1. Refer to WSKY's Response to the Attorney General's Initial Request for Information ("AG's First Request"), Item 3.

a. State whether revisions have been made to the Water Purchase Contract the Utilities of Kentucky and the Pineville Utility Commission executed on November 30, 1998, or whether a new water purchase contract superseding this contract has been executed. If the contract has been revised or a superseding contract has been executed, provide all water purchase contracts executed since November 30, 1998.

b. Did WSKY provide notice of the rate increase to Pineville Utility Commission?

c. If the answer to 1(b) is yes, provide proof of the notice as required by 807 KAR 5:001, Section 16(5), and explain why the required proof of notice was not previously filed.

d. If the answer to 1(b) is no, explain why WSKY failed to provide notice of the rate increase to Pineville Utility Commission.

RESPONSE:

a. No revisions have been made to the Water Purchase Contract, and no water purchase contract has been executed between Water Service Corporation and the Pineville Utility Commission.

b. Water Service Corporation of Kentucky ("WSCK") provided notice of the proposed rate increase as required by 807 KAR 5:001, Section 16(3)(b), which requires an applicant for a general adjustment of rates with more than twenty customers and that is not a sewer utility to provide notice in one of the ways, one of which is to "[p]ublish notice once a week for three (3) consecutive weeks in a prominent manner in a newspaper of general circulation in the utility's service area, the first publication to be made by the date the application is filed."

c. Proof of the notice was previously filed as Exhibit 3 to the Application in this case, which was filed on September 27, 2013.

d. N/A

WITNESS: Lowell Yap

2. Refer to WSKY's Response to the AG's First Request, Item 11. Quantify the cost savings WSKY has experienced due to Project Phoenix.

RESPONSE: The principal reason for undertaking Project Phoenix was not to realize immediate cost savings such as the elimination of accounting positions. Rather, Project Phoenix was cost/benefit-justified because the condition of UI's old financial and customer systems presented serious operability and reliability risks. Among the notable deficiencies were the following:

1. The customer system had been custom developed and was a challenge to operate and maintain.
2. The financial system was being run unsupported by its vendor because UI was on an older version of the application. This means UI could not utilize the vendor's expertise or its periodic fixes that are available to users on a current version.
3. UI faced internal control issues due to fragmented, non-standardized and manually intensive processes. Spreadsheets were heavily used to maintain such key information as fixed assets, depreciation, time entry and allocations. The fragmentation of data made it a challenge to produce accurate financial, operational and regulatory reports on a timely basis.

The new applications implemented by Project Phoenix remediated these issues.

WITNESS: Lowell Yap

3. Refer to WSKY's Response to the AG's First Request, Item 12.

a. State the amount of depreciation expense included on Exhibit 4, Schedule B, of the application that is attributable to Project Phoenix. Provide the calculations made to derive this amount.

b. Identify all expenses, other than depreciation, associated with Project Phoenix that are included on Exhibit 4, Schedule B.

RESPONSE:

a. Please see the attached file ("PSC DR 3-3"). Depreciation expense of $76,685 related to Project Phoenix is included on Exhibit 4, Schedule B of the application.

b. There are no other expenses attributable to Project Phoenix other than depreciation expense included on Exhibit 4, Schedule B.

WITNESS: Lowell Yap

4. Refer to WSKY's Response to the AG's First Request, Item 21. Is the comparison of budgeted to actual expenses the only analysis performed by Water Service Corporation's management of the expenses that it allocates to WSKY?

RESPONSE: Each corporate cost center has an executive that is responsible for the budgeting and review of their costs. Costs booked to WSC are then analyzed by the executive team to ensure that expenses are reasonable and comparable to budgeted levels. Corporate accounting personnel ensures the accuracy of the basis of allocation by verifying the Equivalent Residential Customer ("ERC") counts before allocation, then the Assistant Controller reviews all ERC levels and investigates any material variance. These reviews occur on a monthly basis. For additional information, see response to Item 13 below.

WITNESS: Lowell Yap

5. Refer to WSKY's Response to the AG's First Request, Item 46. Provide documentation to support the salary allocations included on this schedule.

RESPONSE: Allocations are based on the number of ERCs in each system. Please see the attached file ("PSC DR 3-5") that calculates the percentages for each WSKY operator.

