EXHIBIT CS1

scanned separately due to large document size

WS-20380A-05-0490
SW-20379A-05-0489

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MEMORANDUM

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LEGAL DIV
ARIZ CORPORATION COMMISSION

TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

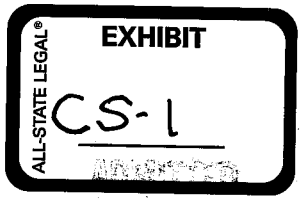
Date: March 28, 2008

RE: AMENDED STAFF REPORT FOR PERKINS MOUNTAIN UTILITY COMPANY AND PERKINS MOUNTAIN WATER COMPANY – APPLICATIONS FOR CERTIFICATES OF CONVENIENCE AND NECESSITY FOR WASTEWATER AND WATER SERVICES (DOCKET NOS. SW-20379A-05-0489 AND W-20380A-05-0490)

Attached is the Staff Report for Perkins Mountain Utility Company and Perkins Mountain Water Company applications for Certificates of Convenience and Necessity for wastewater and water services. Staff is recommending approval with conditions.

EGJ:BNC:tdp

Originator: Blessing Chukwu



Service List for: Perkins Mountain Utility Company and Perkins Mountain Water Company
Docket Nos. SW-20379A-05-0489 and W-20380A-05-0490

Mr. Jeffrey W. Crockett
Mr. Bradley S. Carroll
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Ms. Kimberly A. Warshawsky
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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

PERKINS MOUNTAIN UTILITY COMPANY
AND
PERKINS MOUNTAIN WATER COMPANY

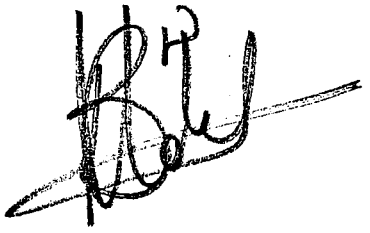
DOCKET NOS. SW-20379A-05-0489
AND
W-20380A-05-0490

APPLICATIONS FOR CERTIFICATES OF
CONVENIENCE AND NECESSITY

MARCH 28, 2008

STAFF ACKNOWLEDGMENT

The Staff Report for Perkins Mountain Utility Company and Perkins Mountain Water Company (Docket Nos. SW-20379A-05-0489 and W-20380A-05-0490) was the responsibility of the Staff members signed below. Blessing Chukwu was responsible for the review and analysis of the Companies' application. Marlin Scott, Jr. was responsible for the engineering and technical analysis. Crystal S. Brown was responsible for the review and recommendation on rate base and usage rates.



Blessing Chukwu
Executive Consultant III

Marlin Scott, Jr.
Utilities Engineer

Crystal S. Brown
Public Utilities Analyst V

EXECUTIVE SUMMARY
PERKINS MOUNTAIN UTILITY COMPANY AND
PERKINS MOUNTAIN WATER COMPANY
DOCKET NOS. SW-20379A-05-0489 AND W-20380A-05-0490

On July 7, 2005, Perkins Mountain Utility Company ("PMUC" or "Wastewater Company") and Perkins Mountain Water Company ("PMWC" or "Water Company") collectively referred to as ("The Utilities") filed applications with the Arizona Corporation Commission ("ACC" or "Commission") for Certificates of Convenience and Necessity ("CC&N") to provide wastewater and water services in portions of Mohave County, Arizona. On September 14, 2005, The Utilities filed an amendment to the applications to include a revised legal description. On November 10, 2005, Utilities Division Staff ("Staff") filed its Staff Report and on December 15, 2006, filed its Addendum to Staff Report in the docket. Hearing was held on December 5, 2005, and again in February and March 2007. On November 30, 2007, The Utilities filed an Amendment to Applications and Request for Procedural Schedule ("Third Amendment"). According to the filing, the stock of The Utilities has been purchased by Utilities, Inc.

PMUC and PMWC are Nevada Corporations, in good standing with the ACC Corporations Division, and formed to provide wastewater and water utility services to all of the residents and businesses in the Golden Valley South and The Villages at White Hills master-planned communities, and are seeking CC&Ns for these areas. Golden Valley South is expected to be comprised of more than 33,000 dwelling units at build-out whereas, The Village at White Hills is expected to comprise of more than 20,000 dwelling units. Rhodes Home Arizona, LLC ("Rhodes") is the developer for Golden Valley South and The Village at White Hills.

Sports Entertainment in its letter to Staff and in its Application to Intervene alleged that The Utilities had failed to include 120 acres of its 440 acre property in the master plan to provide services and requested that the whole property be included in the master plan to provide services. Staff believes that the inclusion of the 120 acres to The Utilities requested (The Village at White Hills) CC&N area is in the public interest since the 120 acres is near to or contiguous to The Utilities requested CC&N area.

Staff has reviewed the proposed total plant-in-service along with The Utilities' engineering reports and found the plant facilities and cost to be reasonable and appropriate. However, approval of the CC&N applications does not imply any particular future treatment for determining the rate base. No "used and useful" determination of the proposed plant-in-service was made, and no conclusions should be inferred for rate making or rate base purposes in the future.

Based on the information provided in this docket and from Staff's review of other available materials regarding The Utilities and related affiliates, Staff concludes that: (1) the Utilities have no prior operating experience, but the immediate parent, Utilities, Inc. does have experience; (2) there is evidence of negative determinations and/or questionable business practices regarding AIG, Inc. and Utilities, Inc.'s affiliated entities in other jurisdictions; and (3)

the Utilities through their parent company, Utilities, Inc., have adequate financial capability to provide the requested services.

Staff believes that the ultimate obligation of the Commission is to protect the public interest, to that end the imposition of reasonable conditions to ensure The Utilities are conducting their business operations in a manner which will not compromise the interests of its customers should be required.

Water Service – CC&N

Staff recommends the Commission approve PMWC's application for a CC&N for all of The Village at White Hills and all of Golden Valley South (except for a small portion of Section 8, Township 20 North, Range 18 West, set forth in the record) within portions of Mohave County, Arizona, to provide water service, subject to the following conditions:

1. That the Commission find that the fair value rate base of PMWC's property devoted to water service is $8,272,134.

2. That the Commission approve Staff's rates as shown on Water Schedule CSB-W5-Rate Design in the Rate Analyst Report. In addition to collection of its regular rates, PMWC may collect from its customers a proportionate share of any privilege, sales or use tax.

3. That the Commission require PMWC to file with Docket Control, as a compliance item in this docket, a tariff consistent with the rates and charges authorized by the Commission within 30 days of the decision in this matter.

4. That the Commission require PMWC to file notice with Docket Control, as a compliance item in this docket, within 15 days of providing service to its first customer.

5. That the Commission require PMWC to file a rate application no later than six-months following the fifth anniversary of the date it begins providing service to its first customer.

6. That the Commission require PMWC to maintain its books and records in accordance with the NARUC Uniform System of Accounts for Water Utilities.

7. That the Commission require PMWC to use the depreciation rates recommended by Staff.

8. That the Commission require PMWC to file with Docket Control, as a compliance item in this docket, copies of the Approval to Construct ("ATC") for Phase 1 of the initial phase of the Golden Valley South and The Villages at White Hills developments when received by the Company, but no later than 3 years after the effective date of the order granting this application.

9. That the Commission require PMWC to file with Docket Control, as a compliance item in this docket, for review and approval by Staff, a curtailment tariff within 90 days after the effective date of any decision and order pursuant to this application. The tariff shall generally conform to the sample tariff found posted on the Commission's web site (www.azcc.gov/divisions/utilities/forms/Curtailment-Std.pdf) or available upon request from Commission Staff.

10. That the Commission require PMWC to file with Docket Control, as a compliance item in this docket, an amended legal description for The Villages at White Hills CC&N area including the entire 440 acres of land that is owned by Sports Entertainment and Sagebrush Enterprises, Inc. no later than 15 days after the effective date of the decision in this matter.

11. That the Commission require PMWC to file with Docket Control, as a compliance item in this docket, for review and approval by Staff, a backflow prevention tariff within 30 days of the decision in this matter. The tariff shall generally conform to the sample tariff found posted on the Commission's web site (www.azcc.gov/divisions/utilities/forms/Cross_c.pdf) or available upon request from Commission Staff.

12. That the Commission require PMWC to provide an irrevocable sight draft letter of credit or a performance bond of $500,000. The bond or letter of credit shall remain in place until further Order of the Commission. Proof of the performance bond or letter of credit shall be filed in this docket, as a compliance item, prior to service being provided to any customer. Thereafter, the proof of the performance bond or letter of credit shall be filed semi-annually on each July and January covering the preceding six month period.

13. That the Commission require PMWC to finance at least 50-percent of its plant with equity.

14. That the Commission require PMWC to notify the Commission of any proposed change in the ownership of the Water Company at least 30 days prior to the change in ownership.

15. That the Commission require PMWC to file with Docket Control, as a compliance in this docket, a copy of Arizona Department of Water Resources ("ADWR") Letter of Adequate Water Supply (Water Adequacy Report) for each individual Subdivision in Golden Valley South and in The Villages at White Hills developments, when received by the Company, but no later than 30 days of the receipt.

Staff further recommends that the Commission's Decision granting the requested CC&N to PMWC be considered null and void, after due process, should PMWC fail to meet Conditions Nos. 3, 8, 9, and 10, listed above within the time specified.

Water Service – Order Preliminary

Staff also recommends the Commission issue an Order Preliminary to PMWC for a CC&N for the small portion of Section 8, Township 20 North, Range 18 West of Golden Valley South (set forth in the record) within portions of Mohave County, Arizona, to provide water service, subject to compliance with the following conditions:

1. That the conditions of approval for water service CC&N are hereby incorporated by reference and apply equally to the issuance to the Order Preliminary.

2. That the Commission require PMWC to file with Docket Control, as a compliance item in this docket, copies of the ADWR Analysis of Adequate Water Supply demonstrating the availability of adequate water for the requested Order Preliminary area of Golden Valley South project when received by PMWC, but no later than 3 years after the effective date of the order granting the Order Preliminary.

3. That after PMWC complies with above requirement 2, PMWC shall make a filing stating so. Within 60 days of this filing, Staff shall file a response in the form of an Order. The Commission should schedule this item for a vote to grant the CC&N as soon as possible after Staff's filing that confirms PMWC's compliance with item 2.

Wastewater Service – CC&N

Staff recommends the Commission approve PMUC's application for a CC&N for all of The Village at White Hills and all of Golden Valley South (except for a small portion of Section 8, Township 20 North, Range 18 West, set forth in the record) within portions of Mohave County, Arizona, to provide wastewater service, subject to the following conditions:

1. That the Commission find that the fair value rate base of PMUC's property devoted to wastewater service is $8,050,058.

2. That the Commission approve Staff's rates as shown on Wastewater Schedule CSB-WW5-Rate Design in the Rate Analyst Report. In addition to collection of its regular rates, PMUC may collect from its customers a proportionate share of any privilege, sales or use tax.

3. That the Commission require PMUC to file with Docket Control, as a compliance item in this docket, a tariff consistent with the rates and charges authorized by the Commission within 30 days of the decision in this matter.

4. That the Commission require PMUC to notify Docket Control, as compliance item in this docket, within 15 days of providing service to its first customer.

5. That the Commission require PMUC to file a rate application no later than six-months following the fifth anniversary of the date it begins providing service to its first customer.

6. That the Commission require PMUC to maintain its books and records in accordance with the NARUC Uniform System of Accounts for Wastewater Utilities.

7. That the Commission require PMUC to use the depreciation rates recommended by Staff.

8. That the Commission require PMUC to file with Docket Control, as a compliance item in this docket, copies of the General Permits for Phase 1 of the initial phase of Golden Valley South and The Villages at White Hills developments when received by PMUC, but no later than 3 years after the effective date of the order granting this application.

9. That the Commission require PMUC to file with Docket Control, as a compliance item in this docket, copies of the APP for the Golden Valley South and The Villages at White Hills developments within 3 years after the effective date of the order granting this application.

10. That the Commission require PMUC to file with Docket Control, as a compliance item in this docket, an amended legal description for The Villages at White Hills CC&N area including the entire 440 acres of land that is owned by Sports Entertainment and Sagebrush Enterprises, Inc. no later than 15 days after the effective date of the decision in this matter.

11. That the Commission require PMUC to provide an irrevocable sight draft letter of credit or a performance bond of $500,000. The bond or letter of credit shall remain in place until further Order of the Commission. Proof of the performance bond or letter of credit shall be filed in this docket, as a compliance item, prior to service being provided to any customer. Thereafter, the proof of the performance bond or letter of credit shall be filed semi-annually on each July and January covering the preceding six month period.

12. That the Commission require PMUC to finance at least 50-percent of its plant with equity.

13. That the Commission require PMUC to notify the Commission, as a compliance item in this docket, any proposed change in the ownership of the Wastewater Company, at least 30 days prior to the change in ownership.

Staff further recommends that the Commission's Decision granting the requested CC&N to PMUC be considered null and void, after due process, should PMUC fail to meet the Conditions Nos. 3, 8, 9, and 10, listed above within the time specified.

Wastewater Service – Order Preliminary

Staff also recommends the Commission issue an Order Preliminary to PMUC for a CC&N for the small portion of Section 8, Township 20 North, Range 18 West of Golden Valley South (set forth in the record), within portions of Mohave County, Arizona, as amended, to provide wastewater service, subject to compliance with the following conditions:

1. That conditions for approval of the wastewater service CC&N are hereby incorporated by reference and apply equally to the issuance to the Order Preliminary.

2. That the Commission require PMUC to file with Docket Control, as a compliance item in this docket, a copy of APP for the requested Order Preliminary area of Golden Valley South project within 3 years from the effective date of the order granting the Order Preliminary.

3. That the Water Company be granted a CC&N for the small portion of Section 8, Township 20 North, Range 18 West of Golden Valley South (set forth in the record).

4. That after PMUC complies with above requirements 2, and 3 PMUC shall make a filing stating so. Within 30 days of this filing, Staff shall file a response in the form of an Order. The Commission should schedule this item for a vote to grant the CC&N as soon as possible after Staff's filing that confirms PMUC's compliance with items 2, and 3.

TABLE OF CONTENTS

ATTACHMENTS

Introduction

On July 7, 2005, Perkins Mountain Utility Company ("PMUC" or "Wastewater Company") and Perkins Mountain Water Company ("PMWC" or "Water Company") collectively referred to as ("The Utilities") filed applications with the Arizona Corporation Commission ("ACC" or "Commission") for Certificates of Convenience and Necessity ("CC&N") to provide wastewater and water services in portions of Mohave County, Arizona. On September 14, 2005, The Utilities filed an amendment to the applications to include a revised legal description.

On November 10, 2005, Utilities Division Staff ("Staff") filed its Staff Report and on December 15, 2006, filed its Addendum to Staff Report in the docket.

On December 5, 2005, a hearing was convened.

On March 31, 2006, the Water Company filed a second Amendment to its Application for a CC&N. The second Amendment requested a CC&N for a portion of the service area originally requested and an Order Preliminary for the remainder of the service area originally requested.

Hearings were held in February and March 2007.

On November 30, 2007, The Utilities filed an Amendment to Applications and Request for Procedural Schedule ("Third Amendment"). According to the filing, the stock of The Utilities had been purchased by Utilities, Inc.

Background

PMUC and PMWC are Nevada Corporations, in good standing with the ACC Corporations Division, and formed to provide wastewater and water utility services to all of the residents and businesses in the Golden Valley South and The Villages at White Hills master-planned communities, and are seeking CC&Ns for these areas.

Golden Valley South is a master planned community which includes an active retiree community with an 18-hole golf course, an interconnected community for all age groups, an industrial/business park area and community commercial areas. Golden Valley South is nine square-miles (approximately 5,750 acres) and is located approximately five miles southwest of Kingman, Arizona. The development is expected to be comprised of more than 33,000 dwelling units at build-out.

The Village at White Hills is planned as a self-contained community that would provide affordable homes for commuters to the Las Vegas metropolitan area. The development is four and half square-miles (approximately 2700 acres) and is located approximately 40 miles northwest of Kingman. The Village at White Hills is expected to serve both residents and travelers and comprise of more than 20,000 dwelling units.

Rhodes Home Arizona, LLC ("Rhodes") is the developer for Golden Valley South and The Village at White Hills.

Request for Service

The Utilities filed with the applications the request for service The Utilities received from Desert Communities, Inc. and America Land Management, LLC for Golden Valley South and Sedora Holdings, LLC (aka Sedora, LLC) for The Village at White Hills. No request for service was submitted in the applications by The Utilities for the Sports Entertainment's property which was identified in the applications as part of The Village at White Hills.

On August 15, 2005, Sports Entertainment sent a letter to Staff indicating that The Utilities had notified Sports Entertainment requesting that The Utilities be allowed to provide utility services to Sports Entertainment's property located in The Village at White Hills. The letter further stated that The Utilities had failed to include a portion of the property and that Sports Entertainment would like to request that the whole property be included in the master plan to provide services. On September 27, 2005, Sports Entertainment filed an Application to Intervene in the docket.

Sports Entertainment owned approximately 440 acres of land ("Parcel Number 317-36-051" or "Subject Property") in Section 30 of Township 27 North, Range 20 West, in the White Water Hills area of Mohave County. The remaining 200 acres of land in Section 30 of Township 27 North, Range 20 West, Southwest of the Subject Property, are Federal land. According to the Application to Intervene, Sports Entertainment granted to Sagebrush Enterprises, Inc. an Option to purchase 320 acres of the Subject Property ("Option Property") and Sagebrush Enterprises, Inc. has exercised its Option to Purchase the Option Property. Sports Entertainment closed the sale of the 320 acres to Sagebrush Enterprises, Inc. in 2006. As such, Sports Entertainment owns only the remaining 120 acres of the Subject Property.

Staff had discussions with both the representatives of The Utilities and Sports Entertainment regarding the August 15, 2005 letter, specifically the issue of including the remaining 120 acres in The Utilities' plan to provide utility services. Staff believes that the inclusion of the 120 acres to The Utilities requested (The Village at White Hills) CC&N area is in the public interest since the 120 acres is near to or contiguous to The Utilities requested CC&N area. As such, Staff recommends that The Utilities be required to provide utility services to all of the 440 acres of land that is owned by Sports Entertainment and Sagebrush Enterprises, Inc. Staff further recommends that The Utilities be required to file with Docket Control an amended legal description for The Village at White Hills including the entire 440 acres of land that is owned by Sports Entertainment and Sagebrush Enterprises, Inc. no later than 15 days after the effective date of the order granting this application.

Second Amendment to the Application

On March 31, 2006, the Water Company filed a second Amendment to its Application for a CC&N. In this Amendment, PMWC revised its Golden Valley South plans by removing Phases 5, 6 and part of Phase 4 from the original CC&N area application. PMWC requested a CC&N for only Phases 1, 2, 3, 7 and part of Phase 4 for Golden Valley South (6-1/8 square-miles). In addition, PMWC requested an Order Preliminary to a CC&N for Phases 5, 6 and the remaining portion of Phase 4 of Golden Valley South, and all of The Villages at White Hills.

Third Amendment to the Application

On November 30, 2007, The Utilities filed their Third Amendment. In the Third Amendment, The Utilities: (1) notified the Commission that its stock has been purchased by Utilities, Inc.; (2) submitted a copy of the Analysis of Adequate Water Supply from Arizona Department of Water Resources for The Villages at White Hills; and (3) requested modifications to certain conditions Staff had recommended in its December 15, 2006 Addendum to Staff Report. Specifically, The Utilities request that the conditions relating to Performance Bond, Capital Structure, and Semi-Annual Litigation Reports be modified. In addition, The Utilities request that the Commission issue water and wastewater CC&Ns with conditions for The Villages at White Hills, instead of Order Preliminary. According to the Third Amendment, The Utilities "are not seeking to amend the request for an Order Preliminary for the small portion of Section 8 of Golden Valley South set forth in the record."

The Proposed Wastewater System

Using a 20-year planning period, for Golden Valley South, PMUC is proposing to construct an 8.0 million gallon per day ("MGD") activated sludge wastewater treatment plant ("WWTP") and collection system at a total projected cost of $55.0 million. PMUC is projecting to serve 152 customers in the first year and 2,042 customers by the fifth year. A reclaimed water system is also being proposed that will consist of pump station/storage sites and 58,000 lineal feet of force mains for beneficial use at an estimated cost of $5.3 million for irrigation of large landscaped areas or a golf course, if ultimately included in the land use plan.

Using a 20-year planning period, for The Villages at White Hills, PMUC is proposing to construct a 6.0 MGD activated sludge WWTP and collection system at a total projected cost of $57.6 million. PMUC is projecting to serve zero customers in the first year and 1,025 customers by the fifth year. A reclaimed water system is also being proposed that will consist of pump station/storage sites and 25,000 lineal feet of force mains for beneficial use at an estimated cost of $4.7 million for irrigation of large landscaped areas or a golf course, if ultimately included in the land use plan.

Cost Analysis

PMUC submitted a revision to its estimated total wastewater plant-in-service spreadsheet for the first five years by the National Association of Regulatory Utility Commissioners ("NARUC") plant account which combined the two development projects:

Year 1:	$4,597,075
Year 2:	$7,761,475
Year 3:	$9,379,800
Year 4:	$16,427,875
Year 5:	$18,543,950

Staff has reviewed the revised proposed total wastewater plant-in-service along with PMUC's engineering reports and found the plant facilities and cost to be reasonable and appropriate. However, approval of this CC&N application does not imply any particular future treatment for determining the rate base. No "used and useful" determination of the proposed plant-in-service was made, and no conclusions should be inferred for rate making or rate base purposes in the future.

Arizona Department of Environmental Quality ("ADEQ") Compliance

PMUC does not have any wastewater plant facilities at this time; therefore, an ADEQ compliance status is not applicable at this time.

The Wastewater Company has not received its ADEQ General Permits for construction of the wastewater facilities. Staff recommends that PMUC file with Docket Control, as a compliance item, copies of the General Permits for Phase 1 of the initial phase of Golden Valley South and The Villages at White Hills developments when received by PMUC, but no later than 3 years after the effective date of the order granting this application.

Since an Aquifer Protection Permit ("APP") represents a fundamental authority for the designation of a wastewater service area and a wastewater provider, Staff recommends that PMUC file with Docket Control, as a compliance item, a copy of the APP for the Golden Valley South and The Villages at White Hills developments within 3 years after the effective date of the order granting this application.

Wastewater Depreciation Rates

PMUC has adopted Staff's typical and customary Wastewater Depreciation Rates. These rates are presented in Table WW of the attached Engineering Report and it is recommended that PMUC use these depreciation rates by individual NARUC category as delineated in Table WW of the attached Engineering Report.

The Proposed Water System

Using a 20-year planning period, for Golden Valley South, PMWC is proposing to construct 15 wells (each producing at 1,200 gallons per minute ("GPM")), 10 million gallons of storage (three sites minimum), booster systems, and transmission/distribution main at a total cost of $48.5 million. PMWC is projecting to serve 150 customers in the first year and 2,040 customers by the fifth year.

Using a 20-year planning period, for The Villages at White Hills, PMWC is proposing to construct 25 wells (each producing at 500 GPM), five tank/pumping sites (tanks ranging from 0.3 MG to 3.0 MG) and transmission/distribution main at a total cost of $53.9 million. PMWC is projecting to serve zero customers in the first year and 1,025 customers by the fifth year.

Cost Analysis

PMWC submitted revisions to its estimated total water plant-in-service spreadsheet for the first five years by the NARUC plant account which combined the two development projects:

Year 1:	$4,731,125
Year 2:	$9,721,025
Year 3:	$11,783,167
Year 4:	$14,861,209
Year 5:	$19,192,351

Staff has reviewed the revised proposed total plant-in-service along with PMWC's engineering reports and found the plant facilities and cost to be reasonable and appropriate. However, approval of this CC&N application does not imply any particular future treatment for determining the rate base. No "used and useful" determination of the proposed plant-in-service was made, and no conclusions should be inferred for rate making or rate base purposes in the future.

ADEQ Compliance

PMWC does not have any plant facilities at this time; therefore, an ADEQ compliance status is not applicable at this time.

The Water Company has not received its ADEQ Certificate of Approval to Construct ("ATC") for construction of the facilities. However, Rhodes Homes Arizona, the developer, has been issued ATCs for a transmission water line (March 30, 2006), 1.0 million gallon storage tank (April 27, 2006) and well (April 28, 2006) for the Golden Valley South development. The well is known as Golden Valley Ranch Well #1. All these planned facilities are located outside the northern boundary of the requested CC&N area. Prior to service being provided, the developer will convey this utility infrastructure to the water provider.

Staff recommends that the Water Company file with Docket Control, as a compliance item, copies of the ATC for Phase 1 of the initial phase of the Golden Valley South and The Villages at White Hills developments when received by the Company, but no later than 3 years after the effective date of the order granting this application.

Arizona Department of Water Resources ("ADWR") Compliance

PMWC will not be located in an Active Management Area ("AMA") and will not be subject to any AMA reporting and conservation requirements.

On August 14, 2006, ADWR issued an Analysis of Adequate Water Supply letter finding that an additional 2,895.69 acre-feet per year of treated effluent will be physically available at build-out for the Golden Valley South development. This 2,895.69 acre-feet, along with the 9,000 acre-feet, totals to 11,895.69 acre-feet per year, which is less than PMWC's projected build-out demands for the Golden Valley South development (including system losses) of 12,196.11 acre-feet per year.

On July 18, 2007, ADWR issued an Analysis of Adequate Water Supply letter finding that 11,922 acre-feet per year of groundwater and an additional 2,607.81 acre-feet per year of treated effluent will be physically available at build-out for a total of 14,529.8 acre-feet per year for The Villages at White Hills development. This total amount is more than ADWR's annual estimated water demand of 12,651.03 acre-feet per year for approximately 26,000 dwelling units.

Staff recommends that PMWC file with Docket Control, as a compliance in this docket, a copy of ADWR Letter of Adequate Water Supply (Water Adequacy Report) for each individual Subdivision in Golden Valley South and in The Villages at White Hills developments, when received by PMWC, but no later than 30 days of the receipt.

Arsenic

The U.S. Environmental Protection Agency has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 parts per billion ("ppb") to 10 ppb. The date for compliance with the new MCL was January 23, 2006.

The arsenic levels for the Golden Valley Ranch Well No. 1 is at 7.8 parts per billion ("ppb") and Well No. 2 (under design) is at 7.2 ppb and meet the new arsenic standard. The Villages at White Hills developments' well sources are unknown at this time. If the arsenic levels need to be lowered to meet the new MCL for The Villages at White Hills development, the ATC will resolve this issue.

Curtailment Plan Tariff

A Curtailment Plan Tariff ("CPT") is an effective tool to allow a water company to manage its resources during periods of shortages due to pump breakdowns, droughts, or other unforeseeable events.

Staff recommends that the Company file with Docket Control, as a compliance item, for review and approval by the Director of The Utilities Division, a curtailment tariff within 90 days after the effective date of any decision and order pursuant to this application. Staff also recommends that the tariff shall generally conform to the sample tariff found posted on the Commission's web site (www.azcc.gov/divisions/utilities/forms/Curtailment-Std.pdf) or available upon request from Commission Staff.

Water Depreciation Rates

PMWC has adopted Staff's typical and customary Water Depreciation Rates. These rates are presented in Table A of the attached Engineering Report and it is recommended that the Water Company use these depreciation rates by individual NARUC category as delineated in Table A of the attached Engineering Report.

Service Line and Meter Installation Charges

PMWC's proposed service line and meter installation charges are somewhat similar to Staff's customary range of charges. As a result, Staff recommends the lower end of its customary range of charges. Since the Water Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, Staff recommends approval of its charges as shown in Table B of the Engineering Report and Water Schedule CSB-W5 of the attached Rate Analyst Report, with separate installation charges for service line and meter installations.

Finance of Utility Facilities

According to the applications, The Utilities intend to finance the required utility facilities through a combination of shareholder equity, Contributions In Aid of Construction ("CIAC") (see the Fair Value Rate Base section of this Report for further discussion on CIAC), and advances in aid of construction. Advances in aid of construction are often in the form of Main Extension Agreements ("MXAs"). MXAs are standard industry practice. The minimal acceptable criteria for line extension agreements between water and wastewater utilities and private parties are established by A.A.C. R14-2-406 and 606. These agreements generally require the developer to design, construct and install (or cause to be), all facilities to provide adequate service to the development. The developer is required to pay all costs of constructing the required facilities necessary to serve the development. Upon acceptance of the facilities by the utility company, the developer conveys the utility facilities through a warranty deed to the

utility company. Utility companies will often refund ten (10) percent of the annual water revenue associated with development for a period of ten (10) years.

Fair Value Rate Base

Consistent with Commission rules, The Utilities' applications included the required five-year projections for plant values, operating revenues, operating expenses, and number of customers. Projections and assumptions are necessary to establish a fair value rate base ("FVRB") and initial rates due to the lack of historical information. Since these are new CC&Ns, Staff evaluated the projected original cost rate bases ("OCRBs) as the FVRBs.

The Utilities provided schedules showing the elements of the projected OCRB as shown on Water and Wastewater Schedules CSB-WW2 and CSB-W2, pages 1 and 2 in the attached Rate Analyst Report. Staff reviewed the projected plant in service at the end of the fifth year and, except for the land values, found them to be reasonable.

The Utilities did not provide projections for the cost of their land and land rights accounts. The Utilities stated in response to Staff's Third Set of Data Requests, Item No. CSB 3-3, that "The developer, Rhodes Homes Arizona, L.L.C. will convey any real property . . . at no cost . . . Therefore the cost of the land to the water and sewer companies will be zero." This treatment is not consistent with the NARUC Uniform System of Accounts ("USOA") which requires that any asset received by a utility at no cost to the utility should be debited to the appropriate plant account and credited to account no. 271 "Contributions in Aid of Construction ('CIAC')". The Utilities stated that the land and land rights account balances in the fifth year are expected to be $350,000 and $65,000 for PMUC and PMWC, respectively. Accordingly, Staff reflected these amounts in The Utilities' projected plant in service schedules as shown on Water and Wastewater Schedules CSB-WW2 and CSB-W2, pages 1 and 2 in the attached Rate Analyst Report.

Staff reviewed The Utilities' projected accumulated depreciation at the end of the fifth year and found them to be reasonable.

The Utilities' applications project that the net cumulative balance for AIAC will be $10,973,133 and $11,613,581 in year five for PMUC and PMWC, respectively. As shown on Water and Wastewater Schedules CSB-WW2 and CSB-W2, page 1 in the attached Rate Analyst Report, Staff decreased AIAC by $2,566,279 for PMUC and $2,703,437 for PMWC. As discussed in the "Capital Structure and Financial Soundness" section of this Staff Report, Staff's adjustments reflect Staff's recommendation that The Utilities should finance at least 50 percent of their plant with equity.

The Utilities' applications did not reflect CIAC in their rate base calculation. As shown on Water and Wastewater Schedules CSB-WW2 and CSB-W2, page 1 in the attached Rate Analyst Report, Staff increased the CIAC account by $350,000 for PMUC and $65,000 for PMWC to reflect the land contributed by the developer.

Staff increased the customer deposits balance in the fifth year by $114,553[1] for both PMUC and PMWC to reflect The Utilities' projected customer deposits balance at the end of the fifth year.

Revenue and Expenses

The Utilities provided projected revenues and expenses for five years. Staff's analysis, while taking into account all of the years presented, is concentrated on the fifth year of operation when profitability is expected. Staff reviewed the revenue and expense projections and found them to be reasonable. The projected income statements are shown on Water and Wastewater Schedules CSB-WW3 and CSB-W3 in the attached Rate Analyst Report.

Capital Structure and Financial Soundness

Capital structure is an indicator of financial soundness. Undercapitalized investor owned utilities may result in rate bases that are too small to generate enough revenue to pay for operating expenses and fund capital improvements without steep increases in customer rates. Consequently, Staff has determined that a financially sound utility company, on average, should have no more than 30 percent AIAC and/or CIAC in its capital structure. However, due to circumstances unique to this case, Staff has recommended, in the Addendum to Staff Report filed on December 15, 2006, that The Utilities have at least 50 percent equity in its capital structure. This will help to ensure that The Utilities are substantially financed by the owner, and that the owner has a significant investment at risk. Staff believes this recommendation, in this and other cases involving new CC&Ns, motivates the utility owners to protect their investment by applying proper maintenance and installing quality plant, furthering the public interest.

At the end of the fifth year, PMUC's capital structure consists of no debt, 63.93 percent AIAC/CIAC, and 36.07 percent equity. Staff recommends 0.00 percent debt, 50.00 percent AIAC/CIAC, and 50.00 percent equity as shown on Wastewater Schedule CSB-WW4 in the attached Rate Analyst Report.

At the end of the fifth year, PMWC's capital structure consists of no debt, 64.93 percent AIAC/CIAC, and 35.07 percent equity. Staff recommends 0.00 percent debt, 50.00 percent AIAC/CIAC, and 50.00 percent equity as shown on Water Schedule CSB-W4 in the attached Rate Analyst Report.

Staff recommends that approval of The Utilities' CC&Ns be made conditional upon PMUC and PMWC obtaining Staff's recommended capital structure by the end of the fifth year of operation.

[1] Per The Utilities' response to Staff's Third Set of Data Requests, Item No. CSB 3.2

Rate Design

Water and Wastewater Schedules CSB-WW5 and W5 in the attached Rate Analyst Report present a complete list of The Utilities' proposed, and Staff's recommended rates and charges. The Utilities' projected revenue is derived primarily from the residential customer class.

To promote efficient use of water, Staff has recommended an inverted three-tiered rate structure for the commodity charges. PMWC has submitted a three-tier rate design.

Staff added a 5/8-inch x 3/4-inch meter to provide PMWC with the ability to serve customers who may request that meter size. PMWC anticipates that residential customers will compose the majority of its total customers. PMWC proposes a 3/4-inch meter for the residential class and is designing and building its water system to meet the water usage demands for those customers. The water usage demand costs for a ¾-inch meter are higher than those of a 5/8-inch x 3/4-inch meter. Therefore, to ensure that PMWC recovers the costs associated with designing and building its system to meet the demands of its largest customer class (i.e., the 3/4-inch meter residential customer), Staff set the 5/8-inch x 3/4-inch meter rate the same as that of the 3/4-inch meter.

PMUC's rates are flat monthly fees that vary by meter size as shown on Wastewater Schedule CSB-WW5 in the attached Rate Analyst Report. Staff added a flat fee for the 5/8-inch x 3/4-inch meter to be consistent with Staff's addition of this meter size for PMWC.

Staff recommends the approval of its rates, and charges as per Water and Wastewater Schedules CSB-WW5 and W5 of the attached Rate Analyst Report and as supported by the Arizona Administrative Code, Article 4, Water Utilities and Article 6, Sewer Utilities.

Staff further recommends that The Utilities be required to file with Docket Control, as a compliance item, a tariff consistent with the rates and charges authorized by the Commission within 30 days of the decision in this matter.

Franchise

Every applicant for a CC&N and/or CC&N extension is required to submit to the Commission evidence showing that the applicant has received the required consent, franchise or permit from the proper authority. If the applicant operates in an unincorporated area, the company has to obtain the franchise from the County. If the applicant operates in an incorporated area of the County, the applicant has to obtain the franchise from the City/Town.

The Utilities have filed, in the docket, copies of the franchise agreements from Mohave County for the requested CC&N areas.

Ownership Structure

According to the Third Amendment to The Utilities' Applications, on November 29, 2007, Rhodes, the sole shareholder of The Utilities, executed a Stock Purchase and Utilities Services Agreement (the "Stock Purchase Agreement") by which Rhodes transferred all issued and outstanding shares of stock in The Utilities to Utilities, Inc., "a public holding company with approximately 90 subsidiaries operating more than 500 water, wastewater and irrigation systems in 17 states serving more than 300,000 customers." Utilities, Inc. operates in Florida, North Carolina, South Carolina, Illinois, Louisiana, Georgia, Indiana, Maryland, Arizona, Mississippi, Nevada, New Jersey, Ohio, Pennsylvania, Tennessee, Virginia, and Kentucky. Utilities, Inc. founded in 1965, is based in Northbrook, Illinois, and was formerly operated as a subsidiary of Nuon NV. In Arizona, Utilities, Inc. owns Bermuda Water Company. (See Bermuda Water Company's section below for detailed information regarding this subsidiary)

Utilities, Inc. is 100 percent owned by Hydo Star Holdings Corporation, which is in turn 100 percent owned by Hydo Star, LLC, which is in turn owned by a combination of entities namely: Hydro Star InterCo LLC, Hydro Star Blocker LLC, AIG Highstar Capital II, L.P., AIG Highstar Capital II Overseas Investor Fund, L.P., AIG Highstar Capital II Prism Fund, L.P., and American General Life Insurance Company. AIG Highstar Capital II, L.P., AIG Highstar Capital II Overseas Investor Fund, L.P., and AIG Highstar Capital II Prism Fund, L.P. are owned by AIG Highstar GP II, L.P. with a diversified group of investors. AIG Highstar GP II, L.P. is a subsidiary of AIG Global Investment Corp. which is a subsidiary of American International Group, Inc. ("AIG, Inc."). American General Life Insurance Company (mentioned above) is also an affiliate or subsidiary of AIG, Inc. AIG Global Investment Corp. is the Investment Manager by Contract for American General Life Insurance Company. Thus, the ultimate parent of The Utilities is AIG, Inc. (See Attachment F for the Chart of Ownership Structure of Utilities, Inc. and articles about Utilities, Inc.'s parent companies).

According to the November 30, 2007 Amendment to Applications, neither Mr. Jim Rhodes nor any of his affiliated business enterprises have any ownership interest in Utilities, Inc. On January 2, 2008, The Utilities filed Notice of Filing Supplemental Information ("Notice"). The Notice (herein incorporated by reference), contained an affidavit of Mr. John Hoy, Chief Regulatory Officer of Utilities, Inc., and an affidavit of Mr. Rhodes supporting the November 30, 2007 Amended Applications and the statement that neither Mr. Rhodes nor any of his affiliated business enterprises have any ownership interest in Utilities, Inc.

The ownership structure of Utilities, Inc., the parent company of PMWC and PMUC, appears fairly complex and lacks transparency, with the relationship between the ultimate parent company, AIG, Inc., and its subsidiaries (that are parents to Utilities, Inc.) referred to as "Indirect subsidiaries". [2] The indirect subsidiaries of AIG, Inc. and undisclosed "Investors" are the parents

[2] Per PMWC and PMUC's response to BNC 5.1, ""Indirect Subsidiary" as used in the response to BNC 4.1 means that there are intermediate holding companies in the structure for tax and other purposes."

of Utilities, Inc.[3] (See Attachment F). At least one or more of Utilities, Inc.'s parent company is an equity buyer or investor. According to Utilities, Inc.'s Press Release dated March 21, 2007, and July 12, 2007 which announced the appointments of Mr. John Stover as Corporate Secretary and Vice President and Mr. Steve Lubertozzi and Mr. John Hoy as Chief Financial Officer and Chief Regulatory Officer, respectively; Utilities, Inc., is "a portfolio company of AIG Highstar Capital". Staff's understanding is that AIG Highstar Capital is an equity buyer or investor.

Staff posed the following questions to The Utilities in Staff's Second Set of Data Requests, Item No. BNC 2.8 ("BNC 2.8): "(a) What is the expected term of ownership for Utilities, Inc., Perkins Mountain Water Company, and Perkins Mountain Utility Company? (b) How long was Utilities, Inc. owned by its prior owner? (c) How long has Utilities, Inc., been a portfolio company of AIG Highstar Capital? (d) Does Utilities, Inc. anticipate acquiring any other utilities in Arizona? (e) Does Mr. Jim Rhodes, and/or family members, have a direct or beneficial equity, partnership, membership or other ownership interest in AIG Highstar Capital, L.P., American International Group, Inc. and/or any of their respective affiliates? (f) Has AIG Highstar Capital, L.P., American International Group, Inc. and/or any of their respective affiliates been sanctioned by the Security and Exchange Commission? Please explain." The Utilities response to BNC 2.8 filed in the docket on February 28, 2008, is herein incorporated by reference. Basically, the response to BNC 2.8, among other things, states that Utilities, Inc. has been in existence since 1965; acquired the stock of PMWC and PMUC with the expectations that it would be long-term investment of Utilities, Inc.; was owned by its prior owner, Nuon Global Solutions USA, Inc., a subsidiary of Nuon NV, from March 18, 2002 until April 19, 2006, when it was bought by AIG, Inc.'s affiliates; and that "Utilities, Inc. has made inquiry of Mr. Rhodes and ...have been advised.." that Mr. Rhodes and any of his family members does not have any ownership interest in AIG Highstar Capital, L.P., AIG, Inc and/or any of their respective affiliates. The response is discussed in the "Fit and Proper" Section below.

Stock Purchase and Utilities Service Agreement

The Confidential Stock Purchase Agreement dated November 29, 2007, was provided to Staff pursuant to the terms of the August 11, 2006 Protective Agreement. According to the November 30, 2007 Amendment to Applications; the affidavits of Mr. John Hoy (Chief Regulatory Officer of Utilities, Inc.) and Mr. Rhodes filed on January 2, 2008, in support of the November 30, 2007 Amended Applications; and The Utilities response to BNC 2.8(e), neither Mr. Jim Rhodes nor any of his affiliated business enterprises have any ownership interest in Utilities, Inc. However, the language of the terms and conditions of the Stock Purchase Agreement creates an impression that Mr. Rhodes through Rhodes Homes Arizona, LLC is still in a decision making role for PMWC and PMUC. Specifically, the Stock Purchase Agreement requires Rhodes Homes Arizona, LLC and/or any of its affiliated business enterprises to prepare

[3] Per PMWC and PMUC's response to BNC 5.2, "The "Investors" identified for the AIG Highstar Capital funds are third parties that have made capital commitments to the funds. These third parties are 100% passive with respect to decision making authority, and have, in effect, hired AIG Global Investment Corp, and AIG Highstar GP II, L.P. to provide investment services in the infrastructure sector."

the Master Plans for the water and wastewater systems. The Stock Purchase Agreement also requires Utilities Inc. and/or PMWC and PMUC to get prior consent of Rhodes Homes Arizona, LLC or its affiliated business enterprise in order to take certain actions. It is Staff's position that The Utilities should be responsible for the preparation of the Master Plans for the water and wastewater systems and not the developer, Rhodes Homes Arizona, LLC and/or any of its affiliated business enterprises. Staff also believes that Utilities Inc. and/or PMWC and PMUC should not get prior consent of the developer, Rhodes Homes Arizona, LLC or its affiliated business enterprise in order to take certain actions. Rhodes Homes Arizona, LLC is a limited liability company whose member is Mr. Jim Rhodes.

The Stock Purchase Agreement represents an agreement reached by two unregulated entities, Rhodes Home Arizona, L.L.C. and Utilities, Inc. (collectively, referred as "parties") for transfer of ownership and control of PMWC and PMUC. Staff believes that this Stock Purchase Agreement is not binding on the Commission, and as such Staff does not recommend that any order that addresses the CC&N and/or Order Preliminary requested approve the agreement between parties.

Bermuda Water Company

Bermuda Water Company ("Bermuda") was granted a CC&N in 1962 to provide water service in southern portion of Bullhead City, Mohave County, Arizona. Bermuda currently provides water service to approximately 7,900 customers. According to the November 30, 2007 Amendment to Applications, "Utilities, Inc., acquired Bermuda Water Company.....through a stock transaction in 1999."

According to Bermuda's 2006 Annual Report, the water system consists of 8 wells (producing a total of 3,575 gallons per minute), 5 storage tanks (totaling 2,244,000 gallons), 559 fire hydrants and a distribution system serving approximately 7,700 service connections. Staff checked the compliance status for Bermuda system. According to an ADEQ Compliance Status Report, dated February 12, 2008, ADEQ reported that the Bermuda water system, PWS #08-063, had no deficiencies and that the system is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. According to the Utilities Division Compliance Section, Bermuda has no outstanding compliance issues. For the number of complaints and inquiries on Bermuda, received by Utilities Division Consumer Services Section, see Attachment G.

Bermuda provides water to Sunrise Vista Utilities Company ("Sunrise"). Sunrise is not affiliated with Utilities, Inc. According to Sunrise's 2006 Annual Report, Sunrise provides water service to approximately 700 customers in portions of Mohave County, Arizona. To serve Sunrise's water system, Bermuda utilizes two 6-inch x 1-inch compound meters and a single 6-inch line referred to herein as the Vanderslice line.[4] Bermuda experienced 85 water main breaks from November 2006 to November 2007. Bermuda believes the booster (pumping) station

[4] The Vanderslice line runs parallel to Vanderslice Road.

installed by Sunrise Vistas is damaging its Vanderslice line. The water main breaks resulted in Sunrise customers complaining about water outages. (See Attachment H for the report on Staff's field visit to Bermuda and Sunrise regarding water outages).

As evidenced by Utilities, Inc.'s list of "Recent News" on Utilities, Inc.'s website, Utilities, Inc. has embarked on various expansion, replacement, renovation, relocation, and/or upgrades of its water and/or wastewater facilities. (See Attachment I). In response to Staff's Second Set of Data Requests, Item No. BNC 2.11 ("BNC 2.11"), Utilities, Inc., stated that "since 1999, Bermuda spent $2,226,000 net of retirements and net of Contributions in Aid of Construction as of the end of 2006" in upgrades to its water system. Utilities, Inc. also stated in response to BNC 2.11 that it "does not anticipate at this time merging Bermuda with Perkins Mountain Water."

Utility Inc.'s Subsidiaries in Other Jurisdictions

According to the November 30, 2007 Amendment to Applications, Utilities, Inc. owns 90 subsidiaries operating more than 500 water, wastewater and irrigation systems in 17 states serving more than 300,000 customers. Utilities, Inc. in addition to Arizona, operates in Florida, North Carolina, South Carolina, Illinois, Louisiana, Georgia, Indiana, Maryland, Mississippi, Nevada, New Jersey, Ohio, Pennsylvania, Tennessee, Virginia, and Kentucky.

As part of its review of PMWC and PMUC's applications, Staff requested a list of other jurisdictions that Utilities, Inc. and/or its affiliates provide water and/or wastewater services to the public. Seventeen states were identified. Staff contacted the public utility regulatory commissions requesting feedback from the state commissions, whether positive or negative, concerning Utilities, Inc. and/or its affiliates that operate within those jurisdictions, for example; are the subsidiaries in good standing with the state commission, have they been cited by the state's drinking water and/or wastewater regulatory agency, etc. Approximately eight regulatory commissions responded providing information and/or comments regarding Utilities, Inc. and and/or its affiliates that operate within their jurisdictions. The states that responded are Florida, North Carolina, Illinois, Louisiana, Indiana, Nevada, Pennsylvania, and Tennessee. The information and/or comments gathered includes Utilities, Inc. and and/or its affiliates being in "good standing", an investigation into the practices and procedures regarding its water and sewer operations; quality of service provided; Citations; and Consent Order. (See Attachment J for Information from other jurisdictions).

As part of its review of the applications, Staff also issued Staff's Second Set of Data Requests, Item Nos. BNC 2.12 and 2.13 ("BNC 2.12 and 2.13") requesting for "...a history of Citations issued by regulatory agencies in other jurisdictions against Utilities, Inc. and/or any of its respective affiliates since the year 2000." and "... a copy of all Consent Orders entered into by Utilities, Inc. and/or any of their respective affiliates with any regulatory agencies since the year 2000." Based on The Utilities response to BNC 2.12 and 2.13, Staff concludes that since the year 2000, Utilities, Inc. and/or its affiliates in other jurisdictions have paid over $86,000 in

civil penalties to other regulatory agencies. (See Attachment K for The Utilities response to BNC 2.12 and 2.13 including copies of judgments).

Fit and Proper

The ACC is required by the Arizona Revised Statutes § 40-281 et seq. to investigate all applicants for a CC&N and to issue a CC&N only upon a showing that the issuance to a particular applicant would serve the public interest. In determining whether or not the issuance of a CC&N to a particular applicant is in the public interest, Staff considers whether the applicant is a fit and proper entity to own and operate a water and/or wastewater utility.

Utilities Inc., the parent company of The Utilities, provided confidential financial information to Staff pursuant to the terms of the August 11, 2006 Protective Agreement. In general, Staff's analysis was based on the audited balance sheet and income statement for the years ended December 31, 2005, and December 31, 2006. Utilities Inc.'s external auditors issued an unqualified opinion concerning these financial statements. Based upon review of this information, Staff has determined that Utilities, Inc. has substantial assets and net income for the aforementioned years. Further, Staff has concluded that PMUC and PMWC through their parent company, Utilities, Inc., have adequate financial capability to provide the requested services.

In response to Staff's Second Set of Data Requests Item Nos. BNC 2.14 and 2.15, in which Staff sought for information on whether the entities (Utilities, Inc., PMWC and/or PMUC and their respective affiliates), officers, directors and/or employees have been accused of various types of allegations, convicted and/or admitted any of the allegations, Utilities, Inc. responded "no" to the best of its knowledge and belief. In response to Staff's Second Set of Data Requests Item No. BNC 2.8(f), "has AIG Highstar Capital, L.P., American International Group, Inc. and/or any of their respective affiliates been sanctioned by the Securities and Exchange Commission?", Utilities, Inc. stated, "Utilities, Inc. is owned by private equity funds and does not have access nor is it privy to, information relating to this question other than information generally available to the public. Utilities, Inc. can however state that it has not been directly or indirectly involved in SEC actions or been the subject of SEC sanctions."

In Pennsylvania Public Utility Commission's Opinion and Order entered on October 2, 2006, in "Application of Penn Estates Utilities, Inc., Utilities Inc. of Pennsylvania and Utilities, Inc. – Westgate for Approval of Stock Transfer Leading to a Change in Control of their Parent Corporation, Utilities, Inc." in Docket Nos. A-210072F0003, A-230063F0003, A-230013F0004, and A-210093F0002, the Pennsylvania Public Utility Commission noted on page 10, "further inquiry by the OTS elicited the response that AIG was the subject of significant investigations regarding certain corporate practices and had reached settlements resulting in the payment of more than one billion dollars in restitution and penalties as well as mandated reforms of various accounting practices. (OTS Exh.1 at 91-131)". (See Attachment J). Based on the information from Pennsylvania Public Utility Commission, Staff believes that Utilities, Inc. should have been aware that its ultimate parent company, AIG, Inc., had been the subject of SEC sanctions.

During its review, Staff came upon articles discussing litigation, probes, investigations, fines, settlements, and conviction involving AIG, Inc. by Securities and Exchange Commission ("SEC"), U.S. Department of Justice, and/or other governmental agencies. In February 2006, AIG, Inc. agreed to pay $1.6 billion to resolve claims related to improper accounting, bid-rigging and practices involving workers' compensation funds; in November 2004, AIG, Inc. agreed to pay $126 million to settle fraud charges arising out of its offer and sale of an Earnings Management Product; in September 2003, AIG, Inc. agreed to pay a civil penalty of $10 million to settle the action. Recently, on February 25, 2008, the day before The Utilities filed their response to BNC 2.8 (f), a federal grand jury found five executives, including one former AIG, Inc. executive, "guilty on all 16 counts in their indictment, including conspiracy, securities fraud, mail fraud and making false statements." [5] Staff recognizes that news reports can be subjective in nature and generally are not conclusive on any point. However news reports may provide information, or raise issues which may lead to relevant information. It is Staff's intention to provide the Commission with relevant information. (See Attachment L for copies of the articles).

PMWC and PMUC are new utilities with no prior operating experience. Utilities, Inc., the immediate parent company of PMWC and PMUC, has extensive experience with regulated public utility entities. Utilities, Inc. owns 90 subsidiaries operating more than 500 water, wastewater and irrigation systems in 17 states serving more than 300,000 customers. (See Attachment M for an organizational chart of Utilities, Inc. subsidiaries). As stated above, Utilities Inc. owns Bermuda Water Company which serves approximately 7,700 service connections, in Mohave County, Arizona. According to Utilities, Inc.'s Press Release dated March 21, 2007, and July 12, 2007, mentioned above; "Utilities, Inc. was formed in 1965 to provide developers with an alternative method to obtain water and wastewater utility service." Staff in its Second Set of Data Requests, Item No. BNC 2.10 ("BNC 2.10") requested The Utilities "...provide a description of Utilities, Inc.'s experience in providing water and/or wastewater utility service to developments of the same or comparable magnitude and/or size as Golden Valley South and The Village at White Hills." In The Utilities response to BNC 2.10, eight subsidiaries were identified. The identified subsidiaries provided water and/or wastewater service and have customers ranging from 575 to 24,000. At build-out, Golden Valley South and The Village at White Hills will comprise of approximately 33,000 and 20,000 dwellings, respectively.

In recent Commission Decisions,[6] performance bonds have been required for new CC&Ns where a substantial number of customer deposits or advances may be held by a regulated utility, the company has no prior experience in operating a water or wastewater facility, or where the financial strength of the entity could be in jeopardy due to inadequate funding, pending law suits, etc. Performance bonds or letters of credit provide the customers security in the event a new utility files for bankruptcy.

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[5] "Jury Convicts Five of Fraud In Gen Re, AIG Case", The Wall Street Journal, February 26, 2008, front page.
[6] Such as Decision Nos. 68235, 68236, 68237.

Based on the information provided in this docket and from Staff's review of other available materials regarding The Utilities and related affiliates, Staff concludes that:

- The Utilities have no prior operating experience, but the immediate parent, Utilities, Inc. does have experience.
- There is evidence of negative determinations and/or questionable business practices regarding AIG, Inc. and Utilities, Inc.'s affiliated entities in other jurisdictions, and
- The Utilities through their parent company, Utilities, Inc., have adequate financial capability to provide the requested services.

Staff believes that the ultimate obligation of the Commission is to protect the public interest; to that end the imposition of reasonable conditions to ensure The Utilities are conducting their business operations in a manner which will not compromise the interests of its customers should be required. Therefore, in order to protect The Utilities' customers against potential detrimental impact that may occur as a result of a judgment against AIG, Inc. and/or The Utilities' affiliates, Staff recommends that The Utilities provide a performance bond or irrevocable sight draft letter of credit.

Staff recommends that PMWC provide an irrevocable sight draft letter of credit or a performance bond of $500,000. The bond or letter of credit shall remain in place until further Order of the Commission. Proof of the performance bond or letter of credit shall be filed in this docket, as a compliance item, prior to service being provided to any customer. Thereafter, the proof of the performance bond or letter of credit shall be filed semi-annually on each July and January covering the preceding six month period.

Staff also recommends that PMUC provide an irrevocable sight draft letter of credit or a performance bond of $500,000. The bond or letter of credit shall remain in place until further Order of the Commission. Proof of the performance bond or letter of credit shall be filed in this docket, as a compliance item, prior to service being provided to any customer. Thereafter, the proof of the performance bond or letter of credit shall be filed semi-annually on each July and January covering the preceding six month period.

Staff acknowledges that Utilities, Inc., the parent company of The Utilities, has experience in operating a water or wastewater facility. The Utilities, however, are new utilities with no prior operating experience. As such, Staff recommends that The Utilities be required to finance at least 50-percent of its plant with equity, to ensure that The Utilities are substantially financed by the owner, and that the owner has a significant investment at risk.

Due to lack of transparency and the complexity of the ownership structure of Utilities, Inc., coupled with the fact that one or more Utilities, Inc.'s parent is an equity buyer or investor, Staff believes that The Utilities should be required to notify the Commission of any change in the ownership structure of The Utilities in the interest of the general public. Therefore, Staff recommends that The Utilities, as a compliance item in this docket, notify the Commission of

any proposed change in the ownership of The Utilities, at least 30 days prior to the change in ownership.

Staff's Position on the CC&N and Order Preliminary Requested Relief

In the November 30, 2007 Amendment to the Applications, The Utilities requested, among other things, that the Commission issue water and wastewater CC&Ns with conditions for The Villages at White Hills, instead of Order Preliminary. According to the November 30, 2007 Amendment to the Applications, The Utilities "are not seeking to amend the request for an Order Preliminary for the small portion of Section 8 of Golden Valley South 1set forth in the record."

Staff has previously recommended that the Commission approve The Utilities' applications for a CC&N for Phases 1, 2, 3, 7 and part of Phase 4 for Golden Valley South, and for the Commission to issue an Order Preliminary to The Utilities for a CC&N for Phases 5, 6 and the remaining portion of Phase 4 of Golden Valley South, and all of The Villages at White Hills within portions of Mohave County, Arizona, to provide water and wastewater services, subject to compliance with certain conditions. Among the conditions, is a requirement that PMWC be required to file with Docket Control, as a compliance item in this docket, to file with Docket Control, as a compliance item, copies of the ADWR Analysis of Adequate Water Supply demonstrating the availability of adequate water for Phases 5, 6 and the remaining portion of Phase 4 of Golden Valley South, and all of The Villages at White Hills when received by PMWC, but no later than 3 years after the effective date of the order granting the Order Preliminary.

PMWC, on November 30, 2007, filed an Analysis of Adequate Water Supply letter for The Village at White Hills and Golden Valley South developments. According to ADWR, an additional 2,895.69 acre-feet per year of treated effluent will be physically available at build-out for the Golden Valley South development. This 2,895.69 acre-feet, along with the 9,000 acre-feet, totals to 11,895.69 acre-feet per year, which is less than PMWC's projected build-out demands for the Golden Valley South development (including system losses) of 12,196.11 acre-feet per year. For The Village at White Hills, ADWR found that 11,922 acre-feet per year of groundwater and an additional 2,607.81 acre-feet per year of treated effluent will be physically available at build-out for a total of 14,529.8 acre-feet per year for The Villages at White Hills development. This total amount is more than ADWR's annual estimated water demand of 12,651.03 acre-feet per year for approximately 26,000 dwelling units. As such, there is no question of water availability except for a small portion of Section 8, Township 20 North, Range 18 West, set forth in the record.

Subsequent to the filing of the Addendum to the Staff report in the docket, the Commission has begun to assess the appropriateness of granting broad based CC&Ns. As a consequence, Staff considered changing its recommendation from primarily a conditional CC&N to an Order preliminary. Staff's reconsideration focused on (1) the magnitude of the requested area, (2) the current economic conditions, and (3) the expected build out period (approximately

20 years). Because of the procedural status of this case, Staff has elected not to proceed with an Order Preliminary for the proposed area.

Recommendations

Water Service – CC&N

Staff recommends the Commission approve PMWC's application for a CC&N for all of The Village at White Hills and all of Golden Valley South (except for a small portion of Section 8, Township 20 North, Range 18 West, set forth in the record) within portions of Mohave County, Arizona, to provide water service, subject to the following conditions:

1. That the Commission find that the fair value rate base of PMWC's property devoted to water service is $8,272,134.

2. That the Commission approve Staff's rates as shown on Water Schedule CSB-W5-Rate Design in the Rate Analyst Report. In addition to collection of its regular rates, PMWC may collect from its customers a proportionate share of any privilege, sales or use tax.

3. That the Commission require PMWC to file with Docket Control, as a compliance item in this docket, a tariff consistent with the rates and charges authorized by the Commission within 30 days of the decision in this matter.

4. That the Commission require PMWC to file notice with Docket Control, as a compliance item in this docket, within 15 days of providing service to its first customer.

5. That the Commission require PMWC to file a rate application no later than six-months following the fifth anniversary of the date it begins providing service to its first customer.

6. That the Commission require PMWC to maintain its books and records in accordance with the NARUC Uniform System of Accounts for Water Utilities.

7. That the Commission require PMWC to use the depreciation rates recommended by Staff.

8. That the Commission require PMWC to file with Docket Control, as a compliance item in this docket, copies of the Approval to Construct ("ATC") for Phase 1 of the initial phase of the Golden Valley South and The Villages at White Hills developments when received by the Company, but no later than 3 years after the effective date of the order granting this application.

9. That the Commission require PMWC to file with Docket Control, as a compliance item in this docket, for review and approval by Staff, a curtailment tariff within 90 days after

the effective date of any decision and order pursuant to this application. The tariff shall generally conform to the sample tariff found posted on the Commission's web site (www.azcc.gov/divisions/utilities/forms/Curtailment-Std.pdf) or available upon request from Commission Staff.

10. That the Commission require PMWC to file with Docket Control, as a compliance item in this docket, an amended legal description for The Villages at White Hills CC&N area including the entire 440 acres of land that is owned by Sports Entertainment and Sagebrush Enterprises, Inc. no later than 15 days after the effective date of the decision in this matter.

11. That the Commission require PMWC to file with Docket Control, as a compliance item in this docket, for review and approval by Staff, a backflow prevention tariff within 30 days of the decision in this matter. The tariff shall generally conform to the sample tariff found posted on the Commission's web site (www.azcc.gov/divisions/utilities/forms/Cross_c.pdf) or available upon request from Commission Staff.

12. That the Commission require PMWC to provide an irrevocable sight draft letter of credit or a performance bond of $500,000. The bond or letter of credit shall remain in place until further Order of the Commission. Proof of the performance bond or letter of credit shall be filed in this docket, as a compliance item, prior to service being provided to any customer. Thereafter, the proof of the performance bond or letter of credit shall be filed semi-annually on each July and January covering the preceding six month period.

13. That the Commission require PMWC to finance at least 50-percent of its plant with equity.

14. That the Commission require PMWC to notify the Commission of any proposed change in the ownership of the Water Company at least 30 days prior to the change in ownership.

15. That the Commission require PMWC to file with Docket Control, as a compliance in this docket, a copy of Arizona Department of Water Resources ("ADWR") Letter of Adequate Water Supply (Water Adequacy Report) for each individual Subdivision in Golden Valley South and in The Villages at White Hills developments, when received by the Company, but no later than 30 days of the receipt.

Staff further recommends that the Commission's Decision granting the requested CC&N to PMWC be considered null and void, after due process, should PMWC fail to meet Conditions Nos. 3, 8, 9, and 10, listed above within the time specified.

Water Service – Order Preliminary

Staff also recommends the Commission issue an Order Preliminary to PMWC for a CC&N for the small portion of Section 8, Township 20 North, Range 18 West of Golden Valley South (set forth in the record) within portions of Mohave County, Arizona, to provide water service, subject to compliance with the following conditions:

1. That the conditions of approval for water service CC&N are hereby incorporated by reference and apply equally to the issuance to the Order Preliminary.

2. That the Commission require PMWC to file with Docket Control, as a compliance item in this docket, copies of the ADWR Analysis of Adequate Water Supply demonstrating the availability of adequate water for the requested Order Preliminary area of Golden Valley South project when received by PMWC, but no later than 3 years after the effective date of the order granting the Order Preliminary.

3. That after PMWC complies with above requirement 2, PMWC shall make a filing stating so. Within 60 days of this filing, Staff shall file a response in the form of an Order. The Commission should schedule this item for a vote to grant the CC&N as soon as possible after Staff's filing that confirms PMWC's compliance with item 2.

Wastewater Service – CC&N

Staff recommends the Commission approve PMUC's application for a CC&N for all of The Village at White Hills and all of Golden Valley South (except for a small portion of Section 8, Township 20 North, Range 18 West, set forth in the record) within portions of Mohave County, Arizona, to provide wastewater service, subject to the following conditions:

1. That the Commission find that the fair value rate base of PMUC's property devoted to wastewater service is $8,050,058.

2. That the Commission approve Staff's rates as shown on Wastewater Schedule CSB-WW5-Rate Design in the Rate Analyst Report. In addition to collection of its regular rates, PMUC may collect from its customers a proportionate share of any privilege, sales or use tax.

3. That the Commission require PMUC to file with Docket Control, as a compliance item in this docket, a tariff consistent with the rates and charges authorized by the Commission within 30 days of the decision in this matter.

4. That the Commission require PMUC to notify Docket Control, as compliance item in this docket, within 15 days of providing service to its first customer.

5. That the Commission require PMUC to file a rate application no later than six-months following the fifth anniversary of the date it begins providing service to its first customer.

6. That the Commission require PMUC to maintain its books and records in accordance with the NARUC Uniform System of Accounts for Wastewater Utilities.

7. That the Commission require PMUC to use the depreciation rates recommended by Staff.

8. That the Commission require PMUC to file with Docket Control, as a compliance item in this docket, copies of the General Permits for Phase 1 of the initial phase of Golden Valley South and The Villages at White Hills developments when received by PMUC, but no later than 3 years after the effective date of the order granting this application.

9. That the Commission require PMUC to file with Docket Control, as a compliance item in this docket, copies of the APP for the Golden Valley South and The Villages at White Hills developments within 3 years after the effective date of the order granting this application.

10. That the Commission require PMUC to file with Docket Control, as a compliance item in this docket, an amended legal description for The Villages at White Hills CC&N area including the entire 440 acres of land that is owned by Sports Entertainment and Sagebrush Enterprises, Inc. no later than 15 days after the effective date of the decision in this matter.

11. That the Commission require PMUC to provide an irrevocable sight draft letter of credit or a performance bond of $500,000. The bond or letter of credit shall remain in place until further Order of the Commission. Proof of the performance bond or letter of credit shall be filed in this docket, as a compliance item, prior to service being provided to any customer. Thereafter, the proof of the performance bond or letter of credit shall be filed semi-annually on each July and January covering the preceding six month period.

12. That the Commission require PMUC to finance at least 50-percent of its plant with equity.

13. That the Commission require PMUC to notify the Commission, as a compliance item in this docket, any proposed change in the ownership of the Wastewater Company, at least 30 days prior to the change in ownership.

Staff further recommends that the Commission's Decision granting the requested CC&N to PMUC be considered null and void, after due process, should PMUC fail to meet the Conditions Nos. 3, 8, 9, and 10, listed above within the time specified.

Wastewater Service – Order Preliminary

Staff also recommends the Commission issue an Order Preliminary to PMUC for a CC&N for the small portion of Section 8, Township 20 North, Range 18 West of Golden Valley South (set forth in the record), within portions of Mohave County, Arizona, as amended, to provide wastewater service, subject to compliance with the following conditions:

1. That conditions for approval of the wastewater service CC&N are hereby incorporated by reference and apply equally to the issuance to the Order Preliminary.

2. That the Commission require PMUC to file with Docket Control, as a compliance item in this docket, a copy of APP for the requested Order Preliminary area of Golden Valley South project within 3 years from the effective date of the order granting the Order Preliminary.

3. That the Water Company be granted a CC&N for the small portion of Section 8, Township 20 North, Range 18 West of Golden Valley South (set forth in the record).

4. That after PMUC complies with above requirements 2, and 3 PMUC shall make a filing stating so. Within 30 days of this filing, Staff shall file a response in the form of an Order. The Commission should schedule this item for a vote to grant the CC&N as soon as possible after Staff's filing that confirms PMUC's compliance with items 2, and 3.

ATTACHMENT A

MEMORANDUM

DATE: March 13, 2008

TO: Blessing Chukwu
Executive Consultant III

FROM: Marlin Scott, Jr. MPJ
Utilities Engineer

RE: **THIRD AMENDMENT TO THE APPLICATION FOR**
Perkins Mountain Water Company
Docket No. W-20380A-05-0490 (CC&N – Water)

Introduction

Second Amended Application

On March 31, 2006, Perkins Mountain Water Company ("Perkins Mtn. Water" or "Company") submitted its second amendment to its Certificate of Convenience and Necessity ("CC&N") application to provide water service to two proposed master-planned communities in Mohave County. One requested area which would provide service to the Golden Valley South development (nine square-miles) is approximately five miles southwest of Kingman and the other requested area which would serve The Villages at White Hills development (4-1/2 square-miles) is approximately 40 miles northwest of Kingman.

In its second amended application, the Company revised its Golden Valley South plans by removing Phases 5, 6 and part of Phase 4 (a parcel of land within the south half of Section 8, Township 20 North, Range 18 West) from the original CC&N area application. The Company requested a CC&N for only Phases 1, 2, 3, 7 and part of Phase 4 for Golden Valley South (6-1/8 square-miles). In addition, the Company requested an Order Preliminary to a CC&N for Phases 5, 6 and the remaining portion of Phase 4 of Golden Valley South, and all of The Villages at White Hills.

Third Amended Application

On November 30, 2007, the Company filed its third amendment to its application. According to this filing, the stock of the Company was purchased by Utilities, Inc. In Arizona, Utilities, Inc. owns Bermuda Water Company ("Bermuda"), a utility that provides water service to approximately 7,900 customers south of Bullhead City in Mohave County.

Company's Proposed Water Systems

Golden Valley South

Using a 20-year planning period, the Company is proposing to construct 15 wells (each at 1,200 gallons per minute ("GPM")), 10 million gallons of storage (three sites minimum), booster systems and transmission/distribution main at a total projected cost of $48.5 million. The Company is projecting to serve 150 customers in the first year and 2,040 customers by the fifth year.

The Villages at White Hills

Using a 20-year planning period, the Company is proposing to construct 25 wells (each at 500 GPM), five tank/pumping sites (tanks ranging from 0.3 MG to 3.0 MG) and transmission/distribution main at a total projected cost of $53.9 million. The Company is projecting to serve zero customers in the first year and 1,025 customers by the fifth year.

Cost Analysis

The Company submitted revisions to its estimated total water plant-in-service spreadsheet for the first five years by the National Association of Regulatory Utility Commissioners ("NARUC") plant account which combined the two development projects:

Year 1:	$4,731,125
Year 2:	$9,721,025
Year 3:	$11,783,167
Year 4:	$14,861,209
Year 5:	$19,192,351

Staff has reviewed the revised proposed total water plant-in-service along with the Company's engineering reports and found the plant facilities and cost to be reasonable and appropriate. However, approval of this CC&N application does not imply any particular future treatment for determining the rate base. No "used and useful" determination of the proposed plant-in-service was made, and no conclusions should be inferred for rate making or rate base purposes in the future.

Arizona Department of Environmental Quality ("ADEQ") Compliance

Compliance Status

ADEQ compliance status is not applicable for the Perkins Mountain water facilities at this time. Staff checked the compliance status for the system Utilities, Inc. currently owns (Bermuda).

According to an ADEQ Compliance Status Report, dated February 12, 2008, ADEQ reported that the Bermuda water system, PWS #08-063, had no deficiencies and that the system is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Approval to Construct

The Company has not received its ADEQ Certificate of Approval to Construct ("ATC") for construction of facilities. However, Rhodes Homes Arizona, the developer, has been issued ATCs for a transmission water line (March 30, 2006), 1.0 million gallon storage tank (April 27, 2006) and well (April 28, 2006) for the Golden Valley South development. The well is known as Golden Valley Ranch Well #1. All these planned facilities are located outside the northern boundary of the requested CC&N area. Prior to service being provided, the developer will convey this utility infrastructure to the water provider.

Staff recommends that the Company file with Docket Control, as a compliance item in this docket, copies of the ATC for Phase 1 of the initial phase of the Golden Valley South and The Villages at White Hills developments when received by the Company, but no later than 3 years after the effective date of the order granting this application.

Arsenic

The U.S. Environmental Protection Agency has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 parts per billion ("ppb") to 10 ppb. The date for compliance with the new MCL was January 23, 2006.

The arsenic levels for the Golden Valley Ranch Well #1is at 7.8 ppb and Well #2 (under design) is at 7.2 ppb. The Villages at White Hills developments' well sources are unknown at this time. If the arsenic levels need to be lowered to meet the new MCL for The Villages at White Hills development, the ATC will resolve this issue.

Arizona Department of Water Resources ("ADWR") Compliance

Compliance Status

The Company will not be located in an Active Management Area ("AMA") and will not be subject to any AMA reporting and conservation requirements.

Golden Valley South – Adequate Water Supply

On August 14, 2006, ADWR issued an Analysis of Adequate Water Supply letter finding that 2,895.69 acre-feet per year of treated effluent will be physically available at build-out. This 2,895.69 acre-feet, along with the 9,000 acre-feet per year of available

groundwater, totals to 11,895.69 acre-feet per year, which is less than the Company's projected build out demands for the development of 12,196.11 acre-feet per year.

The Villages at White Hills – Adequate Water Supply

On July 18, 2007, ADWR issued an Analysis of Adequate Water Supply letter finding that 11,922 acre-feet per year of groundwater and an additional 2,607.81 acre-feet per year of treated effluent will be physically available at build-out for a total of 14,529.8 acre-feet per year for The Villages at White Hills development. This total amount is more than ADWR's annual estimated water demand of 12,651.03 acre-feet per year for approximately 26,000 dwelling units.

Letters of Adequate Water Supply

Staff recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of the ADWR Letter of Adequate Water Supply (Water Adequacy Report) for each individual Subdivision in the Golden Valley South and in The Villages at White Hills developments, when received by the Company, but no later than 30 days after issuance from ADWR.

Aquifer Study

Staff contacted the United States Geological Survey ("USGS"), Arizona Geological Survey and ADWR inquiring if any groundwater aquifer studies have been conducted for Mohave County. All three indicated no studies were conducted. However, ADWR indicated that in conjunction with USGS, it has initiated studies in the northern Mohave County area and the final report is expected to be completed by the end of 2009.

Water Depreciation Rates

The Company has adopted Staff's typical and customary Water Depreciation Rates. These rates are presented in Table A and it is recommended that the Company use these depreciation rates by individual NARUC category as delineated in the attached Table A.

Service Line and Meter Installation Charges

The Company's proposed service line and meter installation charges are somewhat similar to Staff's customary range of charges. As a result, Staff recommends the lower end of its customary range of charges. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, Staff recommends approval of its charges as shown in Table B, with separate installation charges for service line and meter installations.

Summary

Conclusions

A. Staff concludes that the Company's proposed water systems will have adequate infrastructure to serve the requested areas.

B. Staff concludes that the proposed water plant facilities and cost are reasonable and appropriate. However, no "used and useful" determination of this plant-in-service was made, and no particular future treatment should be inferred for rate making or rate base purposes in the future.

C. According to an ADEQ Compliance Status Report, dated February 12, 2008, ADEQ reported that the Bermuda water system, PWS #08-063, had no deficiencies and that the system is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

D. For the Golden Valley South development, Rhodes Homes Arizona, the developer, has been issued ATCs for a transmission water line (March 30, 2006), storage tank (April 27, 2006) and well (April 28, 2006). The well is known as Golden Valley Ranch Well #1. All these planned facilities are located outside the northern boundary of the requested CC&N area. Prior to service being provided, the developer will convey these utility infrastructures to the water provider.

E. The arsenic levels for the Golden Valley Ranch Well #1is at 7.8 ppb and Well #2 (under design) is at 7.2 ppb and meet the new arsenic standard. The Villages at White Hills developments' well sources are unknown at this time. If the arsenic levels need to be lowered to meet the new MCL for The Villages at White Hills development, the ATC will resolve this issue.

F. The Company will not be located in an AMA and will not be subject to any AMA reporting and conservation requirements.

G. For the Golden Valley South development, on August 14, 2006, ADWR issued an Analysis of Adequate Water Supply letter finding that 2,895.69 acre-feet per year of treated effluent will be physically available at build-out. This 2,895.69 acre-feet, along with the available 9,000 acre-feet per year of groundwater, totals to 11,895.69 acre-feet per year, which is less than the Company's projected build out demands for the development of 12,196.11 acre-feet per year.

H. For The Villages at White Hills development, on July 18, 2007, ADWR issued an Analysis of Adequate Water Supply letter finding that 11,922 acre-feet per year of groundwater and an additional 2,607.81 acre-feet per year of treated effluent will be physically available at build-out for a total of 14,529.8 acre-feet per year. This total amount is more than ADWR's annual estimated water demand for the The

Villages at White Hills development of 12,651.03 acre-feet per year for approximately 26,000 dwelling units.

I. Staff contacted the United States Geological Survey ("USGS"), Arizona Geological Survey and ADWR inquiring if any groundwater aquifer studies have been conducted for Mohave County. All three indicated no studies were conducted. However, ADWR indicated that in conjunction with USGS, it has initiated studies in the northern Mohave County area and the final report is expected to be completed by the end of 2009.

Recommendations

1. Staff recommends that the Company file with Docket Control, as a compliance item in this docket, copies of the ATC for Phase 1 of the initial phase of the Golden Valley South and The Villages at White Hills developments when received by the Company, but no later than 3 years after the effective date of the order granting this application.

2. Staff recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of the ADWR Letter of Adequate Water Supply (Water Adequacy Report) for each individual Subdivision in the Golden Valley South and in The Villages at White Hills developments, when received by the Company, but no later than 30 days after issuance from ADWR.

3. Staff recommends that the Company use the water depreciation rates by individual NARUC category as delineated in the attached Table A.

4. Staff recommends approval of its service line and meter installation charges as shown in Table B, with separate installation charges for the service line and meter installations.

The Company seeks an Order Preliminary to a CC&N for a parcel of land within the south half of Section 8, Township 20 North, Range 18 West. Staff recommends submission of the following before the final CC&N is issued for this parcel:

Staff recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of the ADWR Analysis of Adequate Water Supply letter demonstrating the availability of adequate water for the requested Order Preliminary areas within 3 years after the effective date of the order granting this application.

Table A. Water Depreciation Rates

NARUC Account No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment	30	3.33
330	Distribution Reservoirs & Standpipes	45	2.22
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00

Table B. Service Line and Meter Installation Charges

Meter Size	Company's Proposed Charges	Recommended Service Line Charges	Recommended Meter Charges	Recommended Total Charges
5/8 x 3/4-inch	-	$355	$85	$440
3/4-inch	$440	$355	$165	$520
1-inch	$500	$405	$205	$610
1-1/2-inch	$715	$440	$415	$855
2-inch Turbine	$1,170	$600	$915	$1,515
2-inch Compound	$1,700	$600	$1,640	$2,240
3-inch Turbine	$1,585	$775	$1,420	$2,195
3-inch Compound	$2,190	$815	$2,215	$3,030
4-inch Turbine	$2,540	$1,110	$2,250	$3,360
4-inch Compound	$3,215	$1,170	$3,145	$4,315
6-inch Turbine	$4,815	$1,670	$4,445	$6,115
6-inch Compound	$6,270	$1,710	$6,180	$7,890
8-inch Turbine	Cost (a)	At cost	At cost	At cost
8-inch Compound	Cost (a)	At cost	At cost	At cost

(a) Note: Cost to include parts, labor, overhead, and all applicable taxes, including income taxes.

ATTACHMENT B

MEMORANDUM

DATE: March 13, 2008

TO: Blessing Chukwu
Executive Consultant III

FROM: Marlin Scott, Jr.
Utilities Engineer

RE: **THIRD AMENDMENT TO APPLICATION FOR**
Perkins Mountain Utility Company
Docket No. SW-20379A-05-0489 (CC&N – Wastewater)

Introduction

Second Amended Application

On March 31, 2006, Perkins Mountain Utility Company ("Perkins Mtn. Utility" or "Company") submitted its second amendment to its Convenience and Necessity ("CC&N") application to provide wastewater service to two proposed master-planned communities in Mohave County. One requested area which would provide service to the Golden Valley South development (nine square-miles) is approximately five miles southwest of Kingman and the other requested area which would provide service to The Villages at White Hills development (4-1/2 square-miles) is approximately 40 miles northwest of Kingman.

In its second amended application, the Company revised its Golden Valley South plans by removing Phases 5, 6 and part of Phase 4 (a parcel of land within the south half of Section 8, Township 20 North, Range 18 West) from the original CC&N area application. The Company requested a CC&N for only Phases 1, 2, 3, 7 and part of Phase 4 for Golden Valley South (6-1/8 square-miles). In addition, the Company requested an Order Preliminary to a CC&N for Phases 5, 6 and the remaining portion of Phase 4 of Golden Valley South, and all of The Villages at White Hills.

Third Amended Application

On November 30, 2007, the Company filed its third amendment to its application. According to this filing, the stock of the Company was purchased by Utilities, Inc. In Arizona, Utilities, Inc. owns Bermuda Water Company ("Bermuda"), a utility that provides water service to approximately 7,900 customers south of Bullhead City in Mohave County.

Company's Proposed Wastewater Systems

Golden Valley South

Using a 20-year planning period, the Company is proposing to construct an 8.0 million gallon per day ("MGD") activated sludge wastewater treatment plant ("WWTP") and collection system at a total projected cost of $55.0 million. The Company is projecting to serve 152 customers in the first year and 2,042 customers by the fifth year. A reclaimed water system is also being proposed that will consist of pump station/storage sites and 58,000 lineal feet of force mains for beneficial use at an estimated cost of $5.3 million for irrigation of large landscaped areas or golf course if ultimately included in the land use plan.

The Villages at White Hills

Using a 20-year planning period, the Company is proposing to construct a 6.0 MGD activated sludge WWTP and collection system at a total projected cost of $57.6 million. The Company is projecting to serve zero customers in the first year and 1,025 customers by the fifth year. A reclaimed water system is also being proposed that will consist of pump station/storage sites and 25,000 lineal feet of force mains for beneficial use at an estimated cost of $4.7 million for irrigation of large landscaped areas or golf course if ultimately included in the land plan.

Cost Analysis

The Company submitted a revision to its estimated total wastewater plant-in-service spreadsheet for the first five years by the National Association of Regulatory Utility Commissioners ("NARUC") plant account which combined the two development projects:

Year 1:	$4,597,075
Year 2:	$7,761,475
Year 3:	$9,379,800
Year 4:	$16,427,875
Year 5:	$18,543,950

Staff has reviewed the revised proposed total wastewater plant-in-service along with the Company's engineering reports and found the plant facilities and cost to be reasonable and appropriate. However, approval of this CC&N application does not imply any particular future treatment for determining the rate base. No "used and useful" determination of the proposed plant-in-service was made, and no conclusions should be inferred for rate making or rate base purposes in the future.

Arizona Department of Environmental Quality ("ADEQ") Compliance

Compliance Status

The Company does not have any wastewater plant facilities at this time; therefore, an ADEQ compliance status is not applicable at this time.

General Permits

The Company has not received its ADEQ General Permits for construction of the wastewater facilities. Staff recommends that the Company file with Docket Control, as a compliance item in this docket, copies of the General Permits for Phase 1 of the initial phase of the Golden Valley South and The Villages at White Hills developments when received by the Company, but no later than 3 years after the effective date of the order granting this application.

Aquifer Protection Permit

Since an Aquifer Protection Permit ("APP") represent fundamental authority for the designation of a wastewater service area and a wastewater provider, Staff recommends that the Company file with Docket Control, as a compliance item in this docket, copies of the APP for the Golden Valley South and The Villages at White Hills developments within 3 years after the effective date of the order granting this application.

Wastewater Depreciation Rates

The Company has adopted Staff's typical and customary Wastewater Depreciation Rates. These rates are presented in Table WW and it is recommended that the Company use these depreciation rates by individual NARUC category as delineated in the attached Table WW.

Summary

Conclusions

A. Staff concludes that the Company's proposed wastewater systems will have adequate infrastructure to serve the requested areas.

B. Staff concludes that the revised proposed wastewater plant facilities and cost are reasonable and appropriate. However, no "used and useful" determination of this plant-in-service was made, and no particular future treatment should be inferred for rate making or rate base purposes in the future.

C. The Company does not have any wastewater plant facilities at this time; therefore, an ADEQ compliance status is not applicable at this time.

Recommendations

1. Staff recommends that the Company file with Docket Control, as a compliance item in this docket, copies of the General Permits for Phase 1 of the initial phase of the Golden Valley South and The Villages at White Hills developments when received by the Company, but no later than 3 years after the effective date of the order granting this application.

2. Staff recommends that the Company file with Docket Control, as a compliance item in this docket, copies of the APP for the Golden Valley South and The Villages at White Hills developments within 3 years after the effective date of the order granting this application.

3. Staff recommends that the Company use the wastewater depreciation rates by individual NARUC category as delineated in the attached Table WW.

The Company seeks an Order Preliminary to a CC&N for a parcel of land within the south half of Section 8, Township 20 North, Range 18 West of Golden Valley South. Staff recommends that the final wastewater CC&N not be issued for this parcel until the water CC&N is issued for Perkins Mountain Water Company for this same area.

Table WW. Wastewater Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
354	Structures & Improvements	30	3.33
355	Power Generation Equipment	20	5.00
360	Collection Sewers – Force	50	2.0
361	Collection Sewers- Gravity	50	2.0
362	Special Collecting Structures	50	2.0
363	Services to Customers	50	2.0
364	Flow Measuring Devices	10	10.0
365	Flow Measuring Installations	10	10.0
366	Reuse Services	50	2.00
367	Reuse Meters & Meter Installations	12	8.33
370	Receiving Wells	30	3.33
371	Pumping Equipment	8	12.50
374	Reuse Distribution Reservoirs	40	2.50
375	Reuse Transmission & Distribution System	40	2.50
380	Treatment & Disposal Equipment	20	5.0
381	Plant Sewers	20	5.0
382	Outfall Sewer Lines	30	3.33
389	Other Plant & Miscellaneous Equipment	15	6.67
390	Office Furniture & Equipment	15	6.67
390.1	Computers & Software	5	20.0
391	Transportation Equipment	5	20.0
392	Stores Equipment	25	4.0
393	Tools, Shop & Garage Equipment	20	5.0
394	Laboratory Equipment	10	10.0
395	Power Operated Equipment	20	5.0
396	Communication Equipment	10	10.0
397	Miscellaneous Equipment	10	10.0

ATTACHMENT C

MEMORANDUM

DATE: March 13, 2008

TO: Blessing Chukwu
Executive Consultant III

FROM: Marlin Scott, Jr.
Utilities Engineer

RE: **UPDATED STAFF FIELD INSPECTION REPORT OF GOLDEN VALLEY RANCH DEVELOPMENT** – Perkins Mountain Water Company, Docket No. W-20380A-05-0490 (CC&N – Water) and Perkins Mountain Utility Company, Docket No. SW-20379A-05-0489 (CC&N – Wastewater)

Introduction

This updated Staff Field Inspection Report replaces the inspection report that was docketed on December 15, 2006.

On March 6, 2008, Staff conducted a second field inspection of Perkins Mountain Water Company ("Perkins Mtn. Water" or "Company") and the Rhodes Homes Arizona construction sites for the Golden Valley Ranch development. The primary purpose of this inspection was to update the status of any utility facility construction activity. The inspection team consisted of Staff member; Marlin Scott, Jr., accompanied by Rhodes Homes representative; Christopher Stephens, and Utilities, Inc. representatives; Paul Burris, Wendy Wentz and Ray Jones.

Arizona Department of Environmental Quality ("ADEQ") Permits

Approval To Construct

Rhodes Homes Arizona, the developer, has been issued Certificates of Approval To Construct for, 1) a transmission water line (issued March 30, 2006), 2) a 1.0 million gallon storage tank (issued April 27, 2006) and 3) Well #1 (issued April 28, 2006). The well is known as Golden Valley Ranch Well #1 ("GVR Well #1"). All these facilities are located outside the northern boundary of the requested CC&N area.

Status of Construction

1. Transmission Water Line: Approximately 25,150 feet of transmission main have been installed from the northern boundary of the requested CC&N area, northerly

to a proposed Golden Valley Ranch Well #2 ("GVR Well #2")and the above mentioned storage tank site.

2. 1.0 Million Gallon ("MG") Storage Tank Site: This tank site is approximately 2-1/2 miles north of the requested CC&N area. Construction of tank site grading, padding and piping installation has commenced. Three 1.0 MG storage tanks are proposed for this site with the one 1.0 MG tank approved for construction at this time.

3. GVR Well #1: This well site is located approximately 1/2-mile north of the requested CC&N area. The well is constructed with a 16-inch casing that is 1,100 feet deep and equipped with a 700 Horsepower turbine pump that pumps 1,700 GPM into a 100' by 100' holding pond ("Pond #1"). A portable pump then pumps water from the pond using an above-ground pump line to deliver the water to the Aztec Ball Park and to two other holding ponds (Pond #2 and #3) located within the requested CC&N area. Water pumped from Pond #1 is delivered into the southern section of the Transmission Water Line and transported approximately 1/2-mile to the northern boundary of the requested CC&N area and is then connected to another above-ground pump line/portable pump that delivers water to Pond #2 and #3 located in the requested CC&N area.

4. GVR Well #2: This well is located approximately two miles north of the requested CC&N area and one mile west of the tank site. The well is constructed with a 16-inch casing to a depth of 1,100 feet. This well is currently capped and surrounded by 100 feet by 100 feet of chain link fencing.

Other Plant Facilities and Construction Activity

5. Well #4: This well is located approximately in the center of the requested CC&N area. The well is constructed with a 16-inch casing to a depth of 980 feet and is capped.

6. Well #3: This well is located approximately two miles southwest of Well #4 and is outside the requested CC&N area. The well is also constructed with a 16-inch casing to a depth of 980 feet and is capped.

7. Construction within the Requested CC&N Area: Heavy equipment has graded some topography in preparation for the construction of the subdivision and golf course. At the time of the inspection, there was no heavy equipment operating on site. Two holding ponds were constructed on site to store water pumped from GVR Well #1 for dust suppression, compaction and watering of palm trees.

8. Designer Homes: Two sets of designer homes have been constructed. The first set, consisting of two homes, is located approximately 1/2-mile north of the requested CC&N area and adjacent to the Aztec Ball Park. The second set, also

consisting of two homes, is located approximately 3/4-mile north of the requested CC&N area. All four homes are being served by hauled water and portable toilets.

The designer homes are maintained by "Reservationists", not sales people. Rhodes Homes advised Staff that as of February 2008, 473 total reservations had been placed. This is a decrease from the September 2006 amount of 750 total reservations that was reported in the first field inspection report. Each reservation requires a $2,000 deposit be paid to hold the property.

Summary

All water system construction activities have been issued ADEQ Certificates of Approval To Construct and are located outside the requested CC&N area.

No water system plant facilities have been installed or constructed within the requested CC&N area.

MEMORANDUM

TO: Blessing Chukwu
Executive Consultant III - Utilities Division

FROM: Crystal Brown CB
Public Utilities Analyst V – Utilities Division

DATE: March 13, 2008

RE: PERKINS MOUNTAIN UTILITY COMPANY AND PERKINS MOUNTAIN WATER COMPANY APPLICATIONS FOR NEW CERTIFICATES OF CONVENIENCE AND NECESSITY
DOCKET NOS. SW-20379A-05-0489 AND W-20380A-05-0490

Introduction

On July 7, 2005, Perkins Mountain Utility Company ("Perkins Utility") and Perkins Mountain Water Company ("Perkins Water") (collectively "Perkins Companies" or "Companies") filed applications with the Arizona Corporation Commission ("Commission") for Certificates of Convenience and Necessity ("CC&N") to provide public utility wastewater service and water service to communities in Mohave County, Arizona.

On November 30, 2007, the Perkins Companies filed an amendment to its applications. According to the filing, the stock of the Perkins Companies was purchased by Utilities, Inc. Utilities Inc. owns and operates wastewater and water companies in 17 states, including Arizona.

On December 21, 2007, the Perkins Companies filed revised financial information.

The applications indicate that no customers are currently receiving service in the requested CC&N area. At the end of five years, the Perkins Companies project that they will serve approximately 3,065 wastewater and water customers.

Staff's recommended wastewater rates are based on Perkins Utility's fifth-year projections. Staff's recommended projected revenue of $2,419,129 would generate operating income of $580,333 resulting in a 7.21 percent rate of return on a Staff adjusted original cost rate base ("OCRB") of $8,050,058.

Staff's recommended water rates are based on Perkins Water's fifth-year projections. Staff's recommended projected revenue of $2,183,026 would generate

operating income of $610,792 resulting in a 7.38 percent rate of return on a Staff adjusted OCRB of $8,272,134.

Financial Capability to Provide Requested Services

Staff executed a protective agreement under which Utilities Inc., the parent company of the Perkins Companies, provided confidential financial information. In general, Staff's analysis was based on the audited balance sheet and income statement for the years ended December 31, 2005 and December 31, 2006. Utilities Inc.'s external auditors issued an unqualified opinion concerning these financial statements. Based upon review of this information, Staff has determined that Utilities, Inc. has substantial assets and net income for the aforementioned years. Further, Staff has concluded that the Perkins Companies through their parent company, Utilities, Inc., have adequate financial capability to provide the requested services.

Projected Fair Value Rate Base ("FVRB")

Consistent with Commission rules, the Perkins Companies' filings included the required five-year projections for plant values, operating revenues, operating expenses, and number of customers. Projections and assumptions are necessary to establish a FVRB and initial rates because historical operating data does not exist. Since these are new CC&Ns, Staff evaluated the projected OCRBs as the FVRBs.

Projected Plant In Service

The Perkins Companies provided schedules showing the elements of the projected OCRB as shown on Schedules CSB-WW2 and CSB-W2, pages 1 and 2. Staff reviewed the projected plant in service at the end of the fifth year and, except for the land values, found them to be reasonable.

The Companies did not provide projections for the cost of their land and land rights accounts. The Companies stated in response to CSB 3-3, that "The developer, Rhodes Homes Arizona, L.L.C. will convey any real property . . . at no cost . . . Therefore the cost of the land to the water and sewer companies will be zero." This treatment is not consistent with the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA") which requires that any asset received by a utility at no cost to the utility should be debited to the appropriate plant account and credited to account No. 271 "Contributions in Aid of Construction ('CIAC')". The Companies stated that the land and land rights account balances in the fifth year are expected to be $350,000 and $65,000 for Perkins Utilities and Perkins Water, respectively. Accordingly, Staff reflected these amounts in the Perkins Companies projected plant in service schedules as shown on Schedules CSB-WW2 and CSB-W2, pages 1 and 2.

Projected Accumulated Depreciation

Staff reviewed the Perkins Companies' projected accumulated depreciation at the end of the fifth year and found them to be reasonable.

Advances In Aid of Construction ("AIAC")

The Perkins Companies' applications project that the net cumulative balance for AIAC will be $10,973,133 and $11,613,581 in year five for Perkins Utility and Perkins Water, respectively. As shown on Schedules CSB-WW2 and CSB-W2, page 1, Staff decreased AIAC by $2,566,279 for Perkins Utility and $2,703,437 for Perkins Water. As discussed in the "Capital Structure and Financial Soundness" section of this memorandum, Staff's adjustments reflect Staff's recommendation that the Perkins Companies should finance at least 50 percent of their plant with equity.

Contributions In Aid of Construction

The Perkins Companies' applications did not reflect CIAC in their rate base calculation. As shown on Schedules CSB-WW2 and CSB-W2, page 1, Staff increased the CIAC account by $350,000 for Perkins Utilities and $65,000 for Perkins Water to reflect the land contributed by the developer.

Customer Deposits

Staff increased the customer deposits balance in the fifth year by $114,553[1] for both Perkins Utility and Perkins Water to reflect the Companies' projected customer deposits balance at the end of the fifth year.

Projected Operating Income

The Perkins Companies provided projected revenues and expenses for five years. Staff's analysis, while taking into account all of the years presented, is concentrated on the fifth year of operation when profitability is expected. Staff reviewed the revenue and expense projections and found them to be reasonable. The projected income statements are shown on Schedules CSB-WW3 and CSB-W3.

Capital Structure and Financial Soundness

Capital structure is an indicator of financial soundness. Undercapitalized investor owned utilities may result in rate bases that are too small to generate enough revenue to pay for operating expenses and fund capital improvements without steep increases in customer rates. Consequently, Staff has determined that a financially sound utility

[1] Per response to CSB 3.2

company, on average, should have no more than 30 percent AIAC and/or CIAC in its capital structure. However, due to circumstances unique to this case, Staff has recommended, in a report filed on December 15, 2006, that the Perkins Companies have at least 50 percent equity in its capital structure.

Perkins Utility

At the end of the fifth year, Perkins Utility's capital structure consists of no debt, 63.93 percent AIAC/CIAC, and 36.07 percent equity. Staff recommends 0.00 percent debt, 50.00 percent AIAC/CIAC, and 50.00 percent equity as shown on Schedule CSB-WW4

Perkins Water

At the end of the fifth year, Perkins Water's capital structure consists of no debt, 64.93 percent AIAC/CIAC, and 35.07 percent equity. Staff recommends 0.00 percent debt, 50.00 percent AIAC/CIAC, and 50.00 percent equity as shown on Schedule CSB-W4.

Staff recommends that approval of the Perkins Companies' CC&Ns be made conditional upon the Companies obtaining Staff's recommended capital structure by the end of the fifth year of operation.

Rate Design

Schedules CSB-WW5 and W5 present a complete list of the Perkins Companies' proposed, and Staff's recommended rates and charges. The Companies' projected revenue is derived primarily from the residential customer class.

To promote efficient use of water, Staff has recommended an inverted three-tiered rate structure for the commodity charges. Perkins Water has submitted a three-tier rate design.

Staff added a 5/8-inch x 3/4-inch meter to provide Perkins Water with the ability to serve customers who may request that meter size. Perkins Water anticipates that residential customers will compose the majority of its total customers. Perkins Water proposes a 3/4-inch meter for the residential class and is designing and building its water system to meet the water usage demands for those customers. The water usage demand costs for a 3/4-inch meter are higher than those of a 5/8-inch x 3/4-inch meter. Therefore, to ensure that Perkins Water recovers the costs associated with designing and building its system to meet the demands of its largest customer class (i.e., the 3/4-inch meter residential customer), Staff set the 5/8-inch x 3/4-inch meter rate the same as that of the 3/4-inch meter.

Perkins Utility rates are flat monthly fees that vary by meter size as shown on Schedule CSB-WW5. Staff added a flat fee for the 5/8-inch x 3/4-inch meter to be consistent with Staff's addition of this meter size for Perkins Water.

Service Charges

Staff reviewed the Perkins Companies' proposed service charges and recommends adoption.

Recommendations

Staff recommends:

1. Staff recommends that approval of the Perkins Companies' CC&Ns be made conditional upon the Perkins Companies obtaining Staff's recommended capital structure by the end of the fifth year of operation.

2. Approval of the Staff recommended rates and charges as shown in Schedules CSB-WW5 and CSB-W5. In addition to collection of its regular rates, the Perkins Companies may collect from their customers a proportionate share of any privilege, sales or use tax.

3. The Perkins Companies be ordered to notify the Commission, through Docket Control, within 15 days of providing services to their first customers.

4. The Perkins Companies be required to file rate applications no later than six months following the fifth anniversary of the dates the Companies begin providing service to their first customers.

5. The Perkins Companies be required to maintain their books and records in accordance with the National Association of Regulatory Utility Commissioners Uniform System of Accounts for Water and Wastewater Utilities.

6. The Perkins Companies be required to use the depreciation rates recommended by Staff for water and wastewater utilities as recommended in the Engineering Report.

Perkins Mountain Utility
Docket No. SW-20379A-05-0489
Projected Fifth Year of Operation

Schedule CSB-WW1
Page 1 of 2

PROJECTED REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY FAIR VALUE	(C) STAFF ORIGINAL COST	(D) STAFF FAIR VALUE
1	Adjusted Rate Base	$ 5,598,332	$ 5,598,332	$ 8,050,058	$ 8,050,058
2	Adjusted Operating Income (Loss)	$ 580,333	$ 580,333	$ 580,333	$ 580,333
3	Current Rate of Return (L2 / L1)	10.37%	10.37%	7.21%	7.21%
4	Required Rate of Return	10.37%	10.37%	7.21%	7.21%
5	Required Operating Income (L1 * L4)	$ 580,333	$ 580,333	$ 580,333	$ 580,333
6	Operating Income Deficiency (L5 - L2)	$ -	$ -	$ 0	$ 0
7	Gross Revenue Conversion Factor	1.6286	1.6286	1.6286	1.6286
8	Required Revenue Increase (L7 * L6)	$ -	$ -	$ 0	$ 0
9	Fifth Year Revenue	$ 2,419,129	$ 2,419,129	$ 2,419,129	$ 2,419,129
10	Proposed Fifth Year Revenue (L8 + L9)	$ 2,419,129	$ 2,419,129	$ 2,419,129	$ 2,419,129
11	Required Increase in Revenue (%)	0.00%	0.00%	0.00%	0.00%

PROJECTED GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
	Calculation of Gross Revenue Conversion Factor:				
1	Revenue	100.0000%			
2	Uncollecible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Tax Rate (Line 17) + Property Tax Factor (Line 22)	38.5989%			
5	Subtotal (L3 - L4)	61.4011%			
6	**Revenue Conversion Factor (L1 / L5)**	1.628635			
	Calculation of Uncollectible Factor:				
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	38.5989%			
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
	Calculation of Effective Tax Rate:				
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 44)	34.0000%			
16	Effective Federal Income Tax Rate (L14 x L15)	31.6309%			
17	Combined Federal and State Income Tax Rate (L13 +L16)	38.5989%			
	Calculation of Effective Property Tax Factor				
18	Unity	100.0000%			
19	Combined Federal and State Tax Rate (Line 17)	38.5989%			
20	One Minus Combined Income Tax Rate (L18 - L19)	61.4011%			
21	Property Tax Factor (All-16, L24)	0.0000%			
22	Effective Property Tax Factor (L 21 * L 22)	0.0000%			
23	Combined Federal and State Tax and Property Tax Rate (L17+L22)		38.5989%		
24	Required Operating Income	$ 580,333			
25	Adjusted Fifth Year Operating Income (Loss)	$ 580,333			
26	Required Increase in Operating Income (L24 - L25)		$ 0		
27	Income Taxes on Recommended Revenue (Col. (D), L52)	$ 364,817			
28	Income Taxes on Fifth Year, Staff Adjusted Revenue (Col. (B), L52)	$ 364,817			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		$ 0		
30	Recommended Revenue Requirement	$ 2,419,129			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	$ -			
33	Adjusted Fifth Year Uncollectible Expense	$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32 - L33)		$ -		
35	Property Tax with Recommended Revenue	$ 69,200			
36	Property Tax on Fifth Year, Staff Adjusted Revenue	$ 69,200			
37	Increasee in Property Tax Due to Increase in Revenue		$ -		
38	Total Required Increase in Revenue (L26 + L30 + L34+L37)		$ 0		
	Calculation of Income Tax:	Fifth Year Staff as Adjusted		STAFF Recommended	
39	Revenue	$ 2,419,129	$ -	$ 2,419,129	
40	Operating Expenses Excluding Income Taxes	$ 1,473,979	$ (0)	$ 1,473,979	
41	Synchronized Interest (L47)	$ -		$ -	
42	Arizona Taxable Income (L36 - L317- L38)	$ 945,150		$ 945,150	
43	Arizona State Income Tax Rate	6.9680%		6.9680%	
44	Arizona Income Tax (L39 x L40)		$ 65,858		$ 65,858
45	Federal Taxable Income (L33 - L35)	$ 879,292		$ 879,292	
46	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$ 7,500		$ 7,500	
47	Federal Tax on Second Income Bracket ($50,001 - $75,000) @ 25%	$ 6,250		$ 6,250	
48	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$ 8,500		$ 8,500	
49	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ 91,650		$ 91,650	
50	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$ 185,059		$ 185,059	
51	Total Federal Income Tax		$ 298,959		$ 298,959
52	Combined Federal and State Income Tax (L35 + L42)		$ 364,817		$ 364,817
53	Applicable Federal Income Tax Rate [Col. (D), L42 - Col. (B), L42] / [Col. (C), L36 - Col. (A), L36]				34.0000%
	Calculation of Interest Synchronization:				
54	Rate Base	$ 7,066,224			
55	Weighted Average Cost of Debt	0.00%			
56	Synchronized Interest (L45 X L46)	$ -			

Perkins Mountain Utility
Docket No. SW-20379A-05-0489
Projected Fifth Year of Operation

Schedule CSB - WW2
Page 1 of 7

PROJECTED ORIGINAL COST RATE BASE

	Per Company Year 1	Per Company Year 2	Per Company Year 3	Per Company Year 4	Per Company Year 5	Staff Adjustments		Staff Adjusted
Plant in Service	$ 4,597,075	$ 7,761,475	$ 9,379,800 0	$ 16,427,875	$18,543,950	$ 350,000		$18,893,950
Less:								
Accum. Depreciation	117,010	398,353	744,501	1,267,048	1,972,485	0	A	$1,972,485
Net Plant	$4,480,065	$7,363,122	$8,635,299	$15,160,827	$16,571,465	$350,000		$16,921,465
Less:								
Advances in Aid of Constr (net of refunds)	$ 4,278,159	$ 7,281,964	$ 8,803,603	$ 11,078,649	$10,973,133	$ (2,566,279)		$ 8,406,854
Service Line Adv (net of refunds)	0	0	0	0	0	0		0
Net Advances	$4,278,159	$7,281,964	$8,803,603	$11,078,649	$10,973,133	($2,566,279)		$8,406,854
Contributions In Aid of Construction (CIAC)								
Hook-up Fees	$ -	$ -	$ -	$ -	$ -	$ -		$0
Other CIAC	$ -	$ -	$ -	$ -	$ -	$ 350,000		$ 350,000
Total CIAC	$ -	$ -	$ -	$ -	$ -	$ 350,000		$ 350,000
Less:								
Customer Deposits	$0	$0	$0	$0	$0	114,553		$114,553
Total Deductions	$4,278,159	$7,281,964	$8,803,603	$11,078,649	$10,973,133	($2,101,726)		$8,871,407
Plus:								
Cash Working Capital	$0	$0	$0	$0	$0	$0		$0
Materials and Supplies Inventory	0	0	0	0	0	0		0
Prepayments	0	0	0	0	0	0		0
Total Additions	$0	$0	$0	$0	$0	$0		$0
Rate Base	**$201,906**	**$81,158**	**($168,304)**	**$4,082,178**	**$5,598,332**	**$2,451,726**		**$8,050,058**

PROJECTED DETAIL OF UTILITY PLANT

Acct. No.	Description	Per Company Year 1	Per Company Year 2	Per Company Year 3	Per Company Year 4	Per Company Year 5	Staff Adjustments	Ref	Staff Adjusted
351	Organization	$ -	$ -	$ -	$ -	$ -	$ -		$ -
352	Franchises	-	-	-	-	-			-
353	Land & Land Rights	-	-	-	-	-	350,000		350,000
354	Structures & Improvements	-	-	-	250,000	250,000	-		250,000
355	Power Generation Equipment	50,000	100,000	100,000	200,000	300,000	-		300,000
360	Collection Sewers - Force	-	-	-	-	-	-		-
361	Collection Sewers - Gravity	1,228,225	3,024,925	4,473,150	6,058,175	7,714,450	-		7,714,450
363	Services to Customers	69,100	178,300	331,800	514,100	711,400	-		711,400
364	Flow Measuring Devices	-	-	-	-	-	-		-
365	Flow Measuring Installations	-	-	-	-	-	-		-
366	Reuse Services	2,000	2,000	2,000	2,000	2,000	-		2,000
367	Reuse Meters & Installation	4,000	4,000	4,000	4,000	4,000	-		4,000
370	Receiving Wells	-	-	-	-	-	-		-
371	Pumping Equipment	650,000	650,000	650,000	1,050,000	1,050,000	-		1,050,000
374	Reuse Distribution Reserviors	-	-	-	-	-	-		-
375	Reuse Transmission & Distribution Mains	550,000	806,000	806,000	934,250	1,062,500	-		1,062,500
380	Treatment & Disposal Equipment	1,950,000	2,900,000	2,900,000	7,025,000	7,025,000	-		7,025,000
381	Plant Sewers	-	-	-	25,000	50,000	-		50,000
382	Outfall Sewer Lines	-	-	-	250,000	250,000	-		250,000
390.0	Office Furniture & Fixtures, General	30,000	30,000	30,000	30,000	30,000	-		30,000
390.1	Office Furniture & Fixtures, Computing	6,250	6,250	6,250	6,250	12,500	-		12,500
391	Transportation Equipment	42,000	42,000	56,000	56,000	56,000	-		56,000
392	Stores Equipment	-	-	-	-	-	-		-
393	Tools Shop & Garage Equipment	10,000	12,500	15,000	17,500	20,000	-		20,000
394	Laboratory Equipment	5,000	5,000	5,000	5,000	5,000	-		5,000
395	Power Operated Equipment	-	-	-	-	-	-		-
396	Communication Equipment	500	500	600	600	1,100	-		1,100
397	Miscellaneous General Equipment	-	-	-	-	-	-		-
		-	-	-	-	-	-		-
	TOTALS	$ 4,597,075	$ 7,761,475	$ 9,379,800	$16,427,875	$ 18,543,950	$350,000		$ 18,893,950

PROJECTED PLANT AND ACCUMULATED DEPRECIATION

	Year 1 Beginning Original Cost	Year 1 Beginning Accumulated Depreciation	Depreciation Rates	Year 1 Additions	Year 1 Retirements	Year 1 Depr. Expense	Year 1 Ending Total Cost	Year 1 Ending Accumulated Depreciation
351 Organization Cost	$0	$0	0.00%	$0	$0	$0	$0	$0
352 Franchise Cost	0	0	0.00%	0	0	0	0	0
353 Land & Land Rights	0	0	0.00%	200,000	0	0	200,000	0
354 Structures & Improvements	0	0	3.33%	0	0	0	0	0
355 Power Generation Equipment	0	0	5.00%	50,000	0	1,250	50,000	1,250
360 Collection Sewers, Force	0	0	2.00%	0	0	0	0	0
361 Collection Sewers, Gravity	0	0	2.00%	1,228,225	0	12,282	1,228,225	12,282
363 Services	0	0	2.00%	69,100	0	691	69,100	691
364 Flow Measuring Devices	0	0	10.00%	0	0	0	0	0
365 Flow Measuring Installations	0	0	10.00%	0	0	0	0	0
366 Reuse Services	0	0	2.00%	2,000	0	20	2,000	20
367 Reuse Meters & Installation	0	0	8.33%	4,000	0	167	4,000	167
370 Receiving Wells	0	0	3.33%	0	0	0	0	0
371 Effluent Pumping Equipment	0	0	12.50%	650,000	0	40,625	650,000	40,625
374 Reuse Distribution Wells	0	0	2.50%	0	0	0	0	0
375 Reuse Transmission & Distr Mains	0	0	2.50%	550,000	0	6,875	550,000	6,875
380 Treatment & Disposal Equip	0	0	5.00%	1,950,000	0	48,750	1,950,000	48,750
381 Plant Sewers	0	0	5.00%	0	0	0	0	0
382 Outfall Sewer Lines	0	0	3.33%	0	0	0	0	0
390.0 Office Furniture & Fixt, General	0	0	6.67%	30,000	0	1,001	30,000	1,001
390.1 Office Furniture & Fixt, Computers	0	0	20.00%	6,250	0	625	6,250	625
391 Transportation Equip	0	0	20.00%	42,000	0	4,200	42,000	4,200
392 Stores Equipment	0	0	4.00%	0	0	0	0	0
393 Tools, Shop, & Garage Equip	0	0	5.00%	10,000	0	250	10,000	250
394 Laboratory Equipment	0	0	10.00%	5,000	0	250	5,000	250
395 Power Operated Equip	0	0	5.00%	0	0	0	0	0
396 Communications Equipment	0	0	10.00%	500	0	25	500	25
397 Miscellaneous Equipment	0	0	10.00%	0	0	0	0	0
Year 1 Totals	$0	$0		$4,797,075	$0	$117,010	$4,797,075	$117,010

Perkins Mountain Utility
Wastewater
Docket No. SW-20379A-05-0489
Projected Fifth Year of Operation

PROJECTED PLANT AND ACCUMULATED DEPRECIATION

	Year 2 Additions Cost	Year 2 Retirements Cost	Year 2 Retirements Depreciation	Fully Depreciated	Year 2 Depr. Expense	Year 2 Total Cost	Year 2 Accumulated Depreciation	Year 2 Net Book Value
351 Organization Cost	$0	$0	$0	$0	$0	$0	$0	$0
352 Franchise Cost	$0	$0	$0	$0	$0	$0	$0	$0
353 Land & Land Rights	$150,000	$0	$0	$0	$0	$350,000	$0	$350,000
354 Structures & Improvements	$0	$0	$0	$0	$0	$0	$0	$0
355 Power Generation Equipment	50,000	$0	$0	$0	$3,750	$100,000	$5,000	$95,000
360 Collection Sewers, Force	0	$0	$0	$0	$0	$0	$0	$0
361 Collection Sewers, Gravity	1,796,700	$0	$0	$0	$42,532	$3,024,925	$54,814	$2,970,111
363 Services	109,200	$0	$0	$0	$2,474	$178,300	$3,165	$175,135
364 Flow Measuring Devices	0	$0	$0	$0	$0	$0	$0	$0
365 Flow Measuring Installations	0	$0	$0	$0	$0	$0	$0	$0
366 Reuse Services	0	$0	$0	$0	$40	$2,000	$60	$1,940
367 Reuse Meters & Installation	0	$0	$0	$0	$333	$4,000	$500	$3,500
370 Receiving Wells	0	$0	$0	$0	$0	$0	$0	$0
371 Effluent Pumping Equipment	0	$0	$0	$0	$81,250	$650,000	$121,875	$528,125
374 Reuse Distribution Wells	0	$0	$0	$0	$0	$0	$0	$0
375 Reuse Transmission & Distr Mains	256,000	$0	$0	$0	$16,950	$806,000	$23,825	$782,175
380 Treatment & Disposal Equip	950,000	$0	$0	$0	$121,250	$2,900,000	$170,000	$2,730,000
381 Plant Sewers	0	$0	$0	$0	$0	$0	$0	$0
382 Outfall Sewer Lines	0	$0	$0	$0	$0	$0	$0	$0
390.0 Office Furniture & Fixt, General	0	$0	$0	$0	$2,001	$30,000	$3,002	$26,999
390.1 Office Furniture & Fixt, Computers	0	$0	$0	$0	$1,250	$6,250	$1,875	$4,375
391 Transportation Equip	0	$0	$0	$0	$8,400	$42,000	$12,600	$29,400
392 Stores Equipment	0	$0	$0	$0	$0	$0	$0	$0
393 Tools, Shop, & Garage Equip	2,500	$0	$0	$0	$563	$12,500	$813	$11,688
394 Laboratory Equipment	0	$0	$0	$0	$500	$5,000	$750	$4,250
395 Power Operated Equip	0	$0	$0	$0	$0	$0	$0	$0
396 Communications Equipment	0	$0	$0	$0	$50	$500	$75	$425
397 Miscellaneous Equipment	$0	$0	$0	$0	$0	$0	$0	$0
Year 2 Totals	$3,314,400	$0	$0	$0	$281,342	$8,111,475	$398,353	$7,713,122

Perkins Mountain Utility
Docket No. SW-20379A-05-0489
Wastewater
Projected Fifth Year of Operation

PROJECTED PLANT AND ACCUMULATED DEPRECIATION

	Year 3 Additions Cost	Year 3 Retirements Cost	Year 3 Retirements Depreciation	Fully Depreciated	Year 3 Depr. Expense	Year 3 Total Cost	Year 3 Accumulated Depreciation	Year 3 Net Book Value
351 Organization Cost	$0	$0	$0	$0	$0	$0	$0	$0
352 Franchise Cost	$0	$0	$0	$0	$0	$0	$0	$0
353 Land & Land Rights	$0	$0	$0	$0	$0	$350,000	$0	$350,000
354 Structures & Improvements	$0	$0	$0	$0	$0	$0	$0	$0
355 Power Generation Equipment	$0	$0	$0	$0	$5,000	$100,000	$10,000	$90,000
360 Collection Sewers, Force	$0	$0	$0	$0	$0	$0	$0	$0
361 Collection Sewers, Gravity	$1,448,225	$0	$0	$0	$74,981	$4,473,150	$129,795	$4,343,356
363 Services	$153,500	$0	$0	$0	$5,101	$331,800	$8,266	$323,534
364 Flow Measuring Devices	$0	$0	$0	$0	$0	$0	$0	$0
365 Flow Measuring Installations	$0	$0	$0	$0	$0	$0	$0	$0
366 Reuse Services	$0	$0	$0	$0	$40	$2,000	$100	$1,900
367 Reuse Meters & Installation	$0	$0	$0	$0	$333	$4,000	$833	$3,167
370 Receiving Wells	$0	$0	$0	$0	$0	$0	$0	$0
371 Effluent Pumping Equipment	$0	$0	$0	$0	$81,250	$650,000	$203,125	$446,875
374 Reuse Distribution Wells	$0	$0	$0	$0	$0	$0	$0	$0
375 Reuse Transmission & Distr Mains	$0	$0	$0	$0	$20,150	$806,000	$43,975	$762,025
380 Treatment & Disposal Equip	$0	$0	$0	$0	$145,000	$2,900,000	$315,000	$2,585,000
381 Plant Sewers	$0	$0	$0	$0	$0	$0	$0	$0
382 Outfall Sewer Lines	$0	$0	$0	$0	$0	$0	$0	$0
390.0 Office Furniture & Fixt, General	$0	$0	$0	$0	$2,001	$30,000	$5,003	$24,998
390.1 Office Furniture & Fixt, Computers	$0	$0	$0	$0	$1,250	$6,250	$3,125	$3,125
391 Transportation Equip	$14,000	$0	$0	$0	$9,800	$56,000	$22,400	$33,600
392 Stores Equipment	$0	$0	$0	$0	$0	$0	$0	$0
393 Tools, Shop, & Garage Equip	$2,500	$0	$0	$0	$688	$15,000	$1,500	$13,500
394 Laboratory Equipment	$0	$0	$0	$0	$500	$5,000	$1,250	$3,750
395 Power Operated Equip	$0	$0	$0	$0	$0	$0	$0	$0
396 Communications Equipment	$100	$0	$0	$0	$55	$600	$130	$470
397 Miscellaneous Equipment	$0	$0	$0	$0	$0	$0	$0	$0
Year 3 Totals	$1,618,325	$0	$0	$0	$346,148	$9,729,800	$744,501	$8,985,299

Perkins Mountain Utility
Wastewater
Docket No. SW-20379A-05-0489
Projected Fifth Year of Operation

PROJECTED PLANT AND ACCUMULATED DEPRECIATION

		Year 4 Additions	Year 4 Retirements		Fully	Year 4	Year 4	Year 4 Accumulated	Year 4 Net
		Cost	Cost	Depreciation	Depreciated	Depr. Expense	Total Cost	Depreciation	Book Value
351	Organization Cost	$0	$0	$0	$0	$0	$0	$0	$0
352	Franchise Cost	$0	$0	$0	$0	$0	$0	$0	$0
353	Land & Land Rights	$0	$0	$0	$0	$0	$350,000	$0	$350,000
354	Structures & Improvements	$250,000	$0	$0	$0	$4,163	$250,000	$4,163	$245,838
355	Power Generation Equipment	$100,000	$0	$0	$0	$7,500	$200,000	$17,500	$182,500
360	Collection Sewers, Force	$0	$0	$0	$0	$0	$0	$0	$0
361	Collection Sewers, Gravity	$1,585,025	$0	$0	$0	$105,313	$6,058,175	$235,108	$5,823,067
363	Services	$182,300	$0	$0	$0	$8,459	$514,100	$16,725	$497,375
364	Flow Measuring Devices	$0	$0	$0	$0	$0	$0	$0	$0
365	Flow Measuring Installations	$0	$0	$0	$0	$0	$0	$0	$0
366	Reuse Services	$0	$0	$0	$0	$40	$2,000	$140	$1,860
367	Reuse Meters & Installation	$0	$0	$0	$0	$333	$4,000	$1,166	$2,834
370	Receiving Wells	$0	$0	$0	$0	$0	$0	$0	$0
371	Effluent Pumping Equipment	$400,000	$0	$0	$0	$106,250	$1,050,000	$309,375	$740,625
374	Reuse Distribution Wells	$0	$0	$0	$0	$0	$0	$0	$0
375	Reuse Transmission & Distr Mains	$128,250	$0	$0	$0	$21,753	$934,250	$65,728	$868,522
380	Treatment & Disposal Equip	$4,125,000	$0	$0	$0	$248,125	$7,025,000	$563,125	$6,461,875
381	Plant Sewers	$25,000	$0	$0	$0	$625	$25,000	$625	$24,375
382	Outfall Sewer Lines	$250,000	$0	$0	$0	$4,163	$250,000	$4,163	$245,838
390.0	Office Furniture & Fixt, General	$0	$0	$0	$0	$2,001	$30,000	$7,004	$22,997
390.1	Office Furniture & Fixt, Computers	$0	$0	$0	$0	$1,250	$6,250	$4,375	$1,875
391	Transportation Equip	$0	$0	$0	$0	$11,200	$56,000	$33,600	$22,400
392	Stores Equipment	$0	$0	$0	$0	$0	$0	$0	$0
393	Tools, Shop, & Garage Equip	$2,500	$0	$0	$0	$813	$17,500	$2,313	$15,188
394	Laboratory Equipment	$0	$0	$0	$0	$500	$5,000	$1,750	$3,250
395	Power Operated Equip	$0	$0	$0	$0	$0	$0	$0	$0
396	Communications Equipment	$0	$0	$0	$0	$60	$600	$190	$410
397	Miscellaneous Equipment	$0	$0	$0	$0	$0	$0	$0	$0
	Year 4 Totals	$7,048,075	$0	$0	$0	$522,547	$16,777,875	$1,267,048	$15,510,827

Perkins Mountain Utility
Wastewater
Docket No. SW-20379A-05-0489
Projected Fifth Year of Operation

PROJECTED PLANT AND ACCUMULATED DEPRECIATION

	2005 Additions Cost	2005 Retirements Cost	2005 Retirements Depreciation	Fully Depreciated	2005 Depr. Expense	2005 Total Cost	2005 Accumulated Depreciation	2005 Net Book Value
351 Organization Cost	$0	$0	$0	$0	$0	$0	$0	$0
352 Franchise Cost	$0	$0	$0	$0	$0	$0	$0	$0
353 Land & Land Rights	$0	$0	$0	$0	$0	$350,000	$0	$350,000
354 Structures & Improvements	$0	$0	$0	$0	$8,325	$250,000	$12,488	$237,513
355 Power Generation Equipment	$100,000	$0	$0	$0	$12,500	$300,000	$30,000	$270,000
360 Collection Sewers, Force	$1,656,275	$0	$0	$0	$16,563	$1,656,275	$16,563	$1,639,712
361 Collection Sewers, Gravity	$0	$0	$0	$0	$121,164	$6,058,175	$356,271	$5,701,904
363 Services	$197,300	$0	$0	$0	$12,255	$711,400	$28,980	$682,420
364 Flow Measuring Devices	$0	$0	$0	$0	$0	$0	$0	$0
365 Flow Measuring Installations	$0	$0	$0	$0	$0	$0	$0	$0
366 Reuse Services	$0	$0	$0	$0	$40	$2,000	$180	$1,820
367 Reuse Meters & Installation	$0	$0	$0	$0	$333	$4,000	$1,499	$2,501
370 Receiving Wells	$0	$0	$0	$0	$0	$0	$0	$0
371 Effluent Pumping Equipment	$0	$0	$0	$0	$131,250	$1,050,000	$440,625	$609,375
374 Reuse Distribution Wells	$0	$0	$0	$0	$0	$0	$0	$0
375 Reuse Transmission & Distr Mains	$128,250	$0	$0	$0	$24,959	$1,062,500	$90,688	$971,813
380 Treatment & Disposal Equip	$0	$0	$0	$0	$351,250	$7,025,000	$914,375	$6,110,625
381 Plant Sewers	$25,000	$0	$0	$0	$1,875	$50,000	$2,500	$47,500
382 Outfall Sewer Lines	$0	$0	$0	$0	$8,325	$250,000	$12,488	$237,513
390.0 Office Furniture & Fixt, General	$0	$0	$0	$0	$2,001	$30,000	$9,005	$20,996
390.1 Office Furniture & Fixt, Computers	$6,250	$0	$0	$0	$1,875	$12,500	$6,250	$6,250
391 Transportation Equip	$0	$0	$0	$0	$11,200	$56,000	$44,800	$11,200
392 Stores Equipment	$0	$0	$0	$0	$0	$0	$0	$0
393 Tools, Shop, & Garage Equip	$2,500	$0	$0	$0	$938	$20,000	$3,250	$16,750
394 Laboratory Equipment	$0	$0	$0	$0	$500	$5,000	$2,250	$2,750
395 Power Operated Equip	$0	$0	$0	$0	$0	$0	$0	$0
396 Communications Equipment	$500	$0	$0	$0	$85	$1,100	$275	$825
397 Miscellaneous Equipment	$0	$0	$0	$0	$0	$0	$0	$0
Year 5 Totals	$2,116,075	$0	$0	$0	$705,437	$18,893,950	$1,972,485	$16,921,465

Perkins Mountain Utility
Docket No. SW-20379A-05-0489
Projected Fifth Year of Operation

PROJECTED OPERATING INCOME STATEMENT - FIFTH YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] FIFTH YEAR COMPANY AS FILED	[B] STAFF FIFTH YEAR ADJUSTMENTS	[C] STAFF FIFTH YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
	REVENUES:					
1	Flat Rate Revenue	$ 2,419,129	$ -	$2,419,129	$ 0	$ 2,419,129
2	Effluent Revenue	$ -	$ -	$ -		$ -
3	Other Operating Revenue	$ -	$ -	$ -	$ -	$ -
4	Total Operating Revenues	$ 2,419,129	$ -	$2,419,129	$ 0	$ 2,419,129
5						
6	*OPERATING EXPENSES:*					
7	Salaries and Wages	$ 173,139	$ -	$ 173,139		$ 173,139
8	Employee Pensions and Benefits	$ 41,553	$ -	$ 41,553		$ 41,553
9	Sludge Removal Expense	$ 7,738	$ -	$ 7,738		$ 7,738
10	Purchased Power	$ 257,168	$ -	$ 257,168		$ 257,168
11	Fuel for Power Production	$ 563	$ -	$ 563		$ 563
12	Chemicals	$ 38,690	$ -	$ 38,690		$ 38,690
13	Materials and Supplies	$ 5,500	$ -	$ 5,500		$ 5,500
14	Contract Services, Engineering	$ 2,251	$ -	$ 2,251		$ 2,251
15	Contract Services, Accounting	$ 5,628	$ -	$ 5,628		$ 5,628
16	Contract Services, Legal	$ 5,628	$ -	$ 5,628		$ 5,628
17	Contract Services, Management	$ 11,255	$ -	$ 11,255		$ 11,255
18	Contract Services, Testing	$ 4,502	$ -	$ 4,502		$ 4,502
19	Contract Services, Administrative	$ 33,765	$ -	$ 33,765		$ 33,765
20	Contract Services, Billing	$ 30,846	$ -	$ 30,846		$ 30,846
21	Rental of Building/Property	$ 13,506	$ -	$ 13,506		$ 13,506
22	Rental of Equipment	$ 1,126	$ -	$ 1,126		$ 1,126
23	Transportation Expense	$ 22,454	$ -	$ 22,454		$ 22,454
24	Insurance, Vehicles	$ 4,491	$ -	$ 4,491		$ 4,491
25	Insurance, General Liability	$ 3,377	$ -	$ 3,377		$ 3,377
26	Insurance, Workman's Comp	$ 3,377	$ -	$ 3,377		$ 3,377
27	Bad Debt Expense	$ 12,096	$ -	$ 12,096		$ 12,096
28	Miscellaneous Expense	$ 3,377	$ -	$ 3,377		$ 3,377
29	Deprec net of Amort of CIAC	$ 705,437	$ -	$ 705,437		$ 705,437
30	Property Taxes	$ 69,200	$ (0)	$ 69,200	$ -	$ 69,200
31	Payroll Taxes	$ 17,314	$ -	$ 17,314		$ 17,314
32	Income Taxes	$ 364,817	$ 0	$ 364,817	$ 0	$ 364,817
33	Rounding	$ (2)	$ -	$ (2)		$ (2)
34						
35						
36	Total Operating Expenses	$ 1,838,796	$ 0	$1,838,796	$ 0	$ 1,838,796
37	Operating Income (Loss)	$ 580,333	$ (0)	$ 580,333	$ (0)	$ 580,333

PROJECTED STATEMENT OF OPERATING INCOME

	Per Company Year 1	Per Company Year 2	Per Company Year 3	Per Company Year 4	Per Company Year 5	Staff Adjustments	Staff Adjusted
Revenues:							
Flat Rate Revenues	$ 57,347	$ 403,537	$ 895,093	$ 1,590,133	$ 2,419,129	$ -	$ 2,419,129
Establishment Charges	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other Operating Revenue	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Operating Revenue	$ 57,347	$ 403,537	$ 895,093	$ 1,590,133	$ 2,419,129	$ -	$ 2,419,129
Operating Expenses:							
Salaries and Wages	$ 60,500	$ 125,840	$ 160,077	$ 166,480	$ 173,139	$ -	$ 173,139
Employee Pensions and Benefits	$ 14,520	$ 30,202	$ 38,418	$ 39,955	$ 41,553	$ -	$ 41,553
Sludge Removal Expense	$ 104	$ 959	$ 2,578	$ 4,931	$ 7,738	$ -	$ 7,738
Purchased Power	$ 11,656	$ 62,274	$ 108,824	$ 176,463	$ 257,168	$ -	$ 257,168
Fuel for Power Production	$ 250	$ 515	$ 530	$ 546	$ 563	$ -	$ 563
Chemicals	$ 518	$ 4,795	$ 12,891	$ 24,654	$ 38,690	$ -	$ 38,690
Materials and Supplies	$ 2,000	$ 4,000	$ 4,500	$ 5,000	$ 5,500	$ -	$ 5,500
Contract Services, Engineering	$ 1,000	$ 2,060	$ 2,122	$ 2,185	$ 2,251	$ -	$ 2,251
Contract Services, Accounting	$ 2,500	$ 5,150	$ 5,305	$ 5,464	$ 5,628	$ -	$ 5,628
Contract Services, Legal	$ 2,500	$ 5,150	$ 5,305	$ 5,464	$ 5,628	$ -	$ 5,628
Contract Services, Management	$ 5,000	$ 10,300	$ 10,609	$ 10,927	$ 11,255	$ -	$ 11,255
Contract Services, Testing	$ 2,000	$ 4,120	$ 4,244	$ 4,371	$ 4,502	$ -	$ 4,502
Contract Services, Administrative	$ 15,000	$ 30,900	$ 31,827	$ 32,782	$ 33,765	$ -	$ 33,765
Contract Services, Billing	$ 456	$ 4,146	$ 10,698	$ 19,908	$ 30,846	$ -	$ 30,846
Rental of Building/Property	$ 6,000	$ 12,360	$ 12,731	$ 13,113	$ 13,506	$ -	$ 13,506
Rental of Equipment	$ 500	$ 1,030	$ 1,061	$ 1,093	$ 1,126	$ -	$ 1,126
Transportation Expense	$ 7,500	$ 15,450	$ 21,165	$ 21,800	$ 22,454	$ -	$ 22,454
Insurance, Vehicles	$ 1,500	$ 3,090	$ 4,233	$ 4,360	$ 4,491	$ -	$ 4,491
Insurance, General Liability	$ 1,500	$ 3,090	$ 3,183	$ 3,278	$ 3,377	$ -	$ 3,377
Insurance, Workman's Comp	$ 1,500	$ 3,090	$ 3,183	$ 3,278	$ 3,377	$ -	$ 3,377
Bad Debt Expense	$ 287	$ 2,018	$ 4,475	$ 7,951	$ 12,096	$ -	$ 12,096
Miscellaneous Expense	$ 1,500	$ 3,090	$ 3,183	$ 3,278	$ 3,377	$ -	$ 3,377
Depreciation net of Amortization of CIAC	$ 117,010	$ 281,342	$ 346,148	$ 522,547	$ 705,437	$ -	$ 705,437
Property Taxes	$ 3,235	$ 10,218	$ 21,218	$ 40,822	$ 69,200	$ (0)	$ 69,200
Payroll Taxes	$ 6,050	$ 12,584	$ 16,008	$ 16,648	$ 17,314	$ -	$ 17,314
Income Taxes	$ 50	$ 50	$ 13,310	$ 174,789	$ 364,817	$ 0	$ 364,817
Rounding	$ -	$ (1)	$ (1)	$ -	$ (2)	$ -	$ (2)
Total Operating Expenses	$ 264,636	$ 637,822	$ 847,825	$ 1,312,087	$ 1,838,796	$ 0	$ 1,838,796
OPERATING INCOME/(LOSS)	**$ (207,289)**	**$ (234,285)**	**$ 47,268**	**$ 278,046**	**$ 580,333**	**$ (0)**	**$ 580,333**
Other Income/(Expense):							
419 Interest and Dividend Income	$ -	$ -	$ -	$ -	$ -	$ -	$ -
421 Non-Utility Income	$ -	$ -	$ -	$ -	$ -	$ -	$ -
427 Interest Expense	$ -	$ -	$ -	$ -	$ -	$ -	$ -
4XX Reserve/Replacement Fund Deposit	$ -	$ -	$ -	$ -	$ -	$ -	$ -
426 Miscellaneous Non-Utility Expense	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Other Income/(Expense)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
NET INCOME/(LOSS)	**$ (207,289)**	**$ (234,285)**	**$ 47,268**	**$ 278,046**	**$ 580,333**	**$ (0)**	**$ 580,333**

PROJECTED PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Company Projected 3rd Year Revenue	$ 895,093	$ 895,093
2	Company Projected 4th Year Revenue	$ 1,590,133	$ 1,590,133
3	Company Projected 5th Year Revenue	$ 2,419,129	$ 2,419,129
4	Not Used	-	-
5	Subtotal	4,904,355	4,904,355
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	1,634,785	1,634,785
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	3,269,570	3,269,570
10	Plus: 10% of CWIP	40,000	40,000
11	Less: Net Book Value of Licensed Vehicles	11,200	11,200
12	Full Cash Value (Line 9 + Line 10 - Line 11)	3,298,370	3,298,370
13	Assessment Ratio	20.00%	20.00%
14	Assessment Value (Line 12 * Line 13)	659,674	659,674
15	Composite Property Tax Rate - Statewide Rate	10.4900%	10.490000%
16	Staff Fifth Year Adjusted Property Tax Expense (Line 14 * Line 15)	69,200	
17	Company Proposed Property Tax	69,200	
18	Staff Test Year Adjustment (Line 16 - Line 17)	(0)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		69,200
20	Staff Fifth Year Adjusted Property Tax Expense (Line 16)		69,200
21	Increase in Property Tax Due to Increase in Revenue Requirement		-
22	Increase in Property Tax Due to Increase in Revenue Requirement (Line 21)		-
23	Increase in Revenue Requirement		1
24	Increase in Property Tax Per Dollar Increase in Revenue (Line 22 / Line 23)		0.000000%

Perkins Mountain Utility
Docket No. SW-20379A-05-0489
Projected Fifth Year of Operation

Schedule CSB-WW4

PROJECTED CAPITAL STUCTURE

Line No.		Year 1	Year 2	Year 3	Year 4	Year 5	Staff Adjustment	Ref	Staff as Adjusted
1	**Short-term Debt**	$ -	$ -	$ -	$ -	$ -	$ -		$ -
2									
3	**Long-Term Debt**	$ -	$ -	$ -	$ -	$ -	$ -		$ -
4									
5	**Advances in Aid of Construction, Net of Refunds**								
6	Advances In Aid of Construction (AIAC)	$ 4,278,159	$7,281,964	$ 8,803,603	$ 11,078,649	$ 10,973,133	$ (2,566,279)		$ 8,406,854
7	Meter and Service Line Advances (Meter Deposits)	$ -	$ -	$ -	$ -	$ -	$ -		$ -
8	Subtotal	$ 4,278,159	$7,281,964	$ 8,803,603	$ 11,078,649	$ 10,973,133	$ -		$ 8,406,854
9									
10	**Contributions In Aid of Construction** (Net of Amort.)								
11	Treatment Capacity (Hook-up Fees)	$ -	$ -	$ -	$ -	$ -	$ -		$ -
12	Other Contr. In Aid of Constr. (Land & Land Rights)	$ -	$ -	$ -	$ -	$ -	$ 350,000		$ 350,000
13	Subtotal	$ -	$ -	$ -	$ -	$ -	$ -		$ 350,000
14									
15	**Total Advances and Contributions**	$ 4,278,159	$7,281,964	$ 8,803,603	$ 11,078,649	$ 10,973,133	$ (2,216,279)		$ 8,756,854
16									
17	**Equity**								
18	Common Stock	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ -		$ 50,000
19	Preferred Stock	$ -	$ -	$ -	$ -	$ -			$ -
20	Paid in Capital	$ 1,200,000	$1,200,000	$ 1,900,000	$ 4,800,000	$ 5,650,000	$ 2,566,279		$ 8,216,279
21	Retained Earnings	$ (204,684)	$ (432,740)	$ (378,041)	$ (94,185)	$ 490,575	$ -		$ 490,575
22	Subtotal	$ 1,045,316	$ 817,260	$ 1,571,959	$ 4,755,815	$ 6,190,575	$ 2,566,279		$ 8,756,854
23									
24	**Total Capital (L1 + L3 + L15 + L22)**	$ 5,323,475	$8,099,224	$10,375,562	$ 15,834,464	$ 17,163,708	$ 350,000		$17,513,708
25									
26	**Percent of Total AIAC/CIAC to Total Capital**	80.36%	89.91%	84.85%	69.97%	**63.93%**			**50.00%**
27	Percent of Total Equity to Total Capital	19.64%	10.09%	15.15%	30.03%	36.07%			50.00%
28	Total	100.00%	100.00%	100.00%	100.00%	100.00%			100.00%

Perkins Mountain Utility
Docket No. SW-20379A-05-0489
Projected Fifth Year of Operation

Schedule CSB-WW5

RATE DESIGN

	Proposed Rates	
	Company	Staff
Residential Service - Per Month		
5/8" x 3/4" Meter	N/A	$ 75.00
3/4" Meter	$ 75.00	$ 75.00
1" Meter	$ 88.00	$ 88.00
1½" Meter	$ 250.00	$ 250.00
2" Meter	$ 400.00	$ 400.00
3" Meter	$ 750.00	$ 750.00
4" Meter	$ 1,250.00	$ 1,250.00
6" Meter	$ 2,500.00	$ 2,500.00
8" Meter	$ 4,000.00	$ 4,000.00
Effluent Sales		
Treated Effluent per acre foot (for general irrigation)	$ 200.00	$ 200.00
Treated Effluent per 1,000 gallons (for general irrigation)	$ 0.61	$ 0.61

Service Charges	Proposed Rates	
	Company	Staff
Establishment (a)	$ 30.00	$ 30.00
Establishment (After Hours) (a)	40.00	40.00
Re-Establishment (Within 12 Months)	*	*
Reconnection (Delinqent) (a)	30.00	30.00
NSF Check Charge (a)	25.00	25.00
Deferred Payment (Per Month)	1.50%	1.50%
Late Payment Penalty (Per Month)	1.50%	1.50%
Deposit Interest	**	**
Deposit	**	**
Moving service at customer request	***	***

(a) Collected only if customer is not also a water customer.
* Per Commission Rule R14-2-603D
** Per Rule R14-2-603B - Months off system times monthly minimum
*** Cost to include parts, labor, overhead, and all applicable taxes, including income tax if applicable

Perkins Mountain Water Company
Docket No. W-20380A-05-0489
Projected Fifth Year of Operation

PROJECTED REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY FAIR VALUE	(C) STAFF ORIGINAL COST	(D) STAFF FAIR VALUE
1	Adjusted Rate Base	$ 5,683,250	$ 5,683,250	$ 8,272,134	$ 8,272,134
2	Adjusted Operating Income (Loss)	$ 616,445	$ 616,445	$ 610,792	$ 610,792
3	Current Rate of Return (L2 / L1)	10.85%	10.85%	7.383727%	7.38%
4	Required Rate of Return	10.85%	10.85%	7.38%	7.38%
5	Required Operating Income (L1 * L4)	$ 616,445	$ 616,445	$ 610,792	$ 610,792
6	Operating Income Deficiency / Excess (L5 - L2)	$ -	$ -	$ 0	$ 0
7	Gross Revenue Conversion Factor	1.6286	1.6286	1.6286	1.6286
8	Required Revenue Increase / Decrease (L7 * L6)	$ -	$ -	$ 0	$ 0
9	Fifth Year Revenue	$ 2,183,026	$ 2,183,026	$ 2,183,026	$ 2,183,026
10	Proposed Fifth Year Revenue (L8 + L9)	$ 2,183,026	$ 2,183,026	$ 2,183,026	$ 2,183,026
11	Required Increase in Revenue (%)	0.00%	0.00%	0.00%	0.00%

Perkins Mountain Water Company
Docket No. W-20380A-05-0489
Projected Fifth Year of Operation

PROJECTED GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
	Calculation of Gross Revenue Conversion Factor:				
1	Revenue	100.0000%			
2	Uncollecible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Tax Rate (Line 17) + Property Tax Factor (Line 22)	38.5989%			
5	Subtotal (L3 - L4)	61.4011%			
6	**Revenue Conversion Factor (L1 / L5)**	1.628635			
	Calculation of Uncollectible Factor:				
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	38.5989%			
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
	Calculation of Effective Tax Rate:				
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 44)	34.0000%			
16	Effective Federal Income Tax Rate (L14 x L15)	31.6309%			
17	Combined Federal and State Income Tax Rate (L13 +L16)	38.5989%			
	Calculation of Effective Property Tax Factor				
18	Unity	100.0000%			
19	Combined Federal and State Tax Rate (Line 17)	38.5989%			
20	One Minus Combined Income Tax Rate (L18 - L19)	61.4011%			
21	Property Tax Factor (All-16, L24)	0.0000%			
22	Effective Property Tax Factor (L 21 * L 22)	0.0000%			
23	Combined Federal and State Tax and Property Tax Rate (L17+L22)		38.5989%		
24	Required Operating Income	$ 610,792			
25	Adjusted Fifth Year Operating Income (Loss)	$ 610,790			
26	Required Increase in Operating Income (L24 - L25)		$ 2		
27	Income Taxes on Recommended Revenue (Col. (D), L52)	$ 383,964			
28	Income Taxes on Fifth Year, Staff Adjusted Revenue (Col. (B), L52)	$ 383,965			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		$ (1)		
30	Recommended Revenue Requirement	$ 2,183,026			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	$ -			
33	Adjusted Fifth Year Uncollectible Expense	$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32 - L33)		$ -		
35	Property Tax with Recommended Revenue	$ 61,186			
36	Property Tax on Fifth Year, Staff Adjusted Revenue	$ 61,186			
37	Increasee in Property Tax Due to Increase in Revenue		$ -		
38	Total Required Increase in Revenue (L26 + L30 + L34+L37)		$ 1		
	Calculation of Income Tax:	Fifth Year Staff as Adjusted		STAFF Recommended	
39	Revenue	$ 2,183,026	$ -	$ 2,183,026	
40	Operating Expenses Excluding Income Taxes	$ 1,188,269	$ 2	$ 1,188,271	
41	Synchronized Interest (L47)	$ -		$ -	
42	Arizona Taxable Income (L36 - L317- L38)	$ 994,757		$ 994,755	
43	Arizona State Income Tax Rate	6.9680%		6.9680%	
44	Arizona Income Tax (L39 x L40)		$ 69,315		$ 69,315
45	Federal Taxable Income (L33 - L35)	$ 925,442		$ 925,440	
46	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$ 7,500		$ 7,500	
47	Federal Tax on Second Income Bracket ($50,001 - $75,000) @ 25%	$ 6,250		$ 6,250	
48	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$ 8,500		$ 8,500	
49	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ 91,650		$ 91,650	
50	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$ 200,750		$ 200,750	
51	Total Federal Income Tax		$ 314,650		$ 314,650
52	Combined Federal and State Income Tax (L35 + L42)		$ 383,965		$ 383,964
53	Applicable Federal Income Tax Rate [Col. (D), L42 - Col. (B), L42] / [Col. (C), L36 - Col. (A), L36]				34.0000%
	Calculation of Interest Synchronization:				
54	Rate Base	$ 5,922,053			
55	Weighted Average Cost of Debt	0.00%			
56	Synchronized Interest (L54 X L55)	$ -			

Perkins Mountain Water Company
Docket No. W-20380A-05-0489
Projected Fifth Year of Operation

PROJECTED ORIGINAL COST RATE BASE

	Per Company Year 1	Per Company Year 2	Per Company Year 3	Per Company Year 4	Per Company Year 5	Staff Adjustments	Ref	Staff as Adjusted
Plant in Service	$4,731,125	$9,721,025	$11,783,167	$14,861,208	$19,192,350	$65,000		$19,257,350
Less:								
Accum. Depreciation	102,170	399,473	817,146	1,300,417	1,895,519	0		$1,895,519
Net Plant	$4,628,955	$9,321,552	$10,966,021	$13,560,791	$17,296,831	$65,000		$17,361,831
Less:								
Advances in Aid of Constr (net of refunds)	4,415,006	9,153,036	11,096,301	9,599,815	11,598,613	($2,703,437)		$8,895,176
Meter and Service Line Adv (net of refunds)	0	880	3,112	8,832	14,968	0		14,968
Total Advances	$4,415,006	$9,153,916	$11,099,413	$9,608,647	$11,613,581	($2,703,437)		$8,910,144
Contributions Gross (Land & Land Rights)	$0	$0	$0	$0	$0	$65,000		$65,000
Less:								
Amortization of CIAC	0	0	0	0	0	0		0
Net CIAC	$0	$0	$0	$0	$0	$65,000		$65,000
Less:								
Customer Deposits	0	0	0	0	0	114,553		$114,553
Total Deductions	$4,415,006	$9,153,916	$11,099,413	$9,608,647	$11,613,581	($2,523,884)		$9,089,697
Plus:								
Working Capital	$0	$0	$0	$0	$0	$0		$0
Total Additions	$0	$0	$0	$0	$0	$0		$0
Rate Base	**$213,949**	**$167,636**	**($133,392)**	**$3,952,144**	**$5,683,250**	**$2,588,884**		**$8,272,134**

DETAIL OF UTILITY PLANT

Acct. No.	Description	Per Company Year 1	Per Company Year 2	Per Company Year 3	Per Company Year 4	Per Company Year 5	Staff Adjustments	Ref	Staff as Adjusted
301	Organization	$ -	$ -	$ -	$ -	$ -	$ -		$ -
302	Franchises	-	-	-	-	-	-		-
303	Land & Land Rights	-	-	-	-	-	65,000		65,000
304	Structures & Improvements	-	-	-	-	-	-		-
307	Wells & Springs	800,000	1,400,000	1,400,000	1,400,000	1,700,000	-		1,700,000
311	Pumping Equipment	800,000	1,400,000	1,400,000	1,400,000	1,700,000	-		1,700,000
320	Water Treatment, Plant	40,000	580,000	580,000	580,000	1,100,000	-		1,100,000
330.1	Distribution Reservoirs, Storage	700,000	1,400,000	1,400,000	2,225,000	3,050,000	-		3,050,000
330.2	Distribution Reservoirs, Pressure	-	-	-	-	-	-		-
331	Transmission & Distribution Mains	2,139,975	4,391,575	5,989,117	7,709,058	9,492,750	-		9,492,750
333	Services	68,700	177,900	331,400	513,700	711,000	-		711,000
334	Meters & Meter Installations	30,000	107,400	248,400	414,400	613,000	-		613,000
335	Hydrants	68,700	177,900	331,400	513,700	711,000	-		711,000
336	Backflow Prevention Devices	-	-	-	-	-	-		-
340	Office Furniture & Equipment	25,000	25,000	25,000	25,000	25,000	-		25,000
340	Office Furniture & Equip, Computers	6,250	6,250	6,250	6,250	12,500	-		12,500
341	Transportation Equipment	42,000	42,000	56,000	56,000	56,000	-		56,000
342	Stores Equipment	-	-	-	-	-	-		-
343	Tools, Shop, & Garage Equipment	10,000	12,500	15,000	17,500	20,000	-		20,000
344	Laboratory Equipment	-	-	-	-	-	-		-
345	Power Operated Equipment	-	-	-	-	-	-		-
346	Communication Equipment	500	500	600	600	1,100	-		1,100
347	Miscellaneous Equipment	-	-	-	-	-	-		-
		-	-	-	-	-	-		-
	TOTALS	$ 4,731,125	$ 9,721,025	$11,783,167	$14,861,208	$19,192,350	$65,000		$ 19,257,350

Perkins Mountain Water Company
Docket No. W-20380A-05-0489
Projected Fifth Year of Operation

PROJECTED PLANT AND ACCUMULATED DEPRECIATION

	Year 1 Beginning Original Cost	Year 1 Beginning Accumulated Depreciation	Depreciation Rates	Year 1 Additions	Year 1 Retirements	Year 1 Depr. Expense	Year 1 Ending Total Cost	Year 1 Ending Accumulated Depreciation
301 Organization	$0	$0	0.00%	$0	$0	$0	$0	$0
302 Franchises	0	0	0.00%	0	0	0	0	0
303 Land & Land Rights	30,000	0	0.00%	0	0	0	30,000	0
304 Structures & Improvements	0	0	3.33%	0	0	0	0	0
307 Wells & Springs	0	0	3.33%	800,000	0	13,320	800,000	13,320
311 Pumping Equipment	0	0	12.50%	800,000	0	50,000	800,000	50,000
320 Water Treatment, Plant	0	0	3.33%	40,000	0	666	40,000	666
330.1 Distribution Reservoirs, Storage	0	0	2.22%	700,000	0	7,770	700,000	7,770
330.2 Distribution Reservoirs, Pressure	0	0	5.00%	0	0	0	0	0
331 Transmission & Distribution Mains	0	0	2.00%	2,139,975	0	21,400	2,139,975	21,400
333 Services	0	0	3.33%	68,700	0	1,144	68,700	1,144
334 Meters & Meter Installations	0	0	8.33%	30,000	0	1,250	30,000	1,250
335 Hydrants	0	0	2.00%	68,700	0	687	68,700	687
336 Backflow Prevention Devices	0	0	6.67%	0	0	0	0	0
340 Office Furniture & Equipment	0	0	6.67%	25,000	0	834	25,000	834
340.1 Office Furniture & Equip, Computers	0	0	20.00%	6,250	0	625	6,250	625
341 Transportation Equipment	0	0	20.00%	42,000	0	4,200	42,000	4,200
342 Stores Equipment	0	0	4.00%	0	0	0	0	0
343 Tools, Shop, & Garage Equipment	0	0	5.00%	10,000	0	250	10,000	250
344 Laboratory Equipment	0	0	10.00%	0	0	0	0	0
345 Power Operated Equipment	0	0	5.00%	0	0	0	0	0
346 Communication Equipment	0	0	10.00%	500	0	25	500	25
347 Miscellaneous Equipment	0	0	10.00%	0	0	0	0	0
	0	0	0.00%	0	0	0	0	0
Year 1 Totals	$30,000	$0		$4,731,125	$0	$102,170	$4,761,125	$102,170

PROJECTED PLANT AND ACCUMULATED DEPRECIATION

	Year 2 Additions Cost	Year 2 Retirements Cost	Year 2 Retirements Depreciation	Fully Depreciated	Year 2 Depr. Expense	Year 2 Total Cost	Year 2 Accumulated Depreciation	Year 2 Net Book Value
301 Organization	$0	$0	$0	$0	$0	$0	$0	$0
302 Franchises	$0	$0	$0	$0	$0	$0	$0	$0
303 Land & Land Rights	$30,000	$0	$0	$0	$0	$60,000	$0	$60,000
304 Structures & Improvements	$0	$0	$0	$0	$0	$0	$0	$0
307 Wells & Springs	$600,000	$0	$0	$0	$36,630	$1,400,000	$49,950	$1,350,050
311 Pumping Equipment	$600,000	$0	$0	$0	$137,500	$1,400,000	$187,500	$1,212,500
320 Water Treatment, Plant	$540,000	$0	$0	$0	$10,323	$580,000	$10,989	$569,011
330.1 Distribution Reservoirs, Storage	$700,000	$0	$0	$0	$23,310	$1,400,000	$31,080	$1,368,920
330.2 Distribution Reservoirs, Pressure	$0	$0	$0	$0	$0	$0	$0	$0
331 Transmission & Distribution Mains	$2,251,600	$0	$0	$0	$65,316	$4,391,575	$86,715	$4,304,860
333 Services	$109,200	$0	$0	$0	$4,106	$177,900	$5,250	$172,650
334 Meters & Meter Installations	$77,400	$0	$0	$0	$5,723	$107,400	$6,972	$100,428
335 Hydrants	$109,200	$0	$0	$0	$2,466	$177,900	$3,153	$174,747
336 Backflow Prevention Devices	$0	$0	$0	$0	$0	$0	$0	$0
340 Office Furniture & Equipment	$0	$0	$0	$0	$1,668	$25,000	$2,501	$22,499
340.1 Office Furniture & Equip, Computers	$0	$0	$0	$0	$1,250	$6,250	$1,875	$4,375
341 Transportation Equipment	$0	$0	$0	$0	$8,400	$42,000	$12,600	$29,400
342 Stores Equipment	$0	$0	$0	$0	$0	$0	$0	$0
343 Tools, Shop, & Garage Equipment	$2,500	$0	$0	$0	$563	$12,500	$813	$11,688
344 Laboratory Equipment	$0	$0	$0	$0	$0	$0	$0	$0
345 Power Operated Equipment	$0	$0	$0	$0	$0	$0	$0	$0
346 Communication Equipment	$0	$0	$0	$0	$50	$500	$75	$425
347 Miscellaneous Equipment	$0	$0	$0	$0	$0	$0	$0	$0
	$0	$0	$0	$0	$0	$0	$0	$0
Year 2 Totals	$5,019,900	$0	$0	$0	$297,303	$9,781,025	$399,473	$9,381,552

PROJECTED PLANT AND ACCUMULATED DEPRECIATION

	Year 3 Additions Cost	Year 3 Retirements Cost	Year 3 Retirements Depreciation	Fully Depreciated	Year 3 Depr. Expense	Year 3 Total Cost	Year 3 Accumulated Depreciation	Year 3 Net Book Value
301 Organization	$0	$0	$0	$0	$0	$0	$0	$0
302 Franchises	$0	$0	$0	$0	$0	$0	$0	$0
303 Land & Land Rights	$0	$0	$0	$0	$0	$60,000	$0	$60,000
304 Structures & Improvements	$0	$0	$0	$0	$0	$0	$0	$0
307 Wells & Springs	$0	$0	$0	$0	$46,620	$1,400,000	$96,570	$1,303,430
311 Pumping Equipment	$0	$0	$0	$0	$175,000	$1,400,000	$362,500	$1,037,500
320 Water Treatment, Plant	$0	$0	$0	$0	$19,314	$580,000	$30,303	$549,697
330.1 Distribution Reservoirs, Storage	$0	$0	$0	$0	$31,080	$1,400,000	$62,160	$1,337,840
330.2 Distribution Reservoirs, Pressure	$0	$0	$0	$0	$0	$0	$0	$0
331 Transmission & Distribution Mains	$1,597,542	$0	$0	$0	$103,807	$5,989,117	$190,522	$5,798,595
333 Services	$153,500	$0	$0	$0	$8,480	$331,400	$13,730	$317,670
334 Meters & Meter Installations	$141,000	$0	$0	$0	$14,819	$248,400	$21,791	$226,609
335 Hydrants	$153,500	$0	$0	$0	$5,093	$331,400	$8,246	$323,154
336 Backflow Prevention Devices	$0	$0	$0	$0	$0	$0	$0	$0
340 Office Furniture & Equipment	$0	$0	$0	$0	$1,668	$25,000	$4,169	$20,831
340.1 Office Furniture & Equip, Computers	$0	$0	$0	$0	$1,250	$6,250	$3,125	$3,125
341 Transportation Equipment	$14,000	$0	$0	$0	$9,800	$56,000	$22,400	$33,600
342 Stores Equipment	$0	$0	$0	$0	$0	$0	$0	$0
343 Tools, Shop, & Garage Equipment	$2,500	$0	$0	$0	$688	$15,000	$1,500	$13,500
344 Laboratory Equipment	$0	$0	$0	$0	$0	$0	$0	$0
345 Power Operated Equipment	$0	$0	$0	$0	$0	$0	$0	$0
346 Communication Equipment	$100	$0	$0	$0	$55	$600	$130	$470
347 Miscellaneous Equipment	$0	$0	$0	$0	$0	$0	$0	$0
	$0	$0	$0	$0	$0	$0	$0	$0
Year 3 Totals	$2,062,142	$0	$0	$0	$417,673	$11,843,167	$817,146	$11,026,021

PROJECTED PLANT AND ACCUMULATED DEPRECIATION

	Year 4 Additions	Year 4 Retirements		Fully	Year 4	Year 4	Year 4 Accumulated	Year 4 Net
	Cost	Cost	Depreciation	Depreciated	Depr. Expense	Total Cost	Depreciation	Book Value
301 Organization	$0	$0	$0	$0	$0	$0	$0	$0
302 Franchises	$0	$0	$0	$0	$0	$0	$0	$0
303 Land & Land Rights	$0	$0	$0	$0	$0	$60,000	$0	$60,000
304 Structures & Improvements	$0	$0	$0	$0	$0	$0	$0	$0
307 Wells & Springs	$0	$0	$0	$0	$46,620	$1,400,000	$143,190	$1,256,810
311 Pumping Equipment	$0	$0	$0	$0	$175,000	$1,400,000	$537,500	$862,500
320 Water Treatment, Plant	$0	$0	$0	$0	$19,314	$580,000	$49,617	$530,383
330.1 Distribution Reservoirs, Storage	$825,000	$0	$0	$0	$40,238	$2,225,000	$102,398	$2,122,603
330.2 Distribution Reservoirs, Pressure	$0	$0	$0	$0	$0	$0	$0	$0
331 Transmission & Distribution Mains	$1,719,942	$0	$0	$0	$136,982	$7,709,059	$327,504	$7,381,555
333 Services	$182,300	$0	$0	$0	$14,071	$513,700	$27,801	$485,899
334 Meters & Meter Installations	$166,000	$0	$0	$0	$27,606	$414,400	$49,397	$365,003
335 Hydrants	$182,300	$0	$0	$0	$8,451	$513,700	$16,697	$497,003
336 Backflow Prevention Devices	$0	$0	$0	$0	$0	$0	$0	$0
340 Office Furniture & Equipment	$0	$0	$0	$0	$1,668	$25,000	$5,836	$19,164
340.1 Office Furniture & Equip, Computers	$0	$0	$0	$0	$1,250	$6,250	$4,375	$1,875
341 Transportation Equipment	$0	$0	$0	$0	$11,200	$56,000	$33,600	$22,400
342 Stores Equipment	$0	$0	$0	$0	$0	$0	$0	$0
343 Tools, Shop, & Garage Equipment	$2,500	$0	$0	$0	$813	$17,500	$2,313	$15,188
344 Laboratory Equipment	$0	$0	$0	$0	$0	$0	$0	$0
345 Power Operated Equipment	$0	$0	$0	$0	$0	$0	$0	$0
346 Communication Equipment	$0	$0	$0	$0	$60	$600	$190	$410
347 Miscellaneous Equipment	$0	$0	$0	$0	$0	$0	$0	$0
	$0	$0	$0	$0	$0	$0	$0	$0
Year 4 Totals	$3,078,042	$0	$0	$0	$483,271	$14,921,209	$1,300,417	$13,620,792

Perkins Mountain Water Company
Docket No. W-20380A-05-0489
Projected Fifth Year of Operation

PROJECTED PLANT AND ACCUMULATED DEPRECIATION

	2005 Additions	2005 Retirements		Fully	2005	2005	2005 Accumulated	2005 Net
	Cost	Cost	Depreciation	Depreciated	Depr. Expense	Total Cost	Depreciation	Book Value
301 Organization	$0	$0	$0	$0	$0	$0	$0	$0
302 Franchises	$0	$0	$0	$0	$0	$0	$0	$0
303 Land & Land Rights	$5,000	$0	$0	$0	$0	$65,000	$0	$65,000
304 Structures & Improvements	$0	$0	$0	$0	$0	$0	$0	$0
307 Wells & Springs	$300,000	$0	$0	$0	$51,615	$1,700,000	$194,805	$1,505,195
311 Pumping Equipment	$300,000	$0	$0	$0	$193,750	$1,700,000	$731,250	$968,750
320 Water Treatment, Plant	$520,000	$0	$0	$0	$27,972	$1,100,000	$77,589	$1,022,411
330.1 Distribution Reservoirs, Storage	$825,000	$0	$0	$0	$58,553	$3,050,000	$160,950	$2,889,050
330.2 Distribution Reservoirs, Pressure	$0	$0	$0	$0	$0	$0	$0	$0
331 Transmission & Distribution Mains	$1,783,692	$0	$0	$0	$172,018	$9,492,751	$499,522	$8,993,229
333 Services	$197,300	$0	$0	$0	$20,391	$711,000	$48,192	$662,808
334 Meters & Meter Installations	$198,600	$0	$0	$0	$42,791	$613,000	$92,188	$520,812
335 Hydrants	$197,300	$0	$0	$0	$12,247	$711,000	$28,944	$682,056
336 Backflow Prevention Devices	$0	$0	$0	$0	$0	$0	$0	$0
340 Office Furniture & Equipment	$0	$0	$0	$0	$1,668	$25,000	$7,504	$17,496
340.1 Office Furniture & Equip, Computers	$6,250	$0	$0	$0	$1,875	$12,500	$6,250	$6,250
341 Transportation Equipment	$0	$0	$0	$0	$11,200	$56,000	$44,800	$11,200
342 Stores Equipment	$0	$0	$0	$0	$0	$0	$0	$0
343 Tools, Shop, & Garage Equipment	$2,500	$0	$0	$0	$938	$20,000	$3,250	$16,750
344 Laboratory Equipment	$0	$0	$0	$0	$0	$0	$0	$0
345 Power Operated Equipment	$0	$0	$0	$0	$0	$0	$0	$0
346 Communication Equipment	$500	$0	$0	$0	$85	$1,100	$275	$825
347 Miscellaneous Equipment	$0	$0	$0	$0	$0	$0	$0	$0
	$0	$0	$0	$0	$0	$0	$0	$0
Year 5 Totals	$4,336,142	$0	$0	$0	$595,102	$19,257,351	$1,895,519	$17,361,832

PROJECTED OPERATING INCOME STATEMENT - FIFTH YEAR AND STAFF RECOMMENDED

DESCRIPTION	[A] COMPANY FIFTH YEAR AS FILED	[B] STAFF ADJUSTMENTS	[C] FIFTH YEAR AS ADJUSTED BY STAFF	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED TOTAL REVENUE
JES:					
Water Sales	$ 2,153,236	-	$2,153,236	0	2,153,236
Establishment Charges	$ 29,790	-	$29,790		29,790
Other Operating Revenue	$ -	-	$0	-	-
'otal Operating Revenues	2,183,026	-	2,183,026	0	2,183,026
'ING EXPENSES:					
Salaries and Wages	$ 136,873	-	$ 136,873		136,873
Employee Pensions and Benefits	$ 32,850	-	$ 32,850		32,850
Purchased Power	$ 119,341	-	$ 119,341		119,341
Chemicals	$ 15,204	-	$ 15,204		15,204
Materials and Supplies	$ 5,500	-	$ 5,500		5,500
Contract Services, Engineering	$ 2,251		$ 2,251		2,251
Contract Services, Accounting	$ 5,628		$ 5,628		5,628
Contract Services, Legal	$ 5,628		$ 5,628		5,628
Contract Services, Management	$ 11,255	-	$ 11,255		11,255
Contract Services, Testing	$ 9,195	-	$ 9,195		9,195
Contract Services, Other	$ 108,883	-	$ 108,883		108,883
Rental of Building/Property	$ 13,506	-	$ 13,506		13,506
Rental of Equipment	$ 1,126	-	$ 1,126		1,126
Transportation Expense	$ 22,454	-	$ 22,454		22,454
Insurance, Vehicles	$ 4,491	-	$ 4,491		4,491
Insurance, General Liability	$ 3,377	-	$ 3,377		3,377
Insurance, Workman's Comp	$ 3,377	-	$ 3,377		3,377
Water Conservation	$ 3,065	-	$ 3,065		3,065
Bad Debt Expense	$ 10,915		$ 10,915		10,915
Miscellaneous Expense	$ 3,377		$ 3,377		3,377
Depreciation net of Amortization c	$ 595,102	-	$ 595,102		595,102
Property Taxes	$ 61,186	0	$ 61,186	-	61,186
Payroll Taxes	$ 13,687	-	$ 13,687		13,687
Income Taxes	$ 383,965	0	$ 383,965	(1)	383,964
Rounding	$ (2)	-	$ -	-	
Total Operating Expenses	1,572,234	0	1,572,236	(1)	1,572,235
Operating Income (Loss)	610,792	(0)	610,790	1	610,791

Perkins Mountain Water Company
Docket No. W-20380A-05-0489
Projected Fifth Year of Operation

Schedule CSB-W3
Page 3 of 3

PROJECTED PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Company Projected 3rd Year Revenue	751,072	751,072
2	Company Projected 4th Year Revenue	1,403,309	1,403,309
3	Company Projected 5th Year Revenue	2,183,026	2,183,026
4	Not Used	-	-
5	Subtotal	4,337,407	4,337,407
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	1,445,802	1,445,802
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	2,891,605	2,891,605
10	Plus: 10% of CWIP	36,000	36,000
11	Less: Net Book Value of Licensed Vehicles	11,200	11,200
12	Full Cash Value (Line 9 + Line 10 - Line 11)	2,916,405	2,916,405
13	Assessment Ratio	20.00%	20.00%
14	Assessment Value (Line 12 * Line 13)	583,281	583,281
15	Property Tax Rate (Statewide Rate)	10.4900%	10.490000%
16	Staff Fifth Year Adjusted Property Tax Expense (Line 14 * Line 15)	61,186	
17	Company Proposed Property Tax	29,418	
18	Staff Fifth Year Adjustment (Line 16 - Line 17)	31,768	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		61,186
20	Staff Fifth Year Adjusted Property Tax Expense (Line 16)		61,186
21	Increase in Property Tax Due to Increase in Revenue Requirement		-
22	Increase in Property Tax Due to Increase in Revenue Requirement (Line 21)		-
23	Increase in Revenue Requirement		1
24	Increase in Property Tax Per Dollar Increase in Revenue (Line 22 / Line 23)		0.000000%

Perkins Mountain Water Company
Docket No. W-20380A-05-0489
Projected Fifth Year of Operation

Schedule CSB-W4

PROJECTED CAPITAL STUCTURE

Line No.		Year 1	Year 2	Year 3	Year 4	Year 5	Staff Adjustment	Ref	Staff as Adjusted
1	**Short-term Debt**	$ -	$ -	$ -	$ -	$ -	$ -		$ -
2									
3	**Long-Term Debt**	$ -	$ -	$ -	$ -	$ -	$ -		$ -
4									
5	**Advances in Aid of Construction, Net of Refunds**								
6	Advances In Aid of Construction (AIAC)	4,415,006	9,153,036	11,096,301	9,599,815	11,598,613	$ (2,703,437)		$8,895,176
7	Meter and Service Line Advances (Meter Deposits)	0	880	3,112	8,832	14,968	$ -		14,968
8	Subtotal	$ 4,415,006	$ 9,153,916	$11,099,413	$ 9,608,647	$ 11,613,581	$ -		$ 8,910,144
9									
10	**Contributions In Aid of Construction (Net of Amort.)**	$ -	$ -	$ -	$ -	$ -	$ 65,000		$ 65,000
11									
12	**Total Advances and Contributions**	$ 4,415,006	$ 9,153,916	$11,099,413	$ 9,608,647	$ 11,613,581	$ (2,638,437)		$ 8,975,144
13									
14	**Equity**								
15	Common Stock	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ -		$ 50,000
16	Paid in Capital	$ 1,500,000	$ 1,500,000	$ 1,500,000	$ 5,300,000	$ 5,800,000	$ 2,703,437		$ 8,503,437
17	Retained Earnings	$ (185,856)	$ (457,912)	$ (480,390)	$ (194,738)	$ 421,708	$ -		$ 421,708
18	Subtotal	$ 1,364,144	$ 1,092,088	$ 1,069,610	$ 5,155,262	$ 6,271,708	$ 2,703,437		$ 8,975,145
19									
20	**Total Capital (L1 + L3 + L12 + L18)**	$ 5,779,150	$ 10,246,004	$12,169,023	$ 14,763,909	$ 17,885,289	$ 65,000		$ 17,950,289
21									
22	**Percent of Total AIAC/CIAC to Total Capital**	76.40%	89.34%	91.21%	65.08%	**64.93%**			**50.00%**
23	Percent of Total Equity to Total Capital	23.60%	10.66%	8.79%	34.92%	35.07%			50.00%
24	Total	100.00%	100.00%	100.00%	100.00%	100.00%			100.00%

RATE DESIGN

	Proposed Rates	
Monthly Customer Charges	Company	Staff
5/8" x 3/4" Meter	N/A	$35.00
3/4" Meter	35.00	35.00
1" Meter	46.00	46.00
1½" Meter	115.00	115.00
2" Meter	184.00	184.00
3" Meter	345.00	345.00
4" Meter	575.00	575.00
6" Meter	1,150.00	1,150.00
8" Meter	1,840.00	1,840.00
Gallons Included in Monthly Customer Charge	0	0
Commodity Charges - Per 1,000 Gallons of Usage		
5/8-Inch x 3/4-Inch Meters		
0 to 4,000 gallons	n/a	$ 2.30
4,001 to 20,000 gallons	n/a	$ 4.37
20,001 and above gallons	n/a	$ 6.33
3/4-Inch Meters		
0 to 4,000 gallons	$2.30	$ 2.30
4,001 to 20,000 gallons	$4.37	$ 4.37
20,001 and above gallons	$6.33	$ 6.33
1-Inch Meters		
0 to 4,000 gallons	$2.30	$ 2.30
4,001 to 20,000 gallons	$4.37	$ 4.37
20,001 and above gallons	$6.33	$ 6.33
1 1/2 - Inch Meters		
0 to 42,000 gallons	$4.37	$ 4.37
42,001 and above gallons	$6.33	$ 6.33
2-Inch Meters		
0 to 63,000 gallons	$4.37	$ 4.37
63,001 and above gallons	$6.33	$ 6.33

RATE DESIGN
Continued

Commodity Charges - Per 1,000 Gallons of Usage

	-Proposed Rates-	
	Company	Staff
3-Inch Meters		
0 to 120,000 gallons	$4.37	$ 4.37
120,001 and above gallons	$6.33	$ 6.33
4-Inch Meters		
0 to 180,000 gallons	$4.37	$ 4.37
180,001 and above gallons	$6.33	$ 6.33
6-Inch Meters		
0 to 207,000 gallons	$4.37	$ 4.37
207,001 and above gallons	$6.33	$ 6.33
8-Inch Meters		
0 to 235,000 gallons	$4.37	$ 4.37
235,001 and above gallons	$6.33	$ 6.33

Monthly Service Charge for Fire Sprinkler

4-Inch or Smaller Connection	$28.75	(a)
6-Inch Connection	$57.50	(a)
8-Inch Connection	$92.00	(a)

(a) One percent (1%) of monthly minimum for a comparable sized meter connection, but no less than $5.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

Service Line and Meter Installation Charges

	Company	Staff Proposed		
	Proposed	Services	Meters	Total
5/8" x 3/4" Meter	N/A	$ 355	$ 85	$ 440
3/4" Meter	440	355	165	520
1" Meter	500	405	205	610
1½" Meter	715	440	415	855
2" Meter (Turbine)	1,170	600	915	1,515
2" Meter (Compound)	1,700	600	1,640	2,240
3" Meter (Turbine)	1,585	775	1,420	2,195
3" Meter (Compound)	2,190	815	2,215	3,030
4" Meter (Turbine)	2,540	1,110	2,250	3,360
4" Meter (Compound)	3,215	1,170	3,145	4,315
6" Meter (Turbine)	4,815	1,670	4,445	6,115
6" Meter (Compound)	6,270	1,710	6,180	7,890
8" Meter (Turbine)	Cost (b)	At cost	At cost	At cost
8" Meter (Compound)	Cost (b)	At cost	At cost	At cost

(b): Cost to include parts, labor, overhead, and all applicable taxes, including income taxes.

RATE DESIGN
Continued

Service Charges

	-Proposed Rates- Company	Staff
Establishment	$ 30.00	$ 30.00
Establishment (After Hours)	50.00	50.00
Re-establablishment (Within 12 Months)	*	*
Reconnection (Delinquent)	40.00	40.00
NSF Check Charge	25.00	25.00
Meter Re-Read (If Correct)	30.00	30.00
Meter Test (If Correct)	30.00	30.00
Deferred Payment (Per Month)	1.50%	1.50%
Late Payment Penalty (Per Month)	1.50%	1.50%
Deposit Interest	**	**
Deposit	**	**
Moving meter/service at customer request	***	***

* Number of months off system times the monthly customer charge for meter size
** Per Rule R14-2-403.B
*** Cost to include parts, labor, overhead, and all applicable taxes, including income tax if applicable

ATTACHMENT E

MEMORANDUM

TO: Blessing Chukwu
Executive Consultant III
Utilities Division

FROM: Barb Wells
Information Technology Specialist
Utilities Division

THRU: Del Smith
Engineering Supervisor
Utilities Division

DATE: March 17, 2008

RE: **PERKINS MOUNTAIN WATER COMPANY (DOCKET NO. W-20380A-05-0490)**
PERKINS MOUNTAIN UTILITY COMPANY (DOCKET NO. SW-20379A-05-0489)
(4TH AMENDED) LEGAL DESCRIPTION)

The area requested by Perkins Mountain for a CC&N for water and wastewater has been plotted using a fourth amended legal description. This legal description changes the areas requested for a CC&N and an Order Preliminary for a CC&N. The entire correct legal description is attached and should be used in place of the original description submitted with the application, as well as any subsequent amendments.

Also attached are copies of the maps for your files.

:bsw

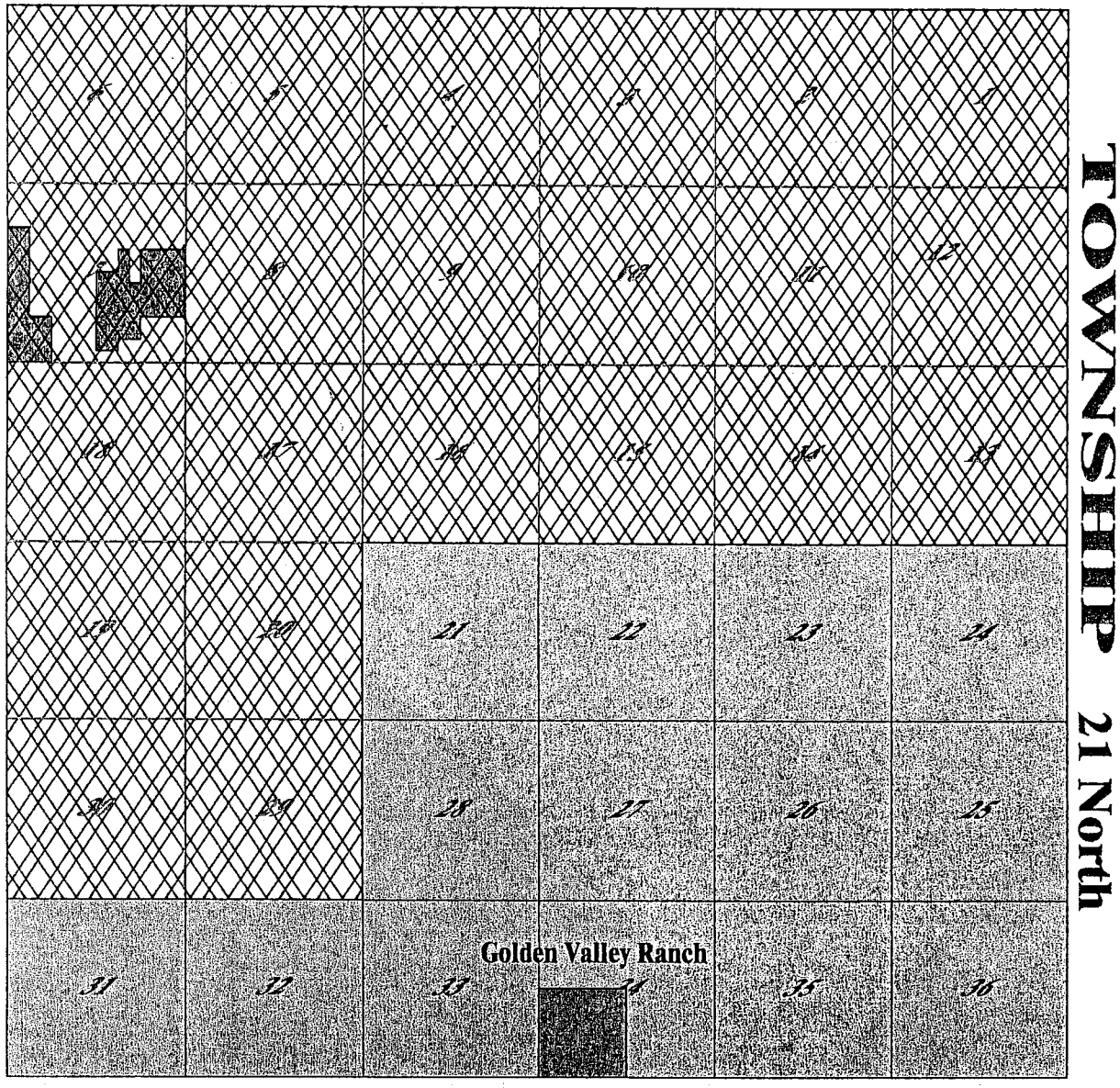
Attachments

cc: Mr. Jeffrey Crockett
Ms. Deb Person (Hand Carried)
Mr. Marlin Scott, Jr.

Map No. 17

COUNTY: *Mohave*

RANGE 18 West



W-2033 (2)
Valley Pioneer's Water Company, Inc.

W-20380 (4)
Perkins Mountain Water Company
Docket No. W-20380A-05-0490
Perkins Mountain Utility Company
Docket No. SW-20379A-05-0489
Application for CC&N - 4th Amended

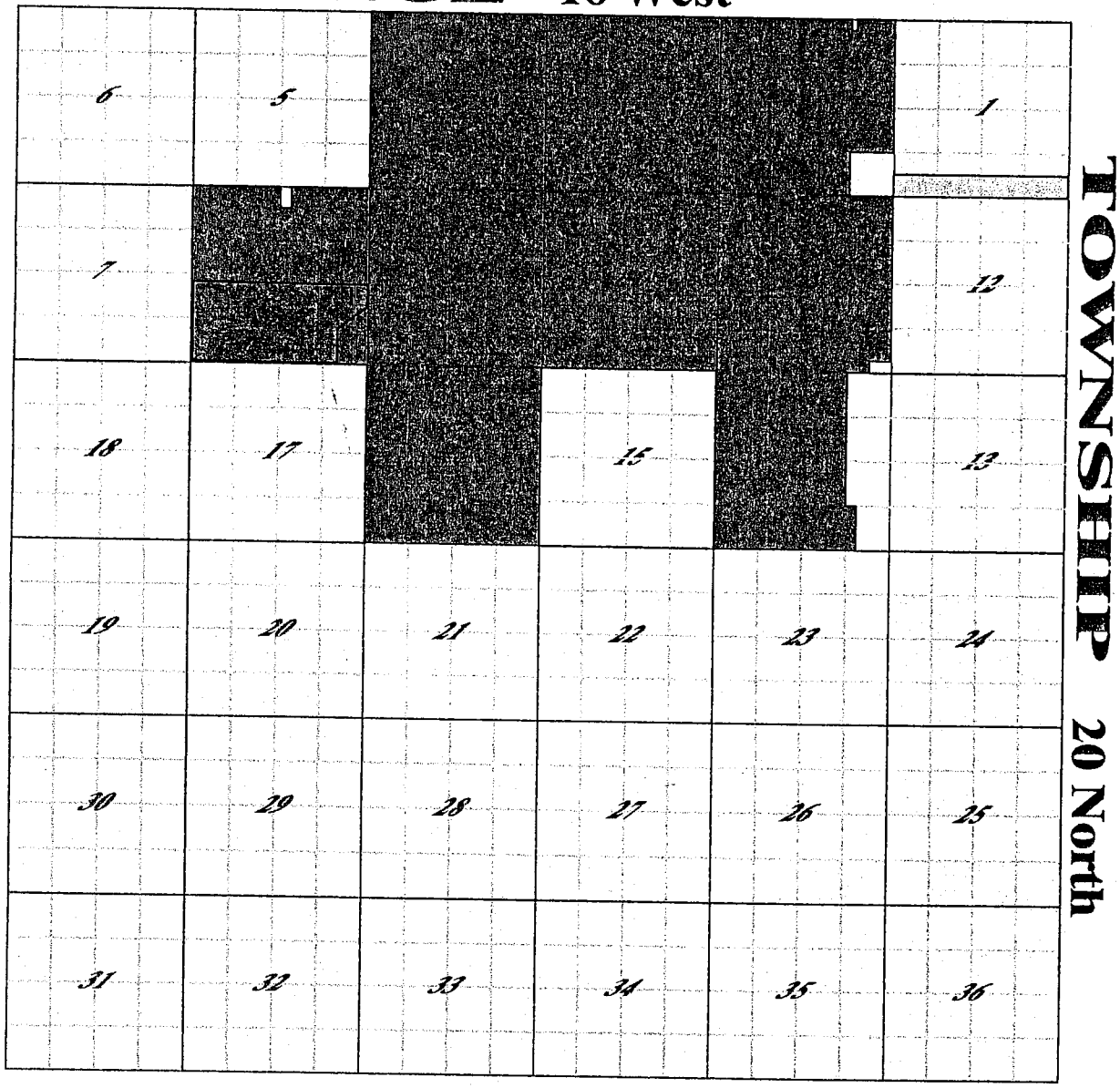
Valley Pioneers Water Company, Inc.
Docket No. W-02033A-06-0262
Application for Extension

(2)
Sacramento Utilities, LLC
Docket No. SW-20576A-08-0067
Application for CC&N for Sewer

TR21N18W 15 DEC 1994

COUNTY: *Mohave*

RANGE 18 West



W-20380 (4)
Perkins Mountain Water Company
Docket No. W-20380A-05-0490
Perkins Mountain Utility Company
Docket No. SW-20379A-05-0489
Application for CC&N - 4th Amended

W-20380 (4)
Perkins Mountain Water Company
Docket No. W-20380-A-05-0490
Perkins Mountain Utility Company
Docket No. SW-20379A-05-0489
Application for CC&N - 4th Amended
(Order Preliminary)

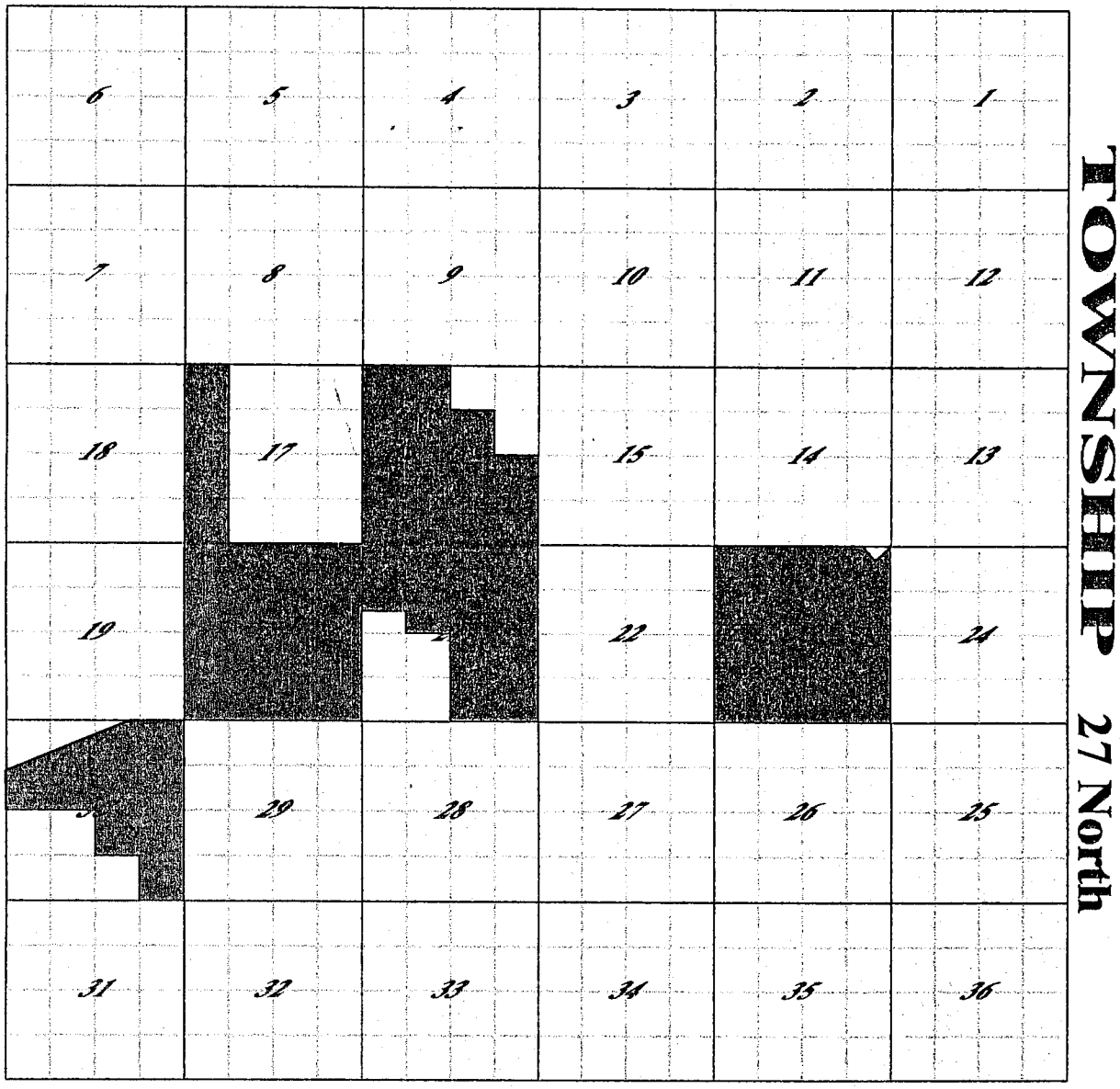
(1)
Walnut Creek Water Company, Inc.
Docket No. W-02466A-06-0504
Application for Extension

TR20N18W 28 JUL 2005

Map No. 49

COUNTY: *Mohave*

RANGE 20 West



TOWNSHIP 27 North

W-20380 (4)
Perkins Mountain Water Company
Docket No. W-20380A-05-0490
Perkins Mountain Utility Company
Docket No. SW-20379A-05-0489
Application for CC&N - 4th Amended

TR27N20W 28 JUL 2005

COUNTY: *Mohave*

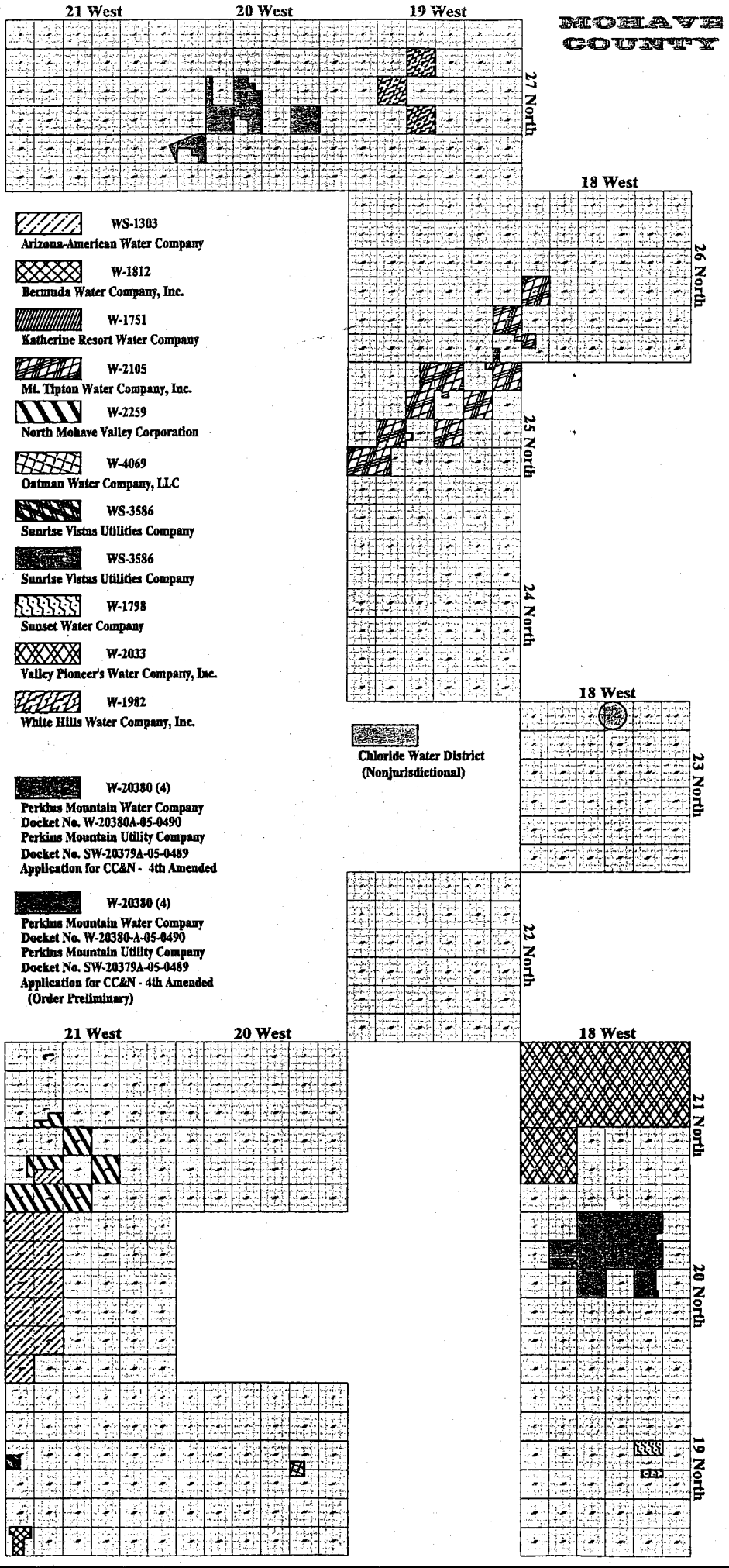
RANGE 21 West

6	5	4	3	2	1
7	8	9	10	11	12
18	17	16	15	14	13
19	20	21	22	23	24
30	29	28	27	26	25
31	32	33	34	35	36

TOWNSHIP 27 North

W-20380 (4)
Perkins Mountain Water Company
Docket No. W-20380A-05-0490
Perkins Mountain Utility Company
Docket No. SW-20379A-05-0489
Application for CC&N - 4th Amended

TR27N21W 28 JUL 2005


MOHAVE COUNTY
21 West
20 West
19 West
18 West
27 North
26 North
25 North
24 North
23 North
22 North
21 North
20 North
19 North
WS-1303
Arizona-American Water Company
W-1812
Bermuda Water Company, Inc.
W-1751
Katherine Resort Water Company
W-2105
Mt. Tipton Water Company, Inc.
W-2259
North Mohave Valley Corporation
W-4069
Oatman Water Company, LLC
WS-3586
Sunrise Vistas Utilities Company
WS-3586
Sunrise Vistas Utilities Company
W-1798
Sunset Water Company
W-2033
Valley Pioneer's Water Company, Inc.
W-1982
White Hills Water Company, Inc.
Chloride Water District
(Nonjurisdictional)
W-20380 (4)
Perkins Mountain Water Company
Docket No. W-20380A-05-0490
Perkins Mountain Utility Company
Docket No. SW-20379A-05-0489
Application for CC&N - 4th Amended
W-20380 (4)
Perkins Mountain Water Company
Docket No. W-20380-A-05-0490
Perkins Mountain Utility Company
Docket No. SW-20379A-05-0489
Application for CC&N - 4th Amended
(Order Preliminary)

GOLDEN VALLEY SOUTH
CC & N BOUNDARY

LEGAL DESCRIPTION
[Revised 5-11-07]

TOWNSHIP 20 NORTH, RANGE 18 WEST, G. & S.R.M., MOHAVE COUNTY, AZ:

SECTION 2, EXCEPT THE W2 NW4 NW4 NE4 NE4, & THE SE4 SE4;
SECTION 3;
SECTION 4;
SECTION 8; EXCEPT THE W2 NW4 NW4 NE4, & COMMENCING AT THE SOUTHWEST CORNER OF SAID SECTION 8, THENCE SOUTH 89°35'26" EAST ALONG THE SOUTHERLY LINE OF SAID SECTION 8, A DISTANCE OF 56.87 FEET;
THENCE NORTH 00°24'34" EAST, A DISTANCE OF 57.00 FEET TO THE POINT OF BEGINNING:
THENCE NORTH 00°16'25" EAST, A DISTANCE OF 2347.54 FEET,
THENCE SOUTH 89°43'35" EAST, A DISTANCE OF 5222.04 FEET,
THENCE SOUTH 00°12'30" WEST, A DISTANCE OF 653.72 FEET,
THENCE SOUTH 53°30'28" WEST, A DISTANCE OF 1123.72 FEET,
THENCE SOUTH 00°00'00" WEST, A DISTANCE OF 1030.80 FEET,
THENCE NORTH 89°36'50" WEST, A DISTANCE OF 1685.92 FEET,
THENCE NORTH 89°35'26" WEST, A DISTANCE OF 2641.60 FEET TO THE POINT OF BEGINNING;
SECTION 9;
SECTION 10;
SECTION 11, EXCEPT THE S2 SE4 SE4 SE4;
SECTION 14, EXCEPT THE E2 NE4, THE NE4 SE4, THE E2 W2 SE4 SE4, & THE E2 SE4 SE4;
SECTION 16;

TOWNSHIP 21 NORTH, RANGE 18 WEST, G. & S.R.M., MOHAVE COUNTY, AZ;

SW4 SECTION 34.

