

DIRECT TESTIMONY

of

THERESA EBREY

Accountant
Accounting Department
Financial Analysis Division
Illinois Commerce Commission

RME ILLINOIS, INC.
REQUEST FOR ISSUANCE OF A CERTIFICATE OF PUBLIC CONVENIENCE AND
NECESSITY PURSUANT TO SECTION 8-406 OF THE PUBLIC UTILITIES ACT

DOCKET NOS. 07-0331/0332 (Consol.)

DECEMBER 11, 2007

1 Witness Identification

2 Q. Please state your name and business address.

3

4 A. My name is Theresa Ebrey. My business address is 527 East Capitol
5 Avenue, Springfield, Illinois 62701.

6

7 Q. By whom are you employed and in what capacity?

8

9 A. I am currently employed as an Accountant in the Accounting Department
10 of the Financial Analysis Division of the Illinois Commerce Commission
11 ("ICC" or "Commission").

12

13 Q. Please describe your professional background and affiliations.

14

15 A. I have a Bachelor of Science degree in Accounting from Quincy College.
16 I am a Certified Public Accountant, licensed to practice in the State of
17 Illinois. My prior accounting experience includes fifteen years as the
18 corporate controller of a large long-term care facility in Illinois, as well as
19 a period of time employed as an outside auditor of governmental
20 agencies. I joined the Staff of the Illinois Commerce Commission
21 ("Staff") in 1999.

22

23 Q. Have you previously testified before any regulatory bodies?

24

25 A. Yes. I have testified on several occasions before the Commission.

26

27 Q. What is the purpose of your testimony in this proceeding?

28

29 A. The purpose of my testimony is to present my position regarding:

30 1) Revenue requirements for both Falcon Crest and Eastgate
31 Estates to be used as the basis for setting rates for the two
32 wastewater systems;

33 2) The accounting journal entries proposed to record the
34 transactions by RME, Illinois, Inc. ("RME" or "Company");
35 and

36 3) My recommendation regarding financial information
37 reporting requirements for RME in the event the requested
38 certificates are granted.

39

40 Schedule Identification

41 Q. Are you sponsoring any schedules with your testimony?

42

43 A. Yes. I prepared the following schedules for each system (Falcon Crest
44 and Eastgate Estates) that show data based on the projected first year of
45 operations provided by the Company:

- 46 Revenue Requirement Schedules
- 47 Schedule 3.01 - Statement of Operating Income with Adjustments
- 48 Schedule 3.02 - Adjustments to Operating Income
- 49 Schedule 3.03 - Rate Base
- 50 Schedule 3.04 - Adjustments to Rate Base
- 51 Schedule 3.05 - Interest Synchronization Adjustment
- 52 Schedule 3.06 - Gross Revenue Conversion Factor

53

54 Adjustment Schedules

- 55 Schedule 3.07 - Adjustment to Payroll Tax Expense
- 56 Schedule 3.08 - Adjustment to Depreciation Expense
- 57 Schedule 3.09 - Adjustment to Materials & Supplies Expense
- 58 Schedule 3.10 - Adjustment to Advertising Expense
- 59 Schedule 3.11 - Adjustment for Working Capital Allowance
- 60 Schedule 3.12 - Adjustment to Plant in Service
- 61 Schedule 3.13 - Adjustment to Contributions in Aid of Construction

62

63 Proposed Journal Entries

- 64 Schedule 3.14 - Proposed Journal Entries to Record Transactions

65

66 Q. How are the schedules for each wastewater system identified?

67

68 A. Schedules for the Falcon Crest wastewater system are followed by the
69 letters FC while schedules for the Eastgate Estates wastewater system
70 are followed by the letters EE.

71

72 Q. Why did you find it necessary to prepare these revenue requirement
73 schedules?

74

75 A. I prepared revenue requirement schedules because the Company's
76 proposed revenue requirement calculation was incomplete. While the
77 Company did provide a schedule titled "Revenue Requirement
78 Calculations" (Supplemental Direct Testimony of Arthur R. Olson,
79 Revised Attachment 5), the schedule was not in the traditional format for
80 presenting a revenue requirement and omitted certain components of the
81 Company's cost of service. My schedules are consistent with the
82 revenue requirement format traditionally used in setting rates at the
83 Commission and calculate a revenue requirement based upon the limited
84 information the Company has been able to provide.

85

86 In addition, because there is no other wastewater system similar to
87 Falcon Crest and Eastgate Estates that exists in Illinois (ICC Staff Ex.
88 1.0, p. 12), Staff is unable to recommend the adoption of rates already in
89 use for a similar wastewater system operating in Illinois as is the

90 traditional practice for newly certificated areas. Thus, completely new
91 rates must be determined if the requested certificates are granted.

92

93 Revenue Requirement Schedules

94 Q. Please describe Schedule 3.01, Statement of Operating Income with
95 Adjustments.

96

97 A. Schedule 3.01 for each wastewater system derives the required revenue
98 at the Staff proposed Rate of Return. Column (b) presents the
99 Company's proposed operating statement at proposed rates for the test
100 year as reflected on its Exhibit 1.01-C. Column (c) reflects the total of all
101 Staff Adjustments shown on Schedules 3.02. Column (d) is Staff's
102 proposed operating statement inclusive of the Company's proposed
103 revenues. Column (e) is the necessary reduction from the Company's
104 proposed revenues, adjusted for Staff's Gross Revenue Conversion
105 Factor, to arrive at Staff's computed Revenue Requirement reflected in
106 column (f). Line 26 is the difference between current revenues and
107 required revenues as determined by Staff. Line 27 is Staff's calculated
108 percentage change in revenues. Net Operating Income in column (f),
109 line 21, is the product of Staff's proposed Rate Base, line 22, and Staff's
110 proposed Rate of Return, line 23. Lines 24 and 25 present the
111 Company's proposed Rate Base and the resulting Rate of Return for
112 informational purposes.

