State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: MAY 3, 2001

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYÓ)

FROM: DIVISION OF ECONOMIC REGULATION (WALKER, FITCH, LINGO, T. DAVIS, SICKEL)
DIVISION OF LEGAL SERVICES (CIBULA)

RE: DOCKET NO. 001382-WS - APPLICATION FOR STAFF-ASSISTED RATE CASE IN LAKE COUNTY BY PENNBROOKE UTILITIES, INC.
COUNTY: LAKE

AGENDA: 03/15/01 - REGULAR AGENDA - PROPOSED AGENCY ACTION EXCEPT ISSUE NUMBER 16 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 15-MONTH EFFECTIVE DATE: 02/03/02 (SARC)

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\001382.RCM

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CASE BACKGROUND

Pennbrooke Utilities, Inc. (Pennbrooke or utility) is a water and wastewater utility located in Lake County. Lake County became jurisdictional in June 1966. By Order No. PSC-93-0194-FOF-WS, issued February 9, 1993, in Docket No. 920588-WS, the Commission transferred operating Certificate Nos. 446-W and 400-S for water and wastewater respectively to Pennbrooke Utilities, Inc. The Commission also approved the utility's rates that were in effect at the time the operating certificates were transferred.

Pennbrooke is a subsidiary of Leisure Communities Ltd. which is the company developing the service area. The utility provided service to approximately 670 residential customers, a golf course, and a restaurant during the historic test year ending September 30, 2000. The utility's service area is a retirement community built around a golf course in the West Lake County area. The majority of the residents are seasonal and reside in the community only a portion of the year. All the residents' homes are individually metered.

On September 12, 2000, the utility filed an application for a staff assisted rate case (SARC) and paid the appropriate filing fee on November 3, 2000. The Commission has the authority to consider this rate case under Section 367.0814, Florida Statutes. Staff has audited the utility's records for compliance with Commission rules and Orders and determined the components necessary for rate setting. The staff engineer also conducted a field investigation of the utility's plant and service area. A review of the utility's operation expenses, maps, files, and rate application was also performed to obtain information about the physical plant operating cost. Staff has selected a projected test year ended September 30, 2001 for this rate case. This will be addressed in Issue No. 1.

It was determined during a preliminary staff audit that Pennbrooke was a Class C utility and qualified for a SARC under Section 367.0814, Florida Statutes. After staff adjustments were made for unmetered water, adjusted revenues qualified Pennbrooke as a Class B utility. Therefore, staff used the NARUC account system designated for Class B utilities for this rate case.

The Commission has a memorandum of understanding with the Florida Water Management Districts. This memorandum recognizes a joint cooperative effort is necessary to implement an effective, state wide water conservation policy. Water use in the utility's

area is under the jurisdiction of the St. Johns River Water Management District (SJRWMD or District).

A customer meeting was conducted on March 1, 2001, at the Pennbrooke Clubhouse in Leesburg, Florida. Approximately 240 customers attended the meeting. Twenty three customers chose to give comments regarding the utility's quality of service and the proposed rate increase. Quality of service issues are discussed in Issue No. 2. Staff also met with representatives of the six Homeowners Associations for which Pennbrooke provides service.

Customers suggested using future revenues, expenses, and number of customers in staff's calculations, to account for the rapid growth of customers to the utility. Staff has addressed this matter in Issue No. 1. A large majority of the customers suggested offsetting staff's proposed wastewater revenue increase with the water systems over earnings. Staff has addressed this matter in Issues 9 and 10. Finally, one customer suggested adding a glossary of acronyms and commonly used technical terms to our staff reports and recommendations.

The following is a list of acronyms which are used throughout this recommendation:

COMPANY AND PARTY NAMES

DEP	Department of Environmental Protection
FPSC	Florida Public Service Commission
NARUC	National Association of Regulatory Utility Commissioners
SJRWMD	St. Johns River Water Management District

GLOSSARY OF TECHNICAL TERMS

BFC Base Facility Charge - The portion of the total expenses required to provide water and sewer service incurred whether or not the customer actually uses the services and regardless of how much is consumed.

CIAC — Contributions In Aid Of Construction - Any amount or item of money, services, or property received by a utility, from any person or governmental agency, any portion of which is provided at no cost to the utility, and which is utilized to offset the acquisition, improvement, or construction costs of the utility's property, facilities, or equipment used to provide utility services to the public. The term includes, but is not limited to, system capacity charges, main extension charges, and customer connection charges.

CWIP — Construction Work in Progress - The cost of plant in process of construction, but not ready for service.

ERCs — Equivalent Residential Connections - A statistic used to determine the total number of water or wastewater connections that can be served by a plant of some specific capacity. The consumption of each connection size is compared to that of a single family residential connection, which is usually considered to be a unit comprised of 3.5 persons.

GPD — Gallons Per Day - An expression of a measured amount of liquid that can be delivered or actually measured during a 24-hour period.

GPM — Gallons Per Minute - An expression of a measured amount of liquid that can be delivered or actually measured during a one-minute time period.

O&M — Operations and Maintenance Expense

RAF — Regulatory Assessment Fees

SARC — Staff Assisted Rate Case

UPIS — Utility Plant in Service - The land, facilities, and equipment used to generate, transmit, and/ or distribute utility service to customers.

Used and Useful — the amount of plant capacity that is used by current customers including an allowance for the margin reserve.

USOA — Uniform System of Accounts - A list of accounts for the purpose of classifying all plant and expenses associated with a utility's operations.

ISSUE 1: Should the Commission approve a projected year end rate base for the utility?

RECOMMENDATION: Yes, the Commission should approve a projected year end rate base for the utility to allow it an opportunity to earn a fair return on the utility's investment and to better match rate base with customer growth on a going forward basis. A projected year end test year ending September 30, 2001, should be approved. (WALKER, FITCH)

STAFF ANALYSIS: For audit purposes staff selected a historical test year ending September 30, 2000. Because the utility is growing at an exceptionally high rate (99 ERCs a year), staff believes that rates based on historical data alone will be significantly different than rates based on current or even future conditions. Staff believes that a projected year end test year (ending September 30, 2001) is appropriate in this case and will better match increasing revenues with projected fixed and variable costs.

This is consistent with Order No. 15725, issued February 21, 1986, in Docket No. 840315-WS, In re: Application of Martin Downs Utilities, Inc. For an increase in water and wastewater rates to its customers in Martin County, Florida, in which the Commission found the following:

> The test year is an analytical device used in rate making proceedings to compute current levels of investment and income in order to determine the amount of revenue that will be required to assure a company a fair return on its investment. Test year data must be adjusted to properly reflect conditions in the future period for which rates are being fixed. Based upon historical data we anticipate Martin Downs will continue to experience rapid growth of demand for its services.

Therefore, the Commission found a projected test year was appropriate.

Further, the Commission should only apply a year end rate base in extraordinary circumstances. Citizens of Florida v. Hawkins, 356 So. 2d 254, 257 (Fla. 1978). Staff believes that extraordinary circumstances exist in this docket. The utility made additions to plant of $186,753 (19%) for water and $501,492 (42%) for wastewater during the historic test year and has requested proforma additions to be made in the future test year of $116,000 (10%) for water and

$173,097 (10%) for wastewater. The additions were made to meet the demand of the expanding customer base of the utility. Staff has determined customer growth for next year of 99 ERCs, based on regression analysis of growth over the past five years. In Order PSC-98-0763-FOF-SU, issued June 3,1998, in Docket No. 971182-SU, the Commission found 36.07% of total plant to be considered an extraordinary circumstance; and in Order PSC-00-1774-PAA-WU, issued September 27, 2000, in Docket No. 991627-WU, the Commission found improvements representing over 52% of the utility's rate base to be considered an extraordinary circumstance.

Because of the above factors, staff recommends that a projected year end rate base is appropriate, in this case, to better match rate base with customer base on a going forward basis and allow the utility an opportunity to earn a fair return on its investments. Staff recommends that a projected year end test year ending September 30, 2001, should be approved.

ISSUE 2: Is the quality of service provided by Pennbrooke Utilities, Inc. satisfactory?

RECOMMENDATION: Yes. The quality of service provided by Pennbrooke Utilities, Inc. should be considered satisfactory. (T. DAVIS, J. SICKEL)

STAFF ANALYSIS: Rule 25-30.433(1), Florida Administrative Code, states that:

> The Commission in every rate case shall make a determination of the quality of service provided by the utility. This shall be derived from an evaluation of three separate components of water and wastewater utility operations: quality of utility's product (water and wastewater); operational conditions of utility's plant and facilities; and the utility's attempt to address customer satisfaction. Sanitary surveys, outstanding citations, violations and consent orders on file with the Department of Environmental Protection (DEP) and county health departments (HRS) or lack thereof over the proceeding 3-year period shall also be considered. DEP and HRS officials' testimony concerning quality of service as well as the testimony of the utility's customers shall be considered.

Staff's analysis below addresses each of these three components.

The utility's service area is located along the north side of State Road 44, between Interstate 75 and Leesburg. The service area began as a modular home community, offering a contiguous golf course lifestyle. Today, the residential construction consists of wood framed homes specific to each lot. Pennbrooke is a retirement community with 1,276 home sites planned; two neighborhood sectors are entirely undeveloped at present, and without any water or wastewater installations. At present, 1,005 home sites have service available from the water distribution mains and wastewater collection mains that are currently installed. There are two general service customers: the office-clubhouse estimated at three ERCs, and a restaurant estimated at five ERCs. The current network of mains has a potential customer base estimated to be 1,023 ERCs, which includes 10 ERCs for irrigation meters. During the historic test year, there was an average demand of 648 ERCs; demand anticipated at the end of projected test year, September 30, 2001, is 797 ERCs for water service and 787 ERCs for wastewater service. Both include the office-clubhouse and restaurant usage.

QUALITY OF UTILITY'S PRODUCT

In Lake County, both the potable water program and the domestic wastewater program are regulated by the St. Johns River District of the Florida Department of Environmental Protection (DEP) located in Orlando. According to the DEP, over the past three years, the water utility has had only minor deficiencies in its testing program. Currently, the water utility is up-to-date with all its required chemical analysis and the results of those tests are satisfactory. The most recent wastewater compliance report dated October, 2000, noted two minor discharge deficiencies that prevent the utility from using treated wastewater for irrigation. The DEP reports that Pennbrooke has taken the appropriate corrective action and, therefore, is not in violation of regulatory standards. Since the utility's treated water meets or exceeds all standards for safe drinking water, and since the wastewater treatment meets required standards, both the water quality and wastewater treatment are considered satisfactory.

OPERATIONAL CONDITIONS AT THE PLANT

Maintenance of both plants and plant-site grounds appear to be normal and routine. During the engineering field inspection, plant equipment at both facilities was operating satisfactorily. The last Sanitary Survey Report for the water plant was conducted on January 11, 2000, which noted that the operator had the incorrect number of customers noted on the Monthly Operating Reports (MORs), that operator visits were required for each weekend day, that the screen on the storage tank vent was missing, and the screen on the filter unit was torn. The utility has corrected these violations.

An inspection of the wastewater treatment plant was conducted on February 2, 2000, which made note that the plant was found to have solids in the clarification effluent, the percolation ponds contained excessive solids, the Discharge Monitoring Reports (DMRs) showed excessive Total Suspended Solids, the fecal coliform exceeded the maximum limit twice since the last inspection, and the latest groundwater monitoring report had not been received. According to the most recent compliance inspection on November 14, 2000, the utility had corrected these deficiencies to standards acceptable for percolation pond discharge and the wastewater plant was found to be satisfactory.

The utility is also required to obtain a Consumptive Use Permit (CUP) from the SJRWMD. That permit (Permit Number 2717) was

issued on September 30, 1999, and will expire on September 30, 2003. During August, 2000, the utility exceeded its allowable residual usage limit of 65,700 million gallons for the period from January 30, 2000 to January 29, 2001. Staff has contacted the SJRWMD with this information. SJRWMD is reviewing the matter and is in the process of determinating if a citation for violation of permit limitations is substantiated. This will be further discussed in Issues 8 and 11.

UTILITY'S ATTEMPT TO ADDRESS CUSTOMER SATISFACTION

A customer meeting was held on March 1, 2001 at 6:00 p.m. in the Pennbrooke Clubhouse located within the Pennbrooke development. From a customer base of 670 residential customers at the end of the historic year, there were 228 persons who attended the customer meeting. Four persons from the utility were in attendance. One Commissioner from the PSC attended and there was not a representative from the SJRWMD present. Twenty-three persons gave comments. The meeting was dominated by concerns related to conservation, conservation rates, and a perception that contradictory information had been received from the SJRWMD. Two customers raised issues concerning quality of service. One customer spoke of a need to increase the water pressure, particularly as it would apply to fire flow. Another customer reported poor odor and flavor in his water, and raised questions about being charged for irrigation for landscaping on adjacent easements.

In a follow-up investigation, staff identified the presence of hydrogen sulfide as the cause of the odor and flavor problems. Hydrogen sulfide is a secondary organic compound that is not harmful to the public at the levels detected in Pennbrooke's water. The utility currently treats for hydrogen sulfide by aeration and chlorination. Staff engineers noted that the utility's operator has the plant regulated to maintain average pressure of 55 psi. Records on file at DEP do not indicate pressure problems, and contain no complaints of low pressure reported by customers. By all reports it appears that the utility currently supplies water above the 20 psi minimum required by DEP. In addition, it appears that the current water supply is in compliance with Lake County's requirements for fire flow. By all appearances, the water supplied by Pennbrooke meets or exceeds safe drinking water requirements.

In the matter of irrigation of the easement and charges for the water used, the customer's concerns have been resolved by negotiation with the developer. It was the activity of the

developer that gave rise to the difficulty, rather than the activities of the water company. Because the developer is the owner of the water company, the separation of responsibility can pose some difficulty. There was no evidence that the utility has conducted business improperly.

Staff concludes that the utility's effort to provide satisfactory service is successful by and large. In the view of the majority of the customers, the utility is providing safe drinking water in sufficient quantity and quality. Upon review of the components as discussed above, it is recommended that the quality of service provided by Pennbrooke be considered satisfactory.

ISSUE 3: Does Pennbrooke Utilities, Inc., have an excessive unaccounted for water problem?

