

State of Florida



Public Service Commission

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COMMISSION
CLERK

DATE: May 16, 2012

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (M. Brown, Fletcher, Maurey)
Office of the General Counsel (Jaeger)

RE: Docket No. 120037-WS – Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke.

AGENDA: 05/22/12 – Regular Agenda – Decision on Suspension of Rates and on Interim Rates – Participation is at the Discretion of the Commission

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brown

CRITICAL DATES: 05/29/12 (60-Day Suspension Date)

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\120037.RCM.DOC

DOCUMENT NUMBER-DA

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FPSC-COMMISSION CLERK

Case Background

Utilities, Inc. of Pennbrooke (Pennbrooke or Utility) is a Class B utility providing water and wastewater service to approximately 1,368 water and 1,230 wastewater customers in Lake County. Water and wastewater rates were last established for this Utility in its 2009 rate case.¹

On March 29, 2012, Pennbrooke filed its application for a rate increase at issue in the instant docket. The Utility's application did not meet the minimum filing requirements (MFRs) On May 9, 2012, the Utility provided corrections to its MFRs. Upon review of the MFRs, staff determined that the MFRs are complete. Therefore, the official filing date was established as May 9, 2012. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and requested interim rates. The test year established for interim and final rates is the simple average period ended September 30, 2011.

Pennbrooke requested interim revenue increases of \$1,258 (0.26 percent) for water and \$43,664 (8.94 percent) for wastewater. The Utility requested final revenue increases of \$162,305 (33.02 percent) for water and \$116,169 (23.78 percent) for wastewater.

This recommendation addresses the suspension of Pennbrooke's requested final rates and the Utility's requested interim rates. The Commission has jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes (F.S.).

¹ See Order No. PSC-10-0400-PAA-WS, issued June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke.

Discussion of Issues

Issue 1: Should the Utility's proposed final water and wastewater rates be suspended?

Recommendation: Yes. Pennbrooke's proposed final water and wastewater rates should be suspended. (M. Brown, Fletcher)

Staff Analysis: Section 367.081(6), F.S., provides that the Commission may, for good cause, withhold consent to the implementation of the requested rates within 60 days after the date the rate request is filed. Further, Section 367.081(8), F.S., permits the proposed rates to go into effect (secured and subject to refund) at the expiration of five months from the official date of filing if: (1) the Commission has not acted upon the requested rate increase; or (2) if the Commission's PAA action is protested by a party other than the Utility.

Staff has reviewed the filing and has considered the information filed in support of the rate application and the proposed final rates. Staff believes that it is necessary to require further investigation of this information, including on-site investigations by staff accountants and engineers. To date, staff has initiated an audit of Pennbrooke's books and records, as well as an audit of Utilities, Inc. (UI), the Utility's parent, to examine allocated investment and operating expenses. Both of these audits are tentatively due on June 5, 2012. In addition, staff sent its first data request on May 9, 2012. The Utility's responses to these data requests are due on June 9, 2012. Further, staff believes additional requests will be necessary to process this case. Based on the foregoing, staff recommends suspension of the Utility's proposed rate increase.

Issue 2: Should any interim revenue increases be approved?

Recommendation: No. Pennbrooke should be allowed to continue collecting water revenues designed to produce test year revenue of \$491,577. However, because it appears that Pennbrooke is earning above its maximum rate of return, \$75,385 (or 15.34 percent) of this water revenue should be collected subject to refund with interest. As discussed in staff's analysis below, the wastewater system is earning within its last authorized ROE range, and thus no interim increase or decrease is warranted. (M. Brown, Fletcher)

Staff Analysis: On March 29, 2012, Pennbrooke filed its rate base, cost of capital, and operating statements to support its requested interim increase in water and wastewater rates. Pursuant to Section 367.082(1), F.S., in order to establish a prima facie entitlement for interim relief, the Utility shall demonstrate that it is earning outside the range of reasonableness on its rate of return. Pursuant to Section 367.081(2)(a), F.S., in a proceeding for an interim increase in rates, the Commission shall authorize, within 60 days of the filing for such relief, the collection of rates sufficient to earn the minimum of the range of rate of return. Based on the Utility's filing and the recommended adjustments below, staff believes that the Utility has not demonstrated a prima facie entitlement in accordance with Section 367.082(1), F.S.