WITNESS: Lowell Yap

6. Refer to WSKY's Responses to the Commission Staff's Second Request for Information ("Commission's Second Request"), Item 2, and to Commission Staff's First Request for Information ("Commission's First Request"), Item 3, Workpaper Wp q- city of Clinton.

a. In the test period WSKY reports that it received $153,285 from the city of Clinton ("Clinton") for the management of Clinton's sewer operations. Provide a breakdown of the test-period fee of $153,285 into the major components as shown on workpaper Wp q - City of Clinton.

b. Provide the current contract between WSKY or WSKY affiliate and Clinton regarding the management of Clinton's sewer operations. If no contract exists, explain the lack of a written agreement.

c. Explain in detail why there is a $32,576 decrease in the cost to manage Clinton's sewer operations, as shown on Exhibit 4, Schedule B, of the Application.

d. Does WSKY provide customer billing and collection services to Clinton for its sewer operations?

(1) If the response to Item 6(d) is yes, identify the actual test period and pro forma cost of providing this service. Show where this cost is included in workpaper Wp q - City of Clinton.

(2) If the response to Item 6(d) is no, identify who provides this service.

RESPONSE:

a. The purpose of wp q - City of Clinton is to recalculate the expenses that should be assigned to the City of Clinton Sewer Operations, it is not possible for the Company to break down the amount recorded to account 5405 – Revenue from Management Services in the format requested.

b. Please see the contract copied below.

c. The $32,576 decrease in the cost to manage Clinton's sewer operations, as shown on Exhibit 4, Schedule B, of the Application is the adjustment needed to reduce expenses for Clinton sewer operations to actual expense levels. It is the difference between the total expense reduction found on wp-q City of Clinton and the amount booked to account 5405 – Revenue from Management Services. ($120,708) - ($153,285).

d. Yes.

   1. The Company does not itemize costs related to billing and collection services performed for the City of Clinton as these costs are entirely overhead in nature (salaries). The following individuals provide

billing and collection services for the City of Clinton which is featured under Office Salaries in workpaper q-City of Clinton (except for Agnes Sverida and Adrienne Krugler, who are both included in WSC Corporate):

- Christian II, Elise S.
- Collado, Madeline
- Daffer, Amber
- Iwinski, Cammy A.
- Jones, Linda S.
- Jones, Lori L.
- Raponi, Ann M.
- Richardson, Dona J
- Sasic, Karen L.
- Self, Rose D.
- Sillitoe, Jacqueline M.
- Silva, Lisa M.
- Woolard, Crystal R
- Sverida, Agnes
- Krugler, Adrienne

2. N/A

WITNESS: Lowell Yap

ADDENDUM TO WASTEWATER PRIVATIZATION CONTRACT INCLUDING SERVICE AGREEMENT

This ADDENDUM TO WASTEWATER PRIVATIZATION CONTRACT INCLUDING SERVICE AGREEMENT, made and entered into this 26th day of February 2002 by and between the CITY OF CLINTON, KENTRUCKY (the "City"), and AQUA/KWS, Inc., a Kentucky corporation, formerly Aqua Corporation ("Aqua").

WITNESSETH:

WHEREAS, the parties have previously entered into a certain Wastewater Privatization Contract Including Service Agreement dated June 1, 1987 (the "Agreement"), which was amended on February 15, 1991 to extend the term of the Agreement to February 28, 1996, and amended on March 3, 1994 to extend to the term of the Agreement to March 3, 1999, and amended on February 3, 1997 to extend the term of the Agreement to March 3, 2002, and it is now the desire of the parties to amend Article VII, paragraph 1, of the Agreement for the purpose of extending the term of the Agreement to March 3, 2022 and to make other modifications to the Agreement as stated hereafter;

NOW, THEREFORE, in consideration of the premises and of the mutual covenants herein contained and contained in the Agreement, the City and Aqua agree as follows:

1. Article VII, Section 1, Paragraph 1 of the Agreement is hereby supplemented and amended to the effect that the term of the Agreement shall be extended to March 3, 2022;

2. Article VII, Section 1, Paragraph 1 of the Agreement is hereby amended as follows:
   (a) Delete – starting at line 6 "Upon completion of the term......from private operation to municipal operation," ending at line 12.
   (b) Add – "Upon completion of the term of this Agreement (either by expiration of the term or by early termination) AQUA shall be paid it's cost (labor, overhead, and expenses) plus 15% profit in providing for the demobilization of operation and transition of records, personnel and facilities from private operation to municipal operation."