RECOMMENDATION: No. Pennbrooke's unaccounted for water is estimated to be approximately 31,075 gpd, which is less than 10% of the water pumped. (T. DAVIS, J. SICKEL)

STAFF ANALYSIS: Each well is equipped with a three inch master meter. The total readings of the master meters for well number one and well number two averaged 319,135 gpd during the historic test year, while the total of metered water sold for the same time period averaged 249,390 gpd; the difference amounts to 69,745 gpd. The 10% normally allowable as unaccounted for water amounts to 31,913 gpd. Staff has found additional water usage that amounts to approximately 38,670 gpd, but was not included in the utility's reports of metered water sold.

Additional water usage was based on the following five situations, which are part of the routine activity for Pennbrooke. In the first two situations, water was actually metered. However, the utility did not make any records of the usage since the water was used by the developer, and the developer is the owner of the water company as well. After discussions between utility personnel and staff, Pennbrooke has made commitments to keep records for the water used in all five situations on a going forward basis, and properly account for costs and revenue associated with the water used.

First, Pennbrooke maintains approximately ten homes for models and guest houses. All ten receive some irrigation, and potential buyers may be housed for one or two nights in one of the two guest house units. The utility estimates water consumption at 6,000 gallons per month for this intermittent and varied usage. Based on that information, staff recommends an allowance of 200 gpd as being reasonable.

Second, a restaurant is located within the development. The establishment has a seating capacity of 120 and is open to the public. Practically speaking, it is primarily exclusive to the neighborhood. The clientele consists mainly of residents who "drop in" for a meal, their guests, and prospective homeowners who are guests of the developer. The usage pattern has mealtime peaks, and relatively low usage between meals. The restaurant meter measures some landscape irrigation, as well as food preparation and patron usage. Staff recommends an allowance of 1,400 gpd for this use.

Third, the utility has a sand filter for water purification, and backwash is a standard maintenance procedure. Typically, back washing is done five days per week, and some 30,000 gallons of water is used each time. This calculates to the allowance of 21,370 gpd recommended by Staff.

Fourth, the wastewater operator maintains five hose lines at the wastewater treatment plant for wash down and to maintain consistent sedimentation. These lines are flowing 24 hours per day, 365 days per year, at a rate of 1.5 to 2 gallons per minute, minimum, each. The staff recommended allowance of 12,960 gpd for this use is based on an estimate of 9 gallons per minute as a reasonable average amount of water used in the wastewater plant operations.

Fifth, the developer reports that 100 homes have been constructed during the test year. The water for the early stages of construction is obtained from taps on or near the site, and has not been metered. The estimated usage of 2,500 gallons per month, for a four month period for each house built, amounts to one million gallons per year. Spread over 365 days, this gives the recommended allowance of 2,740 gpd. On a going forward basis, the utility is in the process of providing metering capability under a temporary service tariff, so that this usage will be metered and accounted for as water used and billed.

These five situations account for an estimated daily usage amount of 38,670 gallons, so that unaccounted for water is approximately 31,075 gpd. Thus, the unaccounted for water is less than the 10%, or 31,913 gpd, typically allowed for Commission calculations.

On a prospective basis, there will be some alterations to these situations. Most obvious is the fact that the water usage for construction will not exist after the developer achieves build out. Records of the water usage for the restaurant, as well as any water used for models or guest houses will be kept in the future. Thus, the amount of unbilled water used will decrease as the Pennbrooke operation becomes more settled.

ISSUE 4: What portions of the utility's water treatment plant, water distribution, wastewater treatment system, and wastewater collection system are used and useful?

RECOMMENDATION: The water treatment plant should be considered 85.65% used and useful; all other systems should be considered 100% used and useful. (T. DAVIS, J. SICKEL)

STAFF ANALYSIS: For approximately two years, growth at Pennbrooke has amounted to 100 residential customers per year, which is more than 20% annual growth for the first year. Section 367.081(2)(a)2, Florida Statutes, requires that the Commission consider utility property to be used and useful in service to the public if it is needed to serve customers within the five-year period after the test year used in the Commission's final order. However, that same statute caps the annual growth rate at 5%. Staff procedures for analysis incorporate these allowances into the calculations relating to used and useful portions of investment.

As addressed in Issue No. 1, a projected test year ending September 30, 2001 is used so that actual growth to date can be incorporated into the recommended rates.

The historic year provides an actual count of 670 residential meters, read at year end. In working from that base, standard allowances are made for general service customers and two 1 1/2" irrigation meters. For the projected test year, actual growth of 99 new ERCs is anticipated, based on utility planning and recent growth which includes the historic year. For end of test year, staff recommends allowances for 797 ERCs for water and 787 ERCs for wastewater; the difference is due to two 1 1/2" meters installed to provide irrigation water.

Water Treatment Plant

The water treatment plant is an open system with two 12" wells that are rated at 650 gallons per minute (gpm) and 800 gpm. Water is directly transmitted from the wells to an aeration/ground storage unit capable of storing 10,000 gallons. From the aeration/storage unit, the water is passed (by gravity) through a sand filtration bed and stored in three 50,000 gallon ground storage tanks (total of 150,000 gallons). Three High Service (HS) pumps, each rated at 600 gpm, are used to pump treated water to a 7,500 gallon hydropneumatic tank and then to the distribution system. Staff believes that the proper capacity to use in the used and useful calculation is the output capabilities of the HS pumps.

The firm reliable capacity is calculated by using the capacity of the HS pumps, with the deduction of the highest volume capacity pump, which is 1,200 gpm times a normal 12 hour day (864,000 gpd) plus the storage capacity of all storage units (167,500 gallons), minus the dead storage space (1,963 gallons). The firm reliable capacity of the Pennbrooke plant was determined to be 1,029,537 gpd. The utility provides fire protection via fire hydrants throughout the distribution system. The Lake County fire code requires a minimum of 1,000 gpm, sustainable for a period of 2 hours (120,000 gallons) which is added to the maximum daily average demand.

Using annual growth rate of 5% over the five-year period beyond the test year brings the estimate for daily demand up to 881,827 gallons. This includes an estimated peak usage for the test year of 661,470 gpd, along with 100,357 gpd allowance for the growth. At that level of demand, the water treatment plant would be 85.65% used and useful (See Attachment A pg.1 of 4) . This percentage should be applied to:

Account No. 303 (Land and Land Rights)
Account No. 304 (Structures and Improvements)
Account No. 307 (Wells and Springs)
Account No. 309 (Supply Mains)
Account No. 311 (Pumping Equipment)
Account No. 320 (Water Treatment Equipment)
Account No. 339 (Other Plant and Misc Equipment)

Water Distribution System

The water distribution system has the potential of serving 1,005 residences, two general service customers, and two irrigation installations (estimated to be 1,023 ERCs total) in a subdivision that (by current planning) will have reached its potential customer capacity by the end of the statutory growth period. Using the estimate of 797 ERCs to be served at the end of the projected test year, and the annual growth of 40 ERCs for the 5-year statutory growth period, an estimate of 997 ERCs is obtained. By the formula approach, the staff engineer calculates the distribution system to be 97.5% used and useful (See Attachment "A", Page 2 of 4). Based on Company planning and the precision of estimates underlying the calculation, it is recommended that 100% be applied to:

Account No. 330 (Distribution Reservoirs and Standpipes)
Account No. 331 (Transmission and Distribution Mains)
Account No. 333 (Services)

Account No. 334 (Meters and Meter Installations)

Wastewater Treatment Plant

The existing sewage treatment plant at Pennbrooke is permitted by the DEP as a 0.110 million gallons per day (110,000 gpd) annual average daily flow (AADF) extended aeration treatment facility. During the historic year, the highest five day average occurred in January, 2000, and averaged 183,200 gpd. This, by itself, raises questions concerning the capability of the wastewater treatment plant in its ability to properly treat existing flows. However, there are two 120,000 gpd aeration units with two 18,000 gpd clarification units. Converting the old 30,000 gpd wastewater treatment plant to a 30,000 gpd digester allows greater capacity for the settling sludge to be drawn off from the clarifiers, extending the clarification capability for a better quality effluent. The limiting factor is the rated capacity of the percolation pond system of discharge for treated effluent.

The annual average daily flow for the historic year was 77,200 gpd, which represents the demand of a very seasonal customer base. For the projected test year, using the estimated 787 ERCs, the estimated annual average daily flow is 95,728 gpd. By using the annual growth rate of 40 ERCs, we estimate that the demand for wastewater treatment will grow by 24,327 gpd over the five year statutory growth period. It appears that the utility will need to increase its discharge capacity. This item is addressed in Issue No. 5. In accordance with the calculation sheet, infiltration is subtracted from the demand and the growth. However, there does not appear to be excessive infiltration occurring within the collection system. Therefore, the formula used on the calculation sheet (Attachment "A", Sheet 3 of 4) indicates a used and useful of 100% which should be applied to:

Account No.	355	Power Generation Equipment
Account No.	364	Flow Measuring Devices
Account No.	365	Flow Measuring Installations
Account No.	380	Treatment and Disposal Equipment
Account No.	381	Plant Sewers
Account No.	382	Outfall Sewer Lines
Account No.	489	Other Plant and Miscellaneous Equipment

Wastewater Collection System

For the wastewater collection system, the utility's potential customer base is 1,013 ERCs. This differs from the water

distribution system by the 10 ERCs associated with two large irrigation service meters. For the projected test year, the estimated number of customers in ERCs is 787, and the allowance for growth over the statutory five years brings the number of ERCs served up to 987. It is anticipated that the utility will actually reach its potential customer capacity by the end of the statutory growth period, if not prior to that time. In accordance with the formula method used on the calculation sheet (See Attachment "A", sheet 4 of 4), the used and useful is calculated to be more than 97%. Recognizing the level of precision associated with the estimates underlying the calculation, in addition to Company planning, Staff recommends that the wastewater collection system be considered 100% used and useful, and that percentage be applied to the following accounts:

Account No.	360	Collection Sewers - Force
Account No.	361	Collection Sewers - Gravity
Account No.	362	Special Collecting Structures
Account No.	363	Services to Customers
Account No.	370	Receiving Wells

WATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 001382-WS - Pennbrooke Utilities, Inc.

For test year ending September 30, 2001
and annual growth = 5%

1)	**Firm Reliable Capacity of Plant**	1,029,537	gallons per day
2)	**Average of 5 Highest Days From Maximum Month**	661,470	gallons per day
3)	**Average Daily Flow**	395,908	gallons per day
4)	**Fire Flow Capacity**	120,000	gallons per day

a) Required Fire Flow: 1,000 gallons per minute for 2 hours

5)	**Growth**	100,357	gallons per day

a) Test year Customers in ERCs:
ERCs include 670 residents, 10 models, 2 general service and 2 irrigation meters [size: 1 1/2"]

Begin	698
End	797
Average	N/A

(Use end of Test Year number of ERCs)

b) Customer Growth in ERCs using statutory limit of 5% — 40 ERCs

c) Statutory Growth Period — 5 Years

(b)x(c)x [3\(a)]= 100,357 gallons per day for growth

6)	**Excessive Unaccounted for Water**	N/A	gallons per day
	a) Total Unaccounted for Water	31,500	gallons per day
	Percent of Average Daily Flow	10%	
	b) Reasonable Amount	31,914	gallons per day
	(10% of average Daily Flow)		
	c) Excessive Amount	N/A	gallons per day

USED AND USEFUL FORMULA

[(2)+(4)+(5)-(6)]/(1) = 85.65% Used and Useful

[(661,470) + (120,000) + (100,357) + (0)]/ 1,029,537 = 85.65%

WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA

Docket No. 001382-WS - Pennbrooke Utilities, Inc.

For test year ending September 30, 2001 and annual growth = 5%

1)	**Capacity of System** (Number of Potential ERCs Without Expansion) (Includes irrigation meters)	1,023	ERCs
2)	**Test year connections**		
	a) Beginning of Test Year	698	ERCs
	b) End of Test Year	797	ERCs
	c) Average Test Year	N/A	ERCs
3)	**Growth**	200	ERCs
	a) customer growth in connections for last 5 years including Test Year using Regression Analysis	40	ERCs
	b) Statutory Growth Period	5	Years

(a) x (b) = 200 connections allowed for growth

USED AND USEFUL FORMULA

[2+3]/(1) = 100.0% Used and Useful

[797 + 200] / 1,023 = 97.5% Used and Useful, calculated
Based on the level of precision in the estimation, 100% recommended

WASTEWATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 001382-WS - Pennbrooke Utilities, Inc.

For test year ending September 30, 2001 and annual growth = 5%

1)	**Permitted Capacity of Plant**	110,000	gallons per day
2)	**Maximum Daily Flow**	227,168	gallons per day
3)	**Average Daily Flow**	95,728	gallons per day
4)	**Growth**	24,327	gallons per day

a) Test year Customers in ERCs:

Beginning	688
Ending	787
Average	NA

b) Customer Growth in ERCs using statutory limit of 5%: 40 ERCs

c) Statutory Growth Period: 5 Years

(b)x (c) x [3\(a)]= 24,327 gallons per day for growth

5)	Excessive Infiltration or Inflow (I&I)	N/A	gallons per day
	a)Total I&I:	N/A	gallons per day
	Percent of Average Daily Flow	0.00%	
	b)Reasonable Amount	23,632	gallons per day
	(500 gpm per inch dia pipe per mile)		
	c)Excessive Amount	N/A	gallons per day

USED AND USEFUL FORMULA

[(3)+(4)-(5)]/(1) = 100% Used and Useful

(95,728 + 24,327 - 0) / 110,000 = 100% Used and Useful

WASTEWATER COLLECTION SYSTEM - USED AND USEFUL DATA

Docket No. 001382-WS - Pennbrooke Utilities, Inc.

For test year ending September 30, 2001 and annual growth = 5%

1)	Capacity of System (Number of potential ERCs to be served, without expansion)	1,013	ERCs
2)	Test year connections		
	a) Beginning of Test Year	688	ERCs
	b) End of Test Year	787	ERCs
	c) Average Test Year	NA	ERCs
3)	Growth	200	ERCs
	a) customer growth in connections for last 5 years including Test Year using Regression Analysis	40	ERCs
	b) Statutory Growth Period	5	Years

(a) x (b) = 200 connections allowed for growth

USED AND USEFUL FORMULA

[(2)+(3)]/(1) = 100% Used and Useful

[787 + 200] / 1,013 = 97.43% Used and Useful, by calculation
Based on precision of the estimation, 100% recommended

ISSUE 5: What is the appropriate projected year end rate base for this utility?

