

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: November 9, 2011

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (T. Brown, Daniel, Fletcher, Maurey, Stallcup, Thompson, Walden)
Office of the General Counsel (Barrera, Crawford)

RE: Docket No. 110153-SU – Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge.

AGENDA: 11/22/11 – Regular Agenda – Proposed Agency Action – Except for Issue Nos. 19 & 20 - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brown

CRITICAL DATES: 5-Month Effective Date Waived Through 12/06/11

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\110153.RCM.DOC

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Case Background

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

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

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

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

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

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

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

² See Order No. PSC-11-0519-PCO-SU.

Discussion of Issues

QUALITY OF SERVICE

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

Recommendation: Yes, the overall quality of service provided by the Utility is satisfactory. (Walden)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in a rate case proceeding, the Commission determines the overall quality of service provided by a utility by evaluating the quality of the utility's product, the operating condition of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. The utility's compliance history with the Department of Environmental Protection (DEP) as well as comments or complaints received from the customers are also reviewed.

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

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

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

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

The Utility's Attempt to Address Customer Satisfaction

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

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

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

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

In response to complaints, the Utility appears to take appropriate and timely actions. Therefore, staff recommends that the Utility's attempt to address customer satisfaction be considered satisfactory.

Overall Quality of Service

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

RATE BASE

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

Recommendation: Yes. Based on the audit adjustments agreed to by the Utility and staff, the following adjustments should be made to rate base and net operating income as set forth in staff's analysis below. (T. Brown, Fletcher)

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

Table 2-1

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

Based on the audit adjustments agreed to by the Utility, staff recommends that the adjustments set forth in Table 2-2 should be made to rate base and net operating income.

Table 2-2

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

Issue 3: Should any adjustment be made to the Utility's Project Phoenix Financial/Customer Care Billing System (Phoenix Project)?

Recommendation: Yes. Plant should be reduced by \$22,139. In addition, accumulated depreciation should be reduced by \$13,720. Depreciation expense should be decreased by \$7,524. (T. Brown, Fletcher)

Staff Analysis: The purpose of the Phoenix Project is to improve accounting, customer service, customer billing, and financial and regulatory reporting functions of UI and its subsidiaries. The Phoenix Project became operational in December 2008. During 2009, the Commission approved recovery of the cost of the Phoenix Project in 11 UI rate cases.³ In those cases, UI allocated the Phoenix Project costs based on each subsidiary's equivalent residential connections (ERCs) to UI's total ERCs.

Allocation of Phoenix Project Costs

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

2009 Divestitures of UI Subsidiaries

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

Staff Affiliate Audit Finding No. 2

In Order No. PSC-10-0407-PAA-SU, the Commission established the total cost of the Phoenix Project as of December 31, 2008, at \$21,617,487 and required UI to deduct \$1,724,166 from the total cost of the Phoenix Project to account for the divestiture of several subsidiaries

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

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

resulting in a remaining balance of \$19,893,321.⁵ In this case, staff auditors determined that the Utility did not make the adjustment for the Phoenix Project that the Commission ordered. According to Affiliate Audit Finding No. 2, Eagle Ridge showed the Phoenix Project balance at December 31, 2008, to be \$21,545,555. The difference between the Utility's balance and the Commission ordered balance is \$1,652,234 (\$21,545,555-\$19,893,321). Therefore, UI's balance for the Phoenix Project should be reduced by \$1,652,234 to account for the divestiture of subsidiary utilities through 2009. The effect on the filing is a decrease to wastewater plant by \$15,696. Corresponding adjustments should also be made to decrease both accumulated depreciation by \$2,354 and depreciation expense by \$1,570. The depreciation calculation is based on a depreciation life of ten years for the Phoenix Project.

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

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

2010 Divestitures of UI Subsidiaries

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

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

Table 3-1

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

The four divested systems collectively represent 9,518 ERCs. UI planned to divest a fifth subsidiary, Montague in New Jersey, which was under contract to be sold when Eagle Ridge filed its rate case. However, the sale of the Montague subsidiary did not close, and as such, Eagle Ridge believes the 1,019 ERCs allocated to Montague should be subtracted from the total number of ERCs allocated to the divested systems. Staff concurs that for the purposes of calculating the adjustment to the allocated costs for the Phoenix Project in this particular case, the 1,019 ERCs for the Montague system should be used to offset the total number of ERCs divested. Therefore, the net number of ERCs related to the divestitures and Montague should be 8,499, or 3.14 percent of the total number of ERCs for UI.

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

Amortization / Depreciation Period

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

In previous UI cases, the Commission approved a six-year amortization period for the Phoenix Project.⁶ In subsequent UI cases, the Commission found that an eight-year amortization period was more appropriate for a software project of this magnitude.⁷ In 2010, the Commission set the amortization period for the Phoenix Project to ten years in four separate rate cases

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

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

involving Eagle Ridge sister companies.⁸ There were three factors the Commission considered in its decision to increase the amortization period. First, the Phoenix Project was specifically tailor-made to meet all of UI's needs. This project is not "off the shelf" software, but software designed to fulfill long-term accounting, billing, and customer service needs specific to UI and its affiliates and subsidiaries. Second, the Commission concluded that Phoenix Project software will be used for at least ten years. UI's former Legacy accounting system had been used for 21 years. Third, in a 2008 docket involving a UI subsidiary in Nevada,⁹ UI responded that any amortization period between four and ten years would be in compliance with Generally Accepted Accounting Principles. Similarly, UI stated to this Commission that its own research revealed that computer software could be amortized over a period of anywhere from four to ten years.¹⁰ As such, staff believes ten years is the appropriate amortization period for the instant case.

