

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge.

DOCKET NO. 110153-SU
ORDER NO. PSC-11-0587-PAA-SU
ISSUED: December 21, 2011

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman
LISA POLAK EDGAR
RONALD A. BRISÉ
EDUARDO E. BALBIS
JULIE I. BROWN

NOTICE OF PROPOSED AGENCY ACTION
ORDER GRANTING INCREASE IN WASTEWATER RATES IN LEE COUNTY
AND FINAL ORDER ON INTERIM REFUNDS, FOUR YEAR RATE REDUCTION,
AND PROOF OF ADJUSTMENTS

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for interim refund, four year rate reduction and proof of adjustments, 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.).

Case Background

Utilities, Inc. (UI or Parent) is an Illinois corporation which owns approximately 75 subsidiaries throughout 15 states including 14 water and wastewater utilities within the State of Florida. Utilities, Inc. of Eagle Ridge (Eagle Ridge or Utility) is a Class B utility providing wastewater service to approximately 822 customers in Lee County. Water service is provided by Lee County Utilities. Eagle Ridge is a wholly-owned subsidiary of UI. Wastewater rates were last established for this Utility in 2009.¹

On June 24, 2011, Eagle Ridge filed the application for rate increase at issue in the instant docket. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and requested interim rates. The test year established for interim and final rates is the 13-month average period ended December 31, 2010.

¹ See Order No. PSC-09-0264-PAA-SU, issued April 27, 2009, in Docket No. 080247-SU, In re: Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge.

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By Order No. PSC-11-0388-PCO-SU, issued September 13, 2011, we approved interim rates designed to generate annual revenues of \$1,122,517. This represents a revenue increase on an annual basis of \$132,768 or 13.41 percent. The interim rates are subject to refund with interest, pending the conclusion of the rate case. The Utility requested final rates designed to generate annual revenues of \$1,235,092 representing a revenue increase of \$238,843 or 23.97 percent.

On September 22, 2011, the Utility submitted a letter waiving the requirement to process the rate case within five months of the official filing date pursuant to Section 367.081(8), Florida Statutes (F.S.), through December 6, 2011.

On October 6, 2011, the Office of Public Counsel filed a Notice of Intervention in this docket, and an order acknowledging intervention was issued on November 4, 2011.²

This order addresses the revenue requirement and rates that are approved on a prospective basis. The Commission has jurisdiction pursuant to Section 367.081, F.S.

1. Quality of Service

Quality of the Product and Operational Conditions of the Plants and Facilities

The Utility provides wastewater service to two separate developments, Eagle Ridge and Cross Creek. Each service area is served by separate wastewater plants. The Utility provides wastewater service to single family homes, apartments, condominiums, townhouse units, and several commercial customers at its Eagle Ridge system. The service area map of Cross Creek includes single family homes, condominium units, and several commercial customers. Water service to both developments is provided by Lee County.

Environmental regulation of these wastewater plants is overseen by the DEP. The Utility is currently in compliance with wastewater treatment facility operations requirements and there are no outstanding issues with DEP. The most recent inspection reports from DEP indicated several items needing attention and the Utility responded by taking appropriate action. At the Cross Creek plant, air diffusers were adjusted in the aeration basins at the treatment plant, the sides of the reuse storage tank were cleaned, and seepage from the treatment tank walls is being monitored to determine what repairs might be needed if the problem worsens. At Eagle Ridge, signage was added at the golf course stating that reclaimed water was used for irrigation.

The Utility's wastewater facilities are in compliance with applicable DEP rules and regulations. The plant facilities are being maintained appropriately and the effluent produced meets all DEP requirements. Therefore, we find that the quality of the product and the operational conditions of the wastewater facilities be considered satisfactory.

² See Order No. PSC-11-0519-PCO-SU.

The Utility's Attempt to Address Customer Satisfaction

To assess the Utility's attempt to address customer satisfaction, we reviewed the complaints filed with the Utility, complaints filed with the Commission, correspondence received from the customers in response to the rate case, and customer comments received during the customer meeting.

A review of the complaints filed with the Utility contained in the filing shows a prompt response time by Utility personnel and resolution of all complaints. Ten inquiries received by us since 2009 relate to the rate increase request by the Utility. No complaints were sent to us regarding service issues.

A customer meeting was held on September 14, 2011, in Ft. Myers. Approximately 25 customers attended the meeting and 13 spoke. Customers expressed concerns over interim rates, the frequency of rate increases, and the reasons for a requested 24 percent increase. One customer objected to the odor from the wastewater treatment plant, noting that while a scrubber had been purchased several years ago for odor control, he had seen no new equipment since 2009. Odor is still offensive and this customer lives nine houses east of the plant. All of the customers spoke in opposition to the rate increase.

Commission staff contacted the DEP about the customer's odor concern. The Eagle Ridge plant has covers on some of the tanks to assist in odor control and the Utility has made some recent operational improvements. Both plants are essentially in compliance and when an issue occurs, the Utility promptly takes the necessary steps for correction.

In response to complaints, the Utility appears to take appropriate and timely actions. Therefore, we find that the Utility's attempt to address customer satisfaction is satisfactory.

Overall Quality of Service

In summary, the Utility's wastewater facilities are in substantial compliance with DEP rules and are in good operational condition. The Utility also appears to be appropriately responding to customer complaints and concerns. Therefore, we find that the overall quality of service provided by the Utility is satisfactory.

RATE BASE

2. Audit Adjustments agreed to by utility

In its response to the staff's audit report and other correspondence, Eagle Ridge agreed to the audit adjustments as set forth in the table below.

Table

Eagle Ridge Audit Adjustments	Description of Adjustments
Finding No. 1	Reflect prior Commission-ordered adjustments in general ledger.
Finding No. 2	Reflect appropriate plant retirements.
Finding No. 3	Reclassify expenses associated with permit renewal.
Finding No. 4	Remove pro-forma expense adjustment.
Finding No. 5	Correct misclassification of hurricane costs.
Finding No. 6	Correct error in the Utility's depreciation restatement.
Finding No. 7	Correct error in Utility's recording of sludge hauling expense.
Affiliate Audit Adjustments	Description of Adjustments
Finding No. 4	Remove duplicate employee benefits account.
Finding No. 5	Correct differences in certain vehicle expense accounts.
Finding No. 6	Remove non-utility expenses and correct errors in the Utility's operating expenses.
Finding No. 7	Remove non-utility expenses and correct amortization error.
Additional Adjustments	To correct allocations based on updated ERCs.

Based on the audit adjustments agreed to by the Utility, we find that the adjustments set forth in the table below shall be made to rate base and net operating income.

Wastewater							
Eagle Ridge Audit Adjustments	Plant	Accum. Depreciation	Depreciation Expense	Ammort. Expense	Working Capital	O&M Expense	TOTI
Finding No. 2	(\$9,415)	\$10,157	(\$377)				
Finding No. 3	(\$2,750)	\$201	(\$86)	(\$550)	\$1,466		
Finding No. 4						(\$13,546)	
Finding No. 5	(\$6,273)	\$376	(\$196)	(\$1,255)	\$3,869		
Finding No. 6		\$6,354					
Finding No. 7	\$3,163		\$8				
Affiliate Audit Adjustments	Plant	Accum. Depreciation	Depreciation Expense	Ammort. Expense	Working Capital	O&M Expense	TOTI
Finding No. 4						(\$2,599)	
Finding No. 5	\$1,436	\$68,785	\$239			\$245	
Finding No. 6						(\$356)	(\$161)
Finding No. 7				\$238			
Add'l Adjustments	(\$5,623)	\$1,898	(\$595)			(\$2,598)	(\$99)
Adjustment Totals	(\$19,462)	\$87,771	(\$1,007)	(\$1,567)	\$5,335	(\$18,854)	(\$260)

3. Phoenix Project Adjustment

The purpose of the Phoenix Project is 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 2008. During 2009, we approved recovery of the cost of the Phoenix Project in 11 UI rate cases.³ In those cases, UI allocated the Phoenix Project costs based on each subsidiary's equivalent residential connections (ERCs) to UI's total ERCs.