RECOMMENDATION: The appropriate projected year end rate base for the utility is $396,269 for water and $790,364 for wastewater. The utility should be required to complete all pro forma additions, as discussed in the staff analysis, within nine months of the effective date of the Commission Order. (WALKER, FITCH)

STAFF ANALYSIS: The Commission set rate base for this utility in Order No. PSC-93-0194-FOF-WS, issued February 9, 1993, in Docket No. 920588-WS, (Transfer Docket). The utility adjusted its books and records to match rate base approved by the Commission, and has maintained its books and records under the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) for Class B utilities.

Staff has selected a projected test year ended September 30, 2001, and the rate base components have been calculated using the utility's books and records for a plant balance through September 30, 2001. Because staff has selected a projected year end rate base, no averaging adjustments have been made. A discussion of each component of rate base follows:

Utility Plant in Service (UPIS): The utility recorded a UPIS balance of $1,110,101 for water and $1,693,393 for wastewater during the historical test year. Staff has increased UPIS for water by reclassifying $4,626 from operations and maintenance expense (O&M) ($1,217 from purchased power and $3,408 from materials and supplies) to account number 334 to capitalize meters. Staff has also increased this account for water by reclassifying $7,101 from O&M ($6,748 from repairs and maintenance and $353 from materials and supplies) to account number 311 for pumping equipment. Staff has increased this account for wastewater by reclassifying $209 from O&M expenses to account number 354.

The utility recorded $1,391 each for water and wastewater in the miscellaneous expense account for pipe finding equipment. Staff has increased UPIS for both water and wastewater by $1,391 to reclassify and capitalize pipe finding equipment from the miscellaneous expense account.

The utility recorded $49,771 in Construction Work in Progress (CWIP) for the historical test year ended September 30, 2000, for work on a new pump. During the audit, staff determined that the

new pump was complete and in use. Staff has increased UPIS by $49,771 for water to reclassify CWIP to UPIS.

The utility installed 480 residential meters since the last rate case. The utility capitalized the cost of the meters but did not record the cost of the meter installation. Staff has increased water Account No. 334 by $12,425 to capitalize unrecorded meter installation cost.

During the audit and engineering evaluation of this utility, staff discovered that the utility's spray field was no longer in use and would not be used in the future. The utility switched exclusively to percolation ponds per an agreement with DEP. Staff believes that the spray field should be retired and that this retirement should be considered an abandonment/ early retirement. Staff has decreased this account for wastewater by $28,626 to remove the cost of the spray field from UPIS. The utility only capitalized the cost of the pipes and pumps associated with the spray field, not the value of the land. Loss calculations and amortization of the early retirement will be discussed in Issue No.8.

Proforma Plant

As stated in Issue No. 1, the utility is experiencing extraordinary growth and thus has provided staff with a list of proforma plant additions to be installed during the projected test year. The utility has requested $32,000 for a generator to provide auxiliary power to both the water and wastewater plants. Staff finds this amount to be reasonable and has increased utility plant in service by $16,000 for water and wastewater each. The utility has requested $100,000 for a hydro pneumatic tank for its water plant and $157,097 to construct additional percolation ponds and install a surge tank at the wastewater plant to handle excess effluent during peak flows. Staff finds these amounts to be reasonable and has increased UPIS by $100,000 for water and $157,097 for wastewater.

Staff's total adjustment for proforma plant is $116,000 for water and $173,097 for wastewater. Staff's net adjustment to UPIS is an increase of $191,314 for water and $146,071 for wastewater. Staff has determined UPIS of $1,301,415 for water and $1,839,464 for wastewater.

Land: The Commission determined land values for this utility of $21,115 for water and $57,035 for wastewater in the utility's

transfer docket. There have been no changes in land since the transfer docket. Therefore, staff has made no adjustments to this account.

Non-used and Useful Plant: The staff engineer has determined the used and useful percentages for each plant account including proforma plant items. Applying the non-used and useful percentages to the water treatment plant results in non-used and useful plant of $91,307 for water. The non-used and useful accumulated depreciation is $56,871 for the water treatment plant. This results in a net non-used and useful adjustment of $34,436 for water. The water distribution system was determined to be 100% used and useful. The wastewater treatment plant and collection system were also determined to be 100% used and useful, therefore, no adjustments have been made to wastewater.

Contribution in Aid of Construction (CIAC): The utility recorded CIAC of $506,218 for water and $903,278 for wastewater during the historical test year. The utility has added 480 new residential connections since the transfer docket. The utility's current tariffed meter installation charge is $75 for residential customers. The utility however, did not collect the meter installation fee from any of its new customers. Staff has increased CIAC for water by $36,000 (480 connections x $75) to reflect CIAC that should have been collected by the utility.

The utility's current meter installation charge for general service customers is actual cost. The utility added two 1½" inch meters for general service customers at a total cost of $758. Staff has increased CIAC for water by $758 to reflect CIAC that should have been collected by the utility.

Accumulated Depreciation: The utility recorded $412,581 for water and $369,409 for wastewater during the historical test year. Consistent with Commission practice, staff has calculated accumulated depreciation using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Staff's calculated accumulated depreciation on September 30, 2000, is $451,685 for water and $346,287 for wastewater. Therefore, staff has increased this account by $39,104 for water and decreased this account by $23,112 for wastewater. Staff has also decreased this account by $4,487 for wastewater to remove the depreciation associated with the spray field abandonment.

Staff has increased this account by $51,359 for water and $75,002 for wastewater to reflect accumulated depreciation for the

one year period ended September 30, 2001 (the projected test period). Staff has also increased this account by $2,135 for water and $5,710 for wastewater to reflect one half year of depreciation on proforma plant. Staff's net adjustment to this account is an increase of $92,598 for water and $53,113 for wastewater.

Amortization of CIAC: The utility recorded amortization of CIAC of $105,071 for water and $184,932 for wastewater during the historical test year. Consistent with Commission practice, staff has calculated amortization of CIAC using composite depreciation rates. Staff's calculated historical test year-end amortization of CIAC is $116,866 for water and $166,111 for wastewater. Staff has increased this account by $11,795 for water and decreased this account by $18,821 for wastewater to reflect staff's calculated amortization of CIAC on September 30, 2000.

Staff has increased this account by $23,525 for water and $40,656 for wastewater to reflect amortization of CIAC for the one year period ended September 30, 2001 (the projected test period).

Working Capital Allowance: Consistent with Rule 25-30.433(2), Florida Administrative Code, staff recommends that the one-eighth of operation and maintenance (O&M) expense formula approach be used for calculating working capital allowance. Applying that formula, staff recommends a working capital allowance of $15,939 (based on O&M of $127,515) for water and $12,898 (based on O&M of $103,187) for wastewater. The utility did not record a working capital allowance. Working capital has been increased by $15,939 and $12,898 for water and wastewater respectively to reflect one-eighth of staff's recommended O&M expenses.

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate projected test year end rate base is $396,269 for water and $790,364 for wastewater.

Rate base is shown on Schedule No. 1-A and 1-B. Related adjustments are shown on Schedule No. 1-C.

COST OF CAPITAL

ISSUE 6: What is the appropriate rate of return on equity and the appropriate overall rate of return for this utility?

RECOMMENDATION: The appropriate rate of return on equity for this utility is 9.94% with a range of 8.94% - 10.94%. The appropriate overall rate of return for this utility is 9.00%. (WALKER, FITCH)

STAFF ANALYSIS: Based on the utility's records, at September 30, 2000, Pennbrooke's capital structure consisted of the following: common stock of $50, paid-in-capital of $249,950, a negative retained earnings of $599,388, and long term debt of $827,228. The utility also has an unrecorded loan of $71,076 with the related party developer, this amount was not supported by a debt instrument with a stated interest rate. Order No. PSC-00-1165-PAA-WS issued June 27, 2000, in Docket No. 990243-WS, classifies utility debt that is not supported by a debt instrument or an interest cost as other common equity.

Pennbrooke is a wholly-owned subsidiary of Leisure Communities, Ltd., the developer of the service territory served by the utility. According to the utility, the source of funds for utility operations comes entirely from Leisure Communities, Ltd., and that the utility's actual capital structure is essentially 100% debt. Leisure Communities, Ltd's., loans to the utility are at a rate of Prime plus 1%. Staff believes that the loan rates from the parent company are reasonable. In a similar situation, by Order No. PSC-01-0327-PAA-WU, issued February 6, 2001, in Docket No. 000295-WU, the Commission approved the use of the utility's capital structure rather than the parents. Therefore, staff has determined to use the utility's capital structure.

Staff has increased other common equity by $71,076 to reflect the cost of the related party loan not supported by a debt instrument. Staff has further adjusted capital structure by increasing total common equity by $278,312 to remove the negative equity amount. The utility has requested proforma plant additions in the amount of $289,097. The utility plans to fund the proforma additions with debt. Staff has increased proforma debt by $289,097 at a cost of Prime plus 1%.

Common equity represents 0% of the utility's total capital structure. Using the current leverage formula approved in Docket No. 000006-WS, by Order No. PSC-00-1162-PAA-WS, issued June 26,

2000, for all equity ratios less than 40%, the rate of return on common equity should be 9.94% with a range of 8.94% - 10.94%.

The utility's long-term debt, which is 100% of the utility's capital structure, consists of an existing loan (74.1%) with a variable interest cost of Prime plus 1%, and proforma debt (25.9%) at an interest cost of Prime plus 1%. The Prime interest rate as of March 21, 2001 is 8%. Based upon a current Prime rate of 8%, the interest rate on loans from the parent company is 9%. Staff has determined weighted average cost of debt to be 9.00%.

The utility currently has a tariffed charge for customer deposits. Pennbrooke has never charged its customers a deposit and does not plan on charging its new customers an initial deposit. However the utility would like to keep its customer deposit tariff to charge customers with a poor payment record pursuant to Rule 25-30.311(7), Florida Administrative Code. Therefore, staff has not increased customer deposits in the calculation of capital structure for future customers. The appropriate rate for customer deposits will be discussed in Issue No. 14.

The utility's capital structure has been reconciled with staff's recommended rate base. Applying the cost of each capital component times the pro-rata share of each component results in an overall rate of return of 9.00%.

Staff recommends the appropriate rate of return on equity for this utility of 9.94% with a range of 8.94% - 10.94%, and the appropriate overall rate of return for this utility of 9.00%.

The return on equity and overall rate of return are shown on Schedule No. 2.

NET OPERATING INCOME

ISSUE 7: What are the appropriate projected test year revenues?

RECOMMENDATION: The appropriate projected test year revenues for the utility are $263,470 for water and $138,428 for wastewater services. (WALKER, FITCH)

STAFF ANALYSIS: The utility recorded revenues for the 12-month period ended September 30, 2000, of $195,574 and $100,434 for water and wastewater respectively.

The utility's current residential tariff authorizes a base facility charge of $5.78 and a gallonage charge of $1.76 per 1,000 gallons for water and a base facility charge of $5.66 and a gallonage charge of $1.21 per 1,000 gallons for wastewater services. The utility's current general service tariff authorizes a base facility charge of $5.78 and a gallonage charge of $1.76 per 1,000 gallons for water and a base facility charge of $5.66 and a gallonage charge of $1.45 per 1,000 gallons for wastewater services. The utility's existing rates became effective November 1, 2000.

Staff has calculated annualized revenue for the historical test period using the current rates times the number of bills and consumption provided in the billing analysis. Test year revenues have been increased by $6,370 for water and $7,220 for wastewater to reflect annualized revenue based on the existing rates.

The utility did not bill three related party customers during the historic test year. Staff has increased revenues by $2,374 for water and $1,660 for wastewater to reflect uncollected revenue from related parties. The utility must include billing for related parties to fairly represent all revenues received by the utility.

Staff has increased historical test year revenues by $59,152 for water and $29,114 for wastewater to reflect revenues based on the total number of additional residential ERCs at projected test year end and average use for those additional ERCs. Staff recommends test year revenues of $263,470 for water and $138,428 for wastewater.

Test year revenues are shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule No. 3-C.

ISSUE 8: What is the appropriate amount of operating expense?

RECOMMENDATION: The appropriate amount of operating expenses for this utility is $188,136 for water and $180,489 for wastewater. (WALKER, FITCH)

STAFF ANALYSIS: Pennbrooke is a subsidiary of a larger development company. In many cases, the company failed to allocate a proper percentage of its operating expenses to the utility. Staff requested and received an allocation from the utility for additional expenses not included in the audit that should be allocated to the utility for the projected test year. The utility also included an account titled Repairs and Maintenance that is not an account under the NARUC-USOA. Staff has reallocated amounts from this account to the proper NARUC accounts.

The utility provided the auditor with all invoices, canceled checks, and other utility records to verify its O&M and taxes other than income expense for the 12-month period ended September 30, 2000. Using the documents provided by the utility and the audit, staff has determined the appropriate operating expenses for the projected test year and a breakdown of expenses by account class. The utility recorded O&M expenses of $62,905 and $49,162 and taxes other than income of $21,735 and $16,061 for water and wastewater respectively. Adjustments have been made to reflect the appropriate annual operating expenses that are required for utility operations on a going forward basis.

Operations and Maintenance Expenses (O&M)

Salaries and Wages - Employees - (601/701) - The utility recorded salaries and wages expense of $5,397 for water and wastewater each during the historic test year. These amounts include $2,480 per system for a contracted meter reader. Staff has decreased this account by $2,480 for water and wastewater each to reallocate meter reader expense to contractual services other.

