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: October 7, 2004

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

FROM: Division of Economic Regulation (Joyce, Kyle, Merchant, Redemann, Willis)
Office of the General Counsel (Gervasi)

RE: Docket No. 030445-SU – Application for rate increase in Lee County by Utilities, Inc. of Eagle Ridge.

AGENDA: 10/19/04 – Regular Agenda – Proposed Agency Action, except for Issues 13 and 14 – Interested Persons May Participate

CRITICAL DATES: 5-Month Effective Date (PAA Rate Case): Extended to 10/19/04

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\030445.RCM.DOC

Case Background

Utilities, Inc. of Eagle Ridge (Eagle Ridge or utility) is a Class B utility providing wastewater service in Lee County, Florida. Water service is provided by Lee County. According to its 2002 annual report, Eagle Ridge serves approximately 2,792 customers with gross revenues of $698,437 and a net operating income of $59,661. The utility provides service to two areas: the Eagle Ridge Development and the Cross Creek Community Association, Inc. Each area has a separate wastewater treatment plant.

On November 17, 2003, the utility filed for approval of final and interim rate increases, pursuant to Sections 367.081 and 367.082, Florida Statutes. However, the information submitted did not satisfy the minimum filing requirements (MFRs) for a general rate increase. The utility resubmitted its MFRs on February 17, 2004, which was originally established as the official filing date. On May 12, 2004, however, the utility again revised its MFRs and the amount of its requested rate increase. May 12, 2004, was then designated as the official filing date pursuant to

Section 367.083, Florida Statutes. The utility has requested that the Commission process this case under the proposed agency action (PAA) procedure.

The test year for interim and final purposes is the historical test year ended December 31, 2002. By Order No. PSC-04-0720-PCO-SU, issued July 26, 2004, in this docket, the Commission approved an interim revenue increase of $62,666 (or 8.80%) for wastewater. The interim rates are subject to refund with interest, pending the conclusion of the rate case. The utility has requested final wastewater revenues of $836,821. This represents an increase of $124,485, or 17.48%.

The five-month statutory deadline for the Commission to vote on the utility's requested final rates has been extended to October 19, 2004. This recommendation addresses the revenue requirement and rates that should be approved on a prospective basis. The Commission has jurisdiction pursuant to Section 367.081, Florida Statutes.

Discussion of Issues

Quality of Service

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

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

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

Quality of the Product and Operating Conditions

Staff contacted the Department of Environment Protection (DEP) and performed field inspections at the Eagle Ridge and Cross Creek systems. According to the DEP, the utility is meeting all applicable wastewater treatment standards and all operating permits are current for both the Eagle Ridge and Cross Creek systems. The operating permit for the Eagle Ridge wastewater treatment plant, which was in effect during the test year, expired on January 14, 2003, and a new, revised operating permit was subsequently issued. The new permit requires the replacement of a standby filter by October 15, 2005. Staff inspected the utility's lift stations, treatment plants, and reuse facilities and found them to be in good working order, with the exception of some minor deficiencies which were subsequently corrected.

Customer Satisfaction

A customer meeting was held on July 15, 2004, near the utility service area and two customers attended. One of the customers indicated that he was not concerned about the rate increase; however, he was concerned that the Eagle Ridge plant might be over capacity and that occasionally the plant smells bad. Staff explained that the plant does not appear to be over capacity and further described the steps taken by the utility to control the plant odor. The utility injects a chemical into the treatment system to control odor and recently enclosed a portion of the treatment plant with stainless steel boxes as an additional precautionary measure.

The DEP had received some odor complaints and, as a part of the operating permit renewal, the local homeowners and the utility developed an odor detection program to determine the source and cause of the odors. DEP was unable to confirm an odor problem and indicated that the homeowners did not want to pursue the issue further.

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

Summary

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

Rate Base

Issue 2: Are any rate base adjustments appropriate?