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

Conclusion

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

Table 3-2

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

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

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

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

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

Issue 4: Should adjustments be made to the Utility's pro forma plant additions and associated expenses?

Recommendation: Yes. The Utility's pro forma plant additions should be reduced by \$23,877. Accordingly, corresponding adjustments should also be made to reduce accumulated depreciation by \$4,614 and to increase depreciation expense by \$456. (T. Brown, Fletcher, Walden)

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

Moreover, no documentation supporting the Utility's estimated original cost of Equalization Tank #1 was provided in response to staff's data request. When the original cost is not known, it is Commission practice to determine the retirement cost by using 75 percent of the replacement cost.¹¹ Using the documented replacement cost discussed above, the retirement cost for Equalization Tank #1 would be \$27,370 (\$36,493x0.75). As such, staff recommends that plant be reduced by \$5,370 (\$27,370-\$22,000) to reflect the appropriate retirement amount for the Equalization Tank #1. Corresponding adjustments should also be made to decrease accumulated depreciation by \$5,370 and decrease depreciation expense by \$300.

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

¹¹ See Order Nos. PSC-10-0585-PAA-WS, issued September 22, 2010, in Docket No. 090462-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida, at pp. 12-13; PSC-09-0632-PAA-WU, issued September 17, 2009, in Docket No. 080353-WU, In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.; and PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.

Issue 5: What are the used and useful percentages of the Utility's wastewater treatment plant, wastewater collection system, and reuse water system?

Recommendation: The wastewater treatment plants are 87.37 percent used and useful (U&U). The collection systems are 100 percent U&U. The portions of the plant designated as providing reuse are 100 percent U&U. Accordingly, rate base, depreciation expense, and property taxes should be reduced by \$269,122, \$19,304, and \$491, respectively. (Walden, Fletcher)

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

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

Eagle Ridge

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

There has been no growth. In fact, there has been a reduction in the number of active connections since 2007. The U&U calculation based upon treatment plant flows compared to the plant capacity results in an 80.13 percent U&U. The filing states that while there are four residential parcels and one commercial parcel that remain undeveloped in Eagle Ridge, the development should be considered virtually built out and the treatment plant 100 percent U&U. Staff believes that recognition should be given that the Eagle Ridge plant has capacity to handle additional customer growth. Therefore, staff recommends that the Eagle Ridge wastewater treatment plant be considered 80 percent U&U.

Cross Creek

Although the U&U calculation based upon treatment plant flows compared to the plant capacity results in a U&U percentage of 70.13 percent, the service area is built out. The Commission recognized the built out condition for Cross Creek in the last rate case in Order No. PSC-09-0264-PAA-SU, and found the treatment plant 100 percent U&U. In its application, the Utility requested that the wastewater plant be considered 100 percent U&U based on the Cross Creek system being essentially built out. The Cross Creek plant has a capacity of 249,000 gpd and is permitted on the basis of maximum month average daily flow. Flows during the

maximum month (October 2010) averaged 174,613 gpd. The Utility's analysis shows that there is no excessive I&I. Effluent from this plant is used for golf course irrigation. Based upon its review, staff recommends that the Cross Creek wastewater treatment plant be considered 100 percent U&U.

Composite Allocation for U&U

Although the Utility has requested that both the Eagle Ridge and Cross Creek wastewater treatment plants be considered 100 percent U&U, the Utility calculated a composite used and useful allocation based upon the weighted average cost of the Eagle Ridge and Cross Creek treatment facilities, which is the same methodology used in the Utility's last two rate cases.¹² Staff agrees with this methodology and recommends that the Eagle Ridge and Cross Creek wastewater treatment plants be considered 87.37 percent U&U on a composite basis. Accordingly, rate base, depreciation expense, and property taxes should be reduced by \$269,122, \$19,304, and \$491, respectively.

Collection Systems

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

Summary

Staff recommends that the Eagle Ridge and Cross Creek wastewater treatment plants be considered 87.37 percent U&U on a composite basis. Accordingly, rate base, depreciation expense, and property taxes should be reduced by \$269,122, \$19,304, and \$491, respectively. Staff also recommends that the collection systems and effluent reuse systems be considered 100 percent U&U.

¹² See Order No. PSC-09-0264-PAA-SU, issued April 27, 2009, in Docket No. 080247-SU, In re: Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge; Order No. PSC-04-1107-PAA-SU, issued November 4, 2004, in Docket No. 030445-SU, In re: Application for rate increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge.

Issue 6: Should any adjustment be made to deferred rate case expense?