The remaining $2,917 each for water and wastewater consists of employee expenses for billing, accounts payable, and accounting services. The utility did not allocate salaries and wages expense properly from the parent company during the historic test year. The utility provided staff with the following allocations for water and wastewater each:

- $4,116 for a Billing Clerk
- $704 for an Accounts Payable Clerk

- $16,440 for an Accountant

Staff believes that $16,440 for the Accountant is excessive based on previous Commission allowances for utilities this size. Staff believes that $8,940 per year per system is an appropriate amount for the accountant. Staff finds the rates and hours for the Billing Clerk and the Accounts Payable Clerk to be reasonable and in line with previous Commission allowances. Staff has increased this account by $10,843 ($13,760 - $2,917) for both water and wastewater to reflect proper allocation of employee expenses.

Staff's net adjustment to this account is an increase of $8,363 for both water and wastewater. Staff has determined salaries and wages expense to be $13,760 for water and wastewater each.

Salaries and Wages - Officers - (603/703) - The utility did not record an amount in this account for water and wastewater during the historic test year. As stated above, the utility did not allocate expenses properly from the parent company. The utility provided staff with the following annual allocations per system:

- $17,150 - President/ General Manager (590 hrs a year x $35 an hour)
- $10,200 - Vice President (170 hrs a year x $60 an hour)

Staff believes that 590 hours for the President is excessive for a utility this size. Staff has allowed 490 hours per year for an allowance of $17,150 (490hrs a year x $35 an hour) per system based on previous Commission allowances for other utilities this size. Staff believes that $60 an hour for the vice president is excessive. Staff has allowed a $35 an hour rate for the vice president and an annual allowance of $5,950 (170hrs a year x $35 an hour) per system. Staff has increased this account for both water and wastewater by $23,100 ($17,150 + $5,950).

Employee and Pension Benefits- (604/704) - The utility did not record an amount in this account for water and wastewater during the historic test year. As stated above, the utility did not allocate expenses properly from the parent company. The utility provided staff with the following annual allocations per system:

- $483 - Billing Clerk
- $89 - Accounts Payable Clerk
- $759 - Accountant
- $255 - President/ General Manager

- $220 - Vice President

Staff finds these amounts reasonable and has increased this account by $1,806 each for water and wastewater.

Purchased Sludge Hauling (711) - The utility recorded $0 in this account during the historic test year. Staff has increased this account by $4,800 to reclassify sludge hauling expense from repairs and maintenance (a non NARUC account). Staff has also increased this account by $4,712 to meet staff engineer's recommendation for additional sludge hauling. Staff has included an increase of $103 to allow for an inflation adjustment for the projected test year giving the utility an annual expense of $9,512 for sludge hauling. This amount will allow the utility to remove sludge from its facility twice a year as recommended by the staff engineer.

Purchased Power (615/715) - The utility recorded $18,196 for water and $17,874 for wastewater in this account during the historic test year. Staff has increased this account for water by $1,127 and decreased this account by $1,127 for wastewater to reallocate electric expense associated with the water system. Staff has decreased this account by $2,151 for water and $1,533 for wastewater to remove non-utility electric expense. Staff has also decreased this account by $1,217 for water to reclassify the cost of meters recorded in this account to UPIS.

The utility received a rate increase in its electrical service and added a new lift station during the historic test year. Staff has increased this account by $5,745 for water and $3,086 for wastewater to reflect the increased rates and the cost of providing power to the new lift station. Staff has also included a projected test year inflation adjustment of $238 and $249 for water and wastewater respectively.

Staff's net adjustment to purchased power is an increase of $3,742 for water and an increase of $675 for wastewater.

Fuel for Power Production (616) - The utility maintains a 200KW diesel backup generator at its water plant. The utility will be installing a similar generator during the projected test year for the wastewater plant. The utility runs the generator periodically to verify ongoing operational capability. Staff has added this account and increased it by $260 for both water and wastewater to reflect the cost associated with running the generator during general maintenance test.

Chemicals (618/718) - The utility recorded $10,799 for water and $3,713 for wastewater in this account during the historic test year. Staff has decreased this account by $210 for water and increased this account by $210 for wastewater to reallocate chemical expense recorded in the water account. Staff has increased this account by $805 for water to reclassify chemical expense from materials and supplies. Staff engineer has calculated the projected gallons to be used by the utility and the cost per gallon. Staff has increased this account by $4,255 for water and $2,712 for wastewater to reflect chemicals needed to treat projected gallons. Staff included an increase of $213 and $90 for water and wastewater, respectively, for an inflation adjustment for the projected test year

Staff's net adjustment to this account is an increase of $5,063 for water and $3,012 for wastewater.

Materials and Supplies (620/720) - The utility recorded $4,790 for water and $1,532 for wastewater in this account during the historic test year. Staff has decreased this account by $3,408 for water to reclassify the cost of meters recorded in this account to UPIS. Staff has also decreased this account by $353 for water and $209 for wastewater to capitalize pumping equipment and a new catwalk/ stairway respectively. Staff has reclassified $805 for water from this account to chemicals to remove chemical expense. Staff has increased these accounts $3 and $18 for water and wastewater respectively to reflect a projected test year inflation adjustment.

Contractual Services-Testing (635/735) - The utility recorded $0 for both water and wastewater in this account during the historic test year. Each utility must adhere to specific testing conditions prescribed within its operating permit. These testing requirements are tailored to each utility as required by Rule 62-550 and 551, Florida Administrative Code, and enforced by the DEP. The tests and the frequency at which those tests must be repeated for this utility are:

	Water	
Test	Frequency	Amount
Microbiological	Monthly	$360
Lead & Copper	2 Years	$250
Sub Total		$610

The following tests are paid by the utility as a lump sum

Test	Frequency	Amount
Nitrate & Nitrite	Yearly	
VOC's	3 Years	
Radionuclides	3 Years	
Asbestos	9 Years	
Unregulated Organics	3 Years	
P&S Inorganic	3 Years	
Pest $ PCB's	3 Years	
Lump Sum Total		$532
Total		$1,142

Wastewater

Test	Frequency	Amount
Sludge Analysis	Yearly	$300
CBOD (includes Nitrates)	Monthly	$660
TSS	Monthly	$146
Test Well Monitoring	Yearly	$250
Fecal Coli	Monthly	$180
Total		$1,536

Staff has increased contractual services testing by $1,142 for water and $1,536 for wastewater to reflect annual DEP required testing.

Contractual Services-Other (636/736) - The utility recorded $5,306 for water and $9,057 for wastewater in this account during the historic test year. These amounts include fees for the contracted operator. Staff has increased this account by $2,765 for water and $1,373 for wastewater to reclassify miscellaneous repairs from repairs and maintenance (a non NARUC account).

Staff has increased this account by $2,480 each for water and wastewater to reclassify meter reader expense from salaries and employees expense. The utility contracts a meter reader at $0.60 per meter. Staff has increased this account by $332 for both water and wastewater to reflect meter reading expense based on 781 meters [($0.60 x 781 meters x 12 months)/2 - $2,480]. Staff has increased this account $1,498 and $1,282 for water and wastewater, respectively, to meet operator services for the projected test year.

Staff has increased this account by $429 each for water and wastewater to reflect accounting services rendered for annual reports and taxes. Staff has also increased this account by $900 for water and $1,100 for wastewater to allow for grounds keeping expense. Staff has increased this account by $56 and $39 for water and wastewater to allow for an inflation adjustment for the projected test year.

Staff's net adjustment to Contractual Services-Other is an increase of $8,460 for water and $7,035 for wastewater.

Rents (641/741) - The utility did not record an amount in this account for water and wastewater during the historic test year. The utility did not allocate rent expense properly from the parent company. The utility provided staff with an allocation of $1,800 per year for water and wastewater each. The utility has allocated an additional $370 for the projected test year that staff finds unnecessary. Staff has determined that the proposed rent allocation should not increase in correlation with the annual increase in customers. Staff's net adjustment to Rent is an increase of $1,800 for water and wastewater each.

Transportation Expense (650/750) - The utility did not record an amount in this account for water and wastewater during the historic test year. Staff has determined that this utility incurs transportation expense during the year. In the performance of utility duties, the local manager is required to attend meetings with regulatory personnel, run errands, make bank deposits, and make visits to the home office. Staff believes that an allowance of 250 miles per week is reasonable for these activities. Staff is allowing transportation expense of $0.29 per mile or $1,885 annually per system [(250 miles x 52 weeks x $0.29)/2].

The utility also uses a golf cart to tour the service area. Staff believes that $50 per month or $600 annually per system is a reasonable amount for the use of the golf cart. Staff is allowing

a projected test year inflation increase of $34 for each system. Staff's net adjustment to this account is an increase of $2,519 for water and wastewater each.

Repairs and Maintenance - As previously discussed, this is not an account title under the NARUC-USOA. The utility recorded $9,513 for water and $6,173 for wastewater in this account during the historic test year. Staff has reallocated $6,748 to UPIS and $2,765 to Contractual Services-Other for water and $4,800 to Sludge Removal Expense and $1,373 to Contractual Services-Other for wastewater to remove all amounts from this account.

Insurance General Liability (657/757) - The utility did not record an amount in this account for water and wastewater during the historic test year. The utility did not allocate Insurance expense properly from the parent company. The utility provided staff with an allocation of $1,544 ($944 General Liability and $600 Property Coverage) for water and $1,055 ($455 General Liability and $600 Property Coverage) for wastewater for this account. Staff finds these amounts to be reasonable and has increased this account by $1,544 for water and $1,055 for wastewater. Staff has included an additional increase of $170 and $82 for water and wastewater to meet allocations for the projected test year.

Insurance Workmans Comp (658/758) - The utility did not record an amount in this account for water and wastewater during the historic test year. As stated above, the utility did not allocate expenses properly from the parent company. The utility provided staff with an allocation of $168 each for water and wastewater for this account. Staff finds this amount to be reasonable and has increased this account by $168 for both water and wastewater.

Permits and Fees (665/765) - The utility recorded $6,855 for water and $3,671 for wastewater in this account during the historic test year. Staff has decreased this account by $6,830 for water and $3,321 for wastewater to reclassify regulatory assessment fees (RAFs) to taxes other than income.

Regulatory Commission Expense (667/767) - The utility did not record an amount in this account for water and wastewater during the historic test year. The utility paid a $1,000 rate case filing fee per system pursuant to Rule 25-30.020, Florida Administrative Code. Staff has increased this account by $250 ($1,000/4 years) for water and wastewater each, to recognize the filing fee over a four year period.

Water Resource Conservation (668/768) - The utility's customers on average use an excessive amount of water. Staff has allowed an amount of $25,000 for water resource conservation expense so that the utility can invest in conservation programs to reduce the amount of water consumed by its customers. This matter is further discussed in Issue No. 10.

Miscellaneous Expense (675/775) - The utility recorded $2,049 for water and $1,421 for wastewater in this account during the historic test year. Of this amount the utility recorded $408 for office supplies in the water account only. Staff has increased this account by $1,392 ($1,800 - $408) for water and $1,800 for wastewater to reflect an appropriate allocation of office supplies from the parent company.

Staff has increased this account by $1,523 for both water and wastewater to reflect postage based on 769 non-related party customers at $0.33 per stamp. Staff has decreased this account by $1,391 for both water and wastewater to capitalize pipe finding equipment. Staff has allowed an increase of $605 for each system to adjust for the projected test year.

Operation and Maintenance Expense (O&M Summary) - Total O&M adjustments are an increase of $64,610 for water and $54,025 for wastewater. Staff's recommended O&M expenses are $127,515 for water and $103,187 for wastewater. O&M expenses are shown on schedule 3-E and 3-F.

Depreciation Expense - The utility recorded depreciation expense of $41,555 for water and $45,446 for wastewater and CIAC amortization of $25,942 for water and $38,724 for wastewater during the historic test year. Depreciation expense has been calculated by staff using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Staff's calculated depreciation is $55,630 for water and $86,421 for wastewater. Therefore, staff has increased this account by $14,075 for water and $40,975 for wastewater.

Non-used and useful depreciation and amortization of CIAC has a negative impact on depreciation expense. Staff has decreased this account by $5,110 for water to reflect non-used and useful depreciation, wastewater is 100% used and useful. Staff calculated amortization of CIAC is $23,210 for water and $42,438 for wastewater. Therefore, staff has increased this account by $2,732 for water and decreased this account by $3,714 for wastewater. Staff calculated net depreciation expense is $27,310 for water and $43,983 for wastewater.

Amortization - As discussed in Issue No. 5, the utility has abandoned its spray field. Staff believes this is a prudent retirement. Rule 25-30.433(9), Florida Administrative Code, specifies that;

> the amortization period for a forced abandonment or the prudent retirement, in accordance with the NARUC Uniform System of Accounts, of plant assets prior to the end of their depreciable life shall be calculated by taking the ratio of the net loss (original cost less accumulated depreciation and contributions in aid of construction (CIAC) plus accumulated amortization of CIAC plus any cost incurred to remove the asset less any salvage value) to the sum of the annual depreciation expense, net of amortization of CIAC, plus an amount equal to the rate of return that would have been allowed on the net invested plant that would have been included in rate base before the abandonment or retirement. This formula shall be used unless the specific circumstances surrounding the abandonment or retirement demonstrate a more appropriate amortization period.

Using the rule cited above staff has determined an amortization period of seven years. The utility's net loss is the original cost of the asset less accumulated depreciation, less salvage value, plus the cost of removal. The original cost of the spray field as recorded by the utility consisted of piping and pumping equipment. The utility recorded no salvage values for these items. The related party developer removed the piping and equipment at no cost to the utility. Therefore, net loss equals $24,139 ($28,626 plant - $4,487 accumulated depreciation). Staff has calculated annual amortization expense of $3,448 ($24,139/ 7 years).

Taxes Other Than Income - The utility recorded $21,735 for water and $16,061 for wastewater in this account during the historic test year. Staff has made the following adjustments to this account:

Taxes Other Than Income - WATER

Description	Per Utility		Staff Adjustment	Total
Payroll	$413	A	$1,976	$2,389
RAFs	$0	B	$11,856	$11,856
Advalorem	$21,213	C	($21,069)	$144
Florida Sec. Of State- Ann. Rpt.	$79		$0	$79
County Occupation License	$30		$0	$30
Tangible Property	$0	C	$20,598	$20,598
Totals	$21,735		$13,361	$35,096

Taxes Other Than Income - WASTEWATER

Description	Per Utility		Staff Adjustment	Total
Payroll	$413	A	$1,976	$2,389
RAFs	$0	B	$6,229	$6,229
Advalorem	$15,539	C	($15,068)	$471
Florida Sec. Of State- Ann. Rpt.	$79		$0	$79
County Occupation License	$30		$0	$30
Tangible Property	$0	C	$15,539	$15,539
Totals	$16,061		$8,676	$24,737

A. The utility included $190 for both water and wastewater for the contracted meter reader. Staff has removed this amount from both water and wastewater. Staff has calculated social security taxes of $1,734 and unemployment tax of $432 for water and wastewater each, based on staff allowances for employee expense.