Recommendation: Yes. The following adjustments should be made:

	Plant	Accumulated Depreciation	Depreciation Expense
Organization Cost (A/E 2)	($14,483)	$543	($362)
Miscellaneous Plant (A/E 3 & 4)	($27,081)	4,439	($1,415)
Retirements (A/D 3)	($306,117)	306,117	($16,789)
Pro Forma Plant (A/D 1)	(45,285)	1,906	(1,906)
Retirement on Pro Forma	(25,399)	25,399	(1,412)
WSC Common Plant (A/E5)	25,263	0	0
Total:	($393,102)	$338,404	($22,268)

An adjustment is also recommended to reflect a post-test year customer, as follows:

	CIAC	Accum. Amort. of CIAC	Test Year Amortization	Test Year Revenues
Post-Test Year Customer	($7,008)	$304	($304)	$1,563

(Joyce)

Staff Analysis: The staff auditors reviewed the utility's rate base accounts to determine the appropriate balances at the end of the test year. The audit report contained several recommended adjustments, the majority of which the utility agreed to make. In its revised MFRs submitted on May 12, 2004, the utility made many of the auditor's recommended adjustments. This issue addresses the audit adjustments not made by the utility and additional adjustments recommended by staff. Listed below are the adjustments per the audit, additional staff adjustments and staff's total recommended adjustments.

Organization Costs

In Audit Exception No. 2, the staff auditors recommended reductions to plant, accumulated depreciation, and depreciation expense for acquisition and undocumented costs. The utility agreed with the adjustments and made the majority of the audit reductions with the exception of $14,483. Staff recommends that plant should be reduced by $14,483, with corresponding reductions of $543 and $362 for accumulated depreciation and depreciation expense, respectively.

Miscellaneous Plant

In Audit Exception No. 3, the staff auditors recommended several adjustments to remove misclassified plant and unsupported plant. The utility agreed that adjustments should be made to these accounts. Staff made additional adjustments to accumulated depreciation and depreciation expense to correct the depreciation rate. In Audit Exception No. 4, the auditors recommended that unapproved charges for allowance for funds used during construction (AFUCD) be removed for the years 1998-2001. The utility did not have an authorized AFUDC rate approved by the Commission for those years. Therefore, pursuant to Rule 25-30.116 (5), Florida Administrative Code, the utility could not capitalize AFUDC. The adjustments are shown below:

Miscellaneous Plant -Exception No. 3 and 4	Adj. per Audit	Add'l Adj. per Staff	Total Staff Adjustment
Decrease Plant	($27,081)	$0	$(27,081)
Decrease Accumulated Depreciation	$2,484	$1,955	$4,439
Decrease Depreciation Expense	($2,484)	$1,069	($1,415)

Plant Retirements

In Audit Disclosure No. 3, the auditors stated that the utility failed to make proper retirements for plant improvements and requested that the utility provide the proper retirement entries. The utility subsequently provided a response to this disclosure, which included the dates that the original plant items were placed in service and a copy of the original invoice for a retired filter on the Eagle Ridge plant. The utility also provided calculations for proper retirement entries consistent with its policy. Staff has reviewed the utility's calculations and made one correction to make all of the entries consistent with the utility's methodology. Based on the above, staff recommends that plant and accumulated depreciation each be decreased by $306,117 and depreciation expense be decreased by $16,789. The adjustments are shown below:

Plant Retirements -Disclosure No. 3	Adj. per Audit	Add'l Adj. per Staff	Total Staff Adjustment
Decrease Plant	$0	($306,117)	($306,117)
Decrease Accumulated Depreciation	$0	$306,117	$306,117
Decrease Depreciation Expense	$0	($16,789)	($16,789)

Pro Forma Plant

In its MFRs, the utility requested pro forma plant additions of $209,780. In Audit Disclosure No. 1, the auditors recommended adjustments to reflect the actual costs above those projected, and removed those projects that were improperly supported or scheduled to be completed in 2005. The auditors recommended total pro forma plant of $42,011. After reviewing the utility responses to several data requests, staff believes that pro forma plant should be increased by $130,000 to reflect the estimated cost of installing an aqua disk filter, as required by DEP. Staff also reduced the pro forma plant to retire the old filter at its original cost. Staff also made corresponding adjustments to accumulated depreciation and depreciation expense. The adjustments are shown below:

