

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:** January 7, 2010  
**TO:** Ann Cole, Commission Clerk - PSC, Office of Commission Clerk  
**FROM:** Lydia Roberts, Regulatory Analyst II, Division of Economic Regulation  
**RE:** Docket No. 090346-WU, Application for staff-assisted rate case in Lake County by Brendenwood Water System, Inc.

---

RECEIVED-FPSC  
 10 JAN - 7 AM 11:59  
 COMMISSION CLERK

Attached is a document for inclusion in the docket file for Docket No. 090346-WU, Application for staff-assisted rate case in Lake County by Brendenwood Water System, Inc.

The document is the staff report used as the basis for conducting the customer meeting to be held on January 13, 2010.

DOCUMENT NUMBER-DATE  
 00153 JAN-7 0  
 FPSC-COMMISSION CLERK

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:** December 16, 2009

**TO:** Cheryl R. Bulecza-Banks, Chief of Rate Filings, Division of Economic Regulation

**FROM:** Lydia Roberts, Regulatory Analyst, Division of Economic Regulation *LR*  
Robert Simpson, Engineering Specialist, Division of Economic Regulation *RS*  
Sonica Bruce, Economic Analyst, Division of Economic Regulation *SB*

**RE:** Docket No. 090346-WU – Application for staff-assisted rate case in Lake County by Brendenwood Water Systems, Inc.

---

– STAFF REPORT –

**This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting.**

DOCUMENT NUMBER-DATE

0153 JAN-7 09

FPSC-COMMISSION CLERK

**Table of Contents**

<u>Issue</u>	<u>Description</u>	<u>Page</u>
	Case Background .....	3
1	Quality of Service (Simpson).....	4
2	Used and Useful (Simpson) .....	5
3	Rate Base (Roberts).....	6
4	Rate of Return (Roberts) .....	7
5	Test Year Revenues (Bruce, Roberts).....	8
6	Operating Expense (Roberts) .....	9
7	Operating Ratio Method (Roberts).....	11
8	Revenue Requirement (Roberts) .....	14
9	Rate Structure (Bruce).....	15
10	Repression (Bruce).....	19
11	Rates (Bruce, Roberts) .....	21
12	Pro Forma (Roberts, Bruce) .....	22
13	Four-Year Rate Reduction (Roberts) .....	24
14	Temporary Rates (Roberts).....	25
	Schedule No. 1-A .....	27
	Schedule No. 1-B .....	28
	Schedule No. 2 .....	29
	Schedule No. 3-A .....	30
	Schedule No. 3-B .....	31
	Schedule No. 3-C .....	32
	Schedule No. 4 .....	33
	Schedule No. 5-A .....	34
	Schedule No. 5-B .....	35
	Schedule No. 6 .....	36
	Schedule No. 7-A .....	37
	Schedule No. 7-B .....	38
	Schedule No. 7-C .....	39

### Case Background

This Staff Report is a preliminary analysis of the Utility prepared by the Florida Public Service Commission (PSC) staff to give utility customers and the Utility an advanced look at what staff may be proposing. The final recommendation to the Commission (currently scheduled to be filed February 18, 2010, for the March 2, 2010, Agenda Conference) will be revised as necessary using updated information and results of customer quality of service or other relevant comments received at the customer meeting.

Brendenwood Water Systems, Inc. (Brendenwood or Utility) is a Class C utility which is currently providing water service to approximately 58 customers. Brendenwood is located in the St. Johns River Water Management District (SJRWM). According to the Utility's 2008 Annual Report, Brendenwood had operating revenues of \$29,388 and operating expenses of \$23,086. The test period for setting rates is the historical twelve-month period ending June 30, 2009.

Brendenwood was granted Certificate No. 339-W in 1981.<sup>1</sup> The Utility's last staff-assisted rate case (SARC) was in 2000.<sup>2</sup> Pursuant to Rule 25-30.457, Florida Administrative Code (F.A.C.), Brendenwood was approved for a limited alternative rate increase in 2005.<sup>3</sup>

On June 24, 2009, Brendenwood filed an application for a SARC and paid the appropriate filing fee on June 25, 2009. Staff has also conducted a field investigation of the Utility's plant and service area. The Commission has jurisdiction in this case pursuant to Section 367.011, 367.0814, 367.101, and 367.121, Florida Statutes (F.S.).

---

<sup>1</sup> See Order No. 10184, issued August 5, 1981, in Docket No. 810079-WU, In Re: Application of Brendenwood Water System for a certificate to operate a water Utility in Lake County.

<sup>2</sup> See Order No. PSC-00-0807-PAA-WU, issued April 25, 2000, in Docket No. 991290-WU, In Re: Petition for a staff-assisted rate increase in Lake County by Brendenwood Water System, Inc.

<sup>3</sup> See Order No. PSC-06-0444-PAA-WU, issued May 22, 2006, in Docket No. 050880-WU, In Re: Petition for limited alternative rate increase in Lake County by Brendenwood Water System, Inc.

### Discussion of Issues

**Issue 1:** Is the quality of service provided by Brendenwood Water Systems, Inc. satisfactory?

**Preliminary Recommendation:** The staff recommendation regarding customer satisfaction and the overall quality of service will not be finalized until after the January 13, 2010, customer meeting. (Simpson)

**Staff Analysis:** Pursuant to Rule 25-30.433(1), F.A.C., the Commission determines the overall quality of service provided by a utility by evaluating three separate components of water operations, including 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. Comments or complaints received by the Commission from customers are reviewed. Brendenwood's compliance with the Florida Department of Environmental Protection (DEP) and the water management district are also considered.

The Utility is regulated by DEP's Central District office in Orlando. DEP conducted a sanitary survey in 2008 and noted some minor deficiencies which were corrected by Brendenwood. In addition, DEP conducted an inspection of the hydropneumatic tank in 2009 and recommended some corrective actions to ensure compliance with Rule 62-555.350(2), F.A.C. The Utility has requested that the cost of repairing and painting the hydropneumatic tank be considered in this case. Staff's recommendation regarding the repair is addressed in Issue 12.

Brendenwood's service area is in a potential priority water resource caution area within the SJRWMD. The Utility reported withdrawals of 11.232 million gallons (mg) in 2008, which falls under the maximum annual withdrawal of 12.1 mg allowed in their consumptive use permit. Brendenwood's 2008 Annual Report indicated that about 14 percent of the water pumped was either used for line flushing or lost due to line breaks. The Utility, with the assistance of the Florida Rural Water Association, has implemented a program to test all meters within the next 12 months. In addition, Brendenwood plans to retest the master meter for accuracy.

A staff field investigation of the Utility's service area was conducted on September 23, 2009. The plant appeared to be operating normally and was well maintained. Based on review of the maintenance records and a physical inspection, the general condition of the facilities appeared to be adequate. Therefore, staff recommends that the quality of water and operational condition of the plant are satisfactory.

No complaints have been filed with the Commission in the past three years. The staff recommendation regarding customer satisfaction and the overall quality of service will not be finalized until after the January 13, 2010, customer meeting.