Allocation of Phoenix Project Costs

In the instant case, UI allocated 0.95 percent of its costs to Eagle Ridge based on the ratio of Eagle Ridge's total ERCs to UI's total ERCs. Based on total Phoenix Project costs of \$21,545,555, Eagle Ridge calculated its allocated share to be 0.95 percent, or \$204,683.

2009 Divestitures of UI Subsidiaries

In 2009, UI divested several Florida subsidiaries including Miles Grant Water and Sewer Company, Utilities, Inc. of Hutchinson Island, and Wedgefield Utilities, Inc., as well as other subsidiaries in other states. In Order No. PSC-10-0585-PAA-WS, we found that allocating costs according to ERCs is an appropriate methodology to spread the cost of the Phoenix Project, but we did not find the Phoenix Project costs previously allocated to the divested subsidiaries would be reallocated to the surviving utilities.⁴ Because no added benefit was realized by the remaining subsidiaries, we found that was not fair, just, or reasonable for ratepayers to bear any additional allocated Phoenix Project costs. Thus, we ruled 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.

Staff Affiliate Audit Finding No. 2

In Order No. PSC-10-0407-PAA-SU, we established the total cost of the Phoenix Project as of December 31, 2008, at \$21,617,487 and required UI to deduct \$1,724,166 from the total cost of the Phoenix Project to account for the divestiture of several subsidiaries resulting in a remaining balance of \$19,893,321.⁵ In this case, staff auditors determined that the Utility did not make the adjustment for the Phoenix Project that we ordered. According to Affiliate Audit Finding No. 2, Eagle Ridge showed the Phoenix Project balance at December 31, 2008, to be \$21,545,555. The difference between the Utility's balance and the Commission-ordered balance is \$1,652,234 (\$21,545,555-\$19,893,321). Therefore, UI's balance for the Phoenix Project is

³ See Docket Nos. 090531-WS, 090462-WS, 090402-WS, 090392-WS, 080250-SU, 080249-WS, 080248-SU, 080247-SU, 070695-WS, 070694-WS, and 070693-WS.

⁴ See Order No. PSC-10-0585-PAA-WS, issued September 22, 2010, in Docket No. 090462-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida, p. 10.

⁵ See Order No. PSC-10-0407-PAA-SU, issued on September 22, 2010, in Docket No. 090381-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida, p.6.

reduced by \$1,652,234 to account for the divestiture of subsidiary utilities through 2009. The effect on the filing is a decrease to wastewater plant by \$15,696. Corresponding adjustments shall be made to decrease both accumulated depreciation by \$2,354 and depreciation expense by \$1,570. The depreciation calculation is based on a depreciation life of ten years for the Phoenix Project.

In its response to Affiliate Audit Finding No. 2, Eagle Ridge disagreed with the finding and argued that the full balance of the Phoenix Project should be included at the UI level, with 0.95 percent allocated to Eagle Ridge. The Utility contends that Order No. PSC-10-0407-PAA-WS does not apply to future filings such as the instant case because it is a violation of Section 367.0813, F.S., in that it is a violation of Section 367.0813, F.S., to use the gains received by the shareholders on the sale of the divested systems to reduce the rate base of the remaining systems. The Utility stated that reducing the Phoenix Project balance for the remaining subsidiaries creates an improper gain on sale situation in the amount of \$1,652,234 because it effectively includes the allocated amount of the Phoenix Project costs with the sale of the divested utilities. Eagle Ridge contends that none of the Phoenix Project assets were included in any of the sales and staff's position resulted in stranded assets on which the Utility will never recover. Eagle Ridge maintains that the total Phoenix Project balance is currently in-service and benefiting current ratepayers and it is arbitrary and inappropriate to reduce the balance.

We have already determined in prior UI rate cases that the Phoenix Project balance should be reduced to account for the divestitures of subsidiary UI systems. A departure from this practice would result in unfair and inconsistent treatment between UI's subsidiary utilities. If the adjustment is not made in this case, one could argue that Eagle Ridge customers effectively would be subsidizing part of the cost of the Phoenix Project for the customers of UI's other subsidiaries.

2010 Divestitures of UI Subsidiaries

In 2010, UI divested four additional systems and subsidiaries as listed below.

<u>Date</u>	<u>Subsidiary</u>	<u>ERCs</u>
March 15, 2010	Emerald Point Subdivision (North Carolina)	327
July 19, 2010	River Forest (South Carolina Utilities, Inc.)	74
July 19, 2010	Stone Creek (South Carolina Utilities, Inc.)	172
September 19, 2010	Alafaya Utilities, Inc. (Florida)	8,945

The four divested systems collectively represent 9,518 ERCs. UI planned to divest a fifth subsidiary, Montague in New Jersey, which was under contract to be sold when Eagle Ridge filed its rate case. However, the sale of the Montague subsidiary did not close, and as such, Eagle Ridge believes the 1,019 ERCs allocated to Montague should be subtracted from the total number of ERCs allocated to the divested systems. We agree that for the purposes of calculating the adjustment to the allocated costs for the Phoenix Project in this particular case, the 1,019 ERCs for the Montague system should be used to offset the total number of ERCs divested.

Therefore, the net number of ERCs related to the divestitures and Montague shall be 8,499, or 3.14 percent of the total number of ERCs for UI.

To be consistent with our prior decisions, our adjustment to deduct the proportional amount of the divested companies from the total cost of the Phoenix Project shall also be made for the four subsequent divestitures. The total cost of the Phoenix Project for UI shall be reduced by an additional 3.14 percent, or \$678,237 (\$21,617,487x3.14 percent), to account for the divestiture of subsidiaries through 2010. The effect on the filing is a decrease to wastewater plant of \$6,443. Corresponding adjustments shall also be made to decrease both accumulated depreciation by \$966 and depreciation expense by \$644.

Amortization / Depreciation Period

In Staff Affiliate Audit Finding No. 3, our staff auditors discovered that the Utility did not change the depreciation life for the Phoenix Project from eight to ten years as directed in Order No. PSC-10-0407-PAA-SU. In its response to Affiliate Audit Finding No. 3, Eagle Ridge disagreed with Commission audit staff's finding based on the depreciation period used in the previous Eagle Ridge rate case in Docket No. 080247-SU. The Utility stated that we previously established a depreciation life of eight years with respect to Eagle Ridge and that a departure from this practice would result in an inconsistency between successive rate cases.

In previous UI cases, we approved a six-year amortization period for the Phoenix Project.⁶ In subsequent UI cases, we found that an eight-year amortization period was more appropriate for a software project of this magnitude.⁷ In 2010, we set the amortization period for the Phoenix Project to ten years in four separate rate cases involving Eagle Ridge sister companies.⁸ There were three factors we considered in its decision to increase the amortization period. First, the Phoenix Project was specifically tailor-made to meet all of UI's needs. This project is not "off the shelf" software, but software designed to fulfill long-term accounting, billing, and customer service needs specific to UI and its affiliates and subsidiaries. Second, we concluded that Phoenix Project software will be used for at least ten years. UI's former Legacy accounting system had been used for 21 years. Third, in a 2008 docket involving a UI subsidiary in Nevada,⁹ UI responded that any amortization period between four and ten years would be in compliance with Generally Accepted Accounting Principles. Similarly, UI stated to this Commission that its own research revealed that computer software could be amortized over a

⁶ See Docket Nos. 070695-WS, 070694-WS, and 070693-WS.