113

114 Q. Please describe Schedule 3.02, Adjustments to Operating Income.

115

116 A. Schedule 3.02 for each wastewater system identifies Staff's adjustment
117 to Operating Income. The source of each adjustment is shown in the
118 heading of each column. Column (i) is carried forward to Schedule 3.01,
119 column (c).

120

121 Q. Please describe Schedule 3.03, Rate Base.

122

123 A. Schedule 3.03 for each wastewater system compiles Staff's Rate Base.
124 Column (b) reflects the Company's proposed Rate Base. Column (c)
125 summarizes Staff's adjustment to Rate Base. Column (d) is the net of
126 columns (b) and (c), and reflects Staff's computed Rate Base.

127

128 Q. Please describe Schedule 3.04, Adjustments to Rate Base.

129

130 A. Schedule 3.04 for each wastewater system identifies Staff's adjustments
131 to Rate Base. The source of each adjustment is shown in the heading of
132 each column. Column (h) is carried forward to Schedule 3.03, column
133 (c).

134

135 Interest Synchronization

136 Q. Please describe Schedule 3.05, Interest Synchronization Adjustment.

137

138 A. Schedule 3.05 for each wastewater system computes the interest
139 component of Revenue Requirement. The Interest Expense
140 (component) is computed by multiplying the Rate Base by Weighted
141 Cost of Debt. The calculated Interest Expense is then compared against
142 the Interest Expense used by the Company in its computation of test
143 year Income Tax Expense. The tax effect of the difference in Interest
144 Expense is the adjustment for Interest Synchronization. The effect of
145 this adjustment is to ensure that the Revenue Requirement reflects the
146 tax savings generated by the interest component of Revenue
147 Requirement.

148

149 Gross Revenue Conversion Factor

150 Q. Please describe Schedule 3.06, Gross Revenue Conversion Factor?

151

152 A. Schedule 3.06 for each wastewater system presents Staff's proposed
153 Gross Revenue Conversion Factor ("GRCF"). The GRCF is applied to
154 the operating income deficiency to derive the change in Revenue
155 Requirement. It is based upon the applicable federal tax rate, State
156 income tax rate, and uncollectable rate. The GRCF is used in the
157 calculation of the Revenue Requirement in column (e) of Schedule 3.01.

158

159 Adjustment to Payroll Tax Expense

160 Q. Please describe Schedule 3.07, Adjustment to Payroll Tax Expense.

161

162 A. Schedule 3.07 for each wastewater system reflects my adjustment to
163 reflect payroll tax expense in the operating statements of the systems.

164 While the Company does include salaries and wages expense in its
165 operating statements, it did not also include the payroll taxes associated
166 with those salaries and wages.

167

168 Adjustment to Depreciation Expense

169 Q. Please describe Schedule 3.08, Adjustment to Depreciation Expense.

170

171 A. Schedule 3.08 for each wastewater system presents my adjustment to
172 Depreciation expense based on Staff's proposed Company investment in
173 Utility Plant in Service.

174

175 Adjustment to Materials & Supplies Expense

176 Q. Please describe Schedule 3.09, Adjustment to Materials & Supplies
177 Expense.

178 A. Schedule 3.09 for each wastewater system presents my adjustment to
179 Materials & Supplies expense. In response to Staff data requests TEE
180 2.03 for Falcon Crest and TEE 2.07 for Eastgate Estates, the Company

181 indicated that it had overstated the materials and supplies expense on its
182 Exhibits 1.01-C for each wastewater system. My adjustment reflects the
183 reduction in expense as indicated by the Company.

184

185 Adjustment to Advertising Expense

186 Q. Please describe Schedule 3.10, Adjustment to Advertising Expense.

187

188 A. Schedule 3.10 for each wastewater system reflects my adjustment to
189 disallow advertising expense not allowable per the Public Utilities Act.
190 My understanding of Section 9-225(2) of the Act is that goodwill
191 advertising, which is advertising designed primarily to promote the image
192 or name of the Company or promote industry wide issues, should not be
193 considered for the purpose of determining rates for gas or electric
194 utilities. Although Section 9-225(2) and (3) specifically state that they
195 apply to electric and gas utilities, it is equally important that wastewater
196 utilities do not recover rates for goodwill advertising. It is not appropriate
197 for captive customers to pay for advertising the purpose of which is not to
198 inform the customer regarding service-related matters, but rather to
199 promote the Company. Captive customers should not pay rates that
200 include amounts for promoting a product that they have no choice but to
201 purchase.

202 As it was explained by the Company, the proposed advertising expense
203 is to “promote or retain the use of utility services”(Company Revised

204 Attachment 5). Since the customers in these wastewater systems would
205 have no options in their wastewater service provider, the proposed costs
206 for advertising would not provide any benefit to the customers in the
207 Falcon Crest and Eastgate Estate systems.

208

209 Adjustment for Working Capital Allowance

210 Q. Please describe Schedule 3.11, Adjustment for Working Capital
211 Allowance.

212

213 A. Schedule 3.11 for each wastewater system presents my adjustment for a
214 working capital allowance for each utility based on the 45-day standard
215 formula approach. The Commission has historically allowed this method
216 of computing a working capital allowance for small utility operations.

217

218 Adjustment to Plant in Service

219 Q. Please describe Schedule 3.12, Adjustment to Plant in Service.

220

221 A. Schedule 3.12 for each wastewater system reflects the adjustment to
222 increase plant in service to the total amounts of sewer system costs as
223 that term is used by the Company. Since the Company will own the total
224 sewer system, all costs must be reflected in Utility Plant in Service in the
225 revenue requirement. The associated Accumulated Depreciation is also
226 adjusted to reflect the change in total Plant in Service.

