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Public Service Commission

February 16, 2012

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Mr. Eric Glidden
Useppa Island Utility, Inc.
P.O. Box 640
Bokeelia, FL 33922

Re: Docket No. 110260-WS – Application for staff-assisted rate case in Lee County by Useppa Island Utilities Co., Inc.

Dear Mr. Glidden:

Enclosed are two copies of the staff report. Please ensure that a copy of the completed Application for Staff Assistance and the staff report are available for review, pursuant to Rule 25-22.0407 (9)(b), F.A.C., by all interested persons at the following location:

Useppa Island Utility, Inc.
Tarpon Bar
Bokeelia, FL 33922

Should you have any questions about any of the matters contained herein, please do not hesitate to contact me at (850) 413-6877.

Sincerely,

A handwritten signature in black ink that reads "Lydia Roberts".

Lydia Roberts
Regulatory Analyst II

LR/ao
Enclosures (2)

cc: Division of Economic Regulation (Maurey, Fletcher, Hudson, Daniel, Simpson, Bruce, Stallcup)
Office of General Counsel (Murphy)
Office of Commission Clerk (Docket No. 110260-WS)

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

DATE: February 10, 2012

TO: Andrew Maurey, Bureau Chief, Bureau of Rate Filings

FROM: Lydia Roberts, Regulatory Analyst II *LR*
Sonica Bruce, Regulatory Analyst II *SB*
Robert Simpson, Engineering Specialist II *RS*

RE: Docket No. 110260-WS – Application for staff-assisted rate case in Lee County by Useppa Island Utility, 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.

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Case Background

Useppa Island Utility, Inc. (Useppa or Utility) is a Class C water and wastewater utility currently providing service to approximately 144 water and 138 wastewater customers on Useppa Island in Lee County off the coast of North Fort Myers. There is no bridge to the island and the island covers approximately 100 acres. The Utility serves a membership of clients known as the Useppa Island Club. Members of the Useppa Island Club create a seasonal customer base that visit the island for vacations, holidays, and special events. Useppa is located in the South Florida Water Management District (SFWMD or District) in a critical use county on environmentally sensitive land. The Utility's 2010 annual report shows combined operating revenues of \$318,968, operating expenses of \$318,808, and a net operating income of \$160. The Utility is a wholly-owned subsidiary of the Useppa Inn and Dock Company.

Useppa was granted Certificate Nos. 354-W and 310-S in 1982.¹ The Commission last established rates for Useppa in 2007.² On August 29, 2011, Useppa filed an application for a staff-assisted rate case (SARC) and paid the appropriate filing fee.

This Staff Report is a **preliminary** analysis of the Utility prepared by the Florida Public Service Commission (Commission) 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 April 12, 2012, for the April 24, 2012 Commission Conference) will be revised as necessary using updated information and results of customer quality of service and other relevant comments received at the customer meeting. The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.0814, 367.101, and 367.121, Florida Statutes (F.S.).

¹ See Order No. 10900, issued June 16, 1982, in Docket No. 810268-WS, In re: Application of Useppa Island, Inc. for a certificate to operate a water and sewer utility in Lee County, Florida.

² See Order No. PSC-07-0385-SC-WS, issued May 1, 2007, in Docket No. 060575-WS, In re: Application for staff-assisted rate case in Lee County by Useppa Island Utility, Inc.

Discussion of Issues

Issue 1: Is the quality of service provided by Useppa satisfactory?

Preliminary Recommendation: The staff recommendation regarding customer satisfaction and overall quality of service will not be finalized until after the February 29, 2012 customer meeting. (Simpson)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission determines the overall quality of service provided by a utility by evaluating three separate components of water and wastewater operations. These components are 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, and the Utility's compliance with the Florida Department of Environmental Protection (DEP) and the Lee County Health Department (LCHD) are also considered.

Staff reviewed sanitary surveys and compliance inspection reports for the water and wastewater system over the last three years. The Utility uses a reverse osmosis (RO) water treatment process to remove salts and other contaminants found in the raw water. The RO process produces a byproduct, a brine concentrate that is disposed of in a drainfield. On August 4, 2011, LCHD conducted a compliance inspection for the water system and noted deficiencies, which include the cleaning or replacement of the hydropneumatic tank's sight glass and the need for a flushing program. In addition, the report also noted that the tank needs to be cleaned and/or inspected as required in Rule 62-555.350(2), F.A.C. Staff contacted the Utility and was informed that the sight glass has been replaced, a flushing plan has been initiated, and the tank inspection has been scheduled for completion during the first quarter of 2012.

DEP has indicated that the wastewater system does not have any compliance issues at this time. The Utility has been using a dual cell drainfield for disposal of the brine concentrate from the RO plant. Since 2004, the groundwater monitoring has routinely shown exceedances for sodium, chloride, total dissolved solids, conductivity, radionuclides, and sulfate. During the 2009 wastewater permit renewal process, the Utility proposed installing a Class V injection well system and subsequently initiated that process. Useppa has requested that the overall cost of the injection well system, the costs associated with equipment and labor to retrofit the RO unit for higher recovery, and a rehabilitation of the ground storage tank be considered in this rate case. These pro forma items are addressed in Issue 12

A review of the customers' complaints over the last three years indicates that the Utility has resolved all of the complaints in a timely manner. There were no complaints filed with the Commission's Consumer Activity Tracking System (CATS) during the past three years. The staff recommendation regarding customer satisfaction and the overall quality of service will not be finalized until after the February 29, 2012 customer meeting.

Issue 2: What are the used and useful percentages for Useppa?

Preliminary Recommendation: The water treatment plant, water distribution system, ground storage tank, wastewater treatment plant, and the wastewater collection system should all be considered 100 percent used and useful (U&U). (Simpson)

Staff Analysis: The Utility's records for the test year ended June 30, 2011, were used in analyzing the U&U percentages for the water and wastewater facilities.

Water Treatment Plant (WTP)

Pursuant to Rule 25-30.4325, F.A.C., the U&U calculation for a WTP is determined by dividing the peak demand by the firm reliable capacity (FRC) of the water treatment plant. Because the system has storage facilities, the calculation is in gallons per day (gpd). Consideration of growth, fire flow requirements, unaccounted for water, and other factors may also be included.

The WTP has two wells. Each well is rated at 70 gallons per minute (gpm). The pumped water is treated through an RO system to remove dissolved solids, coliform bacteria, radioactive substances, and other inorganic or organic chemicals that may be present in the raw water. The treated water flows toward a degasifier to remove hydrogen sulfide. The water is then chlorinated and channeled into the ground storage tank and the hydropneumatic tank for distribution to customers. The FRC of the wells is 67,200 gpd. The Utility's peak day of 83,453 gpd occurred on October 26, 2010. It does not appear that a fire, line break, or other unusual occurrence occurred on that day. There are no fire flow requirements for the service area, and there is no projected growth. The Utility's records indicate that 14.826 million gallons of finished water were produced during the test year, 13.185 million gallons were sold, and approximately one percent of the water produced was used for flushing. Therefore, there is no excessive unaccounted for water. Based on a peak day of 83,453 gpd and a firm reliable capacity of 67,200 gpd, the WTP should be considered 100 percent U&U consistent with the last rate case.

Ground Storage Tank

Rule 25-30.4325(8) and (9), F.A.C., provides that the U&U percentage for a storage tank is determined by dividing the peak demand by the usable capacity of the tank. A ground storage tank is considered 90 percent usable if the bottom of the tank is below the centerline of the pumping unit. The Utility has a 100,000-gallon ground storage tank. Pursuant to Rule 25-30.4325 (9)(b), the usable capacity of the tank is 90,000 gpd. Based on a peak day of 83,453 gpd, with no projected growth, and a usable capacity of 90,000 gpd, the ground storage tank is 93 percent U&U. However, because the service area is built out, staff recommends that the ground storage tank be considered 100 percent U&U, consistent with the Utility's last rate case.

Wastewater Treatment Plant (WWTP)

The WWTP is an extended aeration, activated sludge plant with 27 lift stations. The plant has a design capacity of 45,000 gpd, based on a 3-month average daily flow. The overall

permitted capacity is 20,000 gpd based on maximum monthly average daily flow. Liquid disinfection is applied prior to the treated wastewater flowing into the percolation pond. Rule 25-30.432, F.A.C., provides that the U&U percentage for a wastewater plant should be calculated based on customer demand and the permitted capacity of the plant. The rule also provides that customer demand should be determined using the same basis as the permitted capacity. Consideration is given to growth, infiltration and inflow (I&I), conservation, and other factors.

The customer demand for the test year is 14,310 gpd based on the maximum monthly average daily flow. There is no projected growth, and it does not appear that the Utility has an I&I problem. Therefore, based on the maximum monthly customer demand of 14,310 gpd and a permitted capacity of 20,000 gpd, the WWTP is 72 percent U&U. However, because the service area is built out, staff recommends that the WWTP be considered 100 percent U&U, consistent with the Utility's last two rate cases.

Water Distribution and Wastewater Collection Systems

The U&U calculations for the water distribution and the wastewater collection systems are based on the number of customers connected to the systems divided by the capacity of the systems. Consideration is given to growth. The service area is built out, and there are no plans for service area expansion. Therefore, staff recommends that the water distribution and the collection systems be considered 100 percent U&U, consistent with the last two rate case.