⁷ See Docket Nos. 080250-SU, 080249-WS, 080248-SU, and 080247-SU.

⁸ See Order Nos. PSC-10-0407-PAA-SU, issued June 21, 2010, in Docket No. 090381-SU, In re: Application for Increase in wastewater rates in Seminole County by Utilities Inc. of Longwood; and PSC-10-0400-PAA-WS, issued June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke; and PSC-10-0423-PAA-WS, issued July 1, 2010, in Docket No. 090402-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; and PSC-10-0585-PAA-WS, issued September 22, 2010, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida.

⁹ Modified Final Order, issued January 15, 2009, in Docket No. 08-06036.

period of anywhere from four to ten years.¹⁰ As such, we find that ten years is the appropriate amortization period for the instant case.

Based on the aforementioned, the appropriate depreciation period for Eagle Ridge is ten years which results in a necessary reduction to accumulated depreciation of \$10,400. Accordingly, depreciation expense shall be reduced by \$5,310.

Conclusion

Based on the Phoenix Project balance for Eagle Ridge and the adjustment for the divestitures we ordered in Docket Nos. 090381-SU and 090462-WS, the total cost of the Phoenix Project for UI shall be reduced by \$2,330,471. The resulting UI Phoenix Project balance for ratemaking purposes is \$19,215,083. The appropriate amount of Eagle Ridge’s allocated share of the Phoenix Project is \$182,543 (\$19,215,083x0.95 percent). Our adjustments to Eagle Ridge’s Phoenix Project balances are summarized in the following table.

Adjustment	13-Month Average Plant	13-Month Average Accumulated Depreciation	Depreciation Expense
Affiliate Audit Finding No. 2	(\$15,696)	\$2,354	(\$1,570)
2010 Divestitures Adjustment	(6,443)	966	(644)
Affiliate Audit Finding No. 3	0	10,400	(5,310)
Total	<u>(\$22,139)</u>	<u>\$13,720</u>	<u>(\$7,524)</u>

Accordingly, plant shall be reduced by \$22,139. In addition, accumulated depreciation shall be reduced by \$13,720. Depreciation expense shall be decreased by \$7,524.

4. Pro Forma Plant Additions

Eagle Ridge included \$33,000 of pro forma plant in its MFRs associated with the retirement of Equalization Tank #1 and modifications to Equalization Tank #2. Modifications included piping, instrumentation, catwalks, stairway, pumping equipment and control panels. The Utility included a reduction of \$22,000 (estimated original cost in 1984) for the retirement of Equalization Tank #1 and \$55,000 increase to account for modifications to Equalization Tank #2 in its MFRs. The Utility provided documentation showing a total of \$36,493 for work associated with the modifications to Equalization Tank #2. As such, plant shall be reduced by \$18,507 (\$55,000-\$36,493). Using the depreciable life pursuant to Rule 25-30.140, F.A.C., corresponding adjustments shall also be made to increase accumulated depreciation and depreciation expense each by \$756.

Moreover, no documentation supporting the Utility’s estimated original cost of Equalization Tank #1 was provided in response to staff’s data request. When the original cost is

¹⁰ See December 2, 2008, Commission Conference Transcript, Page 26, Line 3, through Page 27, Line 19.

not known, it is our practice to determine the retirement cost by using 75 percent of the replacement cost.¹¹ Using the documented replacement cost discussed above, the retirement cost for Equalization Tank #1 would be \$27,370 ($\$36,493 \times 0.75$). As such, plant shall be reduced by \$5,370 ($\$27,370 - \$22,000$) to reflect the appropriate retirement amount for the Equalization Tank #1. Corresponding adjustments shall also be made to decrease accumulated depreciation by \$5,370 and decrease depreciation expense by \$300.

Based on the above, plant shall be reduced by \$23,877 ($\$18,507 + \$5,370$). Accordingly, corresponding adjustments shall also be made to reduce accumulated depreciation by \$4,614 ($\$5,370 - \756) and increase depreciation expense by \$456 ($\$756 - \300).

5. Used and Useful Plant

Rule 25-30.432, F.A.C., provides that the used and useful (U&U) percentage for a wastewater treatment plant is determined by dividing the customer demand, less excessive infiltration and inflow, plus a growth allowance, by the permitted capacity. The rule also contains a provision for consideration of other factors, such as whether the service area is built out, whether the permitted capacity differs from design capacity, and whether flows have decreased due to conservation or reduction in the number of customers. Pursuant to Section 367.0817(3), F.S., reuse plant is considered 100 percent U&U.

This docket involves two wastewater treatment plants, Eagle Ridge and Cross Creek. In the last rate case, the Eagle Ridge plant was found to be 78.73 percent U&U, while the Cross Creek plant was recognized as 100 percent U&U. The plant facilities associated with the reuse system were found to be 100 percent U&U, consistent with Section 367.0817(3), F.S. Both collection systems were found to be 100 percent U&U.

Eagle Ridge

The Eagle Ridge plant has a capacity of 318,000 gallons per day (gpd), permitted on a three month average daily flow basis. Using this three month method, daily flows average 254,826 gpd. An analysis in the filing for infiltration and inflow (I&I) shows that there is no excessive I&I. Effluent from this plant is used for golf course irrigation.

There has been no growth. In fact, there has been a reduction in the number of active connections since 2007. The U&U calculation based upon treatment plant flows compared to the plant capacity results in an 80.13 percent U&U. The filing states that while there are four residential parcels and one commercial parcel that remain undeveloped in Eagle Ridge, the development should be considered virtually built out and the treatment plant 100 percent U&U.

¹¹ See Order Nos. PSC-10-0585-PAA-WS, issued September 22, 2010, in Docket No. 090462-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. 12-13; PSC-09-0632-PAA-WU, issued September 17, 2009, in Docket No. 080353-WU, In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.; and 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.

Although the Eagle Ridge plant has capacity to handle additional customer growth for the parcels noted, the service area shall be recognized as built out, and the wastewater treatment plant shall be considered 100 percent U&U.

Cross Creek

Although the U&U calculation based upon treatment plant flows compared to the plant capacity results in a U&U percentage of 70.13 percent, the service area is built out. We recognized the built out condition for Cross Creek in the last rate case in Order No. PSC-09-0264-PAA-SU, and found the treatment plant 100 percent U&U. In its application, the Utility requested that the wastewater plant be considered 100 percent U&U based on the Cross Creek system being essentially built out. The Cross Creek plant has a capacity of 249,000 gpd and is permitted on the basis of maximum month average daily flow. Flows during the maximum month (October 2010) averaged 174,613 gpd. The Utility's analysis shows that there is no excessive I&I. Effluent from this plant is used for golf course irrigation. Based upon its review, we find that the Cross Creek wastewater treatment plant shall be considered 100 percent U&U.

Composite Allocation for U&U

The Utility has requested that both the Eagle Ridge and Cross Creek wastewater treatment plants be considered 100 percent U&U. Eagle Ridge's service territory is virtually built. In accordance with Rule 25-30.432, F.A.C., the Utility's wastewater treatment plants should be considered 100 percent U&U.

Collection Systems

The collection facilities now in place are needed to provide service to the current customers in both Eagle Ridge and Cross Creek. Additional facilities would be needed for future growth. The existing collection systems shall be considered 100 percent U&U.

The Eagle Ridge and Cross Creek wastewater treatment plants shall be considered 100 percent U&U. The collection systems and effluent reuse systems shall be considered 100 percent U&U.

6. Deferred Rate Case Expense (DRCE)

In its filing, Eagle Ridge included \$175,710 in its working capital allowance for DRCE. Of that amount, \$59,622 is the balance of DRCE from the Utility's 2009 rate case. The remainder of the amount is one-half of the estimated DRCE for the current rate case, or \$116,089. Two adjustments shall be made. The first adjustment is a reduction in the DRCE from the 2009 case and the second adjustment is related to the DRCE for the current case.