227

228 Adjustment to Contributions in Aid of Construction

229 Q. Please describe Schedule 3.13, Adjustment to Contributions in Aid of
230 Construction.

231

232 A. Schedule 3.13 for each wastewater system reflects the adjustment to
233 Contributions in Aid of Construction (“CIAC”). Per the recommendation
234 of Staff witness Marr, the Company’s investment in each system should
235 be increased (ICC Staff Ex. 1.0, pp. 11-13). Thus I am adjusting the
236 amount of Contributed Plant for each system to reflect the higher
237 investment level recommended for the Company as well as the original
238 cost of Utility Plant in Service. Similarly, I am adjusting the Accumulated
239 Amortization of CIAC to reflect the Staff proposed CIAC to be reflected in
240 Rate Base.

241

242 Proposed Accounting Journal Entries

243 Q. Has the Company provided proposed accounting journal entries for the
244 acquisition of the wastewater plant?

245

246 A. Yes. In response to Staff data request TEE 1.08, the Company
247 proposed to record the original cost of the plant acquired in each docket
248 as follows:

249	Account	Description	Debit	Credit
250	Sewer Assets			
251				
252	<u>Journal Entry to Record Contribution by Developer</u>			
253				
254	101 Sewer Utility Plant		\$163,635	
255	271 Contributions in Aid of Construction			\$163,635

256

257 Q. Are there any modifications to be made to the Company’s proposed
258 accounting journal entries?

259

260 A. Yes. Since the response was made to Staff data request TEE 1.08, the
261 Company has agreed that the entire cost of utility plant will not be
262 contributed by the developer. However, no update to the data request
263 response has been made. In addition, while Mr. Olson has stated that
264 he will follow the Uniform System of Accounts for Sewer Utilities
265 Operating in Illinois (“USOA”) (Company response to Staff data request
266 TEE 1.06), his proposed journal entry does not reflect that. Account 101
267 is simply the control account for plant accounts 351 through 398. The
268 information for the detailed plant account distribution has not been
269 provided to Staff. That detailed plant account distribution must be
270 included in the final journal entries filed by RME.

271

272 Q. What is your recommendation for the appropriate accounting journal
273 entries to be made by RME?

274

275 A. I recommend that the cost of the entire sewer system be debited to the
276 appropriate detailed plant accounts as set forth in the Uniform System of
277 Accounts for Sewer Utilities Operating in Illinois with the summation of
278 those accounts being included in Account 101, Sewer Utility Plant. The
279 investment to be made by the Company as proposed by Staff should be
280 credited to Account 131, Cash and the difference, the contribution from
281 the developer, be credited to Account 271, Contribution in Aid of
282 Construction. The journal entries I propose are shown on Schedule 3.14
283 for each wastewater system.

284

285 Q. Do you have any recommendations regarding the accounting journal
286 entries to be used in recording the sewer systems?

287

288 A. Yes. I recommend that the Commission accept the journal entries
289 presented on my Schedule 3.14.

290

291 I also recommend that RME file with the Chief Clerk of the Commission,
292 with a copy to the Manager of Accounting, copies of actual accounting
293 journal entries used to record the wastewater systems within six months
294 of closing the transactions and if the transactions have not occurred
295 within six months of the order date in this proceeding, then RME should
296 file a report regarding the status of the transaction within six (6) months
297 from the date of the order in this proceeding and every six (6) months

298 thereafter until the actual journal entries have been filed with the
299 Commission.

300

301 Financial Reporting

302 Q. What is your recommendation for financial reporting for these new
303 wastewater systems?

304

305 A. I recommend that RME provide to the Chief Clerk of the Commission,
306 with a copy to the Manager of Accounting, by March 31 and September
307 30, of each year, a copy of actual financial information through June 30
308 and December 31 for the two wastewater systems until the Commission
309 makes a revenue requirement determination in a rate proceeding. The
310 financial information should include, but not be limited to, the aggregated
311 plant investment, annual revenues, direct expenses, allocated expenses,
312 Contributions in Aid of Construction, and number of customers. In
313 addition, the report should include an explanation of any significant
314 changes in the status or operations of the systems. This will allow the
315 Commission to determine whether the rates granted in this proceeding
316 need to be reassessed.

317

318 Q. Do you have any concerns regarding the Company's ability to fulfill this
319 financial reporting recommendation?

320

321 A. Yes. Staff has been working with the Company, specifically Mr. Olson,
322 since these cases were initially filed on May 23, 2007. Numerous phone
323 conferences, personal meetings, and data requests and responses have
324 passed between Staff and the Company. Although Mr. Olson's
325 statements and actions communicate a desire to cooperate and to
326 provide Staff with the information requested, it has taken numerous
327 attempts to get the requested information. In some cases the
328 information has yet to be provided. Based on those discussions with Mr.
329 Olson and the documents provided, I have concerns whether RME has
330 the accounting knowledge and resources to provide appropriate financial
331 information.

332

333 Q. Please provide the basis for your concerns regarding the Companies'
334 ability to fulfill a financial reporting requirement.

335

336 A. The basis for my concern is that the Companies did not file schedules
337 that had any resemblance to revenue requirement schedules in order to
338 develop initial rates in this proceeding. Staff had an initial meeting with
339 Mr. Olson in late June to explain to Mr. Olson how rates are set for
340 regulated utilities in Illinois, the information that would be needed from
341 the Companies to determine a revenue requirement, and how that
342 information should be presented. Examples of specific cases that are
343 publicly available on the Commission's e-docket system were given to

344 him. However, the rates and cost information included in Mr. Olson's
345 revised filing disregarded the information that Staff had given to Mr.
346 Olson and continued to take a bottom up approach, i.e. estimating a per
347 customer cost to arrive at the total cost to operate the system rather than
348 determining the total cost to run the system and then setting rates based
349 on those total costs.