Recommendation: Yes. Consistent with the annual amortization amount approved in the Utility's last rate case and Commission practice, deferred rate case expense (DRCE) included in the working capital allowance should be decreased by \$123,098. (T. Brown, Fletcher)

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

Deferred Rate Case Expense – 2009 Rate Case

In Eagle Ridge's 2009 rate case, the Commission approved rate case expense of \$84,373 to be amortized over four years.¹³ The rates and rate case expense amortization from that case went into effect on June 9, 2009. Recognizing that rates for the instant rate case will not go into effect before February 2012, staff calculated a 13-month average balance of \$38,671 for the beginning of the first year the new rates will go into effect. Commission practice is to include one-half of rate case expense in working capital.¹⁴ As such, one-half of the 13-month average balance of \$38,671, or \$19,335, should be included in the working capital allowance. Therefore, staff believes the Utility's prior-case DRCE of \$59,622 should be reduced by \$40,287 to \$19,335. This adjustment is consistent with the Commission's recent decision in the Aqua Utilities Florida, Inc. (AUF) rate case.¹⁵ Staff notes that while the Commission's PAA decision in the AUF case has been protested, the issue related to prior case DRCE was not protested and therefore is now deemed stipulated pursuant to Section 120.80(13)(b), F.S. Moreover, this recommended adjustment is consistent with the Commission's recent decision for Eagle Ridge's sister company, Lake Utility Services, Inc.¹⁶

Deferred Rate Case Expense - Current Rate Case

The Utility included a pro forma adjustment of \$116,089 in the working capital allowance for DRCE associated with the current rate case. In Issue 14, staff is recommending rate case expense of \$66,554 for the current rate case. Consistent with long-standing Commission practice, one-half of the total rate case expense, or \$33,277, should be included in the working capital allowance. As such, staff believes an adjustment of \$82,811 should be made to reduce Eagle Ridge's pro forma adjustment of \$116,089 to \$33,277.

¹³ See Order No. PSC-09-0264-PAA-SU, issued April 27, 2009, in Docket No. 0080247-SU, In re: Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge at pp. 6-10.

¹⁴ See Order No. PSC-10-0426-PAA-WS, issued July, 1, 2010, in Docket No. 090402-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities, Corporation, at p. 11.

¹⁵ See Order No. PSC-11-0256-PAA-WS, issued June 13, 2011, in Docket No. 100330-WS, In re: Application for increase in water/wastewater rates in Alachua, Brevard DeSoto, Hardee, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties By Aqua Utilities Florida, Inc., at p.56.

¹⁶ See Order No. PSC-11-0514-PAA-WS, Issued November 03, 2011, in Docket No. 100426-WS, In re: Application for increase in water and wastewater rates in Lake County by Lake Utility Services, Inc., at p. 18.

Conclusion

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

Issue 7: What is the appropriate working capital allowance?

Recommendation: The appropriate working capital allowance is \$164,565. (T. Brown, Fletcher)

Staff Analysis: Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, whereby the working capital allowance is based on one-eighth of Operation and Maintenance (O&M) expense. The Utility has properly filed its allowance for working capital using the formula method. Staff has recommended adjustments to Eagle Ridge's O&M expenses that are reflected in other issues in the recommendation. As a result, staff recommends that working capital of \$164,565 be approved. This reflects a decrease of \$117,763 to the Utility's requested working capital allowance of \$282,328.

Issue 8: What is the appropriate rate base for the test year period ended December 31, 2010?

Recommendation: Consistent with other recommended adjustments, the appropriate rate base for the test year ended December 31, 2010, is \$2,482,848. (T. Brown, Fletcher)

Staff Analysis: Based on staff's recommended adjustments, the appropriate rate base is \$2,482,848. The schedule for rate base is attached as Schedule No. 1-A, and the adjustments are shown on Schedule No. 1-B.

COST OF CAPITAL

Issue 9: What is the appropriate return on equity?

Recommendation: Based on the Commission leverage formula currently in effect, the appropriate return on equity (ROE) is 10.60 percent. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. (T. Brown, Fletcher)

Staff Analysis: The ROE included in the Utility's filing is 10.60 percent. Using the 2011 leverage formula and an equity ratio of 46.38 percent, the appropriate ROE is 10.60 percent.¹⁷ Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

¹⁷ See Order No. PSC-11-0287-PAA-WS, issued July 5, 2011, in Docket No. 110006-WS, In re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

Issue 10: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure?

Recommendation: Based on the resolution of the previous issues, the appropriate weighted average cost of capital, including the proper components, amounts, and cost rates associated with the capital structure, is 7.54 percent. (T. Brown, Fletcher)

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

NET OPERATING INCOME

Issue 11: Should any adjustments be made to the Utility's bad debt expense?

Recommendation: Yes. Eagle Ridge's bad debt expense should be based on a 3-year average. Accordingly, bad debt expense should be reduced by \$141. (T. Brown, Fletcher)

Staff Analysis: The Utility recorded bad debt expense of \$3,265 in the test year. In numerous decisions, the Commission has set bad debt expense using the 3-year average in electric,¹⁸ gas,¹⁹ and water and wastewater cases.²⁰ The Commission approved a 3-year average in these cases based on the premise that a 3-year average fairly represented the expected bad debt expense. Overall, the basis for determining bad debt expense has been whether the amount is representative of the bad debt expense to be incurred by the Utility.

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

¹⁸See Order Nos. PSC-94-0170-FOF-EI, issued February 10, 1994, in Docket No. 930400-EI, In re: Application for a Rate Increase for Marianna electric operations by Florida Public Utilities Company, at p. 20; PSC-93-0165-FOF-EI, issued February 2, 1993, in Docket No. 920324-EI, In re: Application for a rate increase by Tampa Electric Company, at pp. 69-70; and PSC-92-1197-FOF-EI, issued October 22, 1992, in Docket No. 910890-EI, In re: Petition for a rate increase by Florida Power Corporation, at p. 48.

¹⁹See Order Nos. PSC-92-0924-FOF-GU, issued September 3, 1992, in Docket No. 911150-GU, In re: Application for a rate increase by Peoples Gas System, Inc., p. 6; and PSC-92-0580-FOF-GU, issued June 29, 1992, in Docket No. 910778-GU, In re: Petition for a rate increase by West Florida Natural Gas Company, pp. 30-31.