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

Preliminary Recommendation: The appropriate average test year rate base for the Utility is \$191,874 and \$216,028 for water and wastewater, respectively. (Roberts)

Staff Analysis: Useppa's rate base was last established by Order No. PSC-07-0385-SC-WS.³ Staff selected a test year ended June 30, 2011, for this rate case. A summary of each component and the recommended adjustments are discussed below.

Utility Plant in Service (UPIS): The Utility recorded test year UPIS balance of \$565,846 and \$523,607 for water and wastewater, respectively. Staff's recommended adjustments relate to adjusting the UPIS balance to the Commission-approved balance; reclassifying plant; recording retirements; removing plant for lack of support documentation; and capitalizing plant recorded as an expense. Also, Useppa completed a plant addition outside the test year. The Utility rehabilitated its ground storage tank. The total cost for the pro forma plant addition is \$29,569. Staff believes the cost is reasonable and prudent. Therefore, staff recommends that UPIS be increased to reflect the pro forma plant addition. Staff recommends the following adjustments to the Utility's recorded water and wastewater UPIS:

³ See Order No. PSC-07-0385-SC-WS, issued May 1, 2007, in Docket No. 060575-WS, In re: Application for staff-assisted rate case in Lee County by Useppa Island Utility, Inc.

Table 3-1

	<u>Adjustment Description</u>	<u>Water</u>	<u>Wastewater</u>
1.	To adjust Acct. No. 320 to Commission Order No. PSC-07-0385-SC-WS.	(\$1,862)	\$0
2.	To adjust Acct. No. 334 to Commission Order No. PSC-07-0385-SC-WS.	(16)	0
3.	To adjust Acct. No. 339 to Commission Order No. PSC-07-0385-SC-WS.	844	0
4.	To adjust Acct. No. 343 to Commission Order No. PSC-07-0385-SC-WS.	434	0
5.	To adjust Acct. No. 344 to Commission Order No. PSC-07-0385-SC-WS.	583	0
6.	To reclassify plant to CWIP.	(3,048)	0
7.	To record retirement for plant addition to Acct. No. 307.	(908)	0
8.	To record retirement for plant addition to Acct. No. 307.	(569)	0
9.	To record retirement for plant addition to Acct. No. 311.	(1,099)	0
10.	To record retirement for plant addition to Acct. No. 311.	(1,512)	0
11.	To record retirement for plant addition to Acct. No. 311.	(2,042)	0
12.	To remove plant addition from Acct. No. 320 for lack of support documentation.	(1,509)	0
13.	To reclassify plant addition from Acct. No. 333 to Acct. No. 334.	(939)	0
14.	To record plant addition to Acct. No. 334 that was recorded incorrectly to Acct. No. 333.	980	0
15.	To record retirements for plant additions to Acct. No. 334.	(1,598)	0
16.	To record retirement for plant addition to Acct. No. 340.	(359)	0
17.	To correct overstated account.	(43)	0
18.	To adjust Acct. No. 360 to Commission Order No. PSC-07-0385-SC-WS.	0	(9,074)
19.	To adjust Acct. No. 380 to Commission Order No. PSC-07-0385-SC-WS.	0	265
20.	To adjust Acct. No. 389 to Commission Order No. PSC-07-0385-SC-WS.	0	9,072
21.	To record retirement for plant addition to Acct. No. 360.	0	(4,733)
22.	To record retirement for plant addition to Acct. No. 370.	0	(2,671)
23.	To record retirement for plant addition to Acct. No. 380.	0	(3,995)
24.	To remove plant addition from Acct. No. 380 for lack of support documentation.	0	(403)
25.	To reclassify blower part to Acct. No. 380 from expense.	0	298
26.	To record retirement for plant addition to Acct. No. 390.	0	(359)
27.	To record pro forma plant addition for tank rehabilitation to Acct. No. 320.	29,569	0
28.	To reflect an averaging adjustment.	(582)	(2,420)
	Total	\$16,324	(\$14,020)

Staff's net adjustments to UPIS represent an increase for water of \$16,324 and a decrease for wastewater of \$14,020. Staff recommends UPIS balances of \$582,169 for water and \$509,587 for wastewater.

Non-used and Useful Plant: As discussed in Issue 2, Useppa's water and wastewater treatment plants, the water distribution, and wastewater collection system should be considered 100 percent U&U. Therefore, no adjustment is necessary for non-U&U plant.

Contribution in Aid of Construction (CIAC): Useppa recorded test year CIAC of \$225,670 for water and \$230,187 for wastewater. The Utility did not show any additions or retirements to CIAC from June 30, 2006, through June 30, 2011. Therefore, staff is not recommending any adjustments to CIAC.

Accumulated Depreciation: The Utility recorded test year accumulated depreciation balances of \$359,232 for water and \$330,001 for wastewater. Staff calculated accumulated depreciation using the prescribed rates in Rule 25-30.140, F.A.C. Staff has made the following adjustments to accumulated depreciation.

Table 3-2

	<u>Adjustment Description</u>	<u>Water</u>	<u>Wastewater</u>
1.	To reflect accumulated depreciation per Rule 25-30.140 F.A.C.	(\$23,717)	\$9,816
2.	To reflect an averaging adjustment.	6,482	7,610
3.	To reflect pro forma depreciation expense	(896)	0
	Total	(\$18,130)	\$17,426

Therefore, this account was increased by \$18,130 for water and decreased by \$17,426 for wastewater to reflect depreciation expense calculated per staff. These adjustments result in average accumulated depreciation balances of \$377,363 for water and \$312,576 for wastewater .

Accumulated Amortization of CIAC: Useppa recorded test year amortization of CIAC balances of \$209,064 for water and \$230,187 for wastewater. Amortization of CIAC has been recalculated by staff using composite depreciation rates. As a result, accumulated amortization of CIAC should be decreased by \$22,147 for water. In addition, this account has been decreased by \$1,297 to reflect an averaging adjustment. Staff's adjustments to this account results in amortization of CIAC balances of \$185,620 for water and \$230,187 for wastewater.

Working Capital Allowance: Useppa recorded working capital of \$0 each for water and wastewater. Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses or going-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 \$16,654 for water and \$15,530 for wastewater (based on O&M expense of \$133,232/8 for water and \$124,238/8 for wastewater).

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate average test year rate base is \$191,874 for water and \$216,028 for wastewater. Water and wastewater rate base is shown on Schedule Nos. 1-A and 1-B, respectively. The related adjustments are shown on Schedule No. 1-C.

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

Preliminary Recommendation: The appropriate return on equity (ROE) is 11.16 percent with a range of 10.16 percent to 12.16 percent. The appropriate overall rate of return is 3.48 percent. (Roberts)

Staff Analysis: According to staff's audit, Useppa recorded the following items in its capital structure: common stock of \$1,000, negative retained earnings of \$543,049, paid-in-capital of \$149,000, and long-term debt of \$803,887. The long-term debt consists of two instruments. The first is a promissory note with Southwest Capital Bank for \$6,173, with an interest rate of 6.18 percent. The second is a note payable to the stockholders of \$797,714, with an interest rate of 3.46 percent.

The Utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE is 11.16 percent using the Commission-approved leverage formula currently in effect.⁴ Staff recommends an ROE of 11.16 percent, with a range of 10.16 percent to 12.16 percent, and an overall rate of return of 3.48 percent. The ROE and overall rate of return are shown on Schedule No. 2.

⁴ See Order Nos. PSC-11-0287-PAA-WS, issued July 5, 2011, and PSC-11-0326-CO-WS, issued August 2, 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 5: What is the appropriate amount of test year revenue?

Preliminary Recommendation: The appropriate test year revenue for Useppa is \$165,148 for water and \$155,029 for wastewater. (Bruce, Roberts)

Staff Analysis: Pursuant to Audit Finding No. 10, Useppa recorded total revenue of \$164,926 for water and \$153,202 for wastewater. The staff auditor increased the test year revenue by \$222 for water and \$1,827 for wastewater to reflect annualized revenue based on the existing rates. As a result, staff recommends test year revenue of \$165,148 for water and \$155,029 for wastewater. Test year revenue is shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule No. 3-C.

Issue 6: What is the appropriate amount of test year operating expenses?

Preliminary Recommendation: The appropriate amount of operating expense for Useppa is \$173,197 for water and \$160,435 for wastewater. (Roberts)

Staff Analysis: Useppa recorded operating expenses of \$161,145 for water and \$160,220 for wastewater during the test year ended June 30, 2011. 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 (601/701) – Useppa recorded salary expense of \$63,058 for water and \$57,028 for wastewater. During a portion the test year, the Utility's secretarial and trainee positions were vacant. Useppa has filled the secretarial position and plans to fill the trainee position. Staff has increased this expense by \$3,492 for water and \$3,286 for wastewater to annualize the salaries of the secretarial and trainee positions. For purposes of the Staff Report, staff is recommending including the salary of the trainee. However, if the position is not filled by the filing of the final recommendation, staff will recommend the trainee position be included as a pro forma expense in Phase II, whereby, the Utility can recover the cost once it fills the position.