Pro Forma Plant Additions -Disclosure No. 1	Adj. per Audit	Add'l Adj. per Staff	Total Staff Adjustment
Decrease Pro Forma Plant-per MFRs	($167,769)	$122,484	($45,285)
Decrease Accumulated Depreciation	$8,718	($6,812)	$1,906
Decrease Depreciation Expense	($8,718)	$6,812	($1,906)
Decrease Related Plant Retirements	$0	($25,399)	($25,399)
Decrease Related Plant Accumulated	$0	$25,399	$25,399
Decrease Related Plant Depreciation Expense	$0	($1,412)	($1,412)

Common Plant Allocation

In Audit Exception No. 5, the auditors stated that the utility's general ledger did not include any common plant allocations from Water Services Corporation (WSC). WSC provides administrative services to the operating subsidiaries of Utilities, Inc. and Eagle Ridge's share of common plant was $25,263. Staff recommends that Eagle Ridge's plant be increased by $25,263 to reflect the appropriate allocation of WSC common plant, net of accumulated depreciation. No adjustment to depreciation expense is necessary because the utility correctly included those costs in allocated expenses.

Contributions in Aid of Construction (CIAC)

After the test year, a large church was added as a new general service customer. Because the growth in the service area is low, staff believes that this change should be made as a pro forma adjustment to the test year. Accordingly, staff has increased CIAC by $7,008 and made corresponding adjustments to accumulated amortization of CIAC, test year amortization of CIAC and test year revenues.

Summary

Below is a summary of staff's recommended adjustments for this issue.

	Plant	Accumulated Depreciation	Depreciation Expense
Organization Cost (A/E 2)	($14,483)	$543	($362)
Miscellaneous Plant (A/E 3 & 4)	($27,081)	4,439	($1,415)
Retirements (A/D 3)	($306,117)	306,117	($16,789)
Pro Forma Plant (A/D 1)	(45,285)	1,906	(1,906)
Retirement on Pro Forma	(25,399)	25,399	(1,412)
WSC Common Plant (A/E5)	25,263	0	0
Total:	($393,102)	$338,404	($22,268)

An adjustment is also recommended to reflect a post-test year customer, as follows:

	CIAC	Accum. Amort. of CIAC	Test Year Amortization	Test Year Revenues
Post-Test Year Customer	($7,008)	$304	($304)	$1,563

Issue 3: What are the used and useful percentages of the utility's wastewater treatment plant, wastewater collection system, and reuse water system?

Recommendation: The Eagle Ridge wastewater treatment plant is 90.25% used and useful. The Cross Creek wastewater treatment plant is 100% used and useful. The wastewater collection and reuse systems should be considered 100% used and useful. While no change to the utility's percentage is recommended, staff has made adjustments addressed in Issue 2 and reclassifications to correct the amount of reuse related plant. This results in corresponding changes in the non-used and useful plant adjustments. (Redemann, Joyce)

Staff Analysis: Pursuant to Rule 25-30.432, Florida Administrative Code, used and useful for a wastewater treatment plant is to be calculated by comparing the test year flows and the DEP permitted capacity. The basis for the test year flows should be the same basis that DEP used to determine the permitted capacity. Other factors including growth, infiltration, inflow, and design capacity should also be considered. Eagle Ridge has two wastewater treatment plants, which are identified as Eagle Ridge and Cross Creek.

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

	Wastewater Plant	Collection Lines	Reuse System
Eagle Ridge	90.25%	100%	100%
Cross Creek	100.00%	100%	100%

The utility did not include a growth allowance in its calculations. The Eagle Ridge community is almost built out. There are four residential lots and a commercial parcel that have not yet been developed. The Cross Creek community is completely built out. Neither wastewater system appears to have a problem with infiltration or inflow. Section 367.0817(3), Florida Statutes, requires that all prudent costs of a reuse project be recovered in rates. Staff believes that the costs of the reuse systems are prudent. Therefore, staff recommends that the reuse plant should be considered 100% used and useful.

The utility calculated a composite used and useful factor of 94.06% to apply to the combined system plant, accumulated depreciation and depreciation expense accounts. Staff recommends that the utility's proposed used and useful calculations are reasonable and should be accepted. Therefore, staff recommends that the Eagle Ridge wastewater treatment plant is 90.25% used and useful and the Cross Creek wastewater treatment plant is 100% used and useful. The wastewater collection and reuse systems should be considered 100% used and useful.To reflect adjustments recommended in Issue 2 and reclassifications of reuse related plant, staff has made corresponding adjustments to non-used and useful plant, as shown on the rate base and operating income adjustment Schedules 1-B and 3-B.