²⁰See Order Nos. PSC-10-0407-PAA-SU, PSC-10-0423-PAA-WS, PSC-09-0385-FOF-WS, pp. 92-96; and PSC-10-0585-PAA-WS, pp. 43-44.

Issue 12: Should any adjustments be made to the Utility's purchased power expense?

Recommendation: Yes, purchased power expense should be reduced by \$3,486. (T. Brown, Fletcher)

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

Issue 13: Should any adjustments be made to the Utility's contractual services - testing expense?

Recommendation: Yes, contractual services - testing expense should be reduced by \$3,532. (T. Brown, Fletcher)

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

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

Issue 14: What is the appropriate amount of rate case expense?

Recommendation: The appropriate amount of rate case expense is \$66,554. This expense should be recovered over four years for an annual expense of \$16,639. Therefore, annual rate case expense should be reduced by \$41,406. (T. Brown, Fletcher)

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

Table 14-1

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

Pursuant to Section 367.081(7), F.S., the Commission shall determine the reasonableness of rate case expense and shall disallow all rate case expense determined to be unreasonable. Staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on its review, staff believes several adjustments are necessary to the revised rate case expense estimate.

Accounting Consultant Fees

The first adjustment relates to the Utility's actual accounting consultant fees. The revised MFR Schedule B-10 reflected actual accounting consultant charges of \$45,638 through July 31, 2011. The invoices provided to support the requested amount totaled the same. Additional documentation was received by staff that revised actual accounting charges through September 30, 2011 of \$46,388, and included an updated estimate to complete of \$4,750. As a result,

revised actual and estimated rate case expense for accounting consultant fees totaled \$51,138 (\$46,388+\$4,750).

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

- (a) For each individual person, in each firm providing consulting services to the applicant pertaining to this docket, provide the billing rate, and an itemized description of work performed. Please provide detail of hours worked associated with each activity. Also provide a description and associated cost for all expenses incurred to date.
- (b) For each firm or consultant providing services for the applicant in this docket, please provide copies of all invoices for services provided to date.
- (c) If rate consultant invoices are not broken down by hour, please provide reports that detail by hour, a description of actual duties performed, and amount incurred to date.

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

The second adjustment relates to the Utility's estimate to complete accounting consultant fees. The accounting consultant firm estimated an additional 30 hours²¹ will be required to complete the rate case. The only support provided for the additional work to be performed included a notation in Revised MFR Schedule B-10, stating "Assist w/MFRs, data requests, audit facilitation," and another notation in a billing summary, stating "Assist with updates to Rate Case Expense and documentation, review staff recommendations, research discrepancies, consult with client and review Final Order." Staff notes that there would be no work remaining for MFRs, data requests, or audit facilitation as described in the Revised MFR Schedule B-10. Staff believes the Utility failed to provide an itemization supporting the estimated number of hours required for each task.

²¹ Total of 30 hours to complete with 25 hours assigned to Maria Bravo (\$150/hr) and 5 hours Debbie Swain (\$200/hr).

In the recent rate case for LUSI, a sister company with water and wastewater systems, staff recommended 25 hours to complete from the filing of staff recommendation to the completion of the PAA process. Eagle Ridge is wastewater-only utility that serves approximately 822 customers. In contrast, LUSI serves approximately 8,700 customers. Therefore, staff believes that a total of 12 hours is an ample amount of time to review staff's recommendation and the Commission's Final Order, as well as consult with their client in the instant case. Staff recommends reducing the associate accountant's estimated hours to complete from 25 to 10, and the accounting firm partner's estimated hours to complete from 5 to 2. As such, staff believes that an additional \$2,250 (15 hrsx\$150/hr) should be removed for Bravo and \$600 (3 hrsx\$200/hr) be removed for Swain as unreasonable and unsupported rate case expense. Accordingly, staff recommends that accounting consultant fees be reduced by \$22,791 (\$19,941+\$2,250+\$2,250).

Engineering Consultant Fees

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

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

WSC In-house Employee Fees

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

The only support provided for the estimated hours remaining for WSC In-house employees was a notation in Revised MFR Schedule B-10 that listed the type of service rendered as "Assist w/MFRs, data requests, audit facilitation" for most employees. One WSC employee had the type of service rendered listed as "Billing Analyst, Implementation of Rates." Regardless, the Utility failed to provide any detailed documentation of what tasks were involved in its estimate to complete the case for each employee. The hours needed to complete data requests and audit facilitation was not broken down to estimate the hours needed to complete

each item. In addition, there were no timesheets provided to show actual hours worked for each task in this case. Therefore, staff had no basis to determine whether the individual hours estimated were reasonable. Staff reviewed these requested expenses and believes the estimates reflect an overstatement. In those cases where rate case expense has not been supported by detailed documentation, the Commission's practice has been to disallow some portion or remove all unsupported amounts.²²

Based on a review of the confidential salary information filed in the instant case, staff believes that 100 percent of the compensation for the positions listed in Table 14-2 has been allocated to Eagle Ridge and its sister companies as salaries and wages for employees and officers. In addition, staff notes that the positions that paid by the hour did not incur overtime for time spent on this rate case.