Pursuant to Section 367.082(5)(b)1., F.S., the achieved rate of return for interim purposes must be calculated by applying adjustments consistent with adjustments made in the Utility's most recent rate proceeding and annualizing any rate changes. Staff has reviewed Pennbrooke's interim request, as well as Order No. PSC-10-0400-PAA-WS, in which the Commission last established rates. Staff's recommended adjustments are discussed below. Staff has attached accounting schedules to illustrate staff's recommended rate base, capital structure, and test year operating income amounts. Rate base is labeled as Schedule Nos. 1-A and 1-B, capital structure is labeled as Schedule No. 2, and operating income for water and wastewater, respectively, is labeled as Schedule Nos. 3-A and 3-B, with the adjustments shown on Schedule No. 3-C.

RATE BASE

In the Utility's last rate case, the Commission made certain adjustments related to the Phoenix Project, which is the parent company's accounting and billing software. In its filing, the Utility failed to make those adjustments consistent with Order No. PSC-10-0400-PAA-WS. As such, absent the specific test year data necessary, staff believes the same dollar adjustments should be made for interim purposes in the instant case. Thus, staff recommends that plant should be reduced by \$8,406 and \$6,605 for water and wastewater, respectively. In addition, accumulated depreciation should be reduced by \$7,180 and \$6,116 for water and wastewater, respectively. Finally, depreciation expense should be reduced by \$2,611 and \$2,224 for water and wastewater, respectively.

Pursuant to Rule 25-30.433(2), Florida Administrative Code (F.A.C.), working capital for class B utilities shall be calculated using the formula method which is one-eighth of operation and maintenance (O&M) expenses. Based on staff's adjustments to water and wastewater O&M expenses discussed below, staff reduced working capital by \$8,749 for water and \$4,499 for wastewater. As such, staff recommends an interim working capital allowance of \$26,852 and \$28,987 for water and wastewater, respectively.

Based on the above, staff recommends that Pennbrooke's interim water rate base should be \$632,707, and wastewater rate base should be \$1,169,111.

COST OF CAPITAL

Based on an analysis of the MFRs, staff discovered that the Utility made a calculation error in reconciling its requested water and wastewater rate bases. In addition, Pennbrooke utilized the Commission's 2011 leverage formula for its requested return on equity (ROE) of 10.37 percent. Pursuant to Section 367.082(5)(b)3., F.S., Pennbrooke should have used the last authorized ROE from its last rate case. In the last rate case, by Order No. PSC-10-0400-PAA-WS, the Commission established a ROE of 11.13 percent with a range of plus/minus 100 basis points.

Pursuant to Section 367.082(2)(a), F.S., in a proceeding for an interim increase in rates, the commission shall authorize, within 60 days of the filing for such relief, the collection of rates sufficient to earn the minimum of the range of rate of return calculated in accordance with Section 367.082(5)(b)2. When the lower authorized limit of 10.13 percent is used, it results in rate decreases for both the water and wastewater systems.

Pursuant to Section 367.082(2)(b), F.S., in a proceeding for an interim decrease in rates, the Commission shall authorize the continued collection of the previously authorized rates; however, revenues collected under those rates that are sufficient to reduce the achieved rate of return to the maximum of the rate of return should be held subject to refund with interest. Using the upper authorized limit of 12.13 percent, it appears that the Utility is earning above the maximum rate of return for water. However, using the upper authorized limit of 12.13 percent for wastewater, it appears that the Utility is earning within its last authorized ROE range, and thus no interim increase or decrease is warranted.

Based on the above and using the maximum ROE of 12.13 percent, staff calculates an interim weighted average cost of capital of 8.69 percent. This calculation is shown on Schedule No. 2.

NET OPERATING INCOME

Pursuant to Section 367.082(5)(b)1., F.S., the achieved rate of return for interim purposes must be calculated by applying adjustments consistent with adjustments made in the Utility's most recent rate proceeding and annualized for any rate changes. Based on staff's review, several adjustments are necessary for interim purposes.

First, Pennbrooke included adjustments to decrease expenses by \$21,674 for water and \$18,014 for wastewater related to the annualization of salaries. Staff believes the Utility's proposed adjustments for annualizing salaries are pro forma because they are outside the interim test year. As such, staff recommends that these adjustments be removed from the interim net operating income calculation.