3. Article VII, Section 9 - This is supplemented as follows: "It is agreed by the parties hereto that Aqua shall not advance capital to the City unless requested by the City as the City anticipates being able to acquire any capital necessary".

4. Article VII, Section 9 (d) is deleted in its entirety.

5. Article VII, Section 12 – This section is supplemented as follows: "It is agreed by the parties hereto that prior to charging the City for equipment owned by Aqua and used on the City's behalf, the parties shall agree on a rate of charge."

6. All other provisions of the Agreement are reaffirmed.

IN TESTIMONY WHEREOF, the City and Aqua have caused this Addendum to be executed each by its proper and duly authorized officer as of the year and date first above written.

CITY OF CLINTON, KENTUCKY

By

Title Mayor

AQUA/KWS, INC./ U.S. UTILITIES

By
Bobby Yates, Jr.

Title Manager

By
J. David Whitehouse

Title Ex. Vice President

ADDENDUM TO WASTEWATER PRIVATIZATION CONTRACT INCLUDING SERVICE AGREEMENT

This ADDENDUM TO WASTEWATER PRIVATIZATION CONTRACT INCLUDING SERVICE AGREEMENT, made and entered into this 3 day of Feb, 1997 by and between the CITY OF CLINTON, KENTUCKY (the "CITY"), and AQUA/KWS, INC., a Kentucky corporation, formerly Aqua Corporation ("Aqua"),

WITNESSETH:

WHEREAS, the parties have previously entered into a certain Wastewater Privatization Contract Including Service Agreement dated June 1, 1987 (the "Agreement), which was amended on February 15, 1991 to extend the term of the Agreement to February 28, 1996, and amended on March 3, 1994 to extend the term of the Agreement to March 3, 1999, and it is now the desire of the parties to amend Article VII, paragraph 1, of the Agreement for the purpose of extending the term of the Agreement to March 3, 2002;

NOW, THEREFORE, in consideration of the premises and of the mutual covenants herein contained and contained in the Agreement, the City and Aqua agree as follows:

Section 1. Paragraph 1 of Article VII of the Agreement is hereby supplemented and amended to the effect that the term of the Agreement shall be extended to March 3, 2002; provided, however, that the City may terminate the Agreement on March 3, 2000, and any time thereafter on reasonable notice to Aqua.

Section 2. All other provisions of the Agreement are reaffirmed.

IN TESTIMONY WHEREOF, the City and Aqua have caused this Addendum to be executed each by its proper and duly authorized officer as of the year and date first above written.

CITY OF CLINTON, KENTUCKY

By Jackie Caraway
Jackie Caraway

Title Mayor

AQUA/KWS, INC.

By Bobby Yates Jr.
Bobby Yates, Jr.

Title Manager

By
J. David Whitehouse

Title President

(3)

ADDENDUM TO WASTEWATER PRIVATIZATION CONTRACT INCLUDING SERVICE AGREEMENT

This ADDENDUM TO WASTEWATER PRIVATIZATION CONTRACT INCLUDING SERVICE AGREEMENT, made and entered into this 26th day of February 2002 by and between the CITY OF CLINTON, KENTRUCKY (the "City"), and AQUA/KWS, Inc., a Kentucky corporation, formerly Aqua Corporation ("Aqua").

WITNESSETH:

WHEREAS, the parties have previously entered into a certain Wastewater Privatization Contract Including Service Agreement dated June 1, 1987 (the "Agreement"), which was amended on February 15, 1991 to extend the term of the Agreement to February 28, 1996, and amended on March 3, 1994 to extend to the term of the Agreement to March 3, 1999, and amended on February 3, 1997 to extend the term of the Agreement to March 3, 2002, and it is now the desire of the parties to amend Article VII, paragraph 1, of the Agreement for the purpose of extending the term of the Agreement to March 3, 2022 and to make other modifications to the Agreement as stated hereafter;

NOW, THEREFORE, in consideration of the premises and of the mutual covenants herein contained and contained in the Agreement, the City and Aqua agree as follows:

1. Article VII, Section 1, Paragraph 1 of the Agreement is hereby supplemented and amended to the effect that the term of the Agreement shall be extended to March 3, 2022;

2. Article VII, Section 1, Paragraph 1 of the Agreement is hereby amended as follows:
   (a) Delete – starting at line 6 "Upon completion of the term......from private operation to municipal operation," ending at line 12.
   (b) Add – "Upon completion of the term of this Agreement (either by expiration of the term or by early termination) AQUA shall be paid it's cost (labor, overhead, and expenses) plus 15% profit in providing for the demobilization of operation and transition of records, personnel and facilities from private operation to municipal operation."