Deferred Rate Case Expense – 2009 Rate Case

In Eagle Ridge's 2009 rate case, we approved rate case expense of \$84,373 to be amortized over four years.¹² The rates and rate case expense amortization from that case went into effect on June 9, 2009. Recognizing that rates for the instant rate case will not go into effect before February 2012, we calculated a 13-month average balance of \$38,671 for the beginning of the first year the new rates will go into effect. Our practice is to include one-half of rate case expense in working capital.¹³ As such, one-half of the 13-month average balance of \$38,671, or \$19,335, shall be included in the working capital allowance. Therefore, we find the Utility's prior-case DRCE of \$59,622 shall be reduced by \$40,287 to \$19,335. This adjustment is consistent with our recent decision in the Aqua Utilities Florida, Inc. (AUF) rate case.¹⁴ While our PAA decision in the AUF case has been protested, the issue related to prior case DRCE was not protested and therefore is now deemed stipulated pursuant to Section 120.80(13)(b), F.S. Moreover, this adjustment is consistent with our recent decision for Eagle Ridge's sister company, Lake Utility Services, Inc.¹⁵

Deferred Rate Case Expense - Current Rate Case

The Utility included a pro forma adjustment of \$116,089 in the working capital allowance for DRCE associated with the current rate case. In section number 14, we find it appropriate to approve rate case expense of \$66,554. Consistent with our long-standing practice, one-half of the total rate case expense, or \$33,277, shall be included in the working capital allowance. As such, an adjustment of \$82,811 shall be made to reduce Eagle Ridge's pro forma adjustment of \$116,089 to \$33,277.

Conclusion

Based on the above, the Utility's DRCE shall be decreased by \$40,287 to reflect the appropriate amount for the 2009 rate case and shall be decreased by an additional \$82,811 to reflect the appropriate amount for the current rate case. The appropriate total amount of DRCE is \$52,612. Consistent with the annual amortization amount approved in Eagle Ridge's last rate case and our practice, DRCE included in the working capital allowance shall be decreased by \$123,098 (\$40,287+\$82,811).

¹² See Order No. PSC-09-0264-PAA-SU, issued April 27, 2009, in Docket No. 0080247-SU, In re: Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge at pp. 6-10.

¹³ See Order No. PSC-10-0426-PAA-WS, issued July, 1, 2010, in Docket No. 090402-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities, Corporation, at p. 11.

¹⁴ See Order No. PSC-11-0256-PAA-WS, issued June 13, 2011, in Docket No. 100330-WS, In re: Application for increase in water/wastewater rates in Alachua, Brevard DeSoto, Hardee, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties By Aqua Utilities Florida, Inc., at p.56.

¹⁵ See Order No. PSC-11-0514-PAA-WS, Issued November 03, 2011, in Docket No. 100426-WS, In re: Application for increase in water and wastewater rates in Lake County by Lake Utility Services, Inc. at p. 18.

7. Working Capital Allowance

Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, whereby the working capital allowance is based on one-eighth of Operation and Maintenance (O&M) expense. The Utility has properly filed its allowance for working capital using the formula method. We have approved adjustments to Eagle Ridge's O&M expenses, which are reflected elsewhere in this order. As a result, we find it appropriate to approve working capital of \$164,565. This reflects a decrease of \$117,763 to the Utility's requested working capital allowance of \$282,328.

8. Appropriate Rate Base

Based on our adjustments, the appropriate rate base is \$2,482,848. The schedule for rate base is attached as Schedule No. 1-A, and the adjustments are shown on Schedule No. 1-B.

COST OF CAPITAL

9. Return on Equity

The ROE included in the Utility's filing is 10.60 percent. Using the 2011 leverage formula and an equity ratio of 46.38 percent, the appropriate ROE is 10.60 percent.¹⁶ We find that an allowed range of plus or minus 100 basis points shall be recognized for ratemaking purposes.

10. Overall Cost of Capital

As shown on MFR Schedule D-1, Eagle Ridge originally proposed an overall cost of capital of 7.64 percent for the test year ended December 31, 2010. Based on the resolution of the preceding issues, the capital structure yields an overall cost of capital of 7.54 percent. Schedule No. 2 contains the capital structure.

NET OPERATING INCOME

11. Bad Debt Expense

The Utility recorded bad debt expense of \$3,265 in the test year. In numerous decisions, we have set bad debt expense using the 3-year average in electric,¹⁷ gas,¹⁸ and water and

¹⁶ See Order No. PSC-11-0287-PAA-WS, issued July 5, 2011, in Docket No. 110006-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.

¹⁷ 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.

wastewater cases.¹⁹ 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. Overall, the basis for determining bad debt expense has been whether the amount is representative of the bad debt expense to be incurred by the Utility.

We have calculated the 3-year average using the bad debt expense reported in the Utility's annual reports for 2008, 2009, and 2010. Based on the 3-year average calculation, Eagle Ridge shall be entitled to bad debt expense of \$3,124, which is representative of the Utility's bad debt expense. As a result, Eagle Ridge's bad debt expense shall be reduced by \$141 (\$3,265 - \$3,124).

12. Purchased Power Expense

The Utility recorded purchased power expense of \$71,958 in the test year. Using invoices provided by the Utility in response to a data request, we calculated the actual expense to be \$68,472. Based on that information, Eagle Ridge shall be entitled to only its actual purchased power expense of \$68,472. As a result, purchased power expense shall be reduced by \$3,486 (\$71,958 - \$68,472).

13. Contractual Services - Testing Expense

The Utility recorded contractual services - testing expense of \$32,436 in the test year. In response to a staff data request, the Utility identified several items which were recorded erroneously. To correctly account for those items, the testing expenses provided in MFR Schedule B-2 shall be reduced by \$1,045 for February 2010 and by \$1,072 for March 2010. The net effect of the adjustments is a \$2,117 reduction in contractual services - testing expense.

Using invoices provided by the Utility in response to a data request, we calculated the actual expense to be \$28,904. This amount is \$1,415 less than the adjusted MFR contractual services - testing expense calculated above. Based on that information, Eagle Ridge shall be entitled to only its actual contractual services - testing expense of \$28,904. As a result, contractual services - testing expense shall be reduced by \$3,532 (\$2,117 + \$1,415).

14. Rate Case Expense

In its MFRs, the Utility included an estimate of \$232,178 for current rate case expense. We requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On October 24, 2011, the Utility submitted a revised estimated rate case expense through completion of the PAA process of \$206,580.

¹⁸ 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., 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, pp. 30-31.

¹⁹ See Order Nos. PSC-10-0407-PAA-SU, PSC-10-0423-PAA-WS, PSC-09-0385-FOF-WS, pp. 92-96; and PSC-10-0585-PAA-WS, pp. 43-44.

	<u>MFR B-10 Estimated</u>	<u>Actual as of 9/30/11</u>	<u>Additional Estimated</u>	<u>Revised Total</u>
Legal Fees	\$52,400	\$2,645	\$27,909	\$30,554
Accounting Consultant Fees	65,250	46,388	4,750	51,138
Engineering Consultant Fees	5,000	2,213	2,700	4,913
WSC In-house Fees	87,453	26,394	71,140	97,534
Filing Fee	3,500	0	3,500	3,500
WSC Travel	3,200	273	2,927	3,200
WSC Temp Employee Fees	0	66	300	366
WSC FedEx/Misc.	12,000	42	11,958	12,000
Notices	<u>3,375</u>	<u>398</u>	<u>2,977</u>	<u>3,375</u>
Total Rate Case Expense	<u>\$232,178</u>	<u>\$78,419</u>	<u>\$128,161</u>	<u>\$206,580</u>

Pursuant to Section 367.081(7), F.S., we shall determine the reasonableness of rate case expense and shall disallow all rate case expense 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.