Staff has increased this account by $1,976 ($1,734 + $432 - $190) for both water and wastewater.

B. Staff has increased this account by $6,830 for water and $3,321 for wastewater to reclassify RAF's from the permits and fees expense account. Staff has also increased this account by $5,026 for water and $2,908 to reflect RAF's calculated on projected annualized revenue. Staff's net adjustment to this account is an increase of $11,856 for water and $6,229 for wastewater.

C. Staff has reclassified $20,598 for water and $15,068 for wastewater from advalorem taxes to tangible property taxes. Staff has also reclassified advalorem taxes of $471 from the water account to wastewater.

Income Tax - Pennbrooke is a 1120 corporation. Because the utility's capital structure is 100% debt, the recommended rate of return is equal to interest expense. Therefore the utility will incur no income tax liability based on staff's rates.

Operating Revenues - Revenues have been decreased by $39,671 for water and increased by $113,194 for wastewater to reflect the increase in revenue required to cover expenses and allow the recommended return on investment.

Taxes Other Than Income - This expense has been decreased by $1,785 for water and increased by $5,094 for wastewater to reflect regulatory assessment fees of 4.5% on the increase/decrease in revenues.

Operating Expenses Summary - The application of staff's recommended adjustments to the audited test year operating expenses results in staff's calculated operating expenses of $188,136 for water and $180,489 for wastewater.

Operating expenses are shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule Nos. 3-C and 3-D.

REVENUE REQUIREMENT

ISSUE 9: What is the appropriate revenue requirement?

RECOMMENDATION: The appropriate revenue requirement is $263,470 for water and $211,952 for wastewater. (WALKER, FITCH)

STAFF ANALYSIS: Based on staff's calculated revenue requirement below, the utility earned in excess of the recommended rate of return on its water system. The utility is overearning on its water system and a revenue decrease is normally the appropriate action under these circumstances. According to staff's calculations, the appropriate revenue annual decrease is $39,670 (-15.06%) for water and an annual increase is $113,194 (81.77%) for wastewater. This will allow the utility the opportunity to recover its expenses and earn a 9.0% return on its investment. The Commission's current practice for calculating revenue is as follows:

	Water	Wastewater
Adjusted rate base	$396,269	$790,364
Rate of Return	x .090	x .090
Return on investment	$35,664	$71,133
Adjusted O & M expense	$127,515	$103,187
Depreciation expense (Net)	$27,310	$43,983
Amortization	$0	$3,488
Taxes Other Than Income	$33,311	$29,831
Revenue Requirement	$223,800	$251,622
Projected Test Year Revenues	$263,470	$138,428
Percent Increase/(Decrease)	(15.06)%	81.77%

As discussed in Issue No. 7, the utility's projected test year revenues are $263,470 for water and $138,428 for wastewater. The above calculation results in an 15.06% annual decrease of $39,670 ($223,800-$263,470) for water and an 81.77% annual increase of $113,194 ($251,622-$138,428) for wastewater. However, staff is not

recommending a rate decrease for water. Staff is recommending that the wastewater system absorb the reduction in revenue requirement from the water system.

Lake County has been designated as a water caution area by the SJRWMD. Several of the utility's customers use an excessive amount of water. A reduction in water rates would promote more of this behavior. Through the Commission's Memorandum of Understanding (MOU) with the Water Management Districts (WMD) staff has set rates with conservation in mind. According to the utility's Consumptive Use Permit (CUP), issued October 18, 1999, the utility must implement a conservation rate structure within two years of permit issuance. Reducing the water revenue requirement would not allow staff to construct a meaningful conservation rate structure. The water and wastewater systems have the same customer base, therefore, a reallocation of revenue requirement between systems will have the same net effect on customers. A reduction of water rates when a logical alternative exists, would not be consistent with the utility's CUP or the Commission's MOU with the WMD in this case.

Staff believes that the wastewater system should absorb the negative impact on revenue requirement to the water system because of the following reasons:

- Lake County is a designated water caution area
- Excessive use already exists
- Water conservation benefits all Florida consumers
- The utility's CUP requires a conservation rate structure
- The systems have the same customer base
- There is not a negative impact on rate payers
- A logical solution exists to avoid a water rate decrease

In Order No. PSC-97-1501-FOF-WS, issued November 25, 1997, in Docket No. 961364-WS, and in Order No. PSC-96-1205-FOF-WS, issued September 23, 1996, in Docket No. 960011-WS, the Commission used net revenue requirement to determine over earnings.

Staff has recalculated revenue requirement for rate setting purposes as follows:

	Water	Wastewater
Adjusted rate base	$396,269	$790,364
Rate of Return	x .090	x .090
Return on investment	$35,664	$71,133
Adjusted O & M expense	$127,515	$103,187
Depreciation expense (Net)	$27,310	$43,983
Amortization	$0	$3,488
Taxes Other Than Income	$33,311	$29,831
Reallocation of Negative Revenue Requirement	$39,670	($39,670)
Revenue Requirement	$263,470	$211,952
Projected Test Year Revenues	$263,470	$138,428
Percent Increase/(Decrease)	0.00%	53.11%

Revenue requirements are shown on Schedules Nos. 3-A and 3-B.

DISPOSITION OF OVEREARNINGS

ISSUE 10: What is the appropriate disposition of the overearnings associated with the water system?

RECOMMENDATION: The utility should be required to spend $25,000 of the overearnings to implement a water conservation program. The utility should, at a minimum, spend the recommended amount for each of the first two years of its conservation program, and be required to file quarterly reports with the Commission on its program covering the same two year period. These reports should list the conservation measures that were implemented during the period and the amounts expended. Staff should confer with the SJRWMD in reviewing the reports in order to evaluate the effectiveness of the program and ensure that the program and amounts spent are consistent with the Commission order. As discussed in Issue 9, the remainder of the water system overearnings should be used to offset the wastewater system revenue requirement increase. (LINGO)

STAFF ANALYSIS: In 1991, the Commission entered into a Memorandum of Understanding (MOU) with the five Water Management Districts (WMDs), in which the agencies recognized that it is in the public interest to engage in a joint goal to ensure the efficient and conservative utilization of water resources in Florida, and that a joint cooperative effort is necessary to implement an effective, state-wide water conservation policy. Since that time, staff has increased its efforts in assisting the WMDs in achieving conservation goals. More recently, staff has worked with the SJRWMD and the Southwest Florida Water Management District in tailoring conservation programs for jurisdictional utilities that are designed to achieve significant and lasting water use reductions. Staff believes that reasonable expenses for such programs should be included in utility rates, because the WMDs hold the utilities, rather than utilities' customers, responsible for reductions in water use.

Pennbrooke is located in Lake County within the SJRWMD. The entire District has been designated a water resource caution area. **Furthermore, a "declared water shortage" condition has been issued in numerous Florida counties, including Lake County. This means that mandatory watering restrictions are now in place, and law enforcement agencies may issue citations to anyone violating those restrictions.**

As one means of addressing the high residential usage, and absent an increase in water system revenue requirement, staff is recommending that the utility implement an aggressive, proactive water conservation program geared to achieve significant, lasting reductions in consumption. The Commission has taken a similar approach in prior cases involving excess earnings, low rates and high consumption. See, e.g., Order No. 23809, issued November 27, 1990, in Docket No. 900338, in which the Commission required Sanlando Utilities Corporation (Sanlando) to set aside $25,008 in annual revenues for future expenses specifically related to water conservation. Additionally, by Order No. PSC-93-1771-FOF-WS, issued on December 10, 1993, in Docket No. 930256-WS, the Commission approved an inclining block rate structure for Sanlando for the purpose of funding future capital investment related solely to conservation.

Moreover, the Commission recently made a similar finding in a case involving excess earnings, low rates and high consumption, involving a utility in Lake County. In Order No. PSC-00-1165-PAA-WS, issued June 27, 2000, the Commission required Sun Communities Finance Limited Partnership (Sun Communities) to implement a conservation program developed in conjunction with the utility, staff and the SJRWMD. Specifically, the Commission approved an aggressive conservation program which included such items as xeriscape consulting and rebates, installation of moisture sensors, meter replacements and irrigation audits. Staff believes that there are similar circumstances regarding the need for conservation in the instant proceeding. Although the conservation program ultimately recommended will come at some material cost for a utility of this size, staff and the SJRWMD believe the circumstances in this case warrant such measures.

Pennbrooke is an established utility with usage patterns consistently showing excess consumption. Furthermore, staff believes the utility is able to comply with District and Commission requirements and implement conservation measures. Additionally, as discussed below, staff proposes to monitor the utility's progress on a quarterly basis in order to ensure compliance with the Commission order. Staff believes these factors provide sufficient assurance that the conservation program will, in fact, be implemented.

Before settling on a conservation program for this utility, staff will meet with the utility and the SJRWMD in order to assess the consumption habits and needs of the utility's customers, and discuss measures that would best achieve the District's

conservation goals. Staff believes the conservation measures and associated estimated costs listed below, developed in conjunction with the SJRWMD, represents a range of alternatives regarding the selection of a conservation program.

RECOMMENDED CONSERVATION PRACTICES FOR PENNBROOKE UTILITIES, INC.			
SPECIFIC CONSERVATION PRACTICE	**PURPOSE**	**PRACTICE**	**ESTIMATED COST**
SYSTEM AUDITS	To provide baseline information to identify opportunities to improve water use efficiency and reduce system losses and unnecessary or wasteful uses, and to assess progress toward improving efficiency and reducing waste.	Perform annual audits of production, treatment and distribution systems and develop measurements of end-user water use for indoor and outdoor uses. System audits are now required as part of the SJRWMD consumptive permit.	$500 to $10,000, depending on whether a consultant is needed.
METER REPLACEMENT PROGRAM	To assure that water distributed through the utility system is accounted for by accurate customer meters and meter reading procedures. Accurate data utilized in synchrony with accurate billing methods should provide a methodology that will allow the utility to identify problems or losses throughout the distribution system and ultimately reduce any unaccounted for water losses. It also assures that the water user is appropriately charged for the water, thereby increasing incentive to conserve.	If not already in practice, implement a periodic meter replacement or reconditioning program for all meters with an error rate exceeding 5% OR for all meters that have exceeded the manufacturer's recommended use volume or age.	$5,000 annually
UTILITY SYSTEM LEAK DETECTION AND REPAIR	To reduce the loss of unused water resulting from leakage in the transmission and distribution system.	If the annual water audit indicates that greater than 10% of the water leaving the treatment facility cannot be accounted for by an end use, implement a leak detection and repair program for older parts of the utility's transmission and distribution system.	$0 to $20,000, depending on the system's condition.

MONTHLY CUSTOMER BILLING	To allow customers the ability to associate monthly water use patterns with water use and the resulting water and wastewater costs. Also, it allows customers the ability to monitor the effectiveness of implemented water conservation or water use pattern changes by providing them with the tools to visualize water use reductions and reduced water charges.	If not already in place, implement an envelope style monthly style billing system. Include, at a minimum, the following information in each monthly bill: a) water conservation tip or bill stuffer; b) water use for the current billing month; c) previous month's water use; d) corresponding month's water use for the previous year; e) rate per unit volume charged for water.	$0 to $5,000, depending on current billing practice.
WATER CONSERVATION EDUCATION	To enhance public consciousness on the importance of water conservation, water conservation practices, and its value of water conservation to individual home owners and business people.	Participate in the SJRWMD cooperative water conservation education project. Areas of education include, but are not limited to: 1) arrange for local broadcast of public service announcements provided by SJRWMD on local radio and TV stations; 2) construct, maintain and publicize a water efficient landscape demonstration project in a highly visible location; 3) provide water conservation exhibits in public places such as shopping malls and government buildings; 4) provide landscape irrigation audits and irrigation system operating instructions to local small businesses and residents; and 5) establish a water audit customer assistance program which addresses both indoor and outdoor water use.	$15,000 to $25,000
UTILITY OWNED IRRIGATION SYSTEMS	To reduce landscape wastage.	Have all landscape irrigation equipment owned or operated by the utility or its successor inspected annually by a professionally certified irrigation designer or installation contractor and correct any deficiencies found within 30 days of identification.	$1,000 to $5,000 annually depending on extent of area.

MAINTAINING RECORDS AND REPORTING OF ACTIVITIES	To maintain records of when and where all conservation practices are implemented and submit activity reports on a regular basis to the PSC and the SJRWMD		$1,000 annually

Therefore, staff recommends that the utility should be required to spend $25,000 of the overearnings to implement a water conservation program. The utility should, at a minimum, spend the recommended amount for each of the first two years of its conservation program, and be required to file quarterly reports with the Commission on its program covering the same two year period. These reports should list the conservation measures that were implemented during the period and the amounts expended. Staff should confer with the SJRWMD in reviewing the reports in order to evaluate the effectiveness of the program and ensure that the program and amounts spent are consistent with the Commission order. As discussed in Issue 9, the remainder of the water system overearnings should be used to offset the wastewater system revenue requirement increase.

RATE STRUCTURE, RATES AND TARIFF CHARGES

ISSUE 11: What are the appropriate rate structures for this utility's water and wastewater systems?

RECOMMENDATION: The appropriate rate structures for this utility are an inclining-block rate structure for the water system and a continuation of the traditional base facility and uniform gallonage charge rate structure for the wastewater system. For the water system, the recommended usage blocks are 0-10,000 gallons (10 kgal) and over 10 kgal, with usage block rate factors of 1.0 and 1.25, respectively. A 50% conservation adjustment should also be implemented. (LINGO, RENDELL)

STAFF ANALYSIS: The utility's current rate structures for both its water and wastewater systems consist of a traditional base facility charge (BFC) and uniform gallonage charge rate structure. On September 30, 1999, Pennbrooke was issued a consumptive use permit, with a condition that the utility "develop, and obtain District approval of, a proposed water conserving rate structure within two years of permit issuance. The evaluation must include a demographic study of the service area and graphically illustrate the percentage of users per increasing 1,000 gallon unit." Based on Pennbrooke's high average consumption per customer, coupled with the water shortage in Lake County, it is the District's desire that Pennbrooke implement an inclining-block rate structure. In addition, for over the past five years the District has advocated rate structures that provide pricing incentives to conserve.