3. Article VII, Section 9 - This is supplemented as follows: "It is agreed by the parties hereto that Aqua shall not advance capital to the City unless requested by the City as the City anticipates being able to acquire any capital necessary".

4. Article VII, Section 9 (d) is deleted in its entirety.

5. Article VII, Section 12 – This section is supplemented as follows: "It is agreed by the parties hereto that prior to charging the City for equipment owned by Aqua and used on the City's behalf, the parties shall agree on a rate of charge."

6. All other provisions of the Agreement are reaffirmed.

IN TESTIMONY WHEREOF, the City and Aqua have caused this Addendum to be executed each by its proper and duly authorized officer as of the year and date first above written.

CITY OF CLINTON, KENTUCKY

By [signature]

Title Mayor

AQUA/KWS, INC./ U.S. UTILITIES

By [signature]
Bobby Yates, Jr.

Title Manager

By [signature]
J. David Whitehouse

Title Ex. Vice President

Mr Roberts - see
* on Page 6

WASTEWATER PRIVATIZATION CONTRACT

INCLUDING SERVICE AGREEMENT

THIS WASTEWATER PRIVATIZATION CONTRACT INCLUDING SERVICE AGREEMENT, made and entered into this 1st day of June, 1987, as authorized by Kentucky Revised Statutes Chapter 107, Section 700, et seq. by and between the CITY OF CLINTON, Hickman County, Kentucky, a municipal corporation (sometimes hereinafter referred to as the "CITY"), and AQUA CORPORATION, a Kentucky corporation, having a registered office in Lexington, Kentucky and its general offices at 354 Waller Avenue, Lexington, Kentucky 40504 (sometimes hereinafter referred to as "AQUA"),

W I T N E S S E T H:

WHEREAS, it is understood and affirmed by the parties to the within agreement that CITY is a Kentucky municipal corporation of the Fifth Class governed under the mayor-city council form of government pursuant to KRS Chapter 83A; that CITY has full power and authority in law to contract as herein provided and enters into this Wastewater Privatization Contract Including Service Agreement pursuant to authorization of an ordinance duly adopted by its City Council and approved by its Mayor at a regular meeting held on the 1st day of June, 1987, published as provided by KRS Chapter 83A and recorded in the official ordinance book and now in full force and effect; that CITY owns and operates its aged municipal wastewater sewage system which has limited physical capability; that

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said sewer system (the "System") fails to meet the standards of the Environmental Protection Agency (an agency of the United States government commonly referred to as the EPA) and the system is in need of replacements, rehabilitations, reinforcements, and construction to comport with modern day technology for the health and welfare of the public; that funding of the aforementioned project for the improvement of the System (the "Project") is necessary and required and a revenue bond issue (which may be anticipated by the issuance of revenue bond anticipation notes) is the preferred financing mechanism; and

WHEREAS, it is mutually understood and affirmed that CITY does not have personnel possessing the necessary expertise and skill to perform the aforesaid construction or to process and market the required revenue bond issue; that private management of the System would provide desirable expertise and avoid political pressure at any time and thus be in the public interest; that AQUA is recognized as a capable and reliable firm with personnel having wide experience in sewage system design, associated contractual projects, and revenue bond issue procedures and operational management; and

WHEREAS, it is affirmed that under the "Kentucky Privatization Act of 1986", KRS Chapter 107, Section 700, et seq, CITY is authorized (a) to contract for the heretofore generally described construction to its existing sewer system; (b) to contract for the placement of revenue bonds issued under the provisions of KRS 103.200 et seq., or to sell revenue bonds as provided in KRS Chapter 58; and (c) to enter into a service agreement, that a notice of the within Privatization Contract was duly published pursuant to KRS Chapter 424; that a public hearing was held, all in compliance with KRS 107.730, and that an ordinance authorizing the within Privatization Contract has been enacted and duly recorded as aforesaid;

NOW THEREFORE, CITY and AQUA mutually agree to the following covenants:

ARTICLE I - RECONSTRUCTION OF SEWER PLANT

AQUA agrees to repair, rehabilitate, reinforce, replace and construct the existing sewer system of the CITY to the full extent necessary for compliance with EPA standards and to provide such capacity as required to meet the present and now reasonably foreseen future needs as mutually estimated and forecasted; AQUA may employ or contract with other parties for any portion of the necessary construction; provided, however, that AQUA will not be liable in any manner whatsoever in event of the inability of the System to meet the volumetric requirements of the CITY for any specific number of years.