Accounting Consultant Fees

The first adjustment relates to the Utility’s actual accounting consultant fees. The revised MFR Schedule B-10 reflected actual accounting consultant charges of \$45,638 through July 31, 2011. The invoices provided to support the requested amount totaled the same. We received additional documentation that revised actual accounting charges through September 30, 2011 of \$46,388, and included an updated estimate to complete of \$4,750. As a result, revised actual and estimated rate case expense for accounting consultant fees totaled \$51,138 (\$46,388 + \$4,750).

We find that the number of hours proposed by Eagle Ridge for accounting consultant fees are excessive, unreasonable, and unsupported. Many of the associated accountant’s 299.25 hours associated with Eagle Ridge’s MFRs were spent on reviewing the Utility’s roll-forward adjustments. In a data request, staff asked the following:

- (a) For each individual person, in each firm providing consulting services to the applicant pertaining to this docket, provide the billing rate, and an itemized description of work performed. Please provide detail of hours worked associated with each activity. Also provide a description and associated cost for all expenses incurred to date.

(b) For each firm or consultant providing services for the applicant in this docket, please provide copies of all invoices for services provided to date.

(c) If rate consultant invoices are not broken down by hour, please provide reports that detail by hour, a description of actual duties performed, and amount incurred to date.

Although Commission staff requested a detailed itemization of worked performed, the reports of the accounting consultant firm reflect very broad description of hours associated the MFR preparation. We are unable to determine the specific hours that the accounting consultant firm spent reviewing the roll-forward adjustments in the MFRs. Further, the Utility did not provide the captime reports of the WSC in-house employees which would have indicated the time they spent on roll-forward adjustments. As such, using the percentage of roll-forwards calculated for WSC in-house employees in the recent rate case for Lake Utility Services, Inc. (LUSI), Eagle Ridge's sister company, we find that approximately 133 hours of associate accountant's hours relate to roll-forward adjustments and shall be removed from rate case expense. Accordingly, the accounting consultant fees shall be decreased by \$19,941 (132.93 hours x \$150/hr.).

The second adjustment relates to the Utility's estimate to complete accounting consultant fees. The accounting consultant firm estimated an additional 30 hours²⁰ will be required to complete the rate case. The only support provided for the additional work to be performed included a notation in Revised MFR Schedule B-10, stating, "Assist w/MFRs, data requests, audit facilitation," and another notation in a billing summary, stating "Assist with updates to Rate Case Expense and documentation, review staff recommendations, research discrepancies, consult with client and review Final Order." We note that there would be no work remaining for MFRs, data requests, or audit facilitation as described in the Revised MFR Schedule B-10. We find that the Utility failed to provide an itemization supporting the estimated number of hours required for each task.

In the recent rate case for LUSI, a sister company with water and wastewater systems, we approved 25 hours to complete from the filing of staff recommendation to the completion of the PAA process. Eagle Ridge is wastewater-only utility that serves approximately 822 customers. In contrast, LUSI serves approximately 8,700 customers. We find that a total of 12 hours is an ample amount of time for the accountants to review staff's recommendation and our order after filing, as well as to consult with their client in the instant case. The associate accountant's estimated hours to complete shall be reduced from 25 to 10, and the accounting firm partner's estimated hours to complete shall be reduced from 5 to 2. An additional \$2,250 (15 hrs x \$150/hr) shall be removed for Bravo and \$600 (3 hrs x \$200/hr) shall be removed for Swain as unreasonable and unsupported rate case expense. Accordingly, accounting consultant fees shall be reduced by \$22,791 (\$19,941 + \$2,250 + \$2,250).

²⁰ Total of 30 hours to complete with 25 hours assigned to Maria Bravo (\$150/hr) and 5 hours to Debbie Swain (\$200/hr).

Engineering Consultant Fees

The third adjustment relates to the Utility's actual engineering consulting fees and its estimated engineering consultant fees to complete the rate case. Eagle Ridge requested total engineering fees of \$4,913, which was comprised of \$2,213 in actual costs and \$2,700 in estimated fees to complete the rate case.

The only support provided for the 18 hours of additional work to be performed was a notation on the revised Schedule B-10 for "U&U Analysis, Assist w/MFRs, data requests, audit facilitation." There would be no work remaining for U&U analysis or assisting with MFRs, especially since the MFRs were filed in June. Additionally, we find that responding to potential data requests and helping facilitate an audit would require minimal time from the engineering consultant. It is also likely that any data request or audit facilitation would be more appropriately addressed by WSC in-house employees. We find that 4 hours is a reasonable amount of time to complete any remaining or additional duties and prepare for and attend the Commission Conference for this docket if necessary. Accordingly, engineering consultant fees shall be reduced by \$2,100 (14 hours x \$150).

WSC In-house Employee Fees

The fourth adjustment relates to WSC in-house employee fees. In its rate case expense update, the Utility reported that the total number of actual hours incurred by WSC in-house employees as of July 31, 2011, was 595, and estimated an additional 1,511 hours remaining to complete the rate case, for a total of 2,106 hours, or \$97,534 total. We find that the number of hours proposed by Eagle Ridge for WSC in-house employee fees is excessive, unreasonable, and unsupported.

The only support provided for the estimated hours remaining for WSC in-house employees was a notation in Revised MFR Schedule B-10 that listed the type of service rendered as "Assist w/MFRs, data requests, audit facilitation" for most employees. One WSC employee had the type of service rendered listed as "Billing Analyst, Implementation of Rates." Regardless, the Utility failed to provide any detailed documentation of what tasks were involved in its estimate to complete the case for each employee. The hours needed to complete data requests and audit facilitation was not broken down to estimate the hours needed to complete each item. In addition, there were no timesheets provided to show actual hours worked for each task in this case. Therefore, we have no basis to determine whether the individual hours estimated were reasonable. We reviewed these requested expenses and find the estimates reflect an overstatement. 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.²¹

²¹ See Order No. PSC-94-0075-FOF-WS, issued January 21, 1994, in Docket No. 921261-WS, In re: Application for a Rate Increase in Lee County by Harbor Utilities Company, Inc.; Order No. PSC-96-0629-FOF-WS, issued May 10, 1996, in Docket No. 950515-WS, In re: Application for staff-assisted rate case in Martin County by Laniger Enterprises of America, Inc.; and Order No. PSC-96-0860-FOF-SU, issued July 2, 1996, in Docket No.

Based on a review of the confidential salary information filed in the instant case, we find that 100 percent of the compensation for the positions listed in the table below has been allocated to Eagle Ridge and its sister companies as salaries and wages for employees and officers. In addition, the positions that paid by the hour did not incur overtime for time spent on this rate case.