An analysis of Pennbrooke's residential customers' consumption data during the 12-month period ended September 30, 2000 indicates that they are using excessive amounts of water. The overall average residential consumption is approximately 13,000 gallons per month. Compared to the District's target usage of 130 gallons per day per capita (gpdpc), Pennbrooke's residential customers' average monthly usage is approximately 42% greater than the District's resulting average monthly usage target of 9.0 kgal (150 gpdpc x 2 persons x 30 days). Further, almost 40% of residential consumption occurs at usage of 10 kgals per month and above. Under these circumstances, staff would typically recommend the implementation of an aggressive inclining-block rate structure.

Although the water system is overearning and the utility's rates are low, due to the high average usage per customer coupled with the extraordinary drought and water shortage conditions in

Lake County, staff believes it is appropriate to implement some form of inclining-block rate structure.

As discussed in Issue 9, staff recommends that the utility be ordered to implement an aggressive water conservation program. This program is expected to have a material effect on consumption. In a similar case in Lake County (see Sun Communities, Order No. PSC-00-1165-PAA-WS, issued June 27, 2000), staff recommended implementation of a conservation program with no change in rate structure. When a conservation program is concurrently initiated with a rate structure change, customers' subsequent consumption habits should be affected both by the conservation program and by price changes resulting from the change in rate structure. In the Sun Communities case, the Commission continued the utility's current rate structure during the introduction of the conservation program to better isolate the effects of the conservation program on consumption. This information will then be considered in designing consumption charges when the rate structure issue is subsequently revisited.

However, we believe the current circumstances in Lake County warrant more aggressive conservation measures. Since the Sun Communities Order was issued almost one year ago, Lake County's water supply problem has escalated to a "declared water shortage" condition. In addition, based on the latest U.S. Drought Monitor report, Lake County is in an area where drought conditions are considered extreme. Finally, Lake County's population growth, coupled with predictions of continued above-average temperature and below-average precipitation for the area, place further strains on Lake County's water supply. Staff believes these circumstances warrant the most aggressive conservation measures possible; therefore, we recommend the concurrent implementation of an inclining-block rate structure coupled with an aggressive conservation program.

The goal of the inclining-block rate structure is to reduce average demand. Under this rate structure, it is anticipated that demand in the higher usage block(s) will be more elastic (responsive to price) than demand in the first block. Water users with low monthly usage will benefit, while water users with higher monthly use will pay increasingly higher rates, thereby creating a greater incentive to conserve. Several factors to consider when designing inclining-block rates include, but are not limited to, the selection of the appropriate: a) conservation adjustment; b) usage blocks; and c) usage block rate factors. Consideration of other rate structure issues, such as a target usage established by

environmental regulators, elasticity of demand and revenue stability will also have an impact on how each of the components in the inclining-block rate structure should be designed.

Conservation Adjustment

Staff believes an important rate design goal is to minimize, to the extent possible, the price increases for low-usage, nondiscretionary consumption. Based on engineering and accounting allocations, and absent a conservation adjustment, the preliminary rates are $11.12 for the BFC and $1.33 for the gallonage charge. These rates result in monthly usage at 12 kgal and below receiving price **increases**, while monthly usage above 12 kgal will receive price **decreases**. This pricing scheme -- the more water used, the less the price impact -- is completely contrary to conservation pricing. We believe another important rate design goal, consistent with the rate structure guidelines established by the Southwest Florida Water Management District (SWFWMD) and supported by the SJRWMD, is to recover no more than 40% of the overall revenue requirement through the BFC. To accomplish these goals, different conservation adjustments were used to shift varying portions of cost recovery from the BFC to the gallonage charge. The results of this analysis are shown in the table below.

PRELIMINARY PRICE INCREASES BASED ON UNIFORM GALLONAGE CHARGES AT VARIOUS CONSERVATION ADJUSTMENTS (RATES BEFORE REPRESSION ADJUSTMENT)					
	Conservation Adjustments				
Monthly Consumption	0%	35%	40%	45%	50%
1 kgal	65.1%	17.6%	10.9%	4.0%	-2.7%
5 kgal	21.9%	5.8%	3.7%	1.2%	-0.8%
10 kgal	4.4%	1.1%	0.8%	0.1%	-0.1%
15 kgal	-3.4%	-1.1%	-0.5%	-1.4%	0.2%
20 kgal	-8.0%	-2.3%	-1.2%	-0.7%	0.4%
25 kgal	-10.9%	-3.1%	-1.7%	-0.8%	0.6%
30 kgal	-12.9%	-3.7%	-2.1%	-1.0%	0.6%
50 kgal	-17.2%	-4.9%	-2.8%	-1.2%	0.8%
75 kgal	-19.5%	-5.5%	-3.2%	-1.4%	0.9%
100 kgal	-20.7%	-5.8%	-3.4%	-1.5%	1.0%

As shown above, the 50% conservation adjustment (relative to the other adjustments) is the only adjustment which results in price increases above 10 kgal of usage, compared to price decreases above 10 kgal for the other adjustments. In fact, the 50% adjustment is the only adjustment which results in price impacts consistent with conservation pricing -- the more water used, the greater the percentage price increase.

Usage Blocks

It is Commission practice to consider revenue stability as the primary criteria when designing the first usage block. Based on Commission practice, the first usage block should capture approximately 50 percent of total gallons sold, thereby mitigating the revenue stability concerns. Based on consumption patterns of other utilities which have been subject to an inclining-block rate structure, this has resulted in the first usage block typically being set at the 10 kgal consumption level. In this case, the utility has captured approximately 60% of total gallons sold at the

10 kgal consumption level; therefore, staff recommends that the first usage block be set for monthly consumption at 0-10 kgal.

When designing an inclining-block structure of three blocks (tiers), the second usage block is typically capped at usage no less than twice the usage in the first block. In this case, the second block would be capped at 20 kgal (10 kgal from the first block x 2). The third block would then capture consumption in excess of 20 kgal. Unfortunately, with no increase in water system revenue requirement, and based on the utility's customers' consumption patterns, we were unable to design a three-tier inclining-block structure which promotes conservation. Based on a three-tier structure, the majority of customers would have received price reductions sufficient to purchase additional kgals of water, which is contrary to the goal of conservation pricing.

Therefore, staff recommends a two-tier structure, with usage blocks established at 0-10 kgal and in excess of 10 kgal.

Usage Block Rate Factors

Once the conservation adjustment and usage blocks are selected, staff typically analyzes possible combinations of usage block rate factors. However, absent a water system revenue requirement increase, staff first selected a factor for the second usage block which represents the weakest usage block rate factor (25% greater than the first usage block). Staff then calculated preliminary rates based on usage block rate factors of 1.0 and 1.25, respectively. Although customers using less than 16 kgal will receive price reductions under this rate structure, staff does not believe that the reductions will promote customers to purchase additional water. Our analysis is shown in the table below.

Kgals Purchased	Current Price @ $1.76 per Kgal	Prelim Recom Price @ $1.61/Kgal Blk 1 and $2.01/Kgal Blk 2	Price Reduction	Prelim Recom Price of 1 Additional Kgal
0	$1.76	$1.61	($0.15)	$1.61
5	$8.80	$8.05	($0.75)	$1.61
10	$17.60	$16.10	($1.50)	$1.61
15	$26.40	$26.15	($0.25)	$2.01
16	$28.16	$28.16	$0.00	$2.01

For example, a customer with 0 kgal of usage currently pays $1.76 per kgal, compared to staff's preliminary recommended price of $1.61. The savings is $0.15, which is less than the $1.61 required to purchased an additional kgal under staff's recommended structure. Similarly, a customer currently using 15 kgal pays $26.40, compared to staff's preliminary recommended price of $26.15. The savings is $0.25, which is less than the $2.01 required to purchase an additional kgal. In fact, each of the price reductions listed is less than the corresponding price to purchase one additional kgal. Therefore, we do not believe the savings for usage under 16 kgal will promote additional consumption.

The utility's current wastewater rate structure is the traditional BFC and gallonage charge rate structure. It is the Commission's preferred rate structure for wastewater systems; therefore, no change in rate structure is recommended.

Based upon the foregoing, staff recommends that the appropriate rate structures for this utility are an inclining-block rate structure for the water system and a continuation of the traditional base facility and uniform gallonage charge rate structure for the wastewater system. For the water system, the recommended usage blocks are 0-10,000 gallons (10 kgal) and over 10 kgal, with usage block rate factors of 1.0 and 1.25, respectively. A 50% conservation adjustment should also be implemented.

ISSUE 12: Is an adjustment to reflect repression or the anticipated effects of the conservation program appropriate in this case, and, if so, what is the appropriate adjustment?

RECOMMENDATION: Based on the staff analysis below, neither a repression nor a conservation program adjustment is appropriate in this case. In order to monitor the effects of the conservation programs and rate structure changes on consumption, the utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports should be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the initial conservation program monies are expended. The utility should be ordered to file a rate restructuring case with the Commission no earlier than one year but no later than two years after the implementation of staff's recommended conservation program, at which time the water system rate structure issue should be revisited. (LINGO)

STAFF ANALYSIS: As discussed in Issue 9, the water system is overearning; therefore, there will be no revenue requirement increase to that system. As discussed in Issue 11, absent an increase in water revenue requirement in conjunction with customers' consumption patterns, customers with less than 16 kgal of usage (which accounts for approximately 75% of consumption) will receive price decreases. The remaining 25% of consumption will receive nominal price increases ranging from 0% to 14%. Therefore, we do not believe a repression adjustment is warranted.

Nor do we believe it is possible to appropriately quantify the magnitude of the conservation program's effects on consumption at this time. The conservation measures listed in Issue 10 are very aggressive. There are ranges of consumption reductions that might reasonably be expected to occur, and we believe this information is critical in order to appropriately design rates. However, since we lack any historical information in this regard, we believe a change in rate structure is inappropriate at this time.

Therefore, neither a repression nor a conservation program adjustment is appropriate in this case. In order to monitor the effects of the conservation programs and rate structure changes on consumption, the utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports should be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the

initial conservation program monies are expended. The utility should be ordered to file a rate restructuring case with the Commission no earlier than one year but no later than two years after the implementation of staff's recommended conservation program, at which time the water system rate structure issue should be revisited.

ISSUE 13: What are the appropriate rates for each system?

RECOMMENDATION: The recommended rates should be designed to produce revenue of $263,470 for the water system and $211,952 and for the wastewater system, excluding miscellaneous service charges. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice. (LINGO, WALKER, FITCH)

STAFF ANALYSIS: During the historic test year the utility provided service to approximately 625 water and wastewater customers. The customer base includes 624 residential customers with 5/8" x 3/4" meters and 3 general service customer (1 with a 5/8" x 3/4" meter and 2 with a 1 ½" meter.

The general service customer is a developer's office and a clubhouse with a swimming pool and irrigation system. Staff has calculated rates using test year number of bills and consumption for water.

The recommended rates should be designed to produce revenue of $263,470 for the water system and $211,952 and for the wastewater system, excluding miscellaneous service charges.

Schedules of the utility's existing rates and rate structure and staff's preliminary rates and rate structure are as follows:

Monthly Rates - Water
Residential and General Service

Base Facility Charge Meter Sizes	Existing Rates	Staff's Recommended Rates
5/8" x 3/4"	$5.78	$5.56
1"	$14.44	$13.90
1 ½"	$28.87	$27.80
2"	$46.20	$44.48
3"	$92.42	$88.96
4"	$144.40	$139.00
Gallonage Charge per 1,000 gallons		
0 - 10,000 gallons	$1.76	$1.61
Over 10,000 gallons	$1.76	$2.01

Monthly Rates - Wastewater
Residential and General Service

	Existing	Staff's Recommended Rates
Base Facility Charge Meter Sizes		
5/8" x 3/4"	$5.66	$7.85
1"	$14.17	$19.62
1 ½"	$28.31	$39.23
2"	$45.30	$62.77
3"	$90.61	$125.54
4"	$141.56	$196.15
Gallonage Charge Per 1,000 Gallons		
Residential (10,000 gallon cap)	$1.21	$1.96
General Service	$1.45	$2.35

Approximately 20% ($52,756) of the water system revenue requirement is recovered through the recommended base facility charge. The fixed costs are recovered through the BFC based on the number of factored ERCs. The remaining 80% of the revenue

requirement ($210,714) represents revenues collected through the consumption charge based on the number of gallons. Approximately 35% ($75,534) of the wastewater system revenue requirement is recovered through the recommended base facility charge. The fixed costs are recovered through the BFC based on the number of factored ERCs. The remaining 65% of the revenue requirement ($138,417) represents revenues collected through the consumption charge based on the number of factored gallons.

The following is a comparison of residential rates at various usage levels:

Monthly Rates - Water
Residential

Gallons	Existing	Staff Recommended Rates
3,000	$11.06	$10.39
5,000	$14.58	$13.61
10,000	$23.38	$21.66

Monthly Rates - Wastewater
Residential

Gallons	Existing	Staff Recommended Rates
3,000	$9.29	$13.73
5,000	$11.71	$17.65
10,000	$17.76	$27.45

If the Commission approves staff's recommendation, these rates shall be effective for service rendered as of the stamped approval date on the tariff sheets provided customers have received notice. The tariff sheets will be approved upon staff's verification that the tariffs are consistent with the Commission's decision, that the customer notice is adequate.

If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. The old charge shall be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge shall be prorated based on the number of days in the billing cycle on and after the effective date of the new rates. In no

event shall the rates be effective for service rendered prior to the stamped approval date.

ISSUE 14: What are the appropriate customer deposits for this utility?