ARTICLE II - CITY TO ISSUE REVENUE BONDS

CITY agrees to issue revenue bonds (which may be anticipated by the issuance of revenue bond anticipation notes) in sufficient principal amount to pay AQUA in full for its construction work and to deliver the revenue bonds to AQUA for placement. It is anticipated that the total bond issue including any bond discount and other costs associated with the issuance will not exceed $1,000,000.00.

ARTICLE III - SALE OF REVENUE BONDS

AQUA agrees to place or sell CITY'S sewer revenue bonds for financing the reconstruction project by providing the required fiscal agent and as described herein as a part of this Privatization Contract; provided, nevertheless, that such sale or placement of bonds may be postponed by CITY, which shall be permitted to finance the Project upon a temporary basis by the issuance of notes in anticipation of the issuance of revenue bonds, as authorized by statute.

ARTICLE IV - BILLING AND PAYMENT

AQUA shall be paid for completion of the project either by negotiated lump sum contract for the total project improvements prior to construction of the project or, upon completion of the Project by submittal of a standard or customary invoice setting forth the cost of materials used, labor performed, the cost of sublet contracts, supervision, general overheads, negotiated profit, and all other appropriate and customarily charged costs. Upon negotiation of the lump sum contract or acceptance of the aforesaid invoice the CITY (subject to the provisions of Article III hereof) shall deliver to AQUA revenue bonds issued according to law in a principal amount fully sufficient to cover the negotiated lump sum contract or the entire invoice of AQUA and all costs attendant to the bond issue itself.

ARTICLE V - BOND COUNSEL; FISCAL AGENT

A qualified bond counsel and qualified fiscal agent shall be employed in the placement and/or sale of the revenue bonds. The revenue bonds shall be placed at reasonable interest rates under market conditions and circumstances at the time of placement. The cost of bond counsel services and fiscal agent services and their respective expenses shall also be paid for from the proceeds of the bond issue which shall be in sufficient principal amount to cover not only the aforementioned AQUA invoice but also to pay for the services of bond counsel and fiscal agent together with their expenses and other costs attendant to the bond issue itself; provided, however, that limitations under federal statutes for payment of such costs from the proceeds of the revenue bonds shall be observed and any excess costs shall be paid as agreed upon between the CITY and AQUA under a separate agreement.

ARTICLE VI - ARBITRATION

In the event of any disagreement between the parties to this contract which cannot be resolved between themselves, the parties may mutually agree to binding arbitration which shall be accomplished by petitioning the Chief Justice of the Supreme Court of Kentucky to designate a panel of three members of the Court of Appeals of Kentucky or three other persons who shall serve as arbitrators. In event the Court does not consent to perform these services, each of the parties shall select one arbitrator and those two arbitrators shall select a third arbitrator, which three persons shall then comprise a final board for binding arbitration. This form of binding arbitration shall apply also to the Service Agreement, a part of the within Wastewater Privatization Contract which is set forth in subsequent Article VII hereof. The cost and expenses of any arbitration, other than the costs and expenses of personnel of the parties themselves, shall be shared equally by the parties hereto.

ARTICLE VII - SERVICE AGREEMENT

In addition to the foregoing agreements, CITY hereby employs AQUA to manage, operate and maintain the System according to the covenants set forth below.

1. Term of Agreement. The term of this Service Agreement shall commence upon completion of the reconstructed and renovated System, and shall continue for five years; provided, however, that the CITY may terminate the Service Agreement (1) at the end of the third year on reasonable notice, and (2) anytime thereafter on reasonable notice. Upon completion of the term of this Agreement (either by expiration of the term or by early termination under the provisions hereof) AQUA shall be paid a transition fee of $95,000.00 . Said fee has been fixed as the agreed estimated amount required to reimburse AQUA for its costs in providing for the demobilization of operation and transition of records, personnel and facilities from private operation to municipal operaton.

2. Ownership of the Project and Sewer System. Ownership of the Project and the System shall at all times be vested in the CITY, including the original sewer system, the reconstruction Project, and all future betterments and additions without limitation.

