

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: December 4, 2014

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Accounting and Finance (Springer, Cicchetti) *MD*
Division of Economics (Bruce, Daniel, Hudson) *JK* *ALM*
Division of Engineering (Rieger) *PV* *J.W.* *PR*
Office of the General Counsel (Murphy, Teitzman) *TS* *HP* *CM*

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

AGENDA: 12/18/14 – Regular Agenda – Proposed Agency Action Except for Issue Nos. 4 & 5 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brisé

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

Useppa Island Utilities Co., 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, which covers approximately 100 acres. Useppa was granted Certificate Nos. 354-W and 310-S in 1982. On August 29, 2011, Useppa filed an application for a staff-assisted rate case (SARC).

On May 31, 2012, Useppa and the Useppa Island POA, Inc. (Property Owners Association) filed a Joint Motion Requesting Commission Approval of Settlement Agreement which was approved by the Commission on August 10, 2012, by Order No. PSC-12-0406-PAA-

WS and became final upon the issuance of Order No. PSC-12-0457-CO-WS.¹ As part of the approval, the Parties agreed to the revenue requirement contained in staff's February 10, 2012 Preliminary Report, with the following exceptions: 1) the transportation expense is to be reduced by \$19,000, with an equal \$9,500 reduction for water and wastewater operations, respectively; and 2) all documented pro forma costs associated with construction of the Class V injection well system and costs of operating the injection well are to be allocated equally, 50/50, to the water and wastewater systems. On August 28, 2013, Useppa filed a request for extension of time to complete the required pro forma construction (Request).² The request was unopposed by the Office of Public Counsel (OPC) and the Property Owners Association. The request was approved as codified in Order No. PSC-13-0448-PCO-WS,³ issued October 2, 2013.

On July 22, 2014, Useppa filed a letter with the Commission confirming that the deep well injection project for Phase II was completed. The letter contained invoices that detailed the actual cost of the pro forma plant additions. The purpose of this recommendation is to correct Phase I wastewater rates and address Phase II rates.

The Commission has jurisdiction pursuant to Sections 367.081, 367.121, and 367.0814, Florida Statutes.

¹ See Order Nos. PSC-12-0406-PAA-WS, issued August 10, 2012, in Docket No. 110260-WS, In re: Application for staff-assisted rate case in Lee County by Useppa Island Utilities Co., Inc.; and PSC-12-0457-CO-WS, issued September 5, 2012, in Docket No. 110260-WS, In re: Application for staff-assisted rate case in Lee County by Useppa Island Utilities Co., Inc.

² Work includes an injection well project and reverse osmosis retrofit of its water treatment plant.

³ See Order No. PSC-13-0448-PCO-WS, issued October 2, 2013, in Docket No. 110260-WS, In re: Application for staff-assisted rate case in Lee County by Useppa Island Utilities Co., Inc.

Discussion of Issues

Issue 1: What are the appropriate revenue increases for Phase II rates?

Recommendation: The appropriate revenue increases for Phase II rates are \$9,334 for water and \$9,334 for wastewater. (Springer, Rieger)

Staff Analysis: On May 31, 2012, Useppa and the Useppa Island POA, Inc. (Property Owners Association) filed a Joint Motion Requesting Commission Approval of Settlement Agreement which was approved by the Commission on August 10, 2012, by Order No. PSC-12-0406-PAA-WS and became final on September 5, 2012, upon the issuance of Order No. PSC-12-0457-CO-WS. As part of the Settlement Agreement, all documented pro forma costs associated with construction of the Class V injection well system and costs of operating the injection well are to be allocated equally 50/50 to the water and wastewater systems for purposes of establishing Phase II rates.

On July 22, 2014, Useppa filed a letter with the Commission confirming that the Class V injection well system for Phase II was completed. The Utility submitted invoices totaling \$198,121 to support the costs incurred as a result of the project. Staff analyzed the invoices provided and determined that \$29,569 of costs were already included in the Phase I rates. As a result, staff removed \$29,569 from the total cost. Further, staff identified an invoice totaling \$3,761, related to the replacement of a wastewater lift station pump. While the replacement of the wastewater lift station pump was not part of the deep well project, staff believes the replacement of the pump was a prudent and appropriate expenditure and should be included in setting Phase II rates. Based on terms of the Settlement Agreement, staff recommends that \$168,552 (\$198,121-\$29,569) of project costs be allocated \$84,276 to water and \$84,276 to wastewater. Further, staff recommends associated accumulated depreciation adjustments of \$4,844 for water and \$4,844 for wastewater. The staff's recommended adjustments based on analysis of the appropriate amounts that were incurred for these projects are shown on Schedule No. 1-C.

Issue 2: What is the appropriate Phase I wastewater revenue requirement to be used as a basis for establishing Phase II rates?