350

351 Q. Do you doubt that Mr. Olson will provide the required information?

352

353 A. I am concerned that regardless of how well-meaning Mr. Olson may be,
354 he will not provide required information simply because he does not
355 understand what information is required. This is exemplified already by
356 the Company's incomplete revenue requirement and the proposed
357 journal entries that are not consistent with the USOA. My concern is that
358 the appropriate information will not be filed simply because Mr. Olson
359 does not understand what is being requested.

360

361 Q. Do you have a suggestion as to how RME could relieve your concern?

362

363 A. Yes. I would suggest that RME retain the services of a certified public
364 accountant familiar with public utility regulation in Illinois to set up the
365 books for RME and advise the Company on matters of reporting to the
366 Commission.

367

368 Q. Why is it important that the Company fulfill Staff's recommended financial
369 information reporting requirements?

370

371 A. Staff's *semi-annual* reporting requirement for this Company is important
372 because it would provide Staff the opportunity to assess (1) the
373 reasonableness of the Company's rates twice a year, based on certain
374 financial information submitted by the Company; and (2) the Company's
375 ability to fulfill other financial reporting requirements that apply to Illinois
376 public utilities, such as the Form 22 annual report filing requirement per
377 Section 5-109 of the Public Utilities Act.

378

379 Recommendations

380 Q. If the Commission grants the Certificates requested in these
381 proceedings, do you have any recommendations?

382

383 A. Yes. If the Commission grants the requested certificates, I recommend
384 that the Commission:

385 1) Approve the Revenue Requirements proposed by Staff as
386 reflected on Schedules 3.01 – 3.13 (FC) and Schedules 3.01 –
387 3.13 (EE);

- 388 2) Approve the proposed accounting journal entries to record the
389 projected original cost of the Falcon Crest and Eastgate Estate
390 systems as set forth in Schedules 3.14 (FC) and 3.14(EE);
- 391 3) Order RME to file with the Chief Clerk of the Commission, with a
392 copy to the Manager of Accounting, copies of actual accounting
393 journal entries used to record the wastewater systems within six
394 months of closing the transactions and if the transactions have not
395 occurred within six months of the order date in this proceeding,
396 then RME should file a report regarding the status of the
397 transaction within six (6) months from the date of the order in this
398 proceeding and every six (6) months thereafter until the actual
399 journal entries have been filed with the Commission;
- 400 4) Require RME to provide actual financial information to the Chief
401 Clerk of the Commission, with a copy to the Manager of
402 Accounting, concerning the Falcon Crest and Eastgate Estate
403 systems by March 31st and September 30th of each year until
404 rates are set in a future rate case; and
- 405 5) Recommend that RME retain the services of a certified public
406 accountant familiar with public utility regulation in Illinois to set up
407 the books for RME and advise the Company on matters of
408 reporting to the Commission.
- 409

410 Conclusion

411 Q. Does this question end your prepared direct testimony?

412

413 A. Yes.

Falcon Crest
Statement of Operating Income with Adjustments
 For the Test Year Ending December 31, 2008

Line No.	Description	Company Proposed (Co. Ex. 1.01-C)	Staff Adjustments (Sch. 3.02 (FC))	Company Proposed with Staff Adjustments (Cols. b+c)	Staff Adjustment To Proposed Revenues	Staff Proposed (Cols. d+e)
	(a)	(b)	(c)	(d)	(e)	(f)
1	Wastewater Service Revenues	\$ 52,340	-	\$ 52,340	\$ 35,603	\$ 87,943
2	Other Operating Revenues	-	-	-	-	-
3	Total Operating Revenue	52,340	-	52,340	35,603	87,943
4		-	-	-	-	-
5	Salaries & Wages Expense	11,900	-	11,900	-	11,900
6	Sludge Removal	2,700	-	2,700	-	2,700
7	Purchased Power	1,700	-	1,700	-	1,700
8	Materials & Supplies Expense	800	(250)	550	-	550
9	Contractual Services	1,588	-	1,588	-	1,588
10	Insurance	1,200	-	1,200	-	1,200
11	Depreciation & Amortization Expense	5,280	4,028	9,308	-	9,308
12	Regulatory Assessment Fees	532	-	532	-	532
13	Payroll Taxes	-	910	910	-	910
14	Advertising Expense	1,000	(1,000)	-	-	-
15	Total Operating Expense					
16	Before Income Taxes	26,700	3,688	30,388	-	30,388
17	State Income Tax	808	(1,498)	(690)	2,599	1,909
18	Federal Income Tax	9,400	(2,855)	6,545	4,951	11,496
19	Deferred Taxes and ITCs Net	-	-	-	-	-
20	Total Operating Expenses	36,908	(665)	36,243	7,550	43,793
21	NET OPERATING INCOME	\$ 15,432	\$ 665	\$ 16,097	\$ 28,053	\$ 44,150
22	Staff Rate Base (ICC Staff Exhibit 3.0, Schedule 3.03 (FC), Column (d), Line 22)					\$ 455,155
23	Staff Overall Rate of Return (ICC Staff Exhibit 2.0)					9.70%
24	Co. Rate Base (Sch 3.03 (FC), Col (b), Line 22)	\$ 255,160				
25	Co. Overall Rate of Return (1)	6.05%				
26	Revenue Change (Col. (f) Line 3 minus Col. (d), Line 3)				\$ 35,603	
27	Percentage Change (Col. (f), Line 24 divided by Col. (d), line 3)				68.02%	

Note (1) Line 21 divided by line 24

Falcon Crest
Adjustments to Operating Income
 For the Test Year Ending December 31, 2008