GOLDEN VALLEY SOUTH
ORDER PRELIMINARY
LEGAL DESCRIPTION

THAT PORTION OF SECTION 8, TOWNSHIP 20 NORTH, RANGE 18 WEST OF THE GILA AND SALT RIVER BASE MERIDIAN, MOHAVE COUNTY, ARIZONA, DESCRIBED AS FOLLOWS:

COMMENCING AT THE SOUTHWEST CORNER OF SAID SECTION 8, THENCE SOUTH 89°35'26" EAST ALONG THE SOUTHERLY LINE OF SAID SECTION 8, A DISTANCE OF 56.87 FEET;

THENCE NORTH 00°24'34" EAST, A DISTANCE OF 57.00 FEET TO THE POINT OF BEGINNING:

THENCE NORTH 00°16'25" EAST, A DISTANCE OF 2347.54 FEET;

THENCE SOUTH 89°43'35" EAST, A DISTANCE OF 5222.04 FEET;

THENCE SOUTH 00°12'30" WEST, A DISTANCE OF 653.72 FEET;

THENCE SOUTH 53°30'28" WEST, A DISTANCE OF 1123.72 FEET;

THENCE SOUTH 00°00'00" WEST, A DISTANCE OF 1030.80 FEET;

THENCE NORTH 89°36'50" WEST, A DISTANCE OF 1685.92 FEET;

THENCE NORTH 89°35'26" WEST, A DISTANCE OF 2641.60 FEET TO THE POINT OF BEGINNING.

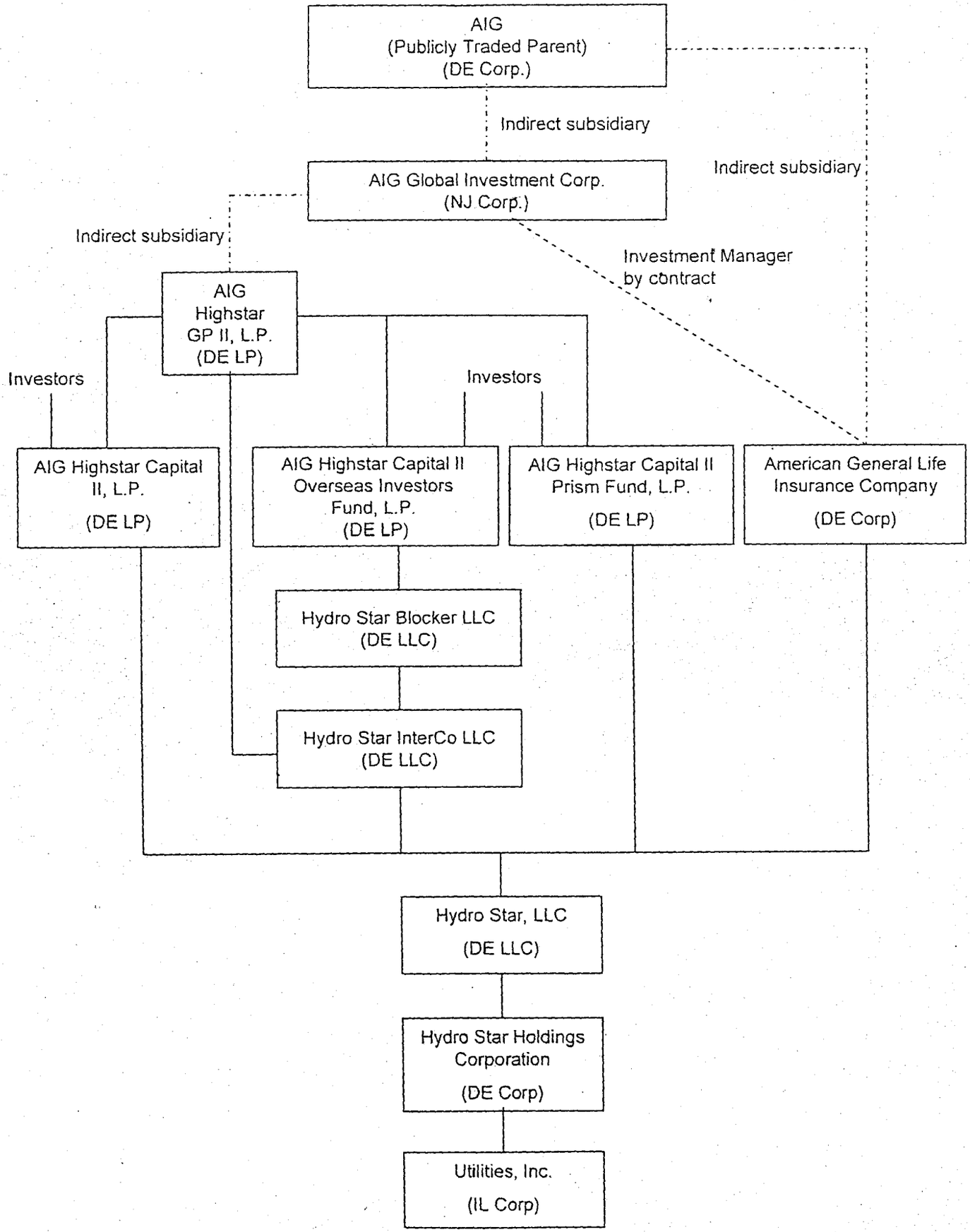
THE VILLAGES AT WHITE HILLS
CC & N SEWER/WATER BOUNDARY

LEGAL DESCRIPTION
[Revised 8-3-05]

TOWNSHIP 27 NORTH, RANGE 20 WEST, G. & S.R.M., MOHAVE COUNTY, AZ:
SECTION 16, EXCEPT THE NW4 NE4, & THE E2 NE4;
W2 W2 SECTION 17;
SECTION 20;
SECTION 21, EXCEPT THE SW4, & THE S2 SW4 NW4;
SECTION 23, EXCEPT THE FOLLOWING DESCRIBED PARCEL OF LAND:
COMMENCING AT THE NORTHEAST CORNER OF SECTION 23; THENCE NORTH 89°37'39" WEST, 26.97 FEET TO THE POINT OF BEGINNING; THENCE SOUTH 41°25'03" EAST, 35.78 FEET; THENCE SOUTH 48°34'57" WEST, 599.97 FEET; THENCE NORTH 41°25'03" WEST, 572.03 FEET; THENCE SOUTH 89°37'39" EAST, 804.69 FEET TO THE POINT OF BEGINNING;
ALL OF SECTION 30 LYING SOUTHERLY OF THE CENTERLINE OF WHITE HILLS ROAD (O.R. 274/50-97) OF WHICH THE CENTERLINE IS DESCRIBED AS FOLLOWS:
COMMENCING AT THE NORTHWEST CORNER OF THE NORTHWEST QUARTER (NW ¼) OF SECTION 30; THENCE SOUTH 00°28'34" WEST, ALONG THE WESTERLY LINE THEREOF, 1,493.03 FEET TO THE POINT OF BEGINNING; THENCE NORTH 68°20'45" EAST, DEPARTING SAID WESTERLY LINE, 223.94 FEET; THENCE NORTH 67°59'58" EAST, 3,686.73 FEET TO THE POINT OF TERMINATION, SAID POINT BEING ON THE NORTHERLY LINE OF THE NORTHEAST QUARTER (NE ¼) OF SECTION 30, EXCEPT THE SW4, & THE SW4 SE4;

TOWNSHIP 27 NORTH, RANGE 21 WEST, G. & S.R.M., MOHAVE COUNTY, AZ:
A PORTION OF THE E2 SECTION 25 DESCRIBED AS FOLLOWS:
BEGINNING AT THE NORTHEAST CORNER OF THE SOUTHEAST QUARTER (SE ¼) OF SAID SECTION 25; THENCE SOUTH 00°28'58" WEST, ALONG THE EASTERLY LINE THEREOF, 2,643.95 FEET TO THE SOUTHEAST CORNER OF SAID SOUTHEAST QUARTER (SE ¼); THENCE NORTH 89°33'42" WEST, ALONG THE SOUTHERLY LINE THEREOF, 164.23 FEET TO THE POINT OF CURVE OF A NON TANGENT CURVE TO THE LEFT, OF WHICH THE RADIUS POINT LIES SOUTH 74°14'59" WEST, A RADIAL DISTANCE OF 5,821.58 FEET, SAID POINT BEING ON THE EASTERLY RIGHT-OF-WAY LINE OF U.S. HIGHWAY 95; THENCE NORTHERLY ALONG THE ARC, ALONG SAID EASTERLY RIGHT-OF-WAY LINE, THROUGH A CENTRAL ANGLE OF 07°34'58", 770.46 FEET; THENCE NORTH 23°19'59" WEST, CONTINUING ALONG SAID EASTERLY RIGHT-OF-WAY LINE, 2,685.36 FEET TO THE CENTERLINE OF WHITE HILLS ROAD (O.R. 274/50-97); THENCE NORTH 68°20'45" EAST, ALONG SAID CENTERLINE, 1,632.40 FEET TO THE EASTERLY LINE OF THE NORTHEAST QUARTER (NE ¼) OF SAID SECTION 25; THENCE SOUTH 00°28'34" WEST, ALONG SAID EASTERLY LINE, 1,151.09 FEET TO THE POINT OF BEGINNING.

ATTACHMENT F



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AIGHighstarCapital

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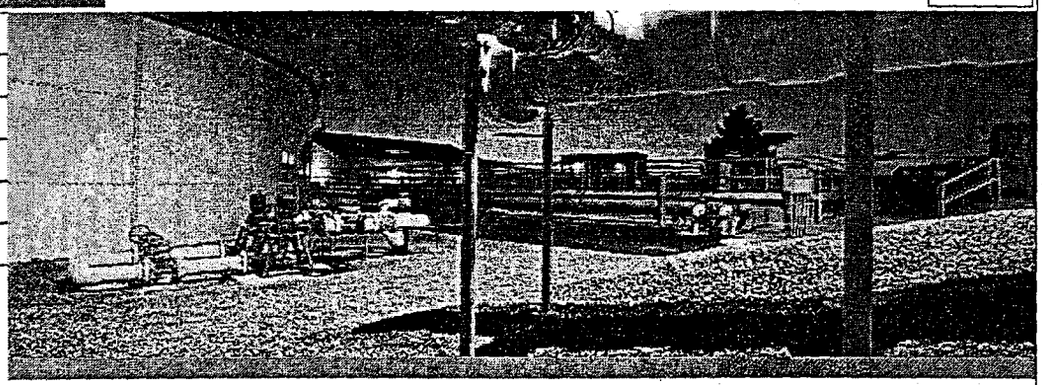
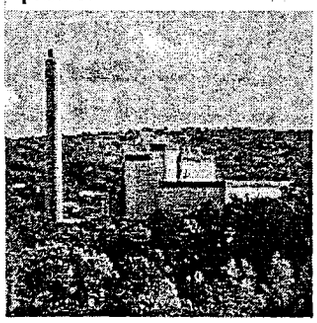


Overview

AIG Highstar Capital ("Highstar") is a private equity investment partnership formed to make controlling or influential minority investments in infrastructure related assets and businesses. In particular, Highstar will target investments in assets and businesses that provide essential products and services in the energy, transportation, waste management and water sectors. Highstar's investment team (the "Highstar Team") is led by five partners who collectively have over 110 years of relevant experience. The partners are supported by 13 investment professionals. The Highstar Team has a proven track record of investing in and operating infrastructure assets and earning superior private equity returns for its limited partners.

Highstar targets superior private equity returns with an infrastructure risk profile.



The Highstar Team maintains long-standing relationships with operators, financiers, strategic buyers and potential sellers of assets and businesses in Highstar's targeted investment sectors. As a result, Highstar is a uniquely positioned investor with the resources and the expertise to:

- identify attractive opportunities for investment
- efficiently and effectively perform comprehensive due diligence
- navigate complex regulatory processes
- develop and arrange an optimal capital structure
- close transactions expeditiously

Highstar is headquartered in New York, NY and has an office in Houston, TX.

Learn about our investment team »

Last Updated: 10/26/2007

News

AIG

Contact: Joe Norton
Director of Public Relations
(212) 770-3144

AIG HIGHSTAR CAPITAL ANNOUNCES THE ACQUISITION OF UTILITIES, INC. FROM NUON

NEW YORK, May 18, 2005 – Hydro Star, LLC, a subsidiary of AIG Highstar Capital II, L.P. and certain of its affiliates (Highstar II), has signed a definitive agreement to acquire 100% of the stock of Utilities, Inc. from a subsidiary of n.v. Nuon (Nuon). Hydro Star and Nuon entered into a stock purchase agreement dated May 14, 2005.

Utilities, Inc. is a water and wastewater utility holding company based in Northbrook, Illinois. It has almost 300,000 customers located in 17 states, with a principal focus in the high growth areas of the Sunbelt.

Highstar II is a group of private equity funds that invest in infrastructure related assets and businesses. Highstar II is sponsored by AIG Global Investment Group (AIGGIG). AIGGIG member companies are subsidiaries of American International Group, Inc. (AIG).

Nuon is a large energy company based in the Netherlands, active in the generation, marketing, sale and distribution of electricity, gas, and heat, as well as related products and services. The divestment is in line with Nuon's strategy to concentrate its energy business in The Netherlands, Belgium and Germany.

AIGGIG Chairman and CEO Win J. Neuger stated, "We have long considered water infrastructure as an attractive investment opportunity and an excellent complement to Highstar II's existing energy infrastructure portfolio. Utilities, Inc. is a leader in this industry and we are pleased that Highstar II has the opportunity to acquire this business from Nuon."

The transaction for the purchase of Utilities, Inc. is expected to close in early 2006 and is subject to customary conditions, including the receipt of Hart Scott Rodino approval and other regulatory approvals.

# # #

AIG Global Investment Group comprises a group of international companies which provide investment advice and market asset management products and services to clients around the world. AIGGIG member companies are subsidiaries of American International Group, Inc. (AIG).

-more-

American International Group, Inc. (AIG) is the world's leading international insurance and financial services organization, with operations in approximately 130 countries and jurisdictions. AIG member companies serve commercial, institutional and individual customers through the most extensive worldwide property-casualty and life insurance networks of any insurer. In the United States, AIG companies are the largest underwriters of commercial and industrial insurance and AIG American General is a top-ranked life insurer. AIG's global businesses also include financial services, retirement services and asset management. AIG's financial services businesses include aircraft leasing, financial products, trading and market making. AIG's growing global consumer finance business is led in the United States by American General Finance. AIG also has one of the largest U.S. retirement services businesses through AIG SunAmerica and AIG VALIC, and is a leader in asset management for the individual and institutional markets, with specialized investment management capabilities in equities, fixed income, alternative investments and real estate. AIG's common stock is listed on the New York Stock Exchange, as well as the stock exchanges in London, Paris, Switzerland and Tokyo.

# # #

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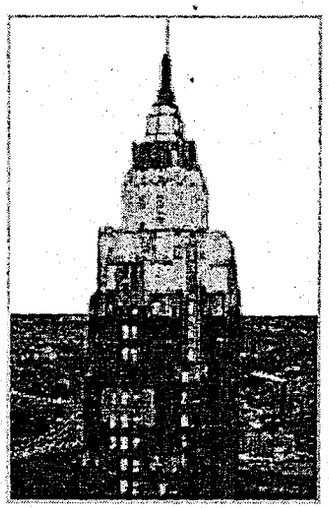

ATTACHMENT H

MEMORANDUM

DATE: January 16, 2008

TO: Ernest Johnson
Director
Utilities Division

THRU: Vicki Wallace
Chief, Consumer Services
Utilities Division

Del Smith
Engineering Supervisor
Utilities Division

FROM: Trish Meeter
Consumer Analyst
Utilities Division

Jian Liu
Utilities Engineer
Utilities Division

RE: Field visit to Bermuda Water Company, Inc. and Sunrise Vistas Utilities Company

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Introduction

On December 17, 2007, Trish Meeter, Alfonso Amezcua, Alaina Braddy and Jian Liu, visited Bermuda Water Company, Inc. ("Bermuda") and Sunrise Vistas Utilities Company ("Sunrise Vistas") in reference to water outages. Staff met with Debbie Fields, Paul Burris, Jimmie Johnson of Bermuda and Ralph Venske of Sunrise Vistas. The companies operate water systems in and around the southern portion of Bullhead City, in Mohave County.

Existing Water Systems

Bermuda

According to Bermuda's 2006 Annual Report, the water system consists of 8 wells (producing a total of 3,575 gallons per minute), 5 storage tanks (totaling 2,244,000 gallons), 559 fire hydrants and a distribution system serving approximately 7,700 service connections.

Sunrise Vistas

According to Sunrise Vistas' 2006 Annual Report, the water system is a consecutive water system to Bermuda that is served by two 6-inch x 1-inch compound meters a single Bermuda 6-inch line referred to herein as the Vanderslice line.[1] Sunrise Vistas' distribution system consists of approximately 34,000 feet of mains and 56 fire hydrants serving almost 700 service connections.

Complaints

Bermuda

In October 2006, Bermuda claims to have experienced breaks in its main that had not occurred before the installation of the pressure tank and booster pump system on the Sunrise Vistas line. The number of main breaks by month is shown below:

11-06	3
12-06	6
02-07	2
03-07	4
04-07	4
05-07	18
06-07	12
07-07	23
08-07	7
09-07	2
10-07	2
11-07	2

Bermuda has attributed these breaks to the addition of the pressure tank and booster pump system on the Sunrise Vistas line. The Vanderslice line experienced 5 breaks from January 2005 to October 2006.

The Commission has received 1 Bermuda customer complaint regarding the outages referenced above.

Sunrise Vistas

Sunrise Vistas customers have been complaining about water outages. The Commission has received 10 Sunrise Vistas customer complaints in relation to the Bermuda outages referenced above.

[1] The Vanderslice line runs parallel to Vanderslice Road.

During our site visit, it was determined by all parties that the surge anticipator[2], installed on the Sunrise Vistas side of the master meter by Bermuda, did not protect the Bermuda line from a hammering effect as intended. Per Ralph Venske of Sunrise Vistas, the surge anticipator was disabled by Sunrise Vistas. Bermuda spoke of putting the surge anticipator on its side of the master meter after other options have been explored.

The installation of a soft start, which would begin water flow on a timed, delayed basis rather than a quick start at the Sunrise Vistas booster tank, was completed on December 20, 2007. The companies believe the soft start with the proper adjustments could reduce or possibly eliminate the hammering effect on the Bermuda line. Staff understands that 5 additional breaks on the Bermuda line have occurred subsequent to the installation of the soft start.

A mile long secondary line to Sunrise Vistas from a Bermuda storage tank was discussed as an alternative source of water if a main break should occur on Bermuda's Vanderslice line. However, neither company currently has plans to construct this secondary line.

Conclusions

Bermuda

Bermuda experienced 85 water main breaks from November 2006 to November 2007. Bermuda believes the booster (pumping) station installed by Sunrise Vistas is damaging its Vanderslice line which resulted in the referenced outages.

Bermuda admitted that its installation of the surge anticipator on the opposite side of the meter from the Vanderslice line may be affecting the devices' ability to prevent hammering on the Vanderslice line. Bermuda spoke of moving the surge anticipator to its side of the master meter to see if this permits the device to operate properly.

Staff recommends that Bermuda perform an engineering analysis which will verify the integrity of the Vanderslice line. Staff further recommends that if the company determines that the surge anticipator is needed and decides to relocate the device to its side of the master meter, Bermuda should consider the addition of an adequately sized surge protection tank which will avoid the waste of water and prevent possible flooding of the master meter site.

Sunrise Vistas

[2] Surge Anticipator protects pumps, pumping equipment and all applicable pipelines from dangerous pressure surges caused by rapid changes of flow velocity within a pipeline.

Ralph Venske informed Staff that in an effort to increase water pressure within its system, 2 pumps and a 10,000 gallon pressure tank were added to the Sunrise Vistas system in October 2006 at the Northeast corner of Camp Mohave and Vanderslice Road. When the 2 pumps shut off, a hammer effect is created in the Vanderslice line which, according to Bermuda, has damaged its Vanderslice line. Mr. Venske of Sunrise Vistas however, questions the integrity of Bermuda's Vanderslice line. Mr. Venske believes that the Vanderslice water line is very old and was constructed using thin walled plastic pipe that is in need of replacement.

Sunrise Vistas installed a soft start on December 20, 2007. Staff understands that 5 additional breaks on the Bermuda line have occurred subsequent to the installation of the soft start device.

Sunrise Vistas' water system has grown substantially since the water supply agreement with Bermuda took effect.[3] Staff recommends that the company consider alternative water supply options such as an additional line to interconnect the 2 systems, and/or develop a new water source (well). Staff believes that Sunrise Vistas should give serious consideration to the installation of a storage tank which would provide, at a minimum, 24 hours of storage capacity.

Staff intends to monitor the situation to ensure that needed system changes are made in a timely manner.

[3] Sunrise Vistas was serving 332 service connections in the year 2000. The Company served 666 customers in 2006.

Utilities Inc.

ATTACHMENT I

Jump To: 2008 VIEW

- January 16, 2008 - Utilities, Inc. embarks on waste water service expansion project
  CWS of N.C. announces 2.5 million expansion - completion date 2008
- December 22, 2007 - Utilities, Inc. embarks on wastewater service renovation project
  WSCI announces renovation of wastewater treatment facility
- December 20, 2007 - Utilities, Inc. sewer and water main relocation project nears completion
  Sanlando Utilities Inc., announces impending completion of 1.8 mil. project
- December 17, 2007 - Utilities, Inc. completes first phase of water main replacement project
  UI announces completion of phase 1 of water main replacement in Pahrump, NV
- December 14, 2007 - Utilities, Inc. embarks on reclaimed water service expansion project
  UI announces a major wastewater treatment expansion project
- December 3, 2007 - Utilities, Inc. Launches New Financial System
  Utilities, Inc. activates Oracles JDE financial and asset management system
- November 30, 2007 - Utilities, Inc. Acquires Perkins Mountain Water Company
  Utilities, Inc. has announced the acquisition of Perkins Mountain
- July 12, 2007 - New Appointments: Steve Lubertozzi & John Hoy
  Utilities, Inc. is pleased to announce the following appointments
- May 30, 2007 - Larry Schumacher Named Chief Executive Officer
  Utilities, Inc. is pleased to announce the appointment of Larry Schumacher
- April 23, 2007 - Utilities, Inc. Embarks on Wastewater Service Expansion Project
- April 23, 2007 - Utilities, Inc. Expands and Upgrades Water Treatment Plant
- April 23, 2007 - Utilities, Inc. Nears Completion of Water Expansion Project
- April 16, 2007 - Four Lakes Press Release
  Utilities, Inc. Named Best Tasting Water in Florida
- March 21, 2007 - John Stover Appointed Vice President and Corporate Secretary
- January 8, 2007 - Utilities, Inc. Takes Two Big Steps Forward
  Announces General Counsel and Director of Government Affairs
- October 1, 2006 - Use it and reuse it
  Utilities, Inc. provides a growing range of water services

ATTACHMENT J

INFORMATION FROM OTHER JURISDICTIONS:

Florida
Illinois
Indiana
Louisiana
Nevada
North Carolina
Pennsylvania
Tennessee

FLORIDA

Kimberley Hawkins

From: Marshall Willis [MWillis@PSC.STATE.FL.US]
Sent: Friday, December 21, 2007 1:30 PM
To: Kimberley Hawkins
Subject: RE: Arizona Corporation Commission Survey on Utilities, Inc.

Utilities, Inc. is a fairly good company. We have had some problem in the past with the company not following the strict requirements of our orders. Beyond that, they are responsive to their customers and do not normally generate many complaints. If your interested in orders addressing Utilities, Inc. cases. You can go to our website and search by company listed on your spread sheet. The orders will give you details concerning any rule violations. The link to our website is as follows: http://www.psc.state.fl.us/utilities/waterwastewater/

As far as non-compliance with the state environmental agency, it would be difficult for us to know of all environmental violations unless it resulted in a need for increased rates. Those that we know of are addressed in the final orders for each utility system.

Marshall Willis
Assistant Director
Division of Economic Regulation
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

(850) 413-6914
marshall.willis@psc.state.fl.us

From: Kimberley Hawkins [mailto:KHawkins@azcc.gov]
Sent: Thursday, December 20, 2007 5:03 PM
To: jlwebb@urc.in.gov; Troy Rendell; cgassert@urc.in.gov; dejones@ky.gov; cjohnson@psc.state.ga.us; virginial.smith@ky.gov; wmarr@icc.illinois.gov; Reid, Sam H (PSC); arnold.chauviere@la.gov; cnizer@psc.state.md.us; steve.brennen@puc.state.oh.us; sue.daly@puc.state.oh.us; rbosier@puc.state.nv.us; rhackman@puc.state.nv.us; brown@ncuc.net; kite@ncuc.net; kmiceli@state.pa.us; ckozloff@state.pa.us; michael.gallagherm@bpu.state.nj.us; darnett@regstaff.sc.gov; darlene.standley@state.tn.us; asharpe@regstaff.sc.gov; carsie.mundy@state.tn.us; tim.faherty@scc.virginia.gov
Cc: Blessing Chukwu; Steven Olea
Subject: Arizona Corporation Commission Survey on Utilities, Inc.

Greetings! Utilities, Inc. recently purchased Perkins Mountain Water Company and Perkins Mountain Utility Company (collectively, the "Perkins Companies") here in Arizona. The Perkins Companies

currently have pending applications for water and wastewater Certificates of Convenience and Necessity before the Arizona Corporation Commission (ACC). As part of its review of the Perkins Companies' applications, the ACC Staff requested a list of other jurisdictions that Utilities, Inc. and/or its affiliates provide water and/or wastewater services to the public. Your state was identified. The ACC is interested in getting feedback from your state commission, whether positive or negative, concerning Utilities, Inc. and/or its affiliates that operate within your state, i.e., are they in good standing with your commission, have they been cited by your state's drinking water and/or wastewater regulatory agency, etc. Your response would be greatly appreciated. For your convenience, an excel spreadsheet is attached to this e-mail which has the names of Utilities, Inc:'s affiliates by states.

Please respond to Kimberley Hawkins at khawkins@azcc.gov or mail to Arizona Corporation Commission, 1200 W. Washington Street, Phoenix, AZ 85007.

Kimberley Hawkins
Administrative Assistant I
Arizona Corporation Commission
Utilities Division
Ph: (602) 542-0854

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CHRIS H. BENTLEY, P.A.
ROBERT C. BRANNAN
DAVID F. CHESTER
F. MARSHALL DETERDING
JOHN R. JENKINS, P.A.
STEVEN T. MINDLIN, P.A.
CHASITY H. O'STEEN
DAREN L. SHIPPY
WILLIAM E. SUNDSTROM, P.A.
DIANE D. TREMOR, P.A.
JOHN L. WHARTON

ROBERT M. C. ROSE, *(1924-2006)*

MARTIN S. FRIEDMAN, P.A.
VALERIE L. LORD
BRIAN J. STREET

ORIGINAL

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COMMISSION
CLERK

February 19, 2007

HAND DELIVERY

Ms. Blanca Bayo
Commission Clerk and Administrative Services Director
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399

RE: Docket No. 060253-WS; Utilities, Inc. of Florida's Application for Rate Increase in Marion, Orange, Pasco, Pinellas and Seminole Counties, Florida
Our File No. 30057.108

Dear Ms. Bayo:

Enclosed for filing in the above-referenced docket is the response of Utilities, Inc. of Florida (*Utility*) to Staff's data request dated February 9, 2007.

1. It appears that Utilities, Inc. of Florida (UIF or utility) is serving outside the utility's certificated territory in a number of UIF's water and wastewater systems. For example, in Orange and Seminole County, it appears from the water distribution and wastewater collection maps provided by the utility that the following customers are outside the utility's certificated territory:

A. Orange County

(1) Davis Shores - one customer on Down Court.

(2) Crescent Heights - eight customers on the north side of West Amelia Avenue.

B. Seminole County

(1) Jansen Estates -

(a) seven customers on lots 6225, 6233, 6237, 6245, 6249, 6255, 6259 and 6226 on

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DOCUMENT NUMBER-DATE
01603 FEB 19 07
FPSC-COMMISSION CLERK

FPSC-BUREAU OF RECORDS

Linneal Beach Drive;

(b) four customers on Playaway/Brenda Drive;

(c) three customers on Junior Avenue/Center Street;

(d) four customers on Via Palma/Center Street;

(e) seven customers on Florence Avenue;

(f) six customers on Sombrero Avenue;

(g) fourteen customers on Courtney Court; and

(h) thirteen customers on Bear Lake Circle.

(2) Oakland Shores - three customers on the Eastside of Maitland Avenue.

(3) Park Ridge - one customer on Lakeside Drive and on Lake Minnie.

(4) Phillips -

(a) four customers on lots 810, 100, 545 and an unidentified lot - one lot being north of Linda Lane, and three lots south of Linda Lane, all off Country Club Road; and

(b) nine customers in lots 107, 105, 103, 101, 409, 407, 206, and 402 and an unidentified lot - all in the northeast part of the map on Pine Lake Court.

(5) Ravenna Park -

(a) Water Service

(1) four customers (three lots and one school), all being on Vihlen Road;

(2) one customer on lot 402 by the new toll road (the service area seems to follow the new toll road; however, no amendment application has been received to change the service area).

(b) Wastewater Service - the service area is not highlighted on the map. (Generally, the wastewater service area is the same as the water service area or less, so the same customers would probably be outside the service area.)

Please confirm that you are serving outside your certificated area for the above systems and customers, or explain why the service area boundary is not correct on the map.

RESPONSE: The Utility is in the process of reevaluating the legal description of its service areas and records in order to verify whether the information it previously provided indicates that it is serving any customers who are outside of its certificated service areas, and how this may have occurred, if it has in fact occurred at all. This may require that the Utility research its archived records as the Utility may have been providing service to some of these customers for many years. Mr. Flynn, the Regional Director of Utilities, Inc., has not been in the office for most of the last two weeks. He has extensive knowledge of the Utility's history and its service area, and is best qualified to address these issues. The Utility will provide its response as soon as possible after it has completed its investigation. In the event that the Utility determines that any of these customers are located outside of the Utility's certificated service areas, the Utility will file the amendment application as soon as possible.

2. If UIF is serving customers outside of its certificated area for these or any other UIF system, please describe when and under what circumstances you began serving these customers. Also, please explain why the utility did not amend its certificates in accordance with Section 367.045, Florida Statutes, to include the additional territory that is now being served.

RESPONSE: Please refer to response to no. 1 above.

3. For each customer that UIF is serving outside its certificated territory, please name the system and list the number of customers that are outside the utility's certificated area.

RESPONSE: Please refer to response to no. 1 above.

4. How long will it be before the utility files amendment applications in accordance with Section 367.045, Florida Statutes, to add the territory being served?

RESPONSE: Please refer to response to no. 1 above.

5. Please refer to MFR Schedule A-17 for each county. Provide a breakdown of accounts included in Deferred Debits with an explanation of what is included in each account.

RESPONSE: Please refer to Exhibit 5 attached hereto.

6. Please refer to MFR Schedule B-13 for each county. Provide a breakdown of CIAC

amortization expense.

RESPONSE: Please refer to Exhibit 6 attached hereto.

7. Please refer to MFR Schedule B-14 for Seminole County. Explain why this schedule shows depreciation expense under the General Plant accounts while MFR Schedules A-6 and A-10 do not show plant or accumulated depreciation for any General Plant account.

RESPONSE: MFR Schedule A-6 does include the utility plant in service for all general plant accounts in the lump sum under account 398.7 Other Tangible Plant. MFR Schedule A-10 also includes the accumulated depreciation for all general plant accounts in the lump sum under account 398.7 Other Tangible Plant.

8. For each county, please provide the CIAC amortization and rates for MFR Schedule B-13, spreadsheet column H.

RESPONSE: Please refer to response to no. 6 above and to Exhibit 6.

9. Please refer to Marion County MFR Schedules A-6 and A-10. For Account 354.3 System Pumping Plant Structures and Improvements, why is Accumulated Depreciation shown on Schedule A-10 but no plant shown on Schedule A-6?

RESPONSE: The accumulated depreciation expense amount of $2,296 for (USoA account 354.3) System Pumping Plant: Structures and Improvements on Schedule A-10 should be added to the $13,978 accumulated depreciation expense amount for (USoA account 380.4) Treatment and Disposal Plant: Treatment and Disposal Equipment. The $2,296 was booked to the wrong account. For further information please refer to Staff's Third Data Request dated January 8, 2007, directed to the utilities which have rate cases pending, and all other responses concerning the "WWTP Reclass" entries.

10. Refer to MRR Schedules B-5 and B-6 for each county. Please provide an explanation of Account 675 Miscellaneous Expenses. Explain why are these amounts so large as compared to other expenses.

RESPONSE: Please refer to Exhibit 10 attached hereto.

11. Concerning the testing of the well flow meters at Golden Hills, Marion County:

A. What caused UIF to test the in-line flow meters with a portable meter?

RESPONSE: The Utility routinely tests flow meters at well sites to obtain information regarding pump

capacity and flow meter accuracy.

B. What is the frequency of testing these meters with a portable meter?

RESPONSE: Flow meters are typically checked on an annual basis.

C. When was the testing conducted for the test year adjustment shown on MFR Schedule F-1, page 92, Volume I-A?

RESPONSE: At this time, the Utility has not been able to obtain documentation from the Florida Rural Water Association that reflects their on-site flow calibration effort during the test year. The Utility will attempt to gather additional information to forward to Staff as soon as it is available.

D. Does UIF perform similar testing at other well sites?

(1) If so, please provide a list of the other sites tested along with the frequency of testing.

RESPONSE: The Utility enlisted the services of Florida Rural Water Association to test all of the flow meters at water systems in Pasco and Pinellas counties in 2006. Flow meters are commonly tested annually at each location.

12. Concerning total water gallons pumped/corrected gallons pumped at Golden Hills, Marion County:

A. Why does the amount of water pumped listed on the Monthly Operating Reports submitted to the DEP for the test year in Volume III, Section 4, not match the corrected water pumped column amounts listed on MFR Schedule F-1, page 92, Volume I-A?

RESPONSE: The gallons pumped (col. 1) matches the reports submitted to DEP. As stated on Schedule F-1, recent tests indicate the flow meter was reading high. The utility has not gone back and restated the amounts in the monthly DEP reports. The corrected gallons (col. 2) are corrected for purposes of evaluating unaccounted for water in this rate case.

B. What is the amount of water pumped for test year 2005 that was reported to the Water Management District (WMD)?

RESPONSE: These amounts are shown in the Monthly Operating Reports submitted to DEP.

C. If the amount of water pumped and reported to the WMD does not match the gallons shown on MFR Schedule F-1, page 92, Volume I-A, explain why.

RESPONSE: Please refer to the responses to 12.A. and 12.C. above.

D. How was the Maximum Day and Five Day Maximum Year gallons determined on MFR Schedule F-3, page 92, Volume I-A, when the Monthly Operating Reports list daily amounts in thousand of gallons only?

RESPONSE: The 83.26% correction factor shown on Schedule F-1 was applied to each daily reading from the DEP reports. For example, the daily flow shown on Schedule F-3 for 11/13/2005 = 222,000 (from DEP report) x .8326 = 184,837.

E. Are these amounts listed as Maximum Day gallons and Five Day Maximum Year gallons the total pumped gallons corrected or not corrected (see MFR Schedule F-1, page 92, Volume I-A for explanation of corrected gallons)?

RESPONSE: They are the corrected amounts as per the Utility's response to 12.D. above.

F. Why do the gallons sold listed on MFR Schedule F-1, page 92, Volume I-A, not match the gallons sold on MFR Schedule F-9, page 92, Volume I-A?

RESPONSE: As explained in responses to staff data requests for other Utilities, Inc. systems, the data used in preparing Schedules F-9 and F-10 are taken from billing summary information maintained by the utility on a historical basis. Those summaries may or may not have included adjustments, but the entries are consistent from year to year. Since Schedules F-9 and F-10 are used to evaluate trends, the consistency is the more important factor. For the Utility, the difference between gallons sold on F-1 and gallons sold on F-9 is 54,000 gallons out of 44,742,000 gallons or 0.12% and is not significant.

13. Concerning the wastewater calculations at the Crownwood treatment plant, Marion County:

A. Please explain how the 22,839 gallons of TMADF was calculated on MFR Schedule F-4, page 92, Volume I-A.

RESPONSE: Starting with MFR Schedule F-2, col. 5, the ADF was calculated for each month. Then beginning with March, the ADF for three consecutive months was summed and divided by 3; e.g., the January ADF = .620/31 = .200; the ADF for Jan + Feb + Mar)/3 = (.200+.216+.238)/3 = 21,806 GPD, 3MADF. Then the highest three month period in the test year was selected. That period was Feb through Apr. (.216+.238+.231)/3 = 22,839 GPD, 3MADF.

(1) Although the regression analysis calculation shows a five year growth of 164 ERCs on MFR Schedule F-10, page 92, Volume I-A, does the utility realistically expect that growth amount?

RESPONSE: No.

(2) If that growth is not expected, what growth amount should be used?

RESPONSE: Seven ERCs per year.

B. Please explain the source of the 7 ERCs per year growth on MFR Schedule F-8, and state why this amount should be used instead of the 164 ERCs listed on MFR Schedule F-10.

RESPONSE: The explanation has been provided on Schedule F-10 (page 101). Quoting from Schedule F-10,

> "Prior to 2001, the system had been built out and stable. In 2001, a bulk utility customer, BFF Corp. was added. The significant increase in gallons from 2001 to 2002 represents that addition. The average growth rate shown [164 ERCs] is distorted by the entry of BFF into the system. A more reasonable indication of the growth rate is shown by the regression below beginning with 2002, when BFF was on the system."

The schedule then shows another regression analysis in which the projected five year growth is 37 ERCs or 263-226 = 37. 37/5 = 7.4. In reviewing the original spreadsheet, it is noted that there were two lines below the regression analysis that did not print. Those lines are:

Five year growth	37
Annual average	7

C. Please explain the derivation of the 45 gpd/ERC listed on MFR Schedule F-8.

RESPONSE: The 45 gpd/ERC = TMADF/ERCs. The TMADF, from Schedule F-4 is 22,839. The ERCs, from Schedule F-9 at line 5, col. 8 is 506. 22,839/506 = 45 gpd/ERC. It is noted that the ERCs should have been taken from Schedule F-10 at line 5, col. 8; F-9 is a water schedule. The correct calculation is 22,839/206 = 101 gpd/ERC. Therefore, the growth (PN) is understated and the calculated U&U is understated. Also, please refer to the Utility's response to 13.D. below.

D. Please explain the derivation of the 1664 gpd listed on MFR Schedule F-8.

RESPONSE: The 1664 = EG x PT x U as shown on Schedule F-8. These numbers are shown as whole numbers on the schedule, however, on the spreadsheet, the calculation uses the extended decimal values. Thus, 7 x 5 x 45 is actually 7.37 x 5 x 45.15 = 1664.23. As noted in response to C, above, the ERCs in this formula were taken from the wrong schedule. With the correction, the calculation is 7.37 x 5 x 101.11 = 3726.44. The corrected U&U calculation on Schedule F-6 is 66.41% rather than the 61.26% shown.

14. Concerning the water system at Buena Vista in Pasco County: Please explain why a generator has been installed at this system when this system has an interconnect with Aloha Utilities.

RESPONSE: Aloha Utilities terminated the availability of its water system as a backup water supply to the Buena Vista system. Since the Buena Vista system did not previously have an emergency generator at any of its three well sites, one was purchased and installed at the largest well so that the water system would be compliant with Chapter 62-555.320(14) F.A.C.

A. What steps has the utility taken to reduce the amount of unaccounted for water for this system since the test year?

RESPONSE: The Utility used the services of the Florida Rural Water Association to check the accuracy of each of the well meters in 2006. This effort identified the need to make repairs to the well meter at Buena Vista Well #3. The unaccounted for water in 2006 was approximately 10%. In addition, water meters that are no longer within tolerance are replaced as they are identified.

15. Concerning the water system at Orangewood/Wis-Bar in Pasco County, please explain the reason(s) for the negative unaccounted for water amounts in June and July of the test year as listed on MFR Schedule F-1, page 103, Volume I-C.

RESPONSE: The primary reason is a timing issue of the monthly meter read, which does not fall on the last day of the month. Gallons pumped reflect water pumped in each calendar month, while gallons sold reflect readings taken on or about the 11th of each month. The differences between billing periods and calendar months eventually even out over the course of the year.

16. Concerning the water system at Summertree, Pasco County:

A. Please explain the reason(s) for the negative unaccounted for water amounts in June, August, September, and November of the test year as listed on MFR Schedule F-1, page 113, Volume I-C.

RESPONSE: The most likely reason is that meter readings are made on or about the 12th of each

month, while the gallons pumped are shown for the calendar month.

B. Please explain the source of the amounts in the Other Uses column on MFR Schedule F-1, page 11 3, Volume I-C, and how those amounts are calculated.

RESPONSE: The amounts in the Other Uses column reflect the monthly total of all unmetered water use activities including flushing, water system repairs, or other maintenance activities. The monthly entries are taken from monthly flushing logs kept by the operators.

C. A number of letters have been received by the Commission from water customers of this system, stating that the utility has failed to pass the health standards tests for the past six quarters. Please explain what tests the utility has failed to pass in the last six quarters.

RESPONSE: In 2003 USEPA and FDEP significantly modified the monitoring requirements of the Disinfection Byproducts Rule, specifically as it relates to Total Trihalomethanes (TTHM) and five Haloacetic Acids (HAA5). Quarterly samples were taken from the distribution system and averaged to produce a 12-month Running Annual Average (RAA) value beginning in 2005. Through the fourth quarter of 2006 the current RAA of TTHM is 97 ppm, slightly higher than the Maximum Contaminant Level of 80 ppm. The RAA value for HAA5 through the fourth quarter of 2006 was 78 ppm, slightly above the MCL of 60 ppm. The Utility is in compliance with all other parameters tested.

D. Has the utility had correspondence from the DEP regarding failure to meet health standards?

RESPONSE: Yes.

E. If correspondence has been received from the DEP, please summarize the findings and conclusions. Also, provide the reports to staff.

RESPONSE: The Utility entered into a Consent Order with DEP in 2006 in which a schedule of engineering, permitting and construction activities is identified. Please refer to Exhibit 16 attached hereto.

F. Regarding these failed tests, what steps is the utility taking to improve or change the water quality so that health standards will be met?

RESPONSE: The Utility has nearly completed modifications to the disinfection system whereby chloramination will be used in order to reduce TTHM and HAA5 formation while maintaining compliance with the Total Coliform Rule.

G. What communication has been transmitted to the Summertree customers explaining the test results for the last six quarters?

RESPONSE: As required by DEP rule, the Utility notifies each customer by mail on a quarterly basis of the updated RAA as well as steps taken by the Utility to address the issue.

H. What is the time frame anticipated for meeting these health standards?

RESPONSE: It is anticipated that the modifications to the disinfection system will be completed in the first quarter of 2007, subject to DEP issuing the final clearance in a timely fashion so that chloramination can be implemented. Shortly thereafter, samples will be analyzed with the expectation that TTHM and HAA5 values will decrease significantly. Since the RAA value is an average of the last four quarterly values, the return to compliance may take most of 2007 depending on the degree to which the TTHM and HAA5 values decrease.

17. Concerning the wastewater system at Summertree, Pasco County:

A. Please explain the reason for the difference between the total purchased sewage treatment on MFR Schedule F-2, page 114, Volume I-C, and the total wastewater gallons sold on MFR Schedule F-10, page 122, Volume I-C.

RESPONSE: The gallons sold as shown on Schedule F-10, page 122 matches the gallons sold as shown on Schedule E-2, page 78. These amounts reflect residential gallons capped at 6,000 gallons. They do not reflect the gallons treated as shown on Schedule F-2.

B. If any portion of this difference is due to infiltration and inflow, please include those calculations.

RESPONSE: The difference is not due to I&I. Please refer Exhibit 17 attached hereto.

18. Concerning the water system at Lake Tarpon in Pinellas County, what steps has the utility taken to reduce the amount of unaccounted for water for this system since the test year?

RESPONSE: The Utility used the services of the Florida Rural Water Association to check the accuracy of the Lake Tarpon well meter in 2006. This effort identified the need to replace the well's flow meter, which was done in the second quarter of 2006. In addition, water meters that are no longer within tolerance are replaced as they are identified.

19. Please list each of the systems for which UIF is charging miscellaneous service charges and the dates on which such charges began.

RESPONSE: The Utility has been charging miscellaneous service charges to all of its systems since 1992, except for Wis/Bar (sub 0613) and Buena Vista (sub 0615) which began charging miscellaneous service charges in 2000 when they were acquired.

20. Also, provide any information that UIF may have which shows that these charges were approved for UIF by the Commission.

RESPONSE: Please refer to Exhibit 20 attached hereto.

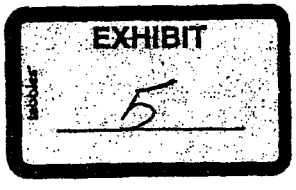
Should you have any questions, please do not hesitate to contact me.

Very truly yours,

for VALERIE L. LORD
For the Firm

VLL/tlc

cc: Ms. Christine Romig, Division of Economic Regulation (w/ enc. – by hand delivery)
Ms. Kathleen Kaproth, Division of Economic Regulation (w/ enc. – by hand delivery)
Stephen Reilly, Esquire, Office of Public Counsel (w/ enc. – by U.S. Mail)
Steven M. Lubertozzi, Chief Regulatory Officet (w/ enc. – by U.S. Mail)
Kirsten E. Weeks, CPA (w/o enc. – by U.S. Mail)
John Hoy, Regional Vice President for Operations (w/o enc. – by U.S. Mail)
Patrick C. Flynn, Regional Director (w/ enc. – by U.S. Mail)
Mr. Frank Seidman (w/o enc. – by U.S. Mail)
Ms. Deborah Swain (w/o enc. – by U.S. Mail)



Schedule of Working Capital Allowance Calculation

Florida Public Service Commission

Company: Utilities, Inc. of Florida
Docket No.: 060253 - WS
Test Year Ended: 12/31/05

Schedule: A-17
Page 1 of 1
Preparer: Steven M. Lubertozzi
Recap Schedule: A-1, A-2

Explanation: Provide the calculation of working capital using the Balance Sheet method. The calculation should not include accounts that are reported in other rate base or cost of capital accounts. Unless otherwise explained, this calculation should include both current and deferred debits and credits. All adjustments to the per book accounts shall be explained.

Line No		Water	Sewer	13-Month Average
1	Final Rates			
2	Current and Accrued Assets:			
3	Cash			1,979,643
4	Accounts and Notes Receivable, Less provision for Uncollectible Accounts			368,375
5	Deferred Debits			457,532
6	Miscellaneous current and accrued assets			1,262
7	Current and Accrued Liabilities:			
8	Accounts Payable			(106,145)
9	Accrued Taxes			(79,380)
10	Accrued Interest			5,478
11	Miscellaneous Current and Accrued Liabilities			32,975
12				
13	Equals working capital (Balance Sheet Approach)			$ 2,657,740
14				
15	Allocation to Pasco County - Water & Sewer	$ 848,489	$ 411,584	
16				
17				
18	Allocation Methodology to UIF systems:	O & M Expenses	% of Total	Allocated Working Capital
19	Marion County - Water	$ 103,657	4.77%	$ 126,774
20	Marion County - Wastewater	29,413	1.35%	35,879
21	Orange County - Water	87,677	4.03%	107,107
22	Pasco County - Water	530,212	24.40%	648,489
23	Pasco County - Wastewater	336,568	15.49%	411,684
24	Pinellas County - Water	80,548	3.71%	98,502
25	Seminole County - Water	512,141	23.57%	626,429
26	Seminole County - Wastewater	492,949	22.68%	602,775
27	TOTAL UIF	$ 2,173,155	100.00%	$ 2,657,740
28				
29				
30				
31				
32	Interim Rates			
33	Current and Accrued Assets:			
34	Cash			1,979,643
35	Accounts and Notes Receivable, Less provision for Uncollectible Accounts			368,375
36	Deferred Debits			457,532
37	Miscellaneous current and accrued assets			1,262
38	Current and Accrued Liabilities:			
39	Accounts Payable			(106,145)
40	Accrued Taxes			(79,380)
41	Accrued Interest			5,478
42	Miscellaneous Current and Accrued Liabilities			32,975
43				
44	Equals working capital (Balance Sheet Approach)			$ 2,657,740
45				
46	Allocation to Pasco County - Water & Sewer	$ 606,762	$ 429,491	
47				
48	Allocation Methodology to UIF systems:	O & M Expenses	% of Total	Working Capital
49	Marion County - Water	$ 88,937	4.71%	$ 125,190
50	Marion County - Wastewater	26,916	1.42%	37,740
51	Orange County - Water	79,587	4.22%	112,157
52	Pasco County - Water	431,404	22.83%	606,762
53	Pasco County - Wastewater	305,477	16.16%	429,491
54	Pinellas County - Water	66,430	3.51%	93,287
55	Seminole County - Water	437,333	23.15%	615,287
56	Seminole County - Wastewater	453,827	24.00%	637,858
57	TOTAL UIF	$ 1,890,013	100.00%	$ 2,657,740

Schedule of Working Capital Allowance Calculation

Company: Utilities, Inc. of Florida - Marion County
Docket No.: 060253-WS
Test Year Ended: 12/31/05

Florida Public Service Commission

Schedule: A-17
Page 1 of 1
Preparer: Steven M. Lubertozzi
Recap Schedule: A-1, A-2

Explanation: Provide the calculation of working capital using the Balance Sheet method. The calculation should not include accounts that are reported in other rate base or cost of capital accounts. Unless otherwise explained, this calculation should inc

Line No		Water	Sewer	13-Month Average
1	Final Rates			
2	Current and Accrued Assets:			1,979,643
3	Cash			366,375
4	Accounts and Notes Receivable, Less provision for Uncollectible Accounts			457,532
5	Deferred Debits			1,262
6	Miscellaneous current and accrued assets			
7	Current and Accrued Liabilities:			(106,145)
8	Accounts Payable			(79,380)
9	Accrued Taxes			5,478
10	Accrued Interest			32,975
11	Miscellaneous Current and Accrued Liabilities			
12				
13	Equals working capital (Balance Sheet Approach)			$ 2,657,740
14				
15	Allocation to Marion County - Water & Sewer	$ 126,774	$ 35,879	
16				
17				Allocated
18	Allocation Methodology to UIF systems:	O & M Expenses	% of Total	Working Capital
19	Marion County - Water	$ 103,657	4.77%	$ 126,774
20	Marion County - Wastewater	29,413	1.35%	35,879
21	Orange County - Water	87,677	4.03%	107,107
22	Pasco County - Water	530,212	24.40%	648,489
23	Pasco County - Wastewater	336,558	15.49%	411,584
24	Pinellas County - Water	80,548	3.71%	98,502
25	Seminole County - Water	512,141	23.57%	626,429
26	Seminole County - Wastewater	492,949	22.68%	602,775
27	TOTAL UIF	$ 2,173,155	100.00%	$ 2,657,740
28				
29				
30				
31				
32	Interim Rates			
33	Current and Accrued Assets:			1,979,643
34	Cash			366,375
35	Accounts and Notes Receivable, Less provision for Uncollectible Accounts			457,532
36	Deferred Debits			1,262
37	Miscellaneous current and accrued assets			
38	Current and Accrued Liabilities:			(106,145)
39	Accounts Payable			(79,380)
40	Accrued Taxes			5,478
41	Accrued Interest			32,975
42	Miscellaneous Current and Accrued Liabilities			
43				
44	Equals working capital (Balance Sheet Approach)			$ 2,657,740
45				
46	Allocation to Marion County - Water & Sewer	$ 125,180	$ 37,740	
47				
48	Allocation Methodology to UIF systems:	O & M Expenses	% of Total	Working Capital
49	Marion County - Water	$ 88,937	4.71%	$ 125,180
50	Marion County - Wastewater	26,918	1.42%	37,740
51	Orange County - Water	79,687	4.22%	112,157
52	Pasco County - Water	431,404	22.83%	606,762
53	Pasco County - Wastewater	305,477	16.16%	429,491
54	Pinellas County - Water	66,430	3.51%	93,287
55	Seminole County - Water	437,533	23.15%	615,287
56	Seminole County - Wastewater	453,627	24.00%	637,858
57	TOTAL UIF	$ 1,890,013	100.00%	$ 2,657,740

Comparative Balance Sheet - Assets

Company: Utilities, Inc. of Florida
Docket No.: 060253-WS
Test Year Ended: 12/31/05

Explanation: Provide a balance sheet for years requested. Provide same for historical base or intermediate years, if not already shown.

Florida Public Service Commission

Schedule A-18
Page 2 of 2
Preparer: Steven M. Lubertozzi

Line No.	(1) ASSETS	(2) Prior Year Dec	(3) Jan	(4) Feb	(5) Mar	(6) Apr	(7) May	(8) Jun	(9) Jul	(10) Aug	(11) Sept	(12) Oct	(13) Nov	(14) Dec	(15) 13-Month Average
1	Utility Plant in Service	12,676,104	13,817,033	13,875,033	13,944,730	13,925,766	13,937,118	13,966,524	13,966,588	14,102,496	14,134,650	13,894,992	13,795,158	14,633,792	13,899,230
2	Construction Work in Progress	445,439	476,645	539,256	709,135	786,469	809,087	839,950	874,062	878,462	878,462	878,462	933,387	122,477	705,484
3	Other Utility Plant Adjustments	431,506	433,739	433,739	433,739	433,739	433,739	433,739	433,739	433,739	433,739	433,739	433,739	433,739	433,567
4	GROSS UTILITY PLANT	13,553,049	14,727,417	14,848,028	15,087,604	15,145,974	15,179,944	15,240,213	15,294,389	15,414,697	15,446,851	15,207,193	15,162,284	15,190,008	15,038,281
5	Less: Accumulated Depreciation	(4,451,133)	(4,564,207)	(4,593,482)	(4,631,573)	(4,633,939)	(4,668,502)	(4,688,740)	(4,720,946)	(4,758,936)	(4,812,617)	(4,875,686)	(4,825,106)	(4,772,778)	(4,692,127)
6															
7	NET UTILITY PLANT	9,101,916	10,163,210	10,254,546	10,456,031	10,512,035	10,511,442	10,551,473	10,573,443	10,655,761	10,634,234	10,331,506	10,337,178	10,417,230	10,346,154
8															
9	Cash	2,259,828	2,031,213	1,828,884	2,256,682	1,956,865	2,048,863	2,203,675	1,845,272	1,939,358	3,566,198	1,763,701	1,734,515	300,290	1,979,643
10	Accounts Receivable	365,379	358,899	375,954	337,669	365,497	379,876	382,200	358,766	341,404	375,872	375,836	366,795	380,722	366,375
11	Notes Receivable														
12	Accts. Rec'b - Assoc. Cos.														
13	Notes Rec'b - Assoc. Cos.														
14	Accts. Rec'b - Other														
15	Accrued Interest Rec'b														
16	Allowance for Bad Debts														
17	Materials & Supplies														
18	Misc Current & Accrued Assets	1,457	829	1,479	1,377	1,292	1,207	1,122	1,037	952	1,171	1,846	1,561	1,476	1,262
19															
20	TOTAL CURRENT ASSETS	2,626,664	2,390,941	2,206,316	2,595,728	2,323,673	2,429,946	2,586,997	2,203,075	2,281,712	3,943,241	2,141,183	2,102,871	682,488	2,347,280
21															
22	Net nonutility property														
23	Unamortized Debt Discount & Exp.														
24	Prelim. Survey & Investigation Charges														
25	Clearing Accounts													(345,127) A	402,243
26	Deferred Rate Case Expense	459,403	450,050	440,482	430,914	421,346	411,778	402,210	392,642	383,074	373,506	363,938	354,695	48,206 B	55,289
27	Other Miscellaneous Deferred Debits	62,129	60,946	60,096	58,909	57,720	56,531	55,342	54,153	52,964	51,775	50,586	49,397		
28	Accum. Deferred Income Taxes														
29															
30	TOTAL OTHER ASSETS	521,532	510,996	500,578	489,822	479,065	468,308	457,552	446,795	436,037	425,280	414,523	404,091	393,334	457,532
31															
32	TOTAL ASSETS	12,250,112	13,064,945	12,961,443	13,541,581	13,314,774	13,409,697	13,596,022	13,223,313	13,373,510	15,002,755	12,887,211	12,844,140	11,493,052	13,150,966

Comparative Balance Sheet - Assets

Florida Public Service Commission

Company: Utilities, Inc. of Florida
Docket No.: 060253-WS
Test Year Ended: 12/31/05

Schedule: A-18
Page 1 of 2
Preparer: Steven M. Lubertozzi

Explanation: Provide a balance sheet for years requested. Provide same for historical base or intermediate years, if not already shown.

Line No.	(1) ASSETS	(2) Historic Year 12/31/04	(3) Test Year 12/31/05	(4) Average
1	Utility Plant in Service	$ 12,676,104	$ 14,633,792	$ 13,899,230
2	Construction Work in Progress	445,439	122,477	705,484
3	Other Utility Plant Adjustments	431,506	433,739	433,567
4				
5	GROSS UTILITY PLANT	13,553,049	15,190,008	15,038,281
6	Less: Accumulated Depreciation	(4,451,133)	(4,772,778)	(4,692,127)
7				
8	NET UTILITY PLANT	9,101,916	10,417,230	10,346,154
9				
10	Cash	2,259,828	300,290	1,979,643
11	Accounts Rec'b - trade	365,379	380,722	366,375
12	Notes Receivable			
13	Accts. Rec'b - Assoc. Cos.			
14	Notes Rec'b - Assoc. Cos.			
15	Accts. Rec'b - Other			
16	Accrued Interest Rec'b			
17	Allowance for Bad Debts			
18	Materials & Supplies			
19	Miscellaneous Current & Accrued Assets	1,457	1,476	1,262
20				
21	TOTAL CURRENT ASSETS	2,626,664	682,488	2,347,280
22				
23	Net nonutility property			
24	Unamortized Debt Discount & Exp.			
25	Prelim. Survey & Investigation Charges			
26	Clearing Accounts			
27	Deferred Rate Case Expense	459,403	345,127	402,243
28	Other Miscellaneous Deferred Debits	62,129	48,208	55,289
29	Accum. Deferred Income Taxes			
30	TOTAL OTHER ASSETS	521,532	393,334	457,532
31				
32	TOTAL ASSETS	$ 12,250,112	$ 11,493,052	$ 13,150,966

UTILITIES, INC.
DEFERRED RATE CASE (SE 4)
12/30/2001
FINANCE -> STANDARD ENTRIES -> SE4
10/23/2006

DATE: 10/23/2006
TIME: 5:55 PM

0.00

	DESCRIPTION	RATE	DATE	ENDING COST BEFORE PAJE	LATE ENTRIES PRIOR YEAR	ADDITIONS Jan - December 2005	ENDING COST BEFORE PAJE	A 1/1/05 BEGINNING ACC AMORT	C BEGINNING NET BOOK VALUE	B AMORT CURRENT MONTH	B(11) Prior Amort November	B(10) Prior Amort October	B(9) Prior Amort September	B(8) Prior Amort August	B(7) Prior Amort July	B(6) Prior Amort June	B(5) Prior Amort May	B(4) Prior Amort Apr	B(3) Prior Amort Mar	B(2) Prior Amort Feb	B(1) Prior Amort Jan	B Total Prior Amort	A+B ENDING ACC AMORT	C-B ENDING NET BOOK VALUE
FLORIDA																									
1163011	RATES	20.00%	12/31/1999	164,419.86	355.00		164,774.86	32,880.00	131,894.86	2,746.00	2,746.00	2,746.00	2,746.00	2,746.00	2,746.00	2,746.00	2,746.00	2,746.00	2,746.00	2,746.00	2,746.00	30,206.00	65,832.00	98,942.86
1163012	RATES	20.00%	12/31/1999	374,158.44			374,158.44	74,645.00	299,511.44	6,236.00	6,236.00	6,236.00	6,236.00	6,236.00	6,236.00	6,236.00	6,236.00	6,236.00	6,236.00	6,236.00	6,236.00	68,596.00	149,477.00	224,679.44
1163013	RATES	20.00%	12/31/1999	34,946.79		214.80	35,163.38	6,952.00	28,211.39	586.00	586.00	586.00	586.00	586.00	586.00	586.00	586.00	586.00	586.00	586.00	586.00	6,446.00	13,984.00	21,179.38
1163015	RATES		PENDING			325.00	325.00	0.00	325.00	0.00	0.00	0.00									0.00	0.00	0.00	325.00
	TOTAL COMP00			573,525.09	355.00	539.80	574,419.69	114,477.00	459,942.69	9,568.00	9,568.00	9,568.00	9,568.00	9,568.00	9,568.00	9,568.00	9,568.00	9,568.00	9,568.00	9,568.00	9,568.00	106,248.00	229,293.00	345,126.69

UTILITIES, INC.
DEFERRED MAINTENANCE (SE 4)
12/30/2001
FINANCE -> STANDARD ENTRIES -> 864

DATE: 10/23/2002
TIME: 8:46 PM

DESCRIPTION		DATE	DATE	ENDING COST BEFORE PAIE	LATE ENTRIES PRIOR YEAR	ADDITIONS Jan - December 2002	ENDING COST BEFORE PAIE	A 1/166 BEGINNING ACC AMORT	C BEGINNING NET BOOK VALUE	ACCOUNT NUMBERS DEBIT			ACCOUNT NUMBERS CREDIT			B CURRENT MNTH	B(12) Prior Amort December	B(11) Prior Amort November	B(10) Prior Amort October	B(9) Prior Amort September	B(8) Prior Amort August	B(7) Prior Amort July	B(6) Prior Amort June	B(5) Prior Amort May	B(4) Prior Amort Apr	B(3) Prior Amort Mar	B(2) Prior Amort Feb	B(1) Prior Amort Jan	B Total Prior Amort	A+B ENDING ACC AMORT	C-B ENDING NET BOOK VALUE	YTD Amort	Years Remain
FLORIDA																5.94																
1663002	TANK MAINT (NTTN) PAIE'S F	20.00%	3/28/1998	4,295.00			4,295.00	2,255.00	2,330.00	000-	0000-	675990	000-	0000-	1664002	71.99		71.99	71.99	71.99	71.99	71.99	71.99	71.99	71.99	71.99	71.99	71.99	791.99	2,907.00	1,326.00		1.82
1663016	RELOCATION	20.00%	1/31/1998	6,393.00			6,393.05	3,680.00	2,723.00	000-	0000-	675990	000-	0000-	1663016	166.00		199.99	166.00	166.00	166.00	166.00	166.00	166.00	166.00	166.00	166.00	166.00	1,795.99	5,835.00	2,451.00		3.75
1663018	HURRICANE DEP	20.00%	9/30/2000	36,353.58		348.92	36,684.41	3,927.67	32,756.74							982.00		982.00	982.00	982.00	982.00	982.00	982.00	982.00	982.00	982.00	982.00	982.00	10,790.00	14,705.67	44,188.74		9.53
1663018	VOC TESTING sub 864	33.33%	4/30/1998	1,000.00			1,000.00	540.00	360.00							30.00		30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	330.00	600.00	160.00		0.53
	TOTAL COMP			70,311.58	0.00	348.92	70,663.41	9,162.67	62,499.74							1,104.00		1,109.98	1,109.99	1,109.99	1,109.99	1,109.99	1,109.99	1,109.99	1,109.99	1,109.99	1,109.99	1,109.99	12,013.00	22,444.67	48,207.74	14,262.00	2.34

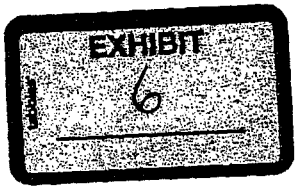


EXHIBIT
6

Net Depreciation Expense - Water

Florida Public Service Commission

Company: Utilities, Inc. of Florida - Marion County
Docket No.: 060253-WS
Test Year Ended: 12/31/05
Historic [X] or Projected [ ]

Schedule: B-13
Page 1 of 1
Preparer: Steven M. Lubertozzi
Recap Schedules: B-1

Explanation: Provide a schedule of test year non-used and useful depreciation expense by primary account

Line No.	(1) Account No. and Name	(2) Test Year Expense County	(3) Test Year UIF Allocation	(4) Test Year Total Expense	(5) Adjustments	(6) Adjusted Balance	(7) Non-Used & Useful %	(8) Non-Used & Amount
1	INTANGIBLE PLANT							
2	301.1 Organization	$ 65	$ 8	$ 73		$ 73		
3	302.1 Franchises			0		0		
4	339.1 Other Plant & Misc. Equipment			0		0		
5	SOURCE OF SUPPLY AND PUMPING PLANT							
6	303.2 Land & Land Rights			0		0		
7	304.2 Structures & Improvements	2,120		2,120		2,120		
8	305.2 Collect. & Impound. Reservoirs			0		0		
9	306.2 Lake, River & Other Intakes			0		0		
10	307.2 Wells & Springs	1,132		1,132		1,132		
11	308.2 Infiltration Galleries & Tunnels			0		0		
12	309.2 Supply Mains			0		0		
13	310.2 Power Generation Equipment			0		0		
14	311.2 Pumping Equipment	4,843		4,843	235	5,078		
15	339.2 Other Plant & Misc. Equipment			0		0		
16	WATER TREATMENT PLANT							
17	303.3 Land & Land Rights			0		0		
18	304.3 Structures & Improvements	130		130		130		
19	320.3 Water Treatment Equipment	1,052		1,052		1,052		
20	339.3 Other Plant & Misc. Equipment			0		0		
21	TRANSMISSION & DISTRIBUTION PLANT							
22	303.4 Land & Land Rights			0		0		
23	304.4 Structures & Improvements			0		0		
24	330.4 Distr. Reservoirs & Standpipes	2,467		2,467		2,467		
25	331.4 Transm. & Distribution Mains	5,145		5,145		5,145		
26	333.4 Services	2,617		2,617	139	2,756		
27	334.4 Meters & Meter Installations	2,357		2,357		2,357		
28	335.4 Hydrants	492		492		492		
29	339.4 Other Plant & Misc. Equipment			0		0		
30	GENERAL PLANT							
31	303.5 Land & Land Rights			0		0		
32	304.5 Structures & Improvements		308	308		308		
33	340.5 Office Furniture & Equipment		616	616		616		
34	341.5 Transportation Equipment		4,337	4,337		4,337		
35	342.5 Stores Equipment		5	5		5		
36	343.5 Tools, Shop & Garage Equipment	353	332	685		685		
37	344.5 Laboratory Equipment	86	2	88		88		
38	345.5 Power Operated Equipment			0		0		
39	346.5 Communication Equipment		56	56		56		
40	347.5 Miscellaneous Equipment			0		0		
41	348.5 Other Tangible Plant	(647)		(647)		(647)		
42	TOTAL	22,212	5,664	27,876	374	28,250	N/A	N/A
43	LESS: AMORTIZATION OF CIAC	(4,238)		(4,238)		(4,238)		
44								
45	NET DEPRECIATION EXPENSE - WATER	$ 17,974	$ 5,664	$ 23,638	$ 374	$ 24,012	N/A	N/A

PERIOD ENDING: 12/31/05

GOLDEN HILLS - W
WATER DEPRECIATION

SUB	ACCT	A TOTAL PLANT	B LESS LAND	C NET DEPR PLANT A-B	DEPR RATE THROUGH MO# 1.00	CURRENT 1 MONTH DEPR	*JAN-JUL* CURRENT 6 MONTH DEPR	*JUL - DEC* CURRENT 6 MONTH DEPR	DIFFERENCE:
630	2711000	47,630.00		47,630.00	0.208%	99.23	595.38	595.38	-
630	2711010	15,050.00		15,050.00	0.208%	31.35	188.10	166.26	21.84
630	2711014	4,624.42		4,624.42	0.278%	12.83	76.98	76.98	-
630	2711021	2,475.63		2,475.63	0.261%	6.46	38.76	38.76	-
630	2711025	12,347.27		12,347.27	0.417%	51.45	308.70	308.70	-
630	2711031	148.15		148.15	0.261%	0.39	2.34	2.34	-
630	2711032	2,205.40		2,205.40	0.379%	8.36	50.16	50.16	-
630	2711042	10,418.21		10,418.21	0.225%	23.44	140.64	140.64	-
630	2711043	33,098.57		33,098.57	0.194%	64.27	385.62	385.62	-
630	2711045	13,826.15		13,826.15	0.208%	28.80	172.80	172.80	-
630	2711046	4,114.52		4,114.52	0.417%	17.14	102.84	102.84	-
630	2711047	155.64		155.64	0.417%	0.65	3.90	3.90	-
630	2711048	2,970.04		2,970.04	0.185%	5.49	32.94	32.94	-
630	3466094	-		0.00	0.521%	0.00	0.00	0.00	-
		149,064.00	0.00	149,064.00	0.235%	349.86	2,099.16	2,077.32	21.84
					Composite Rate				

PERIOD ENDING: 12/31/05

CROWNWOOD OF OCALA - W&S
WATER DEPRECIATION

SUB	ACCT	A TOTAL PLANT	B LESS LAND	C NET DEPR PLANT A-B	DEPR RATE THROUGH MO# 1.00	CURRENT 1 MONTH DEPR	*JAN-JUL* CURRENT 6 MONTH DEPR	*JUL - DEC* CURRENT 6 MONTH DEPR	DIFFERENCE:
635	2711000	350.00		350.00	0.208%	**0.73** ✓	4.38	4.38	-
635	2711010	1,400.00		1,400.00	0.208%	**2.92** ✓	17.52	17.52	-
635	2711021			0.00	0.261%	**0.00**	0.00	0.00	-
635	2711042			0.00	0.225%	**0.00**	0.00	0.00	-
635	2711043			0.00	0.194%	**0.00**	0.00	0.00	-
635	2711045			0.00	0.208%	**0.00**	0.00	0.00	-
635	2711046			0.00	0.417%	**0.00**	0.00	0.00	-
635	2711047			0.00	0.417%	**0.00**	0.00	0.00	-
635	3466094			0.00	0.521%	**0.00**	0.00	0.00	-
635	3446095			0.00	0.560%	**0.00**	0.00	0.00	-
		1,750.00	0.00	1,750.00	0.209%	**3.65** ✓	21.90 ✓	21.90	0.00
					Composite Rate				

.73 x 12 = 8.76 3.69
2.92 x 12 = 34.95 21.90
13.71 43.80

3.65 x 12 = 43.80
1750.00 x 0.209% = 3.657 ✓

Net Depreciation Expense - Water

Company: Utilities, Inc. of Florida - Orange County
Docket No.: 060253 - WS
Test Year Ended: 12/31/05
Historic [X] or Projected [ ]

Florida Public Service Commission

Schedule: B-13
Page 1 of 1
Preparer: Steven M. Lubertozzi
Recap Schedules: B-1

Explanation: Provide a schedule of test year non-used and useful depreciation expense by primary account

Line No.	(1) Account No. and Name	(2) Test Year Expense County	(3) Test Year Cost Center Allocation	(4) Test Year UIF Allocation	(5) Test Year Total Expense	(6) Adjustments	(7) Adjusted Balance	(8) Non-Used & Useful %	(9) Non-Used & Amount
1	301.1 Organization	193	(8)	5	190		190		
2	302.1 Franchises				-		-		
3	339.1 Other Plant & Misc. Equipment				-		-		
4	SOURCE OF SUPPLY AND PUMPING PLANT				-				
5	303.2 Land & Land Rights				-		-		
6	304.2 Structures & Improvements	(3)			(3)		(3)		
7	305.2 Collect. & Impound. Reservoirs				-		-		
8	306.2 Lake, River & Other Intakes				-		-		
9	307.2 Wells & Springs	643			643		643		
10	308.2 Infiltration Galleries & Tunnels				-		-		
11	309.2 Supply Mains				-		-		
12	310.2 Power Generation Equipment				-		-		
13	311.2 Pumping Equipment	51	(7)		44		44		
14	339.2 Other Plant & Misc. Equipment				-		-		
15	WATER TREATMENT PLANT				-				
16	303.3 Land & Land Rights				-		-		
17	304.3 Structures & Improvements	11			11		11		
18	320.3 Water Treatment Equipment	1			1		1		
19	339.3 Other Plant & Misc. Equipment				-		-		
20	TRANSMISSION & DISTRIBUTION PLANT				-				
21	303.4 Land & Land Rights				-		-		
22	304.4 Structures & Improvements				-		-		
23	330.4 Distr. Reservoirs & Standpipes	69			69		69		
24	331.4 Transm. & Distribution Mains	1,697			1,697		1,697		
25	333.4 Services	539	15		554		554		
26	334.4 Meters & Meter Installations	1,260	134		1,394		1,394		
27	335.4 Hydrants	1			1		1		
28	339.4 Other Plant & Misc. Equipment				-		-		
29	GENERAL PLANT				-				
30	303.5 Land & Land Rights				-		-		
31	304.5 Structures & Improvements			182	182		182		
32	340.5 Office Furniture & Equipment			364	364		364		
33	341.5 Transportation Equipment			2,560	2,560		2,560		
34	342.5 Stores Equipment			3	3		3		
35	343.5 Tools, Shop & Garage Equipment		283	196	479		479		
36	344.5 Laboratory Equipment			1	1		1		
37	345.5 Power Operated Equipment				-		-		
38	346.5 Communication Equipment		142	33	175		175		
39	347.5 Miscellaneous Equipment				-		-		
40	348.5 Other Tangible Plant	(206)	(229)		(435)		(435)		
41	TOTAL	4,253	330	3,344	7,927	-	7,927	N/A	N/A
42	LESS: AMORTIZATION OF CIAC	(1,230) ✓	162		(1,068)		(1,068)		
43									
44	NET DEPRECIATION EXPENSE - WATER	$ 3,023	$ 492	$ 3,344	$ 6,859	$ -	$ 6,859	N/A	N/A

PERIOD ENDING: 12/31/05

CRESCENT HEIGHTS - W
WATER DEPRECIATION

SUB	ACCT	A TOTAL PLANT	B LESS LAND	C NET DEPR PLANT A-B	DEPR RATE THROUGH MO# 1.00	CURRENT 1 MONTH DEPR	*JAN-JUL* CURRENT 6 MONTH DEPR	*JUL - DEC* CURRENT 6 MONTH DEPR	DIFFERENCE:
620	2711000	3,150.00		3,150.00	0.208%	**6.56**	39.36	39.36	-
620	2711010	350.00		350.00	0.208%	**0.73**	4.38	4.38	-
620	2711014	706.12		706.12	0.278%	**1.96**	11.76	11.76	-
620	2711021	658.45		658.45	0.261%	**1.72**	10.32	10.32	-
620	2711025	1,558.67		1,558.67	0.417%	**6.49**	38.94	38.94	-
620	2711031	5.79		5.79	0.261%	**0.02**	0.12	0.12	-
620	2711032	423.47		423.47	0.379%	**1.61**	9.66	9.66	-
620	2711042	182.74		182.74	0.225%	**0.41**	2.46	2.46	-
620	2711043	9,170.61		9,170.61	0.194%	**17.81**	106.86	106.86	-
620	2711045	2,541.27		2,541.27	0.208%	**5.29**	31.74	31.74	-
620	2711046	3,454.31			0.417%	**14.39**	86.34	86.34	-
620	2711047	36.38			0.417%	**0.15**	0.90	0.90	-
620	2711048	4.69			0.185%	**0.01**	0.06	0.06	-
		22,242.50			0.257%	57.15	342.90	342.90	0.00

sn lbc
1230
equals = 1230.12 ✓

posite Rate

Water CIAC

PERIOD ENDING: 12/31/05

DAVIS SHORES - W
WATER DEPRECIATION

SUB	ACCT	A TOTAL PLANT	B LESS LAND	C NET DEPR PLANT A-B	DEPR RATE THROUGH MO# 1.00	CURRENT 1 MONTH DEPR	*JAN-JUL* CURRENT 6 MONTH DEPR	*JUL - DEC* CURRENT 6 MONTH DEPR	DIFFERENCE:
621	2711000	3,266.00		3,266.00	0.208%	**6.80**	40.80	40.80	-
621	2711014	2,481.87		2,481.87	0.278%	**6.89**	41.34	41.34	-
621	2711021	341.46		341.46	0.261%	**0.89**	5.34	5.34	-
621	2711025	3,462.45		3,462.45	0.417%	**14.43**	86.58	86.58	-
621	2711031	78.65		78.65	0.261%	**0.21**	1.26	1.26	-
621	2711032	406.29		406.29	0.379%	**1.54**	9.24	9.24	-
621	2711042	358.36		358.36	0.225%	**0.81**	4.86	4.86	-
621	2711043	4,521.23		4,521.23	0.194%	**8.78**	52.68	52.68	-
621	2711045	787.10		787.10	0.208%	**1.64**	9.84	9.84	-
621	2711046	800.61		800.61	0.417%	**3.34**	20.04	20.04	-
621	2711047	6.41		6.41	0.417%	**0.03**	0.18	0.18	-
		16,510.43	0.00	16,510.43	0.275%	**45.36**	272.16	272.16	0.00
					Composite Rate				

Net Depreciation Expense - Water

Florida Public Service Commission

Company: Utilities, Inc. of Florida - Pinellas County
Docket No.: 060253 - WS
Test Year Ended: 12/31/05
Historic [X] or Projected [ ]

Schedule: B-13
Page 1 of 1
Preparer: Steven M. Lubertozzi
Recap Schedules: B-1

Explanation: Provide a schedule of test year non-used and useful depreciation expense by primary account

Line No.	(1) Account No. and Name	(2) Test Year Expense County	(3) Test Year Cost Center Allocation	(4) Test Year UIF Allocation	(5) Test Year Total Expense	(6) Adjustments	(7) Adjusted Balance	(8) Non-Used & Useful %	(9) Non-Used & Amount
1	INTANGIBLE PLANT								
2	301.1 Organization	445	(81)	6	370		370		
3	302.1 Franchises				0		-		
4	339.1 Other Plant & Misc. Equipment				0		-		
5	SOURCE OF SUPPLY AND PUMPING PLANT				0		-		
6	303.2 Land & Land Rights				0		-		
7	304.2 Structures & Improvements	207			207		207		
8	305.2 Collect. & Impound. Reservoirs				0		-		
9	306.2 Lake, River & Other Intakes				0		-		
10	307.2 Wells & Springs	1,068			1,068		1,068		
11	308.2 Infiltration Galleries & Tunnels				0		-		
12	309.2 Supply Mains				0		-		
13	310.2 Power Generation Equipment				0		-		
14	311.2 Pumping Equipment	359			359		359		
15	339.2 Other Plant & Misc. Equipment				0		-		
16	WATER TREATMENT PLANT				0		-		
17	303.3 Land & Land Rights				0		-		
18	304.3 Structures & Improvements	32			32		32		
19	320.3 Water Treatment Equipment	596			596		596		
20	339.3 Other Plant & Misc. Equipment				0		-		
21	TRANSMISSION & DISTRIBUTION PLANT				0		-		
22	303.4 Land & Land Rights				0		-		
23	304.4 Structures & Improvements				0		-		
24	330.4 Distr. Reservoirs & Standpipes	1,062			1,062		1,062		
25	331.4 Transm. & Distribution Mains	3,951			3,951		3,951		
26	333.4 Services	2,583			2,583	64	2,647		
27	334.4 Meters & Meter Installations	1,014	153		1,167	109	1,276		
28	335.4 Hydrants	98			98		98		
29	339.4 Other Plant & Misc. Equipment				0		-		
30	GENERAL PLANT				0		-		
31	303.5 Land & Land Rights				0		-		
32	304.5 Structures & Improvements			244	244		244		
33	340.5 Office Furniture & Equipment		17	490	507		507		
34	341.5 Transportation Equipment			3,441	3,441		3,441		
35	342.5 Stores Equipment			4	4		4		
36	343.5 Tools, Shop & Garage Equipment	111	129	264	504		504		
37	344.5 Laboratory Equipment		2	1	3		3		
38	345.5 Power Operated Equipment				0		-		
39	346.5 Communication Equipment		45	44	89		89		
40	347.5 Miscellaneous Equipment				0		-		
41	348.5 Other Tangible Plant	(917)	1,544		627		627		
42	TOTAL	10,606	1,809	4,494	16,909	173	17,082	N/A	N/A
43	LESS: AMORTIZATION OF CIAC	(3,775)			(3,775)		(3,775)		
44									
45	NET DEPRECIATION EXPENSE - WATER	$ 6,832	$ 1,809	$ 4,494	$ 13,135	$ 173	$ 13,307	N/A	N/A

Water CIAC

PERIOD ENDING: 12/31/05

LAKE TARPON - W
WATER DEPRECIATION

SUB	ACCT	A TOTAL PLANT	B LESS LAND	C NET DEPR PLANT A-B	DEPR RATE THROUGH MO# 1.00	CURRENT 1 MONTH DEPR	*JAN-JUL* CURRENT 6 MONTH DEPR	*JUL - DEC* CURRENT 6 MONTH DEPR	DIFFERENCE:
637	2711000	907.01		907.01	0.208%	**1.89**	11.34	11.34	-
637	2711014	11,008.29		11,008.29	0.278%	**30.55**	183.30	183.30	-
637	2711021	1,867.42		1,867.42	0.261%	**4.87**	29.22	29.22	-
637	2711025	2,564.95		2,564.95	0.417%	**10.69**	64.14	64.14	-
637	2711031	306.53		306.53	0.261%	**0.80**	4.80	4.80	-
637	2711032	4,599.16		4,599.16	0.379%	**17.44**	104.64	104.64	-
637	2711042	12,344.43		12,344.43	0.225%	**27.77**	166.62	166.62	-
637	2711043	66,970.51		66,970.51	0.194%	**130.03**	780.18	780.18	-
637	2711045	32,440.25		32,440.25	0.208%	**67.58**	405.48	405.48	-
637	2711046	5,076.07		5,076.07	0.417%	**21.15**	126.90	126.90	-
637	2711047	167.05		167.05	0.417%	**0.70**	4.20	4.20	-
637	2711048	595.79		595.79	0.185%	**1.10**	6.60	6.60	-
637	3466094	-		0.00	0.521%	**0.00**	0.00	0.00	-
		138,847.46	0.00	138,847.46	0.227%	**314.57**	1,887.42	1,887.42	0.00
					Composite Rate				

Net Depreciation Expense - Water

Florida Public Service Commission

Company: Utilities, Inc. of Florida - Pasco County
Docket No.: 060253 - WS
Test Year Ended: 12/31/05
Historic [X] or Projected [ ]

Schedule: B-13
Page 1 of 1
Preparer: Steven M. Lubertozzi
Recap Schedules: B-1

Explanation: Provide a schedule of test year non-used and useful depreciation expense by primary account

Line No.	(1) Account No. and Name	(2) Test Year Expense County	(3) Test Year Cost Center Allocation	(4) Test Year UIF Allocation	(5) Test Year Total	(6) Adjustments	(7) Adjusted Balance	(8) Non-Used & Useful %	(9) Non-Used & Amount
1	INTANGIBLE PLANT								
2	301.1 Organization	1,014	(558)	42	498		498		
3	302.1 Franchises				-		-		
4	339.1 Other Plant & Misc. Equipment				-		-		
5	SOURCE OF SUPPLY AND PUMPING PLANT								
6	303.2 Land & Land Rights				-		-		
7	304.2 Structures & Improvements	2,097			2,097		2,097		
8	305.2 Collect. & Impound. Reservoirs				-		-		
9	306.2 Lake, River & Other Intakes				-		-		
10	307.2 Wells & Springs	10,572			10,572		10,572		
11	308.2 Infiltration Galleries & Tunnels				-		-		
12	309.2 Supply Mains				-		-		
13	310.2 Power Generation Equipment				-	3,507	3,507		
14	311.2 Pumping Equipment	9,695			9,695		9,695		
15	339.2 Other Plant & Misc. Equipment				-		-		
16	WATER TREATMENT PLANT								
17	303.3 Land & Land Rights				-		-		
18	304.3 Structures & Improvements	418			418		418		
19	320.3 Water Treatment Equipment	3,042			3,042	1,792	4,834		
20	339.3 Other Plant & Misc. Equipment				-		-		
21	TRANSMISSION & DISTRIBUTION PLANT								
22	303.4 Land & Land Rights				-		-		
23	304.4 Structures & Improvements				-		-		
24	330.4 Distr. Reservoirs & Standpipes	8,383			8,383		8,383		
25	331.4 Transm. & Distribution Mains	24,386			24,386	118	24,504		
26	333.4 Services	10,050			10,050	91	10,141		
27	334.4 Meters & Meter Installations	13,094	1,050		14,144	386	14,530		
28	335.4 Hydrants	1,241			1,241	341	1,582		
29	339.4 Other Plant & Misc. Equipment				-		-		
30	GENERAL PLANT								
31	303.5 Land & Land Rights				-		-		
32	304.5 Structures & Improvements			1,681	1,681		1,681		
33	340.5 Office Furniture & Equipment	17	115	3,362	3,494		3,494		
34	341.5 Transportation Equipment			23,656	23,656		23,656		
35	342.5 Stores Equipment			29	29		29		
36	343.5 Tools, Shop & Garage Equipment	1,765	887	1,813	4,465		4,465		
37	344.5 Laboratory Equipment		14	9	23		23		
38	345.5 Power Operated Equipment				-		-		
39	346.5 Communication Equipment		308	305	613		613		
40	347.5 Miscellaneous Equipment				-		-		
41	348.5 Other Tangible Plant		10,613		10,613		10,613		
42									
43	TOTAL	85,775	12,429	30,897	129,101	6,235	135,336		N/A
44	LESS: AMORTIZATION OF CIAC	(15,006)			(15,006)		(15,006)		
45									
46	NET DEPRECIATION EXPENSE - WATER	$ 70,769	$ 12,429	$ 30,897	$ 114,095	$ 6,235	$ 120,330		N/A

Water CIAC

PERIOD ENDING: 12/31/05

BUENA VISTA - W
WATER DEPRECIATION

SUB	ACCT	A TOTAL PLANT	B LESS LAND	C NET DEPR PLANT A-B	DEPR RATE THROUGH MO# 1.00	CURRENT 1 MONTH DEPR	JAN-JUL CURRENT 6 MONTH DEPR	JUL - DEC CURRENT 6 MONTH DEPR	DIFFERENCE:
615	2711000	110.01		110.01	0.208%	0.23	1.38	1.38	-
615	2711010	385.00		385.00	0.208%	0.80	4.80	4.80	-
615	2711014	10.21		10.21	0.278%	0.03	0.18	0.18	-
615	2711021	2.45		2.45	0.261%	0.01	0.06	0.06	-
615	2711025	13.71		13.71	0.417%	0.06	0.36	0.36	-
615	2711031	2.99		2.99	0.261%	0.01	0.06	0.06	-
615	2711032	4.26		4.26	0.379%	0.02	0.12	0.12	-
615	2711042	13.80		13.80	0.225%	0.03	0.18	0.18	-
615	2711043	119.53		119.53	0.194%	0.23	1.38	1.38	-
615	2711045	17.28		17.28	0.208%	0.04	0.24	0.24	-
615	2711046	28.19		28.19	0.417%	0.12	0.72	0.72	-
615	2711047	0.79		0.79	0.417%	0.00	0.00	0.00	-
615	2711048	1.78		1.78	0.185%	0.00	0.00	0.00	-
615	3466094	-		0.00	0.521%	0.00	0.00	0.00	-
		710.00	0.00	710.00	0.223%	1.58	9.48	9.48	0.00
					Composite Rate				

Water CIAC

PERIOD ENDING: 12/31/05

WIS-BAR - W&S
WATER DEPRECIATION

SUB	ACCT	A TOTAL PLANT	B LESS LAND	C NET DEPR PLANT A-B	DEPR RATE THROUGH MO# 1.00	CURRENT 1 MONTH DEPR	*JAN-JUL* CURRENT 6 MONTH DEPR	*JUL - DEC* CURRENT 6 MONTH DEPR	DIFFERENCE:
613	2711000	0.01		0.01	0.208%	**0.00**	0.00	0.00	-
613	2711010	1,120.00		1,120.00	0.208%	**2.33**	13.98	13.98	-
613	2711014	100.91		100.91	0.278%	**0.28**	1.68	1.68	-
613	2711031	89.70		89.70	0.261%	**0.23**	1.38	1.38	-
613	2711042	199.83		199.83	0.225%	**0.45**	2.70	2.70	-
613	2711043	9,428.08		9,428.08	0.194%	**18.31**	109.86	109.86	-
613	2711045	565.10		565.10	0.208%	**1.18**	7.08	7.08	-
613	2711046	1,563.76		1,563.76	0.417%	**6.52**	39.12	39.12	-
613	2711047	354.61		354.61	0.417%	**1.48**	8.88	8.88	-
613	3466094	-		0.00	0.521%	**0.00**	0.00	0.00	-
		13,422.00	0.00	13,422.00	0.229%	30.78	184.68	184.68	0.00
					Composite Rate				

PERIOD ENDING: 12/31/05

SUMMERTREE (PPW) - W
WATER DEPRECIATION

SUB	ACCT	A TOTAL PLANT	B LESS LAND	C NET DEPR PLANT A-B	DEPR RATE THROUGH MO# 1.00	CURRENT 1 MONTH DEPR	*JAN-JUL* CURRENT 6 MONTH DEPR	*JUL - DEC* CURRENT 6 MONTH DEPR	DIFFERENCE:
626	2711000	-		0.00	0.208%	0.00	0.00	0.00	-
626	2711011	6,650.91		6,650.91	0.261%	17.35	104.10	104.10	-
626	2711014	101,193.88		101,193.88	0.278%	280.81	1,684.86	1,684.86	-
626	2711021	2,998.83		2,998.83	0.261%	7.82	46.92	46.92	-
626	2711025	39,166.09		39,166.09	0.417%	163.19	979.14	979.14	-
626	2711031	804.67		804.67	0.261%	2.10	12.60	12.60	-
626	2711032	9,646.07		9,646.07	0.379%	36.57	219.42	219.42	-
626	2711042	15,495.42		15,495.42	0.225%	34.86	209.16	209.16	-
626	2711043	149,716.86		149,716.86	0.194%	290.70	1,744.20	1,744.20	-
626	2711045	46,545.58		46,545.58	0.208%	96.97	581.82	581.82	-
626	2711046	32,810.79		32,810.79	0.417%	136.71	820.26	820.26	-
626	2711047	381.39		381.39	0.417%	1.59	9.54	9.54	-
626	2711048	21,027.51		21,027.51	0.185%	38.90	233.40	233.40	-
		426,438.00	0.00	426,438.00	0.260%	1,107.57	6,645.42	6,645.42	0.00
					Composite Rate				

PERIOD ENDING: 12/31/05

ORANGEWOOD - W
WATER DEPRECIATION

SUB	ACCT	A TOTAL PLANT	B LESS LAND	C NET DEPR PLANT A-B	DEPR RATE THROUGH MO# 1.00	CURRENT 1 MONTH DEPR	*JAN-JUL* CURRENT 6 MONTH DEPR	*JUL - DEC* CURRENT 6 MONTH DEPR	DIFFERENCE:
629	2711000	3,690.00		3,690.00	0.208%	7.69	46.14	46.14	-
629	2711010	3,835.00		3,835.00	0.208%	7.99	47.94	39.96	7.98
629	2711014	1,313.56		1,313.56	0.278%	3.65	21.90	21.90	-
629	2711021	1,866.25		1,866.25	0.261%	4.87	29.22	29.22	-
629	2711025	3,848.06		3,848.06	0.417%	16.03	96.18	96.18	-
629	2711031	85.85		85.85	0.261%	0.22	1.32	1.32	-
629	2711032	1,656.03		1,656.03	0.379%	6.28	37.68	37.68	-
629	2711042	5,002.66		5,002.66	0.225%	11.26	67.56	67.56	-
629	2711043	14,351.95		14,351.95	0.194%	27.87	167.22	167.22	-
629	2711045	4,750.39		4,750.39	0.208%	9.90	59.40	59.40	-
629	2711046	3,680.65		3,680.65	0.417%	15.34	92.04	92.04	-
629	2711047	24.45		24.45	0.417%	0.10	0.60	0.60	-
629	3406091	-		0.00	0.556%	0.00	0.00	0.00	-
629	3466094			0.00	0.521%	0.00	0.00	0.00	-
		44,104.85	0.00	44,104.85	0.252%	111.20	667.20	659.22	7.98
					Composite Rate				

Net Depreciation Expense - Water

Company: Utilities, Inc. of Florida - Seminole County
Docket No.: 060253 - WS
Test Year Ended: 12/31/05
Historic [X] or Projected [ ]

Florida Public Service Commission

Schedule: B-13
Page 1 of 1
Preparer: Steven M. Lubertozzi
Recap Schedules: B-1

Explanation: Provide a schedule of test year non-used and useful depreciation expense by primary account

Line No.	(1) Account No. and Name	(2) Test Year Expense County	(3) Test Year Cost Center Allocation	(4) Test Year UIF Allocation	(5) Test Year Total Expense	(6) Adjustments	(7) Adjusted Balance	(8) Non-Used & Useful %	(9) Non-Used & Amount
1	INTANGIBLE PLANT								
2	301.1 Organization	$ 1,247	(68)	$ 37	$ 1,218		$ 1,218		
3	302.1 Franchises	4			4		4		
4	339.1 Other Plant & Misc. Equipment				0		-		
5	SOURCE OF SUPPLY AND PUMPING PLANT								
6	303.2 Land & Land Rights				0		-		
7	304.2 Structures & Improvements	4,193			4,193		4,193		
8	305.2 Collect. & Impound. Reservoirs				0		-		
9	306.2 Lake, River & Other Intakes				0		-		
10	307.2 Wells & Springs	5,793			5,793		5,793		
11	308.2 Infiltration Galleries & Tunnels				0		-		
12	309.2 Supply Mains				0		-		
13	310.2 Power Generation Equipment				0		-		
14	311.2 Pumping Equipment	23,389	(54)		23,335		23,335		
15	339.2 Other Plant & Misc. Equipment				0		-		
16	WATER TREATMENT PLANT								
17	303.3 Land & Land Rights				0		-		
18	304.3 Structures & Improvements	1,493			1,493		1,493		
19	320.3 Water Treatment Equipment	6,318			6,318		6,318		
20	339.3 Other Plant & Misc. Equipment				0		-		
21	TRANSMISSION & DISTRIBUTION PLANT								
22	303.4 Land & Land Rights				0		-		
23	304.4 Structures & Improvements				0		-		
24	330.4 Distr. Reservoirs & Standpipes	11,455			11,455	135	11,590		
25	331.4 Transm. & Distribution Mains	30,405			30,405	4,999	35,404		
26	333.4 Services	6,637	122		6,759	464	7,223		
27	334.4 Meters & Meter Installations	12,203	1,114		13,317	45	13,362		
28	335.4 Hydrants	1,446			1,446		1,446		
29	339.4 Other Plant & Misc. Equipment				0		-		
30	GENERAL PLANT								
31	303.5 Land & Land Rights				0		-		
32	304.5 Structures & Improvements			1509	1,509		1,509		
33	340.5 Office Furniture & Equipment			3019	3,019		3,019		
34	341.5 Transportation Equipment			21242	21,242		21,242		
35	342.5 Stores Equipment			26	26		26		
36	343.5 Tools, Shop & Garage Equipment	636	2,346	1628	4,610		4,610		
37	344.5 Laboratory Equipment	216		8	224		224		
38	345.5 Power Operated Equipment				0		-		
39	346.5 Communication Equipment		1,176	274	1,450		1,450		
40	347.5 Miscellaneous Equipment				0		-		
41	348.5 Other Tangible Plant		(1,901)		(1,901)		(1,901)		
42									
43	TOTAL	105,435	2,737	27,743	135,915	5,643	141,558	N/A	N/A
44	LESS: AMORTIZATION OF CIAC	(23,526)			(23,526)		(23,526)		
45									
46	NET DEPRECIATION EXPENSE - WATER	$ 81,909	$ 2,737	$ 27,743	$ 112,389	$ 5,643	$ 118,032	N/A	N/A

PERIOD ENDING: 12/31/05

UTILITIES, INC. OF FLORIDA PARENT - W&S
WATER CIAC AMORTIZATION

WEATHERSFLD/BEL-AIRE/OAKLD H/TRAILWDS-W&S

SUB	ACCT	A TOTAL PLANT	B LESS LAND	C NET DEPR PLANT A-B	DEPR RATE THROUGH MO# 1.00	CURRENT 1 MONTH DEPR	2005 JAN-JUL CURRENT 6 MONTH DEPR	2005 JUL - DEC CURRENT 6 MONTH DEPR	DIFFERENCE:
602	2711000	7,240.01		7,240.01	0.208%	15.08	90.48	90.48	-
602	2711010	350.00		350.00	0.208%	0.73	4.38	4.38	-
602	2711011	37.72	-	37.72	0.261%	0.10	0.60	0.60	-
602	2711014	13,526.55	-	13,526.55	0.278%	37.54	225.24	225.24	-
602	2711021	9,901.09	-	9,901.09	0.261%	25.83	154.98	154.98	-
602	2711025	39,896.69	-	39,896.69	0.417%	166.24	997.44	997.44	-
602	2711031	2,221.57	-	2,221.57	0.261%	5.79	34.74	34.74	-
602	2711032	11,242.30	-	11,242.30	0.379%	42.63	255.78	255.78	-
602	2711042	12,394.69	-	12,394.69	0.225%	27.89	167.34	167.34	-
602	2711043	177,891.67	-	177,891.67	0.194%	345.41	2,072.46	2,072.46	-
602	2711045	38,946.60	-	38,946.60	0.208%	81.14	486.84	486.84	-
602	2711046	48,334.73	-	48,334.73	0.417%	201.39	1,208.34	1,208.34	-
602	2711047	517.02	-	517.02	0.417%	2.15	12.90	12.90	-
602	2711048	16,955.68	-	16,955.68	0.185%	31.37	188.22	188.22	-
		379,456.32	0.00	379,456.32	0.259%	983.29	5,899.74	5,899.74	0.00
					Composite Rate				

PERIOD ENDING: 12/31/05

OAKLAND SHORES - W
WATER DEPRECIATION

SUB	ACCT	A TOTAL PLANT	B LESS LAND	C NET DEPR PLANT A-B	DEPR RATE THROUGH MO# 1.00	CURRENT 1 MONTH DEPR	*JAN-JUL* CURRENT 6 MONTH DEPR	*JUL - DEC* CURRENT 6 MONTH DEPR	DIFFERENCE:
604	2711000	350.01		350.01	0.208%	**0.73**	4.38	4.38	-
604	2711014	1,559.65		1,559.65	0.278%	**4.33**	25.98	25.98	-
604	2711021	2,085.54		2,085.54	0.261%	**5.44**	32.64	32.64	-
604	2711025	7,208.82		7,208.82	0.417%	**30.04**	180.24	180.24	-
604	2711031	109.85		109.85	0.261%	**0.29**	1.74	1.74	-
604	2711032	3,620.23		3,620.23	0.379%	**13.73**	82.38	82.38	-
604	2711042	9,717.86		9,717.86	0.225%	**21.87**	131.22	131.22	-
604	2711043	20,580.85		20,580.85	0.194%	**39.96**	239.76	239.76	-
604	2711045	3,563.41		3,563.41	0.208%	**7.42**	44.52	44.52	-
604	2711046	2,423.73		2,423.73	0.417%	**10.10**	60.60	60.60	-
604	2711047	44.47		44.47	0.417%	**0.19**	1.14	1.14	-
604	2711048	969.51		969.51	0.185%	**1.79**	10.74	10.74	-
604	3466094	-		0.00	0.521%	**0.00**	0.00	0.00	-
		52,233.93	0.00	52,233.93	0.260%	135.89	815.34	815.34	0.00
					Composite Rate				

PERIOD ENDING: 12/31/05

LITTLE WEKIVA - W
WATER DEPRECIATION

SUB	ACCT	A TOTAL PLANT	B LESS LAND	C NET DEPR PLANT A-B	DEPR RATE THROUGH MO# 1.00	**CURRENT 1 MONTH DEPR**	*JAN-JUL* CURRENT 6 MONTH DEPR	*JUL - DEC* CURRENT 6 MONTH DEPR	DIFFERENCE:
606	2711000	-		0.00	0.208%	**0.00**	0.00	0.00	-
606	2711014	257.96		257.96	0.278%	**0.72**	4.32	4.32	-
606	2711021	1,266.14		1,266.14	0.261%	**3.30**	19.80	19.80	-
606	2711025	2,563.33		2,563.33	0.417%	**10.68**	64.08	64.08	-
606	2711031	94.67		94.67	0.261%	**0.25**	1.50	1.50	-
606	2711032	801.11		801.11	0.379%	**3.04**	18.24	18.24	-
606	2711042	1,180.79		1,180.79	0.225%	**2.66**	15.96	15.96	-
606	2711043	3,341.65		3,341.65	0.194%	**6.49**	38.94	38.94	-
606	2711045	1,050.70		1,050.70	0.208%	**2.19**	13.14	13.14	-
606	2711046	803.59		803.59	0.417%	**3.35**	20.10	20.10	-
606	2711047	402.80		402.80	0.417%	**1.68**	10.08	10.08	-
		11,762.74	0.00	11,762.74	0.292%	**34.36**	206.16	206.16	0.00
					Composite Rate				

PERIOD ENDING: 12/31/05

PARK RIDGE - W (CITY SEWER)
WATER DEPRECIATION

SUB	ACCT	A TOTAL PLANT	B LESS LAND	C NET DEPR PLANT A-B	DEPR RATE THROUGH MO# 1.00	CURRENT 1 MONTH DEPR	*JAN-JUL* CURRENT 6 MONTH DEPR	*JUL - DEC* CURRENT 6 MONTH DEPR	DIFFERENCE:
608	2711000	850.00		850.00	0.208%	1.77	10.62	10.62	-
608	2711010	350.00		350.00	0.208%	0.73	4.38		4.38
608	2711014	1,869.64		1,869.64	0.278%	5.19	31.14	31.14	-
608	2711021	3,341.85		3,341.85	0.261%	8.72	52.32	52.32	-
608	2711025	7,709.40		7,709.40	0.417%	32.12	192.72	192.72	-
608	2711031	586.25		586.25	0.261%	1.53	9.18	9.18	-
608	2711032	3,818.55		3,818.55	0.379%	14.48	86.88	86.88	-
608	2711042	2,443.14		2,443.14	0.225%	5.50	33.00	33.00	-
608	2711043	11,342.72		11,342.72	0.194%	22.02	132.12	132.12	-
608	2711045	2,568.85		2,568.85	0.208%	5.35	32.10	32.10	-
608	2711046	1,257.64		1,257.64	0.417%	5.24	31.44	31.44	-
608	2711047	130.21		130.21	0.417%	0.54	3.24	3.24	-
		36,268.25	0.00	36,268.25	0.285%	103.19	619.14	614.76	4.38
					Composite Rate				

PERIOD ENDING: 12/31/05

PHILLIPS SECTION - W
WATER DEPRECIATION

SUB	ACCT	A TOTAL PLANT	B LESS LAND	C NET DEPR PLANT A-B	DEPR RATE THROUGH MO# 1.00	CURRENT 1 MONTH DEPR	*JAN-JUL* CURRENT 6 MONTH DEPR	*JUL - DEC* CURRENT 6 MONTH DEPR	DIFFERENCE:
610	2711000	2,070.01		2,070.01	0.208%	**4.31**	25.86	25.86	-
610	2711010	1,000.00		1,000.00	0.208%	**2.08**	12.48	6.24	6.24
610	2711014	1,012.63		1,012.63	0.278%	**2.81**	16.86	16.86	-
610	2711021	1,340.95		1,340.95	0.261%	**3.50**	21.00	21.00	-
610	2711025	1,996.50		1,996.50	0.417%	**8.32**	49.92	49.92	-
610	2711031	121.68		121.68	0.261%	**0.32**	1.92	1.92	-
610	2711032	1,541.45		1,541.45	0.379%	**5.84**	35.04	35.04	-
610	2711042	1,073.92		1,073.92	0.225%	**2.42**	14.52	14.52	-
610	2711043	12,511.30		12,511.30	0.194%	**24.29**	145.74	145.74	-
610	2711045	1,659.40		1,659.40	0.208%	**3.46**	20.76	20.76	-
610	2711046	466.53		466.53	0.417%	**1.94**	11.64	11.64	-
610	2711047	8.32		8.32	0.417%	**0.03**	0.18	0.18	-
		24,802.69	0.00	24,802.69	0.239%	**59.32**	355.92	349.68	6.24
					Composite Rate				

PERIOD ENDING: 12/31/05

CRYSTAL LAKE - W
WATER DEPRECIATION

SUB	ACCT	A TOTAL PLANT	B LESS LAND	C NET DEPR PLANT A-B	DEPR RATE THROUGH MO# 1.00	CURRENT 1 MONTH DEPR	*JAN-JUL* CURRENT 6 MONTH DEPR	*JUL - DEC* CURRENT 6 MONTH DEPR	DIFFERENCE:
612	2711000	15,669.99		15,669.99	0.208%	**32.65**	195.90	195.90	-
612	2711010	7,350.00		7,350.00	0.208%	**15.31**	91.86	83.10	8.76
612	2711014	461.81		461.81	0.278%	**1.28**	7.68	7.68	-
612	2711021	204.56		204.56	0.261%	**0.53**	3.18	3.18	-
612	2711025	2,431.06		2,431.06	0.417%	**10.13**	60.78	60.78	-
612	2711031	181.78		181.78	0.261%	**0.47**	2.82	2.82	-
612	2711032	399.19		399.19	0.379%	**1.51**	9.06	9.06	-
612	2711042	641.69		641.69	0.225%	**1.44**	8.64	8.64	-
612	2711043	12,123.79		12,123.79	0.194%	**23.54**	141.24	141.24	-
612	2711045	1,416.95		1,416.95	0.208%	**2.95**	17.70	17.70	-
612	2711046	511.91		511.91	0.417%	**2.13**	12.78	12.78	-
612	2711047	62.78		62.78	0.417%	**0.26**	1.56	1.56	-
		41,455.51	0.00	41,455.51	0.222%	**92.20**	553.20	544.44	8.76
					Composite Rate				

PERIOD ENDING: 12/31/05

RAVENNA PARK/LINCOLN HEIGHTS - W&S
WATER DEPRECIATION

SUB	ACCT	A TOTAL PLANT	B LESS LAND	C NET DEPR PLANT A-B	DEPR RATE THROUGH MO# 1.00	CURRENT 1 MONTH DEPR	*JAN-JUL* CURRENT 6 MONTH DEPR	*JUL - DEC* CURRENT 6 MONTH DEPR	DIFFERENCE:
614	2711000	1,050.00		1,050.00	0.208%	**2.19**	13.14	17.52	(4.38)
614	2711010	700.00		700.00	0.208%	**1.46**	8.76		8.76
614	2711014	1,928.44		1,928.44	0.278%	**5.35**	32.10	32.10	-
614	2711021	5,329.13		5,329.13	0.261%	**13.90**	83.40	83.40	-
614	2711025	12,898.18		12,898.18	0.417%	**53.74**	322.44	322.44	-
614	2711031	7,168.01		7,168.01	0.261%	**18.70**	112.20	112.20	-
614	2711032	4,193.64		4,193.64	0.379%	**15.90**	95.40	95.40	-
614	2711042	10,528.44		10,528.44	0.225%	**23.69**	142.14	142.14	-
614	2711043	19,931.84		19,931.84	0.194%	**38.70**	232.20	232.20	-
614	2711045	6,006.43		6,006.43	0.208%	**12.51**	75.06	75.06	-
614	2711046	4,794.41		4,794.41	0.417%	**19.98**	119.88	119.88	-
614	2711047	255.44		255.44	0.417%	**1.06**	6.36	6.36	-
614	3466094	-		0.00	0.521%	**0.00**	0.00	0.00	-
614	3446095	-		0.00	0.556%	**0.00**	0.00	0.00	-
		74,783.96	0.00	74,783.96	0.277%	**207.18**	1,243.08	1,238.70	4.38
					Composite Rate				

PERIOD ENDING: 12/31/05

BEAR LAKE MANOR - W
WATER DEPRECIATION

SUB	ACCT	A TOTAL PLANT	B LESS LAND	C NET DEPR PLANT A-B	DEPR RATE THROUGH MO# 1.00	CURRENT 1 MONTH DEPR	*JAN-JUL* CURRENT 6 MONTH DEPR	*JUL - DEC* CURRENT 6 MONTH DEPR	DIFFERENCE:
616	2711000	2,061.00		2,061.00	0.208%	**4.29**	25.74	30.12	(4.38)
616	2711010	350.00		350.00	0.208%	**0.73**	4.38		4.38
616	2711014	747.25		747.25	0.278%	**2.07**	12.42	12.42	-
616	2711021	1,498.56		1,498.56	0.261%	**3.91**	23.46	23.46	-
616	2711025	8,321.32		8,321.32	0.417%	**34.67**	208.02	208.02	-
616	2711031	57.90		57.90	0.261%	**0.15**	0.90	0.90	-
616	2711032	426.11		426.11	0.379%	**1.62**	9.72	9.72	-
616	2711042	6,042.37		6,042.37	0.225%	**13.60**	81.60	81.60	-
616	2711043	8,489.91		8,489.91	0.194%	**16.48**	98.88	98.88	-
616	2711045	2,740.97		2,740.97	0.208%	**5.71**	34.26	34.26	-
616	2711046	1,895.85		1,895.85	0.417%	**7.90**	47.40	47.40	-
616	2711047	55.59		55.59	0.417%	**0.23**	1.38	1.38	-
616	3466094	-		0.00	0.521%	**0.00**	0.00	0.00	-
		32,686.83	0.00	32,686.83	0.280%	**91.36**	548.16	548.16	0.00
					Composite Rate				

PERIOD ENDING: 12/31/05

JANSEN/BEAR LAKE ESTATES - W

SUB	ACCT	A TOTAL PLANT	B LESS LAND	C NET DEPR PLANT A-B	DEPR RATE THROUGH MO# 1.00	CURRENT 1 MONTH DEPR	WATER DEPRECIATION JAN-JUL CURRENT 6 MONTH DEPR	JUL - DEC CURRENT 6 MONTH DEPR	DIFFERENCE:
618	2711000	18,769.99		18,769.99	0.208%	39.10	234.60	234.60	-
618	2711010	2,100.00		2,100.00	0.208%	4.38	26.28	21.90	4.38
618	2711014	17,567.40		17,567.40	0.278%	48.75	292.50	292.50	-
618	2711021	1,067.55		1,067.55	0.261%	2.78	16.68	16.68	-
618	2711025	19,002.31		19,002.31	0.417%	79.18	475.08	475.08	-
618	2711031	516.19		516.19	0.261%	1.35	8.10	8.10	-
618	2711032	1,750.67		1,750.67	0.379%	6.64	39.84	39.84	-
618	2711042	4,362.06		4,362.06	0.225%	9.81	58.86	58.86	-
618	2711043	22,981.35		22,981.35	0.194%	44.62	267.72	267.72	-
618	2711045	6,186.97		6,186.97	0.208%	12.89	77.34	77.34	-
618	2711046	865.22		865.22	0.417%	3.61	21.66	21.66	-
618	2711047	146.47		146.47	0.417%	0.61	3.66	3.66	-
618	2711048	595.22		595.22	0.185%	1.10	6.60	6.60	-
		95,911.40	0.00	95,911.40	0.266%	254.82	1,528.92	1,524.54	4.38
					Composite Rate				

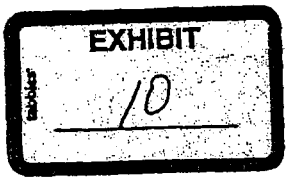


EXHIBIT
10

Detail of Operation & Maintenance Expenses By Month - Water

Company: Utilities, Inc. of Florida - Marion County
Docket No.: 060253-WS
Schedule Year Ended: 12/31/05
Historic [X] or Projected [ ]

Explanation: Provide a schedule of operation and maintenance expenses by primary account for each month of the test year. If schedule has to be continued on 2nd page, reprint the account titles and numbers.

Florida Public Service Commission

Schedule: B-5
Page 1 of 1
Preparer: Steven M. Lubertozzi
Recap Schedules: B-1

Line No.	(1) Account No. and Name	(2) Jan	(3) Feb	(4) Mar	(5) Apr	(6) May	(7) Jun	(8) Jul	(9) Aug	(10) Sept	(11) Oct	(12) Nov	(13) Dec	(14) Total Annual	(15) UIF Allocation	(16) Total	(17) Adj.	(18) Adj. Total Annual
1	601 Salaries & Wages - Employees	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 19,647	$ 19,647	$ 5,309	$ 24,956
2	603 Salaries & Wages - Officers, Etc.													0		-		-
3	604 Employee Pensions & Benefits	-	-	-	-	-	-	-	-	-	-	-	-	0	5,395	5,395	488	5,883
4	610 Purchased Water	-	-	-	-	-	-	-	-	-	-	-	-	0	-	-		-
5	615 Purchased Power	802	871	870	817	1,082	814	843	906	81	1,285	904	2,031	11,304	-	11,304	918	12,222
6	616 Fuel for Power Purchased													0		0		-
7	618 Chemicals	-	48	189	67	793	346	334	369	219	214	437	333	3,347	-	3,347	92	3,439
8	620 Materials & Supplies	-	363	-	245	-	-	-	251	511	-	330	131	1,831	3,161	4,992	137	5,129
9	631 Contractual Services - Engr.	-	-	-	-	-	-	-	-	-	-	-	-	0	41	41	1	42
10	632 Contractual Services - Acct.	-	-	-	-	-	-	-	-	-	-	-	-	0	567	567	16	583
11	633 Contractual Services - Legal	-	-	-	-	-	-	-	-	-	-	-	-	0	602	602	16	618
12	634 Contractual Services - Mgmt. Fees													0		0	-	-
13	635 Contractual Services - Testing	60	-	380	614	185	175	213	213	120	136	191	-	2,287	32	2,319	64	2,382
14	636 Contractual Services - Other	331	331	332	332	332	332	332	332	332	-	332	333	3,648	797	4,445	122	4,567
15	641 Rental of Building/Real Prop.													0		0	-	-
16	642 Rental of Equipment													0		0	-	-
17	650 Transportation Expenses	-	-	-	-	-	-	-	-	-	-	-	-	0	6,017	6,017	165	6,182
18	656 Insurance - Vehicle													0		0	-	-
19	657 Insurance - General Liability													0		0	-	-
20	658 Insurance - Workman's Comp.													0		0	-	-
21	659 Insurance - Other	-	-	-	-	-	-	-	-	-	-	-	-	0	2,938	2,938	81	3,019
22	660 Advertising Expense													0		0	-	-
23	666 Reg. Comm. Exp. - Rate Case Amort.													0	6,567	6,567	177	6,744
24	667 Reg. Comm. Exp. - Other	-	-	-	-	-	-	-	-	-	-	-	-	0		0	-	-
25	670 Bad Debt Expense												60	(801)	22	(779)	(21)	(801)
26	675 Miscellaneous Expenses	(1,417)	(46)	457	33	(94)	1	191	-	19	(5)	-	1,002	9,700	11,835	21,535	590	22,125
27		379	(124)	1,303	766	365	849	988	853	933	1,426	960						
28	TOTAL	$ 155	$ 1,441	$ 3,531	$ 2,873	$ 2,662	$ 2,517	$ 2,901	$ 2,923	$ 2,214	$ 3,055	$ 3,154	$ 3,890	$ 31,316	$ 57,621	$ 88,937	$ 8,153	$ 97,090

MARION COUNTY - ACCOUNTS RECONCILIATION SCHEDULE

MFR Account No. and Name	G/L Account No. and Name	TOTAL DIRECT	UIF Allocation	WATER UIF Allocation and Direct
675 Miscellaneous Expenses	6755070 Water Permits	500.00		500.00
	6755090 Water - Other Maint Expense	2,744.57		2,744.57
	6759001 Publ Subscriptions & Tapes	-	3.00	3.00
	6759002 Answering Serv	-	69.00	69.00
	6759004 Printing & Blueprints	-	64.00	64.00
	6759006 UPS & Air Freight	-	145.00	145.00
	6759007 Printing Customer Service	63.00	136.00	199.00
	6759008 Xerox	-	30.00	30.00
	6759010 Reim of Off Emp Exp	-	8.00	8.00
	6759014 Memberships Office Employees	-	2.00	2.00
	6759016 Microfilming	-	47.00	47.00
	6759018 Operators Other Office Expense	541.36	24.00	565.36
	6759019 Operators Publ / Subscriptions	-	4.00	4.00
	6759080 Maint - Deferred Charges	-	812.00	812.00
	6759081 Hurricane / Storms Cost	-	509.00	509.00
	6759090 Other Office Expense	-	164.00	164.00
	6759110 Office Telephone	-	109.00	109.00
	6759120 Office Electric	-	756.00	756.00
	6759125 Office Water	-	11.00	11.00
	6759130 Office Gas	-	18.00	18.00
	6759135 Operations Telephones	477.80	493.00	970.80
	6759136 Operations Telephones Long Distance	-	1.00	1.00
	6759140 Alarm Sys Phone Expense	230.85		230.85
	6759160 Office Fax Machine Phone Line	-		-
	6759210 Office Cleaning Service	-	136.00	136.00
	6759220 Landscaping Mowing & Snowplowng	-	63.00	63.00
	6759230 Garbage Removal	-	67.00	67.00
	6759260 Repair Off Mach & Heating	-	60.00	60.00
	6759290 Other Office Maint	-	173.00	173.00
	6759330 Memberships - Company	-	1.00	1.00
	6759402 Part-time Operators	-		-
	6759405 Communication Expenses	-	6,904.00	6,904.00
	6759410 Operators Education Expenses	65.00		65.00
	6759412 Uniforms	-	248.00	248.00
	6759415 Mowing /Snowplowing	-		-
	6759416 Operators Memberships	100.00	78.00	178.00
	6759430 Sales/Use Tax Expense	-	1.00	1.00
	6759490 Garbage Removal Wtr/Swr	-		-
	6759506 Water - Maint Repairs	695.00		695.00
	6759507 Water - Main Breaks	3,931.53		3,931.53
	6759509 Water - Elec Equipt Repair	350.50		350.50
	7048050 Employees Ed Expenses	-	-	-
	7048055 Office Education / Train Exp	-	99.00	99.00
	7754006 Sewer - Maintenance Repairs	-		-
	7754007 Sewer Main Breaks	-		-
	7754009 Sewer Electric Equipment Repair	-		-
	7755070 Sewer Permits	-		-
	7758370 Meals & Related Exp	-	46.00	46.00
	7758380 Bank Serv Charge	-	447.00	447.00
	7758381 Loc Charges	-	3.00	3.00
	7758390 Other Misc General	-	104.00	104.00
	7758490 Sewer Other Maint Expense	-		-
	TOTAL	9,699.61	11,835.00	21,534.61
				-

Detail of Operation & Maintenance Expenses By Month - Wastewater

Florida Public Service Commission

Company: Utilities, Inc. of Florida - Marion County
Docket No.: 060253-WS
Schedule Year Ended: 12/31/05
Historic [X] or Projected [ ]

Explanation: Provide a schedule of operation and maintenance expenses by primary account for each month of the test year. If schedule has to be continued on 2nd page, reprint the account titles and numbers.

Schedule: B-6
Page 1 of 1
Preparer: Steven M. Lubertozzi
Recap Schedules: B-2

Line No.	(1) Account No. and Name	(2) Jan	(3) Feb	(4) Mar	(5) Apr	(6) May	(7) Jun	(8) Jul	(9) Aug	(10) Sept	(11) Oct	(12) Nov	(13) Dec	(14) Total Annual	(15) UIF Allocation	(16) Total	(17) Adj.	(18) Adj. Total Annual
1	701 Salaries & Wages - Employees	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,493	$ 2,493	$ 674	$ 3,167
2	703 Salaries & Wages - Officers, Etc.													0		-	-	0
3	704 Employee Pensions & Benefits	-	-	-	-	-	-	-	-	-	-	-	-	0	685	685	62	747
4	710 Purchased Sewage Treatment	-	-	-	-	-	-	-	-	-	-	-	-	0	-	0	-	0
5	711 Sludge Removal Expense	575	660	660	660	660	660	660	660	1,321	660	1,321	1,321	9,819	-	9,819	269	10,088
6	715 Purchased Power	431	445	378	395	341	388	392	460	359	412	409	1,060	5,469	-	5,469	426	5,895
7	716 Fuel for Power Purchased													0		0	-	0
8	718 Chemicals	-	-	-	-	-	-	-	-	-	-	-	-	0	-	0	-	0
9	720 Materials & Supplies	-	217	-	244	471	546	-	184	-	-	-	-	1,663	401	2,064	57	2,120
10	731 Contractual Services - Engr.	-	-	-	-	-	-	-	-	-	-	-	-	0	5	5	0	5
11	732 Contractual Services - Acct.	-	-	-	-	-	-	-	-	-	-	-	-	0	72	72	2	74
12	733 Contractual Services - Legal	-	-	-	-	-	-	-	-	-	-	-	-	0	76	76	2	78
13	734 Contractual Services - Mgmt. Fees													0		0	-	0
14	735 Contractual Services - Testing	60	-	240	60	120	-	-	-	87	-	-	87	694	4	698	19	717
15	736 Contractual Services - Other	-	-	-	-	-	-	-	-	-	-	-	-	0	101	101	3	104
16	741 Rental of Building/Real Prop.													0		0	-	0
17	742 Rental of Equipment													0		0	-	0
18	750 Transportation Expenses	-	-	-	-	-	-	-	-	-	-	-	-	0	763	763	21	784
19	756 Insurance - Vehicle													0		0	-	0
20	757 Insurance - General Liability													0		0	-	0
21	758 Insurance - Workman's Comp.													0		0	-	0
22	759 Insurance - Other	-	-	-	-	-	-	-	-	-	-	-	-	0	373	373	10	383
23	760 Advertising Expense													0		0	-	0
24	766 Reg. Comm. Exp. - Rate Case Amort.	-	-	-	-	-	-	-	-	-	-	-	-	0	833	833	23	856
25	767 Reg. Comm. Exp. - Other	-	-	-	-	-	-	-	-	-	-	-	-	0	0	0	-	0
26	770 Bad Debt Expense	-	-	-	-	-	-	-	-	-	-	-	-	0	3	3	0	3
27	775 Miscellaneous Expenses	151	73	-	520	402	256	156	192	170	42	-	-	1,962	1,502	3,464	95	3,559
28																		
29	TOTAL	$ 1,237	$ 1,396	$ 1,278	$ 1,899	$ 1,994	$ 1,850	$ 1,208	$ 1,496	$ 1,936	$ 1,114	$ 1,730	$ 2,468	$ 19,607	$ 7,311	$ 26,918	$ 1,662	$ 28,580

MARION COUNTY - ACCOUNTS RECONCILIATION SCHEDULE

MFR Account No. and Name	G/L Account No. and Name	TOTAL DIRECT	UIF Allocation	SEWER UIF Allocation and Direct
				-
775 Miscellaneous Expenses	6755090 Water - Other Maint Expense	-		-
	6759001 Publ Subscriptions & Tapes	-	-	-
	6759002 Answering Serv	-	9.00	9.00
	6759004 Printing & Blueprints	-	8.00	8.00
	6759006 UPS & Air Freight	-	18.00	18.00
	6759007 Printing Customer Service	-	17.00	17.00
	6759008 Xerox	-	4.00	4.00
	6759010 Reim of Off Emp Exp	-	1.00	1.00
	6759014 Memberships Office Employees	-	-	-
	6759016 Microfilming	-	6.00	6.00
	6759018 Operators Other Office Expense	-	3.00	3.00
	6759019 Operators Publ / Subscriptions	-	1.00	1.00
	6759080 Maint - Deferred Charges	-	103.00	103.00
	6758081 Hurricane / Storms Cost	-	65.00	65.00
	6759090 Other Office Expense	-	21.00	21.00
	6759110 Office Telephone	-	14.00	14.00
	6759120 Office Electric	-	96.00	96.00
	6759125 Office Water	-	1.00	1.00
	6759130 Office Gas	-	2.00	2.00
	6759135 Operations Telephones	-	63.00	63.00
	6759136 Operations Telephones Long Distance	-	-	-
	6759140 Alarm Sys Phone Expense	-		-
	6759160 Office Fax Machine Phone Line	-		-
	6759210 Office Cleaning Service	-	17.00	17.00
	6759220 Landscaping Mowing & Snowplowng	-	8.00	8.00
	6759230 Garbage Removal	-	8.00	8.00
	6759260 Repair Off Mach & Heating	-	8.00	8.00
	6759290 Other Office Maint	-	22.00	22.00
	6759330 Memberships - Company	-	-	-
	6759402 Part-time Operators	-		-
	6759405 Communication Expenses	-	876.00	876.00
	6759410 Operators Education Expenses	-		-
	6759412 Uniforms	-	32.00	32.00
		-		-
	6759416 Operators Memberships	-	10.00	10.00
	6759430 Sales/Use Tax Expense	-	-	-
	6759490 Garbage Removal Wtr/Swr	-		-
	6759506 Water - Maint Repairs	-		-
	6759507 Water - Main Breaks	-		-
		-		-
	7048050 Employees Ed Expenses	-	-	-
	7048055 Office Education / Train Exp	-	13.00	13.00
	7754006 Sewer - Maintenance Repairs	760.00		760.00
	7754007 Sewer Main Breaks	-		-
	7754009 Sewer Electric Equipment Repair	-		-
	7755070 Sewer Permits	150.00		150.00
	7758370 Meals & Related Exp	-	6.00	6.00
	7758380 Bank Serv Charge	-	57.00	57.00
	7758381 Loc Charges	-	-	-
	7758390 Other Misc General	-	13.00	13.00
	7758490 Sewer Other Maint Expense	1,051.72		1,051.72
	TOTAL	1,961.72	1,502.00	3,463.72
		-		-

Detail of Operation & Maintenance Expenses By Month - Water

Company: Utilities, Inc. of Florida - Orange County
Docket No.: 060253 - WS
Schedule Year Ended: 12/31/05
Historic [X] or Projected [ ]

Explanation: Provide a schedule of operation and maintenance expenses by primary account for each month of the test year. If schedule has to be continued on 2nd page, reprint the account titles and numbers.

Florida Public Service Commission

Schedule: B-5
Page 1 of 1
Preparer: Steven M. Lubertozzi
Recap Schedules: B-1

Line No.	(1) Account No. and Name	(2) Jan	(3) Feb	(4) Mar	(5) Apr	(6) May	(7) Jun	(8) Jul	(9) Aug	(10) Sept	(11) Oct	(12) Nov	(13) Dec	(14) Total Annual	(15) Cost Center Allocation	(16) UIF Allocation	(17) Total	(18) Adj.	(19) Adj. Total Annual
1	601 Salaries & Wages - Employees	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 11,600	$ 11,600	$ 3,134	$ 14,734
2	603 Salaries & Wages - Officers, Etc.																-	$ -	-
3	604 Employee Pensions & Benefits	-	-	-	-	-	-	-	-	-	-	-	-		-	3,185	3,185	288	3,473
4	610 Purchased Water	3,506	3,171	2,934	3,363	4,238	3,327	3,340	3,383	3,860	3,408	2,297	2,783	39,612		-	39,612		39,612
5	615 Purchased Power	-	-	-	-	-	-	-	-	-	-	-	-		-	-	-		
6	616 Fuel for Power Purchased																-		
7	618 Chemicals	-	-	-	-	-	-	-	-	-	-	-	-		-	-	-		
8	620 Materials & Supplies	-	-	-	-	-	31	-	-	-	-	-	-	31	786	1,868	2,685	74	2,758
9	631 Contractual Services - Engr.	-	-	-	-	-	-	-	-	-	-	-	-		-	24	24	1	25
10	632 Contractual Services - Acct.	-	-	-	-	-	-	-	-	-	-	-	-		-	335	335	9	344
11	633 Contractual Services - Legal	-	-	-	-	-	-	-	-	-	-	-	-		-	355	355	10	365
12	634 Contractual Services - Mgmt. Fees																-		
13	635 Contractual Services - Testing	-	-	-	46	-	-	-	-	-	257	-	40	343	20	19	382	10	392
14	638 Contractual Services - Other	-	-	-	-	-	-	-	-	-	-	-	-		-	470	470	13	483
15	641 Rental of Building/Real Prop.																-		
16	642 Rental of Equipment																-		
17	650 Transportation Expenses	-	-	-	-	-	-	-	-	-	-	-	-		-	3,553	3,553	97	3,650
18	656 Insurance - Vehicle																-		
19	657 Insurance - General Liability																-		
20	658 Insurance - Workman's Comp.																-		
21	659 Insurance - Other	-	-	-	-	-	-	-	-	-	-	-	-		-	1,734	1,734	48	1,782
22	660 Advertising Expense																-		
23	666 Reg. Comm. Exp. - Rate Case Amort.	-	-	-	-	-	-	-	-	-	-	-	-		-	3,877	3,877	104	3,981
24	667 Reg. Comm. Exp. - Other																-		
25	670 Bad Debt Expense	311	117	235	20	587	347	67	112	385	317	-	501	3,008	-	13	3,022	83	3,105
26	675 Miscellaneous Expenses	-	-	900	-	57	-	-	-	-	-	-	-	957	907	6,989	8,853	243	8,096
27																			
28	TOTAL	$ 3,817	$ 3,288	$ 4,069	$ 3,429	$ 4,883	$ 3,706	$ 3,407	$ 3,495	$ 4,245	$ 3,982	$ 2,297	$ 3,325	$ 43,952	$ 1,713	$ 34,022	$ 79,687	$ 4,113	$ 83,800

ORANGE COUNTY - ACCOUNTS RECONCILIATION SCHEDULE

Orange Alloaction

MFR Account No. and Name	G/L Account No. and Name	TOTAL DIRECT	Cost Center Allocation	UIF Allocation	WATER UIF and Cost Center Allocation and Direct
675 Miscellaneous Expenses	6755090 Water - Other Maint Expense	-	247		247.00
	6759001 Publ Subscriptions & Tapes	-	(4)	2.00	(2.00)
	6759002 Answering Serv	-		41.00	41.00
	6759004 Printing & Blueprints	-		38.00	38.00
	6759006 UPS & Air Freight	-		85.00	85.00
	6759007 Printing Customer Service	57.33		80.00	137.33
	6759008 Xerox	-		18.00	18.00
	6759010 Reim of Off Emp Exp	-		5.00	5.00
	6759014 Memberships Office Employees	-		1.00	1.00
	6759016 Microfilming	-		28.00	28.00
	6759018 Operators Other Office Expense	-	399	14.00	413.00
	6759019 Operators Publ / Subscriptions	-	55	2.00	57.00
	6759080 Maint - Deferred Charges	-		480.00	480.00
	6759081 Hurricane / Storms Cost	-		301.00	301.00
	6759090 Other Office Expense	-		97.00	97.00
	6759110 Office Telephone	-		64.00	64.00
	6759120 Office Electric	-		447.00	447.00
	6759125 Office Water	-		6.00	6.00
	6759130 Office Gas	-		10.00	10.00
	6759135 Operations Telephones	-		291.00	291.00
	6759136 Operations Telephones Long Distance	-		1.00	1.00
	6759140 Alarm Sys Phone Expense	-			-
	6759160 Office Fax Machine Phone Line	-			-
	6759210 Office Cleaning Service	-		80.00	80.00
	6759220 Landscaping Mowing & Snowplowng	-		37.00	37.00
	6759230 Garbage Removal	-		39.00	39.00
	6759260 Repair Off Mach & Heating	-		36.00	36.00
	6759290 Other Office Maint	-		102.00	102.00
	6759330 Memberships - Company	-		-	-
	6759402 Part-time Operators	-			-
	6759405 Communication Expenses	-	70	4,077.00	4,147.00
	6759410 Operators Education Expenses	-	85		85.00
	6759412 Uniforms	-	17	147.00	164.00
	6759415 Mowing /Snowplowing	-			-
	6759416 Operators Memberships	-	38	46.00	84.00
	6759430 Sales/Use Tax Expense	-		1.00	1.00
	6759490 Garbage Removal Wtr/Swr	-			-
	6759506 Water - Maint Repairs	900.00			900.00
	6759507 Water - Main Breaks	-			-
	6759509 Water - Elec Equipt Repair	-			-
	7048050 Employees Ed Expenses	-		-	-
	7048055 Office Education / Train Exp	-		58.00	58.00
	7754006 Sewer - Maintenance Repairs	-			-
	7754007 Sewer Main Breaks	-			-
	7754009 Sewer Electric Equipment Repair	-			-
	7755070 Sewer Permits	-			-
	7758370 Meals & Related Exp	-		27.00	27.00
	7758380 Bank Serv Charge	-		264.00	264.00
	7758381 Loc Fee	-		2.00	2.00
	7758390 Other Misc General	-		62.00	62.00
	7758490 Sewer Other Maint Expense	-			-
	TOTAL	957.33	907.00	6,989.00	8,853.33

Florida Public Service Commission

Schedule: B-5
Page 1 of 1
Preparer: Steven M. Lubertozzi
Recap Schedules: B-1

Detail of Operation & Maintenance Expenses By Month - Water

Company: Utilities, Inc. of Florida - Pasco County
Docket No.: 060253 - WS
Schedule Year Ended: 12/31/05
Historic [X] or Projected [ ]

Explanation: Provide a schedule of operation and maintenance expenses by primary account for each month of the test year. If schedule has to be continued on 2nd page, reprint the account titles and numbers.

Line No.	(1) Account No. and Name	(2) Jan	(3) Feb	(4) Mar	(5) Apr	(6) May	(7) Jun	(8) Jul	(9) Aug	(10) Sept	(11) Oct	(12) Nov	(13) Dec	(14) Total Annual	(15) Cost Center Allocation	(16) UIF Allocation	(17) Total	(18) Adj.	(19) Adj. Total Annual
1	601 Salaries & Wages - Employees	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 107,172	$ 107,172	$ 28,958	$ 136,130
2	603 Salaries & Wages - Officers, Etc.													0			0		0
3	604 Employee Pensions & Benefits	-	-	-	-	-	-	-	-	-	-	-	-	0	-	29,425	29,425	2,663	32,088
4	610 Purchased Water													0	-	-	0		0
5	615 Purchased Power	984	2,014	2,188	1,477	1,316	1,683	1,541	1,402	2,216	1,598	1,164	2,304	19,886	-	-	19,886	2,651	22,537
6	616 Fuel for Power Purchased													0			0		0
7	618 Chemicals	139	208	564	72	882	260	442	635	639	518	597	472	5,429	-	-	5,429	3,149	8,578
8	620 Materials & Supplies	294	1,179	258	680	377	769	152	443	363	97	708	531	5,850	2,835	17,250	25,935	711	26,646
9	631 Contractual Services - Engr.	-	-	-	-	-	-	-	-	-	-	-	-	0	-	226	226	6	232
10	632 Contractual Services - Acct.	-	-	-	-	-	-	-	-	-	-	-	-	0	-	3,094	3,094	85	3,179
11	633 Contractual Services - Legal	-	-	-	-	-	-	-	-	-	-	-	-	0	-	3,283	3,283	90	3,373
12	634 Contractual Services - Mgmt. Fees													0			0		0
13	635 Contractual Services - Testing	369	1,174	214	240	861	251	155	1,145	153	-	2,373	437	7,390	-	174	7,564	207	7,772
14	636 Contractual Services - Other	1,974	2,015	1,982	2,552	2,021	2,001	2,038	2,038	2,045	893	2,055	4,113	25,724	-	4,340	30,064	824	30,888
15	641 Rental of Building/Real Prop.													0			0		0
16	642 Rental of Equipment													0			0		0
17	650 Transportation Expenses	-	-	-	-	-	-	-	-	-	-	-	-	0	-	32,829	32,829	900	33,729
18	656 Insurance - Vehicle													0			0		0
19	657 Insurance - General Liability													0			0		0
20	658 Insurance - Workman's Comp.													0			0		0
21	659 Insurance - Other	-	-	-	-	-	-	-	-	-	-	-	-	0	-	16,024	16,024	439	16,463
22	660 Advertising Expense													0			0		0
23	666 Reg. Comm. Exp. - Rate Case Amort.	-	-	-	-	-	-	-	-	-	-	-	-	0	-	35,822	35,822	963	36,785
24	667 Reg. Comm. Exp. - Other													0			0		0
25	670 Bad Debt Expense	419	1,252	671	1,065	280	534	921	165	587	816	358	1,279	8,348	-	122	8,468	232	8,700
26	675 Miscellaneous Expenses	1,057	1,491	997	2,550	2,151	2,183	3,504	3,146	2,471	2,854	5,055	4,942	32,402	9,211	64,568	106,181	21,109	127,290
27																			
28	TOTAL	$ 5,236	$ 9,333	$ 6,873	$ 8,636	$ 7,907	$ 7,680	$ 8,752	$ 8,973	$ 8,475	$ 6,775	$ 12,310	$ 14,078	$ 105,029	$ 12,046	$ 314,329	$ 431,404	$ 62,986	$ 494,390

PASCO COUNTY - ACCOUNTS RECONCILIATION SCHEDULE

PASCO Allocations

WATER

MFR Account No. and Name	G/L Account No. and Name	TOTAL DIRECT	Cost Center Allocation	UIF Allocation	UIF and Cost Center Allocation and Direct
675 Miscellaneous Expenses	6755070 Water Permits				-
	6753080 Water - Other Maint Expenses	2,492.63	237.00		2,729.63
	6759001 Publ Subscriptions & Tapes	-		15.00	15.00
	6759002 Answering Serv	-		378.00	378.00
	6759004 Printing & Blueprints	-		349.00	349.00
	6759006 UPS & Air Freight	-		789.00	789.00
	6759007 Printing Customer Service	410.97		743.00	1,153.97
	6759008 Xerox	-		162.00	162.00
	6759010 Reim of Off Emp Exp	-		43.00	43.00
	6759014 Membershipe Office Employees	-		10.00	10.00
	6759018 Microfilming	-		259.00	259.00
	6759018 Operators Other Office Expense	2,297.39	3,222.00	129.00	5,648.39
	6759019 Operators Publ / Subscriptions	163.50	59.00	22.00	244.50
	6759080 Maint - Deferred Charges			4,431.00	4,431.00
	6759081 Hurricane / Storms Cost	2,289.72	120.00	2,779.00	5,188.72
	6759090 Other Office Expense	-		895.00	895.00
	6759110 Office Telephone	-		594.00	594.00
	6759120 Office Electric	-		4,126.00	4,126.00
	6759125 Office Water	-		60.00	60.00
	6759130 Office Gas	-		96.00	96.00
	6759135 Operations Telephones	1,621.21		2,690.00	4,311.21
	6759136 Operations Telephones Long Distance	-		7.00	7.00
	6759140 Alarm Sys Phone Expense	982.26			982.26
	6759180 Office Fax Machine Phone Line	-			-
	6759210 Office Cleaning Service	-		742.00	742.00
	6759220 Landscaping Mowing & Snowplowing	-		343.00	343.00
	6759230 Garbage Removal	-		363.00	363.00
	6759260 Repair Off Mach & Heating	-		330.00	330.00
	6759290 Other Office Maint	-		945.00	945.00
	6759330 Memberships - Company	-		3.00	3.00
	6759402 Part-time Operators	-			-
	6759405 Communication Expenses			37,663.00	37,663.00
	6759410 Operators Education Expenses	325.00	1,006.00		1,331.00
	6759412 Uniforms	476.82	2,038.00	1,354.00	3,868.82
	6759415 Mowing /Snowplowing	5,633.34	142.00		5,775.34
	6759416 Operators Memberships	421.25	976.00	424.00	1,821.25
	6759430 Sales/Use Tax Expenses	-		5.00	5.00
	6759490 Garbage Removal Wtr/Swr	-			-
	6759506 Water - Maint Repairs	8,022.11			8,022.11
	6759507 Water - Main Breaks	5,213.26			5,213.26
	6759509 Water - Elec Equipt Repair	2,052.35			2,052.35
	7048050 Employee Ed Expenses	-		2.00	2.00
	7048056 Office Education / Train Exp	-		539.00	539.00
	7754006 Sewer - Maintenance Repairs	-			-
	7754007 Sewer Main Breaks	-			-
	7754008 Sewer Electric Equipment Repair	-			-
	7756070 Sewer Permits	-			-
	7756070 Meals & Related Exp	-	1,411.00	252.00	1,663.00
	7756080 Bank Serv Charge	-		2,437.00	2,437.00
	7759081 Lab Fee	-		19.00	19.00
	7759090 Other Misc General	-		570.00	570.00
	7759490 Sewer Other Maint Expenses	-			-
	TOTAL	32,401.81	9,211.00	64,565.00	106,180.81

Detail of Operation & Maintenance Expenses By Month - Wastewater

Company: Utilities, Inc. of Florida - Pasco County
Docket No.: 060253 - WS
Schedule Year Ended: 12/31/06
Historic [X] or Projected [ ]

Explanation: Provide a schedule of operation and maintenance expenses by primary account for each month of the test year. If schedule has to be continued on 2nd page, reprint the account titles and numbers.

Florida Public Service Commission

Schedule: B-6
Page 1 of 1
Preparer: Steven M. Lubertozzi
Recap Schedules: B-2

Line No.	(1) Account No. and Name	(2) Jan	(3) Feb	(4) Mar	(5) Apr	(6) May	(7) Jun	(8) Jul	(9) Aug	(10) Sept	(11) Oct	(12) Nov	(13) Dec	(14) Total Annual	(15) Cost Center Allocation	(16) UIF Allocation	(17) Total	(18) Adj.	(19) Adj. Total Annual
1	701 Salaries & Wages - Employees	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 40,832	$ 40,832	$ 11,033	$ 51,865
2	703 Salaries & Wages - Officers, Etc.													0			0		0
3	704 Employee Pensions & Benefits	-	-	-	-	-	-	-	-	-	-	-	-	0	-	11,212	11,212	1,015	12,227
4	710 Purchased Sewage Treatment	13,776	6,100	18,934	16,412	11,657	(9,600)	23,390	11,303	15,899	9,229	11,817	29,562	158,478	-	-	158,478	2,501	160,979
5	711 Sludge Removal Expense	-	396	-	-	-	-	700	-	-	-	600	6,900	8,596	-	-	8,596	236	8,832
6	715 Purchased Power	65	595	353	399	241	319	399	340	317	354	256	227	3,866	-	-	3,866	395	4,261
7	716 Fuel for Power Purchased													0			0		0
8	718 Chemicals	-	-	-	-	-	-	-	-	-	-	-	-	0	-	-	0		0
9	720 Materials & Supplies	-	1,068	-	-	-	-	-	-	-	-	191	41	1,299	1,081	6,572	8,952	245	9,198
10	731 Contractual Services - Engr.	-	-	-	-	-	-	-	-	-	-	-	-	0	-	86	86	2	88
11	732 Contractual Services - Acct.	-	-	-	-	-	-	-	-	-	-	-	-	0	-	1,179	1,179	32	1,211
12	733 Contractual Services - Legal	-	-	-	-	-	-	-	-	-	-	-	-	0	-	1,251	1,251	34	1,285
13	734 Contractual Services - Mgmt. Fees													0			0		0
14	735 Contractual Services - Testing	-	-	-	-	-	-	-	-	-	-	-	-	0	-	66	66	2	68
15	736 Contractual Services - Other	-	-	-	-	-	-	-	-	-	-	-	-	0	-	1,655	1,655	45	1,700
16	741 Rental of Building/Real Prop.													0			0		0
17	742 Rental of Equipment													0			0		0
18	750 Transportation Expenses	-	-	-	-	-	-	-	-	-	-	-	-	0	-	12,507	12,507	343	12,850
19	756 Insurance - Vehicle													0			0		0
20	757 Insurance - General Liability													0			0		0
21	758 Insurance - Workman's Comp.													0			0		0
22	759 Insurance - Other	-	-	-	-	-	-	-	-	-	-	-	-	0	-	6,105	6,105	167	6,272
23	760 Advertising Expense													0			0		0
24	766 Reg. Comm. Exp. - Rate Case Amort.	-	-	-	-	-	-	-	-	-	-	-	-	0	-	13,648	13,648	368	14,016
25	767 Reg. Comm. Exp. - Other													0			0		0
26	770 Bad Debt Expense	-	-	-	-	-	-	-	-	-	-	-	-	0	-	46	46	1	47
27	775 Miscellaneous Expenses	260	494	2,631	500	1,650	60	-	547	300	60	272	2,203	8,977	3,419	24,601	36,997	1,014	38,011
28																			
29	TOTAL	$ 14,102	$ 8,653	$ 21,918	$ 17,311	$ 13,547	$ (9,221)	$ 24,489	$ 12,190	$ 16,515	$ 9,643	$ 13,136	$ 38,933	$ 181,217	$ 4,500	$ 119,760	$ 305,477	$ 17,433	$ 322,910

PASCO COUNTY - ACCOUNTS RECONCILIATION SCHEDULE

MFR Account No. and Name	GL Account No. and Name	TOTAL DIRECT	Cost Center Allocation	UIF Allocation	SEWER UIF and Cost Center Allocation and Direct
775 Miscellaneous Expenses	6755070 Water Permits				-
	6755090 Water - Other Maint Expense	-	N/A		#VALUE!
	6759001 Publ Subscriptions & Tapes	-		6.00	6.00
	6759002 Answering Serv	-		144.00	144.00
	6759004 Printing & Blueprints	-		133.00	133.00
	6759006 UPS & Air Freight	-		300.00	300.00
	6759007 Printing Customer Service	-		283.00	283.00
	6759008 Xerox	-		62.00	62.00
	6759010 Reim of Off Emp Exp	-		16.00	16.00
	6759014 Memberships Office Employees	-		4.00	4.00
	6759018 Microfilming	-		99.00	99.00
	6759019 Operators Other Office Expense	-	1,228.00	49.00	1,277.00
	6759019 Operators Publ / Subscriptions	-	22.00	8.00	30.00
	6759090 Maint - Deferred Charges			1,688.00	1,688.00
	6759091 Hurricane / Storms Cost	-	46.00	1,059.00	1,105.00
	6759099 Other Office Expense	-		341.00	341.00
	6759110 Office Telephone	-		226.00	226.00
	6759120 Office Electric	-		1,572.00	1,572.00
	6759125 Office Water	-		23.00	23.00
	6759130 Office Gas	-		37.00	37.00
	6759135 Operations Telephones	-		1,025.00	1,025.00
	6759136 Operations Telephones Long Distance	-		3.00	3.00
	6759140 Alarm Sys Phone Expense	-			-
	6759180 Office Fax Machine Phone Line	-			-
	6759210 Office Cleaning Service	-		283.00	283.00
	6759220 Landscaping Mowing & Snowplowing	-		131.00	131.00
	6759230 Garbage Removal	-		138.00	138.00
	6759260 Repair Off Mach & Heating	-		126.00	126.00
	6759290 Other Office Maint	-		360.00	360.00
	6759300 Memberships - Company	-		1.00	1.00
	6759402 Part-time Operators	-			-
	6759405 Communication Expenses			14,350.00	14,350.00
	6759410 Operators Education Expenses	-	383.00		383.00
	6759412 Uniforms	-	777.00	516.00	1,293.00
		-	54.00		54.00
	6759413 Operators Memberships	-	372.00	161.00	533.00
	6759430 Sales/Use Tax Expense	-		2.00	2.00
	6759490 Garbage Removal Wtr/Swr	-			-
	6759506 Water - Maint Repairs	-			-
	6759507 Water - Main Breaks	-			-
		-			-
	7048050 Employees Ed Expenses	-		1.00	1.00
	7048053 Office Education / Train Exp	-		205.00	205.00
	7754008 Sewer - Maintenance Repairs	6,701.34			6,701.34
	7754007 Sewer Main Breaks	200.00			200.00
	7754009 Sewer Electric Equipment Repair	-			-
	7755070 Sewer Permits	-			-
	7758070 Meals & Related Exp	-	537.00	96.00	633.00
	7758080 Bank Serv Charge	-		929.00	929.00
	7758081 Lab Fee			7.00	7.00
	7758090 Other Misc General	-		217.00	217.00
	7758430 Sewer Other Maint Expense	2,076.10			2,076.10
	TOTAL	8,977.44	3,419.00	24,601.00	36,997.44

Detail of Operation & Maintenance Expenses By Month - Water

Florida Public Service Commission

Company: Utilities, Inc. of Florida - Pinellas County
Docket No.: 060253 - WS
Schedule Year Ended: 12/31/05
Historic [X] or Projected [ ]

Explanation: Provide a schedule of operation and maintenance expenses by primary account for each month of the last year. If schedule has to be continued on 2nd page, reprint the account titles and numbers.

Schedule: B-5
Page 1 of 1
Preparer: Steven M. Lubertozzi
Recap Schedules: B-1

Line No.	(1) Account No. and Name	(2) Jan	(3) Feb	(4) Mar	(5) Apr	(6) May	(7) Jun	(8) Jul	(9) Aug	(10) Sept	(11) Oct	(12) Nov	(13) Dec	(14) Total County	(15) Cost Center Allocation	(16) UIF Allocation	(17) Total	(18) Adj.	(19) Adj. Total Annual
1	601 Salaries & Wages - Employees	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 15,590	$ 15,590	$ 4,212	$ 19,802
2	603 Salaries & Wages - Officers, Etc.													0			0		0
3	604 Employee Pensions & Benefits	-	-	-	-	-	-	-	-	-	-	-	-	0	-	4,279	4,279	387	4,666
4	610 Purchased Water	1,000	-	3,128	1,335	(2,378)	-	(750)	12	(575)	-	(100)	-	1,672	-	-	1,672		1,672
5	615 Purchased Power	227	236	216	233	192	191	207	224	238	132	226	205	2,526	-	-	2,526	350	2,876
6	616 Fuel for Power Purchased													0			0		0
7	618 Chemicals	53	159	83	63	142	164	50	78	163	67	71	241	1,333	-	-	1,333	37	1,369
8	620 Materials & Supplies	55	415	12	53	47	145	16	49	89	-	69	48	998	413	2,510	3,921	107	4,028
9	631 Contractual Services - Engr.	-	-	-	-	-	-	-	-	-	-	-	-	0	-	33	33	1	34
10	632 Contractual Services - Acct.	-	-	-	-	-	-	-	-	-	-	-	-	0	-	450	450	12	462
11	633 Contractual Services - Legal	-	-	-	-	-	-	-	-	-	-	-	-	0	-	478	478	13	491
12	634 Contractual Services - Mgmt. Fees													0			0		0
13	635 Contractual Services - Testing	104	197	145	39	262	109	154	175	183	-	445	167	1,977	-	25	2,002	55	2,057
14	636 Contractual Services - Other	396	359	396	360	359	396	359	359	359	755	359	718	5,176	-	630	5,806	159	5,965
15	641 Rental of Building/Real Prop.													0			0		0
16	642 Rental of Equipment													0			0		0
17	650 Transportation Expenses	-	-	-	-	-	-	-	-	-	-	-	-	0	-	4,776	4,776	131	4,907
18	656 Insurance - Vehicle													0			0		0
19	657 Insurance - General Liability													0			0		0
20	658 Insurance - Workman's Comp.													0			0		0
21	659 Insurance - Other	-	-	-	-	-	-	-	-	-	-	-	-	0	-	2,331	2,331	64	2,395
22	660 Advertising Expense													0			0		0
23	666 Reg. Comm. Exp. - Rate Case Amort.	-	-	-	-	-	-	-	-	-	-	-	-	0	-	5,211	5,211	140	5,351
24	667 Reg. Comm. Exp. - Other													0			0		0
25	670 Bad Debt Expense	-	13	31	64	-	-	-	-	31	31	(12)	-	159	-	18	177	5	182
26	675 Miscellaneous Expenses	217	269	-	1,471	412	224	238	439	256	245	217	1,135	5,120	1,332	9,393	15,845	3,234	19,079
27																			
28	TOTAL	$ 2,050	$ 1,648	$ 4,009	$ 3,617	$ (965)	$ 1,229	$ 272	$ 1,336	$ 743	$ 1,230	$ 1,275	$ 2,514	$ 18,961	$ 1,745	$ 45,724	$ 66,430	$ 8,908	$ 75,337

PINELLAS COUNTY - ACCOUNTS RECONCILIATION SCHEDULE

PINELLAS Allocations

MFR Account No. and Name	G/L Account No. and Name	TOTAL DIRECT	Cost Center Allocation	UIF Allocation	WATER UIF and Cost Center Allocation and Direct
675 Miscellaneous Expenses					-
	6755090 Water - Other Maint Expense	79.21	26.00		105.21
	6759001 Publ Subscriptions & Tapes	-		2.00	2.00
	6759002 Answering Serv	-		55.00	55.00
	6759004 Printing & Blueprints	-		51.00	51.00
	6759006 UPS & Air Freight	-		115.00	115.00
	6759007 Printing Customer Service	194.88		108.00	302.88
	6759008 Xerox	-		24.00	24.00
	6759010 Reim of Off Emp Exp	-		6.00	6.00
	6759014 Memberships Office Employees	-		1.00	1.00
	6759016 Microfilming	-		38.00	38.00
	6759018 Operators Other Office Expense	214.50	469.00	19.00	702.50
	6759019 Operators Publ / Subscriptions	-	9.00	3.00	12.00
	6759080 Maint - Deferred Charges			645.00	645.00
	6759081 Hurricane / Storms Cost	-	17.00	404.00	421.00
	6759090 Other Office Expense	-		130.00	130.00
	6759110 Office Telephone	-		86.00	86.00
	6759120 Office Electric	-		600.00	600.00
	6759125 Office Water	-		9.00	9.00
	6759130 Office Gas	-		14.00	14.00
	6759135 Operations Telephones	-		391.00	391.00
	6759136 Operations Telephones Long Distance	-		1.00	1.00
	6759140 Alarm Sys Phone Expense	-			-
	6759160 Office Fax Machine Phone Line	-			-
	6759210 Office Cleaning Service	-		108.00	108.00
	6759220 Landscaping Mowing & Snowplowng	-		50.00	50.00
	6759230 Garbage Removal	-		53.00	53.00
	6759260 Repair Off Mach & Heating	-		48.00	48.00
	6759290 Other Office Maint	-		137.00	137.00
	6759330 Memberships - Company	-		-	-
	6759402 Part-time Operators	-			-
	6759405 Communication Expenses			5,479.00	5,479.00
	6759410 Operators Education Expenses	-	146.00		146.00
	6759412 Uniforms	-	297.00	197.00	494.00
	6759415 Mowing /Snowplowing	2,599.99	21.00		2,620.99
	6759416 Operators Memberships	15.55	142.00	62.00	219.55
	6759430 Sales/Use Tax Expense	-		1.00	1.00
	6759490 Garbage Removal Wtr/Swr	-			-
	6759506 Water - Maint Repairs	1,698.93			1,698.93
	6759507 Water - Main Breaks	316.96			316.96
	6759509 Water - Elec Equipt Repair	-			-
	7048050 Employees Ed Expenses	-		-	-
	7048055 Office Education / Train Exp	-		78.00	78.00
	7754006 Sewer - Maintenance Repairs	-			-
	7754007 Sewer Main Breaks	-			-
	7754009 Sewer Electric Equipment Repair	-			-
	7755070 Sewer Permits	-			-
	7758370 Meals & Related Exp	-	205.00	37.00	242.00
	7758380 Bank Serv Charge	-		355.00	355.00
	7758381 Loc Fee			3.00	3.00
	7758390 Other Misc General	-		83.00	83.00
	7758490 Sewer Other Maint Expense	-			-
	TOTAL	5,120.02	1,332.00	9,393.00	15,845.02

Detail of Operation & Maintenance Expenses By Month - Water

Florida Public Service Commission

Company: Utilities, Inc. of Florida - Seminole County
Docket No.: 080253 - WS
Schedule Year Ended: 12/31/09
Historic [X] or Projected [ ]

Explanation: Provide a schedule of operation and maintenance expenses by primary account for each month of the test year. If schedule has to be continued on 2nd page, reprint the account titles and numbers.

Schedule: B-5
Page 1 of 1
Preparer: Steven M. Lubertozzi
Recap Schedules: B-1

Line No.	(1) Account No. and Name	(2) Jan	(3) Feb	(4) Mar	(5) Apr	(6) May	(7) Jun	(8) Jul	(9) Aug	(10) Sept	(11) Oct	(12) Nov	(13) Dec	(14) Total County	(15) Cost Center Allocation	(16) UIF Allocation	(17) Total	(18) Adj.	(19) Adj. Total Annual
1	601 Salaries & Wages - Employees	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 96,234	$ 96,234	$ 26,002	$ 122,236
2	603 Salaries & Wages - Officers, Etc.													0			0	-	0
3	604 Employee Pensions & Benefits	-	-	-	-	-	-	-	-	-	-	-	-	0	-	26,423	26,423	2,391	28,814
4	610 Purchased Water	379	116	(172)	434	246	175	170	172	161	50	(0)	129	1,859	-	-	1,859	-	1,859
5	615 Purchased Power	2,949	2,511	2,531	2,772	2,935	3,031	2,499	2,808	2,900	2,882	2,659	2,958	33,414	-	-	33,414	5,904	39,318
6	616 Fuel for Power Purchased													0			0		0
7	618 Chemicals	1,905	589	2,493	1,549	2,788	1,952	1,178	2,309	1,910	2,952	2,712	3,116	25,452	-	-	25,452	1,197	26,649
8	620 Materials & Supplies	-	-	165	-	149	357	393	171	91	279	100	900	2,604	6,531	15,489	24,624	675	25,299
9	631 Contractual Services - Engr.	-	-	-	-	-	-	-	-	-	-	-	-	0	-	203	203	6	209
10	632 Contractual Services - Acct.	-	-	-	-	-	-	-	-	-	-	-	-	0	-	2,778	2,778	76	2,854
11	633 Contractual Services - Legal	-	-	-	-	-	-	-	-	-	-	-	-	0	-	2,948	2,948	81	3,029
12	634 Contractual Services - Mgmt. Fees													0			0	-	0
13	635 Contractual Services - Testing	488	518	241	1,275	284	-	2,952	-	417	2,091	76	1,035	9,374	164	156	9,694	266	9,960
14	636 Contractual Services - Other	-	-	-	-	-	-	-	-	-	-	-	-	0	-	3,898	3,898	107	4,005
15	641 Rental of Building/Real Prop.													0			0	-	0
16	642 Rental of Equipment													0			0	-	0
17	650 Transportation Expenses	-	-	-	-	-	-	-	-	-	-	-	-	0	-	29,478	29,478	808	30,286
18	656 Insurance - Vehicle													0			0	-	0
19	657 Insurance - General Liability													0			0	-	0
20	658 Insurance - Workman's Comp.													0			0	-	0
21	659 Insurance - Other	-	-	-	-	-	-	-	-	-	-	-	-	0	-	14,389	14,389	394	14,783
22	660 Advertising Expense													0			0	-	0
23	666 Reg. Comm. Exp. - Rate Case Amort.	-	-	-	-	-	-	-	-	-	-	-	-	0	-	32,167	32,167	864	33,031
24	667 Reg. Comm. Exp. - Other													0			0	-	0
25	670 Bad Debt Expense	525	1,082	873	913	2,672	642	1,191	878	1,970	376	832	1,519	13,274	-	109	13,383	367	13,750
26	675 Miscellaneous Expenses	2,876	4,761	3,326	4,112	4,704	4,352	2,818	2,301	3,736	5,707	11,400	4,985	55,077	7,532	57,978	120,587	3,304	123,892
27																			
28	TOTAL	$ 9,121	$ 9,577	$ 9,456	$ 11,054	$ 13,778	$ 10,509	$ 11,201	$ 8,438	$ 11,184	$ 14,316	$ 17,779	$ 14,642	$ 141,058	$ 14,227	$ 282,250	$ 437,533	$ 42,441	$ 479,974

SEMINOLE COUNTY - ACCOUNTS RECONCILIATION SCHEDULE

			SEMINOLE Allocations		
MFR Account No. and Name	G/L Account No. and Name	TOTAL 2005	Cost Center Allocation	UIF Allocation	TOTAL WATER
675 Miscellaneous Expenses	6755070 Water Permits	400.00			400.00
	6755090 Water - Other Maint Expense	15,149.16	2,046.00		17,195.16
	6759001 Publ Subscriptions & Tapes	-	(29.00)	14.00	(15.00)
	6759002 Answering Serv	-		340.00	340.00
	6759004 Printing & Blueprints	-		314.00	314.00
	6759006 UPS & Air Freight	-		708.00	708.00
	6759007 Printing Customer Service	441.38		667.00	1,108.38
	6759008 Xerox	-		146.00	146.00
	6759010 Reim of Off Emp Exp	-		38.00	38.00
	6759014 Memberships Office Employees	-		9.00	9.00
	6759016 Microfilming	-		232.00	232.00
	6759018 Operators Other Office Expense	759.61	3,314.00	116.00	4,189.61
	6759019 Operators Publ / Subscriptions	-	457.00	20.00	477.00
	6759080 Maint - Deferred Charges	-		3,979.00	3,979.00
	6759081 Hurricane / Storms Cost	282.30		2,495.00	2,777.30
	6759090 Other Office Expense	-		804.00	804.00
	6759110 Office Telephone	-		533.00	533.00
	6759120 Office Electric	-		3,705.00	3,705.00
	6759125 Office Water	-		54.00	54.00
	6759130 Office Gas	-		86.00	86.00
	6759135 Operations Telephones	-		2,416.00	2,416.00
	6759136 Operations Telephones Long Distance	-		6.00	6.00
	6759140 Alarm Sys Phone Expense	4,534.66			4,534.66
	6759160 Office Fax Machine Phone Line	-			-
	6759210 Office Cleaning Service	-		666.00	666.00
	6759220 Landscaping Mowing & Snowplowng	-		308.00	308.00
	6759230 Garbage Removal	-		326.00	326.00
	6759260 Repair Off Mach & Heating	-		296.00	296.00
	6759290 Other Office Maint	-		848.00	848.00
	6759330 Memberships - Company	-		3.00	3.00
	6759402 Part-time Operators	-			-
	6759405 Comunication Expenses	-	581.00	33,819.00	34,400.00
	6759410 Operators Education Expenses	-	704.00		704.00
	6759412 Uniforms	-	144.00	1,216.00	1,360.00
	6759415 Mowing /Snowplowing	22,805.00			22,805.00
	6759416 Operators Memberships	-	315.00	380.00	695.00
	6759430 Sales/Use Tax Expense	-		5.00	5.00
	6759490 Garbage Removal Wtr/Swr	-			-
	6759506 Water - Maint Repairs	7,110.99			7,110.99
	6759507 Water - Main Breaks	2,134.72			2,134.72
	6759509 Water - Elec Equipt Repair	1,459.60			1,459.60
	7048050 Employees Ed Expenses	-		1.00	1.00
	7048055 Office Education / Train Exp	-		484.00	484.00
	7754006 Sewer - Maintenance Repairs	-			-
	7754007 Sewer Main Breaks	-			-
	7754009 Sewer Electric Equipment Repair	-			-
	7755070 Sewer Permits	-			-
	7758370 Meals & Related Exp	-		227.00	227.00
	7758380 Bank Serv Charge	-		2,188.00	2,188.00
	7758381 Loc Fee	-		17.00	17.00
	7758390 Other Misc General	-		512.00	512.00
	7758490 Sewer Other Maint Expense	-			-
	TOTAL	55,077.42	7,532.00	57,978.00	120,587.42

Detail of Operation & Maintenance Expenses By Month - Wastewater

Florida Public Service Commission

Company: Utilities, Inc. of Florida - Seminole County
Docket No.: 060253 - WS
Schedule Year Ended: 12/31/05
Historic [X] or Projected [ ]

Explanation: Provide a schedule of operation and maintenance expenses by primary account for each month of the test year. If schedule has to be continued on 2nd page, reprint the account titles and numbers.

Schedule: B-6
Page 1 of 1
Preparer: Steven M. Lubertozzi
Recap Schedules: B-2

Line No.	(1) Account No. and Name	(2) Jan	(3) Feb	(4) Mar	(5) Apr	(6) May	(7) Jun	(8) Jul	(9) Aug	(10) Sept	(11) Oct	(12) Nov	(13) Dec	(14) Total County	(15) Cost Center Allocation	(16) UIF Allocation	(17) Total	(18) Adj.	(19) Adj. Total Annual
1	701 Salaries & Wages - Employees	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 51,357	$ 51,357	$ 13,877	$ 65,234
2	703 Salaries & Wages - Officers, Etc.													0			0	-	0
3	704 Employee Pensions & Benefits	-	-	-	-	-	-	-	-	-	-	-	-	0	-	14,102	14,102	1,276	15,378
4	710 Purchased Sewage Treatment	19,965	17,292	16,111	17,110	32,267	14,071	29,861	26,735	21,787	24,494	30,924	15,556	266,175	-	-	266,175	3,026	269,201
5	711 Sludge Removal Expense	2,181	1,350	562	-	4,050	7,694	2,314	1,100	1,630	-	1,618	-	22,498	-	-	22,498	616	23,114
6	715 Purchased Power	498	479	465	454	430	(311)	550	613	584	554	585	202	5,103	-	-	5,103	781	5,884
7	716 Fuel for Power Purchased													0			0	-	0
8	718 Chemicals	-	-	-	-	-	-	-	-	-	-	-	-	0	-	-	0	-	0
9	720 Materials & Supplies	-	-	35	20	-	-	71	-	-	-	-	-	126	3,072	8,266	11,464	314	11,778
10	731 Contractual Services - Engr.	-	-	-	-	-	-	-	-	-	-	-	-	0	-	108	108	3	111
11	732 Contractual Services - Acct.	-	-	-	-	-	-	-	-	-	-	-	-	0	-	1,482	1,482	41	1,523
12	733 Contractual Services - Legal	-	-	-	-	-	-	-	-	-	-	-	-	0	-	1,573	1,573	43	1,616
13	734 Contractual Services - Mgmt. Fees													0			0	-	0
14	735 Contractual Services - Testing	-	-	-	-	156	-	-	-	-	-	-	-	156	87	83	326	9	335
15	736 Contractual Services - Other	-	-	-	-	-	-	-	-	-	-	-	-	0	-	2,080	2,080	57	2,137
16	741 Rental of Building/Real Prop.													0			0	-	0
17	742 Rental of Equipment													0			0	-	0
18	750 Transportation Expenses	-	-	-	-	-	-	-	-	-	-	-	-	0	-	15,732	15,732	431	16,163
19	756 Insurance - Vehicle													0			0	-	0
20	757 Insurance - General Liability													0			0	-	0
21	758 Insurance - Workman's Comp.													0			0	-	0
22	759 Insurance - Other	-	-	-	-	-	-	-	-	-	-	-	-	0	-	7,679	7,679	210	7,889
23	760 Advertising Expense													0			0	-	0
24	766 Reg. Comm. Exp. - Rate Case Amort.	-	-	-	-	-	-	-	-	-	-	-	-	0	-	17,166	17,166	464	17,630
25	767 Reg. Comm. Exp. - Other													0			0	-	0
26	770 Bad Debt Expense	-	-	-	-	-	-	-	-	-	-	-	-	0	-	58	58	2	60
27	775 Miscellaneous Expenses	583	268	-	1,639	-	-	-	-	-	-	-	-	2,490	3,292	30,942	36,724	1,006	37,730
28																			
29	TOTAL	$ 23,228	$ 19,389	$ 17,172	$ 19,223	$ 36,904	$ 21,453	$ 32,796	$ 28,448	$ 24,002	$ 25,048	$ 33,127	$ 15,758	$ 296,548	$ 6,451	$ 150,628	$ 453,627	$ 22,156	$ 475,783

SEMINOLE COUNTY - ACCOUNTS RECONCILIATION SCHEDULE

MFR Account No. and Name	G/L Account No. and Name	TOTAL Directly Booked	Cost Center Allocation	UIF Allocation	TOTAL WASTEWATER
675 Miscellaneous Expenses	6755070 Water Permits	-			-
	6755090 Water - Other Maint Expense	-	-		-
	6759001 Publ Subscriptions & Tapes	-	(16.00)	7.00	(9.00)
	6759002 Answering Serv	-		181.00	181.00
	6759004 Printing & Blueprints	-		167.00	167.00
	6759006 UPS & Air Freight	-		378.00	378.00
	6759007 Printing Customer Service	-		356.00	356.00
	6759008 Xerox	-		78.00	78.00
	6759010 Reim of Off Emp Exp	-		20.00	20.00
	6759014 Memberships Office Employees	-		5.00	5.00
	6759016 Microfilming	-		124.00	124.00
	6759018 Operators Other Office Expense	-	1,769.00	62.00	1,831.00
	6759019 Operators Publ / Subscriptions	-	244.00	11.00	255.00
	6759080 Maint - Deferred Charges	-		2,123.00	2,123.00
	6759081 Hurricane / Storms Cost	-		1,332.00	1,332.00
	6759090 Other Office Expense	-		429.00	429.00
	6759110 Office Telephone	-		285.00	285.00
	6759120 Office Electric	-		1,977.00	1,977.00
	6759125 Office Water	-		29.00	29.00
	6759130 Office Gas	-		46.00	46.00
	6759135 Operations Telephones	-		1,289.00	1,289.00
	6759136 Operations Telephones Long Distance	-		3.00	3.00
	6759140 Alarm Sys Phone Expense	-			-
	6759160 Office Fax Machine Phone Line	-			-
	6759210 Office Cleaning Service	-		356.00	356.00
	6759220 Landscaping Mowing & Snowplowng	-		165.00	165.00
	6759230 Garbage Removal	-		174.00	174.00
	6759260 Repair Off Mach & Heating	-		158.00	158.00
	6759290 Other Office Maint	-		453.00	453.00
	6759330 Memberships - Company	-		1.00	1.00
	6759402 Part-time Operators	-			-
	6759405 Comunication Expenses	-	310.00	18,048.00	18,358.00
	6759410 Operators Education Expenses	-	376.00		376.00
	6759412 Uniforms	-	77.00	649.00	726.00
		-			-
	6759416 Operators Memberships	-	168.00	203.00	371.00
	6759430 Sales/Use Tax Expense	-		3.00	3.00
	6759490 Garbage Removal Wtr/Swr	-			-
	6759506 Water - Maint Repairs	-			-
	6759507 Water - Main Breaks	-			-
		-			-
	7048050 Employees Ed Expenses	-		1.00	1.00
	7048055 Office Education / Train Exp	-		258.00	258.00
	7754006 Sewer - Maintenance Repairs	976.15			976.15
	7754007 Sewer Main Breaks	475.00			475.00
	7754009 Sewer Electric Equipment Repair	-			-
	7755070 Sewer Permits	-			-
	7758370 Meals & Related Exp	-		121.00	121.00
	7758380 Bank Serv Charge	-		1,168.00	1,168.00
	7758381 Loc Fee	-		9.00	9.00
	7758390 Other Misc General	-		273.00	273.00
	7758490 Sewer Other Maint Expense	1,038.77	364.00		1,402.77
	TOTAL	2,489.92	3,292.00	30,942.00	36,723.92

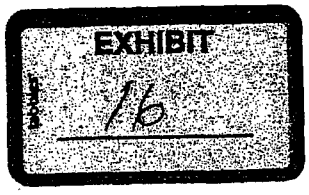


EXHIBIT
16

Jeb Bush
Governor

Department of Environmental Protection

Southwest District
13051 North Telecom Parkway
Temple Terrace, FL 33637-0926
Telephone: 813-632-7600

Colleen M. Castille
Secretary

May 24, 2006

Mr. Richard W. Retz, Regional Manager
Utilities, Inc. of Florida
200 Weathersfield Avenue
Altamonte Springs, FL 32714

Re: Summertree Long Form Consent Order
PWS-ID No. 651-1423
Pasco County
OGC File No. 06-1040-51-PW

Dear Mr. Retz:

Enclosed please find the proposed Consent Order regarding the above-referenced facility. Please review, sign, and return it within fifteen (15) days from receipt of this letter, if in agreement.

Upon return, the District Director will execute the Consent Order, and a final copy will be sent to you.

If you have any questions, please contact Ed Watson, of the District Compliance/Enforcement Drinking Water Section, at (813) 632-7600, extension 319.

Sincerely,

Craig McArthur
Environmental Manager
Drinking Water Section

CM/ew/dm[c]

Enclosure

BEFORE THE STATE OF FLORIDA
DEPARTMENT OF ENVIRONMENTAL PROTECTION

STATE OF FLORIDA DEPARTMENT OF ENVIRONMENTAL PROTECTION,	)	IN THE OFFICE OF THE SOUTHWEST DISTRICT
Complainant,	)	OGC FILE NO. 06-1040-51-PW
vs.	)	
Utilities, Inc. of Florida	)	
Respondent.	)	

CONSENT ORDER

This Consent Order is entered into between the State of Florida Department of Environmental Protection ("Department") and Utilities, Inc. of Florida ("Respondent") to reach settlement of certain matters at issue between the Department and Respondent.

The Department finds and the Respondent admits the following:

1. The Department is the administrative agency of the State of Florida having the power and duty to administer and enforce the provisions of the Florida Safe Drinking Water Act, Sections 403.850 et seq., Florida Statutes, and the rules promulgated thereunder, Title 62, Florida Administrative Code. The Department has jurisdiction over the matters addressed in this Consent Order.

2. Respondent is a person within the meaning of Section 403.852(5), Florida Statutes.

3. Respondent is the owner and operator of a community water system, PWS# 6511423, located in Pasco County Florida which, serves the Summertree Water Plant ("system").

4. The Department finds that Respondent is in violation of Rule 62-550.310(3). Florida Administrative Code ("Fla. Admin. Code"), which establishes the maximum contaminant

completion of construction, along with all required supporting documentation. Respondent shall receive written Department clearance prior to placing the system modifications into service.

d. Respondent shall continue to sample quarterly for TTHMs and HAA5s in accordance with Rule 62-550.514(2), Fla. Admin. Code. Results shall be submitted to the Department within ten (10) days following the month in which the samples were taken or within 10 days following Respondent's receipt of the results, whichever is sooner. Additionally, quarterly reports shall be submitted to the Department in accordance with Rule 62-550.821(12), Fla. Admin. Code.

e. In the event that the modifications approved by the Department pursuant to paragraphs 5a. and 5b. are determined to be inadequate to resolve the MCL violation(s), the Department will notify the Respondent in writing. Within 30 days of receipt of written notification from the Department that the results of the quarterly sampling indicate that the system modifications have not resolved the violation(s), Respondent shall submit another proposal to address the MCL violation(s). Respondent shall provide all information requested in any RFIs issued by the Department within 15 days of receipt of each request. Within 60 days of the date the Department receives the application pursuant to this paragraph, Respondent shall provide all information necessary to complete the application.

f. Respondent shall continue to issue public notice regarding the MCL violation(s) every 90 days in accordance with Rule 62-560.410(1), Fla. Admin. Code, until the Department determines that the system is in compliance with all MCLs. Respondent shall submit certification of delivery of public notice, using DEP Form 62-555.900(22), to the Department within ten days of issuing each public notice.

6. Within 15 days of the effective date of this Consent Order, Respondent shall pay the Department $500 in settlement of the matters addressed in this Consent Order. This amount includes $500 for costs and expenses incurred by the Department during the investigation of this matter and the preparation and tracking of this Consent Order. Payment shall be made by cashier's check or money order. The instrument shall be made payable to the "Department of Environmental Protection" and shall include thereon the OGC number assigned to this Consent Order and the notation "Ecosystem Management and Restoration Trust Fund."

7. Respondent agrees to pay the Department stipulated penalties in the amount of $100 per day for each and every day Respondent fails to timely comply with any of the requirements of paragraph 5 of this Consent Order. A separate stipulated penalty shall be assessed for each violation of this Consent Order. Within 30 days of written demand from the Department, Respondent shall make payment of the appropriate stipulated penalties to the "Department of Environmental Protection" by cashier's check or money order and shall include the OGC number assigned to this Consent Order and the notation "Ecosystem Management and Restoration Trust Fund." Payment shall be sent to the Department of Environmental Protection, Southwest District Office, 13051 N. Telecom Pkwy, Temple Terrace, FL 33637. The Department may make demands for payment at any time after violations occur. Nothing in this paragraph shall prevent the Department from filing suit to specifically enforce any of the terms of this Consent Order. If the Department is required to file a lawsuit to recover stipulated penalties under this paragraph, the Department will not be foreclosed from seeking civil penalties for violations of this Consent Order in an amount greater than the stipulated penalties due under this paragraph.

8. If any event, including administrative or judicial challenges by third parties unrelated to the Respondent, occurs which causes delay or the reasonable likelihood of delay, in complying with the requirements of this Consent Order, Respondent shall have the burden of proving the delay was or will be caused by circumstances beyond the reasonable control of the Respondent and could not have been or cannot be overcome by Respondent's due diligence. Economic circumstances shall not be considered circumstances beyond the control of Respondent, nor shall the failure of a contractor, subcontractor, materialman or other agent (collectively referred to as "contractor") to whom responsibility for performance is delegated to meet contractually imposed deadlines be a cause beyond the control of Respondent, unless the cause of the contractor's late performance was also beyond the contractor's control. Upon occurrence of an event causing delay, or upon becoming aware of a potential for delay, Respondent shall notify the Department orally within 24 hours or by the next working day and shall, within seven calendar days of oral notification to the Department, notify the Department in writing of the anticipated length and cause of the delay, the measures taken or to be taken to prevent or minimize the delay and the timetable by which Respondent intends to implement these measures. If the parties can agree that the delay or anticipated delay has been or will be caused by circumstances beyond the reasonable control of Respondent, the time for performance hereunder shall be extended for a period equal to the agreed delay resulting from such circumstances. Such agreement shall adopt all reasonable measures necessary to avoid or minimize delay. Failure of Respondent to comply with the notice requirements of this Paragraph in a timely manner shall constitute a waiver of Respondent's right to request an extension of time for compliance with the requirements of this Consent Order.

9. Persons who are not parties to this Consent Order, but whose substantial interests are affected by this Consent Order, have a right, pursuant to Sections 120.569 and 120.57, Florida Statutes, to petition for an administrative hearing on it. The Petition must contain the information set forth below and must be filed (received) at the Department's Office of General Counsel, 3900 Commonwealth Boulevard, MS #35, Tallahassee, Florida 32399-3000, within 21 days of receipt of this notice. A copy of the Petition must also be mailed at the time of filing to the District Office named above at the address indicated. Failure to file a petition within the 21 days constitutes a waiver of any right such person has to an administrative hearing pursuant to Sections 120.569 and 120.57, Florida Statutes.

10. The petition shall contain the following information:

a. The name, address, and telephone number of each petitioner; the Department's Consent Order identification number and the county in which the subject matter or activity is located;

b. A statement of how and when each petitioner received notice of the Consent Order;

c. A statement of how each petitioner's substantial interests are affected by the Consent Order;

d. A statement of the material facts disputed by petitioner, if any;

e. A statement of facts which petitioner contends warrant reversal or modification of the Consent Order;

f. A statement of which rules or statutes petitioner contends require reversal or modification of the Consent Order;

g. A statement of the relief sought by petitioner, stating precisely the action petitioner wants the Department to take with respect to the Consent Order.

11. If a petition is filed, the administrative hearing process is designed to formulate agency action. Accordingly, the Department's final action may be different from the position taken by it in this Notice. Persons whose substantial interests will be affected by any decision of the Department with regard to the subject Consent Order have the right to petition to become a party to the proceeding. The petition must conform to the requirements specified above and be filed (received) within 21 days of receipt of this notice in the Office of General Counsel at the above address of the Department. Failure to petition within the allowed time frame constitutes a waiver of any right such person has to request a hearing under Sections 120.569 and 120.57, Florida Statutes, and to participate as a party to this proceeding. Any subsequent intervention will only be at the approval of the presiding officer upon motion filed pursuant to Rule 28-106.205, Florida Administrative Code.

12. A person whose substantial interests are affected by the Consent Order may file a timely petition for an administrative hearing under Sections 120.569 and 120.57, Florida Statutes, or may choose to pursue mediation as an alternative remedy under Section 120.573, Florida Statutes, before the deadline for filing a petition. Choosing mediation will not adversely affect the right to a hearing if mediation does not result in a settlement. The procedures for pursuing mediation are set forth below.

13. Mediation may only take place if the Department and all the parties to the proceeding agree that mediation is appropriate. A person may pursue mediation by reaching a mediation agreement with all parties to the proceeding (which include the Respondent, the Department, and any person who has filed a timely and sufficient petition for a hearing) and by

showing how the substantial interests of each mediating party are affected by the Consent Order. The agreement must be filed in (received by) the Office of General Counsel of the Department at 3900 Commonwealth Boulevard, MS #35, Tallahassee, Florida 32399-3000, within 10 days after the deadline as set forth above for the filing of a petition.

14. The agreement to mediate must include the following:

a. The names, addresses, and telephone numbers of any persons who may attend the mediation;

b. The name, address, and telephone number of the mediator selected by the parties, or a provision for selecting a mediator within a specified time;

c. The agreed allocation of the costs and fees associated with the mediation;

d. The agreement of the parties on the confidentiality of discussions and documents introduced during mediation;

e. The date, time, and place of the first mediation session, or a deadline for holding the first session, if no mediator has yet been chosen;

f. The name of each party's representative who shall have authority to settle or recommend settlement;

g. Either an explanation of how the substantial interests of each mediating party will be affected by the action or proposed action addressed in this notice of intent or a statement clearly identifying the petition for hearing that each party has already filed, and incorporating it by reference; and

h. The signatures of all parties or their authorized representatives. As provided in Section 120.573, Florida Statutes, the timely agreement of all parties to mediate will toll the time limitations imposed by Sections 120.569 and 120.57, Florida Statutes, for requesting

and holding an administrative hearing. Unless otherwise agreed by the parties, the mediation must be concluded within sixty days of the execution of the agreement. If mediation results in settlement of the administrative dispute, the Department must enter a final order incorporating the agreement of the parties. Persons whose substantial interests will be affected by such a modified final decision of the Department have a right to petition for a hearing only in accordance with the requirements for such petitions set forth above, and must therefore file their petitions within 21 days of receipt of this notice. If mediation terminates without settlement of the dispute, the Department shall notify all parties in writing that the administrative hearing processes under Sections 120.569 and 120.57, Florida Statutes, remain available for disposition of the dispute, and the notice will specify the deadlines that then will apply for challenging the agency action and electing remedies under those two statutes.

15. Entry of this Consent Order does not relieve Respondent of the need to comply with applicable federal, state or local laws, regulations or ordinances.

16. The terms and conditions set forth in this Consent Order may be enforced in a court of competent jurisdiction pursuant to Sections 120.69 and 403.121, Florida Statutes. Failure to comply with the terms of this Consent Order shall constitute a violation of Section 403.859, Florida Statutes.

17. Respondent is fully aware that a violation of the terms of this Consent Order may subject Respondent to judicial imposition of damages, civil penalties up to $5,000.00 per day per violation, and criminal penalties, except as limited by the provisions of this Consent Order.

18. Respondent shall allow all authorized representatives of the Department access to the facility at reasonable times for the purpose of determining compliance with the terms of this Consent Order and the rules and statutes of the Department.

19. All submittals and payments required by this Consent Order to be submitted to the Department shall be sent to the Florida Department of Environmental Protection, Southwest District Office, 13051 N. Telecom Parkway, Temple Terrace, FL 33637.

20. The Department, for and in consideration of the complete and timely performance by Respondent of the obligations agreed to in this Consent Order, hereby waives its right to seek judicial imposition of damages or civil penalties for alleged violations addressed in this Consent Order.

21. Respondent acknowledges and waives its right to an administrative hearing pursuant to Sections 120.569 and 120.57, Florida Statutes, on the terms of this Consent Order. Respondent acknowledges its right to appeal the terms of this Consent Order pursuant to Section 120.68, Florida Statutes, and waives that right upon signing this Consent Order.

22. No modifications of the terms of this Consent Order shall be effective until reduced to writing and executed by both Respondent and the Department.

23. In the event of a sale or conveyance of the facility or of the property upon which the facility is located, if all of the requirements of this Consent Order have not been fully satisfied, Respondent shall, at least 30 days prior to the sale or conveyance of the property or facility, (1) notify the Department of such sale or conveyance, (2) provide the name and address of the purchaser, or operator, or person(s) in control of the facility, and (3) provide a copy of this Consent Order with all attachments to the new owner. The sale or conveyance of the facility, or the property upon which the facility is located shall not relieve the Respondent of the obligations imposed in this Consent Order.

24. This Consent Order is a settlement of the Department's civil and administrative authority arising under Florida law to resolve the matters addressed herein. This Consent Order

is not a settlement of any criminal liabilities, which may arise under Florida law, nor is it a settlement of any violation, which may be prosecuted criminally or civilly under federal law.

25. This Consent Order is a final order of the Department pursuant to Section 120.52(7), Florida Statutes, and it is final and effective on the date filed with the Clerk of the Department unless a Petition for Administrative Hearing is filed in accordance with Chapter 120, Florida Statutes. Upon the timely filing of a petition this Consent Order will not be effective until further order of the Department.

6/8/06
Date

FOR THE RESPONDENT

Name
PATRICK C. FLYNN
Title REGIONAL DIRECTOR

DONE AND ORDERED this 8th day of JUNE, 2006, in Altamonte Springs, Florida.

JACQUELINE TAPPAN
NOTARY PUBLIC - STATE OF FLORIDA
COMMISSION # DD497715
EXPIRES 12/7/2009
BONDED THRU 1-888-NOTARY1

STATE OF FLORIDA DEPARTMENT
OF ENVIRONMENTAL PROTECTION

Deborah Getzoff
District Director
Southwest District

Filed, on this date, pursuant to Section 120.52, F.S., with the designated Department Clerk, receipt of which is hereby acknowledged.

Clerk **Date**

cc: Lea Crandall, Agency Clerk

FILE COPY

Department of Environmental Protection

Jeb Bush
Governor

Southwest District
13051 North Telecom Parkway
Temple Terrace, FL 33637-0926
Telephone: 813-632-7600

Colleen M. Castille
Secretary

March 20, 2006

Mr. Patrick Flynn
Utilities Inc. of Florida
200 Weathersfield Avenue
Altamonte Springs, FL 32714

Re: Warning Letter No. WN06-014-PWS-51-SWD
Maximum Contaminant Level Exceeded - Disinfection Byproducts
Summer Tree
PWS-ID No. 651-1423
Pasco County

Dear Mr. Flynn:

The purpose of this letter is to advise you of possible violations of law for which you may be responsible and to seek your cooperation in resolving the matter. A review of your Drinking Water system records indicates that a violation of Florida Statutes and Rules may exist at the above-referenced facility.

Our records indicate that the Maximum Contaminant Level for Total Trihalomethanes (TTHM) and Haloacetic Acids (Five) (HAA5) has been exceeded after four quarters of monitoring in 2005.

Rule 62-550.310(3), Florida Administrative Code, establishes the Maximum Contaminant Level for TTHM at 0.080 mg/L and HAA5 at 0.060 mg/L.

You are requested to contact Peter Screnock at (813) 632-7600, extension 318, within fifteen (15) days of receipt of this Warning Letter to arrange a meeting to discuss this matter. The Department is interested in reviewing any facts you may have that will assist in determining whether any violations have occurred. You may bring anyone with you to the meeting that you feel could help resolve this matter.

Please be advised that this Warning Letter is part of an agency investigation, preliminary to agency action, in accordance with Section 120.57(4), Florida Statutes. We look forward to your cooperation in completing the investigation and resolution of this matter.

Sincerely yours,

Deborah A. Getzoff
District Director
Southwest District

DAG/ps/dm[s]

"More Protection, Less Process"

Printed on recycled paper.


EXHIBIT
17

UTILITIES, INC. OF FLORIDA
ESTIMATE OF INFILTRATION FLOWS - 2005
Based on Infiltration Specification Allowance of 500 gpd/inch-dia./mile
Water Pollution Control Federation Manual of Practice - No. FD-5

Paco County - Summertree System

A. Infiltration allowance, excluding service laterals

Main dia. inches	Main length feet	miles	Allowance @ 500 gpd/inch-dia./mile gpd	gpy
4	372	0.070	141	
6	3,825	0.724	2,173	
8	30585	5.793	23,170	
10	2,677	0.507	2,535	
Total	37,459	7.095	28,020	10,227,189
Inflow @ 10% of water sold				2,854,600
Total allowable I&I				13,081,789

B. Actual Inflow & Infiltration (I&I)

Wastewater treated			32,835,000
Gallons billed to WW Customers			
Residential (see note)	27,761,000	96%	26,650,560
General Service	785,000	96%	753,600
Estimated flows returned	28,546,000		27,404,160

Note: Residential gallons are all water gallons used by wastewater customers. Irrigation is separately metered and already removed from residential flows; therefore assume all flows returned at 96%.