Job Title (Alphabetical Order)	Rate Case Related Essential Functions, Duties, or Responsibilities
Administrative Assistant	<ul style="list-style-type: none"> -Under direct supervision of the Regional Director, provides administrative and secretarial support to the Regional Director and Regional Managers. -Performs complex and confidential administrative functions, including written correspondence, reports, spreadsheets and other documents. -Prepares or assists with the preparation of scheduled and/or ad hoc statistical and narrative reports; performs basic information gathering and analysis and/or forecasting, as specifically directed. -May assist other operational staff depending on work load.
Customer Care Manager	<ul style="list-style-type: none"> -Provides training to all customer service employees in the areas of billing, tariff compliance, rate cases and quality customer service.
Director of Governmental Affairs	<ul style="list-style-type: none"> -Provides leadership and guidance to newer regulatory staff not familiar with the rate case process.
Executive Director of Regulatory Accounting	<ul style="list-style-type: none"> -Plans, prepares, files and resolves rate applications, transfer proceedings, territory extensions, tariff and rule changes, Commission audits and other regulatory activities. -Assist with forecasting revenues and expenses based on rate case activity. -Provides leadership and guidance to newer regulatory staff not familiar with the rate case process. -Ability to manage the rate case from creation to conclusion, including the appeal process.
Fixed Asset Accountant	<ul style="list-style-type: none"> -Assists with internal and external audits by preparing and explaining required schedules and selections. -Assists Regulatory Department in fixed asset documentation support for rate cases.
Fixed Asset Accounting Manager	<ul style="list-style-type: none"> -Responsible for the management of the Fixed Asset Accounting team, including directing, planning, managing, staffing and organizing responsibilities. -Assists Regulatory Department in fixed asset documentation support for rate cases. -Assists with internal and external audits by preparing and explaining required schedules and selections.
Regional Director	<ul style="list-style-type: none"> -Manages the preparation of all rate cases, pass-through and indexing activity, changes to service territory, and any other PSC related activities in coordination with the company's regulatory department.
Regional Vice President	<ul style="list-style-type: none"> -Oversees all operations of the regional offices.
Regulatory Accounting Manager	<ul style="list-style-type: none"> -Manages regulatory team responsibilities such as, rate cases, limited proceedings, indicies/pass-throughs, etc. -Files large-dollar rate cases or upon request, supplies required regulatory information to consultants. -Supplies audit trail and documentation to easily support work product. -Performs all follow-up compliance issues in accordance with Commission order.
Regulatory Staff Accountant I	<ul style="list-style-type: none"> -Assists and supports Regulatory Accountant II, Senior Regulatory Accountant and Manager on rate case filings and other proceedings. -Provides audit trail and documentation to easily support work product.
Regulatory Staff	<ul style="list-style-type: none"> -Prepares commission-ordered adjustments.

950967-SU, In re: Application for staff-assisted rate case in Highlands County by Fairmount Utilities, the 2nd, Inc. We note that, in all of these cases, we removed the entire unsupported amounts.

Accountant II	<ul style="list-style-type: none"> -Files rate cases or, upon request, supplies regulatory information to consultants. -Follows all required steps to close rate cases. -Provides financial support documentation. -Assists with commission staff performed audits and discovery. -Provides audit trail and documentation to easily support work product.
Senior Accounts Payable Clerk	<ul style="list-style-type: none"> -Maintains accounts payable records, including editing, checking and preparing accounts payable entries and tabulating control statistics. Responsible for compiling AP reports, audits, analysis and coordinating AP functions within the department.
Senior Fixed Asset Accountant	<ul style="list-style-type: none"> -Assists Regulatory Department in fixed asset documentation support for rate cases. -Assists with internal and external audits by preparing and explaining required schedules and selections.
Senior Regulatory Accountant	<ul style="list-style-type: none"> -Directly assists manager with regulatory responsibilities such as rate cases, limited proceedings, indicies/pass-throughs, etc. -Prepares commission-ordered adjustments. -Files large-dollar rate cases or upon request, supplies required regulatory information to consultants. -Performs all follow-up compliance issues in accordance with Commission order. -Provides audit trail and documentation to easily support work product.

In light of the above, we find that the Utility is requesting double recovery of the allocated compensation for the positions listed in the table above. Therefore, all of the hours associated with WSC in-house fees of \$97,534 related to the instant rate case shall be disallowed.

WSC Travel Expenses

The fifth adjustment addresses WSC travel expenses. In its MFRs, Eagle Ridge estimated \$3,200 for travel. However, the documentation the Utility provided to support this expense did not demonstrate that this expense was related to this rate case. The time of travel on the receipts and invoices did not correlate to the time during which the customer meeting took place. Furthermore, based on several previous UI rates cases, it is our experience that for PAA rate cases, UI does not send a representative from their Illinois office to attend the Agenda Conference. Therefore, we find that rate case expense shall be decreased by \$3,200.

WSC Temporary Employee Fees

The sixth adjustment relates to the Utility's WSC temporary employee costs (actual and estimated to complete the rate case) of \$366. While the Utility did provide an invoice supporting \$66 of actual costs, no description of the job duties or rate case related activities performed during that time period were noted. There was no support documentation provided for the \$300 of additional estimated costs. Accordingly, \$366 shall be removed as unsupported rate case expense.

WSC FedEx Expenses

The seventh adjustment relates to WSC expenses for FedEx Corporation (FedEx) and other miscellaneous costs. In its MFRs, the Utility estimated \$12,000 for these items. In support of these expenses, the Utility provided only \$42 in costs from FedEx invoices for services.

There was no breakdown or support for the remaining \$11,958. Accordingly, rate case expense shall be decreased by \$12,000.

Customer Notices and Postage

The eighth adjustment relates to WSC expenses for customer notices and postage. The Utility estimated charges of \$3,375 for these expenses, but reflected actual charges incurred of \$398 in its revised Schedule B-10. In 2009 UI rate cases, we allowed expenses of \$0.05 per envelope, \$0.34 for postage,²² and \$0.10 per copy. We shall use the 2009 costs in order to remain consistent with our recent decision for Eagle Ridge's sister company, Lake Utility Services, Inc.²³

Eagle Ridge is responsible for sending four notices: the interim notice, the initial notice, customer meeting notice, and notice of the final rate increase. The initial notice and customer meeting notice were combined in this docket. As such, we find that the postage cost for the notices shall be \$773 (756 customers x \$0.34 pre-sorted rate x 3 notices). The envelope costs shall be \$113 (756 customers x \$0.05 per envelope x 3 notices) and copying costs shall be set at \$454 (756 customers x \$0.10 per copy x 6 pages).²⁴ Costs using the 2009 amounts total \$1,340 (\$773 + \$113 + \$454). Accordingly, rate case expense shall be decreased by \$2,035 (\$3,375 - \$1,340).

Conclusion

It is the Utility's burden to justify its requested costs.²⁵ Further, we have broad discretion with respect to the allowance of rate case expense. It would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings.²⁶ Thus, we find that Eagle Ridge's revised rate case expense shall be decreased by \$140,025 for unsupported and unreasonable rate case expense. The appropriate total rate case expense is \$66,554. A breakdown of rate case expense is as follows:

²² UI has a presorted postage rate of \$0.341.

²³ See Order No. PSC-11-0514-PAA-WS, Issued November 03, 2011, in Docket No. 100426-WS, In re: Application for increase in water and wastewater rates in Lake County by Lake Utility Services, Inc. at p. 31.

²⁴ We anticipate that both the interim notice and final notice would be one page each while combined initial and customer meeting notice would be four pages.

²⁵ See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982)

²⁶ See Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), rev. den., 529 So. 2d 694 (Fla. 1988)

<u>Description</u>	<u>MFR Estimated</u>	<u>Utility Revised Actual & Estimated</u>	<u>Commission Approved Adjustments</u>	<u>Total</u>
Legal Fees	\$52,400	\$30,554	\$0	\$30,554
Accounting Consultant Fees	65,250	51,138	(22,791)	28,347
Engineering Consultant Fees	5,000	4,913	(2,100)	2,813
WSC In-house Fees	87,453	97,534	(97,534)	0
Filing Fee	3,500	3,500	0	3,500
Travel - WSC	3,200	3,200	(3,200)	0
Temp Employee Fess - WSC	0	366	(366)	0
Miscellaneous	12,000	12,000	(12,000)	0
Notices, Postage	<u>3,375</u>	<u>3,375</u>	<u>(2,035)</u>	<u>1,340</u>
Total Rate Case Expense	<u>\$232,178</u>	<u>\$206,580</u>	<u>(\$140,025)</u>	<u>\$66,554</u>
Annual Amortization	<u>\$58,045</u>	<u>\$51,645</u>	<u>(\$35,006)</u>	<u>\$16,639</u>

In its MFRs, Eagle Ridge requested total rate case expense of \$232,178, which amortized over four years is \$58,045. Based on the adjustments approved above, total rate case expense shall be decreased by \$165,624 (\$232,178 - \$66,554), or \$41,406 (\$58,045 - \$16,639) per year.

