.21
2"	\$41.55	\$60.05	\$70.86	\$41.60	\$1.70
3"	\$83.10	\$120.11	\$141.72	\$83.20	\$3.39
4"	\$129.84	\$187.66	\$221.43	\$130.00	\$5.30
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$10.48	\$15.13	\$17.87	\$10.78	
5,000 Gallons	\$14.00	\$20.21	\$23.87	\$14.68	
10,000 Gallons	\$22.80	\$32.91	\$38.87	\$26.35	

Utilities Inc. of Pennbrooke		SCHEDULE NO. 4-B			
Wastewater Monthly Service Rates		Docket No. 090392-WS			
Test Year Ended 12/31/08					
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	Four-Year Rate Reduction
<u>Residential</u>					
Base Facility Charge All Meter Sizes:	\$11.47	\$16.82	\$17.25	\$13.15	\$0.42
Gallage Charge - Per 1,000 gallons (6,000 gallon cap)	\$3.57	\$5.24	\$5.37	\$4.24	\$0.14
<u>General Service</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$11.47	\$16.82	\$17.25	\$13.15	\$0.42
3/4"	\$0.00	\$0.00	\$0.00	\$19.73	\$0.64
1"	\$28.69	\$42.08	\$43.14	\$32.88	\$1.06
1-1/2"	\$57.37	\$84.15	\$86.26	\$65.75	\$2.12
2"	\$91.77	\$134.62	\$137.98	\$105.20	\$3.40
3"	\$183.55	\$269.26	\$275.98	\$210.40	\$6.79
4"	\$286.81	\$420.72	\$431.24	\$328.75	\$10.61
6"	\$0.00	\$0.00	\$0.00	\$657.50	\$21.22
Gallage Charge, per 1,000 Gallons	\$4.29	\$6.29	\$6.45	\$5.09	\$0.16
<u>Reuse</u>					
Gallage Charge, per 1,000 Gallons	\$0.09	\$0.14	\$0.09	\$0.85	\$0.03
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$22.18	\$32.54	\$33.36	\$25.87	
5,000 Gallons	\$29.32	\$43.02	\$44.10	\$34.35	
10,000 Gallons	\$32.89	\$48.26	\$49.47	\$38.59	
(Wastewater Gallage Cap - 6,000 Gallons)					