Estimated I&I (treated less returned)	5,430,840
Actual less allowable	-7,650,949
Excess, if any	0
Excess as percent of wastewater treated	0.00%


EXHIBIT
20

UTILITIES, INC. OF FLORIDA
WATER TARIFF - ALL COUNTIES

MISCELLANEOUS SERVICE CHARGES

The company may charge the following miscellaneous service charges in accordance with the terms also stated herein. If both water and wastewater services are provided, only a single charge is appropriate unless circumstances beyond the control of the company requires multiple actions.

INITIAL CONNECTION - This charge would be levied for service initiation at a location where service did not exist previously.

NORMAL RECONNECTION - This charge would be levied for transfer of service to a new customer account at a previously served location or reconnection of service subsequent to a customer requested disconnection.

VIOLATION RECONNECTION - This charge would be levied prior to reconnection of an existing customer after disconnection of service for cause according to Rule 25-30.320(2), Florida Administrative Code, including a delinquency in bill payment.

PREMISES VISIT CHARGE (IN LIEU OF DISCONNECTION) - This charge would be levied when a service representative visits a premises for the purpose of discontinuing service for nonpayment of a due and collectible bill and does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill.

Schedule of Miscellaneous Service Charges

Initial Connection	$ 15.00
Normal Reconnection	$ 15.00
Violation Reconnection	$ 15.00
Premises Visit (in lieu of disconnection)	$ 10.00

EFFECTIVE DATE -

TYPE OF FILING -

Patrick J. O'Brien
Vice President, Finance

Florida Public Service Commission

APPROVED

Authority No. WS-92-0068

Docket No. 920068-WS

Order No. N/A

Effective April 10, 1992

Director
Division of Water and Sewer

UTILITIES, INC. OF FLORIDA
WASTEWATER TARIFF - **ALL COUNTIES**

MISCELLANEOUS SERVICE CHARGES

The company may charge the following miscellaneous service charges in accordance with the terms also stated herein. If both water and wastewater services are provided, only a single charge is appropriate unless circumstances beyond the control of the company requires multiple actions.

INITIAL CONNECTION - This charge would be levied for service initiation at a location where service did not exist previously.

NORMAL RECONNECTION - This charge would be levied for transfer of service to a new customer account at a previously served location or reconnection of service subsequent to a customer requested disconnection.

VIOLATION RECONNECTION - This charge would be levied prior to reconnection of an existing customer after disconnection of service for cause according to Rule 25-30.320 (2), Florida Administrative Code, including a delinquency in bill payment.

PREMISES VISIT CHARGE (IN LIEU OF DISCONNECTION) - This charge would be levied when a service representative visits a premises for the purpose of discontinuing service for nonpayment of a due and collectible bill and does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill.

Schedule of Miscellaneous Service Charges

Initial Connection	$ 15.00
Normal Reconnection	$ 15.00
Violation Reconnection	$ Actual Cost (1)
Premises Visit (in lieu of disconnection)	$ 10.00

(1) Actual Cost is equal to the total cost incurred for services.

EFFECTIVE DATE -

TYPE OF FILING - Miscellaneous Service Charges - Conform to Model Tariff

Patrick J. O'Brien
Vice President, Finance

Florida Public Service Commission

APPROVED

Authority No. WS-92-0068

Docket No. 920068-WS

Order No. N/A

Effective April 10, 1992

Director
Division of Water and Sewer

Schedule No. 1, with adjustments set forth on Schedule No. 2. The Wis-Bar water rate base is shown on Schedule No. 3, with adjustments set forth on Schedule No. 4. The Wis-Bar wastewater rate base is shown on Schedule No. 5, with adjustments set forth on Schedule No. 6.

The rate base calculations are used solely to establish the net book value at the time the property is transferred. As such, the calculations do not include the normal ratemaking adjustments of working capital calculations and used and useful adjustments.

Acquisition Adjustment

An acquisition adjustment results when the purchase price differs from the rate base for transfer purposes. The acquisition adjustment resulting from the transfer of Bartelt would be calculated as follows:

Purchase Price	$440,000
Staff Calculated Rate Base	160,494
Positive Acquisition Adjustment	$279,506

In the absence of extraordinary circumstances, it has been Commission practice that the purchase of a utility at a premium or discount shall not affect the rate base calculation. Because the buyer has not requested an acquisition adjustment, and there are no extraordinary circumstances regarding this purchase that would justify an acquisition adjustment, no acquisition adjustment has been included in the calculation of rate base. This decision is consistent with previous Commissions decisions in this regard. See Order No. PSC-98-1231-FOF-WU, issued September 21, 1998, in Docket No. 971670-WU; Order No. PSC-98-0514-FOF-SU, issued April 15, 1998, in Docket No. 951008-SU; and Order No. PSC-98-0993-FOF-WS, issued on July 20, 1998, in Docket No. 971220-WS.

* Rates and Charges

The utility's rates and charges have been in effect since the systems were originally certificated, except for periodic price index rate adjustments. The current rates were approved pursuant to a price index rate adjustment effective July 30, 1999. These rates and charges are set forth below.

Wis-Bar Water System
(Monthly Service Rates)

Residential and General Service

Base Facility Charge Includes 3,000 Gallons	$ 15.56
Gallonage Charge Per 1,000 gallons	$ 1.89

Sunshine Water System
(Monthly Service Rates)

Residential and General Service

Base Facility Charge Includes 5,000 Gallons	$ 8.88
Gallonage Charge Per 1,000 gallons	$ .43

Wis-Bar Wastewater System
(Monthly Service Rates)

Residential

Base Facility Charge Flat rate	$ 10.98

Multi-Residential

Base Facility Charge Flat rate	$ 7.32

METER TEST DEPOSIT
(Sunshine and Wis-Bar Systems)

5/8" x 3/4" meter	$ 20.00
1" and 1 1/2" meter	$ 25.00
2" and over meter	Actual Cost

* Miscellaneous Service Charges
(All Systems)

	Water	Wastewater
Initial Connection	$15.00	$15.00
Normal Reconnection	$15.00	$15.00
Violation Reconnection	$15.00	Actual Cost
Premises Visit (in lieu of disconnection)	$10.00	$10.00

Service Availability Charges

Water

Wis-Bar Connection (Tap-In) Charge	$60.00
Sunshine Connection (Tap-In) Charge	$65.00

Wastewater

Wis-Bar Connection (Tap-In) Charge	$150.00

Customer Deposit

None

Rule 25-9.044(1), Florida Administrative Code, requires the new owner of a utility to adopt and use the rates, classifications and regulations of the former operating company unless authorized to change by this Commission. Utilities, Inc. has not requested to change the rates and charges of the utility, and we see no reason to change them at this time. Utilities, Inc. shall continue to charge the rates and charges approved in Bartelt's tariff until authorized to change by this Commission in a subsequent proceeding. Utilities, Inc. has filed a revised tariff reflecting the change in issuing officer due to the transfer. The tariff shall be effective for service rendered or connections made on or after the stamped approval date on the tariff sheets.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the transfer of facilities from Bartelt Enterprises, Inc., Post Office Box 609, Tarpon Springs, Florida 34688-0609, to Utilities, Inc. of Florida, 200 Weathersfield Avenue, Altamonte Springs, Florida 32714, is hereby approved. The territory being transferred is shown on Attachment A of this Order, which by reference is incorporated herein. It is further

ILLINOIS

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission On Its Own Motion	)	
-vs.-	)	
Apple Canyon Utility Company; Cedar Bluff Utilities, Inc.; Charmar Water Company; Cherry Hill Water Company; and Northern Hills Water and Sewer Company.	)	Docket No. 06-0360
Citation for failure to comply with Commission Order and with Commission rules.	)	

NOTICE OF FILING

Please note that, on April 19, 2007, Albert D. Sturtevant caused to be filed on behalf of Utilities, Inc. the Affidavit of Steven M. Lubertozzi, which certifies that payment of the civil penalties required by the Final Order in this docket have been made, with Elizabeth A. Rolando, Chief Clerk of the Illinois Commerce Commission, via the e-Docket filing system.

Dated: April 19, 2007

Respectfully submitted,

UTILITIES, INC.

By: */s/ Albert D. Sturtevant*

One of their attorneys

Christopher W. Flynn
Albert D. Sturtevant
JONES DAY
77 West Wacker Drive
Chicago, IL 60601-1692
Telephone: (312) 782-3939
Facsimile: (312) 782-8585
cwflynn@joneday.com
adsturtevant@jonesday.com

CERTIFICATE OF SERVICE

I, Albert D. Sturtevant, an attorney, certify that on April 19, 2007, I served a copy of the foregoing Notice of Filing and Affidavit of Steven M. Lubertozzi, by electronic mail to the individuals on the Service List below.

/s/ Albert D. Sturtevant
Albert D. Sturtevant

SERVICE LIST

Claudia Sainsot
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STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission On Its Own Motion	)	
-vs.-	)	
Apple Canyon Utility Company; Cedar Bluff Utilities, Inc.; Charmar Water Company; Cherry Hill Water Company; and Northern Hills Water and Sewer Company.	)	Docket No. 06-0360
Citation for failure to comply with Commission Order and with Commission rules.	)	

AFFIDAVIT

Steven M. Lubertozzi, being first duly sworn on oath, deposes and states as follows:

1. I am presently employed as the Chief Regulatory Officer for Utilities Inc. and its subsidiaries.

2. I hereby certify and attest that, in accordance with the Final Order in the above proceeding, Cedar Bluff Utilities, Inc., Apple Canyon Utility Company, Charmar Water Company, Cherry Hill Water Company and Northern Hills Water and Sewer Company has each paid the required fine in the amount of $1,000.00, for a total amount of $5,000.00.

3. The fines were paid by check payable to the Illinois Commerce Commission and delivered to the Financial Information Section of the Commission's Administrative Services Division as shown in the attached correspondence.

4. This affidavit will be filed in the above docket, served upon the parties to that docket, and a copy will be provided to the Manager of the Commission's Water Department.

FURTHER AFFIANT SAYETH NOT

Steven M. Lubertozzi

SUBSCRIBED and SWORN to before
me this 17 day of April, 2007.

OFFICIAL SEAL
JOYCE GUIDICE
NOTARY PUBLIC, STATE OF ILLINOIS
MY COMMISSION EXPIRES 1-24-2009

Joyce Guidice
Notary Public

Utilities, Inc.

April 13, 2007

VIA Federal Express

Financial Information Section of the Commission's Administrative Services
Illinois Commerce Commission
527 E. Capitol Avenue
Springfield, IL 62701

RE: Apple Canyon Utility Company; Cedar Bluff Utilities, Inc.; Charamar Water Company; Cherry Hill Water Company; Northern Hills Water and Sewer Company
Docket No. 06-0360
Citation for failure to comply

Dear Clerk:

This letter is in response to the Illinois Commerce Commission's order dated March 21, 2003, wherein the Commission ordered the above referenced utilities to pay a fine in the amount of $1,000 for each company, for a total amount of $5,000.

If you have any questions please do not hesitate to contact me.

Sincerely,

Steven M. Lubertozzi
Chief Regulatory Officer

2335 Sanders Road • Northbrook, Illinois 60062-6196 847.498.6440 PHN • 847.498.6498 FAX www.uiwater.com

WATER SERVICE CORP.
DISBURSING ACCOUNT OF
UTILITIES INCORPORATED
2335 SANDERS ROAD
NORTHBROOK, IL 60062

BANK ONE COLUMBUS, NA
Circleville and Williamsport, Ohio Offices

NOT VALID
AFTER 90 DAYS

56-1544
441

NO. 617924

DATE 04/12/07 NET AMOUNT $5,000.00

PAY Five Thousand and 00/100********** DOLLARS

TO THE ORDER OF

Illinois Commerce Commission
Springfield, IL 62794

AUTHORIZED SIGNATURE

AUTHORIZED SIGNATURE

"617924" :044115443: 9890342900"

Docket No: 06-0360
Bench Date: 3/21/07
Deadline: N/A

MEMORANDUM

TO: The Commission

FROM: Claudia E. Sainsot, Administrative Law Judge

DATE: March 1, 2007

SUBJECT: Illinois Commerce Commission
On its own Motion
-vs-
Apple Canyon Utility Co.; Cedar Bluff Utilities, Inc., Charmar Water Co.; Cherry Hill Water Co.; and Northern Hills Water and Sewer Co.

Citation for failure to comply with a Commission Order and with Commission rules.

RECOMMENDATION: Enter the attached order fining each of the Respondents $1,000 for failure to file a Commission Order Commission rules.

The five Respondents in this docket are all subsidiaries of Utilities, Inc. The final Order in Docket 03-0398, a consolidated rate case filed by the five Respondents, was entered on April 7, 2004. In that Order, the Commission required the Respondents to file a Report establishing that they have Continuing Property Records, ("CPRs") which are required by the Commission's accounting rules, on or before April 7, 2005. Continuing property records is a method of accounting that tracks the history of individual assets. The Respondents are required by the Commission's rules to maintain CPRs. (*See, e.g.,* 83 Ill. Adm. Code 615, Appendix).

On April 7, 2006, Commission Staff issued a Report, in which, it recommended opening a citation docket, as, it did not appear that the five Respondents filed any Report establishing that they had instituted continuing property records. Based on that Report, the Commission commenced this docket on May 3, 2006. The Respondents subsequently filed their CPR Report on July 13, 2006. It established that the Respondents had continuing property records dating back to 2004, which does not reflect transactions that occurred before 2004.

At the hearing, Staff recommended fining each Respondent $1,000, for a total of $5,000, pursuant to 220 ILCS 5/5-202. In Staff's view, imposing a fine is not to punish the Respondents. Instead, Staff posits a nominal fine should be imposed to make it clear that utilities must follow Commission rules and Commission orders. Also, there is no evidence that any harm resulted to consumers from the Respondents' failure to maintain CPRs on a timely basis. Rather, the harm in not having CPRs is an inability to establish entitlement to certain rate increases.

The Respondents did not object to imposition of the fines in question. The Respondents' testimony established that maintaining CPRs was much more complicated than expected, as, it required a new computer system and laborious efforts to track certain transactions for entry into Continuous Property Records. Therefore, that testimony established that the Respondents made a good faith effort to comply with the Commission's final Order in docket 03-0398. The Respondents also are currently in the process of inputting records that predate 2004 to make their continuing property records complete. Also, UI subsidiaries have agreed not to request any future rate base additions that are not supported by CPRs.

Thus, Staff is satisfied that the Respondents are now making a good-faith effort to comply with the final Order in Docket 03-0398, as well as with the Commissions' rules requiring CPRs. Accordingly, I recommend that the Commission issue the attached Order fining each of the five Respondents $1,000.00.

CES:jt

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission On Its Own Motion -vs- Apple Canyon Utility Company; Cedar Bluff Utilities, Inc.; Charmar Water Company; Cherry Hill Water Company; Northern Hills Water and Sewer Company	:	**06-0360**
Citation for failure to comply with Commission Order and with Commission rules.	:	

ORDER

By the Commission:

The Procedural History

On April 7, 2006, the Staff of the Financial Analysis Division ("Staff") of the Illinois Commerce Commission ("Commission") issued a Staff Report regarding whether Apple Canyon Utility Company; Cedar Bluff Utilities, Inc.; Charmar Water Company; Cherry Hill Water Company; and Northern Hills Water and Sewer Company (collectively "the Companies") maintained continuing property records, as was required by the final Order in docket 03-0398. All of these companies are subsidiaries of a holding company, Utilities, Inc. ("UI"). In that Report, Staff recommended that the Commission initiate a citation proceeding to determine whether the Companies complied with the Commission's final Order in Docket No. 03-0398, as well as with 83 Ill. Adm. Code 605, and 83 Ill. Adm. Code 615, and to determine what penalties should attach, if any.

The Commission then issued a Citation Order, dated May 3, 2006, requiring a proceeding to commence to determine whether the Companies failed to maintain continuing property records, as was required by that Order and Commission regulations. (83 Ill. Adm. Code 605.10, and 83 Ill. Adm. Code 615, Appendix A). The Citation Order also required a determination as to whether penalties should be imposed pursuant to Section 5-202 of the Public Utilities Act, if any. The Companies filed a Verified Answer on June 12, 2006.

Pursuant to proper legal notice, an evidentiary hearing was held in this matter before a duly authorized Administrative Law Judge of the Commission on December 6, 2006. Steven M. Lubertozzi, the Chief Regulatory Officer for UI and its subsidiaries, testified on behalf of the Companies. Diana Hathhorn, an accountant in the Commission's Financial Analysis Division, testified on behalf of Commission Staff. At

the conclusion of the hearing on December 6, 2006, the record was marked "Heard and Taken."

The Parties' Positions

Staff's Position

Ms. Hathhorn testified that on April 7, 2004, the Commission entered a final Order in 03-0398 approving a general increase in water and/or sewer rates. (Staff Ex. 1.0 at 2-3.) That Order attached several conditions to approval of the Companies' proposed rate increases, including:

> Cedar Bluff Utilities, Inc., Apple Canyon Utility Company, Charmar Water Company, Cherry Hill Water Company, and Northern Hills Water and Sewer Company shall establish and maintain continuing property records ["CPRs"] in compliance with the Commission's rules, and must file a report with the Manager of the Commission's Accounting Department as to the successful implementation of the property record program within 12 months after the final order in this proceeding.

(Order, docket No. 03-0398 at 26). The deadline specified for filing this Report was April 7, 2005. However, the Companies did not file a Report until July 13, 2006, well-over one year after the deadline. (*Id.* at 3.)

Ms. Hathhorn explained that the CPR Report filed by the Companies on July 13, 2006, establishes that the Companies now have CPRs that are updated for the years 2004, 2005, and 2006 to date. However, the Companies confirmed in Staff data request response DLH-2.01 that their database for continuing property records has not yet been updated for the years before 2004. (Staff Ex. 1.0 at 3).

Ms. Hathhorn also testified as to the reason utilities are required to keep continuing property records. Continuing property records show the history of individual assets. According to the Uniform System of Accounts for Water Utilities, 83 Ill. Adm. Code 605, continuing property records are a system of preserving the original cost of plant in a manner so that it is possible to identify, locate, and obtain the cost and age of all used and useful property. Proof of the value of utility assets should be readily available on the books of a regulated utility. This information is required when a determination is made as to whether an investment is prudent and thus should be capitalized. It also is required when quantifying capitalization. (ICC Staff Ex. 1.0 at 3-4). She stated that without continuing property records, the Companies violated 83 Ill. Adm. Code 615. (*Id.*).

Ms. Hathhorn stated that, in the past rate cases, UI subsidiaries have failed to maintain continuing property records. This failure resulted in personnel at UI subsidiaries being unable to locate invoices to support rate base additions. Thus, in UI rate case previous to docket 03-0398, the Commission disallowed unsupported rate base. (Staff Ex. 1.0 at 5). A continued failure to establish and maintain CPRs will result in the same problem being repeated in the next rate case filed by a UI subsidiary. (*Id.*).

Ms. Hathhorn explained that the Companies have made progress with their CPRs but, they are not yet complete. (*Id.*) Therefore, she recommended that the Commission find in this docket that the procedure that has been used in the past rate cases, to disallow rate base additions that have no CPR evidentiary support, will be followed in future rate cases. (*Id.*).

She also asserted testified that the Commission has the authority to impose civil penalties upon the Companies pursuant to Section 5-202 of the Act, in accordance with the criteria set forth in Section 5-203 of the Act. Those criteria are: (a) the appropriateness of the penalty to the size of the business of the public utility; (b) the gravity of the violation; (c) any other mitigating or aggravating factors as the Commission may find to exist; and (c) the good faith of the public utility in attempting to achieve compliance after notification of a violation. (Staff Ex. 1.0 at 6).

With regard to the size of the Companies, Ms. Hathhorn noted that the Companies here are wholly-owned subsidiaries of UI, and together, these five companies provide water and/or sewer service to approximately 1,500 customers in various Illinois counties. (Staff Ex. 1.0 at 6). Ms. Hathhorn stated that the parent company here, UI, is not a "small utility" as is defined by the Public Utilities Act. It has 24 Illinois subsidiaries, with 17,400 customers in this state. Also, UI owns and operates approximately 81 water and/or wastewater systems in seventeen different states. In Ms. Hathhorn's opinion, the size of the Companies' parent, UI, is an aggravating factor that the Commission should consider. (*Id.*).

As for the gravity of the violation, she testified that failure to maintain continuing property records in compliance with Parts 605 and 615 results in the Companies being unable to support increases to plant for plant additions that were made since the Companies' last rate case. (*Id.*, at 7). Ms. Hathhorn explained that if the Companies continue to maintain the CPRs on a prospective basis, they will have evidentiary support for all plant additions from 2004 to the present. (*Id.*).

Regarding good faith, Ms. Hathhorn asserted that the final order in docket 03-0398 was not the first time that the Commission has required a UI subsidiary to maintain a CPR system. (Staff Ex. 1.0 7-8). The Commission's Order in Apple Canyon Utility Co., docket 94–0157, (March 22, 1995, 1995 Ill. PUC Lexis 203) required some UI subsidiaries to maintain Continuing Property Records using the "Will County Continuing Property Records" as a model. (*Id.*). In addition, Ms. Hathhorn stated that the Companies were not diligent in complying with the final Order in docket 03-0368, because that Order required the Companies to file a report establishing successful implementation of CPRs by April 7, 2005. However, the Companies did not meet that deadline and instead filed several motions for extension of time to comply with the Order. (*Id.*).[1]

[1] The Administrative Law Judge was never served with a copy of any of theses motions. As a result, these motions were never granted.

Ms. Hathhorn recommended that the Commission impose a penalty on each of the five Companies in the amount of $1,000, for a total of $5,000. (Staff Ex. 1.0 at 9). She stated that it was not Staff's desire to impose a large fine. Rather, imposition of the fine here is to make it clear that this Commission requires utilities to follow its rules and orders. (Tr. 39). She further recommended that, in the final Order in this proceeding, the Commission advise the Companies that all of UI's Illinois subsidiaries must comply with the Commission's rules regarding the maintenance of CPRs, or, risk being subject to disallowances of plant additions to rate base in future rate cases.

The Companies' Position

Mr. Lubertozzi testified that after the final Order in docket 03-0398, UI created an in-house database system, which would interface with UI's existing systems and its software and hardware. This database system was designed to contain the information required for CPRs for UI's subsidiaries. (UI Ex. 1.0 at 2-3). However, there was an unanticipated delay in getting the data entry work done. The hardware and software that UI and its subsidiaries use to track certain general ledger additions is a very old system. It was not designed to be able to add the information that is required for continuing property records. (Tr. 45). Therefore, UI's management had its IT Department create a log-in screen. UI's IT Department also created ways that personnel can track and try to control who implemented data and match that information with information found on the general ledger. (*Id.*).

The biggest problem encountered was tracking invoices and general ledger additions for 400 subsidiaries throughout the United States. It often took four to five hours, or more, to search the system just to find one invoice in order to match up a vendor with the corresponding dollar amount. Thus, dealing with problems with the older system took much longer than the amount of time that was originally anticipated. (*Id.*). As a result, the Companies were unable to meet the April 7, 2005 deadline for CPR implementation set forth in the final Order in docket 03-0398. (*Id.*).

Mr. Lubertozzi explained that UI subsidiaries have now developed a CPR system that is currently in place and functioning. This system has been implemented retroactively through 2004. (UI Ex. 1.0 at 3). In the Companies' CPR Report, the Companies explained that UI's management team has met with various consulting firms to discuss acquiring new data management systems, including a new general ledger and billing systems. Also, the new data management and billing systems can create, track, store and generate continuing property records. (*Id.*).

The Companies contended, in their Answer, that it made good faith attempts to inform the Commission of the delay, which is a mitigating factor. (*Id.* at 4-5). Also, UI, the Companies' parent, was also recently acquired by a new parent, Hydrostar, LLC. (UI Ex. 1.01). This new parent is committed to upgrading the hardware and software of data management systems to improve functionality and to improve the reporting process, which will prevent data processing bottlenecks for UI's subsidiaries in the future. (*Id.*).

With respect to Staff's recommendations, the Companies agreed that all of UI's regulated Illinois subsidiaries will not seek rate base additions that are not supported by CPRs. (UI Ex. 1.0 at 4). Further, for the purposes of resolving this proceeding, the Companies agreed to pay civil penalties of $1,000 per Company, for a total of $5,000 for all of the Companies in question. (*Id.*).

The Companies also asserted that implementation of the CPR system described in UI Exhibit 1.01 will occur for all of its Illinois subsidiaries. They further agree that no UI subsidiary will seek rate base additions that are not supported by CPRs. (UI Ex. 1.0 at 4).

Analysis and Conclusions

Based on the record, the Commission finds that the five UI subsidiaries at issue, Apple Canyon Utility Company; Cedar Bluff Utilities, Inc.; Charmar Water Company; Cherry Hill Water Company; and Northern Hills Water and Sewer Company, failed to file the CPR Report on April 7, 2005 as was required by the final Order in docket 03-0398. In fact, this Report was not filed until July 13, 2006, fifteen months after the time it was due to be filed. However, the Companies now have CPRs in place for 2004 to the present. Therefore, the Companies are now in partial compliance with the final Order in docket 03-0398, as well as the Commission's rules regarding CPRs, at least with respect for the year 2004, and forward.

With respect to CPRs for the years before 2004, the Companies contend that they, and their sister companies, intend to implement CPRs for the years previous to 2004. In light of this, the Commission finds that Staff's proposal, which the Companies have accepted, to disallow rate base additions that have no CPR evidentiary support in future rate cases filed by UI subsidiaries, is reasonable.

This Commission has authority pursuant to Section 5-202 of the Public Utilities Act to assess penalties upon any public utility when it violates or fails to comply with any provision of the Public Utilities Act, or fails to comply with any Commission Order, rule, or regulation. (220 ILCS 5/5-202). Staff recommended civil penalties of $1,000 for each of the Companies, for a total of $5,000 for all the Companies. The Companies have agreed to pay these penalties.

Penalties are assessed penalties pursuant to Section 203(a) of the Public Utilities Act, which provides, in pertinent part:

> In determining the amount of the penalty, the Commission shall consider the appropriateness of the penalty to the size of the business of the public utility, corporation other than a public utility, or person acting as a public utility charged, the gravity of the violation, such other mitigating or aggravating factors as the Commission may find to exist, and the good faith of the public utility, corporation other than a public utility, or person acting as a public utility charged in attempting to achieve compliance after notification of a violation.

(220 ILCS 5/4-203(a)). We note that Staff reported that the five Companies together provide water and/or sewer service to approximately 1,500 customers in various Illinois counties. The Companies are thus "small utilities" under Section 4-502 of the Act. (220 ILCS 5/4-502).

As for to the gravity of the violation, Staff posits that failure to maintain CPRs results in an inability on the part of the Companies to support increases to plant for plant additions made since their last rate cases. However, according to the Companies, except when a utility makes a rate filing, failing to maintain CPRs has no significant adverse impact on customers. We note that there is no evidence establishing that customers were harmed. However, the Companies must fully comply with the Act, the Commission's rules, and its Orders.

With regard to other aggravating factors, Staff asserted that the parent company, UI, is not a small utility as defined by the Act, as it has twenty-four subsidiaries, with 17,400 customers in Illinois. This fact, Staff maintains, is an aggravating factor. However, Mr. Lubertozzi's testimony established that the Companies encountered unexpected difficulty when entering data for the CPRs, causing delay. (*See,* Tr. 44-46). We also note that the Companies have expressed a commitment to support all plant additions in all rate cases filed by UI subsidiaries. The Commission concludes that the commitment expressed in this proceeding to implement CPRs across all of UI's Illinois subsidiaries, as well as the commitment not to seek rate base additions that are not supported by CPRs, is sufficient to alleviate Staff's concerns. We also note that, irrespective of the commitment expressed, the law requires utilities to maintain CPRs. (83 Ill. Adm. Code 605.10, 83 Ill. Adm. Code 615 Appendix A).

With regard to good faith, Staff questioned the Companies' diligence and good faith in coming into compliance with the CPR requirements, noting that Commission Orders dating back to 1995 have required implementation of CPRs. We also note that a series of motions requesting extensions of time to file the Report in question were filed. Because none of these motions were served on the Administrative Law Judge, none were granted. The diligence of these Companies is questionable, when they continued to file motions seeking extension of time, even after previous motions seeking extensions had not been granted. However, the Companies have agreed to pay the penalty recommended by Staff. Therefore, the Commission finds that the assessment and the amount of the penalties appropriate for the gravity of the violation here. We therefore conclude that the penalty of $1,000 per Company is reasonable.

We note that the parties are in agreement as to the two issues here, whether a fine should be imposed, and how much that fine should be. Yet, they filed prefiled testimony. The attorneys are advised, in future situations of this nature, to consider stipulations, and other types of resource-saving procedures, such as, motions brought pursuant to Sections 2-615(e) or 2-1005 of the Illinois Code of Civil Procedure. (735 ILCS 5/2-615(e) and 2-1005)).

06-0360

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nd Ordering Paragraphs

Commission, having considered the entire record herein and being fully ie premises, is of the opinion and finds that:

Cedar Bluff Utilities, Inc., Apple Canyon Utility Company, Charmar Water Company, Cherry Hill Water Company and Northern Hills Water and Sewer Company provide water and/or sewer service to the public within the State of Illinois, and, as such, are "public utilities" within the meaning of the Public Utilities Act;

the Commission has subject-matter jurisdiction and jurisdiction over Cedar Bluff Utilities, Inc., Apple Canyon Utility Company, Charmar Water Company, Cherry Hill Water Company and Northern Hills Water and Sewer Company;

:he recitals of fact and conclusions of law reached in the prefatory portion of this Order are supported by the record and are hereby adopted as indings of fact and conclusions of law for purposes of this Order;

n future rate cases involving any subsidiary of Utilities, Inc., including, but iot limited to, Cedar Bluff Utilities, Inc., Apple Canyon Utility Company, Charmar Water Company, Cherry Hill Water Company and Northern Hills Water and Sewer Company, rate base additions shall be supported with ontinuing property record evidentiary support;

ursuant to Section 5-202 of the Act, Cedar Bluff Utilities, Inc., Apple anyon Utility Company, Charmar Water Company, Cherry Hill Water ompany and Northern Hills Water and Sewer Company are each quired to a pay a civil penalty of $1,000 each, for a total of $5,000.

EREFORE ORDERED by the Commission that in future rate cases Bluff Utilities, Inc., Apple Canyon Utility Company, Charmar Water y Hill Water Company and Northern Hills Water and Sewer Company, tilities, Inc. subsidiary, rate base additions shall be supported with rty records.

THER ORDERED that pursuant to Section 5-202 of the Public Utilities Utilities, Inc., Apple Canyon Utility Company, Charmar Water Company, r Company and Northern Hills Water and Sewer Company are each a fine in the amount of $1,000.00, for a total amount of $5,000.00. e paid by check payable to the Illinois Commerce Commission and Financial Information Section of the Commission's Administrative within thirty (30) days of the entry of this Order.

THER ORDERED that Cedar Bluff Utilities, Inc., Apple Canyon Utility ar Water Company, Cherry Hill Water Company and Northern Hills Company shall file with the Commission's Chief Clerk a certification

INDIANA

STATE OF INDIANA

FILED

JUL 10 2007

INDIANA UTILITY REGULATORY COMMISSION

INDIANA UTILITY REGULATORY COMMISSION
101 W. WASHINGTON STREET, SUITE 1500E
INDIANAPOLIS, INDIANA 46204-3407

http://www.in.gov/iurc
Office: (317) 232-2701
Facsimile: (317) 232-6758

IN THE MATTER OF THE PETITION OF TWIN LAKES UTILITIES, INC. FOR AN INCREASE IN ITS RATES AND CHARGES FOR WATER AND WASTEWATER UTILITY SERVICE

CAUSE NO. 43128

You are hereby notified that on this date the Indiana Utility Regulatory Commission ("Commission") has caused the following entry to be made:

The Presiding Officers have reviewed the Settlement Agreement filed on July 3, 2007 and have determined that the following issues should be addressed:

For the OUCC:

With respect to Ms. Gemmecke's testimony filed on May 9, 2007, please explain how the proposed accumulated amortization of CIAC adjustment to rate base does not constitute retroactive ratemaking when Petitioner has not previously amortized CIAC.

The Commission has rejected prior proposals to amortize CIAC, as set forth in *Indiana-American Water Co.*, Cause No. 42520, at 91-93 (Nov. 18, 2004). Please explain if the OUCC considers Twin Lakes to be a troubled utility or at risk of having a negative rate base?

For Petitioner:

The past two Commission orders for Twin Lakes approved settlement agreements that addressed problems with sewage overflows. Please explain how the current proposal differs from the previously approved settlement agreements. Also, please explain why the past efforts of Twin Lakes, as ordered by the Commission, have been unsuccessful in eliminating sewage overflows.

As part of the 1991 rate case, Twin Lakes was required to perform a comprehensive engineering study of its sewer utility system and establish a preventative maintenance program. Please provide the results of that study and a copy of the preventative maintenance program.

The current proposed Settlement Agreement indicates that Twin Lakes will forego seeking additional rate increases until after the Remediation Project is completed. If additional sewage overflows are noted prior to the completion of the Remediation Project, please explain whether Twin

Lakes would be willing to forego filing a rate case until its system has demonstrated no overflows for a period of 12 months.

With respect to the CIAC issue addressed in the questions to the OUCC, please explain whether Twin Lakes would support the amortization of CIAC without the inclusion of approximately $1.3 million of accumulated amortization of CIAC as proposed by the OUCC.

IT IS SO ORDERED.

Gregory D. Server, Commissioner

Aaron A. Schmoll, Administrative Law Judge

July 10, 2007

Date

COPY

FILED

JUL 16 2007

INDIANA UTILITY REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF TWIN LAKES UTILITIES, INC. FOR AN INCREASE IN ITS RATES AND CHARGES FOR WATER AND WASTEWATER UTILITY SERVICE	)))))	CAUSE NO. 43128

PETITIONER'S VERIFIED RESPONSES TO DOCKET ENTRY QUESTIONS

On July 2, 2007, the parties to this cause filed their agreement settling all material terms of this cause. On July 10, 2007, the presiding officers issued a docket entry ("Docket Entry") containing questions for the petitioner, Twin Lakes Utilities, Inc. ("Twin Lakes") as well as for the Indiana Office of Utility Consumer Counselor ("OUCC"). By agreement, the OUCC sponsored a live witness at the settlement hearing on July 12, 2007, who answered the questions which had been directed in the Docket Entry to that agency. At the same hearing, the bench granted Twin Lakes' request to submit its written responses to the Docket Entry questions as a late-filed exhibit by July 16, 2007.

Twin Lakes now submits as a late-filed exhibit its written responses to the questions directed to it by the presiding officers in the Docket Entry:

- *The past two Commission orders for Twin Lakes approved settlement agreements that addressed problems with sewage overflows. Please explain how the current proposal differs from the previously approved settlement agreements. Also, please explain why the past efforts of Twin Lakes, as ordered by the Commission, have been unsuccessful in eliminating sewage overflows.*

Twin Lakes' Response:

The present Settlement Agreement reflects the progress made as a result of implementing previous settlement agreements. Specifically, the scope of the problem of sewer overflows as identified in previous Commission proceedings has been appreciably reduced. The

parties are now focusing their attention on remediating overflows from just one manhole, #307,[1] whereas past agreements have called for investments, which Twin Lakes has made, to address a more system-wide problem with overflows. Twin Lakes' efforts over the past years have resulted in sewage overflows being reduced and even, for a period of time, eliminated. Twin Lakes' installation of a lift station and force main in August of 2003, was successful. We did not have any sanitary sewer overflows because of hydraulic overload from August, 2003 until June 4, 2005, a period of nearly two years (22 months). The overflow event on June 4, 2005 came after 3" of rain was received in a 1.5 hour period, which is not a normal operating situation, and caused problems for other nearby systems as well. Since Twin Lakes' system functioned for nearly two years without a hydraulic overflow problem, the logical conclusion is that there are additional sources of inflow and infiltration ("I&I") into the system. It is understandable that as a sewer system ages, the potential for additional I&I will be present. Twin Lakes continues to face the fact that much of its system is still comprised of transite pipe that is prone to failure with age, and Twin Lakes continues to work to locate and correct problem areas throughout its system.

- *As part of the 1991 rate case, Twin Lakes was required to perform a comprehensive engineering study of its sewer utility system and establish a preventative maintenance program. Please provide the results of that study and a copy of the preventative maintenance program.*

Twin Lakes' Response:

A copy of the requested engineering study was offered by Twin Lakes and admitted into the record in this cause at the settlement hearing on July 12, 2007, along with a

[1] Although manhole #306 is also mentioned in the Settlement Agreement and will be covered by the Remediation Project, it has not as previously believed contributed to the overflow problem.

spreadsheet setting forth Twin Lakes' current preventative maintenance program. As the Commission found in its order in the most recent Twin Lakes rate case, IURC Cause No. 42488 (issued March 31, 2004), Twin Lakes also provided another copy of this same engineering study in that case. Please note that all of the repairs called for in the 1992 engineering study have been made. As the Commission specifically found in its order in Cause No. 39573, issued March 10, 1993, Twin Lakes had "complied with the relevant ordering paragraphs" of the Commission order in Cause No. 39050, issued April 17, 1991, and in its 2004 order in Cause No. 42488, the Commission determined that there was "no basis" for revisiting those findings, which are now more than 14 year old.

- *The current proposed Settlement Agreement indicates that Twin Lakes will forego seeking additional rate increases until after the Remediation Project is completed. If additional sewage overflows are noted prior to the completion of the Remediation Project, please explain whether Twin Lakes would be willing to forego filing a rate case until its system has demonstrated no overflows for a period of 12 months.*

Twin Lakes' Response:

Twin Lakes is not willing to voluntarily accept additional limitations beyond those set forth in the parties' Settlement Agreement. The purpose of the Remediation Project specified in the Settlement Agreement is to eliminate discharges from the subject manhole, i.e., #307, during normal operating conditions. An overflow could still occur even with a successful outcome from the Remediation Project in that an overflow might result if foreign objects cause obstructions in any of the lines leading to this manhole or other issues outside of Twin Lakes' control should occur. As such, Twin Lakes cannot guarantee that the Remediation Project, nor any other investment, for that matter, would forever eliminate all discharges or overflows in its system. In the meantime, however, Twin Lakes will continue to make investments to improve its system, and it will continue to be entitled to recover those investments through its rates. The

proposed settlement specifies that if Twin Lakes initiates a general request to increase its sewer rates in a subsequent case prior to completion of the Remediation Project, then its new rates resulting from that subsequent case would not take effect until completion of the Remediation Project. An extension of 12 months beyond the completion of the Remediation Project to monitor system overflows would impose an unreasonable additional burden on Twin Lakes. By voluntarily foregoing its statutory right to seek a more timely increase in the interest of settling the instant case, as it has agreed in the Settlement Agreement, Twin Lakes is amply incented not to drag its heels in completing the Remediation Project.

- *With respect to the CIAC issue addressed in the questions to the OUCC, please explain whether Twin Lakes would support the amortization of CIAC without the inclusion of approximately $1.3 million of accumulated amortization of CIAC as proposed by the OUCC.*

Twin Lakes' Response:

Twin Lakes would not support the amortization of CIAC without the inclusion of the proposed adjustment of accumulated amortization of CIAC as proposed by the OUCC. This material term of the Settlement Agreement was part of the overall compromise by all of the parties.

Respectfully submitted,

TWIN LAKES UTILITIES, INC.

By: _____

Clayton C. Miller, Att'y No. 17466-49
BAKER & DANIELS, LLP
300 N. Meridian St., Suite 2700
Indianapolis, IN 46204
Tel: 317.237.1444
Fax: 317.237.1486
email: ccmiller@bakerd.com

VERIFICATION

I, Michael T. Dryjanski, verify under penalties for perjury that the statements contained in the foregoing responses of Twin Lakes Utilities, Inc., to the presiding officers' question as set forth in their July 10, 2007, docket entry in this cause are true to the best of my knowledge, information and belief.

Michael T. Dryjanski
Manager, Regulatory Accounting
Twin Lakes Utilities, Inc.

CERTIFICATE OF SERVICE

The undersigned certifies that on July 16, 2007, a copy of the petitioner's rebuttal testimony was served by hand delivery to the Indiana Office of Utility Consumer Counselor, Indiana Government Center North, Room N-501, Indianapolis, IN 46204 and was deposited in the U.S. mail, first-class postage prepaid, addressed to:

J. Christopher Janak
Nikki G. Shoultz
Bose McKinney & Evans LLP
2700 First Indiana Plaza
135 N. Pennsylvania Street
Indianapolis, IN 46204

Theodore A. Fitzgerald
Brian E. Less
Petry, Fitzgerald & Less
107 N. Main Street
P.O. Box 98
Hebron, IN 46341-0098

COPY

FILED

AUG 07 2007

INDIANA UTILITY REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF TWIN LAKES UTILITIES, INC. FOR AN INCREASE IN ITS RATES AND CHARGES FOR WATER AND WASTEWATER UTILITY SERVICE	)))))	CAUSE NO. 43128

SUBMISSION OF JOINT PROPOSED ORDER

Attached is a form of final order jointly proposed by all three parties to this case Twin Lakes Utilities, Inc., the Indiana Office of Utility Consumer Counselor and the Lakes of the Four Seasons Property Owners' Association, all of whom urge its prompt adoption by the Commission.

Respectfully submitted,

TWIN LAKES UTILITIES, INC.

By: _____

Clayton C. Miller, Att'y No. 17466-49
BAKER & DANIELS, LLP
300 N. Meridian St., Suite 2700
Indianapolis, IN 46204
Tel: 317.237.1444
Fax: 317.237.1486
email: ccmiller@bakerd.com

CERTIFICATE OF SERVICE

The undersigned certifies that on August 7, 2007, a copy of the parties' joint proposed order was served by hand delivery to the Indiana Office of Utility Consumer Counselor, 115 West Washington Street, Suite 1500 South, Indianapolis, IN 46204 and was deposited in the U.S. mail, first-class postage prepaid, addressed to:

J. Christopher Janak
Nikki G. Shoultz
Bose McKinney & Evans LLP
2700 First Indiana Plaza
135 N. Pennsylvania Street
Indianapolis, IN 46204

Theodore A. Fitzgerald
Brian E. Less
Petry, Fitzgerald & Less
107 N. Main Street
P.O. Box 98
Hebron, IN 46341-0098

JOINT PROPOSED ORDER

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF TWIN LAKES UTILITIES, INC. FOR AN INCREASE IN ITS RATES AND CHARGES FOR WATER AND WASTEWATER UTILITY SERVICE	))))))	CAUSE NO. 43128

BY THE COMMISSION
Gregory D. Server, Commissioner
Aaron A. Schmoll, Administrative Law Judge

On September 29, 2006, Twin Lakes Utilities, Inc. ("Twin Lakes") filed its petition initiating this cause in which it seeks Commission approval of an increase in its water and sewer rates. The presiding officers convened a prehearing conference and preliminary hearing, November 6, 2006, at which Twin Lakes and counsel for the Indiana Office of Utility Consumer Counselor ("OUCC") appeared. Twin Lakes prefiled its testimony and exhibits constituting its case-in-chief on November 13, 2006. We issued our Prehearing Conference Order on November 21, 2006.

On November 29, 2006, the presiding officers granted a petition to intervene filed by the Lakes of the Four Seasons Property Owners' Association ("Intervenor"). By docket entry that same date, the presiding officers directed Twin Lakes to file a motion with respect to post-test year adjustments to its rate base which it included in its November 13th filing. Twin Lakes so moved on December 5, 2006, and the presiding officers heard oral arguments from all parties on the motion on December 18, 2006. The presiding officers granted Twin Lakes' motion by docket entry dated December 20, 2006, in which they also established a new procedural schedule, pursuant to which Twin Lakes filed its supplemental direct testimony and exhibits on January 16, 2007.

The OUCC and Intervenor filed responsive testimony on May 9, 2007, to which Twin Lakes filed rebuttal testimony, June 12, 2007.

Pursuant to notice duly given and published, the presiding officers conducted a field hearing at the Jerry Ross Elementary School in Crown Point, at 6:00 p.m. CST, February 6, 2007, at which the parties and members of the public appeared. At the duly noticed evidentiary hearing on June 22, 2007, Twin Lakes, the OUCC and the Intervenor announced their settlement of all issues in this case. The hearing was continued until July 12, 2007, at which time the parties offered into evidence their settlement agreement ("Settlement Agreement") and supporting testimony and schedules. Pursuant to the Settlement Agreement, all of the testimony and exhibits that had been prefiled were admitted into the record, without objection, and each party waived its right to cross-examine witnesses. The OUCC also offered live testimony from

one of its witnesses, Judith Gemmecke, in response to questions issued by the presiding officers in their July 10th docket entry. Twin Lakes submitted as a late-filed exhibit on July 16th its written responses to the questions from the same July 10th docket entry.

Having considered the evidence and the governing law, we now find that:

1. **Notice and Jurisdiction.** Notice of the filing of Twin Lakes' petition as well as of each of this Commission's hearings was given as required by law. This Commission authorized Twin Lakes to provide water and sewer service by orders in Cause Nos. 33766, issued February 18, 1975 and 35611, issued May 18, 1979. Twin Lakes is a public utility as defined by I.C. 8-1-2-1(a)(2) and (a)(3), and we have continuing jurisdiction over the rates Twin Lakes may charge for its utility service. I.C. 8-1-2-61. Accordingly, we have jurisdiction over both Twin Lakes and the subject matter of its petition.

2. **Petitioner's Characteristics.** Twin Lakes provides water and sewer disposal service to approximately 3,000 customers within a rural area straddling the Lake and Porter County line. Most of Twin Lakes' customers are residential and located within the Lakes of the Four Seasons development. Twin Lakes is a subsidiary of Utilities, Inc., which also owns several other utilities nationwide, including two others in Indiana: Indiana Water Service, Inc. and Water Service Company of Indiana.

3. **Relief Requested.** This Commission last established base rates for Twin Lakes water and sewer service in our order in Cause No. 42488, issued March 30, 2004. Twin Lakes now alleges that the revenue it receives as a result of these rates is inadequate to cover its operating costs and provide it with a reasonable return on its investment in its utility facilities. In its initial testimonial filing, Twin Lakes requested authorization to increase its present water rates by 45% and its present sewer rates by 18%. As discussed below, the parties' Settlement Agreement calls for increases of 24.02% for water revenues and 4.52% for sewer revenues.

4. **Settlement Agreement.** The parties offered their Settlement Agreement, which resolved all issues in this cause. A copy of the Settlement Agreement is attached to this order. The parties also jointly filed their proposed form of final order on July 25, 2007, and requested its adoption. For the reasons set forth below, we find that the Settlement Agreement is in the public interest and should be approved.

a. Test Year. As approved by the presiding officers in their December 20, 2006, docket entry, the Settlement Agreement reflects the parties' use of a cut-off date for determining Twin Lakes' rate base of June 30, 2006, and a test year ending December 31, 2006, with adjustments reflecting changes in Twin Lakes' operations in 2007 that are fixed, known and measurable.

b. Rate Base. The parties agreed to an original cost less depreciation rate base for each utility, which they agreed is $2,180,964 for the water assets and $6,049,672 for the sewer assets.

c. Cost of Capital. There was no disagreement among the parties in their prefiled testimony that Twin Lakes' cost of long-term debt is 6.58%, or that such debt comprised 58.11% of Twin Lakes' capital structure. *Compare* Schedule 1, Page 1 of 18 from Petitioner's Schedule. PMA-1 to Schedule 5 of the OUCC's Exhibit No. 1. The Settlement Agreement reflects the parties' agreement for settlement purposes only that Twin Lakes' cost of common equity is to be 10.15%. This results in the following weighted cost of capital to be used in this case for rate making purposes:

Class of Capital	Percent of total	Cost	Weighted Cost
Common Equity	41.89%	10.15%	4.25%
Long-Term Debt	58.11%	6.58%	3.82%
	100%		8.07%

d. Approved Return. We find that the Settlement Agreement as respects Twin Lakes' rate base, cost of capital and return is reasonable and should be adopted by the Commission. Specifically, we find that Twin Lakes should be authorized to earn an 8.07% return on its original cost, depreciated, (1) water utility rate base of $2,180,964 and (2) sewer utility rate base of $6,049,672. The net operating income we approve is $176,004 in the case of the Twin Lakes water utility and $488,209 in the case of the Twin Lakes sewer utility.

e. Revenue Adjustments Under Current Rates. As shown in Settlement Schedule 7 of the parties' settlement, the parties agreed that two categories of adjustments should be applied to Twin Lakes test year revenues under current rates. First, they agreed upon a customer normalization increase of $1,636 for the water utility and a decrease of $20,613 for the sewer utility. Second, they agreed to add $1,040 to water revenues and $1,933 to sewer revenues for customer growth from the end of the test year through the rate base cut-off of December 31, 2006.

f. Expense Adjustments. The four-page Schedule 8 of the parties' Settlement Agreement contains the details for 13 proposed adjustments to Twin Lakes' operations and maintenance expenses during the test year. These 13 categories included wages, payroll tax, employee benefits, bad debt, rate case amortization, depreciation, amortization of contributions in aid of construction ("CIAC"), utility receipts and federal and state income taxes.

g. Depreciation Rates. Twin Lakes accepted as part of the Settlement Agreement the OUCC's position that one composite rate should apply to all of Twin Lakes' depreciable utility assets in service. The parties agreed that that rate should be 2.0% for all water plant and, consistent with this Commission's current standard depreciation rate, 2.5% for all sewer plant. Using these depreciation rates results in *pro forma* annual depreciation expense of $299,003 for the sewer utility and $107,050 for the water utility. We find this aspect of the Settlement Agreement is appropriate and should be approved.

h. Amortization of CIAC. Twin Lakes also accepted as part of the Settlement Agreement the OUCC's position with respect to amortization of CIAC. In its testimony, the OUCC explained that amortization of CIAC is the practice of reducing the net

amount of CIAC at the same rate that the utility's assets are being depreciated. This can also be described as reversing out the depreciation of CIAC. The OUCC's witness on this issue, Judy Gemmecke, noted that amortizing CIAC is the norm in most other jurisdictions, including those in which Utilities, Inc. has other utility operating subsidiaries. Ms. Gemmecke's testimony and the Settlement Agreement reflect the accumulated amortization of CIAC from the time the contributed assets were first placed in service. The result was a decrease in Twin Lakes' depreciation expense and an increase in the total assets on which it can earn a return. Together, the two adjustments increased Twin Lakes' authorized net operating income while decreasing the amount of the rate increase in this case.

Although none of the parties asserted that Twin Lakes' new rates should account for any over- or under-earning in a prior period, we asked the OUCC to explain whether increasing the accumulated amortization of CIAC might still be considered retroactive ratemaking since we had not previously amortized Twin Lakes' CIAC. Having considered this issue further, we agree with Ms. Gemmecke that the requested accounting treatment of CIAC in this case does not constitute retroactive ratemaking. In light of the fact that the overall proposal with respect to CIAC as set forth in the Settlement Agreement produces an affect that is advantageous to both the utility and the public – increasing Twin Lakes' net operating income while decreasing the rate increase – we further find that this aspect of the parties' settlement should be approved.

i. Reasonableness of Adjustments. We find that settled amounts for the foregoing revenue and expense adjustments are reasonable, and that Twin Lakes rates going forward should be based on these adjustments.

j. Return Under Current Rates. Based on the above, we find that Twin Lakes, under its current rates, is not earning an adequate return on its original cost water and sewer utility rate bases. We find that, as set forth in the Settlement Agreement, Twin Lakes should be allowed to increase its water rates $198,485 and its sewer rates $67,463. The resulting rates as agreed upon in the Settlement Agreement, reflecting a 24.02% increase in water rates and a 4.52% increase in sewer rates, are supported by the evidence and reasonable.

5. Service Quality Issues. At the field hearing, customers offered verbal testimony critical of aspects of Twin Lakes' service since its last rate case. Some of these customers, as well as other customers, also submitted written and/or visual evidence describing discharges of untreated sewage, including pictures purporting to represent instances of discharges into the Intervenor's lakes. These concerns were also raised within the Intervenor's pre-settlement testimony.

Paragraphs 5 through 7 of the Settlement Agreement reflect the parties' resolution of the Intervenor's issues. Of greatest concern to the Commission and the Intervenor, as well as to Twin Lakes and the OUCC, have been instances of sewer discharges from manhole #307. While Twin Lakes' ongoing investments have reduced the instances of sewer discharges in the rest of its system, such that during the 22 months from August, 2003 until June, 2005, there were no reported instances of sewer discharges, Twin Lakes has committed to making further investment

intended to eliminate during normal operating conditions discharges from manhole #307 and the nearby manhole #306. The Settlement Agreement also calls for Twin Lakes to pay $5,000.00 to the Intervenor, spread over two years, for purposes of re-stocking with fish one or more of the lakes within the Intervenor's subdivision.

We find the parties' proposed resolution of the Intervenor's concerns to be reasonable. We recognize that an aging, porous system cannot be replaced overnight without risking rate shock for Twin Lakes' customers, and we fully expect that this latest set of commitments will have the intended effect of further improving the quality of utility service provided.

IT IS, THEREFORE, ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. The parties Settlement Agreement attached hereto is approved in all respects.

2. Twin Lakes shall be allowed to increase its water rates by 24.02% on an across-the-board basis and its residential sewer rates by 4.52%.

3. This Order shall be effective on and after the date of its approval.

CHAIRMAN HARDY AND COMMISSIONERS GOLC, LANDIS, SERVER AND ZIEGNER CONCUR

APPROVED:

I hereby certify that the above is a true and correct copy of the Order as approved.

_____

Nancy Manley, Secretary to the Commission

Kimberley Hawkins

From: Gassert, Curt [cgassert@urc.IN.gov]
Sent: Thursday, January 17, 2008 6:05 AM
To: Kimberley Hawkins
Cc: Webb, Jerry
Subject: RE: Arizona Corporation Commission Survey on Utilities, Inc.
Attachments: Twin Lakes, 43128.pdf; Twin Lakes, homeowner's testimony.pdf; Twin Lakes, 42488.pdf

Kimberly,
Sorry I did not respond to your e-mail immediately. I wanted to include a copy of our latest Utilities, Inc. (d/b/a Twin Lakes) order with my response. As you can see, this order was not issued until January 16, 2008. As reflected in that order, the Commission modified a settlement reached between Utilities, Inc. and Indiana's consumer advocate, the OUCC (Office of Utility Consumer Counselor) . The order also established a sub-docket to investigate sewer system inflow and infriltration. The primary reason was related to concerns about the quality of sewer service provided. In orders going back to 1991, the utility has been experiencing issues with sewer back-ups in customer basements, sewer overflows and contamination of a lake that caused a fish kill. I have also attached a file that contains the testimony of the customer's witness. The homeowner's testimony includes documents from the Indiana Department of Environmental Management. All of the testimony and exhibits can be reviewed on our website at http://www.in.gov/iurc/ . On our home page, click on "Electronic Filing" on the top left of the page, then click on "Cases" and enter the docket number 43128.

Despite this, Utilities, Inc. is not what I would consider a terrible utility. Utilities, Inc. is clearly a better operator than many small, developer owned utilities. Utilities, Inc. appears to possess the financial ability to acquire capital to make improvements to the utilities that it owns. I recently noticed a press release on their website that indicates they are spending $2.1 million to replace portions of a sewer plant for another Indiana owned utility.

I would be interested in hearing what the other states have to say about Utilities, Inc. if you would be willing to share the results of your survey. If you have any questions or need additional detail, please let me know by e-mail or call at 317-232-2749.
Thanks,
Curt

From: Kimberley Hawkins [mailto:KHawkins@azcc.gov]
Sent: Thursday, December 20, 2007 5:03 PM
To: Webb, Jerry; trendell@psc.state.fl.us; Gassert, Curt; dejones@ky.gov; cjohnson@psc.state.ga.us; virginial.smith@ky.gov; wmarr@icc.illinois.gov; Reid, Sam H (PSC); arnold.chauviere@la.gov; cnizer@psc.state.md.us; steve.brennen@puc.state.oh.us; sue.daly@puc.state.oh.us; rbosier@puc.state.nv.us; rhackman@puc.state.nv.us; brown@ncuc.net; kite@ncuc.net; kmiceli@state.pa.us; ckozloff@state.pa.us; michael.gallagherm@bpu.state.nj.us; darnett@regstaff.sc.gov; darlene.standley@state.tn.us; asharpe@regstaff.sc.gov; carsie.mundy@state.tn.us; tim.faherty@scc.virginia.gov
Cc: Blessing Chukwu; Steven Olea
Subject: Arizona Corporation Commission Survey on Utilities, Inc.

ORIGINAL

JL6

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF TWIN LAKES UTILITIES, INC. FOR AN INCREASE IN ITS RATES AND CHARGES FOR WATER AND WASTEWATER UTILITY SERVICE	) CAUSE NO. 43128	) APPROVED: JAN 16 2008

BY THE COMMISSION
Gregory D. Server, Commissioner
Aaron A. Schmoll, Administrative Law Judge

On September 29, 2006, Twin Lakes Utilities, Inc. ("Twin Lakes" or "Petitioner") filed its petition initiating this cause in which it seeks Commission approval of an increase in its water and sewer rates. The presiding officers convened a prehearing conference and preliminary hearing, November 6, 2006, at which Twin Lakes and counsel for the Indiana Office of Utility Consumer Counselor ("OUCC") appeared. Twin Lakes prefiled its testimony and exhibits constituting its case-in-chief on November 13, 2006. The Commission issued its Prehearing Conference Order on November 21, 2006.

On November 29, 2006, the presiding officers granted a petition to intervene filed by the Lakes of the Four Seasons Property Owners' Association ("Intervenor"). By docket entry that same date, the presiding officers directed Twin Lakes to file a motion with respect to post-test year adjustments to its rate base which it included in its November 13th filing. Twin Lakes so moved on December 5, 2006, and the presiding officers heard oral arguments from all parties on the motion on December 18, 2006. The presiding officers granted Twin Lakes' motion by docket entry dated December 20, 2006, in which they also established a new procedural schedule, pursuant to which Twin Lakes filed its supplemental direct testimony and exhibits on January 16, 2007.

The OUCC and Intervenor filed responsive testimony on May 9, 2007, to which Twin Lakes filed rebuttal testimony, June 12, 2007.

Pursuant to notice duly given and published, the presiding officers conducted a field hearing at the Jerry Ross Elementary School in Crown Point, at 6:00 p.m. C.S.T., February 6, 2007, at which the parties and members of the public appeared. At the evidentiary hearing on June 22, 2007, Twin Lakes, the OUCC and the Intervenor announced their settlement of all issues in this case. The hearing was continued until July 12, 2007, at which time the parties offered into evidence their settlement agreement ("Settlement Agreement") and supporting testimony and schedules. Pursuant to the Settlement Agreement, all of the testimony and exhibits that had been prefiled were admitted into the record, without objection, and each party waived its right to cross-examine witnesses. The OUCC also offered testimony from one of its witnesses, Judith Gemmecke, in response to questions issued by the presiding officers in their July 10, 2007 docket entry. Twin Lakes submitted as a late-filed exhibit on July 16, 2007 its

written responses to the questions from the same July 10, 2007 docket entry. On August 7, 2007, Petitioner filed a Joint Proposed Order in this Cause.

Having considered the evidence and the governing law, we now find that:

1. **Notice and Jurisdiction.** Notice of the filing of Twin Lakes' petition as well as of each of this Commission's hearings was given as required by law. This Commission authorized Twin Lakes to provide water and sewer service by orders in Cause Nos. 33766, issued February 18, 1975 and 35611, issued May 18, 1979. Twin Lakes is a public utility as defined by I.C. 8-1-2-1(a)(2) and (a)(3), and we have continuing jurisdiction over the rates Twin Lakes may charge for its utility service. Accordingly, we have jurisdiction over both Twin Lakes and the subject matter of its petition.

2. **Petitioner's Characteristics.** Twin Lakes provides water and sewer disposal service to approximately 3,000 customers within a rural area straddling the Lake and Porter County line. Most of Twin Lakes' customers are residential and located within the Lakes of the Four Seasons development. Twin Lakes is a subsidiary of Utilities, Inc., which also owns several other utilities nationwide, including two others in Indiana: Indiana Water Service, Inc. and Water Service Company of Indiana.

3. **Relief Requested.** This Commission last established base rates for Twin Lakes' water and sewer service in our order in Cause No. 42488, issued March 31, 2004. Twin Lakes now alleges that the revenue it receives as a result of these rates is inadequate to cover its operating costs and provide it with a reasonable return on its investment in its utility facilities. In its initial testimonial filing, Twin Lakes requested authorization to increase its present water rates by 45% and its present sewer rates by 18%.

4. **Evidence Presented.**

a. Petitioner's Evidence.

1. Testimony of Michael T. Dryjanski. Mr. Dryjanski, Manager of Regulatory Accounting for Utilities, Inc. testified as to Twin Lakes' need for increased water and sewer rates. Mr. Dryjanski stated that Twin Lakes' current rates have been in place since April 2004, and do not reflect rising costs, many of which result from increasingly stringent federal environmental regulations and the utility's need to make corresponding improvements to its systems. Mr. Dryjanski testified that the proposed increase should allow Twin Lakes to earn rate of returns of 8.64% for each utility.

The water utility had test year operating revenues of $808,822 and total operating expenses of $869,897, after adjustments, for a pro forma operating loss under present rates of $61,075 for a negative return of 3.60%. The rate base for the water utility reflects adjustments for utility's cash, working capital, and plant under construction in 2006 that will be in service by December 31, 2006. The sewer utility had test year operating revenues of $1,489,160 and total operating expenses of $1,165,235, after adjustments, for a pro forma operating income under present rates of $323,925 for a return of 5.98%. The rate base for the sewer utility reflects adjustments for utility's cash, working capital, and plant under construction in 2006 that will be in service by December 31, 2006.

Mr. Dryjanski testified that all adjustments made to test year expenses are known, fixed and measurable and to be in effect within 12 months after June 30, 2006. The pro forma adjustments to rate base include the cost of water and wastewater capital projects that will be completed and in-service by December 31, 2006.

Mr. Dryjanski stated that the company is committed to complete various projects in the near future. It plans to complete a $350,000 replacement project at the North Aeration Filter at Water Plant #1. The company is also in the process of preparing to acquire and install two new generators at sewer lift stations at approximately $70,000 each. These projects are anticipated to be completed about mid-2007. Mr. Dryjanski would like the Commission to allow these additions, net of retirements, when completed and placed in service, to be included in its rate base for ratemaking purposes. Also after a hearing as to their completion, Mr. Dryjanski would like the Commission to allow Twin Lakes to adjust their rates at that time.

On January 16, 2007, Mr. Dryjanski filed supplemental testimony. In this testimony, Mr. Dryjanski testified that for water utility, the updated rate base is $1,858,591 compared to $1,694,936 in his direct testimony. For the sewer utility, the updated rate base is $5,530,819 compared to $5,416,523 filed in his direct testimony. He testifies that all of the utility's property included in Twin Lakes' updated request for rate relief was in service as of December 31, 2006, and continues to be used and useful for providing service to Twin Lakes' customers.

2. Testimony of Christopher K. Montgomery. Mr. Montgomery, Regional Director of Operations of the Midwest for Utilities Inc., addressed Twin Lakes' position regarding various topics related to its operations. He testified to customer service, water quality and capacity, compliance with infrastructure investment commitments specified in the most recent rate order, and pro forma plant additions.

Mr. Montgomery testified that Twin Lakes takes seriously its obligations to customers. He stated that Twin Lakes' staff members have been trained in operations and resolving customer service issues in a timely manner. He further testified that in Cause No. 42488, the Commission required Twin Lakes to distribute an annual notice to customers regarding the company's procedures and standards for handling customer inquires and complaints, appeals available to customers, background on the OUCC and Commission, as well as contact information. Twin Lakes complied with those requirements and has continued to report to the Commission's Consumer Affairs Division the receipt and dispositions of customer complaints on a quarterly basis through the fourth quarter of 2007, and thereafter on an annual basis.

Mr. Montgomery testified that the ground water system produces high quality water. The raw water is treated with iron filtration and the iron level is reduced to around 0.1 ppm. Filtration, hydrant flushing and chemical treatment have produced good quality water. To date, water supply has been sufficient to meet demand. There are areas in and around the Petitioner's system that have been experiencing rapid growth and Twin Lakes is planning ahead to ensure that it will be in a position to meet this additional demand. Twin Lakes is similarly managing its wastewater system so that its collection, treatment, and disposal facilities are sufficiently capable of serving growing demands. Part of Order No. 42488 required Petitioner to address the inflow

and infiltration (I&I) issue by filing quarterly reports with the Commission which Petitioner has done as required. Petitioner addressed these issues by way of its Inflow & Infiltration Remediation Program. The I&I Remediation Program consists of sewer main replacements, relining of sewer mains, jetting and televising sewer mains, analysis of lift station runtimes, re-sealing, re-aligning and raising manholes and installing inserts in manholes in order to prevent rainwater from entering into the collection system. Twin Lakes committed to spend at least $500,000 on this program for five years. Each project specified in Order No. 42488 has been completed or will be completed by the end of 2006. By the end of 2006, Twin Lakes will also have completed the rehabilitation of 64 manholes identified as contributors to the I&I problem.

Mr. Montgomery stated that Twin Lakes has completed major system projects since its last rate order as well as projects expected to be completed by December 31, 2006. Petitioner recently installed valves at the wastewater treatment plant ("WWTP") to help control flow within the plant. Twin Lakes also replaced its effluent meter, which was incorrectly measuring flow, and replaced the unit that breaks down inorganic material that comes into the WWTP. At the WWTP, they replaced parts on the south clarifier's rake arm drive and removed an abandoned underground storage tank. They have also added two new fire hydrants and replaced eleven old ones. The projects that correlate to the I&I Remediation Program are as follows:

1. Televised and relined 3,156.82' of sewer main at a cost of $131,334.16.
2. Replaced 300' of sewer main on Greenvalley Drive at a cost of $17,795.00.
3. Replaced 170' of sewer main on Brandywine Road at a cost of $28,237.50.
4. Engaged a professional firm to study existing sewer collection system to determine the most prudent course of action for remediation. This project is in process and the work planned for 2006 is expected to be complete prior to the end of 2006 at a cost of $118,895.00.
5. Project ID# 4168 included doing the engineering required to replace 1,100' of sewer main and is related to project ID# 3395. The cost associated with project ID# 4168 is $29,936.50.
6. Project ID# 3395 includes replacing 1,100' of sewer main that has significant I&I coming into it. This project is in process and is expected to be complete prior to the end of 2006 at a cost of $81,150.00.
7. Project ID# 2659 replaced the pumps and upgraded some of the controls at the sludge holding tank wetwell at a cost of $10,173.00.
8. Project ID# 2757 replaced 200' of sewer main on Hidden Valley Drive where the main had several areas that sagged allowing sewer back ups at a cost of $28,402.00.
9. Project ID# 3728 replaced key parts on the south clarifier drive unit at the WWTP at a cost of $11,532.00.
10. Project ID# 3710 replaced the unit located at the headworks for the WWTP that breaks down inorganic compounds at a cost of $19,044.00.
11. Project ID# 3713 removed an abandoned underground storage tank from the WWTP at a cost of $14,919.00.

Mr. Montgomery testified to the improvements that Petitioner made in its water plant.

1. Petitioner tested and replaced water meters at both of its water treatment plants. This was done to ensure proper calculation of Unaccounted for Water at a cost of $15,452.00.
2. Well #7 has been rehabilitated on two occasions since the last rate case. Well #7 is the best producing well, but requires high maintenance in order to keep up production. The total cost of this was $15,193.00.
3. Project ID# 3373 re-piped backwash lines at water treatment plant #2 at a cost of $5,582.00.
4. Project ID# 3027 rehabilitated well #4, thoroughly cleaned and the pump and motor were replaced, at a cost of $18,175.00.
5. Project ID# 3549 emergency well repair was done on well #11 at a cost of $5,234.00.
6. Project ID# 3608 high service pump #1 had significant components replaced at a cost of $11,449.00.
7. Project ID# 1817 replaced 10 fire hydrants that were not working at a cost of $39,785.00.
8. Project ID# 3824 replaced 40' of water main on Walnut Hill Drive at a cost of $11,120.00.
9. Project ID# 3649 rehabilitated well #6 at a cost of $21,400.08.
10. Project ID# 3881 rehabilitated well #3 at a cost of $9,535.72.

Mr. Montgomery stated that Twin Lakes is committed to addressing some projects as a part of the Settlement Agreement in Order No. 42488. Twin Lakes agreed to bury the blue plastic 55 gallon drum of carbon located on Kingsway Drive. This work was completed in a timely fashion and has been removed from view. Additional plants were installed around the vent pipes that were viewed as a concern by the Property Owners Association. Petitioner also agreed to resolve landscaping issues by June 1, 2004. Petitioner contracted Grimmer Construction to restore the areas within the Lakes of the Four Seasons that were disturbed by the force main project back to their natural state. On June 24, 2004, Twin Lakes notified Grimmer Construction that they were in breach of contract and then hired another contractor to complete the work, which was finished on November 1, 2004. These areas were later revisited for further touch up in the Spring 2005.

3. Testimony of Pauline M. Ahern, CRRA. Ms. Ahern, Principal of AUS Consultants, testified concerning the appropriate common equity cost rate that should afford Petitioner the opportunity to earn on the common equity financed portion of its jurisdictional rate base. Ms. Ahern recommended the Commission authorize Petitioner the opportunity to earn an overall rate of return of 8.64% (weighted cost of capital) based upon the consolidated capital structure at July 31, 2006 of Utilities, Inc., the parent company of Twin Lakes, which consisted of 58.11% long-term debt at a debt cost of 6.58% and 41.89% common equity at a common equity cost rate of 11.5%. The overall weighted cost of capital is summarized below:

Overall Cost of Capital			
	Capital Structure Ratios	Cost Rate	Weighted Return
Long-Term Deb	58.11%	6.58%	3.82%
Common Equity	41.89%	11.50%	4.82%
Total	100.00%		
Weighted Cost of Capital			8.64%

Ms. Ahern explained that because Petitioner is not publicly traded, a market-based common equity cost rate cannot be determined directly. Therefore, Ms. Ahern assessed the market-based cost rates of companies of relatively similar risk, i.e., proxy group(s) for insight into a recommended common equity cost rate applicable to Petitioner.

Ms. Ahern developed and then evaluated two proxy groups of water companies in arriving at her recommended common equity cost rate. She explained her analysis of the proxy groups reflects current capital market conditions and results from the application of four well-tested market-based cost of common equity models; the Discounted Cash Flow (DCF) approach, the Risk Premium Model (RPM), the Capital Asset Pricing Model (CAPM), and the Comparable Earnings Model (CEM). Her results derived from each are as follows:

Cost of Common Equity Model Analysis of Two Proxy Groups		
Cost of Common Equity Models:	Six AUS Utility Reports Water Cos.	Four Value Line (Std, Ed.) Water Cos.
Discounted Cash Flow	9.60%	9.90%
Risk Premium	10.90%	11.00%
Capital Asset Pricing	10.60%	10.60%
Comparable Earnings	14.00%	14.10%
Range of Common Equity Cost Rates Before Business & Financial Risk Adjs.	10.80% -	11.35%
Business Risk Adjustment	0.25%	0.25%
Financial Risk Adjustment	0.15%	0.15%
Range of Common Equity Cost Rates After Business & Financial Risk Adjs.	11.20% -	11.75%
Recommended Common Equity Cost Rate		**11.50%**

As shown above, Ms. Ahern concluded that a common equity cost rate range for the two proxy groups analyzed is 10.80% - 11.50%. Ms. Ahern explained that a business risk adjustment of 25 basis points is necessary due to Twin Lakes' smaller size and a financial risk adjustment of 15 basis points is necessary due to Twin Lakes' greater financial risk compared to the two proxy groups. Subsequently, the indicated common equity cost rate range is 11.20% - 11.75%. Ms. Ahern concluded that an 11.50% common equity cost rate is a reasonable recommendation based upon the midpoint of 11.48% and is applicable to Utilities, Inc.'s common equity ratio of 41.89% as of July 31, 2006.

b. OUCC's Evidence

1. Judith I. Gemmecke. Ms. Gemmecke, Senior Utility Analyst for the OUCC, testified regarding the OUCC's adjustments to test year revenues and expenses, the general revenue requirements, the updated rate base and their recommendation to change the sewer rate from a flat fee to a volumetric rate based on water consumption. Ms. Gemmecke recommended a 19.35% increase for the water utility and 1.58% decrease to the sewer utility.

Ms. Gemmecke recommended a rate base of $2,178,679 for water and $6,071,559 for the sewer utility. This included the amount of additional accumulated depreciation from 6/30/06 to 12/31/06. The differences also come from the unamortized income tax credit, working capital and the amount of Contributions in Aid of Construction ("CIAC") reduced by accumulated amortization of contributed property.

Ms. Gemmecke reduced the purchased power expense (Operations and Maintenance Expenses) used in the working capital calculation by half of the annual amount. Ms. Gemmecke states that in most cases the full amount of purchased power expense would be removed, but since Petitioner receives a power bill monthly but bill their customers bi-monthly, she proposes including half the amount in the working capital calculation.

With respect to CIAC, Ms. Gemmecke explained that Petitioner has not amortized the amount of assets obtained by contributions as an off-set to depreciation of those assets. She stated that accounting standards require reversing out the depreciation on contributed property because the utility owner has no basis or "cost" in the asset. Depreciation is charged against earnings on the theory that the use of capital assets is a legitimate cost of doing business. Depreciation is an *allocation of the cost* of an asset over a period of time for accounting and tax purposes. When contributed property is depreciated, expenses increase; net operating income and, therefore, retained earnings decrease; and shareholder equity decreases.

Ms. Gemmecke testified that the National Association of Regulatory Utility Commissioners ("NARUC") system of accounts states the account for accumulated amortization of CIAC is used "if recognized by the Commission." She explained that the Federal Energy Regulatory Commission and the Federal Communication Commission require electric, gas and telephone utilities to reduce the plant account balances to which contributions for customers are made by the amount of contributions–before applicable depreciation rates are applied. Ms. Gemmecke also stated that the Internal Revenue Service ("IRS") does not recognize depreciation of contributed property in determining taxable income because the taxpayer has no basis in the property, thus denied depreciation on the property received as a contribution.

Ms. Gemmecke explained that Indiana is one of a handful of states that has allowed depreciation of contributed property. This policy has a significant drawback because it depends on the premise that depreciation is for the replacement of plant, which it is not. She stated that the purpose of allowing recovery of depreciation in investor supplied plant is to allow the utility a "return of", or recovery of, its investment in plant. By allowing depreciation on contributed plant Twin Lakes' shareholders would obtain recovery of capital for utility plant in which they made no investment.

Moreover, to support the proposed policy of amortizing CIAC, Ms. Gemmecke quoted from Financing and Charges for Wastewater Systems, WEF Manual of Practice No. 27, McGraw-Hill, 2005, pg. 243:

> Recovery of annual depreciation on assets that the owner did not supply the original investment fund, i.e., contributed property, would inappropriately enrich the owner. State regulated utilities must exclude recovery of annual depreciation on all contributed property, although these utilities own all of their assets regardless of original funding source.

Ms. Gemmecke further explained that the policy of allowing depreciation on contributed plant may also lead a utility into a negative rate base situation because depreciation reduces rate base while the CIAC balance, which would remain the same also reduces rate base. Eventually, there is no longer plant value to offset the value of the original contribution. She stated that utilities that have a negative rate base are reluctant to invest in the utility because no return can be earned on additional investment.

Thus, Ms. Gemmecke proposed to impute an amount of accumulated amortization of CIAC based on the ratio of accumulated depreciation to plant. She then multiplied the percentage by the amount of CIAC as shown below:

	Water	Sewer
Accumulated Depreciation	$1,254,290	$ 2,778,248
Divided By: UPIS	5,443,812	12,109,707
Precent Depreciated	23.04%	22.94%
CIAC	$2,061,761	$ 3,734,590
Times: % Depreciated	23.04%	22.94%
Accumulated Amortization of CIAC	$ 475,043	$ 856,802

Ms. Gemmecke explained that this has the effect of increasing the value of rate base. Also, if the above ratemaking treatment is allowed for the rate base, she stated that a reduction to the amount of depreciation allowed in expenses must also be made via amortization of CIAC. The net difference between Petitioner's proposed rate base and the OUCC's proposed rate base is an increase of $320,086 for water and $540,740 for sewer.

With respect to pro forma adjustments, Ms. Gemmecke adjusted Petitioner's test year water and sewer revenues to reflect two changes from the test year. The first adjustment reflected a full year of revenues for all of the customers which were added to Petitioner's system during the test year. The second adjustment reflects the additional customers which were added to the system between June 30, 2006 and December 31, 2006. Ms. Gemmecke's adjustment increased Petitioner's test year water revenues from $815,906 to $818,583. The adjustments for the sewer utility decreased Petitioner's test year revenues from $1,504,196 to $1,485,516.

Ms. Gemmecke also made adjustments to several of Petitioner's expenses. The expenses included salaries and wages, payroll taxes, employee benefits, rate case expense, depreciation expense, taxes and Petitioner's adjustment using the consumer price index. The adjustments to the specific expenses are discussed in more detail below.

Ms. Gemmecke reduced Petitioner's proposed salaries by approximately $27,000. She stated that Petitioner included two annual salary increases of 4% each ($14,000), one ex-employee ($5,000) and correction of allocation percentages ($8,000). Ms. Gemmecke also questioned the need of the Regional Director–Midwest and the Administrative Assistant positions proposed by Petitioner, when, five months after Petitioner filed their case-in-chief, Twin Lakes still had not filled the positions.

Ms. Gemmecke also proposed adjusting Petitioner's rate case expense to $63,021. Ms. Gemmecke testified that Petitioner's case did not justify a legal expense of $85,000. She further stated that the utility's decisions made this case unnecessarily expensive. As a result, Ms. Gemmecke proposes the rate case expense include only $30,000 in legal fees.

Ms. Gemmecke explained that Petitioner calculates the amount of customer notice to be included in rate case expense based on the assumption that they would send out four notices to each customer. Petitioner actually sent out only one notice to their customers. Ms. Gemmecke includes a fourth of Petitioner's customer notice expense in her rate case expense calculation. Further, because Petitioner utilized electronic means of service for discovery,, Ms. Gemmecke proposed an adjustment to the cost of postage and copying expense from $12,000 to $200.

Finally, Ms. Gemmecke stated that Petitioner included unamortized rate case expense from their prior rate case. Ms. Gemmecke testified that prior year rate case expense was fully amortized in April 2007, and therefore, there was no unamortized portion to include in the current rate case.

Ms. Gemmecke also discussed an adjustment to depreciation expense. Ms. Gemmecke noted that Petitioner used depreciation rates of 12.5% for vehicles and 25% for computers, while she used a composite rate of 2.0% for all of the water utility plant and 2.1% for all of the sewer utility plant.

Finally, Ms. Gemmecke noted that Petitioner currently uses a flat rate for their sewer utility. She proposed that Petitioner change to a strictly volumetric rate structure based on water consumption, which would send price signals to Petitioner's customers that will promote the efficient use of water.

2. Roger A. Pettijohn. Mr. Pettijohn, Senior Utility Analyst for the OUCC's Water/Wastewater Division responded to the testimony of Mr. Montgomery and reviewed Petitioner's compliance with the Commission's Order in its last rate case, Cause No. 42488. In Cause No. 42488 the Commission ordered Petitioner to file quarterly reports with the Commission, OUCC, and the Intervenor concerning its inflow and infiltration program. Mr. Pettijohn stated that Petitioner did file quarterly reports in compliance with the order as well as evidence of Inflow and Infiltration remediation costs as required. The most recent report filed showed $570,288.87 being spent through the 4th quarter of 2006. Twin Lakes also distributed to its customers an annual notice as required, and submitted quarterly summaries of complaints with the Consumer Affairs Division of the Commission. Mr. Pettijohn testified that Twin Lakes had complied with the Order in Cause No. 42488.

Mr. Pettijohn stated that Petitioner has seven deep wells with capacities from 100 gpm to a high of 300 gpm. These wells pump either to a 1.152 mgd gravity filtration plant or a 0.500 mgd pressure filtration plant. The Petitioner adds chlorine and fluoride at the treatment plants. Mr. Pettijohn testified that Petitioner has total water storage of 700,000 gallons and the wells and plants have auxiliary power, and that Petitioner serves approximately 3,100 customers and pumps an average of 520,000 gallons per day. Mr. Pettijohn explained that Petitioner's growth over the last four years has been approximately 9%.

Mr. Pettijohn stated that source of supply or well capacity continues to be a concern. Mr. Pettijohn testified that the Petitioner's aquifers appear to be only marginally sufficient to meet current demand and will prove less so as demand increases. He said that many water works in Indiana do not develop or retain wells that yield only 100 gpm; three of Petitioner's seven wells have a rated capacity of approximately 100 gpm. In addition, well records from Petitioner's last cause indicated that several of its wells had falling static and pumping water levels. As a result, Mr. Pettijohn stated that Petitioner recently began to drill test wells in an effort to locate an adequate alternative water supply. He noted that Petitioner is unable to purchase water from nearby sources: for instance Indiana American, Petitioner's closest wholesale source of supply, is unable to sell Twin Lakes water due to specific restrictions outlined in The Great Lakes – St. Lawrence River Basin Water Resources Compact.

Mr. Pettijohn discussed Petitioner's plant, and stated that Petitioner has an extended aeration plant that processes an average daily flow of 0.656 mgd with a capacity of up to 3.59 mgd. The collection system consists of around 30 miles of asbestos cement pipe with only 3 miles of PVC pipe. There are seven lift stations with 4 miles of cast or ductile iron sewer force main. Petitioner's system is designed and intended for sanitary only treatment. Because the collection system is over 40 years old, constructed of inferior pipe material and may have significant residential sump pump inflow, surface and grey water, Mr. Pettijohn testified that inflow and infiltration is still a problem.

Mr. Pettijohn testified that Petitioner consistently meets its NPDES discharge permit parameters issued by IDEM. However, he noted that due to the significant inflow and infiltration (I&I) problem, the collection system still experiences sanitary sewer overflows as recently as April 25, 2007. Petitioner reported this to IDEM after a 2.5" rain event. He also

stated that on January 4, 2007, Petitioner reported a "partial bypass" of the plant which resulted in 300,000 gallons of wastewater to spill into Stoney Creek Run. Mr. Pettijohn testified that Petitioner contended that residential sump pumps connected to the sewer system are exacerbating its I&I problem.

Mr. Pettijohn stated that the projects Mr. Montgomery testified to are needed and useful to Petitioner's operation. The cost and completion of each project has been verified through work order, site inspection, or other records. In an effort to prevent sewage overflows, Petitioner has installed a lift station and force main designed to stop or minimize surcharging manholes by diverting flow from over 500 homes away from the northeast quadrant or Lake Area, which was completed and placed into service on September 8, 2003, at a cost of approximately $1 million dollars. While this improved the surcharging and resulting sewer overflow problem, Mr. Pettijohn noted that it did not eliminate it altogether.

Mr. Pettijohn recommended that:

- Petitioner complete Project ID# 4167, which is a sewer collection system study to identify source of I&I. Petitioner should provide a copy of the study to the Commission and the OUCC.
- Petitioner should also complete Project ID# 3395, which is the replacement of 1,100 feet of "dilapidated sewer main that is allowing inflow and infiltration into the sanitary sewer system".
- Petitioner complete Project ID# 4163, which is to the rehabilitation and sealing of "manholes that are allowing inflow and infiltration".
- Petitioner continue televising collection mains and perform smoke testing procedures to identify line fractures and home sump connections.
- Petitioner continues filing I&I quarterly reports as stipulated in Cause No. 42488. In addition, Petitioner should also enclose a Project Detail sheet. This sheet is already generated internally by Petitioner and will be useful to the Commission and OUCC in understanding the dynamics, justification, and progress of various I&I projects.
- Petitioner modify its website customer-contact-tab to a more user-friendly and responsive approach.

3. Edward R. Kaufman. Mr. Kaufman, Senior OUCC Utility Analyst, provided two sections of testimony in this Cause. The first section described how Mr. Kaufman determined the appropriate common equity cost rate for Twin Lakes and the second section explained his criticisms of Ms. Ahern's proposed cost of equity analysis.

Mr. Kaufman summarized his testimony by explaining his use of both a Discounted Cash Flow (DCF) and Capital Asset Pricing Model (CAPM) to estimate Petitioner's cost of equity. Mr. Kaufman explains that the DCF model is used by investors to determine the appropriate price to pay for a particular security, while CAPM is a form of risk premium analysis used to estimate the cost of capital. The DCF model assumes that the price of a security is determined by its expected cash flows discounted by the company's cost of equity. Mr. Kaufman explained that the company's cost of equity must be greater than its expected dividend growth rate for this model to be valid. As to CAPM, he stated that model is based on the premise that investors

require a higher return for assuming additional risk. Mr. Kaufman's DCF model produced a range of estimates from 8.09% to 8.37%, while his CAPM analysis produced a range of estimates of 7.54% to 9.22%

The combined range of DCF and CAPM is 7.54% to 9.22%. Petitioner's company risk, which is not in dispute, is 40 basis points (0.40%). With this adjustment the final range is 7.94% (8.00% rounded) to 9.62% (9.60% rounded). Mr. Kaufman stated that, in his opinion, Petitioner's cost of equity is above the midpoint, and recommended a cost of common equity of 9.15%, which would result in a weighted cost of capital of 7.65% as shown below:

	Ratios	Cost Rate	Weighted Return
Long-Term Debt	58.11%	6.58%	3.82%
Common Equity	41.89%	9.15%	3.83%
Total	100.00%		
Weighted Cost of Capital			7.65%

Mr. Kaufman explained that his cost of equity estimate is 235 basis points lower than Ms. Ahern's 11.5% cost of equity estimate due to the use of different inputs into the various models and the weight each model is given by the witnesses. For example, in Ms. Ahern's CAPM and Risk Premium analyses, she relies on the arithmetic mean risk premium and gives no weight to the geometric mean risk premium. In addition, Ms. Ahern gave considerable weight to her Comparable Earnings Model while Mr. Kaufman did not use the Comparable Earnings Model.

Mr. Kaufman explained that the most significant differences between him and Ms. Ahern can be explained by the following factors:

- Ms. Ahern relied too heavily on intermediate term forecasted growth in Earnings Per Share (EPS) in her DCF analysis and subsequently uses an inappropriately high growth rate, which overstates the results of her DCF analysis.
- Ms. Ahern overstated the forecasted market risk premium in both her CAPM and Risk Premium analyses.
- Ms. Ahern relied solely on the arithmetic mean and ignores the geometric mean to estimate her historical market risk premium in both her CAPM and Risk Premium analyses. Mr. Kaufman explains that ignoring the geometric mean risk premium overstated the results of Ms. Ahern's CAPM and Risk Premium analyses.
- Ms. Ahern used a Comparable Earnings (CE) Model that overstates cost of equity and includes companies that are not comparable to the water industry. Ms. Ahern's Comparable Earnings model is 310 basis points higher than her next highest model and adds approximately 90 basis points to the high end of her analysis.

c. Intervenor's Evidence

1. Robert Campbell. Robert Campbell, Community Manager of Lakes of the Four Seasons ("LOFS"), provided testimony on behalf of the Intervenor. Mr. Campbell stated there are three major areas of concern, sewer discharges onto Intervenor's property, health

concerns created by Petitioner's sloppy oversight of its subcontractors' work, and the quality of water Twin Lakes provides its customers.

Mr. Campbell testified that he is aware that for over thirteen years, sewage from the manholes in the Twin Lakes system has overflowed during rain events. He referenced the Commission's 1991 Order in Cause No. 39050, Petitioner's prior sewer rate case, in which this issue was addressed. In that Order, Petitioner was required to perform a comprehensive engineering study of its sewer utility system within one year from the date of the Order. The Commission also noted that Petitioner's position in the 1991 proceeding was that "it will not add new sewer customers if to do so would cause additional problems for its existing customers." The Order also stated that a "preventative maintenance program is needed to check periodically the entire sewer system for damage, water infiltration, cracks, leaks and settling of pipes" and ordered Petitioner to file with the Commission and the OUCC, within six months of the Order, its preventative maintenance program. Ultimately the Commission found that "the evidence is more than sufficient to find that the service problems are unreasonable and should be rectified."

Mr. Campbell stated that in Cause No. 42488, Petitioner's last rate case in 2004, in which he testified to the number and severity of sewage backups that LOFS residents continued to experience through 2004, and that he believed that Petitioner had not rectified the service problems identified from the 1991 rate case. He also noted that Petitioner added a new sewer customer of significant size, Jerry Ross Elementary School, without resolving the discharge issues that plagued LOFS. In the 2004 rate case, Petitioner "recognized that there have been past incidents of sewer discharges within the Lakes of the Four Seasons subdivision and committed to taking a variety of steps designed to alleviate this problem." Petitioner agreed to spend at least $500,000 between 2003 and 2007 on a program designed to diagnose and remediate sewage discharges, including relining certain portions of sewer mains, and conducting certain lift station repairs, all "with specific actions determined based on Petitioner's business decisions." Petitioner also agreed to submit quarterly reports explaining the steps taken to address the discharge issues. In the Commission's Order approving the 2004 Settlement Agreement, the Commission noted that "of greatest concern to the Commission and the Intervenor, as well as to Twin Lakes and the OUCC, have been past instances of sewer discharges within the Lakes of the Four Seasons subdivision."

Mr. Campbell continued that while he has no evidence that Petitioner failed to undertake the projects it agreed to perform as a result of the last rate case, those projects have not solved this problem. Petitioner reported that between March 31, 2004 and March 15, 2007, it received over 90 incident reports from customers involving sewer service. Of those, at least 45 involve complaints of sewage backing up into customers' homes. In those cases, a majority of the incident reports show a determination by Twin Lakes that backups were not the fault of the utility. Given Petitioner's long history, Mr. Campbell stated that he could not believe that many of the problems are not caused by Petitioner's system. According to Mr. Campbell, LOFS continued to experience surcharging manholes where raw sewage spewed from manholes and flowed directly into lakes that are used for fishing, boating and swimming. Absent a problem with the Petitioner's system, a heavy rain event should not result in surcharging manholes. He stated that since 2004, Petitioner has been cited at least 6 times by IDEM for sewage overflows,

and despite having known about these problems for over a decade, Petitioner still has not fixed the problem.

Mr. Campbell stated that he recently became aware of a situation caused by Petitioner that posed serious potential health hazards to LOFS residents that led him to question Petitioner's attention and diligence in its operation. In November, Twin Lakes replaced a sewer line on Kingsway Drive within the LOFS subdivision. Twin Lakes hired a contractor that did not remove the old sewer pipe, instead, broke it up and left it in the ground, commingled with the back-fill used for the new line. In March, LOFS residents reported seeing broken pieces of the old pipe on the surface and protruding from where the replacement occurred. On March 27, 2007, LOFS hired DLZ Engineering to inspect the site and to test the pieces of broken pipe. Test results show that the pieces of pipe contained 26% and 34% asbestos, respectively. Once Twin Lakes became aware of this, Twin Lakes did nothing more than send out a person to pick up the large pieces of exposed, broken pipe. In discovery when asked what steps Twin Lakes has taken to eliminate and ameliorate any future human exposure to asbestos as a result of the repair work, Twin Lakes responded on April 9, 2007, that it is "not aware of any remaining health hazard relating to that work."

Mr. Campbell stated that for years LOFS residents have endured poor water quality from Twin Lakes. He stated that a water softener is an absolute necessity and typically water heaters will only last three to four years. LOFS's residents are also concerned with the existence of harmful substances in the water, including but not limited to E. Coli bacteria. In a discovery response, Twin Lakes' data only showed that tests were conducted for levels of fluoride, iron, and chlorine. Mr. Campbell questions whether Petitioner is testing for contaminants that could be harmful to our resident's health.

Mr. Campbell recommended that the Commission condition any rate relief on the following recommendations:

1. Order Petitioner to implement a plan within sixty days of the Commission's Order that will eliminate all sewer discharges of LOFS property within twelve months, and report to the Commission and the parties in this cause, monthly, on the status of the plan's implementation until the discharging is corrected. As part of this requirement, Petitioner should be required to identify and report to the Commission why the preventative maintenance program ordered by this Commission in 1991 and the steps taken as a result of the 2004 Order have been unsuccessful in eliminating sewer back-ups and surcharging manholes. These costs should be incurred by Petitioner and not included in rate base. This can be done by either, awarding Petitioner an incentive in the form of an increased annual incremental rate of return for each of the next three years that Petitioner's system experiences no sewer discharges, or prohibit Petitioner from connecting any additional customers until it presents proof to the Commission and the parties that its system experienced no overflows for at least one year. Mr. Campbell recommended that the Commission take a more aggressive role in enforcing its requirements so that sewer discharge issues are actually eliminated.

2. Order Petitioner to remove all present or future unused underground asbestos-containing pipe in a manner that does not create a health hazard, and to remediate any sites where asbestos-containing material is present, consistent with applicable EPA guidelines.

3. Order Petitioner and its subcontractors to adhere to all state and federal guidelines on removal of transite pipe when they do sewer repairs. All sites should be cleaned up to existing state and federal standards.

4. Order Petitioner to implement measures that reduce the hardness of Petitioner's water in an effort to eliminate excessive wear and tear on customer's water heaters and submit quarterly reports to the Commission and the parties to this proceeding on the status of Petitioner's execution of the plan.

5. Order Petitioner to present proof, on a quarterly basis, that it is testing for and abiding by all state and federal regulations for safe levels of all chemicals, substances and contaminants in the potable water supply.

d. Petitioner's Rebuttal Evidence.

1. Michael T. Dryjanski. Mr. Dryjanski's rebuttal testimony directly addressed the topics Ms. Gemmecke addressed in her direct testimony. He agreed with her adjustments pertaining to rate base, amortization of CIAC, capitalized payroll and customer normalization adjustment, but disagreed with her adjustments pertaining to salaries and benefits, depreciation expense, consumer price index adjustment and sewer rate design.

Mr. Dryjanski partially agreed with Ms. Gemmecke's adjustment for the rate case expense, except for the adjustment to legal fees. He stated there is no justification to disallow the actual costs for legal fees, and that Ms. Gemmecke proposed an arbitrary reduction of $50,000.

With respect to salaries in benefits, Mr. Dryjanski rebuts Ms. Gemmecke's testimony that two proposed new positions were not needed by Petitioner because five months after they filed their direct testimony, the positions were still not filled. Mr. Dryjanski testified that the positions had been filled as of June 4, 2007. The reason for the delay in hiring the Regional Director – Midwest position was because Petitioner had to find someone qualified for the position and go through all of the various hiring procedures. Regarding the Administrative Assistant (AA) position, additional time was necessary because Petitioner hired from within and the new AA had to train their replacement. In addition, Petitioner under-estimated the amount allotted for the new positions. While Petitioner estimated an adjustment of $28,409, Mr. Dryjanski testified that the actual salaries require an adjustment of $37,729.

Mr. Dryjanski disagreed with the OUCC's proposal to use the composite rate for depreciation. He still recommended using the 12.5% rate for vehicles and a 25% rate for the computers. He explained that depreciation is supposed to systematically reduce the cost of the asset over the useful life of the asset. He stated that using a 2% or 2.1% composite rate implied a

useful life of at least 47 years, while the 12.5% rate used for vehicles by Petitioner implied a useful life of eight years, and the 25% depreciation rate for computers implied useful life of four years.

Finally, Mr. Dryjanski discussed the OUCC's proposal to change Petitioner's sewer rate design from a flat fee to an exclusively volumetric rate based on water consumption. Instead of accepting the OUCC's proposal, Petitioner proposed a combination rate structure of a base charge and a volumetric rate. He testified that the base charge should recover at least 40% of the revenue requirement with the other 60% being recovered by the volumetric charge based on water consumption.

2. Pauline M. Ahern, CRRA. Ms. Ahern testified that Mr. Kaufman's DCF cost of equity rates of 8.09% to 8.37% are inadequate because there is no realistic opportunity to earn the market-based rate of return on book value. When Mr. Kaufman's 8.09% and 8.37% return rate is applied to book value there is no possible way to achieve the growth inherent in the implied annual total returns related to average market prices of $24.079/$28.123 absent a huge cut in annual cash dividends.

Ms Ahern explains that Mr. Kaufman's CAPM Model is flawed in four respects. First, Ms. Ahern explained that Mr. Kaufman incorrectly utilized geometric mean historical returns and incorrectly utilized the total return on long-term government bonds, instead of income returns. She explained that only the arithmetic mean takes the standard deviation of returns which is critical to risk analysis into account. The geometric mean is appropriate only when measuring historical performance and should not be used to estimate an investor's required rate of return.

Second, Ms. Ahern testified that both ratemaking and the cost of capital are prospective, therefore, it is inappropriate to use historical yields as the risk-free rate in a CAPM analysis. The appropriate yield to use as the risk-free rate is the prospective yield on long-term U. S. Treasury notes.

Third, Ms. Ahern stated that increasing the number of observations in a regression generally increases the reliability of the resulting regression coefficients, including beta. Too many observations especially of daily stock price data, can introduce distortion into the regression, actually decreasing the reliability of the regression coefficients. Ms. Ahern explained that Mr. Kaufman implied that his use of different sources of beta is necessary because Value Line's betas appear biased upward. Ms. Ahern testified that beta is the slope coefficient of an ordinary least squares (OLS) regression of individual company market prices relative to a total market index.

Finally, Ms. Ahern discussed Mr. Kaufman's failure to also apply the empirical CAPM to account for the fact that the Security Market Line (SML) as described by the traditional CAPM is not as steeply sloped as the predicted SML. Ms. Ahern updated her cost of common equity to 11.40% by applying the same four cost of common equity models in an identical manner as in her direct testimony using current market data. Ms. Ahern updated her overall rate of return to 8.6%.

4. Settlement Agreement. The parties offered their Settlement Agreement, which resolved all issues in this Cause. A copy of the Settlement Agreement is attached to this order.

a. Test Year. As approved by the presiding officers in their December 20, 2006 docket entry, the Settlement Agreement reflects the parties' use of a cut-off date for determining Twin Lakes' rate base of June 30, 2006, and a test year ending December 31, 2006, with adjustments reflecting changes in Twin Lakes' operations in 2007 that are fixed, known, and measurable.

b. Rate Base. The parties agreed to an original cost less depreciation rate base for each utility, which they agreed is $2,180,964 for the water assets and $6,049,672 for the sewer assets.

c. Cost of Capital. There was no disagreement among the parties in their prefiled testimony that Twin Lakes' cost of long-term debt is 6.58%, or that such debt comprised 58.11% of Twin Lakes' capital structure. *Compare* Schedule 1, Page 1 of 18 from Petitioner's Schedule. PMA-1 to Schedule 5 of the OUCC's Exhibit No. 1. The Settlement Agreement reflects the parties' agreement for settlement purposes only that Twin Lakes' cost of common equity is to be 10.15%. This results in the following weighted cost of capital to be used in this case for rate making purposes:

Class of Capital	Percent of total	Cost	Weighted Cost
Common Equity	41.89%	10.15%	4.25%
Long-Term Debt	58.11%	6.58%	3.82%
	100%		8.07%

d. Approved Return. The Settlement Agreement provides that Twin Lakes should be authorized to earn an 8.07% return on its original cost, depreciated, (1) water utility rate base of $2,180,964 and (2) sewer utility rate base of $6,049,672. Under the Settlement Agreement, the net operating income shall be $176,004 in the case of Twin Lakes' water utility and $488,209 in the case of Twin Lakes' sewer utility.

e. Revenue Adjustments Under Current Rates. As shown in Settlement Schedule 7 of the parties' settlement, the parties agreed that two categories of adjustments should be applied to Twin Lakes test year revenues under current rates. First, they agreed upon a customer normalization increase of $1,636 for the water utility and a decrease of $20,613 for the sewer utility. Second, they agreed to add $1,040 to water revenues and $1,933 to sewer revenues for customer growth from the end of the test year through the rate base cut-off of December 31, 2006.

f. Expense Adjustments. The four-page Schedule 8 of the parties' Settlement Agreement contains the details for 13 proposed adjustments to Twin Lakes' operations and maintenance expenses during the test year. These 13 categories included wages, payroll tax, employee benefits, bad debt, rate case amortization, depreciation, amortization of contributions in aid of construction ("CIAC"), utility receipts and federal and state income taxes.

g. Depreciation Rates. Twin Lakes accepted as part of the Settlement Agreement the OUCC's position that one composite rate should apply to all of Twin Lakes' depreciable utility assets in service. The parties agreed that that rate should be 2.0% for all water plant and, consistent with this Commission's current standard depreciation rate, 2.5% for all sewer plant. Based upon these depreciation rates, *pro forma* annual depreciation expense was $299,003 for the sewer utility and $107,050 for the water utility.

h. Amortization of CIAC. Twin Lakes accepted as part of the Settlement Agreement the OUCC's position with respect to amortization of CIAC.

i. Return Under Current Rates. The Settlement Agreement provides that Twin Lakes should be allowed to increase its water rates $198,485 and its sewer rates $67,463. The resulting rates as agreed upon in the Settlement Agreement, reflecting a 24.02% increase in water rates and a 4.52% increase in sewer rates.[1]

5. **Service Quality Issues.** At the field hearing, customers offered verbal testimony critical of aspects of Twin Lakes' service since its last rate case. Some of these customers, as well as other customers, also submitted written and/or visual evidence describing discharges of untreated sewage, including pictures purporting to represent instances of discharges into the Intervenor's lakes, and backups into customer's basements. These concerns were also raised within the Intervenor's pre-settlement testimony.

Paragraphs 5 through 7 of the Settlement Agreement reflect the parties' resolution of the Intervenor's issues. Of greatest concern to the Commission and the Intervenor, as well as to Twin Lakes and the OUCC, have been instances of sewer discharges from manhole #307. While Twin Lakes' ongoing investments have reduced the instances of sewer discharges in the rest of its system, such that during the 22 months from August, 2003 until June, 2005, there were no reported instances of sewer discharges, Twin Lakes has committed to making further investment intended to eliminate during normal operating conditions discharges from manhole #307 and the nearby manhole #306. The Settlement Agreement also calls for Twin Lakes to pay $5,000.00 to the Intervenor, spread over two years, for purposes of re-stocking with fish one or more of the lakes within the Intervenor's subdivision.

6. **Discussion and Findings.** Pursuant to the Commission's procedural rules, and prior determinations by this Commission, a settlement agreement will not be approved by the Commission unless it is supported by probative evidence. 170 IAC 1-1.1-17. Settlements presented to the Commission are not ordinary contracts between private parties. *United States Gypsum, Inc. v. Indiana Gas Co.*, 735 N.E.2d 790, 803 (Ind. 2000). Any settlement agreement that is approved by the Commission "loses its status as a strictly private contract and takes on a public interest gloss." *Id.* (quoting *Citizens Action Coalition v. PSI Energy, Inc.*, 664 N.E.2d 401, 406 (Ind. Ct. App. 1996)). Thus, the Commission "may not accept a settlement merely because the private parties are satisfied; rather [the Commission] must consider whether the public interest will be served by accepting the settlement." *Citizens Action Coalition*, 664 N.E.2d at 406.

[1] The water rate increase was calculated using the incorrect gross revenue conversion factor. *See* Note 4, *infra*.

Furthermore, any Commission decision, ruling or order - including the approval of a settlement - must be supported by specific findings of fact and sufficient evidence. *United States Gypsum*, 735 N.E.2d 790 at 795 (citing *Citizens Action Coalition v. Public Service Co.*, 582 N.E.2d 330, 331 (Ind. 1991)). Therefore, before the Commission can approve the Settlement Agreement, we must determine whether the evidence in this Cause sufficiently supports the conclusion that the Settlement Agreement serves the public interest.

Before addressing the issues raised in the present Cause, we will provide the background of Twin Lake's past rate cases. On April 17, 1991, the Commission, in Cause No. 39050, approved 23.14% and 64.84% increases to Twin Lake's water and sewer rates, respectively. The Commission also noted that while there was little dispute as to the rate increases, "there was extensive evidence concerning service problems allegedly incurred by Petitioner's customers." *In re Petition of Twin Lakes Utilities, Inc.*, Cause No. 39050, 1991 PUC Lexis 128, at *34 (Apr. 17, 1991). Accordingly, the Commission required Twin Lakes to conduct an engineering study of its sewer system and establish a preventative maintenance program to periodically check the sewer system for damage and infiltration. The Commission also found that Petitioner's cleaning program whereby Petitioner would clean ten percent of its sewer system annually was "not adequate," and that the sewer system deficiencies noted in the 1990 Pitometer smoke testing report should be "immediately corrected." *Id.* at *57.

Most recently,[2] in Cause No. 42488 (Mar. 31, 2004) ("2004 Order"), the Commission approved a Settlement Agreement between the parties that are involved in the present case. In that case, the Commission approved a settlement that provided a 9.07% and 40.89% increases to Petitioner's water and sewer rates, respectively. In addition, Petitioner committed to spend $500,000 on an inflow and infiltration remediation program through 2007, "to further diagnose and remediate residual instances of inflow and infiltration (I&I) into its sewer system, as warranted." 2004 Order at 4. In its Order, the Commission noted that customers complained of sewer discharges that had been ongoing since its prior rate case.

A. CIAC Adjustment. Before addressing the service quality issues that have been raised in this Cause, we first address the proposed treatment of CIAC. The OUCC proposed, and Petitioner accepted, an adjustment to amortize CIAC. This adjustment consisted of two components: the amortized CIAC expense reduced Petitioner's depreciation expense on its income statement; and Petitioner's rate base increased by $475,043 for water and $856,802 for sewer as "accumulated amortization of CIAC."

The Commission has addressed the issue of amortizing CIAC on several occasions, most recently in *Petition of Indiana-American Water Co.*, Cause No. 42520, at 91-93 (Nov. 18, 2004). As the Commission explained in that Order, Indiana's current policy of allowing depreciation on CIAC is consistent with the broader goals of Indiana Code Section 8-1-2-19. In *Indiana-American*, the Commission declined to adopt the OUCC's position to amortize CIAC, although the Commission did recognize that amortizing CIAC may be considered for a troubled utility or

[2] Twin Lakes also sought a rate increase in 1992, which was limited to its water rates. *See In re Petition of Twin Lakes Utilities, Inc.*, Cause No. 39573, 1993 PUC Lexis 106 (Mar. 10, 1993).

utilities with small rate base. However, at the hearing in this Cause, Ms. Gemmecke stated that those concerns are not present with Petitioner.

The Presiding Officers also questioned Ms. Gemmecke concerning the proposed "accumulated amortization of CIAC," which provides a nearly $1.3 million dollar increase to the combined water/sewer rate base of Twin Lakes. Although she described this increase to rate base as a remedy for "intergenerational inequities," we are not convinced that this proposed treatment does not constitute retroactive ratemaking. Typically, when CIAC is amortized, the amortized amount reduces the revenue requirement. At the same time, the same amount is added into rate base. Over time, the amount added to rate base will accumulate and offset, to some extent, CIAC. The Settlement Agreement's treatment of CIAC, and specifically, the $1.3 million of accumulated amortization, in essence gives Petitioner over eleven years worth of amortized CIAC at once. At the same time, Twin Lakes' customers have not received the benefit of amortized CIAC, through a reduction of the revenue necessary, for the past eleven years.

Accordingly, the Commission does not accept this aspect of the Settlement Agreement. Petitioner indicated in its response to July 10, 2007 Docket Entry that it would not have accepted the OUCC's proposed treatment of CIAC absent the provision of accumulated amortization. As we stated in the *Indiana-American* Order, we are not averse to reconsidering our existing policy after careful consideration. However, even without the accumulated amortization, the evidence of record does not convince us to depart from our long-standing policy on CIAC depreciation in this Cause.

B. Rate Base and Revenue Requirement. With these changes, Petitioner's rate base is shown in the following table:

Rate Base

Description	Water	Sewer
Utility Plant in Service as of 6/30/06	$ 5,113,324	$11,649,676
UPIS items added 7/1/06 - 12/31/06	209,419	382,124
Less: Accumulated Depreciation	(1,200,765)	(2,652,667)
Net Utility Plant in Service	4,121,978	9,379,133
Add: Capital items added 7/1/06 - 12-31-06 net of retirements (not posted to books)	121,069	77,907
Accumulated Amortization of CIAC	-	-
Less: Additional Depr. through 12/31/06 (6 mos)	(53,525)	(149,502)
Contributions in Aid of Construction	(2,061,761)	(3,734,590)
Deferred Income Taxes	(430,947)	(389,717)

	Unamortized Income Tax Credits	(41,863)	(41,050)
	Customer Deposits	(765)	(750)
		1,654,186	5,141,431
Add:	Working Capital	51,735	51,439
Total Rate Base		$ 1,705,921	$ 5,192,870

The pro-forma revenue and expense amounts are shown in the table below:[3]

	Water	Sewer
Revenues Residential	$984,778	$1,504,852
Revenues Commercial	15,878	55,467
Late Fees	9,552	8,048
Miscellaneous Revenues	(18)	(17)
Connection Meter Fees	227	223
New Customer Charge	3,282	3,218
NSF Charge	121	119
Cut-off Charge	290	285
Total Operating Revenues	1,014,110	1,572,195
Operations and Maintenance	485,981	466,123
Bad Debt Expense	5,802	9,027
Taxes Other Than Income:		
IURC Fee	1,077	1,648
Property and other general tax	94,625	92,789
Real Estate Tax	10,015	9,820
Personal Property Tax	109,482	107,357
Utility Receipts Tax	14,109	21,878
Franchise Tax (SOS report)	2	2
Depreciation	107,050	299,003
Amortization of CIAC		
Amortized Investment Tax Credit	(567)	(1,304)
Income Taxes – Federal	37,350	113,692
Income Taxes – State	11,516	33,095
Total Operating Expenses	876,442	1,153,130
Net Operating Income	$137,668	$419,065

[3] In addition to the changes that result from the disallowance of the Amortization of CIAC, the deduction for "Taxes Other Than Income (other than URT)" in the sewer tax calculation was changed to $211,536 from $222,547. This change was made because it was apparent that the Utility Receipts Tax (URT) was included in the $222,547 total Taxes Other Than Income in the Settlement Schedules when it should have been excluded, while the Real Estate Tax amount of $9,820 was not included in the total for Taxes Other Than Income but should have been.

Petitioner's revenue requirement is calculated as follows:[4]

	Revenue Requirement	
	Water	Sewer
	$	$
Original Cost Rate Base	1,705,921	5,192,870
Times: Weighted Cost of Capital	8.07%	8.07%
Net Operating Income Required	137,668	419,065
Less: Adjusted Net Operating Income	(29,113)	(374,660)
Additional NOI Required	108,555	44,405
Gross Revenue Conversion Factor	1.6933	1.6933
	$	
Recommended Revenue Increase	183,811	75,189
Percent Increase	22.24%	5.04%

The billing impact for a residential customer on a 5/8 inch meter, based on 13,500 gallons of usage bimonthly for water utility customers, is shown on the following table:

	Water (13,500 gallons)	Sewer (flat rate)
Current bimonthly charge	$43.74	$80.53
New bimonthly charge	$53.47	$84.59

C. Service Quality. The Commission remains concerned with the overflow problems Petitioner has experienced with its sewer system. The Commission first addressed these problems in Cause No. 39050, 1991 Ind. PUC Lexis 128 (Apr. 17, 1991) ("1991 Order"). In that Cause, we noted the infiltration problems with the sewer system resulted in overflows from manholes and sewage backups into basements. As a result, we ordered Petitioner to undertake an engineering study of its sewer system and develop a preventative maintenance plan to periodically check the entire sewer system for "damage, water infiltration, cracks, leaks and settling of pipes." 1991 Order at *57.

In Petitioner's last rate case in Cause No. 42488 (Mar. 31, 2004) ("2004 Order"), the Commission approved a settlement by which Petitioner committed to invest $500,000 into its sewer system to remedy infiltration problems. We stated that the "installation of a new sewer

[4] The settlement schedules for the water utility reflected "Additional NOI Required" of $114,800 multiplied by the "Gross Revenue Conversion Factor" of "1.6933." However, the actual gross revenue conversion factor used in the settlement schedules calculation was 1.72896. The revenue increase calculation in the Order used a Gross Revenue Conversion Factor of 1.6933.

force main in August, 2003, is anticipated to significantly reduce if not eliminate such discharges." 2004 Order at 4. As part of the settlement approved in the 2004 Order, Petitioner committed to submit quarterly reports as to its progress in addressing the infiltration problems.

In this Cause, Petitioner again is facing continuing infiltration problems, resulting in surcharging manholes, sewer backups into resident's basements, and untreated sewage flowing into nearby waterways. While the Settlement Agreement calls for the remediation of two manholes, "Twin Lakes continues to face the fact that much of its system is still comprised of transite pipe that is prone to failure with age..." Petitioner's Verified Response to Docket Entry Questions, at 2. The 1992 Engineering Study recommended the installation of flow monitoring devices "[i]f problems associated with inflow and infiltration persist following manhole repair," and that "[a]reas requiring attention are easily identified from the flow information obtained." Petitioner's Ex. 8 at 13. Petitioner further stated "that all the repairs called for in the 1992 engineering study have been made." Petitioner's Verified Response to Docket Entry Questions, at 2. It is unclear why Petitioner has been unable to resolve the continued problem of infiltration in the fifteen years following the 1992 study, two Orders from this Commission specifically addressing this problem, and a significant amount of resources Petitioner has devoted to this issue.

Accordingly, the Commission establishes a subdocket proceeding to address the continued infiltration problems with Petitioner's sewer system, pursuant to Indiana Code Section 8-1-2-58. The subdocket shall be assigned Cause Number 43128 S1 and captioned as follows: "IN THE MATTER OF THE COMMISSION'S INVESTIGATION OF TWIN LAKES UTILITIES, INC.'S SEWER SYSTEM INFLOW AND INFILTRATION." While the Commission is fully aware that the planned remediation of Manhole #307 should address the surcharge issues, it appears Petitioner's transite pipe is a significant contributor to the underlying infiltration problems. Twin Lakes acknowledged as much in its July 16, 2007 *Verified Responses to Docket Entry Questions*: "Twin Lakes continues to face the fact that much of its system is still comprised of transite pipe that is prone to failure with age." It is apparent that Twin Lakes must take a more active role in addressing the infiltration problem rather than what has historically occurred through attempts to remedy problems following significant customer complaints. The purpose of the subdocket will be to examine the appropriateness of prioritizing the replacement of transite pipe based on the flow data from flow monitoring devices discussed in the 1992 Engineering Study. If that data is not available, the subdocket shall examine an appropriate timeframe for the installation of flow monitoring devices or other monitoring activities and a timeframe for collecting data that would demonstrate the areas in which infiltration is occurring. In addition, the subdocket will address whether an increase in the current cleaning schedule of its sewer system, on a percentage of system cleaned per year, would be appropriate.

Finally, although we find that Petitioner's sewer revenues should increase by 5.04%, Petitioner shall not implement its sewer rate increase until it completes the remediation project with respect to Manhole #307, which is the surcharging manhole depicted in the photographs submitted to the Commission at the field hearing and in Intervenor's case-in-chief. This should provide Petitioner additional incentive to quickly address the overflows associated with that manhole, and is appropriate given the service problems Petitioner's customers have faced.

D. Approval of Settlement Agreement. With the modifications noted herein, the Commission finds that the terms of the Settlement Agreement are generally reasonable, supported by the evidence of record, and are in the public interest. With regard to future citation of the Settlement Agreement, we find the Settlement Agreement and our approval of it should be treated in a manner consistent with our finding in *Richmond Power & Light*, Cause No. 40434 (Mar. 19, 1997) and the terms of the Settlement Agreement regarding its non-precedential effect. The Settlement Agreement shall not constitute an admission or a waiver of any position that any of the parties may take with respect to any or all of the items and issues resolved therein in any future regulatory or other proceedings, except to the extent necessary to enforce its terms.

IT IS, THEREFORE, ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. The Settlement Agreement attached hereto is approved as modified herein.

2. Twin Lakes shall be allowed to increase its water rates by 22.24% on an across-the-board basis. Prior to placing these rates into effect, Petitioner shall file a revised tariff with the Commission's Water/Sewer Division. These rates are effective for applicable water service on and after Water/Sewer Division approval of the tariff.

3. Upon filing, in this Cause, a verified statement that the remediation project for Manhole #307 is completed, Twin Lakes shall be allowed to increase its sewer rates by 5.04% on an across-the-board basis. Prior to placing these rates into effect, Petitioner shall file a revised tariff with the Commission's Water/Sewer Division. These rates are effective for applicable sewer service on and after Water/Sewer Division approval of the tariff.

4. A subdocket is hereby established to address the inflow and infiltration issues associated with Petitioner's sewer system. In order to address procedural matters and the information that is available or should be obtained, the Commission shall conduct a Technical Conference at 1:30 on February 28, 2008, in Room 222, National City Center, Indianapolis, Indiana. Appropriate staff should be present to participate in the discussion.

5. This Order shall be effective on and after the date of its approval.

GOLC, LANDIS, AND SERVER CONCUR; HARDY AND ZIEGNER ABSENT:

APPROVED: JAN 16 2008

I hereby certify that the above is a true and correct copy of the Order as approved.

Brenda Howe

Brenda Howe,
Secretary to the Commission

ORIGINAL

AS

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

FILED

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INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF TWIN LAKES UTILITIES, INC. FOR AN INCREASE IN ITS RATES AND CHARGES FOR WATER AND WASTEWATER UTILITY SERVICE	)))))	CAUSE NO. 43128

SETTLEMENT AGREEMENT

The undersigned parties ("Parties"), in compromise and settlement of the issues in this Cause, enter into this settlement agreement ("Settlement"), pursuant to which they agree that:

1. Water Utility Income under Current Rates. Petitioner's pro forma water utility operating revenue was $830,300 under current rates. Operating and Maintenance Expense, including bad debts expense and after pro forma adjustments was $491,868. Taxes other than Income Tax, including property tax, IURC fee, and utility receipts tax totaled $226,566. Depreciation, net of amortization of Contributions in Aid of Construction was $65,815. Amortization of Investment Tax Credit was $(567). Federal and state income tax expense was $(11,389) and $(2,039) respectively. This resulted in total pro forma operating expenses under current rates of $769,095 and a net operating income of $61,204 as shown in the schedules attached hereto as Appendix A.

2. Agreed Water Rate Increase. Petitioner should be authorized to revise its water utility rates to produce $176,004 of net operating income, which will require $198,485 of additional water utility operating revenues over test year proforma revenues, a 24.02% increase in water utility revenues. The increase, computed as shown in Appendix A, is based on an original cost depreciated water utility rate base of $2,180,964 and a rate of return of 8.07%, reflecting a 10.15% cost of equity and a 6.58% cost of long term debt. The $114,800 difference

between proforma net operating income under present rates of $61,204 and Petitioner's authorized operating income of $176,004 was converted to a revenue increase by using a revenue conversion factor of 1.6933, as shown on Sch. 1W of Appendix A. The water rate increase authorized should be across the board by an equal percentage to all customers.

3. Sewer Utility Revenue and Expense under Current Rates. Petitioner's pro forma sewer utility operating revenue was $1,497,005 under current rates. Operating and Maintenance Expense, including bad debts expense and after pro forma adjustments was $475,106. Taxes other than Income Tax, including property tax, IURC fee, and utility receipts tax totaled $233,378. Depreciation, net of amortization of Contributions in Aid of Construction was $205,639. Amortization of Investment Tax Credit was $(1,304). Federal and state income tax expense was $106,255 and $30,966 respectively. This resulted in total pro forma operating expenses under current rates of $1,048,638 and a net operating income of $448,367 as shown in the schedules attached hereto as Appendix A.

4. Agreed Sewer Rate Increase. Petitioner should be authorized to revise its sewer rates to produce $488,209 of net operating income, which will require $67,463 of additional sewer utility operating revenues over test year revenues, a 4.52% increase in total sewer operating revenues. This increase, as shown in Appendix A, is based on a sewer utility rate base of $6,049,672 and a rate of return of 8.07%, reflecting a 10.15% cost of equity and a 6.58% cost of long term debt. The proforma net operating income difference of $39,842 was converted to a revenue increase by using a revenue conversion factor of 1.6933. See Sch. 1S of Appendix A. The sewer rate increase authorized should be across the board by an equal percentage to all customers. Petitioner should also continue to use its present billing methodology rather than convert to a volumetric billing methodology based on water

consumption. Petitioner agrees that as part of its next general rate case, Petitioner shall provide a study to support a volumetric rate for sewer service for consideration by the Commission.

5. Remediation of Sewer Discharges. Petitioner recognizes an ongoing problem of sewer discharges from two of the manholes on its system, Nos. 306 and 307, within the Lakes of the Four Seasons subdivision. Petitioner has engaged engineers to study this problem and design a solution ("Remediation Project"), toward the end that discharges from these manholes will be eliminated during normal operating conditions. Normal operating conditions do not include, among other things, grease or any other foreign objects causing obstructions in any of the lines leading to these manholes. Twin Lakes has agreed to complete the design of the Remediation Project and file for construction permit(s) with the Indiana Department of Environmental Management by February 28, 2008, with the bidding process expected to be completed within sixty days of Twin Lakes' receipt of all necessary permits for the Remediation Project. Twin Lakes has acknowledged that time is of the essence and agrees to proceed with due diligence in order to complete the Remediation Project by December 31, 2008. To the extent matters beyond Twin Lakes' control cause a delay in the permitting and/or construction of the Remediation Project, then the December 31, 2008, completion date would be extended accordingly.

6. Subsequent Rate Relief. Twin Lakes agrees that, if it initiates a general request to increase its sewer rates in another case prior to completion of the Remediation Project and after implementing the rate adjustment called for in the Parties' settlement of the instant cause then higher sewer rates resulting from such a subsequent rate case would not take effect until completion of the Remediation Project. The Remediation Project will be considered complete upon inspection by Twin Lakes and release from construction to operations.

7. Restocking of Lakes. Twin Lakes agrees to make two payments of $2,500.00 each to the Lakes of the Four Seasons Property Owners' Association ("LOFS"), with the first payment to be made within thirty days of the issuance by the Indiana Utility Regulatory Commission of a final order accepting the Parties' settlement of this cause, and the second payment to be made within twelve months of the first payment, for a total payment amount of $5,000.00. LOFS agrees to use these payments to restock with fish one or more lakes within the LOFS subdivision.

8. Remedy for Breach. Should LOFS conclude that Petitioner is in breach of this Settlement, LOFS may seek redress from either a court of general jurisdiction or the Indiana Utility Regulatory Commission for such alleged breach.

9. Support for Settlement. The Parties agree that this Settlement is in the public interest and that the Indiana Utility Regulatory Commission ("Commission") should enter in the form proposed by the Parties a final order approving this Settlement. The testimony and exhibits prefiled in this Cause, along with the prefiled settlement testimony accompanying this Settlement, constitute sufficient evidence to support this Settlement, and such testimony and this Settlement should be admitted into evidence. The Parties hereby waive cross-examination of the witnesses giving such testimony.

10. Non-Precedential Effect. This Settlement is entered into solely for purposes of this cause and shall not be cited by any Party against another Party in any future proceeding other than for the purpose of enforcing the terms of this Settlement.

11. Commission Approval of Settlement. If the Commission does not approve this Settlement without a material change unacceptable to the Parties, this Settlement shall be null and void.

Entered into as of the 3d day of July, 2007.

OFFICE OF UTILITY CONSUMER COUNSELOR

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TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128

OUCC's Revenue Requirement
Water

Description:	Supplemental Petitioner	Per OUCC	Per Settlement	Schedule Reference
Original Cost Rate Base	$1,858,593	$2,178,679	$2,180,964	4W
Times: Weighted Cost of Capital	8.64%	7.65%	8.07%	5
Net Operating Income Required	160,582	166,669	176,004	
Less: Adjusted Net Operating Income	(53,163)	72,211	61,204	6W
Amount to Balance to Petitioner's numbers	17			
Additional NOI Required	213,762	94,457	114,800	
Gross Revenue Conversion Factor	1.81730	1.6933	1.6933	1W
Recommended Revenue Increase	$388,470	$164,041	$198,485	
Petitioner's Calculated Percentage Increase (data request #44)	48.36%			
OUCC Percentage Increase - Calculated	48.30%	19.85%	24.02%	

Rate Impact - 13,500 gallons bimonthly:	Supplemental Petitioner	OUCC	Settlement
Current	$64.89	$52.42	$54.24
Avg. per month	$32.44	$26.21	$27.12

Gross Revenue Conversion Factor

	Description	Proposed Rates By Petitioner	Supplemental Petitioner	Factor Proposed By OUCC	Proposed Rates By OUCC	Proposed Rates Settlement
1	Gross Revenue Change	$364,493	$388,470	100.0000%	$164,041	$198,485
2	Bad Debts Charge	2,104	2,242	0.5788%	949	1,149
3	Subtotal			99.4212%		
4	IURC Fee (2007 Fiscal Year Ending) 0.1062098%	387	413	0.1062%	174	211
5	Subtotal			99.3150%		
6	State Utility Receipts Tax (1.4% of line 3)	5,073	5,407	1.3919%	2,283	2,763
7	Subtotal			97.9231%		
8	State Adjusted Gross Receipts Tax (8.5%of line 5)	30,341	32,336	8.4418%	13,848	16,756
	Utility/Commission Tax (Pet. w/p [e]) (3.4% of line 7)	12,136				
	Unknown amount to balance (approx. 8% of revenue increase)		31,165			
9	Subtotal			89.4814%		
10	Federal Income Tax (at 34%)	106,925	113,959	30.4237%	49,907	60,387
11	Change In Operating Income	$207,527	$213,763	59.0577%	$96,879	$117,221
12	Gross Revenue Conversion Factor			1.6933		

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128
WATER
Reconciliation of Net Operating Income Statement Adjustments

Description:	Supplemental Petitioner	Per OUCC	Per Settlement
Operating Revenues:			
Water Revenues - Residential	$1,636	$2,677	$2,677
Total Operating Revenue	1,636	2,677	2,677
Operating Expenses:			
Salaries & Wages	66,704	6,172	8,195
New employees allocated w/taxes and benefits			14,343
Payroll Taxes	4,935	512	907
Employee Benefits	6,368	0	0
Operating Exp chgd to Plant	247	(677)	(837)
Consumer Price Index Increase	10,088	0	0
Amortization of Rate Case Expense	1,687	(12,287)	(10,604)
Meter Reading Allocation		(6,709)	(6,709)
Bad Debts Expense		91	91
IURC Fee		3	3
Utility Receipts Tax		(25,055)	(25,055)
Depreciation	18,104	(9,873)	(9,873)
Amortization of Contributions in Aid of Construction	0	(41,235)	(41,235)
Income Taxes - Federal	(111,638)	(53,314)	(59,029)
Income Taxes - State	(38,969)	(21,960)	(23,522)
Total Operating Expense	(42,474)	(164,332)	(153,325)
Total Net Operating Income Adjustments	$44,110	$167,009	$156,002

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128

OUCC's Revenue Requirement
Sewer

Description:	Supplemental Petitioner	Per OUCC	Per Settlement	Sch Ref
Original Cost Rate Base	$5,530,819	$6,071,559	$6,049,672	4S
Times: Weighted Cost of Capital	8.64%	7.65%	8.07%	5
Net Operating Income Required	477,863	464,474	488,209	
Less: Adjusted Net Operating Income	322,148	478,392	448,367	6S
Amount to Balance to Petitioner's numbers	115	0	0	
Additional NOI Required	155,830	(13,917)	39,842	
Times: Gross Revenue Conversion Factor	1.75630	1.6933	1.6933	1S
Recommended Revenue Increase	$273,684	($23,566)	$67,463	
Petitioner's Calculated Percentage Increase (data request #44)	19.73%			
OUCC Percentage Increase - Calculated		-1.58%	4.52%	
Percentage Increase Requested	19.73%	-1.58%	4.52%	

Rate Impact	Current	Supplemental Petitioner	Per OUCC	Per Settlement
Residential (Flat Rate - bimonthly)	80.53	$96.42		$84.17
Commercial	200% of Water bill			
13,500 bi-monthly gallons			$78.55	

Gross Revenue Conversion Factor

	Description		Proposed Rates By Petitioner	Supplemental Petitioner	Factor Proposed By OUCC	Proposed Rates By OUCC	Proposed Rates Settlement
1	Gross Revenue Change		$253,217	$273,684	100.0000%	($23,566)	$67,463
2	Bad Debts Charge		1,462	1,580	0.5784%	(136)	390
3	Subtotal				99.4216%		
4	IURC Fee (2007 Fiscal Year Ending)	0.1062%	269	291	0.1062%	(25)	72
5	Subtotal				99.3154%		
6	State Utility Receipts Tax (1.4% of line 3)		$3,524.58	3,809	1.3919%	(328)	939
7	Subtotal				97.9235%		
8	State Adjusted Gross Receipts Tax (8.5%of line 5)		$21,076.79	22,780	8.4418%	(1,989)	5,695
	Utility/Commission Tax (Pet. w/p [e]) (3.4% of line 7)		$8,430.72	9,112			
	Unknown amount to balance (approx. 8% of revenue increase)						
9	Subtotal				89.4817%		
10	Federal Income Tax (at 34%)		$74,274.61	80,278	30.4238%	(7,170)	20,525
11	Change In Operating Income				59.0579%	($13,917)	$39,842
12	Gross Revenue Conversion Factor				1.6933		

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128
Sewer
Reconciliation of Net Operating Income Statement Adjustments

Description:	Supplemental Petitioner	Per OUCC	Per Settlement
Operating Revenues:			
Sewer Revenues - Residential	($20,613)	($18,680)	($18,680)
Total Operating Revenue	(20,613)	(18,680)	(18,680)
Operating Expenses:			
Salaries & Wages	65,434	6,053	6,493
New employees allocated w/taxes and benefits			14,064
Payroll Taxes	4,841	502	771
Employee Benefits	6,249	0	0
Operating Expense chgd to Plant	242	(664)	(820)
Consumer Price Index Increase	8,431	0	0
Amortization of Rate Case Expense	1,655	(12,049)	(10,399)
Meter Reading Allocation		6,709	6,709
Bad Debts Expense		197	197
IURC Fee		(20)	(20)
Utility Receipts Tax		(45,302)	(45,302)
Depreciation	21,352	(6,543)	41,297
Amortization of CIAC		(78,426)	(93,365)
Income Taxes - Federal	(26,481)	35,224	20,188
Income Taxes - State	(22,998)	(3,738)	(7,847)
Total Operating Expense	58,725	(98,058)	(68,033)
Total Net Operating Income Adjustments	($79,338)	$79,378	$49,353

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128

Balance Sheet as of June 30, 2006

Assets and Other Debits:			
Fixed Assets:	Water	Sewer	Combined
Utility Plant In Service	$5,113,324	$11,649,676	$16,763,000
Less: Accumulated Depreciation	1,200,765	2,652,667	3,853,432
Net Utility Plant In Service	3,912,559	8,997,009	12,909,568
Acquisition Adjustment	0	0	0
Accum. Amortization of Acquisition Adj.	0	0	0
Construction Work In Progress	38,805	225	39,030
Total Utility Plant In Service	3,951,364	8,997,234	12,948,598
Abandoned Plant			0
Total Plant	3,951,364	8,997,234	12,948,598
Other Assets and Investments	0	0	0
Current and Accrued Assets:			
Cash and Cash Equivalents			265
Accounts Receivable			423,487
Accounts Receivable - Other			
Amortizable Expenses			
Inventory			
Prepaid Taxes			
Total Current and Accrued Assets	0	0	423,752
Deferred Debits:			
Deferred Rate Case Expense (net of Amc	19,698	19,316	39,014
Deferred Tank Mtnce Exp (Net of Amort	86,945		86,945
Deferred Jetting Sewer Mains (Net of Amort)		6,723	6,723
Total Assets and Other Debits	$4,058,007	$9,023,273	$13,505,032

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128

Balance Sheet as of June 30, 2006

Liabilities and Stockholders Equity:	Water	Sewer	Combined
Stockholders Equity:			
Common Stock			$ 7,139,647
Undistributed Earnings			5,575,650
Current Income			
Total Stockholders Equity			12,715,297
Long Term Debt			
Total Long Term Liabilities	-	-	-
Current and Accrued Liabilities:			
Accounts Payable			8,830
Accounts Payable -Assoc. Companies			(6,349,826)
Customer Deposits			1,515
Customer Deposits - interest			3,453
Accrued Taxes - Indiana Gross			
Accrued Property Taxes			427,439
Accrued Taxes - Indiana Sales Tax			
Accrued Taxes - Federal Income Tax			
Accrued Interest			
Total Current and Accrued Liabilities			(5,908,589)
Deferred Credits:			
Unamortized ITC			82,913
Deferred Tax - Federal			881,023
Deferred Tax - State			(52,852)
Total Deferred Credits			911,084
Contribution In Aid Of Construction - Water	2,058,911		2,058,911
Contribution In Aid Of Construction - Sewer		3,730,294	3,730,294
Total Liabilities and Stockholders Equity	$ -	$ 3,730,294	$ 13,506,997

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128

Income Statement For The Year Ended June 30, 2006

Operating Revenues:	Water	Sewer	Total
Water/Sewer Revenues Residential	$ 815,906	$1,504,196	$2,320,102
Water/Sewer Revenues Commercial			0
Late Fees	7,814	7,662	15,476
Miscellaneous Revenues	(18)	(17)	(35)
Connection Meter Fees	227	223	450
New Customer Charge	3,282	3,218	6,500
NSF Charge	121	119	240
Cut-off Charge	290	285	575
Total Operating Revenues	823,702	1,515,685	2,343,308
Operating Expenses:			
Salaries and Wages	154,311	$151,316	305,627
Payroll Taxes (from pet wkp [e] on taxes)	12,795	12,547	25,342
Pension & Other Benefits	28,057	27,513	55,570
Purchased Power	108,298	66,327	174,625
Maintenance & Repair	73,835	78,118	151,953
Maintenance Testing	8,134	33,366	41,500
Meter Reading	13,550	0	13,550
Chemicals	19,344	18,968	38,312
Transportation	24,134	23,665	47,799
Operating Expense charged to Plant	(19,758)	(19,375)	(39,133)
Outside Services - Other	7,787	7,636	15,423
Office Supplies & Other Office Expenses	13,869	13,600	27,469
Rent	133	130	263
Insurance	21,209	20,797	42,006
Office Utilities	8,008	7,853	15,861
Regulatory Commission Expense (42488 rate case amort)	22,894	22,449	45,343
Uncollectible Accounts	4,647	8,395	13,042
Miscellaneous	(15,914)	(15,605)	(31,519)
Total Operations and Maintenance Expenses	485,333	457,700	943,033
Depreciation	116,923	257,706	374,629
Amortization of CIAC	0	0	0
Net Operating Income Before Income Taxes	221,446	800,279	1,021,726
Taxes other than Income:			
Utility/Commission Tax	879	1,588	2,467
Property and other general taxes (Corp)	94,625	92,789	187,414
Real Estate Tax	10,015	9,820	19,835
Personal Property Tax	109,482	107,357	216,839
Utility Receipts Tax	36,606	66,133	102,739
Franchise Tax (SOS report)	2	2	4
Amortization of Investment tax credit	(567)	(1,304)	(1,871)
Income Taxes - Federal	47,640	86,067	133,707
Income Taxes - State	21,483	38,813	60,296
Total Operating Expenses	791,189	1,116,671	433,148
Net Income from operations	$ 32,513	$ 399,014	$431,527
Other Deductions:			
Interest during construction	303	696	999
Interest on Debt	83,215	191,852	275,067
Net Corporate Income	(51,005)	206,466	155,461

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128
Water
Calculation of Rate Base as of June 30, 2006
Updated Through December 31, 2006

	6/30/06 Petitioner	Supplemental Petitioner	OUCC	Settlement
Description:				
Utility Plant In Service as of 6/30/06	$5,113,324	$5,113,324	$5,113,324	$5,113,324
UPIS items added 7/1/06 - 12/31/06 posted to books		$209,419	$209,419	$209,419
Less: Accumulated Depreciation	1,200,765	1,200,765	1,200,765	1,200,765
Net Utility Plant in Service 6/30/06	3,912,559	$4,121,978	$4,121,978	$4,121,978
Add: Capital items Added 7/1/06 - 12/31/06 net of retirements (not posted to books)	90,311	121,069	121,069	121,069
Additions through March 2007 (General Ledger Addition	84,849	0		
Less: Additional Depreciation through 12/31/06 (6 months)	(32,519)	(39,896)	53,525	53,525
Contributions in Aid of Construction	2,058,911	2,061,761	2,061,761	2,061,761
Accumulated Amortization of CIAC			(475,043)	(475,043)
Deferred Income Taxes	434,749	430,948	430,947	430,947
Unamortized Income Tax Credits			41,863	41,863
Customer Deposits	765	765	765	765
Total Net Utility Plant In Service	1,625,813	1,789,469	2,129,229	2,129,229
Add: Working Capital (See Below)	68,749	69,124	49,449	51,735
Total Original Cost Rate Base	$1,694,562	$1,858,593	$2,178,679	$2,180,964

Working Capital Calculation

Description	Petitioner	OUCC	Settlement
Pro-forma Present Rate Operations and Maintenance Expense	$572,365	467,698	485,981
Less: Payroll Taxes	17,730	13,307	13,307
Less: Bad Debts (Uncollectable Accounts) Expense	4,647	4,647	4,647
Less: Purchased Power		54,149	54,149
Adjusted Operation and Maintenance Expense	549,988	395,595	413,879
Times: 45 day method	0.125	0.125	0.125
Working Capital Requirement	$68,749	$49,449	$51,735

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128
Sewer
Calculation of Rate Base as of June 30, 2006
Updated Through December 31, 2006

Description:	6/30/06 Petitioner	12/31/06 Petitioner	Per OUCC	Settlement
Utility Plant In Service as of 6/30/06	$11,649,676	$11,649,676	$11,649,676	$11,649,676
UPIS items added 7/1/06 - 12/31/06 posted to books		$382,124	$382,124	$382,124
Less: Accumulated Depreciation	2,652,667	2,652,667	2,652,667	2,652,667
Net Utility Plant in Service 6/30/06	8,997,009	9,379,133	9,379,133	9,379,133
Add: Capital items Added 7/1/06 - 12/31/06 net of retirements (not posted to books)	66,026	77,907	77,907	77,907
Additions through March 2007 (General Ledger Additions)	164,256	0		
Less: Additional Depreciation assets through 12/31/06 (6 months)	(248,854)	(133,990)	125,581	149,502
Contributions in Aid of Construction	3,730,294	3,734,590	3,734,590	3,734,590
Accumulated Amortization of CIAC			(856,802)	(856,802)
Deferred Income Taxes (69.18%)	393,422	389,717	389,717	389,717
Unamortized Income Tax Credits			41,050	41,050
Customer Deposits	750	750	750	750
Total Net Utility Plant In Service	5,351,679	5,465,973	6,022,153	5,998,233
Add: Working Capital (See Below)	64,846	64,846	49,406	51,439
Total Original Cost Rate Base	$5,416,525	$5,530,819	$6,071,559	$6,049,672

Working Capital Calculation

Description	Petitioner	OUCC	Settlement
Pro-forma Present Rate Operations and Maintenance Expense	$544,552	$449,856	$466,123
Less: Payroll Taxes	17,388	13,049	13,049
Less: Bad Debts (Uncollectable Accounts) Expense	8,395	8,395	8,395
Less: Purchased Power		33,164	33,164
Adjusted Operation and Maintenance Expense	518,769	395,248	411,516
Times: 45 day method	0.125	0.125	0.125
Working Capital Requirement	$64,846	$49,406	$51,439

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128

Capital Structure

Description	Amount	Percent of Total	Cost	Weighted Cost
Utilities, Inc. & Subsidiaries				
Common Equity	129,744,867	41.89%	10.15%	4.25%
Long Term Debt	180,000,000	58.11%	6.58%	3.82%
Total	309,744,867	100.00%		8.07%

Synchronized Interest Calculation
Water

Description:	As Of 12/31/2006
Total Original Cost Rate Base-See Sch. 4W	$2,180,964
Times: Weighted Cost of Debt	3.82%
Synchronized Interest Expense	$83,313

Synchronized Interest Calculation
Sewer

Description:	As Of 12/31/2006
Total Original Cost Rate Base-See Sch. 4S	$6,049,672
Times: Weighted Cost of Debt	3.82%
Synchronized Interest Expense	$231,097

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128
WATER
Pro-forma Net Operating Income Statement

Description:	Year Ending 6/30/06	Adjustments	Sch. Ref.	Pro-forma Present Rates	Adjustments	Sch. Ref.	Pro-forma Proposed Rates
Operating Revenues:							
Water Revenues Residential	$802,917	$1,636	7-1	$ 805,594	$193,489	1	$999,083
		$1,040	7-2				
Water Revenues Commercial	12,989			12,989	3,120	1	16,109
Late Fees	7,814			7,814	1,877	1	9,691
Miscellaneous Revenues	(18)			(18)			(18)
Connection Meter Fees	227			227			227
New Customer Charge	3,282			3,282			3,282
NSF Charge	121			121			121
Cut-off Charge	290			290			290
Total Operating Revenues	827,623	2,677		830,300	198,485		1,028,785
Operating Expenses:							
Operations and Maintenance	480,686			485,981			485,981
Salaries & Wages		8,195	8-1				
New employees allocated w/taxes and benefits		14,343	8-1(a)				
Payroll Taxes		907	8-2				
Employee Benefits		0	8-3				
Operating Exp chgd to Plant		(837)	8-4				
Amortization of Rate Case Expense		(10,604)	8-6				
Meter Reading		(6,709)	8-7				
Bad Debts Expense	4,647	91	8-5	4,738	1,149	1	5,886
Taxes other than Income:							
Utility/Commission Tax	879	3	8-7	882	211	1	1,093
Property and other general taxes (Corp)	94,625			94,625			94,625
Real Estate Tax	10,015			10,015			10,015
Personal Property Tax	109,482			109,482			109,482
Utility Receipts Tax	36,606	(25,055)	8-10	11,551	2,763	1	14,314
Franchise Tax (SOS report)	2			2			2
Depreciation	116,923	(9,873)	8-8	107,050			107,050
Amortization of CIAC	0	(41,235)	8-9	(41,235)			(41,235)
Amortized Investment Tax Credit	(567)			(567)			(567)
Income Taxes - Federal	47,640	(59,029)	8-11	(11,389)	60,387	1	48,997
Income Taxes - State	21,483	(23,522)	8-12	(2,039)	16,756	1	14,717
Total Operating Expenses	922,420	(153,325)		769,095	81,265		850,360
Net Operating Income	($94,797)	$156,002		$61,204	$117,221		$178,425

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128
SEWER
Pro-forma Net Operating Income Statement

Description:	Year Ending 6/30/2006	Adjustments	Sch. Ref.	Pro-forma Present Rates	Adjustments	Sch. Ref.	Pro-forma Proposed Rates
Operating Revenues:							
Sewer Revenues - Residential	$1,451,388	($20,613)	7-1	$ 1,432,708	$64,730	1	$1,497,438
		1,933	7-2				
Sewer Revenues - Commercial	52,808			52,808	2,386	1	55,194
Late Fees	7,662			7,662	346	1	8,008
Miscellaneous Revenues	(17)			(17)			(17)
Connection Meter Fees	223			223			223
New Customer Charge	3,218			3,218			3,218
NSF Charge	119			119			119
Cut-off Charge	285			285			285
Total Operating Revenues	1,515,685	(18,680)		1,497,005	67,463		1,564,468
Operating Expenses:							
Operations and Maintenance	449,305			466,123			466,123
Salaries & Wages		6,493	8-1				
New employees allocated w/taxes and benefits		14,064	8-1(a)				
Payroll Taxes		771	8-2				
Employee Benefits		0	8-3				
Operating Expense chgd to Plant		(820)	8-4				
Amortization of Rate Case Expense		(10,399)	8-6				
Meter Reading		6,709	8-7				
Bad Debts Expense	8,395	197	8-5	8,592	390	1	8,983
IURC Fee							
Taxes other than Income:							
Utility/Commission Tax	1,588	(20)	8-8	1,568	72	1	1,640
Property and other general taxes (what is this?)	92,789			92,789			92,789
Real Estate Tax	9,820			9,820			9,820
Personal Property Tax	107,357			107,357			107,357
Utility Receipts Tax	66,133	(45,302)	8-11	20,831	939	1	21,770
Franchise Tax (SOS report)	2			2			2
Depreciation	257,706	41,297	8-8	299,003			299,003
Amortization of CIAC	0	(93,365)	8-10	(93,365)			(93,365)
Amortized Investment Tax Credit	(1,304)			(1,304)			(1,304)
Income Taxes - Federal	86,067	20,188	8-12	106,255	20,525	1	126,779
Income Taxes - State	38,813	(7,847)	8-13	30,966	5,695	1	36,661
Total Operating Expenses	1,116,671	(68,033)		1,048,638	27,621		1,076,259
Net Operating Income	$399,014	$49,353		$448,367	$39,842		$488,209

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128

Revenue Adjustments

(1)
Customer Normalization

To adjust test year residential revenue for customer additions during the test year (7/1/05 - 6/30/06).

	Water	Sewer
Pro forma	$817,542	$1,483,583
Less Test Year (sch 2)	815,906	1,504,196
Adjustment - Increase	$1,636	($20,613)

(2)
Customer Growth Revenue Updated to December 31, 2006

To adjust for growth through December 31, 2006 (Source: Data Request Response)

Residential		Water	Sewer
Customers as of 12/31/06		3,070	3,058
Less Customers as of 06/30/06		3,066	3,054
Growth since test year		4	4
Times Average Bill (annual):			
Avg Bi-monthly usage (1,000 gallons)	13.33		
Bill for avg gallons (13.33 * 2.27)+13.09	$43.35		
Times Six billings per year	x 6		
Annual average residential - current price		$260.10	$483.18
Revenue Adjustment based on Fixed, Known, Measurable Growth		$1,040	$1,933

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128
WATER & SEWER
Expense Adjustments

(1)
Wages - Settlement

Based on Petitioner's requested salaries and wages in Cause 42488, adjusted for 4% wage increase each year.

	Alloc to Twin Lakes	50.49% Water	49.51% Sewer
From Petitioner's Request in 42488	$273,807	$138,911	$134,896
2004 - 4% increase	$284,759	144,467	140,292
2005 - 4% Increase	$296,150	150,246	145,904
2006 - 4% Increase	$307,996	156,256	151,740
2007 - 4% Increase	$320,315	162,506	157,809
Less: Test Year	$305,627	154,311	151,316
Adjustment	$14,688	8,195	6,493

(1a)
Additional Employees allocated

Salaries:	Before Allocation	Alloc to Twin Lakes	50.49% Water	49.51% Sewer
Administrative Assistant	$36,400			
Regional Director - Mid-west	67,600			
Taxes - FICA, FUTA, SUTA	8,446			
Insurance, Pension, Benefits	16,208			
Total	128,654			
Times Allocation % to Twin Lakes	22.08%			
New Employees costs as allocated		$28,407	14,343	14,064

(2)
Payroll Tax

To adjust payroll tax to *pro forma* levels. (Based on Adjustment 1 salaries as adjustment 1a includes payroll taxes.)

	Alloc. To Twin Lakes	50.49% Water	49.51% Sewer
Pro-Forma Salaries & wages	$320,315	$162,506	$157,809
times employer's FICA rate	7.65%	7.65%	7.65%
Pro forma FICA tax	$24,504	$12,432	$12,072
Plus: FUTA	421	$212	$208
Plus: SUTA	2,095	$1,058	$1,037
Pro Forma Payroll Taxes	$27,020	$13,702	$13,318
Less:Test Year Payroll Tax Expense	$25,342	$12,795	$12,547
Adjustment - Increase/(Decrease)	$1,678	$907	$771

(3)
Employee Benefits

Adjust benefits to *pro forma* amount

	Alloc. To Twin Lakes	Water 50.49%	Sewer 49.51%
Benefits allocated to water and sewer	$55,570	$28,057	$27,513
Less Test Year Expense	55,570	28,057	27,513
Adjustment to test year expense	$0	$0	$0

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128
WATER & SEWER
Expense Adjustments

(4)
Capitalized Payroll, Payroll Taxes and Benefits

Adjust Operating Expense for amount of payroll and payroll related expense items anticipated to be capitalized. (Based on capitalization ratios from test year)

Test year operating expense charged to plant in test year (Petitioner's schedule B, page 1 of 4 "Per Books")	($39,133)
Divide by test year salaries, taxes, and benefits (Petitioner's schedule B, page 1 of4 "Per Books")	386,539
Percentage of test year salaries, taxes and benefits that were capitalized.	-10.12%
Pro Forma salary, taxes and benefits (#1,2 & 3 above)	$402,906
Times capitalization percentage from above	-10.12%
Pro forma capitalized payroll, payroll taxes and benefits	($40,790)

	Total	Water 50.49%	Sewer 49.51%
Pro forma	($40,790)	($20,595)	($20,195)
Less test year	($39,133)	($19,758)	($19,375)
Adjustment to test year	($1,657)	($837)	($820)

(5)
Bad Debts Expense

	Water	Sewer
Test Year rate revenue	$802,917	$1,451,388
Test Year Bad Debts (Uncollectible Accounts)	4,647	8,395
Uncollectible Percentage Calculated	0.5788%	0.5784%

	Pro Forma Current Rates	
Pro Forma Revenue	818,583	1,485,516
Times Uncollectible Percentage above	0.5788%	0.5784%
Pro Forma Proposed bad debts (uncollectible Accounts)	4,738	8,592
Less: Pro Forma Proposed bad debts	4,647	8,395
Adjustment - Increase	91	197

(6)
Rate Case Amortization

To adjust for unamortized rate case expense.

	Total	50.49% Water	49.51% Sewer
Legal Fees (Clayton Miller - Bakers & Daniels, LLP)	$40,000	$20,196	$19,804
Customer Notice:			
Postage (3,104 notices x 39¢)	1,211	611	599
Paper Stock (3,104 notices x .0526¢)	163	82	81
	1,374	694	680
Travel			
Gasoline (xxx miles * $2.50/gal ÷ 20 mpg)	72	36	35
Hotel/Accomodations (2 people @$120 per night x 4 nights)	960	485	475
Rental Cars.($200 per trip x 2 trips)	400	202	198
	1,432	723	709

Water Service Co. Personnel:	Hrs	rate	Amount$		
Steve Lubertozzi	30	$89	$2,670	1,348	1,322
K. Wentz	25	45	1,125	568	557
Michael Dryjanski	200	57	11,400	5,756	5,644
LS	100	43	4,300	2,171	2,129
LY	40	25	1,000	505	495
MM	40	34	1,360	687	673
JB	40	29	1,160	586	574
Total WSC Personel			23,015	11,620	11,395
Cost of Capital Witness (P. Ahern)			7,000	3,534	3,466
Costs of Mailing and Copies			200	101	99
Unamortized amount of prior rate case expense (the balance will be fully amortized in April, 2007)					
Cost of current and unamortized rate case expense			73,020	36,868	36,152
Amortized over 3 years			3	3	3
pro forma proposed rate case expense			24,340	12,289	12,051
Less: Test Year			45,343	22,894	22,449
Adjustment - Decrease			$ (21,003)	$ (10,604)	$ (10,399)

ized. (Based on capitalization ratios from test

	($39,133)
	386,539
	-10.12%
	$402,906
	-10.12%
	($40,790)

Total	Water 50.49%	Sewer 49.51%
($40,790)	($20,595)	($20,195)
($39,133)	($19,758)	($19,375)
($1,657)	($837)	($820)

Water	Sewer
$802,917	$1,451,388
4,647	8,395
0.5788%	0.5784%

Pro Forma Current Rates	
818,583	1,485,516
0.5788%	0.5784%
4,738	8,592
4,647	8,395
91	197

50.49% Water	49.51% Sewer
$20,196	$19,804
611	599
82	81
694	680
36	35
485	475
202	198
723	709
1,348	1,322
568	557
5,756	5,644
2,171	2,129
505	495
687	673
586	574
11,620	11,395
3,534	3,466
101	99
36,868	36,152
3	3
12,289	12,051
22,894	22,449
$ (10,604)	$ (10,399)

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128
WATER & SEWER
Expense Adjustments

(7)
Meter Reading Allocation

ewer utilities. This adjustment reflects OUCC recommendation to charge for sewer service based on

tal amount)	50.49% Water	49.51% Sewer
	$6,841	$6,709
	13,550	0
	($6,709)	$6,709

(8)
IURC Fee

	Water	Sewer
	2,677	($18,680)
	0.1062098%	0.1062098%
	$2.84	($19.84)

(9)
Depreciation Expense
nd authorized depreciation rates.

	Water	Sewer
06	$5,113,324	$11,649,676
	330,488	460,031
	91,290	149,576
	5,352,522	11,960,131
)	2.00%	2.50%
	107,050	299,003
	116,923	257,706
	($9,873)	$41,297

(10)
Amortization of CIAC

	Water	Sewer
	($2,061,761)	($3,734,590)
	2.00%	2.50%
	($41,235)	($93,365)
	$0	$0
	($41,235)	($93,365)

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128

Water
Current and proposed rates

Base Facility Charge

Meter Size		Current Rates Base Facility Charge	Petitioner Proposed Base Facility Charge	OUCC Proposed Base Facility Charge	Settlement Base Facility Charge
5/8" & 3/4"		$13.09	$19.02	$15.62	$16.23
1"		32.72	47.55	39.05	40.58
1 1/2"		65.44	95.10	78.11	81.16
2"		104.71	152.17	124.98	129.86
3"	not currently needed		0.00	0.00	0.00
4"	not currently needed		0.00	0.00	0.00
6"	not currently needed		0.00	0.00	0.00

Volume Charge

	Current Rates	Petitioner Proposed	OUCC Proposed	Settlement
Per 1,000 gallons	$2.27	$3.30	$2.71	$2.82
billed bi-monthly				

Unmetered Water Service

	Current Rates	Petitioner Proposed	OUCC Proposed	Settlement
Flat rate for unmetered public drinking fountain	$34.47	$50.09	$41.14	$42.75

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128

Service Charges

	Current Rates	Petitioner Proposed	OUCC Proposed	Settlement
New Customer charge	$20.00	$20.00	$20.00	$20.00
NSF check charge	$10.00	$10.00	$10.00	$10.00
Meter fee (Outside Reader)	$35.00	$35.00	$35.00	$35.00
Reconnection charge:				
If service is disconnected by the Company for good cause	$25.00	$25.00	$25.00	$25.00
If service is disconnected at the customer's request	$25.00	$25.00	$25.00	$25.00
(plus the base facility charge for the period of disconnection if the customer asks to be reconnected within 9 months of disconnection)				
Connection Charge (in addition to new customer charge):				
Residential	$475	$475	$475	$475
Commercial (5/8" meter)	$475	$475	$475	$475
Commercial (larger than 5/8" meter)	Greater of $475 or actual cost of meter and installation			

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128

Sewer
Current and Proposed Rates

	Current Rates	Petitioner Proposed	OUCC Proposed	Settlement
Flat Rate Sewer - Residential	$80.53	$95.23		$84.17
Per 1,000 gallons			$5.82	
Commercial - minimum	$73.82	$94.55		$77.16
Commercial - above minimum	200% of water bill			

Billings are bi-monthly

Service Charges

	Current Rates	Petitioner Proposed	OUCC Proposed	Settlement
New Customer charge	$20.00	$20.00	$20.00	$20.00
NSF check charge	$10.00	$10.00	$10.00	$10.00

Reconnection charge:

Actual cost of disconnection and reconnection, the estimated cost of whch will be furnished to customer with cut-off notice

Connection Charge (in addition to new customer charge):				
Residential	$716	$716	$716	$716
Commercial (5/8" meter)	$716	$716	$716	$716
Commercial (larger than 5/8" meter)	Greater of $716 or actual cost of meter and installation			

COPY

STATE OF INDIANA

FILED

MAY 09 2007

INDIANA UTILITY REGULATORY COMMISSION

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF TWIN LAKES UTILITIES, INC. FOR AN INCREASE IN ITS RATES AND CHARGES FOR WATER AND WASTEWATER UTILITY SERVICE	)))))	CAUSE NO. 43128

SUBMISSION OF PRE-FILED TESTIMONY

Intervenor, Lakes of the Four Seasons, by counsel, hereby submits the pre-filed testimony and exhibits of Robert Campbell.

Respectfully submitted,

Nikki G. Shoultz, #16509-41
Counsel for Lakes of the Four Seasons

CERTIFICATE OF SERVICE

The undersigned certifies that a copy of the foregoing has been served upon the following counsel of record electronically, this 9th day of May, 2007:

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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF TWIN LAKES UTILITIES, INC. FOR AN INCREASE IN ITS RATES AND CHARGES FOR WATER AND WASTEWATER UTILITY SERVICE	)))))	CAUSE NO. 43128

TESTIMONY OF ROBERT CAMPBELL
On Behalf of Intervenor,
Lakes of the Four Seasons Homeowner's Association
Pre-Filed May 8, 2007*

*Pursuant to the Presiding Officers' docket entry dated May 3, 2007, the Intervenor's pre-filed testimony was due on May 8, 2007, which was a state holiday on which the Commission's offices were closed. As such, this testimony was filed on May 9, 2007.

Q. PLEASE STATE YOUR NAME AND ON WHOSE BEHALF YOU ARE TESTIFYING.

A. My name is Robert Campbell. I am the Community Manager of Lakes of the Four Seasons Property Owner's Association. My business address is 1048 N. Lakeshore Dr. Crown Point, IN 46307. I am testifying on behalf of Lakes of the Four Seasons Property Owner's Association ("LOFS"), which is an association of property owners that receives water and sewer service from the Petitioner in this cause, Twin Lakes Utilities, Inc. ("TLU"). The majority of TLU's customers are residential and are located within the LOFS development.

Q. PLEASE EXPLAIN YOUR RESPONSIBILITIES AT LOFS.

A. I am responsible for the day to day operations of the Property Owners Association and the day to day operation of Lakes of the Four Seasons Golf and Country Club, which is wholly owned by the Property Owners Association. As part of my responsibilities, I interact with the owners on their problems and concerns, including the service of TLU. I have served in this capacity at LOFS for over five years. Prior to then, I was employed by LTV Steel as Manager of Operations. I have a Bachelor of Science degree from Northern Illinois University.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to provide LOFS's perspective on TLU's rate increase request currently before the Commission, including LOFS's ongoing service quality concerns that LOFS believes the Commission needs to address as part of any rate relief the Commission affords TLU. My comments will focus on

three major areas: (1) sewer discharges onto LOFS property; (2) health concerns created by TLU's sloppy oversight of its subcontractors' work; and (3) the quality of water TLU provides to its customers. If these problems are not corrected, TLU will again reap the benefit of a rate increase while continuing to provide unreliable sewer service that is not reasonably adequate. Just three years ago, TLU's sewer rates were increased by 40.89%, and now they seek an additional sewer rate increase of 18%. My testimony concludes with LOFS's recommendation for an order requiring TLU to meet certain service quality standards and implement remedies to the problems identified herein as a condition of the rate relief sought by TLU.

Sewer Discharges

Q. WHAT IS THE FIRST AREA OF CONCERN THAT YOU CONTEND TLU HAS FAILED TO ADEQUATEY ADDRESS?

A. The first area of concern is TLU's persistent sewer discharges onto LOFS property.

Background

I am aware that for over thirteen years, sewage from the manholes in the TLU system has overflowed during rain events. The longstanding nature of the problem is evident from this Commission's 1991 Order in a prior TLU sewer rate case: "... at the field hearing held on March 4, 1991, approximately ten of Petitioner's customers testified regarding service problems which they had encountered or observed, some of which were recent and some of which occurred years ago. The problems included sewage backups in basements, sewage overflows from manholes and experiences of low water pressure." *IURC Order*

Dated April 17, 1991; Cause No. 39050; at p. 17. The Commission noted TLU's response to the complaints in the 1991 case: "Petitioner did not deny that there have been service related problems incurred by some of its customers. However, Petitioner contended that the problems were not as extensive as LOFS witnesses implied and that the Petitioner has taken significant steps to eliminate or minimize the problems." *Id. at 20.* As the Commission might recall, in its 1991 Order, it required TLU to perform a comprehensive engineering study of its sewer utility system within one year from the date of the order. *Id. at 23.* The Commission also noted that TLU's position in the 1991 proceeding was that "it will not add new sewer customers if to do so would cause additional problems for its existing customers. Thus, if it wants to add new customers, Petitioner knows that it will have to take certain actions to upgrade its collection system, depending on where the new customers are located." *Id. at 24.* Additionally, the Commission found that "a preventative maintenance program is needed to check periodically the entire sewer system for damage, water infiltration, cracks, leaks and settling of pipes" and ordered TLU to file with the Commission and the OUCC within six months of the Order, a preventative maintenance program. *Id. at 25.* Ultimately, the Commission found that "the evidence is more than sufficient to find that the service problems are unreasonable and should be rectified." *Id. at 25.*

In my pre-filed direct testimony submitted in 2004 during TLU's last rate increase request (Cause No. 42488), I testified that because of the number and severity of sewage backups that LOFS residents continued to experience through 2004, I did not believe TLU had rectified the service problems identified in the

early 1990's. Additionally, I noted that TLU added a new sewer customer of significant size (the Jerry Ross Elementary School) without resolving the discharge issues that plagued LOFS for over a decade. As noted by the Commission's 1991 Order, our property owners' association raised the same concerns in 1991: "the LOFS witnesses asserted that the Petitioner was attempting to add new customers to its systems even though, in the LOFS witnesses' opinions, the Petitioner was not able to provide adequate and reliable service to its existing customers." *Id. at 16.*

Q. WHAT WAS THE RESULT IN THE 2004 TLU RATE CASE?

A. With regard to the sewer discharge issues, TLU "recognize[d] that there have been past incidents of sewer discharges within the Lakes of the Four Seasons subdivision and commit[ted] to taking a variety of steps designed to alleviate this problem." (See Cause No. 42488, Settlement at p.3). TLU agreed to spend at least $500,000 between 2003 through 2007 on a program designed to diagnose & remediate sewage discharges, including relining certain portions of sewer mains, and conducting certain lift station repairs, all "with specific actions determined based on TLU's business decisions." *Id.* TLU also agreed to submit quarterly reports explaining the steps taken to address the discharge issues.

In its order approving the 2004 Settlement Agreement, the Commission noted that "of greatest concern to the Commission and the Intervenor, as well as to Twin Lakes and the OUCC, have been past instances of sewer discharges within the Lakes of the Four Seasons subdivision. Twin Lakes' installation of a new sewer force main in August, 2003, is anticipated to significantly reduce if not eliminate such discharges." *IURC Order Dated March 31, 2004, Cause No.*

42488.

Q. HAVE THE SEWER DISCHARGE PROBLEMS BEEN RECTIFIED AS A RESULT OF TLU'S COMMITMENTS?

A. No. While I have no evidence that TLU failed to undertake the projects it agreed to perform as a result of the last rate case, unfortunately, those projects have not solved the problem. It is unfair for TLU's customers to shoulder rate increases for sewer service of over 58% over a six-year period when TLU has not remedied service quality issues identified by our residents over fifteen years ago.

Q. PLEASE DESCRIBE THE SEWAGE PROBLEMS EXPERIENCED BY LOFS RESIDENTS SINCE THE LAST RATE INCREASE IN 2004.

A. In response to LOFS' discovery, TLU reported that between March 31, 2004 and March 15, 2007, it received over ninety (90) incident reports from customers involving sewer service. Of those, at least forty-five (45) involve complaints of sewage backing up into customers' homes. In the majority of those cases, however, the incident report shows a determination by TLU that the back-up is not TLU's fault. Given the long history of sewage backups and exploding toilets in our subdivision, I find it unbelievable that many of the problems are not caused by TLU's system.

We also continue to experience surcharging manholes where raw sewage spews from manholes and flows directly into lakes that are used for fishing, swimming, and boating. In LOFS, the sewer system is not commingled with storm water by design. Absent a problem with the TLU system, a heavy rain event should not result in surcharging manholes. In the 2004 rate case, I testified about this very issue. Since the 2004 rate case, TLU has been cited at least six (6)

times by the Indiana Department of Environmental Management ("IDEM") for sewage overflows that violate its NPDES permit. The dates of those IDEM citations were July 15, 2004; July 19, 2005; December 1, 2005; December 14, 2005; November 29, 2006, and March 14, 2007. I have included as **Exhibit RC-1** to my testimony copies of the IDEM documents that correspond with those violations. Additionally, I am aware that as recently as April 25, 2007, there were two manholes that overflowed, causing raw sewage to flow into Lake Holiday. I expect TLU will claim that the April 25, 2007 overflow was the result of heavy rainfall. I question how this could be the case when the sanitary sewer system is separate from the storm sewer system. In any event, TLU has known about these problems (which pose health hazards and devalue our property) for over a decade and still has not fixed the problem. As one might expect, I and the LOFS residents have a difficult time understanding how an 18% rate increase for sewer service is justified under these circumstances.

Health Concerns Created By Sloppy TLU Oversight

Q. WHAT IS THE SECOND AREA OF CONCERN THAT YOU CONTEND TLU HAS FAILED TO ADEQUATEY ADDRESS?

A. I recently became aware of a situation caused by TLU that poses serious potential health hazards to our residents and leads me to question TLU's attention and diligence in its operations. This past November, TLU replaced a sewer line on Kingsway Drive within the LOFS subdivision. TLU hired a contractor who apparently did not remove the sewer old pipe, but instead broke it up and left it in the ground, commingled with the back-fill used for the new line. In March of this year, LOFS residents reported seeing broken pieces of the old pipe on the surface

and protruding from where the replacement occurred. Some of the pieces were nearly pulverized and other pieces were deteriorated and flaking. We were concerned that the old pipe contained asbestos that could be harmful if it became airborne or was ingested. On March 27, 2007, LOFS hired DLZ Engineering to inspect the site and to test the pieces of broken pipe. After testing the samples of broken pipe, DLZ informed us that the pieces contained 26% and 34% asbestos respecitvely. Attached as **Exhibit RC-2** is a copy of the DLZ letter and analysis.

According to a U.S. Environmental Protection Agency ("EPA") publication on asbestos containing material (attached as **Exhibit RC-3**), asbestos presents a significant risk to human health as a result of air emissions. It appears that EPA regulates certain asbestos containing material, depending upon whether the material is "friable," which means it has been deemed to readily release asbestos fibers when damaged or disturbed. If a material is deemed to be a "Regulated Asbestos-Containing Material," EPA has established guidelines for handling and for demolition or renovation activities. It appears that certain material can become friable if it is subjected to intense weather conditions such as thunderstorms, high winds, or prolonged exposure to high heat and humidity. I am certainly no expert on this subject, but it appears to me that we should be concerned about broken sewer pipe that was left exposed over the winter, especially now that the pipe has tested positive for containing asbestos.

When asked in discovery what steps it took to prevent human exposure to asbestos as a result of the pipe replacement project, TLU responded that it "expected its contractor to undertake all customary and reasonable measures with respect to ... asbestos encountered during the course of performing the repair

work." When asked what steps TLU has taken to eliminate and ameliorate any future human exposure to asbestos as a result of the repair work, TLU responded on April 9, 2007 that it is "not aware of any remaining health hazard relating to that work." (See **Exhibit RC-4**).

I find it amazing that TLU would hire a contractor that apparently had no idea or concern for the proper way to handle asbestos containing pipe. What is more concerning is the fact that, even after our residents testified about this concern at the February field hearing in this case, TLU has done nothing other than send out a person to pick up the large pieces of exposed, broken pipe. One would think that prudent utility practice would dictate that TLU either do the work themselves in order to control such an important project or employ competent subcontractors. One would also expect a utility of TLU's size to be aware of applicable EPA regulations, and to take every precaution to ensure the health of its customers – even if a subcontractor was involved. Instead, LOFS has taken the initiative and borne the expense of investigating and determining the extent of the health hazards caused by TLU's activities.

Water Quality Concerns

Q. WHAT IS THE LAST AREA OF CONCERN THAT YOU CONDEND TLU HAS FAILED TO ADEQUATELY ADDRESS?

A. LOFS residents have, for years, endured poor water quality from TLU. A water softener is an absolute necessity for LOFS residents because of the incredibly hard water TLU supplies. Unfortunately, because of the hardness of TLU's water, costly water heaters typically only last three to four years. I have lived in LOFS for thirteen years and I just recently installed my third hot water

heater. I understand that the deterioration of the tank is due to the quality of water supplied by TWU. It seems to me that this not a very long life for a hot water heater. My experience is not unusual in Lakes of the Four Seasons

Additionally, as was discussed at the February field hearing in this case, the residents are concerned about the existence of harmful substances in the water, including but not limited to E. coli bacteria. Among the requests at the field hearing, and in LOFS's discovery, was a list of the dates when TLU conducted water quality tests for the potable water for LOFS, and for each test, the substance or chemical for which the test was conducted. TLU's data responses only showed that tests were conducted for levels of fluoride, iron, and chlorine. While I am not intimately familiar with all of the testing requirements of the Indiana Department of Environmental Management, I am reasonably certain that testing is required for a myriad of other substances and chemicals. Based on its response, I question whether TLU is testing for contaminants that could be harmful to our residents' health.

It would appear reasonable to me that if our residents' water rates are going to increase by 45% as TLU requests (not to mention the 9% water rate increase approved in 2004), TLU should be required to implement measures that reduce the water's hardness and ameliorate the excessive wear and tear on customer's water heaters and to present proof that TLU is testing for and abiding by all state and federal regulations for safe levels of all chemicals, substances and contaminants in the potable water supply.

Q. WHY SHOULD THE COMMISSION CONSIDER THESE CONCERNS AS PART OF ITS DETERMINATION IN THIS CASE?

A. It is my understanding that, like all regulated utilities, TLU is required to provide reasonably adequate and reliable service to its customers. LOFS believes it is fundamentally unfair for its residents to pay higher rates to TLU when TLU is not providing reasonably adequate or reliable service to its customers. This conclusion is supported by the fact that in its last two orders adjusting TLU's rates, this Commission considered similar (if not identical) concerns from LOFS residents and ordered TLU to take several steps to improve its service quality. It is significant that many of the service quality issues raised by residents in 1991, and re-raised in 2004, are still present today.

Q. HOW SHOULD THE COMMISSION ADDRESS THE CONCERNS YOU IDENTIFIED ABOVE?

A. I recommend that the Commission take one or all of the following actions, and in doing so, condition any rate relief approved in this cause accordingly:

- Order TLU to implement a plan within sixty (60) days of the Commission's Order that will eliminate all sewer discharges on LOFS property within twelve (12) months, and report to the Commission and the parties to this cause monthly on the status of the plan's implementation until the discharging is corrected. As part of this requirement, TLU should be required to identify and report to the Commission why the preventative maintenance program ordered by this Commission in 1991 and the steps taken as a result of the 2004 Order have been unsuccessful in eliminating sewer back-ups and surcharging manholes. TLU should pay for these costs out of their own pockets and not those of LOFS property owners.

Because TLU failed to remedy the discharge problem after having over

fifteen (15) years to fix it, in my opinion TLU ought to be fined for every additional future discharge. I understand that this Commission may not have the authority to impose such a remedy. In the alternative, I recommend that the Commission either: (1) award TLU an incentive in the form of an increased annual incremental rate of return for each of the next three (3) years that TLU's system experiences no sewer discharges; or (2) prohibit TLU from connecting any additional customers until it presents proof to this Commission and the parties that its system experienced no overflows for at least one year.

Because of TLU's failure to remedy the problem despite the studies and investment required in its last two (2) rate cases, this time I recommend that the Commission take a more aggressive role in enforcing its requirements so that the sewer discharge issues are actually eliminated. In my opinion, the Commission should impose a remedy that will produce a solution to these decade-old sewer discharge problems, rather than a remedy that requires more investment but fails to cure the problem.

- Order TLU to remove all present or future unused underground asbestos-containing pipe in a manner that does not create a health hazard, and to remediate any sites where asbestos-containing material is present, consistent with applicable EPA guidelines.
- Order TLU and its subcontractors to adhere to all state and federal guidelines on removal of transite pipe when they do sewer repairs. All sites should be cleaned up to existing state and federal standards.
- Order TLU to implement measures that reduce the hardness of TLU's water in an effort to eliminate excessive wear and tear on customer's water heaters and

submit quarterly reports to the Commission and the parties to this proceeding on the status of TLU's execution of the plan.

- Order TLU to present proof, on a quarterly basis, that it is testing for and abiding by all state and federal regulations for safe levels of all chemicals, substances and contaminants in the potable water supply.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

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EXHIBIT RC-1

4y Rear 7/19/04

INDIANA DEPARTMENT OF ENVIRONMENTAL MANAGEMENT

We make Indiana a cleaner, healthier place to live.

Joseph E. Kernan
Governor

Lori F. Kaplan
Commissioner

Northwest Regional Office
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Merrillville, Indiana 46410-9201
(219) 757-0265
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www.IN.gov/idem

July 15, 2004

VIA CERTIFIED MAIL 7002 0510 0004 2630 0134

Mr. Darrin Yount
Utilities, INC
Midwest Regional Office
P. O. Box 656
Mokena, IL 60448

Re: Inspection Summary/Violation Letter
Twin Lakes Utilities
NPDES Permit Number IN0037176
Crown Point, Lake County

Dear Mr. Yount:

On June 7th, 2004, a representative of the Indiana Department of Environmental Management, Northwest Regional Office, conducted an inspection of Twin Lakes Utilities, located at Crown Point, Indiana. This inspection was conducted pursuant to IC 13-14-2-2. For your information, and in accordance with IC 13-14-5, a summary of the inspection is provided below:

Type of Inspection: X Reconnaissance Inspection

Results of Inspection:
___ Violations were observed but corrected during the inspection.
X Violations were observed.
___ Violations were observed and will be referred to the Office of Enforcement.

Over the course of the inspection, a sanitary sewer overflow (SSO) was noted draining into Bass Lake at the property of 2091 Hidden Valley. It was also noted that a SSO occurred on the same property on 6/2/04. The SSO's were reported properly to IDEM. The SSO's are violations of the permit Part II. B. 1. a and 327 IAC 5-2-8(3).

Within thirty (30) days of receipt of this letter, a written detailed explanation, documenting compliance with each of the requirements listed above, must be submitted to this office. Failure to respond adequately to this Violation Letter may result in a referral to IDEM's Office of Enforcement. Please direct any response to this letter and any questions to Nick Ream at (219) 757-0265. Thank you for your attention to this matter.

Sincerely,

Rick Roudebush

Rick Roudebush, Inspections Section Chief
Compliance Branch
Office of Water Quality

Post-it® Fax Note 7671	Date 7.19.04	# of pages ▶ 01
To CHRIS	From Darrin	
Co./Dept.	Co.	
Phone #	Phone #	
Fax #	Fax #	

UTILITIES, INC.

Midwest Regional Office:
PO Box 856
Mokena, IL 60448
(708) 326-3832 Phone
(708) 326-3836 Fax

Post-it® Fax Note 7671	Date 8/16	# of pages ▶
To Chris Montgomery	From Darrin Yount	
Co./Dept.	Co.	
Phone #	Phone #	
Fax #	Fax #	

August 16, 2004

Via Facsimile & Certified Mail
7002 2030 0000 7196 6771

Mr. Nick Ream
IDEM-Northwest Regional Office
8315 Virginia Ave., Suite 1
Merrillville, IN 46410-9201

Re: Inspection Summary/Violation Letter Response
Twin Lakes Utilities, Inc. – NPDES # IN0037176

Dear Mr. Ream:

As required, this letter is in response to the Inspection Summary/Violation Letter dated July 15, 2004, and received on July 19, 2004. The sanitary sewer overflows (SSO) that occurred at 2091 Hidden Valley Drive on July 2nd and July 7th were mainly caused by the presence of two relatively large stones that had been placed in the main by unknown sources. These large stones collected grease and blocked the flow through the main. The line was jetted on July 2nd and the SSO was stopped. Unfortunately, the jetting/vac crew missed some of this grease and it traveled downstream to our lift station, which caused the clog on July 7th. The jetting/vac crew again removed this blockage and the SSO was stopped.

Since then, we have returned to the site to jet-clean the main again and thoroughly televise it. This is when the two large stones were discovered and removed. We also located a few sections of main that are "bellied." Although these sections are a concern, it is believed that they will not impede the flow. However, if necessary, we will again clean the main as we gather bids and evaluate our options to address the "bellied" sections.

We trust that you find our actions appropriate. If you have any further questions or concerns, please contact me at the regional office.

Sincerely,

Darrin Yount
Regional Director of Operations

cc: Lisa Crossett, UI
Chris Montgomery, UI

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Governor

Thomas W. Easterly
Commissioner

100 North Senate Avenue
Indianapolis, Indiana 46204
(317) 232-8603
(800) 451-6027
www.IN.gov/idem

July 19, 2005

VIA CERTIFIED MAIL 7002 0510 0003 0027 7187

Mr. Darrin Yount, Regional Director
Twin Lakes Utilities
P. O. Box 656
Mokena, IL 60448

Re: **Inspection Summary/Violation Letter**
Twin Lakes Utilities
NPDES Permit No. IN0037176
Crown Point, Lake County

Dear Mr. Yount:

On June 6 and 8, 2005, a representative of the Indiana Department of Environmental Management, Northwest Regional Office, conducted an inspection of Twin Lakes Utilities, located at Crown Point, Indiana. This inspection was conducted pursuant to IC 13-14-2-2. For your information, and in accordance with IC 13-14-5, a summary of the inspection is provided below:

Type of Inspection: X Reconnaissance Inspection

Results of Inspection:
___ Violations were observed but corrected during the inspection.
X Violations were observed
___ Violations were observed and will be referred to the Office of Enforcement.

Over the course of the inspection, it was noted that a Sanitary Sewer Overflow (SSO) had occurred on June 4, 2005. A review of bypass/overflow reports indicated the following from June of 2004 through June of 2005:

June 2, 2004: Sewer Plug
June 7, 2004: Sewer Plug
September 27, 2004: Sewer Plug
February 17, 2005: Sewer Plug
January 3, 2005: Bypass of treatment due to high flows
June 4, 2005: Bypass of treatment due to high flows
June 4, 2005: SSO at manhole 307

A review of the flow record data from June 4, 2005 shows sharp inclines and declines corresponding with the rainfall. This indicates potential inflow problems with the collection system. This is a violation of the permit, Part II. B. 1. d and 327 IAC 5-2-8(8).

Within thirty (30) days of receipt of this letter, a written detailed explanation, documenting compliance with each of the requirements listed above, must be submitted to this office. Failure to respond adequately to this Violation Letter may result in a referral to IDEM's Office of Enforcement. Please direct any response to this letter and any questions to Nicholas Ream at (219) 757-0265. Thank you for your attention to this matter.

Sincerely,

Rick Roudebush

Rick Roudebush, Inspections Section Chief
Compliance Branch
Office of Water Quality

Enclosure

Cc: Mr. Frank Kolodziej, President

Mr. Robert Campbell, Director

UTILITIES, INC.

Midwest Regional Office:
PO Box 656
Mokena, IL 60448
(708) 326-3832 Phone
(708) 326-3835 Fax

Corporate Offices:
2335 Sanders Road
Northbrook, IL 60062
(847) 498-6440 Phone
(847) 498-2068 Fax

August 18, 2005

Post-it® Fax Note 7671	Date 8/18	# of pages ▶ 02
To Chris	From Darrin	
Co./Dept.	Co.	
Phone #	Phone #	
Fax # Fax your files.	Fax #	

Nicholas Ream
IDEM – OWQ
100 North Senate Avenue
Indianapolis, IN 46204

Re: Inspection Summary/Violation Letter Response
Twin Lakes Utilities, Inc.
NPDES Permit No.: IN0037176
Crown Point, Lake County

Dear Mr. Ream:

This letter is in response to Mr. Rick Roudebush's written notification dated July 19, 2005, and is intended to satisfy the requirement for a response within thirty (30) days of receipt. The following remarks address the bypass/overflow incidents listed in the report.

- All of the Sanitary Sewer Overflow (SSO) events listed were reported according to IDEM regulations as acknowledged in your NPDES Facility Verification of Inspection report dated June 8th, 2005.
- The sewer clogs dated June 2nd, June 7th and September 27th of 2004 as well as February 17th of 2005 were immediately cleared to restore flow.
- The clogs related to June of 2004 revealed an increase of grease from an unknown residential source. Further televising of this section of main also identified some sections of main that had sagged. These two factors caused us to place this section of main on a bi-monthly cleaning schedule to avoid further clogs. Additionally, we have scheduled a contractor for August 26th, 2005, to replace 200 feet of main in this area to restore proper slope and flow.
- The September 27th of 2004 clog was cleared and typical debris was found. When this same area clogged again in February of 2005 we cleared the main and televised it. We discovered sections of main that had sagged and we replaced 170 feet of main to restore proper slope.
- January 3, 2005 WWTP Bypass – Our records show the date of the bypass to be January 13th, 2005. A combination of rain and snow melt produced high flows. We turned off the air to a portion of the plant to maintain the biological community. These efforts were successful in avoiding a washout of solids. Our sample results were higher than usual, but still within parameters.
- The WWTP bypass of June 4th, 2005, was caused by 2.9 inches of rain in 1.5 hours. This brought on flash flood conditions that had never been experienced before, which resulted

in high flows. As a last resort, we routed most of the flow through the half of our plant that can better handle peak flows and shut the air off to the other portion to maintain the biological community in that section of the plant. These efforts were successful in avoiding a washout of solids. Our sample results were higher than usual, but still within parameters.

- The June 4th, 2005, SSO was ultimately caused by four manholes that were submerged during the flash flood conditions. As a solution, these manholes were raised and resealed. This work was in progress during your visit as noted in your report.
- Potential Inflow Problems – We have spent over 1.8 million dollars in the last six years on locating and removing sources of inflow (and infiltration) within our collection system. We have made great progress and our commitment to reduce peak flows remains strong.

I trust that you will find our responses to these issues appropriate. We have acted to implement both immediate and long-term solutions. This on-going commitment has resulted in a drastic drop in the number and frequency of SSO and bypass events.

If you should have any questions or concerns, please contact me at (708) 328-3832.

Sincerely,
Twin Lake Utilities, Inc.

Darrin Yount
Regional Director of Operations

Cc: Lisa Crossett, Vice President of Operations, UI
Chris Montgomery, Area Manager, UI
File

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December 14, 2005

VIA CERTIFIED MAIL 7002 0510 0002 5827 3187

Mr. Chris Montgomery
Twin Lakes Utilities
9201 East 123rd Avenue
Crown Point, IN 46307

Re: **Inspection Summary/Violation Letter**
Twin Lakes Utilities
NPDES Permit No. IN0037176
Crown Point, Lake County

Dear Mr. Montgomery:

On October 14 and 18, 2005, a representative of the Indiana Department of Environmental Management, Northwest Regional Office, conducted a complaint investigation of Twin Lakes Utilities, located at Crown Point, Indiana. This inspection was conducted pursuant to IC 13-14-2-2. For your information, and in accordance with IC 13-14-5, a summary of the inspection is provided below:

Type of Inspection: X Complaint Investigation

Results of Inspection:
X Violations were observed but corrected during the inspection.
___ Violations were observed
___ Violations were observed and will be referred to the Office of Enforcement.

Over the course of the inspection, it was noted that on October 14, 2005, solids were observed escaping over clarifier weirs, visibly traveling through the chlorine contact chamber, and exiting the outfall. The loss of solids was no longer noted on October 18, 2005. The loss of solids was a violation of the permit, Part I. A. 2. a.

There were concerns over a film noted in the receiving stream which was visible from the head of Stony Run, near the facility outfall, to approximately two hundred (200) yards downstream where the film caught upon a tree in the stream. The tree had also captured non-biodegradable items commonly associated with sewage. It could not be determined at the time of inspection if the facility was the cause of the film or the non-biodegradable items.

Twin Lakes Utilities, Inc.

An affiliate of Utilities, Inc.

Corporate Offices:
2335 Sanders Road
Northbrook, IL 60062
Ph (847) 498-6440
Fax (847) 498-2066

Indiana Office:
9201 E. 123rd Avenue
Crown Point, IN 46307
Ph (219) 988-3018
Fax (219) 988-3789

Tuesday, December 6, 2005

Mr. Nicholas Ream
Indiana Department of Environmental Management
100 N. Senate Avenue
Indianapolis, Indiana 46204

RE: Inspection Summary/Violation Letter Twin Lakes Utilities
NPDES #IN0037176

Dear Mr. Ream:

This letter is in response to your written notification dated 12/01/05, and is intended to satisfy your requirement for a response within thirty (30) days of receipt.

Regarding the meter calibration, this was an oversight, which was corrected as soon as possible after it was noted. The oversight was noted during your inspection on 10/05/05 and J.G. Innovations was contacted immediately to perform the calibrations. The influent flow meter was calibrated on 10/06/05. The effluent flow meter was calibrated on 10/07/05.

Regarding the bio-solids escaping over the clarifier weirs, this was addressed with increased RAS rates and a thorough cleaning of the clarifiers. The excessive foaming in the aeration tanks and recent loss of some settlability in the mixed liquor was confirmed to be caused by some filamentous bacteria in the mixed liquor, upon microscopic examination. This condition was treated with a sodium hypochlorite drip in the RAS. Within one week the filamentous bacteria was brought under control, the settlability returned to normal, and the foam dissipated.

Regards,

OK

Anthony R. Fox
Operations Manager – Twin Lakes Utilities

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December 14, 2005

VIA CERTIFIED MAIL 7002 0510 0002 5827 3187

Mr. Chris Montgomery
Twin Lakes Utilities
9201 East 123rd Avenue
Crown Point, IN 46307

Re: **Inspection Summary/Violation Letter**
Twin Lakes Utilities
NPDES Permit No. IN0037176
Crown Point, Lake County

Dear Mr. Montgomery:

On October 14 and 18, 2005, a representative of the Indiana Department of Environmental Management, Northwest Regional Office, conducted a complaint investigation of Twin Lakes Utilities, located at Crown Point, Indiana. This inspection was conducted pursuant to IC 13-14-2-2. For your information, and in accordance with IC 13-14-5, a summary of the inspection is provided below:

Type of Inspection: X Complaint Investigation

Results of Inspection: X Violations were observed but corrected during the inspection.
___ Violations were observed
___ Violations were observed and will be referred to the Office of Enforcement.

Over the course of the inspection, it was noted that on October 14, 2005, solids were observed escaping over clarifier weirs, visibly traveling through the chlorine contact chamber, and exiting the outfall. The loss of solids was no longer noted on October 18, 2005. The loss of solids was a violation of the permit, Part I. A. 2. a.

There were concerns over a film noted in the receiving stream which was visible from the head of Stony Run, near the facility outfall, to approximately two hundred (200) yards downstream where the film caught upon a tree in the stream. The tree had also captured non-biodegradable items commonly associated with sewage. It could not be determined at the time of inspection if the facility was the cause of the film or the non-biodegradable items.

Within thirty (30) days of receipt of this letter, a written detailed explanation, documenting compliance with each of the requirements listed above, must be submitted to this office. Failure to respond adequately to this Violation Letter may result in a referral to IDEM's Office of Enforcement. Please direct any response to this letter and any questions to Nicholas K. Ream at (219) 757-0265. Thank you for your attention to this matter.

Sincerely,

Rick Roudebush

Rick Roudebush, Inspections Section Chief
Compliance Branch
Office of Water Quality

Twin Lakes Utilities, Inc.

An affiliate of Utilities, Inc.

Corporate Offices:
2335 Sanders Road
Northbrook, IL 60062
Ph (847) 498-6440
Fax (847) 498-2066

Indiana Office:
9201 E. 123rd Avenue
Crown Point, IN 46307
Ph (219) 988-3018
Fax (219) 988-3789

Wednesday, January 5, 2006

Mr. Nicholas Ream
Indiana Department of Environmental Management
100 N. Senate Avenue
Indianapolis, Indiana 46204

RE: Inspection Summary/Violation Letter Twin Lakes Utilities
NPDES #IN0037176

Dear Mr. Ream:

This letter is in response to your written notification dated 12/14/05, and is intended to satisfy your requirement for a response within thirty (30) days of receipt.

Regarding the bio-solids escaping over the clarifier weirs, this was addressed with increased RAS rates and a thorough cleaning of the clarifiers. As noted in your letter, this was addressed before your return on 10/18. Although it could not be determined if the film and non-biodegradable items noted in the receiving stream were from this facility, we will be installing a new baffle in the chlorine contact chamber to insure that no floatable materials can escape. This baffle will also serve to stop any floating sludge from escaping the contact chamber.

Additionally we are considering having an expert analysis of our sludge to see if something in the sludge is causing the floating sludge problems.

Regards,

Anthony R. Fox
Operations Manager – Twin Lakes Utilities

Lake

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www.IN.gov/idem

November 29, 2006

VIA CERTIFIED MAIL 7002 0510 0003 0026 9311

Charles Alexander, Area Manager
Twin Lakes Utilities
9201 East 123rd Avenue
Crown Point, IN 46307

Re: **Inspection Summary/Violation Letter**
Twin Lakes Utilities
NPDES Permit Number IN0037176
Crown Point, IN 46307

Dear Mr. Alexander:

On September 15 and September 22, 2006, a representative of the Indiana Department of Environmental Management, Northwest Regional Office, conducted an inspection of Twin Lakes Utilities, located near Crown Point, Indiana. This inspection was conducted pursuant to IC 13-14-2-2. For your information, and in accordance with IC 13-14-5, a summary of the inspection is provided below:

Type of Inspection: X Complaint Investigation

Results of Inspection:
___ Violations were observed but corrected during the inspection.
X Violations were observed
___ Violations were observed and will be referred to the Office of Enforcement.

A sanitary sewer overflow (SSO) occurred from manhole 307 on September 13, 2006 after an approximately four (4) inch rainfall event. The ground impacted by the SSO had since been cleaned with rakes and lime had been applied. The overflow violated the permit, Part II. B. 1. a and 327 IAC 5-2-8(8) for failure to maintain the collection system.

Within thirty (30) days of receipt of this letter, a written detailed explanation, documenting compliance with each of the requirements listed above, must be submitted to: Indiana Dept. of Environmental Management, Office of Water Quality – Mail Code 65-42, 100 North Senate Avenue, Indianapolis, IN 46204-2251. Failure to respond adequately to this Violation Letter may result in a referral to IDEM's Office of Enforcement. Please direct any response to this letter and any questions to Nicholas Ream at (219) 757-0265. Thank you for your attention to this matter.

Sincerely,

for J. Robert Simmons
Deputy Director
Northwest Regional Office

enclosure

REVISED 9/15/06

NPDES FACILITY NOTICE OF INSPECTION

State Form 47989 (R6 / 5-06)
INDIANA DEPARTMENT OF ENVIRONMENTAL MANAGEMENT

Facility and Inspection Information

NPDES Permit #:	Facility Type Code:	Classification Per Permit:
IN 0037176	☐ 1 = Municipality ☒ 2 = Industry/Semi-Public ☒ Major ☐ 3 = Agricultural ☐ 4 = State/Federal ☐ Minor	III

This is to notify you that on 9/22/06 *(month, day, year)* an inspection of the specified facility was conducted by the undersigned representative of the Indiana Department of Environmental Management, Office of Water Quality.