Docket No. 090346-WU  
Date: December 16, 2009

**Issue 2:** What are the used and useful percentages of the water treatment plant and distribution system?

**Preliminary Recommendation:** The Brendenwood water treatment plant and distribution system are 100 percent used and useful. (Simpson)

**Staff Analysis:** The Brendenwood water system has a 6-inch diameter well rated at 150 gallons per minute (gpm). The raw water is injected with liquid chlorine prior to entering the 3,500 gallon hydropneumatic tank and then it is pumped into the water distribution system. The Utility's peak day of 85,000 occurred on May 7, 2009. It does not appear that there was a fire, line break, or other unusual occurrence on that day. According to information gathered from the Utility, Brendenwood does not have excessive unaccounted for water; therefore, no adjustment is necessary. The Utility has no fire flow requirements. There was no growth in the service area during the last five years. The service area is built out, and there are no plans for expansion. Therefore, pursuant to Rule 25-30.4325, F.A.C., it is recommended that the Brendenwood water treatment plant and distribution system be considered 100 percent used and useful.

**Issue 3:** What is the appropriate average test year rate base for the Utility?

**Preliminary Recommendation:** The appropriate average test year rate base for the Utility is \$12,900 for water. (Roberts)

**Staff Analysis:** Brendenwood's rate base was last established by Order No. PSC-00-0807-PAA-WU.<sup>4</sup> Staff selected a test year ending June 30, 2009 for this rate case. A summary of each component and the adjustments follows:

**Utility Plant In Service (UPIS):** The Utility recorded \$11,679 for water UPIS, for the test year ended June 30, 2009. Staff has decreased this account by \$87 to reflect an averaging adjustment. Staff recommends UPIS balance for water of \$11,593.

**Non-used and Useful Plant:** As discussed in Issue No. 2 of this recommendation, Brendenwood's water treatment plant is built out and considered 100 percent used and useful. Therefore, no adjustments are necessary.

**Accumulated Depreciation:** The Utility recorded a test year accumulated depreciation balance for water of \$1,846. Staff has calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. As a result, this account was increased by \$1,593 for water to reflect depreciation calculated per staff. In addition, staff decreased this account by \$320 to reflect an averaging adjustment. These adjustments result in average accumulated depreciation balance for water of \$3,119.

**Accumulated Amortization of Contribution in Aid of Construction (CIAC):** Brendenwood recorded amortization of CIAC for water of \$1,333. Amortization of CIAC has been recalculated by staff using composite depreciation rates. This account has been decreased by \$56 to reflect amortization of CIAC as calculated by staff. Staff has decreased this account by \$44 to reflect an averaging adjustment. Staff's net adjustment to this account result in amortization of CIAC balance of \$1,233.

**Working Capital Allowance:** Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses or ongoing-concern requirements of the utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of \$3,671 (based on O&M expense of \$29,367). Working capital has been increased by \$3,671 to reflect one-eighth of staff's recommended O&M expenses.

**Rate Base Summary:** Based on the forgoing, staff recommends that the appropriate test year average rate base is \$12,900 for water. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

---

<sup>4</sup> See Order No. PSC-00-0807-PAP-WU, issued April 25, 2000, in Docket No. 991290-WU, In re: Application for a staff assisted rate case in Lake County by Brendenwood Water system. Inc.

**Issue 4:** What is the appropriate return on equity and overall rate of return for this utility?

**Preliminary Recommendation:** The appropriate return on equity (ROE) is 9.67 percent with a range of 8.67 percent to 10.67 percent. The appropriate overall rate of return is 9.67 percent. (Roberts)

**Staff Analysis:** The Utility's capital structure consists of only common equity of \$12,438. Therefore, Brendenwood's capital structure is 100 percent equity. The appropriate rate of return on equity is 9.67 percent using the most recent Commission-approved leverage formula.<sup>5</sup> Staff is not recommending the rate base methodology for calculating rates as addressed in Issue 7. However, staff believes that the ROE should be determined in this proceeding to be used in future cases. Staff recommends an ROE of 9.67 percent. Since the Utility's capital structure is 100 percent equity, the overall rate of return is also 9.67 percent with a range of 8.67 percent to 10.67 percent. The ROE and overall rate of return are shown on Schedule No. 2.

---

<sup>5</sup> See Order No. PSC-09-0430-PAA-WS, issued June 19, 2009, in Docket No. 090006-WS, In Re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.



Docket No. 090346-WU  
Date: December 16, 2009

**Issue 5:** What are the appropriate amount of test year revenues?

**Preliminary Recommendation:** The appropriate test year revenue for this Utility is \$30,373 for water. (Bruce, Roberts)

**Staff Analysis:** Brendenwood recorded water revenues of \$30,373 for the 12-month period ended June 30, 2009. Based on the above, staff recommends test year revenue of \$30,373 for water. Test year revenue is shown on Schedule No. 3-A.

**Issue 6:** What are the appropriate operating expenses?

**Preliminary Recommendation:** The appropriate amount of operating expenses for the Utility is \$32,130 for water. (Roberts)

**Staff Analysis:** Brendenwood recorded operating expenses of \$29,478 for water during the test year ending June 30, 2009. The test year O&M expenses have been reviewed, and invoices, canceled checks, and other supporting documentation have been examined. Staff made several adjustments to the Utility's operating expenses, as summarized below:

**Salaries and Wages Employees (601)** – Brendenwood recorded \$0 in this account during the test year. The Utility has requested a salary of \$9,520 for its bookkeeper. Based on the bookkeeper's duties and responsibilities, staff believes that the appropriate salary should be in accordance with the last rate case. Therefore, staff has included \$2,110 for the bookkeepers' salary. In addition, staff believes it is appropriate to escalate the 2000 salary by the Commission-approved price indices from 2001 to 2008, which would equate to a \$345 increase. This methodology is consistent with the Commission's decisions in two prior SARCs for Sunshine Utilities of Central Florida, Inc. and Betmar Utilities, Inc.<sup>6</sup>

The Utility's 2000 expenses have been escalated to the 2008 test year, using the appropriate price indices for each year. Based on the above calculations, staff recommends an increase in employee salaries by \$2,455 (\$2,110+\$345) for water.

**Contractual Services – Testing (635)** – Brendenwood recorded \$1,070 in this account during the test year. Each utility must adhere to specific testing conditions prescribed within its operating permit. These testing requirements are tailored to each Utility as required by Rule 62-550, F.A.C., for water and enforced by DEP. Based on staff engineer's review, the Utility testing did not include non-annual testing costs. The tests have to be performed once every three years, at an annual cost of \$2,023. Staff recommends amortizing the annual amount over three years. Therefore, staff has increased testing by \$674 (\$2,023/3). Based on the above, the appropriate contractual services - testing expense is \$1,744.