3. All Receipts to Belong to City. All income and revenues arising out of the ownership and operation of the System shall without limitation belong to the CITY and shall constitute special and segregated municipal funds at all times, subject to the provisions of the ordinance authorizing the revenue bond issue (the "Bond Ordinance"), which shall provide for appropriate operational

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disbursements required in the management, operation and maintenance of the system.

4. No Political Influence. CITY agrees that it will not cause or countenance any political influence upon AQUA in its management and operation of the sewer system and AQUA agrees that it will not participate in any political matter appertaining to the CITY or any of its employees. By this provision the parties do not intend to inhibit any person's constitutional right to free speech or the expression of personal views.

5. CITY to Establish all Rates, Rules and Regulations. All rules and regulations relating to rates and charges shall be fixed and established solely by the CITY; provided, however, CITY shall observe and respect all covenants and agreements in the Bond Ordinance, which shall contain a rate covenant requiring the maintenance or establishment of rates designed to produce revenues sufficient to pay the obligations of the System, and all covenants and agreements expressed in the Bond Ordinance and herein.

As provided by KRS 107.730, this Service Agreement, the charges for rates and services, and operation of the System under this Service Agreement shall not be subject to the jurisdication of the Kentucky Public Service Commission or any successor regulatory agency. CITY grants no franchise. CITY relinquishes no jurisdiction over rates, charges and services.

6. Services to be Rendered by AQUA. The services which AQUA agrees to render relate solely to the System and its various functions as described herein and shall consist of (a) management; (b) operation and maintenance of the plant; (c) billing, collecting

and disbursing funds in accordance with the bond ordinance and this contract; (d) setting up and maintaining an adequate and continuing system of accounting; (e) rendering to the CITY financial and operating statements not less frequently than quarterly and an annual audit report prepared by a Certified Public Accountant; (f) rendering to CITY engineering inspection reports and recommendations not less frequently than annually and as circumstances may warrant; (g) procuring and maintaining, in the name and on behalf of CITY, insurance against such hazards and in such amounts as may be necessary and customary in other comparable sewer systems and operations; (h) the selection, training, employment and discharge of any and all personnel which may be necessary or desirable in AQUA's judgment to the performance by AQUA of its functions under this Contract, including the determination of the compensation paid to such personnel.

All employees having access to or being chargeable with responsibility for the handling of funds shall be bonded with good corporate surety in reasonable amounts under the circumstances as fixed or approved by the CITY. The premiums paid for such surety bonds shall constitute a part of the operating expenses of the sewer system.

7. <u>No Free Service; CITY also to Pay</u>. No wastewater sewer service shall be furnished free. Service rendered to the CITY or any of its departments shall be billed and paid for by CITY from its separate funds the same as any other customer in the same rate classification.

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8. Office a Part of Project. CITY may make office space available to AQUA in premises already owned by or available to CITY if the same are adequate and suitably located for that purpose, in which event a fair rental value therefor may be established by the CITY Council and paid for as a part of the expenses of operating the System. If CITY does not have adequate and suitable space for such office, AQUA may make arrangements for the rental of same and the rental thus paid shall constitute a proper expense of operation of the System.

9. Compensation of AQUA; Solely from System Revenues; Subject to Bond Requirements. AQUA shall be authorized to cause to be paid solely from the City's Operation and Maintenance Fund established by the Bond Ordinance the costs of operation and maintenance, which costs shall include compensation payable to AQUA for its services under this Service Contract, and for the use of any working capital which it may advance. Payments shall be made solely from the income of the System and solely from the Operation and Maintenance Fund for which provision has been made in the Bond Ordinance. The Bond Ordinance requires that certain payments from revenues be set aside into the Bond Fund as a first charge and lien upon the revenues. Thereafter payments, reimbursement or compensation shall be in four separate categories as follows:

(a) Payments for customary expenses actually incurred in operating and maintaining the System, including all such items as are "operating expenses" under good and accepted accounting.

practices. Specifically, but not by way of limitation, the same may include the salary or wages of the person residing in the CITY or vicinity having immediate day-to-day responsibility for all phases of operation and maintenance, the salary or wages of proper service, repair, billing and collecting personnel; the cost of materials and supplies actually consumed from time to time; premiums on surety bonds and policies of hazard insurance; and office rental and office utilities, but specifically excluding any provision for depreciation of property or for the remuneration of the officers of or persons employed directly by AQUA.