Recommendation: The Phase I wastewater revenue requirement should be corrected to reflect the stipulated revenue requirement of \$158,183. The revised Phase I wastewater rates shown on Schedule No. 4-B should be used as the basis for implementing the recommended Phase II revenue increase discussed in Issue 1. (Springer, Bruce, Hudson)

Staff Analysis: Pursuant to Order No. PSC-12-0406-PAA-WS, this docket remained open to address Phase II rates. In the process of developing the Phase II rates, staff discovered that the Phase I wastewater revenue requirement and rates contained in the Order were not consistent with the terms of the approved Settlement Agreement.

Staff has recalculated the Phase I wastewater revenue requirement to incorporate the correct amount of transportation expense reflected in the Settlement, resulting in a revenue requirement of \$158,183 instead of the \$154,385 reflected in the Order. In addition, staff has calculated revised Phase I wastewater rates to incorporate the revised revenue requirement and to correct a scrivener's error in the rates reflected in the Order. The revised rates are shown on Schedule No. 4-B. Despite these errors, the Utility did not overearn. Staff has examined the Utility's 2012 and 2013 annual reports. The Utility has reported significant losses for both years. Because the Utility complied with the Commission's Order for Phase I rates, staff recommends the proposed corrections be made on a prospective basis to lessen the impact on the Utility. The revised Phase I wastewater rates should be used as a basis for applying the recommended Phase II revenue increase.

Staff notes that the Phase I water revenue requirement approved in the Order should have been \$170,119 rather than \$170,048. However, the difference was immaterial and did not warrant a change in the previously approved Phase I water rates.

The Phase I wastewater revenue requirement should be corrected to reflect the stipulated revenue requirement of \$158,183. The revised Phase I wastewater rates shown on Schedule No. 4-B should be used as the basis for implementing the recommended Phase II revenue increase discussed in Issue 1.

Issue 3: What are the appropriate water and wastewater rates for Phase II?

Recommendation: The Phase II rate increases of 5.49 percent for water and 5.90 percent for wastewater should be applied across-the-board to the existing Phase I water rates and revised Phase I wastewater rates, respectively. The rates, as shown on Schedule Nos. 4-A and 4-B, 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 Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. 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)

Staff Analysis: Staff recommends that the Phase II rates for Useppa be designed to allow the Utility the opportunity to generate additional revenues of \$9,334 for both water and wastewater. This would result in an increase of 5.49 percent for water and 5.90 percent for wastewater over the Phase I revenue requirement. The calculation is as follows:

Table 3-1

Determination of Percentage Service Rate Increase		
	<u>Water</u>	<u>Wastewater</u>
1 Phase I Revenue Requirement	\$170,048	\$158,183*
2 Revenue Increase	<u>\$9,334</u>	<u>\$9,334</u>
3 % Service Rate Increase (Line 2/Line 1)	5.49%	5.90%

*Revised Phase I wastewater revenue requirement

Staff recommends that the Phase II rate increases of 5.49 percent for water and 5.90 percent for wastewater be applied across-the-board to the existing Phase I water rates and revised Phase I wastewater rates, respectively. The rates, as shown on Schedule Nos. 4-A and 4-B, 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 Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. 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.

Issue 4: 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.?

Recommendation: The wastewater rates should be reduced, as shown on Schedule No. 4-B, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The expiration of the four-year amortization of rate case expense is October 2016. No change to the four-year rate reduction for water is necessary. (Bruce, Springer)

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. Using the Utility's current revenue, expenses, and customer base, the reduction in revenue will result in the rate decrease. A rate reduction was previously required by Order no. PSC-12-0406-PAA-WS; however, as a result of staff's revised Phase I wastewater rates, as discussed in Issue 2, the four-year rate reduction amounts should be revised.⁴

Therefore, staff recommends that the wastewater rates should be reduced, as shown on Schedule No. 4-B, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The expiration of the four-year amortization of rate case expense is October 2016. Consistent with Order No. PSC-12-0406-PAA-WS, 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.

⁴ See Order Nos. PSC-12-0406-PAA-WS, issued August 10, 2012, in Docket No. 110260-WS, In re: Application for staff-assisted rate case in Lee County by Useppa Island Utilities Co., Inc.

Issue 5: Should the recommended rates 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?

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. (Springer)

Staff Analysis: This recommendation proposes an increase in water and wastewater 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.

Useppa 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 \$12,452. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

If Useppa 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 Useppa 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 Useppa;
- 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 Useppa, 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.

Useppa 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 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 6: Should the Utility be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) primary accounts associated with the Commission approved adjustments?

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

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 the applicable NARUC USOA primary accounts have been made.