Issue 4: What is the appropriate working capital allowance?

Recommendation: The appropriate working capital allowance is $68,800 using the balance sheet method. (Joyce)

Staff Analysis: Rule 25-30.433(2), Florida Administrative Code, requires that Class B utilities use the formula method, or one-eighth of O&M expenses, to calculate the working capital allowance. The utility has properly filed its allowance for working capital using the formula method. Staff has recommended several adjustments to the utility's O&M expenses. Due to the adjustments recommended in other issues, staff recommends a working capital allowance of $68,800. This reflects an increase of $899 to the utility's requested working capital allowance of $67,901.

Issue 5: What is the appropriate rate base?

Recommendation: The appropriate rate base for the test year ending December 31, 2002, is $1,413,897. (Joyce)

Staff Analysis: Staff has calculated Eagle Ridge's rate base using the utility's MFRs with adjustments as recommended in the preceding issues, as $1,413,897. Staff's recommended rate base is shown on Schedule No. 1-A, and the adjustments are shown on Schedule No. 1-B.

Cost of Capital

Issue 6: Are any adjustments necessary to the capital structure and what is the appropriate return on equity and weighted cost of capital for the test year ending December 31, 2002?

Recommendation: Deferred taxes should be increased by $47,014 to reflect the special tax depreciation allowance claim by the utility. The appropriate cost of equity should be 11.21%, with a range of 10.21% to 12.21%, and the overall cost of capital should be 8.25%, with a range of 7.86% to 8.63%. (Kyle)

Staff Analysis: In its MFRs, the utility used the debt and equity ratios of its parent, UI, to prorate Eagle Ridge's share of the parent's capital. The utility reflected accumulated deferred income taxes that are specifically attributable to Eagle Ridge and included the actual balance of customer deposits. Using the Commission's 2003 leverage formula, the utility reflected a cost of 11.97% for equity, and requested an overall cost of capital of 8.85%.

The utility and staff agree that Eagle Ridge's MFRs do not reflect the effect of the utility's claim of a special tax depreciation allowance. Staff recommends that Eagle Ridge's deferred taxes should be increased by $47,014 to reflect the impact of the utility's claim of the special tax depreciation allowance on historical plant, as well as for staff's previously recommended pro forma plant. Thus, staff recommends that the appropriate balance of deferred taxes should be $85,742.

The current leverage formula was approved by Order No. PSC-04-0587-PAA-WS, issued June 10, 2004, in Docket No. 040006-WS, In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S. Based on the current leverage formula and the utility's equity ratio, staff recommends the appropriate cost of equity should be 11.21%, with a range of 10.21% to 12.21%. Based on the above, staff recommends that the overall cost of capital should be 8.25%, with a range of 7.86% to 8.63%. Staff's recommended cost of capital is shown on Schedule No. 2.

Net Operating Income

Issue 7: Are there any O&M expense adjustments that should be made related to employee salaries and benefits as a result of staff's audit?

Recommendation: Yes. Employee salaries and health cost should be decreased by $4,696 and $4,491, respectively. Employee insurance cost should be increased by $711. A corresponding reduction of $397 should also be made to payroll taxes. (Joyce)

Staff Analysis: In its MFRs, Eagle Ridge made pro forma adjustments to employee salaries of $4,696, which represented an increase of 3.00%. The utility also made pro forma adjustments to increase health costs by $7,154, employee insurance costs by $4,333 and payroll taxes by $397. The health and employee insurance pro forma adjustments represented increases of 25.86% and 36.88%, respectively, over test year expenses.

In Audit Disclosure No. 2, the staff auditors stated that the 3.00% increase in salaries was not warranted because the utility's 2003 historical salaries actually decreased by 14.55% over the corresponding 2002 test year salaries. Staff auditors state that the decrease was the result of personnel reassignments and may be temporary in nature, however they recommend that the pro forma increase of $4,696 should be removed. Additionally, the staff auditors stated that actual health costs increased by 9.83% and actual insurance costs increased by 42.93%. As a result, the auditors recommended that health costs be reduced by $4,491 and employee insurance be increased by $711, and payroll taxes be reduced by $397.