TYPE OF INSPECTION (may include more than one):

- ___ Compliance Evaluation Inspection (C)
- ___ Reconnaissance Inspection (R)
- ___ Industrial User Inspection (I)
- ___ Sanitary Sewer Overflow Inspection (V)
- X Complaint (J)
- ___ Multi-media Screening Evaluation (M)
- ___ Combined Sewer Overflow Inspection (Y)
- ___ Compliance Sampling Inspection (S)
- ___ Other ___

Name and Location of Facility Inspected: *(number, street, city, zip code)*	Receiving Waters/POTW:	Permit Expiration Date:
TWIN LAKES UTILITIES 9201 E. 123RD AVE CROWNPOINT, IN 46307 County: LAKE	EAST BRANCH OF SUNDY RUN	5/31/06

Name(s) of On-Site Representatives:	Title(s):	Phone: (219) 988-3018
CHARLES ALEXANDER	AREA MANAGER	Fax: ( )

Certified Operator:	Number:	Class:	☒ Full Time ☐ Part Time
ANTHONY FOX	16378	IV	
	Renewal Effective Date: 7/1/06	Expiration Date: 6/30/08	Hours per Week: 40

Name and Address of Responsible Official: *(number, street, city, zip code)*	Title:	Phone: (219) 988-3018
CHARLES ALEXANDER 9201 E. 123RD AVE. CROWN POINT, IN 46307	AREA MANAGER	Fax: ( )
	Contacted: ☒ Yes ☐ No	Facility Design Flow: 1.10 mgd

Areas Evaluated During Inspection

(S = Satisfactory, M = Marginal, U = Unsatisfactory, N = Not Evaluated, NA = Not Applicable)

S	Receiving Waters Appearance (2)	S	Facility/Site	N	Self-Monitoring Program	N	Compliance Schedules
S	Effluent Appearance (2)	N	Operation	N	Flow Measurement	NA	Pretreatment
S	Permit	N	Maintenance	N	Laboratory	N	Effluent Limits Violations
U	CSO/SSO (Sewer Overflow) (1)	N	Sludge Disposal	N	Records/Reports	/	Other:

Preliminary Inspection/Screening Findings*

*These findings are considered preliminary and identify specific compliance issues discovered during the above-noted inspection that the designated agent of IDEM believes may be a violation of a statute(s), rule(s) or permit(s) issued by IDEM.

SINGLE MEDIA INSPECTION:

- ___ No violations were discovered with respect to the particular items observed during the inspection. (5)
- ___ Violations were discovered but corrected during the inspection. (4)
- X Violations were discovered and require a submittal from you and/or follow-up inspection by IDEM. (2)
- ___ Violations were discovered and may subject you to an appropriate enforcement response. (1)
- ___ Additional information/review is required to evaluate overall compliance. (6)
- ___ Potential problems were discovered or observed. (3)

Comments Regarding Unsatisfactory Ratings – Including Rule or Permit Citation(s):

(1) A SSO OCCURRED FROM MANHOLE 307 AFTER AN APPROXIMATELY 4 INCH RAINFALL. THE GROUND IMPACTED BY THE SSO HAS SINCE BEEN APPLIED WITH LIME AND CLEANED WITH RAKES. THIS VIOLATES THE PERMIT, PART II.B.1.a AND 327 IAC 5-2-8(8) FOR FAILURE TO MAINTAIN THE COLLECTION SYSTEM IN GOOD WORKING ORDER.

Distribution: White - IDEM Public File; Canary - OPPTA (if OPPTA assistance requested); Pink - Owner/Agent Representative; Gold - Inspector

REVISED 9/15/06

Additional Comments Regarding Unsatisfactory Ratings – Including Rule or Permit Citation(s):

Comments Regarding Marginal Ratings – Conclusions and Recommendations:

(2) THE EFFLUENT IS CLEAR AND ODORLESS ON THE DAY OF INSPECTION.

Multi-Media Screening (please note that a multi-media screening is not a comprehensive evaluation of the compliance status of the facility):

___ Multi-media screening not conducted.
X No violations were observed during the limited multi-media screening conducted by IDEM.
___ Potential violations were discovered but corrected during the inspection.
___ Potential problems were discovered and may be further investigated.

Pollution Prevention

Pollution prevention is the preferred means of environmental protection in Indiana. The goal of pollution prevention is to promote changes in business and commercial operation, especially manufacturing processes, so that Indiana businesses increase productivity, generate less environmental wastes, reduce their regulatory responsibilities and become more profitable. Your participation in Indiana's pollution prevention program is entirely voluntary. If you have any pollution prevention questions, you may contact our Office of Pollution Prevention and Technical Assistance (OPPTA) at (317) 232-8172 or (800) 988-7901, or visit OPPTA's Web site at www.idem.IN.gov/oppta/p2/. Would your company like to be contacted by IDEM's Office of Pollution Prevention and Technical Assistance? ___ Yes X No

Compliance Assistance

In addition to the compliance assistance offered by IDEM's individual programs, IDEM's Compliance and Technical Assistance Program (CTAP) offers free, confidential compliance assistance to regulated entities, including small businesses and municipalities, throughout Indiana. In the future, if you would like to request free, confidential compliance assistance, call (317) 232-8172 or (800) 988-7901, or visit CTAP's Web site at http://www.idem.IN.gov/ctap/.

Summary and Correction Information

A summary of violations and concerns noted during the inspection was verbally communicated to the undersigned representative during the inspection. The facility should correct any violations noted as soon as possible. Violations identified and corrected during the inspection may still be cited as violations.

___ A written inspection summary will be provided within 45 days. In accordance with IC 13-14-5-4, matters not evident to IDEM at the time of the inspection might not be included in either the verbal or written inspection summary.

X Written report provided at the conclusion of the inspection. If upon subsequent review, any changes to this report are deemed necessary, a revised report will be sent to the subject facility within 45 days.

IDEM Representative:

Printed Name:	Signature:	Phone Number:	Date:	Time
NICHOLAS K. REAM		(219) 757-0265	9-22-06	In: 1315 Out: 1400

Owner/Agent Representative/Title:

Printed Name:	Signature:	Title:	Phone Number:	Date:
Charles L. Alexander		Area Manager	(219) 988-3018	9/22/06

For IDEM Internal Use:

Section Chief or Regional Deputy Director:	Date:	For:
	11/15/06	☐ Follow-up ☐ Enforcement ☐ NPDES Permits ☐ Other

Distribution: White - IDEM Public File; Canary - OPPTA (if OPPTA assistance requested); Pink - Owner/Agent Representative; Gold - Inspector

NPDES FACILITY NOTICE OF INSPECTION

State Form 47989 (R6 / 5-06)

INDIANA DEPARTMENT OF ENVIRONMENTAL MANAGEMENT

Facility and Inspection Information

NPDES Permit #:	Facility Type Code:	Classification Per Permit:
IN 0037176	☐ 1 = Municipality ☒ 2 = Industry/Semi-Public ☒ Major ☐ 3 = Agricultural ☐ 4 = State/Federal ☐ Minor	III

This is to notify you that on 9/15/06 *(month, day, year)* an inspection of the specified facility was conducted by the undersigned representative of the Indiana Department of Environmental Management, Office of Water Quality.

TYPE OF INSPECTION (may include more than one):

- ___ Compliance Evaluation Inspection (C)
- ___ Reconnaissance Inspection (R)
- ___ Industrial User Inspection (I)
- ___ Sanitary Sewer Overflow Inspection (V)
- X Complaint (J)
- ___ Multi-media Screening Evaluation (M)
- ___ Combined Sewer Overflow Inspection (Y)
- ___ Compliance Sampling Inspection (S)
- ___ Other ___

Name and Location of Facility Inspected: *(number, street, city, zip code)*	Receiving Waters/POTW:	Permit Expiration Date:
TWIN LAKES UTILITIES 9201 E. 123rd Ave. CROWN POINT, IN 46307 County: LAKE	EAST BRANCH OF STONEY RUN	5/31/08

Name(s) of On-Site Representatives:	Title(s):	Phone: (219) 988-3018
CHARLES ALEXANDER	AREA MANAGER	Fax: ( )

Certified Operator:	Number:	Class:	☒ Full Time ☐ Part Time
ANTHONY FOX	16378	IV	
	Renewal Effective Date: 7/1/06	Expiration Date: 6/30/08	Hours per Week: 40

Name and Address of Responsible Official: *(number, street, city, zip code)*	Title:	Phone: (219) 988-3018
CHARLES ALEXANDER 9201 E 123rd AVE CROWN POINT, IN 46307	AREA MANAGER	Fax: ( )
	Contacted: ☒ Yes ☐ No	Facility Design Flow: 1.10 MGD

Areas Evaluated During Inspection

(S = Satisfactory, M = Marginal, U = Unsatisfactory, N = Not Evaluated, NA = Not Applicable)

S	Receiving Waters Appearance	N	Facility/Site	N	Self-Monitoring Program	N	Compliance Schedules
S	Effluent Appearance	N	Operation	N	Flow Measurement	NA	Pretreatment
N	Permit	N	Maintenance	N	Laboratory	N	Effluent Limits Violations
N	CSO/SSO (Sewer Overflow)	N	Sludge Disposal	N	Records/Reports	/	Other:

Preliminary Inspection/Screening Findings*

*These findings are considered preliminary and identify specific compliance issues discovered during the above-noted inspection that the designated agent of IDEM believes may be a violation of a statute(s), rule(s) or permit(s) issued by IDEM.

SINGLE MEDIA INSPECTION:

- ___ No violations were discovered with respect to the particular items observed during the inspection. (5)
- ___ Violations were discovered but corrected during the inspection. (4)
- ___ Violations were discovered and require a submittal from you and/or follow-up inspection by IDEM. (2)
- ___ Violations were discovered and may subject you to an appropriate enforcement response. (1)
- X Additional information/review is required to evaluate overall compliance. (6)
- ___ Potential problems were discovered or observed. (3)

Comments Regarding Unsatisfactory Ratings – Including Rule or Permit Citation(s):

Distribution: White - IDEM Public File; Canary - OPPTA (if OPPTA assistance requested); Pink - Owner/Agent Representative; Gold - Inspector

Additional Comments Regarding Unsatisfactory Ratings – Including Rule or Permit Citation(s):

Comments Regarding Marginal Ratings – Conclusions and Recommendations:

A COMPLAINT WAS MADE ALLEGING A SSO OCCURING FROM MANHOLE 307. THE SSO OCCURRED AFTER APPROXIMATELY 4 INCHES OF RAIN. FURTHER EVALUATION WILL BE NEEDED TO DETERMINE OTHER POTENTIAL COMPLIANCE ISSUES.

Multi-Media Screening (please note that a multi-media screening is not a comprehensive evaluation of the compliance status of the facility):

____ Multi-media screening not conducted.
X No violations were observed during the limited multi-media screening conducted by IDEM.
____ Potential violations were discovered but corrected during the inspection.
____ Potential problems were discovered and may be further investigated.

Pollution Prevention

Pollution prevention is the preferred means of environmental protection in Indiana. The goal of pollution prevention is to promote changes in business and commercial operation, especially manufacturing processes, so that Indiana businesses increase productivity, generate less environmental wastes, reduce their regulatory responsibilities and become more profitable. Your participation in Indiana's pollution prevention program is entirely voluntary. If you have any pollution prevention questions, you may contact our Office of Pollution Prevention and Technical Assistance (OPPTA) at (317) 232-8172 or (800) 988-7901, or visit OPPTA's Web site at www.idem.IN.gov/oppta/p2/. Would your company like to be contacted by IDEM's Office of Pollution Prevention and Technical Assistance? ____ Yes X No

Compliance Assistance

In addition to the compliance assistance offered by IDEM's individual programs, IDEM's Compliance and Technical Assistance Program (CTAP) offers free, confidential compliance assistance to regulated entities, including small businesses and municipalities, throughout Indiana. In the future, if you would like to request free, confidential compliance assistance, call (317) 232-8172 or (800) 988-7901, or visit CTAP's Web site at http://www.idem.IN.gov/ctap/.

Summary and Correction Information

A summary of violations and concerns noted during the inspection was verbally communicated to the undersigned representative during the inspection. The facility should correct any violations noted as soon as possible. Violations identified and corrected during the inspection may still be cited as violations.

____ A written inspection summary will be provided within 45 days. In accordance with IC 13-14-5-4, matters not evident to IDEM at the time of the inspection might not be included in either the verbal or written inspection summary.

X Written report provided at the conclusion of the inspection. If upon subsequent review, any changes to this report are deemed necessary, a revised report will be sent to the subject facility within 45 days.

IDEM Representative:

Printed Name:	Signature:	Phone Number:	Date:	Time
NICHOLAS K. REAM		(219) 757-0265	9-15-06	In: 1430 Out: 1530

Owner/Agent Representative/Title:

Printed Name:	Signature:	Title:	Phone Number:	Date:
Charles L. Alexander		Area Manager	(219) 988-3018	9/22/06

For IDEM Internal Use:

Section Chief or Regional Deputy Director:	Date:	For:
	11/15/06	☐ Follow-up ☐ Enforcement ☐ NPDES Permits ☐ Other

Distribution: White - IDEM Public File; Canary - OPPTA (if OPPTA assistance requested); Pink - Owner/Agent Representative; Gold - Inspector

(R/10-03)

IDEM	INDIANA DEPARTMENT OF ENVIRONMENTAL MANAGEMENT OFFICE OF WATER MANAGEMENT **Complaint Investigation Report**	100 NORTH SENATE AVENUE P. O. BOX 6015 INDIANAPOLIS, IN 46206-6015

General Information

Name of Alleged Responsible Party: *Twin Lakes Utilities*	Date Reported: *9/13/06 (to OER), 9/14/06 to inspector*
Address and Directions *9201 East 123rd Avenue* *Crown Point, IN 46307*	County: *Lake* Receiving Stream:. *East Branch of Stony Run*
Received by: ☐ RRR; ☐ RLP; ☐ RAC; ☐ Cler.; ☐ Insp.; ☒ Other Specify name of Inspector, Clerical or Other: *Spill Line*	Via: ☒ Phone; ☐ Letter; ☐ Person; ☐ Internet; ☐ Fax; ☐ Referral Referred by:
Complainant Type: ☐ Individual; ☒ Anonymous; ☐ Public Official	Report to Complainant?: ☐ Yes ☒ No
Complainant's Name: ☒ *NA*	PhoneNumber *NA*
Address: *NA*	City: *NA*
Nature of Complaint: ☐ Water Pollution; ☒ NPDES Facility Failure; ☐ Basement Backup; ☐ Septic Tank Ponding; ☐	
Description of Complaint: *A SSO is occurring from a manhole*	
Responsible party: *(To be completed by Inspector)* *Twin Lakes Utilities*	
Address/Location: *9201 East 123rd Avenue* *Crown Point, IN 46307*	City: *Crown Point*

Response

☒

I. First Response Date: *9/15/06* *(visit)*

II. Investigation Date: *9/15,22/06*

III. Closed Date: *9/22/06*

A. No Action Needed ☐ 1. No Problem Observed ☐ 2. NPDES Facility Corrected ☐

B. Referred to Other Agency: _____ ☐

Contact: _____ Phone Number: _____

C. Compliance Action 1. IS/VL Letter Date: *10/10/06* ☒

2. OATS Referral Date: _____ ☐

#____

D. Enforcement Referral Date: _____ ☐

IV. Report Sent Date: *10/10/06*

IDEM	OFFICE OF WATER MANAGEMENT Complaint Investigation Report	PAGE ___ OF ___ (Complaint: 2 OF 2)

Findings of Investigation

Name(s) of individual(s) contacted:	Title(s):	Phone: ( ) Fax: ( )
		Phone: ( ) Fax: ( )
		Phone: ( ) Fax: ( )

Nature of problem found during investigation:

Samples taken? ☐ Yes ☐ No	Pictures taken? ☐ Yes ☐ No
Is condition a State Water Quality Violation? ☐ Yes ☐ No	
Does facility discharge wastewater without a valid NPDES permit? ☐ Yes ☐ No (Permit #:)	
Does facility need an NPDES permit? ☐ Yes ☐ No	

Comments:

Name(s) and Signature(s) of Inspector(s):	Date:	Office/Telephone:

MULTIMEDIA SCREENING CHECKLIST:
Air, Water, Industrial Waste, Underground Storage Tanks and Toxic Release Inventory
State Form 50865 (R2 / 4-05)
INDIANA DEPARTMENT OF ENVIRONMENTAL MANAGEMENT

INDIANA DEPARTMENT OF ENVIRONMENTAL MANAGEMENT
Indiana Government Center-North
100 N. Senate Ave.
Indianapolis, IN 46204
Telephone: (317) 232-8603 or
Toll Free: 1-800-451-6027 (within Indiana)
http://www.IN.gov/idem/

Please Print Legibly or Type

SECTION 1: GENERAL INFORMATION

Facility Name: TWIN LAKES UTILITIES

Facility Contact: CHARLES ALEXANDER

SIC Codes for Facility *(Primary and Others)*: 4952

Description of Major Processes: SEWAGE TREATMENT

Inspector: Nick Ream Date of Inspection: 9/22/06

SECTION 2: AIR OBSERVATIONS

☑ Observations for this section of MM screening checklist completed.
☐ This section of MM screening checklist not completed.
☐ Refer to regular single-media inspection report or inspection summary letter.

1	☐ YES ☒ NO	**Are there any visible emissions *(except steam)* from any stack or vent?** If YES, identify process, vent or stack, description of emissions *(color, duration, constant vs. intermittent)*, time, and weather conditions *(e.g. wind direction)*.
2	☐ YES ☒ NO	**Is there any activity generating dust?** If YES, identify if dust was seen crossing the property lines, identify the source of the emissions, description of emissions *(color, duration, constant vs. intermittent)*, time, and weather conditions *(e.g. wind direction)*.
3	☐ YES ☒ NO	**Is there any evidence of open burning?** If YES, describe if burning is/is not occurring at the time of the inspection and describe materials and amounts burned.
4	☐ YES ☐ NO ☒ N/A	**Are solvent container(s) closed when not in use?** If NO, describe containers and location *(e.g. booth number, department, etc)*.
5	☐ YES ☐ NO ☒ N/A	**Are filters securely in place when spray booth(s) are in operation?** If NO, describe problems with filters *(e.g. no filters, sagging filters, torn, etc)* and describe location or identification of the spray booth *(e.g. booth number or department)*.

SECTION 3: WASTEWATER OBSERVATIONS

☐ Observations for this section of MM screening checklist completed.
☐ This section of MM screening checklist not completed.
☑ Refer to regular single-media inspection report or inspection summary letter.

1. ☐ YES ☐ NO	**Are any industrial process wastewaters being generated at this facility?** If YES, specify: Description of wastewaters:
2. ☐ YES ☐ NO	**Does any process wastewater discharge to a POTW collection system *(i.e. sewer)*?** If YES, specify: Does the facility have a wastewater/industrial user permit? ☐ YES ☐ NO
3. ☐ YES ☐ NO	**Does the facility have a direct discharge *(from industrial process, Industrial wastewater treatment or non-contact cooling water)* to a receiving water near the facility?** If YES, specify: A) Does the facility have a NPDES Permit? ☐ YES ☐ NO B) Is the receiving water being impacted *(e.g. discoloration of water/sediment/soils, foaming appearance, oily sheen, solids, floatables, odor, etc.)*? ☐ YES ☐ NO ☐ UNABLE TO DETERMINE BECAUSE: If YES, describe the impact: DOCUMENT WITH A PHOTOGRAPH.
4. ☐ YES ☐ NO	**Was any indication observed that process materials such as cleaners, solvents, paints, lubricants, etc. are escaping through floor drains?** If YES, specify: Description of materials:

SECTION 4: STORM WATER OBSERVATIONS

☒ Observations for this section of MM screening checklist completed.

☐ This section of MM screening checklist not completed.

☐ Refer to regular single-media inspection report or inspection summary letter.

1. ☐ YES ☒ NO

Do the facility's SIC codes require application for Rule 6 permit coverage pursuant to 327 IAC 15-6 *(Storm Water Associated With Industrial Activity)*?

If YES, specify:

A) Has the facility applied for Rule 6-permit coverage? ☐ YES ☐ NO

B) Has the facility prepared a Storm Water Pollution Prevention Plan pursuant to Rule 6? ☐ YES ☐ NO

Regulated Industrial Activity Categories			Regulated Industrial Activity Categories	
SIC Code*	Activity Description		SIC Code*	Activity Description
10xx	Metal mining		33xx	Primary metal industries
13xx	Oil and gas extraction		34xx	Fabricated metal products
14xx	Nonmetallic minerals, except fuels		35xx	Industrial machinery and equipment
20xx	Food and kindred products		36xx	Electronic & other electric equipment
21xx	Tobacco products		37xx	Transportation equipment
22xx	Textile mill products		38xx	Instruments and related products
23xx	Apparel and other textile products		39xx	Miscellaneous manufacturing industries
24xx	Lumber and wood products		40xx	Railroad transportation
25xx	Furniture and fixtures		41xx	Local & interurban passenger transit
26xx	Paper and allied products		42xx	Trucking and warehousing
27xx	Printing and publishing		43xx	United States Postal Service
28xx	Chemicals and allied products		44xx	Water transportation
29xx	Petroleum and coal products		45xx	Transportation by air
30xx	Rubber & miscellaneous plastic products		5015	Motor vehicle parts, used
31xx	Leather & leather products		5093	Scrap and waste materials
32xx	Stone, clay, and glass products		5541	Gasoline service stations**

*Although the actual SIC Code is a four-digit number, Rule 6 regulates the primary category group (i.e., the first two digits of the SIC Code) in many cases

**Only gasoline service stations that act as truck stops or plazas and have on-site vehicle maintenance activities are potentially regulated under Rule 6.

In addition to SIC Code designation, several narrative categories of industrial activities are also potentially regulated under Rule 6. These narrative categories include: (1) hazardous waste treatment, storage, or disposal facilities; (2) landfills, land application sites, open dumps, and transfer stations; (3) steam electric power generating facilities; (4) wastewater treatment plants with a design flow of 1,000,000 gallons per day or more that are not in an MS4 regulated by 327 IAC 15-13; and (5) agricultural chemical fertilizer and pesticide distribution facilities meeting certain storage thresholds and upon referral by the OISC.

2. ☐ YES ☒ NO

Does the facility have any ongoing or proposed land disturbing activities greater than or equal to one (1) acre?

If YES, specify:

A) Has the facility applied for Rule 5 permit coverage under 327 IAC 15-5 *(Storm Water Associated With Construction Activity)*? ☐ YES ☐ NO

B) Were any signs of erosion or off-site sedimentation into waters of the state from construction sites observed? ☐ YES ☐ NO

3. Describe the general appearance *(i.e. foam, oily sheen, solids and floatable, color or odor)* of any observed discharge of storm water.

NA

DOCUMENT WITH A PHOTOGRAPH

SECTION 5: DRINKING WATER OBSERVATIONS

☒ Observations for this section of MM screening checklist completed.
☐ This section of MM screening checklist not completed.
☐ Refer to regular single-media inspection report or inspection summary letter.

1	☒ YES ☐ NO	**Is the facility's drinking water *(drinking water, showers, cafeteria, etc.)* supplied by a municipal *(public or private)* water system?** If YES, then do not fill out rest of this section. A) If NO, does the facility have its own drinking water system for employees *(drinking water, showers, cafeteria, etc.)* ☐ YES ☐ NO B) If answer to 1.A is YES, is the source of the water supply surface water or ground water? ☐ Surface ☐ Ground C) If more than 25 employees, verified that they have a PWSID #? ☐ YES ☐ NO
2	☐ YES ☒ NO	**If the facility is a public water supply and has a PWSID #, is the well head on-site?** A) If YES, was the well head area observed? ☐ YES ☐ NO B) If answer to 2.A is YES, was the area within a 200-foot radius of the well head free of visible contamination sources? ☐ YES ☐ NO C) If answer to 2.B is NO, please describe: dd DOCUMENT WITH A PHOTOGRAPH

SECTION 6: INDUSTRIAL WASTE OBSERVATIONS

☒ Observations for this section of MM screening checklist completed.
☐ This section of MM screening checklist not completed.
☐ Refer to regular single-media inspection report or inspection summary letter.

1	☐ YES ☒ NO	**Was evidence observed of waste being released to the environment or disposed on-site? *(waste piles, excavations, releases, etc.)*** If YES, please indicate: A) Nature of evidence: B) Waste description: C) Source of the waste: D) Dimensions of the area: DOCUMENT WITH A PHOTOGRAPH

SECTION 7: UNDERGROUND STORAGE TANK OBSERVATIONS

☒ Observations for this section of MM screening checklist completed.
☐ This section of MM screening checklist not completed.
☐ Refer to regular single-media inspection report or inspection summary letter.

1	☐ YES ☒ NO	**Are there any underground storage tanks on-site that have not been registered with IDEM and contain petroleum* or a hazardous substance?** If YES, please indicate: A) How many?: B) List materials stored in the USTs: * Tanks storing fuel for heating are exempt.

SECTION 8: TOXIC RELEASE INVENTORY OBSERVATIONS

☒ Observations for this section of MM screening checklist completed.
☐ This section of MM screening checklist not completed.
☐ Refer to regular single-media inspection report or inspection summary letter.

1	☐ YES ☒ NO	Are you currently reporting to the Toxic Release Inventory *(reports due July 1)*? Note: If answer to Question 1 is YES, then do not fill out rest of this section.
2	☐ YES ☒ NO	If answer to Question 1 is NO, then do you have 10 or more employees including office staff?

3. If answer to question 2 is YES, then are you a member of any of the following Standard Industrial Classifications?

Check if Member of SIC Group	SIC Category *(2 digit)*	Standard Industrial Description	Check if Member of SIC Group	SIC Category *(2 digit)*	Standard Industrial Description
☐	10	Metal Mining	☐	31	Leather and Leather Products
☐	12	Coal Mining	☐	32	Stone, Clay, Glass and Concrete Products
☐	20	Food and Kindred Products	☐	33	Primary Metal Industries
☐	21	Tobacco Products	☐	34	Fabricated Metal Products, except Machinery and Transportation Equipment
☐	22	Textile Mill Products	☐	35	Industrial and Commercial Machinery and Computer Equipment
☐	23	Apparel and Other Finished Products made from Fabrics and Other Similar Materials	☐	36	Electronic and Other Electrical Equipment and Components
☐	24	Lumber and Wood Products	☐	37	Transportation Equipment
☐	25	Furniture and Fixtures	☐	38	Measuring, Analyzing and Controlling Instruments; Photographic, Medical & Optical Goods; Watches, Clock
☐	26	Paper and Allied Products	☐	39	Miscellaneous Manufacturing Industries
☐	27	Printing, Publishing, and Allied Products	☐	49	Electric, Gas and Sanitary Service
☐	28	Chemicals and Allied Products	☐	51	Wholesale Trade-Non-durable Goods
☐	29	Petroleum Refining and Related Industries *(Coal Products)*	☐	73	Business Services
☐	30	Rubber and Miscellaneous Plastics Products	☐	NA	None of the Above

Note: If answer to Question 1 is NO and YES to Questions 2 and 3, please forward a copy of completed multimedia inspection form to OPPTA.

ADDITIONAL COMMENTS

RECOMMENDATIONS FOR FOLLOW-UP

SECTION 8: TOXIC RELEASE INVENTORY OBSERVATIONS

☒ Observations for this section of MM screening checklist completed.

☐ This section of MM screening checklist not completed.

☐ Refer to regular single-media inspection report or inspection summary letter.

1	☐ YES ☒ NO	Are you currently reporting to the Toxic Release Inventory *(reports due July 1)*? Note: If answer to Question 1 is YES, then do not fill out rest of this section.
2	☐ YES ☒ NO	If answer to Question 1 is NO, then do you have 10 or more employees including office staff?

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Check if Member of SIC Group	SIC Category *(2 digit)*	Standard Industrial Description	Check if Member of SIC Group	SIC Category *(2 digit)*	Standard Industrial Description
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☐	21	Tobacco Products	☐	34	Fabricated Metal Products, except Machinery and Transportation Equipment
☐	22	Textile Mill Products	☐	35	Industrial and Commercial Machinery and Computer Equipment
☐	23	Apparel and Other Finished Products made from Fabrics and Other Similar Materials	☐	36	Electronic and Other Electrical Equipment and Components
☐	24	Lumber and Wood Products	☐	37	Transportation Equipment
☐	25	Furniture and Fixtures	☐	38	Measuring, Analyzing and Controlling Instruments; Photographic, Medical & Optical Goods; Watches, Clock
☐	26	Paper and Allied Products	☐	39	Miscellaneous Manufacturing Industries
☐	27	Printing, Publishing, and Allied Products	☐	49	Electric, Gas and Sanitary Service
☐	28	Chemicals and Allied Products	☐	51	Wholesale Trade-Non-durable Goods
☐	29	Petroleum Refining and Related Industries *(Coal Products)*	☐	73	Business Services
☐	30	Rubber and Miscellaneous Plastics Products	☐	NA	None of the Above

Note: If answer to Question 1 is NO and YES to Questions 2 and 3, please forward a copy of completed multimedia inspection form to OPPTA.

ADDITIONAL COMMENTS

RECOMMENDATIONS FOR FOLLOW-UP

INDIANA DEPARTMENT OF ENVIRONMENTAL MANAGEMENT
We make Indiana a cleaner, healthier place to live.

Mitchell E. Daniels, Jr.
Governor

Thomas W. Easterly
Commissioner

100 North Senate Avenue
Indianapolis, Indiana 46204
(317) 232-8603
(800) 451-6027
www.IN.gov/idem

March. 14, 2007

VIA CERTIFIED MAIL 7002 0510 0003 8209 1299

Charles Alexander, Area Manager
Twin Lakes Utilities
9201 East 123rd Avenue
Crown Point, IN 46307

Re: Inspection Summary/Violation Letter
[redacted]
Crown Point, IN 46307

Dear Mr. Alexander:

On January 24, 2007, a representative of the Indiana Department of Environmental Management, Northwest Regional Office, conducted an inspection of Twin Lakes Utilities, located near Crown Point, Indiana. This inspection was conducted pursuant to IC 13-14-2-2. For your information, and in accordance with IC 13-14-5, a summary of the inspection is provided below:

Type of Inspection: X Complaint Investigation

Results of Inspection:
___ Violations were observed but corrected during the inspection.
X Violations were observed
___ Violations were observed and will be referred to the Office of Enforcement.

A sanitary sewer overflow (SSO) occurred behind 2095 Hidden Valley into Big Bass Lake on January 9, 2007. The ground impacted by the SSO had since been applied with lime and cleaned with rakes. The loss of sewage into the environment was a violation of the permit, Part II. B. 1. a and 327 IAC 5-2-8(8) for failure to maintain the collection system.

Within thirty (30) days of receipt of this letter, a written detailed explanation, documenting compliance with each of the requirements listed above, must be submitted to: Indiana Dept. of Environmental Management, Office of Water Quality – Mail Code 65-42, 100 North Senate Avenue, Indianapolis, IN 46204-2251. Failure to respond adequately to this Violation Letter may result in a referral to IDEM's Office of Enforcement. Please direct any response to this letter and any questions to Nicholas Ream at (219) 757-0265. Thank you for your attention to this matter.

Sincerely,

J. Robert Simmons
Deputy Director
Northwest Regional Office

JRS/nkr

Name and Location of Facility to be Inspected:	NPDES Permit #:	GPS Coordinates Recorded:	Date to be Inspected:	Inspector:
Name: NW LAKES UTILITIES Town/City: CROWN POINT County: LAKE	IN0057176	YES	1/24/07	NER

1.	REVIEW RELEVANT PROGRAM PERMIT AND PERMIT APPLICATIONS	CHECK ONE: YES (circled)	NO	N/A	N/E
IF NO, N/A, N/E:	Provide explanation or description why:				
IF YES:	Info Source/ Location/Date Reviewed: NPDES FILES 1/24/07	Inspector Notations Pertinent to Upcoming Inspection: NONE			

2.	REVIEW PRIOR INSPECTION HISTORY & DETERMINE IF ANY OTHER PROGRAM INSPECTION, PARTICULARLY ANY OUTSTANDING OR UNRESOLVED ISSUES	CHECK ONE: YES (circled)	NO	N/A	N/E
IF NO, N/A, N/E:	Explanation:				
	Info Source/Location/Date Reviewed: NPDES FILES 1/24/07	Inspector Notations Pertinent to Upcoming Inspection: SSOs			

3.	REVIEW PRIOR COMPLIANCE AND ENFORCEMENT HISTORY RELEVANT TO PROGRAM INSPECTION, PARTICULARLY WARNINGS AND MINOR VIOLATIONS, FORMAL ACTIONS OR OTHERS	CHECK ONE: YES (circled)	NO	N/A	N/E
IF NO, N/A, N/E:	Explanation:				
	Info Source/Location/Date Reviewed: NPDES FILES 1/24/07	Inspector Notations Pertinent to Upcoming Inspection: NONE			

	REVIEW FACILITY RESPONSES TO ALL OF THE ABOVE	CHECK ONE: YES (circled)	NO	N/A	N/E
IF NO, N/A, N/E:	Explanation:				
	Info Source/Location/Date Reviewed: NPDES FILES 1/24/07	Inspector Notations Pertinent to Upcoming Inspection: NONE			

Name and Location of Facility to be Inspected:	NPDES Permit #:	GPS Coordinates Recorded:	Date to be Inspected:	Inspector:
Name: NIPSCO JIN LAKES UTILITIES Town/City: CROWN POINT County: LAKE	IN0037176	YES	1/24/07	NER

		CHECK ONE:			
1.	REVIEW RELEVANT PROGRAM PERMIT AND PERMIT APPLICATIONS	YES	NO	N/A	N/E
IF NO, N/A, N/E:	Provide explanation or description why:				
IF YES:	Info Source/ Location/Date Reviewed: MRO FILES 1/24/07	Inspector Notations Pertinent to Upcoming Inspection: NONE			

		CHECK ONE:			
2.	REVIEW PRIOR INSPECTION HISTORY & REPORTS RELEVANT TO THE PROGRAM INSPECTION, PARTICULARLY ANY OUTSTANDING OR UNRESOLVED ISSUES:	YES	NO	N/A	N/E
IF NO, N/A, N/E:	Explanation:				
S:	Info Source/Location/Date Reviewed: MRO FILES 1/24/07	Inspector Notations Pertinent to Upcoming Inspection: SSOs			

		CHECK ONE:			
3:	REVIEW PRIOR COMPLIANCE AND ENFORCEMENT HISTORY RELEVANT TO PROGRAM INSPECTION, PARTICULARLY WARNINGS AND MINOR VIOLATIONS, FORMAL ACTIONS OR [illegible]	YES	NO	N/A	N/E
IF NO, N/A, N/E:	Explanation:				
IF YES:	Info Source/Location/Date Reviewed: MRO FILES 1/24/07	Inspector Notations Pertinent to Upcoming Inspection: NONE			

		CHECK ONE:			
	REVIEW FACILITY RESPONSES TO ALL OF THE ABOVE	YES	NO	N/A	N/E
IF NO, N/A, N/E:	Explanation:				
IS:	Info Source/Location/Date Reviewed: MRO FILES 1/24/07	Inspector Notations Pertinent to Upcoming Inspection: NONE			

Additional Comments Regarding Unsatisfactory Ratings – Including Rule or Permit Citation(s):

Comments Regarding Marginal Ratings – Conclusions and Recommendations:

(2) THE EFFLUENT WAS VISUALLY CLEAR. NO EXCESSIVE ODORS WERE NOTED.

Multi-Media Screening (please note that a multi-media screening is not a comprehensive evaluation of the compliance status of the facility):

- X Multi-media screening not conducted.
- ____ No violations were observed during the limited multi-media screening conducted by IDEM.
- ____ Potential violations were discovered but corrected during the inspection.
- ____ Potential problems were discovered and may be further investigated.

Pollution Prevention

Pollution prevention is the preferred means of environmental protection in Indiana. The goal of pollution prevention is to promote changes in business and commercial operation, especially manufacturing processes, so that Indiana businesses increase productivity, generate less environmental wastes, reduce their regulatory responsibilities and become more profitable. Your participation in Indiana's pollution prevention program is entirely voluntary. If you have any pollution prevention questions, you may contact our Office of Pollution Prevention and Technical Assistance (OPPTA) at (317) 232-8172 or (800) 988-7901, or visit OPPTA's Web site at www.idem.IN.gov/oppta/p2/. Would your company like to be contacted by IDEM's Office of Pollution Prevention and Technical Assistance? X Yes ____ No

Compliance Assistance

In addition to the compliance assistance offered by IDEM's individual programs, IDEM's Compliance and Technical Assistance Program (CTAP) offers free, confidential compliance assistance to regulated entities, including small businesses and municipalities, throughout Indiana. In the future, if you would like to request free, confidential compliance assistance, call (317) 232-8172 or (800) 988-7901, or visit CTAP's Web site at http://www.idem.IN.gov/ctap/.

Summary and Correction Information

A summary of violations and concerns noted during the inspection was verbally communicated to the undersigned representative during the inspection. The facility should correct any violations noted as soon as possible. Violations identified and corrected during the inspection may still be cited as violations.

____ A written inspection summary will be provided within 45 days. In accordance with IC 13-14-5-4, matters not evident to IDEM at the time of the inspection might not be included in either the verbal or written inspection summary.

X Written report provided at the conclusion of the inspection. If upon subsequent review, any changes to this report are deemed necessary, a revised report will be sent to the subject facility within 45 days.

IDEM Representative:

Printed Name:	Signature:	Phone Number:	Date:	Time
NICHOLAS V. REAM		(219)757-0265	1/24/07	In: ~1200 Out: ~1445

Owner/Agent Representative/Title:

Printed Name:	Signature:	Title:	Phone Number:	Date:
Charles Alexander		Area Manager	219-988-3018	1/24/07

For IDEM Internal Use:

Section Chief or Regional Deputy Director:	Date:	For:	
	3/6/07	☐ Follow-up	☐ Enforcement
		☐ NPDES Permits	☐ Other

Distribution: White - IDEM Public File; Canary - OPPTA (if OPPTA assistance requested); Pink - Owner/Agent Representative; Gold - Inspector

EXHIBIT RC-2

DLZ
ENGINEERS • ARCHITECTS • SCIENTISTS
PLANNERS • SURVEYORS

April 20, 2007

Mr. Rick Cleveland (via fax: 219-988-3840)
Lakes of the Four Seasons Property Owners Association
1048 N. Lakeshore Drive
Crown Point, IN 46307

RE: Asbestos Pipe Sampling
Lake of the Four Seasons
DLZ Project No. 0264-2043-70

Dear Mr. Cleveland:

Steve Winters (IDEM Asbestos Building Inspector No. 190628076), an Indiana Department of Environmental Management (IDEM) Accredited Asbestos Building Inspector and employee of DLZ Indiana, LLC (DLZ) was on-site at the Lake of Four Seasons on March 27, 2007. DLZ was informed that the sanitary line located along Pinchurst Street was recently replaced and that the old sanitary line was believed to have consisted of an asbestos containing transite material. A representative from the Lake of Four Seasons, Ron Betwell, indicated that they believed the asbestos containing transite pipe was not removed but broken-up and commingled in with the backfill used for the new line.

DLZ observed multiple pieces of the piping that were protruding through the surface in the backfill area. In addition, several test pits were excavated in the sanitary sewer backfill area. A piece of the transite piping was uncovered approximately six to eight inches below the surface in one of the test pits. DLZ collected a sample from two separate pieces of piping and submitted the samples to ACM Engineering & Environmental Services for analysis. The results of the analysis indicated that the samples contain 26% and 34% asbestos. A copy of the laboratory analytical results is attached.

If you have any questions, please free to contact our office.

Sincerely,

DLZ INDIANA LLC

Anthony J. Kenning, P.E.
Project Manager

cc: WMJ
Steve Winters
File

M:\proj\0264\2043\phase6\0307 asbestos pipe\2007-04-20.rcleveland submit report.doc

RECD 04/11/07

cc: PF
EW
JCV
F

ANALYSIS OF SUSPECT ASBESTOS CONTAINING BUILDING MATERIALS

FOR:

DLZ INDIANA, LLC
2211 EAST JEFFERSON BLVD.
SOUTH BEND, INDIANA 46615

LOCATION:

LAKE OF FOUR SEASON

ACM ENGINEERING & ENVIRONMENTAL SERVICES
PROJECT#: 12141

DATE OF REPORT:

APRIL 11, 2007

PREPARED BY:

ACM ENGINEERING & ENVIRONMENTAL SERVICES
26598 U.S. 20 WEST
SOUTH BEND, IN 46628

NVLAP LAB CODE: 101977

INTRODUCTION:
In April 2007, ACM Engineering & Environmental Services received bulk samples of suspect asbestos containing building material from DLZ Indiana, LLC.. These are to be analyzed by ACM Engineering & Environmental Services for possible asbestos content.

THE REPORT:
The attached report quantifies the fibrous materials found in each sample submitted for analysis. A complete fibrous analysis of samples is given for each sample followed by a breakdown analysis of any sub-samples for heterogeneous material.

The first column is the client sample identification.

The second column is the laboratory sample number. The laboratory number for the overall sample analysis is a digit number. The laboratory number followed by a letter designation (A,B,C. etc.) indicates a sub-sample analysis.

The third column is the sample identification, which indicates whether the sample is homogeneous or heterogeneous, the color of the sample, and the physical description (cementitious, fibrous, cloth, etc.)

The fourth column indicates the types and percentages of asbestos identified in the sample or sub-sample.

The fifth column indicates the types and percentages of non-asbestos identified in the sample or sub-sample.

The sixth column indicates the types and percentages of non-asbestos, non-fibrous material in the sample or sub-sample.

The seventh column indicates the types and percentages of non-asbestos fibrous material in the sample or sub-sample. Fibrous material will not necessarily total 100% of the sample.

There will be dashes (----) in each column when nothing is detected.

METHOD:
All analyses and quantifications are performed in accordance with the U.S. Environmental Protection Agency's "Method for the Determination of Asbestos in Bulk Building Materials", EPA/600/R-93/116.

The method utilizes stereoscopical examination of the bulk samples, as well as utilizing the polarized light microscope and the central stop dispersion staining method.

If applicable, please be advised that the Stereo Scope/PLM methods have limitations regarding floor tile analysis for asbestos content. Historically, the production of floor tile has included the grinding of asbestos into submicroscopic portions. Therefore, this method of analysis may produce incorrect results for tests of floor tile which produce negative finding for asbestos.

PAGE 2

Gross samples are examined under a 10X or 20X stereoscope where homogeneity (need for sub-samples), texture and /or any other distinguishing characteristics are determined.

Sub-samples are prepared if needed. Any fibrous material is mounted in high dispersion oil for further microscope examination utilizing polarized light microscopy. Any possible asbestos fibers are analyzed for morphology, color and pleochroism, index of refraction parallel and perpendicular to elongation, birefringence, extinction characteristic and sign of elongation, and any other distinguishing characteristics observed.

To determine the refractive index, the central stop dispersion staining method is used, as well as matching with refractive index oil and using light matching the sodium D line wavelength. Identification of non-asbestos species is less rigorous, as they are of secondary interest.

The percentage of asbestos and other fibrous materials are then determined according to sample area coverage and thickness. The limit of qualification is one percent (1%). The above is recorded on the laboratory analysis sheet and maintained for three years.

The error involved for reported percentages of fibrous is 100% error for 1% to 5%, 50% error for 5% to 20%, and 25% error for 20% to 100%. All percentages will be reported in a range indicating error or a single value, in which case the above error should be applied. When the value 1% or greater is reported this indicates asbestos is present in the sample.

ASBESTOS CHARACTERIZATION:
The features of the various forms of asbestos are as follows:

CHRYSOTILE: Thin fibers and fiber bundles with both straight and wavy sections. The ends of bundles tend to be frayed. Sign of elongation is positive, refractive indices are 1.493-1.560 (alpha) and 1.668-1.717 (gamma), and birefringence of 0.009-0.016. It is commonly referred to as blue asbestos.

AMOSITE: Straight thin single fibers and bundles of such fibers usually with cleanly broken ends on individual fibers, positive sign of elongation, refractive indices of 1.653-1.696 (alpha) and 1.655-1.729 (gamma), and birefringence of 0.020-0.033. Fibers exhibit parallel extinction.

CROCIDOLITE: Similar in morphology to amosite, but is distinguished by negative sign of elongation, blue to blue-green pleochroic coloration, refractive indices of 1.654-1.701 (alpha) and 1.668-1.717 (gamma), and birefringence of 0.009-0.016. It is commonly referred to as blue asbestos.

ANTHOPHYLITE: Similar in morphology to amosite, but has refractive indices of 1.596-1.652 (alpha) and 1.615-1.676 (gamma), anthophylite fibers show parallel extinction and positive sign of elongation.

PAGE 3

TREMOLITE/ACTINOLITE SERIES:
Transparent, elongated furrowed prisms, usually with uneven, jagged ends and smooth sides, with oblique (0-20 degree) to parallel extinction and positive elongation; refractive indices are 1.599-1.668 (alpha) and 1.622-1.688 (gamma) and birefringence is 0.020-0.028.

SAMPLE RETENTION:
Samples will be retained for 6 months unless otherwise instructed. After this period, the sample(s) will be disposed of appropriately. Upon written request, the samples will be returned by mail or delivery for a nominal fee to cover postage and handling. There would be no charge for samples picked-up at ACM Engineering & Environmental Services.

DISCUSSION AND RECOMMENDATIONS:
In order to reduce the risk of introducing asbestos fibers into the air, care should be taken not to disturb the asbestos containing building materials. If renovation, demolition or other activities might disturb known asbestos containing building materials, a reputable asbestos consultant should be contacted to help effectively design and implement an asbestos management program.

Report prepared by: **Patrick T. Griffin**

(Signature)

ACM Engineering & Environmental Services
President/CEO

Analysis of Suspect Asbestos Containing Building Materials

CLIENT: DLZ INDIANA
2211 EAST JEFFERSON
SOUTH BEND, INDIANA 46615

ANALYTICAL METHOD: EPA/600/R-93/116

NVLAP LAB CODE #: 101977

CLIENT PROJECT: LAKE OF FOUR SEASON

MATRIX: BULK

DATE OF SAMPLE: 03/27/07

DATE OF ANALYSIS: 04/11/07

SAMPLE SITE: LAKE OF FOUR SEASON

ACM PROJECT #: 12141

CLIENT SAMPLE NUMBER	LAB SAMPLE NUMBER	SAMPLE IDENTIFICATION	ASBEST	CELL	NON FIB NON ACBM	FIB NON ACBM
HA-1/S-1	0705478	GRAY FIBROUS MATERIAL	26%C	—	74%	—
HA-1/S-2	0705479	GRAY FIBROUS MATERIAL	26%C 8%CR	—	66%	—

MICROSCOPIST: Patti T. Duff DATE: 4/11/07

Analysis of Suspect Asbestos Containing Materials

ACM ENGINEERING & ENVIRONMENTAL SERVICES PROJECT NO.: 12141

DESCRIPTION OF ANY PROBLEMS ENCOUNTERED IN THE SAMPLE ANALYSIS: None

COMPONENTS DESCRIPTION:

ASBESTOS MATERIALS

ACBM = ASBESTOS CONTAINING BUILDING MATERIAL
C = CHRYSOTILE
A = AMOSITE
CR = CROCIDOLITE
AN = ANTHOPHYLITE
AC = ACTINOLITE
T = TREMOLITE
---- = NO ASBESTOS DETECTED

NON-ASBESTOS MATERIALS

CELL = CELLULOSE
G = FIBROUS GLASS
M = MINERAL WOOL
S = SYNTHETICS
H = HAIR
CO = COTTON
O = OTHER
CF = CERAMIC FIBERS
NON-FIB NON-ACM = NON FIBROUS NON ACBM
FIB NON ACM = FIBROUS NON ACBM

NOTES: FIBROUS QUANTITIES DO NOT NECESSARILY ADD UP TO 100%, REMAINING QUANTITIES ARE COMPOSED OF NON-FIBROUS ROCKS, BINDERS AND MISC. MATERIALS.

THIS REPORT MUST NOT BE USED BY THE CLIENT TO CLAIM PRODUCT ENDORSEMENT BY NVLAP OR ANY AGENCY OF THE U.S. GOVERNMENT.

THIS REPORT RELATES ONLY TO THE ITEMS ABOVE.

ACM ENGINEERING & ENVIRONMENTAL SERVICES DOES NOT DEVIATE FROM THE TEST METHOD DESCRIBED IN THIS REPORT.
ACM ENGINEERING & ENVIRONMENTAL SERVICES DOES NOT DEVIATE FROM THE TEST METHOD DESCRIBED IN THIS REPORT.

535763

STL®

STL Valparaiso
2400 Cumberland Drive
Valparaiso, IN 46383
Phone: 219-464-2389
Fax: 219-462-2953

Report To:
Contact: Steve Winters
Company: DCI Indiana LLC
Address: 2211 East Jefferson Blvd
South Bend Indiana 46615
Phone: 574-236-4440
Fax: 574 236-4471
E-Mail:

Bill To:
Contact:
Company:
Address:
Phone:
Fax:
PO#: Quote:

Shaded Areas For Internal Use Only ____ of ____

Package Sealed Yes No	Samples Sealed Yes No
Labeled w/ Ice Yes No	Samples Intact Yes No
Temperature: °C at Cooler:	
Within Hold Time Yes No	Preserv. Indicated Yes No N/
pH Check OK Yes No NA	Res Cl_2 Check C Yes No N/
Sample Labels and COC Agree Yes No	COC not presen

Sampler Name: Steve Winters
Signature:
Project Name: Lake of Four Seasons
Project Number:
Project Location: Porter County
Lab PM:
Date Required
Hard Copy: ___/___/___
Fax: ___/___/___

Laboratory ID	MS-MSD	Client Sample ID	Sampling Date	Sampling Time	Matrix	Comp/Grab	# / Cont.	Volume	Preserv.	Additional Analyses / Remarks
		HA-1 /S-1	3/27	—						
		HA-1 /S-2	3/27	—						

RELINQUISHED BY: [signature] COMPANY: DCI DATE: 3/16/07 TIME: 8:00
RECEIVED BY: Audrey Terry COMPANY: ACM DATE: 4-16-07 TIME: 10:3

RELINQUISHED BY ____ COMPANY ____ DATE ____ TIME ____
RECEIVED BY ____ COMPANY ____ DATE ____ TIME ____

Matrix Key
WW = Wastewater
W = Water
S = Soil
SL = Sludge
MS = Miscellaneous
OL = Oil
A = Air
SE = Sediment
SD = Solid
DS = Drum Solid
DL = Drum Liquid
L = Leachate
WI = Wipe
O = ____

Container Key
1. Plastic
2. VOA Vial
3. Sterile Plastic
4. Amber Glass
5. Widemouth Glass
6. Other ____

Preservative Key
1. HCl, Cool to 4°
2. H_2SO_4, Cool to 4°
3. HNO_3, Cool to 4°
4. NaOH, Cool to 4°
5. NaOH/Zn, Cool to 4°
6. Cool to 4°
7. None

COMMENTS: NEED 24-hr Turnaround

Date Received / /
Courier: Hand Delivered
Bill of Lading

EXHIBIT RC-3

ASBESTOS/NESHAP REGULATED ASBESTOS CONTAINING MATERIALS GUIDANCE

1. INTRODUCTION:

Section 112 of the Clean Air Act (CAA) requires EPA to develop emission standards for hazardous air pollutants. In response to this section the Environmental Protection Agency (EPA) published a list of hazardous air pollutants and promulgated the "National Emission Standards for Hazardous Air Pollutants" (NESHAP) regulations. Since asbestos presents a significant risk to human health as a result of air emissions from one or more source categories, it is therefore considered a hazardous air pollutant. The Asbestos NESHAP (40 CFR 61, Subpart M) addresses milling, manufacturing and fabricating operations, demolition and renovation activities, waste disposal issues, active and inactive waste disposal sites and asbestos conversion processes.

In the initial Asbestos NESHAP rule promulgated in 1973, a distinction was made between building materials that would readily release asbestos fibers when damaged or disturbed and those materials that were unlikely to result in significant fiber release. The terms "friable" and non-friable" were used to make this distinction. EPA has since determined that, if severely damaged, otherwise non-friable materials can release significant amounts of asbestos fibers.

Friable asbestos-containing material (ACM), is defined by the Asbestos NESHAP, as any material containing more than one percent (1%) asbestos as determined using the method specified in Appendix A, Subpart F, 40 CFR Part 763, Section 1, Polarized Light Microscopy (PLM), that, when dry, can be crumbled, pulverized or reduced to powder by hand pressure. (Sec. 61.141)

Non-friable ACM is any material containing more than one percent (1%) asbestos as determined using the method specified in Appendix A, Subpart F, 40 CFR Part 763, Section 1, Polarized Light Microscopy (PLM), that, when dry, cannot be crumbled, pulverized, or reduced to powder by hand pressure. EPA also defines two categories of non-friable ACM, Category I and Category II non-friable ACM, which are described later in this guidance.

"Regulated Asbestos-Containing Material" (RACM) is (a) friable asbestos material, (b) Category I non-friable ACM that has become friable, (c) Category I non-friable ACM that will be or has been subjected to sanding, grinding, cutting or abrading, or (d) Category II non-friable ACM that has a high probability of becoming or has become crumbled, pulverized, or reduced to powder by the forces expected to act on the material in the course of demolition or renovation operations.

The purpose of this document is to assist asbestos inspectors and the regulated

community in determining whether or not a material is RACM and thus subject to the Asbestos NESHAP.

The recommendations made in this guidance are solely recommendations. They are not the exclusive means of complying with the Asbestos NESHAP requirements. Following these recommendations is not a guarantee against findings of violation. The EPA intends for owners/operators to be reasonably certain whether or not they are subject to the NESHAP. In the end, if a question arises, determinations of whether asbestos containing materials are regulated by the Asbestos NESHAP are made by EPA inspectors on site.

2. FRIABLE ASBESTOS-CONTAINING MATERIALS:

Due to their high tensile strength, incombustibility, corrosion and friction resistance and other properties, such as acoustical and thermal insulation abilities, asbestos fibers have been incorporated into over thirty-six hundred (3600) commercial products. Thermal system, fireproofing and acoustical insulation materials have been used extensively in the construction industry.

Thermal system applications include steam or hot water pipe coverings and thermal block insulation found on boilers and hot water tanks. Fireproofing insulation may be found on building structural beams and decking. Acoustical insulation (soundproofing) commonly has been applied as a troweled-on plaster in school and office building stairwells and hallways. Unfortunately, with time and exposure to damaging forces (e.g., severe weather, chemicals, mechanical forces, etc.), many asbestos-containing materials may become crumbled, pulverized or reduced to powder, thereby releasing asbestos fibers, or may deteriorate to the extent that they may release fibers if disturbed. Since inhalation of asbestos fibers has been linked to the development of respiratory and other diseases, any material which is friable, or has a high probability of releasing fibers, must be handled in accordance with the Asbestos NESHAP.

The following work practice should be followed whenever demolition/renovation activities involving RACM occur:

Notify EPA of intention to demolish/renovate,

remove all RACM from a facility being demolished or renovated before any disruptive activity begins or before access to the material is precluded,

keep RACM adequately wet before, during, and after removal operations,

conduct demolition/renovation activities in a manner which produces no visible emissions to the outside air, and

handle and dispose of all RACM in an approved manner.

3. non-friable ASBESTOS-CONTAINING MATERIALS:

Because of the resilient nature of asbestos, it is used in materials exposed to a wide variety of stressful environments. These environments can cause the deterioration of binding materials and cause non-friable materials to become friable. For example, asbestos-containing packings and gaskets (Category I non-friable ACM) used in thermal systems may be found in poor condition as a result of the heat they have encountered. In petrochemical handling facilities, which may have miles of transfer pipes and fittings which contain asbestos gaskets and/or packings, profound degradation of the ACM may occur due to exposure to organic-based

liquids and gases or to corrosive agents used to chemically clean these lines.

When non-friable ACM is subjected to intense mechanical forces, such as those encountered during demolition or renovation, it can be crumbled, pulverized, or reduced to powder, and thereby release asbestos fibers. When non-friable materials are damaged or are likely to become damaged during such activities, they must be handled in accordance with the Asbestos NESHAP.

There are two categories of non-friable materials: Category I non-friable ACM and Category II non-friable ACM.

CATEGORY I non-friable ACM

Category I non-friable ACM is any asbestos-containing packing, gasket, resilient floor covering or asphalt roofing product which contains more than one percent (1%) asbestos as determined using polarized light microscopy (PLM) according to the method specified in Appendix A, Subpart F, 40 CFR Part 763. (Sec. 61.141)

Category I non-friable ACM must be inspected and tested for friability if it is in poor condition before demolition to determine whether or not it is subject to the Asbestos NESHAP. If the ACM is friable, it must be handled in accordance with the NESHAP. Asbestos-containing packings, gaskets, resilient floor coverings and asphalt roofing materials must be removed before demolition only if they are in poor condition and are friable.

The Asbestos NESHAP further requires that if a facility is demolished by intentional burning, all of the facility's ACM, including Category I and II non-friable ACM, be considered RACM and be removed prior to burning (Sec. 61.145(c)(10)). Additionally, if Category I or Category II non-friable ACM is to be sanded, ground, cut, or abraded, the material is considered RACM and the owner or operator must abide by the following (Sec. 61.145(c)(1)):

(i) Adequately wet the material during the sanding, grinding, cutting or abrading operations.

(ii) comply with the requirements of 61.145(c)(3)(i) if wetting would unavoidably damage equipment or present a safety hazard.

(iii) Handle asbestos material produced by the sanding, grinding, cutting, or abrading, as asbestos-containing waste material subject to the waste handling and collection provisions of Section 61.150.

CATEGORY II non-friable ACM

Category II non-friable ACM is any material, excluding Category I non-friable ACM, containing more than one percent (1%) asbestos as determined using polarized light microscopy according to the methods specified in Appendix A, Subpart F, 40 CFR Part 763 that, when dry, cannot be crumbled, pulverized, or reduced to powder by hand pressure. (Sec. 61.141)

Category II non-friable ACMs (cement siding, transite board shingles, etc.) subjected to intense weather conditions such as thunderstorms, high winds or prolonged exposure to high heat and humidity may become "weathered" to a point where they become friable.

The following table lists examples and other relevant information about Category I and Category II non-friable ACM.

TABLE 1. non-friable ASBESTOS PRODUCTS

Subdivision Generic Name		Asbest %	Binder/Sizing
Cementitious extrusion panels		8	portland cement
concrete-like products	corrugated	20-45	portland cement
(Category II)	flat	40-50	portland cement
	flexible	30-50	portland cement
	flexible perforated	30-50	portland cement
	laminated	35-50	portland cement
	(outer surface)		
	roof tiles	20-30	portland cement
	clapboard and shingles		
	clapboard	12-15	portland cement
	siding shingles	12-14	portland cement
	roofing shingles	20-32	portland cement
	pipe	20-15	portland cement
Roofing felts	smooth surface	10-15	asphalt
(Category I)	mineral surface	10-15	asphalt
	shingles	[illegible]	asphalt
	pipeline	10	asphalt
Asbestos-containing	caulking putties	30	linseed oil
compunds	adhesive (cold applied)	5-25	asphalt
(Category I and II)	roofing asphalt	5	asphalt
	mastics	5-25	asphalt
	asphalt tile cement	13-25	asphalt
	roof putty	10-25	asphalt
	plaster/stucco	2-10	portland cement
	sealants fire/water	50-55	castor oil or polyisobutylene
	cement, insulation	20-100	clay
	cement, finishing	55	clay
	cement, magnesia	15	magnesium carbonate
Asbestos ebony products		50	portland cement
Floor tile and vinyl/asbestos tile		21	poly(vinyl)chloride
Sheet goods asphalt/asbestos tile		26-33	asphalt
Sheet goods/resilient		30	dry oils

From EPA Guidance entitled "Guidance for Controlling Asbestos- Containing Materials in Buildings" (Purple Book), appendix A, Page A-1; EPA 560/5-85-024.

Except for the following, Section 61.145(c) of the Asbestos NESHAP requires that each owner or operator of a demolition or renovation activity involving RACM remove all such material from a facility being demolished or renovated before any activity begins that would break up, dislodge, or similarly disturb the material or preclude access to the material for subsequent removal.

ACM need not be removed before demolition if it:

(i) Is a Category I non-friable ACM that is not friable.

(ii) Is on a facility component that is encased in concrete or other similarly hard material and is adequately wet whenever exposed during demolition.

(iii) Was not accessible for testing and therefore was not discovered until after demolition began and, as a result of the demolition, cannot be safely removed. If not removed for safety reasons, the exposed RACM and any asbestos-contaminated debris must be treated as asbestos-containing waste material and kept adequately wet at at all times until disposed of.

(iv) Is a Category II non-friable ACM and the probability is low that the material will become crumbled, pulverized, or reduced to powder during demolition.

4. INSPECTION PROCEDURES TO DETERMINE THE POTENTIAL FOR FIBER RELEASE FROM non-friable ASBESTOS-CONTAINING MATERIALS:

Members of the regulated community (i.e. abatement contractors, industrial hygienists, building owners & operators, etc.) should become familiar with these procedures as they are designed to enhance compliance with the Asbestos NESHAP.

GENERAL INSPECTION PROCEDURES

1. Identify all non-friable suspect ACM and determine whether it is Category I or II.

2. If it is Category I non-friable RACM:

Is it in "poor condition?" [Is the binding of the ACM losing its integrity? Is the ACM peeling, cracking, or crumbling? (Remember, friable ACM may not appear in poor condition.)]

Is it friable?

- Collect a piece of dry ACM and seal it in a transparent, reclosable sample bag.

- Apply hand pressure and observe if the ACM falls apart to the extent that it is crumbled, pulverized, or reduced to powder. Does it occur suddenly, all at once?

- Send representative samples of the RACM to an analytical laboratory which is able to test them for the presence of asbestos according to the methods specified in 40 CFR Part 763 Subpart F, Appendix A.

- Ask the owner/operator if any ACM or RACM has been sampled and analyzed. If so, determine where the samples were taken and ask if the methods of demolition/renovation were considered when assessing the fiber release potential of the material. Will it or has it been subjected to sanding, grinding, cutting or abrading?

3. If it is Category II non-friable ACM:

- Has the material been crumbled, pulverized or reduced to powder or is there a high probability that it will be crumbled, pulverized or reduced to powder during the demolition/renovation operations, thus rendering the material friable and subject to the Asbestos NESHAP?

- If Category II non-friable ACM has been or will be crumbled, pulverized, or reduced to powder by demolition or renovation forces, take representative samples and send them to a laboratory to test for the presence of asbestos according to the method specified in 40 CFR Part 763, Subpart F, Appendix A.

5. SPECIFIC INSPECTION PROCEDURES:

CATEGORY I non-friable ACM

Packings and Gaskets

These materials are often very difficult to find because they are usually placed inside ovens, doors, pipes, boilers, etc. Often a packing or gasket is discovered during a stripping or demolition activity. For example, some boilers have an asbestos containing paraffin wax packing between the steam lines that travel between the mud and fire boxes. The paraffin binding of the packing may decompose due to the high temperatures, and render the packing friable. Observe all of the packing and note areas that are in poor condition. Packings in poor condition appear dry and discolored, and fibers may be visible.

A representative piece of asbestos-containing packing material (in good or poor condition) should be removed with a utility knife and sealed in a transparent, reclosable bag. Apply hand pressure to the packing in the sample bag to determine if any portion is crumbled, pulverized or reduced to powder. If the material simply deforms, but does not crumble or reduces to a powder, then the material is considered non-friable.

Resilient Floor Covering

There is a wide variety of resilient floor covering applications that contain asbestos. The most common are linoleum flooring and vinyl asbestos tile (VAT). VAT is most commonly found in either a 9"x9" or a 12"x12" square size. The 9"x9" VAT's are normally found in older buildings because they were manufactured earlier than the 12"x12" VAT's; however, floor tile sizes and resilient floor covering applications vary greatly since many buildings have been re-tiled several times.

In order to determine if a resilient floor covering is in poor condition look for sections or tiles which are cracked or peeling to the extent that they are crumbled. Floor coverings in poor condition can often be found near doorways or loading/staging areas where the floor has sustained a lot of stress and traffic. If the floor covering is in poor condition, collect a small representative sample and seal it in a transparent, sample bag. Hand pressure should be applied to determine if the material can be crumbled, pulverized, or reduced to powder. If it can, the material is considered friable. Resilient floor covering that will be or has been sanded, ground or abraded is subject to the Asbestos NESHAP.

Asphalt Roofing Products

Asbestos-containing roofing felts have been widely used in "built-up" roofs. Built-up roofing was used on flat surfaces and consists of alternating layers of roofing felt and asphalt. The roofing felt consists of asbestos paper saturated and coated with asphalt. Asphalt-asbestos roofing products made from roofing felt coated with asphalt were reportedly used on residential structures for only a short time (1971-1974).

To determine if an asphalt roofing product is covered by the Asbestos NESHAP, examine the RACM to spot any areas where the material is in poor condition and friable.

If possible, sample areas where fibers can be seen protruding from the matrix of the asphalt. The sample should be sealed into a transparent, reclosable sample bag and hand pressure applied to see if the sample can be crumbled, pulverized, or reduced to powder.

CATEGORY II non-friable ACM

Asbestos Cement Pipe and Sheet Products

Asbestos-cement (A-C) pipe has been widely used for water and sewer mains and occasionally used as electrical conduits, drainage pipe, and vent pipes. A-C sheet, manufactured in flat or corrugated panels and shingles (transite board), has been used primarily for roofing and siding, but also for cooling tower fill sheets, canal bulkheads, laboratory tables, and electrical switching gear panels. If these ACM are crumbled, pulverized or reduced to a powder, they are friable and thus covered by the Asbestos NESHAP. Broken edges of these material typically are friable. The fractured surface should be rubbed to see if it produces powder.

If Category II non-friable ACM has not crumbled, been pulverized or reduced to powder and will not become so during the course of demolition/renovation operations, it is considered non-friable and therefore is not subject to Asbestos NESHAP. However, if during the demolition or renovation activity it becomes crumbled, pulverized or reduced to powder, it is covered by the Asbestos NESHAP.

DISCLAIMER and ACKNOWLEDGEMENTS

This document was written by Alliance Technologies, Inc., based on discussions with a work group from EPA. The group consisted of the Regional Asbestos NESHAP Coordinators, Ron Shafer, Scott Throwe, and Omayra Salgado of the Stationary Source Compliance Division, Charles Garlow and Elise Hoerath of the Air Enforcement Division and Sims Roy of the Standards Development Branch. We thank the individuals who reviewed an earlier draft and provided comments, many of which are incorporated in the final version. Their input is gratefully acknowledged.

EXHIBIT RC-4

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128
LOFS Data Request Set No. 1

Request 1-10

What steps, if any, has Twin Lakes Utilities taken to eliminate and ameliorate any future human exposure to asbestos as a result of the repair work referenced at pages FH28-29 of the transcript to the public field hearing conducted in this cause on February 6, 2007?

Response:

Since the removal and replacement of the old piping during the course of the referenced repair work, and subsequent clean-up of the site, Twin Lakes Utilities is not aware of any remaining health hazard relating to that work.

Prepared by:

Responding Witness(es): Chris Montgomery

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128
LOFS Data Request Set No. 1

Request 1-11

Is Twin Lakes Utilities willing to reimburse the Lakes of the Four Seasons for the fish it kills caused by sewage discharges into the subdivision's lakes during the past three years? If the response is no, please explain why not.

Response:

TLU objects to this request on the ground that it assumes fish have been killed because of sewer discharges from TLU. Without waiving its objection, TLU further responds that fish kills may occur as a result of a variety of factors.

Prepared by:

Responding Witness(es):

Date of Request: 3/15/2007 Due Date: 3/26/2007

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF TWIN LAKES UTILITIES, INC. FOR AN INCREASE IN ITS RATES AND CHARGES FOR WATER AND WASTEWATER UTILITY SERVICE RENDERED BY IT	)))))	CAUSE NO. 42488
		APPROVED: MAR 3 1 2004

BY THE COMMISSION
Larry S. Landis, Commissioner
Gregory S. Colton, Administrative Law Judge

On July 29, 2003, Twin Lakes Utilities, Inc. ("Twin Lakes") filed its petition initiating this cause in which it seeks Commission approval of an increase in its water and sewer rates. The presiding officers convened a prehearing conference and preliminary hearing, September 10, 2003, at which Twin Lakes and counsel for the Indiana Office of Utility Consumer Counselor ("OUCC") appeared. Also at the prehearing conference, the presiding officers granted a petition to intervene filed by the Lakes of the Four Seasons Property Owners Association ("Intervenor"). On September 17, 2003, we issued our Prehearing Conference Order.

On September 29, 2003, Twin Lakes prefiled its testimony and exhibits constituting its case-in-chief and a motion to clarify or amend our Prehearing Conference Order. Additional briefing by all parties ensued, and on November 14, 2003, Twin Lakes and the OUCC filed a Joint Motion to Amend Prehearing Conference Order. The Intervenor opposed the joint motion, and on November 26, 2003, the presiding officers vacated the procedural schedule and ordered the parties to appear at a hearing held on December 17, 2003, at which all parties appeared and presented testimony on an appropriate cut-off date for Twin Lakes' accounting, engineering and rate base evidence. On December 23, 2003, we issued our Second Prehearing Conference Order granting in part that motion, and pursuant to that order, Twin Lakes filed supplemental direct testimony on December 30, 2003. The OUCC and Intervenor filed responsive testimony on January 20, 2004, to which Twin Lakes filed rebuttal testimony, February 3, 2004.

Pursuant to notice duly given and published, the presiding officers conducted a field hearing at the Jerry Ross Elementary School in Crown Point, at 6:00 p.m. CST, February 12, 2004, at which the parties and members of the public appeared. The OUCC offered several exhibits at the field hearing, and additionally was granted leave to late file additional field hearing exhibits that the OUCC might subsequently receive from members of the public. These exhibits were filed on February 19, 2004.

At the March 4, 2004, evidentiary hearing, Twin Lakes, the OUCC and the Intervenor announced their resolution of all issues in this case and offered into evidence as Joint Ex. No. 1

their settlement agreement and supporting schedules ("Settlement Agreement").[1] Pursuant to the Settlement Agreement, all of the testimony and exhibits that had been prefiled was admitted into the record, without objection, and each party waived its right to cross-examine witnesses. Twin Lakes' Director of Regulatory Accounting, Steven M. Lubertozzi, testified in support of the Settlement Agreement, and at the request of the Presiding Officers, agreed to late-file an exhibit describing Twin Lakes' compliance with certain aspects of this Commission's 1991 order in Cause No. 39050, which exhibit was filed on March 12, 2004.

Having considered the evidence and the governing law, we now find that:

1. **Notice and Jurisdiction.** Notice of the filing of Twin Lakes' petition as well as of each of this Commission's hearings was given as required by law. This Commission authorized Twin Lakes to provide water and sewer service by orders in Cause Nos. 33766, issued February 18, 1975 and 35611, issued May 18, 1979. Twin Lakes is a public utility as defined by I.C. 8-1-2-1(a)(2) and (a)(3), and we have continuing jurisdiction over the rates Twin Lakes may charge for its utility service. I.C. 8-1-2-61. Accordingly, we have jurisdiction over both Twin Lakes and the subject matter of its petition.

2. **Petitioner's Characteristics.** Twin Lakes provides water and sewer disposal service to approximately 3,000 customers within a rural area straddling the Lake and Porter County line. Most of Twin Lakes' customers are residential and located within the Lakes of the Four Seasons development. Twin Lakes is a subsidiary of Utilities, Inc., which also owns several other utilities nationwide, including two others in Indiana: Lincoln Utilities, Inc. and Water Service Company of Indiana.

3. **Relief Requested and Prefiled Testimony.** This Commission last established base rates for Twin Lakes water service in our order in Cause No. 39573, issued March 10, 1993 ("1993 Order"), and for sewer service in our order in Cause No. 39050, issued April 17, 1991 ("1991 Order"). Twin Lakes alleges that the revenue it receives as a result of these rates is no longer adequate to cover its operating costs and provide it with a reasonable return on its investment in its utility facilities. According to the testimony prefiled by Twin Lakes' witnesses, Petitioner should be allowed to increase its water rates by 16.03% and its sewer rates by 48.34%. The only other party to prefile evidence as to the adequacy of Twin Lakes' current rates, the OUCC, agreed that the current rates are inadequate, but disagreed that the amount of the increase sought by Twin Lakes was warranted. Instead, the OUCC's witnesses proposed increases of 6.43% and 32.33% for water and sewer service, respectively. The Intervenor raised concerns that related only to the quality of the services provided by Twin Lakes.

4. **Settlement Agreement.** In compromise of their various positions, the parties offered their Settlement Agreement, which resolved all issues in this Cause. A copy of the Settlement Agreement is attached to this order. The parties also jointly filed their proposed form of final order on March 11, 2004, and requested its adoption. For the reasons set forth below, we find that the Settlement Agreement is in the public interest and should be approved.

[1] Joint Exhibit 1, introduced into the record at the hearing, contained a number of handwritten corrections. Later that same day, the parties jointly filed a corrected copy with original signatures, requesting that it be substituted for the marked-up copy. The corrected copy, marked Joint Replacement Exhibit 1, is attached to this Order.

a. Test Year. As approved in our Second Prehearing Conference Order, the Settlement Agreement reflects the parties' use of a cut-off date for determining Twin Lakes' rate base of October 31, 2003, and a test year ending December 31, 2002, with adjustments reflecting changes in Twin Lakes' operations in 2003 that are fixed, known and measurable.

b. Rate Base. The parties agreed to an original cost less depreciation rate base for each utility, which they agreed is $1,736,901 on the water side and $5,771,557 on the sewer side.

c. Cost of Capital. There was no disagreement among the parties in their prefiled testimony that Twin Lakes cost of long-term debt is 7.24%, or that such debt comprised 59.76% of Twin Lakes' capital structure. *Compare* Schedule 1, Page 1 of 18 from Petitioner's Exhibit PMA-1 to Schedule 5 of the OUCC's Exhibit No. 1. The Settlement Agreement reflects the parties' compromise that Twin Lakes' cost of common equity is 10.25%, resulting in the following weighted cost of capital to be used in this case for rate making purposes:

Class of Capital	Percent of total	Cost	Weighted Cost
Common Equity	40.24%	10.25%	4.12%
Long-Term Debt	59.76%	7.24%	4.33%
	100%		8.45%

d. Approved Return. We find that the Settlement Agreement as respects Twin Lakes' rate base, cost of capital and return is reasonable and should be adopted by the Commission. Specifically, we find that Twin Lakes should be authorized to earn an 8.45% return on its original cost, depreciated of (1) water utility rate base of $1,736,901 and (2) sewer utility rate base of $5,771,557. The operating income we approve is $146,768 in the case of the Twin Lakes water utility and $487,697 in the case of the Twin Lakes sewer utility.

e. Revenue Adjustments Under Current Rates. As shown in Settlement Schedule 7 of the parties' settlement, the parties agreed that Twin Lakes' test year revenues under current rates should be increased by four adjustments. First, they agreed upon a customer normalization increase of $21,497 for the water utility and $37,954 for the sewer utility. Second, they agreed to add $10,034 to water revenues and $14,061 to sewer revenues for customer growth, exclusive of the new school in Twin Lakes' service territory, from the end of the test year through the rate base cut-off of October 31, 2003. Third, revenue from the aforementioned new school was accounted for by adding $2,897.33 to water revenues and $5,794.66 to sewer revenues. Finally, the parties agreed upon an adjustment for commercial sewer revenue of $1,866.

f. Expense Adjustments. The six-page Schedule 8 of the parties' Settlement Agreement contains the details for 14 proposed adjustments to Twin Lakes' operations and maintenance expenses during the test year. These 14 categories included wages, payroll tax, employee benefits, employee education, employment finder fees, insurance, non-recurring expenses, depreciation, utility receipts and federal and state income taxes, and customer normalization.

g. Rate Case Expense. The parties agreed to a three-year amortization of Twin Lakes' rate case expenses in this cause. Noting their intent that Twin Lakes recover the entire

amount of its rate case expense, but no more, the parties agreed that in the event Twin Lakes does not commence a rate proceeding with respect to its water and sewer rates within three years after the effective date of our final order in this Cause, Twin Lakes will file an amended rate schedule designed to decrease its water revenues by $10,370 and its sewer revenues by $10,226. We find this term of the parties' Settlement Agreement is reasonable, and that Twin Lakes should comply with this term.

h. Return Under Current Rates. Having accepted the foregoing revenue and expense adjustments as reasonable, we find that Twin Lakes, under its current rates, is not earning an adequate return on its original cost water and sewer utility rate bases. We find that, as set forth in the Settlement Agreement, Twin Lakes should be allowed to increase its water rates by $68,429 and its sewer rates by $414,286. The resulting rates as agreed upon in the Settlement Agreement, reflecting a 9.07% increase in water rates and a 40.89% increase in sewer rates, are supported by the evidence and reasonable.

5. **Service Quality Issues.** At the field hearing, nine customers offered verbal testimony critical of aspects of Twin Lakes' service since its last rate cases. Some of these customers, as well as other customers, also submitted written and/or visual evidence describing discharges of untreated sewage that have been ongoing since the last rate case, including pictures which the customer claimed represented instances of discharges into the Intervenor's lakes. They described discharge events, most or all of which apparently predate installation of a new sewer force main in August, 2003. Other concerns included odor problems. All of these concerns in addition to the concerns about the proper restoration of areas disturbed during Twin Lakes 2003 force main project were referenced in the Intervenor's prefiled testimony.

Paragraphs 6 through 9 of the Settlement Agreement reflect the parties' resolution of the Intervenor's issues. Of greatest concern to the Commission and the Intervenor, as well as to Twin Lakes and the OUCC, have been past instances of sewer discharges within the Lakes of the Four Seasons subdivision. Twin Lakes' installation of a new sewer force main in August, 2003, is anticipated to significantly reduce if not eliminate such discharges. As the Settlement Agreement evidences, Twin Lakes has committed to invest a total of at least $500,000 in the aggregate over the period 2003-2007 to further diagnose and remediate residual instances of inflow and infiltration ("I&I") into its sewer system, as warranted. Included in this amount are the costs of certain projects estimated to total $225,000, which are already in progress. The Settlement Agreement provides additional detail about Petitioner's investment commitment. As part of its program to reduce inflow and infiltration (I&I), Twin Lakes recently re-lined a section of the sewer main to provide further relief to those customers who have been most impacted by sewer discharges. Twin Lakes further committed to reporting quarterly to this Commission as well as to the OUCC and Intervenor its progress addressing I&I.

We find the parties' proposed resolution of the Intervenor's service quality concerns to be reasonable, and that Twin Lakes should file a quarterly report with this Commission's Gas/Water/Sewer Division setting forth the steps taken to address I&I pursuant to paragraphs 6 and 7 of the Settlement Agreement. Such reports should also be served on the OUCC and the Intervenor, and should continue through the fourth quarter of 2007.

The Commission takes favorable notice of Petitioner's commitments intended to address I&I problems and improve service levels, and to provide the Commission and OUCC periodic reports, as set forth in the Settlement Agreement. At the same time, the Commission also notes that testimony at the field hearing seems to indicate a lack of awareness by the utility's customers of the grievance and complaint mechanisms available to them, and suboptimal handling of customer complaints. Therefore, in addition to the reporting commitments stipulated in the Settlement Agreement, the Commission directs Petitioner to provide all customers with a printed notice ("Notice"), in the form of a statement insert or freestanding communication delivered individually by mail to each customer of record. This Notice shall be written in plain language and be subject to prior approval by Commission staff. Said Notice shall include a complete description of Petitioner's own procedures and standards for handling of customer inquiries and complaints, including any opportunities for appeal available to customers if Petitioner's initial response is deemed unsatisfactory. This Notice shall also include brief background information on the OUCC and the Commission, as well as information on how to contact either or both organizations after having contacted Petitioner and in the event a customer feels that Petitioner has been unresponsive in handling a complaint or inquiry. The toll-free telephone numbers of both organizations shall be included, and displayed prominently so that they stand out visually from the text of the Notice.

We find that Petitioner should provide such notice to its customers at least annually, and should also provide evidence of that fact to the Commission. Petitioner should distribute the first such annual notice within ninety (90) days of the date of this Order.

Finally, Petitioner is directed to continue reporting to the Consumer Affairs division the receipt and disposition of customer complaints on a quarterly basis through the fourth quarter of 2007, and thereafter to annually file a report on customer complaints, pursuant to 170 IAC 8.5-2-5(d).

6. **Compliance with 1991 Order.** Ordering paragraphs 4 through 7 of the 1991 Order (Cause No. 39050) contained certain conditions. At the evidentiary hearing in the instant Cause, the Presiding Officers noted that the passage of time had made confirmation of Twin Lakes' compliance with those conditions problematic, but requested Twin Lakes to check its records to try to determine whether it had made a good faith effort to comply with those conditions.

As we have already found in Finding Paragraph 8, on page 6, of our 1993 Order, Twin Lakes had "complied with the relevant ordering paragraphs in our Order in Cause No. 39050" as of the date of that Order. These relevant paragraphs included our order that Twin Lakes 1) file with the Commission the annual reports of customer complaints as well as quarterly reports of customer complaints and their disposition, 2) submit to the Commission, the OUCC and the Intervenor plans and a timetable to rectify water pressure problems, and 3) implement a meter testing program. We have no basis in the instant proceeding for revisiting these findings from 11 years ago.

A fourth condition not covered in our 1993 Order, contained in ordering paragraph 6 of the 1991 Order, directed Twin Lakes to submit to the Commission, the OUCC and the Intervenor

an engineering study of its sewer system within one year of the date of the 1991 Order. Twin Lakes' late-filed exhibit requested by the Presiding Officers included a copy of the engineering study performed in compliance with the aforementioned condition from our 1991 Order. We are therefore satisfied that Twin Lakes complied with that term of the 1991 Order.

IT IS, THEREFORE, ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. The parties' Settlement Agreement attached hereto is approved in all respects, with the clarification that with regard to future use, citation, or precedent of the Settlement Agreement, we find that our approval of the terms of the Settlement Agreement should be construed in a manner consistent with our finding in In Re Richmond Power & Light, Cause No. 40434, dated March 19, 1997.

2. Twin Lakes shall be allowed to increase its water rates by 9.07% on an across-the-board basis and its residential sewer rates by 40.89%. Twin Lakes commercial sewer rates shall continue to be based on water consumption. Petitioner shall file with the Gas/Water/Sewer Division of the Commission new schedules of rates and charges before placing in effect the rate increase authorized herein, which schedules, when approved by the Gas/Water/Sewer Division, shall be effective and shall cancel all previously approved schedules of rates and charges.

3. Twin Lakes shall file quarterly reports with this Commission's Gas/Water/Sewer Division within 30 days of the end of each calendar quarter through 2007 concerning its inflow and infiltration program, and should serve copies of such reports on the OUCC and Intervenor.

4. Twin Lakes shall comply with Finding Paragraph No. 4.g. of this Order and the related provision of the Settlement Agreement, which may require Petitioner to file an amended rate schedule under certain circumstances.

5. Twin Lakes shall distribute to its customers the annual Notice required in Finding Paragraph No. 5, and shall annually file with the Commission, the OUCC and Intervenor evidence of continuing compliance with the requirement.

6. Twin Lakes shall submit quarterly summaries of consumer complaints with the Commission's Consumer Affairs Division, as directed in Finding Paragraph No. 5.

7. This Order shall be effective on and after the date of its approval.

MCCARTY, HADLEY AND RIPLEY CONCUR; LANDIS AND ZIEGNER ABSENT:
APPROVED: MAR 3 1 2004

I hereby certify that the above is a true and correct copy of the Order as approved.

Nancy Manley, Secretary to the Commission

ORIGINAL

FILED

MAR 0 4 2004

INDIANA UTILITY REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF TWIN LAKES UTILITIES, INC. FOR AN INCREASE IN ITS RATES AND CHARGES FOR WATER AND WASTEWATER UTILITY SERVICE RENDERED BY IT	)))))	CAUSE NO. 42488

SUBMISSION OF SETTLEMENT AGREEMENT AS REPLACEMENT FOR SETTLEMENT AGREEMENT FILED EARLIER TODAY

At the evidentiary hearing this morning, all parties to this cause sponsored Joint Exhibit 1, consisting of their Settlement Agreement and accompanying Appendix A containing water and sewer schedules, which joint exhibit was admitted into the record. The document submitted contained various hand-written edits initialed by each party's counsel. These same parties now file the attached clean copy of their Settlement Agreement in which each of the hand-written edits has been made.

It is the intention of the parties that the attached clean copy of the Settlement Agreement serve as a replacement for Joint Exhibit 1. The text of the attached clean copy, including the schedules, is, with one exception, identical to the document admitted as Joint Exhibit 1. The one exception concerns a minor alteration of the language at the end of the first sentence of paragraph number 6 and at the beginning of the second sentence of that same paragraph, which alteration had been previously agreed to by the petitioner and intervenor and in which the Office of Utility Consumer Counselor acquiesces.

IURC JOINT EXHIBIT NO. Replacement 1
3-19-04 AT

Respectfully submitted,

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

By: _____

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TWIN LAKES UTILITIES, INC.

By: _____

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LAKES OF THE FOUR SEASONS PROPERTY OWNER'S ASSOCIATION

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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF TWIN LAKES UTILITIES, INC. FOR AN INCREASE IN ITS RATES AND CHARGES FOR WATER AND WASTEWATER UTILITY SERVICE RENDERED BY IT	)))))	CAUSE NO. 42488

SETTLEMENT AGREEMENT

The undersigned parties ("Parties"), in compromise and settlement of the issues in this Cause, enter into this settlement agreement ("Settlement"), pursuant to which they agree that:

1. Water Utility Income under Current Rates. In the test year, Petitioner, under current rates and after proforma adjustments, had total water utility operating revenue of $757,200, operation and maintenance expense of $407,740, IURC fee expense of $782, property tax expense of $126,783, depreciation expense of $83,972, utility receipts tax expense of $10,558 and federal and state income tax expense of $15,767 and $5,331, respectively, for total proforma operating expenses of $650,932 and net operating income of $106,268, as shown in the workpapers attached hereto as Appendix A.

2. Increase Authorized. Petitioner should be authorized to revise its water utility rates to produce $146,768 of net operating income, which will require $68,429 of additional water utility operating revenues over test year proforma revenues, a 9.07% increase in revenues. The increase, computed as shown in Appendix A, is based on an original cost depreciated water utility rate base of $1,736,901 and a rate of return of 8.45%, reflecting a 10.25% cost of equity and a 7.24% cost of long term debt. The $40,500 difference between proforma net operating income under present rates of $106,268 and Petitioner's authorized operating income of $146,768 was converted to a revenue increase by using a revenue

conversion factor of 1.6896, as shown on Sch. 1W of Appendix A. The water rate increase authorized should be across the board by an equal percentage to all customers.

3. Sewer Utility Revenue and Expense under Current Rates. In the test year, Petitioner, under current rates and after proforma adjustments, had sewer utility operating revenue of $1,055,488, operation and maintenance expense of $454,583, IURC fee expense of $1,109, property tax expense of $125,021, depreciation expense of $222,334, utility receipts tax of $14,721 and federal and state income tax expense of $(4,970) and $215, respectively, for total operating expense of $813,013 and net operating income of $242,475, as shown in Appendix A.

4. Increase Authorized. Petitioner should be authorized to revise its sewer rates to produce $487,697 of net operating income, which will require $414,286 of additional sewer utility operating revenues over test year revenues, a 40.89% increase in residential revenues and a 39.39% increase in total operating revenues. This increase, as shown in Appendix A, is based on a sewer utility rate base of $5,771,557 and a rate of return of 8.45%, reflecting a 10.25% cost of equity and a 7.24% cost of long term debt. The proforma net operating income difference of $245,222 was converted to a revenue increase by using a revenue conversion factor of 1.6894. See Sch. 1S of Appendix A. The rate increase authorized should be a 40.89% increase in residential rates across the board and a 39.39% increase in total operating revenues.

5. Rate Case Expense Related Reduction. The parties have agreed to a three year amortization of rate case expense in this Cause. It is the intent of the parties that Petitioner recover the entire allowed rate case expense of $61,788 and no more. In the event that Petitioner does not commence a rate proceeding with respect to its water and sewer rates within three years after the effective date of the final order in this Cause, Petitioner shall file an amended schedule

of rates and charges designed to decrease its revenues by the amount of $10,370 in the case of its water rates and $10,226 in the case of its sewer rates.

6. Remediation of Sewer Discharges. Petitioner recognizes that there have been past incidents of sewer discharges within the Lakes of the Four Seasons subdivision and commits to taking a variety of steps designed to alleviate this problem. Foremost among these steps already taken has been the installation of a new sewer force main at a cost of nearly $1.4 million, which was put into service in August, 2003. Petitioner has also undertaken an inflow and infiltration remediation program consisting of sewer main replacements, relining of sewer mains, jetting and televising sewer mains, conducting smoke tests, analysis of lift station run times during significant rain events, re-lining manholes and replacement of manhole covers with covers designed to divert rainwater, and excavation of sewer mains, with specific actions determined based on Petitioner's business decisions. Petitioner further commits to spending at least $500,000 on this program for five years from 2003 through 2007, with projects prioritized in a manner to minimize or eliminate sewer discharges expeditiously. Specific projects already in progress and included within this $500,000 commitment include re-lining portions of the main near East Lakeshore Drive and sections near Happy Valley Drive, at an estimated cost of $135,000, repair of Lift Station F at an estimated cost of $15,000, and Petitioner has allocated approximately $65,000 for additional projects as part of this program. Of the approximately $275,000 remaining, Petitioner commits to spending at least $175,000 on remediation projects.

7. Reporting and Remedy for Breach. Petitioner shall report quarterly through 2007 to the Commission and the other parties to this Settlement its actions as part of the inflow and infiltration program referenced in paragraph #6, above. Should LOFS conclude that

Petitioner is in breach of this Settlement, LOFS may seek redress from either a court of general jurisdiction or the Indiana Utility Regulatory Commission for such alleged breach.

8. Sewer Vents. Petitioner agrees to bury the blue plastic barrel and as much associated piping as is engineeringly feasible installed at the Kingsway Drive sewer vent referenced on page of 8 of LOFS' witness Robert Campbell's prefiled testimony and pictured in Exhibit RC-3. Petitioner further agrees to continue working with LOFS to address their members' concerns about the aesthetics of the remaining sewer vents in the subdivision.

9. Landscaping. Petitioner agrees to use its best efforts to direct it's landscaping contractor to restore by June 1, 2004, pursuant to the specifications previously presented by Petitioner to LOFS, the areas that were disturbed during construction of the force main referenced in paragraph #6, above.

10. The testimony and exhibits prefiled in this Cause constitute sufficient evidence to support this Settlement, and such testimony and this Settlement should be admitted into evidence. The Parties hereby waive cross-examination of the witnesses giving such testimony.

11. This Settlement is entered into solely for purposes of this Cause and shall not be cited by any Party in any future proceeding other than for the purpose of enforcing the terms of this Settlement.

12. If the Commission does not approve this Settlement without a material change unacceptable to the Parties, this Settlement shall be null and void.

Entered into as of the 4th day of March, 2004.

OFFICE OF UTILITY CONSUMER COUNSELOR

By: _____

TWIN LAKES UTILITIES, INC.

By: _____

LAKES OF THE FOUR SEASONS PROPERTY OWNER'S ASSOCIATION

By: _____

Settlement Schedules
TWIN LAKES UTILITIES, INC
CAUSE NO 42488

OUCC's Revenue Requirement
Water

Description:	Per Petitioner	Supplemental Petitioner	Per OUCC	OUCC More/(Less)	Sch Ref
Original Cost Rate Base	$1,832,000	$1,788,864	$1,736,901	($51,963)	4w
Times: Weighted Cost of Capital	8.99%	8.99%	8.45%	-0.54%	5w
Net Operating Income Required	164,813	160,876	146,768	(14,108)	
Less: Adjusted Net Operating Income	69,950	67,661	106,268	38,607	6w
Additional NOI Required	94,862	93,215	40,500	(52,715)	
Gross Revenue Conversion Factor	1.68557	1.68557	1.6896	0.00403	1w
Recommended Revenue Increase	$159,897	$157,120	$68,429	($88,691)	
Percentage Increase	22.34%	21.95%	9.07%	-12.88%	

Rate Impact - 13,500 gallons bimonthly	Per Petitioner	Supplemental Petitioner	Settlement	OUCC More/(Less)
Current $40.08	$49.03	$48.88	$43.72	($5.16)

Gross Revenue Conversion Factor

	Description		Factor Proposed By Petitioner	Factor Proposed By OUCC	Proposed Rates By OUCC
1	Gross Revenue Change		100.0000%	100.0000%	$68,429
2	Bad Debts Charge (.35%)		0.3600%	0.3600%	246
3	IURC Fee (2004 Fiscal Year Ending)	0.11002240%	99.6400% 0.0000%	99.6400% 0.1100%	75
4	Subtotal		99.6400%	99.5300%	
5	State Utility Receipts Tax (at 1.4%)		1.4000%	1.3950%	955
6	Subtotal		98.2400%	98.1350%	
7	State Adjusted Gross Receipts Tax (8.5%)		8.3504%	8.4600%	5,789
8	Subtotal		89.8896%	89.6750%	
9	Federal Income Tax (at 34%)		30.5625%	30.4895%	20,864
10	Change In Operating Income		59.3271%	59.1855%	$40,500
11	Gross Revenue Conversion Factor		1.6856	1.6896	

TWIN LAKES UTILITIES, INC.
CAUSE NO. 42488
WATER
Reconciliation of Net Operating Income Statement Adjustments

Description:	Per Petitioner	Supplemental Petitioner	Per OUCC	OUCC More/(Less)
Operating Revenues:				
Water Revenues - Residential	$0	0	$10,034	$10,034
Water Revenues - Commercial	0	0	2,897	2,897
Forfeited Discounts	0	0	0	0
Miscellaneous Revenues	0	0	0	0
Total Operating Revenue	0	0	12,932	12,932
Operating Expenses				
Salaries & Wages	9,939	10,000	8,680	(1,320)
Payroll Taxes	2,750	2,770	229	(2,541)
Employee Benefits	7,084	7,139	7,084	(55)
Employee Education Exp	296	298	296	(2)
Employment Finders Fee	0	0	(497)	(497)
Insurance Expense	5,101	5,140	5,101	(39)
Non-recurring Expense	0	0	(8,667)	(8,667)
Amortization of Rate Case Expense	10,370	10,533	10,370	(163)
Customer Normalization	0	0	5,217	5,217
IURC Fee	0	0	14	14
Depreciation	12,105	11,284	(9,794)	(21,078)
Utility Receipts Tax	10,020	10,020	10,558	538
Income Taxes - Federal	(29,045)	(29,263)	(8,480)	20,783
Income Taxes - State	(3,245)	(3,305)	3,397	6,702
Total Operating Expense	25,375	24,616	23,508	(1,109)
Total Net Operating Income Adjustments	($25,375)	($24,616)	($10,577)	$14,040

Settlement Schedules
TWIN LAKES UTILITIES, INC
CAUSE NO. 42488

OUCC's Revenue Requirement
Sewer

Description:	Per Petitioner	Supplemental Petitioner	Per OUCC	OUCC More/(Less)	Sch Ref
Original Cost Rate Base	$6,410,902	$6,160,409	$5,771,557	($388,852)	4S
Times: Weighted Cost of Capital	8.99%	8.99%	8.45%	-0.54%	5S
Net Operating Income Required	576,340	553,821	487,697	(66,124)	
Less Adjusted Net Operating Income	192,590	193,525	242,475	48,950	6S
Less. Commercial increase	6,892	14,863	0	(14,863)	
Additional NOI Required	376,858	345,432	245,222	(100,211)	
Gross Revenue Conversion Factor	1.68540	1.68540	1.6894	0.00403	1S
Recommended Revenue Increase	$635,156	$582,192	$414,286	($167,906)	
Percentage Increase Overall	64.90%	60.87%	39.39%	-21.49%	
Percentage Increase Residential	66.41%	60.36%	40.89%	-19.46%	

Rate Impact	Current	Petitioner	Supplemental Petitioner	Per Settlement	OUCC More/(Less)
Residential (Flat Rate - bimonthly)	57.16	95.12	91.66	80.53	(11.13)
Commercial	200% of Water bill				

Gross Revenue Conversion Factor

	Description	Factor Proposed By Petitioner	Factor Proposed By OUCC	Proposed Rates By OUCC
1	Gross Revenue Change	100.0000%	100.0000%	$414,286
2	Bad Debts Charge (.35%)	0.3500%	0.3500%	1,450
3	Subtotal	99.6500%	99.6500%	
4	IURC Fee (2004 Fiscal Year Ending)	0.0000%	0.1100%	456
5	Subtotal	99.6500%	99.5400%	
6	State Utility Receipts Tax (at 1.4% times line 3)	1.4000%	1.3951%	5,780
7	Subtotal	98.2500%	98.1449%	
8	State Adjusted Gross Receipts Tax (8.5% times line 5)	8.3513%	8.4609%	35,052
9	Subtotal	89.8988%	89.6840%	
10	Federal Income Tax (34% times line 9)	30.5656%	30.4926%	126,326
11	Change In Operating Income	59.3332%	59.1914%	$245,222
12	Gross Revenue Conversion Factor	1.6854	1.6894	

TWIN LAKES UTILITIES, INC.
CAUSE NO. 42488
Sewer
Reconciliation of Net Operating Income Statement Adjustments

Description:	Per Petitioner	Supplemental Petitioner	Per OUCC	OUCC More/(Less)
Operating Revenues:				
Sewer Revenues - Residential	$0	0	$14,061	$14,061
Sewer Revenues - Commercial	0	0	$5,795	5,795
Forfeited Discounts	0	0		0
Miscellaneous Revenues	0	0	0	0
Total Operating Revenue	0	0	19,856	19,856
Operating Expenses				
Salaries & Wages	9,806	9,745	8,560	(1,185)
Payroll Taxes	2,713	2,693	226	(2,467)
Employee Benefits	6,985	6,930	6,985	55
Employee Education Exp	292	289	292	3
Employment Finders Fee	0	0	(491)	(491)
Insurance Expense	5,030	4,990	5,030	40
Non-recurring Expense	0	0	(16,139)	(16,139)
Amortization of Rate Case Expense	10,225	10,226	10,226	(0)
Customer Normalization			3,098	3,098
IURC Fee	0		22	22
Depreciation	52,735	47,302	26,151	(21,151)
Utility Receipts Tax	13,849	13,849	14,721	872
Income Taxes - Federal	(76,389)	(70,324)	(37,681)	32,643
Income Taxes - State	(14,027)	(12,369)	(1,878)	10,491
Total Operating Expense	11,220	13,331	19,123	5,792
Total Net Operating Income Adjustments	($11,220)	($13,331)	$733	$14,064

TWIN LAKES UTILITIES, INC.
CAUSE NO. 42488

Balance Sheet as of December 31, 2002

Assets and Other Debits:			
Fixed Assets:	Water	Sewer	Combined
Utility Plant In Service	$4,079,327	$8,988,958	$13,068,285
Less: Accumulated Depreciation	949,118	1,964,063	2,913,181
Net Utility Plant In Service	3,130,209	7,024,895	10,155,104
Acquisition Adjustment	0	0	0
Accum. Amortization of Acquisition Adj.	0	0	0
Construction Work In Progress	0	99,605	99,605
Total Utility Plant In Service	3,130,209	7,124,500	10,254,709
Abandoned Plant			0
Total Plant	3,130,209	7,124,500	10,254,709
Other Assets and Investments	0	0	0
Current and Accrued Assets:			
Cash and Cash Equivalents			0
Accounts Receivable			295,508
Accounts Receivable - Other			
Amortizable Expenses			
Inventory			
Prepaid Taxes			
Total Current and Accrued Assets	0	0	295,508
Deferred Debits:			90,977
Total Assets and Other Debits	$3,130,209	$7,124,500	$10,641,194

TWIN LAKES UTILITIES, INC.
CAUSE NO. 42488

Balance Sheet as of December 31, 2002

Liabilities and Stockholders Equity:	Water	Sewer	Combined
Stockholders Equity:			
Common Stock			$ 5,963,145
Undistributed Earnings			4,692,340
Current Income			
Total Stockholders Equity			10,655,485
Availability Fees - 1997			-
Availability Fees - Sewer			-
Availability Fees - Water			-
Long Term Debt			
Total Long Term Liabilities	-	-	-
Current and Accrued Liabilities:			
Accounts Payable			32,260
Accounts Payable -Assoc. Companies			(4,252,366)
Accounts Payable - City			
Customer Deposits			2,115
Accrued Taxes - Indiana Gross			
Accrued Property Taxes			(72,073)
Accrued Taxes - Indiana Sales Tax			
Accrued Taxes - Federal Income Tax			
Accrued Interest			3,078
Total Current and Accrued Liabilities			(4,286,986)
Deferred Credits:			
Unamortized ITC			89,461
Deferred Tax - Federal			392,378
Deferred Tax - State			(57,411)
Total Deferred Credits			424,428
Contribution In Aid Of Construction - Water	1,373,059		1,373,059
Contribution In Aid Of Construction - Sewer		2,475,207	2,475,207
Total Liabilities and Stockholders Equity	$ -	$ 2,475,207	$ 10,641,193

TWIN LAKES UTILITIES, INC.
CAUSE NO. 42488

Income Statement For The Year Ended December 31, 2002

Operating Revenues:	Water	Sewer	Total
Water/Sewer Revenues Residential	$ 700,008	$956,383	$1,656,392
Water/Sewer Revenues Commercial	15,672	32,846	48,517
Forfeited Discounts	4,262	4,750	9,012
Miscellaneous Revenues	2,830	3,699	6,529
Total Operating Revenues	722,772	997,678	1,720,450
Operating Expenses:			
Salaries and Wages	127,921	$126,142	254,063
Payroll Taxes (from pet wkp on taxes)	11,488	11,328	22,816
Pension & Other Benefits	24,325	23,987	48,312
Purchased Power	97,173	44,816	141,989
Maintenance & Repair	35,869	120,477	156,346
Maintenance Testing	4,221	40,162	44,383
Meter Reading	9,016	0	9,016
Chemicals	12,520	12,346	24,866
Transportation	16,041	15,818	31,859
Operating Expense charged to Plant	(11,608)	(11,447)	(23,055)
Outside Services - Other	8,999	8,874	17,873
Office Supplies & Other Office Expenses	13,138	12,955	26,093
Rent	800	789	1,589
Insurance	18,610	18,351	36,961
Office Utilities	5,638	5,560	11,198
Regulatory Commission Expense	372	367	739
Uncollectible Accounts	2,590	3,495	6,085
Miscellaneous	2,814	2,775	5,589
Total Operations and Maintenance Expenses	379,927	436,795	816,722
Depreciation	93,766	196,183	289,949
Amortization of CIAC	0	0	0
Net Operating Income Before Income Taxes	249,079	364,700	613,779
Taxes other than Income:			
Utility/Commission Tax	768	1,087	1,855
Real Estate Tax	8,286	8,171	16,457
Personal Property Tax	118,482	116,835	235,317
Franchise Tax (SOS report)	15	15	30
Income Taxes - Federal	24,247	32,711	56,958
Income Taxes - State	1,934	2,093	4,027
Total Operating Expenses	627,425	793,890	314,644
Net Income from operations	$ 95,347	$ 203,788	$299,135
Other Deductions:			
Interest during construction	(1,220)	(2,737)	(3,957)
Interest on Debt	55,201	124,537	179,738
Net Corporate Income	41,366	81,988	123,354

TWIN LAKES UTILITIES, INC.
CAUSE NO. 42488
Water
Calculation of Rate Base as of December 31, 2002
Updated Through October 31, 2003

Description:	Original Petitioner	Supplemental Petitioner	Settlement
Utility Plant In Service as of 12/31/02	$4,078,270	$4,079,327	$4,079,327
Less: Accumulated Depreciation	948,817	949,118	949,118
Net Utility Plant in Service 12/31/02	3,129,453	3,130,209	3,130,209
Add: Capital items Added 1/1/03 through 10/31/03	135,618	91,591	91,591
Water Service Corporation (net of depreciation)	52,955	53,366	50,430
Less: Additional Depreciation on Items added in 2003	2,712	1,832	1,832
2003 depreciation on UPIS as of 12/31/02			68,450
Contributions in Aid of Construction	1,373,059	1,373,059	1,373,059
Deferred Income Taxes (30.82%)	178,001	179,554	103,237
Unamortized Income Tax Credits (30.82%)			27,572
Customer Deposits	1,065	1,073	0
Total Net Utility Plant In Service	1,763,189	1,719,648	1,698,080
Add: Working Capital (See Below)	68,809	69,217	38,821
Total Original Cost Rate Base	$1,832,000	$1,788,867	$1,736,901

Working Capital Calculation

Description	
Pro-forma Present Rate Operations and Maintenance Expense	$407,740
Less: Purchased Power	97,173
Adjusted Operation and Maintenance Expense	310,567
Times: 45 day method	0.125
Working Capital Requirement	$38,821

TWIN LAKES UTILITIES, INC.
CAUSE NO. 42488
Sewer
Calculation of Rate Base as of December 31, 2002
Updated Through October 31, 2003

Description:	Original Petitioner	Supplemental Petitioner	Settlement
Utility Plant In Service as of 12/31/02	$8,990,014	$8,988,958	$8,988,958
Less: Accumulated Depreciation	1,964,365	1,964,063	1,964,063
Net Utility Plant in Service 12/31/02	7,025,649	7,024,895	7,024,895
Add: Capital items Added 1/1/03 through 10/31/03	1,930,773	1,674,899	1,674,899
Water Service Corporation (net)	52,214	51,803	49,729
Less: Additional Depreciation on Items added in 2003	40,546	35,173	35,173
Depreciation on 12/31/02Updated to 10/31/03			182,619
Contributions in Aid of Construction	2,475,207	2,475,207	2,475,207
Disallowed AFUDC - work order 116-90-09		0	42,569
Deferred Income Taxes (69.18%)	156,967	155,413	231,730
Unamortized Income Tax Credits (69.18%)			61,889
Customer Deposits	1,050	1,042	
Total Net Utility Plant In Service	6,334,866	6,084,762	5,720,336
Add: Working Capital (See Below)	76,036	75,647	51,221
Total Original Cost Rate Base	$6,410,902	$6,160,409	$5,771,557

Working Capital Calculation

Description	
Pro-forma Present Rate Operations and Maintenance Expense	$454,583
Less: Purchased Power	44,816
Adjusted Operation and Maintenance Expense	409,767
Times: 45 day method	0.125
Working Capital Requirement	$51,221

TWIN LAKES UTILITIES, INC.
CAUSE NO. 42488

Capital Structure

Description	Amount	Percent of Total	Cost	Weighted Cost
Utilities, Inc. & Subsidiaries				
Common Equity	77,650,144	40.24%	10.25%	4.12%
Long Term Debt	115,319,616	59.76%	7 24%	4.33%
Total	192,969,760	100.00%		8.45%

Synchronized Interest Calculation
Water

Description:	As Of 12/31/2002
Total Original Cost Rate Base-See Sch 4W	$1,736,901
Times: Weighted Cost of Debt	4.33%
Synchronized Interest Expense	$75,208

Synchronized Interest Calculation
Sewer

Description:	As Of 12/31/2002
Total Original Cost Rate Base-See Sch 4S	$5,771,557
Times: Weighted Cost of Debt	4.33%
Synchronized Interest Expense	$249,908

TWIN LAKES UTILITIES, INC
CAUSE NO. 42488
WATER
Pro-forma Net Operating Income Statement

Description	Year Ending 12/31/2002	Adjustments	Sch. Ref.	Pro-forma Present Rates	Adjustments	Sch. Ref	Pro-forma Proposed Rates
Operating Revenues							
Water Revenues - Residential	$700,008	$21,497	7-1	$ 731,539	$66,358	1	$797,898
		10,034	7-2				
Water Revenues - Commercial	15,672	2,897	7-3	18,569	1,684	1	20,253
Forfeited Discounts	4,262			4,262	387	1	4,648
Miscellaneous Revenues	2,830			2,830			2,830
Total Operating Revenues	722,772	12,932		757,200	68,429		825,830
Operating Expenses							
Operations and Maintenance	379,927			407,740			407,740
Salaries & Wages		8,680	8-1				
Payroll Taxes		229	8-2				
Employee Benefits		7,084	8-3				
Employee Education Exp		296	8-4				
Employment Finders Fees		(497)	8-5				
Insurance Expense		5,101	8-6				
Non-Recurring Expenses		(8,867)	8-7				
Amortization of Rate Case Expense		10,370	8-8				
Customer Normalization		5,217	8-14				
Bad Debts Expense					246	1	246
IURC Fee	768	14	8-9	782	75	1	858
Property Tax	126,783			126,783			126,783
Depreciation	93,766	(9,794)	8-10	83,972			83,972
Utility Receipts Tax	0	10,558	8-11	10,558	955	1	11,512
Income Taxes - Federal	24,247	(8,480)	8-12	15,767	20,864	1	36,630
Income Taxes - State	1,934	3,397	8-13	5,331	5,789	1	11,120
Total Operating Expenses	627,425	23,507		650,932	27,929		678,861
Net Operating Income	$95,347	($10,576)		$106,268	$40,500		$146,768

TWIN LAKES UTILITIES, INC
CAUSE NO. 42488
SEWER
Pro-forma Net Operating Income Statement

Description	Year Ending 12/31/2002	Adjustments	Sch Ref	Pro-forma Present Rates	Adjustments	Sch Ref	Pro-forma Proposed Rates
Operating Revenues:							
Sewer Revenues - Residential	$956,383	$37,954	7-1	$ 1,008,399	$410,486	1	$1,418,885
		14,061	7-2				
Sewer Revenues - Commercial	32,846	5,795	7-3	38,640	1,868	7-4	40,507
Forfeited Discounts	4,750			4,750	1,934	1	6,684
Miscellaneous Revenues	3,699			3,699			3,699
Total Operating Revenues	997,678	19,856		1,055,488	414,286		1,469,774
Operating Expenses							
Operations and Maintenance	436,795			454,583			454,583
Salaries & Wages		8,560	8-1				
Payroll Taxes		226	8-2				
Employee Benefits		6,985	8-3				
Employee Education Exp		292	8-4				
Employment Finders Fees		(491)	8-5				
Insurance Expense		5,030	8-6				
Non-Recurring Expenses		(16,139)	8-7				
Amortization of Rate Case Expense		10,226	8-8				
Customer Normalization		3,098	8-14				
Bad Debts Expense					1,450	1	1,450
IURC Fee	1,087	22	8-9	1,109	456	1	1,565
Property Tax	125,021			125,021			125,021
Depreciation	196,183	26,151	8-10	222,334			222,334
Utility Receipts Tax	0	14,721	8-11	14,721	5,780	1	20,501
Income Taxes - Federal	32,711	(37,681)		(4,970)	126,326	1	121,357
Income Taxes - State	2,093	(1,878)		215	35,052	1	35,268
Total Operating Expenses	793,890	19,123		813,013	169,064		982,077
Net Operating Income	$203,788	$733		$242,475	$245,222		$487,697

TWIN LAKES UTILITIES, INC.
CAUSE NO. 42488

Revenue Adjustments

(1)

Customer Normalization

To adjust test year residential revenue for customer additions during the test year.

	Water	Sewer
12/31/02 residential customers	2,942	2,909
Times number of annual billings	6	6
Pro forma number of billings for test year	17,652	17,454
Less: test year number of residential billings	17,125	16,790
Additional billings	527	664
Times average residenital bill (bi-monthly)	$40.79	$57.16
Adjustment - Increase	$21,497	$37,954

(2)

Customer Growth Revenue Updated to October 31, 2003

To adjust for growth through October 31, 2003 (Source: S. Lubertozzi Growth Analysis Exh. To Suppl. Testimony)

Residential	Water	Sewer
Customers as of 10/31/03	2,983	2,950
Less Customers as of 12/31/02	2,942	2,909
Growth since test year	41	41
Times Average Bill (annual)	$244.74	$342.96
Revenue Adjustment based on Fixed, Known, Measurable Growtl	$10,034	$14,061

(3)

Commercial Customer Growth Revenue Updated to October 31, 2003

To account for School's 2-2" meters and estimated usage.

Commercial

	Water		Sewer
New School's Annual Usage (gallons)	839,100		
Current Price per 1,000 gallons	$ 2.08		
Total usage charge at current rates	1,745.33		
Plus Bi-monthly fixed charge ($96) times 6 to annualize times 2 meters	1,152.00		
Adjustment to reflect new School usage	$2,897.33	x 2	$5,794.66

(4)

Pro-Forma Commercial Sewer at Proposed Rates

To adjust commercial sewer for 200% the rate of proposed commercial water.

Commercial Water at proposed rates	$20,253
Multiplied by 200%	x 2
Pro Forma Proposed Sewer Revenue	40,507
Less Pro forma Current Rate Sewer Revenue	38,640
Adjustment - Increase	$1,866

TWIN LAKES UTILITIES, INC.
CAUSE NO 42488
WATER & SEWER
Expense Adjustments

(1)
Wages

To adjust labor expense to show the normalization of wages for payroll increases.

Job Title	Test Year	Code	Alloc to Twin Lakes	50.35% Water	49.65% Sewer
Test Year Wages and Salaries (SE50 direct)	$177,707	none	$177,707	$89,475	$88,232
Test Year Allocated Salaries (SE 60)					
Sal-IL Admin/Acctg	$1,354,111	1 (2.21%)	29,926	15,068	14,858
Sal-IL Customer Service	196,233	2 (21.472%)	42,135	21,215	20,920
1 additional customer serv	43,500	2 (21.472%)	9,340	4,703	4,637
Total Salaries from SE60	1,593,844		81,401	40,986	40,416
Computer Salaries (SE 51)	211,488	4 (2.030%)	4,293	2,162	2,132
Total Salaries (direct and allocated)	1,983,039		263,402	132,623	130,779
Plus 3% pay increase			7,902	3,979	3,923
Pro forma wages and salaries			271,304	136,601	134,702
Less: Test Year Expense			254,063	127,921	126,142
Adjustment - Increase			$17,241	$8,680	$8,560

(2)
Payroll Tax

To adjust payroll tax to pro forma levels

	Total Allocated	50.35% Water	49.65% Sewer
Pro-Forma Salaries & wages	$271,304	$136,601	$134,702
times employer's FICA rate	7.65%	7.65%	7.65%
Pro forma FICA tax	$20,755	10,450	$10,305
		0	0
Plus: FUTA	421	212	209
Plus: SUTA	2,095	1,055	1,040
Pro Forma Payroll Taxes	23,271	11,717	11,554
Less: Test Year Expense - FICA	20,435	10,289	10,146
Less: Test Year Expense - FUTA	358	180	178
Less: Test Year Expense - SUTA	2,022	1,018	1,004
Total Test Year Payroll Tax Expense	22,816	11,488	11,328
Adjustment - Increase/(Decrease)	$455	$229	$226

TWIN LAKES UTILITIES, INC.
CAUSE NO 42488
WATER & SEWER
Expense Adjustments

(3)
Employee Benefits

To adjust employee benefits to 2003 levels (self-insured).

	Balance per T/B	Adj %	Adjustment	Adjusted Balance
Health Ins. Reimbursements	29,116	45.56%	$13,265	$42,381
Employee Insurance Deductions	(1,596)	45.56%	(727)	(2,323)
Health Costs & Other	205	45.56%	93	298
Dental	546	45.56%	249	795
Pension Contributions	7,201	3.00%	216	7,417
Deferred Compensation	0			
Health Insurance Premiums	1,318	45.56%	600	1,918
Dental Premiums	63	45.56%	29	92
Term Life Insurance	241	3.00%	7	248
ESOP Contribution	9,852	3.00%	296	10,148
Disability Insurance	113	3.00%	3	116
Other Emp Pens & Benefits	1,253	3.00%	38	1,291
Totals	48,312			62,381
Adjustment - Increase			$14,069	
		Water % 50.35%	$7,084	
		Sewer % 49.65%	$6,985	

(4)
Employee Education Expense

To account for ongoing education expenses

	Total	50.35% Water	49.65% Sewer
Danny Dalgado (4 classes @ $3,200 each)	$12,800		
@ 90% Reimbursement	90%		
Total Estimated Expense	$11,520		
Code 5 Allocation %	5.101%		
Estimated Allocation of Education Exp.	$588		
Less: Test Year Expense	0		
Adjustment - Increase	$588	$296	$292

(5)
Employment Finders Fees

To adjust expense to an average annual amount
account #6369006

		Total	50.35%	49.65%
		Average of 4 years:	Water	Sewer
1999	$31,460			
2000	26,757			
2001	28,250			
2002	54,900			
Total	$141,367	$35,341.75		
Multiplied by Code 1 Percentage for Twin Lakes		2.21%		
Pro Forma Finders Fee Expense		781		
Less: Test Year		1,769		
Adjustment - (Decrease)		($988)	($497)	($491)

TWIN LAKES UTILITIES, INC.
CAUSE NO. 42488
WATER & SEWER
Expense Adjustments

(6)
Insurance Expense

To adjust insurance expense to pro forma levels.

		50.35% Water	49.65% Sewer
2002 Insurance Expense for WSC	$1,167,898		
Estimated % increase in 2003 (per invoices)	36.88%		
Estimated Insurance Expense for WSC	$1,598,619		
Cost 11 Allocation %	2.3520%		
Estimated Allocation of Insurance	$37,600		
Less: Test Year Expense	27,469		
Adjustment - Increase	$10,131	$5,101	$5,030

(7)
Non-Recurring Expenses

To reduce expenses for test year items that are non-recurring

Sewer

Vendor	Date	Description	Acct #	amount	Voucher	
Luna Carpet & blind	1/25/2002	carpet for customer - forgot to turn lift station on for weekend	7754006	$1,980.00	83148*15532	Mike Varner 8961 E 124th Ct, Crown Point
Americlean	1/14/2002	Area/Item Water - Floors + MSD Anti-Antimicrobial Sewer	7754011	308.00	83726*10146	3420 Chevy Chase Circle, C P.
Americlean	1/23/2002	property damage water restoration for residence	7758490	1,622.96	84607*10146	Michelle & Vincent Lentini 12404 Wayne St, C P
Americlean	1/22/2002	property damage water loss at above residence	7758490	1,749.44	84607*10146	Vincent Lentini 12404 Wayne St, C P
Americlean	7/9/2002	property damage from sewer	7758490	786.79	97116-10146	Bob Zappia 12405 Wayne St
Americlean	7/9/2002	property damage from sewer	7758490	2,756.80	97116-10146	Michelle Varner 8961 E 124th Ct
Americlean	7/9/2002	property damage from sewer	7758490	3,021.46	97116-10146	Michelle Lentini 12404 Wayne St
Kevin Misch	9/18/2002	Jetted 20,000 feet, sewer main @1.50/foot	7754011	30,000.00	1129*12923	Non-Recurring
Kevin Misch	9/18/2002	Refunded Jetted 20,000 feet, sewer main @1.50/foot	7754011	(7,500.00)	Journal Entry - Settlement Agreement	Non-Recurring
Martin's Sewer Testin	9/16/2002	Televised Inspection Service	7754011	2,000.00	2426*16105	Non-Recurring
Americlean	10/25/2002	property damage from sewer	7758490	98.98	6160*10146	R Alters 1761 Broadacre
Americlean	9/20/2002	property damage from sewer	7758490	1,130.40	4540*10146	Barb Alters 1761 Broadacre
Sewer Adjustment - (Decrease)				($37,954.83)		
Less. 1/2				$18,977.42		
Less addibonal				$2,838.54	$21,815.96	
Settlement Adjustment				($16,138.88)		

TWIN LAKES UTILITIES, INC.
CAUSE NO. 42488
WATER & SEWER
Expense Adjustments

(7) Continued
Non-Recurring Expenses

Water Vendor	Date	Description	Acct #	amount	Voucher	
Hach Company	4/24/2002	Sales tax on Pocket Color. Chlorine Repl	6355030	$14 68	90079*00611	Non-recurring
Hach Company	4/19/2002	Sales tax on Powder Pillows	6355030	6 08	90079*00611	Non-recurring
Hach Company	7/2/2002	Sales tax on powder Pillows & Rust remover	6355030	7 85	95681*00611	Non-recurring
Ulrich Chemical	12/2/2002	Container deposit	6181010	300 00	8306*07626	mis-coded
Ulrich Chemical	12/2/2002	Sales Tax on treatment chemicals	6181010	9.72	8306*07626	Non-recurring
CNA Insurance	9/30/2002	property damage	659909	1,984.70	4651*12213	Mike Varner 8961 E 124th Ct, Crown Point
CNA Insurance	9/30/2002	property damage	659909	5,894.82	4651*12213	Vincent Lentini
CNA Insurance	9/30/2002	property damage	659909	1,511.75	4651*12213	Bob Zappia 12405 Wayne St.
Water Adjustment - (Decrease)				($9,830)		
Less				$1,163		
Settlement Adjustment				($8,667)		

(8)
Rate Case Amortization

To adjust for unamortized rate case expense.

	Total	Water	Sewer
Pro-forma Rate Case Expense to be Amortized	$61,788	$31,110	$30,678
Divide by: 5 - Years	3.0	3.0	3.0
Pro-forma Rate Case Expense	20,596	10,370	10,226
Less: Test Year	0	0	0
Adjustment - Increase	$ 20,596	$ 10,370	$ 10,226

(9)
IURC Fee

To normalize Utility Regulatory Commission Fees

	Water	Sewer
Additional Revenues	12,932	$19,856
Rate (.001100224)	0.001100224	0.001100224
Adjustment - Increase	$14.23	$21.85

TWIN LAKES UTILITIES, INC.
CAUSE NO. 42488
WATER & SEWER
Expense Adjustments

(10)
Depreciation Expense

To update depreciation expense, reflecting additional plant and authorized depreciation rates.

	Water	Sewer
Utility Plant in Service per books - 12/31/02	$4,079,327	$8,988,958
Add: Allocated Share of WSC Computers (SE51) - Code 4	12,228	12,058
Allocated Share of WSC Property & Equipment - Code 5	107,455	105,961
Pro-Forma Projects	91,591	1,674,899
Less: AFUDC 1990 - 1998 on project completed in 1990		42,569
Less: Land	91,982	151,982
Vehicles (included in composite rate per Cause #39050, 39573)	~~100,626~~	~~90,227~~
Total Depreciable Plant In Service	4,198,619	10,587,325
Depreciation Rate	2.00%	2.10%
Pro-Forma Plant Depreciation expense	83,972	222,334
~~Vehicles~~	~~100,626~~	~~90,227~~
~~Vehicle Depreciation at 25%~~	~~25,157~~	~~24,807~~
Total Pro Forma Depreciation Expense	83,972	222,334
Less: Test Year	93,766	196,183
Adjustment - Increase/(Decrease)	(9,794)	$26,151

(11)
Utility Receipts Tax

To adjust taxes to current conditions

WATER	Pro Forma Gross Receipts	Less Bad Debts	Less 1/2 of $1000 exemption	Taxable Amount	Times Rate	Adjustment
Utility Receipts Tax	$757,200	2,590	$500	$754,110	1.40%	$10,558
Less: Test Year						0
Adjustment - Increase						$10,558

SEWER	Pro Forma Gross Receipts	Less Bad Debts	Less 1/2 of $1000 exemption	Taxable Amount	Times Rate	Adjustment
Utility Receipts Tax	$1,055,488	3,495	$500	$1,051,493	1.40%	$14,721
Less: Test Year						0
Adjustment - Increase						$14,721

(12)
Federal Income Taxes

To adjust Federal Income Taxes to Pro-forma Present Rate amount.

	Water Pro-Forma Present Rates	Sewer Pro-Forma Present Rates
Total Revenue	$ 757,200	1,055,488
Less:		
Synchronized Interest	75,208	$249,908
Operation and Maintenance Expense	408,522	455,692
Depreciation	83,972	222,334
Taxes other than Income	126,783	125,021
Net income before income taxes	62,715	2,533
Indiana Utility Receipts Tax	10,558	14,721
sub-total	52,157	(12,188)
Indiana Adjusted Gross Income Tax	5,785	2,429
Federal Taxable Income	46,372	(14,617)
Federal Tax Rate	34.00%	34.00%
Sub-total	15,767	(4,970)
Pro Forma Present Rates Federal Income Taxes	15,767	(4,970)
Less: Test Year	24,247	32,711
Adjustment - (Decrease)	$ (8,480)	$ (37,681)

TWIN LAKES UTILITIES, INC.
CAUSE NO. 42488
WATER & SEWER
Expense Adjustments

(13)
State Income Tax

To adjust State Income Taxes to Pro-forma Present Rate amount.

	Water Pro-Forma Present Rates	Sewer Pro-Forma Present Rates
Federal Taxable Income	46,372	(14,817)
Add: Taxes Based on Income:		
Utility Receipts Tax	10,558	14,721
State Adjusted Gross Income Tax	5,785	2,429
State Taxable Income	62,715	2,533
Rate	8.50%	8.50%
Indiana Adjusted Gross Income Tax	5,331	215
Less Test Year	1,934	2,093
Adjustment - Increase	$ 3,397	$ (1,878)

(14)
Customer Normalization Expenses

To adjust for increased operating costs due to increased customers during test year and since 1/1/03.

Pro forma annual increase in water usage due to new customers

	Water	Sewer
Number of Additional Billings:		
Normalized within test year	527	664
Normalized from test year to 10/31/03	246	246
Total additional billings	773	910
times average bill usage in gallons	13,842	
Pro Forma additional Gallons pumped	10,699,525	
Plus Pro Forma additional Gallons pumped - school	839,100	
Total additional gallons to be pumped & treated	11,538,625	
Divide by test year gallons pumped (water) / #billings(sewer)	242,632,760	16,790
Percentage Increase	4.76%	5.42%

	Water	Sewer
Purchased Power	$97,173	$44,816
Purchased Chemicals	12,520	12,346
Total	109,693	57,162
Times: Percentage increase from above	4.76%	5.42%
Adjustment - increase	$5,217	$3,098

Settlement

TWIN LAKES UTILITIES, INC.
CAUSE NO. 42488

Water
Current and proposed rates

Base Facility Charge

Meter Size		Current Rates Base Facility Charge	Petitioner Proposed Base Facility Charge	Petitioner Supplemental Base Facility Charge	Settlement Base Facility Charge
5/8" & 3/4"		$12.00	$14.68	15.21	$13.09
1"		30.00	36.70		32.72
1 1/2"		60.00	73.41		65.44
2"		96.00	117.45		104.71
3"	not currently needed	180.00	220.22		196.33
4"	not currently needed	300.00	367.03		327.21
6"	not currently needed	600.00	734.05		654.43

Volume Charge

	Current Rates	Petitioner Proposed	Petitioner Supplemental	Settlement
Per 1,000 gallons	$2.08	$2.54	$2.43	$2.27

billed bi-monthly

Unmetered Water Service

	Current Rates	Petitioner Proposed	Settlement
Flat rate for unmetered public drinking fountain	$31.60	$38.66	$34.47

Service Charges

	Current Rates	Petitioner Proposed	Settlement
New Customer charge	$20.00	$26.74	$20.00
NSF check charge	$10.00	$13.37	$10.00
Meter fee (Outside Reader)	$35.00	$46.79	$35.00
Reconnection charge:			
If service is disconnected by the Company for good cause	$25.00	$33.42	$25.00
If service is disconnected at the customer's request (plus the base facility charge for the period of disconnection if the customer asks to be reconnected within 9 months of disconnection)	$25.00	$33.42	$25.00

Connection Charge (in addition to new customer charge):

Residential	$475
Commercial (5/8" meter)	$475
Commercial (larger than 5/8" meter	Greater of $475 or actual cost of meter and installation

Settlement

TWIN LAKES UTILITIES, INC.
CAUSE NO. 42488

Sewer
Current and Proposed Rates

	Current Rates	Petitioner Proposed	Supplemental Petitioner	Settlement
Flat Rate Sewer - Residential	$57.16	$95.12	$91.66	$80.53
Commercial - minimum	$57.16	$94.55	$87.48	$73.82
Commercial - above minimum	200% of water bill			

Billings are bi-monthly

Service Charges

	Current Rates	Petitioner Proposed	OUCC Proposed
New Customer charge	$20.00	$26.74	$20.00
NSF check charge	$10.00	$13.37	$10.00

Reconnection charge:

Actual cost of disconnection and reconnection, the estimated cost of whch will be furnished to customer with cut-off notice

Connection Charge (in addition to new customer charge):

Residential	$716
Commercial (5/8" meter)	$716
Commercial (larger than 5/8" meter)	Greater of $716 or actual cost of meter and installation

LOUISIANA

Kimberley Hawkins

From: Buddy Stricker [Buddy.Stricker@LA.GOV]
Sent: Wednesday, January 02, 2008 8:29 AM
To: Kimberley Hawkins
Subject: Utilities, Inc. of LA and LA Water Service, Inc.

Ms. Hawkins, good morning and happy new year. I am providing on behalf of the Louisiana Public Service Commission a response to your message below.

The LPSC regulates "Utilities, Inc. of Louisiana" and "Louisiana Water Service, Inc.", both as water and wastewater utility providers in Louisiana. Currently both are in "good standing" with the LPSC. In my experience as primary water/wastewater analyst, the regulatory staff and outside counsel of UIL and LWS are very responsive and cooperative. Though over the years UIL/LWS have been involved in disputes with other utilities (due to territorial rights issues, etc.), and in a few cases some issues with the LPSC, there have been no major violations by and/or major penalties levied against either by the LPSC of which I am aware. In general I view UIL/LWS in a positive light with respect to its regulatory practices and compliance with the LPSC's regulations.

Additionally, for information concerning UIL/LWS compliance with safe drinking water guidelines, health and environmental issues, you may wish to contact the Louisiana Department of Health and Hospitals-Office of Public Health at (800) 256-4609, and the Louisiana Department of Environmental Quality-Office of Environmental Compliance at (225) 219-3710.

Finally, please be aware that the preceeding is based strictly on my experience with UIL/LWS and not an official position of the LPSC. Many of our staff handle complaints, filings, etc. from UIL/LWS and may have other input. Let me know if you have any other questions.

Buddy Stricker
Utilities Assistant Administrator
Louisiana Public Service Commission
Galvez Building
602 N. 5th Street, 12th Floor
Baton Rouge, LA 70802
P.O. Box 91154
Baton Rouge, LA 70821-9154
(225) 342-5710
(225) 342-4221 fax
Buddy.Stricker@la.gov

----- Original Message -----

Greetings! Utilities, Inc. recently purchased Perkins Mountain Water Company and Perkins Mountain Utility Company (collectively, the "Perkins Companies") here in Arizona. The Perkins Companies currently have pending applications for water and wastewater Certificates of Convenience and Necessity before the Arizona Corporation Commission (ACC). As part of its review of the Perkins Companies' applications, the ACC Staff requested a list of other jurisdictions that Utilities, Inc. and/or

its affiliates provide water and/or wastewater services to the public. Your state was identified. The ACC is interested in getting feedback from your state commission, whether positive or negative, concerning Utilities, Inc. and/or its affiliates that operate within your state, i.e., are they in good standing with your commission, have they been cited by your state's drinking water and/or wastewater regulatory agency, etc. Your response would be greatly appreciated. For your convenience, an excel spreadsheet is attached to this e-mail which has the names of Utilities, Inc.'s affiliates by states.

Please respond to Kimberley Hawkins at khawkins@azcc.gov <mailto:khawkins@azcc.gov> or mail to Arizona Corporation Commission, 1200 W. Washington Street, Phoenix, AZ 85007.

Kimberley Hawkins
Administrative Assistant I
Arizona Corporation Commission
Utilities Division
Ph: (602) 542-0854

NEVADA

BEFORE THE PUBLIC UTILITIES COMMISSION OF NEVADA

Investigation into the practices and procedures of Utilities, Inc. of Central Nevada regarding its water and sewer operations.	Docket No. 06-02001

NOTICE OF INVESTIGATION AND
NOTICE OF PREHEARING CONFERENCE

On February 1, 2006, the Public Utilities Commission of Nevada ("Commission") voted to open Docket No. 06-02001, an investigation into the practices and procedures of Utilities, Inc. of Central Nevada regarding its water and sewer operations. This docket was opened as a result of a Petition filed by the Regulatory Operations Staff of the Commission ("Staff") in Docket No. 05-12029.

This matter is being conducted by the Commission pursuant to the Nevada Revised Statutes ("NRS") and the Nevada Administrative Code ("NAC"), Chapters 703 and 704, including but not limited to NRS 704.120.

NOTICE IS HEREBY GIVEN that, pursuant to NAC 703.655, the Commission has scheduled a PREHEARING CONFERENCE in this docket to be held as follows:

THURSDAY, MARCH 2, 2006

10:00 a.m.
Hearing Room A
Public Utilities Commission of Nevada
1150 East William Street
Carson City, Nevada 89701

VIA VIDEOCONFERENCE TO:

Hearing Room A
Public Utilities Commission of Nevada
101 Convention Center Drive, Suite 250
Las Vegas, Nevada 89109

DOCUMENT REVIEW AND APPROVAL FORM

DRAFTED BY: Nancy Wenzel

FINAL DRAFT ON 2/8/06 AT 11:30 a.m.

REVIEWED & APPROVED BY:	DATE
☐ ADMIN / ASST. ( )	
☒ COMM / COUNSEL jc	2/8/06
☐ SECRETARY / ASST. SEC.	
☐ OTHER ( )	

The purpose of the prehearing conference is to formulate and simplify issues involved in this proceeding and set a hearing and procedural schedule. At the prehearing conference, the Commission may take any action authorized by NAC 703.655, and may rule on any pending petitions for leave to intervene.

This matter is available for review at the Offices of the Commission: 1150 East William Street, Carson City, Nevada 89701, and 101 Convention Center Drive, Suite 250, Las Vegas, Nevada 89109.

Interested and affected persons may file 1) comments in writing; 2) petitions for leave to intervene; or 3) notices of intent to participate as a commenter pursuant to NAC 703.491 at either of the Commission's offices on or before Wednesday, March 1, 2006.

By the Commission,

Crystal Jackson
CRYSTAL JACKSON, Commission Secretary

Dated: Carson City, Nevada

2-8-06

(SEAL)

PUBLIC UTILITIES COMMISSION OF NEVADA PUC

BEFORE THE PUBLIC UTILITIES COMMISSION OF NEVADA

Investigation into the practices and procedures of Utilities, Inc. of Central Nevada regarding its water and sewer operations.	))))	Docket No. 06-02001

PROCEDURAL ORDER

The Hearing Officer in this docket makes the following findings of fact and conclusions of law:

1. On February 1, 2006, the Public Utilities Commission of Nevada ("Commission") voted to open Docket No. 06-02001, an investigation into the practices and procedures of Utilities, Inc. of Central Nevada ("UICN") regarding its water and sewer operations. This docket was opened as a result of a Petition filed by the Regulatory Operations Staff of the Commission ("Staff") in Docket No. 05-12029.

2. This matter is being conducted by the Commission pursuant to the Nevada Revised Statutes ("NRS") and the Nevada Administrative Code ("NAC"), Chapters 703 and 704, including but not limited to NRS 704.120.

3. The Commission issued a public notice of this matter in accordance with state law and the Commission's Rules of Practice and Procedure.

4. Staff is participating in this proceeding as a matter of right.

5. On March 1, 2006, a Petition for Leave to Intervene was filed by UICN, and a Petition for Leave to Participate as a Commenter was filed by PV Land Investments, LLC.

6. On March 2, 2006, a duly noticed prehearing conference was held in this matter.

7. At the prehearing conference, the Hearing Officer granted the Petition for Leave to Intervene of UICN and the Petition for Leave to Participate as a Commenter of PV Land Investments, LLC.

8. At the prehearing conference the parties agreed to the following schedule:

DOCUMENT REVIEW [illegible]

[illegible]: Nancy Wenzel

[illegible] ON 3/8/06 AT 1:00 pm

[illegible] APPROVED BY: DATE

[ ] ADMIN/ASST. (______) ______ __/__/__

[X] [illegible]/COUNSEL DL 3/8/06

[ ] SECRETARY/ASST. SEC. ______ __/__/__

[ ] [illegible] (______) ______ __/__/__

a) A STIPULATION and/or WRITTEN COMMENTS on the remaining issues in dispute by UICN and Staff will be filed with the Commission and served on all parties of record **on or before Friday, May 26, 2006.**

b) SIMULTANEOUS PREPARED DIRECT TESTIMONY by UICN and Staff will be filed with the Commission and served on all parties of record **on or before Wednesday, August 2, 2006.**

c) SIMULTANEOUS PREPARED REBUTTAL TESTIMONY by UICN and Staff will be filed with the Commission and served on all parties of record **on or before Friday, August 25, 2006.**

d) A HEARING will be held on **Wednesday, August 30, 2006.**

9. Pursuant to NAC 703.051 and 703.690, the Hearing Officer shall issue appropriate interim orders.

THEREFORE, it is ORDERED that:

1. The procedural schedule outlined in paragraph 8 above is ADOPTED.

2. The parties shall serve any documents filed in this docket upon PV Land Investments, LLC who is participating in this proceeding as a commenter pursuant to NAC 703.491.

3. The Commission retains jurisdiction for the purpose of correcting any errors that may have occurred in the drafting or issuance of this Order.

By the Commission,

Nancy Wenzel
NANCY WENZEL, Hearing Officer

Attest: Crystal Jackson
CRYSTAL JACKSON, Commission Secretary

Dated: Carson City, Nevada

3-9-06

(SEAL)

PUBLIC UTILITIES COMMISSION OF NEVADA PUC

LIONEL SAWYER & COLLINS

ATTORNEYS AT LAW
1100 BANK OF AMERICA PLAZA
50 WEST LIBERTY STREET
RENO, NEVADA 89501
(775) 788-8666
FAX (775) 788-8682
lsc@lionelsawyer.com
www.lionelsawyer.com

August 7, 2006

WRITER'S DIRECT DIAL NUMBER
(775) 788-8646
SELICEGUI@LIONELSAWYER.COM

HAND DELIVERY

Crystal Jackson, Commission Secretary
PUBLIC UTILITIES COMMISSION OF NEVADA
1150 E. William St.
Carson City, Nevada 89710

Re: **Utilities Inc. of Central Nevada**; Docket No. 06-02001

Dear Crystal:

Accompanying this correspondence are an original and ten copies of a Reply to Motion to Close Investigation for Utilities, Inc. of Central Nevada, Docket No. 06-02001. Please accept the Reply for filing and return a conformed copy reflecting receipt by the Public Utilities Commission of Nevada to our courier.

Should you have any questions or require additional information, please advise.

Sincerely,

Shawn M. Elicegui, Esq.

Enclosure
cc: Parties of Record

BEFORE THE PUBLIC UTILITIES COMMISSION OF NEVADA

ooOoo

Investigation into the practices of Utilities, Inc. of Central Nevada regarding its water and sewer operations	Docket No. 06-02001

Reply to Motion to Close Investigation

Utilities, Inc. of Central Nevada ("UI-Central Nevada") replies to the Regulatory Operation Staff's Motion to Close Investigation. UI-Central Nevada has met with representatives of the Regulatory Operations Staff ("Staff") frequently since this proceeding was initiated. Those meetings have, from the perspective of UI-Central Nevada, proven beneficial. Accordingly, UI-Central Nevada supports Staff's motion and offers only the following comments on the list of "changes and pledges" made by UI-Central Nevada.

With respect to item 3,[1] UI-Central Nevada recognizes the importance of the capital planning process. In this regard, UI-Central Nevada intends to keep Staff apprised of its capital planning process and currently intends to request Commission approval of master plan projects where the Commission's approval of such projects results in such projects being "deemed to be a prudent investment," much like when the Commission authorizes an electric utility to acquire and construct a project pursuant to section 704.751 of the Nevada Revise Statutes. When the Commission's approval does not have such an effect, there is little incentive for UI-Central Nevada to seek Commission approval of a master plan or master plan projects.

With respect to item 5,[2] UI-Central Nevada will evaluate such projects; once again, however, absent a determination by the Commission that UI-Central Nevada's acquisition and construction of backbone facilities would be prudent, UI-Central Nevada is reluctant to shoulder the risk attendant to the construction of facilities that are not necessary to serve existing customers.

---

[1] "UICN intends to actively request Commission approval of master plan projects." Staff Motion at 1.

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& COLLINS
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RENO,
NEVADA 89501
(775) 788-8666

With respect to item 13, UI-Central Nevada has already filled Customer Service Representative positions and the Operation and Maintenance "Laborers" positions have been reclassified as "Operation Technician" positions. With respect to item 15, the Vice President of Operations position has been reclassified as the "Chief Operating Officer." Finally, with respect to item 17, UI-Central Nevada confirms that it has frequently met with members of the Nye County Planning Commission, as well as members of the Nye County Planning Department. Moreover, UI-Central Nevada intends to meet with Nye County representatives as needed, but notes that meetings are not necessarily scheduled every month.

Based on the foregoing, UI-Central Nevada respectfully requests that the Commission grant Staff's motion and close this investigatory docket.

LIONEL SAWYER & COLLINS

By: Shawn M Eliceg

Shawn M. Eliceguí
Nevada Bar No. 5939
1100 Bank of America Plaza
50 West Liberty Street
Reno, Nevada 89501

Attorneys for UI-Central Nevada

[2] "Future master plans will look at investments in backbone facilities." Id.

LIONEL SAWYER & COLLINS
ATTORNEYS AT LAW
1700 BANK OF AMERICA PLAZA
300 SOUTH FOURTH ST.
LAS VEGAS,
NEVADA 89101
(702) 383-8888

-Central Nevada has already filled Customer Service
ration and Maintenance "Laborers" positions have been
' positions. With respect to item 15, the Vice President of
ied as the "Chief Operating Officer." Finally, with respect
rms that it has frequently met with members of the Nye
ell as members of the Nye County Planning Department.
s to meet with Nye County representatives as needed, but
y scheduled every month.

Central Nevada respectfully requests that the Commission
vestigatory docket.

LIONEL SAWYER & COLLINS

By: Shawn M. Elicegui
Shawn M. Elicegui
Nevada Bar No. 5939
1100 Bank of America Plaza
50 West Liberty Street
Reno, Nevada 89501

Attorneys for UI-Central Nevada

ins will look at investments in backbone facilities." Id.

ICATE OF SERVICE

ployee of Lionel Sawyer & Collins, and not a party
n; and that on May 26, 2006, I served a true and
MOTION TO CLOSE INVETIGATION by:
ssed, with postage prepaid to:

to:

Diana L. Wheelen
Diana L. Wheelen

Based on the foregoing, Staff recommends that the Commission grant this Motion and close this docket.

RESPECTFULLY SUBMITTED this 14th day of August, 2006.

PUBLIC UTILITIES COMMISSION OF NEVADA
REGULATORY OPERATIONS STAFF

By: _____
David Noble, Assistant Staff Counsel

PROOF OF SERVICE

I hereby certify that I have this day served the foregoing document upon all parties of record in this proceeding by electronic mail to the recipient's current electronic mail address and mailing a copy thereof, properly addressed to:

Shawn M. Elicegui, Esq.
William J. McKean, Esq.
Lionel Sawyer & Collins
50 West Liberty Street, Ste. 1100
Reno, NV 89501
selicegui@lionelsawyer.com
wmckean@lionelsawyer.com
l.a.crossett@utilitiesinc-usa.com

DATED at Carson City, Nevada, on the 14th day of August, 2006

An employee of the Public Utilities Commission of Nevada

BEFORE THE PUBLIC UTILITIES COMMISSION OF NEVADA

Investigation into the practices and procedures of Utilities, Inc. of Central Nevada regarding its water and sewer operations.	Docket No. 06-02001

At a general session of the Public Utilities Commission of Nevada, held at its offices on September 13, 2006.

PRESENT: Chairman Donald L. Soderberg
Commissioner Jo Ann P. Kelly
Commissioner Rebecca D. Wagner
Acting Commission Secretary Mandi Galli

ORDER GRANTING MOTION TO CLOSE THE INVESTIGATION

PROCEDURAL HISTORY

1. On February 1, 2006, the Public Utilities Commission of Nevada ("Commission") voted to open Docket No. 06-02001, an investigation into the practices and procedures of Utilities, Inc. of Central Nevada ("UICN") regarding its water and sewer operations. This docket was opened as a result of a Petition filed by the Regulatory Operations Staff of the Commission ("Staff") in Docket No. 05-12029. Staff's petition contended that UICN's practices and procedures were incompatible with a certified utility company's obligation to provide reasonably adequate service and facilities in its service territory. Staff cited major concerns, such as UICN's planning for customer growth; service territory size and characteristics; resource planning; service commitments; adequacy of personnel and local management; and customer relations.

2. This matter is being conducted by the Commission pursuant to the Nevada Revised Statutes ("NRS") and the Nevada Administrative Code ("NAC"), Chapters 703 and 704, including but not limited to NRS 704.120.

3. The Commission issued a public notice of this matter in accordance with state law and the Commission's Rules of Practice and Procedure.

4. Staff is participating in this proceeding as a matter of right.

5. On March 1, 2006, a Petition for Leave to Intervene was filed by UICN, and a Petition for Leave to Participate as a Commenter was filed by PV Land Investments, LLC.

6. On March 2, 2006, a duly noticed prehearing conference was held in this matter.

7. At the prehearing conference, the Presiding Officer granted the Petition for Leave to Intervene of UICN and the Petition for Leave to Participate as a Commenter of PV Land Investments, LLC.

8. On March 9, 2006, the Presiding Officer issued a Procedural Order setting dates for filing testimony and for holding a hearing. The hearing date was set for August 30, 2006.

9. On August 2, 2006, Staff filed a Motion to Close the Investigation ("Motion"). Staff states that it had requested the investigatory docket in order to review the practices and procedures of UICN regarding its water and sewer operations. Staff's concerns were (1) planning for customer growth, (2) service area size, (3) resource planning, (4) will-serve commitments, (5) personnel, and (6) customer (public) relations.

10. Staff states that UICN met with Staff on several occasions to address the above concerns, and Staff requests the docket be closed because those concerns have been addressed to the point that the investigation is no longer necessary.

11. The changes and promises made by UICN include:

a. Tracking of new customers' impact on infrastructure;

b. Tools for monitoring remaining system capacities' implementation by December 31, 2006;

c. Commission approval of master plan projects;

d. Reevaluation of master plan by June 30, 2007;

e. Future master plans will review investment in backbone facilities;

f. Creation of internal 5-year plan to track capital investments needed for growth;

g. Update to Commission on progress of water rights study by March 1, 2007 (quarterly updates thereafter);

h. Support for approval of domestic well credit program by Division of Water Resources;

i. Research continued use of reclaimed water in the community;

j. Update the Commission as to accounting system progress by March 1, 2007 as it relates to improved meter reading and data management (quarterly updates thereafter);

k. Implementation of plan to identify excessive water use by June 30, 2007;

l. Regional Vice-President, Regional Compliance and Safety Manager, Regional Business Manager, Regional Project Manager, and Regional Executive Assistant positions have been created and filled since January 1, 2006;

m. Customer Service Representatives, Operation and Maintenance Laborers, and Construction Inspectors' positions have been created and are yet to be filled;

n. Regional Vice-President has more discretionary decision-making authority; thus eliminating the need for inefficient prior corporate approval;

o. Corporate approval that is necessary for certain issues is now placed on a fast track through the Regional Vice-President and Vice-President of Operations;

p. Customer service has been reorganized under the Regional Vice-President and is providing increased access and accountability;

q. UICN and Nye County Planning Commission meet on a monthly basis to work on issues as they develop;

r. The Regional Vice President has met with numerous developers and continues to support their developments; and

s. New standard operating procedures have been implemented to streamline the entire application process for new water and wastewater service for both developers and individuals.

12. On August 6, 2007, UICN filed a Reply to Staff's Motion to Close Investigation ("Reply"). In its Reply, UICN clarifies and desires to amend some of the changes and its promises as delineated in Staff's Motion:

a. UICN states that relative to item c, it intends to keep Staff apprised of its capital planning process and intends to request Commission approval of master plan projects where the Commission's approval results in such projects being "deemed to be a prudent investment." Should Commission approval not have such an effect, no incentive exists for UICN to seek Commission approval of a master plan or master plan projects.

b. UICN states that relative to item e, the acquisition and construction of backbone facilities that would not be deemed prudent investments by the Commission cause UICN's reluctance to assume the risk attendant to the construction of facilities not necessary to serve existing customers.

c. UICN states that relative to items l, m, and o, it has filled its Customer Service Representative positions, and its Operation and Maintenance "Laborers" positions have been reclassified as Operation Technician positions. The Vice-President of Operations' position has been reclassified as the Chief Operating Officer.

d. UICN confirms that relative to item q, it has frequently met with the Nye County Planning Commission and the Nye County Planning Department and will continue to meet with them as needed, but not necessarily monthly.

13. On August 14, 2006, Staff filed a Reply to Utilities, Inc. of Central Nevada's Response to Motion to Close Investigation. Staff states that clarifications UICN made in its Reply do not necessitate denial of the Motion. UICN has undertaken many steps to address the problems that instigated this investigation, not the least of which was lack of long range planning for customer growth in its certificated service territory. Staff expects UICN to meet with Nye County representatives as needed and to continue the ongoing dialogue it has fostered with these representatives in order that the utility is properly informed about proposed development and growth in its service area.

14. On August 29, 2006, Procedural Order No. 2 ("Order") was issued providing a schedule for filing comments and/or exceptions and answers to the comments and/or exceptions to a proposed draft order which was attached to the Order.

15. On August 30, 2006, Staff filed Comments in which it supported the proposed order as written.

16. On September 8, 2006, UICN filed Comments supporting the proposed order as written.

COMMISSION DISCUSSION AND FINDINGS

17. Staff indicated that the concerns it raised when it requested that an investigatory docket be opened have been addressed to the point that it no longer believes that it is necessary to continue with this investigation. UICN supported Staff's position but provided comments regarding resource planning related issues to Staff's list of "changes and pledges" which were included in its motion to close the docket. Staff indicated that it still believes the investigatory Docket should be closed given UICN's comments in its response to its Motion.

18. The concerns which initiated this investigation have been addressed except for the Resource Planning issue. The Commission notes that resource planning regulations do not exist for water and sewer companies. Accordingly, the concerns raised by UICN can not be prescriptively remedied. However, the Commission has recently submitted a Bill Draft Request to add a new section to the Statutes that would authorize resource planning for water or sewer companies with annual revenues in excess of one million dollars. Until such regulations exist, the Commission must address requests by water utilities on a case by case basis and take appropriate measures to ensure just and reasonable rates.

19. The Commission believes that UICN has addressed the concerns raised by Staff where possible. Therefore, the Commission accepts Staff's recommendation that this docket should be closed.

20. The Commission finds that it is in the public interest to close Docket No. 06-02001.

THEREFORE, it is **ORDERED** that:

1. The Motion to Close the Investigation filed by Regulatory Operations Staff of the Commission is **GRANTED**.

2. The Commission Secretary is authorized to close Docket No. 06-02001.

3. The Commission retains jurisdiction for the purpose of correcting any errors that may have occurred in the drafting or issuance of this Order.

By the Commission,

DONALD L. SODERBERG, Chairman

JO ANN P. KELLY, Commissioner

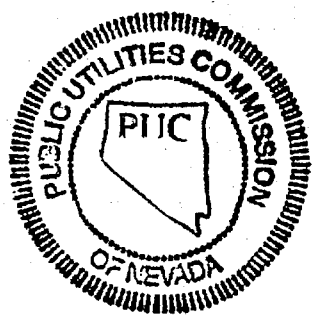
REBECCA D. WAGNER, Commissioner

Attest: Crystal Jackson
CRYSTAL JACKSON, Commission Secretary

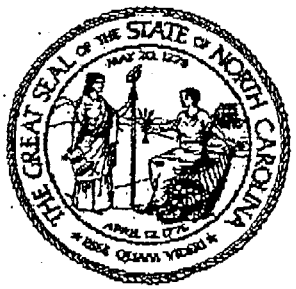
Dated: Carson City, Nevada

9-15-06

(SEAL)



NORTH CAROLINA



State of North Carolina
Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27699-4325

Fiscal Management Division (919) 733-7680

Operations Division (919) 733-3979
Fax: (919) 733-1585

Fax Cover Sheet

To: Kimberly HawKins Date: 01-29-08

From: Freda Hilburn Pages: 3

Fax #: 602-542-2129

Subject: _____

COMMENTS:

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430 North Salisbury Street Raleigh, North Carolina 27603
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State of North Carolina
Utilities Commission

4325 Mail Service Center
Raleigh, NC 27699-4325

January 29, 2008

Kimberley Hawkins
Arizona Corporation Commission, Utilities Division
1200 West Washington Street
Phoenix, Arizona 85007

Dear Ms. Hawkins:

Thank you for your email inquiry on December 20, 2007, on behalf of Blessing Chukwu, concerning our experience with Utilities, Inc. in North Carolina.

Utilities, Inc., through its wholly-owned subsidiaries, currently serves approximately 40,000 water customers and 29,000 wastewater customers in North Carolina. It is our second largest provider of water service and our largest wastewater provider.

The North Carolina Utilities Commission currently regulates the following subsidiaries of Utilities, Inc.:

- Elk River Utilities, Inc. (Docket No. W-1058)
- Carolina Water Service, Inc. of North Carolina (Docket No. W-354)
- CWS Systems, Inc. (Docket No. W-778)
- Carolina Trace Utilities, Inc. (Docket No. W-1013)
- Transylvania Utilities, Inc. (Docket No. W-1012)
- North Topsail Utilities, Inc. (Docket No. W-1143)
- Carolina Pines Utility, Inc. (Docket No. W-1151)
- Bradfield Farms Water Company (Docket No. W-1044)
- Nero Utility Services, Inc. (Docket No. W-1152)

You may review our orders and other public documents related to the aforementioned Utilities, Inc.'s subsidiaries at our website (www.ncuc.net) by utilizing our "Docket Search" feature located in the "Docket Information" section.

The most recent general rate case proceeding by the largest North Carolina subsidiary of Utilities, Inc. was the application by Carolina Water Service, Inc. of North Carolina

(Docket No. W-354, Sub 297). The Commission issued its final Order related to that proceeding on July 5, 2007. You may review the details of that proceeding at our website.

I hope you find these references to the specific docket numbers helpful as you examine your state's opportunities with Utilities, Inc. If I can be of further assistance, please feel free to contact me.

Sincerely,

Freda Hilburn

Freda Hilburn
Senior Financial Analyst

OFFICIAL COPY

Carroll R. Leach
519 Dotsi Drive
Brevard, NC 28712
December 1st, 2007

North Carolina Utilities Commission
Attn: Ms. Renee Vance
430 N. Salisbury Street
Raleigh, NC 27603

Ref: Docket No. W-1012, Sub 9
Carroll R. Leach vs. Transylvania Utilities Company Inc.

(I)- In my formal complaint against TUI dated Aug 13th, 2007, I stated that there are occasional water pressure surges, usually following TUI doing work on the water line, which are so strong that these surges will rupture the main line leading into my house. I went on in the same paragraph to indicate three different times when I had experienced these water line ruptures. The dates indicated were Dec-2006, April-2007 and August 2004. TUI's legal counsel Mr. Ayers, stated in Respondents Reply to my complaint- Reference their paragraph # 7- " TUI has reviewed its operation records and determined that no pressure surges occurred during the time periods that Mr. Leach contends he experienced service line ruptures. TUI also has determined that service in the area *was not offline* during the periods when Mr. Leach complains of pressure surges."

(GL)
AG
Bennink
Fosta
Hoover
Kete
Brun
3 Legal
3 Wat

Now Mr. Ayers, in response to my request for additional information, states in their paragraph labeled- RESPONSE TO PARAGRAPH II - " TUI repaired a service line leak near Mr. Leach's house on *Aug 22n 2004 that required it to shut off the water* to Mr. Leach's house for approximately 1.5 hours ".

Question: Why did TUI's legal counsel first deny that service had been shut off only to

later acknowledge that it had in fact been shut off ? I am inclined to believe that whoever is providing Mr. Ayers with information concerning TUI's water system is being evasive in answering certain questions when it is believed that the answer might support my contention regarding pressure surges.

(II)- In paragraph labeled- RESPONSE TO PARAGRAPH II - Mr. Ayers, states that "TUI has no record of leaks or repairs made on the service line at Mr. Leach's house in *August 2004* ".

In my request for additional information, I stated that "I was told by the plumber who repaired my leak that there was also a leak on TUI's side of the meter. I told Mr. David Medlin about this problem. About a month later I called TUI to tell them that the leak on their side of the meter had still not been repaired. It was taken care of shortly after this call". I agree that there were no line repairs made by TUI during the month of August. The repairs were not made until *either September or October* of 2004.

Question: my original question remains unanswered; what other than a pressure surge could possibly have caused the line to rupture on both sides of the meter at the same time?

It is again my opinion that someone has been less than forthright in providing Mr. Ayers with the answer to this question. I had indicated that the leak in their line was first reported to TUI in August and that no repair was made until approximately a month later; therefore, it couldn't have been repaired in August. Mr. Ayers should have explored whether or not any repairs were made in either September or October.

(3) – I have not heard Mr. Ayers answer to the incident I described occurring on November 1st. as the Respondent has until December 5th in which to answer.

Carroll R. Leach

PENNSYLVANIA

PENNSYLVANIA
PUBLIC UTILITY COMMISSION
Harrisburg, PA 17105-3265

Public Meeting held September 28, 2006

Commissioners Present:

Wendell F. Holland, Chairman
James H. Cawley, Vice Chairman
Bill Shane
Kim Pizzingrilli
Terrance J. Fitzpatrick

Application of Penn Estates Utilities, Inc.,	A-210072F0003
Utilities, Inc. of Pennsylvania and	A-210063F0003
Utilities, Inc. – Westgate for Approval of Stock	A-230013F0004
Transfer Leading to a Change in Control of their	A-210093F0002
Parent Corporation, Utilities, Inc.	

OPINION AND ORDER

KJR

BY THE COMMISSION:

Before the Commission for consideration and disposition is the record developed in this proceeding following the reconsideration and remand directed by the Commission in the Opinion and Order entered March 31, 2006, at these dockets.

History of the Proceeding[1]

On August 17, 2005, the Joint Application of Penn Estates Utilities, Inc. (PEUI), Utilities, Inc. of Pennsylvania (UIP) and Utilities, Inc. – Westgate (UIW) (collectively, Applicants) was filed with the Commission requesting approval of the transfer of stock of the parent corporation. The Applicants are subsidiaries of Utilities, Inc., which is a wholly owned subsidiary of Nuon Global Solutions USA, Inc. (NGSU). As proposed, the acquisition was structured so that Hydro Star, L.L.C. (Hydro Star) acquired 100% of the stock of NGSU from Nuon Global Solutions USA, (BV) (NGSU BV). As a result of a 2001 transaction, Utilities, Inc. became a wholly owned subsidiary of NGSU, which is a wholly owned subsidiary of NGSU BV, which is a wholly owned subsidiary of N.V. Nuon. NGSU and NGSU BV have no business or operations other than their ownership of Utilities, Inc. The transaction for which approval was sought involved a shareholder substitution between NGSU BV and Hydro Star. The resulting structure is that Utilities, Inc. and the Applicants are indirect wholly owned subsidiaries of Hydro Star.

On October 3, 2005, the Office of Consumer Advocate (OCA) filed a Protest to the Joint Application. Among the reasons for the OCA protest were allegations regarding the quality of service within the UIW service territory. On January 23, 2006, the Applicants and the OCA filed a Joint Petition for Approval of Proposed Settlement (Proposed Settlement). The Proposed Settlement contained several conditions designed to alleviate service problems in the UIW service territory. (*See*, I.D. at 4-5). By Initial Decision dated January 31, 2006, Administrative Law Judge Jones found that the Proposed Settlement was in the public interest and recommended approval of the Joint

---

[1] The history of this proceeding is summarized from the Initial Decision of Administrative Law Judge Angela Jones. The complete history may be found at pages 1 through 3of that Initial Decision.

Application. (*Id.* at 7-8). On February 28, 2006, Administrative Law Judge Jones' Initial Decision became final by operation of law.

On March 31, 2006, the Commission entered an Opinion and Order at these dockets which determined that this proceeding should be reconsidered (March 31 Order).[2] The Commission expressed concern regarding the public interest findings relating to this transaction due to the status of the acquiring party as an equity investor. (March 31 Order at 1). Because of that concern, the Commission reopened the record for the receipt of additional information and directed the Office of Trial Staff (OTS) to intervene. The Commission directed the Parties to address ten specific issues:

(1) The capital to be allocated to ongoing operating and maintenance expenses;
(2) Corporate governance/Sarbanes Oxley compliance;
(3) The expected term of ownership;
(4) The buyer's experience as an owner and operator of water and wastewater utilities;
(5) The community presence of the buyer;
(6) The complex nature and objectives of the various affiliated relationships involved;
(7) The fees paid to and service performed by affiliates;
(8) The use of leverage to eliminate or maximize income tax liabilities;
(9) The transparency on corporate structure issues; and
(10) Entity creditworthiness.

(March 31 Order at 2).

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[2] We note that although we decided to reconsider our prior approval of this matter, our March 31 Order expressly provided that "the status quo approval of the application remains in effect..." (March 31 Order at 2).

A prehearing conference was held before Administrative Law Judge Jones on May 8, 2006. The Applicants, OTS and OCA, appeared. A further hearing was held on May 22, 2006, where it was determined that the OTS would present written Direct Testimony on June 16, 2006, and the Applicants, if they chose, would present Responsive Testimony on June 23, 2006. The OCA indicated that it would not present any testimony in this portion of the case. The Direct Testimony and OTS Exhibit No. 1 of the OTS were submitted on June 14, 2006. Responsive Testimony by the Applicants was submitted on July 10, 2006. On August 4, 2006, the Parties filed a Joint Stipulation of Testimony and Exhibits and requested that the OTS' Direct Testimony and OTS Exhibit 1, and the Applicants' Responsive Testimony be admitted into the record. On August 14, 2006, the OTS and the Applicants filed a Joint Motion to Close the Record, indicating that there was no need for cross-examination or additional evidentiary hearings. The OCA agreed with the Motion.

The record in the remanded preceding is now before the Commission for disposition.

Discussion

As set forth above, we directed the Parties to address ten specific issues. The OTS propounded two rounds of discovery which sought responses from the Applicants to each of the ten issues. The Applicants' responses are set forth in OTS Exhibit 1. In addition, the OTS' Direct Testimony summarizes the Applicants' responses and concludes that there is sufficient evidence on the record for this Commission to reach a determination on each of the issues. The Applicants' Responsive Testimony indicates agreement with the OTS' Direct Testimony and provides additional information regarding

the public interest standard by which the transaction is to be reviewed. We will address each of the issues in turn.

The Capital to be Allocated to Ongoing Operating and Maintenance Expenses

OTS Exhibit 1 provides information regarding amounts of operating and maintenance (O&M) expenses for the years 2002-2004 and the average for the three years. The Applicants stated that they anticipated that the O&M expenses would continue to increase over time; however, they did not anticipate filing a base rate case in the immediate future other than to satisfy the conditions of the Proposed Settlement relating to UIW service upgrades. (OTS Exh. 1 at 1; Applicants' Responsive Testimony at 3).

The testimony and information provided in response to this issue does not suggest a need for any additional conditions on the underlying transaction. Important factors in this determination are the anticipated length of time of commitment as well as the commitment to retain current operational management of the operating companies. Those issues are addressed below.

Corporate Governance/Sarbanes Oxley Compliance

Based upon OTS Exhibit 1 and the OTS' Direct Testimony, it appears that most of the entities involved in this transaction are not subject to Sarbanes-Oxley requirements. (OTS Direct Testimony at 6, OTS Exh. 1 at 2, 26). However, to the extent that Sarbanes-Oxley is applicable to American International Group, Inc., of which Hydro Star is a part, American International Group, Inc., is in compliance. (*Id.*). The Applicants do not disagree with OTS on this issue but state that whether Sarbanes-Oxley certifications extend to Hydro Star is not settled.

The evidence gathered on this issue does not indicate that any additional conditions are necessary for the transaction. As noted, most of the entities involved are not subject to Sarbanes-Oxley requirements. In addition, we reiterate that several statements in the remanded proceeding serve to assure this Commission and the operating companies' customers that management teams will not change, nor will the corporate approaches of the operating companies be affected. The transaction is intended to be transparent to Pennsylvania customers. (Applicants' Responsive Testimony at 7). Thus, the additional evidence on corporate governance and Sarbanes-Oxley compliance indicates that no additional conditions are necessary in this regard.

The Expected Term of Ownership

The Applicants provided information that Hydro Star's expectation is for a return of principal over a reasonable period of time with a return on investment commensurate with the regulated rate of return. (OTS Exh. 1 at 3, OTS Direct Testimony at 7). Hydro Star's investment approach seeks stability, stable cash flow and good downside protection. Economic or regulatory factors may lengthen or shorten the expected investment horizon, but there is no indication that Hydro Star is investing for a "quick hit." In this regard, Hydro Star employs a relatively conservative approach. (*Id.*).

This issue does not suggest the need for any additional conditions on the transaction. We specifically note the Applicants' commitments to the improvement of service quality in the UIW service territory as further corroboration of the expected ownership term. (*See*, I. D. at 4-5).

The Buyer's Experience as an Owner and an Operator of Water and Wastewater Utilities

Again, the Applicants stress that there will be no change in the operations management of the Applicants, and current management teams will remain in place after the transaction is closed. Nor will the transaction result in any direct ownership or control over the Applicants. (Applicants' Responsive Testimony at 7). However, the Applicants do provide information relating to water and waste water experience of the buyer in this transaction. AIG Highstar Capital II, L.P.[3] and Hydro Star specifically have substantial experience with regulated entities, including water and wastewater utilities. In particular, Highstar Managing Director John Stokes has "extensive experience in the water business over seven years. He was President and CEO of a business that owned 22 regulated water and wastewater utilities, in addition to providing engineering, construction, operations and related services to municipal utilities across much of the U.S. and Canada." (OTS Exh. 1 at 4; Applicants' Responsive Testimony at 8-9).

Given the evidence that there is intended to be no change in the operational management or control of the Applicants, together with the information relating to the experience of senior personnel in the Buyer's investor structure, no additional conditions on the transaction are necessary regarding this issue.

The Community Presence of the Buyer

The Buyer has no community presence with regard to the jurisdictional operating companies involved. As structured, the transaction is not expected to change that. However, "it is Hydro Star's intent to encourage and aid Utilities, Inc. and the

---

3 Highstar Capital II, L.P. is an investor in Hydro Star.

jurisdictional utilities to continue their efforts and practices with regard to utility outreach, especially the Customer Advisory Boards." (OTS Direct Testimony at 9).

At this point in time, particularly in view of the Applicants' establishment of Customer Advisory Boards as set forth in the Proposed Settlement, there does not appear to be any need to impose additional conditions on this transaction.

The Complex Nature and Objectives of the Various Affiliated Relationships Involved

> Hdyro Star is a newly created entity, created for the sole purpose of purchasing NGSU stock from NGSU BV. AIG Highstar Capital II, L.P. (Highstar) and its affiliates are investors in Hydro Star. Highstar's affiliates include AIG Highstar Capital II Prism Fund, L.P. and AIG Highstar Capital II Overseas Investors Fund, L.P., which were created for the purpose of providing investment vehicles for certain groups of Limited Partners. Highstar is a fund sponsored by AIG Global Investment Group (AIGGIG). A fund's sponsor is the entity that typically stands behind the general partner's obligations with respect to the fund and is required to commit a certain percentage of capital to the fund. In the case of AIGGIG and Highstar, AIGGIG stands behind the obligations of Highstar. The Applicants have indicated that AIGGIG, through its affiliates, has an obligation to commit no less than 10% of the aggregate capital to Highstar. AIGGIG is an indirect subsidiary of American International Group (AIG). Neither AIG nor AIGGIG will have any direct control over UI or the operating companies. In addition, neither AIG nor AIGGIG will own a majority of the limited partnership's interests in Highstar.

The foregoing sets forth the corporate/partnership relationships in this transaction and is taken verbatim from the OTS Direct Testimony at 10-11. As we set

forth in our discussion of Issue 3 relating to the anticipated term of ownership, the Buyer's objective is a conservative investment with returns commensurate with the regulated rate of return and a return of principal stated over a reasonable horizon. Again, the record on this issue does not suggest that any additional conditions need to be placed on the transaction.

The Fees Paid to and Service Performed by Affiliates

In response to this issue, the Applicants state that every affiliate transaction is governed by affiliated interest agreements approved by the Commission. Specifically, each of the operating companies has entered into an approved agreement with Water Service Corp. (WSC). WSC is an affiliate of Utilities, Inc. WSC provides executive, engineering, operational, accounting, legal, billing, regulatory, and customer relations services to all of Utilities, Inc.'s subsidiaries. The operating subsidiaries pay WSC the cost of those services without markup. The actual dollar amounts are set forth in the Applicants' Annual Reports on file with the Commission. There is no intent to change this structure after the transaction closes. (OTS Direct Testimony at 12).

Given the representation that the current operations will not be altered post-transaction, and the affiliated interest agreements have been approved by the Commission, we see no need for additional conditions relating to this issue.

The Use of Leverage to Eliminate or Maximize Income Tax Liabilities

Again, the Applicants stress that the transaction is intended to be transparent to the customers of the Applicants. The transaction will have no tax

consequences to the ratepayers in Pennsylvania. The Applicants will continue to use the jurisdictional statutory tax rate for ratemaking purposes. (OTS Direct Testimony at 13).

There is no indication that any additional conditions need to be placed on the transaction regarding this issue. In any event, to the extent this particular issue becomes relevant, it will be managed in a ratemaking context.

The Transparency on Corporate Structure Issues

Initially, the Applicants indicated that they were unclear as to what was required in response to this issue. Further inquiry by the OTS elicited the response that AIG was the subject of significant investigations regarding certain corporate practices and had reached settlements resulting in the payment of more than one billion dollars in restitution and penalties as well as mandated reforms of various accounting practices. (OTS Exh. 1 at 91-131).

Our concern related more to the particular operating companies within our jurisdiction and the immediate parent. However, the information supplied in response to Issue Nos. 2, 3, 4 and 6 are responsive and indicate that no additional conditions need to be placed upon the transaction. We add that while AIG's history is of great concern, we note the Applicants' assurances that the current operating structure and management teams will remain. Also, we note the Applicants' assurances that the transaction is intended to be transparent to Pennsylvania.

Entity Creditworthiness

In response to this issue, the Applicants provided information showing the Moody's, Standard & Poor's and Fitch's long-term debt and financial strength rating for AIG. Based upon the ratings as set forth in AIG's 2005 Annual Report, it appears that creditworthiness is not an issue.

Conclusion

The foregoing discussion indicates that there is no need for additional conditions to be placed upon this transaction as a result of the record developed on remand. Accordingly, we will adopt the Initial Decision of Administrative Angela Jones in this matter. However, we must indicate our concerns regarding the operations of the Applicants, particularly that of UIW, which were replete with violations of water potability standards and inadequate of service. These problems were not corrected until the Applicants were confronted by the OCA in the context of this proceeding.

The record before us contains emphatic representations that the transaction is in the public interest, in part, because the acquiring entity will provide UIP, PEUI and UIW with enhanced acquisition to capital and financial resources backed by the Buyer. (*See*, I.D. at 6; Applicants' Responsive Testimony at 8). The Applicants state: "These financial resources will only enhance the ability of the operating subsidiaries in Pennsylvania to grow and to continue to meet their service obligations." (*Id.*). Based on these representations in the record, it appears that the Applicants' Pennsylvania operations will not deteriorate. We certainly expect that there will not be any repetition of the UIW experience both as to severity and the time required to rectify the problem.

Although we are approving the transaction as conditioned by the Proposed Settlement,[4] we will continue to monitor the Applicants' jurisdictional service quality.

Based upon the foregoing discussion, we will adopt the Initial Decision of Administrative Law Judge Angela T. Jones which approved the Proposed Settlement and the underlying transaction as it is in the public interest; **THEREFORE,**

IT IS ORDERED:

1. That the Initial Decision of Angela T. Jones dated January 31, 2006 at these dockets is adopted as the Commission's action in this matter.

2. That the terms and conditions contained in the Joint Petition for Approval of Proposed Settlement submitted by Penn Estates Utilities, Inc., Utilities, Inc. of Pennsylvania, Utilities, Inc. – Westgate and the Office of Consumer Advocate filed on January 23, 2006 at these dockets are approved.

3. That the Protest of the Office of Consumer Advocate at these dockets is deemed withdrawn.

4. That the Joint Application of Penn Estates, Inc., Utilities, Inc. of Pennsylvania and Utilities, Inc. – Westgate for Approval of Stock Transfer Leading to a Change in Control of Utilities, Inc. is approved as set forth in our Order at these dockets entered February 28, 2006.

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[4] We also note that the matter of *Horvath, et al. v. Utilities, Inc. – Westgate*, C-20055305, has become final and enforceable.

5. That the Commission's Bureau of Fixed Utility Services shall monitor compliance with the conditions of the Joint Proposal for Settlement referenced in Ordering Paragraph No. 2 and shall report to the Commission upon completion of those conditions.

6. Upon the filing of the Bureau of Fixed Utility Services' report referenced in Ordering Paragraph No. 5, this proceeding shall be marked closed.

BY THE COMMISSION,

James J. McNulty
Secretary

(SEAL)

ORDER ADOPTED: September 28, 2006

ORDER ENTERED: OCT 0 2 2006

PENNSYLVANIA PUBLIC UTILITY COMMISSION
HARRISBURG, PENNSYLVANIA 17105

Application of Penn Estates Utilities, Inc., Utilities, Inc. of Pennsylvania and Utilities, Inc. – Westgate for Approval of Stock Transfer Leading to a Change in Control of their Parent Corporation, Utilities, Inc.

Public Meeting March 16, 2006
Mar-2006-C-0006
Docket Nos.: A-210072F0003
A-230063F0003
A-230013F0004
A-210093F0002

STATEMENT OF CHAIRMAN WENDELL F. HOLLAND

As a regulator, I am concerned about whether this transaction is in the public interest. Having the benefit of over 25 years of diverse experience in the water industry, I am troubled over what appears to be a recent trend in the regulated water industry, that is, the entry of equity investors into the industry. I am concerned that the only purpose of these kinds of transactions may be to attempt to realize a quick profit by "flipping" the acquired company. I worry that these equity investors may have little, if any, utility managerial experience; consequently, there could be dire consequences for the quality of utility service for ratepayers in the short and long run.

Background

1. Procedural background

This is a stock transfer from Nuon Global Solutions USA, Inc. to Hydro Star, LLC a subsidiary of the corporate family of American International Group (AIG).[1] In an Initial Decision

[1] In the instant case, Penn Estates Utilities, Inc. (PEUI), Utilities, Inc. of Pennsylvania (UIP) and Utilities, Inc.-Westgate (Westgate) are Pennsylvania utilities currently owned by Utilities, Inc. (UI), who is in turn owned by Nuon Global Solutions USA, Inc. (NGSU, Inc.), a subsidiary of NGSU BV. The common stock of Utilities, Inc. which is 100 percent controlled by NGSU BV, is being transferred to an unrelated entity, Hydro Star, LLC (Hydro Star). Hydro Star is a subsidiary of AIG Highstar Capital II, L.P. (Highstar II). Highstar II is a member of the AIG Global Investment Group (AIGGIG), an affiliate of American International Group, Inc., (AIG), one of the largest insurance and investment firms in the world.

dated January 31, 2006, Administrative Law Judge Angela T. Jones approved a Settlement reached by the parties, namely the Office of Consumer Advocate and the applicant companies. No Exceptions were filed and the Decision became effective by operation of law on February 28, 2006.

2. Company Profile

The operating jurisdictional water and wastewater utilities involved in this matter are Penn Estates Utilities, Inc., Utilities Inc. of Pennsylvania and Utilities, Inc.-Westgate.

- Penn Estates Utilities, Inc. provides water and wastewater services to approximately 1,275 customers and 400 "availability" service customers in its authorized service territory in portions of Stroud and Pocono Townships in Monroe County;
- Utilities Inc. of Pennsylvania provides wastewater service to approximately 941 customers and two elementary schools in its authorized service territory in portions of West Bradford Township in Chester County; and
- Utilities, Inc-Westgate provides water service to approximately 670 residential and commercial customers in its authorized service territory near the City of Bethlehem.

AIG is a multinational insurance and financial services conglomerate operating in about 130 countries with a market cap of approximately $160 billion. The record in this proceeding demonstrates that AIG has a complex organizational structure. This is typical for equity investors. At the top is AIG, Inc, under which is AIG Global Investment group. Highstar is a member of the AIG Global Investment Group and is a limited partnership which, along with other affiliates, buys and sells portfolio companies and manages equity funds.

According to recent press reports,

> State and Federal authorities announced on February 9, 2006, a more than $1.6 billion pact with American International Group, Inc. over alleged

> accounting improprieties…. In their lawsuit, the authorities alleged that the company and former managers, including former AIG Chief Executive Maurice R. "Hank" Greenberg, used improper accounting maneuvers to polish the company's financial results in recent years.[2]

The report continues that:

> The [$1.6 Billion] Settlement, split evenly between the SEC and New York State Authorities, would be one of the largest in finance-industry regulatory settlements with a single company in US history….
>
> The pact settles civil fraud charges filed by New York Attorney General Eliot Spitzer and the New York State Insurance Department. The SEC hasn't filed charges against AIG; it is expected to file and settle allegations of accounting fraud with the company simultaneously.
>
> The huge payout is expected to include fines, restitution and business – practice changes. AIG will pay $700 million in disgorgement and $100 million in penalties to the SEC…About $375 million will compensate AIG policyholders who may have been injured because of alleged bid rigging for some commercial insurance contracts in recent years."[3]

In sum, the corporate structure is complex and lacks transparency. It may not be in the public interest to have these regulated utilities as a part of an organization structured in this manner.

Discussion

It is appropriate to examine this matter and there is considerable precedent questioning the involvement of equity investors in the utility industry. The experience in the electric utility industry is instructive.

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[2] Wall Street Journal Online, February 9, 2006

[3] Wall Street Journal Online, February 9, 2006

The Arizona Corporation Commission (ACC) rejected the proposed takeover of Tucson Electric Power Company by Sage Mountain LLC and the investment firm of Kohlberg Kravis Roberts & Co., J.P. Morgan and Wachovia Capital Partners. In denying the proposal, the Arizona Commission reasoned that oversight and corporate governance would have been weakened substantially by the proposed holding structure, and the reorganized entity as a whole would have had greater debt.

Similarly, when faced with comparable circumstances, the Oregon Public Utility Commission rejected the proposed takeover of Portland General Electric (an Enron company) by Texas Pacific Corporation, a group of private investors. The Commission held that the transaction was not in the public interest because of excessive debt, short term ownership, non-finalized transaction terms, and a lack of transparency.

Combined, these cases illustrate that even where domestic buyers are mainly US based funds, there is an overriding concern that they are strictly equity investors with limited utility operating experience and a possible short term ownership horizon.

In light of all of the circumstances, reopening this matter is appropriate. I expect the parties to the re-opened proceeding to examine the following issues:

- The extent of capital to be allocated to ongoing operating and maintenance expenses;
- Fees paid to and services performed by affiliates;
- Corporate governance/Sarbanes Oxley compliance;
- The expected term of ownership;
- The buyer's operating water and wastewater operational experience ;
- The use of leverage to eliminate or maximize income tax liabilities;
- Extent of transparency on corporate structure issues;
- Community presence;
- The complex nature and objectives of affiliated relationships; and
- Entity creditworthiness.

Examination of these issues will enable me to determine whether this transaction is in the public interest.

March 16, 2006
DATE

Wendell F. Holland
WENDELL F. HOLLAND, CHAIRMAN

PENNSYLVANIA PUBLIC UTILITY COMMISSION
HARRISBURG, PENNSYLVANIA 17105

Application of Penn Estates Utilities, Inc., Utilities, Inc. of Pennsylvania and Utilities, Inc. – Westgate for Approval of Stock Transfer Leading to a Change in Control of their Parent Corporation, Utilities, Inc.	Public Meeting March 16, 2006 Mar-2006-C-0006 Docket Nos.: A-210072F0003 A-230063F0003 A-230013F0004 A-210093F0002

MOTION OF CHAIRMAN WENDELL F. HOLLAND

By operation of law, the Initial Decision of Administrative Law Judge Angela T. Jones, in the above captioned proceeding became a final action of the Commission on February 28, 2006.[1] Upon further consideration, I believe this Commission under Section 703(g) of the Code[2] should reconsider that action pending further review of the merits of that Initial Decision.

As a regulator, I am concerned about whether this transaction is in the public interest. Having the benefit of over 25 years of diverse experience in the water industry, I am troubled over what appears to be a recent trend in the regulated water industry, that is, the entry of equity buyers into the industry. Many issues come to mind that I believe warrant further scrutiny—for example:

- Capital allocated to ongoing operating and maintenance expenses;
- Corporate governance/Sarbanes Oxley compliance;
- The expected term of ownership;
- The buyers experience operating water and wastewater experience ;
- Community presence; and
- The complex nature and objectives of affiliated relationships.

To facilitate this examination, I believe it is appropriate that the Commission, in accordance with Section 306(b)(1) of the Code,[3] direct the Office of Trial Staff to intervene in this matter;

THEREFORE, I MOVE:

---

[1] 66 Pa. C.S. § 332 (h)
[2] 66 Pa. C.S. § 703(g)
[3] 66 Pa. C.S. § 306(b)(1)

1) That this case be reconsidered pending further review of the merits;

2) That the Office of Trial Staff intervene in this matter;

3) That due process considerations be afforded to all parties who will be provided with the opportunity to comment; and

4) That the Office of Special Assistants prepare the appropriate Opinion and Order.

March 16, 2006
DATE

Wendell F. Holland
WENDELL F. HOLLAND, CHAIRMAN

PENNSYLVANIA PUBLIC UTILITY COMMISSION
HARRISBURG, PENNSYLVANIA 17105

APPLICATION OF PENN ESTATES UTILITIES, INC., UTILITIES, INC. OF PENNSYLVANIA ND UTILITIES, INC. – WESTGATE FOR APPROVAL OF STOCK TRANSFER LEADING TO A CHANGE IN CONTROL OF THEIR PARENT CORPORATION,UTILITIES, INC.

Public Meeting March 16, 2006
MAR-2006-C-0006
Docket Nos. A-210072F0003; A-120063F0003; A-230013F0004; A-210093F0002

DISSENTING STATEMENT OF COMMISSIONER TERRANCE J. FITZPATRICK

On its own Motion, the Commission today reconsiders its final Order of February 28, 2006, granting the above-captioned Application. The rationale for this action is concern over the intentions and the structure of the new corporate owners.

I agree with the Motion adopted by the Majority to the extent that, in an appropriate case, we should fully explore the ramifications of "equity investor" control of regulated public utilities. In my view, however, this is not an appropriate case to explore these issues, because the Commission has already issued a final Order approving a Settlement Agreement between the Office of Consumer Advocate (OCA) and the Applicants, and granting the Application. I note that the Settlement resolved OCA's concerns regarding service quality and rates. The Majority's action of reopening this matter may disrupt the settled expectations of the parties, may deprive them of the benefits of the Settlement, and appears to threaten a significant delay in resolution of these issues. With regard to the last point, while the Motion establishes a comment procedure, it appears to me that hearings may be required to resolve factual issues in the analysis required by the Motion.

On balance, I believe that the better course of action would be to address issues regarding "equity investor" control on a prospective basis, rather than to reopen this case to consider these issues. Accordingly, I respectfully dissent.

DATE: March 16, 2006

Terrance J. Fitzpatrick
TERRANCE J. FITZPATRICK
COMMISSIONER

PENNSYLVANIA PUBLIC UTILITY COMMISSION
HARRISBURG, PENNSYLVANIA 17105-3265

Application of Penn Estates Utilities, Inc., Utilities, Inc. of Pennsylvania and Utilities, Inc. – Westgate for Approval of Stock Transfer Leading to a Change in Control of their Parent Corporation, Utilities, Inc.

PUBLIC MEETING
MARCH 16, 2006

MAR-2006-C-0006*
Docket No. A-210072F0003
A-230063F0003
A-230013F0004
A-210093F0002

DISSENTING STATEMENT OF COMMISSIONER KIM PIZZINGRILLI

I respectfully dissent from reopening this case. The Commission has a strong policy of favoring settlements. Consistent with that policy, Joint Petitioners in this case engaged in negotiations to settle issues raised by the Office of Consumer Advocate. The ongoing discussions resulted in a Joint Settlement. The Office of Consumer Advocate submits that the Settlement is in the public interest. The Initial Decision of the Administrative Law Judge became final by operation of law on February 28, 2006.

It is the role of this Commission to ensure that strong corporate governance structures are in place in any Pennsylvania utility company. It is also our responsibility to ensure that terms of all Settlement Agreements are met and that utilities provide safe, reliable and reasonably priced utility service for Pennsylvania consumers. The Settlement Agreement resolved the issues regarding service quality and rates raised by the Office of Consumer Advocate.

I fully support the concerns and issues raised regarding equity investors entering the utility industry. Rather than reopening this particular case and delaying the benefits of the Settlement, I would have preferred to open a generic proceeding to fully assess the effect of equity owners in the utility industry.

3/16/06
Date

Kim Pizzingrilli
KIM PIZZINGRILLI
COMMISSIONER

TENNESSEE

Kimberley Hawkins

From: Carsie Mundy [Carsie.Mundy@state.tn.us]
Sent: Tuesday, January 22, 2008 10:11 AM
To: Kimberley Hawkins
Cc: Darlene Standley
Subject: Fwd: RE: Tennessee Water Service
Attachments: States Survey on Utilities, Inc.doc

Ms. Hawkins:
I am responding to your E-Mail that was forwarded to me from Darlene Standley of our Utilities Division. I have researched our files and have found no complaints filed with us against Tennessee Water Service in the last five years, is in good standing in Tennessee with our agency and is current with all required annual fees. I hope this helps.
Carsie Mundy
Chief-Consumer Services Division
Tennessee Regulatory Authority
800-342-8359 ext. 157

>>> "Kimberley Hawkins" <KHawkins@azcc.gov> 1/18/2008 2:45 PM >>>
Thank you Ms. Standley and I did notice that you do regulated one of the companies that is associated with Utilities, Inc. which is Tennessee Water. I'm not sure if you got the original email that was sent out on or around December 21, 2007, I went ahead and attached it to this email.

-----Original Message-----
From: Darlene Standley [mailto:Darlene.Standley@state.tn.us]
Sent: Friday, January 18, 2008 11:55 AM
To: Kimberley Hawkins
Subject: RE:

Ms. Hawkins

Attached is a listing of the gas, electric, water and wastewater companies regulated by the TRA. This list can also be found on the TRA's web page http://state.tn.us/tra/telecom.htm under list of regulated utilities.

Thanks

Darlene Standley, Utilities Division Chief Tennessee Regulatory Authority 460 James Robertson Parkway Nashville, TN 37243-0505
darlene.standley@state.tn.us

>>> "Kimberley Hawkins" <KHawkins@azcc.gov> 1/18/2008 12:29 PM >>>
Ms. Standley do you have any association with the companies listed on

ATTACHMENT K

THE UTILITIES' RESPONSE TO BNC 2.12 AND 2.13 INCLUDING COPIES OF JUDGEMENTS:

Louisiana
Nevada
Indiana
Virginia
Illinois A-F
North Carolina
South Carolina A-I
Florida A-V

RESPONSE OF PERKINS MOUNTAIN WATER COMPANY
AND PERKINS MOUNTAIN UTILITY COMPANY
TO ARIZONA CORPORATION COMMISSION
STAFF'S SECOND SET OF DATA REQUESTS
DOCKET NOs. W-20380A-05-0490, SW-20379A-05-0489
February 8, 2008 (Response Supplemented March 21, 2008)

BNC 2.12 **In March 2007, the Illinois Commerce Commission in Docket No. 06-0360, citied five (5) affiliates of Utilities, Inc., for failure to comply with Commission Orders and with Commission Rules. Please provide a history of Citations issued by regulatory agencies in other jurisdictions against Utilities, Inc. and/or any of its respective affiliates since the year 2000.**

Response: Utilities, Inc. is a holding company that owns the stock of approximately 90 operating utilities in 17 states. As such, to the best of my knowledge and belief, there have been no citations that have been issued by regulatory agencies against Utilities, Inc. in connection with utility compliance obligations. With respect to its utility operating company affiliates, the requested information is set forth below for each of the applicable states:

Arizona None

Georgia None

Kentucky None

Louisiana On August 11, 2004, the Louisiana Department of Environmental Quality issued a Compliance Order to *Louisiana Water Service, Inc.* following an inspection by the Department. A copy of the Compliance Order is attached.

On May 21, 2002, the Louisiana Department of Environmental Quality issued a Compliance Order to *Utilities, Inc. of Louisiana* following an inspection by the Department. A copy of the Compliance Order is attached.

Mississippi None

New Jersey None

Ohio None

Tennessee None

Nevada – On October 25, 2000, the Public Utilities Commission of Nevada ("Commission") issued an order in Docket No. 98-0-5008 relating to an application by *Spring Creek Utilities Company* to withdraw from its Capital Projects and Hydrant Fund. During the review of this application, the Commission's Regulatory operations Staff identified three compliance issues including a failure to obtain a permit to construct pursuant to the Nevada Utility Environmental Protection Act ("UEPA") for construction of a 500,000 gallon storage tank. *Spring Creek Utilities Company* entered into a Stipulation wherein it agreed to pay a $5,000 fine that would be suspended for three years and expunged if the utility obtained all necessary construction permits and there were no further violations of the UEPA. A copy of the order is attached.

On October 17, 2006, the Commission issued an order approving a Settlement Agreement and Stipulation Agreement between the Commission Staff and *Spring Creek Utilities Company* relating to a Petition for an Order to Show Cause that alleged that *Spring Creek Utilities Company* failed to provide reasonably continuous and adequate service to its customers. A copy of the order is attached.

Maryland None

Pennsylvania None

Indiana - On August 24, 2004, as part of an order involving the sale of assets and approval of an acquisition adjustment, the Indiana Utility Regulatory Commission ("Commission") found in Cause No. 41873 that certain records of *Indiana Water Services, Inc.* ("*IWSI*") were being kept out of state (in Northbrook, Illinois) contrary to the requirement that a utility's books be kept in the state and not be removed except upon conditions prescribed by the Commission. *IWSI* did this because one of its Indiana affiliates, Twin Lakes Utilities, had already been given permission by the Commission to keep its books in Illinois. The Commission found that notwithstanding its authorization for the affiliate to keep its books and records out of state, *IWSI* should have asked for permission. The Commission did not require *IWSI* to transfer the books and records back to Indiana, but merely ordered that *IWSI* would have to pay the costs of the Commission and the Office of Utility Consumer Counselor related to any necessary visits to Northbrook.