Table 14-2

Job Title (Alphabetical Order)	Rate Case Related Essential Functions, Duties, or Responsibilities
Administrative Assistant	<ul style="list-style-type: none"> -Under direct supervision of the Regional Director, provides administrative and secretarial support to the Regional Director and Regional Managers. -Performs complex and confidential administrative functions, including written correspondence, reports, spreadsheets and other documents. -Prepares or assists with the preparation of scheduled and/or ad hoc statistical and narrative reports; performs basic information gathering and analysis and/or forecasting, as specifically directed. -May assist other operational staff depending on work load.
Customer Care Manager	<ul style="list-style-type: none"> -Provides training to all customer service employees in the areas of billing, tariff compliance, rate cases and quality customer service.
Director of Governmental Affairs	<ul style="list-style-type: none"> -Provides leadership and guidance to newer regulatory staff not familiar with the rate case process.
Executive Director of Regulatory Accounting	<ul style="list-style-type: none"> -Plans, prepares, files and resolves rate applications, transfer proceedings, territory extensions, tariff and rule changes, Commission audits and other regulatory activities. -Assist with forecasting revenues and expenses based on rate case activity. -Provides leadership and guidance to newer regulatory staff not familiar with the rate case process. -Ability to manage the rate case from creation to conclusion, including the appeal process.
Fixed Asset Accountant	<ul style="list-style-type: none"> -Assists with internal and external audits by preparing and explaining required schedules and selections. -Assists Regulatory Department in fixed asset documentation support for rate cases.
Fixed Asset Accounting Manager	<ul style="list-style-type: none"> -Responsible for the management of the Fixed Asset Accounting team, including directing, planning, managing, staffing and organizing responsibilities. -Assists Regulatory Department in fixed asset documentation support for rate cases. -Assists with internal and external audits by preparing and explaining required schedules and selections.
Regional Director	<ul style="list-style-type: none"> -Manages the preparation of all rate cases, pass-through and indexing activity, changes to

²² See Order No. PSC-94-0075-FOF-WS, issued January 21, 1994, in Docket No. 921261-WS, In re: Application for a Rate Increase in Lee County by Harbor Utilities Company, Inc.; Order No. PSC-96-0629-FOF-WS, issued May 10, 1996, in Docket No. 950515-WS, In re: Application for staff-assisted rate case in Martin County by Laniger Enterprises of America, Inc.; and Order No. PSC-96-0860-FOF-SU, issued July 2, 1996, in Docket No. 950967-SU, In re: Application for staff-assisted rate case in Highlands County by Fairmount Utilities, the 2nd, Inc. Staff notes that, in all of these cases, the Commission removed the entire unsupported amounts.

	service territory, and any other PSC related activities in coordination with the company's regulatory department.
Regional Vice President	-Oversees all operations of the regional offices.
Regulatory Accounting Manager	-Manages regulatory team responsibilities such as, rate cases, limited proceedings, indicies/pass-throughs, etc. -Files large-dollar rate cases or upon request, supplies required regulatory information to consultants. -Supplies audit trail and documentation to easily support work product. -Performs all follow-up compliance issues in accordance with Commission order.
Regulatory Staff Accountant I	-Assists and supports Regulatory Accountant II, Senior Regulatory Accountant and Manager on rate case filings and other proceedings. -Provides audit trail and documentation to easily support work product.
Regulatory Staff Accountant II	-Prepares commission-ordered adjustments. -Files rate cases or, upon request, supplies regulatory information to consultants. -Follows all required steps to close rate cases. -Provides financial support documentation. -Assists with commission staff performed audits and discovery. -Provides audit trail and documentation to easily support work product.
Senior Accounts Payable Clerk	-Maintains accounts payable records, including editing, checking and preparing accounts payable entries and tabulating control statistics. Responsible for compiling AP reports, audits, analysis and coordinating AP functions within the department.
Senior Fixed Asset Accountant	-Assists Regulatory Department in fixed asset documentation support for rate cases. -Assists with internal and external audits by preparing and explaining required schedules and selections.
Senior Regulatory Accountant	-Directly assists manager with regulatory responsibilities such as rate cases, limited proceedings, indicies/pass-throughs, etc. -Prepares commission-ordered adjustments. -Files large-dollar rate cases or upon request, supplies required regulatory information to consultants. -Performs all follow-up compliance issues in accordance with Commission order. -Provides audit trail and documentation to easily support work product.

In light of the above, staff believes the Utility is requesting double recovery of the allocated compensation for the positions listed in Table 14-2. Therefore, staff recommends that all of the hours associated with WSC In-house fees of \$97,534 related to the instant rate case be disallowed.

WSC Travel Expenses

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

WSC Temp Employee Fees

The sixth adjustment relates to the Utility's WSC temporary employee costs (actual and estimated to complete the rate case) of \$366. While the Utility did provide an invoice supporting

\$66 of actual costs, no description of the job duties or rate case related activities performed during that time period were noted. There was no support documentation provided for the \$300 of additional estimated costs. Accordingly, staff recommends that \$366 be removed as unsupported rate case expense.

WSC FedEx Expenses

The seventh adjustment relates to WSC expenses for FedEx Corporation (FedEx) and other miscellaneous costs. In its MFRs, the Utility estimated \$12,000 for these items. In support of these expenses, the Utility provided only \$42 in costs from FedEx invoices for services. There was no breakdown or support for the remaining \$11,958. Accordingly, staff recommends that rate case expense be decreased by \$12,000.