Line No.	Description	Interest Synchronization (Sch 3.05 (FC))	Payroll Taxes (Sch 3.07 (FC))	Depreciation Expense (Sch 3.08 (FC))	Matis & Supp Expense (Sch 3.09 (FC))	Advertising Expense (Sch 3.10 (FC))	(Source)	(Source)	Subtotal Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Wastewater Service Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Other Operating Revenues	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4		-	-	-	-	-	-	-	-
5	Salaries & Wages Expense	-	-	-	-	-	-	-	-
6	Sludge Removal	-	-	-	-	-	-	-	-
7	Purchased Power	-	-	-	-	-	-	-	-
8	Materials & Supplies Expense	-	-	-	(250)	-	-	-	(250)
9	Contractual Services	-	-	-	-	-	-	-	-
10	Insurance	-	-	-	-	-	-	-	-
11	Depreciation & Amortization Expense	-	-	4,028	-	-	-	-	4,028
12	Regulatory Assessment Fees	-	-	-	-	-	-	-	-
13	Payroll Taxes	-	910	-	-	-	-	-	910
14	Advertising Expense	-	-	-	-	(1,000)	-	-	(1,000)
15	Total Operating Expense	-	-	-	-	-	-	-	-
16	Before Income Taxes	-	910	4,028	(250)	(1,000)	-	-	3,688
17	State Income Tax	(1,229)	(66)	(294)	18	73	-	-	(1,498)
18	Federal Income Tax	(2,342)	(127)	(560)	35	139	-	-	(2,855)
19	Deferred Taxes and ITCs Ne	-	-	-	-	-	-	-	-
20	Total Operating Expenses:	(3,571)	717	3,174	(197)	(788)	-	-	(665)
21	NET OPERATING INCOME	\$ 3,571	\$ (717)	\$ (3,174)	\$ 197	\$ 788	\$ -	\$ -	\$ 665

Falcon Crest
Rate Base
 For the Test Year Ending December 31, 2008

Line No.	Description	Company Proposed Rate Base (Co response to Staff DR TEE 3.11)	Staff Adjustments (Sch. 3.04 (FC))	Staff Proposed Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Utility Plant	\$ 465,388	\$ 363,612	\$ 829,000
2	Accumulated Depreciation and Amortization	(10,591)	(7,272)	(17,863)
3	Net Plant	454,797	356,340	811,137
4	Additions to Rate Base			
5	Working Capital	-	2,635	2,635
6		-	-	-
7		-	-	-
8		-	-	-
9		-	-	-
10		-	-	-
11	Deductions From Rate Base			
12	Contributions in Aid of Construction	(201,388)	(162,224)	(363,612)
13	Accumulated Amortization	4,028	3,244	7,272
14		-	-	-
15	Customer Deposits	(2,277)	-	(2,277)
16		-	-	-
17		-	-	-
18		-	-	-
19		-	-	-
20		-	-	-
21		-	-	-
22	Rate Base	<u>\$ 255,160</u>	<u>\$ 199,995</u>	<u>\$ 455,155</u>

Falcon Crest
Adjustments to Rate Base
 For the Test Year Ending December 31, 2008

Line No.	Description	Cash Working Capital (Sch. 3.11 (FC))	Plant in Service (Sch. 3.12 (FC))	CIAC (Sch. 3.13 (FC))	(Source)	(Source)	(Source)	Total Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
1	Gross Utility Plant	\$ -	\$ 363,612	\$ -	\$ -	\$ -	\$ -	\$ 363,612
2	Accumulated Depreciation and Amortization	-	(7,272)	-	-	-	-	(7,272)
3	Net Plant	-	356,340	-	-	-	-	356,340
4	Additions to Rate Base							
5	Working Capital	2,635	-	-	-	-	-	2,635
6		-	-	-	-	-	-	-
7		-	-	-	-	-	-	-
8		-	-	-	-	-	-	-
9		-	-	-	-	-	-	-
10		-	-	-	-	-	-	-
11	Deductions From Rate Base							
12	Contributions in Aid of Construction	-	-	(162,224)	-	-	-	(162,224)
13	Accumulated Amortization	-	-	3,244	-	-	-	3,244
14		-	-	-	-	-	-	-
15	Customer Deposits	-	-	-	-	-	-	-
16		-	-	-	-	-	-	-
17		-	-	-	-	-	-	-
18		-	-	-	-	-	-	-
19		-	-	-	-	-	-	-
20		-	-	-	-	-	-	-
21		-	-	-	-	-	-	-
22	Rate Base	\$ 2,635	\$ 356,340	\$ (158,980)	\$ -	\$ -	\$ -	\$ 199,995

Falcon Crest
Interest Synchronization Adjustment
 For the Test Year Ending December 31, 2008

-

Line No.	Description	Amount
	(a)	(b)
1	Rate Base	\$ 455,155 ⁽¹⁾
2	Weighted Cost of Debt	3.70% ⁽²⁾
3	Synchronized Interest Per Staff (Line 1 x Line 2)	16,841
4	Company Interest Expense	-
5	Increase (Decrease) in Interest Expense	16,841
6	Increase (Decrease) in State Income Tax Expense	
7	at 7.300%	\$ (1,229)
8	Increase (Decrease) in Federal Income Tax Expense	
9	at 15.000%	\$ (2,342)

(1) Source: ICC Staff Exhibit 3.0, Schedule 3.03 (FC), Column (d), Line 22.

(2) Source: ICC Staff Exhibit 2.0.