RECOMMENDATION: The appropriate customer deposits should be the recommended charges as specified in the staff analysis. The utility should file revised tariff sheets, which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the customer deposits should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed. (WALKER, FITCH)

STAFF ANALYSIS: Rule 25-30.311, Florida Administrative Code, provides guidelines for collecting, administering and refunding customer deposits. It also authorizes customer deposits to be calculated using an average monthly bill for a 2-month period. The utility's current customer deposit does not represent a deposit based on an average monthly bill for a 2-month period. Staff has calculated customer deposits using recommended rates and an average monthly bill for a 2-month period. A schedule of the utility's existing and staff's preliminary deposits follows:

Water

Residential Service

Meter Size	Existing deposit	Recommended deposit
5/8" x 3/4"	$14.00	$56.00
All over 5/8" x 3/4"	N/A	2 x average bill

Water

General Service

Meter Size	Existing deposit	Recommended deposit
5/8" x 3/4"	$14.00	$56.00
1"	$25.00	N/A
1 ½"	$50.00	N/A
2"	$75.00	N/A

3"	$150.00	N/A
4"	$225.00	N/A
All over 5/8" x 3/4"	N/A	2 x average bill

Wastewater

Residential Service

Meter Size	Existing deposit	Recommended deposit
5/8" x 3/4"	$18.00	$45.00
All over 5/8" x 3/4"	N/A	2 x average bill

Wastewater

General Service

Meter Size	Existing deposit	Recommended deposit
5/8" x 3/4"	$18.00	$51.00
1"	$35.00	N/A
1 ½"	$70.00	N/A
2"	$100.00	N/A
3"	$200.00	N/A
4"	$300.00	N/A
All over 5/8" x 3/4"	N/A	2 x average bill

The utility currently has a tariffed charge for customer deposits. Pennbrooke has never charged its customers a deposit and does not plan on charging its new customers an initial deposit. However the utility would like to keep its customer deposit tariff to charge customers with a poor payment record pursuant to Rule 25-30.311(7), Florida Administrative Code. Therefore, staff has not increased customer deposits in the calculation of capital structure for future customers.

The utility should file revised tariff sheets, which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filled and approved, the customer deposits should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed.

ISSUE 15: What are the appropriate miscellaneous charges for this utility?

RECOMMENDATION: The appropriate miscellaneous service charges are those charges as recommended in the staff analysis. The utility should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the miscellaneous service charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed. (WALKER, FITCH)

STAFF ANALYSIS: Staff recommends that the utility be authorized to collect charges consistent with Rule 25-30.460, Florida Administrative Code, and past Commission practice. The recommended charges are designed to defray the costs associated with each service and place the responsibility of the cost on the person creating it rather than on the rate paying body as a whole. No expenses incurred for miscellaneous service charges were included in the calculation of test year operating expenses. A schedule of staff's preliminary charges follows:

	Water	
Description	Existing	Staff's Recommended Charges
Initial Connection	$10.00	$15.00
Normal Reconnection	$10.00	$15.00
Violation Reconnection	$10.00	$15.00
Premises Visit(in lieu of disconnection)	$8.00	$10.00

Wastewater

Description	Existing	Staff's Recommended Charges
Initial Connection	$10.00	$15.00
Normal Reconnection	$10.00	$15.00
Violation Reconnection	$10.00	Actual Cost
Premises Visit(in lieu of disconnection)	$8.00	$10.00

Definition of each charge is provided for clarification:

Initial Connection - this charge would be levied for service initiation at a location where service did not exist previously.

Normal Reconnection - this charge would be levied for transfer of service to a new customer account, a previously served location or reconnection of service subsequent to a customer requested disconnection.

Violation Reconnection - this charge would be levied prior to reconnection of an existing customer after disconnection of service for cause according to Rule 25-30.320(2), Florida Administrative Code, including a delinquency in bill payment.

Premises Visit Charge (in lieu of disconnection) - this charge would be levied when a service representative visits a premises for the purpose of discontinuing service for non-payment of a due and collectible bill and does not discontinue service, because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill.

The utility should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the miscellaneous service charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed.

ISSUE 16: Should the recommended rates be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility?

RECOMMENDATION: Yes. Pursuant to Section 367.0814(7), Florida Statues, the recommended rates should be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility. Prior to implementation of any temporary rates, the utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the utility shall be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility should file reports with the Commission's Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (CIBULA, WALKER, FITCH)

STAFF ANALYSIS: This recommendation proposes an increase in water rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, pursuant to Section 367.0814(7), Florida Statutes, in the event of a protest filed by a party other than the utility, staff recommends that the recommended rates be approved as temporary rates. The recommended rates collected by the utility shall be subject to the refund provisions discussed below.

The utility should be authorized to collect the temporary rates upon the staff's approval of appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of $78,254 for water and wastewater combined. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

If the utility chooses a bond as security, the bond should contain wording to the effect that it will be terminated only under the following conditions:'

1) The Commission approves the rate increase; or

2) If the Commission denies the increase, the utility shall refund the amount collected that is attributable to the increase.

If the utility chooses a letter of credit as a security, it should contain the following conditions:

1) The letter of credit is irrevocable for the period it is in effect.

2) The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

If security is provided through an escrow agreement, the following conditions should be part of the agreement:

1) No refunds in the escrow account may be withdrawn by the utility without the express approval of the Commission.

2) The escrow account shall be an interest bearing account.

3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.

4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility.

5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.

6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.

7) This escrow account is established by the direction of the Florida Public Service

Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.

8) The Director of Records and Reporting must be a signatory to the escrow agreement.

This account must specify by whom and on whose behalf such monies were paid.

In no instance should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the utility. Irrespective of the form of security chosen by the utility, an account of all monies received as result of the rate increase should be maintained by the utility. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code.

The utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility should file reports with the Commission Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

ISSUE 17: Should this docket be closed?

RECOMMENDATION: No. If no timely protest is received upon expiration of the protest period, the PAA Order will become final upon the issuance of a Consummating Order. However, this docket should remain open for an additional 9 months from the effective date of the Order to allow staff to verify completion of meter installations and collection system repairs as described in Issue No. 5. Once staff has verified that this work has been completed, the docket should be closed administratively. (CIBULA, WALKER, FITCH)

STAFF ANALYSIS: Staff has recommended that the utility install two meters for unmetered customers, and make repairs to the collection system. If no timely protest is received upon expiration of the protest period, the PAA Order will become final upon the issuance of a Consummating Order. However, this docket should remain open for an additional 9 months from the effective date of the Order to verify that this work has been completed. Once staff has verified that the work has been completed, the docket should be closed administratively.

PENNBROOKE UTILITIES, INC. TEST YEAR ENDING 9/30/01 SCHEDULE OF WATER RATE BASE			SCHEDULE NO. 1-A DOCKET NO. 001382-WS
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	$1,110,101	$191,314	$1,301,415
2. LAND & LAND RIGHTS	$21,115	$0	$21,115
3. NON-USED AND USEFUL	$0	($34,436)	($34,436)
4. CIAC	($506,218)	($36,758)	($542,976)
5. ACCUMULATED DEPRECIATION	($412,581)	($92,598)	($505,179)
6. AMORTIZATION OF CIAC	$105,071	$35,320	$140,391
7. WORKING CAPITAL ALLOWANCE	$0	$15,939	$15,939
8. WATER RATE BASE	$317,488	$78,781	$396,269

PENNBROOKE UTILITIES, INC. TEST YEAR ENDING 9/30/01 SCHEDULE OF WASTEWATER RATE			SCHEDULE NO. 1-B DOCKET NO. 001382-WS
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	$1,693,393	$146,071	$1,839,464
2. LAND & LAND RIGHTS	$57,035	$0	$57,035
3. NON-USED AND USEFUL	$0	$0	$0
4. CIAC	($903,278)	$0	($903,278)
5. ACCUMULATED DEPRECIATION	($369,409)	($53,113)	($422,522)
6. AMORTIZATION OF CIAC	$184,932	$21,835	$206,767
7. WORKING CAPITAL ALLOWANCE	$0	$12,898	$12,898
8. WASTEWATER RATE BASE	$662,673	$127,691	$790,364

PENNBROOKE UTILITIES, INC. TEST YEAR ENDING 9/30/01 ADJUSTMENTS TO RATE BASE	SCHEDULE NO. 1-C DOCKET NO. 001382-WS	
	WATER	WASTEWATER
UTILITY PLANT IN SERVICE		
1. Capitalized Plant from repairs and maint. and Act# 620 and 720	$7,101	$209
2. Capitalized Meters from Act# 615 and 620	4,626	0
3. Capitalized pipe finding equipment from Act# 675 and 775	1,391	1,391
4. From CWIP	49,771	0
5. Unrecorded labor to be capitalized	12,425	0
6. Remove Abandoned Spray field	0	(28,626)
7. Pro-forma additions	116,000	173,097
Total	$191,314	$146,071
LAND		
1. To reflect land value per original cost study.	$0	$0
NON-USED AND USEFUL PLANT		
1. To reflect projected year end non-used and useful plant	($91,307)	$0
2. To reflect projected year end non-used and useful acc. depr.	56,871	0
Total	($34,436)	$0
CIAC		
1. To reflect CIAC based on number of new connections	($36,000)	$0
2. Reflect Meter Installation (Actual Cost)	(758)	0
Total	($36,758)	$0
ACCUMULATED DEPRECIATION		
1. To reflect accumulated depreciation per staff	($39,104)	$23,112
2. Remove Depr. on Spray field	0	4,487
3. Adjustment for projected test year	(51,359)	(75,002)
4. Pro-forma adjustment	(2,135)	(5,710)
Total	($92,598)	($53,113)
AMORTIZATION OF CIAC		
1. To reflect accumulated amortization of CIAC	$11,795	($18,821)
2. Adjustment for projected test year	23,525	40,656
Total	$35,320	$21,835
WORKING CAPITAL ALLOWANCE		
1. To reflect 1/8 of test year O & M expenses	$15,939	$12,898

PENNBROOKE UTILITIES, INC.
TEST YEAR ENDING 9/30/01
SCHEDULE OF CAPITAL

SCHEDULE NO. 2
DOCKET NO. 001382-WS

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	$50	$0	$50					
2. RETAINED EARNINGS	(599,388)	278,312	(321,076)					
3. PAID IN CAPITAL	249,950	0	249,950					
4. OTHER COMMON EQUITY	0	71,076	71,076					
5. TOTAL COMMON EQUITY	($349,388)	$349,388	0	0	0	0.00%	9.94%	0.00%
6. LONG TERM DEBT	827,228	0	827,228	52,101	879,329	74.10%	9.00%	6.67%
7. LONG TERM DEBT (Pro Forma)	0	289,097	289,097	18,208	307,305	25.90%	9.00%	2.33%
8. CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	6.00%	0.00%
9. TOTAL	$477,840	$638,485	$1,116,325	$70,309	$1,186,634	100.00%		9.00%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	8.94%	10.94%
OVERALL RATE OF RETURN	9.00%	9.00%

PENNBROOKE UTILITIES, INC.
TEST YEAR ENDING 9/30/01
SCHEDULE OF WATER OPERATING INCOME

SCHEDULE NO. 3-A
DOCKET NO. 001382-WS

	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	$195,574	$67,896	$263,470	($39,670) -15.06%	$223,800
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	62,905	64,610	127,515	0	127,515
3. DEPRECIATION (NET)	15,613	11,697	27,310	0	27,310
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	21,735	13,361	35,096	(1,785)	33,311
6. INCOME TAXES	0	0	0	0	0
7. TOTAL OPERATING EXPENSES	$100,253	$89,668	$189,921	($1,785)	$188,136
8. OPERATING INCOME/(LOSS)	$95,321		$73,549		$35,664
9. WATER RATE BASE	$317,488		$396,269		$396,269
10. RATE OF RETURN	30.02%		18.56%		9.00%

PENNBROOKE UTILITIES, INC.
TEST YEAR ENDING 9/30/01
SCHEDULE OF WASTEWATER OPERATING INCOME

SCHEDULE NO. 3-B
DOCKET NO. 001382-WS

	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	$100,434	$37,994	$138,428	$113,194 81.77%	$251,622
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	49,162	54,025	103,187	0	103,187
3. DEPRECIATION (NET)	6,722	37,261	43,983	0	43,983
4. AMORTIZATION	0	3,488	3,488	0	3,488
5. TAXES OTHER THAN INCOME	16,061	8,676	24,737	5,094	29,831
6. INCOME TAXES	0	0	0	0	0
7. TOTAL OPERATING EXPENSES	$71,945	$103,450	$175,395	$5,094	$180,489
8. OPERATING INCOME/(LOSS)	$28,489		($36,967)		$71,133
9. WASTEWATER RATE BASE	$662,673		$790,364		$790,364
10. RATE OF RETURN	4.30%		-4.68%		9.00%

PENNBROOKE UTILITIES, INC. TEST YEAR ENDING 9/30/01 ADJUSTMENTS TO OPERATING INCOME	SCHEDULE NO. 3-C DOCKET NO. 001382-	
	WATER	WASTEWATER
OPERATING REVENUES		
1. Annualize Historic Test year Revenue	$6,370	$7,220
2. Adjustment for unbilled services	2,374	1,660
3. To reflect projected annualized revenues based on existing rates	59,152	29,114
Sub-Total	$67,896	$37,994
OPERATION AND MAINTENANCE EXPENSES		
1. Salaries and Wages - Employees (601/701)		
a. Reclassify to Contractual Services-Other	($2,480)	($2,480)
b. Reflect utility allocation of salary	10,843	10,843
Sub-Total	$8,363	$8,363
2. Salaries and Wages - Management and Officers (603/703)		
a. President and Manager as allocated by utility	$17,150	$17,150
b. Vice President as allocated by utility	5,950	5,950
Sub-Total	$23,100	$23,100
3. Employee Pensions and Benefits (604/704)		
a. Add as allocated by the utility	$1,806	$1,806
4. Purchased Sludge Hauling (711)		
a. To include amount incorrectly recorded in Cont. Serv.- Other	$0	$4,800
b. Adjustment to meet engineer's recommendation	0	4,712
c. Inflation adjustment for projected test year	0	103
Sub-Total	$0	$9,512
5. Purchased Power (610/710)		
a. Reallocate amount incorrectly recorded in wastewater	$1,127	($1,127)
b. Non-utility expense	(2,151)	($1,533)
c. Reclassified to meters (337)	(1,217)	0
d. To reflect engineer's recommendation	5,745	3,086
e. Inflation adjustment for projected test year	238	249
Sub-Total	$3,742	$675
6. Fuel For Electric Power Generation (616/716)		
a. To reflect engineer's recommendation	$260	$260
7. Chemical Expense (618/718)		
a. Reclassified to (718) Wastewater	($210)	$210
b. Include amount incorrectly recorded in Materials and Supplies	805	0
c. To reflect engineer's recommendation	4,255	2,712
d. Inflation adjustment for projected test year	213	90
Sub-Total	$5,063	$3,012
8. Materials and Supplies (620/720)		
a. Reclassified to (334) Meters and Installation	($3,408)	$0
b. Reclassified to (311) Pumping and Equipment	(353)	0
c. Reclassified to (618) Chemical Expense	(805)	0
d. Reclassified to (354) Structures and Improvements	0	(209)
e. Inflation adjustment for projected test year	3	18
Sub-Total	($4,563)	($191)