Issue 7: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. When the tariff and notice actions are complete, this docket may be closed administratively. (Murphy, Teitzman)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. When the tariff and notice actions are complete, this docket may be closed administratively.

USEPPA ISLAND UTILITY, INC.		SCHEDULE NO. 1-A	
TEST YEAR ENDED 6/30/2011		DOCKET NO. 110260-WS	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	COMMISSION APPROVED PHASE I	STAFF ADJUSTMENTS	STAFF RECOMMENDED PHASE II
1. UTILITY PLANT IN SERVICE	\$582,169	\$84,726	\$666,895
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)	(4,844)	(382,207)
6. AMORTIZATION OF CIAC	185,620	0	185,620
7. WORKING CAPITAL ALLOWANCE	<u>15,499</u>	<u>0</u>	<u>15,499</u>
8. WATER RATE BASE	<u>\$190,727</u>	<u>\$79,882</u>	<u>\$270,601</u>

USEPPA ISLAND UTILITY, INC.		SCHEDULE NO. 1-B		
TEST YEAR ENDED 6/30/2011		DOCKET NO. 110260-WS		
SCHEDULE OF WASTEWATER RATE BASE				
DESCRIPTION	COMMISSION APPROVED PHASE I	STAFF ADJUSTMENTS.	STAFF RECOMMENDED PHASE II	
1. UTILITY PLANT IN SERVICE	\$509,587	\$84,726	\$594,313	
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)	(4,844)	(317,420)	
6. AMORTIZATION OF CIAC	230,187	0	230,187	
7. WORKING CAPITAL ALLOWANCE	<u>13,932</u>	<u>0</u>	<u>13,932</u>	
8. WASTEWATER RATE BASE	<u>\$214,430</u>	<u>\$79,882</u>	<u>\$294,312</u>	

USEPPA ISLAND UTILITY, INC.		SCHEDULE NO. 1-C	
TEST YEAR ENDED 6/30/2011		DOCKET NO. 110260-WS	
ADJUSTMENTS TO RATE BASE			
	<u>WATER</u>	<u>WASTEWATER</u>	
<u>UTILITY PLANT IN SERVICE</u>			
1. To reflect pro forma Account No. 320 - Water Treatment Equipment.	\$79,580	\$79,580	
2. To reflect pro forma Account No. 370 - Receiving Wells.	\$1,881	\$1,881	
3. To reflect pro forma Account No. 309 - Supply Mains.	<u>\$2,815</u>	<u>\$2,815</u>	
Total	<u>\$84,276</u>	<u>\$84,276</u>	
<u>ACCUMULATED DEPRECIATION</u>			
To reflect pro forma accumulated depreciation.	<u>(\$4,844)</u>	<u>(\$4,844)</u>	

USEPPA ISLAND UTILITY, INC.							SCHEDULE NO. 2		
TEST YEAR ENDED 6/30/2011							DOCKET NO. 110260-WS		
SCHEDULE OF CAPITAL STRUCTURE									
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE		BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST	
			BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS					
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	(1,835)	4,338	0.77%	6.18%	0.05%	
7. NP Stockholders	<u>797,714</u>		<u>797,714</u>	<u>(237,139)</u>	<u>560,575</u>	<u>99.23%</u>	3.46%	3.43%	
TOTAL LONG TERM DEBT	803,887	0	803,887	(238,974)	564,913	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>-\$238,974</u>	<u>\$564,913</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	
	PHASE I RATES TEST YEAR	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	PHASE II REVENUE REQUIREMENT	
1. OPERATING REVENUES	<u>\$170,119</u>	<u>\$0</u>	<u>\$170,119</u>	<u>\$9,334</u> 5.49%	<u>\$179,453</u>	
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$124,060	\$0	\$124,060	\$0	\$124,060	
3. DEPRECIATION (NET)	20,087	4,844	24,931	0	24,931	
4. AMORTIZATION	0	0	0	0	0	
5. TAXES OTHER THAN INCOME	19,334	1,306	20,640	420	21,060	
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
7. TOTAL OPERATING EXPENSES	<u>\$163,482</u>	<u>\$6,150</u>	<u>\$169,632</u>	<u>\$420</u>	<u>\$170,052</u>	
8. OPERATING INCOME/(LOSS)	<u>\$6,637</u>		<u>\$487</u>		<u>\$9,402</u>	
9. WATER RATE BASE	<u>\$190,727</u>		<u>\$270,159</u>		<u>\$270,159</u>	
10. RATE OF RETURN	<u>3.48%</u>		<u>0.18%</u>		<u>3.48%</u>	