In addition, staff has decreased this expense to reclassify the contracted operator costs to contractual services in the amount of \$6,713 and \$477 for water and wastewater, respectively. Based on the above, staff has decreased this expense for water by \$3,221 and increased the expense for wastewater by \$2,809. Therefore, staff recommends salaries and wages – employees expense for the test year of \$59,837 and \$59,837 for water and wastewater, respectively.

Employee Pensions and Benefits – (604/704) – The Utility recorded employee pensions and benefits of \$2,637 for water and \$2,496 for wastewater. Pursuant to Audit Finding No. 24, Useppa did not recognize or allocate all of the common costs from Useppa Inn and Dock Company, Limited (Useppa Inn), a related party. It is Useppa Inn's policy to pay half of the cost of employee's health insurance. The health insurance cost is \$4,322 for each employee or \$8,644 for both the Chief Executive Office (CEO) and Comptroller. The CEO and Comptroller's salaries are allocated at 15 percent to Useppa. Based on this allocation, the health insurance should be allocated at 15 percent to the Utility. Therefore, staff increased water and wastewater each by \$648 $[(\$8,644 * 15\%) / 2]$ to reflect the health insurance allocation.

Also, the 401k profit-sharing plan was not allocated to Useppa. The 401k profit-sharing plan should be allocated based on the percentage of salary allocated to the Utility. The Utility Manager and Comptroller's 401k profit-sharing costs are \$650 and \$1,331, respectively. The salaries of the Utility Manager and Comptroller are allocated at 90 percent and 15 percent, respectively. Staff has increased the water and wastewater pension expense by \$392 $[(\$650 * 90\%) + (\$1,331 * 15\%) / 2]$ to reflect the 401k profit-sharing cost allocated to Useppa. Staff recommends employee pensions and benefits expense for the test year of \$3,677 for water and \$3,536 for wastewater.

Purchased Power (615/715) – The Utility recorded purchased power expense of \$22,917 for water and \$13,763 for wastewater for the test year. In accordance with Audit Finding No. 20, Useppa's purchased power expense was understated by \$106, based on the Utility's purchased

power invoices. As such, staff has increased purchased power by \$53 each for water and wastewater. Also, staff has decreased purchased power by \$1,834 for water and increased wastewater by \$1,834 to reflect the appropriate purchased power expense per system. Based on the above, the purchased power expense for the test year is \$21,136 for water and \$15,650 for wastewater.

Fuel for Power Productions (616/716) – Useppa recorded purchased power expense during the test year of \$9 each for water and wastewater. Pursuant to Audit Finding No. 21, the Utility runs its generator once a week for 25 minutes. The fuel cost for the generator is \$1,354 annually. As of the test year, Useppa had not been billed by the vendor. Therefore, staff has increased purchased power expense by \$668 $[(\$1,354-\$18)/2]$ to reflect the generator fuel for the test year. As a result, staff recommends fuel for power production expense for the test year of \$677 each for water and wastewater.

Material and Supplies (620/720) – The Utility recorded materials and supplies expense during the test year of \$4,402 for water and \$3,195 for wastewater. Pursuant to Audit Finding No. 11, Useppa replaced a blower part that was recorded in material and supplies, but should have been capitalized to plant. As such, staff has decreased wastewater material and supplies expense by \$298 to capitalize the blower part to plant. Therefore, staff recommends material and supplies expense for the test year of \$4,402 for water and \$2,897 $(\$3,195-\$298)$ for wastewater.

Contractual Services - Professional (631/731) – The Utility recorded contractual services – professional expense during the test year of \$3,989 for water and \$10,350 for wastewater. Staff has made the following adjustments to contractual services – professional expense:

Table 6-1

	<u>Adjustment Description</u>	<u>Water</u>	<u>Wastewater</u>
1.	Remove permitting cost that should be capitalized to project.	(\$2,239)	(\$8,600)
2.	Reclassify Saturday contract water plant operator from Acct. No. 601.	5,760	0
3.	Include pro forma increase for cost per trip to island by operator.	960	0
4.	Reclassify contract expense from Acct. No. 601/701.	953	477
5.	Reflect pro forma amount of the plant operator vacation coverage.	997	498
6.	Reflect IT headquarters allocation.	562	562
	Total	\$6,993	(\$7,063)

Staff's net adjustments to contractual services – professional expense are to increase the amount for water by \$6,993 and decrease the amount for wastewater by \$7,063. Staff recommends contractual services – professional expense of \$10,982 for water and \$3,287 for wastewater.

Contractual Services – Testing (635/735) – Useppa recorded contractual services – testing expense during the test year of \$1,615 for water and \$9,967 for wastewater. Staff increased this expense by \$1,547 for water and decreased the wastewater expense by \$213 to reflect the appropriate amount for annual testing. Also, staff decreased this expense by \$548 for water and \$3,798 for wastewater to reclassify transportation expense to the appropriate account. In addition, staff increased this expense by \$677 and \$113 to include the pro forma expense associated with the 3-year testing for water and wastewater, respectively. Furthermore, staff

increased the expense by \$156 for water to reflect miscellaneous testing done by the Utility in the test year. Based on the above, the appropriate contractual services - testing expense is \$3,447 for water and \$6,069 for wastewater.

Rent Expense (640/740) – The Utility recorded rent expense of \$8,450 each for water and wastewater. In its last rate case, Useppa was approved for rent expense in the amount of \$4,800 each for water and wastewater. Staff has indexed the rent expense approved in Useppa’s last rate case. This results in rent expense of \$5,128 each for water and wastewater. Therefore, staff has decreased rent expense by \$3,322 (\$8,450-\$5,128) each for water and wastewater. Staff recommends rent expense of \$5,128 each for water and wastewater.

Transportation Expense (650/750) – Useppa recorded transportation expense during the test year of \$4,453 for water and \$3,941 for wastewater. Staff has made the following adjustments to transportation expense:

Table 6-2

	<u>Adjustment Description</u>	<u>Water</u>	<u>Wastewater</u>
1.	Reclassify deposit on New truck lease expense to deferred assets.	(\$1,000)	(\$1,000)
2.	Remove cost related to excessive wear and use on previous lease.	(248)	(248)
3.	Three year amortization of deposit and excessive wear and use for three year truck lease.	446	446
4.	Reclassify transportation expense of \$548 from testing and \$50 for annualizing.	598	4,143
5.	Reflect cost for barging Utility items.	578	578
6.	Include island transportation.	8,974	8,974
7.	Include Shoreport transportation expense.	155	155
8.	Reflect parking expenses.	64	64
	Total	\$9,567	\$13,112

Staff’s net adjustments to transportation expense are to increase the expense for water by \$9,567 and by \$13,112 for wastewater. Staff recommends transportation expense of \$14,020 for water and \$17,053 for wastewater.

Insurance Expense – (655/755) – The Utility recorded insurance expense during the test year of \$3,638 each for both water and wastewater. Staff decreased this expense by \$628 to reflect the appropriate insurance cost for the reduced premium. Therefore, staff recommends insurance expense for the test year of \$3,010 each for water and wastewater.

Regulatory Commission Expense (665/765) – Useppa did not record any regulatory commission expense for the test year for water and wastewater. The Utility is required by Rule 25-22.0407, F.A.C., to mail notices of the customer meeting and notices of final rates in this case to its customers. For noticing, staff has estimated \$373 for postage expense, \$197 for printing expense, and \$42 for envelopes. This results in \$612 for the noticing requirement. The Utility paid a \$1,000 rate case filing fee. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a four-year period. Based on the above, staff recommends total rate case expense of \$1,612 (\$612 + \$1,000), which amortized over four years is \$403(1,612/4). Therefore, staff recommends regulatory commission expense of \$201 each for water and wastewater.

Miscellaneous Expense (675/775) – The Utility recorded miscellaneous expense during the test year of \$2,048 for water and \$3,935 for wastewater. Staff increased the water and wastewater expense by \$468 each to reflect the cost of cleaning the office. In addition, staff increased this

expense by \$228 each to reflect the cost for pest control. Also, staff increased this expense for water and wastewater by \$139 each to reflect the cost of the leased postage machine. Further, staff decreased the wastewater expense by \$2,000 to remove a DEP fine. Therefore, staff recommends miscellaneous expense for the test year of \$2,883 and \$2,770 for water and wastewater, respectively.

Operation and Maintenance Expense (O&M Summary) – Based on the above adjustments, O&M expense should be increased by \$11,856 and \$3,015 for water and wastewater, respectively. Staff's recommended adjustments to O&M expense are shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule 3-C.

Depreciation Expense (Net of Amortization of CIAC) – The Utility recorded depreciation expense during the test year of \$19,558 for water and \$19,247 for wastewater. Staff has calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff calculated test year depreciation expense of \$15,655 for water and \$16,841 for wastewater. Therefore, staff has decreased this expense by \$3,903 and \$2,406 for water and wastewater, respectively. In addition, staff has decreased amortization of CIAC by \$4,431 for wastewater. As a result, staff recommends net depreciation expense of \$20,087 and \$16,841 for water and wastewater, respectively.

Taxes Other Than Income (TOTI) – Useppa recorded a TOTI balance during the test year of \$20,211 for water and \$19,750 for wastewater. Based on test year revenues of \$165,148 for water and \$155,029 for wastewater in Issue 7, staff has determined that regulatory assessment fees (RAF) should be \$7,432 for water and \$6,976 for wastewater. Staff has increased TOTI by \$24 ($\$165,148 \times 4.5\% = \$7,432$) and \$30 ($\$155,029 \times 4.5\% = \$6,976$) to reflect the appropriate RAFs.