The approved total rate case expense shall be amortized over four years, pursuant to Section 367.0816, F.S. Based on the data provided by Eagle Ridge and the approved adjustments discussed above, the appropriate amount of rate case expense is \$66,554. This expense shall be recovered over four years for an annual expense of \$16,639.

15. Net Operating Income

Based on the adjustments approved previously in this Order, the test year operating income before any provision for increased revenues shall be \$129,966 for wastewater. The schedule for wastewater operating income is attached as Schedule No. 3-A, and the adjustments are shown on Schedule No. 3-B.

REVENUE REQUIREMENT

16. Appropriate Revenue Requirement

In its filing, Eagle Ridge requested an annual revenue requirement of \$1,235,092. This requested revenue requirement represents a revenue increase of \$238,843, or approximately 24 percent. Consistent with our findings on the underlying rate base, cost of capital, and operating income issues, rates designed to generate a wastewater revenue requirement of \$1,145,096 shall be approved. The computation of the revenue requirement is shown on Schedule No. 3-A. The approved wastewater revenue requirements exceeds the adjusted test year revenues by \$148,847, or 14.94 percent. These approved pre-repression revenue requirements will allow the Utility the opportunity to recover its expenses and earn an 7.62 percent return on its investment in wastewater rate base.

	<u>Test Year</u> <u>Revenues</u>	<u>\$ Increase</u>	<u>Revenue</u> <u>Requirement</u>	<u>% Increase</u>
Wastewater	\$996,249	\$148,847	\$1,145,096	14.94%

RATES

17. Appropriate Wastewater Rates

The approved revenue requirement is \$1,1145,098. Excluding miscellaneous service charges of \$952, the revenue to be recovered through base monthly service rates is \$1,144,146. Previously in this Order, we determined the revenue requirement increase to be 14.94 percent. Due to the nominal amount of increase and the established nature of the Utility’s current rate structure, we find that the revenue increase shall be applied as an across-the-board increase to the Utility’s service rates.

The Utility’s facilities consist of two separate but adjacent service areas. Each service area has its own wastewater treatment plant, but shares personnel and equipment. The Eagle Ridge service area has a traditional customer mix of single family, multi-residential, and general service customers, while the Cross Creek service area provides dedicated service to the Cross Creek Community Association (Association). Eagle Ridge's rate structure is consumption-based with a base facility and gallonage charge, and incorporates a 10,000 gallonage cap for residential wastewater. The Cross Creek system receives one bill per month based on a flat rate per unit.

The Utility shall 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 25-40.475(1), F.AC. The rates shall not be implemented until Commission staff has approved the proposed customer notice. The Utility shall provide proof of the date notice was given within ten days of the date of the notice.

A comparison of the Utility’s original rates and requested final rates, our approved interim rates, and the appropriate wastewater rates are shown on Schedule No. 4.

18. Interim Refund

By Order No. PSC-11-0388-PCO-WU, we authorized the collection of interim wastewater rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim wastewater revenue requirement was \$1,122,517, which represented an increase in annual wastewater revenue of \$132,768 or approximately 13.41 percent. This interim increase was effective for service rendered after August 30, 2011, and was protected by a corporate undertaking.

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 should be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates is the 13-month average period ended December 31, 2010. Eagle Ridge's approved interim wastewater 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 of return on equity.

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 \$1,122,517 revenue requirement granted in Order No. PSC-11-0388-PCO-WU for the interim test year is less than the revised revenue requirement for the interim collection period of \$1,127,674. This results in no interim refund. As such, the corporate undertaking shall be released.

19. Four-Year Rate Reduction

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, the associated return included in working capital, and the gross-up for RAFs, which is \$20,050 for wastewater. The decreased revenue will result in the rate reduction on Schedule No. 4.

The Utility shall 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 Commission staff has approved the proposed customer notice. Eagle Ridge shall provide proof of the date notice was given within 10 days of 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.

20. Proof of Adjustments

To ensure that the Utility adjusts its books in accordance with our decision, Eagle Ridge shall provide proof, within 90 days of the final order in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Utilities, Inc. of Eagle Ridges's application for increased wastewater is granted as set out 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 the schedules and attachments to this Order are incorporated by reference herein. It is further

ORDERED that Utilities, Inc. of Eagle Ridge is hereby authorized to charge the new rates and charges as set forth herein as approved in the body of this Order. It is further

ORDERED that Utilities, Inc. of Eagle Ridge shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. It is further

ORDERED that the approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets. It is further

ORDERED that the rates shall not be implemented until Commission staff has approved the proposed customer notice. It is further

ORDERED that Utilities, Inc. of Eagle Ridge shall provide proof of the date notice was given within ten days of the date of the notice. It is further

ORDERED that the corporate undertaking shall be released. It is further

ORDERED that the rates shall be reduced four years after the effective date of the rates as shown in Schedule No. 4 of this Order to reflect the removal of the amortized rate case expense. It is further

ORDERED that Utilities, Inc. of Eagle Ridge shall provide proof, within 90 days of the final order in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made. It is further

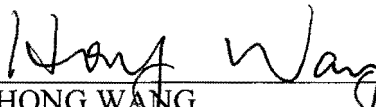
ORDERED that if no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order shall be issued. It is further

ORDERED that the provisions of this Order, issued as 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 this docket shall remain open. The docket shall be closed administratively upon Commission Staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff, that the interim refund has been completed and that the corporate undertaking has been released.

By ORDER of the Florida Public Service Commission this 21st day of December, 2011.



HONG WANG
Chief Deputy Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

MFB

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 with regard to interim refund, four year rate reduction and proof of adjustments, 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, at 2540 Shumard Oak Boulevard,

Tallahassee, Florida 32399-0850, by the close of business on January 11, 2012. 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 final action in this matter may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Office of Commission Clerk, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or (2) 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 by filing a notice of appeal with the Office of Commission Clerk and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

Utilities, Inc. of Eagle Ridge Schedule of Wastewater Rate Base Test Year Ended 12/31/10			Schedule No. 1-A Docket No. 110153-SU		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year
1 Plant in Service	\$6,897,768	(\$26,771)	\$6,870,997	(\$65,478)	\$6,805,519
2 Land and Land Rights	51,847	41	51,888	0	51,888
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(3,161,316)	141,777	(3,019,539)	106,105	(2,913,434)
5 CIAC	(3,809,952)	1	(3,809,951)	0	(3,809,951)
6 Amortization of CIAC	2,355,036	98,346	2,453,382	0	2,453,382
7 CWIP	3	(3)	0	0	0
8 Net Acquisition Adjustments	266,765	(266,765)	0	0	0
9 Working Capital Allowance	<u>0</u>	<u>282,328</u>	<u>282,328</u>	<u>(117,763)</u>	<u>164,565</u>
10 Rate Base	<u>\$2,600,151</u>	<u>\$228,954</u>	<u>\$2,829,105</u>	<u>(\$77,136)</u>	<u>\$2,482,848</u>

Utilities, Inc. of Eagle Ridge		Schedule No. 1-B
Adjustments to Rate Base		Docket No. 110153-SU
Test Year Ended 12/31/10		
Explanation		Wastewater
<u>Plant In Service</u>		
1	Audit adjustments agreed to by Utility. (Issue 2)	(\$19,462)
2	Phoenix Project adjustments (Issue 3)	(22,139)
3	Pro forma plant (Issue 4)	<u>(23,877)</u>
	Total	<u>(\$65,478)</u>
<u>Accumulated Depreciation</u>		
1	Audit adjustments agreed to by Utility. (Issue 2)	\$87,771
2	Phoenix Project adjustments (Issue 3)	13,720
3	Pro forma plant (Issue 4)	4,614
	Total	<u>\$106,105</u>
<u>Working Capital</u>		
1	Audit adjustments agreed to by Utility. (Issue 2)	\$5,335
2	Appropriate Deferred Rate Case Expense. (Issue 6)	<u>(123,098)</u>
	Total	<u>(\$117,763)</u>