Second, staff has reduced the expense for salaries and pensions by \$73,358 for water and for wastewater by \$45,597 to reflect the benchmark adjustment for customer growth and inflation. This adjustment is consistent with the treatment in the Utility's last rate case.

Third, in its last rate proceeding, the Commission disallowed the costs associated with duplicative billing, that is, a separate bill for irrigation service. Accordingly, staff has adjusted O&M expenses by \$7,834 for wastewater to remove the cost of duplicative billing.

Fourth, in its MFRs, the Utility included annual amortization of rate case expense of \$28,499 for water and \$23,772 for wastewater. In its last rate proceeding, the Commission approved annual amortization of rate case expense of \$17,684 for water and \$15,064 for wastewater. As such, consistent with the Utility's last rate case, staff recommends that O&M expenses should be reduced by \$10,815 for water and \$8,708 for wastewater.

Fifth, staff has adjusted bad debt expense by \$345 for water and \$294 for wastewater to reflect the 3-year average for bad debt expense consistent with the treatment in the Utility's last rate case.

Based on the above, staff recommends that the appropriate test year operating income, before any revenue decrease or increase, is \$99,908 for water and \$95,621 for wastewater.

REVENUE REQUIREMENT

Based on the above adjustments, staff recommends a maximum revenue requirement of \$416,192 for water, which warrants a decrease in revenues of \$75,385 (or 15.34 percent) from the adjusted test year revenue of \$491,577. This decrease will allow the Utility the opportunity to recover its water operating expenses and earn an 8.69 percent return on its water rate base. However, as stated above, using the upper authorized limit of 12.13 percent shows that the wastewater system is earning within its last authorized ROE range, and thus neither an interim increase or decrease is warranted.

Issue 3: What are the appropriate interim water and wastewater rates?

Recommendation: In accordance with Section 367.082(2)(b), F.S., the Utility's existing rates are appropriate for interim purposes. (M. Brown, Fletcher)

Staff Analysis: Pursuant to Section 367.082(2)(b), F.S., in a proceeding for an interim decrease in rates, the Commission shall authorize, within 60 days of the filing for such relief, the continued collection of the previously authorized rates; however, revenues collected under those rates sufficient to reduce the achieved rate of return to the maximum of the rate of return calculated in accordance with subsection (5) shall be placed under bond, escrow, letter of credit, or corporate undertaking subject to refund with interest at a rate ordered by the Commission.

Using the upper authorized limit of 12.13 percent results in a revenue decrease for water. However, using the upper authorized limit of 12.13 percent indicates that the wastewater system is earning within its last authorized ROE range. Based on the above, the Utility's existing rates are appropriate for interim purposes.

Issue 4: What is the appropriate security to guarantee the interim decrease?

Recommendation: A cumulative corporate undertaking of \$357,423 is acceptable contingent upon receipt of the written guarantee of the parent company, Utilities, Inc. (UI or Company) and written confirmation that the cumulative outstanding guarantees on behalf of UI-owned utilities in other states will not exceed \$1.2 million (inclusive of all Florida utilities). UI should be required to file a corporate undertaking on behalf of its subsidiaries to guarantee any potential refunds of revenues collected under interim conditions. UI's total guarantee should be a cumulative amount of \$357,423, which includes an amount of \$43,990 subject to refund in this docket. Pursuant to Rule 25-30.360(6), F.A.C., the Utility should provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and in accordance with Rule 25-30.360, F.A.C. (Springer, M. Brown, Fletcher)

Staff Analysis: Pursuant to Section 367.082, F.S., revenues collected under interim rates shall be placed under bond, escrow, letter of credit, or corporate undertaking subject to refund with interest at a rate ordered by the Commission. As recommended in Issue 2, the annual interim decrease for water is \$75,385. In accordance with Rule 25-30.360, F.A.C., staff calculated the potential refund of revenues and interest collected under interim conditions to be \$43,990. This amount is based on an estimated seven months of revenue being collected under the Utility's current authorized rates for water shown on Schedule No. 4-A.

Pennbrooke is a wholly-owned subsidiary of UI, which provides all investor capital to its subsidiaries. Based on the amount subject to refund for its Pennbrooke system, the incremental increase in UI's corporate undertaking is \$43,990. The current cumulative corporate undertaking amount outstanding for other UI systems is \$313,433.² The new request would bring the cumulative amount outstanding to \$357,423.