Customer Notices and Postage

The eighth adjustment relates to WSC expenses for customer notices and postage. The Utility estimated charges of \$3,375 for these expenses, but reflected actual charges incurred of \$398 in its revised Schedule B-10. In 2009 UI rate cases, the Commission allowed expenses of \$0.05 per envelope, \$0.34 for postage,²³ and \$0.10 per copy. Staff recommends using the 2009 costs in order to remain consistent with the Commission's recent decision for Eagle Ridge's sister company, Lake Utility Services, Inc.²⁴

Eagle Ridge is responsible for sending four notices: the interim notice, the initial notice, customer meeting notice, and notice of the final rate increase. The initial notice and customer meeting notice were combined in this docket. As such, staff estimated the postage cost for the notices to be approximately \$773 (756 customers x \$0.34 pre-sorted rate x 3 notices). Staff estimates envelope costs to be \$113 (756 customers x \$0.05 per envelope x 3 notices) and copying costs to be \$454 (756 customers x \$0.10 per copy x 6 pages).²⁵ Costs using the 2009 amounts total \$1,340 (\$773+\$113+\$454). Accordingly, staff recommends rate case expense be decreased by \$2,035 (\$3,375-\$1,340).

Conclusion

It is the Utility's burden to justify its requested costs.²⁶ Further, the Commission has broad discretion with respect to the allowance of rate case expense. It would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings.²⁷ In summary, staff recommends that Eagle Ridge's revised rate case expense be decreased by \$140,025 for unsupported and unreasonable rate case

²³ UI has a presorted postage rate of \$0.341.

²⁴ See Order No. PSC-11-0514-PAA-WS, Issued November 03, 2011, in Docket No. 100426-WS, In re: Application for increase in water and wastewater rates in Lake County by Lake Utility Services, Inc. at p. 31.

²⁵ Staff anticipates that both the interim notice and final notice would be one page each while combined initial and customer meeting notice would be four pages.

²⁶ See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982)

²⁷ See Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), rev. den., 529 So. 2d 694 (Fla. 1988)

expense. The appropriate total rate case expense is \$66,554. A breakdown of rate case expense is as follows:

Table 14-3

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

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

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

Issue 15: What is the test year wastewater operating income or loss before any revenue increase?

Recommendation: Based on the adjustments discussed in previous issues, the test year operating income is \$129,966 for wastewater before any revenue increase. (T. Brown, Fletcher)

Staff Analysis: The issue is subject to resolution of other issues related to revenues and operating expenses and rate base, and is primarily a "fall-out" number. Based on the adjustments discussed in previous issues, staff recommends that the test year operating income before any provision for increased revenues should be \$129,966 for wastewater. The schedule for wastewater operating income is attached as Schedule No. 3-A, and the adjustments are shown on Schedule No. 3-B.

REVENUE REQUIREMENT

Issue 16: What is the appropriate revenue requirement?

Recommendation: The following revenue requirement should be approved:

	<u>Test Year</u> <u>Revenues</u>	<u>\$ Increase</u>	<u>Revenue</u> <u>Requirement</u>	<u>% Increase</u>
Wastewater	\$996,249	\$96,213	\$1,092,462	9.66%

(T. Brown, Fletcher)

Staff Analysis: In its filing, Eagle Ridge requested an annual revenue requirement of \$1,235,092. This requested revenue requirement represents a revenue increase of \$238,843, or approximately 24 percent. Consistent with staff's recommendations concerning the underlying rate base, cost of capital, and operating income issues, staff recommends approval of rates designed to generate a wastewater revenue requirement of \$1,092,462. The computation of the revenue requirement is shown on Schedule No. 3-A. The recommended wastewater revenue requirements exceeds staff's adjusted test year revenues by \$96,213, or 9.66 percent. These recommended pre-repression revenue requirements will allow the Utility the opportunity to recover its expenses and earn an 7.54 percent return on its investment in wastewater rate base.

RATES

Issue 17: What are the appropriate wastewater rates for the Utility?

Recommendation: The appropriate monthly rates are shown on Schedule No. 4. Staff's recommended rates are designed to produce revenues of \$1,091,512, excluding miscellaneous service charge revenues. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given within ten days of the date of the notice. (Thompson)

Staff Analysis: Staff's recommended revenue requirement is \$1,092,426. Excluding miscellaneous service charges of \$952, the revenue to be recovered through base monthly service rates is \$1,091,512.

As discussed in Issue 16, staff is recommending a revenue requirement increase of 9.66 percent. Due to the nominal amount of increase and the established nature of the Utility's current rate structure, staff recommends that the revenue increase be applied as an across-the-board increase to the Utility's service rates.

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

The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given within ten days of the date of the notice.

A comparison of the Utility's original rates and requested final rates, the Commission-approved interim rates, and staff's recommended rates are shown on Schedule No. 4.

Issue 18: In determining whether any portion of the interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

Recommendation: The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense and other items not in effect during the interim period. This revised wastewater revenue requirement for the interim collection period should be compared to the amount of interim wastewater revenue requirement granted. This results in a refund of 4.23 percent. The refunds should be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility should be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. Further, the corporate undertaking should be released upon staff's verification that the required refunds have been made. (T. Brown, Fletcher)

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

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

In this proceeding, the test period for establishment of interim and final rates is the 13-month average period ended December 31, 2010. Eagle Ridge's approved interim wastewater rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the floor of the last authorized range of return on equity.

To establish the proper refund amount, staff has calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period.

Using the principles discussed above, the \$1,122,517 revenue requirement granted in Order No. PSC-11-0388-PCO-WU for the interim test year is greater than the revised revenue requirement for the interim collection period of \$1,075,039. This results in a refund of 4.23 percent. The Utility should be required to refund 4.23 percent of wastewater revenues collected under interim rates. The refund should be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility should be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. Further, the corporate undertaking should be released upon staff's verification that the required refunds have been made.