USEPPA ISLAND UTILITY, INC. TEST YEAR ENDED 6/30/2011 SCHEDULE OF WASTEWATER OPERATING INCOME					SCHEDULE NO. 3-B DOCKET NO. 110260-WS	
	PHASE I RATES TEST YEAR	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	PHASE II REVENUE REQUIREMENT	
1. OPERATING REVENUES	<u>\$158,183</u>	<u>\$0</u>	<u>\$158,183</u>	<u>\$9,334</u> 5.90%	<u>\$167,518</u>	
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	<u>\$115,067</u>	<u>\$0</u>	<u>\$115,067</u>	<u>\$0</u>	<u>\$115,067</u>	
3. DEPRECIATION (NET)	<u>16,841</u>	<u>4,844</u>	<u>21,685</u>	<u>0</u>	<u>21,685</u>	
4. AMORTIZATION	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
5. TAXES OTHER THAN INCOME	<u>18,798</u>	<u>1,306</u>	<u>20,104</u>	<u>420</u>	<u>20,524</u>	
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
7. TOTAL OPERATING EXPENSES	<u>\$150,706</u>	<u>\$6,150</u>	<u>\$156,856</u>	<u>\$420</u>	<u>\$157,276</u>	
8. OPERATING INCOME/(LOSS)	<u>7,478</u>		<u>1,328</u>		<u>10,242</u>	
9. WASTEWATER RATE BASE	<u>214,882</u>		<u>294,314</u>		<u>294,314</u>	
10. RATE OF RETURN	<u>3.48%</u>		<u>0.45%</u>		<u>3.48%</u>	

USEPPA ISLAND UTILITY, INC.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 6/30/2011		DOCKET NO. 110260-WS	
ADJUSTMENTS TO OPERATING INCOME			
		<u>WATER</u>	<u>WASTEWATER</u>
DEPRECIATION EXPENSE			
To reflect depreciation expense.		<u>\$4,844</u>	<u>\$4,844</u>
TAXES OTHER THAN INCOME			
To reflect the appropriate payroll taxes.		<u>\$1,306</u>	<u>\$1,306</u>

USEPPA ISLAND UTILITIES, INC.		SCHEDULE NO. 4-A	
TEST YEAR ENDED 6/30/2011		DOCKET NO. 110260-WS	
MONTHLY WATER RATES			
	PHASE I RATES	STAFF RECOMMENDED PHASE II RATES	
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$35.58	\$37.53	
3/4"	\$53.37	\$56.30	
1"	\$88.96	\$93.83	
1-1/2"	\$177.91	\$187.65	
2"	\$284.66	\$300.24	
3"	\$569.32	\$600.48	
4"	\$889.56	\$938.25	
6"	\$1,779.11	\$1,876.50	
8"	\$2,879.70	\$3,002.40	
Charge per 1,000 Gallons - Residential	\$6.68	\$7.05	
<u>Fire Protection Service</u>			
2"	\$23.72	\$25.02	
3"	\$47.45	\$50.04	
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
2,000 Gallons	\$48.94	\$51.63	
5,000 Gallons	\$68.98	\$72.78	
8,000 Gallons	\$89.02	\$93.93	

USEPPA ISLAND UTILITY, INC.				SCHEDULE NO. 4-B
TEST YEAR ENDED JUNE 30, 2011				DOCKET NO. 110260-WS
MONTHLY WASTEWATER RATES				
	UTILITY CURRENT RATES	STAFF RECOMMENDED PHASE I RATES	4-YEAR RATE REDUCTION	STAFF RECOMMENDED PHASE II RATES
<u>Residential</u>				
Base Facility Charge - All Meter Sizes	\$47.79	\$48.97	\$0.06	\$51.86
Charge per 1,000 Gallons- Residential 6,000 - gallon cap	\$11.76	\$11.06	\$0.01	\$11.71
<u>General Service</u>				
Base Facility Charge by Meter Size				
5/8"X3/4"	\$52.06	\$48.97	\$0.06	\$51.86
3/4"	\$78.09	\$73.46	\$0.10	\$77.79
1"	\$130.15	\$122.43	\$0.16	\$129.65
1-1/2"	\$260.30	\$244.85	\$0.32	\$259.30
2"	\$416.48	\$391.76	\$0.51	\$414.88
3"	\$832.96	\$783.52	\$1.02	\$829.76
4"	\$1,301.50	\$1,224.25	\$1.59	\$1,296.50
6"	\$2,603.00	\$2,448.50	\$3.18	\$2,593.00
8"	\$3,492.00	\$3,917.60	\$5.09	\$4,148.80
Charge per 1,000 gallons -General Service	\$14.11	\$13.27	\$0.02	\$14.06
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
2,000 Gallons	\$71.31	\$71.09		\$75.28
5,000 Gallons	\$106.59	\$104.27		\$110.41
8,000 Gallons	\$118.35	\$115.33		\$122.12