**Contractual Services – Other (636)** – The Utility recorded \$18,024 in this account during the test year. This amount included \$7,700 for a management fee. The Utility has requested an increase of the management fee to \$9,520. Staff believes the duties and responsibilities covered by the fee have not changed significantly from the last rate case. Therefore, staff believes it is appropriate to escalate the 2000 fee of \$5700, by the Commission-approved price index rate adjustment factors for 2001 to 2008. This results in a total management fee of \$6,631. As stated earlier in this issue, this methodology is consistent with the Commission's decisions in two prior SARCs. Staff decreased water by \$1,069, (\$6,631-\$7,700) to reflect the appropriate management fee. Additionally, staff has increased water by \$335 to reflect the appropriate operator fee. Therefore, staff recommends water contractual services – other is \$17,290 (\$18,024-\$1069+\$335).

---

<sup>6</sup> See Order No. PSC-02-0656-PAA-WU, issued May 14, 2002, in Docket No. 992015-WU, In re: Application for limited proceeding to recover costs of water system improvements in Marion County by Sunshine Utilities of Central Florida, Inc.; and PSC-95-0986-FOF-WS, issued August 10, 1995, in Docket No. 941280-WS, In re: Application for rate increase in Pasco County by Betmar Utilities, Inc.

Regulatory Commission Expense (665) – During the test year, the Utility recorded \$200 in this account for its SARC filing fee. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a four-year period. The Utility is required by Rule 25-22.0407(9)(b), F.A.C., to mail notices of the customer meeting in this case to its customers. Staff has estimated noticing expense for water of \$77 for postage expense, \$52 for printing expense, and \$8 for envelopes. Based on the above, total rate case expense for the filing and noticing is \$337 and a four-year amortization expense of \$84. Staff has decreased this account by \$116 (\$200 - \$84). Staff recommends regulatory commission expense for the test year of \$84.

Operation and Maintenance Expense (O&M Summary) – Based on the above adjustments, O&M expense should be increased by \$2,279 for water. Staff's recommended O&M expense are shown on Schedule 3-C.

Depreciation Expense (Net of Amortization of CIAC) –Brendenwood recorded depreciation expense of \$718 during the test year. Staff calculated test year depreciation expense using the rates prescribed in Rule 25-30.140, F.A.C. and determined depreciation expense to be \$639. Therefore, staff has decreased this account by \$79 (\$718 - \$639) to reflect test year depreciation expense. Brendenwood recorded amortization of CIAC of \$95. Staff calculated amortization of CIAC based on composite rates and determined amortization of CIAC to be \$87. Staff has decreased amortization of CIAC by \$8. Staff recommends net depreciation expense of \$552 (\$639 - \$87).

Taxes Other Than Income (TOTI) – The Utility's records reflect a TOTI balance of \$1,767. Based on staff's recommended test year revenues in Issue 5, regulatory assessment fees (RAFs) should be increased by \$45 for water. Based on the recommended salaries above, staff calculated the appropriate payroll taxes of \$188 for water. Moreover, RAFs should also increase by \$211 based on the recommended revenue increase discussed in issue 8. Staff recommends TOTI of \$2,211.

Income Tax – Brendenwood did not have any income tax expense for the test year. The Utility is an S Corporation. The tax liability is passed on to the owner's personal tax returns. Therefore, staff did not make an adjustment to this account.

Operating Expenses Summary – The application of staff's recommended adjustments to the Brendenwoods test year operating expenses result in staff's calculated operating expenses of \$32,130 operating expenses are shown on Schedule No. 3-A. The related adjustments are shown on Schedule No 3-B.

**Issue 7:** Should the Commission utilize the operating ratio methodology as an alternative means to calculate the revenue requirement for Brendenwood, and, if so, what is the appropriate margin?

**Preliminary Recommendation:** Yes, the Commission should utilize the operating ratio methodology for calculating the revenue requirement for the Utility water system. The margin should be 10 percent of operation and maintenance expenses, excluding purchased water expense. (Roberts)

**Staff Analysis:** Section 367.0814(9), F.S., provides that the Commission may, by rule, establish standards and procedures for setting rates and charges of small utilities using criteria other than those set forth in Sections 367.081(1), (2)(a) and (3), F.S. Rule 25-30.456, F.A.C., provides, in part, as an alternative to a staff assisted rate case as described in Rule 25-30.455, F.A.C., utilities whose total gross annual operating revenues are \$250,000 or less per system, may petition the Commission for staff assistance in alternative rate setting.

Although, Brendenwood did not petition the Commission for alternative rate setting under the aforementioned rule, staff believes that the Commission should exercise its discretion to employ the operating ratio methodology as an alternative means to set rates in this case. The operating ratio methodology is an alternative to the traditional calculation of revenue requirements. Under this methodology, instead of applying a return on the Utility's rate base, the revenue requirement is based on the margin of Brendenwood's O&M expenses. This methodology has been applied in cases where the traditional calculation of revenue requirements would not provide sufficient revenues to protect against potential variances in revenues and expenses.

By Order No. PSC-96-0357-FOF-WU, issued March 13, 1996, in Docket No. 950641-WU, the Commission, for the first time, utilized the operating ratio methodology as an alternative means for setting rates. This order also established criteria to determine the use of the operating ratio methodology and a guideline margin of 10 percent of operation and maintenance expense.

In addition, by Order No. PSC-97-0130-FOF-SU, issued February 10, 1997, in Docket No. 960561-WU, the Commission utilized the operating ratio methodology for setting rates. The same criteria and 10 percent margin of O&M expense was approved as in Order No. PSC-96-0357-FOF-WU. In Order No. PSC-96-0357-FOF-WU, the Commission established criteria to determine whether to utilize the operating ratio methodology for those utilities with low or non-existent rate base. The following discusses the qualifying criteria established by Order No. PSC-96-0357-FOF-WU, and how they apply to the Utility.

- 1) Whether utility's O&M expense exceed rate base. In the instant case, the rate base is lower than the level of O&M expense. Based on the staff audit, the adjusted rate base for the test year is \$12,900, while adjusted O&M expenses are \$29,367.

- 2) Whether the utility is expected to become a Class B in the foreseeable future. According to Chapter 367.0814(9), F.S., the alternative forms of regulation being considered in this case only apply to small utilities whose gross annual revenues are \$250,000 or less. Brendenwood is a Class C utility and the recommended revenue requirement of \$35,066 is substantially below the threshold level for Class B status (\$200,000 per system). The Utility's service area has not had any growth in the last five years and is essentially built out. Therefore, the Utility will not become a Class B utility in the foreseeable future.
- 3) Quality of service and condition of plant. A review of the Lake County Health Department records shows no compliance problems. The quality of service appears satisfactory.
- 4) Whether the utility is developer-owned. The current utility owner is not a developer. The service territory is not in the early stages of growth, and there has not been any customer growth in the last five years.
- 5) Whether the utility operates treatment facilities or is simply a distribution and/or collection system. Brendenwood operates a water treatment plant and a water distribution system.

By Order Nos. PSC-96-0357-FOF-WS and PSC-97-0130-FOF-WU, the Commission determined that a margin of 10 percent shall be used unless unique circumstances justify the use of a greater or lesser margin. The Commission settled on the 10 percent margin due to lack of economic guidance on developing an operating ratio method rate of return. The Commission believed that it would be a futile and unwarranted exercise to try to establish a precise return applicable to all small utilities. The important question was not what the return percentage should be, but what level of operating margin will allow the utility to provide safe and reliable service and remain a viable entity. The answer to this question requires a great deal of judgment based upon the particular circumstances of the utility.