Issue 19: 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 as required by Section 367.0816, Florida Statutes?

Recommendation: The rates should be reduced as shown on Schedule No. 4 to remove \$20,050 for wastewater related annual 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 tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. Eagle Ridge should provide proof of the date notice was given within 10 days of the date of the notice. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense. (T. Brown, Fletcher)

Staff Analysis: Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, the associated return included in working capital, and the gross-up for RAFs, which is \$20,050 for wastewater. The decreased revenue will result in the rate reduction 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 25-30.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. Eagle Ridge should provide proof of the date notice was given within 10 days of the date of the notice.

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

Issue 20: Should the Utility be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) primary accounts associated with the Commission approved adjustments?

Recommendation: Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, Eagle Ridge should provide proof, within 90 days of the final order in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made. (T. Brown, Fletcher)

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

Issue 21: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, and that the interim refund has been completed and verified by staff. Once these actions are complete, this docket should be closed administratively, and the corporate undertaking should be released. (Barrera, T. Brown, Fletcher)

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

Utilities, Inc. of Eagle Ridge Schedule of Wastewater Rate Base Test Year Ended 12/31/10			Schedule No. 1-A Docket No. 110153-SU		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$6,897,768	(\$26,771)	\$6,870,997	(\$65,478)	\$6,805,519
2 Land and Land Rights	51,847	41	51,888	0	51,888
3 Non-used and Useful Components	0	0	0	(269,122)	(269,122)
4 Accumulated Depreciation	(3,161,316)	141,777	(3,019,539)	106,105	(2,913,434)
5 CIAC	(3,809,952)	1	(3,809,951)	0	(3,809,951)
6 Amortization of CIAC	2,355,036	98,346	2,453,382	0	2,453,382
7 CWIP	3	(3)	0	0	0
8 Net Acquisition Adjustments	266,765	(266,765)	0	0	0
9 Working Capital Allowance	<u>0</u>	<u>282,328</u>	<u>282,328</u>	<u>(117,763)</u>	<u>164,565</u>
10 Rate Base	<u>\$2,600,151</u>	<u>\$228,954</u>	<u>\$2,829,105</u>	<u>(\$346,257)</u>	<u>\$2,482,848</u>

Utilities, Inc. of Eagle Ridge Adjustments to Rate Base Test Year Ended 12/31/10		Schedule No. 1-B Docket No. 110153-SU
Explanation		Wastewater
<u>Plant In Service</u>		
1	Audit adjustments agreed to by Utility. (Issue 2)	(\$19,462)
2	Phoenix Project adjustments (Issue 3)	(22,139)
3	Pro forma plant (Issue 4)	<u>(23,877)</u>
	Total	<u>(\$65,478)</u>
<u>Non-Used and Useful</u>		
	To reflect net non-used and useful adjustment. (Issue 5)	<u>(\$269,122)</u>
<u>Accumulated Depreciation</u>		
1	Audit adjustments agreed to by Utility. (Issue 2)	\$87,771
2	Phoenix Project adjustments (Issue 3)	13,720
3	Pro forma plant (Issue 4)	<u>4,614</u>
	Total	<u>\$106,105</u>
<u>Working Capital</u>		
1	Audit adjustments agreed to by Utility. (Issue 2)	\$5,335
2	Appropriate Deferred Rate Case Expense. (Issue 6)	<u>(123,098)</u>
	Total	<u>(\$117,763)</u>

Utilities, Inc. of Eagle Ridge Capital Structure-13-Month Average Test Year Ended 12/31/10						Schedule No. 2 Docket No. 110153-SU			
Description		Total Capital	Specific Adjust- ments	Subtotal Adjusted Capital	Prorata Adjust- ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility									
1	Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$178,736,860)	\$1,263,140	44.65%	6.64%	2.96%
2	Short-term Debt	16,123,077	0	16,123,077	(16,009,880)	113,197	4.00%	3.88%	0.16%
3	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4	Common Equity	169,661,060	0	169,661,060	(168,470,561)	1,190,499	42.08%	10.60%	4.46%
5	Customer Deposits	28,844	0	28,844	0	28,844	1.02%	6.00%	0.06%
6	Deferred Income Taxes	<u>233,425</u>	<u>0</u>	<u>233,425</u>	<u>0</u>	<u>233,425</u>	<u>8.25%</u>	0.00%	<u>0.00%</u>
7	Total Capital	<u>\$366,046,406</u>	<u>\$0</u>	<u>\$366,046,406</u>	<u>(\$363,217,301)</u>	<u>\$2,829,105</u>	<u>100.00%</u>		<u>7.64%</u>
Per Staff									
8	Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$178,907,268)	\$1,092,732	44.01%	6.64%	2.92%
9	Short-term Debt	16,123,077	0	16,123,077	(16,025,198)	97,879	3.94%	3.88%	0.15%
10	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
11	Common Equity	169,661,060	0	169,661,060	(168,631,093)	1,029,967	41.48%	10.60%	4.40%
12	Customer Deposits	28,844	0	28,844	0	28,844	1.16%	6.00%	0.07%
13	Deferred Income Taxes	<u>233,425</u>	<u>0</u>	<u>233,425</u>	<u>0</u>	<u>233,425</u>	<u>9.40%</u>	0.00%	<u>0.00%</u>
14	Total Capital	<u>\$366,046,406</u>	<u>\$0</u>	<u>\$366,046,406</u>	<u>(\$363,563,558)</u>	<u>\$2,482,848</u>	<u>100.00%</u>		<u>7.54%</u>
							<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY							<u>9.60%</u>	<u>11.60%</u>	
OVERALL RATE OF RETURN							<u>7.13%</u>	<u>7.96%</u>	