Falcon Crest
Gross Revenue Conversion Factor
 For the Test Year Ending December 31, 2008

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Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	1.000000
2	Uncollectibles	0.0000%	<u>0.000000</u>	
3	State Taxable Income		1.000000	
4	State Income Tax	7.3000%	<u>0.073000</u>	<u>0.073000</u>
5	Federal Taxable Income		<u>0.927000</u>	<u>0.927000</u>
6	Federal Income Tax	15.0000%	<u>0.139050</u>	<u>0.139050</u>
7	Operating Income		<u>0.787950</u>	<u>0.787950</u>
8	Gross Revenue Conversion Factor Per Staff (Line 1 / Line 7)		<u>1.269116</u>	<u>1.269116</u>

Falcon Crest
Payroll Tax Expense
For the Test Year Ending December 31, 2008

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>	<u>Source</u>
	(a)	(b)	(c)
1	Wages and Salaries	\$ 11,900	Company Exhibit 1.01-C
2	Employer Payroll Tax rate	<u>7.65%</u>	FICA rate
3	Payroll Tax Expense	<u><u>\$ 910</u></u>	Line 1 times line 2

Falcon Crest
 Depreciation Expense
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Amount (b)	Source (c)
1	Plant in Service - Company investment per Staff	\$ 465,388	ICC Staff Exhibit 1.0
2	Depreciation Rate per Company	<u>2%</u>	ICC Staff Exhibit 3.0, Schedule 3.12 (FC), line 5
3	Annual Depreciation Expense per Staff	\$ 9,308	Line 1 times line 2
4	Test Year Depreciation per Company	<u>5,280</u>	Company Exhibit 1.01-C
5	Adjustment for Depreciation Expense	<u><u>\$ 4,028</u></u>	Line 3 minus line 4

Falcon Crest
Materials & Supplies Expense
For the Test Year Ending December 31, 2008

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>	<u>Source</u>
	(a)	(b)	(c)
1	Materials & Supplies per Staff	\$ 550	Company response to Staff data request TEE 2.03
2	Materials & Supplies per Company	<u>800</u>	Company Exhibit 1.01-C
3	Adjustment to Materials & Supplies	<u><u>\$ (250)</u></u>	Line 1 minus line 2

Falcon Crest
Advertising Expense
For the Test Year Ending December 31, 2008

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>	<u>Source</u>
	(a)	(b)	(c)
1	Advertising expense per Staff	\$ -	
2	Advertising Expense per Company	<u>1,000</u>	Company Exhibit 1.01-C
3	Adjustment to Advertising Expense	<u>\$ (1,000)</u>	Line 1 minus line 2

Falcon Crest
 Working Capital Allowance
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Amount (b)	Source (c)
1	Operating Expenses	\$ 30,388	Schedule 3.01, column (f), line 16
2	Less Depreciation Expense	<u>9,308</u>	Schedule 3.01, column (f), line 11
3	Subtotal	\$ 21,080	Sum of lines 1 and 2
4	1/8 Method	<u>8</u>	
5	Cash Working Capital Allowance	<u><u>\$ 2,635</u></u>	Line 3 divided by line 4

Falcon Crest
 Adjustments to Plant
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Amount (b)	Source (c)
1	Plant in Service per Staff	\$ 829,000	Company response to Staff data request TEE 3.03
2	Plant in Service per Company	<u>465,388</u>	Company response to Staff data request TEE 3.11
3	Adjustment to Plant in Service	<u>\$ 363,612</u>	Line 1 minus line 2
4	Accumulated Depreciation per Company	\$ (10,591)	Company response to Staff data request TEE 3.11
5	Depreciation rate per Company	<u>2%</u>	Company response to Staff data request TEE 3.11
6	Adjustment to Accumulated Depreciation	<u>\$ (7,272)</u>	Line 3 times line 5

Falcon Crest
 Adjustments to Contributions in Aid of Construction
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Amount (b)	Source (c)
1	Plant in Service per Staff	\$ 829,000	Company response to Staff data request TEE 3.03
2	Company investment per Staff	<u>465,388</u>	ICC Staff Exhibit 1.0
3	Contributions in Aid of Construction per Staff	\$ (363,612)	Line 2 minus line 1
4	Contributions in Aid of Construction per Company	<u>(201,388)</u>	Company response to Staff data request TEE 3.11
5	Adjustment to Contribution in Aid of Construction	<u><u>\$ (162,224)</u></u>	Line 3 minus line 4
6	Accumulated Amortization of CIAC per Company	\$ 4,028	Company response to Staff data request TEE 3.11
7	Depreciation rate per Company	<u>2%</u>	Line 6 divided by line 4
8	Adjustment to Accumulated Depreciation	<u><u>\$ 3,244</u></u>	Line 5 times line 7

Falcon Crest
Proposed Accounting Journal Entries

<u>Line No.</u>	<u>Account Number</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
	(a)	(b)	(c)	(d)
1	various	Utility Plant in Service	\$ 829,000	
2	131	Cash		\$ 465,388
3	271	Contributions in Aid of Construction		<u>363,612</u>
4		Totals	<u>\$ 829,000</u>	<u>\$ 829,000</u>

Eastgate Estates
Statement of Operating Income with Adjustments
 For the Test Year Ending December 31, 2008

Line No.	Description	Company Proposed (Co. Exhibit 1.01-C)	Staff Adjustments (Sch. 3.02 (EE))	Company Proposed with Staff Adjustments (Cols. b+c)	Staff Adjustment To Proposed Revenues	Staff Proposed (Cols. d+e)
	(a)	(b)	(c)	(d)	(e)	(f)
1	Wastewater Service Revenues	\$ 10,706	-	\$ 10,706	\$ 17,719	\$ 28,425
2	Other Operating Revenues	-	-	-	-	-
3	Total Operating Revenue	10,706	-	10,706	17,719	28,425
4		-	-	-	-	-
5	Salaries & Wages Expense	2,450	-	2,450	-	2,450
6	Sludge Removal	540	-	540	-	540
7	Purchased Power	350	-	350	-	350
8	Materials & Supplies Expense	300	(150)	150	-	150
9	Contractual Services	318	-	318	-	318
10	Insurance	260	-	260	-	260
11	Depreciation & Amortization Expense	1,080	2,370	3,450	-	3,450
12	Regulatory Assessment Fees	172	-	172	-	172
13	Payroll Taxes	-	187	187	-	187
14	Advertising Expense	210	(210)	-	-	-
15	Total Operating Expense					
16	Before Income Taxes	5,680	2,198	7,878	-	7,878
17	State Income Tax	163	(621)	(458)	1,293	835
18	Federal Income Tax	1,900	(1,183)	717	2,464	3,181
19	Deferred Taxes and ITCs Net	-	-	-	-	-
20	Total Operating Expenses	7,743	394	8,137	3,757	11,894
21	NET OPERATING INCOME	\$ 2,963	\$ (394)	\$ 2,569	\$ 13,962	\$ 16,531
22	Staff Rate Base (Sch 3.03 (EE), Col (d), Line 22)					\$ 170,427
23	Staff Overall Rate of Return (ICC Staff Exhibit 2.0)					9.70%
24	Co. Rate Base (Sch 3.03(EE), Col (b), Line 22)	\$ 53,736				
25	Co. Overall Rate of Return (1)	5.51%				
26	Revenue Change (Col. (f) Line 3 minus Col. (d), Line 3)				\$ 17,719	
27	Percentage Change (Col. (f), Line 24 divided by Col. (d), line 3)					165.51%