Virginia - On January 21, 2005 *Massanutten Public Service Corporation* ("*MPSC*") filed an application with the Virginia State Corporation Commission ("Commission") under the state's Affiliates Act requesting approval of a water services agreement with Water Service Corporation ("WSC") (an affiliate of *MPSC*) under which *MPSC* and WSC had already been operating. At the time MPSC and WSC had entered into the agreement, *MPSC* was exempt from the Affiliates Act because it did not meet the financial threshold that would have required approval of the agreement. On April 20, 2005, *MPSC* filed a request to withdraw its application because certain provisions of the agreement needed to be revised. On April 21, 2005, the Commission granted the application and dismissed the case without prejudice. By order dated June 7, 2005, *MPSC* was directed to file a new application with a Revised Agreement. *MPSC* filed a new application for approval of the Revised Agreement in Case No. PUE-2005-0063. On October 19, 2005, the Commission issued an order granting approval of the Revised Application. In its order approving the Revised Agreement, the Commission found that *MPSC* and WSC had been operating under the prior agreement which had not been approved by the Commission and ordered that *MPSC* "take the necessary steps to ensure that prior approval is obtained by the Commission under the Affiliates Act for any future affiliate transactions." A copy of the order is attached for your convenience.

On March 15, 2006, *MPSC*, entered into a Consent and Special Order ("Consent Order") with the Virginia Department of Environmental Quality to resolve alleged violations of environmental laws and regulations. *MPSC* without admitting or denying the factual findings or conclusions of law contained in the Consent Order, agreed to perform the actions described in Appendix A to the Consent Order and to pay a civil charge of $19,700. A copy of the Consent Order is attached.

Illinois – On January 3, 2007, the Illinois Environmental Protection Agency ("EPA") accepted a Compliance Commitment Agreement proposed by *Galena Territory Utilities, Inc.* ("*Galena*") to resolve a notice of alleged violations under the Illinois Environmental Protection Act. A copy of the EPA's acceptance letter is attached as BNC 2.12 IL-A..

On March 21, 2007, the Illinois Commerce Commission ("Commission") issued an order in Docket No. 06-0360 relating to *Apple Canyon Utility Company, Cedar Bluff Utilities, Inc., Charmar Water Company, Cherry Hill Water Company* and *Northern Hills Water Company* ("collectively

"*Companies*"). The Commission found, in part, that the *Companies* failed to maintain and file on April 7, 2005, continuing property reports ("CPRs") as was required by the Commission. The *Companies* had testified that the in-house data base system that was designed to track the CPRs did not interface properly with other older systems and there was a delay in getting the data entry work completed in time for the April 7, 2005 deadline. Notwithstanding, the Commission issued an order that required that future rate base additions for the *Companies* must be supported by CPRs and assessed a civil penalty totaling $5,000. A copy of the order is attached as BNC 2.12 IL-B.

On May 18, 2007, Circuit Court for the 15th Judicial Circuit of Stephenson County, Illinois, entered an order (No. 0CH96) approving a Consent Order between the Illinois Environmental Protection Agency and *Northern Hills Water and Sewer Company* ("*Northern Hills*") wherein *Northern Hills*, without admitting the allegations of violations contained in the complaint, agreed to comply with the conditions of the Consent Order and pay a civil penalty of $9,750. The allegations of the complaint were that *Northern Hills* had violated various provisions of the Illinois Environmental Protection Act relating to its waste water treatment plant in Freeport, Illinois. A copy of the Consent Order is attached as BNC 2.12 IL-C.

On August 30, 2006, the Commission issued an order in Docket No. 05-0452relating to an application for a 2.95 acre extension of the CC&N for *Galena Territory Utilities, Inc.* ("*Galena*") to provide sanitary sewer service to an existing 71-unit condominium development contiguous to its existing service territory. In approving the application, the Commission found, in part, that *Galena* had provided service prior to the issuance of the CC&N and ordered Galena to pay a $1,000 fine. A copy of the order is attached as BNC 2.12 IL-D.

On July 12, 2005, Circuit Court for the Nineteenth Judicial District of Lake County, Illinois, entered an order (No. 05CH1009) approving a Consent Order between the Illinois Environmental Protection Agency and *Charmar Water Company* ("*Charmar*") wherein *Charmar*, without admitting the allegations of violations contained in the complaint, agreed to comply with the conditions of the Consent Order and pay a civil penalty of $5,000. The allegations of the complaint were that *Charmar* had failed to obtain a construction permit for a hydropneumatic storage tank and

operate such tank without a permit. A copy of the Consent Order is attached as BNC 2.12 IL-E.

On or about November 6, 2003, the United States Environmental Protection Agency and *Northern Hills Water and Sewer Company* ("*Northern Hills*") entered into a Consent Agreement and Final Order ("Consent Agreement") in Docket No. CERCLA-05-2004 wherein *Northern Hills*, without admitting or denying the factual allegations of the complaint, agreed to pay a civil penalty of $1,000 for failing to timely report release of chlorine from its Freeport facility. A copy of the Consent Agreement is attached as BNC 2.12 IL-F.

North Carolina – Although not a citation *per se*, on April 15, 2005, the North Carolina Utilities Commission ("Commission") issued an order granting a partial rate increase in connection with an application by *Carolina Water Service, Inc. of North Carolina* ("*CWS*") for a water and sewer rate increase in Docket No. W-354, Sub 266. As part of this rate case review, the Commission found that *CWS* had not complied with several requirements. Although the Commission specifically ruled in its order it was not appropriate to impose any penalties, it did take some of these items into consideration in setting rates and further ordered *CWS* to comply with the requirements in the future. A copy of this rate case order is attached as BNC 2.12 NC.

South Carolina – Attached (as identified) are copies of Consent Orders entered into between the South Carolina Department of Health and Environmental Control ("DHEC") and the Utilities, Inc. affiliates listed below. Pursuant to DHEC regulations to address system deficiencies through their enforcement process, Consent Orders would be issued to identify, correct and in many cases, assess civil penalties as part of the standard process.

Note: Six (6) of the nine (9) Consent Orders below involved *Utilities Services of South Carolina, Inc.* which was acquired by Utilities, Inc. in 2002 which had some deficiencies that were previously identified by DHEC.

- *Utilities Services of South Carolina, Inc. (Charleswood Subdivision)* – No. 06-098 DW, June 15, 2006. No civil penalty was required if the utility complied with the Consent Order. BNC 2.12 SC-A

- *Utilities Services of South Carolina, Inc. (Purdy Shores)* – No. 06-225 DW, December 4, 2006. No civil penalty was required if the utility complied with the Consent Order. BNC 2.12 SC-B
- *Utilities Services of South Carolina, Inc. (Barney Rhett Subdivision)* – No. 05-149 DW, October 18, 2005. No civil penalty was required if the utility complied with the Consent Order. BNC 2.12 SC-C
- *Utilities Services of South Carolina, Inc. (Foxwood Subdivision)* – No. 05-099-W, July 21, 2005. An $8,400 civil penalty was agreed to. BNC 2.12 SC-D
- *Carolina Water Service, Inc. (Glenn Village II Subdivision)* – No. 05-094-DW, July 19, 2005. No civil penalty was required if the utility complied with the Consent Order. BNC 2.12 SC-E
- *United Utility Company, Inc. (Briarcreek Subdivision I WWTF)* – No. 04-180-W, October 6, 2004. A $3,000 civil penalty was agreed to. BNC 2.12 SC-F
- *Carolina Water Service, Inc. (River Hills Subdivision)* – No. 04-140-W, July 30, 2004. A $9,600 civil penalty was agreed to. BNC 2.12 SC-G
- *Utilities Services of South Carolina, Inc. (Farrowood Estates)* – No. 04-073 DW, April 6, 2004. No civil penalty was required if the utility complied with the Consent Order. BNC 2.12 SC-H
- *Utilities Services of South Carolina, Inc. (Washington Heights)* – No. 04-072 DW, April 6, 2004. No civil penalty was required if the utility complied with the Consent Order. BNC 2.12 SC-I

<u>*Florida*</u> – Attached (as identified) are copies of "short form" settlements entered into between the Florida Department of Environmental Protection ("DEP") and the Utilities, Inc. affiliates listed below. Pursuant to DEP regulations that address system deficiencies through its enforcement process, settlements would be entered into to identify, correct and in many cases, assess civil penalties as part of the standard process.

- *Sanlando Utilities Corporation (Wekiva Hunt Club WWTF)* – No. 0GC-06-0800, June 16, 2006. A civil penalty totaling $2,500 was agreed to. BNC 2.12 FL-A
- *Bayside Utility Services, Inc.* – No. OGC 06-2421-03-DW, March 6, 2007. A civil penalty totaling $2,200 was agreed to. BNC 2.12 FL-B

- *Mid-County Services, Inc.* – No. OGC 06-1742, November 22, 2006. A civil penalty totaling $4,500 was agreed to. BNC 2.12 FL-C
- *Miles Grant Water and Sewer Company* – No. OGC 06-1249, July 17, 2006. A civil penalty totaling $350 was agreed to. BNC 2.12 FL-D
- *Miles Grant Water and Sewer Company* – No. OGC 06-0302, May 2006. A civil penalty totaling $600 was agreed to. BNC 2.12 FL-E
- *Miles Grant Water and Sewer Company* – No. OGC 04-0892, July 9, 2004. A civil penalty totaling $600 was agreed to. BNC 2.12 FL-F
- *Sanlando Utilities Corporation (Wekiva Hunt Club WWTF)* – No. OGC 02-1204, August 27, 2002. A civil penalty totaling $4,650 was agreed to. BNC 2.12 FL-G

Attached is a copy of a "short form" settlement entered into between the Florida Department of Health and the following Utilities, Inc. affiliate pursuant to DEP regulations:

- *Cyprus Lakes Utilities, Inc.* – No. OGC 06-653PW5055A, December 13, 2006. A civil penalty totaling $1,200 was agreed to. BNC 2.12 FL-H

Attached (as identified) are copies of Consent Orders entered into between the DEP and the Utilities, Inc. affiliates listed below. Pursuant to DEP regulations that address system deficiencies through its enforcement process, Consent Orders would be entered into to identify, correct and in many cases, assess civil penalties as part of the standard process.

- *Sandy Creek Utility Services, Inc.* – No. OGC 07-1887-03-DW, January 22, 2008. A civil penalty totaling $1,225 was agreed to. BNC 2.12 FL-I
- *Utilities, Inc. of Florida* – No. OGC 06-100-51-PW, June 8, 2006. A civil penalty totaling $500 was agreed to. BNC 2.12 FL-J
- *Miles Grant Water and Sewer Company* – No. OGC 05-2873, March 20, 2006. A civil penalty totaling $500 was agreed to. BNC 2.12 FL-K
- *Utilities, Inc. of Eagle Ridge* – No. OGC 05-2747-36-DW, January 30, 2006. A civil penalty totaling $2,000 was agreed to. BNC 2.12 FL-L

- *Alfaya Utilities, Inc.* – No. OGC 05-0505, June 22, 2005. A civil penalty totaling $3,500 was agreed to. BNC 2.12 FL-M

The following related to Florida Public Service Commission ("Commission") rate case orders for the following Utilities, Inc. affiliates:

- *Utilities, Inc. of Sandalhaven* – Docket No. 020409-SU, Order No. PSC-03-0602-PAA-SU, May 13, 2003. The Commission found that the Company entered into a modified contract with a country club to provide reuse that included an annual fee of $4,000 intended to cover the increase in cost for testing and operating the reuse system, which was not included in the original contract. The Commission subsequently learned that the charge was not included in the Company's tariff. The Company subsequently requested approval of a tariff covering the fee. The Commission did recognize that the $4,000 annual fee, paid in quarterly amounts of $1,000, benefited the remaining customer base by reducing the portion of the revenue requirement generated from residential and other general use customers. In the rate case order, the Commission found that i) a show cause proceeding would not be initiated since the Company properly recorded the revenue from the charge; ii) the Company submitted a proposed tariff once it was informed that it did not have a tariff on file; and iii) the Commission wanted to encourage reuse. The Commission did not assess any administrative penalty and put the Company on notice that it may only charge those rates and charges approved by the Commission. The relevant pages from the Commission's order are attached as BNC 2.12 FL-N.

  Utilities, Inc. Subsidiary Settlement – On December 23, 2004, the Commission issued an order approving a settlement agreement ("Agreement") filed by *Utilities, Inc.* (*"UI"*). The Agreement was in response to Docket No. 040316-WS that was opened by the Commission to bring all of *UI's* Florida subsidiaries into compliance with Rule 25-30.115 following findings by the Commission in prior orders that *UI's* Florida subsidiaries were not in compliance with the books and records requirements. A copy of the order and Agreement is attached as BNC 2.12 FL-O.

  Alafaya Utilities, Inc. – On February 15, 2007, the Commission issued Order No. PSC-07-0130-SC-SU in Docket No. 060256-SU

approving an increase in rates and charges for *Alafaya* and initiating a show cause proceeding. The order to show cause alleged various violations and proposed fines totaling $4,200. The relevant pages from the Commission's order are attached as BNC 2.12 FL-P.

Cyprus Lakes Utilities, Inc. - On March 5, 2007, the Commission issued Order No. PSC-07-0199-PAA-WS in Docket No. 060257-WS approving an increase in rates and charges for *Cyprus* and initiating a show cause proceeding. The order to show cause alleged violations of prior Commission orders regarding books and records requirements and proposed a fine of $3,000. The relevant pages from the Commission's order are attached as BNC 2.12 FL-Q.

Sanlando Utilities Corp. - On March 6, 2007, the Commission issued Order No. PSC-07-0205-PAA-WS in Docket No. 060258-WS approving an increase in rates and charges for *Cyprus* and initiating a show cause proceeding. The order to show cause alleged that *Cyprus* failed to notify the Commission of a project suspension and proposed a fine of $500. The relevant pages from the Commission's order are attached as BNC 2.12 FL-R.

Labrador Services, Inc. - On July 16, 2001, the Commission issued Order No. PSC-01-1483-PAA-WS in Docket No. 000545 granting certificates and ordering that the 2000 annual report be filed and the annual regulatory assessment be paid. In its order granting the certificates, the Commission found that *Labrador* was in apparent violation of its certificate, annual report and regulatory assessment requirements. The Commission concluded, however, that under the circumstances that gave rise to these apparent violations, no order to show cause proceeding was necessary. The relevant pages from the Commission's order are attached as BNC 2.12 FL-S.

Labrador Services, Inc. - On February 14, 2007, the Commission issued Order No. PSC-07-0129-SC-WS in Docket No. 060262 WS denying a rate increase, ordering a refund of interim rates and initiating a show cause proceeding. The order to show cause alleged violations relating to adjustments to *Labrador's* books, and

meter-related issues and proposed a fine of $3,500. The relevant pages from the Commission's order are attached as BNC 2.12 FL-T.

Utilities, Inc. of Florida - On June 13, 2007, the Commission issued Order No. PSC-07-0505-SC-WS in Docket No. 060253-WS approving an increase in rates and charges and initiating a show cause proceeding. The order to show cause alleged that the utility was serving customers outside of its certificated area and that it had not kept its books and records in compliance with Commission rules. The order proposed fines totaling $8,250. The relevant pages from the Commission's order are attached as BNC 2.12 FL-U.

Miles Grant Water and Sewer Company – On November 5, 2002, the Commission issued Order No. PSC-02-1517-TRF-WU in Docket No. 020925, approving a bulk irrigation class of service. As part of the order, the Commission found that the utility had initiated a new class of service prior to receiving Commission approval. The Commission found it was not necessary or appropriate to issue an order to show cause under the circumstances. The relevant pages from the Commission's order are attached as BNC 2.12 FL-V.

Prepared by: Michael T. Dryjanski
Manager, Regulatory Accounting
Utilities, Inc.
2335 Sanders Road
Northbrook, IL 60062

RESPONSE OF PERKINS MOUNTAIN WATER COMPANY
AND PERKINS MOUNTAIN UTILITY COMPANY
TO ARIZONA CORPORATION COMMISSION
STAFF'S SECOND SET OF DATA REQUESTS
DOCKET NOs. W-20380A-05-0490, SW-20379A-05-0489
February 8, 2008

BNC 2.13 **Please provide a copy of all Consent Orders entered into by Utilities, Inc. and/or any of their respective affiliates with any regulatory agencies since the year 2000.**

Response: Please see the response to BNC 2.12 to the extent applicable.

Prepared by: Michael T. Dryjanski
Manager, Regulatory Accounting
Utilities, Inc.
2335 Sanders Road
Northbrook, IL 60062

BNC 2.12 LA

STATE OF LOUISIANA
DEPARTMENT OF ENVIRONMENTAL QUALITY

OFFICE OF ENVIRONMENTAL COMPLIANCE

IN THE MATTER OF UTILITIES INC. OF LOUISIANA ST. TAMMANY PARISH ALT ID NO. LA0066559 PROCEEDINGS UNDER THE LOUISIANA ENVIRONMENTAL QUALITY ACT, La. R.S. 30:2001, ET SEQ.	ENFORCEMENT TRACKING NO. WE-C-01-0685 AGENCY INTEREST NO. 19041

COMPLIANCE ORDER

The following COMPLIANCE ORDER is issued to UTILITIES INC. OF LOUISIANA (RESPONDENT) by the Louisiana Department of Environmental Quality (the Department), under the authority granted by the Louisiana Environmental Quality Act (the Act), La. R.S. 30:2001, et seq., and particularly by La. R.S. 30:2025(C) and 30:2050.2.

FINDINGS OF FACT

I.

The Respondent owns and/or operates the Arrowwood Wastewater Treatment Plant located at the end of Cherokee Street in Covington, St. Tammany Parish, Louisiana. Louisiana Pollutant Discharge Elimination System permit LA0066559 was issued on May 21, 1997, and will expire on May 20, 2002. An LPDES permit application was received on October 24, 2001.

LPDES permit LA0066559 authorizes the Respondent to discharge treated sanitary wastewater into the Abita River, waters of the state.

II.

Inspections conducted by the Department on or about February 17, 1998, and on or about November 9, 2001, revealed the Respondent failed to keep records of the pH sample and analysis times and pH calibration log. Each failure to maintain records is in violation of LPDES permit LA0066559 (Part III, Section A.2, C.3, and C.4), La. R.S. 30:2076 (A) (3), LAC 33:IX.501.A, LAC 33:IX.2355.A, LAC 33:IX.2355.J.2, LAC 33:IX.2355.J.3, and LAC 33:IX.2775.

III.

Inspections conducted by the Department on or about February 17, 1998, and on or about November 9, 2001, revealed the Respondent failed to calculate its loading concentration correctly. The Respondent does not use a representative sample of daily flows to calculate daily loadings as required by its permit. Each failure to correctly calculate loading concentration is in violation of LPDES permit LA0066559 (Part III, Section A.2 and C.2), La. R.S. 30:2076 (A) (3), LAC 33:IX.501.A, LAC 33:IX.2355.A, and LAC 33:IX.2355.J.1.

IV.

A review of the Discharge Monitoring Reports (DMRs) conducted on or about April 24, 2002, revealed the following effluent violations from 5/97 through 03/02:

Date	Parameter	Permit Limit	Sample Results
1/99	Fecal Coliform, 7 day avg.	400 colonies /100 ml	980 colonies/100 ml
2/02	TSS 7 day avg.	23 mg/L	24 mg/L

Each effluent excursion is in violation of LPDES permit LA0066559 (Part I, Page 2 of 2 and Part III, Section A.2), La. R.S. 30:2076 (A) (1), La. R.S. 30:2076 (A) (3), LAC 33:IX.501.A, LAC 33:IX.501.D, and LAC 33:IX.2355.A.

6/6/01	Helenburg	Faulty electrical breaker on pump #1
6/7/01	Helenburg	Heavy rain from tropical storm
6/8/01	Holiday Square	Electrical step-down transformer on the control voltage went out
6/12/01	Crestwood	Float ball faulty
8/12/01	Helenburg	Heavy rains
10/7/01	Crestwood	Malfunctioning float control
10/14/01	Crestwood	Belt went out on one of the pumps and the other was left off by accident
10/17/01	Crestwood	Restriction in force main
12/03/01	Texaco on Hwy 190	Circuit breakers to all three pumps had tripped out due to a power surge

Each failure to properly operate and maintain systems of treatment and control is a violation of LPDES permit LA00665509 (Part III, Section A.2 and Part III, Section B.3.a), La. R.S. 30:2076 (A) (3), LAC 33:IX.501.A, LAC 33:IX.2355.A, and LAC 33:IX.2355.E.

COMPLIANCE ORDER

Based on the foregoing, the Respondent is hereby ordered:

I.

To immediately take, upon receipt of the COMPLIANCE ORDER, any and all steps necessary to meet and maintain compliance with LPDES permit LA0066559.

II.

To submit to the Enforcement Division, within thirty (30) days after receipt of this COMPLIANCE ORDER, a complete written report that shall include a detailed description of the circumstances of the cited violations, and the actions taken to achieve compliance with this COMPLIANCE ORDER.

V.

A file review conducted by the Department on or about April 23, 2002, revealed the following overflows as reported by the Respondent from 5/97 through 4/02:

DATES OF OVERFLOWS	LOCATION OF LIFTSTATION	COMMENTS
5/5/97	Cinema 10	Motor went to ground and shorted out two 60 amp fuses
5/27/97	Village Drive	Mechanical problem with the float control
6/11/97	Ms. Dee's	Pumps not working
7/4/97	Forest Loop	Loss of vacuum in the suction lift pumps
7/5/97	Cinema 10	Corrosion in the control panel
7/6/97	North Bent Tree Court	Bad circuit breaker in the control panel
12/1/97	Cinema 10	Transformer burnt up
1/5/98	Rutherford	Ball check in pumps sticking
1/7/98	Crestwood	Severe weather
1/7/98	Arrowwood STP	Hydraulic overload due to severe weather
1/22/98	Crestwood	Heavy rainfall and electrical problems
6/8/98	Helenburg Road	Control float hung up which prevented the pumps from starting
6/27/98	Wal-Mart parking lot	Blockage in manhole
7/19/98	Helenburg Road	Electrical malfunction with Control float junction box.
7/29/98	Helenburg Road	Power outage
7/98	Fairway Drive	Air relief line come untied on pump
9/29/98	Roseburg	Power outage due to Hurricane George
4/18/99	Helenburg Road	Control float malfunction
5/6/99	Helenburg Road	Floating material disabled float system from engaging pumps.
9/299	Holiday Square	Control float malfunction
11/99	Crestwood	Phase monitor inside the control panel failed, shutting down lift station
1/3/00	Helenburg Road	Air relief stopped up
3/27/00	River Oaks	Tee on Sewer force main broke off preventing lift station to pump
4/5/00	River Oaks	Breaker left off by electrician
7/21/00	Helenburg Road	Power outage due to fallen limb
3/27/01	River Oaks/Bentree North	Debris in the wet well clogging up the pump
4/24/01	Crestwood	Lost of power from supplier
5/6/01	Helenburg	Main circuit breaker failing on one of the two pumps causing other to burn up

THE RESPONDENT SHALL FURTHER BE ON NOTICE THAT:

I.

The Respondent has a right to an adjudicatory hearing on a disputed issue of material fact or of law arising from this COMPLIANCE ORDER. This right may be exercised by filing a written request with the Secretary no later than thirty (30) days after receipt of this COMPLIANCE ORDER.

II.

The request for adjudicatory hearing shall specify the provisions of the COMPLIANCE ORDER on which the hearing is requested and shall briefly describe the basis for the request. This request should reference the Enforcement Tracking Number and Agency Interest Number, which are located in the upper right-hand corner of the first page of this document and should be directed to the following:

Department of Environmental Quality
Office of the Secretary
Post Office Box 82282
Baton Rouge, Louisiana 70884-2282
Attn: Hearings Clerk, Legal Division
Re: Enforcement Tracking No. WE-C-01-0685
Agency Interest No. 19041

III.

Upon the Respondent's timely filing a request for a hearing, a hearing on the disputed issue of material fact or of law regarding this COMPLIANCE ORDER may be scheduled by the Secretary of the Department. The hearing shall be governed by the Act, the Administrative Procedure Act (La. R.S. 49:950, et seq.), and the Department's Rules of Procedure. The Department may amend or supplement this COMPLIANCE ORDER prior to the hearing, after providing sufficient notice and an opportunity for the preparation of a defense for the hearing.

VIII.

This COMPLIANCE ORDER is effective upon receipt.

Baton Rouge, Louisiana, this 21st day of May, 2002.

R. Bruce Hammett

R. Bruce Hammett
Assistant Secretary
Office of Environmental Compliance

Copies of a request for a hearing and/or related correspondence should be sent to:

Louisiana Department of Environmental Quality
Office of Environmental Compliance
Enforcement Division
P.O. Box 82215
Baton Rouge, LA 70884-2215
Attention: Mrs. Cheryl Nolan

c: Mr. Jerry Saunders
U.S. Environmental Protection Agency

Mr. Bill Hathaway
Department of Health and Hospitals

Mr. Doug Vincent
Department of Health and Hospitals

STATE OF LOUISIANA
DEPARTMENT OF ENVIRONMENTAL QUALITY

OFFICE OF ENVIRONMENTAL COMPLIANCE

IN THE MATTER OF	*	
	*	
LOUISIANA WATER SERVICE, INC.	*	ENFORCEMENT TRACKING NO.
ST. TAMMANY PARISH	*	
ALT ID NO. LA0049794	*	WE-C-04-0189
	*	
	*	AGENCY INTEREST NO.
	*	
PROCEEDINGS UNDER THE LOUISIANA	*	19474
ENVIRONMENTAL QUALITY ACT,	*	
La. R.S. 30:2001, ET SEQ.	*	

COMPLIANCE ORDER

The following **COMPLIANCE ORDER** is issued to **LOUISIANA WATER SERVICE, INC. (RESPONDENT)** by the Louisiana Department of Environmental Quality (the Department), under the authority granted by the Louisiana Environmental Quality Act (the Act), La. R.S. 30:2001, et seq., and particularly by La. R.S. 30:2025(C), 30:2050.2 and 30:2050.3(B).

FINDINGS OF FACT

I.

The Respondent owns and/or operates a privately owned treatment facility serving Kingspoint Subdivision located at 650 Voters Road in Slidell, St. Tammany Parish, Louisiana. The Respondent was issued LPDES permit LA0049794 on or about May 27, 1997. Louisiana Pollutant Discharge Elimination System permit LA0049794 was modified on or about September 5, 1997, to correct typographical errors. The permit expired on or about May 26,

2002. The Respondent submitted an application for renewal of LPDES permit LA0049794 on or about October 24, 2001, therefore LPDES permit LA0049794 was administratively extended. LPDES permit LA0049794 was reissued to the Respondent on or about February 20, 2004, with an effective date of March 1, 2004, and which shall expire on April 30, 2009. Under the terms and conditions of LPDES permit LA0049794, the Respondent is authorized to discharge treated sanitary wastewater from its facility into W-14 Drainage Canal, thence into Salt Bayou, thence into Lake Pontchartrain, all waters of the state.

II.

Inspections conducted by the Department on or about September 25, 2001, and December 25, 2003, and a subsequent file review conducted by the Department on or about April 1, 2004, revealed that overflows had occurred as reported by the Respondent. The overflows are as follows:

Date of Overflow	Overflow Location	Overflow Amount	Cause of Overflow
02/14/04	1329 & 1407 Admiral Nelson – 1470 Hillary, Slidell, LA	< 100 gal.	Lift station pump failure.
2/8/04	200 Foxbriar	< 100 gal.	Stopped 8" sewer main.
1/1/04	1407 Admiral Nelson, 1413 Kings Row, 1470 Hillary	1,500 gal.	Pump failure at the Montgomery St. station.
12/25/03	301 Brookhaven Ct.	100 gal.	Grease blockage in sewer main.
9/27/03	1404 Montgomery Blvd.	100 gal.	Grease blockage in the sewer main.
9/20/03-09/23/03	650 Voters Road	Unknown	Electrical breaker tripped.

8/11/03	209 & 215 Brookter St.	< 200 gal.	Main line blockage.
7/8/03	650 Voters Road	100 gal.	Heavy rainfall during Hurricane Bill.
6/8/03	209 Brookter Dr.	< 200 gal.	Pump failure due to resets tripping out.
4/28/02	Manholes at Foxbriar, Foxcroft, Hollow Rock, and Tiffany St.	50,000 gal.	Power out to liftstation due to underground lines hit by boring crew.
4/3/02	201 Brookter St.	500 gal.	Sewer main clogged with grease.
2/9/04	650 Voters Road	< 100 gal.	Blockage of sewer main.
11/26/01	Liftstation across from 125 Kingspoint Blvd.	12,000 gal.	Power outage.
11/26/01	#1 sewer lift station across from 125 Kingspoint Blvd.	12,000 gal.	Power outage.
8/19/01	Lifstation on Kingsport Blvd. Across from Rainbow Center	180 gal.	Heavy grease build-up caused float to stick.
5/17/01	Kingspoint Blvd. Bridge crossing the W-14 canal.	100 gal.	Ground washed away causing 8" sewer force main to crack.
6/4/00	Kingspoint Blvd. Bridge crossing the W-14 canal.	300 gal.	Repair clamp broke off.
10/22/99	#2 liftstation	< 40,000 gal.	Pumps quit due to vacuum leak.
6/3/99	Chancer sewer lift station	Unknown	Electrical malfunction that caused breaker to trip.

Each discharge not authorized by LPDES permit LA0049794 is in violation of La. R.S. 30:2075, La. R.S. 30:2076 (A) (1), La. R.S. 30:2076 (A) (3), LAC 33:IX.501.A, LAC 33:IX.501.D, and LAC 33:IX.2355.A. Each failure by the Respondent to properly operate and maintain its sewerage system is in violation of LPDES permit LA0049794 (Part I, Page 2, and Part III,

Section A.2 and B.3.a), La. R.S. 30:2076 (A) (3), LAC 33:IX.501.A, LAC 33:IX.2355.A, and LAC 33:IX.2355.E.

III.

An inspection conducted by the Department on or about September 25, 2001, revealed the Respondent was not properly operating and maintaining its facility. Specifically, the Respondent did not have a thermometer in the refrigerator containing the laboratory samples. The Respondent's failure to properly operate and maintain its facility is in violation of LPDES permit LA0049794 (Part III, Sections A.2, B.3, and C.5), La. R.S. 30:2076 (A) (3), LAC 33:IX.501.A, LAC 33:IX.2355.A, and LAC 33:IX.2355.E.

IV.

An inspection conducted by the Department on or about September 25, 2001, revealed the Respondent was not maintaining proper records. Specifically, the Respondent failed to maintain temperature logs for the refrigerator containing the laboratory samples and no chain of custody forms were available prior to January 2001. The Respondent's failure to properly maintain records is in violation of LPDES permit LA0049794 (Part III, Sections A.2 and C.3) La. R.S. 30:2076 (A) (3), LAC 33:IX.501.A, LAC 33:IX.2355.A, and LAC 33:IX.2355.J.2.

V.

An inspection conducted by the Department on or about September 25, 2001, revealed the Respondent was not properly sampling. Specifically, the Respondent's chain of custody records for July 6, 2001, and September 6, 2001, indicated 3-hour composite samples were taken at 9:00 am when LPDES Permit LA0049794 specifies that the first portion of the composite sample shall be collected no earlier than 10 am. Each failure by the Respondent to properly sample is in violation of LPDES permit LA0049794 (Part I, Page 2, Part II, Section D.2.d, and

Part III, Sections A.2 and F.24.e) La. R.S. 30:2076 (A) (3), LAC 33:IX.501.A, and LAC 33:IX.2355.A.

VI.

An inspection conducted by the Department on or about September 25, 2001, revealed the Respondent was not sampling as required by LPDES permit LA0049794. Specifically, the Respondent failed to sample Dissolved Oxygen (DO) for the monitoring periods of January 2001 and February 2001. Each failure by the Respondent to sample is in violation of LPDES permit LA0049794 (Part I, Page 2 of 2, and Part III, Section A.2) La. R.S. 30:2076 (A) (3), LAC 33:IX.501.A, and LAC 33:IX.2355.A.

VII.

An inspection conducted by the Department on or about September 25, 2001, and a subsequent file review conducted by the Department on or about April 7, 2004, revealed the following effluent limitations violations as reported by the Respondent on Discharge Monitoring Reports (DMRs):

Date	Parameter	Permit Limit	Reported Value
12/97	Fecal Coliform (Weekly Avg.)	400 colonies/100 ml	15,400 colonies/100 ml
02/00	BOD_5 (Weekly Avg.)	30 mg/L	41 mg/L
08/01	Fecal Coliform (Weekly Avg.)	400 colonies/100 ml	37,600 colonies/100 ml
09/01	Fecal Coliform (Weekly Avg.)	400 colonies/100 ml	660 colonies/100 ml
11/01	Fecal Coliform (Weekly Avg.)	400 colonies/100 ml	113,000 colonies/100 ml

Each effluent limitation violation constitutes a violation of LPDES permit LA0049794 (Part I, Page 2, and Part III, Section A.2), La. R.S. 30:2076 (A) (1), La. R.S. 30:2076 (A) (3), LAC 33:IX.501.A, LAC 33:IX.501.D, and LAC 33:IX.2355.A.

COMPLIANCE ORDER

Based on the foregoing, the Respondent is **hereby ordered**:

I.

To immediately take, upon receipt of this **COMPLIANCE ORDER**, any and all steps necessary to meet and maintain compliance with LPDES permit LA0049794 and Water Quality Regulations.

II.

The Respondent shall submit to the Enforcement Division, within (60) days after the receipt of this **COMPLIANCE ORDER**, a comprehensive plan for the expeditious elimination and prevention of such non-complying discharges as mentioned in Paragraph II of the Findings of Fact section of this document. Such a plan shall provide for specific corrective actions taken and shall include a critical path schedule for the achievement of compliance within the shortest time possible.

III.

To submit to the Enforcement Division, within thirty (30) days after receipt of this **COMPLIANCE ORDER**, a written report that includes a detailed description of the circumstances surrounding the cited violations and actions taken or to be taken to achieve compliance with the Order Portion of this **COMPLIANCE ORDER**.

THE RESPONDENT SHALL FURTHER BE ON NOTICE THAT:

I.

The Respondent has a right to an adjudicatory hearing on a disputed issue of material fact or of law arising from this **COMPLIANCE ORDER**. This right may be exercised by filing a

written request with the Secretary no later than thirty (30) days after receipt of this **COMPLIANCE ORDER.**

II.

The request for an adjudicatory hearing shall specify the provisions of the **COMPLIANCE ORDER** on which the hearing is requested and shall briefly describe the basis for the request. This request should reference the **Enforcement Tracking Number** and **Agency Interest Number,** which are located in the upper right-hand corner of the first page of this document and should be directed to the following:

Department of Environmental Quality
Office of the Secretary
Post Office Box 4302
Baton Rouge, Louisiana 70821-4302
Attn: Hearings Clerk, Legal Division
Re: Enforcement Tracking No. WE-C-04-0189
Agency Interest No. 19474

III.

Upon the Respondent's timely filing a request for a hearing, a hearing on the disputed issue of material fact or of law regarding this **COMPLIANCE ORDER** may be scheduled by the Secretary of the Department. The hearing shall be governed by the Act, the Administrative Procedure Act (La. R.S. 49:950, et seq.), and the Department's Rules of Procedure. The Department may amend or supplement this **COMPLIANCE ORDER** prior to the hearing, after providing sufficient notice and an opportunity for the preparation of a defense for the hearing.

IV.

This **COMPLIANCE ORDER** shall become a final enforcement action unless the request for hearing is timely filed. Failure to timely request a hearing constitutes a waiver of the

Respondent's right to a hearing on a disputed issue of material fact or of law under Section 2050.4 of the Act for the violation(s) described herein.

V.

The Respondent's failure to request a hearing or to file an appeal or the Respondent's withdrawal of a request for hearing on this **COMPLIANCE ORDER** shall not preclude the Respondent from contesting the findings of facts in any subsequent penalty action addressing the same violation(s), although the Respondent is estopped from objecting to this **COMPLIANCE ORDER** becoming a permanent part of its compliance history.

VI.

Civil penalties of not more than twenty-seven thousand five hundred dollars ($27,500) for each day of violation for the violation(s) described herein may be assessed. The Respondent's failure or refusal to comply with this **COMPLIANCE ORDER** and the provisions herein will subject the Respondent to possible enforcement procedures under La. R.S. 30:2025, which could result in the assessment of a civil penalty in an amount of not more than fifty thousand dollars ($50,000) for each day of continued violation or noncompliance.

VII.

For each violation described herein, the Department reserves the right to seek civil penalties in any manner allowed by law, and nothing herein shall be construed to preclude the right to seek such penalties.

NOTICE OF POTENTIAL PENALTY

I.

Pursuant to La. R.S. 30:2050.3(B), you are hereby notified that the issuance of a penalty assessment is being considered for the violation(s) described herein. Written comments may be

filed regarding the violation(s) and the contemplated penalty. If you elect to submit comments, it is requested that they be submitted within ten (10) days of receipt of this notice.

II.

Prior to the issuance of additional appropriate enforcement action(s), you may request a meeting with the Department to present any mitigating circumstances concerning the violation(s). If you would like to have such a meeting, please contact Chad Keith at (225) 219-3773 within ten (10) days of receipt of this **NOTICE OF POTENTIAL PENALTY.**

III.

The Department is required by La. R.S. 30:2025(E)(3)(a) to consider the gross revenues of the Respondent and the monetary benefits of noncompliance to determine whether a penalty will be assessed and the amount of such penalty. Please forward the Respondent's most current annual gross revenue statement along with a statement of the monetary benefits of noncompliance for the cited violation(s) to the above named contact person within ten (10) days of receipt of this **NOTICE OF POTENTIAL PENALTY.** Include with your statement of monetary benefits the method(s) you utilized to arrive at the sum. If you assert that no monetary benefits have been gained, you are to fully justify that statement.

IV.

This **CONSOLIDATED COMPLIANCE ORDER & NOTICE OF POTENTIAL PENALTY** is effective upon receipt.

Baton Rouge, Louisiana, this 11 day of August, 2004.

Harold Leggett, Ph.D.
Assistant Secretary
Office of Environmental Compliance

Copies of a request for a hearing and/or
related correspondence should be sent to:

Louisiana Department of Environmental Quality
Office of Environmental Compliance
Enforcement Division
P.O. Box 4312
Baton Rouge, LA 70821-4312
Attention: Celena Cage

c: Mr. Charles Faultry
U.S. Environmental Protection Agency

Bill Hathaway
Regional Sanitation Director

BNC 2.12 NV

BEFORE THE PUBLIC UTILITIES COMMISSION OF NEVADA

In re application from SPRING CREEK UTILITIES COMPANY to withdraw $131,993.33 from its Capital Projects Fund and $39,366.36 from its Hydrant Fund.	))))	Docket No.98-5008

At a general session of the Public Utilities Commission of Nevada, held at its offices on October 19, 2000.

PRESENT: Chairman Donald L. Soderberg
Commissioner Richard M. McIntire
Commission Secretary Crystal Jackson

COMPLIANCE ORDER

The Public Utilities Commission of Nevada ("Commission") makes the following findings of fact and conclusions of law:

1. On May 5, 1998, Spring Creek Utilities Company ("Applicant") filed an application, designated as Docket No. 98-5008, with the Commission to withdraw $131,993.33 from its Capital Projects Fund to reimburse Applicant for amounts expended on the construction of a 500,000-gallon storage tank and on a 3-H.P. water booster, and to withdraw $39,366.36 from its Hydrant Fund to acquire and install sixteen (16) fire protection hydrants.

2. This application comes within the authority and jurisdiction of the Commission pursuant to Chapters 703 and 704 of the NRS and Nevada Administrative Code ("NAC") and, in particular, 704.600(4).

3. The Commission issued a public notice of this application in accordance with Nevada law and the Commission's Rules of Practice and Procedure. No protests were filed pursuant to this public notice. Pursuant to the provisions of NRS 703.320, the Commission may dispense with a hearing under these circumstances.

4. The Commission's Regulatory Operations Staff identified the following issues: (1) Applicant had not deposited the fund receipts into interest-bearing accounts, as required by Nevada Administrative Code ("NAC") 704.600(4); (2) certain taps were charged less than the tariff rate of $350, resulting in a shortfall of $14,400 in the projects account; (3) Applicant did

not file for a permit under the Utility Environmental Protection Act ("UEPA") to construct the storage tank, as required by Nevada Revised Statutes ("NRS") 704.865.

5. Staff has discovered that Applicant has since transferred the funds to interest-bearing accounts. Statements issued by the American National Bank and Trust Company of Chicago dated July 31, 2000, show that the Capital Improvements Fund had a balance of $321,909.37 and the Fire Hydrant Account, $545,327.75.

6. A Stipulation, attached hereto as Attachment 1, was reached to deal with the remaining issues as follows: (1) Applicant will deposit $14,400 to make up the shortfall caused by the under collections; and (2) Applicant agrees to a fine of $5,000 for its violation of the UEPA, to be suspended for five years. As such, if Applicant or any of its affiliated utilities committed any UEPA violations within that period, the fine will immediately become due, and, if no further violations occur, the fine will be expunged.

7. Staff recommends that the Commission approve the above-mentioned Stipulation and issue a compliance order approving withdrawals of $131,993.33 from the Capital Projects Fund and $39,366.36 from the Hydrant Fund, such approvals being subject to the following compliances: (1) Applicant will deposit $14,400.00 to the Capital Projects Fund; and (2) Applicant will file within 90 days of the order a plan identifying the number of hydrants required to be installed at full build-out pursuant to Nevada Division of Forestry requirements, the anticipated costs of installations, and its estimate of fire hydrant funding requirements to satisfy the installation plan.

8. At a duly noticed agenda meeting held on October 19, 2000, the Commission voted to accept the Stipulation.

9. The Commission finds that it is in the public interest to accept the Stipulation to allow Applicant to withdraw $131,993.33 from the Capital Projects Fund and $39,366.36 from the Hydrant Fund, subject to the compliances in the Stipulation as described in paragraph 7, above.

10. The Commission concludes that the provisions of NAC 704.600(4) have been met.

THEREFORE, based upon the foregoing findings of fact and conclusions of law, it is hereby ORDERED that:

1. The Stipulation, attached hereto as Attachment 1, and entered into by the Spring Creek Utility Company and the Regulatory Operations Staff in Docket No. 98-5008, is APPROVED.

2. Pursuant to the Stipulation, Spring Creek Utilities Company shall: (1) deposit $14,400 in its Capital Projects Fund to make up the shortfall caused by the under collections, and (2) file within ninety (90) days of this Compliance Order a plan identifying the number of hydrants required to be installed at full build-out pursuant to Nevada Division of Forestry requirements, the anticipated costs of installation, and its estimate of fire hydrant funding requirements to satisfy the installation plan.

3. The Commission retains jurisdiction for the purpose of correcting any errors which may have occurred in the drafting or issuance of this Order.

By the Commission,

Crystal Jackson
CRYSTAL JACKSON, Commission Secretary

Dated: Carson City, Nevada

(SEAL) 10/25/00

PUBLIC UTILITIES COMMISSION PUC OF NEVADA

ATTACHMENT 1

BEFORE THE PUBLIC UTILITIES COMMISSION OF NEVADA

In Re Application of Spring CreekUtilities Company for approval to withdraw monies from its Capital Projects and Hydrant Funds relating to four (4) completed General Order 26 projects.

Docket No. 98-5008

STIPULATION

Pursuant to the provisions of NAC 703.350 of the Rules of Practice and Procedure before the Public Utilities Commission of Nevada ("Commission"), the Parties in the above-captioned docket, by and through their undersigned representatives, submit this Stipulation for the Commission's review and approval. The Parties to this Stipulation are the Spring Creek Utilities Company ("Spring Creek") and the Regulatory Operations Staff ("Staff") of the Public Utilities Commission of Nevada, collectively referred to as "the Parties".

WHEREAS, Spring Creek is a public utility providing water and sewer service subject to the jurisdiction of the Commission within a portion of Elko County, Nevada; and

WHEREAS, on May 5, 1998, Spring Creek filed a Petition pursuant to NAC 704.600 (4) and (5), for authority to withdraw certain funds from its Capital Projects Fund and Hydrant Fund for reimbursement of funds it had expended for capital and fire protection improvements; and

WHEREAS, the Petition specifically sought permission to withdraw the sums of (a) $125,788.13 from the Capital Projects Fund for the cost of the construction and installation of a new 500,000 gallon water storage tank; (b) $6,205.20 from the Capital Projects Fund for the acquisition and installation of a 30 HP water booster; (c) $10,479.61 from the Hydrant Fund for the acquisition and installation of (5) five fire protection hydrants; and (d) $28,886.75 from the Hydrant Fund for the acquisition and installation of five (5) fire protection hydrants; and

WHEREAS, at the time this Petition was filed, the Spring Creek Capital Project Fund had a balance of $ 242,890, and the Spring Creek Hydrant Fund had a balance of $268, 534; and

WHEREAS, in a letter to the Commission dated May 27, 1998 from counsel to Spring Creek, Spring Creek informed the Commission of an error in the original Petition, noting that the second group of fire hydrants should have stated eleven (11) hydrants rather than five (5) hydrants, and asked the Commission to correct the same in its Notice; and

WHEREAS, the Commission issued a Notice of the Petition, as corrected by Spring Creek, on June 5, 1998 and docketed the same as Number 98-5008; and

WHEREAS, the Commission's Regulatory Operations Staff filed Comments on June 24, 1998; and

WHEREAS, the Commission, by its own action, issued a Corrected Notice of Filing on June 25, 1998 designating the matter as an "Application" pursuant to NAC 703.560 (3) rather than a "Petition"; and

WHEREAS, during the course of its investigation Staff found Spring Creek's Capital Project Fund had a shortfall of $14,400, based on Spring Creek, for a period of time, collecting a $250 hook-up fee instead of the required $350 hook-up fee; and

WHERRAS, Commission's Regulatory Operations Staff has completed its investigation and review of this matter; and

WHEREAS, Staff's investigation revealed that Spring Creek had constructed the 500,000 gallon storage tank without having first obtained a permit to construct under Nevada's Utility Environmental Protection Act ("UEPA"), as required by NRS 704.820– NRS 704.900.

NOW, THERERORE, subject to the Commission's approval, the Parties agree and stipulate as follows:

1. Prior to the withdrawal of any funds authorized by Paragraphs 2 and 3 below, the current balances of both the Capital Project Funds and the Fire Hydrant Funds are to be deposited into separate interest bearing accounts, with interest earning remaining with the accounts, pursuant to the previous Commission Orders in Docket Nos. 91-4030, and 94-9014, and in accordance with the provisions of NAC 704.600.

2. Spring Creek should be authorized to withdraw $125,788.13 from its Capital Projects Fund for the construction of the 500,000 gallon water storage tank as described in Exhibit "A" of its Application, and should additionally be authorized to withdraw $6,205.20 from its Capital Projects Fund for the 30 HP booster pump, as described in Exhibit "B" of its Application. Upon withdrawal of the sums set forth herein, Spring Creek shall deposit into the Capital Project Fund the $14,400 shortfall from Spring Creek's under collection of the hook-up fee.

3. Spring Creek should be authorized to withdraw from the Hydrant Fund the sum of $10,479.91 for the installation of five (5) fire hydrants as described in Exhibit "C" of its Application, and should be additionally authorized to withdraw from the Hydrant Fund $28,886.75 for the installation of eleven (11) fire hydrants as described in Exhibit "D" of its Application.

4. Spring Creek agrees to file, within 90 days approval of any Stipulation or Commission Order in this docket, a plan identifying the number of hydrants required to be installed at full build out pursuant to Nevada Division of Forestry requirements, the anticipated costs of installations, and its estimate of fire hydrant funding requirements to satisfy the installation plan.

5. Spring Creek acknowledges that it failed to obtain a permit to construct under the Nevada Utility Environmental Protection Act ("UEPA") prior to construction of the 500,000 gallon storage tank, as required by NRS 704.820--704.900. Spring Creek agrees to the imposition of a $5,000.00 fine for this violation. However, the requirement to pay this fine will be suspended and held in abeyance for a period of three (3) years, provided that Spring Creek and all of its affiliates or agents secure all required UEPA construction permits in the future. If, before the expiration of the three (3) year period, Spring Creek or any of its affiliates or agents, causes any other facility to be constructed in violation of UEPA, the entire fine of $5,000.00, together with interest calculated at the legal interest rate, from the date of the final order implementing this Stipulation, will become immediately due. If, however, there are no further violations of UEPA in the five year period from the date of the final order implementing this Stipulation, the $5,000.00 fine will be expunged.

6. This Stipulation is made upon the express understanding that it constitutes a negotiated settlement. The provisions of this Stipulation are not severable. In the event the Stipulation is not

approved by the commission, it shall be deemed withdrawn, without prejudice to any claim or contentions which may have been made in these proceedings by any Party and it shall not be admissible as evidence or in any way described or discussed in any proceedings hereinafter. The Commission's approval of the Stipulation shall not be deemed, in any way, to constitute a precedent regarding any principles or issues resolved by or through this Stipulation.

RESPECTFULLY SUBMITTED this ____ day of October, 2000.

REGULATORY OPERATIONS STAFF OF
THE PUBLIC UTILITIES COMMISSION

By: _____
Alaina Burtenshaw, Esq.
ASSISTANT STAFF COUNSEL
101 Convention Center Dr., Suite 250
Las Vegas, NV 89102
702/486-7234

SPRING CREEK UTILITIES COMPANY

By: _____
Vice President, Regulatory Matters

BEFORE THE PUBLIC UTILITIES COMMISSION OF NEVADA

ooOoo

Petition of the Regulatory Operations Staff for an order to show cause why Spring Creek Utilities Co. should not be found in violation of its duty to provide reasonable and adequate water service.	Docket No. 06-03003

Settlement Agreement and Stipulation

By and through their respective counsel, Spring Creek Utilities Co. (the "Company") and the Regulatory Operations Staff of the Public Utilities Commission of Nevada ("Staff," and together with the Company, the "Parties") enter into this Settlement Agreement and Stipulation (the "Settlement Agreement").

WHEREAS, Staff filed a Petition for an Order to Show Cause on March 6, 2006 (the "Petition");

WHEREAS, the Petition alleges, among other things, that the Company failed to provide reasonably continuous and adequate service to its customers in violation of an order issued by the Public Utilities Commission of Nevada (the "Commission") granting the Company certificate of public convenience and necessity 841 (the "Allegations");

WHEREAS, the Parties have had a fair opportunity to investigate the Allegations; and

WHEREAS, the Parties desire to resolve Docket No. 06-03003, the Allegations, as well as any claim, known or unknown, arising from any act or omission of the Company, its officers, agents or employees (the "Claims") that could have been raised in the Petition.

NOW THEREFORE, the Parties agree on the terms and conditions set forth in this SettlementAgreement as follows.

1. The Company shall invest $25,000 (the "Investment") in a project that improves the water system or systems serving Spring Creek before July 1, 2007. The Company shall not, for the life of the Investment, request in any subsequent rate making proceeding that it earn a return (a) on the Investment by including the Investment in its rate base, or (b) of the Investment by including depreciation expense associated with the Investment in its revenue requirement.

LIONEL SAWYER & COLLINS
ATTORNEYS AT LAW
1100 BANK OF AMERICA PLAZA
50 WEST LIBERTY ST.
RENO

2. The Parties have each entered into this Settlement Agreement solely for the purpose of settling and compromising the Claims. Nothing contained in this Settlement Agreement or its performance shall ever be treated as an admission, acknowledgement or recognition of the validity of the Claims, liability, the existence of damages or the amount of any damages.

3. The Company shall complete the capital improvement projects listed on Exhibit A within 18 months of the day on which the Commission approves this Settlement Agreement.

4. The Company shall complete the capital improvement projects listed on Exhibit B before December 31, 2010. The Company shall specify a separate deadline for each one of those capital improvement projects by January 1, 2007.

5. If the Company fails to complete any one of the projects listed on Exhibit A within 18 months of the day on which the Commission approves this Settlement Agreement or any one of the capital improvement projects listed on Exhibit B before the deadline established by the Company, it shall make a payment to the Commission in the amount of (a) $250 per day for each day after the deadline until the capital improvement project is completed, but not to exceed $20,000 for any single project, or (b) 10 percent of the total cost of the project, whichever of (a) or (b) is less.

A. The payment provided for in Paragraph 5 shall be the exclusive remedy for any breach of this Settlement Agreement.

B. The Company shall not be responsible for the payment required by Paragraph 5 for any failure or delay in completing a project listed on Exhibit A or B to the extent the failure or delay is proximately caused by causes beyond that Company's reasonable control and occurring without its fault or negligence, including, without limitation, an untimely regulatory approval, an act of war, insurrection, riot, flood, earthquake, fire, casualty, act of God, quarantine restriction or other effect of epidemic or disease, freight embargo, national banking moratorium, weather-caused delay, lack of transportation attributable to any of those failures, or failure of a supplier, subcontractor, or third-party to perform an agreement. Dates by which performance obligations are scheduled to be met will be extended for a period of time equal to the time lost

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due to any delay so caused.

6. The Company shall provide Staff critical path timelines identifying tasks necessary to complete each of the capital improvement path projects listed on Exhibits A and B (except for those that are either completed or substantially completed on the date of the Commission order approving this Settlement Agreement) by the deadline established for the project. The deadline for delivering the critical path timelines shall be November 15, 2006 for those projects listed on Exhibit A and January 1, 2007 for those projects listed on Exhibit B.

7. Beginning on April 1, 2007, and on the first day of each quarter thereafter, the Company shall provide Staff a report on the status of each project listed on Exhibits A and B as of 10 days before the deadline for delivery of the report. If, with respect to any specific project, a task identified in the critical path timeline was not completed by the task deadline, the report shall explain how the Company intends to compensate for any such delay in an attempt to complete the project by the established deadline.

8. If there is any change in any circumstance relating to any of the projects identified on Exhibit B to be completed by the established deadline, any Party shall notify the other Party and request a meeting to evaluate the timing of the project. If the Parties are unable to agree to a modification of the deadlines contained on Exhibit B, then either Party may petition the Commission for an order declaring whether the changed circumstances justify a modification of the deadline established for the project.

9. The Company acknowledges that the Commission's order issuing the Company a certificate of public convenience and necessity obligates the Company to provide reasonably adequate and continuous service in its service territory.

10. In consideration for the Company's promises set forth in this Settlement Agreement, Staff shall not recommend, and the Commission shall not seek, a civil penalty for (a) any Claim or (b) any alleged failure of the Company to provide reasonably adequate or continuous service based on any act or omission of the Company, its officers, employees or its agents relating to capital improvement or maintenance project before that occurred or should have occurred before December 31, 2010. Provided, however, that the Staff may recommend, or

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the Commission may seek a civil penalty for any such act or omission if (a) the Company enters into a consent decree with the Commission establishing a reasonable deadline for taking specific action and the Company fails, neglects or refuses to comply with the deadline established by the consent order, or (b) Staff seeks, and the Commission enters, an order establishing a reasonable deadline for taking specific action and the Company fails, neglects or refuses to comply with the deadline established by such an order.

11. This Settlement Agreement may be executed in any number of counterparts and by facsimile signatures, each of which shall be taken to be an original.

12. The Settlement Agreement constitutes the entire agreement between the Parties regarding the settlement of all issues that were or could have been raised in this proceeding. If the Commission does not approve the Settlement Agreement, the terms and provisions of this Settlement Agreement are not severable and the Settlement Agreement is withdrawn. If the Settlement Agreement is withdrawn pursuant to this paragraph, nothing in the Settlement Agreement shall be admissible in this proceeding or any other proceeding before the Commission by any Party.

13. The Parties shall recommend and use their best efforts to advocate that the Commission approve the Settlement Agreement.

Date this 17TH day of October 2006.

Lionel Sawyer & Collins

By: Shawn M Elicegui
Shawn M. Elicegui
Lionel Sawyer & Collins
50 West Liberty Street
Reno, Nevada 89501

Counsel to Spring Creek Utilities Co.

Regulatory Operations Staff

By: D-l Noble
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EXHIBIT A

1—INSTALLATION OF COVER BARS
ESTIMATED COST $6,500

2—ENGINEERING FOR TWO TWIN TANKS STATION BOOSTER UPGRADE
ESTIMATED COST $40,000

3—SUPPLY WELL FOR CAPITAL IMPROVEMENT PROJECT ("CIP") 100-1
ESTIMATED COST $800,000

4—ENGINEERING FOR CIP 300-2
ESTIMATED COST $71,000

5—ENGINEERING FOR CIP 400-2
ESTIMATED COST $226,000

6—CIP 200-1
ESTIMATED COST $278,000

7—CIP 300-2
ESTIMATED COST $776,000

8—ENGINEERING FOR CIP 200-2
ESTIMATED COST $63,000

DETAILS OF ALL PROJECTS LISTED ABOVE ARE INCLUDED IN
SPRING CREEK UTILITIES COMPANY'S MASTER PLAN FILING
DOCKET NO. 04-11031
VOLUME 1 (REPORT)
SECTION 9 (RECOMMENDED CAPITAL IMPROVEMENT PROGRAM)

EXHIBIT B

1—CIP (EXCLUDING WELL AND PIPING) 100-1
ESTIMATED COST $327,000

2—CIP 100-2
ESTIMATED COST $1,039,000

3—CIP 200-2 (EXCLUDING ENGINEERING)
ESTIMATED COST $630,000

4—CIP 300-1
ESTIMATED COST $1,392,000

5—CIP 400-1
ESTIMATED COST $89,000

6—CIP 400-2 (EXCLUDING ENGINEERING)
ESTIMATED COST $2,263,000

DETAILS OF ALL PROJECTS LISTED ABOVE ARE INCLUDED IN
SPRING CREEK UTILITIES COMPANY'S MASTER PLAN FILING
DOCKET NO. 04-11031
VOLUME 1 (REPORT)
SECTION 9 (RECOMMENDED CAPITAL IMPROVEMENT PROGRAM)

PROOF OF SERVICE

I hereby certify that I have this day served the foregoing document upon all parties of record in this proceeding by electronic mail to the recipient's current electronic mail address and mailing a copy thereof, properly addressed to:

Shawn Elicegui, Esq.
LIONEL SAWYER & COLLINS
50 West Liberty Street, Ste 1100
Reno, NV 89501
selicegui@lionelsawyer.com

Bradley Jordan
UTILITIES INC OF CENTRAL NEVADA
1240 East State Street, #115
Pahrump, NV 89048

DATED at Carson City, Nevada, on this 17th day of October 2006.

An employee of the Public Utilities Commission of Nevada

BNC 2.12 IN

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE JOINT PETITION OF LINCOLN UTILITIES, INC. AND INDIANA WATER SERVICES, INC. FOR AN ORDER APPROVING AND AUTHORIZING LINCOLN UTILITIES, INC. TO SELL ALL OF ITS WATER DISTRIBUTION FACILITIES TO INDIANA WATER SERVICES, INC. AND APPROVING AN ACQUISITION ADJUSTMENT IN CONNECTION THEREWITH	)	CAUSE NO. 41873 ORDER ON REMAND APPROVED: AUG 2 4 2004

BY THE COMMISSION
David E. Ziegner, Commissioner
William G. Divine, Administrative Law Judge

On November 22, 2000, Indiana Water Service, Inc. ("IWSI") and Lincoln Utilities, Inc. ("Lincoln") (collectively "Joint Petitioners") petitioned the Commission for approval of IWSI's acquisition of Lincoln's water distribution system ("Lincoln System" or "IWSI System") and for authorization for IWSI to earn a return on, and a return of, the amount by which the $1.25 million purchase price ("Purchase Price") exceeded Lincoln's book value. IWSI had conditioned its purchase of the property upon the Commission's granting the requested acquisition adjustment treatment on 90% of the Purchase Price.

The Commission issued an order ("Order") on December 19, 2001, approving the transfer and authorizing IWSI to include in its next rate case an acquisition adjustment on which it would be permitted to earn a return equal to 90% of the Purchase Price, less the depreciated value at the time of closing of the acquired water distribution assets. The Commission denied, however, IWSI's request also to receive a return "of" any part of such acquisition adjustment in its rates.[1] The Indiana Office of Utility Consumer Counselor ("OUCC") petitioned for a rehearing and reconsideration of the part of the Order authorizing the acquisition adjustment, which petition was denied on February 14, 2002. The OUCC then appealed the Order to the Indiana Court of Appeals ("Court").

On March 19, 2003, the Court reversed and remanded the Order, holding that there was insufficient evidence to support the Commission's finding on the reasonableness of the Purchase Price. *Indiana Office of Util. Consumer Counselor v. Lincoln Utilities and Indiana Water Serv.*, 784 N.E.2d 1072 (Ind. App. 2003). Although the Court held there was substantial evidence to support our finding that the Purchase Price resulted from arm's length negotiations between willing, unaffiliated parties, it observed that there was "virtually no other evidence of the value

[1] A return of such acquisition adjustment would have occurred through an amortization of the amount in rates.

of Lincoln's assets." *Id.* at 1076. The Court held that any reliance on evidence of the utility's value based on the price paid per customer was inconsistent with I.C. 8-1-2-6, and remanded the case for further proceedings in accordance with its opinion. *Id.* at 1077. In addition, and with respect to the request for favorable rate making treatment on 90% of the purchase price, the Court noted that the order contained "no clear explanation of why permitting this acquisition adjustment under these circumstances does not violate the principle that a utility may not earn a return on property in which it has made no investment. . . .On remand, if the IURC again addresses the acquisition, it should include such an explanation." *Id.*

On remand the Town of Merrillville ("Merrillville") intervened in the proceeding. Upon Merrillville's request, the Commission conducted a field hearing in Merrillville on September 30, 2003. On October 30, 2003, the Commission conducted a further hearing in Indianapolis, at which it heard testimony from IWSI and the OUCC. Merrillville participated in the hearing, but presented no testimony.

Having considered the Court's March 19, 2003 opinion and having heard and considered the additional evidence on remand, the Commission now finds that:

1. **Notice and Jurisdiction.** Proper and legal notice of the proceedings in this Cause, including the September 30, 2003 field hearing and the October 30, 2003 hearing in Indianapolis, was given. Since our prior finding of jurisdiction over the parties and subject matter of this Cause, IWSI has closed on its purchase of the Lincoln System and has been providing water utility service to former Lincoln customers. The Commission has jurisdiction over the parties and the subject matter of this case.

2. **Evidence Supporting Reasonableness of Purchase Price.** On remand, IWSI introduced the testimony and report of an expert on utility valuation, Gerald C. Hartman, a registered professional engineer in Indiana and elsewhere. Mr. Hartman has performed more than 300 valuation studies of utility property across the country over the past 27 years and performed a reproduction cost new less depreciation ("RCNLD") study of the Lincoln system, which IWSI entered into evidence. Based on his study, Mr. Hartman testified that the Lincoln System has a current RCNLD value of $1,695,958.

3. **OUCC's Evidence.** The OUCC presented testimony of its staff members Scott A. Bell, Assistant Director of the Rates/Sewer/Water Division; Dana M. Lynn, Utility Analyst; and Edward R. Kaufman, Lead Financial Analyst in the Rates/Sewer/Water Division.

Mr. Bell critiqued Mr. Hartman's RCNLD study and argued that $182,760 should be eliminated from that valuation, leaving $1,513,198. Mr. Bell noted that Mr. Hartman assigned a value to "the establishment of routes and customers; the exercise of managerial skill and efficiency of the workforce; and the records of profitability of the fully functioning and organized business." Mr. Bell characterized these items as "intangible assets" or "good will," and noted that I.C. 8-1-2-6(b) does not permit such items to be included in a utility's fair value. Mr. Bell recommended that the inclusion of $87,000 for organizational costs and $80,760 for other intangible costs, totaling $167,760, be excluded from consideration of any fair value determination. Mr. Bell also recommended that Mr. Hartman's $15,000 valuation of certain

agreements between the utility and other entities be eliminated from the proposed RCNLD value, arguing that those agreements are not tangible property.

Mr. Bell noted that Mr. Hartman's valuation included a 22% markup for "Administration, Legal, Interest, Taxes and other Overheads, Engineering, Surveying & Technical Services, and Construction Management and Inspection," which together totaled approximately $265,636. Although he proposed no alternative value, Mr. Bell was concerned the mark-up was excessive.

Mr. Bell argued that RCNLD studies have not been reliable when determining the fair value rate base of a utility. He quoted several Commission orders that criticized RCNLD studies because they assume the utility's system would be reproduced in the same fashion if built today. Mr. Bell stated that the Commission has never equated RCNLD values and fair value rate base and has consistently found utilities' fair value rate bases to be significantly less than their RCNLD values. To illustrate his point, he included a table summarizing Commission findings in past rate cases.

Ms. Lynn testified that the price paid for Lincoln was not reasonable. Ms. Lynn noted that it is well known that when determining a utility's rate base, contributions in aid of construction ("CIAC") are excluded from the measure of value. She added that most of the utility property for which Utilities, Inc. (the corporate parent of IWSI) agreed to pay $1.25 million was contributed and thus not part of its value for ratemaking purposes. She proposed that in light of the high level of contributed plant, the fair value of the utility was $70,147.

Ms. Lynn pointed to an earlier Commission order in which the Commission stated, "as a matter of policy the Commission has determined that in addressing the reasonableness of an acquisition price the primary criterion to be used will be the fair value of the acquired utility as determined by this Commission in the most recent rate case for that utility." Order, Cause No. 40103, May 30, 1996, page 15. Ms. Lynn noted that when Utilities, Inc. conditionally agreed to purchase Lincoln's facilities and franchise on October 24, 2000, Lincoln's fair value rate base was $44,951, as discussed by the Commission in Cause No. 39956. At the time the agreement was executed on March 15, 2002, a more recent rate order had been issued in Cause No. 40452. However, the Order in Cause No. 40452 did not determine Lincoln's fair value, but instead relied on the stipulation of Lincoln and the OUCC that a fair return of $9,902 was appropriate. Prior to the closing date of March 15, 2002, the Commission issued an Order in Cause No. 41710-U finding Lincoln's fair value rate base to be Lincoln's "investor supplied" original cost rate base of $33,049. Ms. Lynn provided documents establishing that before consummating its acquisition of Lincoln, IWSI had been provided the final Order in Cause No. 40452, and a copy of Lincoln's petition in Cause No. 41710-U, in which Lincoln requested approval of a rate base value of only $32,945.

Ms. Lynn stated that undoubtedly Utilities, Inc. considered it too risky to pay $1.25 million for a plant with a fair value rate base of less than $50,000 without an assurance that it would be able to put most of its purchase price into rate base. She noted Utilities, Inc. had very little to lose in agreeing to pay $1.25 million for the plant if the payment of that purchase price was contingent on the Commission's agreement to include 90% of that purchase price in rate base. Ms. Lynn testified that Utilities, Inc. did not conduct a valuation study of Lincoln's assets

before conditionally agreeing to the purchase price. She explained that there is a cost associated with such a valuation study and surmised that a utility might wish to avoid that cost when there is a strong likelihood that the rate making treatment on which the transfer depends would be denied. Ms. Lynn noted that if the Commission determined Lincoln's fair value was 90% of $1.25 million, then Utilities, Inc. would be able to earn a return on 90% of what it paid. But if the Commission did not make such a determination, Utilities, Inc. would have lost nothing but the cost of entering into the agreement.

Ms. Lynn noted that in this remanded Cause IWSI paid Hartman and Associates for a report to establish an RCNLD value of IWSI's assets, which was filed on July 3, 2003. Ms. Lynn advised that this report did not express a fair value of the assets but merely an RCNLD value. Because Mr. Hartman's RCNLD makes no allowance for CIAC, Ms. Lynn explained it is necessary to deduct the value of CIAC from the RCNLD when determining fair value. Beginning with the RCNLD value provided by Mr. Hartman, Ms. Lynn reduced that value to reflect Mr. Bell's adjustments, and then multiplied the modified RCNLD by the percentage of plant that was not provided by contribution to the utility. Using this methodology, Ms. Lynn proposed a fair value determination of $70,147. Ms. Lynn concluded that $1.25 million was not a reasonable price to pay for the assets and such a price should not be considered the fair value of the utility.

Public's witness Edward Kaufman reviewed from a policy perspective why CIAC should be excluded from the purchase price of a utility for ratemaking purposes. Mr. Kaufman stated that "the key issue in this cause from a policy perspective is whether it is appropriate to allow the purchaser of a utility to change the fundamental character or treatment of CIAC through the purchase of a utility."

Mr. Kaufman asserted that allowing a subsequent purchaser to recover, through rates, an investment that includes the value of contributed plant is mathematically equivalent to including contributed plant in rate base when setting rates. In addition, Mr. Kaufman argued that the initial owner in such a scenario would be earning an undeserved profit or windfall if he sold his utility for a price that included the "value" of contributed plant. Finally, Mr. Kaufman argued that it is the ratepayers who will ultimately finance this undeserved windfall through higher rates if the subsequent purchaser is allowed to recover an acquisition adjustment.

Mr. Kaufman asserted that allowing CIAC to be recognized during the sale of a utility implies that there are two different fair value rate bases: One for setting rates and one for determining if the purchase price of a utility is reasonable. Mr. Kaufman added that fair value does not change depending on its use. Mr. Kaufman then discussed how a policy that ignores the fundamental character of CIAC provides an improper incentive for utilities to sell their assets. Mr. Kaufman stated that a policy which ignores or changes the fundamental character of CIAC when a utility is sold would create a two-tiered system where any utility with a significant amount of CIAC will be worth less to its initial owner than it would be to any subsequent owner. Mr. Kaufman then asserted that any utility with significant CIAC would have to be sold for the owner to maximize his value. Mr. Kaufman then concluded that the sale would not be based on an inability to run the utility, but on the opportunity to exploit the value of contributed plant.

4. IWSI's Rebuttal Testimony. On rebuttal, Mr. Hartman defended his RCNLD study, noting that his primary inputs – the unit costs and asset quantities of the property he was valuing in this case – were uncontroverted. He noted that none of the factors identified by Mr. Bell as a basis for discounting RCNLD values in other cases is present in this case. Specifically, Mr. Hartman responded that Mr. Bell's criticism of RCNLD studies is the type often asserted in the case of large systems that have been constructed and added to over many years. He observed that such criticism "does not apply to the IWSI system, which is small and consists solely of pipes and meters." He added that "there have not been significant advances in technology, planning, efficiency of construction, shifting of demands or other factors that would cause this property to become non-functional or even partially non-functional," and asserted that the IWSI system "could be readily replicated today, in a single, relatively small project." Given that the Purchase Price was less than 75% of the RCNLD value of the plant purchased, Mr. Hartman concluded that the Purchase Price was reasonable.

IWSI also introduced on rebuttal the testimony of Steven M. Lubertozzi, the Director of Regulatory Accounting for Utilities, Inc. He countered Mr. Kaufman's policy arguments respecting CIAC, noting that the Commission in all cases retains the discretion to grant or deny some or all of any proposed acquisition adjustment, depending on the extent to which it concludes the transfer of utility assets to be in the public interest and, thus, to be encouraged.

5. Consummation of Transaction. An issue that arose in this remanded case involved Joint Petitioners' decision to go through with the acquisition, which closed on March 15, 2002. Mr. Lubertozzi stated in his rebuttal testimony, "In reliance on the Commission's assurance that such a return will be allowed, IWSI, has purchased the subject property."

In its proposed order, the OUCC took issue with Mr. Lubertozzi's suggestion that IWSI relied on the Commission's December 19, 2001 Order in this Cause when it decided to close on the purchase of Lincoln's assets. The OUCC pointed out that at the time of the purchase, the OUCC had already petitioned the Commission for reconsideration and on March 5, 2002, ten days prior to the closing date, and the OUCC had requested that a certified copy of the transcript and record be prepared for the Court of Appeals for appeal purposes. Thus, according to the OUCC, IWSI was clearly on notice that there was a strong likelihood that the Order would be appealed and possibly reversed. Yet IWSI closed. At the hearing, IWSI's witness Mr. Lubertozzi denied that IWSI closed because it was contractually bound to do so following the Commission's December 19, 2001 order. Rather he stated that the decision to close was a business decision. The OUCC argued that IWSI proceeded at its own risk, and the Commission should not be constrained by IWSI's asserted reliance on the December 19, 2001 Order. The Commission agrees that IWSI's decision to close on the transaction prior to the exhaustion of all appeals should not constrain the Commission's decision on remand.

6. Findings on Fair Value. After reviewing the evidence relating to Mr. Hartman's RCNLD study, we find that his RCNLD study was prepared using a reasonable methodology. However, certain adjustments pointed out by the OUCC's Mr. Bell are necessary. We find that Mr. Bell has appropriately eliminated $182,760 from Mr. Hartman's RCNLD value of

$1,695,958, because those items relate to intangible assets or goodwill. Thus, we find that the record evidence supports a RCNLD valuation of $1,513,198.

The Indiana Supreme Court and the Indiana Court of Appeals have recognized that RCNLD is one of several reasonable valuation methods that can be used in determining fair value. The Indiana Supreme Court has said:

> . . . . the courts will not limit the Commission to any one or more methods of valuation, be it prudent investment, original cost, present value, or cost of reproduction. This court has held that cost of reproduction depreciated is a proper item to be considered under the statute in arriving at a fair value figure.

Public Service Commission v. City of Indianapolis, 131 N.E.2d 308, 318 (Ind. 1956).

In *Indianapolis Water v. Public Service Com'n*, 484 N.E.2d 635, 638-640 (Ind. App. 1985), the Indiana Court of Appeals explained that a fair value determination by the Commission is not an either/or proposition between original cost and reproduction cost, but derives from consideration of all legitimate value factors. Indiana Courts, therefore, recognize a number of legitimate valuation methods that the Commission should consider in determining fair value, one of which is the RCNLD method.

Our August 10, 1994 Order in Cause No. 39843, which recognized the Court of Appeal's directive that fair value is not an either/or situation, discounted the value of a RCNLD study because: "Such things as economies of scale when rebuilding plant and technological advances in plant property items are major factors which affect any reproduction cost new study." Order, Cause No. 39843, August 10, 1994, p.6. In the instant Cause, however, IWSI has presented evidence that the particular property being subjected to a RCNLD valuation has not been affected by technological advancements. IWSI has asserted that Lincoln is a small distribution system, without major treatment works, hydrants, storage and repump facilities. The pipes and meters that constitute the majority of Lincoln's plant have not been affected by significant advances in technology. In addition, Lincoln relies on another water utility as its source of supply. Because of its simplicity as a small distribution system consisting primarily of in-ground pipes and above-ground meters, the reproduction cost of which can be more objectively determined than with more complex system components, greater reliance can be placed on using a RCNLD valuation as a fair value determination.

The OUCC correctly noted that this Commission has yet to equate RCNLD with fair value. However, Joint Petitioners are not asking the Commission to do so in this case. They are instead asking that the fair value be set at a level that represents at least 90% of the $1.25 million purchase price paid for the utility. Such a valuation of $1.125 million would represent roughly 74% of the RCNLD value determined above. While this figure represents a greater fraction than has been seen in some other cases, the Commission accepts Mr. Hartman's explanation that the RCNLD valuation in this case should be closer to the fair value of the utility than what is seen in cases involving other utilities.

Given, therefore, the accepted use of RCNLD as one of several legitimate valuation methods, and a demonstration that a RCNLD study is likely to more accurately reflect fair value in this particular factual situation than it would in other more complex valuation situations, we find that the OUCC's modified RCNLD study resulting in a $1,513,198 valuation is a reasonable calculation of the value of Lincoln's assets and, therefore, that $1.25 million is a reasonable purchase price. In addition, and in balancing the interests of the ratepayers and the new owner of the utility, the Commission finds that the fair value of $1.125 million that was previously approved is still a reasonable fair value determination of the requested acquisition adjustment. Although this figure is significantly lower than the utility's RCNLD valuation, it is a figure that IWSI has indicated it will accept.

7. **Request for Return of the Acquisition Adjustment.** In our December 19, 2001 Order, we found that the Joint Petitioners were unable to show that customers will receive a net, quantifiable benefit after taking into account the favorable accounting treatment being sought and that, therefore, the Joint Petitioners should not be given the requested return "of" the acquisition adjustment. This finding was not disputed by any party and, to the extent our December 19, 2001 Order was reversed by the Court of Appeals in its entirety, we take this opportunity to restate that such acquisition adjustment on the return "of" the purchase price should be denied. In order to explain our position we also readopt and reincorporate our discussion of that issue from the beginning of sub-section 5. C. 2. of the December 19, 2001 Order to our finding that a return of the requested acquisition adjustment should be denied. We also readopt our prior language finding that a transfer of the utility assets from Lincoln to IWSI is approved, which also was uncontested.

8. **Discussion.** In its opinion remanding this case, the Court stated "The IURC's Order contains no clear explanation of why permitting this acquisition adjustment under these circumstances does not violate the principle that a utility may not earn a return on property in which it has made no investment . . . On remand, if the IURC again addresses the acquisition, it should include such an explanation." *OUCC v. Lincoln and IWSI*, p. 1077.

In its Reply to the OUCC's Proposed Order, IWSI claimed that permitting an acquisition adjustment in this case would not violate the Court's stated principle that "a utility may not earn a return on property in which it has made no investment," because here IWSI will be earning a return on money it actually invested when it purchased the utility. While it is clear the donee of utility property may not include the value of contributed property in its rate base, IWSI points out that it is not a donee. The partial (90%) future recovery represented by the acquisition adjustment would represent a return on IWSI's very real investment in plant which is used and useful in providing utility service to the public.

In its proposed order, the OUCC repeats the arguments made by its witnesses that the fair value of an acquired utility should not include what was considered CIAC on the books of the prior owner. The OUCC argued that including what was previously considered CIAC in the new owner's fair value rate base unfairly subjects the utility's ratepayers to higher rates for the exact same plant in service, and also unfairly allows a windfall profit to the former owner. The OUCC asserted that two Court of Appeals cases clearly prohibit the inclusion of CIAC in fair value rate base, *South Haven Waterworks v. Office of Utility Consumer Counselor*, 621 N.E.2d 653 (Ind.

App.1993) and *Lincoln Utilities v. Office of Utility Consumer Counselor*, 661 N.E.2d 562 (Ind. App. 1996).

The Commission agrees that the cited cases establish the principle that a utility that receives donated infrastructure may not include the value of that infrastructure in its fair value rate base. But we find that the Cause before us presents a different situation – one in which a purchaser of donated property should, under certain circumstances, be allowed to earn a return on the investment. In remanding this Cause, the Court of Appeals recognized that it may be appropriate to allow an acquisition adjustment in certain situations involving the sale of CIAC-heavy utilities when it said:

> We do not dispute that approving this transaction may make good economic sense. If CIAC were never includable in the fair market value upon the transfer of a utility, it would render utilities with a high percentage of CIAC virtually valueless, and there would be no incentive for larger, more efficient companies to acquire those like Lincoln, the small size and inefficiency of which render it untenable in the long term.

OUCC v. Lincoln and IWSI, p. 1077.

Because Lincoln was unable to sufficiently demonstrate any net benefit to ratepayers as a result of favorable accounting treatment, we determined that Lincoln is not "small" or "troubled" in the context of perhaps qualifying for a return "of" an acquisition adjustment. However, Lincoln is, nonetheless, a small, family-owned utility and its owner desires to be rid his utility obligations. The OUCC suggests that the contributed property, which the present owner has always had to exclude from rate base, should continue to be excluded by any new owner. The consequence of following the OUCC's suggestion, however, is that a utility such as Lincoln, which consists of approximately 98% contributed property, would be of little or no value to a legitimate and qualified prospective purchaser. It follows that since the original owner made no investment in almost the entire original plant, that the original owner not be allowed to earn a return on that donated property, which up until now has been our consistent ratemaking approach with this utility. But certainly the donated plant still has value, and it is not reasonable to expect a larger, qualified utility to invest in a facility that has such a small, or possibly even negative, rate base upon which to earn little, if any, return. To not allow the character of what was CIAC to change in this unique situation would be to invite not only the inability to sell such a utility, but the decline of the utility to a point that it does become "troubled," with all the human health, environmental, and financial concerns that accompany a troubled utility.

Our decision to allow an acquisition adjustment on 90% of the purchase price in this Cause is unique and fact-specific. First, Lincoln is a small utility that, because it is so heavily weighted with CIAC, has rates that are well below those of a comparable utility with similar, non-contributed infrastructure. Second, because almost all of its plant is excluded from rate base, Lincoln has only nominal operating income. In addition, because of its size and limited value due to the exclusion of CIAC, Lincoln may have difficulty in attracting capital. These financial factors could impact Lincoln's ability to perform needed maintenance and repairs, which puts

Lincoln in a category of being prone to becoming a troubled utility. Third Lincoln is being acquired by a large, qualified utility that should result in greater efficiencies and greater access to capital, which should bring about tangible savings to customers over time. As such a utility, IWSI is in a position to ensure that Lincoln does not become troubled. Fourth, Lincoln has been in operation for many years and the vast majority of its plant has been carried on its books as CIAC for those many years. We would be skeptical of the intentions of a young utility, operating primarily with donated property, that wanted to quickly convert the character of that property for financial gain.

We are likely to see other "Lincolns" in the future. For example, the owners of small utilities in subdivisions built years ago, that contain water and/or sewer infrastructure donated by the developer, will desire to be rid of these utilities. While we realize that there must be an impetus for qualified purchasers to invest in such utilities in order to ensure continued and adequate service, we also realize that there is no guarantee that any particular set of facts will merit the approval we have granted herein. As it is in this Cause, any future determination of this situation will be unique and fact-specific.

Finally, the Commission's practice of awarding favorable acquisition adjustment treatment is not incompatible with those statutes that govern valuation of public utilities. Although the OUCC contends that CIAC should never be included in the fair value rate base of either the initial donee or the subsequent purchaser of the utility, the OUCC seems to have not considered the provisions of I.C. 8-1-30. That chapter gives the Commission the authority, in certain circumstances, to force the sale of a utility due to poor service or other factors. In the case of a forced sale, the person acquiring the utility is required by statute to pay the fair market value of the utility. Fair market value by definition includes intangibles like goodwill and would seem to also include the value of infrastructure previously donated to the utility. Thus, the continuum of water utility valuation has two seemingly incompatible endpoints: at one end of the spectrum a utility is valued using fair value as defined by I.C. 8-1-2-6, which excludes CIAC and intangible assets; at the other end of the spectrum, a forced sale is to be based on the fair market value of a utility, which would include those kinds of assets.

However, the type of utility at issue in this Cause, and the level of acquisition adjustment we are allowing for its purchaser, seem to fit appropriately between these two ends of the valuation spectrum. Lincoln is neither a well-developed, financially-sound utility, nor a candidate for a forced sale. And just as Lincoln, as a utility, falls operationally and financially somewhere between the best and worst, our determination on an acquisition adjustment falls somewhere between these two corresponding valuation endpoints. In other words, utilities that are well-managed and that provide adequate service are valued using the fair value system prescribed by statute. Those utilities that are determined by the Commission to possess characteristics like those we have ascribed herein to Lincoln may qualify for favorable acquisition adjustment treatment that would allow at least partial recovery of investments above and beyond what is typically deemed to constitute the utility's fair value. Finally, those utilities that are poorly operated or are in poor condition are valued at fair market value when forcibly sold. Therefore, by falling somewhere in between these two statutory endpoints, our determination with respect to the acquisition of Lincoln seems in harmony with the statutory spectrum of utility valuation.

For the reasons stated, we determine that it was and continues to be an appropriate exercise of our discretion to grant Lincoln's purchaser favorable acquisition adjustment treatment

9. **Location of Records.** We also note that at the hearing during cross-examination of Mr. Lubertozzi, we discovered that certain of IWSI's records are being kept in Northbrook, Illinois, which is contrary to the requirement of I.C. 8-1-2-25 that all books, accounts, papers and records are to be kept in the state and shall not be removed except upon such conditions as may be prescribed by the Commission. Mr. Lubertozzi noted that Twin Lakes Utilities had been given permission by the Commission to keep its records in Northbrook, Illinois. While this may be true, the authority we gave to Twin Lakes does not authorize another utility owned by the same parent to take its records out of state. IWSI should have asked for permission but did not. Nonetheless, the OUCC indicated in its proposed order that it does not object to our granting such authority under the same conditions we impose generally. Therefore, our approval is conditioned on IWSI paying the costs of the Commission and the OUCC related to any necessary visits to Northbrook, Illinois as determined by the Commission and the OUCC respectively. These costs would include reasonable transportation, lodging and meals.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. Our previous authorization for Lincoln to sell all of its water distribution facilities to IWSI is affirmed.

2. In connection with its purchase of all of the water distribution facilities of Lincoln, we affirm our authorization for IWSI to record, for ratemaking purposes, an acquisition adjustment reflecting the difference between 90% of the purchase price (*i.e.*, $1,125,000) and the depreciated value at the time of closing of the assets acquired, calculated using the net investor supplied capital approach used by the Commission to establish Lincoln's rate base in Cause No. 41710-U. IWSI shall not implement this adjustment prior to our order in its next rate case.

3. This Order shall be effective on and after the date of its approval.

MCCARTY, HADLEY, RIPLEY AND ZIEGNER CONCUR; LANDIS ABSENT:
APPROVED: AUG 2 4 2004

I hereby certify that the above is a true and correct copy of the Order as approved.

Pamela A. White acting for

Nancy E. Manley
Secretary to the Commission

BNC 2.12 VA

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, October 19, 2005

APPLICATION OF

CASE NO. PUE-2005-00063

MASSANUTTEN PUBLIC SERVICE CORPORATION

For approval of transactions under Chapter 4 of Title 56 of the Code of Virginia

ORDER GRANTING APPROVAL

On January 21, 2005, Massanutten Public Service Corporation ("MPSC") filed an application with the State Corporation Commission ("Commission") under Chapter 4 of Title 56 of the Code of Virginia ("Code") in Case No. PUE-2005-00005 requesting approval for the agreement under which MPSC will receive services provided by Water Service Corporation ("WSC") that are deemed necessary for the performance of MPSC's public service obligations. At MPSC's request, the Commission permitted MPSC to withdraw the application. By Order dated June 7, 2005, MPSC was directed to file a new application under Chapter 4 of Title 56 of the Code in connection with the services provided by WSC to MPSC. On July 22, 2005, MPSC filed a new application for approval of services provided to MPSC by WSC ("Revised Agreement").

MPSC is a Virginia public service corporation that provides water and sewer services in and around Massanutten Village, located in Rockingham County, Virginia. MPSC first obtained a certificate of public convenience and necessity from the Commission to provide such services in 1985. MPSC is a wholly owned subsidiary of Utilities, Inc., a holding company that owns and operates water and sewer companies in

17 states. WSC also is a wholly owned subsidiary of Utilities, Inc., that manages and operates the water and sewer companies owned or operated by Utilities, Inc.

Pursuant to Chapter 4 of Title 56 of the Code (the "Affiliates Act"), MPSC and WSC are deemed to be "affiliates" within the meaning of the Affiliates Act because of their relationship to Utilities, Inc. As such, MPSC is required to file for prior approval under the Affiliates Act for any arrangements or agreements with WSC since MPSC's annual operating revenues are equal to or greater than $500,000, pursuant to Chapter 10.2:1 of Title 56 of the Code of Virginia ("Small Water or Sewer Public Utility Act").

MPSC, therefore, requests approval under the Affiliates Act for the Revised Agreement. The Revised Agreement provides for WSC to provide to the operating subsidiaries of Utilities, Inc., including MPSC, services to include executive, engineering, accounting, operating, construction, legal, and billing and customer relations services. The Revised Agreement provides for these services to be provided at cost, without any profit. The Revised Agreement also prescribes the method of allocating costs among water and sewer companies owned or operated by Utilities, Inc. The Revised Agreement continues in effect until termination by either party upon 90 days' written notice.

MPSC has been operating under an agreement for the provision of services by WSC since January 1, 1987. At that time, approval was not required because MPSC was exempt from the Affiliates Act pursuant to the provisions of the Small Water or Sewer Public Utility Act. MPSC does not meet, and has not met for many years, the Small Water or Sewer Public Utility Act's financial threshold for exemption from the Affiliates Act and, therefore, has filed this application seeking approval of the Revised Agreement.

Even though MPSC has been subject to the Affiliates Act for quite some time, it was not until Staff discovered in the course of MPSC's 2002 Annual Informational Filing review that MPSC was operating under an agreement without Commission approval. MPSC subsequently filed for approval of the agreement in Case No. PUE-2005-00005 and the Revised Agreement under the Affiliates Act.

MPSC represents that WSC is able to provide the services that MPSC needs due to its centralized management system. As provided for in the Revised Agreement, charges that can be directly assigned to MPSC will be charged as such, while expenses that cannot be directly assigned will be allocated among MPSC and its affiliates or in the case of costs incurred with respect to a particular group of the operating companies, among the members of such group. Such costs will then be allocated based, among other factors, on each company's average number of customers, or customer equivalents, as defined in the Revised Agreement. MPSC represents that the majority of costs will be directly assigned from WSC with allocations used only when it is not possible to directly assign costs to each of the operating companies. Costs will be allocated among the operating companies through the use of allocation codes.

MPSC states that, by being part of the Utilities, Inc., family, MPSC is able to obtain services at a lower cost than MPSC could provide internally or through a third party due to the economies of scale associated with Utilities, Inc.

NOW THE COMMISSION, upon consideration of the application and representations of MPSC and having been advised by its Staff, is of the opinion and finds that MPSC's participation in the Revised Agreement with WSC to obtain services deemed necessary to provide its public service function is in the public interest and

should be approved. We believe that there are certain economies of scale that could result from MPSC's affiliation with Utilities, Inc., and from obtaining needed services from WSC. However, MPSC should evaluate services obtained from WSC on a regular basis. Services for which a market exists should be evaluated as to the cost of such services from the market to ensure that MPSC is paying WSC the lower of WSC's cost or the market price for such services. MPSC should bear the burden of proving during any rate proceeding that it paid WSC the lower of cost or market for such services. Our approval should include only those services specifically identified in the Revised Agreement. Any other services, including any loans or other capital from affiliates to MPSC would require separate approval.

We are concerned, however, that MPSC did not file for approval of the agreement in Case No. PUE-2005-00005 and the Revised Agreement until Staff discovered MPSC had been operating under an agreement for the provision of services by WSC during the course of its review. We, therefore, direct MPSC to take the necessary steps to ensure that such violations of the Affiliates Act do not occur in the future.

Accordingly, IT IS ORDERED THAT:

(1) Pursuant to § 56-77 of the Code of Virginia, approval is hereby granted for MPSC to obtain services from WSC pursuant to the Revised Agreement under the terms and conditions and for the purposes as described herein.

(2) Regarding services obtained from WSC for which a market exists, MPSC shall make the necessary comparisons to ensure that it is paying the lower of cost or market for such services obtained from WSC.

(3) For purposes of cost recovery during any rate proceeding, MPSC shall bear the burden of proving that the pricing policy as described in Ordering Paragraph (2) was followed and shall maintain such records to support such compliance for Staff review upon request.

(4) The approval granted herein shall include only the specific services identified in the Revised Agreement. Any other services, including loans or other capital to MPSC from its affiliates shall require separate approval.

(5) MPSC shall take the necessary steps to ensure that prior approval is obtained from the Commission under the Affiliates Act for any future affiliate transactions.

(6) Any changes in the terms and conditions of the Revised Agreement from those described herein, including additional services, pricing, and allocation methods, shall require Commission approval.

(7) The approval granted herein shall not preclude the Commission from exercising the provisions of §§ 56-78 and 56-80 of the Code of Virginia hereafter.

(8) The Commission reserves the authority to examine the books and records of any affiliate in connection with the approval granted herein whether or not the Commission regulates such affiliate.

(9) MPSC shall submit an Annual Report of Affiliate Transactions with the Commission's Director of Public Utility Accounting by no later than May 1 of each year, such date subject to administrative extension by the Director of Public Utility Accounting. Information to be included in such report shall include the name of the affiliate, a description of each affiliate arrangement or agreement, the dates covered by

such arrangement or agreement, and the total dollar amount for each service provided or transaction conducted. The report, the first of which shall be due on or before May 1, 2006, shall include all agreements with affiliates regardless of the amount involved.

(10) If General Rate Case Filings or Annual Informational Filings are not based on a calendar year, then MPSC shall include the affiliate information contained in the Annual Report of Affiliate Transactions in such filings.

(11) There appearing nothing further to be done in this matter, it hereby is dismissed.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to: Donald G. Owens, Esquire, Troutman Sanders LLP, Troutman Sanders Building, 1001 Haxall Point, Richmond, Virginia 23219; and delivered to the Commission's Divisions of Public Utility Accounting and Energy Regulation.

COMMONWEALTH of VIRGINIA

DEPARTMENT OF ENVIRONMENTAL QUALITY

STATE WATER CONTROL BOARD ENFORCEMENT ACTION

SPECIAL ORDER BY CONSENT

ISSUED TO

MASSANUTTEN PUBLIC SERVICE CORPORATION

(VPDES Permit No. VA0024732)

SECTION A: Purpose

This is a Consent Special Order issued under the authority of Va. Code § 62.1-44.15(8a) and (8d), between the State Water Control Board and Massanutten Public Service Corporation, for the purpose of resolving certain violations of environmental laws and regulations.

SECTION B: Definitions

Unless the context clearly indicates otherwise, the following words and terms have the meaning assigned to them below:

1. "Va. Code" means the Code of Virginia (1950), as amended.

2. "Board" means the State Water Control Board, a permanent citizens' board of the Commonwealth of Virginia as described in Va. Code §§ 10.1-1184 and 62.1-44.7.

3. "Department" or "DEQ" means the Department of Environmental Quality, an agency of the Commonwealth of Virginia as described in Va. Code § 10.1-1183.

4. "Director" means the Director of the Department of Environmental Quality.

5. "Order" means this document, also known as a Consent Special Order.

6 "2002 Order" means the consent special order that became effective April 8, 2002.

7 "Amendment" means the amendment to the 2002 Order that became effective September 1, 2004.

8. "STP" means sewage treatment plant.

9. "Massanutten" means Massanutten Public Service Corporation, which owns and operates the Massanutten Public Service Corporation STP.

10 "Facility" and "Plant" means the Massanutten STP located in Rockingham County, Virginia.

11 "VRO" means the Valley Regional Office of DEQ, located in Harrisonburg, Virginia.

12. "Permit" means Virginia Pollutant Discharge Elimination System Permit No. VA0024732 issued to Massanutten, which became effective November 20, 2000 and expires November 20, 2005. Permit limits include pH, biochemical oxygen demand ["BOD"], total suspended solids ["TSS"], dissolved oxygen ["D.O."], ammonia, and total residual chlorine ["TRC"].

13. "NOV" means Notice of Violation.

14. "Regulation" means the VPDES Permit Regulation 9 VAC 25-31-10 et seq.

15 "VDH" means Virginia Department of Health

16. "P.E.R." means Preliminary Engineering Report.

17. "O&M" means Operations and Maintenance.

18. "I&I" means Inflow and Infiltration.

19 "SMP" means Sludge Management Plan

20. "CTO" means Certificate to Operate.

21. "TMP" means Toxicity Monitoring Program.

22. "TRE" mean Toxicity Reduction Evaluation.

23. "EQ basin" means equalization basin.

24. "MGD" means million gallons per day.

SECTION C: Findings of Fact and Conclusions of Law

1. The 2002 Order required Massanutten to complete the construction of Facility upgrade by May 15, 2003, to meet final effluent limitations and to conduct acute and chronic confirmational toxicity testing after the completion of the new Facility.

2. On August 16, 2002, the Virginia Department of Health conditionally approved the plans and specifications for the Facility upgrade. One of the conditions of that approval was that as-built plans and specifications were to be submitted to and approved by the Virginia Department of Health prior to issuance of a CTO for the upgraded Facility.

3. The Amendment to the 2002 Order provided additional time for Massanutten to submit approvable as-built plans and specifications and complete construction of the Facility upgrade including the second flow equalization basin. The Amendment required Massanutten to submit approvable plans and specifications for the upgraded Facility by January 31, 2005.

4. Following Massanutten's signing the Amendment on July 6, 2004, it submitted numerous versions of the as-built plans and specifications both before and after the January 31, 2005 due date for submittal of approvable plans and specifications.

5. DEQ issued a NOV on May 10, 2005, to Massanutten for violations of the Amendment's schedule of compliance including failure to submit approvable as-built plans and specifications for the upgraded Facility. The NOV also cited Permit violations for failure to sample and report total cyanide and di-2-ethylhexyl phthalate and failure to address technical inspection deficiencies in a timely manner in accordance with Permit requirements. (Note: total cyanide and di-2-ethylhexyl phthalate were later removed from the Permit).

6 Massanutten has been in compliance with the Permit's effluent limitations since May 2003.

7. On June 16, 2005, DEQ met with Massanutten in an informal conference to discuss the NOV, the status of the completion of the new Facility and the submittal of as-built plans and specifications for the new Facility. During the June 16, 2005, meeting, DEQ requested that Massanutten submit plans and schedules to address all of the outstanding issues regarding the new Facility.

8 By letters dated July 8 and September 15, 2005, Massanutten submitted to DEQ a revised plan and schedule of compliance for completion of the Facility upgrade. Sections of this plan and schedule have been incorporated into Appendix A of this Order.

9. Massanutten has made substantial progress in completing the upgraded Facility, but it did not submit approvable plans and specifications by January 31, 2005 or request a

conditional CTO by February 28, 2005, as required by the Amendment. The other ancillary problems cited in the NOV such as the inspection and reporting deficiencies have been resolved. The requirement to report total cyanide and di-2-ethylhexyl phthalate was subsequently dropped from the Permit and Massanutten has addressed the inspection deficiencies by changing certain operational procedures.

10. On September 16, 2005, Massanutten reported to DEQ a discharge of activated sludge to Quail Run On September 16, 2005, DEQ staff conducted an inspection of the Facility and observed an ongoing sludge spill to Quail Run. DEQ advised Massanutten to dam and pump accumulated sludge from the stream.

11. On September 19, 2005, DEQ staff continued the investigation of the activated sludge spill and observed activated sludge in Quail Run for a distance of approximately 1000 feet downstream from the Facility. Massanutten estimated that 60,000-80,000 gallons of mixed liquor was lost in the event. During the September 19, 2005 inspection, DEQ staff noted that Massanutten was in the process of sweeping and pumping solids from the stream. Massanutten also indicated that a small fish kill was noted during the cleanup of the stream. The release occurred when tape covering the end of a drain line for an activated sludge basin gave way. Apparently, this drain line was taped and buried to protect it during the Facility's construction, but unlike the other six drain lines, it was never uncovered to properly install a valve and valve box. Massanutten completed the cleanup of the activated sludge in the stream and installed the valve and valve box.

12. On October 28, 2005, Massanutten reported to DEQ a break in a force main that led to an unauthorized discharge of approximately 200 gallons of wastewater/sewage to surface waters. This discharge was apparently composed primarily of backwash water from the water treatment plant with some raw sewage. Massanutten took prompt action to cleanup the spill and repair the line.

13. On November 1, 2005, Massanutten submitted to DEQ for review and approval another version of the as-built plans and specifications for the Facility upgrade. To date, however, Massanutten has not received a CTO for the Facility upgrade required by the Amendment

14. On November 9, 2005, DEQ issued NOV No. W2005-11-V-0004 to Massanutten citing the September 16, 2005, unauthorized/unpermitted discharge of solids to State water which had an adverse impact on water quality. The NOV also cited the unauthorized discharge of approximately 200 gallons of wastewater to State waters that occurred on September 26, 2005. The October 28, 2005 unpermitted discharge was not included within the November 9, 2005 NOV.

15. On November 22, 2005, Massanutten diverted approximately 0.5 MG of wastewater to the new EQ basin which is presently under construction. The use of the EQ basin has not been authorized through the issuance of a Certificate to Operate since the unit is still under construction. Massanutten asserts that the diversion was necessary due to a

high rainfall event and was more environmentally protective since the action prevented the overflow of wastewater from the treatment plant.

16. On November 29, 2005, Massanutten experienced unauthorized/unpermitted discharges of wastewater from the Facility and Massanutten again diverted approximately 0.5 MG of wastewater to the new EQ basin. Massanutten asserts that the diversion was necessary due to a high rainfall event and was more environmentally protective since the action reduced the amount and duration of overflows of wastewater from the treatment plant.

17. On January 3, 2006, Massanutten began the unauthorized operation (before receiving a CTO) of the second treatment train of the Facility. Massanutten asserts that the use of the second treatment train was necessary to treat the Facility's higher influent flows and compensate for operational problems due in part to filamentous growth. Massanutten asserts that the use of the second treatment train would allow the Facility to treat more influent more quickly and thus reduce the time the EQ basin would be utilized so that the EQ basin work could be completed more expeditiously. Massanutten asserts that without the use of the second treatment train to treat the additional influent, the high influent flows and reduced treatment efficiency could increase the delays in completing the EQ basin work and/or lead to effluent limitation exceedances. The Facility's high influent flows are also attributable to additional commercial connections and changes in seasonal use (i.e. from vacation to ski).

SECTION D: Agreement and Order

1. Accordingly, the Board, by virtue of the authority granted it in Va. § 62.1-44.15(8a) and (8d), orders Massanutten, and Massanutten agrees, to perform the actions described in Appendix A of this Order. In addition, the Board orders Massanutten, and Massanutten voluntarily agrees, to pay a civil charge of **$19,700** within 30 days of the effective date of the Order in settlement of the violations cited in this Order. Payment shall be made by check payable to the "Treasurer of Virginia", delivered to:

   Receipts Control
   Department of Environmental Quality
   Post Office Box 10150
   Richmond, Virginia 23240

   Either on a transmittal letter or as a notation on the check, Massanutten shall: 1) indicate that the check is submitted pursuant to this Order, and 2) include its Federal Identification Number.

2. This Order cancels and supersedes the April 8, 2002 Order and the September 1, 2004 Amendment.

SECTION E: Administrative Provisions

1. The Board may modify, rewrite, or amend the Order with the consent of Massanutten, for good cause shown by Massanutten, or on its own motion after notice and opportunity to be heard.

2. This Order only addresses and resolves those violations specifically identified herein in Section C. This Order shall not preclude the Board or the Director from taking any action authorized by law, including but not limited to: (1) taking any action authorized by law regarding any additional, subsequent, or subsequently discovered violations; (2) seeking subsequent remediation of the facility as may be authorized by law; or (3) taking subsequent action to enforce the Order. This Order shall not preclude appropriate enforcement actions by other federal, state, or local regulatory authorities for matters not addressed herein.

3. For purposes of this Order and subsequent actions with respect to this Order, Massanutten admits the jurisdictional allegations contained herein, and neither admits nor denies the factual findings, and conclusions of law contained herein.

4. Massanutten consents to venue in the Circuit Court of the City of Richmond for any civil action taken to enforce the terms of this Order.

5. Massanutten declares it has received fair and due process under the Administrative Process Act, Va. Code §§ 2.2-4000 *et seq.*, and the State Water Control Law and it waives the right to any hearing or other administrative proceeding authorized or required by law or regulation, and to any judicial review of any issue of fact or law contained herein. Nothing herein shall be construed as a waiver of the right to any administrative proceeding for, or to judicial review of, any action taken by the Board to enforce this Order.

6. Failure by Massanutten to comply with any of the terms of this Order shall constitute a violation of an order of the Board. Nothing herein shall waive the initiation of appropriate enforcement actions or the issuance of additional orders as appropriate by the Board or the Director as a result of such violations. Nothing herein shall affect appropriate enforcement actions by any other federal, state, or local regulatory authority.

7. If any provision of this Order is found to be unenforceable for any reason, the remainder of the Order shall remain in full force and effect.

8. Massanutten shall be responsible for failure to comply with any of the terms and conditions of this Order unless compliance is made impossible by earthquake, flood, other acts of God, war, strike, or such other occurrence. Massanutten shall show that such circumstances were beyond its control and not due to a lack of good faith or diligence on its part. Massanutten shall notify the DEQ Regional Director in writing when circumstances are anticipated to occur, are occurring, or have occurred that may

delay compliance or cause noncompliance with any requirement of the Order. Such notice shall set forth:

a. the reasons for the delay or noncompliance;

b. the projected duration of any such delay or noncompliance;

c. the measures taken and to be taken to prevent or minimize such delay or noncompliance; and

d. the timetable by which such measures will be implemented and the date full compliance will be achieved.

Failure to so notify the Director of the Valley Regional Office within 24 hours of learning of any condition above, which Massanutten intends to assert will result in the impossibility of compliance, shall constitute a waiver of any claim to inability to comply with a requirement of this Order.

9. This Order is binding on the parties hereto, their successors in interest, designees and assigns, jointly and severally.

10. This Order shall become effective upon execution by both the Director or his designee and Massanutten. Notwithstanding the foregoing, Massanutten agrees to be bound by any compliance date which precedes the effective date of this Order.

11. This Order shall continue in effect until:

a. Massanutten petitions the VRO Director to terminate the Order after it has completed all requirements of this Order, and the Regional Director determines that all requirements of the Order have been satisfactorily completed; or

b. The Director, his designee, or the Board may terminate this Order in his or its sole discretion upon 30 days written notice to Massanutten.

Termination of this Order, or of any obligation imposed in this Order, shall not operate to relieve Massanutten from its obligation to comply with any statute, regulation, permit condition, other order, certificate, certification, standard, or requirement otherwise applicable.

12. The undersigned representative of Massanutten certifies that he or she is a responsible official authorized to enter into the terms and conditions of this Order and to execute and legally bind Massanutten to this document. Any documents to be submitted pursuant to this Order shall be submitted by a responsible official of Massanutten.

13. By its signature below, ~~the Board of~~ Massanutten voluntarily agrees to the issuance of this Order.

And it is so ORDERED this 20 day of March, 2006.

L. Bradley Chewning
~~Robert G. Burnley~~, Director DAVID K. PAYLOR
Department of Environmental Quality

Massanutten Public Service Corporation voluntarily agrees to the issuance of this Order.

By: _____

Title: Regional Vice President

Date: 1/17/2006

North Carolina
State of ~~Virginia~~
City/County of Mecklenburg

The foregoing instrument was acknowledged before me this 17th day of January, 2006,

by Carl Daniel _____ who is Regional VP of
(name) (title)

Massanutten Public Service Corporation, on behalf of said company.

January 17, 2006
Date

Christine D. Hult
Notary Public

CHRISTINE D. HULT NOTARY PUBLIC MECKLENBURG COUNTY, NC

My commission expires:

SEP 26 2009

APPENDIX A
SCHEDULE OF COMPLIANCE
MASSANUTTEN PUBLIC SERVICE CORPORATION

As-built plans and specifications

1. On November 1, 2005, Massanutten submitted to DEQ for review and approval another version of the as-built plans and specifications. Massanutten shall respond to any comments on the as-built plans and specifications **within 30 days** of receipt of written comments.

Completion of Second Equalization Basin

2. Massanutten has submitted to DEQ for review and approval the engineering plans and specification for the second equalization basin. Massanutten shall respond to comments regarding the plans and specifications **within 30 days** of receipt of written comments.

3. **By April 30, 2006,** Massanutten shall complete the installation of the equalization basin liner and the aeration equipment and pumps.

4. **By May 31, 2006,** Massanutten shall complete all work necessary for issuance of the CTO and request a CTO inspection for the entire Facility upgrade.

5. **Within 365 days** following issuance of a CTO for the upgraded Facility, Massanutten shall complete acute and chronic confirmational toxicity testing. The acute and chronic confirmational toxicity testing shall be conducted on four separate sets of 24-hour composite samples of effluent from Outfall 001, not to be conducted more frequently than monthly, and shall include samples collected during the months of August and February. A testing lab having applicable, approved toxicity testing protocols on file with DEQ shall do the confirmational toxicity testing. The acute toxicity testing shall be a "no observable adverse concentrations (acute) ("NOAEC")" test with a passing end point of 100% effluent, rather than the LC50 tests, which were used in earlier acute toxicity testing of this Facility's discharge. In order to successfully complete confirmational toxicity testing, all toxicity tests shall comply with the following endpoints (NOAEC = 100%, "no observable effect concentration (chronic) ("NOEC")" test $\geq$ IWC). Each set of four toxicity tests shall be one acute and one chronic for each test species. The test results shall be submitted to DEQ within six weeks of the latest sampling date.

Closure of the Old Plant Lagoon #1

6. **By November 30, 2006,** Massanutten shall complete the closure of Lagoon #1 and request a post closure inspection and amend the Facility site deed to indicate that a closed sewage lagoon exists on the property.

I&I Reduction Studies in the Collection System.

7. **By December 31, 2005,** Massanutten shall complete repairs identified in Area 1 (sub-basin 7) as prioritized in the I&I studies.

8. **By December 31, 2005,** Massanutten shall complete TV studies to identify specific problem areas in Area 3 (sub-basins 3, 10, and 11) (referenced in the maps submitted to DEQ on October 9, 2003) as determined in the initial inspections.

9. **By June 30, 2006,** Massanutten shall complete flow measurement studies of the problem areas in Area 4 (referenced in the maps submitted to DEQ on October 9, 2003) as determined in the initial inspections.

10. **By December 31, 2006,** Massanutten shall complete any necessary TV studies to identify problem areas in Area 4.

11. **By December 31, 2006,** Massanutten shall complete repairs identified in Area 3 (sub-basins 3, 10, and 11) as prioritized in the I&I studies.

12. **By June 30, 2007,** Massanutten shall complete repairs identified in Area 4 as prioritized in the I&I studies.

Collection System Management Plan.

13. **By January 1, 2007,** Massanutten shall submit to DEQ for review and approval its plan for conducting future ongoing I&I work and the annual budget for the next three years that will be allocated to conduct that work. Massanutten shall respond to any questions concerning the plan within 30 days or receipt of written comments.

Reporting Requirements

14. Massanutten shall submit quarterly progress reports to DEQ, with the first report being **due January 10, 2006.** Subsequent Progress Reports will be due **by April 10, July 10, October 10 and January 10,** along with the Facility's Discharge Monitoring Report until the cancellation of the Order. The quarterly progress reports shall contain

a. a summary of all work completed since the previous progress report in accordance with the Order;
b. a projection of the work to be completed during the upcoming six months in accordance with this Order; and
c a statement regarding any anticipated problems in complying with this Order.

15 No later than **14 days** following a date identified in the above schedule of compliance Massanutten shall submit to DEQ's Valley Regional Office a written notice of compliance or noncompliance with the schedule item. In the case of noncompliance the notice shall include the cause of noncompliance, any remedial actions taken, and the probability of meeting the next scheduled items.

BNC 2.12 IL-A

BMC 2-12

ILLINOIS ENVIRONMENTAL PROTECTION AGENCY

1021 NORTH GRAND AVENUE EAST, P.O. BOX 19276, SPRINGFIELD, ILLINOIS 62794-9276 – (217) 782-3397
JAMES R. THOMPSON CENTER, 100 WEST RANDOLPH, SUITE 11-300, CHICAGO, IL 60601 – (312) 814-6026

ROD R. BLAGOJEVICH, GOVERNOR DOUGLAS P. SCOTT, DIRECTOR

217/785-0561

January 3, 2007

CERTIFIED MAIL # 7004 2510 0001 8620 9472
RETURN RECEIPT REQUESTED

Chris Montgomery
Midwest Regional Office
334 N. 575 E.
Valparaiso, In 46383

Re: UTL INC-GALENA TERRITORY UTILITES, IL0855050
Compliance Commitment Acceptance
Violation Number: W-2006-00381

Dear Mr. Montgomery:

The Illinois Environmental Protection Agency ("Illinois EPA") **accepts** the Compliance Commitment Agreement ("CCA") proposed by Utl Inc-Galena Territory Utilites dated December 18, 2006 in response to the Violation Notice dated November 1, 2006.

Commitment	Scheduled Date
Hire an engineer (already completed)	August 10, 2006
Submit compliance report with chosen treatment option	March 15, 2007
Begin Construction	April 15, 2007
Complete Construction and Obtain Operating permit	September 30, 2007
Demonstrate Compliance – Running Annual Average of Sample Results below the Radionuclide MCL(s)	October 10, 2008

Failure to fully comply with each of the commitments and the schedules for achieving each commitment as contained in the CCA may, at the sole discretion of the Illinois EPA, result in referral of this matter to the Office of the Attorney General, the State's Attorney of Jo Daviess County, or the United States Environmental Protection Agency.

The CCA does not constitute a waiver or modification of the terms and conditions of any license or permit issued by the Illinois EPA or any other unit or department of local, state or federal government or of any local, state, or federal statute or regulatory requirement. All required permits or licenses necessary to accomplish the commitments stated above and comply with all local, state or federal laws, regulations, licenses or permits must be acquired in a timely manner. The need for acquisition of any licenses or permits does not waive any of the times for achieving each commitment as contained in the CCA. This CCA does not impact the eligibility or confer acceptance or rejection for an Illinois EPA State Revolving Fund low interest loan.

Please notify the Illinois EPA in writing within 10 days of the completion of each scheduled commitment outlined above. Questions regarding this matter should be directed to Jay Timm at 217/785-0561. Written communications should be directed to Beverly Booker at Illinois EPA, Bureau of Water, CAS #19, P.O. Box 19276, Springfield, Illinois 62794-9276. All communications must include reference to Violation Notice number, W-2006-00381.

Sincerely,

Michael S. Garretson, Manager
Compliance Assurance Section
Bureau of Water

cc: Tim Brant

BNC 2.12 IL-B

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission On Its Own Motion -vs- Apple Canyon Utility Company; Cedar Bluff Utilities, Inc.; Charmar Water Company; Cherry Hill Water Company; Northern Hills Water and Sewer Company	:	**06-0360**
Citation for failure to comply with Commission Order and with Commission rules.	:	

ORDER

By the Commission:

The Procedural History

On April 7, 2006, the Staff of the Financial Analysis Division ("Staff") of the Illinois Commerce Commission ("Commission") issued a Staff Report regarding whether Apple Canyon Utility Company; Cedar Bluff Utilities, Inc.; Charmar Water Company; Cherry Hill Water Company; and Northern Hills Water and Sewer Company (collectively "the Companies") maintained continuing property records, as was required by the final Order in docket 03-0398. All of these companies are subsidiaries of a holding company, Utilities, Inc. ("UI"). In that Report, Staff recommended that the Commission initiate a citation proceeding to determine whether the Companies complied with the Commission's final Order in Docket No. 03-0398, as well as with 83 Ill. Adm. Code 605, and 83 Ill. Adm. Code 615, and to determine what penalties should attach, if any.

The Commission then issued a Citation Order, dated May 3, 2006, requiring a proceeding to commence to determine whether the Companies failed to maintain continuing property records, as was required by that Order and Commission regulations. (83 Ill. Adm. Code 605.10, and 83 Ill. Adm. Code 615, Appendix A). The Citation Order also required a determination as to whether penalties should be imposed pursuant to Section 5-202 of the Public Utilities Act, if any. The Companies filed a Verified Answer on June 12, 2006.

Pursuant to proper legal notice, an evidentiary hearing was held in this matter before a duly authorized Administrative Law Judge of the Commission on December 6, 2006. Steven M. Lubertozzi, the Chief Regulatory Officer for UI and its subsidiaries, testified on behalf of the Companies. Diana Hathhorn, an accountant in the Commission's Financial Analysis Division, testified on behalf of Commission Staff. At

the conclusion of the hearing on December 6, 2006, the record was marked "Heard and Taken."

The Parties' Positions

Staff's Position

Ms. Hathhorn testified that on April 7, 2004, the Commission entered a final Order in 03-0398 approving a general increase in water and/or sewer rates. (Staff Ex. 1.0 at 2-3.) That Order attached several conditions to approval of the Companies' proposed rate increases, including:

> Cedar Bluff Utilities, Inc., Apple Canyon Utility Company, Charmar Water Company, Cherry Hill Water Company, and Northern Hills Water and Sewer Company shall establish and maintain continuing property records ["CPRs"] in compliance with the Commission's rules, and must file a report with the Manager of the Commission's Accounting Department as to the successful implementation of the property record program within 12 months after the final order in this proceeding.

(Order, docket No. 03-0398 at 26). The deadline specified for filing this Report was April 7, 2005. However, the Companies did not file a Report until July 13, 2006, well-over one year after the deadline. (*Id.* at 3.)

Ms. Hathhorn explained that the CPR Report filed by the Companies on July 13, 2006, establishes that the Companies now have CPRs that are updated for the years 2004, 2005, and 2006 to date. However, the Companies confirmed in Staff data request response DLH-2.01 that their database for continuing property records has not yet been updated for the years before 2004. (Staff Ex. 1.0 at 3).

Ms. Hathhorn also testified as to the reason utilities are required to keep continuing property records. Continuing property records show the history of individual assets. According to the Uniform System of Accounts for Water Utilities, 83 Ill. Adm. Code 605, continuing property records are a system of preserving the original cost of plant in a manner so that it is possible to identify, locate, and obtain the cost and age of all used and useful property. Proof of the value of utility assets should be readily available on the books of a regulated utility. This information is required when a determination is made as to whether an investment is prudent and thus should be capitalized. It also is required when quantifying capitalization. (ICC Staff Ex. 1.0 at 3-4). She stated that without continuing property records, the Companies violated 83 Ill. Adm. Code 615. (*Id.*).

Ms. Hathhorn stated that, in the past rate cases, UI subsidiaries have failed to maintain continuing property records. This failure resulted in personnel at UI subsidiaries being unable to locate invoices to support rate base additions. Thus, in UI rate case previous to docket 03-0398, the Commission disallowed unsupported rate base. (Staff Ex. 1.0 at 5). A continued failure to establish and maintain CPRs will result in the same problem being repeated in the next rate case filed by a UI subsidiary. (*Id.*).

Ms. Hathhorn explained that the Companies have made progress with their CPRs but, they are not yet complete. (*Id.*) Therefore, she recommended that the Commission find in this docket that the procedure that has been used in the past rate cases, to disallow rate base additions that have no CPR evidentiary support, will be followed in future rate cases. (*Id.*).

She also asserted testified that the Commission has the authority to impose civil penalties upon the Companies pursuant to Section 5-202 of the Act, in accordance with the criteria set forth in Section 5-203 of the Act. Those criteria are: (a) the appropriateness of the penalty to the size of the business of the public utility; (b) the gravity of the violation; (c) any other mitigating or aggravating factors as the Commission may find to exist; and (c) the good faith of the public utility in attempting to achieve compliance after notification of a violation. (Staff Ex. 1.0 at 6).

With regard to the size of the Companies, Ms. Hathhorn noted that the Companies here are wholly-owned subsidiaries of UI, and together, these five companies provide water and/or sewer service to approximately 1,500 customers in various Illinois counties. (Staff Ex. 1.0 at 6). Ms. Hathhorn stated that the parent company here, UI, is not a "small utility" as is defined by the Public Utilities Act. It has 24 Illinois subsidiaries, with 17,400 customers in this state. Also, UI owns and operates approximately 81 water and/or wastewater systems in seventeen different states. In Ms. Hathhorn's opinion, the size of the Companies' parent, UI, is an aggravating factor that the Commission should consider. (*Id.*).

As for the gravity of the violation, she testified that failure to maintain continuing property records in compliance with Parts 605 and 615 results in the Companies being unable to support increases to plant for plant additions that were made since the Companies' last rate case. (*Id.*, at 7). Ms. Hathhorn explained that if the Companies continue to maintain the CPRs on a prospective basis, they will have evidentiary support for all plant additions from 2004 to the present. (*Id.*).

Regarding good faith, Ms. Hathhorn asserted that the final order in docket 03-0398 was not the first time that the Commission has required a UI subsidiary to maintain a CPR system. (Staff Ex. 1.0 7-8). The Commission's Order in Apple Canyon Utility Co., docket 94–0157, (March 22, 1995, 1995 Ill. PUC Lexis 203) required some UI subsidiaries to maintain Continuing Property Records using the "Will County Continuing Property Records" as a model. (*Id.*). In addition, Ms. Hathhorn stated that the Companies were not diligent in complying with the final Order in docket 03-0368, because that Order required the Companies to file a report establishing successful implementation of CPRs by April 7, 2005. However, the Companies did not meet that deadline and instead filed several motions for extension of time to comply with the Order. (*Id.*).[1]

[1] The Administrative Law Judge was never served with a copy of any of theses motions. As a result, these motions were never granted.

Ms. Hathhorn recommended that the Commission impose a penalty on each of the five Companies in the amount of $1,000, for a total of $5,000. (Staff Ex. 1.0 at 9). She stated that it was not Staff's desire to impose a large fine. Rather, imposition of the fine here is to make it clear that this Commission requires utilities to follow its rules and orders. (Tr. 39). She further recommended that, in the final Order in this proceeding, the Commission advise the Companies that all of UI's Illinois subsidiaries must comply with the Commission's rules regarding the maintenance of CPRs, or, risk being subject to disallowances of plant additions to rate base in future rate cases.

The Companies' Position

Mr. Lubertozzi testified that after the final Order in docket 03-0398, UI created an in-house database system, which would interface with UI's existing systems and its software and hardware. This database system was designed to contain the information required for CPRs for UI's subsidiaries. (UI Ex. 1.0 at 2-3). However, there was an unanticipated delay in getting the data entry work done. The hardware and software that UI and its subsidiaries use to track certain general ledger additions is a very old system. It was not designed to be able to add the information that is required for continuing property records. (Tr. 45). Therefore, UI's management had its IT Department create a log-in screen. UI's IT Department also created ways that personnel can track and try to control who implemented data and match that information with information found on the general ledger. (*Id.*).

The biggest problem encountered was tracking invoices and general ledger additions for 400 subsidiaries throughout the United States. It often took four to five hours, or more, to search the system just to find one invoice in order to match up a vendor with the corresponding dollar amount. Thus, dealing with problems with the older system took much longer than the amount of time that was originally anticipated. (*Id.*). As a result, the Companies were unable to meet the April 7, 2005 deadline for CPR implementation set forth in the final Order in docket 03-0398. (*Id.*).

Mr. Lubertozzi explained that UI subsidiaries have now developed a CPR system that is currently in place and functioning. This system has been implemented retroactively through 2004. (UI Ex. 1.0 at 3). In the Companies' CPR Report, the Companies explained that UI's management team has met with various consulting firms to discuss acquiring new data management systems, including a new general ledger and billing systems. Also, the new data management and billing systems can create, track, store and generate continuing property records. (*Id.*).

The Companies contended, in their Answer, that it made good faith attempts to inform the Commission of the delay, which is a mitigating factor. (*Id.* at 4-5). Also, UI, the Companies' parent, was also recently acquired by a new parent, Hydrostar, LLC. (UI Ex. 1.01). This new parent is committed to upgrading the hardware and software of data management systems to improve functionality and to improve the reporting process, which will prevent data processing bottlenecks for UI's subsidiaries in the future. (*Id.*).

With respect to Staff's recommendations, the Companies agreed that all of UI's regulated Illinois subsidiaries will not seek rate base additions that are not supported by CPRs. (UI Ex. 1.0 at 4). Further, for the purposes of resolving this proceeding, the Companies agreed to pay civil penalties of $1,000 per Company, for a total of $5,000 for all of the Companies in question. (*Id.*).

The Companies also asserted that implementation of the CPR system described in UI Exhibit 1.01 will occur for all of its Illinois subsidiaries. They further agree that no UI subsidiary will seek rate base additions that are not supported by CPRs. (UI Ex. 1.0 at 4).

Analysis and Conclusions

Based on the record, the Commission finds that the five UI subsidiaries at issue, Apple Canyon Utility Company; Cedar Bluff Utilities, Inc.; Charmar Water Company; Cherry Hill Water Company; and Northern Hills Water and Sewer Company, failed to file the CPR Report on April 7, 2005 as was required by the final Order in docket 03-0398. In fact, this Report was not filed until July 13, 2006, fifteen months after the time it was due to be filed. However, the Companies now have CPRs in place for 2004 to the present. Therefore, the Companies are now in partial compliance with the final Order in docket 03-0398, as well as the Commission's rules regarding CPRs, at least with respect for the year 2004, and forward.

With respect to CPRs for the years before 2004, the Companies contend that they, and their sister companies, intend to implement CPRs for the years previous to 2004. In light of this, the Commission finds that Staff's proposal, which the Companies have accepted, to disallow rate base additions that have no CPR evidentiary support in future rate cases filed by UI subsidiaries, is reasonable.

This Commission has authority pursuant to Section 5-202 of the Public Utilities Act to assess penalties upon any public utility when it violates or fails to comply with any provision of the Public Utilities Act, or fails to comply with any Commission Order, rule, or regulation. (220 ILCS 5/5-202). Staff recommended civil penalties of $1,000 for each of the Companies, for a total of $5,000 for all the Companies. The Companies have agreed to pay these penalties.

Penalties are assessed penalties pursuant to Section 203(a) of the Public Utilities Act, which provides, in pertinent part:

> In determining the amount of the penalty, the Commission shall consider the appropriateness of the penalty to the size of the business of the public utility, corporation other than a public utility, or person acting as a public utility charged, the gravity of the violation, such other mitigating or aggravating factors as the Commission may find to exist, and the good faith of the public utility, corporation other than a public utility, or person acting as a public utility charged in attempting to achieve compliance after notification of a violation.

(220 ILCS 5/4-203(a)). We note that Staff reported that the five Companies together provide water and/or sewer service to approximately 1,500 customers in various Illinois counties. The Companies are thus "small utilities" under Section 4-502 of the Act. (220 ILCS 5/4-502).

As for to the gravity of the violation, Staff posits that failure to maintain CPRs results in an inability on the part of the Companies to support increases to plant for plant additions made since their last rate cases. However, according to the Companies, except when a utility makes a rate filing, failing to maintain CPRs has no significant adverse impact on customers. We note that there is no evidence establishing that customers were harmed. However, the Companies must fully comply with the Act, the Commission's rules, and its Orders.

With regard to other aggravating factors, Staff asserted that the parent company, UI, is not a small utility as defined by the Act, as it has twenty-four subsidiaries, with 17,400 customers in Illinois. This fact, Staff maintains, is an aggravating factor. However, Mr. Lubertozzi's testimony established that the Companies encountered unexpected difficulty when entering data for the CPRs, causing delay. (*See,* Tr. 44-46). We also note that the Companies have expressed a commitment to support all plant additions in all rate cases filed by UI subsidiaries. The Commission concludes that the commitment expressed in this proceeding to implement CPRs across all of UI's Illinois subsidiaries, as well as the commitment not to seek rate base additions that are not supported by CPRs, is sufficient to alleviate Staff's concerns. We also note that, irrespective of the commitment expressed, the law requires utilities to maintain CPRs. (83 Ill. Adm. Code 605.10, 83 Ill. Adm. Code 615 Appendix A).

With regard to good faith, Staff questioned the Companies' diligence and good faith in coming into compliance with the CPR requirements, noting that Commission Orders dating back to 1995 have required implementation of CPRs. We also note that a series of motions requesting extensions of time to file the Report in question were filed. Because none of these motions were served on the Administrative Law Judge, none were granted. The diligence of these Companies is questionable, when they continued to file motions seeking extension of time, even after previous motions seeking extensions had not been granted. However, the Companies have agreed to pay the penalty recommended by Staff. Therefore, the Commission finds that the assessment and the amount of the penalties appropriate for the gravity of the violation here. We therefore conclude that the penalty of $1,000 per Company is reasonable.

We note that the parties are in agreement as to the two issues here, whether a fine should be imposed, and how much that fine should be. Yet, they filed prefiled testimony. The attorneys are advised, in future situations of this nature, to consider stipulations, and other types of resource-saving procedures, such as, motions brought pursuant to Sections 2-615(e) or 2-1005 of the Illinois Code of Civil Procedure. (735 ILCS 5/2-615(e) and 2-1005)).

Findings and Ordering Paragraphs

The Commission, having considered the entire record herein and being fully advised in the premises, is of the opinion and finds that:

(1) Cedar Bluff Utilities, Inc., Apple Canyon Utility Company, Charmar Water Company, Cherry Hill Water Company and Northern Hills Water and Sewer Company provide water and/or sewer service to the public within the State of Illinois, and, as such, are "public utilities" within the meaning of the Public Utilities Act;

(2) the Commission has subject-matter jurisdiction and jurisdiction over Cedar Bluff Utilities, Inc., Apple Canyon Utility Company, Charmar Water Company, Cherry Hill Water Company and Northern Hills Water and Sewer Company;

(3) the recitals of fact and conclusions of law reached in the prefatory portion of this Order are supported by the record and are hereby adopted as findings of fact and conclusions of law for purposes of this Order;

(4) in future rate cases involving any subsidiary of Utilities, Inc., including, but not limited to, Cedar Bluff Utilities, Inc., Apple Canyon Utility Company, Charmar Water Company, Cherry Hill Water Company and Northern Hills Water and Sewer Company, rate base additions shall be supported with continuing property record evidentiary support;

(5) pursuant to Section 5-202 of the Act, Cedar Bluff Utilities, Inc., Apple Canyon Utility Company, Charmar Water Company, Cherry Hill Water Company and Northern Hills Water and Sewer Company are each required to a pay a civil penalty of $1,000 each, for a total of $5,000.

IT IS THEREFORE ORDERED by the Commission that in future rate cases involving Cedar Bluff Utilities, Inc., Apple Canyon Utility Company, Charmar Water Company, Cherry Hill Water Company and Northern Hills Water and Sewer Company, or any other Utilities, Inc. subsidiary, rate base additions shall be supported with continuing property records.

IT IS FURTHER ORDERED that pursuant to Section 5-202 of the Public Utilities Act, Cedar Bluff Utilities, Inc., Apple Canyon Utility Company, Charmar Water Company, Cherry Hill Water Company and Northern Hills Water and Sewer Company are each hereby assessed a fine in the amount of $1,000.00, for a total amount of $5,000.00. Said fines shall be paid by check payable to the Illinois Commerce Commission and delivered to the Financial Information Section of the Commission's Administrative Services Division within thirty (30) days of the entry of this Order.

IT IS FURTHER ORDERED that Cedar Bluff Utilities, Inc., Apple Canyon Utility Company, Charmar Water Company, Cherry Hill Water Company and Northern Hills Water and Sewer Company shall file with the Commission's Chief Clerk a certification

attesting that each Company has paid the ordered fine. Said certification is to be filed in Docket No. 06-0360, served upon the parties to this docket and a copy is to be provided to the Manager of the Commission's Water Department within thirty (30) days of the entry of this Order.

IT IS FURTHER ORDERED that any petitions, objections or motions made in this proceeding and not otherwise specifically disposed of herein are hereby disposed of in a manner consistent with the conclusions contained herein.

IT IS FURTHER ORDERED that, subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

By Order of the Commission this 21st day of March, 2007.

(SIGNED) CHARLES E. BOX

Chairman

BNC 2.12 IL-C

IN THE CIRCUIT COURT FOR THE 15TH JUDICIAL CIRCUIT
STEPHENSON COUNTY, ILLINOIS
CHANCERY DIVISION

PEOPLE OF THE STATE OF ILLINOIS *ex rel.* LISA MADIGAN, Attorney General of the State of Illinois, Plaintiff, v. NORTHERN HILLS WATER and SEWER COMPANY, an Illinois corporation, Defendant.	)	No. 07 CH 96

FILED
STEPHENSON COUNTY, IL
MAY 18 2007
Bonnie K. Curran
CLERK OF THE CIRCUIT COURT

CONSENT ORDER

Plaintiff, PEOPLE OF THE STATE OF ILLINOIS, *ex rel.* LISA MADIGAN, Attorney General of the State of Illinois, the Illinois Environmental Protection Agency ("Illinois EPA"), and Defendant, NORTHERN HILLS WATER and SEWER COMPANY ("Northern Hills"), have agreed to the making of this Consent Order and submit it to this Court for approval. The parties agree that the statement of facts contained herein represents a fair summary of the evidence and testimony which would be introduced by the parties if a trial were held. The parties further stipulate that this statement of facts is made and agreed upon for purposes of settlement only and that neither the fact that a party has entered into this Consent Order, nor any of the facts

stipulated herein, shall be introduced into evidence in any other proceeding regarding the claims asserted in the Complaint except as otherwise provided herein. If this Court approves and enters this Consent Order, Defendant agrees to be bound by the Consent Order and not to contest its validity in any subsequent proceeding to implement or enforce its terms. However, it is the intent of the parties to this Consent Order that it be a final judgment on the merits of this matter, subject to the provisions of Section VIII.K ("Release from Liability") and Section VIII.M ("Modification of Consent Order").

I. JURISDICTION

This Court has jurisdiction of the subject matter herein and of the parties consenting hereto pursuant to the Illinois Environmental Protection Act ("Act"), 415 ILCS 5/1 *et seq.* (2004).

II. AUTHORIZATION

The undersigned representatives for each party certify that they are fully authorized by the party whom they represent to enter into the terms and conditions of this Consent Order and to legally bind them to it.

III. STATEMENT OF FACTS

A. Parties

1. On May 18, 2007, a Complaint was filed on behalf of the People of the State of Illinois by Lisa Madigan, Attorney General of the State of Illinois, on her own motion and upon the request of the Illinois EPA, pursuant to Section 42(d) and (e) of the Act, 415 ILCS 5/42(d) and (e)(2004), against the Defendant.

2. The Illinois EPA is an administrative agency of the State of Illinois, created pursuant to Section 4 of the Act, 415 ILCS 5/4(2004).

3. At all times relevant to the Complaint, Defendant was and is an Illinois corporation in good standing that is authorized to transact business in the State of Illinois.

B. Site Description

At all times relevant to the Complaint, Defendant owned and operated a waste water treatment plant ("WWTP"), which services 183 homes in the Northern Hills subdivision of Freeport, Illinois, and is located at 1438 West Fairview Road, Freeport, Stephenson County, Illinois (the "Facility"). The Defendant's corporate address is 6110 Abington Drive, Rockford, Illinois.

C. Allegations of Non-Compliance

Plaintiff contends that the Defendant has violated the following provisions of the Act and Illinois Pollution Control Board ("Board") Water Pollution Regulations:

Count I: Water Pollution, violations of Section 12(a) of the Act, 415 ILCS 5/12(a)(2004);

Count II: Water Quality violations, violations of Section 12(a) of the Act, 415 ILCS 5/12(a)(2004) and Sections 302.203, 304.105, and 304.106 of the Board's Water Pollution Regulations, 35 Ill. Adm. Code 302.203, 304.105, and 304.106;

Count III: Creating a Water Pollution Hazard, a violation of Section 12(d) of the Act, 415 ILCS 5/12(d)(2004);

Count IV: Permit Violations, violations of Section 12(f) of the Act, 415 ILCS 5/12(f)(2004) and Section 309.102(a) of the Board's Water Pollution Regulations, 35 Ill. Adm. Code 309.102(a);

D. Admission of Violations

The Defendant represents that it has entered into this Consent Order for the purpose of settling and compromising disputed claims without having to incur the expense of contested litigation. By entering into this Consent Order and complying with its terms, the Defendant does not affirmatively admit the allegations of violation within the Complaint and referenced within Section III.C herein, and this Consent Order shall not be interpreted as including such admission.

E. Compliance Activities to Date

Defendant has taken the following actions at the Facility:

1. Installed an alarm system to provide notice of equipment failures and any deviations in flow;
2. Established an inventory of replacement parts and a replacement clarifier drive unit on site;
3. Conducts quarterly inspections of the clarifier drive unit; and
4. Completed a Phase I Engineering Feasibility Study.

IV. APPLICABILITY

A. This Consent Order shall apply to and be binding upon the Plaintiff and the Defendant, and any officer, director, agent, or employee of the Defendant, as well as any successors or assigns of the Defendant. The Defendant waives as a defense to any enforcement action taken pursuant to this Consent Order the failure of any of its officers, directors, agents, employees or successors or assigns to take such action as shall be required to comply with the provisions of this Consent Order.

B. No change in ownership, corporate status or operator of the facility shall in any way alter

the responsibilities of the Defendant under this Consent Order. In the event of any conveyance of title, easement or other interest in the facility, the Defendant shall continue to be bound by and remain liable for performance of all obligations under this Consent Order. In appropriate circumstances, however, the Defendant and a proposed purchaser or operator of the facility may jointly request, and the Plaintiff, in its discretion, may consider modification of this Consent Order to obligate the proposed purchaser or operator to carry out future requirements of this Consent Order in place of, or in addition to, the Defendant.

C. In the event that the Defendant proposes to sell or transfer any real property or operations subject to this Consent Order, the Defendant shall notify the Plaintiff 30 days prior to the conveyance of title, ownership or other interest, including a leasehold interest in the facility or a portion thereof. The Defendant shall make the prospective purchaser or successor's compliance with this Consent Order a condition of any such sale or transfer and shall provide a copy of this Consent Order to any such successor in interest. This provision does not relieve the Defendant from compliance with any regulatory requirement regarding notice and transfer of applicable facility permits.

D. The Defendant shall notify each contractor to be retained to perform work required in this Consent Order of each of the requirements of this Consent Order relevant to the activities to be performed by that contractor, including all relevant work schedules and reporting deadlines, and shall provide a copy of this Consent Order to each contractor already retained no later than 30 days after the date of entry of this Consent Order. In addition, the Defendant shall provide copies of all schedules for implementation of the provisions of this Consent Order to the prime

vendor(s) supplying the control technology systems and other equipment required by this Consent Order.

V. COMPLIANCE WITH OTHER LAWS AND REGULATIONS

This Consent Order in no way affects the responsibilities of the Defendant to comply with any other federal, state or local laws or regulations, including but not limited to the Act, and the Board Regulations, 35 Ill. Adm. Code, Subtitles A through H.

VI. VENUE

The parties agree that the venue of any action commenced in the circuit court for the purposes of interpretation and enforcement of the terms and conditions of this Consent Order shall be in the Circuit Court of Stephenson County, Illinois.

VII. SEVERABILITY

It is the intent of the Plaintiff and Defendant that the provisions of this Consent Order shall be severable, and should any provision be declared by a court of competent jurisdiction to be inconsistent with state or federal law, and therefore unenforceable, the remaining clauses shall remain in full force and effect.

VIII. JUDGMENT ORDER

This Court, having jurisdiction over the parties and subject matter, the parties having appeared, due notice having been given, the Court having considered the stipulated facts and being advised in the premises, this Court finds the following relief appropriate:

IT IS HEREBY ORDERED, ADJUDGED AND DECREED:

A. Penalty

1. a. The Defendant shall pay a civil penalty of Nine Thousand Seven Hundred Fifty Dollars ($9,750.00). Payment shall be tendered at time of entry of the consent order or before, to the Assistant Attorney General.

b. Payment shall be made by certified check or money order, payable to the Illinois EPA for deposit into the Environmental Protection Trust Fund ("EPTF").

c. The name, case number and the Defendant's Federal Employer Identification Number ("FEIN"), shall appear on the face of the certified check or money order.

B. Future Compliance

1. Within 30 days of the entry of this Consent Order, Defendant shall retain an engineer to prepare Plans, Specifications and a construction permit application that shall include upgrades to the Facility that address all compliance issues("WWTP Project").

2. Within 90 days of the entry of this Consent Order, Defendant shall submit the Plans, Specifications and a complete construction permit application for the WWTP Project to the Illinois EPA, Division of Water Pollution Control Permit Section, for its approval. In addition, a copy of this application shall be forwarded to the following:

Charles Gunnarson
Assistant Counsel
Illinois EPA
1021 North Grand Avenue East
P.O. Box 19276
Springfield, Illinois 62794-9276

3. Within 60 days of the Illinois EPA's approval and issuance of a Construction Permit, Defendant shall bid and award the WWTP project for construction.

4. Within 24 months of the Illinois EPA's issuance of a final Construction Permit, Defendant shall complete the WWTP Project and achieve compliance with all applicable permits and regulations ("Final Compliance Date").

5. Within 3 months of the Illinois EPA's issuance of a final Construction Permit, and thereafter, once every 6 months, Defendant shall submit a Progress Report on the construction of the WWTP Project to the Plaintiffs as described in Section VIII.H of this Order, until the Project is completed and operational.

6. From the date of the entry of this Consent Order until the date the WWTP Project is completed and operational, the Defendant shall employ its best efforts to ensure the existing WWTP is maintained and operated in compliance with all applicable standards, and to produce final effluent in compliance with its NPDES Permit. Such efforts include, but may not be limited to, continuing to maintain an inventory of replacement parts and a replacement clarifier drive on site and conducting quarterly inspections of the clarifier drive unit.

7. Once the WWTP Project is complete, Defendant shall at all times operate its upgraded wastewater treatment plant in accordance with the terms of its NPDES Permit.

C. Stipulated Penalties

1. If the Defendant fails to complete any activity or fails to comply with any response or reporting requirement by the date specified in Section VIII.B of this Consent Order, the Defendant shall provide notice to the Plaintiff of each failure to comply with this Consent Order. In addition, the Defendant shall pay to the Plaintiff, for payment into the EPTF, stipulated penalties per violation for each day of violation in the amount of $100.00 until such time that

compliance is achieved.

2. Following the Plaintiff's determination that the Defendant has failed to complete performance of any task or other portion of work, failed to provide a required submittal, including any report or notification, Plaintiff may make a demand for stipulated penalties upon Defendant for its noncompliance with this Consent Order. Failure by the Plaintiff to make this demand shall not relieve the Defendant of the obligation to pay stipulated penalties.

3. All penalties owed the Plaintiff under this section of this Consent Order that have not been paid shall be payable within thirty (30) days of the date the Defendant knows or should have known of its noncompliance with any provision of this Consent Order.

4. a. All stipulated penalties shall be paid by certified check or money order, payable to the Illinois EPA for deposit into the EPTF and shall be sent by first class mail and delivered to:

Illinois Environmental Protection Agency
Fiscal Services
1021 North Grand Avenue East
P.O. Box 19276
Springfield, Illinois 62794-9276

b. The name and number of the case and the Defendant's FEIN shall appear on the face of the check. A copy of the certified check or money order shall be sent to:

Paula Becker Wheeler
Assistant Attorney General
Environmental Bureau
69 W. Washington St., Suite 1800
Chicago, Illinois 60602

5. The stipulated penalties shall be enforceable by the Plaintiff and shall be in addition to, and shall not preclude the use of, any other remedies or sanctions arising from the failure to comply with this Consent Order.

D. Interest on Penalties

1. Pursuant to Section 42(g) of the Act, 415 ILCS 5/42(g), interest shall accrue on any penalty amount owed by the Defendant not paid within the time prescribed herein, at the maximum rate allowable under Section 1003(a) of the Illinois Income Tax Act, 35 ILCS 5/1003(a)(2004).

2. Interest on unpaid penalties shall begin to accrue from the date such are due and continue to accrue to the date full payment is received by the Illinois EPA.

3. Where partial payment is made on any penalty amount that is due, such partial payment shall be first applied to any interest on unpaid penalties then owing.

4. All interest on penalties owed the Plaintiff shall be paid by certified check, money order or electronic funds transfer payable to the Illinois EPA for deposit in the EPTF and shall be submitted by first class mail and delivered to:

Illinois Environmental Protection Agency
Fiscal Services
1021 North Grand Avenue East
P.O. Box 19276
Springfield, Illinois 62794-9276

5. The name, case number, and the Defendant's FEIN shall appear on the face of the certified check or money order. A copy of the certified check or money order shall be sent to:

Paula Becker Wheeler
Assistant Attorney General
Environmental Bureau
69 W. Washington St., Suite 1800
Chicago, Illinois 60602

E. Future Use

Notwithstanding any other language in this Consent Order to the contrary, and in consideration of the mutual promises and conditions contained in this Consent Order, including the Release from Liability contained in Section VIII.K, below, Defendant hereby agrees that this Consent Order may be used against the Defendant in any subsequent enforcement action or permit proceeding as proof of a past adjudication of violation of the Act and the Board Regulations promulgated thereunder for all violations alleged in the Complaint in this matter, for purposes of Section 39(a) and (i) and/or 42(h) of the Act, 415 ILCS 5/39(a) and (i) and/or 5/42(h). Further, Defendant agrees to waive, in any subsequent enforcement action, any right to contest whether these alleged violations were adjudicated.

F. Force Majeure

1. For the purposes of this Consent Order, *force majeure* is an event arising solely beyond the control of the Defendant, which prevents the timely performance of any of the requirements of this Consent Order. For purposes of this Consent order *force majeure* shall include, but is not limited to, events such as floods, fires, tornadoes, other natural disasters, and labor disputes beyond the reasonable control of the Defendant.

2. When, in the opinion of the Defendant, a *force majeure* event occurs which causes or may cause a delay in the performance of any of the requirements of this Consent Order, the

Defendant shall orally notify the Plaintiff within forty-eight (48) hours of the occurrence. Written notice shall be given to the Plaintiff as soon as practicable, but no later than ten (10) calendar days after the claimed occurrence.

3. Failure by the Defendant to comply with the notice requirements of the preceding paragraph shall render this Section VIII.F voidable by the Plaintiff as to the specific event for which the Defendant has failed to comply with the notice requirement. If voided, this section shall be of no effect as to the particular event involved.

4. Within ten (10) calendar days of receipt of the written *force majeure* notice required under Section VIII.F.2, the Plaintiff shall respond to the Defendant in writing regarding the Defendant's claim of a delay or impediment to performance. If the Plaintiff agrees that the delay or impediment to performance has been or will be caused by circumstances beyond the control of the Defendant, including any entity controlled by the Defendant, and that the Defendant could not have prevented the delay by the exercise of due diligence, the parties shall stipulate to an extension of the required deadline(s) for all requirement(s) affected by the delay, by a period equivalent to the delay actually caused by such circumstances. Such stipulation may be filed as a modification to this Consent Order pursuant to the modification procedures established in this Consent Order. The Defendant shall not be liable for stipulated penalties for the period of any such stipulated extension.

5. If the Plaintiff does not accept the Defendant's claim of a *force majeure* event, the Defendant may submit the matter to this Court within twenty (20) calendar days of receipt of Plaintiff's determination for resolution to avoid payment of stipulated penalties, by filing a

petition for determination of the issue. Once the Defendant has submitted such a petition to the Court, the Plaintiff shall have twenty (20) calendar days to file its response to said petition. The burden of proof of establishing that a *force majeure* event prevented the timely performance shall be upon the Defendant. If this Court determines that the delay or impediment to performance has been or will be caused by circumstances solely beyond the control of the Defendant, including any entity controlled by the Defendant, and that the Defendant could not have prevented the delay by the exercise of due diligence, the Defendant shall be excused as to that event (including any imposition of stipulated penalties), for all requirements affected by the delay, for a period of time equivalent to the delay or such other period as may be determined by this Court.

6. An increase in costs associated with implementing any requirement of this Consent Order shall not, by itself, excuse the Defendant under the provisions of this Section VIII.F of this Consent Order from a failure to comply with such a requirement.

G. Dispute Resolution

1. Unless otherwise provided for in this Consent Order, the dispute resolution procedures provided by this section shall be the only process available to resolve all disputes arising under this Consent Order, including but not limited to the Illinois EPA's approval, comment on, or denial of any report, plan or remediation objective, or the Illinois EPA's decision regarding appropriate or necessary response activity. The following are expressly not subject to the dispute resolution procedures provided by this section: disputes regarding *force majeure*, which has separate procedures as contained in Section VIII.G above; where the Defendant has violated any payment or compliance deadline within this Consent Order, for which the Plaintiff

may elect to file a petition for adjudication of contempt or rule to show cause; and, disputes regarding a substantial danger to the environment or to the public health of persons or to the welfare of persons.

2. The dispute resolution procedure shall be invoked upon the written notice by one of the parties to this Consent Order to another describing the nature of the dispute and the initiating party's position with regard to such dispute. The party receiving such notice shall acknowledge receipt of the notice; thereafter the parties shall schedule a meeting to discuss the dispute informally not later than fourteen (14) days from the receipt of such notice.

3. Disputes submitted to dispute resolution shall, in the first instance, be the subject of informal negotiations between the parties. Such period of informal negotiations shall be for a period of thirty (30) calendar days from the date of the first meeting between representatives of the Plaintiff and the Defendant, unless the parties' representatives agree, in writing, to shorten or extend this period.

4. In the event that the parties are unable to reach agreement during the informal negotiation period, the Plaintiff shall provide the Defendant with a written summary of its position regarding the dispute. The position advanced by the Plaintiff shall be considered binding unless, within twenty (20) calendar days of the Defendant's receipt of the written summary of the Plaintiff's position, the Defendant files a petition with this Court seeking judicial resolution of the dispute. The Plaintiff shall respond to the petition by filing the administrative record of the dispute and any argument responsive to the petition within twenty (20) calendar days of service of Defendant's petition. The administrative record of the dispute shall include

the written notice of the dispute, any responsive submittals, the Plaintiff's written summary of its position, the Defendant's petition before the court and the Plaintiff's response to the petition.

5. The invocation of dispute resolution, in and of itself, shall not excuse compliance with any requirement, obligation or deadline contained herein, and stipulated penalties may be assessed for failure or noncompliance during the period of dispute resolution.

6. This Court shall make its decision based on the administrative record and shall not draw any inferences nor establish any presumptions adverse to any party as a result of invocation of this section or the parties' inability to reach agreement with respect to the disputed issue. The Plaintiff's position shall be affirmed unless, based upon the administrative record, it is against the manifest weight of the evidence.

7. As part of the resolution of any dispute, the parties, by agreement, or by order of this Court, may, in appropriate circumstances, extend or modify the schedule for completion of work under this Consent Order to account for the delay in the work that occurred as a result of dispute resolution.

H. Correspondence, Reports and Other Documents

Any and all correspondence, reports and any other documents required under this Consent Order, except for payments pursuant to Sections VIII.A. and C. of this Consent Order shall be submitted as follows:

<u>As to the Plaintiff</u>

Paula Becker Wheeler
Assistant Attorney General
Environmental Bureau
69 W. Washington St., Suite 1800

Chicago, Illinois 60602

Charles Gunnarson
Assistant Counsel
Illinois EPA
1021 North Grand Avenue East
P.O. Box 19276
Springfield, Illinois 62794-9276

Nancy Sisson
Field Operations Section
Illinois EPA
4302 N. Main
Rockford, IL 61103

As to the Defendant

Lisa Crossett
2335 Sanders Road
Northbrook, Illinois 60062-6196

Paul Burris
2335 Sanders Road
Northbrook, Illinois 60062-6196

Madonna F. McGrath
Baker & Daniels LLP
300 N. Meridian St., Suite 2700
Indianapolis, IN 46204

I. Right of Entry

In addition to any other authority, the Illinois EPA, its employees and representatives, and the Attorney General, her employees and representatives, shall have the right of entry into and upon the Defendant's facility which is the subject of this Consent Order, at all reasonable times for the purposes of carrying out inspections. In conducting such inspections, the Illinois EPA, its employees and representatives, and the Attorney General, her employees and representatives,

may take photographs, samples, and collect information, as they deem necessary.

J. Cease and Desist

The Defendant shall cease and desist from future violations of the Act and Board Regulations that were the subject matter of the Complaint as outlined in Section III.C. of this Consent Order.

K. Release from Liability

In consideration of the Defendant's payment of a $9,750 penalty and any specified costs and accrued interest, completion of all activities required hereunder, and its commitment to Cease and Desist as contained in Section VIII.J above, the Plaintiff releases, waives and discharges the Defendant from any further liability or penalties for violations of the Act and Board Regulations that were the subject matter of the Complaint herein. The release set forth above does not extend to any matters other than those expressly specified in Plaintiff's Complaint filed on May 18, 2007. The Plaintiff reserves, and this Consent Order is without prejudice to, all rights of the State of Illinois against the Defendant with respect to all other matters, including but not limited to, the following:

a. criminal liability;

b. liability for future violation of state, federal, local, and common laws and/or regulations;

c. liability for natural resources damage arising out of the alleged violations; and

d. liability or claims based on the Defendant's failure to satisfy the requirements of this Consent Order.

Nothing in this Consent Order is intended as a waiver, discharge, release, or covenant not to sue for any claim or cause of action, administrative or judicial, civil or criminal, past or future, in law or in equity, which the State of Illinois or the Illinois EPA may have against any person, as defined by Section 3.315 of the Act, 415 ILCS 5/3.315(2004), or entity other than the Defendant.

L. Retention of Jurisdiction

This Court shall retain jurisdiction of this matter for the purposes of interpreting and enforcing the terms and conditions of this Consent Order.

M. Modification of Consent Order

The parties may, by mutual written consent, extend any compliance dates or modify the terms of this Consent Order without leave of court. A request for any modification shall be made in writing and submitted to the contact persons identified in Section VIII.H. Any such request shall be made by separate document, and shall not be submitted within any other report or submittal required by this Consent Order. Any such agreed modification shall be in writing, signed by authorized representatives of each party, filed with the court and incorporated into this Consent Order by reference.

N. Enforcement of Consent Order

1. Upon the entry of this Consent Order, any party hereto, upon motion, may reinstate these proceedings for the purpose of enforcing the terms and conditions of this Consent Order. This Consent Order is a binding and enforceable order of this Court and may be enforced as such through any and all available means.

2. Defendant agrees that notice of any subsequent proceeding to enforce this Consent

Order may be made by mail and waives any requirement of service of process.

O. Execution of Document

This Order shall become effective only when executed by all parties and the Court. This Order may be executed by the parties in one or more counterparts, all of which taken together, shall constitute one and the same instrument.

(THE REST OF THIS PAGE IS LEFT INTENTIONALLY BLANK)

WHEREFORE, the parties, by their representatives, enter into this Consent Order and submit it to this Court that it may be approved and entered.

AGREED:

FOR THE PLAINTIFF:

PEOPLE OF THE STATE OF ILLINOIS
ex rel. LISA MADIGAN,
Attorney General of the
State of Illinois

MATTHEW J. DUNN, Chief
Environmental Enforcement/
Asbestos Litigation Division

BY: _____
ROSEMARIE CAZEAU, Chief
Environmental Bureau
Assistant Attorney General

DATE: 5/16/07

ILLINOIS ENVIRONMENTAL
PROTECTION AGENCY

BY: _____
ROBERT A. MESSINA
Chief Legal Counsel

DATE: 5/14/07

FOR THE DEFENDANT:

NORTHERN HILLS WATER and SEWER COMPANY.

BY: _____
Its _____

DATE: _____

ENTERED:

_____
JUDGE

DATE: _____

FOR THE PLAINTIFF:

PEOPLE OF THE STATE OF ILLINOIS
ex rel. LISA MADIGAN,
Attorney General of the
State of Illinois

MATTHEW J. DUNN, Chief
Environmental Enforcement/
Asbestos Litigation Division

BY: _____
ROSEMARIE CAZEAU, Chief
Environmental Bureau
Assistant Attorney General

DATE: _____

ILLINOIS ENVIRONMENTAL
PROTECTION AGENCY

BY: _____
ROBERT A. MESSINA
Chief Legal Counsel

DATE: _____

FOR THE DEFENDANT:

NORTHERN HILLS WATER and SEWER COMPANY

BY: _____
Its Regional Vice - President

DATE: 5/3/07

ENTERED:

D. Jeffrey Dunn
JUDGE

DATE: May 18, 2007

BNC 2.12 IL-D

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Galena Territory Utilities, Inc.	:	
	:	
Petition for Issuance of Permanent	:	
and Temporary Certificates of Public	:	
Convenience and Necessity to	:	**05-0452**
Provide Sanitary Sewer Collection	:	
Disposal and Service to a Parcel in	:	
Unincorporated Jo-Daviess County,	:	
Illinois Pursuant to Section 8-406 of	:	
the Illinois Public Utilities Act; and	:	
for approval of a related contract.	:	

ORDER

By the Commission:

I. Procedural History

On July 22, 2005 Galena Territory Utilities, Inc. ("Petitioner" or "GTU") filed with the Illinois Commerce Commission ("Commission"), a verified petition for a Certificate of Public Convenience and Necessity pursuant to Section 8-406 of the Public Utilities Act ("Act"), to provide sanitary sewer service to a certain parcel in Jo-Daviess County, Illinois. Galena Territory Utilities currently provides water and sanitary sewer public utility service to approximately 2,058 water and 730 sewer customers in unincorporated Jo-Daviess County, Illinois, commonly known as the Galena Territory. Galena Territory Utilities is a public utility within the meaning of Section 5/3-105 of the Act, and is a wholly-owned subsidiary of Utilities, Inc., which directly or through operating subsidiaries, provides water and wastewater services to more than 280,000 customers in 17 states, including approximately 17,400 customers in Illinois.

Petitioner has been requested to provide sanitary sewer service to an existing condominium development known as Longhollow Point in an area of unincorporated Jo-Daviess County, Illinois, which is contiguous to and in the vicinity of the existing certificated area of Galena Territory Utilities. The proposed service area consists of approximately 2.95 acres and will contain no more than 71 condominium units. The Petition requests a permanent certificate of service authority from the Commission authorizing Petitioner to serve the parcel, under the standard rates, rules and regulations that Galena Territory Utilities, Inc. has in effect. A temporary certificate of service authority was issued to the Petitioner by the Commission on September 14, 2005. There are no municipalities whose corporate boundaries lie within one and one-half miles of the property.

On August 15, 2005 and December 7, 2005, pre-hearing conferences were held before a duly authorized Administrative Law Judge ("ALJ") of the Commission at its

offices in Springfield, Illinois. On April 17, 2006, an evidentiary hearing was held, and appearances were entered on behalf of GTU and Commission Staff ("Staff"). GTU presented the testimony of Steven Dihel, Regulatory Accountant for Petitioner. Staff presented the testimony of Thomas Smith, Economic Analyst for the Commission, and Michael McNally, Financial Analyst for the Commission. At the conclusion of the hearing, the record was marked "Heard and Taken." A Proposed Order was served upon the parties. Staff did not take exception to any of the substantive findings within the Proposed Order and proposed some additional language to clarify the Commission's findings and the factual basis for the findings. GTU indicated it had no objection to Staff's additional clarifying language, and that the Company had agreed with Staff not to oppose the adoption of the Proposed Order. Although GTU disagreed with the legal arguments advanced by Staff in support of the penalty finding, GTU had determined any further effort required to sustain its position would not be worthwhile.

II. Applicable Statutory Authority

Section 8-406(b) of the Act provides, in relevant part:

> No public utility shall begin the construction of any plant, equipment, property or facility which is not in substitution of any existing plant, equipment, property or facility or any extension or alteration thereof or in addition thereto, unless and until it shall have obtained from the Commission a certificate that public convenience and necessity require such construction. Whenever after a hearing the Commission determines that any new construction or the transaction of any business by a public utility will promote the public convenience and is necessary thereto, it shall have the power to issue certificates of public convenience and necessity. The Commission shall determine that proposed construction will promote the public convenience and necessity only if the utility demonstrates: (1) that the proposed construction is necessary to provide adequate, reliable, and efficient service to its customers and is the least-cost means of satisfying the service needs of its customers; (2) that the utility is capable of efficiently managing and supervising the construction process and has taken sufficient action to ensure adequate and efficient construction and supervision thereof; and (3) that the utility is capable of financing the proposed construction without significant adverse financial consequences for the utility or its customers.

In addition to issues surrounding the issuance of the requested certificate, Staff has also requested that a penalty be imposed upon GTU for providing service to an area prior to obtaining a certificate to serve that area. The relevant statutory provisions regarding this issue are as follows:

Section 5-202 provides that:

> Any public utility, any corporation other than a public utility, or any person acting as a public utility, that violates or fails to comply with any provisions of this Act or that fails to obey, observe, or comply with any order, decision, rule, regulation, direction, or requirement, or any part or provision thereof, of the Commission, made or issued under authority of this Act, in a case in which a penalty is not otherwise provided for in this Act, shall be subject to a civil penalty imposed in the manner provided in Section 4-203. A small public utility, as defined in subsection (b) of Section 4-502 of this Act, is subject to a civil penalty of not less than $500 nor more than $2,000 for each and every offense . . . .
>
> . . . In case of a continuing violation, each day's continuance thereof shall be a separate and distinct offense, provided, however, that the cumulative penalty for any continuing violation shall not exceed $500,000, except in the case of a small utility, as defined in subsection (b) of Section 4-502 of this Act, in which case the cumulative penalty for any continuing violation shall not exceed $35,000 . . . .
>
> . . .
>
> No penalties shall accrue under this provision until 15 days after the mailing of a notice to such party or parties that they are in violation of or have failed to comply with the Act or order, decision, rule, regulation, direction, or requirement of the Commission or any part or provision thereof, except that this notice provision shall not apply when the violation was intentional.

Section 4-203 provides that:

> All civil penalties established under this Act shall be assessed and collected by the Commission. Except for the penalties provided under Section 2-202, civil penalties may be assessed only after notice and opportunity to be heard. In determining the amount of the penalty, the Commission shall consider the appropriateness of the penalty to the size of the business of the public utility . . . the gravity of the violation, and such other mitigating or aggravating factors as the Commission may find to exist, and the good faith of the public utility . . . in attempting to achieve compliance after notification of the violation

III. Uncontested Issues

A. Certificate of Public Convenience and Necessity

Galena Territory Utilities' verified Petition states that sewer service within the proposed service area had previously been provided by the Longhollow Point Owners

Association, Inc. (the "Association" or "LPOA"), which represents the property owners of the condominiums and is exempt from Commission regulation as a mutual association. The waste water generated within the proposed service area had been collected by the Association and had been sent to offsite holding tanks. From these holding tanks, the waste water flow was then taken via sludge hauling trucks for disposal at a treatment plant. Over the years, the holding tanks had greatly deteriorated, and the Illinois Environmental Protection Agency had indicated this operation should be discontinued and the holding tanks should be removed as soon as possible. As a result, the Association had determined the best interests of its members would be served by undertaking to construct the necessary facilities to interconnect with Galena Territory Utilities' existing sewer utility system.

Staff analyzed GTU's proposal in conjunction with the requirements of 8-406(b) of the Act. Staff noted that no other utility was certificated to serve the proposed area, and that Staff was aware of no other sewer utilities that have interest or capacity to serve the proposed area. Staff analyzed the construction of the sewer system facilities and opined that GTU had properly and adequately managed the construction. It was the opinion of Staff witnesses that there was a demonstrated need for sewer service in the area, and that GTU could provide that service on a least cost basis. Staff witness McNally testified that GTU is capable of financing the proposed construction without significant adverse financial consequences for the utility or its customers, whether or not the Commission adopts Staff's proposal to require GTU to refund a portion of the sewer construction costs. Staff therefore recommended that the Commission grant GTU's request for a Certificate of Public Convenience and Necessity.

B. Rules and Regulations and Conditions of Service

Staff recommended that the Company be directed to update its sewer and water rules consistent with Staff Exhibit 1.2, Rules, Regulations and Conditions of Service for Sewer Operations, and Staff Exhibit 1.3, Rules, Regulations and Conditions of Service for Water Operations. The Petitioner accepted Staff's recommendation on this matter.

IV. Contested Issues

A. Refund of Sewer Construction Costs

Staff Position:

Staff proposes that GTU immediately refund one and one-half times the annual (or 18 months of revenue) to the LPOA. (Staff Ex. 1.0, p. 13) Staff also recommends that GTU be required to use the guidelines as contained in ICC Staff Exhibit 1.2 for purposes of making refunds to LPOA over the first ten years following the issuance of a certificate in this Docket. (*Id.*, at 14)

Staff notes that there are basically no codified sewer rules. However, Staff is of the opinion that in the recent past the Commission has used water rules as a guideline for the regulation of sewer utilities. (*Id.*, at 8) As a result, some sewer utilities have rules that require investment by those utilities in contributed plant.

The rationale for the refund, which results in investment in plant by a utility, is identifiable in basic ratemaking theory, under which utilities invest in assets to serve customers, operate and maintain those assets, pay taxes, and accumulate funds through the depreciation of assets in order that assets can be replaced when they are worn out. (*Id.*, at 9) Rates are then established to provide for the recovery of the aforementioned costs, including a return on investment, from customers who are receiving service. If a utility has no investment, the basic tenets of ratemaking become open to question. Specifically, if there is no investment, then there is no opportunity to earn a return, no incentive to operate efficiently, and no assets to depreciate so that funds might be accumulated for future replacement. In the instant docket, absent the refunds advocated by Staff, the Company will have invested no funds in the plant at issue. (*Id.*, at 11)

Since no rules have been promulgated for the expansion of sewer plant, Staff believes that the generic sewer rules developed from the Standards of Service for Water Companies (83 Ill. Adm. Code Part 600) and particularly Service to New Customers (83 Ill. Adm. Code 600.370) should be used as a guideline for sewer plant expansions. (Staff Ex. 1, p. 9) Water and sewer systems are similar and it is reasonable to apply the same rules to the two systems. In Docket No. 00-0194, the Commission stated that it has ". . . no difficulty interpreting Section 600.370(a) as also pertaining to sewer supply plant . . . ." (Order, p. 6, April 25, 2001) (*Id.*, at 10) The Commission's decision in this regard was challenged and was affirmed by the Third Appellate Court. (See 331 Ill. App. 3d 1030, 772 N.E.2d 390 (2002))

GTU Position:

GTU takes exception to Staff's position that GTU should refund to LPOA an amount equal to 18 months revenue from operations, or $24,927, in exchange for the contribution of the constructed lift station and sewer main to GTU. GTU is of the opinion that to require this contribution would have the effect of increasing the total costs of providing service, because customers will bear the additional cost of the return, interest and taxes associated with the incremental plant investment. GTU further opines that to implement Staff's proposal would fail to promote the public convenience, as required in Section 8-406(b), as the lift station and main only serve one customer.

GTU also is of the opinion that this proposal to apply the water main extension rule to the contribution of sewer facilities is unnecessary to promote the objectives behind the Commission's water rule. GTU believes the main purpose of this water rule is to protect the utility and its customers from paying for substantial investments in new facilities that might not achieve expectations. This risk is not present in this situation, as the risk had already been avoided when LPOA constructed and paid for the mains necessary to connect to GTU's system, and proposed to contribute the facilities at no cost. GTU also believes that the 10-year refund requirement used in the water rules is not needed in this case. GTU notes that the possibility of any sale of the contributed plant is extremely remote, as the nearest municipal facility is over 9 miles away. GTU further notes that these contributed plant facilities constitute a relatively small portion of GTU's total investment in utility plant, and GTU believes that imposition of this

contribution rule is unnecessary to achieve the goal of having the utility provide efficient utility service.

GTU further notes that according to the testimony, the requested refund would amount to about 40% of GTU's annual sewer income being paid to a single customer. As GTU notes that no utility can be compelled to provide service to customers outside of its certificated area, to impose this large cost on GTU would strongly discourage any utility from entertaining future requests by isolated customers who need utility service.

B. Assessment of a Penalty for Providing Service Prior to Certification

Staff Position:

Staff is of the position that GTU was providing service to LPOA prior to its receiving a temporary certificate by the Interim Order in this Docket. (Staff Ex. 1.0, pp. 3-4) Yet, it did not request a Certificate until it filed the Petition in the instant docket on July 22, 2005. On August 8, 2005, Galena was notified in a letter from Staff counsel, Vladan Milosevic that it had been brought to Staff's attention that Galena may have been operating as a public utility for approximately 18 months without a Certificate from the Commission. (See Staff Ex. 1.1) The letter also informed Galena that it may be subject to penalties for violating the PUA. At the status hearing on August 15, 2005, Staff made a statement into the record in which it articulated its concern about GTU serving the proposed area since May of 2004 without a Certificate and recommending that the Commission grant a Temporary Certificate. (See Tr., at 7-8) GTU received a Temporary Certificate on September 14, 2005 authorizing it to provide service in the proposed service area.

Staff recommends that the Commission impose a $1,000 penalty on GTU, pursuant to its authority under Section 5-202 and 4-203 of the PUA, for operating within the proposed service area prior to receiving a certificate of public convenience. (220 ILCS 5/5-202 and 4-203) Said operation without a certificate of public convenience and necessity was in contravention of Section 8-406 of the PUA which prohibits utilities from beginning construction of facilities without having obtained a certificate from the Commission. (See 220 ILCS 5/8-406(b))

In making its recommendation Staff has taken into consideration the requirements of Sections 5-202 and 4-203. The notice required by Section 5-202 was provided by the letter from Staff Counsel mailed on August 8, 2005. The fifteen days during which no penalty could accrue ran from August 8 through August 23. This left the 20 days from August 24 until the Temporary Certificate was issued on September 14, 2005 for the penalty to accrue.

Section 4-502 of the Act defines a small public utility as one that "regularly provides service to fewer than 7,500 customers." Galena currently has 2,058 water customers and 730 sewer customers, bringing it within the penalty limitations for a small utility. (Staff Ex. 1.0, p. 17)

Section 4-203 of the Act provides 4 factors for the Commission to consider when assessing a penalty: 1) the size of the business of the public utility; 2) the gravity of the violation; 3) other mitigating or aggravating factors; and 4) the good faith demonstrated in attempting to achieve compliance after notification of the violation. As discussed above, Galena is a small utility. However, GTU is the subsidiary of Utilities Inc., which is not a small utility as defined by Section 4-502 of the PUA. Utilities Inc. has 24 subsidiaries similar to Galena in Illinois, with 17,400 customers in the state. (Staff Ex. 1.0, p. 18) Utilities Inc. should be aware of the requirements of the Illinois Public Utilities Act in regard to Certificates of Public Convenience and Necessity as it has applied for and received Certificates from the Commission in the past. GTU should be expected to adhere to the requirements of the Act.

The fact that the Petitioner acknowledged its failure and brought its failure to the attention of the Commission should be considered as a mitigating factor. (Staff Ex. 1.0, p. 18) The fact that GTU received a Temporary Certificate within 37 days of receiving the notice of violation is a demonstration of good faith. (Staff Ex. 1.0, p. 18-19) Finally, the continuing nature of the violation of Section 5-202 should be considered. However, Staff recommends that because of the foregoing mitigating factors it would not be appropriate to fine the Petitioner on a daily basis. (*Id.*)

GTU errs in its reliance on Docket No. 02-0008 for the proposition that "neither the Commission nor Staff considered the utility's provision of service prior to certification to be a violation of the Act" (Galena IB, p. 8). The application for a certificate of convenience and necessity which formed the basis for Docket No. 02-0008 was filed pursuant to a Settlement Agreement entered in Docket No. 00-0679. (See Commission Order, p. 2, Docket No. 02-0008 (May 22, 2002)) The Procedural History in the Order states, "The Company and Staff agreed that in light of the expedited schedule and the fact that the Company is serving the two customers in the requested certificated area, the issuance of a temporary Certificate is unnecessary." (Id., at 1) This discussion of the procedural status of the docket is not the equivalent of a Staff position or a Commission finding in a contested matter.

In order to understand the procedural history of Docket No. 02-0008, one may review the procedural history of Docket No. 00-0679. In that docket, the City of Columbia ("City") filed a complaint alleging that Illinois American Water Company ("IAWC") was providing water service outside its certificated area. The parties stipulated to the facts that IAWC was proving water service to two residences which were outside of its certificated area and that the service connections for the two residences were within IAWC's service area. The City argued that the point of usage rather than the point of connection was determinative of whether IAWC needed a certificate to serve the two residences. IAWC argued that the fact that the point of connection and metering point were within its certificated areas was determinative of whether IAWC need a certificate to provide service. The parties ultimately resolved their controversy by a Settlement Agreement which required IAWC to request a certificate of public convenience and necessity. There is no Commission Order ruling on the issue as the Order entered reflects the Settlement Agreement of the parties. It is notable though that prior to the settlement by the parties, the Administrative Law Judge ("ALJ") had issued a Proposed Order (September 6, 2000), dismissing IAWC's

arguments and concluding that IAWC had violated Section 8-406(b) of the Public Utilities Act ("PUA") (220 ILCS 5/8-406(b)) by providing water service to residences outside its certificated area. Staff notes that the Settlement Agreement, Briefs on Exception and Reply Briefs on Exception were not filed and at the time the Commission issued a Final Order, the issue was not contested. The Settlement Agreement reflects the same position as adopted by the ALJ in the Proposed Order. The reasoning set forth in the Proposed Order is instructive and should be applied to this docket. Staff is not aware of any other final Commission order that directly addresses the issue.

GTU also argues that the Commission has permitted utilities to provide service from a point within the existing service areas without requiring a certificate for the areas benefiting from the service. The cases relied upon by Galena are inapposite to the issues before the Commission in this proceeding.

In *Will County Water Company*, Docket No. 87-0353 (Dec. 22, 1987) Will County's request for a certificate of public convenience and necessity was denied and the Commission ordered Will County to provide water service on a wholesale basis and to file appropriate rate tariffs with the Commission. At issue in that docket were both the willingness or obligation of various entities to own the distribution lines and compliance with a municipal ordinance. The resolution crafted by the Commission provided water service as needed without running afoul of the municipal ordinance. Those facts are not similar to the facts in the instant docket and no question has been raised as to legal impediments or provision of service on a wholesale basis in this docket.

Similarly in *Illinois American Water Company,* Docket No. 96-0494 (June 11, 1997) the Petitioner requested Commission approval of a wholesale contract. Contrary to the Company's argument, GTU's provision of service to LPOA is clearly distinguishable from wholesale service as was provided in those dockets.

Finally, the Petitioner argued that it would be unfair to penalize the Company based upon notice provided by a Commission employee rather than "having the notice considered as an agenda item at a public meeting of the Commission." (Galena IB, p. 9) No legal authority is provided for this argument. Section 5-202 of the PUA does not state that the Commission must consider the notice at a public meeting. (220 ILCS 5/5-202) It simply provides for the mailing of 'a notice'. GTU does not deny that it received a notice but seeks to impose a greater burden on the Commission than is required by statute. Given the purpose of the notice – notification of an entity that it is in violation of a rule, order, decision, or requirement of the Commission – time is of the essence in serving the notice so that the entity may bring itself into compliance immediately. The notice, after all, is not the equivalent of a finding that an entity is in violation, it simply provides the entity an opportunity to cure its violation before penalties may be assessed. In this case, although GTU was notified that it may be in violation of Section 8-406, GTU did not bring itself into compliance within the 15 days provided by statute.

No public utility may serve customers outside of its certificated area without having first received a certificate of public convenience and necessity from the Commission. None of GTU's arguments have demonstrated that it was not a public utility providing utility service from May of 2004 until September 14, 2005, during which

time it provided sewer service to LPOA without a certificate of public convenience and necessity. GTU was notified August 8, 2005 that it may be in violation of the Act and that it may be subject to penalties under Sections 5-202 and 4-203 of the Act. GTU failed to bring itself into compliance with the Act until September 14, 2005 when an Interim Order was granted in this proceeding granting it a temporary certificate of public convenience and necessity. GTU should be assessed a $1,000.00 penalty which takes into consideration Petitioner's status as a small utility, its cooperation with Staff, the speed (37 days) with which it attained a temporary certificate, and its relationship with Utilities Inc., which is not a small utility and which should be aware of the requirements of the Public Utilities Act.

GTU Position:

GTU is of the opinion that they did not provide service prior to obtaining a certificate of service authority. GTU bases this on the fact that the construction of the new plant to extend the LPOA's sewer facilities to a connection point with GTU's existing certificated service area was performed by LPOA at their expense. GTU notes that the Commission has previously held, in Docket 95-0238, that LPOA, as a co-operative, did not need a certificate to provide utility service. GTU takes the position that they have only sought a certificate because LPOA desires to transfer the responsibility for maintaining and replacing the lift station and main extension to GTU, and that ownership of these facilities will not be transferred to GTU unless and until the Commission has entered a final order granting a permanent certificate of service authority to GTU.

GTU interprets prior Commission orders for the proposition that a utility may provide service to customers at a point within its currently certificated service area even though the area benefiting from the service is located outside the certificated area.

GTU also objects to the notice of violation being given by a Staff attorney, rather than having the issuance of a notice being considered at a public meeting of the Commission. GTU is of the opinion that the power to issue a notice of a potential violation should be a matter reserved to the Commission. GTU notes that when the notice was issued by the Staff attorney, this Petition was already pending before the Commission, and based on GTU's interpretation of other dockets, GTU had no reason to know that their provision of service to LPOA was in violation of the Act.

V. Commission Analysis and Conclusion

The Commission first notes that the parties are in agreement that a Certificate of Public Convenience and Necessity should be issued to GTU to provide service to the Longhollow Point Condominiums, located in the area described in Exhibit A to the Petition. It appears that the subject property is in need of sewer services, having been informed by the Illinois EPA to cease their prior method of handling sewage, that Petitioner is well situated to handle service for the subject area, and there appear to be no municipal facilities closer than 9 miles to the subject area.

The parties are also in agreement that the Petitioner will adopt new water and sewer rules, in conformity with Staff Exhibits 1.2 and 1.3.

The two issues on which the parties have disagreement, are first whether GTU should be required to make refunds to LPOA for a portion of the contributed plant constructed by LPOA, and second, whether GTU should be fined for providing service to an area outside their certificated area prior to receiving a new certificate from the Commission.

The Commission first notes that it appears the parties are in agreement that there are no codified sewer rules in use that would aid in the determination of this matter. Staff urges the Commission to use the water rules to aid in determining this matter, as discussed in Docket 00-0194. To use the aforementioned water rules in this matter, GTU would be required to make a refund to LPOA for the contributed plant in the amount of $24,927, which GTU notes would amount to approximately 40% of the Petitioner's annual income. Under the sewer rules that Petitioner appears to be operating under at the present time, no contribution to capital would be required. The Commission notes that upon adoption of the updated water and sewer rules, this issue should not be in question in any dockets in the future.

Staff notes that the revenue received by GTU for services rendered to LPOA would not have been considered in GTU's most recent rate case, and therefore Staff believes that all this revenue should be available for investment in the main extension. GTU believes the testimony shows that to accept Staff's proposal would have the negative effect of increasing the cost to provide service, and would have a chilling effect on any future requests for small expansions to serve a single or a very few customers.

The Commission, in this hopefully unique situation, is disinclined to require a contribution to capital from GTU as requested by Staff. We note that under the sewer rules in effect for GTU at the time of the construction, unlike the new rules to be adopted, no contribution is contemplated. The Commission also notes that in this situation, LPOA was under a mandate from the Illinois EPA to remedy their sewer treatment situation, which they were able to do with the assistance of GTU. The construction of the lift station and sewer main were undertaken by LPOA, and the agreement between LPOA and GTU contemplates the facilities being given to GTU upon a certificate being issued. While we recognize that GTU will be receiving these facilities at a zero cost, this does not appear to give GTU any incentive to provide sub-standard service, nor the opportunity to seek a windfall in the future. While this arrangement appears to have been structured differently than most additions to plant, with construction being handled by the customer in a service area in which the utility is not certificated, it is the hope of the Commission that this was done to ease the environmental burdens of the condominium association, and not an attempt to circumvent the Commission rules and regulations. The Commission further notes that the best time to resolve the issue of refunds is prior to the issuance of a Certificate and prior to the beginning of construction. It is unfortunate that in this case the Company agreed to provide service and that construction was begun prior to the Commission's authorization being granted.

On the issue of a penalty to be assessed for providing service prior to certification, it appears clear to the Commission that GTU was in fact providing utility services to an area outside of the Petitioner's certificated area of service. The Commission is also satisfied that the notice provided by Staff Attorney Milosevic was in compliance with the rules, and that this notice entitled GTU to a 15 day period in which to bring themselves into compliance. While GTU argues that a utility is entitled to provide service to a customer outside their certificated area, we agree with the position of Staff that the cases relied upon by GTU do not stand for this proposition. The Commission is also in agreement with Staff regarding the mitigating factors present in this matter, but we also note that GTU apparently provided services to LPOA for approximately 16 months prior to obtaining an interim certificate of service authority. The Commission is of the opinion that the recommended fine of $1,000.00 is appropriate in this matter.

VI. Finding and Ordering Paragraphs:

The Commission, after reviewing the entire record and being fully advised in the premises, is of the opinion and finds that:

(1) Galena Territory Utilities, Inc. is a public utility engaged in the business of furnishing water and sanitary sewer service to the public in portions of the State of Illinois and is a public utility within the meaning of Section 3-105 of the Public Utilities Act;

(2) the Commission has jurisdiction over the Petitioner and of the subject matter herein;

(3) the recitals of fact set forth in the prefatory portion of this Order are supported by the record and are hereby adopted as findings of fact;

(4) a Certificate of Public Convenience and Necessity should be issued to Petitioner for the provision of sanitary sewer service to the area described in Exhibit A to the Petition;

(5) Petitioner should, within 30 days after entry of this Order, file tariffs implementing Rules, Regulations and Conditions of Service substantially consistent with Staff Exhibits 1.2 and 1.3, with an effective date of not less than thirty working days after the date of filing for service rendered on and after their effective date, with individual tariff sheets corrected within that time period if necessary;

(6) The Commission rejects Staff's recommendations for an initial refund and for possible future refunds of sewer construction cost; and

(7) Petitioner shall, pursuant to Section 5-202 of the Public Utility Act, pay a fine of $1,000, which amount shall be paid to the Illinois Commerce Commission within 30 days of the entry of this Order.

IT IS THEREFORE ORDERED that, pursuant to Section 8-406(e) of the Public Utilities Act, a Certificate of Public Convenience and Necessity is hereby granted to Galena Territory Utilities, Inc., to provide sanitary sewer service to the areas described in the attachment to the verified petition filed in this docket.

IT IS FURTHER ORDERED that the Certificate of Public Convenience and Necessity hereinabove granted shall be the following:

CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

IT IS HEREBY CERTIFIED that the public convenience and necessity require that Galena Territory Utilities, Inc. provide sanitary sewer service to the area described in Exhibit A to the verified petition filed in this docket.

IT IS FURTHER ORDERED that Galena Territory Utilities, Inc. shall serve such customers under the standard rates, rules and regulations that Galena Territory Utilities, Inc. has in effect.

IT IS FURTHER ORDERED that within 30 days after entry of this Order, Galena Territory Utilities, Inc. shall file tariffs implementing Rules, Regulations and Conditions of Service substantially consistent with Staff Exhibits 1.2 and 1.3 with an effective date of not less than thirty (30) working days after the date of filing, for service rendered on and after their effective date, with individual tariff sheets to be corrected within that time period if necessary.

IT IS FURTHER ORDERED that pursuant to Section 5-202 of the Public Utilities Act, Galena Territory Utilities is hereby assessed a fine in the amount of $1,000.00, said fine to be paid by check made out to the Illinois Commerce Commission and delivered to the Financial Information Section of the Commission's Administrative Services Division within thirty (30) days of the entry of this Order.

IT IS FURTHER ORDERED that Galena Territories Utilities, Inc. shall file with the Commission's Chief Clerk a certification attesting that the Company has paid the ordered fine. Said certification is to be filed under Docket No. 05-0452, served upon the parties to this docket and a copy is to be provided to the Manager of the Commission's Water Department within thirty (30) days of the entry of this Order.

IT IS FURTHER ORDERED that, subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

By Order of the Commission this 30th day of August, 2006

(SIGNED) CHARLES E. BOX

Chairman

BNC 2.12 IL-E

IN THE CIRCUIT COURT FOR THE NINETEENTH JUDICIAL DISTRICT
LAKE COUNTY, ILLINOIS

PEOPLE OF THE STATE OF ILLINOIS ex rel. LISA MADIGAN, Attorney General of the State of Illinois,	)	
Plaintiff,	)	
v.	)	No. 05 CH 1009
CHARMAR WATER COMPANY, an Illinois corporation,	)	
Defendant.	)	

FILED
JUL 12 2005
CIRCUIT CLERK

CONSENT ORDER

Plaintiff, PEOPLE OF THE STATE OF ILLINOIS, ex rel. LISA MADIGAN, Attorney General of the State of Illinois, the Illinois Environmental Protection Agency ("Illinois EPA"), and Defendant, Charmar Water Company, have agreed to the making of this Consent Order and submit it to this Court for approval. The parties agree that the statement of facts contained herein represents a fair summary of the evidence and testimony which would be introduced by the parties if a trial were held. The parties further stipulate that this statement of facts is made and agreed upon for purposes of settlement only and that neither the fact that a party has entered into this Consent Order, nor any of the facts stipulated herein, shall be introduced into evidence in any other proceeding regarding the claims asserted in the Complaint except as otherwise provided herein. If this

Court approves and enters this Consent Order, Defendant agrees to be bound by the Consent Order and not to contest its validity in any subsequent proceeding to implement or enforce its terms. However, it is the intent of the parties to this Consent Order that it be a final judgment on the merits of this matter, subject to the provisions of Section VIII.K ("Release from Liability") and Section VIII.M ("Modification of Consent Order").

I. JURISDICTION

This Court has jurisdiction of the subject matter herein and of the parties consenting hereto pursuant to the Illinois Environmental Protection Act ("Act"), 415 ILCS 5/1 *et seq.* (2002).

II. AUTHORIZATION

The undersigned representatives for each party certify that they are fully authorized by the party whom they represent to enter into the terms and conditions of this Consent Order and to legally bind them to it.

III. STATEMENT OF FACTS

A. Parties

1. On June 24, 2005, a Complaint was filed on behalf of the People of the State of Illinois by Lisa Madigan, Attorney General of the State of Illinois, on her own motion and upon the request of the Illinois EPA, pursuant to Section 42(d) and (e) of the Act, 415 ILCS 5/42(d) and (e), against the Defendant.

2. The Illinois EPA is an administrative agency of the State of Illinois, created pursuant to Section 4 of the Act, 415 ILCS 5/4.

3. At all times relevant to the Complaint, Defendant was and is an Illinois corporation that is authorized to transact business in the State of Illinois.

B. Site Description

1. At all times relevant to the Complaint, Defendant owned and operated a public water supply ("PWS") located north of Gurnee in northeast Lake County, Illinois ("facility" or "site").

2. The Charmar PWS distribution system consists of two shallow wells and hydropneumatic storage of approximately seven thousand five-hundred (7,500) gallons.

3. The Charmar PWS currently obtains water by pumping from two wells. Wells #1 and #2 have natural fluoride, and the

water from both wells is treated with sodium hypochlorite and then the treated water is distributed throughout the distribution system.

4. On November 21, 2003, the Illinois EPA inspected the Charmar PWS and discovered that a hydropneumatic storage tank had been replaced without obtaining an Illinois EPA issued construction permit.

C. Allegations of Non-Compliance

Plaintiff contends that the Defendant has violated the following provisions of the Act, Illinois Pollution Control Board ("Board") Public Water Supply Regulations, and the Illinois EPA Public Water Supply Regulations:

Count I: FAILURE TO OBTAIN A CONSTRUCTION PERMIT: Violation of Section 15(a) of the Act, 415 ILCS 5/15(a) (2002), Section 602.101(a) of the Board Public Water Supply Regulations, 35 Ill. Adm. Code 602.101(a), and Section 652.101(a) of the Illinois EPA Public Water Supply Regulations, 35 Ill. Adm. Code 652.101(a);

Count II: OPERATING WITHOUT A PERMIT: Violation of Section 18(a)(2) and (3) of the Act, 415 ILCS 5/18(a)(2) and (3) (2002), and Section 602.102 of the Board Public Water Supply Regulations, 35 Ill. Adm. Code 602.102.

D. Admission of Violations

The Defendant represents that it has entered into this

Consent Order for the purpose of settling and compromising disputed claims without having to incur the expense of contested litigation. By entering into this Consent Order and complying with its terms, the Defendant does not affirmatively admit the allegations of violation within the Complaint and referenced within Section III.C herein, and this Consent Order shall not be interpreted as including such admission.

IV. APPLICABILITY

A. This Consent Order shall apply to and be binding upon the Plaintiff and the Defendant, and any officer, director, agent, or employee of the Defendant, as well as any successors or assigns of the Defendant. The Defendant waives as a defense to any enforcement action taken pursuant to this Consent Order the failure of any of its officers, directors, agents, employees or successors or assigns to take such action as shall be required to comply with the provisions of this Consent Order.

B. No change in ownership, corporate status or operator of the facility shall in any way alter the responsibilities of the Defendant under this Consent Order. In the event of any conveyance of title, easement or other interest in the facility, the Defendant shall continue to be bound by and remain liable for performance of all obligations under this Consent Order. In appropriate circumstances, however, the Defendant and a proposed

purchaser or operator of the facility may jointly request, and the Plaintiff, in its discretion, may consider modification of this Consent Order to obligate the proposed purchaser or operator to carry out future requirements of this Consent Order in place of, or in addition to, the Defendant.

c. In the event that the Defendant proposes to sell or transfer any real property or operations subject to this Consent Order, the Defendant shall notify the Plaintiff 30 days prior to the conveyance of title, ownership or other interest, including a leasehold interest in the facility or a portion thereof. The Defendant shall make the prospective purchaser or successor's compliance with this Consent Order a condition of any such sale or transfer and shall provide a copy of this Consent Order to any such successor in interest. This provision does not relieve the Defendant from compliance with any regulatory requirement regarding notice and transfer of applicable facility permits.

V. COMPLIANCE WITH OTHER LAWS AND REGULATIONS

This Consent Order in no way affects the responsibilities of the Defendant to comply with any other federal, state or local laws or regulations, including but not limited to the Act, and the Board Regulations, 35 Ill. Adm. Code, Subtitles A through H.

VI. VENUE

The parties agree that the venue of any action commenced in

purchaser or operator of the facility may jointly request, and the Plaintiff, in its discretion, may consider modification of this Consent Order to obligate the proposed purchaser or operator to carry out future requirements of this Consent Order in place of, or in addition to, the Defendant.

C. In the event that the Defendant proposes to sell or transfer any real property or operations subject to this Consent Order, the Defendant shall notify the Plaintiff 30 days prior to the conveyance of title, ownership or other interest, including a leasehold interest in the facility or a portion thereof. The Defendant shall make the prospective purchaser or successor's compliance with this Consent Order a condition of any such sale or transfer and shall provide a copy of this Consent Order to any such successor in interest. This provision does not relieve the Defendant from compliance with any regulatory requirement regarding notice and transfer of applicable facility permits.

V. COMPLIANCE WITH OTHER LAWS AND REGULATIONS

This Consent Order in no way affects the responsibilities of the Defendant to comply with any other federal, state or local laws or regulations, including but not limited to the Act, and the Board Regulations, 35 Ill. Adm. Code, Subtitles A through H.

VI. VENUE

The parties agree that the venue of any action commenced in

requirements, then within 45 days of such receipt, Defendant shall apply to the Illinois EPA for a construction permit for placement of its hydropneumatic storage tank above ground.

b. If within 90 days of entry of the Consent Order, Defendant fails to obtain a variance from the Lake County, Illinois zoning set back requirements or an easement that complies with the Lake County, Illinois zoning set back requirements, Defendant shall:

i. immediately, but no later than 7 days, contact the Plaintiff and set up a meeting between the parties to discuss alternative actions to be taken by Defendant to comply with the terms of this Consent Order.

ii. within 30 days of the meeting with Plaintiff required in Section VIII.B.2.b.i. above, Defendant shall submit to Plaintiff for review and approval, a plan to bring its public water supply into compliance with all applicable laws and regulations;

iii. if Plaintiff disapproves Defendant's plan to bring its public water supply into compliance with all applicable laws and regulations, Defendant shall, within thirty (30) days of receiving such disapproval notification from Plaintiff, submit to Plaintiff a revised plan, which satisfies Plaintiff's objections to Defendant's prior submittal.