The utility did not dispute these audit adjustments, and staff agrees that these adjustments should be made. Therefore, staff recommends that employee salaries and health cost should be decreased by $4,696 and $4,491, respectively and employee insurance cost should be increased by $711. A corresponding reduction of $397 should also be made to payroll taxes.

Issue 8: What is the appropriate amount of rate case expense?

Recommendation: The appropriate rate case expense for this docket is $62,646. This expense should be recovered over four years for an annual expense of $15,661. (Joyce)

Staff Analysis: In its MFRs, the utility reflected a $103,634 estimate for rate case expense to process this case. Staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. The utility submitted a revised estimated rate case expense through completion of the PAA process of $73,336. Pursuant to Section 367.081(7), Florida Statutes, the Commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. Staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Staff believes that the revised estimate is reasonable after adjustments are made to remove duplications associated with MFR revisions and a revised filing.

Staff reviewed the utility's discovery responses and calculated that the consultant spent 35 hours responding to MFR deficiencies and revising the utility's filing. Staff recommends a reduction of $3,500 in fees and $129 in expenses. Staff's analysis reflects that the utility's attorneys billed the utility $5,592 for legal fees and expenses associated with duplicative filings. A corresponding reduction should also be made to reduce the WSC in-house fees and miscellaneous expenses by $1,260 and $210, respectively. In total, staff recommends that $10,690 be removed as duplicative and unreasonable rate case expense.

Staff recommends that the appropriate total rate case expense is $62,646. A breakdown of the allowance of rate case expense is as follows:

	MFR Estimated	Utility Revised Actual &Estimated	Staff Adjustments	Total
Filing Fee	$3,500	$3,500	$0	$3,500
Legal Fees	42,750	24,531	(5,592)	18,939
Consultant Fees	25,000	28,097	(3,629)	24,468
WSC In-house Fees	13,137	13,029	(1,260)	11,769
Miscellaneous Expense	19,250	4,179	(210)	3,969
Total Rate Case Expense	$103,634	$73,336	($10,690)	$62,646
Amortization	$25,909			$15,661

The recommended total rate case expense should be amortized over four years, pursuant to Section 367.0816, Florida Statutes. Based on the data provided by the utility and the staff recommended adjustments mentioned above, staff recommends annual rate case expense of $15,661.

In its MFRs, the utility requested total rate case expense of $103,634, which amortized over four years would be $25,909. The utility's revenue calculation should have reflected $25,909 in annual amortization but only reflected $6,477. In order to reflect the correct test year amortization, staff recommends that O&M expenses should be increased by $9,184.

Issue 9: What is the test year wastewater operating income before any revenue increase?

Recommendation: Based on the adjustments discussed in previous issues, staff recommends that the test year wastewater operating income before any provision for increased revenues should be $57,642. (Joyce)

Staff Analysis: Staff recommends that the test year net operating loss/income before any revenue increase should be $57,642. Staff's recommended NOI is reflected on Schedule No. 3-A, with adjustments shown on Schedule 3-B.

Revenue Requirement

Issue 10: What is the appropriate revenue requirement?

Recommendation: The following revenue requirement should be approved. (Joyce)

Test Year Revenues	$ Increase	Revenue Requirement	% Increase
$713,889	$98,955	$812,854	13.86%

Staff Analysis: Eagle Ridge requested final rates designed to generate annual revenues of $836,821. These revenues exceed test year revenues by $124,485, or 17.48%.

Based upon staff's recommendations concerning the underlying rate base, cost of capital, and operating income issues, staff recommends approval of rates that are designed to generate a revenue requirement of $812,854. These revenues exceed staff's adjusted test year revenues by $98,955, or 13.86%. This increase will allow the utility the opportunity to recover its expenses and earn a 8.25% return on its investment in rate base.

Rates and Rate Structure

Issue 11: What are the appropriate wastewater rates for this utility?