Note (1) Line 21 divided by line 24

Eastgate Estates
Adjustments to Operating Income
 For the Test Year Ending December 31, 2008

Line No.	Description	Interest Synchronization (Sch 3.05 (EE))	Payroll Taxes (Sch 3.07 (EE))	Depreciation Expense (Sch 3.08 (EE))	Matis & Supp Expense (Sch 3.09 (EE))	Advertising Expense (Sch 3.10 (EE))	(Source)	(Source)	Subtotal Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Wastewater Service Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Other Operating Revenues	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4		-	-	-	-	-	-	-	-
5	Salaries & Wages Expense	-	-	-	-	-	-	-	-
6	Sludge Removal	-	-	-	-	-	-	-	-
7	Purchased Power	-	-	-	-	-	-	-	-
8	Materials & Supplies Expense	-	-	-	(150)	-	-	-	(150)
9	Contractual Services	-	-	-	-	-	-	-	-
10	Insurance	-	-	-	-	-	-	-	-
11	Depreciation & Amortization Expense	-	-	2,370	-	-	-	-	2,370
12	Regulatory Assessment Fees	-	-	-	-	-	-	-	-
13	Payroll Taxes	-	187	-	-	-	-	-	187
14	Advertising Expense	-	-	-	-	(210)	-	-	(210)
15	Total Operating Expense	-	-	-	-	-	-	-	-
16	Before Income Taxes	-	187	2,370	(150)	(210)	-	-	2,198
17	State Income Tax	(460)	(14)	(173)	11	15	-	-	(621)
18	Federal Income Tax	(877)	(26)	(330)	21	29	-	-	(1,183)
19	Deferred Taxes and ITCs Ne	-	-	-	-	-	-	-	-
20	Total Operating Expenses:	(1,337)	147	1,867	(118)	(166)	-	-	394
21	NET OPERATING INCOME	\$ 1,337	\$ (147)	\$ (1,867)	\$ 118	\$ 166	\$ -	\$ -	\$ (394)

Eastgate Estates
Rate Base
 For the Test Year Ending December 31, 2008

Line No.	Description	Company Proposed Rate Base (Co response to Staff DR TEE 3.11)	Staff Adjustments (Sch. 3.04 (EE))	Staff Proposed Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Utility Plant	\$ 172,508	\$ 84,492	\$ 257,000
2	Accumulated Depreciation and Amortization	(2,166)	(1,690)	(3,856)
3	Net Plant	170,342	82,802	253,144
4	Additions to Rate Base			
5	Working Capital	-	553	553
6		-	-	-
7		-	-	-
8		-	-	-
9		-	-	-
10		-	-	-
11	Deductions From Rate Base			
12	Contributions in Aid of Construction	(118,508)	34,016	(84,492)
13	Accumulated Amortization	2,370	(680)	1,690
14		-	-	-
15	Customer Deposits	(468)	-	(468)
16		-	-	-
17		-	-	-
18		-	-	-
19		-	-	-
20		-	-	-
21		-	-	-
22	Rate Base	<u>\$ 53,736</u>	<u>\$ 116,691</u>	<u>\$ 170,427</u>

Eastgate Estates
Adjustments to Rate Base
 For the Test Year Ending December 31, 2008

Line No.	Description	Cash Working Capital (Sch. 3.11 (EE))	Plant in Service (Sch. 3.12 (EE))	CIAC (Sch. 3.13 (EE))	(Source)	(Source)	(Source)	Total Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
1	Gross Utility Plant	\$ -	\$ 84,492	\$ -	\$ -	\$ -	\$ -	\$ 84,492
2	Accumulated Depreciation and Amortization	-	(1,690)	-	-	-	-	(1,690)
3	Net Plant	-	82,802	-	-	-	-	82,802
4	Additions to Rate Base							
5	Working Capital	553	-	-	-	-	-	553
6		-	-	-	-	-	-	-
7		-	-	-	-	-	-	-
8		-	-	-	-	-	-	-
9		-	-	-	-	-	-	-
10		-	-	-	-	-	-	-
11	Deductions From Rate Base							
12	Contributions in Aid of Construction	-	-	34,016	-	-	-	34,016
13	Accumulated Amortization	-	-	(680)	-	-	-	(680)
14		-	-	-	-	-	-	-
15	Customer Deposits	-	-	-	-	-	-	-
16		-	-	-	-	-	-	-
17		-	-	-	-	-	-	-
18		-	-	-	-	-	-	-
19		-	-	-	-	-	-	-
20		-	-	-	-	-	-	-
21		-	-	-	-	-	-	-
22	Rate Base	\$ 553	\$ 82,802	\$ 33,336	\$ -	\$ -	\$ -	\$ 116,691

Eastgate Estates
Interest Synchronization Adjustment
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Amount (b)
1	Rate Base	\$ 170,427 ⁽¹⁾
2	Weighted Cost of Debt	3.70% ⁽²⁾
3	Synchronized Interest Per Staff (Line 1 x Line 2)	6,306
4	Company Interest Expense	<u>-</u>
5	Increase (Decrease) in Interest Expense	<u>6,306</u>
6	Increase (Decrease) in State Income Tax Expense	
7	at 7.300%	<u>\$ (460)</u>
8	Increase (Decrease) in Federal Income Tax Expense	
9	at 15.000%	<u>\$ (877)</u>

(1) Source: ICC Staff Exhibit 3.0, Schedule 3.03 (EE), Column (d), Line 22.