Several factors must be considered in determining the reasonableness of a margin. First, the margin must provide sufficient revenues for the utility to cover its interest expense. Brendenwood's capital structure is 100 percent equity and has no interest expense.

Second, use of the operating ratio methodology rests on the contention that the principal risk to the Utility resides in operating cost rather than in capital cost of the plant. The fair return on a small rate base may not adequately compensate the Utility owner for incurring the risk associated with covering the much larger operating cost. Therefore, the margin should adequately compensate the Utility owner for that risk. Under the rate base method, the return to Brendenwood amounts to only \$1,247, which is enough to cover only a 4.24 percent variance in O&M expenses. Given this Utility's circumstances, staff believes \$1,247 is too little of a cushion.

Third, if the return on rate base method were applied, a normal return would generate such a small level of revenues that in the event revenues or expenses vary from staff's estimates,

Brendenwood could be left with insufficient funds to cover operating expenses. Therefore, the margin should provide adequate revenues to protect against potential variability in revenues and expenses. Since the Utility's capital structure is 100 percent equity, the return on rate base method would provide Brendenwood only \$1,247 in operating income to cover revenue and expense variances. If the Utility's operating expenses increase, Brendenwood would not have the funds required for day to day operations.

In conclusion, staff believes the above factors show that the Utility needs a higher margin of revenues over operating expenses than the traditional return on rate base method would allow. Therefore, in order to provide Brendenwood with adequate cash flow to satisfy environmental requirements and to provide some assurance of safe and reliable service, staff recommends application of the operating ratio methodology at a margin of 10 percent of operation and maintenance expenses, excluding purchased water expense.

**Issue 9:** Should the utility's current water system rate structure be changed, and, if so, what is the appropriate adjustment?

**Preliminary Recommendation:** No. The Utility's current residential water system rate structure which includes a two-tier inclining block rate structure and a monthly BFC should remain unchanged. The usage blocks should remain set at: a) 0-10 and b) usage in excess of 10 kgals, with appropriate usage block rate factors of 1.0 and 2.0 respectively for the water system's residential class. Also, the rate structure for the water system's non-residential class consists of a traditional monthly BFC/uniform gallonage charge rate structure, and should remain unchanged. The water system's BFC cost recovery should be set 32.50 percent. (Bruce)

**Staff Analysis:** Brendenwood Water System, Inc. currently has a two-tier inclining block rate structure which includes a monthly BFC \$13.05. The usage blocks are set at: a) 0-10 kgals and b) usage in excess of 10 kgals, with usage block rate factors of 1.0 and 2.0. The usage charges are \$1.86 per gal and \$2.64 per gal, respectively.

The Utility serves fifty-seven residential customers and one general service customer. According to the billing data, nine of the residential customers are served through a 1" meter while the remaining residential and general service customers are served through a 5/8" x 3/4" meter. However, the customers who are served through a 1" meter are charged the same rate as the 5/8 inch x 3/4 inch customers. This rate was stipulated by Order No. 16134, issued May 21, 1986, in Docket No. 830584-WU. The Commission approved the one inch residential customers to pay the same rate as the 5/8 inch x 3/4 inch customers irrespective of the meter size. In a subsequent order, Order No. PSC-00-0807-PAA-WU, in Docket No. 991290-WU, issued April 25, 2000, the Commission also approved the existing one inch customers to continue paying the base rate until the 1" meter is replaced, then the appropriate rate should be charged based on meter size.

As mentioned above, there are nine customers who are served through a one inch meter and are paying the base for a 5/8" meter. However, in an earlier order, it indicated that there were five customers that utilized a 1" meter size at that time. Staff contacted the utility by phone in regards to this matter and utility representative, Kristee Mollerup indicated to staff that there were a few customers who have had their meters replaced and there obviously was a discrepancy in the billing data. Furthermore, Mrs. Mollerup was unable to identify the existing one inch customers. In the same phone conversation, staff requested billing data for the one inch meter customers to determine the accurate number customers for rate setting purposes.

According to rule 25-30.437(6), F.A.C., the rates are first established with the 5/8" x 3/4" meter as the foundation. For meter sizes larger than 5/8" x 3/4," the BFC shall be based on the usage characteristics. The Commission refers to the AWWA's meter equivalency factors for usage characteristics when calculating rates for meter sizes larger than 5/8" x 3/4".

The BFC is charged to customers to recover the Utility's fixed costs. The size of a customer's meter is indicative of the potential demand that a customer can place on the system, and so it determines the prorata share of the fixed costs the customer is responsible for paying. In other words, the larger the meter size, the greater the potential demand that the customer can place on the

system, so the greater the BFC that the customer must pay. The AWWA has determined that potential demand for meter sizes other than 5/8" x 3/4" is measured as a function of equivalent residential units (connections). Based on the AWWA meter equivalency chart, a 1" meter is worth 2.5 ERCs, meaning that a 1" meter can place 2.5 times more demand on the system than the 5/8 x 3/4" meter can. Therefore, staff believes that it is appropriate for customer with a 1" meter to pay a BFC that is 2.5 times greater than the corresponding charge for a 5/8" x 3/4" meter.

Staff performed a detailed analysis of the utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential rate class. The goal of the evaluation was to select rate design parameters that: 1) allow the utility to recover its revenue requirement; 2) equitably distribute cost recovery among the utility's customers; and 3) implement, where appropriate, water conservation rate structures consistent with the Commission's Memorandum of Understanding with the state's five Water Management Districts.

Brendenwood Water Systems, Inc. is located in Lake County in the St. Johns River Water Management District (SJRWMD or District). Over the past few years, the District has requested whenever possible that an inclining block rate structure be implemented. In a previous rate case, the utility was implemented a two-tier inclining block rate structure. Based on the billing analysis, the customers' average consumption is 13.32 kgals per month. This is an indication that the customers are using a significant amount of discretionary consumption.

Staff attempted to design a more aggressive rate structure for conservation purposes. However, as mentioned in Issue 8, the revenue requirement increase is 15.5 percent. For this reason, staff was unable to design a more meaningful rate structure typically to how the Commission set rates. Therefore, staff recommends the current rate structure remain unchanged.

Staff's recommended rate design for the water system is shown on Table 9-1 on the following page. Staff also presented two alternative rate structures to illustrate other recovery methodologies.