The amount in TOTI included \$13,236 for real and tangible property taxes (property taxes). The Utility's property taxes are \$12,585. The property taxes are split 50/50 between water and wastewater. TOTI should be decreased by \$325 [$(\$13,236 - \$12,585) / 2$] each for water and wastewater to reflect the appropriate property tax for the Utility

Staff is recommending salaries and wages of \$59,837 each for water and wastewater. The corresponding payroll taxes are \$5,312 each for water and wastewater. The Utility recorded \$6,111 of payroll taxes. Staff has decreased both water and wastewater TOTI by \$799 ($\$5,312 - \$6,111$) to reflect the appropriate payroll taxes. As discussed in Issue 7, test year revenue has been increased by \$17,048 for water and \$15,537 for wastewater to reflect the change in revenue required to cover expenses and allow an opportunity to earn the recommended return on investment. As a result, TOTI should be increased by \$767 for water and \$699 for wastewater to reflect RAFs of 4.5 percent on the change in revenue. Therefore, staff recommends TOTI for the test year of \$19,878 for water and \$19,355 for wastewater.

Operating Expenses Summary – The application of staff's recommended adjustments to Useppa's test year operating expenses result in operating expenses of \$173,197 for water and \$160,435 for wastewater. Operating expenses are shown on Schedule Nos. 3-A and 3-B. The adjustments are shown on Schedule No. 3-C.

Issue 7: What is the appropriate revenue requirement?

Preliminary Recommendation: The appropriate revenue requirement is \$182,196 for water and \$170,566 for wastewater. (Roberts)

Staff Analysis: Useppa should be allowed an annual increase of \$17,048 (10.32 percent) for water and an annual increase in wastewater of \$15,537 (10.02 percent). This will allow the Utility the opportunity to recover its expenses and earn a return of 4.69 percent on its investment. The calculations are as follows:

Table 7-1

	<u>Water</u>	<u>Wastewater</u>
Adjusted Rate Base	\$191,915	\$216,069
Rate of Return	<u>3.48%</u>	<u>3.48%</u>
Return on Rate Base	\$6,679	\$7,519
Adjusted O & M Expense	\$133,560	\$124,567
Depreciation expense (Net)	20,087	16,841
Amortization	0	0
Taxes Other Than Income	19,784	19,247
Income Taxes	<u>0</u>	<u>0</u>
Revenue Requirement	\$180,110	\$168,174
Less Adjusted Test Year Revenues	<u>\$165,148</u>	<u>\$155,029</u>
Annual Increase	<u>\$14,962</u>	<u>\$13,145</u>
Percent Increase/(Decrease)	<u>9.06%</u>	<u>8.48%</u>

Issue 8: What are the appropriate rate structures for Useppa's water and wastewater systems?

Preliminary Recommendation: The appropriate rate structure for the Utility's water and wastewater systems' residential and non-residential classes is a continuation of the base facility charge (BFC)/uniform gallonage charge rate structure. The water system's BFC cost recovery should be set at 48 percent. The wastewater system's BFC cost recovery should be set at 50 percent. Furthermore, the wastewater gallonage cap should remain at 6,000 gallons (6 kgals), and the non-residential gallonage charge should be set at 1.2 times the corresponding residential charge. (Bruce)

Staff Analysis: Useppa Island's current rate structure for the water system's residential and non-residential classes consists of a BFC/gallonage charge rate structure. The BFC is \$35.24 and the gallonage charge is \$6.33 per 1,000 gallons.

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 the 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 conserving rate structures consistent with the Commission's goals and practices.

Staff's analysis indicates that the overall average consumption is 5,600 gallons (5.6 kgals) per month. Furthermore, the customer base is very seasonal wherein 52 percent of the bills represent consumption at 1 kgal or less and 65 percent of the bills are for consumption of 3 kgals or less. However, when customers are in residence, the average monthly consumption figures are significantly different. Additional analysis indicates that for customers using greater than 3 kgals per month, the average consumption is 15.6 kgal. For the 10 percent of bills captured at monthly consumption of 15 kgal or greater, average consumption approximately doubles to 29.6 percent.

Useppa Island is located in the District. In recent years, the District requires the implementation of an inclining block rate structure. However, according to the Utility's water use permit (WUP), the District does not require the Utility to implement an inclining block rates structure. Furthermore, the Useppa draws from the Mid-Hawthorn aquifer, whose water quality is not fresh but saline. Despite the high monthly average consumption while customers are in residence, staff recommends a continuation of the BFC/gallonage rate structure. This recommended rate structure is considered conservation-oriented because bills increase as their consumption increase.

Staff's recommended rate design for the water system is shown on Table 8-1 on the following page. Staff also presents two alternate rate structures to illustrate other recovery methodologies.

TABLE 8-1

USEPPA ISLAND UTILITY, INC. STAFF'S RECOMMENDED AND ALTERNATIVE WATER RATE STRUCTURES AND RATES			
Current Rate Structure and Rates		Recommended Rate Structure and Rates	
Monthly BFC/ uniform kgal charge BFC = 50%		Monthly BFC/ uniform kgal charge BFC = 48%	
BFC	\$35.24	BFC	\$37.82
All kgals	\$6.33	All kgals	\$7.10
Typical Monthly Bills (1)		Typical Monthly Bills	
Cons (kgal)		Cons (kgal)	
0	\$35.24	0	\$37.82
1	\$41.57	1	\$44.92
3	\$54.23	3	\$59.12
5	\$66.89	5	\$73.32
10	\$98.54	10	\$108.82
20	\$161.84	20	\$179.82
Alternative 1		Alternative 2	
Monthly BFC/ uniform kgal charge BFC = 50%		Monthly BFC/ uniform kgal charge BFC = 60%	
BFC	\$39.39	BFC	\$47.27
All kgals	\$6.83	All kgals	\$5.46
Typical Monthly Bills		Typical Monthly Bills	
Cons (kgal)		Cons (kgal)	
0	\$39.39	0	\$47.27
1	\$46.22	1	\$52.73
3	\$59.88	3	\$63.65
5	\$73.54	5	\$74.57
10	\$107.69	10	\$101.87
20	\$175.99	20	\$156.47

Currently, the Utility's estimated fixed cost represents 50 percent of the total revenue requirement. The Commission typically sets the BFC cost recovery no greater than 40 percent. In recent cases, when a customer base is seasonal, the Commission has set the BFC cost recovery

greater than 40 percent.⁵ In this case, staff recommends that the BFC allocation be set at 48 percent. This allows the Utility sufficient cash flow to cover fixed costs and minimize the rate impact while the seasonal customers are out of residence. Furthermore, when customers are in residence, the recommended BFC allocation will target those customers with higher usage.

Finally, as discussed in Issue 7, staff recommends a Phase II revenue requirement increase associated with proforma plant improvements. Staff recommends that the BFC allocation for Phase II rates be set at 48 percent. This will result in Phase II rates with a BFC of \$38.28 and a gallonage charge of \$7.19.

Based on the foregoing, staff recommends a continuation of the base facility charge (BFC)/gallonage charge rate structure for the Utility's residential and non-residential classes. The water system's BFC cost recovery should be set at 48%.

The Utility's current rate structure for the wastewater system's residential and non-residential classes consists of a monthly BFC/gallonage charge rate structure. The BFC is \$45.13 and the gallonage charge is \$11.81 per 1,000 gallons.

The estimated fixed costs for the wastewater system represent 51 percent of its revenue requirement. This BFC cost recovery falls within the Commission's practice of setting the BFC allocation to at least 50 percent due to the capital intensive nature of wastewater plants. In this case, staff believes it is appropriate to increase the BFC cost recovery to 60 percent due to the Utility's seasonal customer base.

Useppa's current wastewater gallonage cap is set at 6 kgals per month. It is Commission practice to set the residential wastewater gallonage cap at a consumption level equal to 80 percent.⁶ The majority of the water consumption by the customers of Useppa represents outdoor usage. Staff's review of the billing data captures 80 percent of the residential gallons sold at 19 kgals. Therefore, since the majority of the water consumed by the customers represents outdoor usage, staff believes it is appropriate to maintain the 6 kgal cap. Also, staff recommends that the non-residential gallonage charge be 1.2 times greater than the residential charge.

Furthermore, as discussed earlier in this issue, staff recommends a Phase II revenue requirement associated with pro forma plant investments. Staff recommends that the BFC allocation for Phase II rates be set at 60 percent to comply with Commission's practice of setting the BFC allocation to at least 50 percent due to the capital intensive nature of wastewater plants. This will result in Phase II rates with a BFC of \$57.71 and a gallonage charge of \$12.89.

⁵ See Order Nos. PSC-11-0015-PAA-WS, issued January 5, 2011, in Docket No. 090531-WS, In re: Application for staff-assisted rate case in Highlands County by Lake Placid Utilities, Inc.; PSC-11-0436-PAA-WS, issued September 29, 2011, in Docket No. 100472-WS, In re: Application for staff-assisted rate case in Manatee County by Heather Hills Estates Utilities, LLC.