(2) Source: ICC Staff Exhibit 2.0.

Eastgate Estates
Gross Revenue Conversion Factor
 For the Test Year Ending December 31, 2008

Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	1.000000
2	Uncollectibles	0.0000% ⁽¹⁾	<u>0.000000</u>	
3	State Taxable Income		1.000000	
4	State Income Tax	7.3000%	<u>0.073000</u>	<u>0.073000</u>
5	Federal Taxable Income		<u>0.927000</u>	<u>0.927000</u>
6	Federal Income Tax	15.0000%	<u>0.139050</u>	<u>0.139050</u>
7	Operating Income		<u>0.787950</u>	<u>0.787950</u>
8	Gross Revenue Conversion Factor Per Staff (Line 1 / Line 7)		<u>1.269116</u>	<u>1.269116</u>

Eastgate Estates
Payroll Tax Expense
For the Test Year Ending December 31, 2008

Line No.	Description (a)	Amount (b)	Source (c)
1	Wages and Salaries	\$ 2,450	Company Exhibit 1.01-C
2	Employer Payroll Tax rate	<u>7.65%</u>	FICA rate
3	Payroll Tax Expense	<u>\$ 187</u>	Line 1 times line 2

Eastgate Estates
 Depreciation Expense
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Amount (b)	Source (c)
1	Plant in Service - Company investment per Staff	\$ 172,508	ICC Staff Exhibit 1.0
2	Depreciation Rate per Company	<u>2%</u>	ICC Staff Exhibit 3.0, Schedule 3.12 (EE), line 5
3	Annual Depreciation Expense per Staff	\$ 3,450	Line 1 times line 2
4	Test Year Depreciation per Company	<u>1,080</u>	Company Exhibit 1.01-C
5	Adjustment for Depreciation Expense	<u><u>\$ 2,370</u></u>	Line 3 minus line 4

Eastgate Estates
Materials & Supplies Expense
For the Test Year Ending December 31, 2008

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>	<u>Source</u>
	(a)	(b)	(c)
1	Materials & Supplies per Staff	\$ 150	Company response to Staff data request TEE 2.07
2	Materials & Supplies per Company	<u>300</u>	Company Exhibit 1.01-C
3	Adjustment to Materials & Supplies	<u><u>\$ (150)</u></u>	Line 1 minus line 2

Eastgate Estates
Advertising Expense
For the Test Year Ending December 31, 2008

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>	<u>Source</u>
	(a)	(b)	(c)
1	Advertising expense per Staff	\$ -	
2	Advertising Expense per Company	<u>210</u>	Company Exhibit 1.01-C
3	Adjustment to Advertising Expense	<u><u>\$ (210)</u></u>	Line 1 minus line 2

Eastgate Estates
 Working Capital Allowance
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Amount (b)	Source (c)
1	Operating Expenses	\$ 7,878	Schedule 3.01, column (f), line 16
2	Less Depreciation Expense	<u>3,450</u>	Schedule 3.01, column (f), line 11
3	Subtotal	\$ 4,427	Sum of lines 1 and 2
4	1/8 Method	<u>8</u>	
5	Cash Working Capital Allowance	<u><u>\$ 553</u></u>	Line 3 divided by line 4

Eastgate Estates
 Adjustments to Plant
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Amount (b)	Source (c)
1	Plant in Service per Staff	\$ 257,000	Company response to Staff data request TEE 3.04
2	Plant in Service per Company	<u>172,508</u>	Company response to Staff data request TEE 3.11
3	Adjustment to Plant in Service	<u>\$ 84,492</u>	Line 1 minus line 2
4	Accumulated Depreciation per Company	\$ (2,166)	Company response to Staff data request TEE 3.11
5	Depreciation rate per Company	2%	Company response to Staff data request TEE 3.11
6	Adjustment to Accumulated Depreciation	<u>\$ (1,690)</u>	Line 3 times line 5

Eastgate Estates
 Adjustments to Contributions in Aid of Construction
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Amount (b)	Source (c)
1	Plant in Service per Staff	\$ 257,000	Company response to Staff data request TEE 3.04
2	Company investment per Staff	<u>172,508</u>	ICC Staff Exhibit 1.0
3	Contributions in Aid of Construction per Staff	\$ (84,492)	Line 2 minus line 1
4	Contributions in Aid of Construction per Company	<u>(118,508)</u>	Company response to Staff data request TEE 3.11
5	Adjustment to Contribution in Aid of Construction	<u>\$ 34,016</u>	Line 3 minus line 4
6	Accumulated Amortization of CIAC per Company	\$ 2,370	Company response to Staff data request TEE 3.11
7	Depreciation rate per Company	<u>2%</u>	Line 6 divided by line 4
8	Adjustment to Accumulated Depreciation	<u>\$ (680)</u>	Line 5 times line 7

Eastgate Estates
 Proposed Accounting Journal Entries

Line No.	Account Number	Description	Debit	Credit
	(a)	(b)	(c)	(d)
1	various	Utility Plant in Service	\$ 257,000	
2	131	Cash		\$ 172,508
3	271	Contributions in Aid of Construction		84,492
4		Totals	<u>\$ 257,000</u>	<u>\$ 257,000</u>