The criteria for a corporate undertaking include sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. Staff reviewed UI's 2009, 2010, and 2011 financial statements to determine if the Company can support a corporate undertaking on behalf of its subsidiary. As the attached schedule shows, UI reported deficient liquidity in 2009 and low levels of interest coverage over the review period. However, in 2010 and 2011, the Company achieved sufficient liquidity, and its interest coverage ratio has also been trending positively since 2009. In addition, UI reported adequate ownership equity over the three year review period. UI's profitability in 2010 increased from \$5,276,388 to \$15,576,121 by virtue of a one-time gain on the disposition of utility systems in the amount of \$10,299,733. The amount of the one-time gain is atypical of the amounts UI reported in prior-year financial statements and there is no indication a gain of that magnitude will occur in future years. UI's profitability in 2011 decreased from \$9,601,000 to \$8,032,000 by virtue of a one-time loss on the disposition of utility systems in the amount of \$1,569,000. Replacing both the gain in 2010 and the loss in 2011 with the Company's five-year average gain³ on the disposition of utility systems,

² The other outstanding amounts for Pennbrooke sister companies are: (1) \$77,484 for Utilities, Inc. of Eagle Ridge; (2) \$54,040 for Labrador Utilities, Inc.; and (3) \$181,909 for Mid-County Services, Inc.

³ The Company's five-year average gain on the disposition of utility systems was \$4,736,779 in 2010 and \$2,593,326 in 2011.

UI's average net income over the three-year period from 2009 to 2011 is \$10,041,790, which is nearly 16 times greater than the requested cumulative corporate undertaking amount of \$357,423.

Based on staff's review of the financial reports submitted by UI, staff believes UI has adequate resources to support a corporate undertaking in the amount requested. Based on this analysis, staff recommends that a cumulative corporate undertaking of \$357,423 is acceptable contingent upon receipt of the written guarantee of UI and written confirmation that the cumulative outstanding guarantees on behalf of UI-owned utilities in other states will not exceed \$1.2 million (inclusive of all Florida utilities).

Pursuant to Rule 25-30.360(6), F.A.C., the Utility should provide a report by the 20th day of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, F.A.C.

In no instance should maintenance and administrative costs associated with any refund be borne by the customers. The costs are the responsibility of, and should be borne by, the Utility.

Docket No. 120037-WS
Date: May 16, 2012

Issue 5: Should the docket be closed?

Recommendation: No. The docket should remain open pending the Commission's PAA decision on the Utility's requested rate increase. (Jaeger, M. Brown, Fletcher)

Staff Analysis: The docket should remain open pending the Commission's PAA decision on the Utility's requested rate increase.

Utilities Inc. of Pennbrooke Schedule of Water Rate Base Test Year Ended 09/30/11		Schedule No. 1-A Docket No. 120037-WS				
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	
1 Plant in Service	\$2,319,543	(\$6,723)	\$2,312,820	(\$8,406)	\$2,304,414	
2 Land and Land Rights	22,054	9	22,063	0	22,063	
3 Non-used and Useful Components	0	0	0	0	0	
4 Accumulated Depreciation	(1,184,730)	(36,423)	(1,221,153)	7,180	(1,213,973)	
5 CIAC	(353,117)	(543,946)	(897,063)	0	(897,063)	
6 Amortization of CIAC	248,942	141,471	390,413	0	390,413	
7 Construction Work in Progress	1,482	(1,482)	0	0	0	
8 Working Capital Allowance	37,655	(2,054)	35,601	(8,749)	26,852	
9 Acquisition Adjustments	<u>476,560</u>	<u>(476,560)</u>	<u>0</u>	<u>0</u>	<u>0</u>	
10 Rate Base	<u>\$1,568,389</u>	<u>(\$925,708)</u>	<u>\$642,681</u>	<u>(\$9,974)</u>	<u>\$632,707</u>	