⁶ See Order Nos. 12350, issued August 10, 1983, in Docket No. 820073-WS, In re: Application of Seacoast Utilities, Inc. for an increase in water and sewer service rates to its customers in Palm Beach County, Florida.; PSC-11-0015-PAA-WS, issued January 5, 2011, in Docket No. 090531-WS, In re: Application for staff-assisted rate case in Highlands County by Lake Placid Utilities, Inc.

Staff's recommended rate design for the wastewater system is shown below on Table 8-2. Staff also presents two alternate rate structures to illustrate other recovery methodologies.

TABLE 8-2

USEPPA ISLAND UTILITY, INC. STAFF'S RECOMMENDED AND ALTERNATIVE WASTEWATER RATE STRUCTURES AND RATES			
Current Rate Structure and Rates		Recommended Rate Structure and Rates	
Monthly BFC/ uniform kgal charge BFC = 51%		Monthly BFC/ uniform kgal charge BFC = 60%	
BFC	\$45.13	BFC	\$52.06
All kgals	\$14.17	All kgals	\$11.76
Typical Monthly Bills (I)		Typical Monthly Bills	
Cons (kgal)		Cons (kgal)	
0	\$45.13	0	\$52.06
1	\$59.30	1	\$63.82
3	\$87.64	3	\$87.34
6	\$130.15	6	\$122.62
8	\$130.15	8	\$122.62
Alternative 1		Alternative 2	
Monthly BFC/ uniform kgal charge BFC = 50%		Monthly BFC/ uniform kgal charge BFC = 70%	
BFC	\$43.75	BFC	\$60.92
All kgals	\$14.58	All kgals	\$8.76
Typical Monthly Bills		Typical Monthly Bills	
Cons (kgal)		Cons (kgal)	
0	\$43.75	0	\$60.92
1	\$58.33	1	\$69.68
3	\$87.49	3	\$87.20
6	\$131.23	6	\$113.48
8	\$131.23	8	\$113.48

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Based on the foregoing, staff recommends that the appropriate rate structure for the wastewater system's residential and non-residential classes is a continuation of the monthly BFC/uniform gallonage charge rate structure. The current wastewater gallonage cap should remain at 6 kgals per month. The general service gallonage charge should be 1.2 times greater than the residential charge, and the BFC cost recovery percentage for the wastewater system should be set at 60 percent.

Issue 9: Is a repression adjustment appropriate in this case?

Preliminary Recommendation: No, a repression adjustment is not appropriate for Useppa. However, in order to monitor the effect resulting from the change in revenue, the Utility should prepare monthly reports for the water system, detailing the number of bills rendered, the consumption billed, and revenue billed. The reports should be provided to staff. 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 with 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: As mentioned earlier, the billing data indicates that there are customers using well above average consumption where 10 percent of the customers use 27 percent of the gallons at 15 kgals and above. In a case such as this, the Commission typically sets a repression adjustment. However, the customers in this service area are very affluent and may not respond as readily to changes in price. Therefore, staff believes that a repression adjustment is not warranted in this case. Nonetheless, staff recommends that monthly reports be prepared to monitor the effects resulting from changes in revenue to the water system. These 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.

Issue 10: What are the appropriate rates for Useppa?

Preliminary Recommendation: The appropriate monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, respectively. The recommended rates should be designed to produce revenue of \$180,110 for water and \$168,174 for wastewater, excluding miscellaneous service charges. 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 within 10 days of the date of the notice. (Bruce, Roberts)

Staff Analysis: The recommended revenue requirement is \$180,110 for the water system and \$168,174 for the wastewater system. There are no miscellaneous service charges for the water and wastewater systems.

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 within 10 days of 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 and wastewater systems are shown on Schedule Nos. 4-A and 4-B.

Issue 11: 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 and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one-month prior to the actual date of the required rate reduction. If Useppa 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 rates due to the amortized rate case expense.

Staff Analysis: Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year 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 on working capital, and the gross-up for RAFs which is \$211 each for water and wastewater. Using the Utility's current revenue, expenses, and customer base, the reduction in revenue will result in the rate decrease shown on Schedule Nos. 4-A and 4-B.

Useppa should be required to file revised tariff sheets no later than one-month prior to the actual date of the required rate reduction. The Utility also should be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction. If Useppa 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 rates due to the amortized rate case expense.

Issue 12: Should the Commission approve pro forma items for Useppa, 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 items. Useppa’s appropriate ROE should be 11.16 percent with a range of 10.16 to 12.16 percent. The appropriate overall rate of return is 3.88 percent. The Utility’s Phase II revenue requirement is \$182,297 for water and \$185,594 for wastewater which equates to a 1.21 percent increase for water and a 10.36 percent increase for wastewater over the respective Phase I revenue requirements. Useppa should complete the pro forma items within 12 months of the issuance of the consummating order. The Utility should be allowed to implement the resulting rates once the pro forma items have been completed and documentation provided showing that all improvements have been made to the system. 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. Useppa should provide proof of the date notice was given within 10 days of the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission in writing. (Roberts, Simpson)

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

Table 11-1

	Pro forma Items	Utility Requested	Staff Recommended
	<u>Plant</u>		
1.	Reverse Osmosis Retrofit – Water	\$14,200	\$14,200
2.	Injection Well System - Wastewater	\$98,200	\$98,200
	<u>Expense</u>		
3.	Deep Well Testing - Wastewater	\$8,568	\$8,568

During the 2009 renewal process for the wastewater permit, the Utility proposed installing a Class V injection well system and subsequently initiated that process. The injection well system and the costs associated with equipment and labor to retrofit the RO unit for higher recovery should be considered in this rate case. DEP has approved the exploratory program to determine whether a Class V injection well system should be installed to address the groundwater problems associated with the RO concentrate. Also, the injection well will require annual testing in the amount of \$8,568.

The Utility has requested that the cost associated with the installation of the injection well system, the equipment, and labor to retrofit the RO unit for higher recovery, and the injection well testing be included in this rate case. Staff believes that these pro forma plant items are

reasonable and prudent because it would allow the Utility to improve its quality of service and meet regulatory standards.

Staff is recommending a Phase II revenue requirement associated with the pro forma plant items for a number of reasons. First, it assures that the pro forma items are completed prior to the Utility's recovery of the investment in rates. In the past, there have been instances when the Commission approved an increase in revenue requirement associated with pro forma items only to have the utility in question fail to complete the pro forma investments. In addition, addressing the pro forma items in a single case saves additional rate case expense to the customers because the Utility would not need to file another rate case or limited proceeding to seek recovery for these items. The Commission has approved a Phase-In approach in Docket Nos. 090072-WU and 100471-SU.⁷

The Utility's Phase II revenue requirement should be \$184,263 for water and \$189,198 for wastewater. Useppa should complete the pro forma items within 12 months of the issuance of the Consummating Order. Phase II rate base is shown on Schedule Nos. 5-A, 5-B, and 5-C. The capital structure for Phase II is shown on Schedule No. 6. The revenue requirement is shown on Schedule Nos. 7-A, 7-B, and 7-C. The resulting rates are shown on Schedule Nos. 8-A and 8-B.

Useppa should be required to complete the pro forma items within 12 months of the issuance of the Consummating Order. The Utility should also be required to submit a copy of the final invoices and cancelled checks for all pro forma plant items within 15 days of the completion. The Utility should be allowed to implement the above rates once all pro forma items have been completed and documentation provided showing that the improvements have been made. 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. Useppa should provide proof of the date notice was given within 10 days of the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission in writing.

⁷ See Order Nos. PSC-09-0716-PAA-WU, issued October 28, 2009, in Docket No. 090072-WU, In re: Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc.; and PSC-11-0444-PAA-SU, issued October 7, 2011, in Docket No. 100471-SU, In re: Application for staff-assisted rate case in Marion County by S&L Utilities, Inc.

Issue 13: 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 rates should be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility. Useppa 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 temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. Prior to implementation of any temporary rates, the Utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the Utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission Clerk's office 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 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. Useppa 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 temporary rates should not be implemented until staff has approved the proposed notice and the notice has been received by the customers. 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 staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$9,979 for water and \$8,767 for wastewater. 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 monies in the escrow account may be withdrawn by the Utility without the express approval of the Commission;
- 2) The escrow account shall be an interest bearing account;
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the Utility;
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments;
- 8) The Commission Clerk must be a signatory to the escrow agreement; and
- 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 Clerk's office no

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later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

Issue 14: Should Useppa be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all applicable NARUC Uniform System of Accounts (USOA) primary accounts associated with the Commission-approved adjustments?