Prior to beginning the Project and operation thereof, AQUA shall make such preparatory action as may be necessary, including the setting up of an accounting system, making arrangements for office facilities, the selection and training of personnel, etc., so that operation of the Project may be commenced in an orderly manner. AQUA shall prepare all proper data relating to construction disbursements, in order that same may be entered upon the books and records of the sewer system. It is understood, however, that payment for the reconstruction of the Project is finally the responsibility of the CITY thru a revenue bond issue, supra.

Payments within this category (a) shall be paid from and to the extent funds are from time to time available from the operation and maintenance fund; and if balances from time to time in the operation and maintenance fund shall be insufficient to pay the same when due, AQUA agrees that it will, nevertheless, advance the same

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from its own capital funds which it shall provide for that purpose, to the end that wastewater operations shall be maintained continuously. All sums so advanced by AQUA from its own capital funds shall be entered in detail upon the books and records of the System, so that the amount thereof and the time or times of each advance may be determined accurately therefrom and reimbursement from subsequent System funds may be accurately made.

(b) AQUA shall be reimbursed for payments made by it on behalf of CITY for other proper general expenses, including the expenses of AQUA's officers or employees for work actually performed on behalf of CITY, but in no case shall such reimbursement exceed actual costs for expenses eligible for payment from the Operation and Maintenance Fund, and in no case shall such reimbursements exceed in the aggregate the sum of One Thousand Dollars ($1000.00) per month.

Reimbursement within this category (b) shall be paid from time to time from the operation and maintenance fund, but only after expenses of the nature described in category (a) have been paid in full, or after provision for the payment thereof when due has been properly made. If and to the extent monies in the operation and maintenance fund shall be insufficient to pay AQUA's reimbursement under this category (b) the same may be accrued upon the books and records and shall constitute proper items for payment from said operation and maintenance fund when, as, and if monies for that purpose become available therein.

(c) Until the date of termination of this Contract compensation to AQUA for its management services, for the use of such working capital as it may advance from time to time under category (a), for the risk assumed by AQUA in making such advances, and for agreeing to deferment, if and to the extent necessary, of compensation to its corporate and professional personnel under category (b), and to make possible the payment of reasonable general compensation, shall be determined annually and shall be (1) the fixed sum of $15,000.00, plus the CPI inflation rate since the date of this Privatization Contract and (2) an amount equal to three percent (3%) of the gross revenues of the System, which amount shall not exceed an amount equal to fifty percent (50%) of any surplus in the operation and maintenance fund which is declared by the bond ordinance to be available to the CITY "for any lawful purpose"; provided, however, that the total amount payable to AQUA under (1) and (2) hereof shall not exceed twice the amount established in (1) hereof. The foregoing amount shall be accumulative under this category (c) and may be accrued upon the books and records only if and to the extent funds are not available therefor after said prior requirements have been fully met, as shown by the annual audit. Furthermore, as partial compensation for advanced capital, AQUA shall be allowed to accrue on the books and records an interest charge of six percent (6%) annually on such working capital advanced. Upon termination of this Agreement the foregoing amounts, to the extent not yet paid shall be due and owing.

CITY further covenants and agrees that, prior to complete retirement of all bonds and without regard for increased cost in wages or other expenses under category (a), the rates and charges for sewer service will be adjusted from time to time if and to the extent required to provide to AQUA, as a minimum, the reimbursement described in categories (a) and (b) and (c).

(d) In the event of early retirement of all of CITY's System revenue bonds, AQUA shall receive as its compensation for the duration of the contract term thereafter a sum equal to fifty percent (50%) of the excess of gross income and revenues over and above operation and maintenance expenses, as defined in (a) and (b) above, provided however, that the above compensation shall not be greater than two and one half (2.5) times the fixed compensation component as formulated in Article VII Section 9. CITY covenants and agrees with AQUA that after any such early retirement of said bonds and until expiration of the term of this contract, CITY will not reduce its rates and charges for sewer service below the scale of rates and charges necessary to produce revenues to meet the requirements as herein defined, including the application of the 2.5 factor aforementioned. This subsection shall not be operable or controlling during any period during which the Service Agreement is in effect if any tax-exempt bonds or bond anticipation notes are outstanding.