Utilities Inc. of Pennbrooke Schedule of Wastewater Rate Base Test Year Ended 09/30/11		Schedule No. 1-B Docket No. 120037-WS				
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	
1 Plant in Service	\$3,000,682	(\$1,181)	\$2,999,501	(\$6,605)	\$2,992,896	
2 Land and Land Rights	28,518	7	28,525	0	28,525	
3 Non-used and Useful Components	0	0	0	0	0	
4 Accumulated Depreciation	(1,249,707)	9,554	(1,240,153)	6,116	(1,234,037)	
5 CIAC	(1,733,772)	517,012	(1,216,760)	0	(1,216,760)	
6 Amortization of CIAC	840,579	(271,079)	569,500	0	569,500	
7 Working Capital Allowance	<u>35,792</u>	<u>(2,306)</u>	<u>33,486</u>	<u>(4,499)</u>	<u>28,987</u>	
8 Rate Base	<u>\$922,092</u>	<u>\$252,007</u>	<u>\$1,174,099</u>	<u>(\$4,988)</u>	<u>\$1,169,111</u>	

Utilities Inc. of Pennbrooke Adjustments to Rate Base Test Year Ended 09/30/11		Schedule No. 1-C Docket No. 120037-WS	
Explanation	Water	Wastewater	
<u>Plant In Service</u>			
Phoenix Project Adjustment from last rate case.	<u>(\$8,406)</u>	<u>(\$6,605)</u>	
<u>Accumulated Depreciation</u>			
Phoenix Project Adjustment from last rate case.	<u>\$7,180</u>	<u>\$6,116</u>	
<u>Working Capital</u>			
Reflect appropriate interim working capital.	<u>(\$8,749)</u>	<u>(\$4,499)</u>	

Utilities Inc. of Pennbrooke						Schedule No. 2				
Capital Structure-Simple Average						Docket No. 120037-WS				
Test Year Ended 09/30/11										
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost		
Per Utility										
1 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$179,154,704)	\$845,296	46.53%	6.65%	3.09%		
2 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%		
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%		
4 Common Equity	178,088,281	0	178,088,281	(177,251,963)	836,318	46.03%	10.37%	4.77%		
5 Customer Deposits	6,515	0	6,515	0	6,515	0.36%	6.00%	0.02%		
6 Deferred Income Taxes	<u>128,651</u>	<u>0</u>	<u>128,651</u>	<u>0</u>	<u>128,651</u>	<u>7.08%</u>	0.00%	<u>0.00%</u>		
7 Total Capital	<u>\$358,223,447</u>	<u>\$0</u>	<u>\$358,223,447</u>	<u>(\$356,406,667)</u>	<u>\$1,816,780</u>	<u>100.00%</u>		<u>7.89%</u>		
Per Staff										
8 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$179,162,225)	\$837,775	46.50%	6.65%	3.09%		
9 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%		
10 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%		
11 Common Equity	178,088,281	0	178,088,281	(177,259,404)	828,877	46.00%	12.13%	5.58%		
12 Customer Deposits	6,515	0	6,515	0	6,515	0.36%	6.00%	0.02%		
13 Deferred Income Taxes	<u>128,651</u>	<u>0</u>	<u>128,651</u>	<u>0</u>	<u>128,651</u>	<u>7.14%</u>	0.00%	<u>0.00%</u>		
14 Total Capital	<u>\$358,223,447</u>	<u>\$0</u>	<u>\$358,223,447</u>	<u>(\$356,421,630)</u>	<u>\$1,801,817</u>	<u>100.00%</u>		<u>8.69%</u>		
						LOW	HIGH			
						RETURN ON EQUITY	<u>10.13%</u>	<u>12.13%</u>		
						OVERALL RATE OF RETURN	<u>7.77%</u>	<u>8.69%</u>		