PENNBROOKE UTILITIES, INC. TEST YEAR ENDING 9/30/01 ADJUSTMENTS TO OPERATING INCOME	SCHEDULE NO. 3-D DOCKET NO. 001382-WS	
	Water	Wastewater
9. Contractual Services - Testing (635/735)		
a. To allow DEP required testing	$1,142	$1,536
10. Contractual Services Other (636/736)		
a. To include transfer from Repairs and Maintenance	$2,765	$1,373
b. To include meter reader expense from salaries (601)	2,480	2,480
1. Adjusted to meet future test year projections	332	332
c. To include accounting services	429	429
d. Increase operator services to meet projected test year	1,498	1,282
e. To include engineer's recommendation for mowing	900	1,100
f. Inflation adjustment for projected test year	56	39
Sub-Total	$8,460	$7,035
11. Rents (641/741)		
a. To meet utility allocation	$1,800	$1,800
12. Transportation Expense (650/750)		
a. To meet engineer's recommendation	$1,885	$1,885
b. Utility golf cart	600	600
c. Inflation adjustment for projected test year	34	34
Sub-Total	$2,519	$2,519
13. Repairs and Maintenance (NON NARUC ACCOUNT)		
a. Reclassified to (311) Pumping and Equipment	($6,748)	$0
b. Reclassified to (636/736) Contractual Services Other	(2,765)	(1,373)
c. Reclassified to (711) Sludge Hauling Expense	0	(4,800)
Sub-Total	($9,513)	($6,173)
14. Insurance - General Liability (657/757)		
a. To meet utility allocation	$1,544	$1,055
b. Adjusted allocation for projected test year	170	82
Sub-total	$1,714	$1,137
15. Insurance - Workman's Comp (658/758)		
a. To meet utility allocation	$168	$168
16. Permits and Fees (665/765)		
a. Reclassified RAFs to Taxes Other Than Income	($6,830)	($3,321)
17. Regulatory Commission Expense (667/767)		
a. To include amortized SARC fee	$250	$250
18. Water Resource Conservation		
a. To reflect conservation programs described in issue 10	$25,000	$0
19. Miscellaneous Expenses (675/775)		
a. Amount allocated by utility to include phone, supplies, etc.	$1,392	$1,800
b. To include postage expenses	1,523	1,523
c. Transfer to Tools and Equipment	(1,391)	(1,391)
d. Adjusted allocation for projected test year	605	605
Sub-Total	$2,129	$2,537
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	$64,610	$54,025

PENNBROOKE UTILITIES, INC. TEST YEAR ENDING 9/30/01 ADJUSTMENTS TO OPERATING INCOME	SCHEDULE NO. 3-D DOCKET NO. 001382-WS	
	Water	Wastewater
DEPRECIATION EXPENSE		
1. To reflect test year depreciation calculated per 25-30.140, F.A.C.	$14,075	$40,975
2. To reflect test year amortization expense.	2,732	(3,714)
3. To reflect non-used and useful test year depreciation.	(5,110)	0
Total	$11,697	$37,261
1. AMORTIZATION OF EARLY RETIREMENT		
To reflect early retirement per 25-30.433(9), F.A.C.	$0	$3,488
TAXES OTHER THAN INCOME		
1. Payroll Taxes	$1,976	$1,976
2. Reclassified RAFs from (765) (665)	6,830	3,321
3. To reflect RAF on projected test year annualized revenue.	5,026	2,908
4. Tangible property tax reclassification	20,598	15,539
5. Remove Advalorem taxes	(21,069)	(15,068)
Total	$13,361	$8,676

PENNBROOKE UTILITIES, INC.
TEST YEAR ENDING 9/30/01
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE

SCHEDULE NO. 3-E
DOCKET NO. 001382-WS

	TOTAL PER PER	STAFF PER ADJUST.		TOTAL PER PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	$5,397	$8,363	[1]	$13,760
(603) SALARIES AND WAGES - OFFICERS	0	23,100	[2]	23,100
(604) EMPLOYEE PENSIONS AND BENEFITS	0	1,806	[3]	1,806
(610) PURCHASED WATER	0	0		0
(615) PURCHASED POWER	18,196	3,742	[5]	21,938
(616) FUEL FOR POWER PRODUCTION	0	260	[6]	260
(618) CHEMICALS	10,799	5,063	[7]	15,862
(620) MATERIALS AND SUPPLIES	4,790	(4,563)	[8]	227
(630) CONTRACTUAL SERVICES - BILLING	0	0		0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	0	0		0
(635) CONTRACTUAL SERVICES - TESTING	0	1,142	[9]	1,142
(636) CONTRACTUAL SERVICES - OTHER	5,306	8,460	[10]	13,766
(641) RENTS	0	1,800	[11]	1,800
(650) TRANSPORTATION EXPENSE	0	2,519	[12]	2,519
REPAIRS AND MAINTENANCE (NON NARUC	9,513	(9,513)	[13]	0
(657) INSURANCE EXPENSE - GENERAL LIABILITY	0	1,714	[14]	1,714
(658) INSURANCE EXPENSE - WORKMAN'S COMP	0	168	[15]	168
(665) PERMITS AND FEES	6,855	(6,830)	[16]	25
(667) REGULATORY COMMISSION EXPENSE	0	250	[17]	250
(668) WATER RESOURCE CONSERVATION	0	25,000	[18]	25,000
(670) BAD DEBT EXPENSE	0	0		0
(675) MISCELLANEOUS EXPENSES	2,049	2,129	[19]	4,178
	62,905	64,610		127,515

PENNBROOKE UTILITIES, INC.
TEST YEAR ENDING 9/30/01
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE

SCHEDULE NO. 3-F
DOCKET NO. 001382-WS

	TOTAL PER UTILITY	STAFF ADJUST-MENT		TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	$5,397	$8,363	[1]	$13,760
(703) SALARIES AND WAGES - MANAGEMENT	0	23,100	[2]	$23,100
(704) EMPLOYEE PENSIONS AND BENEFITS	0	1,806	[3]	$1,806
(710) PURCHASED SEWAGE TREATMENT	0	0		$0
(711) SLUDGE REMOVAL EXPENSE	0	9,512	[4]	$9,512
(715) PURCHASED POWER	17,874	675	[5]	$18,549
(716) FUEL FOR POWER PRODUCTION	0	260	[6]	$260
(718) CHEMICALS	3,713	3,012	[7]	$6,725
(720) MATERIALS AND SUPPLIES	1,532	(191)	[8]	$1,341
(731) CONTRACTUAL SERVICES - PROFESSIONAL	0	0		$0
(735) CONTRACTUAL SERVICES - TESTING	0	1,536	[9]	$1,536
(736) CONTRACTUAL SERVICES - OTHER	9,057	7,035	[10]	$16,092
(741) RENTS	0	1,800	[11]	$1,800
(750) TRANSPORTATION EXPENSE	0	2,519	[12]	$2,519
REPAIRS AND MAINTENANCE (NOT NARUC	6,173	(6,173)	[13]	$0
(757) INSURANCE - GENERAL LIABILITY	0	1,137	[14]	$1,137
(758) INSURANCE - WORKMAN'S COMP	0	168	[15]	$168
(765) PERMITS AND FEES	3,671	(3,321)	[16]	$350
(767) REGULATORY COMMISSION EXPENSE		250	[17]	$250
(770) BAD DEBT EXPENSE	324	0		$324
(775) MISCELLANEOUS EXPENSES	1,421	2,537	[19]	3,958
	49,162	54,025		103,187

ISSUE AND RECOMMENDATION SUMMARY

ISSUE 1: Should the Commission approve a projected year end rate base for the utility?

RECOMMENDATION: Yes, the Commission should approve a projected year end rate base for the utility to allow it an opportunity to earn a fair return on the utility's investment and to better match rate base with customer growth on a going forward basis. A projected year end test year ending September 30, 2001, should be approved. (WALKER, FITCH)

ISSUE 2: Is the quality of service provided by Pennbrooke Utilities, Inc. satisfactory?

RECOMMENDATION: Yes. The quality of service provided by Pennbrooke Utilities, Inc. should be considered satisfactory. (T. DAVIS, J. SICKEL)

ISSUE 3: Does Pennbrooke Utilities, Inc., have an excessive unaccounted for water problem?

RECOMMENDATION: No. Pennbrooke's unaccounted for water is estimated to be approximately 31,075 gpd, which is less than 10% of the water pumped. (T. DAVIS, J. SICKEL)

ISSUE 4: What portions of the utility's water treatment plant, water distribution, wastewater treatment system, and wastewater collection system are used and useful?

RECOMMENDATION: The water treatment plant should be considered 85.65% used and useful; all other systems should be considered 100% used and useful. (T. DAVIS, J. SICKEL)

ISSUE 5: What is the appropriate projected year end rate base for this utility?

RECOMMENDATION: The appropriate projected year end rate base for the utility is $396,269 for water and $790,364 for wastewater. The utility should be required to complete all pro forma additions, as discussed in the staff analysis, within nine months of the effective date of the Commission Order. (WALKER, FITCH)

ISSUE 6: What is the appropriate rate of return on equity and the appropriate overall rate of return for this utility?

RECOMMENDATION: The appropriate rate of return on equity for this utility is 9.94% with a range of 8.94% - 10.94%. The appropriate overall rate of return for this utility is 9.00%. (WALKER, FITCH)

ISSUE 7: What are the appropriate projected test year revenues?

RECOMMENDATION: The appropriate projected test year revenues for the utility are $263,470 for water and $138,428 for wastewater services. (WALKER, FITCH)

ISSUE 8: What is the appropriate amount of operating expense?

RECOMMENDATION: The appropriate amount of operating expenses for this utility is $188,136 for water and $180,489 for wastewater. (WALKER, FITCH)

ISSUE 9: What is the appropriate revenue requirement?

RECOMMENDATION: The appropriate revenue requirement is $263,470 for water and $211,952 for wastewater. (WALKER, FITCH)

ISSUE 10: What is the appropriate disposition of the overearnings associated with the water system?

RECOMMENDATION: The appropriate disposition of overearnings associated with the water system is that the utility be required to spend $25,000 of the overearnings to implement a water conservation program. The utility should, at a minimum, spend the recommended amount for each of the first two years of its conservation program, and be required to file quarterly reports with the Commission on its program covering the same two year period. These reports should list the conservation measures that were implemented during the period and the amounts expended. Staff should confer with the SJRWMD in reviewing the reports in order to evaluate the effectiveness of the program and ensure that the program and amounts spent are consistent with the Commission order. As discussed in Issue 9, the remainder of the water system overearnings should be used to offset the wastewater system revenue requirement increase. (LINGO)

ISSUE 11: What are the appropriate rate structures for this utility's water and wastewater systems?

RECOMMENDATION: The appropriate rate structures for this utility are an inclining-block rate structure for the water system and a continuation of the traditional base facility and uniform gallonage charge rate structure for the wastewater system. For the water system, the recommended usage blocks are 0-10,000 gallons (10 kgal) and over 10 kgal, with usage block rate factors of 1.0 and 1.25, respectively. A 50% conservation adjustment should also be implemented. (LINGO, RENDELL)

ISSUE 12: Is an adjustment to reflect repression or the anticipated effects of the conservation program appropriate in this case, and, if so, what is the appropriate adjustment?

RECOMMENDATION: No, based on the staff analysis below, neither a repression nor a conservation program adjustment is appropriate in this case. In order to monitor the effects of the conservation programs and rate structure changes on consumption, the utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports should be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the initial conservation program monies are expended. The utility should be ordered to file a rate restructuring case with the Commission no earlier than one year but no later than two years after the implementation of staff's recommended conservation program, at which time the water system rate structure issue should be revisited. (LINGO)

ISSUE 13: What are the appropriate rates for each system?

RECOMMENDATION: The recommended rates should be designed to produce revenue of $263,470 for the water system and $211,952 and for the wastewater system, excluding miscellaneous service charges. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice. (LINGO, WALKER, FITCH)

ISSUE 14: What are the appropriate customer deposits for this utility?

RECOMMENDATION: The appropriate customer deposits should be the recommended charges as specified in the staff analysis. The

utility should file revised tariff sheets, which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the customer deposits should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed. (WALKER, FITCH)

ISSUE 15: What are the appropriate miscellaneous charges for this utility?

RECOMMENDATION: The appropriate miscellaneous service charges are those charges as recommended in the staff analysis. The utility should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the miscellaneous service charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed. (WALKER, FITCH)

ISSUE 16: Should the recommended rates be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility?

RECOMMENDATION: Yes. Pursuant to Section 367.0814(7), Florida Statues, the recommended rates should be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility. Prior to implementation of any temporary rates, the utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the utility shall be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility should file reports with the Commission's Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (CIBULA, WALKER, FITCH)

ISSUE 17: Should this docket be closed?

RECOMMENDATION: No. If no timely protest is received upon expiration of the protest period, the PAA Order will become final upon the issuance of a Consummating Order. However, this docket should remain open for an additional 9 months from the effective date of the Order to allow staff to verify completion of meter installations and collection system repairs as described in Issue No. 5. Once staff has verified that this work has been completed, the docket should be closed administratively. (CIBULA, WALKER, FITCH)