Recommendation: The appropriate monthly rates are shown on Schedule No. 4. Staff's recommended rates are designed to produce revenues of $811,299, excluding miscellaneous service charge revenues. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Kyle, Merchant)

Staff Analysis: The staff's recommended revenue requirement is $812,854. After excluding miscellaneous service charges of $1,555, the revenue to be recovered through rates is $811,299.

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

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

Allocation of Revenues Recovered from Rates	Gallons Wastewater Treated	% to Total	Revenues from Rates
Eagle Ridge	88,833	75.97%	$616,305
Cross Creek	28,106	24.03%	$194,994
Total	116,939	100.00%	$811,299

In calculating the Cross Creek rates staff took the allocated revenue requirement and divided it by the number of units in the Association and then by twelve for a monthly rate. For the Eagle Ridge system, rates were calculated using test year data for the total number of bills and gallons of water used for both residential and general customers. Staff then allocated 38% of the Eagle Ridge revenue requirement to the base facility and 62% to the gallonage charge. Staff then applied the general service gallonage differential to recognize that residential customers return approximately 80% of water to the wastewater system compared to 96% for general service. A comparison of the utility's original rates and requested final rates, the Commission approved interim rates and staff's recommended rates is shown on Schedule No. 4.

The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), Florida Administrative Code. The rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

Issue 12: In determining whether any portion of the interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

Recommendation: The proper refund amount should be calculated by using the same data used to establish final rates, excluding the pro forma adjustments for a plant filter and rate case expense. This revised revenue requirement for the interim collection period should be compared to the amount of interim revenues granted. Using these principles, staff recommends that no interim refund should be required. (Joyce)

Staff Analysis: By Order No. PSC-04-0415-PCO-SU, issued April 22, 2004, the Commission authorized the collection of interim wastewater rates, subject to refund, pursuant to Section 367.082, Florida Statutes. The approved interim revenue requirements are shown below:

	Revenue Requirement	Revenue Increase	Percentage Increase
Wastewater	$775,002	$62,666	8.80%

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

In this proceeding, the test period for establishment of interim and final rates is the twelve-month period ended December 31, 2002. Eagle Ridge's approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the floor of the last authorized range for equity earnings. To establish the proper refund amount, staff has calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate case expense and the pro forma adjustments for a plant filter were excluded because those items are prospective in nature and did not occur during the interim collection period.

Using the principles discussed above, staff has calculated the interim revenue requirement for the interim collection period to be $778,309. The wastewater revenues for the interim collection period are greater than the interim revenues granted in Order No. PSC-04-0720-PCO-SU. Therefore, staff recommends that no interim refund should be required.

Issue 13: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense?

Recommendation: The rates should be reduced as shown on Schedule No. 4 to remove $16,339 for rate case expense, grossed-up for regulatory assessment fees (RAFs), which is being amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. (Joyce)

Staff Analysis: Section 367.0816, Florida Statutes, requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for RAFs, which is $16,339. The decreased revenues will result in the rate reduction recommended by staff on Schedule No. 4.

The utility should be required to file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), Florida Administrative Code. The rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense.

Other Issues

Issue 14: Should the utility be required to provide proof that it has adjusted its books for all Commission approved adjustments?

Recommendation: Yes. To ensure that the utility adjusts its books in accordance with the Commission's decision, Eagle Ridge should provide proof, within 90 days of the issuance date of a final order in this docket, that the adjustments for all the applicable primary accounts have been made. (Joyce)

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

Issue 15: Should the docket be closed?

Recommendation: Yes. If no person whose substantial interests are affected by the proposed agency action issues files a protest within twenty-one days of the issuance of the order, a consummating order will be issued and this docket should be closed upon staff's verification that the revised tariff sheets and customer notice have been filed in accordance with the Commission's decision. Once the tariff sheets and customer notice have been approved by staff, the corporate undertaking may be released. When the PAA issues are final and the tariff and notice actions are complete, this docket may be closed administratively. (Gervasi)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action issues files a protest within twenty-one days of the issuance of the order, a consummating order will be issued and this docket should be closed upon staff's verification that the revised tariff sheets and customer notice have been filed in accordance with the Commission's decision. Once the tariff sheets and customer notice have been approved by staff, the corporate undertaking may be released. When the PAA issues are final and the tariff and notice actions are complete, this docket may be closed administratively.