Utilities, Inc. of Eagle Ridge Capital Structure-13-Month Average Test Year Ended 12/31/10						Schedule No. 2 Docket No. 110153-SU			
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
Per Utility									
1 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$178,736,860)	\$1,263,140	44.65%	6.64%	2.96%	
2 Short-term Debt	16,123,077	0	16,123,077	(16,009,880)	113,197	4.00%	3.88%	0.16%	
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
4 Common Equity	169,661,060	0	169,661,060	(168,470,561)	1,190,499	42.08%	10.60%	4.46%	
5 Customer Deposits	28,844	0	28,844	0	28,844	1.02%	6.00%	0.06%	
6 Deferred Income Taxes	<u>233,425</u>	<u>0</u>	<u>233,425</u>	<u>0</u>	<u>233,425</u>	<u>8.25%</u>	0.00%	<u>0.00%</u>	
7 Total Capital	<u>\$366,046,406</u>	<u>\$0</u>	<u>\$366,046,406</u>	<u>(\$363,217,301)</u>	<u>\$2,829,105</u>	<u>100.00%</u>		<u>7.64%</u>	
Per Commission									
8 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$178,774,835)	\$1,225,165	44.52%	6.64%	2.96%	
9 Short-term Debt	16,123,077	0	16,123,077	(16,013,336)	109,741	3.99%	3.88%	0.15%	
10 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
11 Common Equity	169,661,060	0	169,661,060	(168,506,266)	1,154,794	41.96%	10.60%	4.45%	
12 Customer Deposits	28,844	0	28,844	0	28,844	1.05%	6.00%	0.06%	
13 Deferred Income Taxes	<u>233,425</u>	<u>0</u>	<u>233,425</u>	<u>0</u>	<u>233,425</u>	<u>8.48%</u>	0.00%	<u>0.00%</u>	
14 Total Capital	<u>\$366,046,406</u>	<u>\$0</u>	<u>\$366,046,406</u>	<u>(\$363,294,437)</u>	<u>\$2,751,969</u>	<u>100.00%</u>		<u>7.62%</u>	
						<u>LOW</u>	<u>HIGH</u>		
RETURN ON EQUITY						<u>9.60%</u>	<u>11.60%</u>		
OVERALL RATE OF RETURN						<u>7.20%</u>	<u>8.04%</u>		

Utilities, Inc. of Eagle Ridge Statement of Wastewater Operations Test Year Ended 12/31/10						Schedule No. 3-A Docket No. 110153-SU	
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>\$990,978</u>	<u>\$244,114</u>	<u>\$1,235,092</u>	<u>(\$238,843)</u>	<u>\$996,249</u>	<u>\$148,847</u> 14.94%	<u>\$1,145,096</u>
Operating Expenses							
2 Operation & Maintenance	\$683,190	\$37,838	\$721,028	(\$67,419)	\$653,609		\$653,609
3 Depreciation	165,260	(25,063)	140,197	(9,641)	130,556		130,556
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	67,378	14,242	81,620	(11,008)	70,612	6,698	77,310
6 Income Taxes	<u>6,834</u>	<u>69,282</u>	<u>76,116</u>	<u>(\$55,746)</u>	<u>20,370</u>	<u>53,491</u>	<u>73,861</u>
7 Total Operating Expense	<u>\$922,662</u>	<u>\$96,299</u>	<u>\$1,018,961</u>	<u>(\$143,814)</u>	<u>\$875,147</u>	<u>\$60,189</u>	<u>\$935,336</u>
8 Operating Income	<u>\$68,316</u>	<u>\$147,815</u>	<u>\$216,131</u>	<u>(\$95,029)</u>	<u>\$121,102</u>	<u>\$88,658</u>	<u>\$209,761</u>
9 Rate Base	<u>\$2,600,151</u>		<u>\$2,829,105</u>		<u>\$2,751,969</u>		<u>\$2,751,969</u>
10 Rate of Return	<u>2.63%</u>		<u>7.64%</u>		<u>4.40%</u>		<u>7.62%</u>

Utilities, Inc. of Eagle Ridge Adjustment to Operating Income Test Year Ended 12/31/10	Schedule No. 3-B Docket No. 110153-SU
Explanation	Wastewater
<u>Operating Revenues</u>	
Remove requested final revenue increase.	<u>(\$238,843)</u>
<u>Operation and Maintenance Expense</u>	
1 Audit adjustments agreed to by Utility. (Issue 2)	(\$18,854)
2 To reflect appropriate bad debt expense. (Issue 11)	(141)
3 To reflect appropriate Purchased Power. (Issue 12)	(3,486)
4 To reflect appropriate Contractual Services - Testing. (Issue 13)	(3,532)
5 To reflect appropriate rate case expense. (Issue 14)	<u>(41,406)</u>
Total	<u>(\$67,419)</u>
<u>Depreciation Expense - Net</u>	
1 Audit adjustments agreed to by Utility. (Issue 2)	(\$2,574)
2 Phoenix Project adjustments (Issue 3)	(7,524)
3 Pro forma plant (Issue 4)	456
4 To reflect non-U&U depreciation expense. (Issue 5)	<u>0</u>
Total	<u>(\$9,641)</u>
<u>Taxes Other Than Income</u>	
1 RAFs on revenue adjustments above.	(\$10,748)
2 Audit adjustments agreed to by Utility. (Issue 2)	(260)
3 To reflect non-U&U property taxes. (Issue 5)	<u>0</u>
Total	<u>(\$11,008)</u>

Utilities, Inc. of Eagle Ridge				Schedule No. 4	
Wastewater Monthly Service Rates				Docket No. 110153-SU	
Test Year Ended 12/31/10					
	Rates Prior to Filing	Comm. Approved Interim	Utility Requested Final	Comm. Approved Final	Four-Year Rate Reduction
<u>Residential</u>					
Base Facility Charge All Meter Sizes:	\$20.77	\$23.39	\$25.75	\$23.77	\$0.36
Gallage Charge - Per 1,000 gallons (10,000 gallon cap)	\$4.75	\$5.35	\$5.89	\$5.46	\$0.10
Cross Creek Flat Rate	\$24.16	\$27.20	\$29.96	\$26.48	\$0.42
<u>General Service</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$20.77	\$23.39	\$25.75	\$23.87	\$0.36
1"	\$51.93	\$58.47	\$64.39	\$59.68	\$0.91
1-1/2"	\$103.86	\$116.94	\$128.78	\$119.36	\$1.82
2"	\$166.17	\$187.10	\$206.03	\$190.97	\$2.91
3"	\$332.35	\$374.21	\$412.08	\$381.94	\$5.81
4"	\$519.30	\$584.71	\$643.88	\$596.79	\$9.08
6"	\$1,038.61	\$1,169.41	\$1,287.77	\$1,193.58	\$18.16
Gallage Charge, per 1,000 Gallons	\$5.71	\$6.43	\$7.08	\$6.56	\$0.10
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$35.02	\$39.45	\$43.42	\$40.27	
5,000 Gallons	\$44.52	\$50.16	\$55.20	\$51.19	
10,000 Gallons (Wastewater Gallage Cap - 10,000 Gallons)	\$68.27	\$76.93	\$84.65	\$78.52	
Average Use of 5,100 Gallons	\$45.00	\$50.69	\$55.79	\$51.74	