Preliminary Recommendation: Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, Useppa should provide proof, within 90 days of the final order in this docket, that the adjustments for all applicable NARUC USOA primary accounts have been made. (Roberts)

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

USEPPA ISLAND UTILITY, INC. TEST YEAR ENDED 6/30/2011 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 110260-WS	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$565,846	\$16,324	\$582,169
2. LAND & LAND RIGHTS	10,463	0	10,463
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(225,670)	0	(225,670)
5. ACCUMULATED DEPRECIATION	(359,232)	(18,130)	(377,363)
6. AMORTIZATION OF CIAC	209,064	(23,444)	185,620
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>16,695</u>	<u>16,695</u>
8. WATER RATE BASE	<u>\$200,470</u>	<u>(\$8,556)</u>	<u>\$191,915</u>

USEPPA ISLAND UTILITY, INC. TEST YEAR ENDED 6/30/2011 SCHEDULE OF WASTEWATER RATE BASE		SCHEDULE NO. 1-B DOCKET NO. 110260-WS	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$523,607	(\$14,020)	\$509,587
2. LAND & LAND RIGHTS	3,487	0	3,487
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(230,187)	0	(230,187)
5. ACCUMULATED DEPRECIATION	(330,001)	17,426	(312,576)
6. AMORTIZATION OF CIAC	230,187	0	230,187
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>15,571</u>	<u>15,571</u>
8. WASTEWATER RATE BASE	<u>\$197,093</u>	<u>\$18,976</u>	<u>\$216,069</u>

USEPPA ISLAND UTILITY, INC.		SCHEDULE NO. 1-C	
TEST YEAR ENDED 6/30/2011		DOCKET NO. 110260-WS	
ADJUSTMENTS TO RATE BASE		PAGE 1 OF 2	
	<u>WATER</u>	<u>WASTEWATER</u>	
<u>UTILITY PLANT IN SERVICE</u>			
1. To adjust Acct. No. 320 to Commission Order No. PSC-07-0385-SC-WS.	(\$1,862)		\$0
2. To adjust Acct. No. 334 to Commission Order No. PSC-07-0385-SC-WS.	(16)		0
3. To adjust Acct. No. 339 to Commission Order No. PSC-07-0385-SC-WS.	844		0
4. To adjust Acct. No. 343 to Commission Order No. PSC-07-0385-SC-WS.	434		0
5. To adjust Acct. No. 344 to Commission Order No. PSC-07-0385-SC-WS.	583		0
6. To reclassify plant to CWIP.	(3,048)		0
7. To record retirement for plant addition to Acct. No. 307.	(908)		0
8. To record retirement for plant addition to Acct. No. 307.	(569)		0
9. To record retirement for plant addition to Acct. No. 311.	(1,099)		0
10. To record retirement for plant addition to Acct. No. 311.	(1,512)		0
11. To record retirement for plant addition to Acct. No. 311.	(2,042)		0
12. To remove plant addition from Acct. No. 320 for lack of support documentation.	(1,509)		0
13. To reclassify plant addition from Acct. No. 333 to Acct. No. 334.	(939)		0
14. To record plant addition to Acct. No. 334 that was recorded incorrectly to Acct. No. 333.	980		0
15. To record retirements for plant additions to Acct. No. 334.	(1,598)		0
16. To record retirement for plant addition to Acct. No. 340.	(359)		0
17. To correct overstated account.	(43)		0
18. To adjust Acct. No. 360 to Commission Order No. PSC-07-0385-SC-WS.	0	(9,074)	
19. To adjust Acct. No. 380 to Commission Order No. PSC-07-0385-SC-WS.	0	265	
20. To adjust Acct. No. 389 to Commission Order No. PSC-07-0385-SC-WS.	0	9,072	
21. To record retirement for plant addition to Acct. No. 360.	0	(4,733)	
22. To record retirement for plant addition to Acct. No. 370.	0	(2,671)	
23. To record retirement for plant addition to Acct. No. 380.	0	(3,995)	
24. To remove plant addition from Acct. No. 380 for lack of support documentation.	0	(403)	
25. To reclassify blower part to Acct. No. 380 from expense.	0	298	
26. To record retirement for plant addition to Acct. No. 390.	0	(359)	
27. To record pro forma plant addition for tank rehabilitation to Acct. No. 320.	29,569		0
28. To reflect an averaging adjustment.	(582)	(2,420)	
Total	<u>\$16,324</u>	<u>(\$14,020)</u>	
<u>ACCUMULATED DEPRECIATION</u>			
1. To reflect accumulated depreciation per Rule 25-30.140 F.A.C.	(\$23,717)		\$9,816
2. To reflect an averaging adjustment.	6,482		7,610
3. To reflect pro forma depreciation expense.	(896)		0
Total	<u>(\$18,130)</u>		<u>\$17,426</u>

USEPPA ISLAND UTILITY, INC.		SCHEDULE NO. 1-C	
TEST YEAR ENDED 6/30/2011		DOCKET NO. 110260-WS	
ADJUSTMENTS TO RATE BASE		PAGE 2 OF 2	
	<u>WATER</u>	<u>WASTEWATER</u>	
<u>AMORTIZATION OF CIAC</u>			
1. To adjust Amortization of CIAC based on composite rates.	(\$22,147)	\$0	
2. To reflect an averaging adjustment.	(1,297)	0	
Total	<u>(\$23,444)</u>	<u>\$0</u>	
<u>WORKING CAPITAL ALLOWANCE</u>			
To reflect 1/8 of test year O & M expense.	<u>\$16,695</u>	<u>\$15,571</u>	

USEPPA ISLAND UTILITY, INC.

TEST YEAR ENDED 6/30/2011

SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2

DOCKET NO. 110260-WS

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE	PRO RATA ADJUSTMENTS	BALANCE	PERCENT OF TOTAL	COST	WEIGHTED COST
			BEFORE PRO RATA ADJUSTMENTS		PER STAFF			
1. COMMON EQUITY	\$1,000	\$0	\$1,000					
2. RETAINED EARNINGS	(543,049)	393,049	(150,000)					
3. PAID IN CAPITAL	149,000	0	149,000					
4. TREASURY STOCK	<u>0</u>	<u>0</u>	<u>0</u>					
5. TOTAL COMMON EQUITY	(\$393,049)	\$393,049	\$0	\$0	\$0	0.00%	11.16%	0.00%
6. NP Southwest Capital Bank	6,173		6,173	(3,040)	3,133	0.77%	6.18%	0.05%
7. NP Stockholders	<u>797,714</u>		<u>797,714</u>	<u>(392,863)</u>	<u>404,851</u>	<u>99.23%</u>	3.46%	3.43%
TOTAL LONG TERM DEBT	803,887	0	803,887	(395,903)	407,984	100.00%		
8. CUSTOMER DEPOSITS		<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	6.00%	<u>0.00%</u>
9. TOTAL	<u>\$410,838</u>	<u>\$393,049</u>	<u>\$803,887</u>	<u>(\$395,903)</u>	<u>\$407,984</u>	<u>100.00%</u>		<u>3.48%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>	
OVERALL RATE OF RETURN						<u>3.48%</u>	<u>3.48%</u>	

USEPPA ISLAND UTILITY, INC. TEST YEAR ENDED 6/30/2011 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 110260-WS		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$164,926</u>	<u>\$222</u>	<u>\$165,148</u>	<u>\$14,962</u> 9.06%	<u>\$180,110</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$121,376	\$12,185	\$133,560	\$0	\$133,560
3. DEPRECIATION (NET)	19,558	529	20,087	0	20,087
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	20,211	(1,100)	19,111	673	19,784
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$161,145</u>	<u>\$11,613</u>	<u>\$172,758</u>	<u>\$673</u>	<u>\$173,431</u>
8. OPERATING INCOME/(LOSS)	<u>\$3,781</u>		<u>(\$7,610)</u>		<u>\$6,679</u>
9. WATER RATE BASE	<u>\$200,470</u>		<u>\$191,915</u>		<u>\$191,915</u>
10. RATE OF RETURN	<u>1.89%</u>		<u>-3.97%</u>		<u>3.48%</u>

USEPPA ISLAND UTILITY, INC.			SCHEDULE NO. 3-B		
TEST YEAR ENDED 6/30/2011			DOCKET NO. 110260-WS		
SCHEDULE OF WASTEWATER OPERATING INCOME					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$153,202</u>	<u>\$1,827</u>	<u>\$155,029</u>	<u>\$13,145</u> 8.48%	<u>\$168,174</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$121,223	\$3,344	\$124,567	\$0	\$124,567
3. DEPRECIATION (NET)	19,247	(2,406)	16,841	0	16,841
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	19,750	(1,094)	18,656	592	19,247
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$160,220</u>	<u>(\$156)</u>	<u>\$160,064</u>	<u>\$592</u>	<u>\$160,655</u>
8. OPERATING INCOME/(LOSS)	<u>(7,018)</u>		<u>(5,035)</u>		<u>7,519</u>
9. WASTEWATER RATE BASE	<u>197,093</u>		<u>216,069</u>		<u>216,069</u>
10. RATE OF RETURN	<u>-3.56%</u>		<u>-2.33%</u>		<u>3.48%</u>

USEPPA ISLAND UTILITY, INC.
TEST YEAR ENDED 6/30/2011
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-C
DOCKET NO. 110260-WS
PAGE 1 OF 3

WATER WASTEWATER

OPERATING REVENUES

To reflect the appropriate test year revenues. \$222 \$1,827

OPERATION AND MAINTENANCE EXPENSES

Salaries and Wages Employees (601/ 701)

- | | | | |
|----|--|------------------|----------------|
| 1. | To annualize employee's salary. | \$3,492 | \$3286 |
| 2. | To reclassify to contractual services for contract operator (-5760-953). | (6,713) | (477) |
| | Subtotal | <u>(\$3,221)</u> | <u>\$2,809</u> |

Employee Pensions and Benefits (604/ 704)