Utilities, Inc. of Eagle Ridge
Schedule of Wastewater Rate Base
Test Year Ended 12/31/02

Schedule No. 1-A

	Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1	Utility Plant in Service	$5,501,501	$103,112	$5,604,613	($393,102)	$5,211,511
2	Land and Land Rights	$38,246	$0	$38,246	$0	$38,246
3	Less: Non-used and Useful Plant	$0	($132,313)	($132,313)	$16,114	($116,199)
4	Construction Work in Progress	$5,194	($5,194)	$0	$0	$0
5	Less: Accumulated Depreciation	($2,138,558)	$419,850	($1,718,708)	$338,404	($1,380,304)
6	CIAC	($3,542,656)	($252,084)	($3,794,740)	($7,008)	($3,801,748)
7	Amortization of CIAC	$1,924,053	($530,765)	$1,393,288	$304	$1,393,592
8	Acquisition Adjustment-Net	$133,383	($133,383)	$0	$0	$0
9	Working Capital Allowance	$0	$67,901	$67,901	$899	$68,800
	Rate Base	$1,921,163	($462,876)	$1,458,287	($44,390)	$1,413,897

Utilities, Inc. of Eagle Ridge
Adjustments to Rate Base
Test Year Ended 12/31/02

Schedule No. 1-B

	Explanation	Wastewater
	Plant in Service	
1	Remove acquisition costs and unsupported additions (A/E 2)	($14,483)
2	Remove unsupported, misclassified and improper plant additions (A/E 3&4)	($27,081)
3	Adj for retirements not made	($306,117)
4	Adj for pro forma additions to plant	($45,285)
5	Adjust for proforma retirement	($25,399)
6	To reflect adjustment to WSC allocation	$25,263
7	Total	($393,102)
	Non-Used and Useful	
	To reflect staff's recommended adjustment	$16,114
	Accumulated Depreciation	
1	Remove acquisition costs	$543
2	Remove unsupported, misclassified and improper plant additions (A/E 3&4)	$4,439
3	Adj for retirements not made	$306,117
4	Adj for pro forma additions to plant	$1,906
5	Retirement related to pro forma plant	$25,399
6	Total	$338,404
	CIAC	
	To record CIAC for new church in service area	($7,008)
	Accumulated Amortization of CIAC	
	To record CIAC Amortization for new church	$304
	Working Capital	
	To reduce to 1/8 O&M expense	$899

Utilities, Inc. of Eagle Ridge
Capital Structure
Test Year Ended 12/31/02

Schedule No. 2

	Description	Total Capital	Specific Adjust-ments	Pro Rata Adjust-ments	Capital Reconciled To Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility								
1	Long-term Debt	94,090,081	0	(93,380,094)	709,987	48.69%	7.56%	3.68%
2	Short-term Debt	11,824,500	0	(11,735,338)	89,162	6.11%	3.93%	0.24%
4	Common Equity	77,021,455	0	(76,440,381)	581,074	39.85%	11.97%	4.77%
5	Customer Deposits	39,336	0	0	39,336	2.70%	6.00%	0.16%
6	Deferred Income Taxes	38,728	0	0	38,728	2.66%	0.00%	0.00%
7	Total Capital	183,014,100	0	(181,555,813)	1,458,287	100.00%		8.85%
Per Staff								
8	Long-term Debt	94,090,081	0	(93,427,199)	662,882	46.88%	7.56%	3.54%
9	Short-term Debt	11,824,500	0	(11,741,194)	83,306	5.89%	3.93%	0.23%
.1	Common Equity	77,021,455	0	(76,478,824)	542,631	38.38%	11.21%	4.30%
.2	Customer Deposits	39,336	0	0	39,336	2.78%	6.00%	0.17%
.3	Deferred Income Taxes	38,728	47,014	0	85,742	6.06%	0.00%	0.00%
.4	Total Capital	183,014,100	47,014	(181,647,217)	1,413,897	100.00%		8.25%