3. Within 120 days from the issuance of all applicable permits, including the construction permit from the Illinois EPA and any other permits required to relocate Defendant's hydropneumatic tank above ground, Defendant shall initiate and complete the relocation of its hydropneumatic storage tank above ground according to the terms of the Illinois EPA issued construction permit.

4. Within 7 days of completing the relocation of its hydropneumatic storage tank above ground, Defendant shall apply to the Illinois EPA for an operating permit for the operation of its hydropneumatic storage tank. All actions required to be completed under paragraphs 3 and 4 of this Section VIII.B. shall be completed within no more than 127 days after the issuance of all applicable permits, including the construction permit from the Illinois EPA and any other permits required to relocate Defendant's hydropneumatic tank above ground ("Final Compliance Date").

5. Upon the issuance of the operating permit required by Section VIII.B.4 above, Defendant shall at all times operate the Charmar PWS in compliance with the terms and conditions of such permit.

6. If in the opinion of Defendant, it will be unable to complete the work required in paragraph 3 of this Section

VIII.B. above, Defendant may request an extension of no more than 60 days by providing a written request to the Illinois EPA and the Office of the Attorney General no later than 30 days before the Final Compliance Date. The request shall provide an explanation and description, with supporting facts, (1) providing the reasons why Defendant is unable to complete performance of the requirements of this Section VIII.B by the Final Compliance Date, and (2) demonstrating that Defendant has acted with due diligence in performing the requirements of this Section VIII.B herein. The Illinois EPA shall approve or deny the request. The Illinois EPA may deny the request for extension if the Defendant has failed to demonstrate that it has acted with due diligence in performing the requirements of this Section VIII.B herein. Failure by Defendant to comply with this notice requirement shall preclude Defendant from obtaining an extension of time under this paragraph 6 of Section VIII.B.

C. Stipulated Penalties

1. If the Defendant fails to complete any activity or fails to comply with any response or reporting requirement by the date specified in Section VIII.B. of this Consent Order, the Defendant shall provide notice to the Plaintiff of each failure to comply with this Consent Order. In addition, the Defendant shall pay to the Plaintiff, for payment into the EPTF,

stipulated penalties per violation for each day of violation in the amount of $100.00 until such time that compliance is achieved.

2. Following the Plaintiff's determination that the Defendant has failed to complete performance of any task or other portion of work, failed to provide a required submittal, including any report or notification, Plaintiff may make a demand for stipulated penalties upon Defendant for its noncompliance with this Consent Order. Failure by the Plaintiff to make this demand shall not relieve the Defendant of the obligation to pay stipulated penalties.

3. All penalties owed the Plaintiff under this section of this Consent Order that have not been paid shall be payable within thirty (30) days of the date the Defendant knows or should have known of its noncompliance with any provision of this Consent Order.

4. a. All stipulated penalties shall be paid by certified check, money order or electronic funds transfer, payable to the Illinois EPA for deposit into the EPTF and shall be sent by first class mail, unless submitted by electronic funds transfer, and delivered to:

Illinois Environmental Protection Agency
Fiscal Services
1021 North Grand Avenue East

P.O. Box 19276
Springfield, Illinois 62794-9276

b. The name and number of the case and the Defendant's FEIN shall appear on the face of the check. A copy of the certified check, money order or record of electronic funds transfer and any transmittal letter shall be sent to:

Stephen J. Sylvester
Assistant Attorney General
Environmental Bureau
188 West Randolph St., 20th Floor
Chicago, Illinois 60601

5. The stipulated penalties shall be enforceable by the Plaintiff and shall be in addition to, and shall not preclude the use of, any other remedies or sanctions arising from the failure to comply with this Consent Order.

D. Interest on Penalties

1. Pursuant to Section 42(g) of the Act, 415 ILCS 5/42(g), interest shall accrue on any penalty amount owed by the Defendant not paid within the time prescribed herein, at the maximum rate allowable under Section 1003(a) of the Illinois Income Tax Act, 35 ILCS 5/1003(a)(2002).

2. Interest on unpaid penalties shall begin to accrue from the date such are due and continue to accrue to the date full payment is received by the Illinois EPA.

3. Where partial payment is made on any penalty amount

that is due, such partial payment shall be first applied to any interest on unpaid penalties then owing.

4. All interest on penalties owed the Plaintiff shall be paid by certified check, money order or electronic funds transfer payable to the Illinois EPA for deposit in the EPTF and shall be submitted by first class mail unless submitted by electronic funds transfer, and delivered to:

Illinois Environmental Protection Agency
Fiscal Services
1021 North Grand Avenue East
P.O. Box 19276
Springfield, Illinois 62794-9276

The name, case number, and the Defendant's FEIN shall appear on the face of the certified check or money order. A copy of the certified check, money order or record of electronic funds transfer and any transmittal letter shall be sent to:

Stephen J. Sylvester
Assistant Attorney General
Environmental Bureau
188 West Randolph St., 20th Floor
Chicago, Illinois 60601

E. Future Use

Notwithstanding any other language in this Consent Order to the contrary, and in consideration of the mutual promises and conditions contained in this Consent Order, including the Release from Liability contained in Section VIII.K, below,

Defendant hereby agrees that this Consent Order may be used against the Defendant in any subsequent enforcement action or permit proceeding as proof of a past adjudication of violation of the Act and the Board Regulations promulgated thereunder for all violations alleged in the Complaint in this matter, for purposes of Section 39(a) and (i) and/or 42(h) of the Act, 415 ILCS 5/39(a) and (i) and/or 5/42(h). Further, Defendant agrees to waive, in any subsequent enforcement action, any right to contest whether these alleged violations were adjudicated.

F. Force Majeure

1. For the purposes of this Consent Order, *force majeure* is an event arising solely beyond the control of the Defendant, which prevents the timely performance of any of the requirements of this Consent Order. For purposes of this Consent order *force majeure* shall include, but is not limited to, events such as floods, fires, tornadoes, other natural disasters, and labor disputes beyond the reasonable control of the Defendant.

2. When, in the opinion of the Defendant, a *force majeure* event occurs which causes or may cause a delay in the performance of any of the requirements of this Consent Order, the Defendant shall orally notify the Plaintiff within forty-eight (48) hours of the occurrence. Written notice shall be given to the Plaintiff as soon as practicable, but no later than

ten (10) calendar days after the claimed occurrence.

3. Failure by the Defendant to comply with the notice requirements of the preceding paragraph shall render this Section VIII.F voidable by the Plaintiff as to the specific event for which the Defendant has failed to comply with the notice requirement. If voided, this section shall be of no effect as to the particular event involved.

4. Within ten (10) calendar days of receipt of the written *force majeure* notice required under Section VIII.F.2, the Plaintiff shall respond to the Defendant in writing regarding the Defendant's claim of a delay or impediment to performance. If the Plaintiff agrees that the delay or impediment to performance has been or will be caused by circumstances beyond the control of the Defendant, including any entity controlled by the Defendant, and that the Defendant could not have prevented the delay by the exercise of due diligence, the parties shall stipulate to an extension of the required deadline(s) for all requirement(s) affected by the delay, by a period equivalent to the delay actually caused by such circumstances. Such stipulation may be filed as a modification to this Consent Order pursuant to the modification procedures established in this Consent Order. The Defendant shall not be liable for stipulated penalties for the period of any such

stipulated extension.

5. If the Plaintiff does not accept the Defendant's claim of a *force majeure* event, the Defendant may submit the matter to this Court within twenty (20) calendar days of receipt of Plaintiff's determination for resolution to avoid payment of stipulated penalties, by filing a petition for determination of the issue. Once the Defendant has submitted such a petition to the Court, the Plaintiff shall have twenty (20) calendar days to file its response to said petition. The burden of proof of establishing that a *force majeure* event prevented the timely performance shall be upon the Defendant. If this Court determines that the delay or impediment to performance has been or will be caused by circumstances solely beyond the control of the Defendant, including any entity controlled by the Defendant, and that the Defendant could not have prevented the delay by the exercise of due diligence, the Defendant shall be excused as to that event (including any imposition of stipulated penalties), for all requirements affected by the delay, for a period of time equivalent to the delay or such other period as may be determined by this Court.

6. An increase in costs associated with implementing any requirement of this Consent Order shall not, by itself, excuse the Defendant under the provisions of this Section VIII.F of

this Consent Order from a failure to comply with such a requirement.

G. Dispute Resolution

1. Unless otherwise provided for in this Consent Order, the dispute resolution procedures provided by this section shall be the only process available to resolve all disputes arising under this Consent Order, including but not limited to the Illinois EPA's approval, comment on, or denial of any report, plan or remediation objective, or the Illinois EPA's decision regarding appropriate or necessary response activity. The following are expressly not subject to the dispute resolution procedures provided by this section: disputes regarding *force majeure*, which has separate procedures as contained in Section VIII.F above; where the Defendant has violated any payment or compliance deadline within this Consent Order, for which the Plaintiff may elect to file a petition for adjudication of contempt or rule to show cause; and, disputes regarding a substantial danger to the environment or to the public health of persons or to the welfare of persons.

2. The dispute resolution procedure shall be invoked upon the written notice by one of the parties to this Consent Order to another describing the nature of the dispute and the initiating party's position with regard to such dispute. The

party receiving such notice shall acknowledge receipt of the notice; thereafter the parties shall schedule a meeting to discuss the dispute informally not later than fourteen (14) days from the receipt of such notice.

3. Disputes submitted to dispute resolution shall, in the first instance, be the subject of informal negotiations between the parties. Such period of informal negotiations shall be for a period of thirty (30) calendar days from the date of the first meeting between representatives of the Plaintiff and the Defendant, unless the parties' representatives agree, in writing, to shorten or extend this period.

4. In the event that the parties are unable to reach agreement during the informal negotiation period, the Plaintiff shall provide the Defendant with a written summary of its position regarding the dispute. The position advanced by the Plaintiff shall be considered binding unless, within twenty (20) calendar days of the Defendant's receipt of the written summary of the Plaintiff's position, the Defendant files a petition with this Court seeking judicial resolution of the dispute. The Plaintiff shall respond to the petition by filing the administrative record of the dispute and any argument responsive to the petition within twenty (20) calendar days of service of Defendant's petition. The administrative record of the dispute

shall include the written notice of the dispute, any responsive submittals, the Plaintiff's written summary of its position, the Defendant's petition before the court and the Plaintiff's response to the petition.

5. The invocation of dispute resolution, in and of itself, shall not excuse compliance with any requirement, obligation or deadline contained herein, and stipulated penalties may be assessed for failure or noncompliance during the period of dispute resolution.

6. This Court shall make its decision based on the administrative record and shall not draw any inferences nor establish any presumptions adverse to any party as a result of invocation of this section or the parties' inability to reach agreement with respect to the disputed issue. The Plaintiff's position shall be affirmed unless, based upon the administrative record, it is against the manifest weight of the evidence.

7. As part of the resolution of any dispute, the parties, by agreement, or by order of this Court, may, in appropriate circumstances, extend or modify the schedule for completion of work under this Consent Order to account for the delay in the work that occurred as a result of dispute resolution.

H. Correspondence, Reports and Other Documents

Any and all correspondence, reports and any other documents

required under this Consent Order, except for payments pursuant to Sections VIII.A. and C. of this Consent Order shall be submitted as follows:

As to the Plaintiff

Stephen J. Sylvester
Assistant Attorney General
Environmental Bureau
188 West Randolph St., 20th Floor
Chicago, Illinois 60601

Joey Logan-Wilkey
Assistant Counsel
Illinois EPA
1021 North Grand Avenue East
P.O. Box 19276
Springfield, Illinois 62794-9276

As to the Defendant

Lisa Crossett
Vice-President-Operations
Charmar Water Company
2335 Sanders Road
Northbrook, Illinois 60063

Darrin Yount
Regional Director of Operations
Utilities, Inc.
Midwest Regional Office
Post Office Box 656
Mokena, Illinois 60448

Madonna F. McGrath
Baker & Daniels
300 North Meridian Street, Suite 2700
Indianapolis, Indiana 46204

I. Right of Entry

In addition to any other authority, the Illinois EPA, its

required under this Consent Order, except for payments pursuant to Sections VIII.A. and C. of this Consent Order shall be submitted as follows:

As to the Plaintiff

Stephen J. Sylvester
Assistant Attorney General
Environmental Bureau
188 West Randolph St., 20th Floor
Chicago, Illinois 60601

Joey Logan-Wilkey
Assistant Counsel
Illinois EPA
1021 North Grand Avenue East
P.O. Box 19276
Springfield, Illinois 62794-9276

As to the Defendant

Lisa Crossett
Vice-President-Operations
Charmar Water Company
2335 Sanders Road
Northbrook, Illinois 60063

Darrin Yount
Regional Director of Operations
Utilities, Inc.
Midwest Regional Office
Post Office Box 656
Mokena, Illinois 60448

Madonna F. McGrath
Baker & Daniels
300 North Meridian Street, Suite 2700
Indianapolis, Indiana 46204

I. Right of Entry

In addition to any other authority, the Illinois EPA, its

M. Modification of Consent Order

The parties may, by mutual written consent, extend any compliance dates or modify the terms of this Consent Order without leave of court. A request for any modification shall be made in writing and submitted to the contact persons identified in Section VIII.H. Any such request shall be made by separate document, and shall not be submitted within any other report or submittal required by this Consent Order. Any such agreed modification shall be in writing, signed by authorized representatives of each party, filed with the court and incorporated into this Consent Order by reference.

N. Enforcement of Consent Order

1. Upon the entry of this Consent Order, any party hereto, upon motion, may reinstate these proceedings for the purpose of enforcing the terms and conditions of this Consent Order. This Consent Order is a binding and enforceable order of this Court and may be enforced as such through any and all available means.

2. Defendant agrees that notice of any subsequent proceeding to enforce this Consent Order may be made by mail and waives any requirement of service of process.

O. Execution of Document

This Order shall become effective only when executed by all parties and the Court. This Order may be executed by the parties in one or more counterparts, all of which taken together, shall constitute one and the same instrument.

[The remainder of this page has been intentionally left blank.]

WHEREFORE, the parties, by their representatives, enter into this Consent Order and submit it to this Court that it may be approved and entered.

AGREED:

FOR THE PLAINTIFF:

PEOPLE OF THE STATE OF ILLINOIS
ex rel. LISA MADIGAN,
Attorney General of the
State of Illinois

MATTHEW J. DUNN, Chief
Environmental Enforcement/
Asbestos Litigation Division

ILLINOIS ENVIRONMENTAL
PROTECTION AGENCY

BY: _____
ROSEMARIE CAZEAU, Chief
Environmental Bureau
Assistant Attorney General

BY: William D. Ingersoll
WILLIAM D. INGERSOLL
Acting Chief Legal Counsel

DATE: 6/16/05

DATE: June 14, 2005

FOR THE DEFENDANT:

CHARMAR WATER COMPANY

ENTERED:

BY: _____
LISA CROSSETT
Its Vice-President-
Operations

_____
J U D G E

DATE: _____

DATE: _____

WHEREFORE, the parties, by their representatives, enter into this Consent Order and submit it to this Court that it may be approved and entered.

AGREED:

FOR THE PLAINTIFF:

PEOPLE OF THE STATE OF ILLINOIS
ex rel. LISA MADIGAN,
Attorney General of the
State of Illinois

MATTHEW J. DUNN, Chief
Environmental Enforcement/
Asbestos Litigation Division

ILLINOIS ENVIRONMENTAL
PROTECTION AGENCY

BY: _____
ROSEMARIE CAZEAU, Chief
Environmental Bureau
Assistant Attorney General

BY: _____
WILLIAM D. INGERSOLL
Acting Chief Legal Counsel

DATE: _____

DATE: _____

FOR THE DEFENDANT:

CHARMAR WATER COMPANY

BY: _____
LISA CROSSETT
Its Vice-President-
Operations

DATE: 6/22/05

ENTERED:

DAVID M. HALL

JUDGE

DATE: 7/12/05

BNC 2.12 IL-F

BNC 2.12 IL-F

15. Chlorine CAS #7782-50-5 is a "hazardous substance" as that term is defined under Section 101(14) of CERCLA, 42 § U.S.C. 9601(14), with a reportable quantity of 10 pounds as indicated at 40 C.F.R. Part 302, Table 302.4.

16. The amount of chlorine released from facility on August 19, 2002 exceeded the reportable quantity specified in 40 C.F.R. Part 302.

17. The release was one for which notice was required under Section 103(a) of CERCLA, 42 U.S.C. § 9603(a).

18. Respondent had knowledge of the release on August 19, 2002 at approximately 12:00 noon.

19. Respondent did not notify the National Response Center of the release until August 27, 2002, at 12:51 p.m.

20. Respondent did not immediately notify the National Response Center as soon as Respondent knew of the release.

21. Respondent's failure to notify immediately the National Response Center of the release violated Section 103(a) of CERCLA, 42 U.S.C. § 9603(a).

TERMS OF SETTLEMENT

22. Northern Hills Water and Sewer Company consents to the issuance of this CAFO and the assessment of the civil penalty, admits the jurisdictional allegations in the CAFO and neither admits nor denies the factual allegations in the CAFO.

23. Northern Hills Water and Sewer Company waives its right to an administrative or judicial hearing on any issue of law or fact set forth in the CAFO, and waives its rights to appeal the Final Order.

24. Northern Hills Water and Sewer Company certifies that it is complying fully with the CERCLA provisions at issue.

25. The parties consent to the terms of this CAFO.

26. The parties agree that settling this action without further litigation, upon the terms in this CAFO, is in the public interest.

CIVIL PENALTIES AND FEES

27. In consideration of Respondent's agreement to perform an environmental beneficial expenditure (EBE) and the Respondent's financial condition and ability to pay a penalty amount, the U.S. EPA agrees to mitigate the proposed civil penalty amount of $25,245 to $1,000.

28. Within 30 days after the effective date of this CAFO, Respondent must pay a $1,000 civil penalty for the CERCLA violation. Respondent must pay the penalty by sending a cashier's or certified check, payable to "U.S. EPA Hazardous Substance Superfund," to:

U.S. EPA, Region 5
ATTN: Superfund Accounting
P.O. Box 70753
Chicago, Illinois 60673

The check must reference Respondent's name, the docket number of the CAFO CERCLA-05-2004 0001 and the billing document number 05304T002A

29. A transmittal letter, stating Respondent's name, complete address, the case docket number and the billing document number must accompany the payment. Respondent must send copies of the check and transmittal letter to:

Regional Hearing Clerk (E-19J)
U.S. Environmental Protection Agency, Region 5
77 West Jackson Boulevard
Chicago, Illinois 60604-3590

James Entzminger, (SC-6J)
Office of Chemical Emergency
Preparedness and Prevention
U.S. Environmental Protection Agency, Region 5
77 West Jackson Boulevard
Chicago, Illinois 60604-3590

Andre Daugavietis, (C-14J)
Office of Regional Counsel
U.S. Environmental Protection Agency, Region 5
77 West Jackson Boulevard
Chicago, Illinois 60604-3590

30. This civil penalty is not deductible for federal tax purposes.

31. If Northern Hills Water and Sewer Company does not timely pay the civil penalty, or any stipulated penalties due under paragraph 45, below, the U.S. EPA may bring an action to collect any unpaid portion of the penalty with interest, handling charges, nonpayment penalties and the United States' enforcement expenses for the collection action. The validity, amount and appropriateness of the civil penalty are not reviewable in a collection action.

32. Pursuant to 31 C.F.R. §901.9, Respondent shall pay the following on any amount overdue under this CAFO:

(a) Interest will accrue on any amount overdue from the date the payment was due at a rate established pursuant to 31 U.S.C. § 3717(a)(1).

(b) Respondent must pay a $15 handling charge each month that any portion of the penalty is more than 30 days past due.

(c) Respondent must pay an additional penalty amount at the rate of six percent per annum on any principal amount not paid within 90 days of the date that this CAFO has been entered by the Regional Hearing Clerk. This amount is in addition to amounts that accrue under subsections (a) and (b).

33. Northern Hills Water and Sewer Company must submit all notices and reports required by this CAFO by first class mail to:

James Entzminger (SC-6J)
Office of Chemical Emergency
Preparedness and Prevention
U.S. Environmental Protection Agency, Region 5
77 West Jackson Blvd.
Chicago, Illinois 60604-3590

34. In each report that Northern Hills Water and Sewer Company submits as provided by this CAFO, it must certify that the report is true and complete by including the following statement signed by one of its officers:

> I certify that I am familiar with the information in this document and that, based on my inquiry of those individuals responsible for obtaining the information, the information is true and complete to the best of my knowledge. I know that there are significant penalties for submitting false information, including the possibility of fines and imprisonment for knowing violations.

ENVIRONMENTALLY BENEFICIAL EXPENDITURES

35. Northern Hills Water and Sewer Company has made, and agreed to continue, environmentally beneficial expenditure (EBE) designed to protect the environment or public health by replacing the chlorine distribution system with a sodium hypochlorite distribution system.

36. At its Freeport, Illinois facility, Northern Hills Water and Sewer Company has completed the EBE as follows: the Company has replaced the valves, pumps and has installed storage tanks to hold the sodium hypochlorite.

37. Northern Hills Water and Sewer Company hereby certifies that it has spent at least $5,500 to purchase and install the above EBE equipment.

38. Northern Hills Water and Sewer Company agrees to and shall continuously use or operate the EBE equipment for ten years following the date of this CAFO.

39. Northern Hills Water and Sewer Company must take steps and make expenditures to keep the system operating effectively (Respondent estimates the cost of this as $964 per year).

40. Northern Hills Water and Sewer Company certifies that it was not required to perform or develop the EBE by any law, regulation, grant, order, or agreement, or as injunctive relief. Northern Hills Water and Sewer Company further certifies that it has not received, and is not negotiating to receive, credit for the EBE in any other enforcement action.

41. The U.S. EPA may inspect the facility at any time to monitor Northern Hills Water and Sewer Company's compliance with this CAFO's EBE requirements.

42. Each year Northern Hills Water and Sewer Company must submit to U.S. EPA an annual report outlining the cost incurred for the pervious year to maintain and operate the sodium hypochlorite feed system.

43. Northern Hills Water and Sewer Company must submit the annual report to the U.S. EPA by September 30. The first annual report is due September 30, 2004.

44. Northern Hills Water and Sewer Company must submit an EBE completion report to the U.S. EPA after ten years (September 30, 2014). This report must contain the following information:

a. Detailed description of the EBE as completed;

b. Description of any operating problems and the actions taken to correct the problems;

c. Certification that Northern Hills Water and Sewer Company has completed the EBE in compliance with this CAFO; and

d. Description of the environmental and public health benefits resulting from the EBE (quantify the benefits and pollution reductions, if feasible).

Northern Hills Water and Sewer Company must maintain copies of the data for all reports submitted to U.S. EPA under this CAFO. Northern Hills Water and Sewer Company must provide the documentation of any data to U.S. EPA within seven days of the U.S. EPA's request for the information.

40. Northern Hills Water and Sewer Company certifies that it was not required to perform or develop the EBE by any law, regulation, grant, order, or agreement, or as injunctive relief. Northern Hills Water and Sewer Company further certifies that it has not received, and is not negotiating to receive, credit for the EBE in any other enforcement action.

41. The U.S. EPA may inspect the facility at any time to monitor Northern Hills Water and Sewer Company's compliance with this CAFO's EBE requirements.

42. Each year Northern Hills Water and Sewer Company must submit to U.S. EPA an annual report outlining the cost incurred for the pervious year to maintain and operate the sodium hypochlorite feed system.

43. Northern Hills Water and Sewer Company must submit the annual report to the U.S. EPA by September 30. The first annual report is due September 30, 2004.

44. Northern Hills Water and Sewer Company must submit an EBE completion report to the U.S. EPA after ten years (September 30, 2014). This report must contain the following information:

a. Detailed description of the EBE as completed;

b. Description of any operating problems and the actions taken to correct the problems;

c. Certification that Northern Hills Water and Sewer Company has completed the EBE in compliance with this CAFO; and

d. Description of the environmental and public health benefits resulting from the EBE (quantify the benefits and pollution reductions, if feasible).

Northern Hills Water and Sewer Company must maintain copies of the data for all reports submitted to U.S. EPA under this CAFO. Northern Hills Water and Sewer Company must provide the documentation of any data to U.S. EPA within seven days of the U.S. EPA's request for the information.

45. If Northern Hills Water and Sewer Company violates any requirement of this CAFO relating to the EBE, Northern Hills Water and Sewer Company must pay stipulated penalties to the United States as follows:

a. If Northern Hills Water and Sewer Company fails to continuously use or operate the EBE equipment in any of the ten years following the date of this CAFO, Northern Hills Water and Sewer Company must pay a stipulated penalty of $500 for each such year. This is in addition to the stipulated penalty provided in subparagraph b., below.

b. If Northern Hills Water and Sewer Company fails to take steps and make expenditures to keep the system operating effectively in any of the ten years following the date of this CAFO, Northern Hills Water and Sewer Company must pay a stipulated penalty of $500 for each such year. This is in addition to the stipulated penalty provided in subparagraph a., above.

c. If Northern Hills Water and Sewer Company failed to timely submit any EBE completion report as required by paragraph 44., above, Northern Hills Water and Sewer Company must pay a stipulated penalty of $10 for each day after the report was due until it submits the report.

d. If Northern Hills Water and Sewer Company failed to timely submit the EBE annual report as required by paragraph 43., above, Northern Hills Water and Sewer Company must pay a stipulated penalty of $10 for each day after the report was due until it submits the report.

46. The U.S. EPA's determinations of whether Northern Hills Water and Sewer Company continuously used or operated the EBE equipment satisfactorily, whether it took steps and made expenditures to keep the system operating effectively, and whether any of the required EBE reports were complete and/or timely submitted will bind Northern Hills Water and Sewer Company.

47. Northern Hills Water and Sewer Company must pay any stipulated penalties within 15 days of receiving the U.S. EPA's written demand for the penalties. Northern Hills Water and Sewer Company will use the method of payment specified in paragraphs 28 and 29, above, and will pay interest, handling charges, and nonpayment penalties on any overdue amounts.

General Provisions

48. This CAFO settles the U.S. EPA's claims for civil penalties for the violations alleged in the CAFO.

49. Nothing in this CAFO restricts the U.S. EPA's authority to seek Northern Hills Water and Sewer Company's compliance with CERCLA and other applicable laws and regulations.

50. This CAFO does not affect Northern Hills Water and Sewer Company's responsibility to comply with CERCLA and other applicable federal, state and local laws, and regulations.

51. This CAFO is a "final order" for purposes of the U.S. EPA's Enforcement Response Policy for Section 103 of CERCLA.

52. The terms of this CAFO bind Northern Hills Water and Sewer Company and its successors, and assigns.

53. Each person signing this consent agreement certifies that he or she has the authority to sign this consent agreement for the party whom he or she represents and to bind that party to its terms.

54. Each party agrees to bear its own costs and fees, including attorneys' fees, in this action.

55. This CAFO constitutes the entire agreement between the parties

56. Nothing in this CAFO is intended to nor shall be construed to constitute the U.S. EPA approval of the equipment or technology installed by Respondent in connection with the EBE under the terms of this Agreement.

57. Nothing in this CAFO is intended to nor shall be construed to operate in any way to resolve any criminal liability of the Respondent.

SIGNATORIES

Each undersigned representative of a party to this Consent Agreement and Final Order certifies that he or she is fully authorized to enter into the terms and conditions of this Consent Agreement and Final Order and to bind legally such party to this document.

For Respondent:

Larry Schumacher,
President

Agreed to this 30th day of Oct., 2003.

For Complainant:

Mark J. Horwitz, Chief
Office of Chemical Emergency
Preparedness and Prevention
Superfund Division
Region 5

Agreed to this 5th day of November, 2003.

William E. Muno, Director
Superfund Division
U.S. EPA, Region 5

Agreed to this 5th day of Nov., 2003.

In the Matter of:
Northern Hills Water and Sewer Company
Freeport, Illinois 61032
Docket No. ~~SERC-A-05-2004~~ 0001

Final Order

The foregoing Consent Agreement is hereby approved and incorporated by reference into this FINAL ORDER. Respondent is hereby ORDERED to comply with all of the terms of the foregoing Consent Agreement, as agreed to by the parties, effective immediately upon filing of this Consent Agreement and Final Order with the Regional Hearing Clerk. This Order disposes of this matter pursuant to 40 C.F.R. §§ 22.18 and 22.31.

Date: 11-6-03

Thomas V. Skinner
Regional Administrator
U.S. Environmental Protection
Agency, Region 5
77 West Jackson Boulevard
Chicago, Illinois 60604-3590

IN THE MATTER OF: Northern Hills Water and Sewer Company, Freeport, Illinois
DOCKET NO: ~~CERCLA-05-2004~~ 0001

CERTIFICATE OF SERVICE

I hereby certify that I have caused the original of the foregoing Consent Agreement and Final Order (CAFO) to be filed with the Regional Hearing Clerk, U.S. EPA, Region 5, 77 West Jackson Boulevard, Chicago, Illinois 60604, and copies of the CAFO to be served upon the persons designated below, on the date below, by causing said copies to be delivered by depositing in the U.S. Mail, first class, or certified-return receipt requested, postage prepaid, at Chicago, Illinois, in envelopes addressed to:

Mr. Dennis Cloud
Utilities, Inc.
2335 Sanders Road
Northbrook, IL 60062

Larry Schumacher, President
Northern Hills Water and Sewer Company
C/O Utilities, Inc.
2335 Sanders Road
Northbrook, IL 60062

Madonna F. McGrath, Esq.
Baker & Daniels
300 North Meridian Street, Suite 2700
Indianapolis, IN 46204-1782

This is each person's last known address.

I have further caused a copy of this CAFO to be hand delivered to Regina Kossek, Regional Judicial Officer, U.S. EPA, Region 5, 77 West Jackson Boulevard, Chicago, Illinois 60604, on the date below.

Dated this 7 date of November, 2003.

James Entzminger
U.S. Environmental Protection Agency
Region 5

BNC 2.12 NC

BNC 2.12 NC

Edward S. Finley, Jr., Hunton & Williams, P.O. Box 109, Raleigh, North Carolina 27602

For the Using and Consuming Public:

Gina C. Holt and Robert B. Cauthen, Jr., Staff Attorneys, Public Staff - North Carolina Utilities Commission, 4326 Mail Service Center, Raleigh, North Carolina 27699-4326

BY THE COMMISSION: On May 29, 2003, Carolina Water Service, Inc. of North Carolina (CWS, Applicant, or Company) filed a letter notifying the Commission of its intent to file a general rate case as required by Commission Rule R1-17(a). On April 28, 2004, CWS and the Public Staff of the North Carolina Utilities Commission (Public Staff) filed a partial settlement in this and certain other proceedings in which CWS, the Public Staff and other parties stipulated to the appropriate capital structure, cost of capital and rate of return, and the allocation of certain rate case costs among various Utilities, Inc. subsidiaries, including CWS, for purposes of this and several other proceedings.

On July 7, 2004, CWS filed an application for a general rate increase in which it sought Commission approval to increase its rates for water and sewer service in its franchised service areas so as to produce a 28.07 percent increase in gross revenues compared to the level of gross revenues produced from existing rates.

By Order dated August 5, 2004, the Commission declared this matter to be a general rate case; suspended the proposed new rates for a period of up to 270 days pending further investigation and hearing; and scheduled this matter for hearing in Raleigh, Kill Devil Hills, Jacksonville, Charlotte, Asheville, and Boone, North Carolina. The Company was required to provide customer notice of the hearings and the proposed rate increase to all customers.

On August 18, 2004, CWS filed a motion to supplement its general rate case application in which the Company requested Commission approval to include two stand-alone utilities that are owned by Utilities, Inc. and that have rates that match CWS's uniform rates in this proceeding.

On August 20, 2004, the Commission entered an Order Accepting Revisions to Schedules and Modifying Notice in which the Commission allowed CWS's request to modify its application and required the alteration of the approved customer notice to reflect this amendment to the application.

On September 14, 2004, CWS filed a Certificate of Service indicating that the public notice had been provided in accordance with the Commission's procedural order.

Public hearings were held as scheduled. The following public witnesses testified at the public hearings held in this case:

October 4--Raleigh	George Pence, Lawrence Lehr, Susan Bourland, Florence Keith, Kaye Moore
October 6--Kill Devil Hills	Alicia McDonald, Pat Couper, Jim O'Connell, Suzanne Davis, Hugh McCain, Phillip Dombeck
October 7--Jacksonville	Lena Butler, Donald Shipley, Gwen Slade
October 14--Charlotte	Steven Smith, Perry Rivers, Robert Sitze, Ken Goodnight, Lynda Cayax, Susan Noel, Cline McGee, Steve White, Susan Hambright, Jeffrey Adair, Don Cherry
October 20--Asheville	Richard Braby, Warren Johnson, Dieter Hammer, James Hemphill, Bill West, Skip Williams, Ruth Hellerman, Richard Engle, James Tanner
October 21--Boone	William Kaiser, James Wood, Harvey Bauman, Larry Finnegan, Alex Popper
December 14--Raleigh	Steven Smith

No party filed an intervention petition in the form required by Commission Rules R1-5 and R1-19.

On October 15, 2004, CWS filed the testimony and exhibits of Steven M. Lubertozzi, Director of Regulatory Accounting for CWS. On November 19, 2004, the Public Staff filed the testimony and exhibits of Katherine A. Fernald, Supervisor, Water Section, Accounting Division, Windley E. Henry, Staff Accountant, Accounting Division, John R. Hinton, Financial Analyst, Economic Research Division, and Jay B. Lucas, Utilities Engineer, Water Division. On December 3, 2004, CWS filed the rebuttal testimony and exhibits of Carl Daniel, Regional Vice-President for CWS, Steven M. Lubertozzi, and Kirsten E. Weeks, Senior Regulatory Accountant for CWS.

This matter came on for evidentiary hearing in Raleigh as scheduled on December 14-15, 2004. The Applicant presented the direct testimony of Steven Lubertozzi. The Public Staff presented the testimony of its witnesses Lucas, Hinton, Henry, and Fernald. The Company presented the rebuttal testimony of Company witnesses Daniel, Weeks, and Lubertozzi.

Subsequent to the hearing there were filings made by the Public Staff and the Company pursuant to the request of the Chairman at the conclusion of the December 14 hearing.

On January 4, 2005, Public Staff witness Fernald filed her late-filed exhibit.

On January 5, 2005, the Company filed revised rebuttal exhibits and schedules and the late-filed exhibits of Company witnesses Lubertozzi and Weeks. The Company also filed as a late-filed exhibit a memorandum from the office of PricewaterhouseCoopers accounting firm. On January 7, 2005, the Company filed amendments to the revised exhibits and schedules of Steven Lubertozzi and Kirsten Weeks that it had previously filed. On January 11, 2005, CWS filed the Affidavit of Carl Daniel.

On January 12, 2005, the Public Staff filed revised exhibits and schedules and the late-filed exhibits and schedules of Public Staff witnesses Fernald, Henry and Lucas.

Based on the application, the testimony and exhibits, and the entire record in this proceeding, the Commission makes the following

FINDINGS OF FACT

General Matters

1. CWS is a corporation duly organized under the laws of and is authorized to do business in the State of North Carolina. It is a franchised public utility providing water and/or sewer service to customers in this State.

2. CWS is properly before the Commission, pursuant to Chapter 62 of the General Statutes of North Carolina, for a determination of the justness and reasonableness of its proposed rates.

3. The test period appropriate for use in this proceeding is the twelve months ended December 31, 2003, updated to June 30, 2004.

4. CWS operates 81 water utility systems and 38 sewer utility systems, some of which serve multiple subdivisions. These water and sewer utility systems are spread throughout North Carolina. All of the service areas are mainly residential; however, some have retail and commercial customers receiving service.

5. According to CWS's billing data, there were approximately 22,200 end-of-period residential equivalent units (REUs) receiving water utility service and approximately 14,636 end-of-period REUs receiving sewer utility service.

6. There were approximately 1,820 end-of-period water availability customers in the Carolina Forest and Woodrun service areas.

7. CWS provides metered water utility service to all of its water customers except for approximately 1,233 unmetered or flat rate REUs in the following service areas: Sherwood Forest, Misty Mountain, Crystal Mountain, Mount Mitchell Lands, Watauga Vista, High Vista, High Meadows, Powder Horn, and part of Sugar Mountain.

8. CWS provides flat rate service to all of its residential sewer customers and provides metered sewer service to all of its commercial sewer customers except for the former Mercer Environmental sewer systems. CWS acquired the Mercer sewer systems in July 2003, and the Commission granted separate rates based on the existing Mercer rates in effect before the acquisition.

9. CWS's existing and proposed water service rates are as follows:

Monthly Metered Service:

		Existing	CWS's Proposed
Base Facilities Charges (zero usage)			
A.	Residential Single Family Residence	$ 10.10	$ 13.75
B.	Where Service is Provided Through a Master Meter and Each Dwelling Unit is Billed Individually	$ 10.10	$ 13.75
C.	Where Service is Provided Through a Master Meter and a Single Bill is Rendered for the Master Meter (As in a Condominium Complex)	$ 9.10	$ 12.39
D.	Commercial and Other (Based on Meter Size): 5/8" x 3/4" meter	$ 10.10	$ 13.75
	1" meter	$ 25.25	$ 34.38
	1-1/2" meter	$ 50.50	$ 68.76
	2" meter	$ 80.80	$ 110.02
	3"meter	$ 151.50	$ 206.28
	4" meter	$ 252.50	$ 343.81
	6" meter	$ 505.00	$ 687.61

Usage Charge:

A.	Treated Water/1,000 gallons	$ 3.03	$ 4.02
B.	Untreated Water/1,000 gallons (Brandywine Bay Irrigation Water)	$ 2.00	$ 2.66
	Monthly Flat Rate Service:		
A.	Single Family Residential	$ 21.65	$ 29.48
B.	Commercial/SFE (SFE is a single family equivalent)	$ 21.65	$ 29.48
	Availability Rates (semi-annual):		
	Applicable only to property owners in Carolina Forest and Woodrun Subdivision in Montgomery County	$ 12.00	$ 16.34

10. The miscellaneous charges and fees of the Company will remain unchanged.

11. The management fees of the Company will remain unchanged.

12. CWS's existing and proposed sewer service rates are as follows:

Monthly Metered Service: Commercial and Other Non-Residential Users:

A. Base Facility Charges (based on meter size with zero usage)

	Existing	CWS's Proposed
5/8" x 3/4" meter	$ 10.10	$ 12.90
1" meter	$ 25.25	$ 32.20
1-1/2" meter	$ 50.50	$ 64.40
2" meter	$ 80.80	$103.00
3" meter	$151.50	$193.10
4" meter	$252.50	$321.80
6" meter	$505.00	$643.70

B.	Usage Charge/1,000 gallons (based on metered water usage)	$ 4.55	$ 5.80
C.	Minimum Monthly Charge	$ 30.55	$ 38.94

D.	Sewer customers who do not receive water service from the Company (per SFE or Single Family Equivalent)	$ 30.55	$ 38.94

Monthly Flat Rate Service:

Per Dwelling Unit	$ 30.55	$ 38.94

Monthly Collection Service Only
(When sewage is collected by utility and transferred to another entity for treatment)

A.	Single Family Residence	$ 11.00	$ 14.00
B.	Commercial/SFE	$ 11.00	$ 14.00

Mt. Carmel Subdivision Service Area:

Monthly Base Facility Charge	$ 4.60	$ 5.90
Usage Charge/1,000 gallons (based on metered water usage)	$ 4.01	$ 5.11

Regalwood and White Oak Estates Subdivision Service Areas:

A. Monthly Flat Rate Sewer Service:

Residential Service	$ 25.75	$ 38.94
White Oak High School	$956.00	$1,218.50
Child Castle Daycare	$122.56	$ 156.20
Pantry	$ 67.18	$ 85.60
Circle K	$247.85	$ 315.90

13. CWS's water and sewer systems are adequately maintained and operated and CWS is providing adequate water and sewer service.

Rate Base

14. The appropriate level of total plant in service is $82,973,405, of which $49,093,439 is applicable to water operations and $33,879,966 is applicable to sewer operations.

15. The appropriate level of accumulated depreciation for use in this proceeding is $13,898,212, of which $7,622,463 is applicable to water operations and $6,275,749 is applicable to sewer operations.

8 yrs 33

16. The appropriate depreciation rate for computer equipment additions recorded after June 30, 2004, is 12.50%.

17. The appropriate levels of cash working capital are $425,911 for water operations and $422,603 for sewer operations.

18. The appropriate level of contributions in aid of construction (CIAC), net of amortization, for use in this proceeding is $18,536,122 for water operations and $15,416,949 for sewer operations.

19. In the Quail Ridge system, the Company undercollected connection fees by $250 per tap from 1993 to 1996. In 1996, the Company realized its error, and began collecting the correct fee.

20. It is the responsibility of a utility company's management to collect its authorized rates, including connection charges and plant modification fees (hereinafter referred to as connection fees) and management fees.

21. On October 12, 1992, the Commission issued an order in Docket No. W-354, Sub 111 (Sub 111) requiring that the Company file all new contracts within 30 days from signing with the Chief Clerk of the Commission.

22. The order issued in Sub 111 also required that the Company obtain prior approval to deviate from its uniform connection fees in both existing and new service areas.

23. Since October 12, 1992, the Company has waived connection fees for an area in Mt. Carmel, and in the Windward Cove and Lamplighter Village South systems, without obtaining prior Commission approval to do so.

24. Under the agreement with Huber Construction in the Mt. Carmel service area, the Company has collected a $750 connection fee on behalf of the Buncombe/Asheville sewer district (MSD), and has collected for itself a connection fee of $1,055, which is $45 less than the uniform connection fee. The Company did not obtain prior Commission approval to vary from its authorized connection fee in this system.

25. In its order issued on March 22, 1994, in Docket No. W-354, Sub 118 (Sub 118), the Commission required that CWS, once and for all, conform its tariffs to reflect the connection fees actually being charged. Furthermore, the Commission stated that future deviations would not be tolerated.

26. It is the responsibility of the Company's management to comply with the Commission's orders and tariffs.

27. In the systems where the Company failed to collect its authorized uniform connection fees, and failed to obtain prior Commission approval to vary from those fees, the uniform connection fees should be imputed.

28. On August 27, 1996 the Commission issued an order in Docket No. M-100, Sub 113, requiring that all water and sewer companies cease collecting gross-up on CIAC received after June 12, 1996.

29. The August 27, 1996, order also required that all water and sewer companies which had collected gross-up after June 12, 1996, refund any amounts collected to the contributors with 10% interest per annum and file a notarized report with the Commission of the refunds made.

30. The Company failed to file the notarized report on the gross-up refunds as required in the August 27, 1996 order.

31. Although the contracts for Cambridge, Southwoods, Matthews Commons, Lamplighter Village South, and Bradford Park did not specifically list the amount of gross-up included in the total connection fee, these contracts were entered into during the time that gross-up was required, and the fees set forth in the contracts included gross-up.

32. The Company has collected gross-up on CIAC collected after June 12, 1996, in the Cambridge, Southwoods, Matthews Commons, Lamplighter Village South, and Bradford Park systems.

33. It is appropriate to require the Company to refund the gross-up collected after June 12, 1996 to the current property owners.

34. An interest rate of 10%, compounded annually, continues to be a just and reasonable rate to use in calculating interest on utility refunds.

35. Since the Company no longer has customer records for the systems that it has sold, it would be difficult to refund the gross-up collected in these systems. Therefore, these over-collections should be treated as cost-free capital in this and all future proceedings. Gross-up on

36. For some systems, the Company has collected reservation of capacity fees from developers for plant costs and capacity.

37. CWS has failed to record reservation of capacity fees in CIAC on its books, as required by the Commission.

38. Just as the cost of money used by the Company during construction is recognized through the calculation of an allowance for funds used during construction

(AFUDC), it is also appropriate to recognize the fact that the Company has the use of the reservation of capacity fees by including these fees in CIAC in this case.

39. The management fee for Covington Cross sewer operations is $100 per lot.

40. The appropriate amount of accumulated deferred income taxes (ADIT) to deduct from rate base in this proceeding is $2,920,893 for water operations and $1,671,871 for sewer operations.

41. CWS has included payments received by the Company in 2001, 2002, and 2003 as plant modification fees as taxable income for tax purposes.

42. CWS has appropriately accounted for the plant modification fees.

43. The appropriate amount of ADIT related to plant modification fees is $554,465 for water operations and $422,257 for sewer operations.

44. The appropriate amount of ADIT related to rate case expense to deduct from rate base in this proceeding is $34,270 for water operations and $20,651 for sewer operations.

45. The appropriate amount of ADIT related to deferred maintenance costs to be deducted from rate base in this proceeding is $136,231 for water operations and $82,088 for sewer operations.

46. The amount of pro forma plant additions included in the calculation of ADIT related to depreciation should not be reduced by the amount of retirements.

47. The appropriate level of deferred charges for use in this proceeding is $708,721, of which $482,129 is applicable to water operations and $226,592 is applicable to sewer operations.

48. The amount of unamortized deferred charges related to maintenance items recommended by the Public Staff is appropriate for use in this proceeding.

49. Based on a three year amortization period and total rate case costs found reasonable elsewhere in this order, the unamortized balance of rate case expense to include in deferred charges is $142,452.

50. The appropriate level of cost-free capital for use in this proceeding is $104,308, of which $48,481 is applicable to water operations and $55,827 is applicable to sewer operations.

51. CWS's reasonable rate base used and useful in providing service is $30,372,584, consisting of utility plant in service of $82,973,405, cash working capital of $848,514, Water Service Corporation (WSC) rate base of $256,584, pro forma plant of $3,597,452, and deferred charges of $708,721, reduced by accumulated depreciation of $13,898,212, CIAC, net of amortization, of $33,953,071, advances in aid of construction of $44,780, ADIT of $4,592,764, customer deposits of $392,487, gain on sale and flow back taxes of $289,628, plant acquisition adjustment of $1,880,811, excess capacity of $122,896, excess book value of $2,296,948, cost-free capital of $104,308, and allocation of CWS office plant costs of $436,187.

Revenues

52. The appropriate level of end-of-period water service revenue at existing rates is $6,896,512. The appropriate level of end-of-period sewer service revenue at existing rates is $5,356,689.

53. It is appropriate to make adjustments to water consumption due to the abnormal usage patterns during the test year.

54. The only billing record data available from the Company is for the years 1992, 1996, 2001, 2002, 2003, and part of 2004. Data from the annual reports is available, but this information is not as accurate as the Company's billing records.

55. Averaging water data from 2001, 2002, and 2003 yields 5,300 gallons per month per water REU. Averaging sewer data from 2001, 2002, and 2003 yields 8,233 gallons per month per metered sewer REU.

56. Based on an average consumption of 5,300 gallons per month per water REU, the water consumption factor for use in this proceeding is 8.1%.

57. The appropriate level of miscellaneous revenue to include in this proceeding is $271,553, of which $208,366 relates to water operations and $63,187 relates to sewer operations.

58. Revenues from antenna space rentals are incidental revenues, and should be included in miscellaneous revenue in this case.

59. The appropriate level of uncollectibles is $64,407, of which $36,552 is applicable to water operations and $27,855 is applicable to sewer operations.

60. Total revenue to be reflected in this proceeding is $12,460,347, of which $7,068,326 is applicable to water operations and $5,392,021 is applicable to sewer operations. Gross service revenue is $12,253,201, of which $6,896,512 is applicable to water operations and $5,356,689 is applicable to sewer operations. Miscellaneous revenue is $271,553, of which $208,366 relates to water operations and $63,187 relates

to sewer operations. Total revenue is reduced by uncollectibles of $64,407, of which $36,552 is applicable to water operations and $27,855 is applicable to sewer operations.

Customer Growth

61. The appropriate level of customer growth for use in this proceeding is 5.8% for water operations and 17.6% for sewer operations.

Maintenance Expenses

62. The appropriate level of salaries and wages to include in operation and maintenance expense is $2,200,663, of which $1,373,215 is applicable to water operations, and $827,448 is applicable to sewer operations.

63. The salaries for fifteen new certified operators should be included in this case.

64. The appropriate amount of purchased water expense is $395,489 before any annualization and inflation adjustments.

65. The appropriate level of total maintenance and repairs for use in this proceeding is $2,026,450, of which $577,333 is applicable to water operations and $1,449,117 is applicable to sewer operations.

66. The appropriate level of deferred expenses to include in maintenance and repairs is $194,976, of which $129,961 is applicable to water operations and $65,015 is applicable to sewer operations.

67. The Company has failed to provide evidence supporting any additional deferred expenses above the amount included by the Public Staff in its final schedules.

68. The appropriate amount of sludge hauling expense is $865,918 before any inflation adjustment.

69. Maintenance expenses should be reduced for operating expenses charged to plant of $910,414, of which $568,099 is applicable to water operations and $342,315 is applicable to sewer operations.

70. The appropriate level of outside services - other for use in this proceeding is $181,738, of which $128,284 is applicable to water operations and $53,454 is applicable to sewer operations.

71. One-half of the legal fees for Pine Knoll Shores should be included in maintenance expenses in this proceeding.

72. The appropriate level of operation and maintenance expenses is $5,878,350, of which $3,028,299 is applicable to water operations and $2,850,051 is applicable to sewer operations.

General Expenses

73. The appropriate level of salaries and wages to include in general expenses is $696,863, of which $434,843 is applicable to water operations and $262,020 is applicable to sewer operations.

74. It is appropriate to correct general salaries for reclassification of an operator.

75. The salary of a project manager should be included in this proceeding.

76. The appropriate level of rate case expense to include in this proceeding is $71,226, of which $44,445 relates to water operations and $26,781 relates to sewer operations.

77. An adjustment to legal fees for this proceeding is appropriate.

78. The appropriate amortization period for rate case expense is three years.

79. It is appropriate to include health insurance, pension and 401(k) costs for fifteen new operators and a project manager.

80. The appropriate level of pension and other benefits to include in this proceeding is $613,126, of which $382,591 relates to water operations and $230,536 relates to sewer operations.

81. The appropriate annualization adjustment to be made in this proceeding is $204,159 for water operations and $329,769 for sewer operations.

82. The appropriate inflation adjustment to be made in this proceeding is $175,557, of which $83,302 is applicable to water operations and $92,255 is applicable to sewer operations.

83. The appropriate level of general expenses is $3,038,065, of which $1,730,751 is applicable to water operations and $1,307,315 is applicable to sewer operations.

Depreciation and Taxes

84. The appropriate level of depreciation expense for use in this proceeding is $1,109,393, of which $731,150 is applicable to water operations and $378,243 is applicable to sewer operations.

85. The appropriate level of payroll taxes to include in this proceeding is $209,134, of which $139,148 relates to water operations and $69,986 relates to sewer operations.

86. Based on the other findings and conclusions set forth in this Order, the appropriate level of state income taxes is $16,046 for water operations and $0 for sewer operations.

87. Based on the other findings and conclusions set forth in this Order, the appropriate level of federal income taxes is $67,686 for water operations and $0 for sewer operations.

88. The appropriate level of depreciation and taxes for use in this proceeding is $2,176,186, of which $1,340,556 is applicable to water operations and $835,630 is applicable to sewer operations.

Overall Cost of Capital

89. The appropriate capital structure to employ for purposes of this proceeding consists of 57.63% debt and 42.37% equity. The embedded cost of debt associated with this capital structure is 7.28%.

90. The cost of common equity capital to CWS for purposes of this proceeding is 10.7%.

91. The overall fair rate of return that the Company should be allowed the opportunity to earn on its rate base is 8.73%.

Rates, Fees and Other Matters

92. The Commission finds that the Company's rates should be changed to amounts, which, after pro forma adjustments, will produce an increase in total annual revenue of $2,171,390. This increase will allow CWS the opportunity to earn an 8.73% overall return on its rate base, which the Commission has found to be reasonable upon consideration of the findings in this Order.

93. The connection charges and plant modification fees currently approved by the Commission are set forth in the tariff sheets attached as Appendix A to this Order.

94. The Company should be responsible for installing all meters, and should no longer accept meters from developers. When meters are installed, the Company is authorized to charge a meter fee of $50 for 5/8 or 3/4 inch meters, and actual cost for meters greater than 5/8 or 3/4 inch, for all metered water connections.

95. The metering of unmetered water systems should be accomplished as follows:

a. CWS should solicit preliminary estimates from contractors to be used as a basis for determining the approximate cost of installing meters.

b. This information should be provided to each homeowners association in the unmetered areas.

c. If the homeowners association requests that meters be installed, CWS should solicit bids from contractors.

d. The homeowners association should be allowed to review the final bid amount.

e. If the homeowners association approves the project based on the final bid amount, CWS should award the contract within 30 days of final approval from the homeowners association and request approval from the Commission for an assessment to recover the cost.

96. Management fees, reservation of capacity fees, payments for main extensions, and other monies received to offset plant costs are CIAC, and should be recorded as such on the Company's books and records.

97. It is appropriate for the Company to make entries on its books to reflect the amount of CIAC found reasonable by the Commission in this case.

98. It would be useful to the Company and both the Commission and Public Staff if there were separate subaccounts for each type of CIAC received by the Company.

99. Both depreciation expense and amortization of CIAC recorded on the Company's books should be calculated based on the actual amounts of plant and CIAC for that period.

100. Because the allocation of pension and 401(k) costs has been and will be corrected in rate cases, it is unnecessary to require the Company to revise its allocation of pension and 401(k) costs on its books.

101. The Company should begin recording revenues from antenna space rentals in water operating revenues under Account 472 - Rents from Water Property.

102. The receipt of plant modification fees should be recognized in the calculation of AFUDC.

103. The sludge hauling and other services provided by Bio-Tech, Inc. (Bio-Tech) to CWS are affiliated transactions covered by G.S. 62-153, and a contract between Bio-Tech and CWS should be filed with the Commission within 30 days of the effective date of this Order.

104. Utilities, Inc. should also file contracts covering the affiliated transactions between Bio-Tech and the North Carolina regulated companies other than CWS within 30 days of the effective date of this Order. The contract for each regulated company should be filed under the applicable docket number for that company.

105. The Company should file all contracts or agreements it has with developers that have not been previously filed with the Chief Clerk of the Commission within 90 days of the effective date of this Order, including but not limited to the contracts for Southwoods / Brandywine, Windward Cove, Mt. Carmel - Harmony, Mr. Carmel - Huber Construction, Lamplighter Village South - Marshall, and Bent Tree (sewer operations).

106. The Company should file all future contracts and agreements within 30 days of signing or agreement.

107. The Company should evaluate its current practices and prepare a new procedure that ensures that the Company will comply with the rules and regulations of the Commission, in particular the rules concerning contiguous extensions and franchises. The Company should file its procedure with the Commission within 60 days of the effective date of this Order.

108. It is not appropriate to impose any penalties as recommended by the Public Staff.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 1 - 3

These findings are in the Commission's official records and in the Company's application. They are essentially informational, procedural, and jurisdictional in nature, and matters that they involve are not contested.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 4 - 12

The evidence supporting these findings is contained in the testimony of Public Staff witness Lucas. The Company did not contest these findings.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 13

The evidence supporting this finding is contained in the testimony of Public Staff witness Lucas and Company witness Daniel. Witness Lucas contacted the regional engineers in each of the various regional offices of the Department of Environment and Natural Resources, Division of Environmental Health, and each indicated that, aside from occasionally exceeding various water quality parameters, CWS was substantially in compliance with the regulations governing community water systems. Witness Lucas inspected 17 water systems. At each location, he found the well houses, treatment facilities, and storage facilities to be well maintained.

Witness Lucas also contacted each of the regional engineers of the Department of Environment and Natural Resources, Division of Water Quality (DWQ), and each indicated that he had a good working relationship with CWS. Other than occasional violations of effluent limits, none of the regional engineers indicated that any of the sewer utility systems were in noncompliance with DWQ's regulations. Witness Lucas inspected 16 sewer utility systems operated by CWS and concluded that each facility was being properly operated and maintained.

The Public Staff received numerous customer complaint letters. A large number of the letters objected to the rate increase itself. Some indicated water quality and water pressure problems. All of the water quality complaints, except for one, were for aesthetic and not for health concerns. These complaints are similar to those made by customers at the public hearings held in various locations across the state in October 2004. The Public Staff recommended that CWS address the customer complaints in its rebuttal and describe the actions it is taking to resolve these complaints.

The one complaint regarding health concerns was made by a customer in Riverpointe Subdivision in Mecklenburg County. This water system has aesthetic problems, pressure problems, and has exceeded the limits for radioactivity. CWS has addressed the high radioactivity by improving its water softening system. More testing over a period of time is needed before the Commission can consider the radioactivity problem solved. This issue is also part of the formal complaint filed by customers in Docket No. W-354, Sub 279, and the aesthetic and pressure problems will be addressed by the Commission in that docket.

Company witness Carl Daniel addressed customer complaints in his rebuttal testimony and indicated that the Company has either contacted or attempted to contact all of the customers who testified at the public hearings.

Based on the foregoing, the Commission concludes that CWS's water and sewer systems are adequately maintained and operated.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 14 - 51

The evidence supporting these findings is contained in the testimony of Public Staff witnesses Lucas, Fernald and Henry and of Company witnesses Daniel, Weeks and Lubertozzi. The following tables summarize the amounts which the Company and the Public Staff contend are the proper levels of rate base to be used in this proceeding:

WATER OPERATIONS

Item	Company	Public Staff	Difference
Plant in service	$49,093,439	$49,093,439	$ 0
Accumulated depreciation	(7,622,380)	(7,622,463)	(83)
Cash working capital	424,033	387,569	(36,464)
Contributions in aid of construction	(18,444,506)	(18,536,122)	(91,616)
Advances in aid of construction	(29,680)	(29,680)	0
Accumulated deferred income taxes	(2,742,295)	(3,396,528)	(654,233)
Customer deposits	(244,912)	(244,912)	0
Gain on sale and flow back taxes	(196,947)	(196,947)	0
Plant acquisition adjustment	(1,166,758)	(1,166,758)	0
Water Service Corporation	160,108	160,108	0
Pro forma plant	1,511,794	1,511,794	0
Deferred charges	484,765	497,569	12,804
Excess capacity	(122,896)	(122,896)	0
Excess book value	(969,448)	(969,448)	0
Cost-free capital	(27,934)	(48,481)	(20,547)
Allocation of CWS office plant cost	(272,181)	(272,181)	0
Original cost rate base	$19,834,202	$19,044,063	$ (790,139)

SEWER OPERATIONS

Item	Company	Public Staff	Difference
Plant in service	$33,879,966	$33,879,966	$ 0
Accumulated depreciation	(6,275,697)	(6,275,749)	(52)
Cash working capital	419,661	383,757	(35,904)
Contributions in aid of construction	(15,366,589)	(15,416,949)	(50,360)
Advances in aid of construction	(15,100)	(15,100)	0
Accumulated deferred income taxes	(1,652,408)	(2,033,281)	(380,873)
Customer deposits	(147,575)	(147,575)	0
Gain on sale and flow back taxes	(92,681)	(92,681)	0
Plant acquisition adjustment	(714,053)	(714,053)	0
Water Service Corporation	96,476	96,476	0
Pro forma plant	2,085,658	2,085,658	0
Deferred charges	238,474	235,896	(2,578)
Excess capacity	0	0	0
Excess book value	(1,327,500)	(1,327,500)	0
Cost-free capital	0	(55,827)	(55,827)
Allocation of CWS office plant cost	(164,006)	(164,006)	0
Original cost rate base	$10,964,626	$10,439,032	$ (525,594)

As shown in the preceding tables, the Public Staff and the Company agree on the levels of plant in service, advances in aid of construction, customer deposits, gain on sale, plant acquisition adjustment, Water Service Corporation rate base, pro forma plant, excess capacity, excess book value, and allocation of CWS office plant cost. Therefore, the Commission finds and concludes that the levels agreed to by the parties for these items are appropriate for use in this proceeding.

ACCUMULATED DEPRECIATION

The only difference between CWS and the Public Staff regarding accumulated depreciation is due to an error made by the Company in calculating accumulated depreciation on computer related equipment recorded on the books after June 30, 2004, through December 14, 2004. The Company calculated accumulated depreciation on computer equipment additions recorded after June 30, 2004, using the composite depreciation rates of 2.12% for water operations and 2.01% for sewer operations. In its original application, CWS calculated depreciation on test year computer equipment using a rate of 12.50%. Public Staff witness Henry calculated accumulated depreciation on all computer related equipment, including amounts added after June 30, 2004, using the depreciation rate of 12.50% for both water and sewer operations.

There is no dispute between the parties on the appropriate depreciation rates to use in this proceeding. CWS simply applied the wrong depreciation rate to computer

SEWER OPERATIONS

Item	Company	Public Staff	Difference
Plant in service	$33,879,966	$33,879,966	$ 0
Accumulated depreciation	(6,275,697)	(6,275,749)	(52)
Cash working capital	419,661	383,757	(35,904)
Contributions in aid of construction	(15,366,589)	(15,416,949)	(50,360)
Advances in aid of construction	(15,100)	(15,100)	0
Accumulated deferred income taxes	(1,652,408)	(2,033,281)	(380,873)
Customer deposits	(147,575)	(147,575)	0
Gain on sale and flow back taxes	(92,681)	(92,681)	0
Plant acquisition adjustment	(714,053)	(714,053)	0
Water Service Corporation	96,476	96,476	0
Pro forma plant	2,085,658	2,085,658	0
Deferred charges	238,474	235,896	(2,578)
Excess capacity	0	0	0
Excess book value	(1,327,500)	(1,327,500)	0
Cost-free capital	0	(55,827)	(55,827)
Allocation of CWS office plant cost	(164,006)	(164,006)	0
Original cost rate base	$10,964,626	$10,439,032	$ (525,594)

As shown in the preceding tables, the Public Staff and the Company agree on the levels of plant in service, advances in aid of construction, customer deposits, gain on sale, plant acquisition adjustment, Water Service Corporation rate base, pro forma plant, excess capacity, excess book value, and allocation of CWS office plant cost. Therefore, the Commission finds and concludes that the levels agreed to by the parties for these items are appropriate for use in this proceeding.

ACCUMULATED DEPRECIATION

The only difference between CWS and the Public Staff regarding accumulated depreciation is due to an error made by the Company in calculating accumulated depreciation on computer related equipment recorded on the books after June 30, 2004, through December 14, 2004. The Company calculated accumulated depreciation on computer equipment additions recorded after June 30, 2004, using the composite depreciation rates of 2.12% for water operations and 2.01% for sewer operations. In its original application, CWS calculated depreciation on test year computer equipment using a rate of 12.50%. Public Staff witness Henry calculated accumulated depreciation on all computer related equipment, including amounts added after June 30, 2004, using the depreciation rate of 12.50% for both water and sewer operations.

There is no dispute between the parties on the appropriate depreciation rates to use in this proceeding. CWS simply applied the wrong depreciation rate to computer

correct amount of connection fee. Witness Fernald made an adjustment to impute the difference of $250 per tap.

In her rebuttal testimony, Company witness Weeks opposed the Public Staff's adjustment to impute connection fees for Quail Ridge. Although witness Weeks acknowledged that the Company undercollected connection fees in Quail Ridge, she stated that attribution of the undercollection was not justified since the Company's failure to collect the authorized connection fee was inadvertent. Witness Weeks further stated that, of the many connection fees the Company collects each month, from time to time it will make mistakes. Witness Weeks also pointed out that the Company discovered and rectified its undercollections after 1996. In the alternative, witness Weeks stated that if the Commission should impute the difference in connection fees, then the Company should be allowed to assess the current property owners for the amount undercollected.

The Commission concludes that the Public Staff's adjustment to impute connection fees in Quail Ridge is appropriate, but the Company's request to assess its customers for its mistake is not appropriate. The applicable statute to be used in this proceeding is G.S. 62-139, which states, "No public utility shall directly or indirectly, by any device whatsoever, charge, demand, collect or receive from any person a greater or less compensation for any service rendered or to be rendered by such public utility than that prescribed by the Commission, nor shall any person receive or accept any service from a public utility for a compensation greater or less than that prescribed by the Commission." It is clear from this statute that the Company has a duty to charge only fees authorized by the Commission. Although the statute requires that customers not receive a service for less than an amount prescribed by the Commission, it does not address a procedure to be followed if a customer is undercharged or provide a penalty for undercharges of the utility customer. In contrast, G.S. 62-139(b) provides the procedure to be followed for the refunding of overcharges made by a public utility and prescribes a penalty for overcharges that are not timely refunded. Therefore, G.S. 62-139 does not support the Company's proposal to assess customers for undercharges. Additionally, there is no evidence that the customers were even aware that they were being charged fees that were less than those authorized by the Commission, whereas the Company discovered its mistake over eight years ago.

In light of the foregoing, the Commission concludes that it should not approve the Company's proposal to assess customers for undercharges. Additionally, the Commission concludes that it is the responsibility of management of the utility company to collect its authorized rates, including connection fees; that it is not the responsibility of the ratepayers to keep up with the fees that the Company is authorized to collect; that there is no evidence that the customers were even aware that they were being undercharged; and, finally, that the ratepayers should not be required to pay rates to allow a return on plant investment that should have been recovered through authorized connection fee collections. The Commission further concludes that since the Company discovered its error over eight years ago and did not propose an assessment at that

time, it should be estopped from assessing its customers, as it would not be equitable to hold otherwise.

The Public Staff also imputed connection fees related to an agreement with Mr. Mark Carlson (Carlson agreement) for an area in Mt. Carmel, the Windward Cove system, and the Lamplighter Village South system. Public Staff witness Fernald testified that in the December 8, 1993, Carlson agreement and the November 18, 1993, Windward Cove agreement the Company waived connection fees, subject to approval of the North Carolina Utilities Commission. However, these agreements were never filed with the Commission for approval, even though the order granting a rate increase issued in the Sub 111 rate case required that all contracts with developers be filed with the Commission within 30 days of signing. Witness Fernald further testified that the Company failed to disclose that it had entered into agreements waiving the connection fees in Mt. Carmel and Windward Cove when it filed its amended tariff as required by the Commission in the tap fee investigation in Sub 118. As to Lamplighter Village South, witness Fernald testified that on March 29, 2000, the Company sent a letter to Marshall Properties agreeing to waive tap fees, and that this agreement to waive tap fees was never filed with the Commission. Since the Company failed to file these agreements with the Commission for approval and deviated from its authorized tariff by charging fees consistent with those set out in these contracts, Public Staff witness Fernald made an adjustment to impute the authorized uniform connection fees of $1,100 per connection in these systems.

In her rebuttal testimony, Company witness Weeks opposed the Public Staff's adjustment, stating that the Commission has ruled that the terms of the contract control the requirement to charge connection fees and that the fees should not be imputed because the Company followed its contract and did not resort to the uniform tariff. Witness Weeks further stated that it was unclear in 1993 whether the Company had to file an agreement such as the Carlson agreement in advance for approval, since this was not a new subdivision or area for which a certificate application or contiguous extension notification would be necessary. Witness Weeks also testified that the Public Staff's adjustment was unjustified simply because the Company failed to file a letter and that the Company should not be punished for its failure to do so. Witness Weeks also pointed out that in the Windward Cove and Lamplighter Village agreements, the developer contributed all the facilities to CWS, and therefore, the developer provided additional consideration. Finally, witness Weeks stated that the Commission's order in Sub 128 placed the burden on both CWS and the Public Staff to conform CWS's tariffs to the terms of arrangements and that the Public Staff has been aware of this letter for 11 years. Company witness Lubertozzi testified that the Commission had issued requirements concerning the filing of contracts in Sub 111, but all of the procedures were under review in Sub 118.

First, the Commission does not agree that it was unclear whether contracts or agreements should have been filed in 1993. In the Sub 111 order, which was issued on October 12, 1992, the Commission ordered the following:

> Also, all new contracts in the future should be filed within 30 days from signing. All contracts should be filed with the Chief Clerk of the Commission and a copy of each contract should be served on the Public Staff. If any agreements are reached with developers regarding the provision of utility service, but are not written or signed prior to being acted on, CWS shall file with the Commission a detailed written description of the agreement within 30 days of entering into the agreement.
>
> . . .
>
> The Commission agrees with the Public Staff on this issue and concludes that the Company should charge the uniform tap fee and plant modification fee in all of its service areas unless it receives prior approval to deviate from the uniform fees. This requirement should apply to both existing and new service areas. The filing by CWS of contracts that provide for non-uniform fees does not constitute Commission approval of such fees.

82 Report of the NCUC Orders and Decisions 387, 502 (1992)

At the time the Commission issued the Sub 111 order requiring the filing of all contracts or agreements, the Commission had already, on August 19, 1992, issued an order initiating the tap fee investigation in Sub 118, so clearly the investigation initiated in Sub 118 did not remove the requirement to file contracts. If anything, the Sub 118 proceeding should have made the Company even more aware of the importance of filing contracts and obtaining approval from the Commission to vary from the uniform fees. The Company did not except to the filing requirement set forth in the Sub 111 order and should have known that the requirement remained in force.

The requirement to file contracts in Sub 111 applies to all developer contracts, and even goes so far as to require that any verbal agreements be reduced to writing and filed. There were no exceptions made for contracts that related to existing service areas. In fact, the requirement that the Company obtain prior approval to vary from the uniform connection fees applied to both existing and new service areas, with a note that the filing of contracts that provided for non-uniform fees did not constitute Commission approval of such fees. Therefore, under the requirements set forth in Sub 111, the Carlson and Windward Cove agreements, which waived the uniform fees, should have been filed with the Commission to obtain prior approval for the non-uniform fees. The contracts themselves acknowledge this requirement, since they state that the fees are waived subject to the approval of the Commission. The Company clearly understands this, since Company witness Lubertozzi testified, "CWS is required to obtain permission for charging connection fees other than the uniform connection fee and list these deviations in its tariff. Otherwise, the uniform connection fee should apply. This was thoroughly discussed in Sub 118."

Since the Company failed to obtain prior approval to waive its uniform connection fees, the next issue is whether the uniform fees should be imputed. The Company's collection of connection fees, which vary from the amounts on its tariff, has been an issue in past rate cases, culminating with the Sub 118 tap fee investigation. In the Sub 118 case, the Public Staff proposed the imputation of connection fees because CWS charged connection fees based on the terms of its contracts as opposed to the approved fees listed on its tariff. The Commission disallowed the imputation of the unauthorized connection fees that were charged, because the Public Staff and the Attorney General had been aware of this practice in prior proceedings but had not proposed a ratemaking adjustment. The Commission determined that, because of the Public Staff's prior inaction, it had essentially waived its right to impute connection fees for ratemaking purposes with regard to any prior failure by CWS to seek and gain approval of contractually set connection fees. The Commission, however, went on to firmly state the following:

> Notwithstanding the many harsh admonitions and reprimands the Commission has delivered over the years to CWS regarding its connection fee practices and procedures, there is no reasonable basis, legal or equitable, upon which to adopt the ratemaking adjustment through the imputation of connection fees proposed in this case by the Public Staff and Attorney General. The time has come to bring this longstanding saga to an end. All parties, including CWS, the Public Staff, the Attorney General, and the Commission, share responsibility for failing to pursue these connection fee issues to a timely and reasonable conclusion. That being the case, CWS will be required, once and for all, to conform its tariffs on a subdivision-by-subdivision basis to reflect the connection fees actually being charged by the Company and future deviations will not be tolerated, but no imputation of connection fees will be ordered in this case.

84 Report of the NCUC Orders and Decisions 632, 653 (1994).

The Sub 118 order also made it clear that contracts or agreements were to be filed with the Commission and that any fees that varied from the uniform fees had to be approved by the Commission. Specifically, the Sub 118 order stated:

> That CWS shall file and request approval of all future contracts with developers within 30 days of signing said contracts, and in the case of informal agreements or contracts that are effective without signing, CWS shall file a written description of the terms of those agreements within 30 days of entering into such agreements. The requirements of this decretal paragraph shall apply to all future contracts, including those covering contiguous expansions. In all contracts that have provisions which allow for connection fees (tap-on fees) and/or plant impact fees that differ from the tariffed uniform connection charges and/or plant impact fees or that allow for special charges such as management fees, oversizing fees,

availability fees or other such fees not common to all service areas, the referenced charges or fees shall be specifically brought to the attention of the Commission to be approved or disapproved.

Id. at 684.

Unfortunately, the Sub 118 order did not bring this longstanding saga to an end, as intended by the Commission. The Company continued to collect connection fees that varied from its uniform fees without receiving Commission approval to do so. Unlike the instances covered in the Sub 118 case, this is the first time that these variances from the uniform fees have been brought before the Commission, since the Company failed to file the agreements as required in Sub 111. The Company did have an opportunity to resolve the connection fees covered by the Carlson and Windward Cove agreements, but failed to disclose the fact that the connection fees had been waived for these areas in the filing required in the Sub 118 case. The Company claims that the Commission's Sub 128 order also placed the burden on the Public Staff to conform CWS's tariffs to the terms of arrangements, and that a copy of the Windward Cove agreement had been sent to Mr. Andy Lee of the Public Staff. First, the Sub 128 order only required that CWS and the Public Staff review the Schedule of Rates issued in that case and notify the Commission of any inconsistencies or errors by June 24, 1994. This order did not place on the Public Staff, instead of the Company, the burden of filing contracts with the Commission and obtaining Commission approval in order to vary from the uniform fees.

The Company appears to also assert that, instead of collecting a connection fee, as set forth in its tariff sheet, it can comply with its tariff by accepting plant in lieu of the connection fee. The Commission does not accept this argument. Connection fees, by definition, are to be paid in cash, and this is indicated on the tariff sheet when the amount of the fee is shown in dollars. The Commission has clearly stated in the Sub 118 order that any fees differing from the tariffed uniform connection fees were to be brought to the attention of the Commission to be approved or disapproved. Therefore, if the Company wished to not collect its uniform connection fee in an area in cash, for whatever reason, it should have applied to the Commission for approval to do so.

The Company was clearly warned in the Sub 118 case that no future deviations from its tariffed fees would be tolerated. It is the responsibility of the Company to comply with Commission orders and tariffs. Since the Company failed to do so, even after being warned that no future deviations would be tolerated, the Commission concludes that the authorized uniform connection fees of $1,100 per tap should be imputed in Mt. Carmel (Carlson agreement), Windward Cove, and Lamplighter Village South.

Furthermore, the Commission again reiterates that no future deviations from the Company's tariffed fees will be tolerated. Connection charges and plant modification fees are rates, and as such, require Commission approval. The Company should

charge the authorized uniform connection charge and plant modification fee in all of its service areas, whether existing or new, unless it receives prior Commission approval to deviate from the uniform fees.

In the arrangement with Huber Construction regarding another project at the Mt. Carmel system, the Public Staff made an adjustment to impute $45 per tap. Public Staff witness Fernald testified that in a letter discussing the project, dated July 12, 1996, the Company states that it will collect a sewer connection fee of $1,805, of which it will remit $750 to MSD, resulting in a connection fee for CWS of $1,055, which is $45 less than the authorized uniform fee of $1,100. Public Staff witness Fernald further testified that the Company never filed an agreement for this project with the Commission, either as part of a contiguous extension filing or in response to the filing requirement established in Sub 118, nor did the Company request approval to vary from its uniform tap fee.

Company witness Weeks testified that in the Mt. Carmel system, CWS collects the wastewater through its collection facilities in Mt. Carmel and transports it to MSD for treatment and disposal. Witness Weeks further testified that the Company's collection of connection fees after remitting $750 to MSD compensates CWS in the form of CIAC, and that CWS's remittance to MSD serves as a substitute for CWS's need to own wastewater treatment and disposal facilities. Witness Weeks stated that in actuality CWS collected $1,805, more than the uniform fee, and that witness Fernald simply misstates the substance of the transaction in order to increase CIAC and reduce rate base.

On this issue, the parties disagree as to the substance of the transaction. It is the Public Staff's position that the Company is collecting connection fees on behalf of MSD, and therefore, the $1,805 fee collected consists of a $750 connection fee for MSD, and a $1,055 connection fee for CWS, which is $45 less than the uniform fee. The Company appears to take the position that CWS is paying the connection fee to MSD as part of its costs to provide service, and it is collecting a tap fee of $1,805, which is $705 more than its authorized connection fee.

As previously discussed, the Company is required to obtain permission before charging connection fees other than the uniform connection fee. In this instance, the Company clearly varied from its authorized connection fees without obtaining Commission approval to do so. Under the Public Staff's position, the Company undercollected $45 per tap, and the issue is whether this difference should be imputed. Under the Company's position, the Company overcollected $705 per tap, and the issue is whether the overcollection should be refunded. So first, the Commission must determine the substance of the transactions involved.

The July 12, 1996, letter to Mr. Huber, which was identified as CWS Fernald Cross Exhibit No. 14, states that CWS will be responsible for sending the payment of $750 per connection to MSD. There is also a handwritten note on the letter indicating that $750 of the $1,805 was sent to MSD for connection fees, leaving $1,055 for CWS.

Based on this letter, the Commission agrees with the Public Staff that CWS was collecting a connection fee on behalf of MSD and that the connection fee collected for CWS in this instance was $1,055, resulting in an undercollection of $45 per tap. In this case, the Company should have collected its uniform tap fee, since it failed to receive prior Commission approval to do otherwise. Therefore, the Commission concludes that the undercollection of $45 per tap should be imputed.

Refund Gross-Up

On August 20, 1996, the Small Business Job Protection Act of 1996 was signed into law. Section 1613 of this act restored the CIAC provisions that were repealed by the Tax Reform Act of 1986 for water and sewer utilities, effective for amounts received after June 12, 1996. On August 27, 1996, the Commission issued an order in Docket No. M-100, Sub 113, in which it ordered:

> 1. That all water and sewer companies cease collecting gross-up on collections of CIAC received after June 12, 1996.
>
> 2. That all water and sewer companies which have collected gross-up on CIAC received after June 12, 1996, refund any amounts collected to the contributors with 10% interest per annum within 30 days of the date of this order.
>
> 3. That all water and sewer companies who have collected gross-up on CIAC received after June 12, 1996, file a notarized report on the refunds made within 60 days of the date of this order. The notarized report should list the amount of gross-up collected on CIAC received after June 12, 1996, the interest on the refund and how it was calculated, and the total amount, including interest, which was refunded.

86 Report of NCUC Orders and Decisions, 1 (1996)

Public Staff witness Fernald testified that the Company failed to file the notarized report on refunds as required. Witness Fernald also testified that the Company failed to cease collecting gross-up as of June 12, 1996, in the Cambridge, Windsor Chase, Southwoods, Lamplighter Village South, Winghurst, and Matthews Commons systems. Witness Fernald recommended that the Company immediately cease collecting gross-up on CIAC and that the Company refund all gross-up collected on CIAC since June 12, 1996, to the current property owners, with 10% interest compounded annually. Witness Fernald also recommended that the gross-up collected in systems that have since been sold to an entity exempt from regulation by the Commission be treated as cost-free capital in this case.

Company witness Weeks testified that the Company determined that no report was due since it had stopped collecting gross-up on June 12, 1996. Witness Weeks

also opposed making refunds as recommended by the Public Staff. Witness Weeks testified that the contracts for Cambridge, Southwoods, and Matthews Commons did not break down the connection fees into components, so that no portion of the fees were expressly earmarked as reimbursement for income taxes. Witness Weeks further stated that the developer was willing to enter into the transaction on the basis of the financial terms agreed to and never expected to obtain a refund if the tax laws changed in the future. Furthermore, witness Weeks testified that whoever bought the houses paid what they felt to be a fair price in light of market conditions. For the Windsor Chase and Winghurst systems, witness Weeks testified that the Company did collect grossed-up fees after June 12, 1996, but should be allowed to retain the gross-up as cost-free capital and a reduction to rate base. As to the Lamplighter Village South system, witness Weeks testified that, by the time the contract was executed, the Small Business Job Protection Act of 1996 had repealed the provision making CIAC taxable as ordinary income, and the contract makes no mention of gross-up. Witness Weeks also points out that the Commission approved this contract on May 19, 1998, and no mention was made at the time of the requirement that the contributor would pay any unauthorized gross-up. Finally, witness Weeks states that the Public Staff's recommendation that the refund be made to the current property owner contradicts the Commission's order in Docket No. M-100, Sub 113, which states that the refund is to go to the contributor.

The first area of disagreement between the parties concerns whether the Company failed to file the notarized report required by the August 27, 1996 order. As shown on the tap fee listing for 1996 filed with the Company's Form W-1, which was introduced as Public Staff Weeks' Cross-Examination Exhibit No. 1, the Company did refund gross-up collected after June 12, 1996, in most of its systems. Witness Weeks admitted to this during cross-examination. Therefore, since the Company refunded gross-up, it should have filed the notarized report on the refunds, as required by the Commission.

The next area of disagreement concerns whether the Company continued to collect gross-up after June 12, 1996, and if so, should the Company be required to refund the gross-up collected. The Commission has previously dealt with the issue of refunds of gross-up collected after June 12, 1996 in the Covington Cross case, Docket No. W-354, Sub 171. In its Order Denying Motion for Reconsideration issued on February 27, 2002, in that case, the Commission stated:

> In its Motion for Reconsideration, CWS seeks to remove the Commission from oversight of the connection fee transaction between contributor/customer and CWS. The connection fee is a tariff and it is regulated and established by the Commission. When the Tax Reform Act of 1986 (TRA-86) made utilities liable for paying taxes on CIAC, the Commission required (in an Order issued on August 26, 1987, in Docket No. M-100, Sub 113) the utilities to modify their tariffs to collect gross-up for taxes on CIAC from the contributor of the CIAC (whether it was a

developer or a customer). The purpose of this requirement was to ensure that the contributor of the CIAC paid the taxes on the contribution and not the general customer base of the regulated utility. When the Small Business Job Protection Act (SBJPA) of 1996 restored the tax treatment of CIAC to its pre-TRA-86 status, the Commission issued an order (in Docket No. M-100, Sub 113, on August 27, 1996) requiring utilities to cease collecting gross-up for taxes on CIAC.

In its contract with the developer in this matter, the contractually agreed upon connection fee does not separate the connection fee amount into distinct amounts for a connection fee and gross-up for taxes on CIAC. However, the $1,795 connection fee is equal to the product of CWS's uniform connection fee of $1,100 multiplied by the Commission required gross-up multiplier. This contract was entered into during the period of time that CIAC was subject to taxation and it properly included provision for collecting gross up for taxes on CIAC. However, the notification of contiguous extension filed in this matter was filed after the Commission's Order to cease collecting gross up. Therefore, the inclusion of gross up for taxes on CIAC in this contract is in contravention of the Commission's Order. The Commission clearly can and must require CWS to cease collecting gross-up for taxes on CIAC and require the refund of any CIAC gross-up collected after the date of the SBJPA.

Order Denying Motion for Reconsideration, p. 5

As in the Covington Cross case, at the time the contracts for Cambridge, Southwoods, Matthews Commons, and Lamplighter Village South were entered into, CIAC was still subject to taxation and water and sewer utilities were required to collect gross-up. The fact that a contract does not specifically list the amount of gross-up does not mean that the Company did not comply with the gross-up requirement. For example, in its report on connection fees filed in Sub 118, the Company stated that the connection fees in the Cambridge contract included gross-up. The Commission's order issued on August 27, 1996 clearly states that water and sewer utilities are to cease collecting gross-up on CIAC, and the Company did not file exceptions or request clarification of this order. The Commission finds that the Company had no authority to continue collecting gross-up after June 12, 1996, and that the gross-up collected for systems still owned by the Company should be refunded. The Commission further concludes that the refunds should be made to the current property owners, consistent with the refunds required in North Topsail in Docket No. W-1000, Sub 5, and Covington Cross, Docket No. W-354, Sub 171. In the order issued on December 21, 2000, in Docket No. W-1000, Sub 5, which dealt with the issue of whether Utilities, Inc. should make refunds of overcollected gross-up on CIAC to contributors of the CIAC or to current property owners, Hearing Commissioner Ervin concluded that, "as between a developer and the initial purchaser, the developer is likely to have intended to sell the property to a purchaser, essentially acted as the agent of the purchaser in paying the

tap fee, and undoubtedly intended to recoup the gross-up and tap fee in the price charged for the property. Similarly, as between homeowners, the tap fee represents payment for an integral part of the property, the cost of which has been undoubtedly passed on to each subsequent purchaser." The Commission concludes that the reasoning employed in its previous orders is applicable to the case at hand and should be utilized. CWS should make refunds of the gross-up that it overcollected to the current property owner whose name or names are listed on the deed to the property.

The Company also opposed refunding the gross-up at 10% interest compounded annually. Company witness Weeks testified that a lower interest rate would be appropriate, since it is unlikely that the contributor of the tap fee could have earned 10% on their investment. Witness Weeks further testified that since the Company is currently issuing customer deposit refunds at 8%, it would be proper to use this rate as the maximum rate for refunds of gross-up as well.

The Commission concludes that the appropriate interest rate on the refunds is 10%, compounded annually, consistent with the refund of gross-up in other cases. As discussed by the Commission in Docket No. E-7, Sub 501, since 1981, when G.S. 62-130(e) was enacted, the Commission has consistently used 10% to calculate interest on utility refunds. Since that time, interest rates have moved up and down. The Commission has used 10% notwithstanding the level of interest rates in the economy on the theory that 10% provides for adequate compensation over the long term considering the fact that a policy of tracking the general level of interest rates would lead to the denial of fair compensation in times when the interest rates exceed the statutory cap of 10%. In addition, the use of a 10% interest rate is also appropriate because the recipient of the return might have been able to avoid incurring higher cost debt, such as credit card debt, which typically involves an interest rate of more than 10%. Accordingly, the Commission is of the opinion that 10% continues to be a just and reasonable rate.

Based on the foregoing, the Commission concludes that the Company should (1) immediately cease collecting gross-up as required by the Commission's order issued on August 27, 1996, in Docket No. M-100, Sub 113, and (2) file, within 60 days of the effective date of this Order, a plan to refund the gross-up collected in the Cambridge, Windsor Chase water system, Southwoods sewer system, Lamplighter Village South, and Winghurst systems to the current property owners with 10% interest compounded annually.

The last issue is what should be done about the gross-up collected in the Windsor Chase sewer system, Southwoods water system, and Matthews Commons water and sewer systems, which have since been sold by the Company. Public Staff witness Fernald testified that, since it would be harder for the Company to make refunds in systems that they no longer own, she is recommending that the gross-up be treated as cost-free capital instead of requiring a refund. Witness Fernald further testified that the shareholders should not receive a windfall due to collecting gross-up when it had no

authority to do so. Witness Fernald also stated on cross-examination that the gross-up collected was not CIAC, and should not be treated as such in the sale of the systems.

Company witness Weeks testified that regardless of what was collected for Windsor Chase and Matthew Commons, rate base should be zero, since the systems were sold. Witness Weeks also testified that the Public Staff's recommendation was inconsistent with the matching principle.

Gross-up was established to pay taxes related to CIAC, so that the net effect of the transaction to the utility should be zero. The collection of gross-up should not have any effect on the net investment in a system by a utility. Furthermore, the Company had no authority to collect gross-up after June 12, 1996. It is inappropriate to allow the Company's shareholders to retain these monies, when they were collected without authority, and are not part of the utility's net investment in the systems sold. The issue is whether these funds should be refunded or treated as cost-free capital. The Commission agrees with the Public Staff that, due to the difficulty in making the refunds since the Company no longer has customer records for these systems, the gross-up collected in these systems should be treated as cost-free capital in this and all future proceedings.

Refund Bradford Park Overcollection

Public Staff witness Fernald testified that the Company overcollected tap fees in the Stonehedge / Bradford Park systems and recommended that the overcollection be refunded to the current property owners with 10% interest compounded annually. The January 27, 1988 contract for the Stonehedge / Bradford Park systems stated that the combined water and sewer connection fee would be $2,300 per single family equivalent. Witness Fernald testified that at the time the contract was signed, water and sewer utilities were required to collect gross-up on CIAC, and in its report filed on November 30, 1992, in Sub 111, the Company indicated that the connection fees for Bradford Park were $441 for water operations and $971 for sewer operations, with the remaining balance of the $2,300 being gross-up. Witness Fernald further noted that these connection fees of $441 and $971 are the amounts currently authorized for Bradford Park on the Company's tariff sheet.

Company witness Weeks opposed the Public Staff's recommendation, since the Company collected its contracted amount for this system. Witness Weeks testified that the Company ceased paying income taxes after 1996 and took the position that the way the contracts were written permitted CWS to retain and continue to collect the fees called for in the agreements. Witness Weeks also testified that the fact that the Public Staff and CWS disagreed does not mean that CWS disregarded the Commission's order to cease collecting gross-up. Finally, witness Weeks stated that any overcollection of tap fees benefits ratepayers by increasing CIAC and reducing rate base, thereby keeping rates low.

This is another instance where the Company continued to collect gross-up after June 12, 1996. The contract for this system was signed during the period that gross-up was required, and the amount of connection fees listed in the contract included gross-up, as stated by the Company in its November 30, 1992 report filed in Sub 111. Therefore, the Commission finds that the Company had no authority to continue collecting gross-up in Bradford Park after June 12, 1996, and that the gross-up collected should be refunded to the current property owners with 10% interest compounded annually. The Commission further concludes that (1) the Company should immediately begin charging its authorized connection fees in Bradford Park and (2) the Company should file, within 60 days of the effective date of this Order, a plan to refund the gross-up collected in Bradford Park to the current property owners, with 10% interest compounded annually.

Reservation of Capacity Fees

Public Staff witness Fernald has included reservation of capacity fees that the Company collected in Rutledge Landing, Stewart's Crossing, Avensong, Brawley Farms, Canford Commons, and other areas in CIAC. Witness Fernald testified that these fees were received from developers for plant costs and capacity and therefore, should be recorded as CIAC. Witness Fernald also noted that in the orders recognizing the contiguous extensions for Rutledge Landing, Stewart's Crossing, Brawley Farms, and Canford Commons, the Commission ordered that the reservation of capacity fees be recorded as CIAC on the Company's books. Witness Fernald testified that the Company did not record the reservation of capacity fees as CIAC as ordered by the Commission, but instead recorded 1/2 of the fee for Rutledge Landing on CWS Systems' books and recorded the fees for Stewart's Crossing and Brawley Farms as deferred credits on Utilities, Inc.'s books. Witness Fernald also testified that the reservation of capacity fee for Avensong had been recorded as miscellaneous income on Utilities, Inc.'s books. Finally, witness Fernald stated that the reservation of capacity fees should be included in CIAC in order to recognize the fact that the Company has the use of this money.

Company witness Weeks testified that, while the reservation of capacity fees should be treated as CIAC, there is an issue of matching and timing. Witness Weeks testified that if the reservation of capacity fees have not yet been used to fund the construction of backbone plant, it is appropriate to book the funds as a deferred credit and delay recognition of the funds as CIAC on the Company's books until the funds are used to purchase plant in service. Witness Weeks further testified that the reservation of capacity fees for Stewart's Crossing, Avensong, and Canford Commons should be included in CIAC since the systems are at build out and all customers have tapped on. On cross-examination, witness Weeks testified that the reservation of capacity fees should begin amortization in the year that the funds were used to purchase plant. Witness Weeks further testified that she began her amortization in the year the fees were collected, and stated that she did not know the year the funds were used.

The parties disagree on when reservation of capacity fees should be included in CIAC for ratemaking purposes. It is the Public Staff's position that these fees should be included in CIAC upon receipt, while the Company believes that the fees should not be included in CIAC until they are used to fund plant improvements. For Rutledge Landing, Brawley Farms, and other areas, the Company takes the position that the reservation of capacity fees should not be included as a reduction to rate base in this case, since the monies have not yet been used to purchase plant. These reservation of capacity fees have been collected from the developer and the utility has the use of this money until the money is used to fund plant additions. When the Company constructs the required plant expansions, such as expanding a wastewater treatment plant, the Company will accrue interest during construction of the plant to recognize the cost of the funds spent by the Company up to the time the project is completed and placed in service. At that time, the plant costs, including AFUDC, will be booked as an addition to plant in service. Just as the cost of money used during construction is recognized by including AFUDC in rate base, the fact that the Company has the use of the reservation of capacity fees should also be recognized, either as part of or in a calculation similar to AFUDC or by including the fees in CIAC upon receipt from the developer. Under the first option, the calculation of the interest on the fees would begin as soon as the reservation of capacity fees are received, and could continue for years, until the plant additions are constructed and placed in service. Due to this, recognizing the receipt of the reservation of capacity fees through this method is not a practical option. Instead, the Commission concludes that the reservation of capacity fees should be included in CIAC in this case, to recognize the fact that the Company has the use of the fees.

As for the Stewart's Crossing, Avensong and Canford Commons reservation of capacity fees, both parties agree that these fees should be included in CIAC in this case, and the only issue is when the fees should begin amortization. While it is the Company's position that the fees should begin amortization in the year the funds are spent on plant and included in CIAC, this is not how the Company actually calculated the amortization on its schedules. The Company did not know the year the funds were used to purchase plant, and began the amortization in the year the funds were received, which is inconsistent with the Company's own position, and results in the ratepayers never receiving the full benefit of the fees. The fact that the Company was unable to properly calculate the amortization illustrates the difficulty in keeping track of these fees and determining when specific fees are used to purchase plant. Since the Commission has found that reservation of capacity fees should be included in CIAC upon receipt, the amortization of the fees should begin in the year the fees are received.

Based on the foregoing, the Commission concludes that the appropriate level of reservation of capacity fees, net of amortization, to include in CIAC is $285,230, consisting of $136,764 for water operations and $148,466 for sewer operations.

Management Fees

The Public Staff made an adjustment to include in CIAC management fees that should have been collected since the last rate case, including management fees for 419 taps in the Cambridge subdivision and management fees for the Covington Cross system. The Public Staff also recommended that management fees that the Company overcollected in the Turtle Rock and Strathmoor systems be refunded to the current property owners with 10% interest compounded annually.

In her rebuttal testimony, Company witness Weeks agreed with the Public Staff's recommendation to refund the overcollections in Turtle Rock and Strathmoor, but proposed that the refund be made at an 8% interest rate. Witness Weeks opposed the Public Staff's adjustment to include the Cambridge management fees in CIAC. Although witness Weeks acknowledged that the Company did not collect management fees in Cambridge when they were authorized to do so, she stated that the Company's failure to do so was inadvertent. Witness Weeks further stated that, "of the many connection and management fees the Company collects each month, from time to time it will make mistakes." In the alternative, witness Weeks stated that if the Commission imputed the management fees, then the Company should be allowed to assess the current property owners for the fees. Finally, witness Weeks testified that the Covington Cross management fee of $100 per connection should be split between water and sewer operations, and since the water system is under CWS Systems, only one-half of the $100 fee should be included in CIAC in this case.

The first difference between the parties regarding management fees concerns the appropriate interest rate to be used in the calculation of refunds for the Turtle Rock and Strathmoor systems. As previously discussed under the refund of gross-up section, the Commission has found that 10% continues to be a fair and reasonable rate for utility refunds. Therefore, the Commission concludes that the Company should be required to refund the overcollection of management fees in the Turtle Rock and Strathmoor systems to the current property owners, with 10% interest compounded annually, and that the Company should file a refund plan within 60 days of the effective date of this order.

The next difference concerning management fees pertains to the fees for the Cambridge system. As previously discussed, it is the responsibility of management of the utility company to collect its authorized rates, including management fees. The Commission concludes that the Public Staff's adjustment to include the management fees that should have been collected in Cambridge in CIAC is appropriate. The Commission further concludes that the ratepayers should not be required to pay rates to allow a return on plant investment that should have been recovered through authorized management fee collections.

As to whether the Company should be allowed to assess the current property owners for these fees, as previously discussed, there is no statutory authority for assessing the customers for undercollections that were the result of the actions of the Company. Furthermore, the fees in question were for the years 1993 through 1999; the Company did not request an assessment until 2004, some five years later; and the Company should be estopped from now seeking and recovering an assessment. The Commission therefore concludes that the Company is not entitled to assess the current property owners in the Cambridge subdivision for management fees that it failed to charge.

Finally, the parties disagree on the level of fees to be included in CIAC for the Covington Cross system. The Public Staff calculated the management fees for the Covington Cross system based on a fee of $100 per lot, while the Company used both $50 and $100 per lot. In her rebuttal testimony, Company witness Weeks testified that the $100 management fee should be split between water and sewer operations, and since the water system is under CWS Systems, only one-half of the $100 fee should be included in CIAC in this case.

The management fee for the Covington Cross sewer system is set froth in the contract with the developer, which was filed in Docket No. W-354, Sub 171. This contract is just for the sewer system, and clearly states that the management fee is $100. On cross-examination, witness Weeks agreed that the $100 management fee should not be split between water and sewer operations. Therefore, the Commission concludes that the management fee for Covington Cross is $100 for sewer operations. Based on the $100 management fee, the management fees, net of amortization, to be included in CIAC for Covington Cross are $8,857, as recommended by the Public Staff.

Summary

Based on the foregoing, the Commission concludes that the appropriate amount of CIAC, net of amortization, is $18,536,122 for water operations and $15,416,949 for sewer operations.

ACCUMULATED DEFERRED INCOME TAXES

The parties disagree on the amount of ADIT to deduct from rate base in this proceeding. The Public Staff recommends an amount of $3,396,528 for water operations, which is $654,233 greater than the Company's proposed amount of $2,742,295. The Public Staff also recommends an amount of $2,033,281 for sewer operations, which is $380,873 more than the Company's proposed amount of $1,652,408. The differences in the level of ADIT recommended by the parties consist of the following items:

Item	Water	Sewer
ADIT - plant modification fees	$ 524,691	$ 302,814
ADIT - rate case expense	4,751	2,864
ADIT - deferred maintenance	(2,291)	(1,380)
ADIT - depreciation	127,082	76,575
Total	$ 654,233	$ 380,873

ADIT - Plant Modification Fees

Witness Fernald has removed from federal ADIT $670,712 and from state ADIT $156,793 associated with plant modification fees received by the Company in 2001, 2002, and 2003. CWS has included all cash payments received as tap fees as taxable income for tax purposes and has included a debit balance in ADIT associated with the receipt of plant modification fees. Witness Fernald testified that CWS collects plant modification fees for the expansion of and improvements for the utility system. Witness Fernald testified that the Public Staff had requested CWS's external auditors' opinion on the taxability of plant modification fees but has not received a response. Witness Fernald removed an amount of ADIT related to plant modification fees based on information available as of the date of her testimony because the Company had not provided the basis for taxing plant modification fees under the tax law changes.

CWS takes the position that plant modification fees are taxable income under the Job Protection Act of 1996. CWS has treated plant modification fees as taxable income and has actually paid tax on them. CWS has followed this procedure based on consultation with its tax experts, PriceWaterhouseCoopers.

On cross-examination, CWS asked witness Fernald to identify the authority she relied upon in support of her position that the post-2000 plant modification fees were not taxable. She identified the IRS final regulation issued on January 11, 2001. Witness Fernald cited portions of the regulation exempting Contributions in Aid of Construction from taxable income generally but listing as an exception customer connection fees.

In particular, witness Fernald cited Section (b)(1) on page 2255:

> (b) Contribution in aid of construction – (1) In general. For purposes of Section 118(e) and this section, the term contribution in aid of construction means any amount of money or other property contributed to a regulated public utility that provides water or sewage disposal service to the extent that the purpose of the contribution is to provide for the expansion, improvement, or replacement of the utility's water or sewage disposal facilities.

Witness Fernald also cited Section (b)(3)(i) on page 2255. This portion of the regulation exempts from the definition of nontaxable CIAC customer connection fees:

> (3) Customer connection fee – (i) In general. Except as provided in paragraph (b)(3)(ii) of this section, a customer connection fee is not a

contribution in aid of construction under this paragraph (b) and generally is includible in income. The term customer connection fee includes any amount of money or other property transferred to the utility representing the cost of installing a connection or service line (including the cost of meters and piping) from the utility's main water or sewer lines to the line owned by the customer or potential customer. A customer connection fee also includes any amount paid as a service charge for starting or stopping service.

In support of its position that plant modification fees are taxable, CWS relies on other paragraphs of the same regulation. CWS relied upon paragraph (b)(4)(i):

> (4) Reimbursement for a facility previously placed in service – (i) In general. If a water or sewage disposal facility is placed in service by the utility before an amount is contributed to the utility, the contribution is not a contribution in aid of construction under this paragraph (b) with respect to the cost of the facility unless, no later than 5½ months after the close of the taxable year in which the facility was placed in service, there is agreement, binding under local law, that the utility is to receive the amount as reimbursement for the cost of acquiring or constructing the facility.

CWS also cites Section (b)(5):

> (5) Classification of ratemaking authority. The fact that the applicable ratemaking authority classifies any money or other property received by a utility as a contribution is not conclusive as to its treatment under this paragraph (b).

In addition, CWS filed as a late filed exhibit a memorandum from PriceWaterhouseCoopers in which the firm stated that it agreed with CWS's tax treatment of plant modification fees. The Public Staff lodged no objection to Commission consideration of this late-filed exhibit. Specifically, Mr. Jerry Cahill stated that, for the 2001 through 2003 tax returns, "plant modification fees and tax/connection fees were properly included in taxable income on each tax return under the provisions of Internal Revenue Code Section 118 and Income Tax regulations thereunder." Finally, Public Staff witness Lucas testified on cross-examination that CWS serves in a number of subdivisions where the backbone facilities are in place before the residences in the subdivision are completely built out. Thereafter, infill occurs, and both tap fees and plant modification fees are assessed when new residences make connection to the water and sewer system. This testimony supports CWS's position that paragraph (b)(4)(i) is controlling. As a result the Commission concludes that CWS appropriately treated the plant modification fees as taxable income.

Based on the foregoing, the Commission concludes that CWS has appropriately accounted for such plant modification fees and that the appropriate amount of ADIT related to plant modification fees is $554,465 for water operations and $422,257 for sewer operations.

ADIT - Rate Case Expense

The Public Staff and the Company are recommending different amounts of ADIT related to rate case expense due to the differing levels of unamortized rate case expense. Based on its conclusions reached elsewhere in this Order regarding the appropriate level of unamortized rate case expense, the Commission concludes that the amount of ADIT related to rate case expense to deduct from rate base is $34,270 for water operations and $20,651 for sewer operations.

ADIT - Deferred Maintenance

The difference in the level of ADIT related to deferred maintenance is due to the different levels of deferred maintenance included by the parties in rate base. Based on the level of deferred maintenance costs to be included in rate base determined elsewhere in this Order, the Commission concludes that the amount of ADIT related to deferred maintenance to be deducted from rate base is $136,231 for water operations and $82,088 for sewer operations.

ADIT - Depreciation

The only difference between the parties in the calculation of ADIT - depreciation relates to the amount of pro forma plant additions to be included in the calculation. The Public Staff included the total amount of pro forma plant additions of $4,654,673 in its calculation, while the Company reduced the pro forma plant additions by the retirements of $1,057,221 before calculating depreciation.

The purpose of the calculation is to update ADIT to recognize the additional plant included in the rate case. The Company will be able to claim on its tax returns depreciation, including the 50% bonus depreciation, for the total amount of plant additions made, not just the amount net of retirements. Therefore, it is appropriate to calculate the adjustment to ADIT - depreciation based on the total pro forma plant additions.

Summary

Based on the foregoing, the Commission concludes that the appropriate amount of ADIT to deduct from rate base in this proceeding is $2,920,893 for water operations and $1,671,871 for sewer operations.

DEFERRED CHARGES

The Company and the Public Staff have recommended different levels of deferred charges as a result of maintenance expenses and rate case expense. As to the difference in deferred charges related to maintenance expenses, in her rebuttal testimony Company witness Weeks testified that Public Staff witness Henry omitted

deferred charges of $13,294 from rate base. On cross-examination, witness Weeks stated that the $13,294 related to VOC testing. Public Staff witness Henry testified that he did not include VOC testing in deferred charges in rate base since the Commission has previously ruled that VOC tests are regular tests and should not be included in deferred charges.

In its final schedules filed on January 7, 2005, the Company increased the deferred charges for maintenance items from $403,546 to $575,791. In the final schedules filed by the Public Staff on January 12, 2005, the Public Staff increased its recommended level of deferred charges to $566,269, which is $9,522 less than the Company's final amount.

There is no testimony or evidence in the record explaining the difference between the parties' recommended levels of deferred charges for maintenance items. At the hearing, the difference between the parties' positions was due to VOC testing. The Commission has previously addressed the issue of deferred charges related to VOC testing in prior rate cases. In the last rate case, Docket No. W-354, Sub 128, the Commission found that an unamortized balance of VOC testing should not be included in deferred charges, since the Commission had not authorized specific cost recovery of VOC testing expenses but instead had included a normalized level of ongoing costs expenses.

Based on the note on Late Filed Exhibit KEW 3 indicating that the Company's amounts exclude VOC testing, it appears that the difference between the parties is no longer due to VOC testing. However, the Company has not provided any testimony or evidence that there are additional costs for which the Commission has authorized specific cost recovery, instead of including a normalized level in expenses. Since the Company has not provided any testimony or evidence supporting any additional deferred charges, the Commission concludes that the amount of unamortized deferred charges related to maintenance items recommended by the Public Staff is appropriate for use in this proceeding.

Elsewhere in this Order, the Commission has addressed the appropriate level of rate case expense to include in this proceeding and the amortization period for those rate case costs. Based on those conclusions, 2/3 of the rate case costs for this proceeding should be included in deferred charges.

Based on the foregoing, the Commission concludes that the appropriate level of deferred charges to include in rate base is $708,721, consisting of $482,129 for water operations and $226,592 for sewer operations.

COST-FREE CAPITAL

As previously discussed under CIAC, due to the difficulty in making the refunds since the Company no longer has customer records for the systems that have been

sold, the gross-up collected in these systems should be treated as cost-free capital in this case.

SUMMARY CONCLUSION

Based on the foregoing, the Commission finds and concludes that the appropriate level of rate base for use in this proceeding is $30,372,584, of which $19,542,600 is applicable to water operations and $10,829,984 is applicable to sewer operations.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 52 - 60

The evidence supporting these findings is contained in the testimony of Public Staff witnesses Henry, Lucas and Fernald and Company witnesses Lubertozzi, Weeks and Daniel. The following tables summarize the amounts which the Company and the Public Staff contend are the proper levels of revenues to be used in this proceeding:

WATER OPERATIONS

Item	Company	Public Staff	Difference
Service revenues	$ 6,747,099	$ 6,896,512	$ 149,413
Miscellaneous revenues	133,966	208,366	74,400
Uncollectible accounts	(35,753)	(36,552)	(799)
Total operating revenues	$ 6,845,312	$ 7,068,326	$ 223,014

SEWER OPERATIONS

Item	Company	Public Staff	Difference
Service revenues	$ 5,340,312	$ 5,356,689	$ 16,377
Miscellaneous revenues	63,187	63,187	0
Uncollectible accounts	(27,770)	(27,855)	(85)
Total operating revenues	$ 5,375,729	$ 5,392,021	$ 16,292

As shown in the preceding tables, the Public Staff and the Company agree on the level of miscellaneous sewer revenues. Therefore, the Commission finds and concludes that the level agreed to by the parties for this item is appropriate for use in this proceeding.

SERVICE REVENUES

The parties disagree on the best way to determine water and sewer consumption. There is no dispute that the test year saw an unusually high rainfall. Public Staff witness Hinton testified that his statistical analysis showed that the 63.03 inches of rainfall, and the 139 days of rain observed during the 2003 test year in CWS's service area was abnormally high. He maintained that this unusually high rainfall contributed to a significantly lower number of gallons sold during the test year.

The parties generally agreed that an adjustment to the 2003 consumption amount was in order. Calculation of the appropriate adjustment was complicated by the fact that the Company was only able to provide consumption records for the years 1992, 1996, 2001, 2002, and 2003. The Company recommended averaging the water consumption per REU for all five available years. However, the Public Staff recommended averaging the water consumption per REU only for the years 2001, 2002, and 2003, because, as acknowledged by Company witness Daniel, some of the Company's newer systems have appreciably higher water demand per connection as a result of such features as in-ground irrigation systems and because total water consumption increased every year from 1999 through 2002 before decreasing in 2003, as shown by the Company's Annual Reports.

On cross-examination, Public Staff witness Hinton acknowledged that the level of rainfall recorded in the Company's service area has ranged from a 30-year low in 2001 to a 30-year high in 2003. However, witness Hinton noted that the rainfall data averaged over the past three years, 45.49 inches, was close to the rainfall data averaged over the past thirty years, 44.67 inches, and that the three-year average of 112 days of rain is close to the 30-year average of 114 days. The rainfall data is presented in witness Hinton's Appendix A, page 9 of 12.

On the basis of the unusually heavy rainfall during the test year, the Commission is convinced that the test period level of water consumption should be adjusted. Because of the apparent increase in per customer usage over time, the consumption amounts for the years 1992 and 1996 are no longer representative and should not be used.

Based on the foregoing, the Commission concludes that the best method to determine water consumption is by averaging the water consumption per REU for 2001, 2002, and 2003, resulting in an average consumption of 5,300 gallons per month per REU, which is an 8.1% increase over the average consumption during 2003. Similarly, the best method to determine sewer consumption is by averaging the sewer consumption per metered REU for 2001, 2002, and 2003, resulting in an average consumption for sewer operations of 8,233 per month per metered sewer REU. Based on these average consumption amounts, the service revenues under existing rates are $6,896,512 for water operations and $5,356,689 for sewer operations.

MISCELLANEOUS WATER REVENUES

The parties disagree on the appropriate treatment of $74,400 of revenues from antenna space rentals. Public Staff witness Fernald testified that the Company recorded these revenues on Utilities, Inc.'s books, while recording the legal expenses associated with the leases on CWS's books. Witness Fernald further testified that, since the revenues are from the rental of elevated storage tanks, whose costs are being recovered from ratepayers, it is appropriate to flow the benefit of the lease payments to ratepayers, similar to the treatment of pole attachment revenue for electric companies.

Company witness Lubertozzi testified that the antenna lease revenues and legal fees should be recorded in nonutility income (Account 421) and miscellaneous nonutility expenses (Account 426), respectively, and should not be included in miscellaneous revenues in this case. Witness Lubertozzi further testified that property on which the antennas are connected belongs to the utility rather than the ratepayer and that the rates paid by the customers do not entitle them to any equitable interest in the Company's property. Witness Lubertozzi also testified that the Public Staff's position does not consider the fact that the assets on which the antennas are attached were contributed, and that the Company is not earning a return on the assets in question.

The Commission agrees with the Public Staff that the revenues from antenna space rentals are incidental revenues and should be included in miscellaneous revenues in this case. This treatment is consistent with the treatment of pole attachment revenues for electric companies, and with the treatment of antenna lease revenues for Heater Utilities, Inc. The Commission does not agree that the appropriate accounts for the leases are nonutility income and expense accounts, as stated by Company witness Lubertozzi. Under the Uniform System of Accounts (USoA) for Class A Water Utilities, which the Company should be following under Rule R7-35, revenues from antenna space rentals should be included in water operating revenues under Account 472 - Rents from Water Property. As stated in the USoA, this account shall include rents received for the use by others of land, buildings and other property devoted to water operations by the utility.

The fact that the elevated tanks to which the antennas are attached may have been contributed to the utility does not change the proper ratemaking and accounting treatment of these revenues. If the tanks were contributed, the shareholders have no investment in the property generating the revenues, and should not receive a windfall from the leases. Also, if the tanks were contributed, the developers who contributed the tanks recovered their costs through the sale of lots, so that, ultimately, the ratepayers have paid for the tanks. Finally, even though the Company proposes to include the revenues in nonutility income, the Company does not propose allocating any of the costs associated with the tanks, such as maintenance, property taxes, and deprecation expense, to nonutility operations.

UNCOLLECTIBLE ACCOUNTS

The difference between the Company and the Public Staff regarding uncollectible accounts results from the application of the uncollectible percentages to different levels of service and miscellaneous revenues recommended by the Company and the Public Staff. Having determined the appropriate level of service and miscellaneous revenues elsewhere in this Order, the Commission concludes that the appropriate level of uncollectible accounts is $36,552 for water operations and $27,855 for sewer operations.

SUMMARY CONCLUSION

Based on the foregoing, the Commission finds and concludes that the appropriate level of revenues under present rates for use in this proceeding is $12,460,347, of which $7,068,326 is applicable to water operations and $5,392,021 is applicable to sewer operations.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 61

The evidence supporting this finding is contained in the testimony of Public Staff witness Lucas and Company witnesses Lubertozzi and Daniel and is not contested in this proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 62 - 72

The evidence supporting these findings is contained in the testimony of Public Staff witnesses Henry, Lucas and Fernald and Company witnesses Lubertozzi, Weeks and Daniel. The following tables summarize the amounts that the Company and the Public Staff contend are the proper levels of maintenance expenses to be used in this proceeding:

WATER OPERATIONS

Item	Company	Public Staff	Difference
Salaries and wages	$ 1,373,215	$ 1,102,285	$ (270,930)
Purchased power	560,302	560,302	0
Purchased water	422,317	395,489	(26,828)
Maintenance and repairs	577,615	577,333	(282)
Maintenance testing	91,538	91,538	0
Meter reading	113,475	113,475	0
Chemicals	230,736	230,736	0
Transportation	126,026	126,026	0
Operating expenses charges to plant	(568,099)	(456,015)	112,084
Outside services – other	167,857	88,710	(79,147)
Total maintenance expenses	$ 3,094,982	$ 2,829,879	$ (265,103)

SEWER OPERATIONS

Item	Company	Public Staff	Difference
Salaries and wages	$ 827,448	$ 664,196	$ (163,252)
Purchased power	467,906	467,906	0
Purchased sewer	12,788	12,788	0
Maintenance and repairs	1,451,783	1,341,033	(110,750)
Maintenance testing	166,681	166,681	0
Meter reading	0	0	0
Chemicals	139,033	139,033	0
Transportation	75,939	75,939	0
Operating expenses charges to plant	(342,315)	(274,778)	67,537
Outside services – other	53,454	53,454	0
Total maintenance expenses	$ 2,852,717	$ 2,646,252	$ (206,465)

As shown in the preceding tables, the Public Staff and the Company agree on the levels of purchased power, purchased sewer, maintenance testing, meter reading, chemicals, transportation, and sewer outside services – other. Therefore, the Commission finds and concludes that the levels agreed to by the parties for these items are appropriate for use in this proceeding.

SALARIES AND WAGES

CWS has included in salary and wage expense costs for additional employees needed to comply with newly required daily chlorine testing. CWS witness Daniel explained the need for the new employees. N.C. Division of Environmental Health (DEH), pursuant to Rule #T15A: 18A. 1303(b), currently is requiring the daily chlorine residual monitoring (365 days/year) of chlorine residuals of all entry points and in the distribution system of water systems. Several of DEH's compliance inspection reports of CWS systems noted deficiencies for water systems not conducting daily chlorine checks.

Witness Daniel testified that CWS has evaluated the new DEH requirement to determine the most feasible and economical way of complying with this rule. Due to the significant number of CWS water systems and entry points spread across North Carolina, witness Daniel testified that CWS would require an additional 15 certified operators to conduct the daily chlorine residual tests of each entry point and in the water distribution system.

Witness Daniel testified that CWS had begun the hiring process for the 15 operators. CWS is advertising for additional operators throughout the state. CWS also has implemented an Employee Hiring Incentive Bonus Program rewarding existing employees who refer eligible applicants. If the referred applicant is hired and completes

his or her probationary period, the referring employee receives an incentive bonus. Witness Daniel testified that the Public Staff and the Commission Staff both are aware of the new DEH requirement and the cost impact on the CWS customers and CWS as well as other water companies throughout the State.

The Commission determines that it should allow the costs CWS must incur to comply with the new regulatory requirements to be included in salaries and wages expense for rate-making purposes.. The new daily chlorine testing is a known and measurable change that was in place before the hearing in this case concluded. CWS has also, prior to the close of the case, begun to undertake the steps to comply with these new requirements. Compliance with the requirements is not optional. CWS must comply. These requirements are imposed on CWS by environmental regulators. Should the Commission refuse to allow recovery of these costs, CWS will be adding significant costs to fulfill its service responsibilities to its customers that will not be recovered through rates. This will result in immediate attrition and pressure to again increase rates.

The Commission concludes that salaries of $434,182 for fifteen new certified operators should be included in this case.

PURCHASED WATER

The parties disagree on the amount of purchased water expense. In its application for a rate increase, the Company applied an inflation adjustment to the cost of purchased water to recognize price increases. The Public Staff agreed that purchased water expense should be included in the inflation adjustment and made a similar adjustment in its prefiled testimony. At that point in time, the parties were in agreement on this issue. However, in his rebuttal testimony, Company witness Lubertozzi proposed an adjustment to purchased water expense to recognize increases in the rates charged by seven CWS providers. Witness Lubertozzi also applied the inflation adjustment to his adjusted level of purchased water expense, including the separate adjustment that he had already made to purchased water to recognize increases in prices. Finally, in the final exhibits filed by the Company on January 7, 2005, the Company revised the calculation of the inflation adjustment to exclude the adjustment that it had made to purchased water expense to reflect the increase in prices.

The disagreement between the parties concerns how price changes for purchased water should be recognized. This disagreement did not arise until the Company filed its rebuttal testimony, at which time it proposed a new adjustment to purchased water to recognize the increase in charges by its suppliers. Company witness Lubertozzi testified that, after reviewing the purchased water invoices, he determined that seven of the providers had increased either their base facility or usage charges. Witness Lubertozzi adjusted purchased water expense to recognize these price increases. Public Staff witness Lucas testified at the hearing that some of the

items to which the inflation factor had been applied may have gone up by more than the 3.3% inflation factor and some may have gone up by less than 3.3%. Therefore, he recommended against pulling out a single item, such as purchased water and increasing it independently of the others. Witness Lucas also testified that he had not been able to review all of the Company's purchased water invoices for 2003.

The Commission agrees with the Public Staff on this issue. The Company has, in effect, made an adjustment to recognize price increases for purchased water twice, once through the inflation adjustment, and again by making a separate adjustment to purchased water expense for price increases. The Company appears to try to recognize this problem in its final schedules, but only removes the adjustment to purchased water from the inflation calculation, and not the total purchased water costs.

An inflation adjustment is made in order to recognize the overall increase in costs for a variety of expenses. Some of these expenses may not have changed since the test year. Some may have increased by less than the inflation adjustment, and some may have increased by more. Separating a portion of one expense from the many expenses adjusted for inflation is not appropriate. Therefore, the Commission concludes that the appropriate amount of purchased water expense is $395,489 before any annualization and inflation adjustments.

MAINTENANCE AND REPAIRS

The difference in the levels of maintenance and repairs recommended by the Company and the Public Staff is composed of the following:

Item	Water	Sewer
Deferred charges	$ (282)	$ (2,666)
Maintenance and repairs – sludge removal	0	(108,084)
Total	$ (282)	$(110,750)

Deferred Charges

The parties disagree on the level of amortization of deferred charges to include in expenses. In her rebuttal testimony, Company witness Weeks testified that $72 was missing from the Public Staff's recommended level of deferred expenses. Public Staff witness Henry testified at the hearing that the error of $72 relating to the amortization of deferred charges for water operations should be corrected. Based on the testimony of the parties at the hearing, it appeared that they were in agreement on the level of deferred expenses to be included in this case. However, when the Company filed its final schedules on January 7, 2005, it increased the level of deferred expenses from $151,992 to $197,924. In the final schedules filed by the Public Staff on January 12, 2005, the Public Staff increased deferred expenses to $194,976, which is

$2,948 less than the Company's final amounts. The Company has not provided any testimony or evidence supporting the increase in deferred expenses. Since the Company has failed to provide evidence supporting any additional deferred expenses above the amount included by the Public Staff in its final schedules, the Commission concludes that the levels proposed by the Public Staff are appropriate for use in this proceeding.

Maintenance and Repairs - Sludge Removal

The parties disagree on the amount of sludge hauling expense, which covers all expenses related to sludge transport and disposal. Public Staff witness Lucas recommended a sludge hauling expense of $757,834, before the inflation adjustment. The Company recommended that the sludge hauling expense remain at the test year level of $865,918.

CWS relies on Bio-Tech, Inc., an affiliated company, to dispose of a substantial percentage of its sludge. Witness Lucas testified that CWS can accomplish its sludge transport and disposal for less expense than using Bio-Tech. Bio-Tech charges 4 to 5 cents per gallon to dispose of sludge from the CWS sewer plants in the Charlotte area. Witness Lucas testified that less expensive options exist in the Charlotte area. Witness Lucas testified that Bio-Tech charges 4 cents per gallon for sludge disposal. However, the Water and Sewer Authority of Cabarrus County charges 3 cents per gallon, and CMU charges 3.5 cents per gallon. According to witness Lucas, Bio-Tech charges 5 cents per gallon to transport sludge to the Bio-Tech disposal site near Columbia, South Carolina.

Witness Lucas calculated that Bio-Tech's total sludge transport and disposal cost during 2003 ranged from 7 to 10 cents per gallon for sewer plants in the Charlotte area. Witness Lucas calculated that an alternative provider CWS uses in the Charlotte area charges 6.75 cents per gallon for transport and disposal. For CWS's Old Point sewer plant in Pender County, Bio-Tech charges 10 cents per gallon, while the alternative provider charges 8.93 cents per gallon. Witness Lucas recommends that CWS always use the lowest cost option.

CWS witnesses Daniel and Lubertozzi testified in opposition to witness Lucas sludge hauling adjustment. They testified that CWS must look into aspects of sludge hauling services other than the bottom line costs. Reliability and quality also are important.

Witness Daniel testified that Bio-Tech has large sludge holding tanks and an application site that are designed to allow Bio-Tech to haul sludge 365 days per year; therefore, Bio-Tech's sludge hauling capabilities are much less affected by weather. Witness Daniel testified that smaller sludge hauling contractors do not have storage capabilities and haul with smaller tank trucks directly to their disposal sites where the sludge must be immediately applied.

Witness Daniel related instances where CWS had been denied service during rainy conditions because the application fields were too wet. He testified that the inability of these alternative providers to haul sludge lasted from one to several days. This placed the CWS plants in jeopardy of non-compliance. In contrast, Bio-Tech has never denied service.

Witness Daniel testified that Bio-Tech conducts a quality operation that protects CWS against potential liabilities and reduces CWS's operations expense by providing testing and reporting services other sludge hauling contractors do not provide. In particular, Bio-Tech provides toxicity character leaching procedure (TCLP) testing on a reoccurring basis. Other sludge hauling contractors require the utility to conduct this testing at its own expense.

Witness Daniel testified that Bio-Tech performs Microtox testing on every load of sludge transported to its facility to ensure that Bio-Tech limits CWS's liability. This testing insures that there is evidence that CWS's sludge is not hazardous to the environment. Most other sludge hauling contractors require the utility to be responsible for this liability.

Witness Daniel testified that small waste haulers who directly apply sludge to their fields require CWS to stabilize sludge to a 12 pH before it is hauled. Most sludge has a natural pH of 6.8 to 7.5.

CWS witness Lubertozzi testified that Bio-Tech provides a higher level of service and more services than some of the vendors identified by witness Lucas. Witness Lubertozzi testified that the Public Staff had failed to include in its analysis whether the "local" providers can accommodate the amount of sludge CWS produces. Witness Lubertozzi conducted his own analysis and concluded that the charges by the local providers as reported by witness Lucas were inconsistent with actual costs.

When witness Lubertozzi contacted the local providers listed by witness Lucas, some advised that they do not perform the testing services Bio-Tech provides. Others cannot haul sludge. Witness Lubertozzi testified that CWS would have to contract with a licensed waste hauler.

Witness Lubertozzi communicated with Bio-Nomic, Inc., which reported that it would charge CWS 3 cents to 4 cents per gallon to haul CWS's sludge. Contrary to what the Public Staff had reported, Bio-Nomic reported that it could not haul sludge for 2 cents per gallon because 2 cents per gallon would not cover the cost of fuel for the hauling truck.

Another local provider contacted by witness Lubertozzi reported that it did not wish to haul the CWS sludge or to undertake the responsibility or liability for accepting CWS's sludge. Other local providers stated that they too would be unwilling to accept

the CWS sludge at the price stated by witness Lucas without more information on the percent to solid ratio, volume and frequency.

Based on information provided by witness Lucas, witness Lubertozzi calculated an average cost for all providers of $0.0923 per gallon, an average cost for providers excluding Bio-Tech of $0.0967, and a Bio-Tech cost per gallon of $0.0876. Witness Lubertozzi concluded from this analysis that the Public Staff analysis may be skewed by vendors willing to quote a lower price in an attempt to obtain new business. Witness Lubertozzi testified that price should not be the only consideration taken into account in determining whether sludge hauling costs should be recovered. Witness Lubertozzi testified that management's decision to hire Bio-Tech was a prudent one, and it is inappropriate to second guess this decision on the basis of hindsight as the Public Staff has done.

The Commission concludes that it should reject the Public Staff adjustment and include the full Bio-Tech test year costs in maintenance and repair cost. The Public Staff investigation has been one to identify the lowest possible cost combination of service without appropriate regard to other salient factors such as reliability and quality of service. It is inappropriate to disallow actual costs on the theory that for some sewage treatment plants a lower cost provider is available without obtaining assurances that the low-cost alternative provider can provide a comparable level of service. If for certain sewage treatment plants, CWS can save sludge hauling costs by using a local provider rather than Bio-Tech, but if CWS must incur additional costs for pH-balance or testing, the net impact may be no net financial benefit at all. The Public Staff has failed to include the additional costs in cost of service CWS would incur if it had not used Bio-Tech but other providers that did not test or balance the pH.

Based on the cross-examination it appears that CWS has more options in the Piedmont area than in the less populous areas of the State such as on the Eastern Seaboard. Obviously, CWS and its ratepayers benefit from the ability to have access to a readily available, reasonably priced sludge hauling provider that will not withhold its services for the difficult to serve routes.

Based on the foregoing, the Commission concludes that the appropriate amount for maintenance and repairs expense is $577,333 for water operations and $1,449,117 for sewer operations.

OPERATING EXPENSE CHARGED TO PLANT

The only difference in the parties' levels of operating expenses charged to plant relates to an adjustment made by the Company to increase maintenance salaries for fifteen additional operators. Both the Company and the Public Staff used the same methodology to calculate operating expenses charged to plant but disagree on the amount of maintenance salaries that should be used in the computation of an ongoing level of expense. Having determined the appropriate level of maintenance salaries

elsewhere in this Order, the Commission concludes that the appropriate level of operating expenses charged to plant is $910,414, of which $568,099 is applicable for water operations and $342,315 is applicable to sewer operations.

WATER OUTSIDE SERVICES – OTHER

The only area of disagreement between CWS and the Public Staff concerning outside services for water operations is related to legal fees for Pine Knoll Shores (PKS) incurred from 1995 through 2002. The Public Staff removed these legal fees from plant in service and excluded them from test year expenses, while the Company also removed these legal fees from plant in service but amortized them to expenses over a seven-year period.

The Public Staff argues that the legal fees associated with CWS's PKS litigation are improperly listed under the category of organizational costs. The Public Staff believes that these expenses, incurred between 1995 and 2002, should be accounted for under the Other category. The Public Staff bases its proposition on the fact that the legal fees do not fit under the category of organizational costs as defined in the Uniform System of Accounts.[2] Further, he believes that the fees should not be recovered from the ratepayers as an expense because the utility's customers did not benefit from the lawsuit.

Although CWS agrees that the legal fees to do not fit neatly under the organizational costs category, it nevertheless feels the costs should be amortized. CWS further alleges that the Public Staff has made a determination without understanding the history of the litigation or the other issues addressed by the parties. Overall, CWS claims that the litigation was undertaken on behalf of its ratepayers and the ratepayer's interests were benefited.

The Commission, like the Public Staff and CWS, recognizes that the legal fees do not fit within the definition of category costs provided by the Uniform System of Accounts. However, the Commission does not entirely agree with both parties regarding the litigation costs. It is clear from CWS description of the history that both ratepayers and shareholders actually benefited to some degree from CWS' participation in this litigation. As CWS indicated in its proposed order, in 1995 the Town approached CWS about transferring the water system. When CWS refused, the Town began constructing a duplicate system paralleling CWS's lines. This led to a bevy of court proceedings in which it was finally decided that the restrictive covenants upon which CWS relied did not preclude the Town from building its system. The Town ultimately was unable to continue its efforts with the system.

[2] According to the Public Staff, the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) for Class A water utilities defines organizational costs as:
all fees paid to federal or state governments for the privilege of incorporation and expenditures incident to organizing the corporation, partnership or other enterprise and putting it into readiness to do business.

The Commission believes, upon consideration of the entire record, that the legal expenses in question were actually incurred in the course of the Company's operations. In addition, the Commission believes that, while the legal expenses in question were primarily incurred for the benefit of the Company's stockholders, they also had potential benefits for the ratepayers for the reasons given by CWS. As a result, in the exercise of its discretion, the Commission concludes that one-half of the legal fees in question should be treated as an allowable operating expense and amortized to rates.

Based on the foregoing, the Commission concludes that the appropriate level of outside services - other for water operations is $128,284.

SUMMARY CONCLUSION

Based on the foregoing, the Commission finds and concludes that the appropriate level of maintenance expenses for use in this proceeding is $5,878,350, of which $3,028,299 is applicable to water operations and $2,850,051 is applicable to sewer operations.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 73 - 83

The evidence supporting these findings is contained in the testimony of Public Staff witnesses Henry, Lucas and Fernald and Company witnesses Lubertozzi, Weeks and Daniel. The following tables summarize the amounts that the Company and the Public Staff contend are the proper levels of general expenses to be used in this proceeding:

WATER OPERATIONS

Item	Company	Public Staff	Difference
Salaries and wages	$ 431,734	$ 400,523	$ (31,211)
Office supplies & other office expense	203,702	203,702	0
Regulatory commission expense	46,004	26,083	(19,921)
Pension and other benefits	382,591	296,675	(85,916)
Rent	35,696	35,696	0
Insurance	202,068	202,068	0
Office utilities	100,749	100,749	0
Miscellaneous	45,235	45,235	0
WSC expense adjustment	(20,807)	(20,807)	0
Interest on customer deposits	14,768	14,768	0
Annualization adjustment	149,210	204,159	54,949
Inflation adjustment	84,930	83,302	(1,628)
Total general expenses	$ 1,675,880	$ 1,592,153	$ (83,727)

SEWER OPERATIONS

Item	Company	Public Staff	Difference
Salaries and wages	$ 260,147	$ 241,340	$ (18,807)
Office supplies & other office expense	122,744	122,744	0
Regulatory commission expense	27,720	15,716	(12,004)
Pension and other benefits	230,536	178,765	(51,771)
Rent	21,509	21,509	0
Insurance	121,759	121,759	0
Office utilities	60,708	60,708	0
Miscellaneous	23,849	23,849	0
WSC expense adjustment	(12,537)	(12,537)	0
Interest on customer deposits	8,899	8,899	0
Annualization adjustment	322,593	329,769	7,176
Inflation adjustment	93,184	88,061	(5,123)
Total general expenses	$ 1,281,111	$ 1,200,582	$ (80,529)

As shown in the preceding tables, the Public Staff and the Company agree on the levels of office supplies and other office expense, rent, insurance, office utilities, miscellaneous, WSC expense adjustment, and interest on customer deposits. Therefore, the Commission finds and concludes that the levels agreed to by the parties for these items are appropriate for use in this proceeding.

SALARIES AND WAGES

The difference in the level of general salaries and wages recommended by the parties relates to the following items:

Item	Water	Sewer
Reclassification of operator	$ 3,109	$ 1,873
Project manager	(34,320)	(20,680)
Total	$(31,211)	$ (18,807)

The first area of difference between the parties pertains to reclassification of an operator hired after the end of the test year from general salaries to maintenance salaries. Both CWS and the Public Staff agree that this adjustment should be made but disagree on the amount that should be reclassified as maintenance salaries. Company Witness Weeks reclassified $11,440 of general salaries to maintenance salaries while the Public Staff only reclassified $6,458. The difference of $4,982 represents the amount that was allocated to other North Carolina companies by Public Staff witness Henry and not included in his prefiled exhibit as general salaries. Both parties are in

agreement on the percentage of general salaries that should be allocated to other North Carolina companies.

CWS' calculation of general salaries in its revised rebuttal exhibits begins with the amount recommended by witness Henry in his prefiled exhibit, which did not include the $4,982 amount allocated to other North Carolina companies. Witness Weeks adjusted witness Henry's recommended general salaries to reclassify this new operator and consequently, removed more general salaries than was allocated to CWS. The Commission, therefore, concludes that $4,982 of salaries should be added back to general salaries in order to correct the Company's error.

The remaining difference between the Company and the Public Staff involves the salary of a project manager. CWS is attempting to fill a project manager position to meet increased regulatory requirements. At the time of his testimony, witness Daniel was reviewing resumes of those seeking the position. Witness Daniel testified that the duties of the project manager will include regulatory tracking and compliance, the preparation of Consumer Confidence Reports, Vulnerability Assessments, NPDES and PWS permit tracking and renewals, and annual reports. Also, this position will require the development of a system wide database and its continued update.

In addition, the project manager will be accountable for providing operational data as it pertains to the filing of contracts with the Commission. The project manager will ensure that all CIAC is consistent with Commission approved contracts, which will be accomplished by compiling and maintaining a data base of authorized connection, tap and management fees. The data base will be an essential tool to CWS and will be available to the Public Staff in future rate proceedings so as to alleviate some of the Public Staff concerns expressed in this case.

The Commission concludes that a project manager position is needed to meet increased regulatory requirements and that a salary of $55,000 for a project manager should be included in this case.

Based on the foregoing, the Commission concludes that the appropriate level of general salaries is $434,843 for water operations and $262,020 for sewer operations.

REGULATORY COMMISSION EXPENSE

The Company and the Public Staff differ on the appropriate amount of rate case expense in essentially two respects. The first involves an adjustment made by the Public Staff to reduce the hourly rate for Mr. Finley's legal fees to $250 per hour.

The Public Staff has adjusted the hourly rate attorney fee to reflect what it contends to be a reasonable fee level. The Public Staff has used a budgeted amount of approximately $13,000 for legal fees. The Public Staff notes that Mr. Finley's hourly rate is $380, a 52% increase from $250 hourly rate which he charged three years ago in the

Total Environment Solutions, Inc. rate case, Docket No. W-1146, Sub 1. In the last general rate case for CWS, the Commission found that the $220 hourly rate charged by Mr. Finely for CWS was unreasonable and reduced legal fees recoverable in that case to reflect an hourly rate of $175. The Public Staff claims that the legal fee hourly amount is not reasonable and has recommended adjustments to $250 an hour.

CWS argues that the fees it pays are reasonable for a firm such as Hunton & Williams and is based on market conditions, years of experience, expertise and other factors. CWS further argues that the Public Staff has not done a sufficient analysis of the fee prior to acting to reduce it. Moreover, CWS argues that Public Staff has not made any adjustments to the actual costs incurred by the company other than attorney fees.

The Commission shares the Public Staff's concern regarding the issue of legal fees and believes that legal fees must be reasonable. However, the Commission does not agree with the Public Staff that $250 is a reasonable hourly attorney rate. In considering the time and date of the last rate case, the Commission finds that $300 an hour for legal services is a reasonable fee.

The second area of disagreement involves the Public Staff's use of a five-year amortization period for rate case expenses versus the Company's recommendation of a three-year period.

Public Staff witness Henry recommends that rate case expenses should be amortized over five years. He testified that seven years have passed since the Company filed a rate case in the Sub 165 proceeding. Prior to that, three years passed between the Sub 128 and Sub 165 rate case filings. Witness Henry testified that based on these recent rate case proceedings, CWS has on average filed for a rate increase every five years. Therefore, he testified, a five year amortization period for rate case costs would be more appropriate than the Company's three year amortization period.

CWS witness Lubertozzi testified in rebuttal. He testified that, based on a review of the Company's prior filings, the average period between the Company's rate case filings is three years. Witness Henry only used the last three cases.

The Commission concludes that it should amortize the costs over three years. A review of the Commission's official files indicates the following history of CWS rate cases: Docket No. W-354, Sub 16 (1981); Docket No. W-354, Sub 26 (1983); Docket No. W-354, Sub 39 (1985); Docket No. W-354, Sub 69 (1988); Docket No. W-354, Sub 91 (1989); Docket No. W-354, Sub 111 (1992); Docket No. W-354, Sub 128 (1994); Docket No. W-354, Sub 135 (1995) (withdrawn); Docket No. W-354, Sub 266 (2004). The average interval is approximately three years between cases. Historically, the Commission has used a three year amortization period. If the amortization period is too long, the costs of the case are not recovered from the ratepayers that were taking service during the test year and who imposed on the Company the increased costs

requiring the request for a rate increase nor the ratepayers who will be taking service at the time the rates are adjusted, but by a future generation of ratepayers. The rate case amortization period should be accurately matched to be recovered from the ratepayers that will be taking service while the rates are in effect.

Based on the foregoing, the Commission determines an appropriate level of total rate case costs to be $213,678. Based on a three year amortization period, the annual level of regulatory commission expense to include in this proceeding is $71,226.

PENSION AND OTHER BENEFITS

The difference between the parties over pensions and other benefits arises from differences over salaries and wages. Based on resolution of those issues above, the Commission determines that the appropriate level of pensions and other benefits is $613,126, of which $382,591 is for water operations and $230,536 is for sewer operations.

ANNUALIZATION ADJUSTMENT

Both parties are in agreement on the methodology and expense categories to use in calculating an annualization adjustment. The parties disagree on the expense amounts for purchased water and maintenance and repairs that should be used to calculate an annualization adjustment. The Company and Public Staff also disagree on the water consumption factor to apply to the annualization expenses. Based on the Commission's findings elsewhere in this Order regarding purchased water and maintenance and repairs and the appropriate annualization and consumption percentages, the Commission concludes that the appropriate annualization adjustment is $204,159 for water operations and $348,792 for sewer operations.

INFLATION ADJUSTMENT

The Company and the Public Staff are in agreement on methodology and the inflation factor, but disagree on the level of expenses to which the factor should be applied. Specifically, the parties disagree on the expense amounts for purchased water, maintenance and repairs, and outside services - other that should be used to calculate an inflation adjustment. Based on the Commission's findings reached elsewhere in this Order regarding purchased water, maintenance and repairs and outside services - other, the Commission concludes that the appropriate inflation adjustment is $83,302 for water operations and $92,255 for sewer operations.

SUMMARY CONCLUSION

Based on the foregoing, the Commission finds and concludes that the appropriate level of general expenses for use in this proceeding is $3,038,065, of which $1,730,751 is applicable to water operations, and $1,307,315 is applicable to sewer operations.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 84 - 88

The evidence supporting these findings is contained in the testimony of Public Staff witnesses Henry, Lucas and Fernald, and Company witnesses Lubertozzi, Weeks and Daniel. The following tables summarize the amounts that the Company and the Public Staff contend are the proper levels of depreciation and taxes to be used in this proceeding:

WATER OPERATIONS

Item	Company	Public Staff	Difference
Depreciation net of PAA & CIAC	$ 733,357	$ 731,150	$ (2,207)
Amortization of ITC	(311)	(311)	0
Taxes other than income	8	8	0
Property taxes	95,614	95,614	0
Payroll taxes	139,148	116,438	(22,710)
Regulatory fee	8,482	8,482	0
Gross receipts tax	282,733	282,733	0
State income tax	59,659	42,310	(17,349)
Federal income tax	273,688	194,100	(79,588)
Total depreciation and taxes	$ 1,592,378	$ 1,470,524	$ (121,854)

SEWER OPERATIONS

Item	Company	Public Staff	Difference
Depreciation net of PAA & CIAC	$ 379,387	$ 378,243	$ (1,144)
Amortization of ITC	(208)	(208)	0
Taxes other than income	5	5	0
Property taxes	57,613	57,613	0
Payroll taxes	69,986	70,162	176
Regulatory fee	6,470	6,470	0
Gross receipts tax	323,521	323,521	0
State income tax	32,856	18,728	(14,128)
Federal income tax	150,729	85,914	(64,815)
Total depreciation and taxes	$ 1,020,359	$ 940,448	$ (79,911)

As shown in the preceding tables, the Public Staff and the Company agree on the levels of amortization of ITC, taxes other than income, property taxes, regulatory fee, and gross receipts tax. Therefore, the Commission finds and concludes that the levels agreed to by the parties for these items are appropriate for use in this proceeding.

DEPRECIATION NET OF PAA & ITC

The difference between CWS and the Public Staff regarding depreciation net of PAA and ITC results from the parties' disagreement over the levels of CIAC that should be deducted from plant in service in determining depreciable plant. Based on the conclusions concerning CIAC reached elsewhere in this Order, the Commission concludes that the amount of depreciation expense proposed by the Public Staff is reasonable and appropriate for use in this proceeding.

PAYROLL TAXES

The difference between the Company and the Public Staff regarding payroll taxes results from the parties' disagreement over the appropriate level of salaries and wages to include in this proceeding. Having previously determined the appropriate level of salaries and wages for maintenance expenses and general expenses, the Commission concludes that the appropriate level of payroll taxes is $209,134, of which $139,148 is for water operations and $69,986 is for sewer operations.

STATE INCOME TAX

The Company and the Public Staff are recommending different levels of state income tax due to differing levels of revenues and expenses recommended by each party. Based upon conclusions reached elsewhere in this Order regarding the levels of revenues and expenses, the Commission finds and concludes that the appropriate levels of state income tax for use in this proceeding are $16,046 for water operations and $0 for sewer operations.

FEDERAL INCOME TAX

The Company and the Public Staff are recommending different levels of federal income tax due to differing levels of revenues and expenses recommended by each party. Based upon conclusions reached elsewhere in this Order regarding the levels of revenues and expenses, the Commission finds and concludes that the appropriate level of federal income tax for use in this proceeding is $67,686 for water operations and $0 for sewer operations.

SUMMARY CONCLUSION

Based on the foregoing, the Commission finds and concludes that the appropriate level of depreciation and taxes for use in this proceeding is $2,176,186, of which $1,340,556 is applicable to water operations and $835,630 is applicable to sewer operations.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 89 - 91

The evidence supporting these findings is contained in the Joint Partial Settlement Agreement filed by the parties on April 28, 2004.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 92

The following schedules summarize the gross revenue and rate of return that the Company should have a reasonable opportunity to achieve based upon the increase approved in this Order. These schedules, illustrating the Company's gross revenue requirements, incorporate the findings and conclusions found fair by the Commission in this Order.

SCHEDULE I

CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA
DOCKET NO. W-354, SUB 266
STATEMENT OF OPERATING INCOME AVAILABLE FOR RETURN
COMBINED OPERATIONS
For the Twelve Months Ended December 31, 2003, Updated to June 30, 2004

Item	Present Rates	Increase Approved	After Approved Increase
Operating revenues:			
Service revenues	$12,253,201	$2,174,614	14,427,815
Miscellaneous revenues	271,553	8,209	279,762
Uncollectible accounts	(64,407)	(11,433)	(75,840)
Total operating revenues	12,460,347	2,171,390	14,631,737
Operating revenue deductions:			
Maintenance expenses	5,878,350	0	5,878,350
General expenses	3,038,065	0	3,038,065
Depr. net of PAA & CIAC	1,109,393	0	1,109,393
Amortization of ITC	(519)	0	(519)
Taxes other than income	13	0	13
Property taxes	153,227	0	153,227
Payroll taxes	209,134	0	209,134
Regulatory fee	14,952	2,607	17,559
Gross receipts tax	606,254	105,057	711,311
State income tax	16,046	138,578	154,624
Federal income tax	67,686	641,659	709,345
Total oper. revenue deductions	11,092,601	887,901	11,980,502
Net operating income for return	$ 1,367,746	$1,283,489	$ 2,651,235

A $1,283,489 - Net Income

SCHEDULE II

CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA
DOCKET NO. W-354, SUB 266
STATEMENT OF RATE BASE AND RATE OF RETURN
COMBINED OPERATIONS
For the Twelve Months Ended December 31, 2003, Updated to June 30, 2004

Item	Amount
Plant in service	$ 82,973,405
Accumulated depreciation	(13,898,212)
Cash working capital	848,514
Contributions in aid of construction	(33,953,071)
Advances in aid of construction	(44,780)
Accumulated deferred income taxes	(4,592,764)
Customer deposits	(392,487)
Gain on sale and flow back of taxes	(289,628)
Plant acquisition adjustment	(1,880,811)
Water Service Corporation	256,584
Pro forma plant	3,597,452
Deferred charges	708,721
Excess capacity	(122,896)
Excess book value	(2,296,948)
Cost-free capital	(104,308)
Allocation of CWS office plant cost	(436,187)
Rate base	$ 30,372,584
Rates of Return:	
Present	4.50%
Approved	8.73%

SCHEDULE III

CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA
DOCKET NO. W-354, SUB 266
STATEMENT OF CAPITALIZATION AND RELATED COSTS
COMBINED OPERATIONS
For the Twelve Months Ended December 31, 2003, Updated to June 30, 2004

Item	Ratio %	Original Cost Rate Base	Embedded Cost	Net Operating Income
Present Rates:				
Debt	57.63%	$17,503,720	7.28%	$ 1,274,271
Equity	42.37%	12,868,864	.73%	93.475
Total	100.00%	$30,372,584		$ 1,367,746
Approved Rates:				
Debt	57.63%	$17,503,720	7.28%	$ 1,274,271
Equity	42.37%	12,868,864	10.70%	1,376,964
Total	100.00%	$30,372,584		$ 2,651,235

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 93

The evidence supporting this finding of fact is found in the testimony of Public Staff witness Fernald and Company witness Lubertozzi. Public Staff witness Fernald testified that she was concerned about how the Company determines what connection charges and plant modification fees to charge customers, since there have been instances when the Company did not collect fees in accordance with its tariff sheet. Witness Fernald stated that she had requested a copy of any lists, references, or other documents used by the Company, either at its Northbrook office or at the North Carolina offices, to determine the amount of fees to charge, but she had not received a response. Witness Fernald also testified that the list of connection charges and plant modification fees filed by the Company with its application did not reflect the tariff sheet or the actual fees being charged. Witness Fernald recommended that the Company prepare and file with its rebuttal testimony a complete and accurate list of all connection charges and plant modification fees for review by the Public Staff and Commission so that an accurate tariff sheet could be issued in this case.

Company witness Lubertozzi testified that the Company currently has a list of authorized connection charges and plant modification fees, that the list is currently being revised and updated, and that the revised and updated list would be provided when the review was completed.

The connection charges and plant modification fees currently approved by the Commission are set forth in the tariff sheets attached as Appendix A to this Order. As previously stated in this Order, no future deviations from the Company's tariffed fees will be tolerated. The Commission concludes that the Company should carefully review the connection charges and plant modification fees set forth in these tariff sheets for accuracy and file any comments or proposed corrections within 30 days. If no comments or proposed corrections are filed within that period, the proposed list of connection charges and plant modification fees will be deemed approved.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 94

The evidence supporting this finding of fact is found in the testimony of Public Staff witness Fernald, and Company witness Weeks. Public Staff witness Fernald recommended that the Company be responsible for installing all meters, and no longer accept meters from developers. Witness Fernald also recommended that the Company be authorized to charge a meter fee of $50 for 5/8 or 3/4 inch meters, and actual cost for meters greater than 5/8 or 3/4 inch for all metered water connections. Company witness Weeks agreed with the Public Staff's recommendations.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 95

The evidence supporting this finding for unmetered systems is contained in the testimony of Public Staff witness Lucas. The Company did not contest this finding.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 96 - 99

The evidence supporting these findings of fact is found in the testimony of Public Staff witness Fernald, and Company witnesses Weeks and Lubertozzi. The Public Staff made the following accounting recommendations concerning the recording of CIAC on the Company's books:

(1) That the Company begin recording management fees as CIAC, not revenues,
(2) That the Company begin recording all monies received for main extensions or to offset plant costs as CIAC,
(3) That the Company begin recording all reservation of capacity fees as CIAC on CWS's books,
(4) That the Company make entries on its books to reflect the amount of CIAC found reasonable by the Commission in this case,

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NO. 94

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NOS. 96 - 99

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That the Company establish separate subaccounts for each form of CIAC, such as connection charges, plant modification fees, meter fees, management fees, reservation of capacity fees, contributed property, etc., and

That the Company begin making an entry at year-end to true up amortization of CIAC to reflect the actual amount of CIAC collected during the year.

any witness Weeks agreed that the management fees and payments for ons should be included in CIAC. Therefore, the Commission concludes npany should begin recording management fees and payments for main to offset plant costs as CIAC on its books. Company witness Weeks h the Public Staff's position that reservation of capacity fees should be CIAC on the Company's books. Elsewhere in this Order the Commission t reservation of capacity fees are CIAC and should be treated as such in Therefore, the Commission concludes that the Company should begin rvation of capacity fees as CIAC on CWS's books.

ny witness Lubertozzi testified that the Company would reflect the nade to CIAC in this case on its books and records. Therefore, the ncludes that the Company should make entries on its books to reflect f CIAC found reasonable in this case. As to establishing separate r each type of CIAC, witness Lubertozzi testified that the "Company is ving the possibility of adding the additional accounts recommended by ording mechanism to ensure accuracy." As noted under the discussion Company receives several types of CIAC, including meter fees, es, and connection fees. The Commission believes that it would be ne Company and the Commission and Public Staff if there were separate r each type of CIAC received by the Company. Therefore, the ncludes that the Company should complete its evaluation of how counts could be established and a recording mechanism to ensure be erected, and file a report on its findings and recommendations with within 90 days of the effective date of this Order.

mpany witness Lubertozzi opposed the Public Staff's recommendation made on the Company's books to true up the amortization of CIAC at ss Lubertozzi testified that the proposed recommendation will have no preciation expense or amortization of CIAC on the utility's books and y increase to amortization to CIAC would be offset by a corresponding ciation expense. Witness Lubertozzi also pointed out that the Public commendation to true-up utility plant in service at the end of the year, ic Staff's recommendation would result in a mismatch of amortization expense. Based on witness Lubertozzi's testimony, it appears that, ng on its books an estimated amount for amortization of CIAC, the estimating the amount of depreciation expense that it records. Both

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 102

The evidence supporting this finding of fact is found in the testimony of Public Staff witness Henry and Company witness Lubertozzi. Public Staff witness Henry testified that the Company does not take into account the plant modification fees received as an offset to plant costs in its AFUDC calculation. Witness Henry recommended that CWS evaluate how to appropriately account for the receipt of plant modification fees in its AFUDC calculation and file a revised policy.

Company witness Lubertozzi testified that the Company does not believe that an offset to the construction work in process used to accrue AFUDC is appropriate. Witness Lubertozzi stated that the plant modification fees represent less than 10% of the total capital expenditures for the Utilities, Inc. subsidiaries operating in North Carolina. Witness Lubertozzi also testified that reducing the basis used to calculate AFUDC by plant modification fees assumes that the cost rate of these funds is zero, and does not evaluate the opportunity costs that have been lost. In addition, witness Lubertozzi contended that a cost rate of zero or a reduction of CWIP would result in the Company paying customers interest on their plant modification fees as a reduction to rate base over the lives of the assets placed in service. Finally, witness Lubertozzi stated that the Company's current practice has been previously reviewed and approved by the Commission and Public Staff.

As previously discussed by the Commission, plant modification fees are collected by the Company to cover the cost of expanding and improving backbone facilities. When the Company constructs these backbone facilities, it calculates AFUDC to recognize the cost of the funds spent by the Company during construction of the plant. However, the Company fails to recognize the fact that, at the same time, it is receiving or has received plant modification fees to cover these costs, so a portion of the construction costs are funded through CIAC by plant modification fees, rather than by the Company. Based on the foregoing, the Commission concludes that the receipt of plant modification fees should be recognized in the calculation of AFUDC. Therefore, the Commission concludes that the Company should evaluate how to appropriately take into account the receipt of plant modification fees and file its revised AFUDC policy within 90 days of the effective date of this Order.

As to the Company's implication that the impact of plant modification fees on CIAC is immaterial, the Company's calculation has two flaws. First, the Company included all Utilities, Inc.'s North Carolina subsidiaries in its calculation, not just CWS, so it does not accurately reflect the impact of the plant modification fees on the calculation of AFUDC for CWS. Second, the Company divided the plant modification fees by total capital expenditures. The plant modification fees are to cover the cost of constructing backbone facilities, and it would be more appropriate to divide the plant modification fees by the annual cost of constructing new backbone facilities, not total capital expenditures, including replacements, vehicles, and all other plant additions.

One of the reasons witness Lubertozzi gave for not changing the AFUDC policy was that the current policy had been previously reviewed and approved by the Commission. However, witness Lubertozzi was unable to point to an order where the Commission approved the policy. Witness Lubertozzi did point to the recent rate case order for Transylvania Utilities, Inc. (TUI) in Docket No. W-1012, Sub 5 in support of his statement that the policy had been approved. The Company's AFUDC policy was not approved in that case. In fact, the stipulation in that case, which was filed on July 2, 2004, stated that "TUI agrees to evaluate how to appropriately take into account the tap fees received as an offset to plant costs in its AFUDC calculation. TUI shall file its revised AFUDC policy with the Commission within 60 days of the date that an order is issued in this case." Even if the policy has been previously approved by the Commission, that does not prevent the Commission from now recommending that the policy be changed on a go forward basis.

Finally, the Commission disagrees with the Company's contention that a zero cost rate or reduction in CWIP would result in the Company paying the customers interest on plant modification fees. The result of recognizing the receipt of plant modification fees is not to pay customers interest on the fees, but rather to prevent the Company from receiving in rate base interest on funds that were paid for by CIAC and not by the Company.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 103 - 104

The evidence supporting these findings of fact is contained in the testimony of Public Staff witnesses Lucas and Fernald and Company witness Lubertozzi. The Company has transactions with an affiliated company, Bio-Tech, including transporting and disposing of sludge. Public Staff witness Fernald testified that in Docket No. W-1012, Sub 5, Utilities, Inc. agreed in the stipulation with the Public Staff that it would reduce the affiliated transactions between Bio-Tech and its North Carolina regulated subsidiaries, which would include CWS, to writing, and file the contracts with the Commission within 90 days of the effective date of the order in that case, but that Utilities, Inc. had failed to do so. Witness Fernald recommended that the Company immediately file the affiliated contracts with Bio-Tech, as required in Docket No. W-1012, Sub 5.

Company witness Lubertozzi testified that the Company had reviewed its files but could not locate a copy of the Bio-Tech contract. Witness Lubertozzi stated that the Company was hesitant to draft a new contract until the original contract had been located, but if the original contract could not be located by the culmination of this rate case, the Company would draft, execute, and file a new contract with the Commission within 30 days of the final order in this case.

The Commission concludes that the Company should file the affiliated contract with Bio-Tech within 30 days of the effective date of this Order. The Commission further concludes that Utilities, Inc. should also file contracts covering the affiliated transactions

between Bio-Tech and the North Carolina regulated companies other than CWS, as initially required in Docket No. W-1012, Sub 5, within 30 days of the effective date of this Order. The contract for each regulated company should be filed under the applicable docket number for that company.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 105 - 107

The evidence supporting these findings of fact is found in the testimony of Public Staff witness Fernald and Company witness Lubertozzi. Public Staff witness Fernald testified that the Company is not filing contracts with developers within 30 days as required by the Commission and that the Company is also serving customers in contiguous extensions without first posting a bond. Witness Fernald recommended that the Company file any contracts with developers not previously filed with the Commission within 90 days of the date of the order in this case. Witness Fernald also recommended that the Company evaluate its current practices and prepare a procedure that ensures that the Company complies with the rules and regulations of the Commission, in particular the filing of contiguous extensions and posting of bonds before serving customers. Witness Fernald recommended that the Company file its procedure with the Commission within 60 days of the date of the order in this case. Finally, witness Fernald stated that the Public Staff was willing to assist the Company with any questions on how to complete the forms or other matters, but ultimately, it is the Company's responsibility to comply with Commission rules and regulations.

Company witness Weeks testified that the Company did not intentionally neglect to file the contracts referenced in Public Staff witness Fernald's testimony. Witness Weeks requested that the Commission approve the contracts for Windward Cove, Mt. Carmel - Harmony, Hemby - Tyson Construction, Mt. Carmel - Huber Construction, Lamplighter Village South - Marshall, Bent Tree (sewer operations), and Mountainside at Wolf Laurel as part of this proceeding. Company witness Lubertozzi testified that, while the Company believes that it is current on all developer contracts, it is reviewing all files to determine if there are any other outstanding contracts. Witness Lubertozzi further testified that no other company is required to file contracts within 30 days of execution and, that the current Commission rules prevent service to customers before the contracts are addressed by the Commission. Witness Lubertozzi also testified that the Company had recently put procedures in place to ensure that all contracts are filed on a timely basis. Under these procedures, all executed contracts in North Carolina have a routing sheet to ensure that the employee responsible for filing the contract receives a copy. The Company also circulates a memo every two weeks advising all responsible departments of the status of the filing, what documents have been received from the developer, and what documents have been filed with the Commission. According to witness Lubertozzi, these follow up memos allow operations personnel to review all open dockets at the Commission pertaining to extensions, and any discrepancies are reported to the regulatory department and immediately corrected.

The Commission's orders in Docket No. W-354, Subs 111 and 118, which were issued in 1992 and 1994, respectively, required that the Company file contracts or agreements with developers within 30 days of the signing of the agreements. As noted by Public Staff witness Fernald and acknowledged by the Company, the Company has not complied with this filing requirement. On the contrary, it has failed to file certain contracts for approval, and for certain contracts that it has filed, the Company has failed to file them within the required 30 days. The Company has requested that the Commission approve the contracts that it had failed to file with the Commission as part of this proceeding, noting that the contracts had been provided to the Public Staff through discovery. However, these contracts have not been officially filed with the Chief Clerk of the Commission, and not all of these contracts have been filed as exhibits in this case. Therefore, the Commission concludes that the Company should be required to file any contracts with developers not previously filed with the Commission within 90 days of the effective date of this Order, including but not limited to the contracts for Southwoods/ Brandywine, Windward Cove, Mt. Carmel - Hemby, Mt. Carmel - Huber Construction, Lamplighter Village South - Marshall, and Bent Tree (sewer operations).

The next question is whether the Commission should continue to require the Company to file all contracts with developers within 30 days. The Commission acknowledges that no other water and sewer utility has a similar requirement; however, this requirement was established due to circumstances specific to this Company, and the concerns and issues that caused the requirement to be initially established still exist. Contracts relating to new service areas and contiguous extensions of existing service areas are now required to be filed by all water and sewer companies as part of the contiguous extension notification or franchise application. However, the requirement at issue here only requires the filing of the contract, not an entire application or notification within 30 days. Also, as a separate matter, under the Commission's current rules and regulations, a contiguous extension notification should be filed, and a bond posted, before the Company begins serving customers in the contiguous extension. Additionally, before the Company serves customers in a new service area, the Company should have applied for and received approval from the Commission for a certificate of public convenience and necessity in the new service area.

CWS is still not complying with the Commission's rules and regulations. The evidence presented during the hearing on this matter reveals that CWS is currently serving customers in contiguous extensions without having first posted a bond, and is serving customers in a new service area without first receiving a certificate of public convenience and necessity. Specifically, the Company began serving customers in the contiguous extensions in Reedy Creek Run in February 2003, Brookdale in July 2004, and Julian Meadows in May 2004. The Company also began serving customers, and charging rates, in the Larkhaven subdivision in February 2004. The Company has an application for a certificate of public convenience and necessity for Larkhaven pending before the Commission, but the Company failed to file a complete application, and, as a result, the Public Staff and Commission have been unable to process this filing.

In defense of the foregoing evidence, witness Lubertozzi testified that the Company has put into place procedures to ensure accuracy and completeness of filings before the Commission. The Commission concludes that these procedures are not working, since the Company still has not filed all the outstanding exhibits and information for the pending cases where it is serving customers. Upon review of the Commission's files and records the Company has still not filed plan approval letters from the Department of Environment and Natural Resources (DENR), or other outstanding exhibits for the Larkhaven franchise, even though it is serving customers in that system.

Based upon the foregoing, the Commission is of the opinion that the requirement to file contracts within 30 days of signing should not be lifted until the Company has clearly shown that it has implemented procedures to ensure that it is complying with the rules concerning contiguous extensions and franchises, that those procedures are working, and that the Company is in compliance with Commission rules and regulations. Therefore, the Commission concludes that the Company should evaluate its current practices and prepare a new procedure that ensures that the Company will comply with the rules and regulations of the Commission, in particular the rules concerning contiguous extensions and franchises. The Company should file its procedure with the Commission within 60 days of the effective date of this Order. Finally, the Commission concludes that the Company should continue to file all contracts or agreements with developers in both existing and new service areas within 30 days from signing. These contracts or agreements should be filed with the Chief Clerk of the Commission. If any agreements are reached with developers regarding the provision of service but are not written or signed prior to being acted on, the Company should file with the Commission a detailed written description of the terms of the agreement within 30 days of entering into the agreement. The Commission will consider granting relief from this requirement upon approval of the procedures the Company has been required to file as described above.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 108

The evidence supporting this finding of fact is found in the testimony of Public Staff witness Fernald and Company witnesses Lubertozzi and Weeks. Public Staff witness Fernald recommended that the Commission consider whether the Company's persistent failure to meet its legal obligations warrants penalties. The Commission's orders in Docket No. W-354, Subs 111 and 118, which were issued in 1992 and 1994, respectively, required that the Company file contracts or agreements with developers within 30 days of the signing of the agreements. The Public Staff has confirmed that CWS has not complied with this filing requirement, and has failed to file certain contracts for approval, and for the contracts that it has filed, the Company has failed to file them within the required 30 days.

System	Date of Agreement/Letter
Southwoods/Brandywine	11/09/93
Windward Cove	11/18/93
Mt. Carmel – Harmony	12/08/93
Hemby – Tyson Construction	02/29/96
Mt. Carmel – Huber Construction	07/12/96
Lamplighter South – Marshall	03/29/00
Bent Tree Sewer Operations	05/22/02
Mountainside at Wolf Laurel	06/10/03

The Public Staff has confirmed that CWS has not filed the above identified contracts which it has entered into with developers within the 30 days as required by the Commission. The Public Staff has learned that CWS is also serving customers in contiguous extensions without first posting a bond. Specifically, the Company began serving customers in the contiguous extensions in Reedy Creek Run in February 2003, Brookdale in July 2004, and Julian Meadows in May 2004. CWS also began serving customers, and charging rates, in the Larkhaven subdivision in February 2004.

According to the Public Staff, CWS has a history of noncompliance over many years, much of which remains uncorrected despite the Commission's instruction and warnings. The Public Staff argues that there are a significant number of detailed examples of the CWS's failure to comply with North Carolina law and the Commission's rules and regulations. The Public Staff believes this conduct should not be ignored.

CWS claims its omission to file the agreements was not intentional. CWS argues that there is compliance with the Commission's rules and regulations. CWS points out that no other company is required to file contracts within 30 days of execution and that current Commission rules prevent service to customers before the contracts are addressed by the Commission. CWS has recently put procedures in place to ensure that all contracts are filed on a timely basis. Under these procedures, all executed contracts in North Carolina have a routing sheet to ensure that the employee responsible for filing the contract receives a copy. CWS argues that its inaction does not rise to the level where the Commission should impose a fine or penalty. Moreover, CWS suggests that the imposition of a fine does not recognize the procedures that the Company has put in place to ensure that all contracts are filed with the Commission on a timely basis.

Based on the foregoing, the Commission agrees with CWS. The Commission does not take lightly CWS's failure to file its agreements and notices serving contiguous areas. However, the Commission views CWS's omission to comply with North Carolina law and the Commission's rules and regulations as unintentional. Without the necessary intent to defy the law and Commission's rules and regulations, the Commission is hesitant to levy any fine upon CWS.

IT IS, THEREFORE, ORDERED as follows:

1. That the Company is hereby granted an increase in its water service revenues of $1,263,253 and sewer service revenues of $911,361.

2. That the Schedule of Rates, attached hereto as Appendix A, is approved for water and sewer utility service rendered by CWS on and after the date of this Order. This schedule is deemed filed with the Commission pursuant to G.S. 62-138.

3. That the Company should carefully review the connection charges and plant modification fees set forth in Appendix A and file any comments or proposed corrections within 30 days.

4. That a copy of the Notice to Customers, attached hereto as Appendix B, shall be mailed or hand delivered to all customers along with the next billing.

5. That the Company shall charge the authorized uniform connection charge and plant modification fee in all of its service areas, whether existing or new, unless it receives prior Commission approval to deviate from the uniform fees.

6. That the Company shall file any contracts with developers not previously filed with the Commission within 90 days of the effective date of this Order.

7. That the Company shall continue to file all contracts or agreements with developers in both existing and new service areas within 30 days from signing. These contracts or agreements shall be filed with the Chief Clerk of the Commission. If any agreements are reached with developers regarding the provision of service but are not written or signed prior to being acted on, the Company shall file with the Commission a detailed written description of the terms of the agreement within 30 days of entering into the agreement.

8. That the Company shall evaluate its current practices and prepare a new procedure that ensures that the Company will comply with the rules and regulations of the Commission, in particular the rules concerning contiguous extensions and franchises. The Company shall file its procedure with the Commission within 60 days of the effective date of this Order.

9. That the Company shall immediately cease collecting gross-up as required by the Commission's order issued on August 27, 1996, in Docket No. M-100, Sub 113.

10. That the Company shall immediately begin charging its authorized connection fees in Bradford Park.

11. That the Company shall, within 60 days of the effective date of this Order, file a plan to refund the gross-up collected in the Cambridge, Windsor Chase water system, Southwoods sewer system, Lamplighter Village South, Winghurst and Bradford Park to the current property owners with 10% interest compounded annually.

12. That the Company shall file a plan to refund the overcollection of management fees in the Turtle Rock and Strathmoor systems to the current property owners, with 10% interest compounded annually, within 60 days of the effective date of this Order.

13. That the Company shall immediately begin recording management fees, payments for main extensions or to offset plant costs, and reservation of capacity fees as CIAC on its books.

14. That the Company shall make entries on its books to reflect the amount of CIAC found reasonable in this case.

15. That the Company shall complete its evaluation of how separate subaccounts for each type of CIAC could be established, and a recording mechanism to ensure accuracy, and file a report on its findings and recommendations with the Commission within 90 days of the effective date of this Order.

16. That the Company shall make an entry on its books at year-end to reflect the actual amount of depreciation expense and amortization of CIAC for the year. The Company shall file with the Commission within 90 days of this Order a report detailing the changes the Company will make to its calculation of depreciation expense and amortization of CIAC.

17. That the Company shall immediately begin recording revenues from antenna space rentals in Account 472 - Rents from Water Property

18. That the Company shall evaluate how to recognize the receipt of plant modification fees in its AFUDC calculation and file its revised policy within 90 days of the effective date of this Order.

19. That the Company shall file the contract covering the affiliated transactions between Bio-Tech and CWS, including sludge hauling and other services, within 30 days of the effective date of this Order.

20. That Utilities, Inc. shall also file contracts covering the affiliated transactions between Bio-Tech and the North Carolina regulated companies other than CWS, as initially required in Docket No. W-1012, Sub 5, within 30 days of the effective date of this Order. The contract for each regulated company shall be filed under the applicable docket number for that company.

21. That the Company shall be responsible for installing all meters, and should no longer accept meters from developers. When meters are installed, the Company is authorized to charge a meter fee of $50 for 5/8 or 3/4 inch meters, and actual cost for meters greater than 5/8 or 3/4 inch, for all metered water connections.

22. The metering of unmetered water systems shall be accomplished as follows:

a. CWS shall solicit preliminary estimates from contractors, to be used as a basis for determining the approximate cost of installing meters;

b. This information shall be provided to each homeowners association in the unmetered areas within 90 days of the effective date of this Order;

c. If the homeowners association requests that meters be installed, CWS shall solicit bids within 60 days of the response from the homeowners association;

d. The homeowners association shall be allowed to review the final bid amount;

e. If the homeowners association approves the project based on the final bid amount, CWS shall award the contract within 30 days of final approval from the homeowners association and request approval from the Commission for an assessment to recover the cost; and

23. That CWS shall file with the Commission a status report regarding their progress on metering systems every six months after the effective date of this Order.

ISSUED BY ORDER OF THE COMMISSION.

This the 15th day of April, 2005.

NORTH CAROLINA UTILITIES COMMISSION

Gail L. Mount

Gail L. Mount, Deputy Clerk

dh041505.02

SCHEDULE OF RATES

for

CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA

for providing water and sewer utility service in

ALL ITS SERVICE AREAS IN NORTH CAROLINA

WATER RATES AND CHARGES

METERED SERVICE:

BASE FACILITIES CHARGES

A.	Residential Single Family Residence	$ 11.90
B.	Where Service is Provided Through a Master Meter and Each Dwelling Unit is Billed Individually	$ 11.90
C.	Where Service is Provided Through a Master Meter and a Single Bill is Rendered for the Master Meter (As in a Condominium Complex)	$ 10.90
D.	Commercial and Other (Based on Meter Size): 5/8" x 3/4" meter	$ 11.90
	1" meter	$ 29.75
	1-1/2" meter	$ 59.50
	2" meter	$ 95.20
	3" meter	$178.50
	4" meter	$297.50
	6" meter	$595.00

USAGE CHARGE:

A.	Treated Water/1,000 gallons	$ 3.60
B.	Untreated Water/1,000 gallons (Brandywine Bay Irrigation Water)	$ 2.40

FLAT RATE SERVICE:

A.	Single Family Residential	$ 25.60
B.	Commercial per single family equivalent (SFE)	$ 25.60

AVAILABILITY RATES (semi annual):

Applicable only to property owners in Carolina Forest and Woodrun Subdivision in Montgomery County	$ 14.40

METER TESTING FEE [1]:	$ 20.00
NEW WATER CUSTOMER CHARGE:	$ 27.00

RECONNECTION CHARGES [2]:

If water service is cut off by utility for good cause:	$ 27.00
If water service is disconnected at customer's request:	$ 27.00

MANAGEMENT FEE (in the following subdivisions only) :

Cambridge	$250.00
Southwoods/Brandywine at Mint Hill	$300.00
Windsor Chase	$ 63.00
Wolf Laurel	$150.00

OVERSIZING FEE (in the following subdivision only) :

Winghurst	$400.00

METER FEE:

For 5/8 or 3/4 inch meters	$ 50.00
For meters greater than 5/8 or 3/4 inch	Actual Cost

UNIFORM CONNECTION FEES [3/]:

The following uniform connection fees apply unless specified differently by contract approved by and on file with the North Carolina Utilities Commission.

Connection Charge (CC), per SFE	$100.00
Plant Modification Fee (PMF), per SFE	$400.00

The systems where connection fees other than the uniform fees have been approved by the North Carolina Utilities Commission are as follows:

Subdivision	CC	PMF
Abington	$ 0.00	$ 0.00
Abington, Phase 14	$ 0.00	$ 0.00
Bent Creek	$ 0.00	$ 0.00
Blue Mountain at Wolf Laurel	$ 925.00	$ 0.00
Britley	$ 0.00	$ 0.00
Buffalo Creek, Phase I, II, III IV	$ 825.00	$ 0.00
Cambridge	$ 382.00	$ 0.00
Carolina Forest	$ 0.00	$ 0.00
Chapel Hills	$ 150.00	$400.00
Corolla Light	$ 500.00	$ 0.00
Eagle Crossing	$ 0.00	$ 0.00
Emerald Pointe/Rock Island	$ 0.00	$ 0.00
Forest Brook/Ole Lamp Place	$ 0.00	$ 0.00
Harbour	$ 75.00	$ 0.00
Hestron Park	$ 0.00	$ 0.00
Hound Ears	$ 300.00	$ 0.00
Kings Grant/Willow Run	$ 0.00	$ 0.00
Lemmond Acres	$ 0.00	$ 0.00
Monteray Shores	$ 500.00	$ 0.00

Subdivision	CC	PMF
Monteray Shores (Degabrielle Bldrs.)	$ 0.00	$ 0.00
Monterray 372 - No Tap Fee No. 11 Item 8	$ 0.00	$ 0.00
Quail Ridge	$ 750.00	$ 0.00
Queens Harbour/Yachtsman	$ 0.00	$ 0.00
Riverpointe	$ 300.00	$ 0.00
Riverpointe (Simonini Bldrs.)	$ 0.00	$ 0.00
Riverwood, Phase 6E (Johnston County)	$ 825.00	$ 0.00
Saddlewood/Oak Hollow (Summey Bldrs.)	$ 0.00	$ 0.00
Sherwood Forest	$ 950.00	$ 0.00
Ski Country	$ 100.00	$ 0.00
Southwoods/Brandywine at Mint Hill	$ 0.00	$ 0.00
Stonehedge (Bradford Park)	$ 441.00	$ 0.00
Victoria Park	$ 344.00	$ 0.00
White Oak Plantation	$ 0.00	$ 0.00
Wildlife Bay	$ 870.00	$ 0.00
Williams Crossing	$ 0.00	$ 0.00
Willowbrook	$ 0.00	$ 0.00
Winston Plantation	$1,100.00	$ 0.00
Winston Pointe, Phase 1A	$ 500.00	$ 0.00
Wolf Laurel	$ 925.00	$ 0.00
Woodrun	$ 0.00	$ 0.00
Woodside Falls	$ 500.00	$ 0.00

Subdivision	CC	PMF
Monteray Shores (Degabrielle Bldrs.)	$ 0.00	$ 0.00
Monterray 372 - Hotap fee No.11 Item 8 ➡	$ 0.00	$ 0.00
Quail Ridge	$ 750.00	$ 0.00
Queens Harbour/Yachtsman	$ 0.00	$ 0.00
Riverpointe	$ 300.00	$ 0.00
Riverpointe (Simonini Bldrs.)	$ 0.00	$ 0.00
Riverwood, Phase 6E (Johnston County)	$ 825.00	$ 0.00
Saddlewood/Oak Hollow (Summey Bldrs.)	$ 0.00	$ 0.00
Sherwood Forest	$ 950.00	$ 0.00
Ski Country	$ 100.00	$ 0.00
Southwoods/Brandywine at Mint Hill	$ 0.00	$ 0.00
Stonehedge (Bradford Park)	$ 441.00	$ 0.00
Victoria Park	$ 344.00	$ 0.00
White Oak Plantation	$ 0.00	$ 0.00
Wildlife Bay	$ 870.00	$ 0.00
Williams Crossing	$ 0.00	$ 0.00
Willowbrook	$ 0.00	$ 0.00
Winston Plantation	$1,100.00	$ 0.00
Winston Pointe, Phase 1A	$ 500.00	$ 0.00
Wolf Laurel	$ 925.00	$ 0.00
Woodrun	$ 0.00	$ 0.00
Woodside Falls	$ 500.00	$ 0.00

MISCELLANEOUS UTILITY MATTERS

BILLS DUE:	On billing date
BILLS PAST DUE:	21 days after billing date
BILLING FREQUENCY:	Bills shall be rendered monthly in all service areas, except for Mt. Carmel which will be billed bi-monthly, and the availability charges in Carolina Forest and Woodrun Subdivisions which will be billed semi-annually.
FINANCE CHARGE FOR LATE PAYMENT:	1% per month will be applied to the unpaid balance of all bills still past due 25 days after billing date.
CHARGES FOR PROCESSING NSF CHECKS:	$15.00

NOTES:

1/ If a customer requests a test of a water meter more frequently than once in a 24-month period, the Company will collect a $20 service charge to defray the cost of the test. If the meter is found to register in excess of the prescribed accuracy limits, the meter test charge will be waived. If the meter is found to register accurately or below such prescribed accuracy limits, the charge shall be retained by the Company. Regardless of the test results, customers may request a meter test once in a 24-month period without charge.

2/ Customers who request to be reconnected within nine months of disconnection at the same address shall be charged the base facility charge for the service period they were disconnected.

3/ These fees are only applicable one time, when the unit is initially connected to the system.

4/ Dwelling unit shall exclude any unit which has not been sold, rented, or otherwise conveyed by the developer or contractor building the unit.

5/ The utility shall charge for sewage treatment service provided by the other entity; the rate charged by the other entity will be billed to CWS' affected customers on a pro rata basis, without markup.

6/ These charges shall be waived if sewer customer is also a water customer within the same service area.

7/ The utility shall itemize the estimated cost of disconnecting and reconnecting service and shall furnish this estimate to customer with cut-off notice. This charge will be waived if customer also receives water service from Carolina Water Service within the same service area.

Issued in Accordance with Authority Granted by the North Carolina Utilities Commission in Docket No. W-354, Sub 266, on this the 15th day of April, 2005.

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

NOTICE TO CUSTOMERS
DOCKET NO. W-354, SUB 266
BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

Notice is given that the North Carolina Utilities Commission has granted Carolina Water Service, Inc. of North Carolina (Applicant), an increase in its water and sewer rates in all of its service areas in North Carolina. The rates approved by the Commission are as follows and are effective for service rendered on and after the date of this Notice.

WATER RATES AND CHARGES

METERED SERVICE:

BASE FACILITIES CHARGES

A.	Residential Single Family Residence	$ 11.90
B.	Where Service is Provided Through a Master Meter and Each Dwelling Unit is Billed Individually	$ 11.90
C.	Where Service is Provided Through a Master Meter and a Single Bill is Rendered for the Master Meter (As in a Condominium Complex)	$ 10.90
D.	Commercial and Other (Based on Meter Size): 5/8" x 3/4" meter	$ 11.90
	1" meter	$ 29.75
	1-1/2" meter	$ 59.50
	2" meter	$ 95.20
	3" meter	$178.50
	4" meter	$297.50
	6" meter	$595.00

USAGE CHARGE:

A.	Treated Water/1,000 gallons	$ 3.60
B.	Untreated Water/1,000 gallons (Brandywine Bay Irrigation Water)	$ 2.40

FLAT RATE SERVICE:

A.	Single Family Residential	$ 25.60
B.	Commercial per single family equivalent (SFE)	$ 25.60

AVAILABILITY RATES (semi annual):

Applicable only to property owners in Carolina Forest and Woodrun Subdivision in Montgomery County	$ 14.40

METER TESTING FEE [1/]: $ 20.00

NEW WATER CUSTOMER CHARGE: $ 27.00

RECONNECTION CHARGES [2/]:

If water service is cut off by utility for good cause:	$ 27.00
If water service is disconnected at customer's request:	$ 27.00

SEWER RATES AND CHARGES

METERED SERVICE: Commercial and Other

A. Base Facility Charge (Based on Meter Size)

5/8" x 3/4" meter	$ 11.70
1" meter	$ 29.25
1-1/2" meter	$ 58.50
2" meter	$ 93.60
3" meter	$ 175.50
4" meter	$ 292.50
6" meter	$ 585.00

B.	Usage Charge/1,000 gallons (based on metered water usage)	$ 5.30
C.	Minimum Monthly Charge	$ 35.50

D.	Sewer customers who do not receive water service from the Company/SFE	$ 35.50

FLAT RATE SERVICE: Per Dwelling Unit [4/] $ 35.50

COLLECTION SERVICE ONLY [5/]: (When sewage is collected by utility and transferred to another entity for treatment)

A.	Single Family Residence	$ 12.75
B.	Commercial/SFE	$ 12.75

MT CARMEL SUBDIVISION SERVICE AREA (based on metered water usage)

Monthly Base Facility Charge	$ 4.69
Usage Charge, per 1,000 gallons	$ 4.08

REGALWOOD AND WHITE OAK ESTATES SUBDIVISION SERVICE AREA

Monthly Flat Rate Sewer Service

Residential Service	$ 35.50
White Oak High School	$1,118.00
Child Castle Daycare	$ 143.00
Pantry	$ 78.00

NEW SEWER CUSTOMER CHARGE [6/]: $ 22.00

RECONNECTION CHARGE [7/]:

If sewer service is cut off by utility for good cause: Actual Cost

ISSUED BY ORDER OF THE COMMISSION.

This the 15th day of April, 2005.

NORTH CAROLINA UTILITIES COMMISSION

Gail L. Mount

Gail L. Mount, Deputy Clerk

BNC 2.12 SC-A

THE STATE OF SOUTH CAROLINA BEFORE THE DEPARTMENT
OF HEALTH AND ENVIRONMENTAL CONTROL

IN RE: UTILITIES SERVICES OF SOUTH CAROLINA, INC.
CHARLESWOOD SUBDIVISION
SYSTEM NUMBER 4050008
RICHLAND COUNTY

CONSENT ORDER
06-098-DW

Utilities Services of South Carolina, Inc. (Respondent) owns and is responsible for the proper operation and maintenance of the public water system (PWS) that supplies water to the residents of the Charleswood Subdivision, located in Richland County, South Carolina.

South Carolina Department of Health and Environmental Control (Department) records reveal that the combined Radium 226/228 sample results for the Respondent's PWS produced running annual averages (RAA) that exceeded the maximum contaminant level (MCL) for combined Radium 226/228 during the compliance periods of April 2004 – March 2005, July 2004 – June 2005 and October 2004 – September 2005.

IN THE INTEREST OF RESOLVING THIS MATTER without delay and expense of litigation, the Respondent agrees to the entry of this Consent Order, but neither agrees nor disagrees with the Findings of Fact and Conclusions of Law; and therefore, agrees that this Order shall be deemed an admission of fact and law only as necessary for enforcement of this Order by the Department or subsequent actions relating to the Respondent by the Department.

FINDINGS OF FACT

1. Utilities Services of South Carolina, Inc. (Respondent) owns and is responsible for the proper operation and maintenance of the public water system (PWS) that supplies water

to the residents of the Charleswood Subdivision, located in Richland County, South Carolina.

2. The Respondent's PWS consist of seven (7) wells, storage facilities, and a water distribution system that serves one hundred ninety nine (199) service connections.

3. The Respondent's PWS is required to be monitored on a quarterly basis for combined Radium 226/228. The MCL for combined Radium 226/228 is five (5) picocuries/Liter (pCi/L). Compliance for the MCL for combined Radium 226/ 228 is based upon the RAA result for four (4) consecutive monitoring periods. The referenced PWS experienced violations when the RAA results for combined Radium 226/228 for Well G40719 exceeded the MCL for the compliance periods of April 2004 – March 2005, July 2004 – June 2005, and October 2004 – September 2005 as indicated below:

Monitoring Period	Results	RAA
April – June 2004	7.0 pCi/L	–
July – September 2004	6.2 pCi/L	–
October – December 2004	6.9 pCi/L	–
January – March 2005	6.9 pCi/L	7 pCi/L
April – June 2005	2.4 pCi/L	6 pCi/L
July – September 2005	8.9 pCi/L	6 pCi/L

4. On March 21, 2005, the Department issued a Notice of Violation (NOV) to the Respondent for the PWS exceeding the MCL-RAA for combined Radium 226/228 during the April 2004 – March 2005 compliance period indicated above. The NOV informed the Respondent that it must issue public notice to its residents as a result of the violations and submit a copy of the public notice issued to the Department.

5. On April 22, 2005, the Department received a copy of the public notice for the April 2004 – March 2005 MCL exceedance.

6. On January 9, 2006, the Department issued NOV's to the Respondent for the PWS exceeding the MCL RAA for combined Radium 226/228 during the July 2004 – June 2005 and October 2004 – September 2005 compliance periods indicated above. The NOV's informed the Respondent that it must issue public notice to its residents as a result of the violations and submit a copy of the public notice issued to the Department.

7. On February 10, 2006, the Department received a copy of the public notices for the July 2004 – June 2005 and October 2004 – September 2005 MCL exceedances.

8. On March 14, 2006, Department staff held an enforcement conference with the Respondent. The possibility of a Consent Order was discussed.

CONCLUSIONS OF LAW

Based upon the above Findings of Fact, the Department, pursuant to the State Safe Drinking Water Act, S.C. Code Ann. §§ 44-55-10 to 44-55-120 (Rev. 2002), reaches the following Conclusions of Law:

1. The Respondent violated the State Primary Drinking Water Regulations, 24A S.C. Code Ann. Regs. 61-58.5(H)(2) (Supp. 2005), in that the referenced PWS exceeded the MCL for combined Radium 226/228.

2. The State Safe Drinking Water Act, S.C. Code Ann. § 44-55-90(B) (Rev. 2002), provides for a civil penalty not to exceed five thousand dollars ($5,000.00) a day per violation for any person violating the Act.

NOW, THEREFORE, IT IS ORDERED, CONSENTED TO AND AGREED, pursuant to the State Safe Drinking Water Act, S.C. Code Ann. §§ 44-55-10 to 44-55-120 (Rev. 2002), that the Respondent shall:

1. Henceforth, operate and maintain the Charleswood Subdivision PWS in accordance with applicable State and Federal laws and regulations.

2. Within thirty (30) days of the execution date of this Order, submit to the Department for review and approval a proposed schedule for the installation of the Radium 226/228 removal treatment system. The schedule, upon Department approval, shall be incorporated into and become an enforceable part of this Order. In accordance with the approved schedule, the submittal package for the installation of the proposed Radium 226/228 removal treatment system for the Charleswood Subdivision PWS shall include in detail, the plans, basis for design (including calculations) and specifications per the State Primary Drinking Water Regulations, 24A S.C. Code Ann. Regs. 61-58.1 (Supp. 2005). The submittal package shall also include a completed application for a permit to construct.

3. Within fifteen (15) days of completion of the installation of the Radium 226/228 removal treatment system for the Charleswood Subdivision PWS, schedule an inspection with the Department's Region 3 Columbia Environmental Quality Control office at (803) 896-0620 to obtain final approval to operate from the Department.

THE PARTIES FURTHER STIPULATE that the Respondent shall pay a civil penalty of two thousand eight hundred dollars ($2,800.00) should it fail to comply with any requirement pursuant to this Consent Order, including any implementation schedule approved by the Department. Such penalties shall be due and payable upon written notice to the Respondent. The Department's determination that a requirement has been missed shall be final. All penalties due under this paragraph shall be made payable to the South Carolina Department of Health and Environmental Control within thirty (30) days of notification by the Department. The stipulated

penalties set forth above shall be in addition to any other remedies or sanctions which may be available to the Department by reason of the Respondent's failure to comply with the requirements of this Order. The Department's determination that the requirements have not been met shall be final.

PURSUANT TO THIS ORDER, communications regarding this Order and its requirements are to include the Order number and shall be addressed as follows:

Tyra Cunningham
Bureau of Water-Enforcement Division
S.C. Department of Health and Environmental Control
2600 Bull Street
Columbia, S.C. 29201

IT IS FURTHER ORDERED AND AGREED that this Consent Order governs only Utilities Services of South Carolina, Inc.'s liability to the Department for civil sanctions arising from matters set forth herein and constitutes the entire agreement between the Department and Utilities Services of South Carolina, Inc. with respect to the resolution and settlement of the matters set forth herein. The parties are not relying upon any representations, promises, understandings, or agreements except as expressly set forth within this Order.

IT IS FURTHER ORDERED AND AGREED that failure to comply with any provisions of this Order shall be grounds for further enforcement action pursuant to the State Safe Drinking Water Act, S.C. Code Ann. § 44-55-80(A) (Rev. 2002), to include the assessment of additional civil penalties.

[Signature Page Follows]

FOR THE SOUTH CAROLINA DEPARTMENT
OF HEALTH AND ENVIRONMENTAL CONTROL

Robert W. King, Jr., P.E.
Deputy Commissioner
Environmental Quality Control

Date: 6/15/06

Alton C. Boozer
Chief, Bureau of Water

Date: 06/12/06

Douglas B. Kinard, P.E., Director
Water Enforcement Division
Bureau of Water

Date: 6-09-06

DHEC Legal Counsel

Date: June 13, 2006

I CONSENT:

Bruce Haas, Regional Director
Utilities Services of South Carolina, Inc.

Date: 6/8/06

BNC 2.12 SC-B

THE STATE OF SOUTH CAROLINA BEFORE THE DEPARTMENT
OF HEALTH AND ENVIRONMENTAL CONTROL

IN RE: UTILITIES SERVICES OF SOUTH CAROLINA, INC.
PURDY SHORES
SYSTEM NUMBER 0150014
ABBEVILLE COUNTY

CONSENT ORDER
06-225-DW

Utilities Services of South Carolina, Inc. (Respondent) owns and is responsible for the proper operation and maintenance of public water system (PWS) No. 0150014 that supplies water to the customers of Purdy Shores located in Abbeville County, South Carolina.

South Carolina Department of Health and Environmental Control (Department) records reveal that the Respondent's PWS No. 0150014 sample results produced running annual averages (RAA) that exceeded the maximum contaminant level (MCL) for combined Radium 226/228 and Gross Alpha particle activity during the compliance periods of July 2004 – June 2005, October 2004 – September 2005 and January 2005 – December 2005.

IN THE INTEREST OF RESOLVING THIS MATTER without delay and expense of litigation, the Respondent agrees to the entry of this Consent Order, but neither agrees nor disagrees with the Findings of Fact and Conclusions of Law; and therefore, agrees that this Order shall be deemed an admission of fact and law only as necessary for enforcement of this Order by the Department or subsequent actions relating to the Respondent by the Department.

FINDINGS OF FACT

1. Utilities Services of South Carolina, Inc. (Respondent) owns and is responsible for the proper operation and maintenance of public water system (PWS) No. 0150014 that

supplies water to the customers of Purdy Shores located in Abbeville County, South Carolina.

2. The Respondent's PWS is required to be monitored on a quarterly basis for combined Radium 226/228. The MCL for combined Radium 226/228 is five (5) picocuries/Liter (pCi/L). Compliance for the combined Radium 226/ 228 MCL is based upon the RAA result for four (4) consecutive quarterly samples. The referenced PWS experienced violations when the RAA results for combined Radium 226/228 for Well Two (2) (G01117) and Well Three (3) (G01118) exceeded the MCL for the compliance periods of July 2004 – June 2005, October 2004 – September 2005, and January 2005 – December 2005 as indicated below:

Monitoring Period (G01117)	Results	RAA
July – September 2004	–	–
October – December 2004	–	–
January – March 2005	16.4 pCi/L	–
April – June 2005	15.2 pCi/L	16 pCi/L
July – September 2005	18.3 pCi/L	17 pCi/L
October – December 2005	21.3 pCi/L	18 pCi/L

Monitoring Period (G01118)	Results	RAA
July – September 2004	–	–
October – December 2004	–	–
January – March 2005	8.7 pCi/L	–
April – June 2005	7.5 pCi/L	8 pCi/L
July – September 2005	11.7 pCi/L	9 pCi/L
October – December 2005	8.1 pCi/L	9 pCi/L

3. The Respondent's PWS is required to be monitored on a quarterly basis for Gross Alpha particle activity. The MCL for Gross Alpha particle activity is fifteen (15) pCi/L. Compliance for Gross Alpha particle activity is based upon the RAA result for four (4) consecutive quarterly samples. The referenced PWS experienced violations when the RAA results for Gross Alpha particle activity for Well Two (2) (G01117) and Well Three

(3) (G0118) exceeded the MCL for the compliance periods of July 2004 – June 2005, October 2004 – September 2005, and January 2005 – December 2005 as indicated below:

Monitoring Period (G01117)	Results	RAA
July – September 2004	–	–
October – December 2004	–	–
January – March 2005	21.9 pCi/L	–
April – June 2005	19.5 pCi/L	21 pCi/L
July – September 2005	39.9 pCi/L	27 pCi/L
October – December 2005	23.8 pCi/L	26 pCi/L

Monitoring Period (G01118)	Results	RAA
July – September 2004	–	–
October – December 2004	–	–
January – March 2005	13.3 pCi/L	–
April – June 2005	30.2 pCi/L	22 pCi/L
July – September 2005	13.6 pCi/L	19 pCi/L
October – December 2005	13.2 pCi/L	18 pCi/L

4. On April 6, 2006, the Department issued Notices of Violation (NOV) to the Respondent for PWS No. 0150014 for exceedances of the MCL for combined Radium 226/228 and Gross Alpha particle activity during the July 2004 – June 2005, and October 2004 – September 2005 compliance periods indicated above. The NOV informed the Respondent that it must issue public notice to its customers as a result of the violations and submit a copy of the public notice to the Department.