- | | | | |
|----|---|----------------|----------------|
| 1. | Health Insurance headquarters allocation. | \$648 | \$648 |
| 2. | 401K headquarters allocation. | 392 | 392 |
| | Subtotal | <u>\$1,040</u> | <u>\$1,040</u> |

Purchased Power (615/ 715)

- | | | | |
|----|--|------------------|----------------|
| 1. | To reallocate total purchased power between water and Wastewater according to usage. | (\$1,834) | \$1,834 |
| 2. | To reflect electric discrepancy in billing. | 53 | 53 |
| | Subtotal | <u>(\$1,781)</u> | <u>\$1,887</u> |

Fuel for Power Production (616/617)

To reflect pro forma fuel expense for generator. \$668 \$668

Materials and Supplies (720)

To remove cost associated with blower replacement part. \$0 (\$298)

Contractual Services - Professional (631/731)

- | | | | |
|----|---|----------------|------------------|
| 1. | To remove permitting cost that should be capitalized for deep well project. | (\$2,239) | (\$8,600) |
| 2. | To reclassify Saturday contract water plant operator from Acct. No. 601. | 5,760 | 0 |
| 3. | To include pro forma increase for per trip by operator. | 960 | 0 |
| 4. | To reclassify contract expense from Acct. No. 601/701. | 953 | 477 |
| 5. | To reflect pro forma amount of the plant operator vacation coverage. | 997 | 498 |
| 6. | To reflect IT headquarters allocation. | 562 | 562 |
| | Subtotal | <u>\$6,993</u> | <u>(\$7,063)</u> |

(O & M EXPENSES CONTINUED ON NEXT PAGE)

USEPPA ISLAND UTILITY, INC.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 6/30/2011		DOCKET NO. 110260-WS	
ADJUSTMENTS TO OPERATING INCOME		PAGE 2 OF 3	
(O & M EXPENSES CONTINUED)		WATER	WASTEWATER
Contractual Services - Testing (635/ 735)			
1.	To reflect appropriate amount for annual testing.	\$1,547	(\$213)
2.	To reclassify to transportation expense.	(548)	(3,798)
3.	To reflect pro forma adjustment for required three-year testing.	677	113
4.	To reflect misc. testing.	156	0
	Subtotal	<u>\$1,832</u>	<u>(\$3,898)</u>
Rents (640/ 740)			
	To reflect the appropriate rent expense.	<u>(\$3,322)</u>	<u>(\$3,322)</u>
Transportation Expense (650/ 750)			
1.	To reclassify deposit on New truck lease expense to deferred assets.	(\$1,000)	(\$1,000)
2.	To remove cost related to excessive wear and use on previous lease.	(248)	(248)
3.	To reflect three year amortization of deposit and excessive wear and use for three year truck lease.	446	446
4.	To reclassify transportation expense of \$548 from testing and \$50 for annualizing.	598	4,143
5.	To reflect cost for barging Utility items.	578	578
6.	To include island transportation.	8,974	8,974
7.	To include Shoreport transportation.	155	155
8.	To reflect parking expenses.	64	64
	Subtotal	<u>\$9,567</u>	<u>\$13,112</u>
Insurance Expenses (655/ 755)			
	To reflect the appropriate insurance expense.	<u>(\$628)</u>	<u>(\$628)</u>
Regulatory Expense (665/ 765)			
	To reflect four-year amortization of rate case expense.	<u>\$201</u>	<u>\$201</u>
Miscellaneous Expense (675/ 775)			
1.	To reflect house cleaning expense allocation.	\$468	\$468
2.	To include pest control expense.	228	228
3.	To include postage expenses.	139	139
4.	To remove fine from DEP.	0	(2,000)
	Subtotal	<u>\$835</u>	<u>(\$1,165)</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS		<u>\$12,185</u>	<u>\$3,344</u>
(O & M EXPENSES CONTINUED ON NEXT PAGE)			

USEPPA ISLAND UTILITY, INC. TEST YEAR ENDED 6/30/2011 ADJUSTMENTS TO OPERATING INCOME		SCHEDULE NO. 3-C DOCKET NO. 110260-WS PAGE 3 OF 3	
(O & M EXPENSES CONTINUED)	<u>WATER</u>	<u>WASTEWATER</u>	
DEPRECIATION EXPENSE			
1. To reflect depreciation expense.	(\$3,903)	(\$2,406)	
2. To reflect amortization expense.	4,431	0	
Total	<u>\$529</u>	<u>(\$2,406)</u>	
TAXES OTHER THAN INCOME			
1. To reflect the appropriate RAFs.	\$24	\$30	
2. To reflect the appropriate property taxes.	(325)	(325)	
3. To reflect the appropriate payroll taxes.	(799)	(799)	
Total	<u>(\$1,100)</u>	<u>(\$1,094)</u>	

USEPPA ISLAND UTILITY, INC.		SCHEDULE NO. 3-D	
TEST YEAR ENDED 6/30/2011		DOCKET NO. 110260-WS	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF PER ADJUST.	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$63,058	(\$3,221)	\$59,837
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	2,637	1,040	3,677
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	22,917	(1,781)	21,136
(616) FUEL FOR POWER PRODUCTION	9	668	677
(618) CHEMICALS	2,483	0	2,483
(620) MATERIALS AND SUPPLIES	4,402	0	4,402
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	3,989	6,993	10,982
(635) CONTRACTUAL SERVICES - TESTING	1,615	1,832	3,447
(636) CONTRACTUAL SERVICES - OTHER	1,675	0	1,675
(640) RENTS	8,450	(3,322)	5,128
(650) TRANSPORTATION EXPENSE	4,453	9,567	14,020
(655) INSURANCE EXPENSE	3,638	(628)	3,010
(665) REGULATORY COMMISSION EXPENSE	0	201	201
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSES	2,048	835	2,883
	<u>\$121,376</u>	<u>\$12,185</u>	<u>\$133,560</u>

USEPPA ISLAND UTILITY, INC. **SCHEDULE NO. 3-E**
TEST YEAR ENDED 6/30/2011 **DOCKET NO. 110260-WS**
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE

	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$57,028	\$2,809	\$59,837
(703) SALARIES AND WAGES - OFFICERS	0	0	0
(704) EMPLOYEE PENSIONS AND BENEFITS	2,496	1,040	3,536
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	779	0	779
(715) PURCHASED POWER	13,763	1,887	15,650
(716) FUEL FOR POWER PRODUCTION	9	668	677
(718) CHEMICALS	2,700	0	2,700
(720) MATERIALS AND SUPPLIES	3,195	(298)	2,897
(730) CONTRACTUAL SERVICES - BILLING	0	0	0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	10,350	(7,063)	3,287
(735) CONTRACTUAL SERVICES - TESTING	9,967	(3,898)	6,069
(736) CONTRACTUAL SERVICES - OTHER	972	0	972
(740) RENTS	8,450	(3,322)	5,128
(750) TRANSPORTATION EXPENSE	3,941	13,112	17,053
(755) INSURANCE EXPENSE	3,638	(628)	3,010
(765) REGULATORY COMMISSION EXPENSES	0	201	201
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSES	<u>3,935</u>	<u>(1,165)</u>	<u>2,770</u>
	<u>\$121,223</u>	<u>\$3,344</u>	<u>\$124,567</u>

USEPPA ISLAND UTILITY, INC.		SCHEDULE NO. 4-A	
TEST YEAR ENDED 6/30/2011		DOCKET NO. 110260-WS	
MONTHLY WATER RATES (PHASE I)			
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	MONTHLY RATE REDUCTION
<u>Residential and General Service</u>			
<u>Base Facility Charge by Meter Size:</u>			
5/8"X3/4"	\$35.24	\$37.82	\$0.04
3/4"	\$52.86	\$56.73	\$0.07
1"	\$88.10	\$94.55	\$0.11
1-1/2"	\$176.20	\$189.10	\$0.22
2"	\$281.92	\$302.56	\$0.35
3"	\$563.84	\$605.12	\$0.71
4"	\$881.00	\$945.50	\$1.11
6"	\$1,762.00	\$1,891.00	\$2.22
8"	\$2,819.00	\$3,060.80	\$3.59
<u>Residential and General Service Gallonage Charge</u>			
Per 1,000 Gallons	\$6.33	\$7.10	\$0.01
<u>Fire Protection Service</u>			
2"	\$23.49	\$25.21	\$0.03
3"	\$46.99	\$50.43	\$0.06
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$54.23	\$59.12	
5,000 Gallons	\$66.89	\$73.32	
10,000 Gallons	\$98.54	\$108.82	

USEPPA ISLAND UTILITY, INC.		SCHEDULE NO. 4-B	
TEST YEAR ENDED 6/30/2011		DOCKET NO. 110260-WS	
MONTHLY WASTEWATER RATES			
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	MONTHLY RATE REDUCTION
<u>Residential Service</u>			
Base Facility Charge All Meter Sizes	\$45.13	\$52.06	\$0.07
<u>Gallonge Charge</u>			
Per 1,000 Gallons (6,000 gallon cap)	\$11.81	\$11.76	\$0.01
<u>General Service</u>			
Base Facility Charge by Meter Size:			
5/8"X3/4"	\$45.13	\$52.06	\$0.07
3/4"	\$67.69	\$78.09	\$0.10
1"	\$112.82	\$130.15	\$0.16
1-1/2"	\$225.65	\$260.30	\$0.33
2"	\$361.04	\$416.48	\$0.52
3"	\$722.08	\$832.96	\$1.05
4"	\$1,128.24	\$1,301.50	\$1.63
6"	\$2,256.49	\$2,603.00	\$3.27
8"	\$3,610.40	\$3,492.00	\$4.38
<u>Gallonge Charge per 1,000 gallons</u>	\$14.17	\$14.11	\$0.02
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$80.56	\$87.34	
5,000 Gallons	\$104.18	\$110.86	
10,000 Gallons	\$115.99	\$122.62	