Utilities Inc. of Pennbrooke Statement of Water Operations Test Year Ended 09/30/11						Schedule No. 3-A Docket No. 120037-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$425,271</u>	<u>\$67,564</u>	<u>\$492,835</u>	<u>(\$1,258)</u>	<u>\$491,577</u>	<u>(\$75,385)</u> -15.34%	<u>\$416,192</u>
Operating Expenses							
2 Operation & Maintenance	\$301,241	(\$16,433)	\$284,808	(\$69,988)	\$214,820		\$214,820
3 Depreciation	255,918	(174,324)	81,594	(2,611)	78,983		78,983
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	52,527	1,699	54,226	(4,752)	49,474	(3,392)	46,082
6 Provision for Income Taxes	<u>21,055</u>	<u>(1,420)</u>	<u>19,635</u>	<u>28,757</u>	<u>48,392</u>	<u>(27,091)</u>	<u>21,301</u>
7 Total Operating Expense	<u>\$630,741</u>	<u>(\$190,478)</u>	<u>\$440,263</u>	<u>(\$48,594)</u>	<u>\$391,669</u>	<u>(\$30,483)</u>	<u>\$361,186</u>
8 Operating Income	<u>(\$205,470)</u>	<u>\$258,042</u>	<u>\$52,572</u>	<u>\$47,336</u>	<u>\$99,908</u>	<u>(\$44,902)</u>	<u>\$55,006</u>
9 Rate Base	<u>\$1,568,389</u>		<u>\$642,681</u>		<u>\$632,707</u>		<u>\$632,707</u>
10 Rate of Return	<u>-13.10%</u>		<u>8.18%</u>		<u>15.79%</u>		<u>8.69%</u>

Utilities Inc. of Pennbrooke Statement of Wastewater Operations Test Year Ended 09/30/11						Schedule No. 3-B Docket No. 120037-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$488,552</u>	<u>\$43,589</u>	<u>\$532,141</u>	<u>(\$43,664)</u>	<u>\$488,477</u>	<u>\$10,104</u> 2.07%	<u>\$498,581</u>
Operating Expenses							
2 Operation & Maintenance	<u>\$286,338</u>	<u>(\$18,448)</u>	<u>\$267,890</u>	<u>(\$35,997)</u>	<u>\$231,893</u>		<u>\$231,893</u>
3 Depreciation	(184,717)	266,379	81,662	(2,224)	79,438		79,438
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	43,814	6,865	50,679	(4,883)	45,796	455	46,250
6 Provisions for Income Taxes	<u>17,563</u>	<u>18,307</u>	<u>35,870</u>	<u>(141)</u>	<u>35,729</u>	<u>3,631</u>	<u>39,360</u>
7 Total Operating Expense	<u>\$162,998</u>	<u>\$273,103</u>	<u>\$436,101</u>	<u>(\$43,245)</u>	<u>\$392,856</u>	<u>\$4,086</u>	<u>\$396,941</u>
8 Operating Income	<u>\$325,554</u>	<u>(\$229,514)</u>	<u>\$96,040</u>	<u>(\$419)</u>	<u>\$95,621</u>	<u>\$6,018</u>	<u>\$101,640</u>
9 Rate Base	<u>\$922,091</u>		<u>\$1,174,099</u>		<u>\$1,169,111</u>		<u>\$1,169,111</u>
10 Rate of Return	<u>35.31%</u>		<u>8.18%</u>		<u>8.18%</u>		<u>8.69%</u>

Utilities Inc. of Pennbrooke Adjustment to Operating Income Test Year Ended 09/30/11		Schedule 3-C Docket No. 120037-WS	
Explanation	Water	Wastewater	
<u>Operating Revenues</u>			
Remove requested interim revenue increase.	<u>(\$1,258)</u>	<u>(\$43,664)</u>	
<u>Operation and Maintenance Expense</u>			
1 Salary and Pensions adjustments from prior case.	(\$73,358)	(\$45,597)	
2 To remove annualized Salaries adjustments.	21,674	18,014	
3 Duplicate mailing cost adjustment from prior rate case.	(7,834)	0	
4 Reflect approved rate case expense from prior case.	(10,815)	(8,708)	
5 Reflect bad expense consistent with prior case.	345	294	
Total	<u>(\$69,988)</u>	<u>(\$35,997)</u>	
<u>Depreciation Expense - Net</u>			
Phoenix Project Adjustment from last rate case.	<u>(\$2,611)</u>	<u>(\$2,224)</u>	
<u>Taxes Other Than Income</u>			
1 RAFs on revenue adjustments above.	(\$57)	(\$1,965)	
2 Salary and Pensions adjustments from prior case.	<u>(4,695)</u>	<u>(2,918)</u>	
Total	<u>(\$4,752)</u>	<u>(\$4,883)</u>	