5. On May 9, 2006, the Respondent submitted a copy of the public notice to the Department for the July 2004 – June 2005, and October 2004 – September 2005 MCL exceedances for combined Radium 226/228 and Gross Alpha particle activity.

6. On May 22, 2006, the Department issued an NOV to the Respondent for PWS No. 0150014 for exceedances of the MCL for combined Radium 226/228 and Gross Alpha particle activity during the January 2005 – December 2005 compliance period indicated above. The NOV informed the Respondent that it must issue public notice to its

customers as a result of the violations and submit a copy of the public notice issued to the Department.

7. On June 16, 2006, the Respondent submitted to the Department a copy of the public notice for the January 2005 – December 2005 MCL exceedances for combined Radium 226/228 and Gross Alpha particle activity.

8. On August 1, 2006, Department staff held an enforcement conference with the Respondent. The possibility of a Consent Order was discussed.

CONCLUSIONS OF LAW

Based upon the above Findings of Fact, the Department, pursuant to the State Safe Drinking Water Act, S.C. Code Ann. §§ 44-55-10 to 44-55-120 (2002), reaches the following Conclusions of Law:

1. The Respondent violated the State Primary Drinking Water Regulations, 24A S.C. Code Ann. Regs. 61-58.5(H)(2) (Supp. 2005), in that PWS No. 0150014 exceeded the MCL for combined Radium 226/228 during the July 2004 – June 2005, October 2004 – September 2005, and January 2005 – December 2005 compliance periods.

2. The Respondent violated the State Primary Drinking Water Regulations, 24A S.C. Code Ann. Regs. 61-58.5(H)(3) (Supp. 2005), in that PWS No. 0150014 exceeded the MCL for Gross Alpha particle activity during the July 2004 – June 2005, October 2004 – September 2005, and January 2005 – December 2005 compliance periods.

3. The State Safe Drinking Water Act, S.C. Code Ann. § 44-55-90(B) (2002), provides for a civil penalty not to exceed five thousand dollars ($5,000.00) a day per violation for any person violating the Act.

NOW, THEREFORE, IT IS ORDERED, CONSENTED TO AND AGREED, pursuant to the State Safe Drinking Water Act, S.C. Code Ann. §§ 44-55-10 to 44-55-120 (2002), that the Respondent shall:

1. Henceforth, operate and maintain the Purdy Shores PWS No. 0150014 in accordance with applicable State and Federal laws and regulations.

2. Within thirty (30) days of the execution date of this Order, submit to the Department in writing which option listed below the Respondent has selected to implement:

Option A

A. Within thirty (30) days of the execution date of this Order, submit to the Department for review and approval a proposed schedule for the installation of the Radium 226/228 and Gross Alpha particle removal treatment system. The schedule, upon Department approval, shall be incorporated into and become an enforceable part of this Order. In accordance with the approved schedule, the submittal package for the installation of the proposed Radium 226/228 and Gross Alpha particle removal treatment system for the Purdy Shores PWS No. 0150014 shall include in detail, the plans, basis for design (including calculations) and specifications per the State Primary Drinking Water Regulations, 24A S.C. Code Ann. Regs. 61-58.1 (Supp. 2005). The submittal package shall also include a completed application for a permit to construct.

Option B

B. Within thirty (30) days of the execution date of this Order, submit to the Department for review and approval a submittal package for the installation of a new public supply well for the connection to Purdy Shores PWS No. 0150014

existing distribution system. The submittal package shall include in detail the plans, basis for design (including calculations), and specifications per State Primary Drinking Water Regulations, 24A S.C. Code Ann. Regs. 61-58.1 (Supp. 2005). The submittal package shall also include a complete application for a permit to construct. Within thirty (30) days of the issuance of the permit to construct a test well, complete well construction. Within fourty-five (45) days of receiving water quality test from the test well, apply for a permit to construct a follow-up well. Within (30) days of the issuance of the permit to construct the follow-up well, complete construction.

3. Within fifteen (15) days of completion of implementing item A or B for the Purdy Shores PWS No. 0150014, schedule an inspection with the Department's Region 1 Greenwood Environmental Quality Control office at (864) 223-0333 to obtain final approval to operate from the Department.

THE PARTIES FURTHER STIPULATE that the Respondent shall pay a civil penalty of six thousand eight hundred dollars ($6,800.00) should it fail to comply with any requirement pursuant to this Consent Order, including any implementation schedule approved by the Department. Such penalties shall be due and payable upon written notice to the Respondent. The Department's determination that a requirement has not been met shall be final. All penalties due under this paragraph shall be made payable to the South Carolina Department of Health and Environmental Control within thirty (30) days of notification by the Department. The stipulated penalties set forth above shall be in addition to any other remedies or sanctions which may be available to the Department by reason of the Respondent's failure to comply with the

requirements of this Order. The Department's determination that the requirements have not been met shall be final.

PURSUANT TO THIS ORDER, communications regarding this Order and its requirements are to include the Order number and shall be addressed as follows:

Tyra Cunningham
Bureau of Water-Enforcement Division
S.C. Department of Health and Environmental Control
2600 Bull Street
Columbia, S.C. 29201

IT IS FURTHER ORDERED AND AGREED that this Consent Order governs only Utilities Services of South Carolina, Inc.'s liability to the Department for civil sanctions arising from matters set forth herein and constitutes the entire agreement between the Department and Utilities Services of South Carolina, Inc. with respect to the resolution and settlement of the matters set forth herein. The parties are not relying upon any representations, promises, understandings, or agreements except as expressly set forth within this Order.

IT IS FURTHER ORDERED AND AGREED that failure to comply with any provisions of this Order shall be grounds for further enforcement action pursuant to the State Safe Drinking Water Act, S.C. Code Ann. § 44-55-80(A) (2002), to include the assessment of additional civil penalties.

FOR THE SOUTH CAROLINA DEPARTMENT
OF HEALTH AND ENVIRONMENTAL CONTROL

Robert W. King, Jr., P.E.
Deputy Commissioner
Environmental Quality Control

Date: 12/4/06

for Alton C. Boozer
Chief, Bureau of Water

Date: 11-22-06

Douglas B. Kinard, P.E., Director
Water Enforcement Division
Bureau of Water

Date: 11.17.06

DHEC Legal Counsel

Date: 11/27/06

I CONSENT:

Bruce Haas, Regional Director
Utilities Services of South Carolina, Inc.

Date: 11/14/06

BNC 2.12 SC-C

THE STATE OF SOUTH CAROLINA BEFORE THE DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL

IN RE: UTILITIES SERVICES OF SOUTH CAROLINA, INC.
BARNEY RHETT SUBDIVISION
PUBLIC WATER SYSTEM (4650018)
YORK COUNTY

CONSENT ORDER
05-149-DW

Utilities Services of South Carolina, Inc. (Respondent) owns and is responsible for the proper operation and maintenance of the public water system (PWS) that serves the residents of Barney Rhett Subdivision, located in York County, South Carolina.

A review of the Respondent's file by South Carolina Department of Health and Environmental Control (Department) staff revealed that the Respondent failed to properly operate and maintain the Barney Rhett Subdivision PWS.

IN THE INTEREST OF RESOLVING THIS MATTER without delay and expense of litigation, the Respondent agrees to the entry of this Consent Order, but neither agrees nor disagrees with the Findings of Fact and Conclusions of Law; and therefore, agrees that this Order shall be deemed an admission of fact and law only as necessary for enforcement of this Order by the Department or subsequent actions relating to the Respondent by the Department.

FINDINGS OF FACT

1. Utilities Services of South Carolina, Inc. (Respondent) owns and is responsible for the proper operation and maintenance of the public water system (PWS) that serves the residents of Barney Rhett Subdivision, located in York County, South Carolina.

2. The Barney Rhett Subdivision PWS consists of a single groundwater well, a water distribution system, and forty-four (44) taps which serve a population of one hundred thirteen (113).

3. On October 1, 2002, the Respondent legally assumed ownership and responsibility for the Barney Rhett Subdivision PWS.

4. On September 14, 2004, the Department conducted a sanitary survey of the Barney Rhett Subdivision PWS, which resulted in an overall "Unsatisfactory" rating. The following areas were rated as "Unsatisfactory":

   A. Protection from Contamination: the pad around the well is cracked and must be replaced;

   B. Storage Maintenance: the water storage tank is in poor condition and must be evaluated and up-graded.

5. On April 25, 2005, the Department conducted a sanitary survey of the Barney Rhett Subdivision PWS, which resulted in an overall "Unsatisfactory" rating. The following areas were rated as "Unsatisfactory":

   A. Protection from Contamination: the pad around the well is cracked and must be replaced, and there is a hole in the side of the casing, which must be repaired;

   B. Storage Maintenance: the water storage tank is in poor condition and must be evaluated and up-graded.

5. On June 16, 2005, Department staff held an enforcement conference with Bruce Haas, the regional director for Utilities Services of South Carolina, Inc., to discuss the violations. Bruce Haas stated that he is in the process of obtaining a contract with the City of Rock Hill for the purchase of bulk water service for both the Barney Rhett Subdivision and the

Hickory Hills Subdivision. The Hickory Hills Subdivision PWS (4650025) is currently interconnected to the City of Rock Hill via an emergency connection. The possibility of a Consent Order was discussed.

CONCLUSIONS OF LAW

Based upon the above Findings of Fact, the Department, pursuant to the State Safe Drinking Water Act, S.C. Code Ann. §§ 44-55-10 to 120 (2002), reaches the following Conclusions of Law:

1. The Respondent violated the State Primary Drinking Water Regulations, 24A S.C. Code Ann. Regs. 61-58.7(B) (Supp. 2004), in that it failed to properly operate and maintain the Barney Rhett Subdivision PWS.
2. The State Safe Drinking Water Act, S.C. Code Ann. § 44-55-90(B) (2002), provides for a civil penalty not to exceed five thousand dollars ($5,000.00) a day per violation for any person violating the Act.

NOW, THEREFORE, IT IS ORDERED, CONSENTED TO AND AGREED, pursuant to the State Safe Drinking Water Act, S.C. Code Ann. §§ 44-55-10 to 120 (2002), that the Respondent shall:

1. Henceforth, operate and maintain the Barney Rhett PWS in accordance with applicable state and federal laws and regulations.
2. By October 1, 2005, obtain from the City of Rock Hill, documentation of its willingness to provide bulk water service for both the Barney Rhett Subdivision and Hickory Hills Subdivision; and by October 15, 2005 submit an application to the Public Service Commission (PSC) for approval of interconnections of the PWSs serving these subdivisions with the PWS of the City of Rock Hill.

Within thirty (30) days of the PSC's final approval of the interconnections for bulk water service, submit to the Department for review and approval a submittal package for (a) the connection of the Barney Rhett Subdivision PWS to the City of Rock Hill PWS and (b), if necessary, for the permanent connection of the Hickory Hills Subdivision PWS to the City of Rock Hill PWS. The submittal packages shall include in detail, the plans, basis for design (including calculations) and specifications per State Primary Drinking Water Regulations, 24A S.C. Code Ann. Regs. 61-58.1 (Supp. 2004). The submittal packages shall also include a completed application for a permit to construct.

Within thirty (30) days of the issuance of the permits to construct, complete the connections of both the Barney Rhett Subdivision PWS and Hickory Hills Subdivision PWS to the City of Rock Hill PWS, and schedule an inspection with the Department's Region 3 Lancaster Environmental Quality Control District office at (803) 285-7461 to obtain final approval to operate from the Department.

Within ninety (90) days of the completion of the connections to the City of Rock Hill PWS, have a South Carolina certified well driller properly abandon the existing wells at the Barney Rhett Subdivision PWS and Hickory Hills Subdivision PWS; submit well close-out logs (Form 1903) to the Department; and, contact the Department's Region 3 Lancaster Environmental Quality Control District office at (803) 285-7461 to verify proper abandonment.

PARTIES FURTHER STIPULATE that the Respondent shall pay a civil penalty of two five hundred fifty dollars ($2,550.00) should it fail to comply with any requirement of this Consent Order, including any implementation schedule approved by the Department. Such penalties shall be due and payable upon written notice to the Respondent.

FOR THE SOUTH CAROLINA DEPARTMENT
OF HEALTH AND ENVIRONMENTAL CONTROL

for _____ Date: 10/18/05
Robert W. King, Jr., P.E.
Deputy Commissioner
Environmental Quality Control

_____ Date: 10/04/05
Alton C. Boozer
Chief, Bureau of Water

_____ Date: 10-4-05
Douglas B. Kinard, P.E., Director
Water Enforcement Division
Bureau of Water

_____ Date: October 7, 2005
DHEC Legal Counsel

I/WE CONSENT:

_____ Date: 10/4/05
Bruce Haas, Regional Director
Utilities Services of South Carolina, Inc.

BNC 2.12 SC-D

THE STATE OF SOUTH CAROLINA
BEFORE THE DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL

IN RE: UTILITIES SERVICES OF SOUTH CAROLINA, INC.
FOXWOOD SUBDIVISION
YORK COUNTY

CONSENT ORDER
05-099 -W

Utilities Services of South Carolina, Inc. (Respondent) owns and is responsible for the proper operation and maintenance of a wastewater treatment facility (WWTF) serving the residents of Foxwood Subdivision located in York County, South Carolina.

The Respondent violated the Pollution Control Act, S.C. Code Ann. §§ 48-1-10 et seq. (1987 & Supp. 2002) and National Pollutant Discharge Elimination System (NPDES) Permit SC0027189 in that it exceeded the permitted discharge limits for ammonia-nitrogen (NH_3-N), biochemical oxygen demand (BOD), fecal coliform bacteria (FC), phosphorous and total suspended solids (TSS) as specified in the NPDES permit.

In accordance with approved procedures and based upon discussions with the Respondent's agents on August 12, 2003, the parties have agreed to the issuance of this Order to include the following Findings of Fact and Conclusions of Law.

IN THE INTEREST OF RESOLVING THIS MATTER without delay and expense of litigation, the Respondent agrees to the entry of this Consent Order, but neither agrees nor disagrees with the Findings of Fact or the Conclusion of Law; and therefore, agrees that this Order shall be deemed an admission of fact and law only as necessary for enforcement of this Order by the

Department or subsequent actions relating to the Respondent by the Department.

FINDINGS OF FACT

1. The Respondent owns and is responsible for the proper operation and maintenance of a WWTF serving the residents of Foxwood Subdivision located at 0.6 miles east of S.C. Road #674 and 1.4 miles north of S.C. Highway #160 in York County, South Carolina.

2. South Carolina Department of Health and Environmental Control (Department) staff issued NPDES Permit SC0027146 to the Respondent, allowing it to discharge treated wastewater to Sugar Creek to the Catawba River in accordance with effluent limitations, monitoring requirements and other conditions set forth therein.

3. The Respondent exceeded the permitted discharge limits for BOD during March and June 2004. The Respondent also exceeded the permitted discharge limits for FC during January and July 2004, and phosphorous during March, June, July and August 2004. The Respondent reported these violations on Discharge Monitoring Reports (DMRs) submitted to the Department.

4. On March 18, 2004, Department Enforcement staff issued a Notice of Violation (NOV) to the Respondent as a result of violations of the permitted discharge limit for FC in January 2004. Since Bruce Haas, Regional Director for the Respondent, commented on the DMR for January 2004 that the sample collected on January 6, 2004, to be analyzed for FC had chlorine in it when collected, and that the two (2) subsequent samples were well within limits, no response was required by the Department.

5. On June 30, 2004, Department Enforcement staff issued a NOV to the Respondent as a result of violations of the permitted discharge limits for BOD and phosphorous during March 2004,

and phosphorous during May 2004. Since Mr. Haas attributed the violations in March 2004 to higher flows and lower water temperature due to eighteen inches (18") of snow, and the May 2004 violation to the WWTF not being designed to reduce phosphorous, no response was required by the Department.

6. On October 14, 2004, Department Enforcement staff held an Enforcement Conference with Mr. Haas and the Respondent's attorney, Mr. John Hoefer. Mr. Haas indicated that the WWTF was not designed to meet the current phosphorous limits. Mr. Haas stated that the Respondent needs to know if any of the other permit limits will change before making final plans to upgrade the WWTF; the Respondent will have to delay the upgrade until it receives a wasteload allocation from the Department. Mr. Haas attributed the July 2004 FC violation to improper sampling by one of the Respondent's operators. The Parties discussed the issuance of a Consent Order containing a civil penalty.

CONCLUSIONS OF LAW

Based upon the above Findings of Fact, the Department reaches the following Conclusions of Law:

1. The Respondent violated the Pollution Control Act, S.C. Code Ann.§ 48-1-110 (d) (Supp. 2004), and Water Pollution Control Permits, 24 S.C. Code Ann. Regs. 61-9.122.41(a)(1) (Supp. 2004), in that it exceeded the permitted discharge limits for BOD, FC and phosphorous as specified in Part I.A.1 of the NPDES the permit.

2. The Pollution Control Act, S.C. Code Ann. § 48-1-330 (1987), provides for a civil penalty not to exceed ten thousand dollars ($10,000.00) per day of violation for any person violating the Act or any rule, regulation, permit, permit condition, final determination, or Order of the

Department.

NOW, THEREFORE, IT IS ORDERED, CONSENTED TO AND AGREED, pursuant to the Pollution Control Act, S.C. Code Ann. § 48-1-50 (1987) and § 48-1-100 (Supp. 2004), that the Respondent shall:

1. Henceforth, comply with all permitting and operating requirements in accordance with State and Federal regulations.
2. Within ninety (90) days of the execution date of this Order, submit to the Department three (3) copies of a preliminary engineering report (PER) with a schedule of implementation. The PER shall be administratively and technically complete as required by applicable regulations and prepared in accordance with Standards for Wastewater Facilities Construction, S.C. Code Regs. 61-67 (Supp. 2004). The schedule, upon Department approval, shall be incorporated into and become an enforceable part of this Order. Completion of construction per the schedule shall also become an enforceable part of this Order.
3. Within thirty (30) days of the execution date of this Order, pay to the Department a civil penalty in the amount of eight thousand four hundred dollars ($8,400.00).

THEREFORE IT IS FURTHER ORDERED AND AGREED that if any event occurs which causes or may cause a delay in meeting any of the above scheduled dates for completion of any specified activity, the Respondent shall notify the Department in writing at least one (1) week before the scheduled date, describing in detail the anticipated length of the delay, the precise cause or causes of delay, if ascertainable, the measures taken or to be taken to prevent or minimize the delay, and the timetable by which those measures will be implemented.

The Department shall provide written notice as soon as practicable that a specified extension

of time has been granted or that no extension has been granted. An extension shall be granted for any scheduled activity delayed by an event of *force majeure*, which shall mean any event arising from causes beyond the control of the Respondent that causes a delay in or prevents the performance of any of the conditions under this Consent Order including, but not limited to: a) acts of God, fire, war, insurrection, civil disturbance, explosion; b) adverse weather condition that could not be reasonably anticipated causing unusual delay in transportation and/or field work activities; c) restraint by court order or order of public authority; d) inability to obtain, after exercise of reasonable diligence and timely submittal of all applicable applications, any necessary authorizations, approvals, permits, or licenses due to action or inaction of any governmental agency or authority; and e) delays caused by compliance with applicable statutes or regulations governing contracting, procurement or acquisition procedures, despite the exercise of reasonable diligence by the Respondent.

Events which are not *force majeure* include by example, but are not limited to, unanticipated or increased costs of performance, changed economic circumstances, normal precipitation events, or any person's failure to exercise due diligence in obtaining governmental permits or fulfilling contractual duties. Such determination will be made in the sole discretion of the Department. Any extension shall be incorporated by reference as an enforceable part of this Consent Order and thereafter be referred to as an attachment to the Consent Order.

PURSUANT TO THIS ORDER, all communication regarding this Order and its requirements, shall be addressed as follows:

Tom J. Richmond
SCDHEC - Bureau of Water
2600 Bull Street
Columbia, S.C. 29201

THE RESPONDENT SHALL CONFIRM in writing the completion of Order requirements to the above address within five (5) days of completion. The Order number should be included on all checks remitted as payment of the civil penalty.

IT IS FURTHER ORDERED AND AGREED that failure to comply with any provision of this Order shall be grounds for further enforcement action pursuant to the Pollution Control Act, S.C. Code Ann.§ 48-1-330 (1987), to include the assessment of additional civil penalties.

IT IS FURTHER ORDERED AND AGREED that this Consent Order governs only Utilities Services of South Carolina, Inc.'s liability to the Department for civil sanctions arising from the matters set forth herein and constitutes the entire agreement between the Department and Utilities Services of South Carolina, Inc. with respect to the resolution and settlement of the matters set forth herein. The parties are not relying upon any representations, promises, understandings, or agreements except as expressly set forth in this Order.

[Signature page follows]

FOR THE SOUTH CAROLINA DEPARTMENT
OF HEALTH AND ENVIRONMENTAL CONTROL

James A. Gatt

Robert W. King, Jr., P.E.,
Deputy Commissioner
Environmental Quality Control

DATE: 7/21/05

Sally C. Knowles for

Alton C. Boozer
Bureau Chief
Bureau of Water

DATE: 7/13/05

Douglas E. Kinard, P.E., Director
Water Enforcement Division
Bureau of Water

DATE: 7/13/05

DHEC Legal Counsel

DATE: 7/15/05

WE CONSENT:

UTILITES SERVICES OF SOUTH CAROLINA, INC.

Bruce T. Haas

Bruce Haas
Regional Director

DATE: 7/12/05

BNC 2.12 SC-E

THE STATE OF SOUTH CAROLINA
BEFORE THE DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL

CAROLINA WATER SERVICE, INC.
GLENN VILLAGE II SUBDIVISION
SYSTEM NUMBER 3250058
LEXINGTON COUNTY

CONSENT ORDER
05-094-DW

Carolina Water Service, Inc. (Respondent) owns and is responsible for the proper operation and maintenance of the public water system (PWS) that supplies water to the residents of the Glenn Village II Subdivision, located in Lexington County, South Carolina.

South Carolina Department of Health and Environmental Control (Department) records reveal that the combined Radium 226 and 228 sample results for the Respondent's PWS produced running annual averages (RAA) that exceeded the maximum contaminant level (MCL) for combined Radium 226 and 228 during the compliance periods of July 2003 – June 2004, October 2003 – September 2004, and January 2004 – December 2004.

In accordance with approved procedures, the parties have agreed to the issuance of this Order to include the following Findings of Fact and Conclusions of Law.

IN THE INTEREST OF RESOLVING THIS MATTER without delay and expense of litigation, the Respondent agrees to the entry of this Consent Order, but neither agrees nor disagrees with the Findings of Fact and Conclusions of Law; and therefore, agrees that this Order shall be deemed an admission of fact and law only as necessary for enforcement of this Order by the Department or subsequent actions relating to the Respondent by the Department.

FINDINGS OF FACT

1. Carolina Water Service, Inc. (Respondent) owns and is responsible for the proper operation and maintenance of the public water system (PWS) that supplies water to the residents of the Glenn Village II Subdivision, located in Lexington County, South Carolina.

2. The Respondent's PWS consists of two (2) wells and a water distribution system that services one hundred ninety-six (196) taps and a primary population of six hundred (600) residents.

3. The Respondent's PWS is required to be monitored on a quarterly basis for combined Radium 226 and 228. The MCL for combined Radium 226 and 228 is five (5) picocuries/Liter (pCi/L). Compliance for the MCL for combined Radium 226 and 228 is based upon the RAA result for four (4) consecutive quarterly samples. The referenced PWS experienced violations when the RAA results for combined Radium 226 and 228 exceeded the MCL for the compliance periods of July 2003 – June 2004, October 2003 – September 2004, and January 2004 – December 2004 as indicated below:

Compliance Period	Results	RAA
July – September 2003	5.6 pCi/L	–
October – December 2003	2.6 pCi/L	–
January – March 2004	11.0 pCi/L	–
April – June 2004	6.4 pCi/L	6 pCi/L
July – September 2004	7.4 pCi/L	7 pCi/L
October – December 2004	9.7 pCi/L	9 pCi/L

4. On July 7, 2004, October 5, 2004, and December 29, 2004, Notices of Violation (NOV) were issued to the Respondent for the referenced PWS for exceedances of the MCL for combined Radium 226 and 228 during the compliance periods indicated above.

5. On April 14, 2005, Department staff held an enforcement conference with the Respondent to discuss the above-referenced violations. The parties discussed possible remedies and the issuance of a Consent Order.

CONCLUSIONS OF LAW

Based upon the above Findings of Fact, the Department, pursuant to the State Safe Drinking Water Act, S.C. Code Ann. §§ 44-55-10 to 120 (2002), reaches the following Conclusions of Law:

1. The Respondent has violated the State Primary Drinking Water Regulations, 24A S.C. Code Ann. Regs. 61-58.5(H) (Supp. 2004), in that the referenced PWS exceeded the MCL for combined Radium 226 and 228 during the compliance periods of July 2003 – June 2004, October 2003 – September 2004, and January 2004 – December 2004.
2. The State Safe Drinking Water Act, S.C. Code Ann. § 44-55-90(B)(1) (2002), provides for a civil penalty not to exceed five thousand dollars ($5,000.00) a day per violation for any person violating the Act.

NOW, THEREFORE, IT IS ORDERED, CONSENTED TO AND AGREED, pursuant to the State Safe Drinking Water Act, S.C. Code Ann. §§ 44-55-10 to 120 (2002), that the Respondent shall:

1. Henceforth, operate and maintain the Glenn Village II PWS in accordance with applicable State and Federal laws and regulations.
2. By September 15, 2005, submit to the Department a corrective action plan (CAP) detailing the procedures and a proposed schedule for addressing the referenced PWS's violations. This CAP will be reviewed by the Department, and upon approval, the CAP and schedule shall be incorporated into and become an enforceable part of this Order.

PURSUANT TO THIS ORDER, communications regarding this Order and its requirements are to include the Order number and shall be addressed as follows:

Jennifer Kellett
S.C. Department of Health and Environmental Control
Bureau of Water
Drinking Water Enforcement Section
2600 Bull Street
Columbia, SC 29201

THE PARTIES FURTHER STIPULATE that the Respondent shall pay a civil penalty of three thousand four hundred dollars ($3,400.00) should it fail to comply with any requirement established pursuant to this Consent Order, including any implementation schedule approved by the Department. Such penalties shall be due and payable upon written notice to the Respondent. The Department's determination that a schedule has been missed shall be final. All penalties due under this paragraph shall be made payable to the South Carolina Department of Health and Environmental Control within thirty (30) days of notification by the Department. The stipulated penalties set forth above shall be in addition to any other remedies or sanctions which may be available to the Department by reason of the Respondent's failure to comply with the requirements of this Order. The Department's determination that the requirements have not been met shall be final.

IT IS FURTHER ORDERED AND AGREED that this Consent Order governs only Carolina Water Service, Inc.'s liability to the Department for civil sanctions arising from the matters set forth herein and constitutes the entire agreement between the Department and Carolina Water Service, Inc. with respect to the resolution and settlement of the matters set forth herein. The parties are not relying upon any representations, promises, understandings or agreements except as expressly set forth within this Order.

IT IS FURTHER ORDERED AND AGREED that failure to comply with the terms of this Order shall be deemed a violation of the State Safe Drinking Water Act, S.C. Code Ann. § 44-

55-80(A) (2002), and may subject the Respondent to further enforcement actions to include the assessment of additional civil penalties.

FOR THE SOUTH CAROLINA DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL

for James A. Spell — Date: 7/19/05

Robert W. King, Jr., P.E.
Deputy Commissioner
Environmental Quality Control

Sally C. Kuwler for — Date: 7/13/05

Alton C. Boozer
Bureau Chief
Bureau of Water

Douglas B. Kinard — Date: 7/12/05

Douglas B. Kinard, P.E., Director
Water Enforcement Division
Bureau of Water

Lucas M Reg — Date: 7/14/05

DHEC Legal Counsel

I/WE CONSENT:

Bruce T. Haas — Date: 7/12/05

Bruce Haas, Regional Director
Carolina Water Service, Inc.

55-80(A) (2002), and may subject the Respondent to further enforcement actions to include the assessment of additional civil penalties.

FOR THE SOUTH CAROLINA DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL

James A. Gill for — Date: 7/19/05

Robert W. King, Jr., P.E.
Deputy Commissioner
Environmental Quality Control

Sally C. Kuwler for — Date: 7/13/05

Alton C. Boozer
Bureau Chief
Bureau of Water

Douglas B. Kinard — Date: 7/12/05

Douglas B. Kinard, P.E., Director
Water Enforcement Division
Bureau of Water

Lucas M Reg — Date: 7/14/05

DHEC Legal Counsel

I/WE CONSENT:

Bruce T. Haas — Date: 7/12/05

Bruce Haas, Regional Director
Carolina Water Service, Inc.

THE STATE OF SOUTH CAROLINA
BEFORE THE DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL

IN RE: UNITED UTILITY COMPANY, INC.
BRIARCREEK SUBDIVISION I WWTF
CHEROKEE COUNTY

CONSENT ORDER
04-180-W

United Utility Company, Inc. (Respondent) owns and is responsible for the proper operation and maintenance of a wastewater treatment facility (WWTF) serving the Briarcreek Subdivision located in Cherokee County, South Carolina.

The Respondent violated the Pollution Control Act, S.C. Code Ann. §§ 48-1-10 et seq. (1987 & Supp. 2003), and National Pollutant Discharge Elimination System (NPDES) Permit SC0023736 in that it failed to comply with the permitted discharge limits for ammonia-nitrogen (NH_3-N), as required by its NPDES Permit.

In accordance with approved procedures and based upon discussions with the Respondent's agents on July 13, 2004, the parties have agreed to the issuance of this Order to include the following Findings of Fact and Conclusions of Law.

FINDINGS OF FACT

1. The Respondent owns and is responsible for the proper operation and maintenance of a WWTF serving the Briarcreek Subdivision located in Cherokee County, South Carolina.
2. South Carolina Department of Health and Environmental Control (Department) staff issued NPDES Permit SC0023736 to the Respondent authorizing the discharge of treated

wastewater into Spencers Branch to Gilkey Creek to Thicketty Creek to the Broad River in accordance with the effluent limitations, monitoring requirements and other conditions set forth therein.

3. The Respondent reported violations of the permitted discharge limits for NH_3-N on discharge monitoring reports (DMRs) submitted to the Department for the September 2003 and February 2004 monitoring periods.

4. On October 31, 2003, Department staff issued a Notice of Violation to the Respondent for violations of the permitted discharge limits for NH_3-N during September 2003. The Respondent's agent included comments on the September 2003 DMR, attributing the NH_3-N violation to a blockage in the Return Activated Sludge (RAS) line.

5. The Respondent's agent included comments on the February 2004 DMR, attributing the NH_3-N violation to possible laboratory error, as the on-site field NH_3-N test kit did not detect ammonia, and there were no operational problems at the WWTF. The Respondent's agent collected eight (8) additional NH_3-N samples during February 2004, all of which reflected NH_3-N levels of less than one milligram per liter (1 mg/L).

6. Department staff held an enforcement conference with agents for the Respondent on July 13, 2004, to discuss the above-cited violations. During the conference, the Respondent's agents stated that the first NH_3-N violation was caused by a blockage in the RAS line. Once the blockage was cleared, NH_3-N levels returned to compliance. The second NH_3-N violation was thought to be a lab error, but the contract lab did not have enough sample to re-analyze both total nitrogen and NH_3-N to confirm the Respondent's suspicions. The Respondent's operator collected eight (8) additional samples during that month, and all additional samples

reflected NH_3-N levels less than one milligram per liter (1.0 mg/L). The Respondent's agent provided copies of the laboratory data verifying the results of the additional NH_3-N testing. The parties discussed the issuance of a Consent Order containing possible civil penalties.

CONCLUSIONS OF LAW

Based upon the above Findings of Fact, the Department reaches the following Conclusions of Law:

1. The Respondent violated the Pollution Control Act, S.C. Code Ann. § 48-1-110 (d) (Supp. 2003), and Water Pollution Control Permits, 24 S.C. Code Ann. Regs. 61-9.122.41(a) (Supp. 2003), in that it failed to comply with the permitted discharge limits for NH_3-N, as required by NPDES Permit SC0023736.
2. The Pollution Control Act, S.C. Code Ann. § 48-1-330 (1987), provides for a civil penalty not to exceed ten thousand dollars ($10,000.00) per day of violation for any person violating the Act or any rule, regulation, permit, permit condition, final determination, or Order of the Department.

NOW, THEREFORE, IT IS ORDERED, CONSENTED TO AND AGREED, pursuant to the Pollution Control Act, S.C. Code Ann. § 48-1-50 (1987), and § 48-1-100 (Supp. 2003), that the Respondent shall:

1. Henceforth, operate and maintain the WWTF in accordance with the NPDES Permit and Department regulations and guidelines.
2. Within thirty (30) days of the execution date of this Order, submit to the Department a corrective action plan (CAP) addressing compliance with NH_3-N limits. The CAP shall include an implementation schedule which upon Department approval shall be incorporated

into and become an enforceable part of this Order.

3. Within thirty (30) days of the execution date of this Order, pay to the Department a civil penalty in the amount of three thousand dollars ($3,000.00).

PURSUANT TO THIS ORDER, communications regarding this Order and its requirements, shall be addressed as follows:

Heather L. Beard
Water Enforcement Division
South Carolina Department of Health and Environmental Control
2600 Bull Street
Columbia, South Carolina 29201

The Respondent shall confirm, in writing, completion of Order requirements to the above address within ten (10) days of completion. The Order number should be included on all checks remitted as payment of the civil penalty.

IT IS FURTHER ORDERED AND AGREED that if any event occurs which causes or may cause a delay in meeting any of the above scheduled dates for completion of any specified activity, the Respondent shall notify the Department in writing at least one (1) week before the scheduled date, describing in detail the anticipated length of the delay, the precise cause or causes of delay, if ascertainable, the measures taken or to be taken to prevent or minimize the delay, and the timetable by which those measures will be implemented.

The Department shall provide written notice as soon as practicable that a specified extension of time has been granted or that no extension has been granted. An extension shall be granted for any scheduled activity delayed by an event of *force majeure*, which shall mean any event arising from causes beyond the control of the Respondent that causes a delay in or prevents the performance of any of the conditions under this Consent Order including, but not limited to: a) acts of God, fire,

war, insurrection, civil disturbance, explosion; b) adverse weather conditions that could not be reasonably anticipated causing unusual delay in transportation and/or field work activities; c) restraint by court order or order of public authority; d) inability to obtain, after exercise of reasonable diligence and timely submittal of all applicable applications, any necessary authorizations, approvals, permits, or licenses due to action or inaction of any governmental agency or authority; and e) delays caused by compliance with applicable statutes or regulations governing contracting, procurement or acquisition procedures, despite the exercise of reasonable diligence by the Respondent.

Events which are not *force majeure* include by example, but are not limited to, unanticipated or increased costs of performance, changed economic circumstances, normal precipitation events, or any person's failure to exercise due diligence in obtaining governmental permits or fulfilling contractual duties. Such determination will be made in the sole discretion of the Department. Any extension shall be incorporated by reference as an enforceable part of this Consent Order and hereafter be referred to as an attachment to the Consent Order.

IT IS FURTHER ORDERED AND AGREED that this Order constitutes the entire agreement between the parties with respect to the resolution and settlement of matters set forth herein. The parties are not relying upon any representations, promises, understandings or agreements except as expressly set forth within this Order.

United Utility Company, Inc. understands that this Consent Order governs only the liability for civil sanctions arising from the matters set forth herein and does not affect or purport to affect any criminal liability or liability to any entity not a party to this Order.

IT IS FURTHER ORDERED AND AGREED that failure to comply with any provision of this

Order shall be grounds for further enforcement action pursuant to the Pollution Control Act, S.C. Code Ann. § 48-1-330 (1987), to include the assessment of additional civil penalties.

FOR THE SOUTH CAROLINA DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL

Date: 10/12/04

Robert W. King, Jr., P.E.
Deputy Commissioner
Environmental Quality Control

Date: 09/24/04

Alton C. Boozer
Bureau Chief
Bureau of Water

Date: 9/24/04

Douglas B. Kinard, P.E., Director
Water Enforcement Division
Bureau of Water

Date: 9/30/04

DHEC Legal Counsel

WE CONSENT:

United Utility Company, Inc.

Date: 9/22/04

BNC 2.12 SC-G

THE STATE OF SOUTH CAROLINA
BEFORE THE DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL

IN RE: CAROLINA WATER SERVICE, INC.
RIVER HILLS SUBDIVISION
YORK COUNTY

CONSENT ORDER
04-140-W

Carolina Water Service, Inc. (Respondent) owns and is responsible for the proper operation and maintenance of a wastewater collection system (WWCS) consisting of sewer lines and pump stations (PSs) serving the residents of River Hills Subdivision located in York County, South Carolina.

The Respondent violated the Pollution Control Act, S.C. Code Ann. §§ 48-1-10 et seq. (1987 & Supp. 2002) in that it discharged untreated wastewater into the environment, including waters of the State, in a manner other than in compliance with a permit issued by the Department.

In accordance with approved procedures and policy, the Department has determined that it is necessary and appropriate to issue this Order to include the following Findings of Fact and Conclusions of Law.

FINDINGS OF FACT

1. On November 5, 2001, the Respondent's agent reported a Sanitary Sewer Overflow (SSO) on Autumn Cove Road. The SSO report indicated that an air relief valve on a force main malfunctioned, causing the SSO. The Respondent's agent estimated that five hundred

(500) gallons of wastewater were spilled, although none entered waters of the State. The Respondent's agents had a contractor clean up the wastewater and lime the affected area. The report indicated that the relief valve would be repaired or replaced. The Respondent's agent indicated that the relief valve was newly permitted and installed and was within the warranty period.

2. On November 22, 2002, the Respondent's agent reported a SSO at the manhole located at 12 Oakwood Lane. The report indicated that approximately four hundred (400) gallons of wastewater was discharged and entered waters of the State. The report also indicated that roots present in the sewer line caused the SSO. The Respondent's agents hired a contractor to remove the roots from the sewer line. The Respondent's agents cleaned up the debris and limed the affected area.

3. On December 8, 2002, the Respondent's agent reported a SSO at the PS located at 55 Marina Road (PS #26). The SSO report indicated that the transformer at the PS was out of service following an ice storm that had occurred three (3) days previously. The Respondent had an electrician replace the transformer. The Respondent's agents cleaned the affected area. The report indicated that an undisclosed amount of wastewater entered waters of the State.

4. On December 24, 2002, the Respondent's agent reported a SSO at the PS located behind 52 Fairway Ridge Road (PS #14). The SSO report attributed the discharge to high flows caused by heavy rains. The Respondent's agents also identified as a source of inflow an exposed sewer clean-out that appeared to have been damaged during golf course maintenance and landscaping undertaken by third parties at the golf course. The Respondent's agents stated

that this landscaping had the effect of increasing or diverting flows toward the broken cleanout and an adjacent manhole, thereby exacerbating the inflow resulting from the heavy rains. The Respondent's agents repaired the clean-out, grouted and raised the manhole, and cleaned the affected area. The report indicated that approximately three thousand (3,000) gallons of wastewater were discharged, with wastewater entering waters of the State.

5. In a letter to the Respondent's agent dated January 7, 2003, Department staff informed the Respondent's agent that the Department had received several letters from residents of River Hills Subdivision who were concerned about the recent SSOs. Department staff requested a detailed report from the Respondent regarding corrective actions taken or planned to prevent SSOs.

6. In a letter to Department staff dated February 7, 2003, the Respondent's agent outlined its Contingency Plan for Pump Station Failure, Routine Pump Station Inspection and Maintenance Program, Sewer Cleaning and Repair Program and Response Action Plan.

7. On March 20, 2003, the Respondent's agent reported a SSO at the manhole closest to PS #14. The report attributed the SSO to heavy rainfall, and indicated that the Respondent's agents televised the sewer line and walked the line to look for infiltration sources. The Respondent's agents lined and cleaned the affected area. The SSO report indicated that approximately two thousand (2,000) gallons of wastewater were discharged, and that the wastewater entered waters of the State.

8. In a letter to Department staff dated March 26, 2003, the Respondent's agent indicated that the Respondent's employees had identified an area of sewer line that seemed to be the

source of most of the flow that resulted in the SSO on March 20, 2003. The Respondent's agent stated that the section of line was replaced on March 25, 2003.

9. On April 10, 2003, the Respondent's agent reported a SSO at PS #26. The SSO report attributed the SSO to inflow and infiltration (I&I) caused by heavy rainfall, and indicated that the Respondent's agents had cleaned up the debris and had televised the sewer line to locate the source of the I&I. The report estimated that two thousand four hundred (2,400) gallons of wastewater entered waters of the State.

CONCLUSIONS OF LAW

Based upon the above Findings of Fact, the Department reaches the following Conclusions of Law:

1. The Respondent violated the Pollution Control Act, S.C. Code Ann.§ 48-1-90(a)(Supp. 1987), in that it discharged wastewater into the environment, including waters of the State, in a manner other than in compliance with a permit issued by the Department.
2. The Pollution Control Act, S.C. Code Ann. § 48-1-330 (1987), provides for a civil penalty not to exceed ten thousand dollars ($10,000.00) per day of violation for any person violating the Act or any rule, regulation, permit, permit condition, final determination, or Order of the Department.

NOW, THEREFORE, IT IS ORDERED, pursuant to the Pollution Control Act, S.C. Code Ann § 48-1-50 (1987) and § 48-1-100 (Supp. 2002), that the Respondent shall:

1. Henceforth, comply with all permitting and operating requirements in accordance with State and Federal regulations.

2. Beginning immediately upon execution of this Order, within twenty-four (24) hours after detection, or on the next business day if an SSO occurs on a weekend or holiday, orally report to the Department all SSOs which enter surface waters of the State or which exceed five hundred (500) gallons. Within five (5) days after each detection, submit a written report to the Department for any and all reportable SSOs in accordance with DHEC's Sanitary Sewer Overflow or Pump Station Failure Report Form.

3. Within sixty (60) days of the date of execution of this Order, begin development of an audit and a comprehensive management plan for the wastewater collection system (WWCS). The management plan shall include, but is not limited to the following: 1) expenditures related to operation and maintenance costs, as well as repair work, to demonstrate a proper financial commitment to the WWCS; 2) PS inspection and maintenance schedules; 3) a sewer inspection and cleaning program; 4) I&I evaluations, including special flow monitoring of the drainage basins for PS #14 and PS #26; 5) manhole inspections; 6) logs/records of daily operations; 7) easement/right-of-way maintenance; 8) a spare parts inventory; and 9) any other components necessary for proper operation and maintenance of the WWCS.

4. Within two hundred forty (240) days of the date of execution date of this Order, the management plan shall be finalized and implemented.

5. Within one hundred eighty (180) days of the date of execution of this Order, submit to the Department a corrective action plan and schedule to address priority deficiencies in the WWCS (PSs, manholes, line breaks/deterioration, etc.). When approved by the Department, the schedule shall become an enforceable part of this Order.

6. Within one hundred eighty (180) days of the date of execution of this Order, submit to the Department a summary report of corrective actions taken to date addressing deficiencies in the WWCS, including, but not limited to, an estimate of the amount of I&I eliminated in the drainage basins for PS #14 and PS #26. Within one hundred eighty (180) days thereafter, and every subsequent one hundred eighty (180) days until the conclusion of the approved schedule period, submit additional summary reports of such corrective actions.

7. Within thirty (30) days of the execution date of this Order, pay to the Department a civil penalty in the amount of nine thousand six hundred dollars ($9,600.00).

PURSUANT TO THIS ORDER, all communication regarding this Order and its requirements shall be addressed as follows:

Anastasia Hunter-Shaw
Water Enforcement Division
Bureau of Water
SCDHEC
2600 Bull Street
Columbia, S.C. 29201

IT IS FURTHER ORDERED AND AGREED that failure to comply with any provision of this Order shall be grounds for further enforcement action.

THE SOUTH CAROLINA DEPARTMENT OF
HEALTH AND ENVIRONMENTAL CONTROL

Kenneth W. King DATE: 7/30/04

Robert W. King, Jr., P.E.
Deputy Commissioner
Environmental Quality Control

Alton C. Boozer DATE: 07/27/04

Alton C. Boozer, Chief
Bureau of Water

Karen L. Ramsey for DATE: 7-27-04

Director, Water Enforcement Division

Mason A. Summers DATE: 7/23/04

Attorney for the Department

WE CONSENT:

Bruce T. Haas DATE: 7/26/04

Carolina Water Service, Inc.

THE SOUTH CAROLINA DEPARTMENT OF
HEALTH AND ENVIRONMENTAL CONTROL

Robert W. King, Jr., P.E. DATE: 7/30/04
Deputy Commissioner
Environmental Quality Control

Alton C. Boozer DATE: 07/27/04
Alton C. Boozer, Chief
Bureau of Water

Karen L. Ramos for DATE: 7-27-04
Director, Water Enforcement Division

Mason A. Summers DATE: 7/23/04
Attorney for the Department

WE CONSENT:

Bruce T. Haas DATE: 7/26/04
Carolina Water Service, Inc.

THE STATE OF SOUTH CAROLINA BEFORE THE DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL

IN RE: UTILITIES SERVICES OF SOUTH CAROLINA, INC.
FARROWOOD ESTATES (4050012)
RICHLAND COUNTY

CONSENT ORDER
04-073-DW

Utilities Services of South Carolina, Inc. (Respondent) owns, operates and maintains a public water system (PWS) that serves the residents of Farrowood Estates in Richland County, South Carolina.

Inspections of the Respondent's PWS by South Carolina Department of Health and Environmental Control (Department) staff revealed that the Respondent failed to properly operate and maintain its PWS.

In accordance with approved procedures, the parties have agreed to the issuance of this Order to include the following Findings of Fact and Conclusions of Law.

FINDINGS OF FACT

1. Utilities Services of South Carolina, Inc. (Respondent) owns, operates and maintains a public water system (PWS) that serves the residents of Farrowood Estates in Richland County, South Carolina.

2. The Respondent's PWS consists of two (2) groundwater wells, one (1) fifteen thousand (15,000) gallon storage tank and a water distribution system that serves one hundred fifty (150) service connections.

3. On October 1, 2002, the Respondent legally assumed ownership and

responsibility for the above-referenced PWS.

4. On June 12, 2003, Department personnel performed a Sanitary Survey of the Respondent's PWS. The PWS received an "unsatisfactory" rating due to the following deficiencies:

   A. The current number of service connections exceeds the system capacity with the largest well out of service.

   B. The Respondent has not repainted the storage tank located next to well #1. It has rust spots and needs to be addressed.

   C. The Respondent has not properly maintained the well #1 well house. It has a leak in the roof and a significant amount of water damage.

5. On December 3, 2003, the Department issued to the Respondent Operating Permit No. 4050012 requiring the Respondent to address water quantity and operation and maintenance deficiencies at the PWS.

6. On March 4, 2004, per telephone conversation with Department staff, the Respondent stated the deficiencies as listed in Item #4, B and C had been addressed.

CONCLUSIONS OF LAW

Based upon the above Findings of Fact, the Department, pursuant to the State Safe Drinking Water Act, S.C. Code Ann. §§ 44-55-10 et seq. (2002), reaches the following Conclusions of Law:

1. The Respondent violated the State Primary Drinking Water Regulations, 24A S.C. Code Ann. Regs. 61-58.7 (Supp. 2003), in that it failed to properly operate and maintain the PWS.

2. The State Safe Drinking Water Act, S.C. Code Ann. § 44-55-90(b) (2002) provides for a civil penalty not to exceed five thousand dollars ($5,000.00) a day per violation for any person violating the Act.

NOW, THEREFORE, IT IS ORDERED, CONSENTED TO AND AGREED, pursuant to the State Safe Drinking Water Act, S.C. Code Ann. §§ 44-55-10 et seq. (2002), that the Respondent shall:

1. Henceforth, operate and maintain the PWS in accordance with all applicable State and Federal laws and regulations.
2. Within fifteen (15) days of the execution date of this Order, notify the Department in writing of your intent to resolve system capacity deficiencies by either interconnecting with another approved PWS, installing a new well(s) or through redevelopment of the existing well(s).
3. If the Respondent chooses to resolve system capacity through redevelopment of the existing well(s), the Respondent shall take the appropriate actions necessary to obtain final approval to place into operation from the Department by August 1, 2004.
4. If the Respondent chooses to interconnect with another approved PWS, the Respondent shall take the appropriate actions necessary to obtain final approval to place into operation from the Department by September 1, 2004.
5. If the Respondent chooses to install a new well(s), the Respondent shall take the appropriate actions necessary to obtain final approval to place the new well(s) into operation from the Department by July 1, 2005.
6. By June 1, 2004, schedule an inspection to verify completion of, all operation and

maintenance deficiencies as listed above in Item # 4, B and C under Findings of Fact. The Respondent shall contact Department staff of the Central Midlands District at 803-896-0620 to schedule the inspection.

THE PARTIES FURTHER STIPULATE that the Respondent shall pay a civil penalty of three thousand dollars ($3,000.00) should it fail to comply with any requirement established pursuant to this Consent Order, including any implementation schedule approved by the Department. Such penalties shall be due and payable upon written notice to the Respondent. The Department's determination that a schedule has been missed shall be final. All penalties due under this paragraph shall be made payable to the South Carolina Department of Health and Environmental Control within thirty (30) days of notification by the Department. The stipulated penalties set forth above shall be in addition to any other remedies or sanctions which may be available to the Department by reason of the Respondent's failure to comply with the requirements of this Order. The Department's determination that the requirements have not been met shall be final.

IT IS FURTHER ORDERED AND AGREED that if any event occurs which causes or may cause a delay in meeting any of the above-scheduled dates for completion of any specified activity pursuant to the approved schedule, the Respondent shall notify the Department in writing at least five (5) days before the scheduled date, if practicable, as determined by the Department. The Respondent shall describe in detail the anticipated length of the delay, the precise cause or causes of delay (if ascertainable), the measures taken or to be taken to prevent or minimize the delay, and the timetable by which the Respondent proposes that those measures will be implemented.

The Department shall provide written notice to the Respondent as soon as

practicable that a specific extension of time has been granted or that no extension has been granted. An extension shall be granted for any scheduled activity delayed by an event of *force majeure*, which shall mean any event arising from causes beyond the control of the Respondent that causes a delay in or prevents the performance of any of the conditions under this Consent Order including, but not limited to: a) acts of God, fire, war, insurrection, civil disturbance, or explosion; b) adverse weather conditions that could not be reasonably anticipated causing unusual delay in transportation and/or field work activities; c) restraint by court order or order of public authority; d) inability to obtain, after exercise of reasonable diligence and timely submittal of all applicable applications, any necessary authorizations, approvals, permits, or licenses due to action or inaction of any governmental agency or authority; and e) delays caused by compliance with applicable statutes or regulations governing contracting, procurement or acquisition procedures, despite the exercise of reasonable diligence by the Respondent.

Events which are not *force majeure* include by example, but are not limited to, unanticipated or increased costs of performance, changed economic circumstances, normal precipitation events, or failure by the Respondent to exercise due diligence in obtaining governmental permits or performing any other requirement of this Order or any procedure necessary to provide performance pursuant to the provisions of this Order. Any extension shall be granted at the sole discretion of the Department, incorporated by reference as an enforceable part of this Consent Order, and, thereafter, be referred to as an attachment to the Consent Order.

IT IS FURTHER ORDERED AND AGREED that failure to comply with any provision of this Order shall be grounds for further enforcement action pursuant to the

State Safe Drinking Water Act, S.C. Code Ann. § 44-55-80(a) (2002), to include the assessment of additional civil penalties.

PURSUANT TO THIS ORDER, all requirements to be submitted to the Department shall be addressed as follows:

Karen L. Ramos
Bureau of Water-Enforcement Division
S.C. Department of Health and Environmental Control
2600 Bull Street
Columbia, S.C. 29201

THE SOUTH CAROLINA DEPARTMENT OF
HEALTH AND ENVIRONMENTAL CONTROL

DATE 4/06/04

Robert W. King, Jr., P.E.
Deputy Commissioner
Environmental Quality Control

DATE 03/31/04

Alton C. Boozer, Chief
Bureau of Water

WE CONSENT:

DATE 3/29/04

Bruce T. Haas, Regional Director
Utilities Services of South Carolina, Inc.

DATE 3/31/04

Attorney for the Department

DATE 3/30/04

Valerie A. Betterton, Director
Water Enforcement Division

BNC 2.12 SC-I

BNC 2.12 SC-I

3. On October 1, 2002, the Respondent legally assumed ownership and responsibility for the above-referenced PWS.

4. On June 12, 2003, Department personnel performed a Sanitary Survey of the Respondent's PWS. The PWS received an "unsatisfactory" rating due to the following deficiencies:

   A. The current number of service connections exceeds the system capacity with the largest well out of service.

   B. The Respondent has not cleaned the storage tank located next to well #1. It is covered with lichens and needs to be addressed.

   C. The Respondent has not properly maintained the well #2 well house. The well house is dilapidated and in need of repair.

CONCLUSIONS OF LAW

Based upon the above Findings of Fact, the Department, pursuant to the State Safe Drinking Water Act, S.C. Code Ann. §§ 44-55-10 et seq. (2002), reaches the following Conclusions of Law:

1. The Respondent violated the State Primary Drinking Water Regulations, 24A S.C. Code Ann. Regs. 61-58.7 (Supp. 2003), in that it failed to properly operate and maintain the PWS.

2. The State Safe Drinking Water Act, S.C. Code Ann. § 44-55-90(b) (2002), provides for a civil penalty not to exceed five thousand dollars ($5,000.00) a day per violation for any person violating the Act.

NOW, THEREFORE, IT IS ORDERED, CONSENTED TO AND AGREED, pursuant to the State Safe Drinking Water Act, S.C. Code Ann. §§ 44-55-10 et seq.

(2002), that the Respondent shall:

1. Henceforth, operate and maintain the PWS in accordance with all applicable State and Federal laws and regulations.

2. Within fifteen (15) days of the execution date of this Order, notify the Department in writing of your intent to resolve system capacity deficiencies by either interconnecting with another approved PWS, installing a new well(s) or through redevelopment of the existing well(s).

3. If the Respondent chooses to resolve system capacity through redevelopment of the existing well(s), the Respondent shall take the appropriate actions necessary to obtain final approval to place into operation from the Department by December 15, 2004.

4. If the Respondent chooses to interconnect with another PWS, the Respondent shall take the appropriate actions necessary to obtain final approval to place into operation from the Department by January 1, 2005.

5. If the Respondent chooses to install a new well(s), the Respondent shall take the appropriate actions necessary to obtain final approval to place the new well(s) into operation from the Department by September 1, 2005.

6. By July 1, 2004, complete and schedule an inspection to verify completion of, all operation and maintenance deficiencies as listed above in Item # 4, B and C under Findings of Fact. The Respondent shall contact Department staff of the Central Midlands Environmental Quality Control District at (803) 896-0620 to schedule the inspection.

THE PARTIES FURTHER STIPULATE that the Respondent shall pay a civil

penalty of three thousand dollars ($3,000.00) should it fail to comply with any requirement established pursuant to this Consent Order, including any implementation schedule approved by the Department. Such penalties shall be due and payable upon written notice to the Respondent. The Department's determination that a schedule has been missed shall be final. All penalties due under this paragraph shall be made payable to the South Carolina Department of Health and Environmental Control within thirty (30) days of notification by the Department. The stipulated penalties set forth above shall be in addition to any other remedies or sanctions which may be available to the Department by reason of the Respondent's failure to comply with the requirements of this Order. The Department's determination that the requirements have not been met shall be final.

IT IS FURTHER ORDERED AND AGREED that if any event occurs which causes or may cause a delay in meeting any of the above-scheduled dates for completion of any specified activity pursuant to the approved schedule, the Respondent shall notify the Department in writing at least five (5) days before the scheduled date, if practicable, as determined by the Department. The Respondent shall describe in detail the anticipated length of the delay, the precise cause or causes of delay (if ascertainable), the measures taken or to be taken to prevent or minimize the delay, and the timetable by which the Respondent proposes that those measures will be implemented.

The Department shall provide written notice to the Respondent as soon as practicable that a specific extension of time has been granted or that no extension has been granted. An extension shall be granted for any scheduled activity delayed by an event of *force majeure*, which shall mean any event arising from causes beyond the control of the Respondent that causes a delay in or prevents the performance of any of the

conditions under this Consent Order including, but not limited to: a) acts of God, fire, war, insurrection, civil disturbance, or explosion; b) adverse weather conditions that could not be reasonably anticipated causing unusual delay in transportation and/or field work activities; c) restraint by court order or order of public authority; d) inability to obtain, after exercise of reasonable diligence and timely submittal of all applicable applications, any necessary authorizations, approvals, permits, or licenses due to action or inaction of any governmental agency or authority; and e) delays caused by compliance with applicable statutes or regulations governing contracting, procurement or acquisition procedures, despite the exercise of reasonable diligence by the Respondent.

Events which are not *force majeure* include by example, but are not limited to, unanticipated or increased costs of performance, changed economic circumstances, normal precipitation events, or failure by the Respondent to exercise due diligence in obtaining governmental permits or performing any other requirement of this Order or any procedure necessary to provide performance pursuant to the provisions of this Order. Any extension shall be granted at the sole discretion of the Department, incorporated by reference as an enforceable part of this Consent Order, and, thereafter, be referred to as an attachment to the Consent Order.

IT IS FURTHER ORDERED AND AGREED that failure to comply with any provision of this Order shall be grounds for further enforcement action pursuant to the State Safe Drinking Water Act, S.C. Code Ann. § 44-55-80(a) (2002), to include the assessment of additional civil penalties.

PURSUANT TO THIS ORDER, all requirements to be submitted to the Department shall be addressed as follows:

Karen L. Ramos
Bureau of Water-Enforcement Division
S.C. Department of Health and Environmental Control
2600 Bull Street
Columbia, S.C. 29201

THE SOUTH CAROLINA DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL

DATE 4/06/04

Robert W. King, Jr., P.E.
Deputy Commissioner
Environmental Quality Control

DATE 03/31/04

Alton C. Boozer, Chief
Bureau of Water

WE CONSENT:

DATE 3/29/04

Bruce T. Haas, Regional Director
Utilities Services of South Carolina, Inc.

DATE 3/31/04

Attorney for the Department

DATE 3/30/04

Valerie A. Betterton, Director
Water Enforcement Division

BNC 2.12 FL-A

CERTIFIED MAIL RECEIPT No. 7005 2570 0001 9833 7386

Department of Environmental Protection

Jeb Bush
Governor

Central District
3319 Maguire Boulevard, Suite 232
Orlando, Florida 32803-3767

Colleen Castille
Secretary

SENT VIA E-MAIL TO: p.c.flynn@utilitiesinc-usa.com

April 20, 2006

SANLANDO UTILITIES CORPORATION
200 WEATHERSFIELD AVENUE
ALTAMONTE SPRINGS FLORIDA 32714

OCD-C-WW-06-0304

ATTENTION PATRICK C FLYNN
REGIONAL DIRECTOR

SUBJECT: **SHORT FORM CONSENT ORDER**
Proposed Settlement of Wekiva Hunt Club WWTF
OGC File No.: 06-0800

Dear Mr. Flynn:

The purpose of this letter is to complete the resolution of the matter previously identified by the Department in the Warning Letter dated January 13, 2006, a copy of which is attached. The corrective actions required to bring your facility into compliance have been performed. The Department finds that you are in violation of the rules and statutes cited in the attached Warning Letter. In order to resolve the matters identified in the attached Warning Letter, you are assessed civil penalties in the amount of $2,250.00, along with $250.00 to reimburse the Department costs, for a total of $2,500.00.

The civil penalties are apportioned as follows: $2,000.00 for violation of Sections 403.121(3)(b) and 403.161(1)(b), Florida Statutes, and Rules 62-620.300(5) and 62-4.030, Florida Administrative Code; $250.00 for violation of Sections 403.121(6) and 403.161(1)(b), Florida Statutes, and Rules 62-620.300(5) and 62-4.030, Florida Administrative Code.

The Department acknowledges that the payment of these civil penalties by you does not constitute an admission of liability. This payment must be made payable to the Department of Environmental Protection by cashier's check or money order and shall include the OGC File Number assigned above and the notation "Ecosystems Management and Restoration Trust Fund." Payment shall be sent to the Department of Environmental Protection, Central District Office, 3319 Maguire Boulevard, Suite 232, Orlando, Florida 32803-3767, within 30 days of your signing this letter.

Your signing this letter constitutes your acceptance of the Department's offer to resolve this matter on these terms. If you elect to sign this letter, please return it to the Department at the address indicated above. The Department will then countersign the letter and file it with the Clerk

of the Department. When the signed letter is filed with the Clerk, the letter shall constitute final agency action of the Department which shall be enforceable pursuant to Section 120.69 and 403.121, Florida Statutes.

If you do not sign and return this letter to the Department at the District address by May 8, 2006, the Department will assume that you are not interested in settling this matter on the above described terms, and will proceed accordingly. None of your rights or substantial interests are determined by this letter unless you sign it and it is filed with the Department Clerk.

Sincerely,

Vivian F. Garfein
Director, Central District

VFG//ca

FOR THE RESPONDENT:

I, Patrick C. Flynn, Regional Director, on behalf of Sanlando Utilities Corporation, **HEREBY ACCEPT THE TERMS OF THE SETTLEMENT OFFER IDENTIFIED ABOVE.**

By: _____

Date: 6/16/06

FOR DEPARTMENT USE ONLY

DONE AND ENTERED this 21st day of June, 2006 in Orlando, Florida.

STATE OF FLORIDA DEPARTMENT
OF ENVIRONMENTAL PROTECTION

Vivian F. Garfein
Director, Central District

FILED, on this date, pursuant to §120.52, Florida Statutes, with the designated Department Clerk, receipt of which is hereby acknowledged.

Theresa Souldin 6/22/06
Clerk Date

VFG: ca

Enclosures

Copies furnished to: Lea Crandall, Agency Clerk, Mail Station 35

Department of Environmental Protection

Jeb Bush
Governor

Central District
3319 Maguire Boulevard, Suite 232
Orlando, Florida 32803-3767

Colleen M. Castille
Secretary

SENT VIA E-MAIL TO: p.c.flynn@utilitiesinc-usa.com

January 13, 2006

SANLANDO UTILITIES CORPORATION
200 WEATHERSFIELD AVENUE
ALTAMONTE SPRINGS FLORIDA 32714

WARNING LETTER No. OWL-WW-06-0002

ATTENTION PATRICK FLYNN
REGIONAL DIRECTOR

Seminole County - DW
Wekiva Hunt Club WWTF
Wastewater Facility - Permit No. FL0036251

Dear Mr. Flynn:

The purpose of this letter is to advise you of possible violations of law for which you may be responsible, and to seek your cooperation in resolving the matter. A file review conducted on December 29, 2005, of Wekiva Hunt Club WWTF indicates that a violation of Florida Statutes and Rules may exist at the above described facility. A copy of the inspection report is enclosed for your review. Department of Environmental Protection personnel noted the following at the above described facility:

A review of the Discharge Monitoring Reports (DMRs) and records on file indicated the following violations:

a. The total phosphorus monthly maximum results reported on the D001 DMRs for June, September and October 2005 were 0.84; 1.1 and 0.54 mg/L, respectively, which exceeded the permit limit of 0.5 mg/L.

b. The total phosphorus monthly average results reported on the D001 DMRs for June and September 2005 were 0.84 and 0.67 mg/L, respectively, which exceeded the permit limit of 0.4 mg/L.

c. The Carbonaceous Biochemical Oxygen Demand ($CBOD_5$) monthly average result reported on the D001 DMR for July 2005 was 5.2 mg/L, which exceeded the permit limit of 5.0 mg/L.

d. The annual average daily flow results to the percolation ponds (R001) reported on the DMRs for August through October 2005 were 0.426, 0.432 and 0.418 MGD, which exceeded the permit limit of 0.40 MGD.

Section 403, Florida Statutes, provides that:

A. **Florida Statutes, Chapter 403.161 Prohibitions, violations, intent.** (1) It shall be a violation of this chapter, and it shall be prohibited for any person: (b) To fail to obtain any permit required by this chapter or by rule or regulation, or to violate or fail to comply with any rule, regulation, order, permit, or certification adopted or issued by the Department pursuant to its lawful authority.

B. **Florida Administrative Code Rule 62-620.300 General Prohibitions.** (5) A permitted industrial or domestic wastewater facility or activity shall not be operated, maintained, constructed, expanded, or modified in a manner that is inconsistent with the terms of the permit.

C. **Florida Administrative Code Rule 62-4.030 General Prohibition.** Any stationary installation which will reasonably be expected to be a source of pollution shall not be operated, maintained, constructed, expanded, or modified without the appropriate and valid permits issued by the Department, unless the source is exempted by Department rule. The Department may issue a permit only after it receives reasonable assurance that the installation will not cause pollution in violation of any of the provisions of Chapter 403, F.S., or the rules promulgated thereunder. A permitted installation may only be operated, maintained, constructed, expanded or modified in a manner that is consistent with the terms of the permit.

The activities noted during the Department's file review and any other activities at your facility that may be contributing to violations of the above described statutes or rules should be ceased. Operation of a facility in violation of state statutes or rules may result in the potential liability for damages and restoration, and the judicial imposition of civil penalties, pursuant to Sections 403.141 and 403.161, Florida Statutes.

You are requested to contact Clarence Anderson or Daniel Hall of this office at (407) 893-3313 within 15 days of receipt of this Warning Letter to arrange a meeting to discuss this matter. The Department is interested in reviewing any facts you may have that will assist in determining whether any violations have occurred. You may bring anyone with you to the meeting that you feel could help resolve this matter. The Department has tentatively calculated penalties for the violations addressed above and may discuss the penalties at the meeting.

Please be advised that this Warning Letter is part of an agency investigation, preliminary to agency action in accordance with Section 120.57(4), Florida Statutes. We look forward to your cooperation in completing the investigation and resolution of this matter.

Sincerely,

Christianne C. Fenard

for Vivian F. Garfein
Director, Central District

VFG/ca
Enclosure: Inspection Report
cc: DW Permitting Section
David O'Brien, DEP/Tallahassee

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District

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COMET ENTRY DATE
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ORIDA DEPARTMENT OF ENVIRONMENTAL PROTECTION

@ = Optional

EWATER COMPLIANCE INSPECTION REPORT

FACILITY AND INSPECTION INFORMATION

Facility	WAFR ID:	County	Entry Date/Time
	FL0036251	Seminole	12/29/05
		Phone	@ Exit Date/Time

s(s)	Title	Phone
	LEAD OPERATOR	407 682-5551

or Designated Representative	Title	Phone	@ Operator Certification #
	REGIONALDIRECTOR		TOM KEYES
			A-3090

I	Samples Taken(Y/N): No	@ Sample ID#:	Samples Split (Y/N):
Industrial	Were Photos Taken(Y/N): N	@ Log book Volume :	@ Page

MAJOR COMPLIANCE AREAS EVALUATED
NC = Out of Compliance; SC = Significant Out of Compliance; NA = Not Applicable; NE = Not Evaluated
Comments Should be Provided with Out of Compliance Ratings

		SELF MONITORING PROGRAM		FACILITY OPERATIONS		EFFLUENT/DISPOSAL	
	NE	3. Laboratory	NE	6. ♦ Facility Site Review	SC	9. ♦Effluent Quality	
lcs	NE	4. Sampling	NE	7. Flow Measurement	NE	10. ♦Effluent Disposal	
	NE	5.♦Records & Reports	NE	8.♦Operation & Maintenance	NE	11. Residuals/Sludge	
					NE	12. Groundwater	

LETTER

or(s)	District Office/Phone Number	Date
S [illegible]	Central District 407-893-3313	12/29/05
[illegible]	Central District 407-893-3313	01/04/06

or FDEA / Surface Water Discharger Inspections (CEI, CSI, CBI, FAI, XSI, RI)

NPDES Number	YR/MO/DA	Insp Type	Inspector	Fac Type
L 0 0 3 6 2 5 1			2 S	3 2

ADDITIONAL NPDES COMMENTS

A, B=CBI, C=CEI, S=CSI, X=XSI, R=RI
ate, J=Joint/EPA/State/EPA Lead, T=Joint State/EPA State Lead, L=Local Program
cipal (Publicly Owned), 2=Industrial and Privately Owned Domestic, 3=Agriculture, 4=Federal
dory

Revised: May 26, 2004

Carroll, Bradley

"Attached (as identified) are copies of Consent Orders entered into between the Florida Department of Environmental Protection ("DEP") and the Utilities, Inc. ("UI) affiliates listed below. Pursuant to DEP regulations to address any system deficiencies through its enforcement process, Consent Orders would be issued to identify, correct and in many cases, assess civil penalties as part of the standard process."

BNC 2.12 FL-B

Florida Department of Environmental Protection

Northwest District
160 Governmental Center
Pensacola, Florida 32502-5794

Charlie Crist
Governor

Jeff Kottkamp
Lt. Governor

Michael W. Sole
Secretary

February 15, 2007

SENT VIA E-MAIL
p.c.flynn@utilitiesinc-usa.com

Mr. Patrick Flynn
Bayside Utility Services Inc.
200 Weathersfield Avenue
Altamonte Springs, FL 32714

Mr. Flynn:

The purpose of this proposed Settlement (OGC File No. 06-2421-03-DW) is to resolve the matters concerning the Bayside Utility Services Inc., wastewater collection/transmission system, located in Bay County, previously identified by the Department in the enclosed Warning Letter dated September 22, 2006. The Department found that you were in violation of Chapters 62-604.130(1) and 62-604.500(3), Florida Administrative Code (Fla. Admin. Code) and Sections 403.088(1) and 403.161(1)(a), Florida Statutes (Fla. Stat.) for the unauthorized discharge of sewage to surface waters on March 10 and April 1, 2006. In order to resolve these matters, you are assessed civil penalties in the amount of $2,000.00, along with $200.00 for reimbursement of Department costs, for a total of $2,200.00.

The Department acknowledges that the payment of these civil penalties by you does not constitute an admission of liability. This payment must be made payable to the Department of Environmental Protection by cashier's check or money order and shall include the OGC File Number and the notation "Ecosystems Management and Restoration Trust Fund." Payment shall be sent to the Department of Environmental Protection, 160 Governmental Center, Pensacola, Florida 32502-5794, within 30 days of your signature.

Your signature on this letter indicates your acceptance of the Department's offer to resolve these matters on these terms. If you elect to sign this letter, please return it to the Department at the address indicated above. The Department will then countersign the letter and file it with the Clerk of the Department. When the signed letter is filed with the Clerk, the letter shall constitute final agency action of the Department that shall be enforceable pursuant to Sections 120.69 and 403.121, Fla. Stat.

If you do not sign and return this letter to the Department at the District address within 15 days of the receipt of this letter, the Department will assume that you are not interested in settling these matters on the above described terms, and will proceed accordingly. None of your rights or substantial interests are determined by this letter unless you sign it and it is filed with the Department Clerk.

Sincerely,

David P. Morres

David P. Morres, P.E.
Program Administrator
Water Facilities

DPM/jg
Encl: Notice of Rights
Warning Ltr. dtd. 09/22/06

FOR THE RESPONDENT:

I, Patrick Flynn, on behalf of Bayside Utilities, Inc., HEREBY ACCEPT THE TERMS OF THE SETTLEMENT OFFER IDENTIFIED ABOVE.

By: _____
Date: 2/27/07

FOR DEPARTMENT USE ONLY

DONE AND ENTERED this 6th day of MARCH, 2007.

STATE OF FLORIDA DEPARTMENT
OF ENVIRONMENTAL PROTECTION

_____
David P. Morres, P.E.
Program Administrator
Water Facilities

Filed, on this date, under Section 120.52, Fla. Stat., with the designated Department Clerk, receipt of which is hereby acknowledged.

_____ 3/6/07
Clerk Date

Executed Copies furnished to:
DEP Office of General Counsel, Clerk (lea.crandall@dep.state.fl.us)
DEP Panama City Branch Office
Scotty L. Haws, Regional Compliance & Safety Manager (slhaws@uiwater.com)

Department of Environmental Protection

Jeb Bush
Governor

Northwest District
160 Governmental Center
Pensacola, Florida 32502-5794

Colleen M. Castille
Secretary

September 22, 2006

SENT VIA EMAIL
p.c.flynn@utilitiesinc-usa.com

Patrick Flynn
Bayside Utility Services
200 Weathersfield Avenue
Altamonte Springs, FL 32714

Mr. Flynn:

The purpose of this Warning Letter (NW DW 03-1539) is to advise you of possible violations of law for which you may be responsible, and to seek your cooperation in resolving these matters. On March 10, 2006, personnel from the Department of Environmental Protection (Department) conducted a site inspection of the pump station located at the intersection of 6301 Big Daddy Drive, and 901 Mariana Drive, in Bay County. On August 23 and 24, 2006, Department personnel conducted a site inspection of an uncapped sewer line at Lot D9 in the Bayside Mobile Home Park, located on Big Daddy Drive, in Bay County. Department records and observations indicate that violation(s) of Florida Statutes (Fla. Stat.) and Florida Administrative Codes (Fla. Admin Code) might exist regarding the following:

On March 10, approximately 500 gallons of raw sewage was overflowing from a manhole on Big Daddy Drive. The flow entered into a ditch and stormdrain that discharges into West Bay.

On April 1, approximately 1000 gallons of raw sewage was overflowing from the same manhole on Big Daddy Drive. The flow entered into a ditch and stormdrain that discharges into West Bay.

On August 23, approximately 1500 gallons of raw sewage was overflowing from an uncapped sewer line at the Bayside Mobile Home Park, located on Big Daddy Drive. The flow entered into a drainage ditch that discharges into West Bay.

Chapter 62-604.130(1), Fla. Admin. Code, prohibits the release or disposal of excreta, sewage, or other wastewaters or residuals without providing proper treatment approved by the Department or otherwise violating provisions of this rule or other rules of the Fla. Admin. Code.

Section 403.088(1), Fla. Stat., states that no person shall discharge wastes into waters of the state without written authorization of the Department.

Section 403.161(1)(a), Fla. Stat., states that it shall be a violation of this chapter, and it shall be prohibited for any person: to cause pollution, except as otherwise provided in this chapter, so as to harm or injure human health or welfare, animal, plant, or aquatic life or property.

Chapter 62-604.130(6), Fla. Admin. Code, states that it is a prohibition to fail to maintain equipment in a condition which will enable the intended function.

Chapter 62-604.500(3), Fla. Admin. Code, states that all equipment necessary for the collection/transmission of domestic wastewater, including equipment provided pursuant to Rule 62-604.400(2), Fla. Admin. Code, shall be maintained so as to function as intended.

Section 403.161.(1)(b), Fla. Stat., and Chapter 62-4.030,Fla. Admin Code, state that it is a violation to fail to comply with any rule, regulation, order, permit, or certification adopted or issued by the Department pursuant to its lawful authority.

You are requested to contact Erica Mitchell at (850) 595-8300, extension 1186, or via e-mail, at *Erika.Mitchell@dep.state.fl.us* within 15 days of receipt of this Warning Letter to arrange a meeting to discuss these matters. The Department is interested in reviewing any facts you may have that will assist in determining whether any violations have occurred. You may bring anyone with you to the meeting that you feel could help resolve these matters.

Please be advised that this Warning Letter is part of an agency investigation, preliminary to agency action in accordance with Section 120.57(5), Fla. Stat. We look forward to your cooperation in completing the investigation and resolution of these matters.

Sincerely,

David P. Morres

David P. Morres,P .E.
Program Administrator
Water Facilities

DPM/cr
cc:
FDEP Panama City Branch Office (marlane.castellano@dep.state.fl.us)
FDEP Panama City Branch Office (charlotte-ann.filloramo@dep.state.fl.us)

BNC 2.12 FL-C

Department of Environmental Protection

Jeb Bush
Governor

Southwest District
13051 North Telecom Parkway
Temple Terrace, FL 33637-0926
Telephone: 813-632-7600

Colleen M. Castille
Secretary

November 28, 2006

CERTIFIED MAIL 7004 0750 0003 0516 8880
RETURN RECEIPT REQUESTED

Mr. Patrick Flynn, Regional Manager
Mid-County Services, Inc.
200 Weathersfield Avenue
Altamonte Springs, FL 32714

Re: Proposed Settlement of Mid-County Services, Inc.
OGC File No. 06-1742
Mid-County WWTF
Facility ID No. FL0034789
Pinellas County

Dear Mr. Flynn:

Enclosed is a copy of the executed Consent Order, OGC File No. 06-1742, regarding the above-referenced facility. The effective date of the Consent Order is November 22, 2006.

The payment of $4,500.00 in penalties and Department costs is due no later than December 9, 2006.

Should you have any questions, please contact Michele Duggan at (813) 632-7600, extension 335, or via e-mail: michele.duggan@dep.state.fl.us.

Sincerely,

Thomas Gucciardo
Environmental Manager
Domestic Wastewater Section

TG/mdd

Enclosure

Department of Environmental Protection

FLORIDA

Jeb Bush
Governor

Southwest District
13051 North Telecom Parkway
Temple Terrace, FL 33637-0926
Telephone: 813-632-7600

Colleen M. Castille
Secretary

RECEIVED
NOV 14 2006
Department of E...
SOUTH...
Domestic...

UTILITIES, ...

August 23, 2006

Dept. of Environmental Protection

NOV 13 2006

Southwest District

Mr. Patrick Flynn, Regional Manager
Mid-County Services, Inc.
200 Weathersfield Avenue
Altamonte Springs, FL 32714

Re: Proposed Settlement of Mid-County Services, Inc.
OGC File No. 06-1742
Mid-County WWTF
Facility ID No. FL0034789
Pinellas County

Dear Mr. Flynn:

The purpose of this letter is to complete the resolution of the matter previously identified by the Department in the Warning Letter No. WL05-0011DW52SWD, dated March 29, 2005, a copy of which is attached. The corrective actions required to bring the facility into compliance have been performed. The Department finds that Mid-County Services, Inc. was in violation of the rules and statutes cited in the Warning Letter. In order to resolve the matters identified in the Warning Letter, Mid-County Services, Inc. is assessed civil penalties in the amount of $4,000.00, along with $500.00 to reimburse the Department costs, for a total of $4,500.00.

The civil penalty of $4,000.00 is for violation of Section 403.161(1)(b), Florida Statutes, and Rules 62-600.400(2)(a) and 62-600.410(6), Florida Administrative Code, in accordance with Section 403.121(4)(b), Florida Statutes.

The Department acknowledges that the payment of these civil penalties by Mid-County Services, Inc. does not constitute an admission of liability. This payment must be made payable to the Department of Environmental Protection by cashier's check or money order and shall include the OGC File Number assigned above and the notation "Ecosystem Management and Restoration Trust Fund". Payment shall be sent to the Department of Environmental Protection, 13051 North Telecom Parkway, Temple Terrace, Florida, 33637-0926, within 30 days of your signing this letter.

Your signing this letter constitutes Mid-County Services, Inc.'s acceptance of the Department's offer to resolve this matter on these terms. If you elect to sign this letter, please return it to the Department at the address indicated above. The Department will then countersign the letter and file it with the Clerk of the Department. When the signed letter is filed with the Clerk, the letter shall constitute final agency action of the Department, which shall be enforceable pursuant to Sections 120.69 and 403.121, Florida Statutes.

Department of Environmental Protection

FLORIDA

Jeb Bush
Governor

Southwest District
13051 North Telecom Parkway
Temple Terrace, FL 33637-0926
Telephone: 813-632-7600

Colleen M. Castille
Secretary

RECEIVED
NOV 14 2006
Department of E...
SOUTH...
Domestic...

UTILITIES, ...

August 23, 2006

Dept. of Environmental Protection

NOV 13 2006

Southwest District

Mr. Patrick Flynn, Regional Manager
Mid-County Services, Inc.
200 Weathersfield Avenue
Altamonte Springs, FL 32714

Re: Proposed Settlement of Mid-County Services, Inc.
OGC File No. 06-1742
Mid-County WWTF
Facility ID No. FL0034789
Pinellas County

Dear Mr. Flynn:

The purpose of this letter is to complete the resolution of the matter previously identified by the Department in the Warning Letter No. WL05-0011DW52SWD, dated March 29, 2005, a copy of which is attached. The corrective actions required to bring the facility into compliance have been performed. The Department finds that Mid-County Services, Inc. was in violation of the rules and statutes cited in the Warning Letter. In order to resolve the matters identified in the Warning Letter, Mid-County Services, Inc. is assessed civil penalties in the amount of $4,000.00, along with $500.00 to reimburse the Department costs, for a total of $4,500.00.

The civil penalty of $4,000.00 is for violation of Section 403.161(1)(b), Florida Statutes, and Rules 62-600.400(2)(a) and 62-600.410(6), Florida Administrative Code, in accordance with Section 403.121(4)(b), Florida Statutes.

The Department acknowledges that the payment of these civil penalties by Mid-County Services, Inc. does not constitute an admission of liability. This payment must be made payable to the Department of Environmental Protection by cashier's check or money order and shall include the OGC File Number assigned above and the notation "Ecosystem Management and Restoration Trust Fund". Payment shall be sent to the Department of Environmental Protection, 13051 North Telecom Parkway, Temple Terrace, Florida, 33637-0926, within 30 days of your signing this letter.

Your signing this letter constitutes Mid-County Services, Inc.'s acceptance of the Department's offer to resolve this matter on these terms. If you elect to sign this letter, please return it to the Department at the address indicated above. The Department will then countersign the letter and file it with the Clerk of the Department. When the signed letter is filed with the Clerk, the letter shall constitute final agency action of the Department, which shall be enforceable pursuant to Sections 120.69 and 403.121, Florida Statutes.

NOTICE OF RIGHTS

Persons who are not parties to this Consent Order but whose substantial interests are affected by this Consent Order have a right, pursuant to Sections 120.569 and 120.57, Florida Statutes, to petition for an administrative hearing on it. The Petition must contain the information set forth below and must be filed (received) at the Department's Office of General Counsel, 3900 Commonwealth Boulevard, MS-35, Tallahassee, Florida 32399-3000, within 21 days of receipt of this notice. A copy of the Petition must also be mailed at the time of filing to the District Office named above at the address indicated. Failure to file a petition within the 21 days constitutes a waiver of any right such person has to an administrative hearing pursuant to Sections 120.569 and 120.57, Florida Statutes.

The petition shall contain the following information:
(a) The name, address, and telephone number of each petitioner; the Department's Consent Order identification number and the county in which the subject matter or activity is located; (b) A statement of how and when each petitioner received notice of the Consent Order; (c) A statement of how each petitioner's substantial interests are affected by the Consent Order; (d) A statement of the material facts disputed by petitioner, if any; (e) A statement of facts which petitioner contends warrant reversal or modification of the Consent Order; (f) A statement of which rules or statutes petitioner contends require reversal or modification of the Consent Order; (g) A statement of the relief sought by petitioner, stating precisely the action petitioner wants the Department to take with respect to the Consent Order.

If a petition is filed, the administrative hearing process is designed to formulate agency action. Accordingly, the Department's final action may be different from the position taken by it in this Notice. Persons whose substantial interests will be affected by any decision of the Department with regard to the subject Consent Order have the right to petition to become a party to the proceeding. The petition must conform to the requirements specified above and be filed (received) within 21 days of receipt of this notice in the Office of General Counsel at the above address of the Department. Failure to petition within the allowed time frame constitutes a waiver of any right such person has to request a hearing under Sections 120.569 and 120.57, Florida Statutes, and to participate as a party to this proceeding. Any subsequent intervention will only be at the approval of the presiding officer upon motion filed pursuant to Rule 28-106.205, Florida Administrative Code.

Mediation under Section 120.573, Florida Statutes, is not available in this proceeding.

FILE COPY

Department of Environmental Protection

Jeb Bush
Governor

Southwest District
3804 Coconut Palm Drive
Tampa, Florida 33619

Colleen M. Castille
Secretary

March 29, 2005

Mr. Patrick Flynn, Regional Manager
Mid-County Services, Inc.
200 Weathersfield Avenue
Altamonte Springs, FL 32714

Re: Warning Letter No. WL05-0011DW52SWD
Mid-County WWTF
Facility ID No. FL0034789
Pinellas County

Dear Mr. Flynn:

The purpose of this letter is to advise Mid-County Services, Inc. of possible violations of law for which it may be responsible, and to seek its cooperation in resolving the matter. A file review conducted on March 11, 2005 of Mid-County WWTF indicates that a violation of Florida Statutes and Rules may exist at the facility. Department of Environmental Protection personnel observed the following:

1. The Mid-County WWTF was inspected on June 21, 2004. There was a very noticeable and persistent odor around the Doral Mobile Home Park clubhouse to the east and downwind of the facility. The treatment facility headworks and dumpster appeared to be the source. Although the dumpster was emptied during the inspection, the odor persisted for at least an hour after.

2. Between February 2004 and February 2005, the Pinellas County Environmental Management, Division of Air Quality received 58 complaints of odor from the residents of Doral Mobile Home Park in Palm Harbor. Representatives from the Pinellas County Environmental Management, Division of Air Quality inspected the Mid-County WWTF 20 times between February 2004 and February 2005, in response to continuing odor complaints. Odor was detected during all 20 inspections. From the continued complaints, it appears that current operational controls are not sufficient to control the odors produced.

Any activities at the Mid-County Utilities WWTF that may be contributing to violations of the above-described statutes or rules should be ceased. Operation of a facility in violation of state statutes or rules may result in liability for damages and restoration, and the judicial imposition of civil penalties up to $10,000.00 per violation per day pursuant to Sections 403.141 and 403.161, Florida Statutes.

You are requested to contact Michele Duggan at the address indicated or telephone number (813) 744-6100, extension 335, within 15 days of receipt of this Warning Letter to arrange a meeting to discuss this matter. The Department is interested in reviewing any facts Mid-County Services, Inc. may have that will assist in determining whether any violations have occurred. You may bring anyone with you to the meeting that you feel could help resolve this matter.

Please be advised that this Warning Letter is part of an agency investigation, preliminary to agency action in accordance with Section 120.57(5), Florida Statutes. We look forward to your cooperation in completing the investigation and resolution of this matter.

Sincerely yours,

Deborah A. Getzoff
Director of District Management
Southwest District

DAG/mdd

cc: Shea Jackson, Pinellas County Environmental Management

BNC 2.12 FL-D

Department of Environmental Protection

Jeb Bush
Governor

Southeast District
400 N. Congress Avenue, Suite 200
West Palm Beach, Florida 33401

Colleen M. Castille
Secretary

CERTIFIED MAIL #7001 2510 0006 1575 3203
RETURN RECEIPT REQUESTED

Mr. Richard W. Retz
~~Utilities of Florida~~
C/O Miles Grant Water and Sewer
200 Weathersfield Avenue
Altamonte Springs, FL 32714

Re: Proposed Settlement DEP vs. Miles Grant Water and Sewer
OGC No.: 06-1249

The purpose of this letter is to complete the resolution of the matter previously identified by the Department in the Warning Letter dated April 18, 2006, a copy of which is attached. The corrective actions required to bring your facility into compliance have been performed. The Department finds that you are in violation of the rules and statutes cited in the attached Warning Letter. In order to resolve the matters identified in the attached Warning Letter, you are assessed civil penalties in the amount of $250.00, along with $100.00 to reimburse the Department costs, for a total of $350.00.

The Department acknowledges that the payment of these civil penalties by you does not constitute an admission of liability. This payment must be made payable to the Department of Environmental Protection by cashier's check or money order and shall include the OGC File Number assigned above and the notation "Ecosystems Management and Restoration Trust Fund". Payment shall be sent to the Department of Environmental Protection, Southeast Florida District, 400 North Congress Avenue, Suite 200, West Palm Beach, Florida 33401, within 30 days of your signing this letter.

Your signing this letter constitutes your acceptance of the Department's offer to resolve this matter on these terms. If you elect to sign this letter, please return it to the Department at the address indicated above. The Department will then countersign the letter and file it with the Clerk of the Department. When the signed letter is filed with the Clerk, the letter shall constitute final agency action of the Department, which shall be enforceable pursuant to Sections 120.69 and 403.121, Florida Statutes.

If you do not sign and return this letter to the Department at the above referenced address within 30 days of receipt, the Department will assume that you are not interested in settling this matter on the above described terms, and will proceed accordingly. None of your rights or substantial interests are determined by this letter unless you sign it and it is filed with the Department Clerk.

Sincerely,

Kevin R. Neal 4/23/06

Kevin R. Neal Date
District Director
Southeast District Office
KRN/LAH/TRB/RSJ

cc: Drinking Water Section – DEP/PSL
Jose Calas – DEP/WPB
Patrick Flynn – Regional Director, Utilities, Inc. of Florida: 200 Weathersfield Avenue Altamonte Springs, FL 32714
Scotty Haws – Regional Compliance, Utilities, Inc. of Florida: 200 Weathersfield Avenue Altamonte Springs, FL 32714

FOR THE RESPONDENT:

I, Richard W. Retz, HEREBY ACCEPT THE TERMS OF THE SETTLEMENT OFFER IDENTIFIED ABOVE.

FOR THE RESPONDENT:

By: _____ 6/20/06
~~Mr. Richard W. Retz~~ Date
~~Regional Manager~~
PATRICK C. FLYNN
REGIONAL DIRECTOR

STATE OF FLORIDA DEPARTMENT
OF ENVIRONMENTAL PROTECTION

_____ 7/14/06
for Kevin R. Neal Date
District Director
Southeast District Office

DONE AND ENTERED this 17th day of July, 2006 in Palm Beach, Florida.

FILED, on this date, pursuant to §120.52, Florida Statutes, with the designated Department Clerk, receipt of which is hereby acknowledged.

_____
Clerk

7-17-06
Date

FLORIDA Environmental Protection

Jeb Bush
Governor

Southeast District
400 N. Congress Avenue, Suite 200
West Palm Beach, Florida 33401

Colleen M. Castille
Secretary

RECEIVED
JUL 07 2006
DEPT OF ENV PROTECTION
WEST PALM BEACH

APR 18 2006

CERTIFIED MAIL # 7001 2510 0006 1575 3302
RETURN RECEIPT REQUESTED

Miles Grant Water and Sewer Company
Patrick Flynn, Regional Director
200 Weathersfield Ave.
Altamonte Springs, FL 32714

WARNING LETTER
#WL 06-0069PW43SED
PW – Martin County
Miles Grant Public Water System
PWS #4430917

RE: Failure to Timely Submit Lead and Copper Sample Results

Dear Mr. Flynn:

The purpose of this letter is to advise you of violations of law for which you may be responsible, and to seek your cooperation in resolving the matter. Department records indicate the following deficiencies for the referenced Public Water System:

40 CFR 141.90 (a) requires that water systems report lead and copper monitoring results to the Department within the first 10 days following the end of the applicable monitoring period. The lead and copper sampling results for 2005 were due to be submitted to the Department by January 10, 2006; the Department did not receive the required results until March 27, 2006.

Furthermore, Chapters 373 and 403, Florida Statutes (Fla. Stat.), provide that it is a violation to fail to obtain any permit or to violate or fail to comply with any rule, regulation, order, permit, or certification adopted or issued by the Department pursuant to its lawful authority. Any activities at your facility that may be contributing to violations of the above-described statutes or rules should be ceased.

Violations of Florida Statutes or administrative rules may result in liability for damages and restoration, and the judicial imposition of civil penalties up to $5,000.00 per violation per day, pursuant to Sections 403.121, 403.161 and 403.860, Florida Statutes.

ou are requested to contact Ms. Robyn James at (561) 681-6737 within 15 days of receipt of is Warning Letter to arrange a meeting to discuss this matter. The Department is interested in ceiving any facts you may have that will assist in determining whether any violations have curred. You may bring anyone with you to the meeting that you feel could help resolve this latter.

lease be advised that this Warning Letter is part of an agency investigation, preliminary to gency action in accordance with Section 120.57(5), Florida Statutes. We look forward to your ooperation in completing the investigation and resolution of this matter.

incerely,

Kevin R Neal 4/12/06

evin R. Neal Date
istrict Director
outheast District

RN/LAH/TRB/RJ/erl

c: Charles LeGros, Drinking Water Compliance Section, DEP/PSL

BNC 2.12 FL-E

ORIG : PF
CC JH, RE, SH
@ Response due 5-20-06

Department of Environmental Protection

Jeb Bush
Governor

Southeast District
400 N. Congress Avenue, Suite 200
West Palm Beach, Florida 33401

Colleen M. Castille
Secretary

COPY

APR 18 2006

Get check request!

CERTIFIED MAIL #7005 2570 0001 9601 9369
RETURN RECEIPT REQUESTED

Mr. Patrick Flynn, Regional Director
Miles Grant Water and Sewer Company
200 Weathersfield Avenue
Altamonte Springs, FL 32714

Re: Proposed Settlement of DEP vs. Miles Grant Water and Sewer Company
OGC File Number 06-0302

Dear Mr. Flynn:

The purpose of this letter is to complete the resolution of the failure to monitor for haloacetic acids for the referenced public water system in the fourth calendar quarter of 2005. The Department finds that you are in violation of Rule 62-550.514, Florida Administration Code and 40 CFR 141.132(b), supbpart L, which states that a system must perform increased quarterly monitoring following a monitoring period in which the system exceeds 0.060 milligrams per liter for haloacetic acids. In order to resolve this matter, you are assessed civil penalties in the amount of $500.00, along with $100.00 to reimburse the Department costs, for a total of $600.00.

The Department acknowledges that the payment of these civil penalties by you does not constitute an admission of liability. This payment must be made payable to the Department of Environmental Protection by cashier's check or money order and shall include the OGC File Number assigned above and the notation "Ecosystems Management and Restoration Trust Fund". Payment shall be sent to the Department of Environmental Protection, Southeast Florida District, 400 North Congress Avenue, Suite 200, West Palm Beach, Florida 33401, within 30 days of your signing this letter.

Your signing this letter constitutes your acceptance of the Department's offer to resolve this matter on these terms. If you elect to sign this letter, please return it to the Department at the address indicated above. The Department will then countersign the letter and file it with the Clerk of the Department. When the signed letter is filed with the Clerk, the letter shall constitute final agency action of the Department which shall be enforceable pursuant to Sections 120.69 and 403.121, Florida Statutes.

If you do not sign and return this letter to the Department at the above referenced address within 30 days of receipt, the Department will assume that you are not interested in settling this matter on the above described terms, and will proceed accordingly. None of your rights or substantial interests are determined by this letter unless you sign it and it is filed with the Department Clerk.

Sincerely,

Kevin R. Neal 4/12/06

Kevin R. Neal Date
District Director
Southeast District Office
KRN/LAR/TRB/mo

cc: Charles LeGros – DEP/PSL

FOR THE RESPONDENT:

I, Patrick Flynn, on behalf of Miles Grant Water and Sewer Company, HEREBY ACCEPT THE TERMS OF THE SETTLEMENT OFFER IDENTIFIED ABOVE.

FOR THE RESPONDENT:

By: _____ 5/2/06
Patrick Flynn Date

STATE OF FLORIDA DEPARTMENT
OF ENVIRONMENTAL PROTECTION

_____
Kevin R. Neal Date
District Director
Southeast District

DONE AND ENTERED this _____ day of _____, 200__, in West Palm Beach, Florida.

FILED, on this date, pursuant to §120.52, Florida Statutes, with the designated Department Clerk, receipt of which is hereby acknowledged.

_____ _____
Clerk Date

BNC 2.12 FL-F

Department of Environmental Protection

PF
cc: MD

Jeb Bush
Governor

Southeast District
400 N. Congress Avenue, Suite 200
West Palm Beach, Florida 33401

Colleen M. Castillo
Secretary

RECEIVED
JUN 1 1 2004
JUN 1 4 2004
UTILITIES, INC.

CERTIFIED MAIL # 7001 2510 0006 1575 1889
RETURN RECEIPT REQUESTED

Mr. Patrick Flynn, Regional Director
Miles Grant Water and Sewer
200 Weathersfield Avenue
Altamonte Springs, Florida 32714

SUBJECT: Proposed Settlement of DEP vs. Miles Grant Water and Sewer.
OGC File No.: 04-0892

Dear Mr. Flynn:

The purpose of this letter is to complete the resolution of the matter previously identified by the Department in the Warning Letter dated April 28, 2004, a copy of which is attached. The corrective actions required to bring your facility into compliance have been performed. The Department finds that you are in violation of the rules and statutes cited in the attached Warning Letter. In order to resolve the matters identified in the attached Warning Letter, you are assessed civil penalties in the amount of $500.00, along with $100.00 to reimburse the Department costs, for a total of $600.00.

The Department acknowledges that the payment of these civil penalties by you does not constitute an admission of liability. This payment must be made payable to the Department of Environmental Protection by cashier's check or money order and shall include the OGC File Number assigned above and the notation "Ecosystems Management and Restoration Trust Fund". Payment shall be sent to the Department of Environmental Protection, Southeast Florida District, 400 North Congress Avenue, Suite 200, West Palm Beach, Florida 33401, within 30 days of your signing this letter.

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If you do not sign and return this letter to the Department at the above referenced address within 30 days of receipt, the Department will assume that you are not interested in settling this matter on the above described terms, and will proceed accordingly. None of your rights or substantial interests are determined by this letter unless you sign it and it is filed with the Department Clerk.

Sincerely,

Kevin R. Neal

Kevin R. Neal
District Director
Southeast District Office

FOR THE RESPONDENT:

I, Patrick Flynn, on behalf of Miles Grant Water and Sewer, HEREBY ACCEPT THE TERMS OF THE SETTLEMENT OFFER IDENTIFIED ABOVE.

By: Patrick Flynn
Patrick Flynn

Date: 6/18/04

FOR DEPARTMENT USE ONLY

DONE AND ENTERED this 9th day of July, 2004, in West Palm Beach, Florida.

STATE OF FLORIDA DEPARTMENT
OF ENVIRONMENTAL PROTECTION

Kevin R. Neal
Kevin R. Neal
District Director
Southeast District Office

FILING AND ACKNOWLEDGMENT

FILED, on this date, pursuant to §120.52, Florida Statutes, with the designated Department Clerk, receipt of which is hereby acknowledged.

Linda Ischappat
Clerk

7-9-04
Date

KRN/LAH/TRB/dah

Copies furnished to: Larry Morgan, Office of General Counsel, DEP/TAL
Kathy Carter, Agency Clerk, MS #35, DEP/TAL
David O'Brien, Enforcement Coordinator, Water Facilities, DEP/TAL

Department of Environmental Protection

Jeb Bush
Governor

Southeast District
400 N. Congress Avenue, Suite 200
West Palm Beach, Florida 33401

Colleen M. Castille
Secretary

APR 2 8 2004

FILE

CERTIFIED MAIL # 7001 2510 0006 1575 1926
RETURN RECEIPT REQUESTED

WARNING LETTER
WL 04-0086 DW43SED

Mr. Patrick Flynn, Regional Director
Miles Grant Water and Sewer
200 Weathersfield Avenue
Altamonte Springs, Florida 32714

Miles Grant WWTF
Martin County
Permit No: FLA013842

SUBJECT: Residuals Annual Summary, 2003

Dear Mr. Flynn:

The purpose of this letter is to advise you of possible violations of law for which you may be responsible, and to seek your cooperation in resolving the matter. A review of Department files for the above referenced facility has revealed the Residuals Annual Summary for the year 2003 was not received in a timely manner as required, indicating that a violation of Florida Statutes and Rules may exist at the above described facility.

As specified in Rule 62-640.650(3)(b), Florida Administrative Code (F.A.C.), domestic wastewater permitees utilizing land application sites to dispose of their residuals are required to submit to the Department a Residuals Annual Summary no later than February 19 of each year. In particular, this report is required to summarize a permittee's land application activities for the prior calendar year.

You are requested to contact **Debora House at (561) 681-6782** within fifteen (15) days of receipt of this Warning Letter to arrange a meeting to discuss this matter. The Department is interested in reviewing any facts you may have that will assist in determining whether any violations have occurred. You may bring anyone with you to the meeting that you feel could help resolve this matter.

Please be advised that this Warning Letter is part of an agency investigation, preliminary to agency action in accordance with Section 120.57(5), Florida Statutes. We look forward to your cooperation in completing the investigation and resolution of this matter.

Sincerely,

John F. Moulton, III
Assistant Director of District Management
Southeast District

JFM/LAH/TRB/dah

cc: Maurice Barker, DEP/TAL
Brad Akers, Permitting/WPB
Bill Thiel, DEP/PSL

BNC 2.12 FL-G

CERTIFIED MAIL RECEIPT No. 7001 0320 0004 5387 3564

ORIG: DR
cc: GC, SH) w/o enc.

Department of Environmental Protection

Jeb Bush
Governor

Central District
3319 Maguire Boulevard, Suite 232
Orlando, Florida 32803-3767

David B. Struhs
Secretary

RECEIVED AUG 2002 UTILITIES, INC.

AUG 19 2002 UTILITIES, INC. msl

AUG 2002 RECEIVED DEP CENTRAL DISTRICT

CERTIFIED MAIL
7001 2510 0006 9052 0431

SANLANDO UTILITIES CORPORATION
200 WEATHERSFIELD AVENUE
ALTAMONTE SPRINGS FL 32714

OCD-C-WW-02-0925

ATTENTION DONALD RASMUSSEN
VICE PRESIDENT

SUBJECT: Proposed Settlement of Wekiva Hunt Club WWTF
OGC File No.: 02-1204

Dear Mr. Rasmussen:

The purpose of this letter is to complete the resolution of the matter previously identified by the Department in the Warning Letter dated April 2, 2002, a copy of which is attached. The corrective actions required to bring your facility into compliance have been performed. The Department finds that you are in violation of the rules and statutes cited in the attached Warning Letter. In order to resolve the matters identified in the attached Warning Letter, you are assessed civil penalties in the amount of $4,400.00, along with $ 250.00 to reimburse the Department costs, for a total of $4,650.00.

The civil penalties are apportioned as follows: $1,500.00 for violation of Sections 403.121(3)(b) and 403.161(1)(b), Florida Statutes; $500.00 for violation of Sections 403.121(4)(e) and 403.161(1)(b), Florida Statutes, and Rule 62-620.610(20), Florida Administrative Code; $2,400.00 for violation of Sections 403.121(4)(b) and 403.161(1)(b), Florida Statutes, and Rule 62-620.300(5), Florida Administrative Code.

The Department acknowledges that the payment of these civil penalties by you does not constitute an admission of liability. This payment must be made payable to the Department of Environmental Protection by cashier's check or money order and shall include the OGC File Number assigned above and the notation "Ecosystems Management and Restoration Trust Fund." Payment shall be sent to the Department of Environmental Protection, Central District Office, 3319 Maguire Boulevard, Suite 232, Orlando, Florida 32803-3767, within 30 days of your signing this letter.

Your signing this letter constitutes your acceptance of the Department's offer to resolve this matter on these terms. If you elect to sign this letter, please return it to the Department at the address indicated above. The Department will then countersign the letter and file it with the Clerk of the Department. When the signed letter is filed with the Clerk, the letter shall constitute final agency action of the Department which shall be enforceable pursuant to Section 120.69 and 403.121, Florida Statutes.

If you do not sign and return this letter to the Department at the District address by August 30, 2002, the Department will assume that you are not interested in settling this matter on the above described terms, and will proceed accordingly. None of your rights or substantial interests are determined by this letter unless you sign it and it is filed with the Department Clerk.

Sincerely,

Vivian F. Garfein
Director of District Management

Date: 8/16/02

VFG/ea

FOR THE RESPONDENT:

I, Donald Rasmussen, Vice President, on behalf of Sanlando Utilities Corporation, HEREBY ACCEPT THE TERMS OF THE SETTLEMENT OFFER IDENTIFIED ABOVE.

By: Donald Rasmussen

Date: 8/21/02

FOR DEPARTMENT USE ONLY

DONE AND ENTERED this 27th day of August, 2002.

STATE OF FLORIDA DEPARTMENT
OF ENVIRONMENTAL PROTECTION

Vivian F. Garfein
Director of District Management

FILING AND ACKNOWLEDGMENT
FILED, on this date, pursuant to
§120.52, Florida Statutes,
With the designated Department
Clerk, receipt of which is hereby
Acknowledged.

A. Lalonde
Clerk

8/27/2002
Date

VFG: ca

Enclosures

Copies furnished to: Kathy Carter, OGC
Steven Kelly, Wastewater Enforcement Coordinator

BNC 2.12 FL-H

Jeb Bush
Governor

FLORIDA DEPARTMENT OF HEALTH

M. Rony François, MD, MSPH, PhD
Secretary

UTILITIES, INC.

SHORT FORM CONSENT ORDER

November 21, 2006

Patrick Flynn, ~~Vice President~~
Cypress Lakes Utilities, Inc.
200 Weathersfield Ave.
Altamonte Springs, FL. 32714

SUBJECT: Proposed Settlement of Cypress Lakes Utilities, Inc. Water System
OGC File # 06-653PWS055A.

Dear Water System Owner:

The purpose of this letter is to complete the resolution of the matter previously identified by the Department in the Warning letter dated October 26, 2006, a copy of which is attached. The Department finds that you were in violation of the rules and statutes cited in the warning letter. The corrective actions required to bring your facility into compliance have been performed. In order to resolve the matters identified in the attached Warning Letter, you are assessed civil penalties in the amount of $700.00, along with $500.00 to reimburse the Department costs, for a total of $1200.00.

The Department acknowledges that the payment of these civil penalties by you does not constitute an admission of liability. This payment must be made payable to the Polk County Health Department by cashiers check or money order and should include the OGC File Number assigned above. Payment shall be sent to the Polk County Health Department, 2090 East Clower Street Bartow, Florida, 33830, within of 10 days of your signing this letter.

Your signing this letter constitutes your acceptance of the Department's offer to resolve this matter on these terms. If you elect to sign this letter, please return it to the Department at the address indicated above. The Department will then countersign the letter and file it with the Clerk of the Department. When the signed letter is filed with the Clerk, the letter shall constitute final agency action of the Department which shall be enforceable pursuant to Section 120.69 and 403.121, Florida Statutes.

Daniel O. Haight, MD
Director

POLK COUNTY HEALTH DEPARTMENT
Environmental Engineering Division
2090 East Clower Street, Bartow, FL 33830-6741
Phone (863) 519-8330 / SC 515-7365 / Fax (863) 534-0245

Lynne M. Saddler, MD, MPH
Assistant Director

If you do not sign and return this letter to the Polk County Health Department at 2090 East Clower Street, Bartow, Florida 33830 by December 5, 2006, the Department will assume that you are not interested in settling this matter on the above described terms, and will proceed accordingly. None of your rights or substantial interests are determined by this letter unless you sign it and it is filed with the Department Clerk.

Sincerely,

Donald R. Ehlenbeck, P.E.
Professional Engineering Administrator

If you do not sign and return this letter to the Polk County Health Department at 2090 East Clower Street, Bartow, Florida 33830 by December 5, 2006, the Department will assume that you are not interested in settling this matter on the above described terms, and will proceed accordingly. None of your rights or substantial interests are determined by this letter unless you sign it and it is filed with the Department Clerk.

Sincerely,

Donald R. Ehlenbeck, P.E.
Professional Engineering Administrator

NOTICE OF RIGHTS

Persons who are not parties to this Consent Order but whose substantial interests are affected by this Consent Order have a right, pursuant to Sections 120.569 and 120.57, Florida Statutes, to petition for an administrative determination hearing on it. The Petition must contain the information set forth below, and must be filed (received) at the Department of Environmental Protection's Office of General Counsel, 3900 Commonwealth Boulevard, MS-35, Tallahassee, Florida, 32399-3000, within twenty-one (21) days of receipt of this notice. A copy of the Petition must also be mailed at the time of filing to the District Office above at the address indicated. Failure to file a petition with the twenty-one (21) days constitutes a waiver of any right such person has to an administrative hearing pursuant to Sections 120.569 and 120.57, Florida Statutes.

The petition shall contain the following information:

a) The name, address, and telephone number of each petitioner; the Department's Consent Order identification number and the county in which the subject matter or activity is located;
b) A statement of how and when each petitioner received notice of the Consent Order;
c) A statement of how each petitioner's substantial interests are affected by the Consent Order;
d) A statement of the material facts disputed by petitioner, if any;
e) A statement of facts which petitioner contends warrant reversal or modification of the Consent Order;
f) A statement of which rules or statutes petitioner contends require reversal or modification of the Consent Order;
g) A statement of the relief sought by petitioner, stating precisely the action petitioner wants the Department to take with respect to the Consent Order;

If a petition is filed, the administrative hearing process is designed to formulate agency action. Accordingly, the Department's final action may be different from the position taken by it in this Notice. Persons whose substantial interests will be affected by any decision of the Department with regard to the subject Consent Order have the right to petition to become a party to the proceeding. The petition must conform to the requirements specified above and be filed (received) within 21 days of receipt of this notice in the Office of General Counsel at the above address of the Department. Failure to petition within the allowed time frame constitutes a waiver of any right such person has to request a hearing under Sections 120.569 and 120.57, Florida Statutes, and to participate as a party to this proceeding. Any subsequent intervention will only be at the approval of the presiding officer upon motion filed pursuant to Rule 28-106.205, Florida Administrative Code.

Mediation under Section 120.573, Florida Statutes, is not available in this procedure.

CUGL File No. 06-053PW 5055A

WATER SERVICE CORP.

DISBURSING ACCOUNT OF
UTILITIES INCORPORATED
2335 SANDERS ROAD
NORTHBROOK, IL 60062

BANK ONE COLUMBUS, NA
Columbus and Williamsport, Ohio Offices

NOT VALID
AFTER 90 DAYS

NO. 606241

DATE 12/07/06 NET AMOUNT **$1,200.00

PAY ********** ONE THOUSAND TWO HUNDRED AND 00/100 ********** DOLLARS

19764

TO THE ORDER OF
POLK COUNTY HEALTH DEPARTMENT
2090 E. CLOWER STREET
BARTOW FL USA 33830

TWO SIGNATURES REQ'D OVER $1,000.00

AUTHORIZED SIGNATURE

"606241" :044115443: 989034290"

19764 POLK COUNTY HEALTH DEPARTMENT CHECK NO. 606241

COMPANY NAME	REFERENCE NUMBER	INVOICE DATE	INVOICE NUMBER	NET AMOUNT
CYPRESS LAKES UTIL (NC-W&S	35397	11/25/06	006-653PW5055A	1,200.00
			TOTAL	1,200.00

BNC 2.12 FL-I

BEFORE THE STATE OF FLORIDA
DEPARTMENT OF ENVIRONMENTAL PROTECTION

STATE OF FLORIDA DEPARTMENT OF ENVIRONMENTAL PROTECTION, Complainant, vs. SANDY CREEK UTILITY SERVICES, INC. Respondent.	IN THE OFFICE OF THE NORTHWEST DISTRICT OGC FILE NO. 07-1887-03-DW

CONSENT ORDER

This Consent Order is entered into between the State of Florida Department of Environmental Protection ("Department") and Sandy Creek Utility Services, Inc. ("Respondent") to reach settlement of certain matters at issue between the Department and Respondent.

The Department finds and the Respondent admits the following:

1. The Department is the administrative agency of the State of Florida having the power and duty to protect Florida's air and water resources and to administer and enforce the provisions of Chapter 403, Florida Statutes ("Fla. Stat.") and the rules promulgated thereunder, Title 62, Florida Administrative Code ("Fla. Admin. Code"). The Department has jurisdiction over the matters addressed in this Consent Order.

2. Respondent is a person within the meaning of Section 403.031(5), Fla. Stat.

3. Respondent is the owner and is responsible for the operation of Sandy Creek Ranch, a 0.075 million gallon per day ("MGD") annual average daily flow complete mix stabilization advanced secondary domestic wastewater treatment facility ("Facility") with chlorinated effluent to a slow-rate public access sprayfield land

application to the Sandy Creek Ranch Golf Course. Residuals are aerobically digested. The Facility is located at 2405 County Road 2297, Panama City, Bay County, Florida and approximately at latitude 30° 06' 10" North, longitude 85° 29' 21" West.

4. The Department finds that Respondent operates the Facility under Department Permit No. FLA010019 ("Permit"), which was issued on September 22, 2006 and expires on September 21, 2011.

5. The Respondent submitted an Agricultural Use Plan ("AUP") in 2002 which stated that residuals generated at the Facility would be land applied at an agricultural site known as Gulf County Farms ("GCF"). Rule 62-640.650(3)(b) Fla. Admin. Code requires a permittee using an application site to submit a Residuals Annual Summary ("RAS") to the appropriate District Office of the Department on an annual basis. The RAS shall include the total amounts of residuals, nitrogen, phosphorus, potassium, and heavy metals applied to each application zone.

6. The Department finds that, based on the 2004 and 2005 RAS; the method used for vector attraction reduction is incorporation. A Residuals Site Inspection conducted on August 4, 2005, of GCF, revealed that residuals were being piled on the fields, and were not incorporated within the specified six hour time frame necessary to meet vector attraction reduction requirements.

7. The Department finds that, based on the 2004 and 2005 RAS; Sorghum/Sudan is to be grown on the fields at GCF as a summer crop. The August 4, 2005 inspection of GCF revealed that cover crops were not being sustained on all the fields.

8. The Department finds that, based on the 2004 RAS, residuals generated by the Facility and applied to GCF were not analyzed by a laboratory certified by the Department of Health, under the National Environmental Laboratory Accreditation Program ("NELAP"), for determining metal concentrations in residuals. Respondent's

failure to have the Facility's residuals analyzed as described above constitutes a violation of Rule 62-640.650(1)(h), Fla. Admin. Code, which states that any laboratory tests required by this chapter shall be performed by a laboratory certified by the Department of Health under Chapter 64E-1, Fla. Admin. Code to perform the test.

9. Rule 62-640.700(3)(f), Fla. Admin. Code states that if residuals which are subject to the cumulative loading limitations of Rule 62-640.700(3), Fla. Admin. Code have been applied to an application zone, and the cumulative loading amount of one or more pollutants is not known, no further applications of residuals may be made to that application zone. According to the 2004 RAS, the laboratory contracted by the Respondent for residuals analysis failed to properly analyze and report metals, nitrogen, and fecal coliform. The Department finds that, although the cumulative loading amount was not known for these pollutants, residuals generated by the Facility were applied at GCF throughout 2004 and thus were applied in violation of Rule 62-640.700, Fla. Admin. Code.

Having reached a resolution of the matter the Department and the Respondent mutually agree and it is

ORDERED:

10. Within thirty (30) days of the effective date of this Consent Order, Respondent shall pay the Department $1,225 in settlement of the matters addressed in this Consent Order. This amount includes $100 for costs and expenses incurred by the Department during the investigation of this matter and the preparation and tracking of this Consent Order. The civil penalties are apportioned as follows: $375 for violation of Rule 62-640.600(2)(a), Fla. Admin. Code; $375 for violation of Rule 62-640.750(2), Fla. Admin. Code; and $375 for violation of Rules 62-640.650(1)(h), and 62-600.740(2)(e), Fla. Admin. Code. Payment shall be made by cashier's check or money order. The instrument shall be made payable to the "Department of Environmental Protection"

failure to have the Facility's residuals analyzed as described above constitutes a violation of Rule 62-640.650(1)(h), Fla. Admin. Code, which states that any laboratory tests required by this chapter shall be performed by a laboratory certified by the Department of Health under Chapter 64E-1, Fla. Admin. Code to perform the test.

9. Rule 62-640.700(3)(f), Fla. Admin. Code states that if residuals which are subject to the cumulative loading limitations of Rule 62-640.700(3), Fla. Admin. Code have been applied to an application zone, and the cumulative loading amount of one or more pollutants is not known, no further applications of residuals may be made to that application zone. According to the 2004 RAS, the laboratory contracted by the Respondent for residuals analysis failed to properly analyze and report metals, nitrogen, and fecal coliform. The Department finds that, although the cumulative loading amount was not known for these pollutants, residuals generated by the Facility were applied at GCF throughout 2004 and thus were applied in violation of Rule 62-640.700, Fla. Admin. Code.

Having reached a resolution of the matter the Department and the Respondent mutually agree and it is

ORDERED:

10. Within thirty (30) days of the effective date of this Consent Order, Respondent shall pay the Department $1,225 in settlement of the matters addressed in this Consent Order. This amount includes $100 for costs and expenses incurred by the Department during the investigation of this matter and the preparation and tracking of this Consent Order. The civil penalties are apportioned as follows: $375 for violation of Rule 62-640.600(2)(a), Fla. Admin. Code; $375 for violation of Rule 62-640.750(2), Fla. Admin. Code; and $375 for violation of Rules 62-640.650(1)(h), and 62-600.740(2)(e), Fla. Admin. Code. Payment shall be made by cashier's check or money order. The instrument shall be made payable to the "Department of Environmental Protection"

delay, the measures taken or to be taken to prevent or minimize the delay and the timetable by which Respondent intends to implement these measures. If the parties can agree that the delay or anticipated delay has been or will be caused by circumstances beyond the reasonable control of Respondent, the time for performance hereunder shall be extended for a period equal to the agreed delay resulting from such circumstances. Such agreement shall adopt all reasonable measures necessary to avoid or minimize delay. Failure of Respondent to comply with the notice requirements of this Paragraph in a timely manner shall constitute a waiver of Respondent's right to request an extension of time for compliance with the requirements of this Consent Order.

13. Persons who are not parties to this Consent Order, but whose substantial interests are affected by this Consent Order, have a right, pursuant to Sections 120.569 and 120.57, Fla. Stat., to petition for an administrative hearing on it. The Petition must contain the information set forth below and must be filed (received) at the Department's Office of General Counsel, 3900 Commonwealth Boulevard, MS# 35, Tallahassee, Florida 32399-3000 within 21 days of receipt of this notice. A copy of the Petition must also be mailed at the time of filing to the District Office named above at the address indicated. Failure to file a petition within the 21 days constitutes a waiver of any right such person has to an administrative hearing pursuant to Sections 120.569 and 120.57, Fla. Stat.

The petition shall contain the following information:

(a) The name, address, and telephone number of each petitioner; the Department's Consent Order identification number and the county in which the subject matter or activity is located; (b) A statement of how and when each petitioner received notice of the Consent Order; (c) A statement of how each petitioner's substantial interests are affected by the Consent Order; (d) A statement of the material facts disputed by petitioner, if any; (e) A statement of facts which petitioner contends warrant reversal or

modification of the Consent Order; (f) A statement of which rules or statutes petitioner contends require reversal or modification of the Consent Order; (g) A statement of the relief sought by petitioner, stating precisely the action petitioner wants the Department to take with respect to the Consent Order.

If a petition is filed, the administrative hearing process is designed to formulate agency action. Accordingly, the Department's final action may be different from the position taken by it in this Notice. Persons whose substantial interests will be affected by any decision of the Department with regard to the subject Consent Order have the right to petition to become a party to the proceeding. The petition must conform to the requirements specified above and be filed (received) within 21 days of receipt of this notice in the Office of General Counsel at the above address of the Department. Failure to petition within the allowed time frame constitutes a waiver of any right such person has to request a hearing under Sections 120.569 and 120.57, Fla. Stat., and to participate as a party to this proceeding. Any subsequent intervention will only be at the approval of the presiding officer upon motion filed pursuant to Rule 28-106.205, Fla. Admin. Code.

A person whose substantial interests are affected by the Consent Order may file a timely petition for an administrative hearing under Sections 120.569 and 120.57, Fla. Stat., or may choose to pursue mediation as an alternative remedy under Section 120.573, Fla. Stat., before the deadline for filing a petition. Choosing mediation will not adversely affect the right to a hearing if mediation does not result in a settlement. The procedures for pursuing mediation are set forth below.

Mediation may only take place if the Department and all the parties to the proceeding agree that mediation is appropriate. A person may pursue mediation by reaching a mediation agreement with all parties to the proceeding (which include the Respondent, the Department, and any person who has filed a timely and sufficient

petition for a hearing) and by showing how the substantial interests of each mediating party are affected by the Consent Order. The agreement must be filed in (received by) the Office of General Counsel of the Department at 3900 Commonwealth Boulevard, MS #35, Tallahassee, Florida 32399-3000, within 10 days after the deadline as set forth above for the filing of a petition.

The agreement to mediate must include the following:

(a) The names, addresses, and telephone numbers of any persons who may attend the mediation;

(b) The name, address, and telephone number of the mediator selected by the parties, or a provision for selecting a mediator within a specified time;

(c) The agreed allocation of the costs and fees associated with the mediation;

(d) The agreement of the parties on the confidentiality of discussions and documents introduced during mediation;

(e) The date, time, and place of the first mediation session, or a deadline for holding the first session, if no mediator has yet been chosen;

(f) The name of each party's representative who shall have authority to settle or recommend settlement; and

(g) Either an explanation of how the substantial interests of each mediating party will be affected by the action or proposed action addressed in this notice of intent or a statement clearly identifying the petition for hearing that each party has already filed, and incorporating it by reference.

(h) The signatures of all parties or their authorized representatives.

As provided in Section 120.573, Fla. Stat., the timely agreement of all parties to mediate will toll the time limitations imposed by Sections 120.569 and 120.57, Fla. Stat., for requesting and holding an administrative hearing. Unless otherwise agreed by the parties, the mediation must be concluded within sixty days of the execution of the

agreement. If mediation results in settlement of the administrative dispute, the Department must enter a final order incorporating the agreement of the parties. Persons whose substantial interests will be affected by such a modified final decision of the Department have a right to petition for a hearing only in accordance with the requirements for such petitions set forth above, and must therefore file their petitions within 21 days of receipt of this notice. If mediation terminates without settlement of the dispute, the Department shall notify all parties in writing that the administrative hearing processes under Sections 120.569 and 120.57, Fla. Stat., remain available for disposition of the dispute, and the notice will specify the deadlines that then will apply for challenging the agency action and electing remedies under those two statutes.

14. Respondent shall allow all authorized representatives of the Department access to the property and facility at reasonable times for the purpose of determining compliance with the terms of this Consent Order and the rules and statutes of the Department.

15. All submittals and payments required by this Consent Order to be submitted to the Department shall be sent to the Florida Department of Environmental Protection, 160 Governmental Center, Pensacola, Florida 32502-5794.

16. This Consent Order is a settlement of the Department's civil and administrative authority arising under Florida law to resolve the matters addressed herein. This Consent Order is not a settlement of any criminal liabilities which may arise under Florida law, nor is it a settlement of any violation which may be prosecuted criminally or civilly under federal law.

17. The Department hereby expressly reserves the right to initiate appropriate legal action to prevent or prohibit any violations of applicable statutes, or the rules promulgated thereunder that are not specifically addressed by the terms of this Consent

Order, including but not limited to undisclosed releases, contamination or polluting conditions.

18. The terms and conditions set forth in this Consent Order may be enforced in a court of competent jurisdiction pursuant to Sections 120.69 and 403.121, Fla. Stat. Failure to comply with the terms of this Consent Order shall constitute a violation of Section 403.161(1)(b), Fla. Stat.

19. Respondent is fully aware that a violation of the terms of this Consent Order may subject Respondent to judicial imposition of damages, civil penalties up to $10,000.00 per day per violation, and criminal penalties.

20. Entry of this Consent Order does not relieve Respondent of the need to comply with applicable federal, state or local laws, regulations or ordinances.

21. No modifications of the terms of this Consent Order shall be effective until reduced to writing and executed by both Respondent and the Department.

22. Respondent acknowledges and waives its right to an administrative hearing pursuant to Sections 120.569 and 120.57, Fla. Stat., on the terms of this Consent Order. Respondent acknowledges its right to appeal the terms of this Consent Order pursuant to Section 120.68, Fla. Stat., and waives that right upon signing this Consent Order.

23. This Consent Order is a final order of the Department pursuant to Section 120.52(7), Fla. Stat., and it is final and effective on the date filed with the Clerk of the Department unless a Petition for Administrative Hearing is filed in accordance with Chapter 120, Fla. Stat. Upon the timely filing of a petition this Consent Order will not be effective until further order of the Department.

FOR THE RESPONDENT:

1/10/08
DATE

~~Donald Rasmussen~~ PATRICK C. FLYNN
~~Vice President~~ REGIONAL DIRECTOR
Sandy Creek Utility Services, Inc.

DONE AND ORDERED this 22nd day of January, 2008

in PENSACOLA, Florida.

STATE OF FLORIDA DEPARTMENT
OF ENVIRONMENTAL PROTECTION

W. Richard Fancher
District Director

Filed, on this date, pursuant to Section 120.52, Fla. Stat., with the designated Department Clerk, receipt of which is hereby acknowledged.

Clerk

January 22, 2008
Date

Copies furnished to:

Lea Crandall, Agency Clerk (lea.crandall@dep.state.fl.us)

BNC 2.12 FL-J

BEFORE THE STATE OF FLORIDA
DEPARTMENT OF ENVIRONMENTAL PROTECTION

STATE OF FLORIDA DEPARTMENT OF ENVIRONMENTAL PROTECTION, Complainant, vs. Utilities, Inc. of Florida Respondent.	IN THE OFFICE OF THE SOUTHWEST DISTRICT OGC FILE NO. 06-1040-51-PW

Dept. of Environmental Protection

JUN 12 2006

Southwest District

CONSENT ORDER

This Consent Order is entered into between the State of Florida Department of Environmental Protection ("Department") and Utilities, Inc. of Florida ("Respondent") to reach settlement of certain matters at issue between the Department and Respondent.

The Department finds and the Respondent admits the following:

1. The Department is the administrative agency of the State of Florida having the power and duty to administer and enforce the provisions of the Florida Safe Drinking Water Act, Sections 403.850 et seq., Florida Statutes, and the rules promulgated thereunder, Title 62, Florida Administrative Code. The Department has jurisdiction over the matters addressed in this Consent Order.

2. Respondent is a person within the meaning of Section 403.852(5), Florida Statutes.

3. Respondent is the owner and operator of a community water system, PWS# 6511423, located in Pasco County Florida which, serves the Summertree Water Plant ("system").

4. The Department finds that Respondent is in violation of Rule 62-550.310(3), Florida Administrative Code ("Fla. Admin. Code"), which establishes the maximum contaminant

level ("MCL") for total trihalomethanes ("TTHMs") as 0.080 milligrams per liter ("mg/L") and the five haloacetic acids ("HAA5s") as 0.060 mg/L. The running annual average results for samples collected from the system during the 2nd Quarter 2005 through the 1st Quarter 2006 and analyzed for TTHMs and HAA5s are 0.105 mg/L and 0.078 mg/L, respectively.

Having reached a resolution of the matter the Department and the Respondent mutually agree and it is

ORDERED:

5. Respondent shall comply with the following corrective actions within the stated time periods:

a. Within 60 days of the effective date of this Consent Order, Respondent shall retain the services of a Florida-registered professional engineer to evaluate the system and submit an application, along with any required application fees, to the Department for a permit to construct any modifications needed to address the MCL violation(s).

b. The Department shall review the application submitted pursuant to paragraph 5a. above. In the event additional information, modifications or specifications are necessary to process the application, the Department shall issue a written request for information ("RFI") to Respondent for such information. Respondent shall accordingly submit the requested information in writing to the Department within 15 days of receipt of the request. Respondent shall provide all information requested in any additional RFIs issued by the Department within 15 days of receipt of each request.

c. Within 180 days of issuance of any required permit(s), Respondent shall complete the modifications approved pursuant to the permit(s) issued in accordance with paragraphs 5a. and 5b. above, and submit to the Department the engineer's certification of

completion of construction, along with all required supporting documentation. Respondent shall receive written Department clearance prior to placing the system modifications into service.

d. Respondent shall continue to sample quarterly for TTHMs and HAA5s in accordance with Rule 62-550.514(2), Fla. Admin. Code. Results shall be submitted to the Department within ten (10) days following the month in which the samples were taken or within 10 days following Respondent's receipt of the results, whichever is sooner. Additionally, quarterly reports shall be submitted to the Department in accordance with Rule 62-550.821(12), Fla. Admin. Code.

e. In the event that the modifications approved by the Department pursuant to paragraphs 5a. and 5b. are determined to be inadequate to resolve the MCL violation(s), the Department will notify the Respondent in writing. Within 30 days of receipt of written notification from the Department that the results of the quarterly sampling indicate that the system modifications have not resolved the violation(s), Respondent shall submit another proposal to address the MCL violation(s). Respondent shall provide all information requested in any RFIs issued by the Department within 15 days of receipt of each request. Within 60 days of the date the Department receives the application pursuant to this paragraph, Respondent shall provide all information necessary to complete the application.

f. Respondent shall continue to issue public notice regarding the MCL violation(s) every 90 days in accordance with Rule 62-560.410(1), Fla. Admin. Code, until the Department determines that the system is in compliance with all MCLs. Respondent shall submit certification of delivery of public notice, using DEP Form 62-555.900(22), to the Department within ten days of issuing each public notice.

6. Within 15 days of the effective date of this Consent Order, Respondent shall pay the Department $500 in settlement of the matters addressed in this Consent Order. This amount includes $500 for costs and expenses incurred by the Department during the investigation of this matter and the preparation and tracking of this Consent Order. Payment shall be made by cashier's check or money order. The instrument shall be made payable to the "Department of Environmental Protection" and shall include thereon the OGC number assigned to this Consent Order and the notation "Ecosystem Management and Restoration Trust Fund."

7. Respondent agrees to pay the Department stipulated penalties in the amount of $100 per day for each and every day Respondent fails to timely comply with any of the requirements of paragraph 5 of this Consent Order. A separate stipulated penalty shall be assessed for each violation of this Consent Order. Within 30 days of written demand from the Department, Respondent shall make payment of the appropriate stipulated penalties to the "Department of Environmental Protection" by cashier's check or money order and shall include the OGC number assigned to this Consent Order and the notation "Ecosystem Management and Restoration Trust Fund." Payment shall be sent to the Department of Environmental Protection, Southwest District Office, 13051 N. Telecom Pkwy, Temple Terrace, FL 33637. The Department may make demands for payment at any time after violations occur. Nothing in this paragraph shall prevent the Department from filing suit to specifically enforce any of the terms of this Consent Order. If the Department is required to file a lawsuit to recover stipulated penalties under this paragraph, the Department will not be foreclosed from seeking civil penalties for violations of this Consent Order in an amount greater than the stipulated penalties due under this paragraph.

8. If any event, including administrative or judicial challenges by third parties unrelated to the Respondent, occurs which causes delay or the reasonable likelihood of delay, in complying with the requirements of this Consent Order, Respondent shall have the burden of proving the delay was or will be caused by circumstances beyond the reasonable control of the Respondent and could not have been or cannot be overcome by Respondent's due diligence. Economic circumstances shall not be considered circumstances beyond the control of Respondent, nor shall the failure of a contractor, subcontractor, materialman or other agent (collectively referred to as "contractor") to whom responsibility for performance is delegated to meet contractually imposed deadlines be a cause beyond the control of Respondent, unless the cause of the contractor's late performance was also beyond the contractor's control. Upon occurrence of an event causing delay, or upon becoming aware of a potential for delay, Respondent shall notify the Department orally within 24 hours or by the next working day and shall, within seven calendar days of oral notification to the Department, notify the Department in writing of the anticipated length and cause of the delay, the measures taken or to be taken to prevent or minimize the delay and the timetable by which Respondent intends to implement these measures. If the parties can agree that the delay or anticipated delay has been or will be caused by circumstances beyond the reasonable control of Respondent, the time for performance hereunder shall be extended for a period equal to the agreed delay resulting from such circumstances. Such agreement shall adopt all reasonable measures necessary to avoid or minimize delay. Failure of Respondent to comply with the notice requirements of this Paragraph in a timely manner shall constitute a waiver of Respondent's right to request an extension of time for compliance with the requirements of this Consent Order.

9. Persons who are not parties to this Consent Order, but whose substantial interests are affected by this Consent Order, have a right, pursuant to Sections 120.569 and 120.57, Florida Statutes, to petition for an administrative hearing on it. The Petition must contain the information set forth below and must be filed (received) at the Department's Office of General Counsel, 3900 Commonwealth Boulevard, MS #35, Tallahassee, Florida 32399-3000, within 21 days of receipt of this notice. A copy of the Petition must also be mailed at the time of filing to the District Office named above at the address indicated. Failure to file a petition within the 21 days constitutes a waiver of any right such person has to an administrative hearing pursuant to Sections 120.569 and 120.57, Florida Statutes.

10. The petition shall contain the following information:

a. The name, address, and telephone number of each petitioner; the Department's Consent Order identification number and the county in which the subject matter or activity is located;

b. A statement of how and when each petitioner received notice of the Consent Order;

c. A statement of how each petitioner's substantial interests are affected by the Consent Order;

d. A statement of the material facts disputed by petitioner, if any;

e. A statement of facts which petitioner contends warrant reversal or modification of the Consent Order;

f. A statement of which rules or statutes petitioner contends require reversal or modification of the Consent Order;

9. Persons who are not parties to this Consent Order, but whose substantial interests are affected by this Consent Order, have a right, pursuant to Sections 120.569 and 120.57, Florida Statutes, to petition for an administrative hearing on it. The Petition must contain the information set forth below and must be filed (received) at the Department's Office of General Counsel, 3900 Commonwealth Boulevard, MS #35, Tallahassee, Florida 32399-3000, within 21 days of receipt of this notice. A copy of the Petition must also be mailed at the time of filing to the District Office named above at the address indicated. Failure to file a petition within the 21 days constitutes a waiver of any right such person has to an administrative hearing pursuant to Sections 120.569 and 120.57, Florida Statutes.

10. The petition shall contain the following information:

a. The name, address, and telephone number of each petitioner; the Department's Consent Order identification number and the county in which the subject matter or activity is located;

b. A statement of how and when each petitioner received notice of the Consent Order;

c. A statement of how each petitioner's substantial interests are affected by the Consent Order;

d. A statement of the material facts disputed by petitioner, if any;

e. A statement of facts which petitioner contends warrant reversal or modification of the Consent Order;

f. A statement of which rules or statutes petitioner contends require reversal or modification of the Consent Order;

showing how the substantial interests of each mediating party are affected by the Consent Order. The agreement must be filed in (received by) the Office of General Counsel of the Department at 3900 Commonwealth Boulevard, MS #35, Tallahassee, Florida 32399-3000, within 10 days after the deadline as set forth above for the filing of a petition.

14. The agreement to mediate must include the following:

a. The names, addresses, and telephone numbers of any persons who may attend the mediation;

b. The name, address, and telephone number of the mediator selected by the parties, or a provision for selecting a mediator within a specified time;

c. The agreed allocation of the costs and fees associated with the mediation;

d. The agreement of the parties on the confidentiality of discussions and documents introduced during mediation;

e. The date, time, and place of the first mediation session, or a deadline for holding the first session, if no mediator has yet been chosen;

f. The name of each party's representative who shall have authority to settle or recommend settlement;

g. Either an explanation of how the substantial interests of each mediating party will be affected by the action or proposed action addressed in this notice of intent or a statement clearly identifying the petition for hearing that each party has already filed, and incorporating it by reference; and

h. The signatures of all parties or their authorized representatives. As provided in Section 120.573, Florida Statutes, the timely agreement of all parties to mediate will toll the time limitations imposed by Sections 120.569 and 120.57, Florida Statutes, for requesting

and holding an administrative hearing. Unless otherwise agreed by the parties, the mediation must be concluded within sixty days of the execution of the agreement. If mediation results in settlement of the administrative dispute, the Department must enter a final order incorporating the agreement of the parties. Persons whose substantial interests will be affected by such a modified final decision of the Department have a right to petition for a hearing only in accordance with the requirements for such petitions set forth above, and must therefore file their petitions within 21 days of receipt of this notice. If mediation terminates without settlement of the dispute, the Department shall notify all parties in writing that the administrative hearing processes under Sections 120.569 and 120.57, Florida Statutes, remain available for disposition of the dispute, and the notice will specify the deadlines that then will apply for challenging the agency action and electing remedies under those two statutes.

15. Entry of this Consent Order does not relieve Respondent of the need to comply with applicable federal, state or local laws, regulations or ordinances.

16. The terms and conditions set forth in this Consent Order may be enforced in a court of competent jurisdiction pursuant to Sections 120.69 and 403.121, Florida Statutes. Failure to comply with the terms of this Consent Order shall constitute a violation of Section 403.859, Florida Statutes.

17. Respondent is fully aware that a violation of the terms of this Consent Order may subject Respondent to judicial imposition of damages, civil penalties up to $5,000.00 per day per violation, and criminal penalties, except as limited by the provisions of this Consent Order.

18. Respondent shall allow all authorized representatives of the Department access to the facility at reasonable times for the purpose of determining compliance with the terms of this Consent Order and the rules and statutes of the Department.

19. All submittals and payments required by this Consent Order to be submitted to the Department shall be sent to the Florida Department of Environmental Protection, Southwest District Office, 13051 N. Telecom Parkway, Temple Terrace, FL 33637.

20. The Department, for and in consideration of the complete and timely performance by Respondent of the obligations agreed to in this Consent Order, hereby waives its right to seek judicial imposition of damages or civil penalties for alleged violations addressed in this Consent Order.

21. Respondent acknowledges and waives its right to an administrative hearing pursuant to Sections 120.569 and 120.57, Florida Statutes, on the terms of this Consent Order. Respondent acknowledges its right to appeal the terms of this Consent Order pursuant to Section 120.68, Florida Statutes, and waives that right upon signing this Consent Order.

22. No modifications of the terms of this Consent Order shall be effective until reduced to writing and executed by both Respondent and the Department.

23. In the event of a sale or conveyance of the facility or of the property upon which the facility is located, if all of the requirements of this Consent Order have not been fully satisfied, Respondent shall, at least 30 days prior to the sale or conveyance of the property or facility, (1) notify the Department of such sale or conveyance, (2) provide the name and address of the purchaser, or operator, or person(s) in control of the facility, and (3) provide a copy of this Consent Order with all attachments to the new owner. The sale or conveyance of the facility, or the property upon which the facility is located shall not relieve the Respondent of the obligations imposed in this Consent Order.

24. This Consent Order is a settlement of the Department's civil and administrative authority arising under Florida law to resolve the matters addressed herein. This Consent Order

is not a settlement of any criminal liabilities, which may arise under Florida law, nor is it a settlement of any violation, which may be prosecuted criminally or civilly under federal law.

25. This Consent Order is a final order of the Department pursuant to Section 120.52(7), Florida Statutes, and it is final and effective on the date filed with the Clerk of the Department unless a Petition for Administrative Hearing is filed in accordance with Chapter 120, Florida Statutes. Upon the timely filing of a petition this Consent Order will not be effective until further order of the Department.

6/8/06
Date

FOR THE RESPONDENT

Name
PATRICK C. FLYNN
Title REGIONAL DIRECTOR

DONE AND ORDERED this 8th day of JUNE, 2006, in Altamonte Springs, Florida.

JACQUELINE TAPPAN
NOTARY PUBLIC - STATE OF FLORIDA
COMMISSION # DD497715
EXPIRES 12/7/2009
BONDED THRU 1-888-NOTARY1

STATE OF FLORIDA DEPARTMENT
OF ENVIRONMENTAL PROTECTION

Deborah Getzoff
District Director
Southwest District

Filed, on this date, pursuant to Section 120.52, F.S., with the designated Department Clerk, receipt of which is hereby acknowledged.

Dianne McClain
Clerk

July 26, 2006
Date

Dept. of Environmental Protection

JUN 12 2006

Southwest District

cc: Lea Crandall, Agency Clerk

BNC 2.12 FL-K

BEFORE THE STATE OF FLORIDA
DEPARTMENT OF ENVIRONMENTAL PROTECTION

STATE OF FLORIDA DEPARTMENT OF ENVIRONMENTAL PROTECTION, Complainant, vs. MILES GRANT WATER AND SEWER COMPANY, Respondent.	IN THE OFFICE OF THE SOUTHEAST DISTRICT OGC FILE NO. 05-2873

CONSENT ORDER

This Consent Order is entered into between the State of Florida Department of Environmental Protection ("Department") and Miles Grant Water and Sewer Company ("Respondent") to reach settlement of certain matters at issue between the Department and Respondent.

The Department finds and the Respondent admits the following:

1. The Department is the administrative agency of the State of Florida having the power and duty to protect Florida's air and water resources and to administer and enforce the provisions of the Florida Safe Drinking Water Act, Sections 403.850 et seq., Florida Statutes, and the rules promulgated thereunder, Title 62, Florida Administrative Code. The Department has jurisdiction over the matters addressed in this Consent Order.

2. Respondent is a "person" within the meaning of Section 403.852(5), Florida Statutes.

3. Respondent is the owner and is responsible for the operation of a community public water system ("System"), PWS #4430917, located at 5418 SE Miles Grant Road, Stuart, Martin County, Florida, which serves the community of Miles Grant.

4. The Department finds that Respondent is in violation of Rule 62-550.310(3), Fla. Admin. Code which establishes the maximum contaminant level (MCL) for total trihalomethanes

(TTHMs) as 0.080 milligrams per liter (mg/L). The average result for samples collected from the System on July 29, 2004, December 7, 2004, March 31, 2005, and June 16, 2005, and analyzed for TTHMs is 0.129 mg/L.

Having reached a resolution of the matter the Department and the Respondent mutually agree and it is

ORDERED:

5. Respondent shall comply with the following corrective actions within the stated time periods:

a. Within 60 days of the effective date of this Consent Order, Respondent shall retain the services of a Florida-registered professional engineer to evaluate the System and submit an application, along with any required application fees, to the Department for a permit to construct any modifications needed to address the MCL violation.

b. The Department shall review the application submitted pursuant to paragraph 5.a. above. In the event additional information, modifications or specifications are necessary to process the application, the Department shall issue a written request for information ("RFI") to Respondent for such information. Respondent shall accordingly submit the requested information in writing to the Department within 15 days of receipt of the request. Respondent shall provide all information requested in any additional RFIs issued by the Department within 15 days of receipt of each request. Within 60 days of the date the Department receives the application pursuant to paragraph 5.a. above, Respondent shall provide all information necessary to complete the application.

c. Within 180 days of issuance of any required permit(s), Respondent shall complete the modifications approved pursuant to the permit(s) issued in accordance with paragraphs 5.a. and 5.b. above, and submit to the Department the engineer's certification of completion of construction, along with all required supporting documentation. Respondent shall receive written Department clearance prior to placing the System modifications into service.

d. Respondent shall continue to sample quarterly for TTHMs. Results shall be submitted to the Department within ten (10) days of Respondent's receipt of the results.

e. In the event that the modifications approved by the Department pursuant to paragraphs 5.a. and b. are determined to be inadequate to resolve the MCL violation, the Department will notify the Respondent in writing. Within 30 days of receipt of written notification from the Department that the results of the quarterly sampling indicate that the System modifications have not resolved the violation, Respondent shall submit another proposal to address the MCL violation. Respondent shall provide all information requested in any RFIs issued by the Department within 15 days of receipt of each request. Within 60 days of the date the Department receives the application pursuant to this paragraph, Respondent shall provide all information necessary to complete the application.

f. Within two years of the effective date of this Consent Order, Respondent shall complete all corrective actions needed to resolve the MCL violation and submit written certification of completion to the Department for all modifications.

g. Within 90 days of the effective date of this Consent Order, Respondent shall initiate submittal of quarterly status reports to the Department. Respondent shall continue to submit quarterly status reports until the Department determines that the System is in compliance with all MCLs.

h. Respondent shall continue to issue public notice regarding the MCL violation every 90 days in accordance with Rule 62-560.410(1), Fla. Admin. Code, until the Department determines that System is in compliance with all MCLs. Respondent shall submit certification of delivery of public notice, using DEP Form 62-555.900(22), to the Department within ten days of issuing each public notice.

6. Within 30 days of the effective date of this Consent Order, Respondent shall pay the Department $500.00 in settlement of the matters addressed in this Consent Order. This amount includes $500.00 for costs and expenses incurred by the Department during the investigation of this matter and the preparation and tracking of this Consent Order. Payment

shall be made by cashier's check or money order. The instrument shall be made payable to the "Department of Environmental Protection" and shall include thereon the OGC number assigned to this Consent Order and the notation "Ecosystem Management and Restoration Trust Fund."

7. Respondent agrees to pay the Department stipulated penalties in the amount of $100.00 per day for each and every day Respondent fails to timely comply with any of the requirements of paragraphs 5 and 6 of this Consent Order. A separate stipulated penalty shall be assessed for each violation of this Consent Order. Within 30 days of written demand from the Department, Respondent shall make payment of the appropriate stipulated penalties to "The Department of Environmental Protection" by cashier's check or money order and shall include the OGC number assigned to this Consent Order and the notation "Ecosystem Management and Restoration Trust Fund". Payment shall be sent to the Department of Environmental Protection, 400 North Congress Avenue, Suite 200, West Palm Beach, FL 33401. The Department may make demands for payment at any time after violations occur. Nothing in this paragraph shall prevent the Department from filing suit to specifically enforce any of the terms of this Consent Order. Any penalties assessed under this paragraph shall be in addition to the settlement sum agreed to in paragraph 6 of this Consent Order.

8. If any event, including administrative or judicial challenges by third parties unrelated to the Respondent, occurs which causes delay or the reasonable likelihood of delay, in complying with the requirements of this Consent Order, Respondent shall have the burden of proving the delay was or will be caused by circumstances beyond the reasonable control of the Respondent and could not have been or cannot be overcome by Respondent's due diligence. Economic circumstances shall not be considered circumstances beyond the control of Respondent, nor shall the failure of a contractor, subcontractor, materialman or other agent (collectively referred to as "contractor") to whom responsibility for performance is delegated to meet contractually imposed deadlines be a cause beyond the control of Respondent, unless the cause of the contractor's late performance was also beyond the contractor's control. Upon occurrence of an event causing delay, or upon becoming aware of a potential for delay,

Respondent shall notify the Department's Southeast District Office in West Palm Beach orally within 24 hours or by the next working day and shall, within seven calendar days of oral notification to the Department, notify the Department in writing of the anticipated length and cause of the delay, the measures taken or to be taken to prevent or minimize the delay and the timetable by which Respondent intends to implement these measures. If the parties can agree that the delay or anticipated delay has been or will be caused by circumstances beyond the reasonable control of Respondent, the time for performance of one or more of the requirements hereunder shall be extended for a period equal to the agreed delay resulting from such circumstances. Such agreement shall adopt all reasonable measures necessary to avoid or minimize delay. Failure of Respondent to comply with the notice requirements of this Paragraph in a timely manner shall constitute a waiver of Respondent's right to request an extension of time for compliance with the requirements of this Consent Order.

9. Persons who are not parties to this Consent Order, but whose substantial interests are affected by this Consent Order, have a right, pursuant to Sections 120.569 and 120.57, Florida Statutes, to petition for an administrative hearing on it. The Petition must contain the information set forth below and must be filed (received) at the Department's Office of General Counsel, 3900 Commonwealth Boulevard, MS# 35, Tallahassee, Florida 32399-3000 within 21 days of receipt of this notice. A copy of the Petition must also be mailed at the time of filing to the District Office named above at the address indicated. Failure to file a petition within the 21 days constitutes a waiver of any right such person has to an administrative hearing pursuant to Sections 120.569 and 120.57, Florida Statutes.

10. The petition shall contain the following information:

a. The name, address, and telephone number of each petitioner; the Department's Consent Order identification number and the county in which the subject matter or activity is located;

b. A statement of how and when each petitioner received notice of the Consent Order;

c. A statement of how each petitioner's substantial interests are affected by the Consent Order;

d. A statement of the material facts disputed by petitioner, if any;

e. A statement of facts which petitioner contends warrant reversal or modification of the Consent Order;

f. A statement of which rules or statutes petitioner contends require reversal or modification of the Consent Order;

g. A statement of the relief sought by petitioner, stating precisely the action petitioner wants the Department to take with respect to the Consent Order.

11. If a petition is filed, the administrative hearing process is designed to formulate agency action. Accordingly, the Department's final action may be different from the position taken by it in this Notice. Persons whose substantial interests will be affected by any decision of the Department with regard to the subject Consent Order have the right to petition to become a party to the proceeding. The petition must conform to the requirements specified above and be filed (received) within 21 days of receipt of this notice in the Office of General Counsel at the above address of the Department. Failure to petition within the allowed time frame constitutes a waiver of any right such person has to request a hearing under Sections 120.569 and 120.57, Florida Statutes, and to participate as a party to this proceeding. Any subsequent intervention will only be at the approval of the presiding officer upon motion filed pursuant to Rule 28-106.205, Florida Administrative Code.

12. A person whose substantial interests are affected by the Consent Order may file a timely petition for an administrative hearing under Sections 120.569 and 120.57, Florida Statutes, or may choose to pursue mediation as an alternative remedy under Section 120.573, Florida Statutes, before the deadline for filing a petition. Choosing mediation will not adversely affect the right to a hearing if mediation does not result in a settlement. The procedures for pursuing mediation are set forth below.

13. Mediation may only take place if the Department and all the parties to the proceeding agree that mediation is appropriate. A person may pursue mediation by reaching a mediation agreement with all parties to the proceeding (which include the Respondent, the Department, and any person who has filed a timely and sufficient petition for a hearing) and by showing how the substantial interests of each mediating party are affected by the Consent Order. The agreement must be filed in (received by) the Office of General Counsel of the Department at 3900 Commonwealth Boulevard, MS #35, Tallahassee, Florida 32399-3000, within 10 days after the deadline as set forth above for the filing of a petition.

14. The agreement to mediate must include the following:

a. The names, addresses, and telephone numbers of any persons who may attend the mediation;

b. The name, address, and telephone number of the mediator selected by the parties, or a provision for selecting a mediator within a specified time;

c. The agreed allocation of the costs and fees associated with the mediation;

d. The agreement of the parties on the confidentiality of discussions and documents introduced during mediation;

e. The date, time, and place of the first mediation session, or a deadline for holding the first session, if no mediator has yet been chosen;

f. The name of each party's representative who shall have authority to settle or recommend settlement;

g. Either an explanation of how the substantial interests of each mediating party will be affected by the action or proposed action addressed in this notice of intent or a statement clearly identifying the petition for hearing that each party has already filed, and incorporating it by reference; and

h. The signatures of all parties or their authorized representatives. As provided in Section 120.573, Florida Statutes, the timely agreement of all parties to mediate will toll the time limitations imposed by Sections 120.569 and 120.57, Florida Statutes, for requesting

and holding an administrative hearing. Unless otherwise agreed by the parties, the mediation must be concluded within sixty days of the execution of the agreement. If mediation results in settlement of the administrative dispute, the Department must enter a final order incorporating the agreement of the parties. Persons whose substantial interests will be affected by such a modified final decision of the Department have a right to petition for a hearing only in accordance with the requirements for such petitions set forth above, and must therefore file their petitions within 21 days of receipt of this notice. If mediation terminates without settlement of the dispute, the Department shall notify all parties in writing that the administrative hearing processes under Sections 120.569 and 120.57, Florida Statutes, remain available for disposition of the dispute, and the notice will specify the deadlines that then will apply for challenging the agency action and electing remedies under those two statutes.

15. Respondent shall allow all authorized representatives of the Department access to the facility at reasonable times for the purpose of determining compliance with the terms of this Consent Order and the rules and statutes of the Department.

16. All submittals and payments required by this Consent Order to be submitted to the Department shall be sent to the Florida Department of Environmental Protection, Southeast District Water Facilities Program, 400 North Congress Avenue, Suite 200, West Palm Beach, Florida, 33401.

17. This Consent Order is a settlement of the Department's civil and administrative authority arising under Florida law to resolve the matters addressed herein. This Consent Order is not a settlement of any criminal liabilities, which may arise under Florida law, nor is it a settlement of any violation which may be prosecuted criminally or civilly under federal law and which Respondent may defend.

18. The Department hereby expressly reserves the right to initiate appropriate legal action to prevent or prohibit any violations arising after the date of this Consent Order of applicable statutes, or the rules promulgated thereunder that are not specifically addressed by the terms of this Consent Order.

19. The terms and conditions set forth in this Consent Order may be enforced in a court of competent jurisdiction pursuant to Sections 120.69 and 403.121, Florida Statutes. Failure to comply with the terms of this Consent Order shall constitute a violation of Section 403.859, Florida Statutes.

20. The Department, for and in consideration of the complete and timely performance by Respondent of the obligations agreed to in this Consent Order, hereby waives its right to seek judicial imposition of damages or civil penalties for alleged violations.

21. Respondent is fully aware that a violation of the terms of this Consent Order may subject Respondent to judicial imposition of damages, civil penalties up to $5,000.00 per day per violation, and criminal penalties, except as limited by the provisions of this Consent Order.

22. Entry of this Consent Order does not relieve Respondent of the need to comply with applicable federal, state or local laws, regulations or ordinances.

23. No modifications of the terms of this Consent Order shall be effective until reduced to writing and executed by both Respondent and the Department.

24. Respondent acknowledges and waives its right to an administrative hearing pursuant to Sections 120.569 and 120.57, Florida Statutes, on the terms of this Consent Order. Respondent acknowledges its right to appeal the terms of this Consent Order pursuant to Section 120.68, Florida Statutes, and waives that right upon signing this Consent Order.

25. This Consent Order is a final order of the Department pursuant to Section 120.52(7), Florida Statutes, and it is final and effective on the date filed with the Clerk of the Department unless a Petition for Administrative Hearing is filed in accordance with Chapter 120, Florida Statutes. Upon the timely filing of a petition this Consent Order will not be effective until further order of the Department.

FOR THE RESPONDENT:

2/23/06

Patrick C. Flynn, Regional Director Date
Miles Grant Water and Sewer Company
200 Weathersfield Avenue
Altamonte Springs, FL 37214-4027

DONE AND ORDERED this 20 day of March, 2006, in West Palm Beach, Florida.

STATE OF FLORIDA DEPARTMENT
OF ENVIRONMENTAL PROTECTION

Colleen M. Castille, Secretary

Kevin R. Neal
District Director
Southeast District

FILED, on this date, pursuant to §120.52 Florida Statutes, with the designated Department Clerk, receipt of which is hereby acknowledged.

Linda Ischappat
Clerk

3-29-06
Date

Copies furnished to:
Larry Morgan, OGC/Tlh
Charles LeGros, FDEP/PSL

BNC 2.12 FL-L

OGC CASE NUMBER 05-2747-36-DW

BEFORE THE STATE OF FLORIDA
DEPARTMENT OF ENVIRONMENTAL PROTECTION

STATE OF FLORIDA DEPARTMENT OF ENVIRONMENTAL PROTECTION, Complainant, vs. Utilities Inc. of Eagle Ridge Respondent.	IN THE OFFICE OF THE SOUTH DISTRICT OGC FILE NO. 05-2747-36-DW

CONSENT ORDER

This Consent Order is entered into between the State of Florida Department of Environmental Protection ("Department") and Utilities Inc. of Eagle Ridge ("Respondent") to reach settlement of certain matters at issue between the Department and Respondent.

The Department finds and the Respondent admits the following:

1. The Department is the administrative agency of the State of Florida having the power and duty to protect Florida's air and water resources and to administer and enforce the provisions of Chapter 403, Florida Statutes, and the rules promulgated thereunder, Title 62, Florida Administrative Code. The Department has jurisdiction over the matters addressed in this Consent Order.

2. Respondent is a person within the meaning of Section 403.031(5), Florida Statutes.

3. Respondent is the owner and is responsible for the operation of the Eagle Ridge WWTP, a 0.318 MGD extended aeration wastewater treatment facility ("Facility") with chlorinated effluent to a slow-rate public access spray irrigation system. The Facility is located at latitude 26º 29' 34" N and longitude 81º 50' 45" W, Aeries Way, Fort Myers, FL.

4. The Department finds that the Respondent operates the Facility under Department permit number FLA014498 which expires on October 14, 2008.

5. The Department finds that the facility has an on-going problem with odor control at the facillity resulting in complaints from the homeowners. Department personnel detected a strong odor at the surge tank during the May 25, 2005 inspection. F.A.C. Rule 62-600.410(8) states that in the event that the treatment facilities or equipment no longer function as intended, are no longer safe in terms of public health and safety, or odor, noise, aerosol drift, or lighting adversely affect the neighboring developed areas at the levels prohibited by Rule 62-600.400(2)(a), F.A.C., corrective action (which may include additional maintenance or modification of the treatment plant) shall be taken by the permittee. Other corrective action may be required to ensure compliance with the rules of the Department.

6. Having reached a resolution of the matter the Department and the Respondent mutually agree and it is

ORDERED:

7. Respondent shall comply with the following corrective actions within the stated time periods:

8. **Within thirty (30) days** after the effective date of this Consent Order, Respondent shall retain the services of a Florida professional engineer for the purpose of:

(a) Studying, recommending, and implementing corrections to the odor control system at the facility. Collection and treatment of gases may be necessary prior to the release of the gases to the environment.

(b) Submit to the Department a schedule of corrections to be made at the facility and a time frame for completions of corrections.

9. In the event of a sale or conveyance of the facility or of the property upon which the facility is located, if all of the requirements of this Consent Order have not been fully satisfied, Respondent shall, at least 30 days prior to the sale or conveyance of the property or facility, (1) notify the Department of such sale or conveyance, (2) provide the name and address of the purchaser, or operator, or person(s) in control of the facility, and (3) provide a copy of this

Consent Order with all attachments to the new owner. The sale or conveyance of the facility, or the property upon which the facility is located shall not relieve the Respondent of the obligations imposed in this Consent Order.

10. **Within thirty (30) days** of the effective date of this Consent Order, Respondent shall pay the Department $2500 in settlement of the matters addressed in this Consent Order. This amount includes $500 for costs and expenses incurred by the Department during the investigation of this matter and the preparation and tracking of this Consent Order. The civil penalty is apportioned as follows: $2000 for the violation of Florida Administrative Code Rule 62-600.410(8). Payment shall be made by cashier's check or money order. The instrument shall be made payable to the "Department of Environmental Protection" P O Box 2549, Fort Myers, Fl. 33902-2459 and shall include thereon the OGC number assigned to this Consent Order and the notation "Ecosystem Management and Restoration Trust Fund".

11. In lieu of making cash payment of $2000 in civil penalties as set forth in paragraph 10, above, Respondent may elect to off-set this amount by implementing a pollution prevention project, which must be approved by the Department. A pollution prevention project must be either a source reduction, waste minimization, or on-site recycling project. If Respondent chooses to implement a pollution prevention project, Respondent shall notify the Department of its election by certified mail within 15 days of the effective date of this Consent Order. Notwithstanding, payment of the remaining $500 in costs must be paid within 30 days of the effective date of the Consent Order. If Respondent elects to implement a pollution prevention project, then Respondent shall comply with all of the requirements and time frames in Exhibit I.

12. Respondent agrees to pay the Department stipulated penalties in the amount of $100 per day for each and every day Respondent fails to timely comply with any of the requirements of Paragraphs 7 and 10 of this Consent Order. A separate stipulated penalty shall be assessed for each violation of this Consent Order. Within 30 days of written demand from the Department, Respondent shall make payment of the appropriate stipulated penalties to "The

Department of Environmental Protection" by cashier's check or money order and shall include thereon the OGC number assigned to this Consent Order and the notation "Ecosystem Management and Restoration Trust Fund." Payment shall be sent to the Department of Environmental Protection, P.O. Box 2549, Fort Myers, FL 33902-2549. The Department may make demands for payment at any time after violations occur. Nothing in this Paragraph shall prevent the Department from filing suit to specifically enforce any terms of this Consent Order. Any penalties assessed under this Paragraph shall be in addition to the settlement sum agreed to in Paragraph 10 of this Consent Order. If the Department is required to file a lawsuit to recover stipulated penalties under this Paragraph, the Department will not be foreclosed from seeking civil penalties for violations of this Consent Order in an amount greater than the stipulated penalties due under this Paragraph.

13. If any event, including administrative or judicial challenges by third parties unrelated to the Respondent, occurs which causes delay or the reasonable likelihood of delay, in complying with the requirements of this Consent Order, Respondent shall have the burden of proving the delay was or will be caused by circumstances beyond the reasonable control of the Respondent and could not have been or cannot be overcome by Respondent's due diligence. Economic circumstances shall not be considered circumstances beyond the control of Respondent, nor shall the failure of a contractor, subcontractor, materialman or other agent (collectively referred to as "contractor") to whom responsibility for performance is delegated to meet contractually imposed deadlines be a cause beyond the control of Respondent, unless the cause of the contractor's late performance was also beyond the contractor's control. Upon occurrence of an event causing delay, or upon becoming aware of a potential for delay, Respondent shall notify the Department orally within 24 hours or by the next working day and shall, within seven calendar days of oral notification to the Department, notify the Department in writing of the anticipated length and cause of the delay, the measures taken or to be taken to prevent or minimize the delay and the timetable by which Respondent intends to implement these

measures. If the parties can agree that the delay or anticipated delay has been or will be caused by circumstances beyond the reasonable control of Respondent, the time for performance hereunder shall be extended for a period equal to the agreed delay resulting from such circumstances. Such agreement shall adopt all reasonable measures necessary to avoid or minimize delay. Failure of Respondent to comply with the notice requirements of this Paragraph in a timely manner shall constitute a waiver of Respondent's right to request an extension of time for compliance with the requirements of this Consent Order.

14. Persons who are not parties to this Consent Order, but whose substantial interests are affected by this Consent Order, have a right, pursuant to Sections 120.569 and 120.57, Florida Statutes, to petition for an administrative hearing on it. The Petition must contain the information set forth below and must be filed (received) at the Department's Office of General Counsel, 3900 Commonwealth Boulevard, MS# 35, Tallahassee, Florida 32399-3000 within 21 days of receipt of this notice. A copy of the Petition must also be mailed at the time of filing to the District Office named above at the address indicated. Failure to file a petition within the 21 days constitutes a waiver of any right such person has to an administrative hearing pursuant to Sections 120.569 and 120.57, Florida Statutes.

The petition shall contain the following information:

(a) The name, address, and telephone number of each petitioner; the Department's Consent Order identification number and the county in which the subject matter or activity is located;

(b) A statement of how and when each petitioner received notice of the Consent Order;

(c) A statement of how each petitioner's substantial interests are affected by the Consent Order;

(d) A statement of the material facts disputed by petitioner, if any;

measures. If the parties can agree that the delay or anticipated delay has been or will be caused by circumstances beyond the reasonable control of Respondent, the time for performance hereunder shall be extended for a period equal to the agreed delay resulting from such circumstances. Such agreement shall adopt all reasonable measures necessary to avoid or minimize delay. Failure of Respondent to comply with the notice requirements of this Paragraph in a timely manner shall constitute a waiver of Respondent's right to request an extension of time for compliance with the requirements of this Consent Order.

14. Persons who are not parties to this Consent Order, but whose substantial interests are affected by this Consent Order, have a right, pursuant to Sections 120.569 and 120.57, Florida Statutes, to petition for an administrative hearing on it. The Petition must contain the information set forth below and must be filed (received) at the Department's Office of General Counsel, 3900 Commonwealth Boulevard, MS# 35, Tallahassee, Florida 32399-3000 within 21 days of receipt of this notice. A copy of the Petition must also be mailed at the time of filing to the District Office named above at the address indicated. Failure to file a petition within the 21 days constitutes a waiver of any right such person has to an administrative hearing pursuant to Sections 120.569 and 120.57, Florida Statutes.

The petition shall contain the following information:

(a) The name, address, and telephone number of each petitioner; the Department's Consent Order identification number and the county in which the subject matter or activity is located;

(b) A statement of how and when each petitioner received notice of the Consent Order;

(c) A statement of how each petitioner's substantial interests are affected by the Consent Order;

(d) A statement of the material facts disputed by petitioner, if any;

and any person who has filed a timely and sufficient petition for a hearing) and by showing how the substantial interests of each mediating party are affected by the Consent Order. The agreement must be filed in (received by) the Office of General Counsel of the Department at 3900 Commonwealth Boulevard, MS #35, Tallahassee, Florida 32399-3000, within 10 days after the deadline as set forth above for the filing of a petition.

The agreement to mediate must include the following:

(a) The names, addresses, and telephone numbers of any persons who may attend the mediation;

(b) The name, address, and telephone number of the mediator selected by the parties, or a provision for selecting a mediator within a specified time;

(c) The agreed allocation of the costs and fees associated with the mediation;

(d) The agreement of the parties on the confidentiality of discussions and documents introduced during mediation;

(e) The date, time, and place of the first mediation session, or a deadline for holding the first session, if no mediator has yet been chosen;

(f) The name of each party's representative who shall have authority to settle or recommend settlement; and

(g) Either an explanation of how the substantial interests of each mediating party will be affected by the action or proposed action addressed in this notice of intent or a statement clearly identifying the petition for hearing that each party has already filed, and incorporating it by reference.

(h) The signatures of all parties or their authorized representatives.

As provided in Section 120.573, Florida Statutes, the timely agreement of all parties to mediate will toll the time limitations imposed by Sections 120.569 and 120.57, Florida Statutes, for requesting and holding an administrative hearing. Unless otherwise agreed by the parties, the mediation must be concluded within sixty days of the execution of the agreement. If

mediation results in settlement of the administrative dispute, the Department must enter a final order incorporating the agreement of the parties. Persons whose substantial interests will be affected by such a modified final decision of the Department have a right to petition for a hearing only in accordance with the requirements for such petitions set forth above, and must therefore file their petitions within 21 days of receipt of this notice. If mediation terminates without settlement of the dispute, the Department shall notify all parties in writing that the administrative hearing processes under Sections 120.569 and 120.57, Florida Statutes, remain available for disposition of the dispute, and the notice will specify the deadlines that then will apply for challenging the agency action and electing remedies under those two statutes.

15. Respondent shall allow all authorized representatives of the Department access to the property and facility at reasonable times for the purpose of determining compliance with the terms of this Consent Order and the rules and statutes of the Department.

16. All submittals and payments required by this Consent Order to be submitted to the Department shall be sent to the Florida Department of Environmental Protection, 2295 Victoria Ave, P.O. Box 2549, Fort Myers, FL 33902-2549.

17. This Consent Order is a settlement of the Department's civil and administrative authority arising under Florida law to resolve the matters addressed herein. This Consent Order is not a settlement of any criminal liabilities which may arise under Florida law, nor is it a settlement of any violation which may be prosecuted criminally or civilly under federal law.

18 The Department hereby expressly reserves the right to initiate appropriate legal action to prevent or prohibit any violations of applicable statutes, or the rules promulgated thereunder that are not specifically addressed by the terms of this Consent Order, including but not limited to undisclosed releases, contamination or polluting conditions.

19. The terms and conditions set forth in this Consent Order may be enforced in a court of competent jurisdiction pursuant to Sections 120.69 and 403.121, Florida Statutes. Failure to

comply with the terms of this Consent Order shall constitute a violation of Section 403.161(1)(b), Florida Statutes.

20. Respondent is fully aware that a violation of the terms of this Consent Order may subject Respondent to judicial imposition of damages, civil penalties up to $10,000.00 per day per violation, and criminal penalties.

21. Entry of this Consent Order does not relieve Respondent of the need to comply with applicable federal, state or local laws, regulations or ordinances.

22. No modifications of the terms of this Consent Order shall be effective until reduced to writing and executed by both Respondent and the Department.

23. Respondent acknowledges and waives its right to an administrative hearing pursuant to Sections 120.569 and 120.57, Florida Statutes, on the terms of this Consent Order. Respondent acknowledges its right to appeal the terms of this Consent Order pursuant to Section 120.68, Florida Statutes, and waives that right upon signing this Consent Order.

THIS SPACE LEFT BLANK INTENTIONALLY.

24. This Consent Order is a final order of the Department pursuant to Section 120.52(7), Florida Statutes, and it is final and effective on the date filed with the Clerk of the Department unless a Petition for Administrative Hearing is filed in accordance with Chapter 120, Florida Statutes. Upon the timely filing of a petition this Consent Order will not be effective until further order of the Department.

FOR THE RESPONDENT:

1/30/06
DATE

~~Richard W. Ratz~~ PATRICK C. FLYNN
~~Assistant Operations Manager~~
REGIONAL DIRECTOR

DONE AND ORDERED this 30th day of JANUARY, 2006 In Lee County, Florida.

STATE OF FLORIDA DEPARTMENT
OF ENVIRONMENTAL PROTECTION

Jon M. Iglehart
Director of
District Management

FILING AND ACKNOWLEDGEMENT FILED, on this date, pursuant to §120.52 Florida Statutes, with the designated Department Clerk, receipt of which is hereby acknowledged.

Clerk

2-3-06
Date

BNC 2.12 FL-M

CERTIFIED MAIL RECEIPT No. 7005 0390 0002 0084 3210

BEFORE THE STATE OF FLORIDA
DEPARTMENT OF ENVIRONMENTAL PROTECTION

STATE OF FLORIDA DEPARTMENT OF ENVIRONMENTAL PROTECTION, Complainant, vs. ALAFAYA UTILITIES, INC. FACILITY ID: FLA011074, Respondent.	IN THE OFFICE OF THE CENTRAL DISTRICT OGC FILE NO. 05-0505

CONSENT ORDER

This Consent Order is entered into between the State of Florida Department of Environmental Protection ("Department") and Alafaya Utilities, Inc. ("Respondent") to reach settlement of certain matters at issue between the Department and Respondent.

The Department finds and the Respondent admits the following:

1. The Department is the administrative agency of the State of Florida having the power and duty to protect Florida's air and water resources and to administer and enforce the provisions of Chapter 403, Florida Statutes, and the rules promulgated thereunder, Title 62, Florida Administrative Code. The Department has jurisdiction over the matters addressed in this Consent Order.

2. Respondent is a person within the meaning of Section 403.031(5), Florida Statutes.

3. Respondent is the owner and is responsible for the operation of the Alafaya Utilities WWTF, a 2.4 MGD Annual Average Daily Flow (AADF) extended aeration wastewater treatment facility ("Facility") with chlorinated effluent to a 1.0 MGD AADF permitted capacity rapid infiltration basin system, a 0.535 MGD AADF permitted capacity slow-rate public access reuse system and a 1.5 million gallon wet weather storage tank. The Facility is located at 1067

McKinnon Avenue, Oviedo, Seminole County, Florida, 32765, Latitude 28° 38' 26" North, Longitude 81° 11' 19" West.

4. The Department finds that the Respondent operates the Facility under Department permit No. FLA011074, which expires on March 16, 2009. The Department finds that on December 16, 2004, Respondent discharged (spilled) raw untreated sewage from a break in the collection/transmission system force main to the Econlockhatchee River, Outstanding Florida Waters.

5. On December 27, 2004, the Department issued a Warning Letter, attached as Exhibit 1, to the Respondent for an unauthorized discharge.

6. On January 27, 2005, a meeting between the Department and the Respondent was held to discuss the issues addressed in the Warning Letter. During the meeting, the Respondent stated that an engineer had been retained to conduct an evaluation of that section of the collection/transmission system associated with the break. In a letter dated February 4, 2005, the Respondent agreed to enter a Consent Order and requested that the penalties be reduced.

7. On February 23, 2005, the Department issued a settlement letter to the Respondent, which revised the penalties. In a letter dated March 8, 2005, the Respondent agreed to the revised penalties.

8. Having reached a resolution of the matter the Department and the Respondent mutually agree and it is

ORDERED:

9. Within 120 days after the effective date of this Consent Order, Respondent shall submit an engineering report prepared by a Florida professional engineer, which includes proposed corrective actions to eliminate future breaks in that section of the collection/transmission

system associated with the referenced force main break, to the Department for review and approval.

10. Within 90 days after the approval of the engineering report submitted in accordance with Paragraph 9, above, Respondent shall complete the design and permitting, if required, for all of the modifications needed to implement the corrective action recommended in the engineering report.

In the event that a permit is required to implement the corrective actions: the engineer shall complete an application for a Department wastewater permit to construct the modifications listed in the engineering report, if such a permit is required and submit the application to the Department with the appropriate fee; provide all requested information in writing within thirty (30) days after receipt of such a request in the event the Department requires additional information in order to process the wastewater permit application; oversee the construction of any modifications to the Facility, effluent disposal system, or collection system; submit to the Department an engineer's certification of completion stating that the construction of modifications to the Facility, effluent disposal system, or collection system have been constructed in accordance with the provisions of the wastewater permit within 30 days of completion of construction.

11. Within 240 days of approval of the engineering report or, if necessary, issuance of a wastewater permit to construct modifications, Respondent shall implement the corrective actions recommended in the engineering report referenced in Paragraph 9, above, to attain compliance with the permitted requirements.

12. Within 30 days of completing the implementation of the corrective actions recommended in the engineering report, Respondent shall submit a Notice of Completion of Construction (if a permit was required) or a letter certifying that the corrective actions were implemented as approved by the Department. Upon clearance of the system, if a permit was

required or acknowledgement of the certifying letter, this Consent Order shall be terminated.

13. Every calendar quarter after the effective date of this Consent Order, Respondent shall submit in writing to the Department a report containing information concerning the status and progress of projects being completed under this Consent Order, information as to compliance or noncompliance with the applicable requirements of this Consent Order including construction requirements and effluent limitations, and any reasons for noncompliance. Such reports shall also include a projection of the work to be performed pursuant to this Consent Order during the following quarter. The reports shall be submitted to the Department within thirty (30) days following the end of the quarter.

14. In the event of a sale or conveyance of the Facility or of the property upon which the Facility is located, if all of the requirements of this Consent Order have not been fully satisfied, Respondent shall, at least 30 days prior to the sale or conveyance of the property or Facility, (1) notify the Department of such sale or conveyance, (2) provide the name and address of the purchaser, or operator, or person(s) in control of the Facility, and (3) provide a copy of this Consent Order with all attachments to the new owner. The sale or conveyance of the Facility, or the property upon which the Facility is located shall not relieve the Respondent of the obligations imposed in this Consent Order.

15. Within 30 days of the effective date of this Consent Order, Respondent shall pay the Department $3,500.00 in settlement of the matters addressed in this Consent Order. This amount includes $500.00 for costs and expenses incurred by the Department during the investigation of this matter and the preparation and tracking of this Consent Order. The civil penalties are apportioned as follows: $3,000.00 for the violation of Sections 403.121(3)(b), 403.088(1) and 403.161(1)(b), Florida Statutes (F.S.), and Rule 62-302.500(1), Florida Administrative Code. Payment shall be made by cashier's check or money order. The instrument

shall be made payable to the "Department of Environmental Protection" and shall include thereon the OGC number assigned to this Consent Order and the notation "Ecosystem Management and Restoration Trust Fund".

16. Respondent agrees to pay the Department stipulated penalties in the amount of $250.00 per day for each and every day Respondent fails to timely comply with any of the requirements of Paragraphs 9, 10, 11, 12, 13 and 15 of this Consent Order. A separate stipulated penalty shall be assessed for each violation of this Consent Order. Within 30 days of written demand from the Department, Respondent shall make payment of the appropriate stipulated penalties to "The Department of Environmental Protection" by cashier's check or money order and shall include thereon the OGC number assigned to this Consent Order and the notation "Ecosystem Management and Restoration Trust Fund". Payment shall be sent to the Department of Environmental Protection, Central District Office, 3319 Maguire Boulevard, Suite 232, Orlando, Florida 32803-3767. The Department may make demands for payment at any time after violations occur. Nothing in this paragraph shall prevent the Department from filing suit to specifically enforce any terms of this Consent Order. Any penalties assessed under this paragraph shall be in addition to the settlement sum agreed to in Paragraph 15 of this Consent Order. If the Department is required to file a lawsuit to recover stipulated penalties under this paragraph, the Department will not be foreclosed from seeking civil penalties for violations of this Consent Order in an amount greater than the stipulated penalties due under this paragraph.

17. Upon the effective date of this Consent Order, Respondent shall pay the Department stipulated penalties for any future unpermitted discharges from that section of the collection/transmission system as referenced in Paragraph 9, above, to State waters that do not qualify as excusable discharges. Respondent shall pay stipulated penalties as follows:

Amount per day per discharge	Discharge Volume
$500	up to 5,000 gallons
$1,000	5,001 to 10,000 gallons
$2,500	10,001 to 25,000 gallons
$5,000	25,001 to 100,000 gallons
$10,000	in excess of 100,000 gallons

Each payment shall be received within 30 days of written demand from the Department. Payment shall be made by cashier's check or money order. The instrument shall be made payable to the "Department of Environmental Protection" and shall include thereon the OGC number assigned to this Consent Order and the notation "Ecosystem Management and Restoration Trust Fund". The payment shall be sent to the Department of Environmental Protection, Central District Office, 3319 Maguire Boulevard, Suite 232, Orlando, Florida 32803-3767. The Department may make demands for payment at any time after violations occur. Nothing in this paragraph shall prevent the Department from filing suit to specifically enforce any of the terms of this Consent Order. Any penalties assessed under this paragraph shall be in addition to the settlement sum agreed to in Paragraph 15 of this Consent Order. If the Department is required to file a lawsuit to recover stipulated penalties under this paragraph, the Department will not be foreclosed from seeking civil penalties for violations of this Consent Order in an amount greater than the stipulated penalties due under this paragraph.

For the purposes of this Consent Order, an excusable discharge is a discharge that resulted from a temporary, exceptional incident that was beyond the reasonable control of Respondent. Incidents beyond the reasonable control of Respondent would include:

a. Exceptional acts of nature, including a 10-year, 24-hour storm event and lightning strikes.

b. Third party actions that could not be reasonably prevented, including vandalism.

18. If any event, including administrative or judicial challenges by third parties unrelated to the Respondent, occurs which causes delay or the reasonable likelihood of delay, in complying with the requirements of this Consent Order, Respondent shall have the burden of proving the delay was or will be caused by circumstances beyond the reasonable control of the Respondent and could not have been or cannot be overcome by Respondent's due diligence. Economic circumstances shall not be considered circumstances beyond the control of Respondent, nor shall the failure of a contractor, subcontractor, materialman or other agent (collectively referred to as "contractor") to whom responsibility for performance is delegated to meet contractually imposed deadlines be a cause beyond the control of Respondent, unless the cause of the contractor's late performance was also beyond the contractor's control. Upon occurrence of an event causing delay, or upon becoming aware of a potential for delay, Respondent shall notify the Department orally within 24 hours or by the next working day and shall, within seven calendar days of oral notification to the Department, notify the Department in writing of the anticipated length and cause of the delay, the measures taken or to be taken to prevent or minimize the delay and the timetable by which Respondent intends to implement these measures. If the parties can agree that the delay or anticipated delay has been or will be caused by circumstances beyond the reasonable control of Respondent, the time for performance hereunder shall be extended for a period equal to the agreed delay resulting from such circumstances. Such agreement shall adopt all reasonable measures necessary to avoid or minimize delay. Failure of Respondent to comply with the notice requirements of this Paragraph in a timely manner shall constitute a waiver of Respondent's right to request an extension of time for compliance with the requirements of this Consent Order.

19. Persons who are not parties to this Consent Order, but whose substantial interests are affected by this Consent Order, have a right, pursuant to Sections 120.569 and 120.57, Florida Statutes, to petition for an administrative hearing on it. The Petition must contain the information set forth below and must be filed (received) at the Department's Office of General Counsel, 3900 Commonwealth Boulevard, MS# 35, Tallahassee, Florida 32399-3000 within 21 days of receipt of this notice. A copy of the Petition must also be mailed at the time of filing to the District Office named above at the address indicated. Failure to file a petition within the 21 days constitutes a waiver of any right such person has to an administrative hearing pursuant to Sections 120.569 and 120.57, Florida Statutes.

The petition shall contain the following information:
(a) The name, address, and telephone number of each petitioner; the Department's Consent Order identification number and the county in which the subject matter or activity is located; (b) A statement of how and when each petitioner received notice of the Consent Order; (c) A statement of how each petitioner's substantial interests are affected by the Consent Order; (d) A statement of the material facts disputed by petitioner, if any; (e) A statement of facts which petitioner contends warrant reversal or modification of the Consent Order; (f) A statement of which rules or statutes petitioner contends require reversal or modification of the Consent Order; (g) A statement of the relief sought by petitioner, stating precisely the action petitioner wants the Department to take with respect to the Consent Order.

If a petition is filed, the administrative hearing process is designed to formulate agency action. Accordingly, the Department's final action may be different from the position taken by it in this Notice. Persons whose substantial interests will be affected by any decision of the Department with regard to the subject Consent Order have the right to petition to become a party to the proceeding. The petition must conform to the requirements specified above and be filed (received) within 21 days of receipt of this notice in the Office of General Counsel at the above address of the Department. Failure to petition within the allowed time frame constitutes a waiver of any right such person has to request a hearing under Sections 120.569 and 120.57, Florida Statutes, and to participate as a party to this proceeding. Any subsequent intervention will only be at the approval of the presiding officer upon motion filed pursuant to Rule 28-106.205, Florida Administrative Code.

A person whose substantial interests are affected by the Consent Order may file a timely petition for an administrative hearing under Sections 120.569 and 120.57, Florida Statutes, or may choose to pursue mediation as an alternative remedy under Section 120.573, Florida Statutes, before the deadline for filing a petition. Choosing mediation will not adversely affect the right to a hearing if mediation does not result in a settlement. The procedures for pursuing mediation are set forth below.

Mediation may only take place if the Department and all the parties to the proceeding agree that mediation is appropriate. A person may pursue mediation by reaching a mediation agreement with all parties to the proceeding (which include the Respondent, the Department, and any person who has filed a timely and sufficient petition for a hearing) and by showing how the substantial interests of each mediating party are affected by the Consent Order. The agreement must be filed in (received by) the Office of General Counsel of the Department at 3900 Commonwealth Boulevard, MS #35, Tallahassee, Florida 32399-3000, within 10 days after the deadline as set forth above for the filing of a petition.

The agreement to mediate must include the following:

(a) The names, addresses, and telephone numbers of any persons who may attend the mediation;

(b) The name, address, and telephone number of the mediator selected by the parties, or a provision for selecting a mediator within a specified time;

(c) The agreed allocation of the costs and fees associated with the mediation;

(d) The agreement of the parties on the confidentiality of discussions and documents introduced during mediation;

(e) The date, time, and place of the first mediation session, or a deadline for holding the first session, if no mediator has yet been chosen;

(f) The name of each party's representative who shall have authority to settle or recommend settlement; and

(g) Either an explanation of how the substantial interests of each mediating party will be affected by the action or proposed action addressed in this notice of intent or a statement clearly identifying the petition for hearing that each party has already filed, and incorporating it by reference.

(h) The signatures of all parties or their authorized representatives.

As provided in Section 120.573, Florida Statutes, the timely agreement of all parties to mediate will toll the time limitations imposed by Sections 120.569 and 120.57, Florida Statutes, for requesting and holding an administrative hearing. Unless otherwise agreed by the parties, the mediation must be concluded within sixty days of the execution of the agreement. If mediation results in settlement of the administrative dispute, the Department must enter a final order incorporating the agreement of the parties. Persons whose substantial interests will be affected by such a modified final decision of the Department have a right to petition for a hearing only in accordance with the requirements for such petitions set forth above, and must therefore file their petitions within 21 days of receipt of this notice. If mediation terminates without settlement of the dispute, the Department shall notify all parties in writing that the administrative hearing processes under Sections 120.569 and 120.57, Florida Statutes, remain available for disposition of the dispute, and the notice will specify the deadlines that then will apply for challenging the agency action and electing remedies under those two statutes.

20. Respondent shall allow all authorized representatives of the Department access to the property and facility at reasonable times for the purpose of determining compliance with the terms of this Consent Order and the rules and statutes of the Department.

21. All submittals and payments required by this Consent Order to be submitted to the Department shall be sent to the Florida Department of Environmental Protection, Program Manager, Wastewater Compliance/Enforcement Section, 3319 Maguire Boulevard, Suite 232, Orlando, Florida 32803-3767.

22. This Consent Order is a settlement of the Department's civil and administrative authority arising under Florida law to resolve the matters addressed herein. This Consent Order is not a settlement of any criminal liabilities which may arise under Florida law, nor is it a

settlement of any violation which may be prosecuted criminally or civilly under federal law.

23. The Department hereby expressly reserves the right to initiate appropriate legal action to prevent or prohibit any violations of applicable statutes, or the rules promulgated thereunder that are not specifically addressed by the terms of this Consent Order, including but not limited to undisclosed releases, contamination or polluting conditions.

24. The terms and conditions set forth in this Consent Order may be enforced in a court of competent jurisdiction pursuant to Sections 120.69 and 403.121, Florida Statutes. Failure to comply with the terms of this Consent Order shall constitute a violation of Section 403.161(1)(b), Florida Statutes.

25. Respondent is fully aware that a violation of the terms of this Consent Order may subject Respondent to judicial imposition of damages, civil penalties up to $10,000.00 per day per violation, and criminal penalties.

26. Entry of this Consent Order does not relieve Respondent of the need to comply with applicable federal, state or local laws, regulations or ordinances.

27. No modifications of the terms of this Consent Order shall be effective until reduced to writing and executed by both Respondent and the Department.

28. Respondent acknowledges and waives its right to an administrative hearing pursuant to Sections 120.569 and 120.57, Florida Statutes, on the terms of this Consent Order. Respondent acknowledges its right to appeal the terms of this Consent Order pursuant to Section 120.68, Florida Statutes, and waives that right upon signing this Consent Order.

29. This Consent Order is a final order of the Department pursuant to Section 120.52(7), Florida Statutes, and it is final and effective on the date filed with the Clerk of the Department unless a Petition for Administrative Hearing is filed in accordance with Chapter 120,

Florida Statutes. Upon the timely filing of a petition this Consent Order will not be effective until further order of the Department.

FOR THE RESPONDENT:

6/16/05
DATE

Patrick Flynn,
Regional Director
Alafaya Utilities, Inc.

FOR DEPARTMENT USE ONLY

DONE AND ORDERED this 22nd day of June, 2005.

STATE OF FLORIDA DEPARTMENT OF ENVIRONMENTAL PROTECTION

Christianne C. Fenard, PE.
Vivian F. Garfein
Director, Central District

FILING AND ACKNOWLEDGMENT
FILED, on this date, pursuant to §120.52, Florida Statutes, with the designated Department Clerk, receipt of which is hereby acknowledged.

Theresa Bandolin 6/22/05
Clerk Date

Copies furnished to: Kathy Carter, OGC

BNC 2.12 FL-N

shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates shall not be implemented until we approve the proposed customer notice, and the notice has been received by the customers. The utility shall provide proof of the date notice was given no less than 10 days after the date the notice was given.

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

OTHER ISSUES

A. Show Cause

The utility entered into a contract with the Wildflower Golf & Country Club (Club) on March 13, 1995, to provide reuse to the Club at a rate of zero for 60 months from the date that reuse would be available (September 30, 1995). On November 7, 1997, the utility and Club entered into a contract for reuse modifying the March 13, 1995, contract. The November 7, 1997, contract included an annual fee of $4,000 (to be paid in $1,000 increments quarterly), which was intended to cover the increase in cost for testing and operating the reuse system, which was not anticipated in the original contract. We discovered this charge while reviewing the utility's rate filing for this case, and notified the utility that this charge was not included in its tariffs. Subsequently, the utility requested approval of the quarterly reuse rate for the Club and provided a First Revised Tariff No. 16.0 and Original Tariff No. 17.5 reflecting the quarterly reuse rate for the Club of $1,000.

Section 367.081(1), Florida Statutes, provides that a utility may only charge rates and charges approved by us. Section 367.091(3), Florida Statutes, provides that "each utility's rates, charges, and customer service policies must be contained in a tariff approved by and on file with the Commission." It appears that the utility violated these statutes.

Schedule E-5 of the utility's rate case filing lists revenues for reuse contract charges of $4,000. We did not approve a reuse rate for this utility and the utility does not have an approved reuse rate tariff on file. This collection of reuse charges was unauthorized, and thus was an apparent violation of Sections 367.081(1) and 367.091(3), Florida Statutes.

Section 367.161(1), Florida Statutes, authorizes the assessment of a penalty of not more than $5,000 per day for each offense, if a utility is found to have knowingly refused to comply with, or to have willfully violated any Commission rule, order, or provision of Chapter 367, Florida Statutes.

We find that a show cause proceeding shall not be initiated at this time for several reasons. First, the revenue was properly recorded. Second, once the utility was informed, it promptly submitted a proposed tariff. Finally, we want to encourage reuse. However, the utility is on notice that, pursuant to Sections 367.081(1) and 367.091(3), Florida Statutes, it may only charge rates and charges that we have approved.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Utilities Inc. of Sandalhaven's Petition for Rate Increase is granted in part and denied in part as described herein. It is further

ORDERED that Utilities Inc. of Sandalhaven shall submit revised tariff sheets consistent with the rates approved herein, and that Commission staff shall administratively approve the tariff sheets. It is further

ORDERED that the provisions of this Order, except for the interim rate increase, the rate reduction after the expiration of the four-year amortization period for rate case expense, and the show cause decision are issued as proposed agency action. The provisions which are proposed agency action shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard

BNC 2.12 FL-O

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Analysis of Utilities, Inc.'s plan to bring all of its Florida subsidiaries into compliance with Rule 25-30.115, Florida Administrative Code.	DOCKET NO. 040316-WS ORDER NO. PSC-04-1275-AS-WS ISSUED: December 23, 2004

The following Commissioners participated in the disposition of this matter:

BRAULIO L. BAEZ, Chairman
J. TERRY DEASON
RUDOLPH "RUDY" BRADLEY
CHARLES M. DAVIDSON

ORDER APPROVING SETTLEMENT AGREEMENT FILED BY UTILITIES INC.

BY THE COMMISSION:

Background

Utilities, Inc. (UI) is the parent corporation of the following 16 utilities that provide water and wastewater services in the State of Florida and are subject to this Commission's jurisdiction: Alafaya Utilities, Inc., Bayside Utility Services, Inc., Cypress Lakes Utilities, Inc., Labrador Utilities, Inc., Lake Utility Services, Inc., Mid-County Services, Inc., Miles Grant Water and Sewer Company, Sandy Creek Utility Services, Inc., Sanlando Utilities Corporation, Tierre Verde Utilities, Inc., Utilities, Inc. of Eagle Ridge, Utilities, Inc. of Florida, Utilities, Inc. of Longwood, Utilities, Inc. of Pennbrooke, Utilities, Inc. of Sandalhaven, and Wedgefield Utilities, Inc. Water Service Corporation (WSC) is also a wholly-owned subsidiary of UI. WSC provides the necessary administrative and financial services to all of UI's subsidiaries. Our decision herein is not applicable to Sandy Creek Utility Services, Inc. and Bayside Utility Services, Inc., since Bay County rescinded jurisdiction on September 9, 2004,

Pursuant to Order No. PSC-04-0358-FOF-WS, issued April 5, 2004, in Docket No. 020407-WS, In re: Application for Rate Increase in Polk County by Cypress Lakes Utilities, Inc., we opened this docket to analyze UI's plan to bring all Florida subsidiaries into compliance with Rule 25-30.115, Florida Administrative Code. In particular, we address the specific areas of concern that were identified in Docket No. 020407-WS. On November 8, 2004, after discussions with our staff, UI filed a proposed settlement agreement to bring all Florida subsidiaries into compliance. For the reasons discussed below, we approve the settlement agreement in its entirety. We have jurisdiction pursuant to Sections 367.081 and 367.121, Florida Statutes.