TABLE 9-1

<b>BRENDENWOOD WATER SYSTEMS, INC. STAFF'S RECOMMENDED AND ALTERNATIVE WATER RATE STRUCTURES AND RATES</b>			
<b>Current Rate Structure and Rates</b>		<b>Recommended Rate Structure and Rates</b>	
2-Tier Inclining Block Rate Structure Rate Factors 1.00 and 2.00 BFC = 29%		2-Tier Inclining Block Rate Structure Rate Factors 1.00 and 2.00 BFC = 32.50%	
BFC	\$13.05	BFC	\$13.24
0-10 kgals	\$1.86	0-10 kgals	\$1.91
10+ kgals	\$2.64	10+ kgals	\$3.81
<b>Typical Monthly Bills (1)</b>		<b>Typical Monthly Bills</b>	
<b>Cons (kgals)</b>		<b>Cons (kgals)</b>	
0	\$13.05	0	\$13.24
1	\$14.91	1	\$15.15
3	\$18.63	3	\$18.97
5	\$22.35	5	\$22.79
10	\$31.65	10	\$32.34
20	\$58.05	20	\$70.44
<b>Alternative 1</b>		<b>Alternative 2</b>	
2-Tier Inclining Block Rate Structure Rate Factors 1.00 and 2.00 BFC = 25.00%		2-Tier Inclining Block Rate Structure Rate Factors 1.00 and 2.00 BFC = 40%	
BFC	\$10.18	BFC	\$16.30
0-10 kgals	\$2.14	0-10 kgals	\$1.68
10 + kgals	\$4.28	10+ kgals	\$3.36
<b>Typical Monthly Bills</b>		<b>Typical Monthly Bills</b>	
<b>Cons (kgals)</b>		<b>Cons (kgals)</b>	
0	\$10.18	0	\$16.30
1	\$12.32	1	\$17.98
3	\$16.60	3	\$21.34
5	\$20.88	5	\$24.70
10	\$31.58	10	\$33.10
20	\$74.38	20	\$66.70

Furthermore, staff recommends that the initial BFC cost recovery of 45.67 percent be reduced to 32.40 percent. Staff's recommended BFC allocation is appropriate because it allows all customers to receive a price increase rather a price decrease at discretionary levels of consumption. Furthermore, the recommended BFC cost recovery will enable customers at non-discretionary levels of consumption to pay a slightly lesser price for their water consumption.

Docket No. 090346-WU  
Date: December 16, 2009

The Commission has a Memorandum of Understanding (MOU) with the five Water Management Districts to set the BFC such that the utilities recover no more than 40 percent of the revenues to be generated from monthly service.

Based on the foregoing, staff recommends that the current water system rate structure which includes a two-tier inclining block rate structure and a monthly BFC should remain unchanged. The usage blocks should remain set at: a) 0-10 and b) usage in excess of 10 kgals, with appropriate usage block rate factors of 1.0 and 2.0 respectively for the water system's residential class. Furthermore, the rate structure for the water system's non-residential class consists of a traditional monthly BFC/uniform gallonage charge rate structure, and should also remain unchanged. The water system's BFC cost recovery should be set 32.50 percent.

**Issue 10:** Is a repression adjustment appropriate in this case, and if so, what are the appropriate adjustments to make for this utility, what are the appropriate corresponding expense adjustments to make, and what are the final revenue requirements?

**Preliminary Recommendation:** Yes, a repression adjustment is appropriate for this utility. Test year consumption should be reduced by 357 kgals or 3.9 percent. Purchased power expense should be reduced by \$97; chemical expense should be reduced by \$15, and regulatory assessment fees (RAFs) should be reduced by \$5. The final post-repression revenue requirement for the water system should be \$34,949.

In order to monitor the effect of the changes to rate structure and revenue, the utility should be ordered to file reports detailing the number of bills rendered, the consumption billed and the revenues billed on a monthly basis. In addition, the reports should be prepared, by customer class and meter size. The reports should be filed with staff, on a semi-annual basis, for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the utility makes adjustments to consumption in any month during the reporting period, the utility should be ordered to file a revised monthly report for that month within 30 days of any revision (Bruce)

**Staff Analysis:** The price elasticity of demand is defined as the anticipated change in quantity demanded resulting from a change in price. All other things equal, as price increases, the quantity demanded decreases.

Staff conducted a detailed analysis of the consumption patterns of the utility's residential customers as well as the effect of increased revenue requirements on the amount paid by residential customers at varying levels of consumption. As discussed in Issue 9, staff's analysis showed that average residential monthly consumption per customer was 13.32 kgal. This is an indication that there is some level of discretionary, or non-essential, consumption, such as outdoor irrigation. Non-essential consumption is relatively responsive to changes in price, and is therefore subject to the effects of repression.

Using our database of utilities that have previously had repression adjustments made, staff calculated a repression adjustment for this utility based upon the recommended increase in revenues from monthly service in this case, and the historically observed response rates of consumption to changes in price. This is the same methodology for calculating repression adjustments that the Commission has approved in prior cases. Based on this methodology, staff calculated that test year residential water sold should be reduced by 357 kgals, or 3.9%. Purchased power expense should be reduced by \$97, chemical expense should be reduced by \$15 and regulatory assessment fees (RAFs) should be reduced by \$5. The final post-repression revenue requirement for the water system should be \$34,949.

In order to monitor the effect of the changes to rate structure and revenue, the utility should be ordered to file reports detailing the number of bills rendered, the consumption billed and the revenues billed on a monthly basis. In addition, the reports should be prepared, by customer class and meter size. The reports should be filed with staff, on a semi-annual basis, for a period of two years beginning the first billing period after the approved rates go into effect. To

Docket No. 090346-WU  
Date: December 16, 2009

the extent the utility makes adjustments to consumption in any month during the reporting period, the utility should be ordered to file a revised monthly report for that month within 30 days of any revision.

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

**Preliminary Recommendation:** The appropriate monthly water rates are shown on Schedules No. 4. The recommended rates should be designed to produce revenue \$34,949 for water, excluding miscellaneous service 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 on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Bruce, Roberts)

**Staff Analysis:** Excluding miscellaneous service revenues, the recommended rates should be designed to produce of revenue \$34,949 for the water system.

As discussed in Issue 9, staff recommends staff recommends that the current water system rate structure which includes a two-tier inclining block rate structure and a monthly BFC should remain unchanged. The usage blocks should remain set at: a) 0-10 and b) usage in excess of 10 kgal, with appropriate usage block rate factors of 1.0 and 2.0 respectively for the water system's residential class. Furthermore, the rate structure for the water system's non-residential class consists of a traditional monthly BFC/uniform gallonage charge rate structure, and should also remain unchanged. The water system's BFC cost recovery should be set 32.50 percent.

The approved rates should be effective for service rendered on or after stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

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

Based on the foregoing, the appropriate rates for monthly service for the water are shown on Schedule 4.

**Issue 12:** Should the Commission approve pro forma plant and expenses for the Utility, and if so, what is the appropriate return on equity, overall rate of return, revenue requirement and date for implementing the new rates?