USEPPA ISLAND UTILITY, INC. TEST YEAR ENDED 6/30/2011 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 5-A DOCKET NO. 110260-WS	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$582,169	\$14,200	\$596,369
2. LAND & LAND RIGHTS	10,463	0	10,463
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(225,670)	0	(225,670)
5. ACCUMULATED DEPRECIATION	(377,363)	(1,670)	(379,033)
6. AMORTIZATION OF CIAC	185,620	0	185,620
7. WORKING CAPITAL ALLOWANCE	<u>16,695</u>	<u>0</u>	<u>16,695</u>
8. WATER RATE BASE	<u>\$191,915</u>	<u>\$12,530</u>	<u>\$204,445</u>

USEPPA ISLAND UTILITY, INC. TEST YEAR ENDED 6/30/2011 SCHEDULE OF WASTEWATER RATE BASE		SCHEDULE NO. 5-B DOCKET NO. 110260-WS	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$509,587	\$98,200	\$607,787
2. LAND & LAND RIGHTS	3,487	0	3,487
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(230,187)	0	(230,187)
5. ACCUMULATED DEPRECIATION	(312,576)	(7,267)	(319,843)
6. AMORTIZATION OF CIAC	230,187	0	230,187
7. WORKING CAPITAL ALLOWANCE	15,571	1,071	16,642
8. WASTEWATER RATE BASE	<u>\$216,069</u>	<u>\$92,004</u>	<u>\$308,073</u>

USEPPA ISLAND UTILITY, INC.		SCHEDULE NO. 5-C	
TEST YEAR ENDED 6/30/2011		DOCKET NO. 110260-WS	
<u>ADJUSTMENTS TO RATE BASE (PHASE II)</u>			
	<u>WATER</u>	<u>WASTEWATER</u>	
<u>UTILITY PLANT IN SERVICE</u>			
1. Reverse Osmosis Retrofit	\$14,200	\$0	
2. Injection Well System	<u>0</u>	<u>98,200</u>	
Total	<u>\$14,200</u>	<u>\$98,200</u>	
<u>ACCUMULATED DEPRECIATION</u>			
To reflect accumulated depreciation for pro forma plant additions.	<u>(\$1,670)</u>	<u>(\$7,252)</u>	
<u>WORKING CAPITAL ALLOWANCE</u>			
To reflect 1/8 of test year O & M expenses.	<u>\$0</u>	<u>\$1,071</u>	

USEPPA ISLAND UTILITY, INC.
 TEST YEAR ENDED 6/30/2011
 SCHEDULE OF CAPITAL STRUCTURE

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 EQUITY	\$1,000	\$0	\$1,000					
2. RETAINED EARNINGS	(543,049)	393,049	(150,000)					
3. PAID IN CAPITAL	149,000	0	149,000					
4. TREASURY STOCK		<u>0</u>	<u>0</u>					
5. TOTAL COMMON EQUITY	(\$393,049)	\$393,049	0	0	0	0.00%	11.16%	0.00%
6. NP Southwest Capital Bank	6,173	141,105	147,278	(67,402)	79,876	15.59%	6.18%	0.96%
7. NP Stockholders	<u>797,714</u>		<u>797,714</u>	<u>(365,073)</u>	<u>432,641</u>	<u>84.41%</u>	3.46%	2.92%
TOTAL LONG TERM DEBT	803,887	141,105	944,992	(432,474)	512,518	100.00%		
8. CUSTOMER DEPOSITS		<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	6.00%	<u>0.00%</u>
9. TOTAL	<u>\$410,838</u>	<u>\$534,154</u>	<u>\$944,992</u>	<u>(\$432,474)</u>	<u>\$512,518</u>	<u>100.00%</u>		<u>3.88%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>	
OVERALL RATE OF RETURN						<u>3.88%</u>	<u>3.88%</u>	

USEPPA ISLAND UTILITY, INC. TEST YEAR ENDED 6/30/2011 SCHEDULE OF WATER OPERATING INCOME		SCHEDULE NO. 7-A DOCKET NO. 110260-WS			
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$180,110</u>	<u>\$0</u>	<u>\$180,110</u>	<u>\$2,187</u> 1.21%	<u>\$182,297</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$133,560	\$0	\$133,560	\$0	\$133,560
3. DEPRECIATION (NET)	20,087	835	20,922	0	20,922
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	19,784	0	19,784	98	19,882
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$173,431</u>	<u>\$835</u>	<u>\$174,266</u>	<u>\$98</u>	<u>\$174,365</u>
8. OPERATING INCOME/(LOSS)	<u>\$6,679</u>		<u>\$5,844</u>		<u>\$7,932</u>
9. WATER RATE BASE	<u>\$191,915</u>		<u>\$204,445</u>		<u>\$204,445</u>
10. RATE OF RETURN	<u>3.48%</u>		<u>2.86%</u>		<u>3.88%</u>

USEPPA ISLAND UTILITY, INC.
 TEST YEAR ENDED 6/30/2011
 SCHEDULE OF WASTEWATER OPERATING INCOME

	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	\$168,174	\$0	\$168,174	\$17,419 10.36%	\$185,594
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$124,567	\$8,568	\$133,135	\$0	\$133,135
3. DEPRECIATION (NET)	16,841	3,633	20,475	0	20,475
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	19,247	0	19,247	784	20,031
6. INCOME TAXES	0	0	0	0	0
7. TOTAL OPERATING EXPENSES	\$160,655	\$12,201	\$172,857	\$784	\$173,640
8. OPERATING INCOME/(LOSS)	\$7,519		(\$4,682)		\$11,953
9. WASTEWATER RATE BASE	\$216,069		\$308,073		\$308,073
10. RATE OF RETURN	3.48%		-1.52%		3.88%

USEPPA ISLAND UTILITY, INC.		SCHEDULE NO. 7-C	
TEST YEAR ENDED 6/30/2011		DOCKET NO. 110260-WS	
ADJUSTMENTS TO OPERATING INCOME (PHASE II)			
Contractual Services - Testing (635/ 735)			
To reflect misc. testing.		<u>\$0</u>	<u>\$8,568</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS		<u>\$0</u>	<u>\$8,568</u>
DEPRECIATION EXPENSE			
To reflect depreciation expense for pro forma plant additions.		<u>\$835</u>	<u>\$3,626</u>

USEPPA ISLAND UTILITY, INC.		SCHEDULE NO. 8-B	
TEST YEAR ENDED 6/30/2011		DOCKET NO. 110260-WS	
MONTHLY WATER RATES (PHASE II)			
	UTILITY'S EXISTING PHASE I RATES	STAFF RECOMMENDED RATES	
<u>Residential and General Service</u>			
<u>Base Facility Charge by Meter Size:</u>			
5/8" X 3/4"	\$37.82	\$38.28	
3/4"	\$56.73	\$57.42	
1"	\$94.55	\$95.70	
1-1/2"	\$189.10	\$191.40	
2"	\$302.56	\$306.24	
3"	\$605.12	\$612.48	
4"	\$945.50	\$957.00	
6"	\$1,891.00	\$1,914.00	
8"	\$3,060.80	\$3,095.20	
<u>Residential and General Service Gallonage Charge</u>			
Per 1,000 Gallons	\$7.10	\$7.19	
<u>Fire Protection</u>			
2"	\$25.21	\$25.52	
3"	\$50.43	\$51.04	
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$59.12	\$59.85	
5,000 Gallons	\$73.32	\$74.23	
10,000 Gallons	\$108.82	\$110.18	

USEPPA ISLAND UTILITY, INC.		SCHEDULE NO. 8-B	
TEST YEAR ENDED 6/30/2011		DOCKET NO. 110260-WS	
MONTHLY WASTEWATER RATES (PHASE II)			
	UTILITY'S EXISTING PHASE I RATES	STAFF RECOMMENDED RATES	
<u>Residential Service</u>			
Base Facility Charge All Meter Sizes	\$52.06	\$57.71	
<u>Gallonage Charge</u>			
Per 1,000 Gallons (6,000 gallon cap)	\$11.76	\$12.89	
<u>General Service</u>			
Base Facility Charge by Meter Size:			
5/8" X 3/4"	\$52.06	\$57.71	
3/4"	\$78.09	\$86.57	
1"	\$130.15	\$144.28	
1-1/2"	\$260.30	\$288.55	
2"	\$416.48	\$461.68	
3"	\$832.96	\$923.36	
4"	\$1,301.50	\$1,442.75	
6"	\$2,603.00	\$2,885.50	
8"	\$3,492.00	\$3,920.00	
<u>Gallonage Charge per 1,000 gallons</u>	\$14.11	\$15.47	
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$87.34	\$96.38	
5,000 Gallons	\$110.86	\$122.16	
10,000 Gallons	\$122.62	\$135.05	