Settlement Agreement

The proposed settlement agreement is appended hereto as Attachment A and is incorporated herein by reference. In the settlement agreement, UI agreed to the following:

1) **Annual Report and Minimum Filing Requirements (MFRs) shall begin with balance per books.** Beginning with all years ending after December 31, 2004, each UI subsidiary's annual report balances shall agree with the general ledger balances. All MFR pages that require a balance per books column shall either be the actual balance per the general ledger or an average test year balance, with supporting calculations provided that show that the components of the calculation came from the general ledger.

2) **Adjustments to Rate Base should be timely made.** Beginning with the year ended December 31, 2003, and continuing through December 31, 2004, UI shall review all Commission transfer and rate case orders to determine if proper adjustments have been made to correctly state rate base balances. UI shall complete the adjustments to the books of Labrador Utilities, Inc., Bayside Utility Services, Inc., Mid-County Services, Inc., and Utilities, Inc. of Eagle Ridge when the Commission orders in their respective pending rate cases become final. UI shall complete the adjustments to the remaining Utilities' books on or before December 31, 2004. If UI has questions regarding adjustments for a specific Utility, it shall notify our staff prior to December 31, 2004. UI shall maintain sufficient workpapers so that our staff can easily review adjustments made and whether appropriate adjustments to reserve accounts have been made, since the date of transfer or the end of the test year in a rate case or other proceeding where rate base was established.

3) **Improvements to accounts cross reference and allocation methodology.** Beginning with the year ended December 31, 2004, and annually thereafter, UI shall maintain a schedule reconciling each general ledger account and sub-account to the Uniform System of Accounts (USOA) primary accounts. For any system that is utilizing a December 31, 2003 test year, UI shall complete this analysis before filing its MFRs. For all future rate cases, UI shall prepare a detailed schedule for reconciliation of the general ledger account and sub-account to the USOA primary accounts.

4) **Correction of pumping equipment account number.** UI shall continue to review account 310 and 311 to correct any mismatches between accounts 310 and 311. UI shall maintain supporting documentation to allow our staff to confirm that the adjustments have been made for any future Commission staff audits, and any adjustment will be reflected in future rate cases.

5) **Retirements to be made consistently.** UI shall complete, by the end of 2004, a review of all systems to ensure that all appropriate retirement entries have been made. Beginning with the year ended December 31, 2003, UI shall ensure that its operation

and accounting personnel consistently utilize UI's existing retirement policy. Beginning September 30, 2004, UI's regulatory accounting and operations personnel shall prepare a quarterly analysis of all plant additions to ensure that all required retirements have been made. Adjustments to the books of the UI subsidiaries shall be completed either before December 31, 2004, or prior to the filing of a rate case by the relevant subsidiary. UI has implemented a fully automated work order system to facilitate its work order process. UI has already added the following fields to its work order form and input screen to track retirements when items are moved from the CP ledger to the general ledger: (1) New, (2) Upgrade, (3) Repair, and (4) Replace. These additional data entry fields will allow UI to sort all projects and better evaluate which projects require retirements. In addition, UI shall require operations employees to provide accounting staff with the original date the asset was placed in service or the original cost, if available.

6) **Corrections to Contributions-In-Aid of Construction Amortization (CIAC) Rate.** The utility shall comply with Rule 25-30.140(9)(a), Florida Administrative Code, which states the following:

> Beginning with the year ending December 31, 2003, all Class A and B utilities shall maintain separate sub-accounts for: (1) each type of CIAC charge collected including, but not limited to, plant capacity, meter installation, main extension or system capacity; (2) contributed plant; (3) contributed lines; and (4) other contributed plant not mentioned previously. Establishing balances for each new sub-account may require an allocation based upon historical balances. Each CIAC sub-account shall be amortized in the same manner that the related contributed plant is depreciated. Separate sub-accounts for accumulated amortization of CIAC shall be maintained to correspond to each sub-account for CIAC.

7) **Lack of support for WSC Allocations.** Pursuant to Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, we required Utilities, Inc. to use equivalent residential connections (ERCs) as its primary allocation factor for affiliate costs in future cases in Florida as of January 1, 2004, and to use the end of the applicable year as the measurement date. UI is reviewing the appropriateness of an ERC allocation methodology in other jurisdictions in which it operates. Until the appropriateness of this type of allocation can be determined, UI shall prepare a second WSC allocation book specifically for its Florida subsidiaries using the ERC as its primary allocation factor as delineated in Rule 25-30.055, Florida Administrative Code, beginning January 1, 2004. UI shall also maintain workpapers for each utility to show how the ERCs are determined on an annual basis.

8) **Allocation to non-owned systems.** UI has agreed to implement its allocation methodology to systems that it does not own but operates, and has included these systems in the 2003 allocation book.

9) **Documentation of "other water uses."** UI has implemented and is using the following standard operating protocol to track other water usage. UI believes that this protocol satisfies our concerns.

> For each water system in Florida, the operator or field supervisor for each system will submit a report form each month entitled *water loss record* to the Florida regional office. This document shall identify the estimated volume of unmetered water used in the system on a given day and the reason why it was lost. For example, water lost due to a water main break would be calculated from the duration of the event, the size of the pipe, and the estimated flow rate.
>
> Other types of unmetered water use include, but are not limited to:
>
> -water main flushing activities;
> -hydrant flow testing;
> -filling and chlorinating new water main extensions, storage tanks or treatment units;
> -filling new force main and reuse main extensions;
> -water used internally in the treatment or disinfection process
>
> Each month, the total sum of water noted on the *water loss record* is entered into the utility's spreadsheet that tracks and compares water pumped and water purchased, against water sold for each system. In this way, UI has the means to review the data on a routine basis. The monthly form is attached to and filed with the file copy of each utility's Monthly Operating Report and retained for future use.

10) **Maintenance of adjusting an entry log book.** For all years beginning with January 1, 2003, UI shall maintain an adjusting entry log book and supporting documentation (purpose of the entry, person making the entry, worksheets showing any calculations and any supporting documents, reconciliations, invoices, etc.) for each adjustment to the journal.

11) **Detailed supporting cash book and general ledger.** UI shall maintain supporting documentation (purpose of the entry, person making the entry, worksheets showing any calculations and any supporting documents, reconciliations, invoices, etc.), or a reference where the supporting documentation can be found.

We have reviewed the settlement agreement filed by UI and we believe that it is a reasonable resolution to bring the utility into compliance with Rule 25-30.115, Florida Administrative Code. Further, we believe that it is in the best interest to approve the settlement agreement because UI has addressed all of our concerns that were identified in Docket No. 020407-WS. Based on the foregoing, we find that the settlement agreement is hereby approved in its entirety.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the settlement agreement filed by Utilities Inc. on November 8, 2004, attached hereto as Attachment A, is approved in its entirety. It is further

ORDERED that Attachment A is incorporated herein by reference. It is further

ORDERED that this docket shall be closed.

By ORDER of the Florida Public Service Commission this 23rd day of December, 2004.

/s/ Blanca S. Bayó
BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

This is a facsimile copy. Go to the Commission's Web site, http://www.floridapsc.com or fax a request to 1-850-413-7118, for a copy of the order with signature.

(SEAL)

SOME (OR ALL) ATTACHMENT PAGES ARE NOT ON ELECTRONIC DOCUMENT.

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater utility by filing a notice of appeal with the Director, Division of the Commission Clerk and Administrative Services and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

Attachment A

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MARTIN S. FRIEDMAN, P.A.
VALERIE L. LORD

November 5, 2004

Ms. Blanca Bayo
Commission Clerk and Administrative Services Director
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399

Re: Docket No. 040316-WS; Analysis of Utilities, Inc.'s plan to bring Florida subsidiaries into compliance with Rule 25-20.115, Florida Administrative Code
Our File No.: 30057.81

Dear Ms. Bayo:

Utilities, Inc. proposes the following in settlement of the issues in this docket:

1. Annual Report and Minimum Filing Requirements (MFRs) to begin with balance per books. Beginning with all years ending after December 31, 2004, each of the Utilities' annual report balances shall agree with the general ledger balances. All MFR pages that require a balance per book's column shall either be the actual balance per the general ledger or an average test year balance, with supporting calculations provided that show that the components of the calculation came from the general ledger.

2. Adjustments to Rate Base to be timely made. Beginning with the year ended December 31, 2003, and continuing through December 31, 2004, UI shall have reviewed all Commission transfer and rate case orders to determine if proper adjustments have been made to correctly state rate base balances. UI shall complete the adjustments to the books of Labrador Utilities, Inc., Bayside Utility Services, Inc., Mid-County Services, Inc. and Utilides, Inc. of Eagle Ridge when the Commission orders in their respective pending rate cases have become final. UI will complete the adjustments to the remaining Utilities' books on or before December 31, 2004. If UI has questions regarding adjustments for a specific Utility, it shall notify Commission Staff prior to December 31, 2004. UI shall maintain sufficient workpapers so that Commission Staff can easily review adjustments made and whether appropriate adjustments to reserve accounts have been made since the date of transfer or the end of the test year in a rate case, or other proceeding where rate base was established.

Attachment A

3. Improvements to account cross reference and allocation methodology. Beginning with the year ended December 31, 2004, and annually thereafter, UI shall maintain a schedule reconciling each general ledger account and sub-account to the USOA primary accounts. For any system that is utilizing a December 31, 2003-test year, UI shall complete this analysis before filing its MFRs. For all future rate cases, UI will prepare a detailed schedule for reconciliation of the general ledger account and sub-account to the USOA primary accounts.

4. Correction of pumping equipment account number. UI will continue to review accounts 310 and 311 to correct any mismatches between accounts 310 and 311. UI shall maintain supporting documentation to allow Commission Staff to confirm that the adjustments have been made for any future Commission Staff audits, and any adjustment will be reflected in future rate cases.

5. Retirements to be made consistently. UI shall complete, by the end of 2004, a review of all systems to ensure that all appropriate retirement entries have been made. Beginning with the year ended December 31, 2003, UI shall ensure that its operation and accounting personnel consistently utilize UI's existing retirement policy. Beginning September 30, 2004, UI's regulatory accounting and operations personnel shall make quarterly analyses of all plant additions to ensure that all required retirements have been made. Adjustments to the books of the Utilities will be completed either before December 31, 2004, or prior to the filing of a rate case by the relevant Utility. UI has implemented a fully automated work order system to facilitate its work order process. UI has already added the following fields to its work order form and input screen to track retirements when items are moved from the CP ledger to the general ledger: 1. New, 2. Upgrade, 3. Repair, and 4. Replace. These additional data entry fields will allow UI to sort all projects and better evaluate which projects require retirements. In addition, UI will require operations employees to provide accounting staff with the original date the asset was placed in service or the original cost, if available.

6. Corrections to CIAC amortization rate. UI has completed these adjustments.

7. Lack of support for Water Service Corp. Allocations. Pursuant to Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 0200710WS, the Commission ordered that "Utilities, Inc. shall use ERCs as its primary allocation factor for affiliate costs in future cases in Florida as of January 1, 2004, and shall use the end of the applicable test year as the measurement date." UI is reviewing the appropriateness of an ERC allocation methodology in other jurisdictions in which it operates. Until the appropriateness of this type of allocation can be determined, UI will prepare a second Water Services Corp. allocation book specifically for its Florida subsidiaries using the ERC as its primary allocation factor as delineated in Rule 25-30.055, Florida Administrative Code,

Attachment A

beginning January 1, 2004. UI shall also maintain workpapers for each Utility to show how the ERCs are determined on an annual basis.

8. Allocation to non-owned systems. UI agrees to implement its methodology to systems that it doesn't own but operates, and has included these systems in the 2003 allocation book.

9. Documentation of "other water uses." UI has implemented and is using the following standard operating protocol to track other water usage. UI believes that this protocol conforms to the Staff's proposal.

> For each water system in Florida, the operator or field supervisor for each system will submit a report form each month entitled **WATER LOSS RECORD** to the Florida regional office. This document shall identify the estimated volume of unmetered water used in the system on a given day and the reason why it was lost. For example, water lost due to a water main break would be calculated from the duration of the event, the size of the pipe, and the estimated flow rate.
>
> Other types of unmetered water use include, but are not limited to:
>
> - water main flushing activities;
> - hydrant flow testing;
> - filling and chlorinating new water main extensions, storage tanks, or treatment units;
> - filling new force main and reuse main extensions;
> - water used internally in the treatment or disinfection process.
>
> Each month, the total sum of water noted on the **WATER LOSS RECORD** is entered into our spreadsheet that tracks and compares water pumped and water purchased, against water sold for each system. In this way, UI has the means to review the data on a routine basis. The monthly form is attached to and filed with the file copy of each Utility's Monthly Operating Report and retained for future use.

10. Maintenance of adjusting an entry log book. For all years beginning with January 1, 2003, UI shall maintain an adjusting entry log book and supporting documentation (purpose of the entry, person making the entry, worksheets showing any calculations and any supporting documents, reconciliations, invoices, etc.), with each adjustment to the journal.

11. Detail supporting cash book and general ledger. UI shall maintain supporting documentation (purpose of the entry, person making the entry, worksheets showing any calculations and any supporting documents, reconciliations, invoices, etc.), or a reference where the supporting documentation can be found.

Please do not hesitate to contact me, if you have any questions.

Very truly yours,

VALERIE L. LORD
For the Firm

VLL/tlc

cc: Ms. Tricia Merchant, Division of Economic Regulation (by facsimile)
Mr. Steven M. Lubertozzi

M:\1 ALTAMONTE\UTILITIES INC\SUBSIDIARIES COMPLIANCE (#1)\PSC Clerk (Bayo)\03 (Stipulation and Settlement).ltr.wpd

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Based on the approved rate base components in this rate case, the utility's test year CIAC ratio is 55.89%.

As mentioned earlier in this Order, the utility's pro forma investments total $1,854,647 which includes a pro forma plant retirement of 549,637 in this current case, and the approved pro forma investments totaling $2,865,414 in the utility's last rate proceeding. Further, in 2007, the utility has plans for three additional reuse pro forma projects which include the construction of a 1.5 million gallon ground storage tank, the looping of the reuse distribution system in the Live Oak subdivision, and the installation of four augmentation wells for the reuse system. The total cost of these projects is approximately $2 million.

In determining where the utility's plant capacity charge should be revised, we took the total cost of the wastewater treatment plant, including pumping equipment, and Alafaya's reuse investment, and divided the sum by the estimated 8,816 equivalent residential connections at buildout. Using this methodology, we calculate a plant capacity charge of $1,762. This represents an increase of $1,122 ($1,762 less $640). Further, as discussed earlier, we are allowing the utility to recover the cost to install reuse meters for its 1,200 existing reuse customers. Thus, we have found that a meter installation charge of $150 is reasonable for future reuse connections. Utilizing the above charges, the CIAC ratio at the buildout date of 2012 is 68.03%. Therefore, consistent with the guidelines of the above-mentioned rule, we approve a plant capacity charge of $1,762, and a meter installation charge of $150 for this utility.

If there is no timely protest to this PAA Order by a substantially affected person, the utility shall file the appropriate revised tariff sheets within ten days of the issuance of the Consummating Order for the approved tariff changes. Our staff shall administratively approve the revised tariff sheets upon staff"s verification that the tariff is consistent with our decision. If the revised tariff sheets are filed and approved, the tariff sheets shall become effective on or after the stamped approval date. Within ten days of the issuance of the Consummating Order for the Commission approved tariff changes, the utility shall also provide notice of the Commission's decision to all persons in the service area who are affected by the approved plant capacity charges and the authorization to collect donated property. The notice shall be approved by our staff prior to distribution. The utility shall provide proof that the appropriate customers or developers have received noticed within ten days of the date of the notice.

VIII. OTHER ISSUES

A. Show Cause for Apparent Violation of an Order

Pursuant to Order No. PSC-04-0363-PAA-SU (PAA Order),[24] this Commission required Alafaya to adjust its books to reflect the adjustments to all the applicable primary accounts required by that Order, and provide proof of such adjustments within 90 days of the issuance

[24] Issued April 5, 2004, in Docket No. 020408-SU, In re: Application for rate increase in Seminole County by Alafaya Utilities, Inc.

date of a final order. That PAA Order was finalized by a Consummating Order, Order No. PSC-04-0435-CO-SU, issued April 28, 2004. Therefore, the appropriate adjustments to all the applicable primary accounts should have been accomplished and proof of such adjustments should have been provided by no later than July 27, 2004.

A review of Docket No. 020408-SU, the docket in which the PAA Order was issued, shows that the utility never provided any proof that such adjustments had been made. Moreover, pursuant to Audit Finding No. 1, in the Audit Report filed in this docket, under the STATEMENT OF FACT section, the auditors stated:

> The utility adjusted its general ledger in December 2005 to record the utility plant in service adjustments required as of December 31, 2002, for its last rate case proceeding in Docket No. 020408-SU.

Because these adjustments were made at such a late date, we believe that this has led to problems with reconciling the minimum filing requirements to the adjustments which should have been made pursuant to the PAA Order in Docket No. 020408-SU. Based on this audit finding, it appears that the required adjustments to plant in service and accumulated depreciation were not made until December 2005. Therefore, it appears that the appropriate adjustments were not made until almost 17 months after the due date of July 27, 2004. Also, it appears that several schedules filed in its minimum filing requirements (MFRs) were not "consistent with and reconcilable with the utility's annual report to the Commission," as required by Rule 25-30.110(2), F.A.C.

Utilities are charged with the knowledge of the Commission's rules and statutes. Additionally, "[i]t is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833). Section 367.161(1), F.S., authorizes the Commission to assess a penalty of not more than $5,000 for each offense if a utility is found to have knowingly refused to comply with, or to have willfully violated, any provision of Chapter 367, Florida Statutes, or any lawful order of the Commission. By failing to comply with the above-noted requirements of the PAA Order in a timely manner and Rule 25-30.110(2), F.A.C., the utility's acts were "willful" in the sense intended by Section 367.161, F.S. In Commission Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL titled In Re: Investigation Into The Proper Application of Rule 25-14.003, F.A.C., Relating To Tax Savings Refund for 1988 and 1989 For GTE Florida, Inc., the Commission, having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "willful" implies an intent to do an act, and this is distinct from an intent to violate a statute or rule. Id. at 6.

We find that the circumstances in this case are such that show cause proceedings shall be initiated. We are especially concerned with Alafaya's apparent failure to adjust its books to reflect the adjustments to all the applicable primary accounts required by the PAA Order. We note that in the Order Approving Settlement Agreement Filed by Utilities, Inc. (Settlement

Order),[25] issued December 23, 2004, in Docket No. 040316-WS, the utility specifically agreed that: "Beginning with the year ended December 31, 2003, and continuing through December 31, 2004, UI shall review all Commission transfer and rate case orders to determine if proper adjustments have been made to correctly state rate base balances." Both the Settlement Order and the PAA Order, issued just eight months apart, should have made the utility acutely aware of the problems that it was having in maintaining its books and records. Also, see Docket No. 060262-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc., where we discovered another Utilities, Inc. utility, Labrador Utilities, Inc., has also apparently failed to adjust its books and records. The continued pattern of disregard for our rules, statutes, and orders warrants more than just a warning. Accordingly, Alafaya shall be made to show cause in writing, within 21 days, why it should not be fined $2,500 for its apparent failure to adjust its books to reflect the adjustments to all the applicable primary accounts required by the PAA Order and provide proof of such adjustments within 90 days of the Consummating Order.

Also, the MFR schedules filed with this rate case were not "consistent with and reconcilable with the utility's annual report," as required by Rule 25-30.110(2), F.A.C. However, this apparent violation may be attributable to the utility's failure to timely adjust its books to reflect the adjustments reflected in the PAA Order. Accordingly, Alafaya shall be made to show cause in writing, within 21 days, why it should not be fined $500 for its apparent failure to file MFR schedules consistent with its annual report.

Based on the above, Alafaya shall be made to show cause in writing, within 21 days, why it should not be fined a total of $3,000 for its two apparent violations noted above. The following conditions shall apply:

1. The utility's response to the show cause order shall contain specific allegations of fact and law;

2. Should Alafaya file a timely written response that raises material questions of fact and makes a request for a hearing pursuant to Sections 120.569 and 120.57(1), F.S., a further proceeding will be scheduled before a final determination of this matter is made;

3. A failure to file a timely written response to the show cause order shall constitute an admission of the facts herein alleged and a waiver of the right to a hearing on this issue;

4. In the event that Alafaya fails to file a timely response to the show cause order, the fine shall be deemed assessed with no further action required by the Commission;

[25] See Order No. PSC-04-1275-AS-WS, in Docket No. 040316-WS, In re: Analysis of Utilities, Inc.'s plan to bring all of its Florida subsidiaries into compliance with Rule 25-30.115, Florida Administrative Code.

5. If the utility responds timely but does not request a hearing, a recommendation shall be presented to the Commission regarding the disposition of the show cause order; and

6. If the utility responds to the show cause order by remitting the fine, this show cause matter shall be considered resolved.

Further, the utility shall be put on notice that failure to comply with Commission orders, rules, or statutes will again subject the utility to show cause proceedings and fines of up to $5,000 per day per violation for each day the violation continues as set forth in Section 367.161, F.S.

B. Show Cause for Assessing Unauthorized Charges

Section 367.091(3), F.S., states that "[e]ach utility's rates, charges, and customer service policies must be contained in a tariff approved by and on file with the commission." As discussed earlier in this Order, it does not appear that this Commission has approved any miscellaneous service charges for Alafaya. However, according to its past annual reports and MFRs in its last rate case and this current case, the utility began in 1995 assessing the standard charges that this Commission has routinely allowed since at least 1990. Most of the utility's sister companies that are currently in for rate cases appear to have authorization to assess the standard miscellaneous service charges. This appears to be an oversight on UI's part in not obtaining this Commission's approval to collect these charges when it acquired Alafaya in 1995.

Utilities are charged with the knowledge of the Commission's rules and statutes. Additionally, "[i]t is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833). Section 367.161(1), F.S., authorizes the Commission to assess a penalty of not more than $5,000 for each offense if a utility is found to have knowingly refused to comply with, or to have willfully violated, any provision of Chapter 367, F.S., or any lawful order of the Commission. By failing to comply with Section 367.091(3), F.S., and charging miscellaneous service charges without an approved tariff, the utility's acts were "willful" in the sense intended by Section 367.161, Florida Statutes. In Commission Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL titled In Re: Investigation Into The Proper Application of Rule 25-14.003, F.A.C., Relating To Tax Savings Refund for 1988 and 1989 For GTE Florida, Inc., the Commission, having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "willful" implies an intent to do an act, and this is distinct from an intent to violate a statute or rule. Id. at 6.

For the reason set forth earlier, the utility shall not be required to refund any of the unauthorized charges, and shall be allowed to charges miscellaneous service charges as set forth in this Order. However, given the number of years the utility has assessed unauthorized charges, we find that Alafaya shall be required to show cause why it should not be fined $1,200 for

apparently assessing miscellaneous service charges without an approved tariff. This equates to approximately $100 per year. The conditions set forth in the show cause proceeding immediately preceding this show cause proceeding shall also apply in this show cause proceeding. Also, as stated in the immediately preceding show cause, the utility shall be put on notice that failure to comply with orders, rules, or statutes will again subject the utility to additional show cause proceedings and fines of up to $5,000 per day per violation for each day the violation continues as set forth in Section 367.161, F.S.

C. Proof of Adjustments

To ensure that the utility adjusts its books in accordance with our decisions, Alafaya shall provide proof within 90 days of the final order issued in this docket that the adjustments for all the applicable NARUC USOA primary accounts have been made.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application for increased wastewater rates of Alafaya Utilities, Inc. is approved as set forth in the body of this Order. It is further

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

ORDERED that the schedules and attachments to this Order are incorporated by reference herein. It is further

ORDERED that Alafaya Utilities, Inc. shall file revised wastewater tariff sheets and a proposed customer notice to reflect the approved wastewater rates shown on Schedule No. 4. It is further

ORDERED that the tariffs shall be approved upon our staff's verification that the tariffs are consistent with our decision herein. It is further

ORDERED that the approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. It is further

ORDERED that the approved wastewater rates shall not be implemented until our staff has approved the proposed customer notice. It is further

ORDERED that Alafaya Utilities, Inc. shall provide proof of the date notice was given no less than ten days after the date of the notice. It is further

BNC 2.12 FL-Q

of rate case expense and the gross-up for regulatory assessment fees which is $11,627 for water and $10,587 for wastewater. The decreased revenues will result in the rate reduction as shown approved on Schedule Nos. 4-A and 4-B, attached hereto and incorporated herein by reference.

The utility shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The utility shall file 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. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates shall not be implemented until our staff has approved the proposed customer notice. The utility shall provide proof of the date notice was given no less than 10 days after the date of the notice.

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

Show Cause Proceeding

By Order No. PSC-03-0647-PAA-WS, issued on May 28, 2003, in Docket No. 020407-WS, In re: Application for rate increase in Polk County by Cypress Lakes Utilities, Inc., (Show Cause Order), we found that the utility's failure to keep its books and records was an apparent violation and ordered the utility to show cause why it should not be fined $3000. The utility responded to the show cause order and committed to changes that would improve its books and records. In Order No. PSC-04-0358-FOF-WS, issued on April 5, 2004, in Docket No. 020407-WS, (Final Order), we ordered that the $3000 not be imposed based on the commitments made by the utility to adjust its books and records. In that same order, we opened a separate docket to address the issue of noncompliance with regard to all Florida subsidiaries of Utilities, Inc. By Order No. PSC-04-1275-AS-WS, issued on December 23, 2004, in Docket No. 040316-WS, In re: Analysis of Utilities, Inc.'s plan to bring all of its Florida subsidiaries into compliance with Rule 25-30.115, Florida Administrative Code (Settlement Order), we approved the settlement whereby Cypress Lakes would adjust its books to reflect the adjustments to all the applicable primary accounts required by that Order. Based on the settlement order, the appropriate adjustments to all the applicable primary accounts should have been accomplished no later than December 31, 2004.

In the Show Cause Order, issued May 28, 2003, the utility was ordered to make several accounting adjustments by December 31, 2004. According to the utility's general ledger, the ordered entries were not made until February 15, 2006. We believe that, because these adjustments were made at such a late date, this has led to problems with reconciling the minimum filing requirements to the adjustments which should have been made pursuant to the Settlement Order. Based on the audit, we believe that the required adjustments to plant in service and accumulated depreciation were made in February 2006, effective for the calendar year ending December 31, 2005. Therefore, it appears that the appropriate adjustments were not made until almost 14 months after the due date of December 31, 2004.

Additionally, the utility has added several new developments since its last rate case. The utility's records, however, did not reflect any new additions to UPIS or CIAC for wastewater mains or lift stations. The auditors requested that the utility provide information about any additions since the last case. The requested information was included in the audit work papers. Our staff's review of the documentation provided by the utility during the audit indicated that one addition was completed in late 2004, and two other additions were completed in 2005.

In its response to the audit, the utility agreed with the auditors, and indicated that it recognized certain assets were contributed by a developer and in service that were not recorded in either CIAC or the utility's general ledger. The utility indicated it would properly record these assets in UPIS and CIAC accordingly. While it appears the failure to make these accounting entries have little or no impact on revenue requirement or rates, the utility again failed to properly update its books and records in a timely manner.

Utilities are charged with the knowledge of the Commission's rules and statutes. Additionally, "[i]t is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833). Section 367.161(1), F.S., authorizes this Commission to assess a penalty of not more than $5,000 for each offense if a utility is found to have knowingly refused to comply with, or to have willfully violated, any provision of Chapter 367, Florida Statutes, or any lawful order of the Commission. By failing to comply with the above-noted requirements of the Final and Settlement Orders in a timely manner, the utility's acts were "willful" in the sense intended by Section 367.161, F.S. In Commission Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL titled In Re: Investigation Into The Proper Application of Rule 25-14.003, F.A.C., Relating To Tax Savings Refund for 1988 and 1989 For GTE Florida, Inc., the Commission, having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "willful" implies an intent to do an act, and this is distinct from an intent to violate a statute or rule. Id. at 6.

We find that the circumstances in this case are such that show cause proceedings shall be initiated. We are especially concerned with Cypress Lakes' apparent failure to adjust its books to reflect the adjustments to all the applicable primary accounts required by the Final Order and the subsequent Settlement Order. In the Settlement Order, issued December 23, 2004, in Docket No. 040316-WS, the utility specifically agreed that: "Beginning with the year ended December 31, 2003, and continuing through December 31, 2004, UI shall review all Commission transfer and rate case orders to determine if proper adjustments have been made to correctly state rate base balances." Both the Settlement Order and the Final Order, issued approximately eight months apart, should have made the utility acutely aware of the problems that it was having in maintaining its books and records. Also, see Docket No. 060262-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc., where another Utilities, Inc. utility has failed to adjust its books and records. This continued pattern of disregard for our rules, statutes, and orders warrants more than just a warning. Accordingly, Cypress Lakes shall show cause in writing, within 21 days, why it should not be fined $3,000 for its apparent failure to adjust its books to reflect the adjustments to all the applicable primary

accounts required by the Final Order and provide proof of such adjustments within 90 days of the Consummating Order.

Based on the above, Cypress Lakes shall show cause in writing, within 21 days, why it should not be fined a total of $3,000 for its apparent violations noted above. The following conditions shall apply:

1. The utility's response to the show cause order should contain specific allegations of fact and law;

2. Should Cypress Lakes file a timely written response that raises material questions of fact and makes a request for a hearing pursuant to Sections 120.569 and 120.57(1), F.S., a further proceeding will be scheduled before a final determination of this matter is made;

3. A failure to file a timely written response to the show cause order should constitute an admission of the facts herein alleged and a waiver of the right to a hearing on this issue;

4. In the event that Cypress Lakes fails to file a timely response to the show cause order, the fine should be deemed assessed with no further action required by the Commission;

5. If the utility responds timely but does not request a hearing, a recommendation should be presented to the Commission regarding the disposition of the show cause order; and

6. If the utility responds to the show cause order by remitting the fine, this show cause matter shall be considered resolved.

Further, the utility is on notice that failure to comply with our orders, rules, or statutes will again subject the utility to show cause proceedings and fines of up to $5,000 per day per violation for each day the violation continues as set forth in Section 367.161, F.S.

Proof of Compliance with NARUC USOA

To ensure that the utility adjusts its books in accordance with our decision, Cypress Lakes shall provide proof, within 90 days of the Consummating Order, that the adjustments for all the applicable National Association of Regulatory Utility Commissioners' (NARUC) Uniform System of Accounts (USOA) primary accounts have been made.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Cypress Lakes Utilities, Inc.'s application for increased water and wastewater rates is granted to the extent set forth in the body of this Order. It is further

BNC 2.12 FL-R

the proposed customer notice. The utility shall provide proof of the date notice was given no less than 10 days after the date of the notice.

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

OTHER ISSUES

Appropriate Meter Installation Fees for Water and Reuse Customers

The utility currently has an authorized water meter installation fee of $60 and $110 for a 5/8"x3/4" and 1" meters, respectively. In its response to a staff data request, Sanlando stated that the new Gallimore subdivision is currently under construction and that no meters have been installed. The utility asserted that the cost to install 5/8"x3/4" meter would be $150, which includes labor and materials and that the cost to install meters greater than 5/8"x3/4" should be at actual cost. We have approved a meter installation fee of $250 by Order No. PSC-03-0740-PAA-WS,[26] issued June 23, 2003, and a $200 fee by Order No, PSC-04-1256-PAA-WU,[27] issued December 20, 2004, for 5/8"x3/4" meters. In addition, a $190 fee was approved by Order No. PSC-02-1831-TRF-WS,[28] issued December 20, 2002. Therefore, we find it appropriate to authorize Sanlando to collect water and reuse meter installation fees of $150 for 5/8"x3/4" meter and actual cost for meters greater than 5/8"x3/4".

The utility shall file a proposed customer notice to reflect the charges approved herein. The approved charges shall be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the notice has been approved by Commission staff. Within 10 days of the date the order is final, the utility shall provide notice of the tariff changes to all customers. The utility shall provide proof the customers have received notice within 10 days after the date that the notice was sent.

Initiating Show Cause Proceedings

Rule 25-30.116(1)(d)5., Florida Administrative Code, states:

> When the construction activities for an ongoing project are expected to be suspended for a period exceeding six (6) months, the utility shall notify the Commission of the suspension and the reason(s) for the suspension, and shall submit a proposed accounting treatment for the suspended project.

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[26] Docket No. 021067-WS, In re: Application for staff assisted rate case in Polk County by River Ranch Water Management, L.L.C.

[27] Docket No. 041040-WU, In re: Application for certificate to operate water utility in Baker and Union Counties by B & C Water Resources, L.L.C.

[28] Docket No. 020388-WS, In re: Request for approval to increase meter installation fees to conform to current cost in Lake County by Sun Communities Finance, LLC d/b/a/ Water Oak Utility.

As discussed previously, we are approving a pro forma water plant increase of $1,178,493 for the utility's electric control upgrade project. According to the support documentation provided for this project, the first invoice of $40,165 was dated June 22, 2004, and the second invoice of $4,877 was dated April 26, 2005. Based on these invoice dates, it appears the utility had suspended this project for approximately 10 months. However, the utility did not notify the Commission of this project's suspension, nor did it submit a proposed accounting treatment, as required by Rule 25-30.116(1)(d)5., Florida Administrative Code.

In response to staff's first inquiry, the Vice President of Operations in Florida (VPOF) stated that the 10-month suspension reflected the completion of the work at the Des Pinar water treatment plant (WTP) and the start-up of the work at the Wekiva WTP. The VPOF asserted that, due to the size and complexity of the Wekiva WTP design as well as the impact of Hurricane Katrina on the costs of materials, the portion of the project associated with Wekiva WTP was reexamined in an effort to verify the cost effectiveness of the design. Based on this initial response, it appeared that the work on the Des Pinar WTP was completed in June 2004. However, upon a further data request from the corporate office personnel of the utility's parent, UI stated that the work on the Des Pinar WTP was not completed until January 2006. UI also asserted that the invoices for this work totaled $169,688 and that this amount remained in construction work in progress and accrued as AFUDC.

As stated above, the work on the Des Pinar plant was completed almost one year before the Wekiva plant. Because the work on each plant was independent of one another, the utility is encouraged not to combine projects like this one, but rather to separate them as one project for each independent purpose. By separating them into distinct projects, it should avoid the likelihood of any excessive AFUDC accrual. As discussed previously, we approved the appropriate amount of AFUDC for this project in accordance with Rule 25-30.116, Florida Administrative Code. Thus, Sanlando will not realize a return on any unwarranted AFUDC resulting from the suspension of the electric control upgrade project.

Section 367.161, Florida Statutes, authorizes this Commission to assess a penalty of not more than $5,000 for each offense, if a utility is found to have knowingly refused to comply with, or have willfully violated any Commission rule, order, or provision of Chapter 367, Florida Statutes. In failing to notify this Commission of this project's suspension and to submit a proposed accounting treatment, the utility's act was "willful" in the sense intended by Section 367.161, Florida Statutes. In Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, In Re: Investigation Into The Proper Application of Rule 25-14.003, F.A.C., Relating To Tax Savings Refund For 1988 and 1989 For GTE Florida, Inc., having found that the company had not intended to violate the rule, we nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "[i]n our view, 'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Additionally, "[i]t is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833).

We realize that there are going to be numerous plant projects to keep track of for such a large water system like Sanlando's. However, Sanlando's parent, UI, is a very large and sophisticated company providing water and wastewater service to customers in several states,

and, as such, should be more cognizant of our rules than the smaller water and wastewater companies. UI's continued pattern of disregard for the Commission's rules, statutes, and orders warrants more than just a warning.

Based on the above, we find it appropriate that Sanlando shall show cause in writing, within 21 days, why it should not be fined a total of $500 for its apparent violation noted above. The show cause order incorporates the following conditions:

1. The utility's response to the show cause order shall contain specific allegations of fact and law;

2. Should Sanlando file a timely written response that raises material questions of fact and makes a request for a hearing pursuant to Sections 120.569 and 120.57(1), Florida Statutes, a further proceeding will be scheduled before a final determination of this matter is made;

3. A failure to file a timely written response to the show cause order shall constitute an admission of the facts herein alleged and a waiver of the right to a hearing on this issue;

4. In the event that Sanlando fails to file a timely response to the show cause order, the fine shall be deemed assessed with no further action required by the Commission;

5. If the utility responds timely but does not request a hearing, a recommendation shall be presented to the Commission regarding the disposition of the show cause order; and

6. If the utility responds to the show cause order by remitting the fine, this show cause matter shall be considered resolved.

Further, the utility is put on notice that failure to comply with Commission orders, rules, or statutes will again subject the utility to show cause proceedings and fines of up to $5,000 per day per violation for each day the violation continues as set forth in Section 367.161, Florida Statutes.

Proof of Compliance with NARUC USOA

To ensure that the utility adjusts its books in accordance with our decisions herein, Sanlando shall provide proof within 90 days of the final order issued in this docket that the adjustments for all the applicable NARUC USOA primary accounts have been made.

BNC 2.12 FL-S

On May 4, 2000, an application for original water and wastewater certificates was filed on behalf of Labrador. The application contained numerous deficiencies. The utility was still in the process of completing the filing requirements when, on September 9, 2000, Mr. Viau died in a boating accident. Mr. Viau, a Canadian citizen, died intestate. The application process was postponed pending a determination by Mr. Viau's heirs regarding the disposition of his assets. On October 11, 2000, Mr. Viau's daughter, Ms. Sylvie Viau, was selected as the liquidator of the Estate of Henri Paul Viau (Estate) and on February 16, 2001, a judgment to this effect was issued by the Canadian Superior Court.

Supplemental information completing application deficiencies was filed on April 2, 2001, and that date was determined to be the official filing date of the application. Pursuant to Section 367.031, Florida Statutes, we are required to grant or deny an application for a certificate of authorization within 90 days after the official filing date of the completed application which, in this case, was July 2, 2001. This requirement was met by our decision at the June 25, 2001 Agenda Conference. On March 15, 2001, the Co-op filed a formal complaint in the instant docket against Labrador which it subsequently withdrew on May 10, 2001.

We have jurisdiction over these matters pursuant to Sections 367.045 and 367.161, Florida Statutes.

DECLINING TO INITIATE SHOW CAUSE PROCEEDINGS AND REQUIRING FILING OF ANNUAL REPORTS AND REGULATORY ASSESSMENT FEES

Apparent Violation of Section 367.031, Florida Statutes

The utility is in apparent violation of Section 367.031, Florida Statutes, which states that each utility subject to our jurisdiction must obtain a certificate of authorization to provide water or wastewater service. The utility has been providing water and wastewater services to the public for compensation since approximately 1997 without certificates of authorization.

Such action is "willful" in the sense intended by Section 367.161, Florida Statutes. Section 367.161, Florida Statutes, authorizes us to assess a penalty of not more than $5,000 for each offense, if a utility is found to have knowingly refused to comply with, or to have willfully violated any provision of Chapter 367,

Florida Statutes. In Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, titled In Re: Investigation Into The Proper Application of Rule 25-14.033, F.A.C., Relating To Tax Savings Refund For 1988 and 1989 For GTE Florida, Inc., having found that the company had not intended to violate the rule, we nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "[i]n our view, 'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Id. at 6.

The failure of the utility to obtain certificates of authorization appears to have been due to a misinterpretation, rather than lack of knowledge, of our statutes and rules. Although the utility had been in existence since 1987, Mr. Viau believed the utility was subject only to the Florida Mobile Home Act, Chapter 723, Florida Statues, as long as the utility facilities were owned in conjunction with the mobile home community facilities. At some time prior to December 1997, the utility began charging a specific rate for water and wastewater service. On June 10, 1999, the community facilities were sold to the Co-op. However, the Co-op had until January 1, 2000, in which to exercise the option to purchase the utility facilities. When the option expired without being exercised, the utility immediately began procedures for filing for certificates of authorization.

Although regulated utilities are charged with knowledge of Chapter 367, Florida Statutes, we find that the apparent violation of Section 367.031, Florida Statutes, does not rise in these circumstances to the level of warranting the initiation of show cause proceedings. Albeit for the wrong reasons, the utility filed the instant application for water and wastewater certificates on its own and at the time it believed it was required to do so by the statutes. Had the utility not filed, we would still be unaware of its existence. The delay in the completion of the application after the initial filing was due to circumstances beyond the control of the utility. For these reasons, we decline to order the utility to show cause, in writing within 21 days, why it should not be fined for failing to obtain certificates of authorization from the Commission in apparent violation of Section 367.031, Florida Statutes.

Apparent Violation of Rule 25-30.110, Florida Administrative Code and Requirement that Utility File 2000 Annual Report

Rule 25-30.110(3), Florida Administrative Code, requires utilities subject to our jurisdiction as of December 31 of each year to file an annual report on or before March 31 of the following year. Annual reports are due from regulated utilities regardless of whether the utility has actually applied for or been issued a certificate. Requests for extension of time must be in writing and must be filed before March 31. One extension of 30 days is automatically granted. A further extension may be granted upon a showing of good cause. Incomplete or incorrect reports are considered delinquent, with a 30 day grace period in which to supply the missing information.

As discussed previously, utilities are charged with the knowledge of our rules and statutes. Moreover, pursuant to Rule 25-30.110(6)(c), Florida Administrative Code, any utility that fails to file a timely, complete annual report is subject to penalties, absent demonstration of good cause for noncompliance. The penalty set out in Rule 25-30.110(7), Florida Administrative Code, for Class C utilities, is $3 per day, based on the number of calendar days elapsed from March 31, or from an approved extended filing date, until the date of filing. Assuming a filing date of October 1, 2001, for the utility's 2000 annual report, we calculate that the total penalty would be $552 calculated as follows: $3.00 per day x 184 days = $552. The penalty, if assessed, would continue to accrue until such time as Labrador files its 2000 annual report. We note that pursuant to Rule 25-30.110(6)(c), Florida Administrative Code, we may, in our discretion, impose greater or lesser penalties for such noncompliance.

We believe that Labrador has shown good cause for its noncompliance with the requirement to file its 2000 annual report. As discussed previously, although the utility had been in existence since 1987, the owner believed the utility was subject only to the Florida Mobile Home Act, Chapter 723, Florida Statues, as long as the utility facilities were owned in conjunction with the mobile home community facilities. Once the option to purchase the utility facilities expired without being exercised, the utility immediately began procedures for filing for certificates of authorization. Had the utility not done so, we would still be unaware of the change in its jurisdictional status. The delay in the completion of the

application after the initial filing was due to circumstances beyond the control of the utility. Finally, the utility has been very cooperative with our staff in its efforts to come into compliance with Commission rules.

For the foregoing reasons, we find that the apparent violation of Rule 25-30.110(3), Florida Statutes, does not rise in these circumstances to the level of warranting the initiation of a show cause proceeding. Moreover, we find that the utility has demonstrated good cause for its apparent noncompliance. Therefore, we decline to order Labrador to show cause, in writing within 21 days, why it should not be fined for its failure to file its 2000 annual report. Further, the penalties set forth in Rule 25-30.110(7), Florida Administrative Code, shall not be assessed.

Nevertheless, we note that annual reports are used to determine the earnings level of the utility; to determine whether a utility is in substantial compliance with the National Association of Regulatory Utility Commissioners Uniform Systems of Accounts (NARUC USOA), as well as applicable rules and orders of the Commission; to determine whether financial statements and related schedules fairly present the financial condition and results of operations for the period presented; and to determine whether other information presented as to the business affairs of the utility are correct for the period they represent.

Therefore, the utility shall file its 2000 annual report by October 1, 2001. If Labrador fails to do so, our staff is directed to bring a show cause recommendation at that time. Moreover, the utility is hereby placed on notice that penalties, if assessed, continue to accrue until such time as the annual report is filed and that the annual report must comply with Rule 25-30.110, Florida Administrative Code, including compliance with the NARUC USOA, which requires the use of original costs to report the cost of the utility's assets when it was first dedicated to public service.

Apparent Violation of Sections 350.113(3)(e) and 367.145, Florida Statutes, and Rule 25-30.120(1), Florida Administrative Code, and Requiring Utility to Pay 2000 Regulatory Assessment Fees (RAFs)

Pursuant to Sections 350.113(3)(e) and 367.145, Florida Statutes, and Rule 25-30.120(1), Florida Administrative Code, each utility shall remit annually a RAF in the amount of 0.045 of its

application after the initial filing was due to circumstances beyond the control of the utility. Finally, the utility has been very cooperative with our staff in its efforts to come into compliance with Commission rules.

For the foregoing reasons, we find that the apparent violation of Rule 25-30.110(3), Florida Statutes, does not rise in these circumstances to the level of warranting the initiation of a show cause proceeding. Moreover, we find that the utility has demonstrated good cause for its apparent noncompliance. Therefore, we decline to order Labrador to show cause, in writing within 21 days, why it should not be fined for its failure to file its 2000 annual report. Further, the penalties set forth in Rule 25-30.110(7), Florida Administrative Code, shall not be assessed.

Nevertheless, we note that annual reports are used to determine the earnings level of the utility; to determine whether a utility is in substantial compliance with the National Association of Regulatory Utility Commissioners Uniform Systems of Accounts (NARUC USOA), as well as applicable rules and orders of the Commission; to determine whether financial statements and related schedules fairly present the financial condition and results of operations for the period presented; and to determine whether other information presented as to the business affairs of the utility are correct for the period they represent.

Therefore, the utility shall file its 2000 annual report by October 1, 2001. If Labrador fails to do so, our staff is directed to bring a show cause recommendation at that time. Moreover, the utility is hereby placed on notice that penalties, if assessed, continue to accrue until such time as the annual report is filed and that the annual report must comply with Rule 25-30.110, Florida Administrative Code, including compliance with the NARUC USOA, which requires the use of original costs to report the cost of the utility's assets when it was first dedicated to public service.

Apparent Violation of Sections 350.113(3)(e) and 367.145, Florida Statutes, and Rule 25-30.120(1), Florida Administrative Code, and Requiring Utility to Pay 2000 Regulatory Assessment Fees (RAFs)

Pursuant to Sections 350.113(3)(e) and 367.145, Florida Statutes, and Rule 25-30.120(1), Florida Administrative Code, each utility shall remit annually a RAF in the amount of 0.045 of its

which failure continues, not to exceed a total penalty of 25 percent.

2. The amount of interest to be charged is 1% for each 30 days or fraction thereof, not to exceed a total of 12% per annum.

For the foregoing reasons, Labrador shall remit RAFs in the amount of $8,721.00 for 2000 by October 1, 2001. This amount is calculated based upon estimated combined annual revenues of approximately $193,800, based on the utility's current monthly flat rates. Additionally, the utility shall remit a statutory penalty in the amount of $2,180.25 and $610.47 in interest, calculated in accordance with Rule 25-30.120(7)(a), Florida Administrative Code, for its failure to timely pay its 2000 RAFs. If Labrador fails to pay its 2000 RAFs along with the requisite penalties and interest by October 1, 2001, our staff is directed to bring a show cause recommendation at that time. In addition, the utility shall be on notice that interest continues to accrue until such time as the 2000 RAFs are remitted.

CERTIFICATES NOS. 616-W AND 530-S

As discussed in the background, on May 4, 2000, an application was filed on behalf of Labrador for original water and wastewater certificates for a utility in existence and charging rates. As filed, the application contained numerous deficiencies. Supplemental information curing the deficiencies was filed on April 2, 2001.

The application as filed and amended is in compliance with the governing statute, Section 367.045, Florida Statutes, and other pertinent statutes and administrative rules with regard to an application for a certificate of authorization for an existing utility currently charging for service. The application contained the correct filing fee pursuant to Rule 25-30.020, Florida Administrative Code. Pursuant to Rules 25-30.034(1)(h), (i), and (j), Florida Administrative Code, the application also contained a description of the territory to be served, a copy of a detailed system map showing the location of the utility's lines and treatment facilities, and a copy of a tax assessment map including the plotted territory. The territory requested by the utility is

BNC 2.12 FL-T

Irrigation – Water

Base Facility Charge	
2"	$50.24
Gallonage Charge	$3.14
(Per 1,000 gallons)	

IV. Refund of Interim Revenues

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 this Commission. In this case, the total annual interim revenue increase granted in Order No. PSC-06-0668-FOF-WS was $45,319 (30.06%) for water and $51,294 (14.91%) for wastewater. Our staff calculated the potential refund of revenues and interest collected under interim conditions to be $57,183. This amount is based on an estimated seven months of revenues collected from the approved interim rates granted in Order No. PSC-06-0668-FOF-WS. By letter dated August 15, 2006, Labrador filed a corporate undertaking pursuant to the order above. In its interim revenue report dated December 21, 2006, Labrador indicated the interim revenues collected during the period September 2006 through November 2006 was $9,809. The interim rates will continue to be collected until the tariffs containing the original rates are approved. Therefore, the total amount of the interim refund cannot be determined at this time.

Because the data supplied by Labrador is insufficient to determine an appropriate revenue requirement and set reasonable rates, we have found that the utility has not met its burden of proof for this Commission to determine just, reasonable, compensatory, and not unfairly discriminatory rates. As such, Labrador shall refund, with interest, all interim revenues collected pursuant to Order No. PSC-06-0668-FOF-WS. Pursuant to Rule 25-30.360(7), F.A.C, Labrador shall file the appropriate refund reports indicating the amount of money to be refunded and how that amount was computed.

V. Show Cause Proceeding

Pursuant to Order No. PSC-04-1281-PAA-WS (PAA Order), this Commission required Labrador to:

> (1) adjust its books to reflect the adjustments to all the applicable primary accounts required by that Order and provide proof of such adjustments within 90 days of the issuance date of a final order; and
>
> (2) to test all of its meters by June 30, 2005, make any necessary repairs or adjustments, maintain a log of all meters tested, and file quarterly reports.

That PAA Order was finalized by Consummating Order, Order No. PSC-05-0087-CO-WS, issued January 24, 2005. Therefore, the appropriate adjustments to all the applicable primary accounts should have been accomplished by no later than April 24, 2005. Also, pursuant to the

PAA Order, all the meters were originally to have been tested by June 30, 2005, and progress reports were to have been filed on April 15, July 15, and October 15, 2005.

By letter dated April 22, 2005, counsel for Labrador provided a schedule indicating the required adjustments to primary accounts had been made. Also, by letter dated July 15, 2005, counsel for Labrador advised that all meters had been tested except for approximately 150 homes where the homeowners had turned off isolation valves, and that testing on those meters would not be completed until the end of October or early November 2005. Finally, by letter dated June 23, 2006, counsel for Labrador submitted an attached final report of meter flow test results stating that all test results were completed on May 24, 2006.

Although the utility had indicated that all required adjustments to the primary accounts had been made as of April 22, 2005, in processing the current rate case, our staff determined that the required adjustments to plant in service and accumulated depreciation were either not made or not made until December 2005. Therefore, the letter dated April 22, 2005, was incorrect, and it appears that the appropriate adjustments were not made until almost eight months later, i.e., eight months late. Also, it appears that the utility did not complete testing the meters until May 24, 2006, almost eleven months later than required. In reviewing the initial meter report, our staff noted that the dates of testing reflect test dates from September 2000 through April 2002, some two and one-half years before the PAA Order which required the testing. The utility later moved to correct that report, but it appears that many meters were not tested until well after the June 30, 2005 deadline. Moreover, by letter dated November 22, 2006, the utility states that it tested 799 meters, but did not test the remaining 103 meters. The utility states that these 103 meters were either new meters installed by the utility, which were tested and certified by the manufacturer prior to installation, or meters that the utility was unable to test because they were not connected to a water source.

Utilities are charged with the knowledge of the Commission's rules and statutes. Additionally, "[i]t is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833). Section 367.161(1), F.S., authorizes this Commission to assess a penalty of not more than $5,000 for each offense if a utility is found to have knowingly refused to comply with, or to have willfully violated, any provision of Chapter 367, F.S., or any lawful order of the Commission. By failing to comply with the above-noted requirements of the PAA Order in a timely manner, the utility's acts were "willful" in the sense intended by Section 367.161, F.S. In Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL titled In Re: Investigation Into The Proper Application of Rule 25-14.003, F.A.C., Relating To Tax Savings Refund for 1988 and 1989 For GTE Florida, Inc., the Commission, having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "willful" implies an intent to do an act, and this is distinct from an intent to violate a statute or rule. Id. at 6.

We find that the circumstances in this case are such that show cause proceedings shall be initiated. We are especially concerned with Labrador's apparent failure to adjust its books to reflect the adjustments to all the applicable primary accounts as required by the PAA Order. In

the Order Approving Settlement Agreement Filed by Utilities, Inc. (Settlement Order),[6] issued December 23, 2004, in Docket No. 040316-WS, the utility specifically agreed that: "Beginning with the year ended December 31, 2003, and continuing through December 31, 2004, UI shall review all Commission transfer and rate case orders to determine if proper adjustments have been made to correctly state rate base balances." Both the Settlement Order and the PAA Order, issued just five days apart, should have made the utility acutely aware of the problems that it was having in maintaining its books and records. This continued pattern of disregard for our rules, statutes, and orders warrants more than just a warning. Accordingly, Labrador shall be made to show cause in writing, within 21 days, why it should not be fined $3,000 for its apparent failure to adjust its books to reflect the adjustments to all the applicable primary accounts required by the PAA Order and provide proof of such adjustments within 90 days of the Consummating Order.

Although the utility has apparently not timely complied with the requirement to test all its meters by June 30, 2005, the utility has demonstrated mitigating circumstances. A significant portion of Forest Lake Estates' residents are present only during the winter, and by letter dated July 15, 2005, the utility advised staff that, because the homeowners had turned off their isolation valves and were not in Florida for the summer, it had not yet tested approximately 150 meters. The utility indicated it expected all testing to be done by October or November of 2005. Subsequently, by letter dated June 23, 2006, the utility advised that the testing had been completed as of May 24, 2006, and attached a report. However, the report attached to that letter showed meter test dates from September 2000 through April 2002, over 2½ years before there was a requirement for meter tests, and a corrected report was not filed until November 7, 2006. By letter dated November 22, 2006, the utility claims that it tested 799 meters out of a total of 902. Of the remaining 103 meters, the utility states that 73 were new meters which had been tested and certified by the manufacturer prior to installation, with 67 meters being replaced without testing because the owners had shut off the water and the utility was unable to test the existing meter. Of the remaining 30 meters, the utility states that they were on vacant lots and had no service lines, and thus the utility was physically unable to test them.

While a six-month extension to December 30, 2005, might have been warranted, the utility did not request such an extension, and then did not complete the testing until May 24, 2006, which was almost eleven months past the original due date. Moreover, there is some question of whether the 73 new meters should have been retested at installation, and whether the 30 meters on vacant lots should have been tested. Based on all the above, we do not believe the delay in testing the meters was as serious as the utility's failure to adjust its books to reflect the adjustments reflected in the PAA Order, and Labrador shall be made to show cause in writing, within 21 days, why it should not be fined $500 for its apparent failure to timely test all its meters by June 30, 2005.

Based on the above, Labrador shall be made to show cause in writing, within 21 days, why it should not be fined a total of $3,500 for its apparent failure to timely comply with the two

[6] Order No. PSC-04-1275-AS-WS, in Docket No. 040316-WS, In re: Analysis of Utilities, Inc.'s plan to bring all of its Florida subsidiaries into compliance with Rule 25-30.115, Florida Administrative Code.

requirements described above in Order No. PSC-04-1281-PAA-WS. The following conditions shall apply:

1. The utility's response to the show cause order shall contain specific allegations of fact and law;

2. Should Labrador file a timely written response that raises material questions of fact and makes a request for a hearing pursuant to Sections 120.569 and 120.57(1), F.S., a further proceeding will be scheduled before a final determination of this matter is made;

3. A failure to file a timely written response to the show cause order shall constitute an admission of the facts herein alleged and a waiver of the right to a hearing on this issue;

4. In the event that Labrador fails to file a timely response to the show cause order, the fine shall be deemed assessed with no further action required by the Commission;

5. If the utility responds timely but does not request a hearing, a recommendation shall be presented to the Commission regarding the disposition of the show cause order; and

6. If the utility responds to the show cause order by remitting the fine, this show cause matter shall be considered resolved.

Further, the utility shall be put on notice that failure to comply with Commission orders, rules, or statutes will again subject the utility to show cause proceedings and fines of up to $5,000 per day per violation for each day the violation continues as set forth in Section 367.161, F. S.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application of Labrador Utilities, Inc., for increased water and wastewater rates is denied. It is further

ORDERED that the appropriate rates for Labrador Utilities, Inc., are the rates in effect prior to the approval of interim rates, and the utility shall file revised tariff sheets as shown in the body of this Order. It is further

ORDERED that pursuant to Rule 25-30.360, F.A.C., Labrador Utilities, Inc. shall, refund, with interest, the interim revenues granted by Order No. PSC-06-0668-FOF-WS. It is further

ORDERED that Labrador Utilities, Inc., shall be made to show cause in writing, within 21 days, why it should not be fined a total of $3,500 for its apparent failure to timely comply

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County. The reduction in revenues will result in the rate reduction approve on Schedule Nos. 4-A and 4-B.

Table 30-1

Rate Case Expense Including Regulatory Assessment Fees

	Commission Approved Amount	Amount Including RAF
Marion Water	$0	$0
Marion Wastewater	554	580
Orange Water	0	0
Pasco Water	23,772	24,892
Pasco Wastewater	9,058	9,485
Pinellas Water	3,458	3,621
Seminole Water	21,345	22,351
Seminole Wastewater	11,393	11,930
Total	$69,580	$72,859

UIF shall file revised tariff sheets for each system to reflect the Commission-approved rates no later than one month prior to the actual date of the required rate reduction. The utility shall also file a proposed customer notice for each system setting forth the lower rates and the reason for the reduction with the revised tariffs. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates shall not be implemented until our staff has approved the proposed customer notices, and the notice has been received by the customers. The utility shall provide proof of the date notices were given no less than ten days after the date of the notices.

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

VIII. OTHER ISSUES

A. Show Cause Proceeding for Utility Apparently Serving Outside its Certificated Territory

The water distribution and wastewater collection maps provided by the utility in its MFRs indicate that the utility is serving outside its certificated territory for two systems in Orange County and five systems in Seminole County. The two systems in Orange County are Davis Shores (approximately one customer) and Crescent Heights (approximately eight customers). The five systems in Seminole County are Jansen Estates (approximately 58 customers in eight different areas), Oakland Shores (approximately three customers), Park Ridge (approximately one

customer), Phillips (approximately 13 customers in two different areas), and Ravenna Park (approximately five customers in two different areas).

Based on these maps provided by the utility, the utility is serving outside its certificated territory in apparent violation of Section 367.045(2), F.S. Pursuant to that subsection: "A utility may not delete or extend its service area outside the area described in its certificate of authorization until it has obtained an amended certificate of authorization from the commission."

Utilities are charged with the knowledge of the Commission's rules and statutes. Additionally, "[i]t is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833). Section 367.161(1), F.S., authorizes the Commission to assess a penalty of not more than $5,000 for each offense if a utility is found to have knowingly refused to comply with, or to have willfully violated, any provision of Chapter 367, F.S., or any lawful order of the Commission. By failing to comply with the above-noted requirements of Subsection 367.045(2), F.S., the utility's acts were "willful" in the sense intended by Section 367.161, F.S. In Commission Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL entitled In Re: Investigation Into The Proper Application of Rule 25-14.003, F.A.C., Relating To Tax Savings Refund for 1988 and 1989 For GTE Florida, Inc., the Commission, having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "willful" implies an intent to do an act, and this is distinct from an intent to violate a statute or rule. Id. at 6.

The circumstances in this case are such that show cause proceedings should be initiated. In the past, where there have been just isolated instances of a utility serving outside its territory, this Commission has declined to initiate show cause proceedings.[18] However, in this docket, there is a continued pattern of disregard for the statutory requirement to amend the utility's certificate prior to serving customers located outside the utility's certificated territory. When our staff contacted the utility, the utility indicated that it would probably not be able to file amendments for these "oversights" until September 30, 2007.

Based on the above-noted pattern of disregard, we find that the situation warrants more than just a warning. Accordingly, UIF shall be made to show cause in writing, within 21 days, why it should not be fined $5,250 ($750 for each of the seven systems) for its apparent failure to amend its certificate of authorization prior to serving customers outside its certificated territory. Moreover, UIF shall file by September 30, 2007, an amendment application for all its systems in which it is serving outside its certificated territory to correct its apparent violation of Subsection 367.045(2), F.S. This show cause proceeding shall incorporate the following conditions:

1. The utility's response to the show cause order shall contain specific allegations of fact and law;

[18] See Order No. PSC-04-0149-FOF-SU, issued February 11, 2004, in Docket No. 030957-SU, In re: Application for amendment of Certificate No. 379-S for extension of wastewater service area in Seminole County, by Alafaya Utilities, Inc. (another Utilities, Inc. subsidiary).

2. Should UIF file a timely written response that raises material questions of fact and makes a request for a hearing pursuant to Sections 120.569 and 120.57(1), F.S., a further proceeding will be scheduled before a final determination of this matter is made;

3. A failure to file a timely written response to the show cause order shall constitute an admission of the facts herein alleged and a waiver of the right to a hearing on this issue;

4. In the event that UIF fails to file a timely response to the show cause order, the fine shall be deemed assessed with no further action required by the Commission;

5. If the utility responds timely but does not request a hearing, a recommendation should be presented to the Commission regarding the disposition of the show cause order; and

6. If the utility responds to the show cause order by remitting the fine, this show cause matter shall be considered resolved.

Further, the utility is put on notice that failure to comply with Commission orders, rules, or statutes will again subject the utility to show cause proceedings and fines of up to $5,000 per day per violation for each day the violation continues as set forth in Section 367.161, F.S.

B. Show Cause Proceeding for Utility's Apparent Failure to Comply With Rule 25-30.115, F.A.C., and Orders Nos. PSC-03-1440-FOF-WS and PSC-04-1275-AS-WS.

In Order No. PSC-03-1440-FOF-WS, issued December 22, 2003,[19] this Commission discussed whether UIF should be made to show cause for its failure to maintain its books in accordance with the NARUC USOA, as required by Rule 25-30.115, F.A.C. The Commission noted that there was testimony that the utility had violated a prior settlement order (First Settlement Order),[20] and that "the utility is in apparent violation of Rule 25-30.115, F.A.C., as well as of numerous Commission orders." However, this Commission noted that the utility had stated that it was voluntarily taking steps to come into compliance. Based on this assurance, we decided that the interests of the customers would best be served by not initiating another show cause proceeding, and by monitoring the utility's future compliance and actions in conjunction with Docket No. 020407-WS,[21] and in future rate filings for UI systems in Florida.

Also, in Order No. PSC-04-0363-PAA-SU (PAA Order),[22] we required Alafaya Utilities, Inc., a UI subsidiary, to adjust its books to reflect the adjustments to all the applicable primary

[19] Order issued in Docket No. 020071-WS, In re: Application for rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.
[20] See Order No. PSC-00-2388-AS-WU, issued December 13, 2000, in Docket No. 991437-WU, In Re: Application for increase in water rates in Orange County by Wedgefield Utilities, Inc.
[21] In re: Application for rate increase in Polk County by Cypress Lakes Utilities, Inc.
[22] Issued April 5, 2004, in Docket No. 020408-SU, In re: Application for rate increase in Seminole County by Alafaya Utilities, Inc.

accounts required by that Order, and provide proof of such adjustments within 90 days of the issuance date of a final order. In that PAA Order, on page 42, this Commission cited at least four other orders in which UI and its Florida subsidiaries had been cited for improperly maintaining their books and records in violation of either Rule 25-30.115 or 25-30.450, F.A.C.

Now, our staff has again determined that UIF has not kept its books and records in compliance with Rule 25-30.115, F.A.C., and has not made timely adjustments to its books and records in accordance with adjustments made in Order No. PSC-03-1440-FOF-WS, the Order issued in the utility's last rate case. Although Order No. PSC-03-1440-FOF-WS was issued on December 23, 2003, the auditor states in Audit Finding No. 1, in the Audit Report filed in this docket, that the adjustments were not made until March 16 and April 27, 2006. Because these adjustments were made at such a late date, our staff has had problems reconciling the minimum filing requirements to the adjustments which should have been made pursuant to Order No. PSC-03-1440-FOF-WS

Utilities are charged with the knowledge of the Commission's rules and statutes. Additionally, "[i]t is a common maxim, familiar to all minds, that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833). Section 367.161(1), F.S., authorizes the Commission to assess a penalty of not more than $5,000 for each offense if a utility is found to have knowingly refused to comply with, or to have willfully violated, any provision of Chapter 367, F.S., or any lawful order of the Commission. By failing to comply with the above-noted requirements of the above-noted Orders in a timely manner and Rule 25-30.115, F.A.C., the utility's acts were "willful" in the sense intended by Section 367.161, F.S. In Commission Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL entitled In Re: Investigation Into The Proper Application of Rule 25-14.003, F.A.C., Relating To Tax Savings Refund for 1988 and 1989 For GTE Florida, Inc., the Commission, having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "willful" implies an intent to do an act, and this is distinct from an intent to violate a statute or rule. Id. at 6.

We find the circumstances in this case are such that show cause proceedings are warranted. In the Order Approving Settlement Agreement Filed by Utilities, Inc. (Second Settlement Order),[23] issued December 23, 2004, in Docket No. 040316-WS, the utility specifically agreed that: "Beginning with the year ended December 31, 2003, and continuing through December 31, 2004, UI shall review all Commission transfer and rate case orders to determine if proper adjustments have been made to correctly state rate base balances." Both the Second Settlement Order and Order PSC-03-1440-FOF-WS, issued just one year apart, and all the other previous orders, should have made the utility acutely aware of the problems that it was having in maintaining its books and records. Also, at the January 23, 2007 Agenda Conference, in Dockets Nos. 060262-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc., and 060256-SU, In re: Application for increase in wastewater rates in Seminole County by Alafaya Utilities, Inc., we required two other UI subsidiaries to show cause why they should not be

[23] See Order No. PSC-04-1275-AS-WS, in Docket No. 040316-WS, In re: Analysis of Utilities, Inc.'s plan to bring all of its Florida subsidiaries into compliance with Rule 25-30.115, Florida Administrative Code.

fined $3,000 for failure to properly adjust their books and records as required by Rule 25-30.115, F.A.C. The continued pattern of disregard for our rules, statutes, and orders warrants more than just a warning. Accordingly, UIF shall be made to show cause in writing, within 21 days, why it should not be fined $3,000 for its apparent failure to adjust its books to reflect the adjustments to all the applicable primary accounts required by Order No. PSC-03-1440-FOF-WS. This show cause proceeding shall incorporate the following conditions:

1. The utility's response to the show cause order shall contain specific allegations of fact and law;

2. Should UIF file a timely written response that raises material questions of fact and makes a request for a hearing pursuant to Sections 120.569 and 120.57(1), F.S., a further proceeding will be scheduled before a final determination of this matter is made;

3. A failure to file a timely written response to the show cause order shall constitute an admission of the facts herein alleged and a waiver of the right to a hearing on this issue;

4. In the event that UIF fails to file a timely response to the show cause order, the fine shall be deemed assessed with no further action required by the Commission;

5. If the utility responds timely but does not request a hearing, a recommendation should be presented to the Commission regarding the disposition of the show cause order; and

6. If the utility responds to the show cause order by remitting the fine, this show cause matter shall be considered resolved.

Further, the utility is put on notice that failure to comply with Commission orders, rules, or statutes will again subject the utility to show cause proceedings and fines of up to $5,000 per day per violation for each day the violation continues as set forth in Section 367.161, F.S.

C. Proof of Adjustments

To ensure that the utility adjusts its books in accordance with our decisions, UIF shall provide proof within 90 days of the final order issued in this docket that the adjustments for all the applicable NARUC USOA primary accounts have been made.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application for increased water and wastewater rates of Utilities, Inc. of Florida is approved as set forth in the body of this Order. It is further

BNC 2.12 FL-V

base facility/gallonage rate structure was not appropriate given the usage characteristics of that service. Because Miles Grant Country Club only requires this bulk irrigation service when there is not enough readily available effluent to keep area ponds at DEP-required levels, we find that a gallonage-only rate is appropriate.

We recognize that the orders cited above approve rates for raw, untreated water for the purposes of irrigation and that Miles Grant provides this service utilizing potable water. We believe, though, that the rate charged by Miles Grant is a reasonable wholesale potable water rate as compared to a bulk raw water rate. We note that the appropriateness of this rate will be further evaluated in the utility's next rate proceeding.

In conclusion, we find that the requested bulk irrigation rate of $0.50 per thousand gallons is a reasonable charge given the circumstances, and we grant Miles Grant's request for approval of its bulk irrigation class of service. Accordingly, the utility is hereby permitted to continue collection of the bulk irrigation rates currently being charged. Further, Tariff Sheet No. 18.1 shall be approved as filed pursuant to Rule 25-30.475, Florida Administrative Code, for service rendered as of the stamped approval date on the tariff sheet.

II. Timeliness of Miles Grant's Request for Approval of New Class of Service

As noted above, Miles Grant initiated a new class of bulk irrigation service on or about December 1988, providing bulk water to Miles Grant Country Club for irrigation and pond level maintenance purposes as required by the DEP. In doing so, Miles Grant failed to comply with Sections 367.091(4) and 367.091(5), Florida Statutes. Section 367.091(4), Florida Statutes, states:

> A utility may only impose and collect those rates and charges approved by the commission for the particular class of service involved.

Section 367.091(5), Florida Statutes, states:

> If any request for service of a utility shall be for a new class of service not previously approved, the utility

> may furnish the new class of service and fix and charge just, reasonable, and compensatory rates or charges therefor. A schedule of rates or charges so fixed shall be filed with the commission within 10 days after the service is furnished. The commission may approve such rates or charges as filed or may approve such other rates or charges for the new class of service which it finds are just, reasonable, and compensatory.

Section 367.161, Florida Statutes, authorizes this Commission to assess a penalty of not more than $5,000 per day for each offense, if a utility is found to have knowingly refused to comply with, or to have willfully violated any Commission rule, order, or provision of Chapter 367, Florida Statutes. Utilities are charged with the knowledge of the Commission's rules and statutes. Additionally, "it is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833).

Thus, any intentional act, such as the utility's failure to file for a new class of service with this Commission in a timely manner, would meet the standard for a "willful violation." In In Re: Investigation Into The Proper Application of Rule 25-14.003, Florida Administrative Code, Relating To Tax Savings Refund for 1988 and 1989 For GTE Florida, Inc., Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, this Commission found that the company had not intended to violate the rule, but nevertheless found it appropriate to order the company to show cause why it should not be fined, stating that "'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Id. at 6.

Although Miles Grant did not comply with Sections 367.091(4) and 367.091(5), Florida Statutes, we find that a show cause proceeding is not necessary or appropriate for the following reasons. First, because the revenue generated by providing bulk irrigation service to only one customer is of an immaterial amount, (averaging less than $250/yr.), we believe pursuit of a show cause proceeding or fine would be unnecessarily excessive. Second, Miles Grant has been cooperative in providing the necessary information to apply for a new bulk irrigation class of service since it was notified of our staff's findings. Finally, Miles Grant has

provided assurances that while no approved tariff was on file with this Commission, all revenues generated by providing bulk irrigation services have been included in its annual reports for each of the past fourteen years, and appropriate Regulatory Assessment Fees have been remitted.

For these reasons, we find that it is not necessary to order Miles Grant Water and Sewer Company to show cause why it should not be fined by this Commission for failure to apply for a new class of service in compliance with Section 367.091(4), Florida Statutes.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Miles Grant Water and Sewer Company's request for approval of a bulk irrigation class of service (Tariff Sheet No. 18.1) is granted, and the tariff is approved as filed, pursuant to Rule 25-30.475, Florida Administrative Code, for service rendered as of the stamped approval date on the tariff sheet. It is further

ORDERED that if a protest is filed within 21 days of issuance of this Order, the tariff shall remain in effect with any charges held subject to refund pending resolution of the protest. It is further

ORDERED that if no timely protest is filed, this docket shall be closed upon the issuance of a Consummating Order.

ATTACHMENT L

COPIES OF ARTICLES

The Business Journal of Phoenix - April 9, 2007
http://phoenix.bizjournals.com/phoenix/stories/2007/04/09/daily4.html

Phoenix Business Journal

Monday, April 9, 2007

AIG taps Arizona for pilot linking teen drivers to GPS

The Business Journal of Phoenix

Arizona is among six states where AIG Auto Insurance is launching a pilot program that gives parents the tools to track their teen drivers via GPS technology.

In making its announcement Monday, the New York-based **American International Insurance Group Inc.**(NYSE:AIG) noted National Highway Safety Administration figures showing auto accidents are the leading cause of death for 16 to 20-year-olds, with roughly 6,000 young lives lost annually.

Policyholders with teen drivers will be able to install a small GPS unit, which allows them to determine the exact location of the teen's car via the Web or any phone, the insurer said. Additionally, the AIG Teen GPS Program automatically will send parents an e-email or text message if their cars exceed pre-defined speed limits or are driven too far from pre-defined locations.

MobileTeenGPS is AIG's technology partner for the program. AIG also said it will not track individual customer's daily driving behaviors and data gathered during this pilot will not impact a customer's rate or renewal eligibility.

Other pilot states are Washington,Illinois, New Jersey, Pennsylvania and South Carolina. For more: **www.aigauto.com**.

THE WALL STREET JOURNAL.

TUESDAY, FEBRUARY 26, 2008 - VOL. CCLI NO. 46

Jury Convicts Five of Fraud In Gen Re, AIG Case

By Karen Richardson And Liam Pleven

Five former insurance executives were convicted on charges stemming from a fraudulent transaction between American International Group Inc. and General Re Corp., and prosecutors said they plan to "work up the ladder" seeking more indictments.

Four of the five executives worked for General Re, a unit of billionaire Warren Buffett's Berkshire Hathaway Inc., while the fifth was formerly with AIG. A federal jury found them guilty on all 16 counts in their indictment, including conspiracy, securities fraud, mail fraud and making false statements.

Prosecutors had accused the executives of inflating AIG's reserves by $500 million in 2000 and 2001 through fraudulent reinsurance deals to artificially boost the insurer's stock price. Reinsurance allows insurance companies to completely or partly insure the risk they have assumed for their customers.

After winning what legal experts portrayed as a complicated trial involving arcane accounting rules and tens of thousands of pages of documents, prosecutors hinted they might be looking to gather evidence against others in the fraud.

During the trial, former AIG Chief Executive Maurice R. "Hank" Greenberg, who led the company for nearly four decades, presiding over much of its growth, and General Re's current chief executive, Joseph Brandon, were identified as unindicted co-conspirators. Neither Mr. Greenberg nor Mr. Brandon have been charged with any wrongdoing.

"We're not done. The investigation continues," said Paul Pelletier, one of three federal prosecutors who tried the case in U.S. District Court in Hartford, Conn. "We've got a lot of work to do to work up the ladder."

Continued from Page One

General Re's former chief executive, Ronald Ferguson, 65 years old; former Senior Vice President Christopher Garand, 60; former Chief Financial Officer Elizabeth Monrad, 53; and Robert Graham, a General Re assistant general counsel, 69, along with Christian Milton, AIG's former vice president of reinsurance.

Messrs. Ferguson, Graham, Milton and Ms. Monrad each face prison terms as long as 230 years and a fine of as much as $46 million. Mr. Garand faces as long as 160 years in prison and a fine of as much as $29.5 million.

Bolstering Case

While prosecutors might have lacked evidence to secure additional indictments last year, some legal experts said yesterday's convictions could bolster a possible case. Neither Mr. Greenberg nor Mr. Brandon appeared on taped phone conversations that were among the most compelling pieces of evidence presented in the trial.

'We're not done. The investigation continues,' said Paul Pelletier, one of three federal prosecutors.

"When you have a conviction of this sort, it certainly can shake information loose from defendants who are convicted in post-conviction cooperation," says Daniel Richman, a law professor at Columbia University.

"Hank Greenberg was not a defendant in this action, and he neither initiated nor participated in an improper transaction," a lawyer for Mr. Greenberg said in an email yesterday, adding that Mr. Greenberg had "acted responsibly, ethically and legally during his career at AIG, which he built into the largest and most successful insurance company in the world."

For AIG, the verdict comes at a time when the influence of its 82-year-old former leader has loomed large. In a securities filing in November, Mr. Greenberg and a group of affiliated shareholders expressed "concern over the direction" of AIG, from which he resigned in 2005 amid an investigation into its accounting. Mr. Greenberg and the other shareholders in the group together owned almost 12% of the company's voting shares as of Oct. 31, according to the New York State Insurance Department.

Mr. Greenberg, who has also been actively pursuing other business ventures since he left the insurer, followed up with another filing in which he said he wouldn't launch a proxy fight or serve again as an officer or director of AIG. Still, his role cast a spotlight on the insurer's performance under Mr. Greenberg's onetime deputy and successor, Martin Sullivan.

'Material Weakness'

This month, AIG disclosed that its auditor had found a "material weakness" in its accounting, and the stock fell to a five-year low, though it has since rebounded somewhat.

Jerry Bernstein, a white-collar criminal defense lawyer at Blank Rome LLP in Manhattan, said that "manipulation of financial reserves and reinsurance are not concepts that typical jurors know about, so these convictions can only further embolden the Justice Department to bring to trial cases dealing with complex financial transactions." Such cases could include the current probes into Wall Street firms' role in the turmoil in subprime-mortgage markets.

Lawyers for the five defendants convicted yesterday said they intend to appeal. Fred Hafetz, a lawyer for Mr. Milton, the only defendant who worked for AIG, said he believes his client was denied a fair trial when he was prosecuted with the four former General Re executives.

The defendants, who remain free on $1 million bond, are scheduled to be sentenced May 15. They could try to reduce their sentences by cooperating with prosecutors in building cases against other, more senior conspirators, if any, legal experts say.

Prosecutors had said they would call Mr. Buffett to testify should the defense produce evidence showing his alleged involvement in the reinsurance deals at issue in the trial. Contrary to pretrial indications by defense attorneys, none of the defendants testified at the trial. During the trial, defense attorneys invoked Mr. Buffett's name to support their arguments that their clients believed the widely respected investor was aware of the deals, and therefore they didn't have any criminal intent in putting them together.

Prosecutors, however, said Mr. Buffett, who hasn't been charged with any wrongdoing, wasn't involved in the deals. The Omaha businessman wasn't called to testify.

The federal case started coming together in late 2004 and early 2005, when federal investigators began probing various financial products and accounting practices that companies used to improperly burnish their earnings.

The government alleged that the defendants in the case engaged in a sham deal, in which General Re, for a $5 million fee, improperly helped AIG boost its loss reserves by about $500 million, misleading investors about the amount of losses AIG could absorb and supporting its stock price.

Reid Weingarten, a lawyer for Ms. Monrad, previously defended former WorldCom CEO Bernard Ebbers. Before and during the insurance trial, he alleged that Mr. Buffett knew about the transaction, something Mr. Buffett and his attorneys have denied.

The defense lawyers maintained that their clients weren't responsible for the way AIG accounted for the transaction, nor did they know AIG would account for it improperly.

'Restore Integrity'

"These convictions continue the string of successes in our crackdown on corporate fraud and our effort to restore integrity to our financial markets," said Acting Deputy Attorney General Craig Morford, chairman of the President's Corporate Fraud Task Force.

Federal prosecutors in Manhattan have expressed interest in getting information on a probe by the Securities and Exchange Commission into whether Merrill Lynch & Co. booked inflated prices of mortgage bonds it held despite knowledge that the valuations had dropped, according to people familiar with the matter. Prosecutors in Brooklyn, N.Y., have launched a preliminary criminal investigation into whether UBS AG also improperly valued its mortgage-securities holdings as well as the circumstances surrounding two failed hedge funds at Bear Stearns Cos., which collapsed last summer because of losses tied to mortgage backed securities, according to people familiar with the matter.

—Amir Efrati contributed to this article

Department of Justice

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FORMER GEN RE AND AIG EXECUTIVES FOUND GUILTY ON ALL COUNTS OF FRAUDULENT MANIPULATION SCHEME

WASHINGTON – A federal jury has found four former General Re Corporation (Gen Re) Executives and one former American International Group Inc. (AIG) executive guilty, following a five-week long trial, the Justice Department announced today. The Hartford, CT, jury returned a verdict of guilty on all charges against all defendants contained in a 16-count superseding indictment stemming from a fraudulent scheme to manipulate AIG's financial statements.

Ronald E. Ferguson, 63, of Fairfield, Conn., Gen Re's chief executive officer from about 1987 through September 2001, was found guilty on charges of conspiracy, securities fraud, false statements to the SEC, and mail fraud.

Elizabeth Monrad, 51, of New Canaan, Conn., Gen Re's chief financial officer from about June 2000 through July 2003, was found guilty on charges of conspiracy, securities fraud, false statements to the SEC, and mail fraud.

Robert Graham, 58, of Westport, Conn., a Gen Re senior vice president and assistant general counsel employed by Gen Re from about 1986 through October 2005, was found guilty on charges of conspiracy, securities fraud, false statements to the SEC, and mail fraud.

Christopher P. Garand, 59, of Upper Saddle River, N.J., a Gen Re senior vice president and the head and chief underwriter of Gen Re's finite reinsurance operations in the United States from about 1994 until August 2005 and also a member of the Board of Directors of Cologne Re Dublin, a Gen Re entity, was found guilty on charges of conspiracy, securities fraud, false statements to the SEC, and mail fraud.

Christian Milton, 58, of Winnewood, Penn., AIG's vice president of reinsurance from about April 1982 until March 2005, was found guilty on charges of conspiracy, securities fraud, false statements to the SEC, and mail fraud.

At trial, the government presented evidence that the defendants engaged in a scheme to falsely inflate AIG's reported loss reserves, a key indicator of financial health to insurance industry analysts and investors. This fraud was effectuated through the use of two sham reinsurance transactions between subsidiaries of AIG and Gen Re in response to analysts' criticism of a $59 million decrease in AIG's loss reserves for the third quarter of 2000. The two sham transactions increased AIG's loss reserves by $250 million in the fourth quarter of 2000 and $250 million in the first quarter of 2001, masking a declining trend in loss reserves in the face of premium growth. AIG restated the transactions at issue in filings with the Securities and Exchange Commission in May of 2005. Evidence presented at trial established that when the investigation was disclosed to investors by AIG and through various media outlets between Feb. 14 and March 14, 2005, shares of AIG stock dropped from $73.12 to $61.92.

"These convictions continue the string of successes in our crackdown on corporate fraud and our effort to restore integrity to our financial markets," said Acting Deputy Attorney General Craig Morford, chairman of the President's Corporate Fraud Task Force.

"The investing public must be able to trust and rely upon corporate management to provide accurate information in their public filings," said Assistant Attorney General Alice S. Fisher of the Criminal Division. "As these convictions demonstrate, executives who violate the criminal laws by deceiving investors or aiding in that deception will be held accountable."

"We're very pleased with the jury's verdict, as it sends the appropriate message that those who engage in corporate wrongdoing will be held accountable," said U.S. Attorney Kevin J. O'Connor of the District of Connecticut.

"Take note - this is a resounding verdict and a strong message of deterrence and accountability in a significant corporate fraud prosecution, said Chuck Rosenberg, U.S. Attorney, Eastern District of Virginia.

"Today's verdict proves that the integrity of our nation's postal system cannot be undermined by unscrupulous business executives," said Alexander Lazaroff, Chief Postal Inspector, U.S. Postal Inspection Service. "The federal mail fraud statute enforced by U.S. Postal Inspectors is there to stop them."

The government presented evidence at trial that showed that each of the defendants knew that the true purpose of the transactions was to permit AIG to falsely report increasing loss reserves in its statements to analysts and investors and its filings with the SEC. The defendants structured a sham reinsurance transaction and created a phony paper trail to make it appear as though Gen Re had solicited reinsurance from AIG when the evidence demonstrated that the parties knew AIG wanted the transaction to manipulate its financial statements. Additionally, the defendants entered into a secret side deal whereby AIG would never have to pay any losses under the contracts; AIG would return to Gen Re the $10 million in premiums Gen Re paid to AIG and AIG paid Gen Re a $5 million fee for entering into the transaction.

Ferguson, Monrad, Milton and Graham each face a maximum term of imprisonment of 210 years in prison based upon their conviction on all counts and a fine of up to $46 million. Garand faces a maximum term of imprisonment of 150 years and a fine of up to $29.5 million.

The sentencing date for all defendants has been set for May 15, 2008. All defendants remain free on bond pending sentencing.

This continuing investigation was initiated by the Criminal Division's Fraud Section and the U.S. Postal Inspection Service. The case was prosecuted by Fraud Section Principal Deputy Chief Paul E. Pelletier, Trial Attorney Adam Safwat, and Assistant U.S. Attorneys Eric J. Glover of the District of Connecticut and Ray Patricco of the Eastern District of Virginia. Additional assistance was provided by Paralegal Specialists Sarah Marberg, Fraud Section and Amy Konarski, District of Connecticut along with U.S. Postal Inspectors James Tendick, Mary Giberson, Paul Boyd and Cathy Cantley and Consumer Fraud Analysts David Cyr, Charles Willetts, and James Walsh.

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08-141

COURT'S EXHIBIT 26 06CR137

UNITED STATES DISTRICT COURT

DISTRICT OF CONNECTICUT

UNITED STATES OF AMERICA DOCKET NO. 3:06CR137(CFD)

v.

RONALD E. FERGUSON

VERDICT FORM FOR DEFENDANT RONALD E. FERGUSON

COUNT ONE: CONSPIRACY

As to Count One charging Ronald E. Ferguson with conspiracy, we find the defendant *(check one)*:

__X__ GUILTY _____ NOT GUILTY

If you found Ronald E. Ferguson guilty as to Count One, then answer the following questions:

Do all twelve of you agree that Ronald E. Ferguson conspired to commit securities fraud?

__X__ YES _____ NO

Do all twelve of you agree that Ronald E. Ferguson conspired to make and cause to be made false and misleading statements in documents and reports required to be filed under the Securities Exchange Act of 1934?

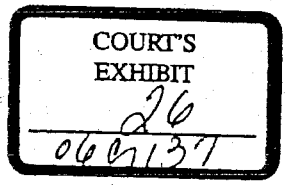
__X__ YES _____ NO

Do all twelve of you agree that Ronald E. Ferguson conspired to falsify and cause to be falsified the books and records of a public company?

__X__ YES _____ NO

Do all twelve of you agree that Ronald E. Ferguson conspired to commit mail fraud?

__X__ YES _____ NO



UNITED STATES DISTRICT COURT

DISTRICT OF CONNECTICUT

UNITED STATES OF AMERICA DOCKET NO. 3:06CR137(CFD)

v.

RONALD E. FERGUSON

VERDICT FORM FOR DEFENDANT RONALD E. FERGUSON

COUNT ONE: CONSPIRACY

As to Count One charging Ronald E. Ferguson with conspiracy, we find the defendant *(check one)*:

__Y__ GUILTY _____ NOT GUILTY

If you found Ronald E. Ferguson guilty as to Count One, then answer the following questions:

Do all twelve of you agree that Ronald E. Ferguson conspired to commit securities fraud?

__X__ YES _____ NO

Do all twelve of you agree that Ronald E. Ferguson conspired to make and cause to be made false and misleading statements in documents and reports required to be filed under the Securities Exchange Act of 1934?

__X__ YES _____ NO

Do all twelve of you agree that Ronald E. Ferguson conspired to falsify and cause to be falsified the books and records of a public company?

__X__ YES _____ NO

Do all twelve of you agree that Ronald E. Ferguson conspired to commit mail fraud?

__X__ YES _____ NO

COUNT SEVEN: FALSE STATEMENTS TO THE SEC

As to Count Seven charging Ronald E. Ferguson with making or causing to be made false and misleading statements in documents and reports required to be filed under the Securities Exchange Act of 1934, we find the defendant *(check one)*:

_X_ GUILTY _____ NOT GUILTY

COUNT EIGHT: SECURITIES FRAUD

As to Count Eight charging Ronald E. Ferguson with securities fraud, we find the defendant *(check one)*:

_X_ GUILTY _____ NOT GUILTY

COUNT NINE: SECURITIES FRAUD

As to Count Nine charging Ronald E. Ferguson with securities fraud, we find the defendant *(check one)*:

_X_ GUILTY _____ NOT GUILTY

COUNT TEN: SECURITIES FRAUD

As to Count Ten charging Ronald E. Ferguson with securities fraud, we find the defendant *(check one)*:

_/_ GUILTY _____ NOT GUILTY

COUNT ELEVEN: FALSE STATEMENTS TO THE SEC

As to Count Eleven charging Ronald E. Ferguson with making or causing to be made false and misleading statements in documents and reports required to be filed under the Securities Exchange Act of 1934, we find the defendant *(check one)*:

_X_ GUILTY _____ NOT GUILTY

COUNT TWELVE: FALSE STATEMENTS TO THE SEC

As to Count Twelve charging Ronald E. Ferguson with making or causing to be made false and misleading statements in documents and reports required to be filed under the Securities Exchange Act of 1934, we find the defendant *(check one)*:

X GUILTY ____ NOT GUILTY

COUNT THIRTEEN: FALSE STATEMENTS TO THE SEC

As to Count Thirteen charging Ronald E. Ferguson with making or causing to be made false and misleading statements in documents and reports required to be filed under the Securities Exchange Act of 1934, we find the defendant *(check one)*:

X GUILTY ____ NOT GUILTY

COUNT FOURTEEN: MAIL FRAUD

As to Count Fourteen charging Ronald E. Ferguson with mail fraud, we find the defendant *(check one)*:

X GUILTY ____ NOT GUILTY

COUNT FIFTEEN: MAIL FRAUD

As to Count Fifteen charging Ronald E. Ferguson with mail fraud, we find the defendant *(check one)*:

X GUILTY ____ NOT GUILTY

COUNT SIXTEEN: MAIL FRAUD

As to Count Sixteen charging Ronald E. Ferguson with mail fraud, we find the defendant *(check one)*:

X GUILTY ____ NOT GUILTY

UNITED STATES DISTRICT COURT

DISTRICT OF CONNECTICUT

UNITED STATES OF AMERICA DOCKET NO. 3:06CR137(CFD)

v.

CHRISTOPHER P. GARAND

VERDICT FORM FOR DEFENDANT CHRISTOPHER P. GARAND

COUNT ONE: CONSPIRACY

As to Count One charging Christopher P. Garand with conspiracy, we find the defendant *(check one)*:

X GUILTY ____ NOT GUILTY

If you found Christopher P. Garand guilty as to Count One, then answer the following questions:

Do all twelve of you agree that Christopher P. Garand conspired to commit securities fraud?

X YES ____ NO

Do all twelve of you agree that Christopher P. Garand conspired to make and cause to be made false and misleading statements in documents and reports required to be filed under the Securities Exchange Act of 1934?

X YES ____ NO

Do all twelve of you agree that Christopher P. Garand conspired to falsify and cause to be falsified the books and records of a public company?

X YES ____ NO

Do all twelve of you agree that Christopher P. Garand conspired to commit mail fraud?

X YES ____ NO

COUNT EIGHT: SECURITIES FRAUD

As to Count Eight charging Christopher P. Garand with securities fraud, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT NINE: SECURITIES FRAUD

As to Count Nine charging Christopher P. Garand with securities fraud, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT TEN: SECURITIES FRAUD

As to Count Ten charging Christopher P. Garand with securities fraud, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT ELEVEN: FALSE STATEMENTS TO THE SEC

As to Count Eleven charging Christopher P. Garand with making or causing to be made false and misleading statements in documents and reports required to be filed under the Securities Exchange Act of 1934, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT TWELVE: FALSE STATEMENTS TO THE SEC

As to Count Twelve charging Christopher P. Garand with making or causing to be made false and misleading statements in documents and reports required to be filed under the Securities Exchange Act of 1934, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT THIRTEEN: FALSE STATEMENTS TO THE SEC

As to Count Thirteen charging Christopher P. Garand with making or causing to be made false and misleading statements in documents and reports required to be filed under the Securities Exchange Act of 1934, we find the defendant *(check one)*:

_X_ GUILTY _____ NOT GUILTY

COUNT FOURTEEN: MAIL FRAUD

As to Count Fourteen charging Christopher P. Garand with mail fraud, we find the defendant *(check one)*:

_X_ GUILTY _____ NOT GUILTY

COUNT FIFTEEN: MAIL FRAUD

As to Count Fifteen charging Christopher P. Garand with mail fraud, we find the defendant *(check one)*:

_X_ GUILTY _____ NOT GUILTY

COUNT SIXTEEN: MAIL FRAUD

As to Count Sixteen charging Christopher P. Garand with mail fraud, we find the defendant *(check one)*:

_X_ GUILTY _____ NOT GUILTY

UNITED STATES DISTRICT COURT

DISTRICT OF CONNECTICUT

UNITED STATES OF AMERICA DOCKET NO. 3:06CR137(CFD)

v.

ROBERT D. GRAHAM

VERDICT FORM FOR DEFENDANT ROBERT D. GRAHAM

COUNT ONE: CONSPIRACY

As to Count One charging Robert D. Graham with conspiracy, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

If you found Robert D. Graham guilty as to Count One, then answer the following questions:

Do all twelve of you agree that Robert D. Graham conspired to commit securities fraud?

X YES _____ NO

Do all twelve of you agree that Robert D. Graham conspired to make and cause to be made false and misleading statements in documents and reports required to be filed under the Securities Exchange Act of 1934?

X YES _____ NO

Do all twelve of you agree that Robert D. Graham conspired to falsify and cause to be falsified the books and records of a public company?

X YES _____ NO

Do all twelve of you agree that Robert D. Graham conspired to commit mail fraud?

X YES _____ NO

COUNT TWO: SECURITIES FRAUD

As to Count Two charging Robert D. Graham with securities fraud, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT THREE: SECURITIES FRAUD

As to Count Three charging Robert D. Graham with securities fraud, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT FOUR: SECURITIES FRAUD

As to Count Four charging Robert D. Graham with securities fraud, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT FIVE: SECURITIES FRAUD

As to Count Five charging Robert D. Graham with securities fraud, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT SIX: FALSE STATEMENTS TO THE SEC

As to Count Six charging Robert D. Graham with making or causing to be made false and misleading statements in documents and reports required to be filed under the Securities Exchange Act of 1934, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT SEVEN: FALSE STATEMENTS TO THE SEC

As to Count Seven charging Robert D. Graham with making or causing to be made false and misleading statements in documents and reports required to be filed under the Securities Exchange Act of 1934, we find the defendant *(check one)*:

X GUILTY ____ NOT GUILTY

COUNT EIGHT: SECURITIES FRAUD

As to Count Eight charging Robert D. Graham with securities fraud, we find the defendant *(check one)*:

X GUILTY ____ NOT GUILTY

COUNT NINE: SECURITIES FRAUD

As to Count Nine charging Robert D. Graham with securities fraud, we find the defendant *(check one)*:

X GUILTY ____ NOT GUILTY

COUNT TEN: SECURITIES FRAUD

As to Count Ten charging Robert D. Graham with securities fraud, we find the defendant *(check one)*:

X GUILTY ____ NOT GUILTY

COUNT ELEVEN: FALSE STATEMENTS TO THE SEC

As to Count Eleven charging Robert D. Graham with making or causing to be made false and misleading statements in documents and reports required to be filed under the Securities Exchange Act of 1934, we find the defendant *(check one)*:

X GUILTY ____ NOT GUILTY

COUNT TWELVE: FALSE STATEMENTS TO THE SEC

As to Count Twelve charging Robert D. Graham with making or causing to be made false and misleading statements in documents and reports required to be filed under the Securities Exchange Act of 1934, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT THIRTEEN: FALSE STATEMENTS TO THE SEC

As to Count Thirteen charging Robert D. Graham with making or causing to be made false and misleading statements in documents and reports required to be filed under the Securities Exchange Act of 1934, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT FOURTEEN: MAIL FRAUD

As to Count Fourteen charging Robert D. Graham with mail fraud, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT FIFTEEN: MAIL FRAUD

As to Count Fifteen charging Robert D. Graham with mail fraud, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT SIXTEEN: MAIL FRAUD

As to Count Sixteen charging Robert D. Graham with mail fraud, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

UNITED STATES DISTRICT COURT

DISTRICT OF CONNECTICUT

UNITED STATES OF AMERICA DOCKET NO. 3:06CR137(CFD)

v.

CHRISTIAN M. MILTON

VERDICT FORM FOR DEFENDANT CHRISTIAN M. MILTON

COUNT ONE: CONSPIRACY

As to Count One charging Christian M. Milton with conspiracy, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

If you found Christian M. Milton guilty as to Count One, then answer the following question:

Do all twelve of you agree that Christian M. Milton conspired to commit securities fraud?

X YES _____ NO

Do all twelve of you agree that Christian M. Milton conspired to make and cause to be made false and misleading statements in documents and reports required to be filed under the Securities Exchange Act of 1934?

X YES _____ NO

Do all twelve of you agree that Christian M. Milton conspired to falsify and cause to be falsified the books and records of a public company?

X YES _____ NO

Do all twelve of you agree that Christian M. Milton conspired to commit mail fraud?

X YES _____ NO

COUNT TWO: SECURITIES FRAUD

As to Count Two charging Christian M. Milton with securities fraud, we find the defendant *(check one)*:

X GUILTY ____ NOT GUILTY

COUNT THREE: SECURITIES FRAUD

As to Count Three charging Christian M. Milton with securities fraud, we find the defendant *(check one)*:

X GUILTY ____ NOT GUILTY

COUNT FOUR: SECURITIES FRAUD

As to Count Four charging Christian M. Milton with securities fraud, we find the defendant *(check one)*:

X GUILTY ____ NOT GUILTY

COUNT FIVE: SECURITIES FRAUD

As to Count Five charging Christian M. Milton with securities fraud, we find the defendant *(check one)*:

X GUILTY ____ NOT GUILTY

COUNT SIX: FALSE STATEMENTS TO THE SEC

As to Count Six charging Christian M. Milton with making or causing to be made false and misleading statements in documents and reports required to be filed under the Securities Exchange Act of 1934, we find the defendant *(check one)*:

X GUILTY ____ NOT GUILTY

COUNT SEVEN: FALSE STATEMENTS TO THE SEC

As to Count Seven charging Christian M. Milton with making or causing to be made false and misleading statements in documents and reports required to be filed under the Securities Exchange Act of 1934, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT EIGHT: SECURITIES FRAUD

As to Count Eight charging Christian M. Milton with securities fraud, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT NINE: SECURITIES FRAUD

As to Count Nine charging Christian M. Milton with securities fraud, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT TEN: SECURITIES FRAUD

As to Count Ten charging Christian M. Milton with securities fraud, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT ELEVEN: FALSE STATEMENTS TO THE SEC

As to Count Eleven charging Christian M. Milton with making or causing to be made false and misleading statements in documents and reports required to be filed under the Securities Exchange Act of 1934, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT TWELVE: FALSE STATEMENTS TO THE SEC

As to Count Twelve charging Christian M. Milton with making or causing to be made false and misleading statements in documents and reports required to be filed under the Securities Exchange Act of 1934, we find the defendant *(check one)*:

X GUILTY ____ NOT GUILTY

COUNT THIRTEEN: FALSE STATEMENTS TO THE SEC

As to Count Thirteen charging Christian M. Milton with making or causing to be made false and misleading statements in documents and reports required to be filed under the Securities Exchange Act of 1934, we find the defendant *(check one)*:

X GUILTY ____ NOT GUILTY

COUNT FOURTEEN: MAIL FRAUD

As to Count Fourteen charging Christian M. Milton with mail fraud, we find the defendant *(check one)*:

X GUILTY ____ NOT GUILTY

COUNT FIFTEEN: MAIL FRAUD

As to Count Fifteen charging Christian M. Milton with mail fraud, we find the defendant *(check one)*:

X GUILTY ____ NOT GUILTY

COUNT SIXTEEN: MAIL FRAUD

As to Count Sixteen charging Christian M. Milton with mail fraud, we find the defendant *(check one)*:

X GUILTY ____ NOT GUILTY

UNITED STATES DISTRICT COURT

DISTRICT OF CONNECTICUT

UNITED STATES OF AMERICA DOCKET NO. 3:06CR137(CFD)

v.

ELIZABETH A. MONRAD

VERDICT FORM FOR DEFENDANT ELIZABETH A. MONRAD

COUNT ONE: CONSPIRACY

As to Count One charging Elizabeth A. Monrad with conspiracy, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

If you found Elizabeth A. Monrad guilty as to Count One, then answer the following questions:

Do all twelve of you agree that Elizabeth A. Monrad conspired to commit securities fraud?

X YES _____ NO

Do all twelve of you agree that Elizabeth A. Monrad conspired to make and cause to be made false and misleading statements in documents and reports required to be filed under the Securities Exchange Act of 1934?

X YES _____ NO

Do all twelve of you agree that Elizabeth A. Monrad conspired to falsify and cause to be falsified the books and records of a public company?

X YES _____ NO

Do all twelve of you agree that Elizabeth A. Monrad conspired to commit mail fraud?

X YES _____ NO

COUNT TWO: SECURITIES FRAUD

As to Count Two charging Elizabeth A. Monrad with securities fraud, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT THREE: SECURITIES FRAUD

As to Count Three charging Elizabeth A. Monrad with securities fraud, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT FOUR: SECURITIES FRAUD

As to Count Four charging Elizabeth A. Monrad with securities fraud, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT FIVE: SECURITIES FRAUD

As to Count Five charging Elizabeth A. Monrad with securities fraud, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT SIX: FALSE STATEMENTS TO THE SEC

As to Count Six charging Elizabeth A. Monrad with making or causing to be made false and misleading statements in documents and reports required to be filed under the Securities Exchange Act of 1934, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT SEVEN: FALSE STATEMENTS TO THE SEC

As to Count Seven charging Elizabeth A. Monrad or causing to be made false and misleading statements in documents and reports required to be filed under the Securities Exchange Act of 1934, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT EIGHT: SECURITIES FRAUD

As to Count Eight charging Elizabeth A. Monrad with securities fraud, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT NINE: SECURITIES FRAUD

As to Count Nine charging Elizabeth A. Monrad with securities fraud, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT TEN: SECURITIES FRAUD

As to Count Ten charging Elizabeth A. Monrad with securities fraud, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT ELEVEN: FALSE STATEMENTS TO THE SEC

As to Count Eleven charging Elizabeth A. Monrad with making or causing to be made false and misleading statements in documents and reports required to be filed under the Securities Exchange Act of 1934, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT TWELVE: FALSE STATEMENTS TO THE SEC

As to Count Twelve charging Elizabeth A. Monrad with making or causing to be made false and misleading statements in documents and reports required to be filed under the Securities Exchange Act of 1934, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT THIRTEEN: FALSE STATEMENTS TO THE SEC

As to Count Thirteen charging Elizabeth A. Monrad with making or causing to be made false and misleading statements in documents and reports required to be filed under the Securities Exchange Act of 1934, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT FOURTEEN: MAIL FRAUD

As to Count Fourteen charging Elizabeth A. Monrad with mail fraud, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT FIFTEEN: MAIL FRAUD

As to Count Fifteen charging Elizabeth A. Monrad with mail fraud, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT TWELVE: FALSE STATEMENTS TO THE SEC

As to Count Twelve charging Elizabeth A. Monrad with making or causing to be made false and misleading statements in documents and reports required to be filed under the Securities Exchange Act of 1934, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT THIRTEEN: FALSE STATEMENTS TO THE SEC

As to Count Thirteen charging Elizabeth A. Monrad with making or causing to be made false and misleading statements in documents and reports required to be filed under the Securities Exchange Act of 1934, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT FOURTEEN: MAIL FRAUD

As to Count Fourteen charging Elizabeth A. Monrad with mail fraud, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

COUNT FIFTEEN: MAIL FRAUD

As to Count Fifteen charging Elizabeth A. Monrad with mail fraud, we find the defendant *(check one)*:

X GUILTY _____ NOT GUILTY

Dallas Business Journal - January 30, 2008
http://dallas.bizjournals.com/dallas/stories/2008/01/28/daily20.html

Dallas Business Journal

Wednesday, January 30, 2008

AIG settles with Attorney General's office

Dallas Business Journal

Insurance carrier American International Group Inc. on Tuesday settled a bid-rigging investigation with Texas Attorney General Greg Abbott.

Under the settlement, the company must end its involvement in a bid-rigging scheme engineered by broker Marsh McLennan and pay $12.5 million to nine states and the District of Columbia. Texas will receive more than $3.7 million under the settlement. The settlement requires AIG to reform its business practices, including disclosing to its customers the precise amount of compensation it pays to insurance brokers.

An investigation by the attorney general found that AIG participated in deceptive insurance bid-rigging, price-fixing and other schemes in the commercial insurance market. McLennan devised the scheme to mislead large and small companies, nonprofit organizations and public entities into believing they were receiving the most competitive commercial premiums available, according to a statement by the attorney general's office.

Prior to the settlement AIG paid restitution to a nationwide group of policyholders including those in Texas.

The attorney general's investigation focused on AIG's failure to disclose "contingent commissions" it paid to insurance brokers. According to the attorney general, McLennan devised a scheme that gave commercial policyholders the appearance of a legitimate competitive policy bidding process when in fact Marsh secretly pre-designated certain insurers to win bids, and the results for policyholders were actually inflated rates, not competitive bids. The anti-competitive scheme succeeded because insurers such as AIG earned preferred status with Marsh by paying the "contingent commissions" to insurance brokers, which it failed to disclose to its policyholders, according to the attorney general.

The attorney general's enforcement action also alleges that AIG entered into an illegal agreement not to compete against Allied World Assurance Co., another surplus lines property and casualty insurer, resulting in an unreasonable restraint of trade. While the other states did not elect to bring those charges against AIG, the company paid Texas $500,000.

Other states participating in the settlement against AIG are Florida, Hawaii, Maryland, Massachusetts, Michigan, Oregon, Pennsylvania, West Virginia and Washington D.C.

United States Attorney
Southern District of New York

FOR IMMEDIATE RELEASE
December 18, 2007

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U.S. ANNOUNCES ARREST OF AIG OFFICER AND TWO OTHERS IN MAIL FRAUD SCHEME

MICHAEL J. GARCIA, the United States Attorney for the Southern District of New York, and MARK J. MERSHON, the Assistant Director-in-Charge of the New York Office of the Federal Bureau of Investigation ("FBI"), announced the arrest today of JOHN J. FALCETTA, GARY J. SANTONE, and THOMAS R. POMBONYO, in connection with a scheme to defraud American International Group, Inc. ("AIG") of over one million dollars. A fourth defendant, JUSTIN BROADBENT, has not yet been apprehended. According to the Complaint filed in Manhattan federal court:

FALCETTA worked at AIG in Manhattan as a Vice President of Human Resources within AIG's life insurance division, from September 2005 to August 2007. As such, FALCETTA was authorized, on behalf of AIG, to retain outside search agencies, colloquially known as "headhunters," in order to fill certain vacant positions within AIG. FALCETTA had authority to add vendors to AIG's approved list of search agencies. FALCETTA also was authorized to approve for payment invoices submitted to AIG by such search agencies. No other approvals besides FALCETTA's were required for payments of $50,000 or less.

FALCETTA added as vendors four companies that purported to be "search agencies": Broadbent Advisory Group, whose principal was BROADBENT; G. Santone Associates, whose principal was SANTONE; and Enterprise Business Group and Global Search Affiliates, Inc., whose principal was POMBONYO. FALCETTA had relationships with BROADBENT, SANTONE, and POMBONYO that pre-existed any purported business relationship any of their respective companies had with AIG. FALCETTA arranged with

BROADBENT, SANTONE, and POMBONYO for them to submit invoices in the names of their respective companies, charging AIG for services purportedly undertaken in connection with search efforts for employee positions with AIG; however, those services never were undertaken. Instead, FALCETTA approved payment for sham services by these sham companies, and then received kickbacks in return, issued by each of BROADBENT, SANTONE, and POMBONYO, in the names of their respective companies, to a sole proprietorship used by FALCETTA, called "Human Capital Management Partners."

BROADBENT submitted invoices to AIG, requesting payment of at least approximately $479,000. FALCETTA approved for payment four of those invoices, in the total amount of $120,000, which payments in fact were mailed by AIG to BROADBENT. The balance of the invoices were unpaid because AIG received them via Federal Express immediately following FALCETTA's termination on August 20, 2007. In return, BROADBENT issued a check for $79,200, to "Human Capital Management Partners," which was apparently endorsed and deposited by FALCETTA.

SANTONE submitted invoices to AIG, requesting payment of at least approximately $320,594.60. FALCETTA approved for payment all of those invoices, which payments in fact were mailed by AIG to SANTONE. In return, SANTONE issued three checks totaling $207,276, to "Human Capital Management Partners," which were apparently endorsed and deposited by FALCETTA.

POMBONYO submitted invoices to AIG, requesting payment of at least approximately $674,886. FALCETTA approved for payment all of those invoices, which payments in fact were mailed by AIG to POMBONYO. In return, POMBONYO issued at least five checks totaling $176,000, to "Human Capital Management Partners," which were apparently endorsed and deposited by FALCETTA.

FALCETTA, SANTONE, and POMBONYO were presented earlier today in federal courts in Boston, Philadelphia, and Manhattan, respectively.

Mr. GARCIA praised the investigative work of the FBI, including its Lakeville, Massachusetts, satellite office. Mr. GARCIA also said that the investigation is continuing.

The charges contained in the Complaint are merely accusations, and the defendants are presumed innocent unless and until proven guilty.

Assistant United States Attorney E. DANYA PERRY is in charge of the prosecution.

07-313 ###

Minneapolis / St. Paul Business Journal - July 20, 2007
http://twincities.bizjournals.com/twincities/stories/2007/07/16/daily36.html

MINNEAPOLIS ST. PAUL BUSINESS JOURNAL

Friday, July 20, 2007

Minnesota workers' insurance group suing AIG

Minneapolis / St. Paul Business Journal - by Carissa Wyant Staff Writer

The Minnesota Workers' Compensation Reinsurance Association and the Minnesota Workers' Compensation Insurers Association filed suit against American International Group Inc. Tuesday.

In a press release, The Minnesota Workers' Compensation Reinsurance Association says it is seeking to recover more than $100 million in damages for fraudulent actions and violations of the Federal Racketeer Influenced and Corrupt Organizations Act.

A suit filed in United States District Court for the District of Minnesota alleges that New York-based American Insurance Group understated its workers' compensation business in Minnesota for the past 22 years, in order to avoid paying part of a collective statewide fund covering large workplace injury claims.

AIG representatives said the company does not comment on ongoing litigation.

WCRA President and CEO Carl Cummins III said in a statement, "We first became aware of AIG's fraudulent reporting of workers' compensation premium data to the WCRA and MWCIA in the spring of 2005."

Cummins said the group obtained a copy of a memorandum written in 1992 by AIG's former general counsel, as a result of the New York Attorney General's investigation of AIG. The memorandum acknowledged that AIG's workers' compensation business was "permeated with illegality" and revealed that as a part of this illegal conduct, AIG was lowering reinsurance premiums due WCRA. AIG paid $1.64 billion to settle a suit in New York last year - for fraudulent business practices including underpaying workers' compensation premiums, and is currently facing similar investigations across the country.

The WCRA is a nonprofit association of about 600 members, which was created by the Minnesota Legislature in 1979 to supply reinsurance to all insurers and self-insurers in Minnesota. This reinsurance is used to pay catastrophic workers' compensation claims to injured Minnesota workers.

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U.S. Securities and Exchange Commission

U.S. SECURITIES AND EXCHANGE COMMISSION

LITIGATION RELEASE NO. 19560 / February 9, 2006

ACCOUNTING AND AUDITING ENFORCEMENT RELEASE NO. 2371 / February 9, 2006

***SECURITIES AND EXCHANGE COMMISSION V. AMERICAN INTERNATIONAL GROUP, INC.*, Case No. 06 CV 1000 (S.D.N.Y.)**

SEC CHARGES AIG WITH SECURITIES FRAUD

The Securities and Exchange Commission announced today the filing and settlement of charges that American International Group, Inc. (AIG) committed securities fraud. The settlement is part of a global resolution of federal and state actions under which AIG will pay in excess of $1.6 billion to resolve claims related to improper accounting, bid rigging and practices involving workers' compensation funds.

The Commission announced the settlement in coordination with the Office of the New York State Attorney General, the Superintendent of Insurance of the State of New York and the United States Department of Justice, which have also reached settlements with AIG.

The settlement with the Commission provides that AIG will pay $800 million, consisting of disgorgement of $700 million and a penalty of $100 million, and undertake corporate reforms designed to prevent similar misconduct from occurring. The penalty amount takes into account AIG's substantial cooperation during the Commission's investigation.

The Commission's complaint, filed today in federal court in Manhattan, alleges that AIG's reinsurance transactions with General Re Corporation (Gen Re) were designed to inflate falsely AIG's loss reserves by $500 million in order to quell analyst criticism that AIG's reserves had been declining. The complaint also identifies a number of other transactions in which AIG materially misstated its financial results through sham transactions and entities created for the purpose of misleading the investing public.

Specifically, the Commission's complaint alleges that in December 2000 and March 2001, AIG entered into two sham reinsurance transactions with Gen Re that had no economic substance but were designed to allow AIG to improperly add a total of $500 million in phony loss reserves to its balance sheet in the fourth quarter of 2000 and the first quarter of 2001. The transactions were initiated by AIG to quell analysts' criticism of AIG for a prior reduction of the reserves. In addition, the complaint alleges that in 2000, AIG engaged in a transaction with Capco Reinsurance Company, Ltd. (Capco) to conceal approximately $200 million in underwriting losses in its

general insurance business by improperly converting them to capital (or investment) losses to make those losses less embarrassing to AIG. The complaint further alleges that in 1991, AIG established Union Excess Reinsurance Company Ltd. (Union Excess), an offshore reinsurer, to which it ultimately ceded approximately 50 reinsurance contracts for its own benefit. Although AIG controlled Union Excess, it improperly failed to consolidate Union Excess's financial results with its own, and in fact took steps to conceal its control over Union Excess from its auditors and regulators. As a result of these actions and other accounting improprieties, AIG fraudulently improved its financial results.

Shortly after federal and state regulators contacted AIG about the Gen Re transaction, AIG commenced an internal investigation that eventually led to a restatement of its prior accounting for approximately 66 transactions or items. In its restatement, AIG admitted not only that its accounting for certain transactions had been improper, but also that the purpose behind some of those transactions was to improve financial results that AIG believed to be important to the market. AIG also conceded in its restatement that certain transactions may have "involved documentation that did not accurately reflect the true nature of the arrangements ... [and] misrepresentations to members of management, regulators and AIG's independent auditors." Furthermore, the restatement summarized several transactions that AIG accounted for improperly, including, among others, two sham reinsurance transactions with Gen Re and certain transactions involving Capco and Union Excess. As a result of the restatement, AIG reduced its shareholders' equity at December 31, 2004 by approximately $2.26 billion (or 2.7%).

In the Commission's settlement, AIG has agreed, without admitting or denying the allegations of the complaint, to the entry of a Court order enjoining it from violating the antifraud, books and records, internal controls, and periodic reporting provisions of the federal securities laws. The order also requires that AIG pay a civil penalty of $100 million and disgorge ill-gotten gains of $700 million, all of which the Commission will seek to distribute to injured investors. AIG has also agreed to certain undertakings designed to assure the Commission that future transactions will be properly accounted for and that senior AIG officers and executives receive adequate training concerning their obligations under the federal securities laws. AIG's remedial measures include, among other things, (i) appointing a new Chief Executive Officer and Chief Financial Officer; (ii) putting forth a statement of tone and philosophy committed to achieving transparency and clear communication with all stakeholders through effective corporate governance, a strong control environment, high ethical standards and financial reporting integrity; (iii) establishing a Regulatory, Compliance and Legal Committee to provide oversight of AIG's compliance with applicable laws and regulations; and (iv) enhancing its "Code of Conduct" for employees and mandating that all employees complete special formal ethics training. This proposed settlement is subject to court approval.

The settlement takes into consideration AIG's cooperation during the investigation and its remediation efforts in response to material weaknesses identified by its internal review. From the outset of the investigation, AIG gave complete cooperation to the investigation by the Commission's staff. Among other things, AIG (i) promptly provided information regarding any relevant facts and documents uncovered in its internal review; (ii) provided

the staff with regular updates on the status of the internal review; and (iii) sent a clear message to its employees that they should cooperate in the staff's investigation by terminating those employees, including members of AIG's former senior management, who chose not to cooperate in the staff's investigation.

The Commission acknowledges the assistance and cooperation of the Office of the New York State Attorney General, the Superintendent of Insurance of the State of New York, the U.S. Department of Justice, Fraud Section, Criminal Division, and the U.S. Postal Inspection Service.

➤ SEC Complaint in this matter

http://www.sec.gov/litigation/litreleases/lr19560.htm

Department of Justice

FOR IMMEDIATE RELEASE
THURSDAY, FEBRUARY 9, 2006
WWW.USDOJ.GOV

CRM
(202) 514-2007
TDD (202) 514-1888

American International Group, Inc. Enters into Agreement with the United States

WASHINGTON, D.C. – American International Group, Inc. (AIG) has agreed to resolve criminal liability arising from misstatements in its periodic financial reports filed with the U.S. Securities and Exchange Commission (SEC) between 2000 and 2004 by paying $25 million in penalties to the United States and cooperating fully in the government's continuing criminal investigation, Acting Deputy Attorney General Paul J. McNulty and Assistant Attorney General Alice S. Fisher of the Criminal Division announced today.

The resolution, which was set forth in a letter agreement between the Fraud Section of the Department of Justice and AIG, addresses AIG's liability for two transactions. The first transaction involved a fraudulent scheme between AIG and General Re Corporation (Gen Re) that was designed to create the appearance that AIG had increased its loss reserves, a key financial indicator for insurance companies. During the fourth quarter of 2000, high-level executives at AIG solicited high-level executives at Gen Re to execute a series of transactions which were designed to enable AIG to improperly report an increase in loss reserves totaling $500 million. As a result of these fraudulent transactions with Gen Re, AIG improperly booked approximately $250 million in loss reserves in the fourth quarter of 2000 and an additional $250 million in loss reserves in the first quarter of 2001. It reported those additional loss reserves to the public in its earnings releases and in financial reports it filed with the SEC. AIG entered into these transactions following investment analysts' criticism of AIG's reported loss reserve reductions in the third quarter of 2000.

The transaction documentation included: a false "paper trail" offer letter which made it appear that AIG had been requested by Gen Re to assume certain reinsurance risk from Gen Re; and contracts which made it appear that AIG was assuming reinsurance risk and was being paid an up-front fee of $10 million for doing so, when, in fact, AIG was not assuming any real risk and was paying Gen Re an undisclosed $5 million plus interest for participating in the transactions. As a result of these sham transactions, AIG improperly reported positive loss reserve growth for each of those periods when, in fact, AIG would have reported further decreases in loss reserves for those quarters.

This transaction also was the subject of an indictment returned last week in the Eastern District of Virginia which charged three former Gen Re executives and one former AIG executive with conspiracy, securities fraud, mail and wire fraud and making false statements to the SEC. That indictment is not affected by today's agreement with AIG.

In the second transaction covered by the agreement, AIG hid approximately $200 million in underwriting losses in 2000 in its general insurance business by improperly converting them into capital losses (i.e., investment losses) that were less important to the investment community and thus would blunt the attention of investors and analysts. As a result of transactions with Capco Reinsurance Company, Ltd. (Capco), an offshore entity, AIG improperly failed to report in its SEC filings and earnings releases approximately $200 million in underwriting losses for the years 2000, 2001 and 2002. AIG structured a series of bogus transactions to convert underwriting losses to investment losses by transferring them to Capco. AIG effectively capitalized Capco through an AIG subsidiary and through loans to individuals who supposedly

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acted as independent shareholders of Capco.

AIG has agreed to accept responsibility for its actions and the actions of its employees. Subject to the terms of the agreement, the Department of Justice has agreed not to prosecute AIG for any crimes committed by the corporation relating to these two transactions.

"Corporations have a responsibility for honest reporting of their financial condition to the SEC and the investing public," said Acting Deputy Attorney General McNulty. "Today's settlement sends a clear message to every publicly traded corporation that 'hitting the numbers' must take a back seat to accurate financial reporting. This settlement is a major step forward in our efforts to strengthen the integrity of the investment marketplace and our system of accountability."

"The integrity of the nation's markets is built on a foundation of responsible corporate citizenship," said Assistant Attorney General Fisher. "Companies must ensure that business is conducted in a legal manner, and they should also be prepared to accept responsibility and reform their practices when their actions or the actions of their employees run afoul of the law."

"It is befitting that during National Consumer Protection Week the penalties paid will be deposited into the Consumer Fraud Fund. These funds will enhance our efforts in protecting the American consumer and the integrity of our nation's mail system through consumer education and prevention programs," said Lee R. Heath, Chief Postal Inspector, U.S. Postal Inspection Service.

In a related enforcement proceeding filed earlier today by the U.S. Securities and Exchange Commission, AIG consented to the entry of a judgment requiring AIG, among other things, to pay $800 million in penalties.

The case was prosecuted by Trial Attorneys Colleen Conry, Eva Saketkoo and Michael K. Atkinson of the Fraud Section, which is headed by Acting Chief Paul E. Pelletier. The case was investigated by the U.S. Postal Inspection Service. The indictment of the former AIG and Gen Re executives was also prosecuted by Raymond Patricco and Michael Dry, Assistant U.S. Attorneys in the Eastern District of Virginia.

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06-070

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REGIONAL DIRECTOR

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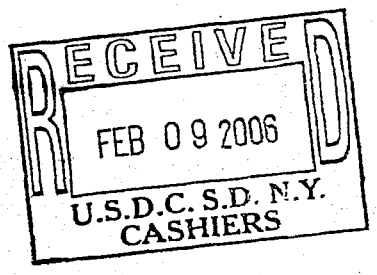

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

-against-

AMERICAN INTERNATIONAL GROUP, INC.,

Defendant.

06 CV 1000

06 Civ. _____ ( )
ECF CASE

COMPLAINT

Plaintiff Securities and Exchange Commission (the "Commission"), for its Complaint against Defendant American International Group, Inc. ("AIG"), alleges as follows:

SUMMARY OF ALLEGATIONS

1. In this case, the Commission alleges that from at least 2000 until 2005, AIG materially falsified its financial statements through a variety of sham transactions and entities whose purpose was to paint a falsely rosy picture of AIG's financial results to analysts and investors.

2. Among other things, AIG structured two sham reinsurance transactions with General Re Corporation ("Gen Re"). The purpose of the transactions was to add a total of $500 million in phony loss reserves to AIG's balance sheet in the fourth quarter of 2000 and the first

quarter of 2001. The transactions were initiated by AIG to quell criticism by analysts concerning a reduction in AIG's loss reserves in the third quarter of 2000. The transactions had no economic substance, amounting to a round trip of cash, but they were designed to, and did, have a specific and false accounting effect.

3. Shortly after receiving the Commission's subpoena in February 2005 specifically directed to the Gen Re transaction, AIG commenced an internal investigation that ultimately led to a restatement of its prior accounting for approximately 66 transactions or items.

4. In its restatement, AIG admitted not only that its accounting for certain transactions had been improper, but also that the purpose behind those transactions had been to improve financial results that AIG had believed to be important to the market.

5. AIG also conceded in its restatement that certain transactions may have "involved documentation that did not accurately reflect the true nature of the arrangements ... [and] misrepresentations to members of management, regulators and AIG's independent auditors."

6. AIG further admitted that "there was insufficient risk transfer to qualify for insurance accounting for certain transactions where AIG subsidiaries either wrote direct insurance or assumed or ceded reinsurance."

7. In a May 31, 2005 press release announcing the restatement, AIG said that the restatement would reduce AIG's consolidated shareholders' equity at December 31, 2004 by approximately $2.26 billion (or 2.7%).

8. During the period of the fraud, AIG distributed its stock in a stock-for-stock corporate acquisition.

9. AIG's admission of these extensive accounting irregularities came on the heels of two prior Commission actions against AIG alleging violations of the federal securities laws.

10. In the first case, in September 2003, the Commission charged AIG with securities fraud for fashioning and selling a sham "insurance" product to Brightpoint, Inc. for the sole purpose of enabling Brightpoint to report false and misleading financial information to the public. AIG settled that action with the payment of a $10 million civil penalty. *See SEC v. Brightpoint, Inc., et al.*, Litig. Rel. No. 18340 (Sept. 11, 2003).

11. In the second case, in November 2004, the Commission again charged AIG with securities fraud for developing, marketing, and entering into transactions that enabled another public company, PNC Financial Services Group, Inc., to remove fraudulently certain volatile, troubled, or underperforming loans and other assets from its balance sheet. AIG settled that action and related criminal charges by paying $126 million in disgorgement and penalties and retaining an independent consultant to, among other things, review certain other transactions to which AIG had been a party. *See SEC v. American Int'l Group, Inc.*, Litig. Rel. No. 18985 (Nov. 30, 2004).

12. In connection with the conduct alleged in this Complaint, AIG employed devices, schemes, and artifices to defraud that AIG deliberately designed to have a materially false and misleading impact on AIG's financial statements, that did have such an impact, and that operated as a fraud.

13. In the offer and sale and in connection with the purchase and sale of its securities, AIG made material misrepresentations and omissions of material fact in annual and other periodic reports filed with the Commission, other Commission filings, and press releases.

VIOLATIONS

14. By virtue of the foregoing conduct, AIG, directly or indirectly, singly or in concert, has engaged in acts, practices and courses of business that constitute violations of

Sections 17(a)(1), 17(a)(2), and 17(a)(3) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. §§ 77q(a)(1), 77q(a)(2), 77q(a)(3)], Sections 10(b), 13(a), 13(b)(2)(A), 13(b)(2)(B), and 13(b)(5) of the Exchange Act of 1934 ("Exchange Act") [15 U.S.C. §§ 78j(b), 78m(a), 78(m)(b)(2)(A), 78(m)(b)(2)(B), and 78(m)(b)(5)] and Rules 10b-5(a), 10b-5(b), 10b-5(c), 12b-20, 13a-1, 13a-13, and 13b2-1 [17 C.F.R. §§ 240.10b-5(a), 240.10b-5(b), 240.10b-5(c), 240.12b-20, 13a-1, 13a-13, and 13b2-1].

JURISDICTION AND VENUE

15. The Commission brings this action pursuant to the authority conferred upon it by Section 20(b) of the Securities Act [15 U.S.C. § 77t(b)] and Section 21(d)(1) of the Exchange Act [15 U.S.C. § 78u(d)(1)] seeking a final judgment: (i) restraining and permanently enjoining AIG from violating certain specified provisions of the federal securities laws; (ii) requiring AIG to disgorge any ill-gotten gains; and (iii) imposing civil money penalties against AIG pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

16. This Court has jurisdiction over this action pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)] and Sections 21(e) and 27 of the Exchange Act [15 U.S.C. §§ 78u(e) and 78aa].

17. AIG, directly or indirectly, singly or in concert, has made use of the means and instrumentalities of interstate commerce, or of the mails, in connection with the transactions, acts, practices and courses of business alleged herein.

18. Venue lies in the Southern District of New York, pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)] and Section 27 of the Exchange Act [15 U.S.C. §§ 78u(e) and 78aa]. AIG's principal corporate offices are located in New York, New York.

THE DEFENDANT

19. AIG, a Delaware corporation, is a holding company that, through its subsidiaries, is engaged in a broad range of insurance and insurance-related activities in the United States and abroad. AIG's common stock is registered with the Commission pursuant to Section 12(b) of the Exchange Act and is listed on the New York Stock Exchange.

20. During the period of the fraud, AIG distributed its stock in connection with its August 29, 2001 acquisition of American General Corporation ("American General") to American General stockholders.

OTHER RELEVANT ENTITIES

21. Gen Re is a Connecticut corporation with its principal corporate offices located in Stamford, Connecticut. Gen Re is a holding company for global reinsurance and related risk assessment, risk transfer, and risk management operations. Gen Re became a wholly owned subsidiary of Berkshire Hathaway Inc. on December 21, 1998. Berkshire Hathaway's Class A and Class B common stock is registered with the Commission pursuant to Section 12(b) of the Exchange Act and is traded on the New York Stock Exchange.

22. Capco Reinsurance Company Ltd. ("Capco") was a Barbados company that was a subsidiary of Western General Insurance Ltd. until 2000. Capco was liquidated in 2002.

23. Union Excess Reinsurance Company Ltd. ("Union Excess") is a Barbados reinsurer used by AIG for the purpose of reinsuring certain insurance contracts entered into by AIG.

FACTS

24. In 2000 and 2001, AIG falsely increased its loss reserves, and falsely reported these increases in its financial statements, through two sham transactions whose purpose was to

quell analyst criticism about AIG's declining loss reserves. In addition, AIG entered into at least two other transactions that resulted in misrepresentations in AIG's financial statements.

A. **AIG's Internal Review and Restatement**

25. On February 10, 2005, the Commission issued a subpoena to AIG in connection with an investigation. The subpoena prompted AIG to commence its own internal investigation.

26. From approximately March through May 2005, AIG conducted an internal review under the direction of its current senior management and with the oversight of AIG's audit committee.

27. On March 14, 2005, AIG announced that its Board of Directors had implemented a management succession plan with the selection of a new president and CEO, who would succeed AIG's then-chairman and CEO. AIG also announced that a new CFO had been selected and would succeed its then-CFO, who had taken a leave of absence. On approximately March 28, 2005, AIG's CEO retired.

28. On March 30, 2005, AIG announced that the filing of its 2004 Form 10-K would be delayed in order to complete an internal review of AIG's books and records that included issues arising from pending regulatory investigations.

29. On May 31, 2005, AIG announced that it had completed its internal review and filed its 2004 Form 10-K. The Form 10-K included a restatement of its financial statements for the years ended December 31, 2000, 2001, 2002 and 2003, and selected quarterly information for the quarters ended March 31, June 30 and September 30, 2003 and 2004, and the quarter ended December 31, 2003. In connection with the restatement, AIG amended its periodic quarterly filings on Form 10-Q for the periods ended March 31, 2003 and 2004 in a 10-Q/A filed on June 28, 2005; for the periods ended June 30, 2003 and 2004 on a 10-Q/A filed on August 9, 2005; and for the period ended September 30, 2004 in a 10-Q filed on November 14, 2005.

30. The restatement resulted in a reduction of consolidated shareholders' equity of $2.26 billion at December 31, 2004.

31. AIG's restatement disclosed the following with respect to certain transactions:

> In many cases these transactions or entries appear to have had the purpose of achieving an accounting result that would enhance measures believed to be important to the financial community and may have involved documentation that did not accurately reflect the true nature of the arrangements. In certain instances, these transactions or entries may also have involved misrepresentations to members of management, regulators and AIG's independent auditors.

32. The restatement summarized several transactions that were accounted for improperly. Among these were two sham reinsurance transactions with Gen Re designed to improperly increase loss reserves.

33. The restatement also briefly addressed several other transactions that resulted in misstatements in AIG's financial statements, including transactions involving Capco and Union Excess.

B. <u>The Sham Gen Re Transactions</u>

34. As a result of analysts' concerns regarding a reduction in AIG's loss reserves in the third quarter of 2000, AIG and Gen Re structured two sham reinsurance transactions. The transactions had as their purpose to provide apparent support for AIG to add a total of $500 million in phony loss reserves to its balance sheet in the fourth quarter of 2000 and the first quarter of 2001.

35. In actuality, the two transactions entailed Gen Re paying $500 million in reinsurance "premiums" in return for AIG's reinsuring a $500 million risk. In other words, the transactions had no economic substance, amounting to a roundtrip of cash, but were designed to

look like genuine reinsurance with the required element of risk transfer, in order to achieve a specific, and false, accounting effect.

36. The only economic benefit to either party was a $5 million fee paid by AIG to Gen Re for putting the deal together – a side deal not reflected in the contracts. The "premiums" due AIG under the terms of the contracts were merely window dressing and were in fact prefunded by AIG to Gen Re in an undisclosed side agreement.

37. Although AIG initiated the transactions, AIG, with Gen Re's assistance, created a phony paper trail to make it appear as though Gen Re had solicited the reinsurance when the parties knew that AIG sought the deal to manipulate its financial statements.

38. As AIG conceded in its restatement, the Gen Re transactions were "done to accomplish a desired accounting result and did not entail sufficient qualifying risk transfer. As a result, AIG has determined that the transaction[s] should not have been recorded as insurance."

39. In its restatement, AIG recharacterized the Gen Re transactions as a deposit instead of as insurance.

1. **The Purpose: The False Appearance of Increased Loss Reserves**

40. Prior to the Gen Re transactions, on October 26, 2000, AIG issued its third quarter earnings release showing an approximate $59 million decline in general insurance reserves.

41. This reduction in general insurance reserves drew criticism from certain analysts. One analyst wrote: "One concern over the past several quarters has been reserve growth, which has been minimal or even has declined in certain quarters. There has been concern that AIG is releasing reserves to make its numbers." Other analysts voiced similar concerns.

42. At least two analysts downgraded AIG after the earnings release.

43. Following AIG's third quarter 2000 earnings release, issued on October 26, 2000, AIG's stock price dropped 6%.

44. Just a few days later, on approximately October 31, 2000, AIG's then-CEO called Gen Re's then-CEO to propose a transaction whereby Gen Re would transfer $200 million to $500 million of loss reserves to AIG by year-end.

45. In conversations regarding this proposed transaction, AIG's CEO made it clear to Gen Re's CEO that he wanted a transaction involving no risk to AIG. A real transfer of loss reserves to AIG would necessarily have involved AIG's assumption of some risk. However, AIG was one of Gen Re's largest clients and Gen Re wanted to accommodate AIG.

46. Gen Re's CEO turned to several Gen Re senior executives, including Gen Re's then-CFO, to work out the details of the transaction.

47. AIG's CEO turned to an AIG senior executive to act as the AIG point person in structuring the deal.

48. On November 1, 2000, a Gen Re executive sent an email to Gen Re officials confirming that he spoke with the AIG senior executive assigned to the deal and that AIG "only want[s] reserve impact" from the deal "to address the criticism [AIG] received from the analysts" in the third quarter of 2000. In subsequent communications, AIG and Gen Re executives further discussed the fundamental elements of the deal.

49. AIG and Gen Re then fashioned two contracts between National Union Fire Insurance Company of Pittsburgh, PA ("National Union"), an AIG subsidiary, and Cologne Re Dublin ("CRD"), a Dublin, Ireland-based subsidiary of a Gen Re subsidiary. These purportedly were retrocession contracts, or contracts in which a reinsurer cedes to another reinsurer all or part of a reinsured risk it previously assumed – in other words, reinsurance of reinsurance.

50. Under the terms of the contracts, National Union purportedly reinsured CRD for up to $600 million in losses ($300 million per contract). In consideration for the reinsurance from National Union, CRD was obligated to pay $500 million in premiums ($250 million per contract). In actuality, both parties had agreed that AIG would not have to pay any losses under the contracts, even though the contracts were written to appear as if AIG could incur $100 million in losses.

51. These sham contracts became the vehicle for adding loss reserves to AIG's financial statements. Without the phony loss reserves added to AIG's balance sheet and touted in its earnings releases, AIG's earnings releases would have shown continued reductions in loss reserves for the fourth quarter of 2000 and the first quarter of 2001, instead of $500 million of additional loss reserves.

2. Reinsurance Accounting Principles

52. The sole purpose of these transactions was to make it appear as though Gen Re was purchasing reinsurance from AIG so that AIG could record loss reserves associated with the reinsurance contracts.

53. Had this been real reinsurance involving a real transfer of risk, AIG would have been entitled to record reserves in the amount of the loss that was probable and reasonably estimable under generally accepted accounting principles ("GAAP"). Under Statement of Financial Accounting Standards ("FAS") No. 113, a reinsurer may record a loss reserve pertaining to a reinsurance contract only when the reinsurer is assuming significant insurance risk (underwriting and timing risk) and it is reasonably possible that the reinsurer may realize a significant loss for the transaction.

54. When there is insufficient risk transfer, a transaction may not be treated as insurance for GAAP purposes, but rather must be accounted for using the deposit method, which has no effect on loss reserves. Deposit accounting simply reflects that one party owes funds to another party.

55. AIG's contracts with Gen Re, through their subsidiaries National Union and CRD, were not real reinsurance contracts, because AIG assumed no risk. The only economic benefit to either party was a $5 million fee that AIG paid to Gen Re for putting the sham transactions together.

56. Because the transactions had no substance, AIG should not have increased its reserves at all. At best, AIG should have recorded the transactions as deposits on its books – *i.e.*, as money owed to Gen Re – which would have had no effect on AIG's reserves.

57. By accounting for the transactions as if they were genuine reinsurance contracts, AIG inflated its reserves for losses and loss expense by $500 million and its premiums and other considerations by $500 million in total.

3. **The Structure of the No Risk Deal**

58. The transactions consisted of two contracts. The first contract had an effective date of December 1, 2000. The second contract had an effective date of March 31, 2001.

59. Under these contracts, National Union purportedly reinsured CRD for up to $600 million in losses ($300 million per contract). In consideration for the reinsurance from National Union, CRD was obligated to pay $500 million in premiums ($250 million per contract).

60. The contracts did not reflect the actual arrangement. As the AIG and Gen Re executives who were involved understood, this was to be a riskless transaction for both AIG and Gen Re.

61. Although on the face of the contracts National Union appeared to assume $100 million of risk over and above the $500 million in premiums CRD was obligated to pay, this extra $100 million of risk was pure fiction added to make it appear that the contracts transferred risk to National Union, as AIG understood.

62. In fact, National Union assumed no risk and CRD incurred no premium liability. Of the $500 million in premiums set forth in the contracts, $490 million was on a "funds withheld" basis (*i.e.*, the money was never paid to National Union but was retained by CRD). CRD was supposed to pay the remaining $10 million to National Union according to the contracts, but AIG "prefunded" this portion of the contractual premium amount in a side deal that was not reflected in the contracts.

63. Hence, neither AIG nor Gen Re could profit or lose from the transactions except for the $5 million fee AIG agreed to pay Gen Re for its trouble.

4. **AIG and Gen Re Concealed Payments Through Undisclosed Side Agreements**

64. AIG concealed undisclosed side agreements that revealed the true nature of the transaction.

65. Gen Re did not want to give National Union $10 million in purported premiums until AIG prefunded that amount to Gen Re, plus Gen Re's fee for doing the deal. The AIG executive assigned to the transaction proposed a solution to this problem to Gen Re: AIG and Gen Re would enter into a purportedly unrelated transaction to conceal the payment by AIG.

66. The unrelated transaction, which was finalized by the AIG senior executive in December 2001, involved an existing reinsurance contract between Gen Re and another AIG subsidiary, Hartford Steam Boiler Inspection and Insurance Company ("HSB").

67. Gen Re held over $30 million in an account that would be owed to HSB if that unrelated reinsurance contract were commuted, which is insurance parlance for "terminated."

68. The AIG senior executive proposed that the parties use the HSB money to prefund the $10 million premium and pay the $5 million transaction fee for the Gen Re transactions.

69. AIG and Gen Re decided to commute the HSB contract and distribute approximately $15 million from the account to Gen Re, $10 million of which would be later paid to National Union by CRD as premiums, with the remaining $5 million to compensate Gen Re for doing the deal. In other words, an AIG subsidiary, HSB, in effect paid another AIG subsidiary, National Union, the $10 million in premiums purportedly owed by CRD under the contracts between CRD and National Union.

70. AIG and Gen Re, through senior officers of each company, developed three additional sham contracts to effect the transfers of the funds in the HSB account and mask the funding for the AIG/Gen Re transactions.

71. First, HSB and Gen Re executed a commutation agreement on December 21, 2001. Under the agreement, Gen Re was expressly obligated to pay $7.5 million to HSB (compared to the over $30 million HSB otherwise would have been entitled to receive).

72. Second, National Union and Gen Re executed a retrocession agreement on December 27, 2001. Under its terms, National Union agreed to reinsure Gen Re for any losses Gen Re became obligated to pay under its reinsurance contract with HSB. This was the very reinsurance contract that Gen Re and HSB had commuted just a few days earlier, eliminating the possibility that Gen Re could incur any losses under it. Nevertheless, Gen Re paid National Union approximately $9.1 million in "premiums" under their meaningless reinsurance contract,

thus concealing the true reason for the transfer of the $9.1 million and obscuring that their source was the HSB account.

73. Third, Gen Re and CRD entered into a sham reinsurance contract whereby CRD would pay $400,000 in purported premiums to Gen Re for $13 million in supposed reinsurance coverage. This sham contract was intended to mask the purpose of the transfer of $12.6 million from the HSB account from Gen Re to CRD, $10 million to prefund the premiums that CRD would pay to National Union plus approximately $2.6 million for CRD's portion of the fee Gen Re charged for putting the transaction together ($5 million as originally agreed plus $200,000 characterized as interest), for the two original agreements with National Union. On December 28, 2001 Gen Re paid $12.6 million to CRD as "loss payments" due under this newly created reinsurance contract. Gen Re kept the remaining approximately $2.6 million as its share of the transaction fee. That same day, CRD transferred $10 million to National Union for the premium supposedly due under the agreements.

74. The AIG and Gen Re executives who had proposed and developed the structure of these sham contracts understood that these contractual contortions were intended merely to mask the real reason for the transfer of funds between AIG and Gen Re.

5. AIG Knew the Gen Re Transactions Conveyed No Risk

75. From its inception, AIG's deal with Gen Re was designed to convey no risk. As AIG's then-CEO and as its senior executives working on the transactions understood, the transactions did not constitute genuine reinsurance that would have allowed AIG to add loss reserves to its financial statements.

76. AIG's CEO made it clear to Gen Re's CEO that he was seeking a transfer of loss reserves in a risk-free transaction.

77. Furthermore, AIG and Gen Re entered into side agreements under which neither AIG nor Gen Re could profit or lose except for the $5 million fee AIG agreed to pay Gen Re for its trouble.

78. Contrary to what a company reinsuring losses would have done if the deal were legitimate, AIG did not perform any due diligence regarding the underlying losses it was supposedly reinsuring, did not seek or receive any claims or reports on loss activity during the course of the contracts, and did not even maintain an underwriting file for the two contracts with CRD.

79. The AIG and Gen Re executives involved in the transaction also understood that the accounting for the transaction would not be "symmetrical," that is, that AIG and Gen Re would account for it differently. AIG planned to account for the transactions using reinsurance accounting principles to improperly add loss reserves to AIG's balance sheet. AIG understood that Gen Re planned to use deposit accounting, because no risk was conveyed.

7. **The Sham Paper Trail**

80. In another effort to conceal a key aspect of the transaction, AIG and Gen Re deliberately created a sham paper trail suggesting that Gen Re, not AIG, had initiated the transaction.

81. The paper trail was designed to make it look as though Gen Re had solicited the contracts, when, in fact, AIG solicited the deal to manipulate its loss reserves.

82. The paper trail idea was first raised in a December 8, 2000 email in which a senior Gen Re executive wondered: "Do we need to produce a paper trail offering the transaction to the client?"

83. Another Gen Re senior executive and the AIG executive assigned to the deal discussed the idea later that day. AIG decided that it wanted a paper trail, according to another Gen Re email dated December 8, 2000.

84. As part of the paper trail, Gen Re faxed AIG an offer letter and draft contract on December 18, 2000. The offer letter falsely suggested that CRD was asking for AIG's "help" and "support."

85. Later, on December 27, 2000, Gen Re emailed another cover letter for the paper trail that made it appear as if CRD had solicited the transaction. Once again, this letter falsely indicated that CRD was asking AIG to "provide us with cover" and "to support the cover."

86. In a recorded telephone conversation with two senior Gen Re executives on December 28, 2000, the AIG executive assigned to the deal confirmed receipt of Gen Re's December 27, 2000 letter. He told them he expected to send a reply email that day accepting the proposal.

87. In the same conversation, the AIG executive said that he did not need any further documentation by year-end to book the transaction as a year 2000 transaction, and that once he sent his reply email accepting the offer, the "paper trail" would be complete.

88. The AIG executive sent his reply email completing the paper trail later that evening.

8. **AIG Improperly Added Loss Reserves to Its Financial Statements**

89. AIG accounted for the agreements between National Union and CRD as if they were real reinsurance contracts that transferred risk from Gen Re to AIG. In fact, AIG, through its senior executives involved in the transactions, knew that there was no such risk transfer and that the transactions in reality had no economic substance and provided no up- or downside to

either party (other than the undisclosed $5 million fee AIG paid to Gen Re to create the sham transactions).

90. By accounting for the contracts as if they were real reinsurance (*i.e.*, not shams), AIG falsely inflated its Reserves for Losses and Loss Expense by $250 million and its Premiums and Other Considerations by $250 million in the financial statements contained in the Form 10-K for the year ended December 31, 2000, which AIG filed with the Commission on April 2, 2001. Similarly, AIG falsely inflated its Reserves for Losses and Loss Expense by an additional $250 million and its Premiums and Other Considerations by $250 million in the financial statements contained in the Form 10-Q for the quarter ended March 31, 2001, which AIG filed with the Commission on May 15, 2001. AIG also falsely inflated its Reserves for Losses and Loss Expense by $500 million and its Premiums and Other Considerations by $500 million in total in the financial statements contained in the Form 10-K for the year ended December 31, 2001, which AIG filed with the Commission on April 1, 2002.

91. In connection with its acquisition of American General and its distribution of shares to American General shareholders, AIG filed a registration statement on Form S-4 on June 8, 2001, which incorporated by reference AIG's Form 10-K for 2000 and its Form 10-Q for the first quarter of 2001.

92. The sham loss reserves remained on AIG's financial statements filed with the Commission, improperly boosting AIG's loss reserves by $500 million, until the first contract was commuted in November 2004 (AIG's loss reserves were then decreased by $250 million) and until AIG restated its accounting for the transaction on May 31, 2005 (at which time the $500 million were restated as deposits). On August 1, 2005, Gen Re notified AIG that it cancelled the second contract.

9. AIG's Materially False Earnings Releases

93. On February 8, 2001, AIG issued its fourth quarter 2000 earnings release. The release reflected the impact of the first Gen Re contract.

94. The earnings release quoted AIG's then-CEO, who touted the increased loss reserves: "AIG had a very good quarter and year.... We added $106 million to AIG's general insurance net loss and loss adjustment reserves for the quarter, and together with the acquisition of HSB Group, Inc., increased the total of those reserves to $25.0 billion at year-end 2000."

95. Analysts reacted favorably to the added reserves. A February 9, 2001 analyst report opined: "We think this quarter was a good example of AIG doing what it does best: growing fast and making the numbers.... As important was the change in reserves: AIG added $106 million to reserves and the paid/incurred ratio fell to 97.1%, the lowest level since the first quarter of 1999."

96. On April 26, 2001, AIG issued its first quarter 2001 earnings release. The release reflected the impact of the second Gen Re contract.

97. AIG's then-CEO again touted AIG's additions to its loss reserves in this release: "AIG had a solid first quarter.... We added $63 million to AIG's general insurance net loss and loss adjustment reserves for the quarter, bringing the total of those reserves to $25.0 billion at March 31, 2001."

98. Once again, analysts appeared to be pleased with the added reserves.

99. Without the phony loss reserves, AIG's reported loss reserves would have been $250 million lower in the fourth quarter of 2000 and $500 million less in the first quarter 2001.

100. Because the loss reserves added to AIG's balance sheet were phony, the $106 million increase to reserves touted in AIG's fourth quarter 2000 earnings release in reality

was a $144 million decrease in reserves, and the $63 million increase in reserves touted in AIG's first quarter 2001 earnings release was in reality a $187 million decrease in reserves.

C. Other Accounting Misrepresentations

101. AIG's restatement reflects 65 other items, the accounting for which AIG determined was incorrect and required restatement. Among other things, these instances of improper accounting include the Capco and Union Excess transactions and five additional categories. The improper accounting has led to additional restatements and the necessity of ongoing remediation activities by AIG.

1. The Capco Transaction

102. In 2000, AIG concocted a scheme to conceal approximately $200 million in underwriting losses in its general insurance business by improperly converting them to capital (or investment) losses that were not in AIG's general insurance business and therefore would be less embarrassing to AIG.

103. AIG structured a sham transaction designed to convert underwriting losses to investment losses by moving them to an off-shore entity, Capco, a Barbados reinsurer. Capco's preferred shareholder was an AIG subsidiary, American International Reinsurance Company, Ltd. ("AIRCO"). Capco also had nominally independent common shareholders. AIG funded the contributions of certain of these shareholders.

104. AIG ceded underwriting losses to Capco, through another AIG subsidiary, depleting Capco's capital. In turn, AIRCO recognized capital losses on its investment in Capco.

105. AIG did not consolidate Capco's results in AIG's financial statements; consolidation would have eliminated the effect of the fraud.

106. In its restatement, AIG admitted that the transactions "involved an improper structure created to recharacterize underwriting losses relating to auto warranty business as

capital losses. That structure ... appears to have not been properly disclosed to appropriate AIG personnel or its independent auditors."

107. In addition, AIG conceded that its internal controls:

> were not effective to prevent certain members of senior management, including the former Chief Executive Officer and former Chief Financial Officer from having the ability, which in certain instances was utilized, to override certain controls and effect certain transactions and accounting entries. In certain of these instances, such transactions and accounting entries appear to have been largely motivated to achieve desired accounting results and were not properly accounted for in accordance with GAAP....Specifically, this control deficiency permitted the following [including]:
>
> Creation of Capco, a special purpose entity used to effect transactions that were recorded to convert, improperly, underwriting losses to investment losses and that were not correctly accounted for in accordance with GAAP, resulting in a misstatement of premiums and other considerations, realized capital gains (losses), incurred policy losses and benefits and related balance sheet accounts.

108. The Capco scheme was an improper effort to convert underwriting losses to capital losses in violation of GAAP and without disclosure to AIG's auditors, as the restatement acknowledged.

2. The Union Excess Transactions

109. In 1991, AIG established Union Excess, an offshore reinsurer, to which it ultimately ceded approximately 50 reinsurance contracts for its own benefit.

110. Although AIG controlled Union Excess, it improperly failed to consolidate Union Excess's financial results with its own. AIG also took steps to conceal its control over Union Excess from its auditors and regulators.

111. As a result, AIG derived a number of advantageous but improper financial results from its reinsurance cessions to Union Excess. In particular, Union Excess was used to

"reinsure" certain AIG liabilities. It was treated as an independent entity, which enabled AIG to reduce, improperly and in material amounts, the amount of expense associated with the underlying insurance. These financial benefits would have evaporated if AIG had consolidated Union Excess's results.

112. AIG established Union Excess for an improper purpose, concealed the true nature of its relationship with Union Excess from auditors and regulators, and fraudulently improved its financial results by ceding reinsurance to Union Excess.

113. In its restatement, AIG admitted that, based on AIG's control over Union Excess and the lack of intent to transfer risk, the accounting for the transaction was improper. AIG should have consolidated Union Excess on its financial statements. The benefits of the Union Excess relationship would thus have been eliminated. AIG's restatement acknowledges that AIG controlled Union Excess.

114. Specifically, the restatement conceded that:

> AIG has concluded, based on documents and information identified during the course of the internal review, that reinsurance ceded to Union Excess Reinsurance Company, Ltd., a Barbados-domiciled reinsurer (Union Excess), did not result in risk transfer because of AIG's control over certain transactions undertaken directly or indirectly with Union Excess, including the timing and nature of certain commutations. Eliminating the cessions reduces reinsurance assets, effectively eliminates the inherent discount related to the loss reserves ceded under the contracts, and increases net premiums and losses. It should be noted that any income earned on the deposit assets in future periods would increase net investment income in those periods.
>
> In addition, as a result of certain facts and circumstances related to the formation of Union Excess, as well as certain relationships with Starr International Company, Inc. (SICO), Union Excess is now included in AIG's consolidated financial statements. The facts and

> circumstances surrounding SICO's involvement with Union Excess were not properly reflected in AIG's books and records, were not known to all relevant AIG financial reporting personnel and, AIG now believes, were not known to AIG's independent auditors. For example, a significant portion of the ownership interests of Union Excess shareholders are protected against loss under financial arrangements with SICO. Additionally, from its formation in 1991, Union Excess has reinsured risks emanating primarily or solely from AIG subsidiaries, both directly and indirectly. Further, it appears that the employees responsible for the reinsurance related to Union Excess managed that relationship to prevent significant losses or gains to Union Excess so that substantially all of the risks and rewards of the underlying reinsurance inured to AIG. This relationship allowed AIG to absorb substantially all the economic returns, which in turn caused Union Excess to be deemed a variable interest entity (VIE).

115. AIG's restatement consolidated Union Excess's financial results with its own.

3. Risk Transfer

116. AIG concluded that certain transactions – including but not limited to the Gen Re and Union Excess transactions – did not have the sufficient risk transfer necessary to qualify for reinsurance accounting. AIG has since restated the accounting for these transactions using deposit, rather than reinsurance, accounting.

4. Net Investment Income

117. AIG determined that certain transactions and investment strategies that were entered into in order to enhance net investment income had been accounted for incorrectly. The restatement admitted that certain transactions or strategies were "initiated to increase net investment income." In other cases, AIG accounting staff had incorrectly characterized transactions or reclassified certain items to increase net investment income or accrued net investment income on anticipated realizations of gains or carried interest. AIG reversed the accounting in its restatement.

5. **Top-Level Adjustments**

118. A number of accounting entries, originating at the parent company level and directed by former senior management, were unsupported and had the effect of reclassifying income statement items and changing the presentation of certain financial measures. In some cases, top-level entries were made at the parent level affecting subsidiaries without the knowledge of the subsidiaries' management. In other cases, management either was aware of the entries or the entries were subsequently "pushed-down" to the subsidiaries.

119. The effect of these entries included reclassifying capital gains to net investment income, increasing expense deferrals or reducing accruals, both having the effect of increasing reported earnings, and reducing and increasing reserves. The restatement reversed all unsupported "top-level" entries from January 1, 2000 through December 31, 2004.

6. **Conversion of Underwriting Losses to Capital Losses**

120. AIG's restatement identified certain transactions and entries that had the principal effect of improperly recharacterizing underwriting losses as capital losses, including but not limited to the Capco transactions. This category also included insurance and reinsurance transactions in which AIG's accounting resulted in errors relating to the timing and classification of income recognition and errors relating to the timing of premium recognition. AIG's restatement conceded that the improper accounting had an effect on underwriting losses in each year. The restatement reversed the accounting by converting the capital losses back into underwriting losses.

7. **Asset Realization**

121. AIG concluded that adjustments needed to be made to the value of certain assets on its consolidated balance sheet – for example, receivables for which certain doubtful accounts and other accruals were neither properly analyzed nor reconciled in prior periods and for which allowances were not properly recorded in AIG's consolidated financial statements. According to the restatement, certain of these items were known by members of former senior management but were not previously disclosed to AIG's independent auditors. The restatement made these adjustments to the value of the assets.

FIRST CLAIM FOR RELIEF
Violations of Section 17(a)(1) of the Securities Act

122. Paragraphs 1 through 121 are realleged and incorporated by reference as if set forth fully herein.

123. AIG, in the offer and sale of securities, by the use of the means and instruments of transportation and communication in interstate commerce or by the use of the mails, directly or indirectly, singly or in concert, has employed or is employing devices, schemes and artifices to defraud.

124. AIG knew or was reckless in not knowing of the activities described above. The knowledge and conduct of its senior officers are attributable to AIG.

125. By reason of the foregoing, AIG has violated, and unless enjoined will again violate, Section 17(a)(1) of the Securities Act [15 U.S.C. § 77q(a)(1)].

SECOND CLAIM FOR RELIEF
Violations of Sections 17(a)(2) and 17(a)(3) of the Securities Act

126. Paragraphs 1 through 121 are realleged and incorporated by reference as if set forth fully herein.

127. AIG, in the offer and sale of securities, by the use of the means and instruments of transportation and communication in interstate commerce or by the use of the mails, directly or indirectly, singly or in concert, has obtained or is obtaining money and property by means of untrue statements of material fact or omissions to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading, and has engaged or is engaging in transactions, practices or courses of business which have operated or would operate as a fraud and deceit upon investors.

128. By reason of the foregoing, AIG has violated, and unless enjoined will again violate, Sections 17(a)(2) and (3) of the Securities Act [15 U.S.C. §§ 77q(a)(2) and (3)].

THIRD CLAIM FOR RELIEF
Violations of Section 10(b) of the Exchange Act and Rules 10b-5(a), 10b-5(b), and 10b-5(c)

129. Paragraphs 1 through 121 are realleged and incorporated by reference as if set forth fully herein.

130. AIG, in connection with the purchase and sale of securities, by the use of the means and instrumentalities of interstate commerce or of the mails, directly or indirectly, singly or in concert, has employed or is employing devices, schemes and artifices to defraud; has made or is making untrue statements of material fact and has omitted or is omitting to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and has engaged or is engaging in acts, practices and courses of business which have operated or would operate as a fraud and deceit upon investors.

131. AIG knew or was reckless in not knowing of the activities described above. The knowledge and conduct of its senior officers are attributable to AIG.

132. By reason of the activities herein described, AIG has violated, and unless enjoined will again violate, Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5(a), (b) and (c) promulgated thereunder [17 C.F.R. § 240.10b-5(a), (b) and (c)].

FOURTH CLAIM FOR RELIEF
Violations of Rule 13b2-1 of the Exchange Act

133. Paragraphs 1 through 121 are realleged and incorporated by reference as if set forth fully herein.

134. AIG, directly or indirectly, singly or in concert, falsified or caused to be falsified its books, records and accounts that were subject to Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)].

135. By reason of the foregoing, AIG has violated, and unless enjoined will again violate, Rule 13b2-1 of the Exchange Act [17 C.F.R. § 240.13b2-1].

FIFTH CLAIM FOR RELIEF
Violations of Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1 and 13a-13

136. Paragraphs 1 through 121 are realleged and incorporated by reference as if set forth fully herein.

137. AIG did not file with the Commission such financial reports as the Commission has prescribed, and AIG did not include, in addition to the information expressly required to be stated in such reports, such further material information as was necessary to make the statements made therein, in light of the circumstances in which they were made, not misleading, in violation of Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rules 12b-20, 13a-1 and 13a-13 [17 C.F.R. §§ 240.12b-20, 240.13a-1 and 240.13a-13].

138. By reason of the foregoing, AIG has violated, and unless enjoined will again violate, Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rules 12b-20, 13a-1 and 13a-13 [17 C.F.R. §§ 240.12b-20, 240.13a-1 and 240.13a-13].

SIXTH CLAIM FOR RELIEF
Violations of Sections 13(b)(2)(A), 13(b)(2)(B), and 13(b)(5) of the Exchange Act

139. Paragraphs 1 through 121 are realleged and incorporated by reference as if set forth fully herein.

140. AIG did not:

a. make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflected the transactions and dispositions of its assets; and

b. devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that:

i. transactions were executed in accordance with management's general or specific authorization;

ii. transactions were recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements, and to maintain accountability for assets;

iii. access to assets was permitted only in accordance with management's general or specific authorization; and

iv. the recorded accountability for assets was compared with the existing assets at reasonable intervals and appropriate action was taken with respect to any differences.

141. Furthermore, AIG knowingly circumvented or knowingly failed to implement a system of internal accounting controls and knowingly falsified books, records, and accounts described above.

142. By reason of the foregoing, AIG has violated, and unless enjoined will again violate, Sections 13(b)(2)(A), 13(b)(2)(B), and 13(b)(5) of the Exchange Act [15 U.S.C. §§ 78m(b)(2)(A), 78m(b)(2)(B), and 78m(b)(5)].

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests a Final Judgment:

I.

Permanently enjoining AIG, its agents, servants, employees and attorneys and all persons in active concert or participation with AIG who receive actual notice of the injunction by personal service or otherwise, and each of them, from future violations of Sections 17(a)(1), 17(a)(2), and 17(a)(3) of the Securities Act [15 U.S.C. §§ 77q(a)(1), 77q(a)(2), 77q(a)(3)], Sections 10(b), 13(a), 13(b)(2)(A), 13(b)(2)(B), and 13(b)(5) of the Exchange Act [15 U.S.C. §§ 78j(b), 78m(a), 78m(b)(2)(A), 78m(b)(2)(B), and 78m(b)(5)] and Rules 10b-5(a), 10b-5(b), 10b-5(c), 12b-20, 13a-1, 13a-13, and 13b2-1 [17 C.F.R. §§ 240.10b-5(a), 240.10b-5(b), 240.10b-5(c), 12b-20, 13a-1, 13a-13, and 13b2-1].

II.

Ordering AIG to disgorge any ill-gotten gains from the conduct alleged herein.

III.

Ordering AIG to pay civil money penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

IV.

Granting such other and further relief as to this Court seems just and proper.

Dated: New York, New York
February 9, 2006

By: _____
Mark K. Schonfeld (MS-2798)

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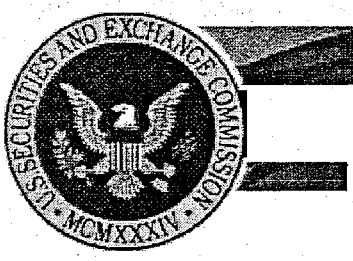


U.S. Securities and Exchange Commission

U.S. SECURITIES AND EXCHANGE COMMISSION

Litigation Release No. 18985 / November 30, 2004

Accounting and Auditing Enforcement Release No. 2145 / November 30, 2004

***Securities and Exchange Commission v. American International Group, Inc.,* Civil Action No. 1:04CV02070 (GK)(D.D.C. filed November 30, 2004)**

AMERICAN INTERNATIONAL GROUP, INC. AGREES TO SETTLE CHARGES OF VIOLATIONS OF ANTIFRAUD AND OTHER PROVISIONS OF THE FEDERAL SECURITIES LAWS

The Securities and Exchange Commission ("Commission") today filed a civil action against American International Group, Inc. ("Defendant AIG") for violating antifraud provisions of the federal securities laws and for aiding and abetting violations of reporting and record-keeping provisions of those laws. The Commission's action arises out of the conduct of Defendant AIG, primarily through its wholly owned subsidiary AIG Financial Products Corp. ("AIG-FP"), (collectively referred to as "AIG") in developing, marketing, and entering into transactions that purported to enable a public company to remove certain assets from its balance sheet. Defendant AIG, without admitting or denying the allegations in the Commission's Complaint has consented to the issuance of a final judgment (1) permanently enjoining it from violating, and from aiding and abetting violations of, certain provisions of the federal securities laws, (2) ordering it to comply with its undertaking to retain an independent consultant to examine certain prior transactions and to establish a transaction review committee to review future transactions, and (3) ordering Defendant AIG to disgorge the amount of fees that it received. In consenting to settle the Commission's action and related, criminal charges, AIG has agreed to pay disgorgement, plus prejudgment interest, and penalties totaling $126,366,000.

In its Complaint, filed in the United States District Court for the District of Columbia, the Commission alleged that from at least March 2001 through January 2002, Defendant AIG, primarily through AIG-FP, developed a product called a Contributed Guaranteed Alternative Investment Trust Security ("C-GAITS"), marketed that product to several public companies, and ultimately entered into three C-GAITS transactions with one such company, The PNC Financial Services Group, Inc. ("PNC"). For a fee, AIG offered to establish a special purpose entity ("SPE") to which the counter-party would transfer troubled or other potentially volatile assets. AIG represented that, under generally accepted accounting principles ("GAAP"), the SPE would not be consolidated on the counter-party's financial statements. The counter-party thus would be able to avoid charges to its income statement resulting from declines in the value of the assets

transferred to the SPE. The transaction that AIG developed and marketed, however, did not satisfy the requirements of GAAP for nonconsolidation of SPEs.

The Commission alleged that while AIG was marketing the product, independent auditors for some potential counter-parties raised issues about whether certain features of the C-GAITS product could cause the product not to satisfy the GAAP requirements for nonconsolidation of SPEs. AIG did not inform the other potential counter-parties of these issues, except in one instance in which a potential counter-party used the same independent auditor as the potential counter-party that had communicated the issue to AIG. The Commission further alleged that AIG entered into three C-GAITS transactions with PNC to enable PNC to remove a total of $762 million in loan and venture-capital assets from its balance sheet. AIG was reckless in not knowing that these transactions did not satisfy the GAAP requirements for nonconsolidation of the assets by PNC.

In its Complaint, the Commission alleged the following:

- The applicable accounting standards, GAAP, in part, provided that, for nonconsolidation by the counter-party to be appropriate, the majority owner of the SPE, i.e. AIG, had to be an independent third party who made a substantive capital investment in the SPE and had substantive risks and rewards of ownership of the assets of the SPE. Three percent was the minimally acceptable amount to indicate a substantive capital investment. Fees paid to the owner of the SPE for structuring the transaction would be treated as a return of the owner's initial capital investment.

- The C-GAITS product provided for the counter-party to contribute troubled or other potentially volatile assets and cash to the SPE. In exchange, the counter-party would receive a class of nonvoting, noncumulative convertible preferred stock. The cash that the counter-party contributed would be used to purchase a 30-year zero coupon note that, at maturity, would pay an amount equal to the counter-party's initial capital investment in the SPE. As initially proposed, AIG would issue the zero coupon note. The C-GAITS product additionally provided for AIG to contribute cash equal to 3% of the total assets of the SPE. In return, AIG would receive a separate class of preferred stock and voting common stock. The cash that AIG contributed would be used to purchase highly rated debt securities. The earnings on those securities would be used to pay AIG a dividend, which AIG would receive regardless of the performance of the assets that the counter-party had contributed. The C-GAITS product also provided for AIG to be paid an annual fee from assets or earnings on assets contributed by the counter-party.

- AIG retained a national accounting firm, National Accounting Firm A, to provide advice in the development and marketing of the C-GAITS product. National Accounting Firm A provided AIG with opinion letters (each a "SAS-50 letter") regarding the treatment under GAAP of the C-GAITS product by the counter-party. Those opinion letters, however, did not address certain features of the C-GAITS product that AIG proposed to prospective counter-parties.

- On or about April 23, 2001, a partner at National Accounting Firm A

informed an AIG employee of a concern that National Accounting Firm A had that the purchase of a zero coupon note issued by AIG in connection with a proposed C-GAITS transaction could be treated as a return of AIG's capital investment. National Accounting Firm A finalized a SAS-50 letter without identifying an issuer of the zero coupon note or specifying whether AIG could be the issuer. AIG, however, continued to propose the C-GAITS product to prospective counter-parties with a zero coupon note issued by AIG but did not inform those prospective counter-parties of National Accounting Firm A's concerns about the issuance of such a note. AIG's marketing material informed prospective counter-parties that the contemplated accounting treatment for the C-GAITS transaction was "based upon advice from [National Accounting Firm A]."

- The C-GAITS product provided for AIG to be paid an annual fee by either the counter-party directly or the SPE from assets or earnings on assets contributed by the counter-party. On May 29, 2001, an employee of a prospective counter-party, National Insurance Company A, informed at least one AIG employee of AIG of "soft spots" in the accounting for the C-GAITS product that National Insurance Company A's outside auditor, National Accounting Firm B, had discussed earlier that day. Those "soft spots" included whether AIG's capital investment might fall below the minimum (3%) capital investment required by GAAP for nonconsolidation of the SPE by National Insurance Company A if AIG received a "large prepayment" of its fees or if its fees were not received in exchange for services rendered by AIG. By the end of that day, AIG modified the proposed C GAITS structure for National Insurance Company A to increase AIG's capital investment from 3% to 5%. AIG did not inform other potential counter-parties of the issues that National Insurance Company A had raised, except in one instance involving a potential C-GAITS transaction with National Insurance Company B, which used the same outside auditor as National Insurance Company A.

- Only PNC entered into a C-GAITS transaction. From June 28, 2001, through November 30, 2001, PNC and AIG entered into three C-GAITS transactions. Through these transactions (each known as a "PAGIC" transaction), PNC sought to remove a total of $762 million of loan and venture capital assets from its balance sheet and thus to avoid charges to its income statement from declines in the value of these assets.

- The C-GAITS transaction that AIG initially proposed to PNC provided for AIG to issue a 30-year zero coupon note to be purchased and held by the SPE. On June 18, 2001, PNC requested that AIG change the issuer. PNC explained to an AIG employee that National Accounting Firm A, which also was PNC's outside auditor, had informed PNC that it believed there was a risk that the Commission might view the issuance of a zero coupon note by AIG to be a return of the capital invested by AIG. AIG agreed to the requested change.

- Even with the change in the issuer of the zero coupon note, the PAGIC transactions did not satisfy the GAAP requirements for nonconsolidation. As AIG intended, the fees that it was were primarily for structuring the PAGIC transactions and, as a result, reduced AIG's capital investment below the 3% level. Also, the PAGIC transactions

did not satisfy GAAP requirements because AIG did not have substantive risks and rewards of ownership of the assets of the SPE. Because PNC improperly treated the transfers of assets in the PAGIC transactions as sales of those assets that permitted PNC not to report them in its financial statements and regulatory reports, PNC made materially false and misleading disclosures about its financial condition and performance in filings with the Commission and in press releases.

- AIG received $39.821 million in fees for entering into the three PAGIC transactions.

The Commission further alleged in its Complaint that Defendant AIG (a) recklessly made misstatements of material facts, and omitted to state material facts, about whether the C-GAITS product satisfied the GAAP requirements for nonconsolidation of an SPE and (b) entered into the three PAGIC transactions with PNC that it was reckless in not knowing did not satisfy the GAAP requirements for nonconsolidation of the SPEs by PNC.

Defendant AIG, without admitting or denying the allegations in the Complaint, has consented to the issuance of a final judgment (a) permanently enjoining it from violating of Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act"), Exchange Act Rule 10b-5, and Section 17(a) of the Securities Act of 1933 and from aiding and abetting violations of Sections 13(a) and 13(b)(2)(A) of the Exchange Act and Exchange Act Rules 12b-1, 13a-1, and 13a-13, (b) ordering it to disgorge the $39,821,000 in fees that it received, plus prejudgment interest of $6,545,000, which will be paid to the victim restitution fund established in connection with the prior resolution of criminal charges by the Department of Justice against a PNC subsidiary and (c) ordering Defendant AIG to retain an independent consultant to examine certain of its prior transactions and to establish a Transaction Review Committee to review the appropriateness of certain future transactions. The independent consultant will conduct an examination of transactions that Defendant AIG entered into with a public company between January 1, 2000 and the date of the final judgment that involved the use of SPEs or variable interest entities, or that were marketed or entered into by Defendant AIG with a primary purpose of enabling a public company to obtain an accounting or financial reporting result. The Transaction Review Committee will review transactions proposed to be undertaken with a public company that were or are developed, marketed, or proposed by Defenant AIG or a public company and that involve heightened legal, reputational, or regulatory risk, including transactions with a primary purpose of enabling a public company to obtain an accounting or financial result. The independent consultant will conduct a review related to certain policies and procedures adopted by the Transactional Review Committee.

Separately today, the Fraud Section of the Criminal Division of the Department of Justice ("Fraud Section") announced a resolution of related, criminal charges against Defendant AIG and two of its subsidiaries. In resolving the civil and criminal charges, AIG has agreed to pay disgorgement and penalties totaling $126 million. Today's civil and criminal actions are the result of investigations by the Commission, the Fraud Section, and the Pittsburgh office of the Federal Bureau of Investigation.

The Commission previously brought a prior settled proceeding against PNC. For further information See In the Matter of The PNC Financial Services Group, Inc., Securities Act Release No. 33-8112, Exchange Act Release No. 34-46225, July 18, 2002. The Commission's investigation is continuing as to the conduct of others.

➤ SEC Complaint in this matter

http://www.sec.gov/litigation/litreleases/lr18985.htm

Department of Justice

FOR IMMEDIATE RELEASE
TUESDAY, NOVEMBER 30, 2004
WWW.USDOJ.GOV

CRM
(202) 514-2008
TDD (202) 514-1888

AMERICAN INTERNATIONAL GROUP, INC. ENTERS INTO AGREEMENTS WITH THE UNITED STATES

WASHINGTON, D.C. - Deputy Attorney General James B. Comey, Assistant Attorney General Christopher A. Wray of the Criminal Division and FBI Director Robert Mueller - all members of the President's Corporate Fraud Task Force - announced today that American International Group, Inc. ("AIG") - the world's largest insurer by market value - and two of its subsidiaries have agreed to resolve the criminal liability associated with certain financial transactions by paying $80 million in penalties to the United States and cooperating fully in the government's continuing criminal investigation of those transactions.

In a related enforcement proceeding filed earlier today by the U.S. Securities and Exchange Commission, AIG consented to the entry of a judgment requiring AIG to disgorge $39.8 million in fees received from the PAGIC transactions and $6.5 million in prejudgment interest. With today's joint agreements totaling $126,366,000, coupled with an agreement reached last year between the Department and The PNC Financial Services Group, Inc. ("PNC"), in which PNC agreed to pay $115 million in penalties and restitution, the Department of Justice and the SEC have obtained $241,366,000 in restitution, disgorgement, penalties and prejudgment interest in connection with off-balance sheet transactions commonly known as the PAGIC transactions.

A criminal complaint filed today at U.S. District Court for the Western District of Pennsylvania charges AIG-FP PAGIC Equity Holding Corp., a subsidiary of AIG, with violating the federal securities laws, including 15 U.S.C. Sections 78j(b) and 78ff(a), 17 C.F.R. Section 240.10b-5, and 18 U.S.C. Section 2, by aiding and abetting PNC in connection with a fraudulent transaction involving a special purpose entity ("SPE"), known as a PAGIC entity. As part of an agreement, the Department of Justice will defer prosecution on the criminal complaint for 13 months, and eventually dismiss the complaint, if AIG and its subsidiaries fully comply with the obligations set forth in the deferred prosecution agreement.

The three-part agreement requires AIG to implement a series of reforms addressing the integrity of client and third-party transactions, including a retrospective review of certain transactions effected by a third party with AIG. The retrospective review will be conducted by an independent consultant, chosen by the Justice Department, the SEC and AIG. The consultant will report to DOJ, the SEC and AIG. The agreements also require AIG to establish a transaction review committee. The independent consultant will review the policies and procedures of the transaction review committee.

As part of the agreement between AIG, the Department of Justice and the U.S. Attorney's Office for the Southern District of Indiana, AIG pledged its complete cooperation with a continuing

investigation into the PAGIC transactions and certain other transactions, including the marketing and sale of a non-traditional insurance product by a subsidiary of AIG to Brightpoint Inc.

In addition, the agreement requires an AIG subsidiary, AIG Financial Products Corp. ("AIG-FP") to pay the $80 million in penalties to the United States for AIG-FP's involvement in the PAGIC transactions.

"Today's actions show that the Department of Justice and our partners on the President's Corporate Fraud Task Force will use the full range of the government's criminal and civil enforcement powers against corporations that promote and facilitate fraudulent financial transactions," said Deputy Attorney General Comey. "These agreements, including significant penalties and corporate reforms, will ensure AIG's compliance with the law while minimizing the collateral consequences to its employees and shareholders."

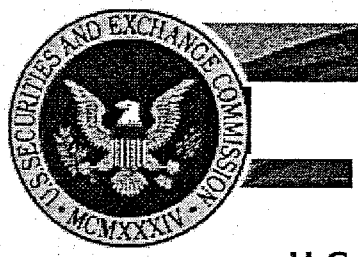
"We are pleased that AIG has accepted responsibility, committed to cooperating fully and agreed to enact these important reforms," said Assistant Attorney General Wray. "There is no place in our markets for financial transactions that lack economic substance and violate the law."

The agreements reached today with regard to the PAGIC transactions arose from the development, marketing and sale of certain structured financial transactions by AIG-FP. AIG-FP, in conjunction with a national accounting firm, developed the structured financial products used by PNC to transfer $750 million in mostly troubled loans and venture capital investments from subsidiaries of PNC to the PAGIC entities. AIG placed the PAGIC entities on its balance sheet. The ability of PNC to account for the PAGIC entities as off-balance sheet SPEs - as if PNC no longer owned the assets transferred to those entities - depended upon whether or not the transactions complied with the requirements for nonconsolidation under generally accepted accounting principles ("GAAP"). The PAGIC transactions violated the GAAP requirements for non-consolidation because AIG-FP did not make or maintain a substantive capital investment of at least three percent in the PAGIC entities. Certain fees paid to AIG-FP in the transactions compensated AIG-FP for structuring the transaction and for taking the assets and liabilities of the PAGIC entities onto AIG's balance sheet, thereby reducing AIG-FP's investment in the PAGIC entities below three percent.

PNC's restatement on Jan. 29, 2002, following its decision to consolidate the PAGIC entities back onto PNC's balance sheet, resulted in a drop in PNC's net income for 2001 of approximately $155 million and a drop in PNC's share price by over nine percent.

The PAGIC transactions were previously the subject of a deferred criminal disposition in *United States v. PNC ICLC Corp.*, filed on June 2, 2003 in federal court in Pittsburgh, Pennsylvania. The Department of Justice earlier this year dismissed the criminal complaint against PNC ICLC Corp., a subsidiary of PNC, after the company fulfilled its obligations under the Deferred Prosecution Agreement. PNC has also entered into a separate agreement with the Department of Justice pledging its complete cooperation in the continued investigation of the PAGIC transactions.

The case was prosecuted by Deputy Chief Paul E. Pelletier and Trial Attorney Michael K. Atkinson of the Fraud Section. The Brightpoint investigation is being handled by Assistant United States Attorney Winfield Ong.



U.S. Securities and Exchange Commission

U.S. Securities and Exchange Commission

Litigation Release No. 18340 / September 11, 2003

Accounting and Auditing Enforcement Release No. 1858

***Securities and Exchange Commission v. Brightpoint, Inc., American International Group, Inc., Phillip Bounsall, John Delaney and Timothy Harcharik* (S.D.N.Y. Civ. 03 CV 7045 (HB)**

SEC Sues AIG, Brightpoint and Three Individuals in Accounting Fraud Case
AIG Settles Action and Agrees to Pay $10 Million Penalty

Washington — The Securities and Exchange Commission announced today that it filed a civil accounting fraud action in federal district court in the Southern District of New York against American International Group, Inc. (AIG), Brightpoint, Inc. (Brightpoint) and two former officers and a former employee of Brightpoint, respectively, Phillip Bounsall (Bounsall), John Delaney (Delaney) and Timothy Harcharik (Harcharik). All of the defendants except Harcharik have consented to the entry of final judgments in settlement of this matter. The Commission also announced today that it instituted separate settled cease-and-desist proceedings against Brightpoint, AIG, Bounsall and an AIG employee.

The civil and administrative actions involve the role played by AIG, one of the world's largest insurance underwriters, in enabling Brightpoint, a public reporting company, to commit securities fraud. As a sophisticated financial services provider, AIG played an indispensable part in the fraudulent transaction by selling Brightpoint a new "insurance" product that AIG had developed and marketed for the specific purpose of helping issuers to report false financial information to the public.

Beginning in 1997, AIG developed and marketed a so-called "non-traditional" insurance product for the stated purpose of "income statement smoothing," i.e., enabling a public reporting company to spread the recognition of known and quantified one-time losses over several future reporting periods. The key to achieving the desired accounting result was to create the appearance of "insurance," i.e., that the "insured" (Brightpoint) was paying premiums in return for an assumption of risk by AIG, when, in fact, Brightpoint was merely depositing cash with AIG that AIG refunded to Brightpoint.

In this case, AIG issued such a purported insurance policy to Brightpoint for the purpose of assisting Brightpoint to conceal $11.9 million in losses that Brightpoint sustained in 1998. Brightpoint's chief accounting officer, Delaney, and its director of risk management, Harcharik, negotiated the purported policy with an AIG assistant vice president. Brightpoint's chief

financial officer, Bounsall, approved the insurance transaction without adequately reviewing it. As a result of the transaction, Brightpoint's 1998 financial statements, as reported in the 1998 Form 10-K, overstated Brightpoint's actual net income before taxes by 61 percent. The misrepresentation was subsequently republished in a registration statement filed in September 1999 and in Forms 10-K for 1999 and 2000.

Specifically, the Commission alleged in the civil action that:

- In October 1998, Brightpoint publicly announced that in the fourth quarter ending December 31, it would recognize a one-time charge, ranging from $13 million to $18 million, arising out of losses sustained by one of its divisions in the United Kingdom (UK). However, by December 1998, the UK losses had mushroomed to about $29 million, and Brightpoint's corporate controller, defendant Delaney, and its director of risk management, defendant Harcharik, devised a scheme to cover-up these additional, unanticipated losses, rather than disclose them.

- In December 1998, Delaney and Harcharik turned to the Loss Mitigation Unit (LMU) of National Union Fire Insurance Company of Pittsburgh, Pa., one of defendant AIG's principal general insurance company subsidiaries. LMU offered "insurance" products specifically designed to "smooth" the financial statement impact of losses sustained by AIG clients. Brightpoint and AIG negotiated the terms of a $15 million "retroactive" insurance policy that covered all of the extra UK losses. The parties agreed to combine this "retroactive coverage" with prospective fidelity coverage (together, the Policy) in an effort to avoid scrutiny from Brightpoint's Auditors (the Auditors). The "cost" of the $15 million "retroactive coverage" to Brightpoint was about $15 million, which Brightpoint was to pay in monthly "premiums" over the prospective three-year term of the policy. The Policy, finalized in January 1999, enabled Brightpoint to record in 1998 an insurance receivable of $11.9 million, which Brightpoint netted against the total UK losses of about $29 million, bringing the net loss to within the previously disclosed $13 million to $18 million range.

- In fact, the "retroactive coverage" should not have been accounted for as insurance. It was merely a "round-trip" of cash — a mechanism for Brightpoint to deposit money with AIG, in the form of monthly "premiums," which AIG was then to refund to Brightpoint as purported "insurance claim payments." In drafting the Policy, Delaney and Harcharik took pains to ensure that the "retroactive coverage" raised no "red flags" for the Auditors: They created a blended fidelity coverage and retroactive policy that was designed to look like traditional, non-retroactive indemnity insurance and they gave the policy an effective date of August 1998.

- In October 2001, following an inquiry by the Commission's staff, the Auditors began looking more closely at the Policy and determined that it was not traditional insurance. Although the Auditors questioned whether the policy was insurance at all, they decided at the very least that the policy provided retroactive coverage and, therefore, that all premium expense associated with it should have been recorded in 1998. On November 13, 2001, Brightpoint announced a restatement,

which treated the Policy as real, but retroactive, insurance (the First Restatement). The First Restatement expensed the full policy "premium" in the fourth quarter of 1998, amounting to $15.3 million.

- On January 31, 2002, Brightpoint announced that it would further restate its financial statements to reflect that the "premiums" for the "retroactive coverage" under the Policy were only deposits with AIG. This second restatement came about when the Auditors learned that, one day before Brightpoint announced the First Restatement, it had "cancelled" the "retroactive coverage" and obtained from AIG a refund in the full amount of premiums Brightpoint had paid over and above the "insurance claim payments" made to it by AIG under the "retroactive coverage." The cancellation transaction left no doubt that the "retroactive coverage" was not insurance.

Based on the facts alleged, in the civil action the Commission charged:

- Brightpoint with securities fraud in violation of Section 17(a) of the Securities Act of 1933 (Securities Act) and Section 10(b) and Rule 10b-5 of the Securities Exchange Act of 1934 (Exchange Act) and with violating the reporting, books-and-records, and internal controls provisions of Exchange Act Sections 13(a) and 13(b)(2) and Exchange Act Rules 12b-20, 13a-1 and 13b2-1.

- AIG with securities fraud in violation of Section 10(b) of the Exchange Act and Rules 10b-5 and aiding and abetting violations of Exchange Act Rule 13b2-2 for making materially false statements to the Auditors.

- Delaney with securities fraud in violation of Section 17(a) of the Securities Act and Section 10(b) and Rule 10b-5 of the Exchange Act, with violating the reporting, books-and-records, and internal controls provisions of Exchange Act Section 13(b)(5) and Exchange Act Rule 13b2-1 and with violating Exchange Act Rule 13b2-2 for making materially false statements to the Auditors; Delaney was also alleged to be liable as a control person of Brightpoint, pursuant to Section 20 (a) of the Exchange Act, for Brightpoint's books-and-records violations under Exchange Act Section 13(a) and Exchange Act Rules 12b-20 and 13a-1.

- Harcharik with securities fraud in violation of Section 10(b) of the Exchange Act and Rules 10b-5 and with aiding and abetting violations of Exchange Act Section 13(b)(5) (internal controls and books-and-records provision) and Exchange Act Rules 13b2-1 (books-and-records provision) and 13b2-2 (making materially false statements to the Auditors).

- Bounsall with violating the books-and-records provisions of Rule 13b2-1 of the Exchange Act.

Without admitting or denying the allegations in the Commission's complaint, all of the defendants except Harcharik have agreed to settle the Commission's charges. In connection with the settlements, AIG agreed to pay a civil penalty of $10 million, Brightpoint agreed to pay a civil penalty of $450,000, Delaney agreed to pay a civil penalty of $100,000 and consented to the entry of a Final Judgment that permanently enjoins him

from future violations of the federal securities laws and permanently bars him from serving as an officer or director of any public company, and Bounsall agreed to pay a civil penalty of $45,000.

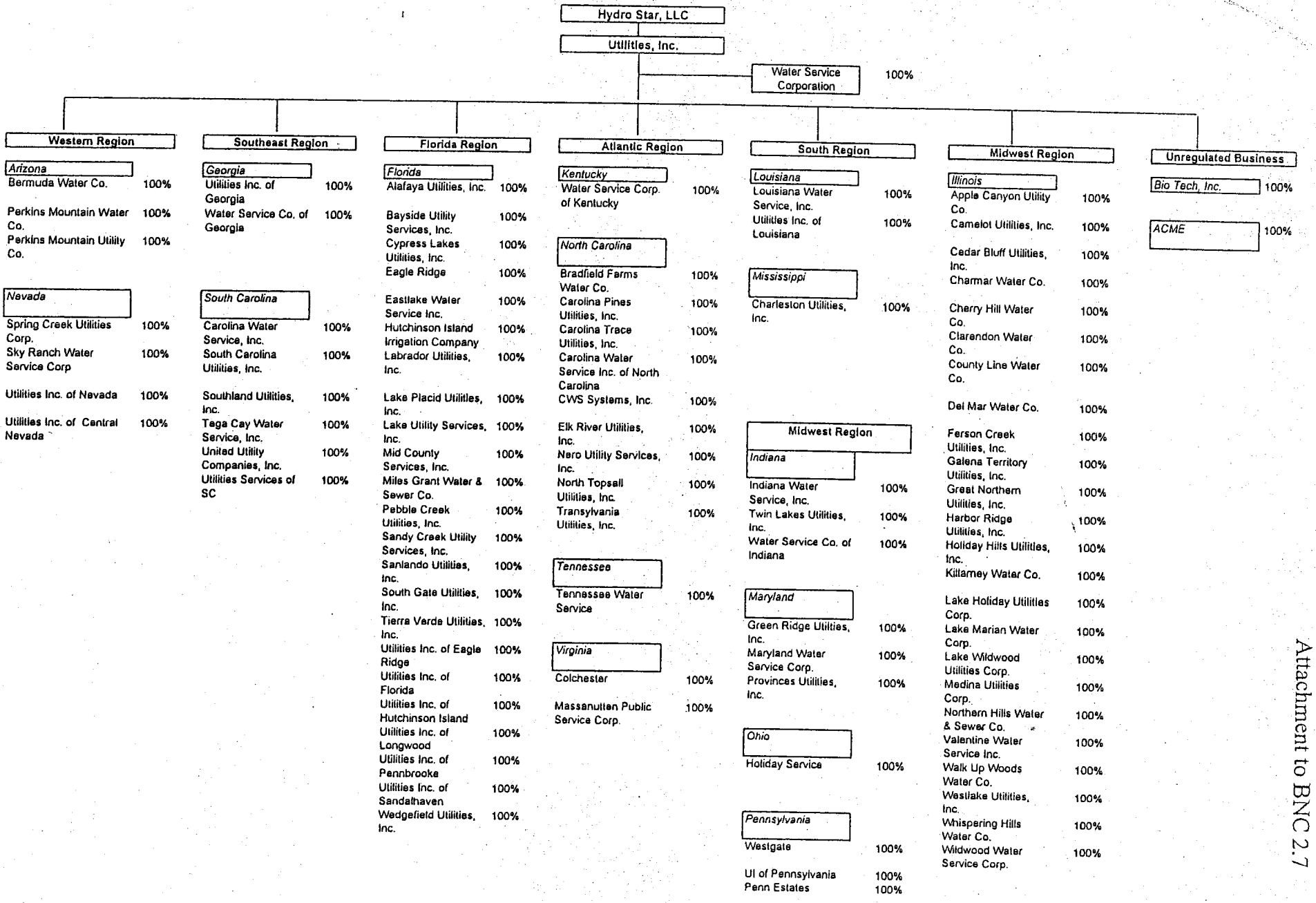
With regard to Harcharik, the Commission's complaint seeks the entry of a final judgment permanently enjoining him from future violations of the federal securities laws and ordering him to pay civil penalties.

Without admitting or denying the facts set forth in their respective administrative orders, AIG, Brightpoint and Bounsall also consented to the issuance of separate cease-and-desist orders. Specifically, AIG and Brightpoint consented to the issuance of separate orders (i) finding that each violated the antifraud provisions of the Exchange Act and, in the case of Brightpoint, the antifraud provisions of the Securities Act and the reporting provisions of the Exchange Act, and (ii) directing that AIG and Brightpoint, respectively, cease and desist from further violating those provisions. In addition, AIG consented to pay $100,000 in disgorgement and to retain an independent consultant to make recommendations to ensure that AIG's insurance products will not be used in the future to violate the securities laws. Bounsall consented to the issuance of a separate order (i) finding that he was a cause of Brightpoint's violation of the books-and-records provisions of Rule 13b2-1 of the Exchange Act and (ii) directing him to cease and desist from further violating that provision.

Brightpoint is a Delaware corporation headquartered in Plainfield, Indiana that provides outsourced services such as distribution, fulfillment, customized packaging, prepaid and e-business solutions, and inventory management in the wireless telecommunications and data industry. AIG is a Delaware corporation with its principal corporate offices located in New York, New York and is a holding company that, through its subsidiaries, is engaged in a broad range of insurance and insurance-related activities in the United States and abroad.

➤ SEC Complaint in this matter

http://www.sec.gov/litigation/litreleases/lr18340.htm



Response to BNC 2.7

Attachment to BNC 2.7

ATTACHMENT M