**Preliminary Recommendation:** Yes. The Commission should approve a Phase II revenue requirement associated with pro forma plant additions. With the pro forma items, Brendenwood's appropriate return on equity should be 9.67 percent with a range of 8.67 – 10.67 percent. The appropriate overall rate of return is 9.67 percent. The Utility's revenue requirement should be \$35,753 and was determined consistent with the operating ratio method discussed in Issue 7. Brendenwood should complete the pro forma additions within 12 months of the issuance of the consummating order. The Utility should be allowed to implement the resulting rates once the pro forma additions have been completed and verified by staff. Once verified, the rates should be effective for service rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until notice has been received by the customers. Brendenwood should provide proof of the date notice was given within 10 days after the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma additions, the Utility should immediately notify the Commission. (Roberts)

**Staff Analysis:** The Utility requested additional pro forma plant that it intends to complete. The following is a chart summarizing the pro forma plant, the cost, and staff's recommended treatment:

	<u>Pro forma Plant</u>	<u>Utility Requested</u>	<u>Staff Recommended</u>
1.	Plant refurbishment	\$8,800	\$8,800
2.	Averaging adjustment	(4,400)	(4,400)
	Total Plant	<u>\$4,400</u>	<u>\$4,400</u>

Staff believes Brendenwood's proposed pro forma plant items are reasonable and prudent because it would allow the Utility to extend the life of the asset which will help maintain the reliability of the equipment to ensure continual service to the customers. With the pro forma items, Brendenwood's appropriate return on equity should be 9.67 percent with a range of 8.67 percent – 10.67 percent. The appropriate overall rate of return is 9.67 percent. The Utility's revenue requirement should be \$35,753 and was determined consistent with the operating ratio method discussed in Issue 7. Brendenwood should complete the pro forma additions within 12 months of the issuance of the consummating order. Phase II rate base is shown on Schedules Nos. 5-A and 5-B. The capital structure for Phase II is shown on Schedule No. 6. Finally, the revenue requirement is shown on Schedule Nos. 7-A and 7-B. The resulting rates are shown below:

Monthly Water Rates (Phase II)

**RESIDENTIAL AND GENERAL SERVICE WATER RATES**

	<b>UTILITY'S EXISTING RATES</b>	<b>STAFF PRELIMINARY RECOMMENDED RATES</b>
<b><u>Residential and General Service</u></b>		
<b><u>Base Facility Charge by Meter Size:</u></b>		
5/8"X3/4"	\$13.05	\$13.49
3/4"	\$19.57	\$20.24
1"	\$32.63	\$33.73
1-1/2"	\$65.24	\$67.45
2"	\$104.40	\$107.92
3"	\$208.76	\$215.84
4"	\$326.22	\$337.25
6"	\$652.44	\$674.50
(RS) Gallonage Charge (0-10,000 gallons)	1.86	\$1.96
(RS) Gallonage Charge (Over 10,000 gallons)	2.64	\$3.92
(GS) Gallonage Charge (1,000 gallons)	2.18	\$2.76
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>		
3,000 Gallons	\$15.11	\$29.29
5,000 Gallons	\$18.57	\$33.23
10,000 Gallons	\$27.22	\$43.08

Based on staff's recommended rates, the Utility would recover approximately 33 percent of the Phase II revenue requirement from the base facility charge, with the remaining 67 percent of the revenue requirement from Phase II being recovered from the gallonage charge. Therefore, for Phase II, Brendenwood would recover \$11,798 from the BFC and \$23,955 from the gallonage charge.

The Utility should be allowed to implement the above rates once all pro forma plant items and expense have been completed and verified by staff. Once verified, the rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until notice has been received by the customers. Brendenwood should provide proof of the date notice was given within ten days after the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma additions, the Utility should immediately notify the Commission.

**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 as required by Section 367.0816, F.S.?

**Preliminary Recommendation:** The water rate should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for the regulatory assessment fee and amortized over a four-year period. The rate decrease should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Brendenwood should be required to file revised tariffs and a proposed customer notice setting forth the lower rate and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. 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 the reduction in the rate due to the amortized rate case expense. (Roberts)

**Staff Analysis:** Section 367.0816, F.S., requires that the rate be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rate. 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 \$89 for water. Using the Utility's current revenues, expenses, capital structure and customer base the reduction in revenues will result in a rate decrease as shown on Schedule No. 4.

The Utility should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. Brendenwood also should be required to file a proposed customer notice setting forth the lower rate and the reason for the reduction.

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 the reduction in the rate due to the amortized rate case expense



**Issue 14:** Should the recommended rate be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility?

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

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

The utility should be authorized to collect the temporary rates upon the staff's approval of appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount \$3,133 for water. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

- 1) The Commission approves the rate increase; or
- 2) If the Commission denies the increase, the utility shall refund the amount collected that is attributable to the increase.

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

- 1) The letter of credit is irrevocable for the period it is in effect, and.
- 2) The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

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

- 1) No refunds in the escrow account may be withdrawn by the utility without the express approval of the Commission;
- 2) The escrow account shall be an interest bearing account;
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility;
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments; and
- 8) The Commission Clerk must be a signatory to the escrow agreement.
- 9) The account must specify by whom and on whose behalf such monies were paid.

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

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

BRENDENWOOD WATER SYSTEM, INC. TEST YEAR ENDING 6/30/09 SCHEDULE OF WATER RATE BASE (PHASE I)		SCHEDULE NO. 1-A DOCKET NO. 090346-WU	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$11,679	(\$87)	\$11,593
2. LAND & LAND RIGHTS	1,100	0	1,100
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(1,577)	0	(1,577)
5. ACCUMULATED DEPRECIATION	(1,846)	(1,273)	(3,119)
6. AMORTIZATION OF CIAC	1,333	(100)	1,233
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>3,671</u>	<u>3,671</u>
8. WATER RATE BASE	<u>\$10,689</u>	<u>\$2,211</u>	<u>\$12,900</u>

<b>BRENDENWOOD WATER SYSTEM, INC.</b>		<b>SCHEDULE NO. 1-B</b>
<b>TEST YEAR ENDING 6/30/09</b>		<b>DOCKET NO. 090346-WU</b>
<b>ADJUSTMENTS TO RATE BASE (PHASE I)</b>		
		<b><u>WATER</u></b>
<b><u>UTILITY PLANT IN SERVICE</u></b>		
To reflect averaging adjustment.		(\$87)
<b><u>ACCUMULATED DEPRECIATION</u></b>		
1. To reflect accumulated depreciation per Rule 25-30.140,F.A.C.		(\$1,593)
2. To reflect averaging adjustment.		320
Total		(\$1,273)
<b><u>AMORTIZATION OF CIAC</u></b>		
1. To reflect the appropriate amort of CIAC.		(\$56)
2. To reflect an averaging adjustment.		(44)
Total		(\$100)
<b><u>WORKING CAPITAL ALLOWANCE</u></b>		
To reflect 1/8 of test year O & M expenses.		\$3,671