	Low	High
Return on Equity	10.21%	12.21%
Overall Rate of Return	7.86%	8.63%

Staff Adjustment
Adjust deferred taxes for bonus depreciation $47,014

Docket No. 030445-SU
Date: October 7, 2004

Utilities, Inc. of Eagle Ridge
Statement of Wastewater Operations
Test Year Ended 12/31/02

Schedule No. 3-A

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	Staff Adjust-ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1	Operating Revenues	$698,437	$138,384	$836,821	($122,922)	$713,899	$98,955	$812,854
							13.86%	
	Operating Expenses							
2	Operation & Maintenance	$527,028	$22,660	$549,688	$708	$550,396		$550,396
3	Depreciation-Net	$67,737	$9,680	$77,417	($22,268)	$55,149		$55,149
5	Taxes Other Than Income	$47,710	$6,970	$54,680	($5,110)	$49,570	$4,453	$54,023
6	Income Taxes	($3,699)	$29,676	$25,977	($24,835)	$1,142	$35,561	$36,704
7	Total Operating Expenses	$638,776	$68,986	$707,762	($51,505)	$656,257	$40,014	$696,272
8	Operating Income	$59,661	$69,398	$129,059	($71,417)	$57,642	$58,941	$116,583
9	Rate Base	$1,921,163		$1,458,287		$1,413,897		$1,413,897
10	Rate of Return	3.11%		8.85%		4.08%		8.25%

Utilities, Inc. of Eagle Ridge
Adjustments to Operating Income
Test Year Ended 12/31/02

Schedule No. 3-B

	Explanation	Wastewater
	Operating Revenues	
1	Remove requested final revenue increase	($124,485)
2	Adj for Revenue from new church in service area	$1,563
3	Total	($122,922)
	Operation & Maintenance Expense	
1	Remove pro forma salary adjustments & reflect 3 year average salary levels	($4,696)
2	Remove pro forma health cost	($4,491)
3	Remove proforma insurance expense	$711
4	To reflect annual rate case expense amortization	$9,184
	Total	$708
	Depreciation Expense - Net	
1	Remove acquisition costs	($362)
2	Remove unsupported, misclassified and improper plant additions (A/E 3&4)	($1,415)
3	Adj for retirements not made	($16,789)
6	Adj for pro forma additions to plant	($1,906)
7	Retirement related to pro forma plant	($1,412)
8	Non-used & useful depreciation	($80)
9	Record CIAC amortization for new church	($304)
	Total	($22,268)
	Taxes Other Than Income	
1	RAFs on revenue adjustments above	($5,531)
2	Remove taxes on salary adjustments	($397)
3	Remove non-used & useful property taxes	$818
	Total	($5,110)
	Income Taxes	
	To adjust to test year income tax expense	($24,835)

Utilities, Inc. of Eagle Ridge — **Schedule 4**
Wastewater Monthly Bills
Test Year Ended 12/31/02

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	4-Year Rate Reduction
Residential – Eagle Ridge					
Base Facility Charge - All Meters:	$14.18	$15.43	$16.66	$16.49	$0.33
Gallonage charge(per 1,000 gallons)					
10,000 gallons maximum	$3.49	$3.80	$4.10	$3.35	$0.07
General Service and Multi-Residential – Eagle Ridge					
Base Facility Charge by Meter Size					
5/8" x 3/4"	$14.18	$15.43	$16.66	$16.49	$0.33
1"	$35.44	$23.15	$41.65	$41.23	$0.83
1-1/2"	$70.87	$77.12	$83.28	$82.45	$1.66
2"	$113.39	$123.39	$133.25	$131.92	$2.66
3"	$226.80	$246.80	$266.52	$263.85	$5.32
4"	$354.39	$385.63	$416.46	$412.26	$8.32
6"	$708.80	$771.29	$832.94	$824.52	$16.63
Gallonage Charge, per 1,000 Gallons	$3.49	$3.80	$4.10	$4.02	$0.08
Cross Creek					
Flat Rate, per mo per unit	$13.69	$14.90	$16.09	$17.96	$0.36
	Typical Residential Bills - Eagle Ridge				
3,000 Gallons	$24.65	$26.83	$28.96	$26.54	
5,000 Gallons	$31.63	$34.43	$37.16	$33.24	
10,000 Gallons	$49.08	$53.43	$57.66	$49.99	