Utilities, Inc. of Eagle Ridge Statement of Wastewater Operations Test Year Ended 12/31/10						Schedule No. 3-A Docket No. 110153-SU	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$990,978</u>	<u>\$244,114</u>	<u>\$1,235,092</u>	<u>(\$238,843)</u>	<u>\$996,249</u>	<u>\$96,213</u> 9.66%	<u>\$1,092,462</u>
Operating Expenses							
2 Operation & Maintenance	\$683,190	\$37,838	\$721,028	(\$67,419)	\$653,609		\$653,609
3 Depreciation	165,260	(25,063)	140,197	(28,946)	111,251		111,251
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	67,378	14,242	81,620	(11,499)	70,121	4,330	74,451
6 Income Taxes	<u>6,834</u>	<u>69,282</u>	<u>76,116</u>	<u>(44,815)</u>	<u>31,301</u>	<u>34,576</u>	<u>65,877</u>
7 Total Operating Expense	<u>\$922,662</u>	<u>\$96,299</u>	<u>\$1,018,961</u>	<u>(\$152,678)</u>	<u>\$866,283</u>	<u>\$38,905</u>	<u>\$905,188</u>
8 Operating Income	<u>\$68,316</u>	<u>\$147,815</u>	<u>\$216,131</u>	<u>(\$86,165)</u>	<u>\$129,966</u>	<u>\$57,308</u>	<u>\$187,274</u>
9 Rate Base	<u>\$2,600,151</u>		<u>\$2,829,105</u>		<u>\$2,482,848</u>		<u>\$2,482,848</u>
10 Rate of Return	<u>2.63%</u>		<u>7.64%</u>		<u>5.23%</u>		<u>7.54%</u>

Utilities, Inc. of Eagle Ridge Adjustment to Operating Income Test Year Ended 12/31/10		Schedule No. 3-B Docket No. 110153-SU
Explanation		Wastewater
<u>Operating Revenues</u>		
Remove requested final revenue increase.		<u>(\$238,843)</u>
<u>Operation and Maintenance Expense</u>		
1 Audit adjustments agreed to by Utility. (Issue 2)		(\$18,854)
2 To reflect appropriate bad debt expense. (Issue 11)		(141)
3 To reflect appropriate Purchased Power. (Issue 12)		(3,486)
4 To reflect appropriate Contractual Services - Testing. (Issue 13)		(3,532)
5 To reflect appropriate rate case expense. (Issue 14)		<u>(41,406)</u>
Total		<u>(\$67,419)</u>
<u>Depreciation Expense - Net</u>		
1 Audit adjustments agreed to by Utility. (Issue 2)		(\$2,574)
2 Phoenix Project adjustments (Issue 3)		(7,524)
3 Pro forma plant (Issue 4)		456
4 To reflect non-U&U depreciation expense. (Issue 5)		<u>(19,304)</u>
Total		<u>(\$28,946)</u>
<u>Taxes Other Than Income</u>		
1 RAFs on revenue adjustments above.		(\$10,748)
2 Audit adjustments agreed to by Utility. (Issue 2)		(260)
3 To reflect non-U&U property taxes. (Issue 5)		<u>(491)</u>
Total		<u>(\$11,499)</u>

Utilities, Inc. of Eagle Ridge Wastewater Monthly Service Rates Test Year Ended 12/31/10			Schedule No. 4 Docket No. 110153-SU		
	Rates Prior to Filing	Comm. Approved Interim	Utility Requested Final	Staff Recomm. Final	Four-Year Rate Reduction
<u>Residential</u>					
Base Facility Charge All Meter Sizes:	\$20.77	\$23.39	\$25.75	\$22.77	\$0.36
Gallage Charge - Per 1,000 gallons (10,000 gallon cap)	\$4.75	\$5.35	\$5.89	\$5.21	\$0.08
Cross Creek Flat Rate	\$24.16	\$27.20	\$29.96	\$26.48	\$0.42
<u>General Service</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$20.77	\$23.39	\$25.75	\$22.77	\$0.36
1"	\$51.93	\$58.47	\$64.39	\$56.93	\$0.91
1-1/2"	\$103.86	\$116.94	\$128.78	\$113.87	\$1.82
2"	\$166.17	\$187.10	\$206.03	\$182.18	\$2.91
3"	\$332.35	\$374.21	\$412.08	\$364.37	\$5.81
4"	\$519.30	\$584.71	\$643.88	\$569.34	\$9.08
6"	\$1,038.61	\$1,169.41	\$1,287.77	\$1,138.67	\$18.14
Gallage Charge, per 1,000 Gallons	\$5.71	\$6.43	\$7.08	\$6.26	\$0.10
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$35.02	\$39.45	\$43.42	\$38.41	
5,000 Gallons	\$44.52	\$50.16	\$55.20	\$48.84	
10,000 Gallons	\$68.27	\$76.93	\$84.65	\$74.90	
(Wastewater Gallage Cap - 10,000 Gallons)					
Average Use of 5,100 Gallons	\$45.00	\$50.69	\$55.79	\$49.36	