BRENDENWOOD WATER SYSTEM, INC.							SCHEDULE NO. 2		
TEST YEAR ENDING 6/30/09							DOCKET NO. 090346-WU		
SCHEDULE OF CAPITAL STRUCTURE (PHASE I)									
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST	
1. COMMON STOCK	\$0	\$0	\$0	\$0	\$0				
2. RETAINED EARNINGS	0	0	0	0	0				
3. PAID IN CAPITAL	0	0	0	0	0				
4. OTHER COMMON EQUITY	<u>12,438</u>	<u>0</u>	<u>12,438</u>	<u>462</u>	<u>12,900</u>				
5. TOTAL COMMON EQUITY	\$12,438	\$0	\$12,438	\$462	\$12,900	100.00%	9.67%	9.67%	
6. LONG TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%	
7. LONG TERM DEBT	0	0	0	0	0	<u>0.00%</u>	0.00%	<u>0.00%</u>	
TOTAL LONG TERM DEBT	0	0	0	0	0	0.00%			
8. CUSTOMER DEPOSITS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>	
9. TOTAL	<u>\$12,438</u>	<u>\$0</u>	<u>\$12,438</u>	<u>\$462</u>	<u>\$12,900</u>	<u>100.00%</u>		<u>9.67%</u>	
RANGE OF REASONABLENESS						<u>LO</u>	<u>HIGH</u>		
RETURN ON EQUITY						<u>8.67%</u>	<u>10.67%</u>		
OVERALL RATE OF RETURN						<u>8.67%</u>	<u>10.67%</u>		

BRENDENWOOD WATER SYSTEM, INC.		SCHEDULE NO. 3-A			
TEST YEAR ENDING 6/30/09		DOCKET NO. 090346-WU			
SCHEDULE OF WATER OPERATING INCOME					
(PHASE I)					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$30,373</u>	<u>\$0</u>	<u>\$30,373</u>	<u>\$4,693</u> 15.45%	<u>\$35,066</u>
<b>OPERATING EXPENSES:</b>					
2. OPERATION & MAINTENANCE	27,088	2,279	29,367	0	29,367
3. DEPRECIATION (NET)	623	(71)	552	0	552
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	1,767	233	2,000	211	2,211
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$29,478</u>	<u>\$2,441</u>	<u>\$31,919</u>	<u>\$211</u>	<u>\$32,130</u>
8. OPERATING INCOME/(LOSS)	<u>\$895</u>		<u>(\$1,546)</u>		<u>\$2,937</u>
9. WATER RATE BASE	<u>\$10,689</u>		<u>\$12,900</u>		<u>\$12,900</u>
10. RATE OF RETURN	<u>8.37%</u>		<u>-11.98%</u>		<u>10.00%</u>

<b>BRENDEWOOD WATER SYSTEM, INC.</b> <b>TEST YEAR ENDING 6/30/09</b> <b>ADJUSTMENTS TO OPERATING INCOME</b> <b>(PHASE I)</b>		<b>SCHEDULE NO. 3-B</b> <b>DOCKET NO. 090346-WU</b>
		<u><b>WATER</b></u>
<b>OPERATION AND MAINTENANCE EXPENSES</b>		
1. Salaries and Wages - Employees (601,701).		
a. To include staff's recommended salary for bookkeeper in the last rate case 991290-WU.		\$2,110
b. To Increase salaries by the index amount.		<u>345</u>
Subtotal		<u>\$2,455</u>
2. Contractual Services - Testing (635, 735).		
To reflect the appropriate DEP testing requirements.		<u>\$674</u>
3. Contractual Services - Other (636,736).		
a. To reflect the appropriate management fee.		(\$1,069)
b. To reflect the appropriate operator fee.		<u>335</u>
Subtotal		<u>(\$734)</u>
4. Regulatory Commission Expense (665,765).		
To reflect the 4-year amortization of rate case expense.		<u>(\$116)</u>
	<b>TOTAL OPERATION &amp; MAINTENANCE ADJUSTMENTS</b>	<u><b>\$2,279</b></u>
<b>DEPRECIATION EXPENSE</b>		
a. To reflect test year depreciation calculated per 25-30.140, F.A.C.		(\$79)
b. To reflect the appropriate amortization of CIAC.		<u>8</u>
Subtotal		<u>(\$71)</u>
<b>TAXES OTHER THAN INCOME</b>		
a. To reflect the appropriate RAFs.		\$45
b. To reflect the appropriate payroll taxes.		<u>188</u>
Subtotal		<u>\$233</u>

BRENDENWOOD WATER SYSTEM, INC.		SCHEDULE NO. 3-C	
TEST YEAR ENDING 06/30/2009		DOCKET NO. 090346-WU	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE (PHASE I)			
	TOTAL PER UTILITY	STAFF PER ADJUST.	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$0	\$2,455	\$2,455
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	2,480	0	2,480
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	383	0	383
(620) MATERIALS AND SUPPLIES	897	0	897
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	0	0	0
(635) CONTRACTUAL SERVICES - TESTING	1,070	674	1,744
(636) CONTRACTUAL SERVICES - OTHER	18,024	(734)	17,290
(640) RENTS	0	0	0
(650) TRANSPORTATION EXPENSE	3,095	0	3,095
(655) INSURANCE EXPENSE	807	0	807
(665) REGULATORY COMMISSION EXPENSE	200	(116)	84
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSES	132	0	132
	<u>\$27,088</u>	<u>\$2,279</u>	<u>\$29,367</u>



BRENDENWOOD WATER SYSTEM, INC.		SCHEDULE NO. 4	
TEST YEAR ENDING 6/30/09		DOCKET NO. 090346-WU	
MONTHLY WATER RATES (PHASE I)			
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	MONTHLY RATE REDUCTION
<b><u>Residential Service</u></b>			
Base Facility Charge All Meter Sizes			
5/8"X3/4"	\$13.05	\$13.24	\$0.03
3/4"	\$19.57	\$19.86	\$0.05
1"	\$32.63	\$33.10	\$0.08
1-1/2"	\$65.24	\$66.20	\$0.17
2"	\$104.40	\$105.92	\$0.27
3"	\$208.76	\$211.84	\$0.54
4"	\$326.22	\$331.00	\$0.84
6"	\$652.44	\$662.00	\$1.68
Gallage Charge (0-10,000 Gallons)	\$1.86	\$1.91	\$0.00
Gallage Charge (Over 10,000 Gallons)	\$2.64	\$3.81	\$0.01
<b><u>General Service</u></b>			
Base Facility Charge by Meter Size:			
5/8"X3/4"	\$13.05	\$13.24	\$0.03
3/4"	\$19.57	\$19.86	\$0.05
1"	\$32.63	\$33.10	\$0.08
1-1/2"	\$65.24	\$66.20	\$0.17
2"	\$104.40	\$105.92	\$0.27
3"	\$208.76	\$211.84	\$0.54
4"	\$326.22	\$331.00	\$0.84
6"	\$652.44	\$662.00	\$1.68
Gallage Charge (All Gallons) Per 1,000 Gallons	\$2.18	\$2.69	\$0.01
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
3,000 Gallons	\$15.11	\$29.10	
5,000 Gallons	\$18.57	\$33.16	
10,000 Gallons	\$27.22	\$43.31	

BRENDENWOOD WATER SYSTEM, INC.		SCHEDULE NO. 5-A	
TEST YEAR ENDING 6/30/09		DOCKET NO. 090346-WU	
SCHEDULE OF WATER RATE BASE (PHASE II)			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$11,679	\$4,314	\$15,993
2. LAND & LAND RIGHTS	1,100	0	1,100
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(1,577)	0	(1,577)
5. ACCUMULATED DEPRECIATION	(1,846)	(1,273)	(3,119)
6. AMORTIZATION OF CIAC	1,333	(100)	1,233
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>3,680</u>	<u>3,680</u>
8. WATER RATE BASE	<u>\$10,689</u>	<u>\$6,620</u>	<u>\$17,309</u>