Utilities Inc. of Pennbrooke Water Monthly Service Rates Test Year Ended 09/30/11		Schedule No. 4-A Docket No. 120037-WS		
	Present Rates	Utility Requested Interim	Utility Requested Final	Staff Recomm. Interim
Residential, General Service				
Base Facility Charge by Meter Size:				
5/8" x 3/4"	\$5.03	\$5.04	\$6.70	\$5.03
3/4"	\$7.34	\$7.36	\$9.77	\$7.34
1"	\$12.07	\$12.10	\$16.07	\$12.07
1-1/2"	\$24.57	\$24.63	\$32.70	\$24.57
2"	\$38.61	\$38.71	\$51.39	\$38.61
3"	\$78.69	\$78.89	\$104.74	\$78.69
4"	\$120.66	\$120.97	\$160.60	\$120.66
6"	\$245.51	\$246.14	\$326.79	\$245.51
Gallonge Charge, per 1,000 Gallons				
0 - 3,000 Gallons	\$1.86	\$1.86	\$2.48	\$1.86
3,001 - 6000 Gallons	\$1.95	\$1.96	\$2.60	\$1.95
6,001 - 10,000 Gallons	\$2.40	\$2.41	\$3.19	\$2.40
Over 10,000 Gallons	\$2.88	\$2.89	\$3.83	\$2.88
General Service Gallonge Charge	\$2.22	\$2.23	\$2.95	\$2.22
<u>Irrigation Residential, General Service</u>				
Base Facility Charge by Meter Size:				
5/8"	\$5.03	\$5.04	\$6.70	\$5.03
2"	\$38.61	\$38.71	\$51.39	\$38.61
3"	\$78.69	\$78.89	\$104.74	\$78.69
4"	\$120.66	\$120.97	\$160.60	\$120.66
Gallonge Charge, per 1,000 Gallons				
0 - 3,000 Gallons	\$1.86	\$1.86	\$2.48	\$1.86
3,001 - 6000 Gallons	\$1.95	\$1.96	\$2.60	\$1.95
6,001 - 10,000 Gallons	\$2.40	\$2.41	\$3.19	\$2.40
Over 10,000 Gallons	\$2.88	\$2.89	\$3.83	\$2.88
General Service Gallonge Charge	\$2.22	\$2.23	\$2.95	\$2.22
Typical Residential Bills 5/8" x 3/4" Meter				
3,000 Gallons	\$10.61	\$10.62	\$14.14	\$10.61
5,000 Gallons	\$14.51	\$14.54	\$19.34	\$14.51
10,000 Gallons	\$26.06	\$26.14	\$34.70	\$26.06
Average Usage of 8,895 Gallons	\$23.41	\$23.48	\$31.17	\$23.41

Utilities Inc. of Pennbrooke Wastewater Monthly Service Rates Test Year Ended 09/30/11		Schedule No. 4-B Docket No. 120037-WS		
	Present Rates	Utility Requested Interim	Utility Requested Final	Staff Recomm. Interim
<u>Residential</u>				
Base Facility Charge All Meter Sizes:	\$12.92	\$14.08	\$16.00	\$12.92
Gallage Charge - Per 1,000 gallons (6,000 gallon cap)	\$4.17	\$4.54	\$5.16	\$4.17
<u>General Service</u>				
Base Facility Charge by Meter Size:				
5/8" x 3/4"	\$12.92	\$14.08	\$16.00	\$12.92
3/4"	\$19.06	\$20.77	\$23.60	\$19.06
1"	\$31.49	\$34.31	\$39.00	\$31.49
1-1/2"	\$63.63	\$69.33	\$78.80	\$63.63
2"	\$100.76	\$109.79	\$124.78	\$100.76
3"	\$203.83	\$222.09	\$252.41	\$203.83
4"	\$314.88	\$343.09	\$389.93	\$314.88
6"	\$636.55	\$693.36	\$788.02	\$636.55
Gallage Charge, per 1,000 Gallons	\$5.01	\$5.46	\$6.20	\$5.01
Reuse Service	\$0.85	\$0.93	\$1.05	\$0.85
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>				
3,000 Gallons	\$25.43	\$27.70	\$31.48	\$25.43
5,000 Gallons	\$33.77	\$36.78	\$41.80	\$33.77
10,000 Gallons (Wastewater Gallage Cap - 6,000 Gallons)	\$37.94	\$41.32	\$46.96	\$37.94
Average Gallons of 4,588	\$32.05	\$34.91	\$39.67	\$32.05