<b>BRENDENWOOD WATER SYSTEM, INC.</b> <b>TEST YEAR ENDING 6/30/09</b> <b>ADJUSTMENTS TO RATE BASE</b> <b>DOCKET NO. 090346-WU</b> <b>(PHASE II)</b>		<b>SCHEDULE NO. 5-B</b> <b>DOCKET NO. 090346-WU</b>
		<u><b>WATER</b></u>
<b><u>UTILITY PLANT IN SERVICE</u></b>		
1.	To reflect the appropriate UPIS balance.	\$0
2.	To reflect averaging adjustment.	(87)
3.	To reflect pro forma plant refurbishment.	8,800
4.	To reflect pro forma averaging adjustment.	<u>(4,400)</u>
	Total	<u>\$4,314</u>
<b><u>ACCUMULATED DEPRECIATION</u></b>		
1.	To reflect accumulated depreciation per Rule 25-30.140, F.A.C.	(\$1,593)
2.	To reflect averaging adjustment.	<u>320</u>
	Total	<u>(\$1,273)</u>
<b><u>AMORTIZATION OF CIAC</u></b>		
1.	To reflect the appropriate amort of CIAC.	(\$56)
2.	To reflect an averaging adjustment.	<u>(44)</u>
	Total	<u>(\$100)</u>
<b><u>WORKING CAPITAL ALLOWANCE</u></b>		
	To reflect 1/8 of test year O & M expenses.	<u>\$3,680</u>

**BRENDENWOOD WATER SYSTEM, INC.**  
**TEST YEAR ENDING 6/30/09**  
**SCHEDULE OF CAPITAL STRUCTURE**  
**(PHASE II)**

**SCHEDULE NO. 6**  
**DOCKET NO. 090346-WU**

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$0	\$0	\$0	\$0	\$0			
2. RETAINED EARNINGS	0	0	0	0	0			
3. PAID IN CAPITAL	0	0	0	0	0			
4. OTHER COMMON EQUITY	<u>12,438</u>	<u>0</u>	<u>12,438</u>	<u>4,871</u>	<u>17,309</u>			
5. TOTAL COMMON EQUITY	\$12,438	\$0	\$12,438	\$4,871	\$17,309	100.00%	9.67%	0.09667
6. LONG TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%
7. LONG TERM DEBT	0	0	0	0	0	<u>0.00%</u>	0.00%	0.00%
TOTAL LONG TERM DEBT	0	0	0	0	0	0.00%		
8. CUSTOMER DEPOSITS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>
9. TOTAL	<u>\$12,438</u>	<u>\$0</u>	<u>\$12,438</u>	<u>\$4,871</u>	<u>\$17,309</u>	<u>100.00%</u>		<u>9.67%</u>
RANGE OF REASONABLENESS						<b>LOW</b>	<b>HIGH</b>	
RETURN ON EQUITY						<u>8.67%</u>	<u>10.67%</u>	
OVERALL RATE OF RETURN						<u>8.67%</u>	<u>10.67%</u>	

BRENDENWOOD WATER SYSTEM, INC.			SCHEDULE NO. 7-A		
TEST YEAR ENDING 6/30/09			DOCKET NO. 090346-WU		
SCHEDULE OF WATER OPERATING INCOME					
(PHASE II)					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$30,373</u>	<u>\$0</u>	<u>\$30,373</u>	<u>\$5,380</u> 17.71%	<u>\$35,753</u>
<b>OPERATING EXPENSES:</b>					
2. OPERATION & MAINTENANCE	27,088	2,349	29,437	0	29,437
3. DEPRECIATION (NET)	623	508	1,131	0	1,131
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	1,767	233	2,000	242	2,242
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$29,478</u>	<u>\$3,090</u>	<u>\$32,568</u>	<u>\$242</u>	<u>\$32,810</u>
8. OPERATING INCOME/(LOSS)	<u>\$895</u>		<u>(\$2,195)</u>		<u>\$2,944</u>
9. WATER RATE BASE	<u>\$10,689</u>		<u>\$17,309</u>		<u>\$17,309</u>
10. RATE OF RETURN	<u>8.37%</u>		<u>-12.68%</u>		<u>10.00%</u>

**BRENDENWOOD WATER SYSTEM, INC.**  
**TEST YEAR ENDING 6/30/09**  
**ADJUSTMENTS TO OPERATING INCOME**  
**(PHASE II)**

**SCHEDULE NO. 7-B**  
**DOCKET NO. 090346-WU**

**WATER**

**OPERATION AND MAINTENANCE EXPENSES**

1. Salaries and Wages - Employees (601,701).	
a. To include staff's recommended salary for bookkeeper in the last rate case 991290-WU.	\$2,110
b. To Increase salaries by the index amount.	<u>345</u>
Subtotal	<u>\$2,455</u>
2. Contractual Services - Testing (635, 735).	
To reflect the appropriate DEP testing requirements.	\$674
Subtotal	<u>\$674</u>
3. Contractual Services - Other (636,736).	
a. To reflect the appropriate management fee.	(\$1,069)
b. To reflect the appropriate operator fee.	335
c. To reflect exterior repair and paint to water tank.	<u>70</u>
Subtotal	<u>(\$664)</u>
4. Regulatory Commission Expense (665,765).	
To reflect the 4 year amortization of rate case expense.	<u>(\$116)</u>
<b>TOTAL OPERATION &amp; MAINTENANCE ADJUSTMENTS</b>	<u><b>\$2,349</b></u>
<b>DEPRECIATION EXPENSE</b>	
a. To reflect test year depreciation calculated per 25-30.140, F.A.C.	<u>\$508</u>
<b>TAXES OTHER THAN INCOME</b>	
a. To reflect the appropriate RAFs.	\$45
b. To reflect the appropriate payroll taxes.	<u>188</u>
Subtotal	<u>\$233</u>

BRENDENWOOD WATER SYSTEM, INC.		SCHEDULE NO. 7-C	
TEST YEAR ENDING 6/30/09		DOCKET NO. 090346-WU	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE (PHASE II)			
	TOTAL PER UTILITY	STAFF PER ADJUST.	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$0	\$2,455	\$2,455
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	2,480	0	2,480
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	383	0	383
(620) MATERIALS AND SUPPLIES	897	0	897
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	0	0	0
(635) CONTRACTUAL SERVICES - TESTING	1,070	674	1,744
(636) CONTRACTUAL SERVICES - OTHER	18,024	(664)	17,360
(640) RENTS	0	0	0
(650) TRANSPORTATION EXPENSE	3,095	0	3,095
(655) INSURANCE EXPENSE	807	0	807
(665) REGULATORY COMMISSION EXPENSE	200	(116)	84
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSES	132	0	132
	<u>\$27,088</u>	<u>\$2,349</u>	<u>\$29,437</u>