10. <u>AQUA Not an Obligor or Guarantor With Respect to CITY's Bonds</u>. It is understood and agreed that AQUA's obligations

hereunder are to provide to CITY the management and operational services herein contemplated, and AQUA is not itself obligated to discharge the CITY's System Revenue Bonds, nor does it guarantee the payment thereof or interest thereon. AQUA shall at all times be accountable and responsible to the CITY and to the holders of said bonds for the faithful and proper receiving, segregation, disbursing and accounting of and for the project revenues, and shall answer for negligence, fraud, or other misconduct of AQUA and its officers, agents, servants, and employees in that connection; but if, when and to the extent AQUA may from time to time make proper segregation, depositing, or setting aside of monies into the bond fund in accordance with the provisions of the bond ordinance and into the custody of the financial institution properly designated by the City to receive the same, AQUA shall be deemed to have discharged its duty in that respect and shall not be responsible for any subsequent misfortune, or for any subsequent misapplication or disappearance thereof.

11. <u>AQUA Does Not Contract to Provide Legal Services to City; AQUA's Attorney Only For Its Own Legal Affairs</u>. References herein to employment by AQUA of an attorney at law are understood to mean such employment as AQUA may desire with respect to its own legal affairs; and AQUA does not hereby agree to provide any legal services to the CITY. Nevertheless AQUA and CITY agree that their cooperation and the cooperation of their attorneys, each in its own interests, is desirable, especially with regard to any litigation

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which may affect the rights and interests of both; and it is agreed that such cooperation will be provided in good faith at all times.

If CITY shall be made a party to any litigation concerning the sewer system, its ownership, service, rates, rules, regulations, improvements, additions, or extensions, it shall promptly give full notice thereof to AQUA, and AQUA agrees that it will give similar notice to the CITY under similar circumstances.

12. <u>CITY Consents that AQUA May Enter into Similar Undertakings</u>. The CITY is aware that AQUA is a going concern engaged in various services for various water systems and sewage systems and that AQUA may enter into contracts for the rendering of services to other cities similar to those rendered CITY in connection with sewer or other utility operations; and the CITY hereby gives its consent that AQUA enter into any such undertakings.

AQUA agrees that it will maintain its accounting hereunder separate and distinct from its business or accounting in any other connection; and will never cause or permit any commingling of the CITY's project, or any part thereof, or any income and revenues arising therefrom, with any other properties or revenues.

Notwithstanding the foregoing, it is understood that if AQUA shall be employed by any other city, or cities, for the performance of the same or similar services, AQUA or its affiliates may find it possible to effect savings to all concerned by purchasing in its own name, and retaining title to, machinery, equipment, materials or supplies which may be of common usefulness when needed, or in quantities which would be uneconomical or unwise to purchase for any single operation. If AQUA shall see fit, it may invest its own independent capital funds in such manner, but shall not charge to its operations on behalf of CITY under this contract, any portion thereof, unless and until actually used, allocated, or installed in connection with or as a part of its operation of the project hereunder. It is understood and agreed that such charging or allocation may consist of the fair rental value of any commonly useful machinery or equipment of AQUA for such period as the same may actually be used or made available in its operations under this contract.

ARTICLE VIII - NON-SEVERABILITY OF CONTRACT EXCEPT BY MUTUAL CONSENT

If any essential or substantial portion of the foregoing Wastewater Privatization Contract Including Service Agreement is adjudicated to be void then the entire undertaking shall be moot unless CITY and AQUA mutually agree to proceed under any or all of the remaining provisions; however, in any event AQUA shall be reimbursed for all costs and expenses actually incurred by it for work undertaken but not to include any expenses which AQUA may have incurred in negotiations prior to the execution of the within contract.

IN TESTIMONY WHEREOF, the CITY and AQUA have caused this contract to be executed each by its proper and duly authorized officials all in the Commonwealth of Kentucky as of the year and day first above written.

CITY OF CLINTON

BY: ____________________
MAYOR

ATTEST:

____
CITY CLERK

AQUA CORPORATION

BY: ____________________

ATTEST:

____
SECRETARY

7. Refer to WSKY's Response to the Commission's Second Request, Item 2(d). As originally requested, provide the calculations WSKY used to arrive at Taxes Other than Income of $143,894.

RESPONSE: The calculation of Taxes Other than Income is as follows:

Per book total TOTI $135,765 (Payroll Taxes of $49,453.91 plus Property and Other Tax Expense of $86,311) plus the Payroll Tax increase of $8,297 (from w/p [b]) equals Pro Forma Present total of $144,063. The pro forma present total of $144,063 plus the utility/commission tax adjustment of $(169) (total pro forma proposed operating revenue amount of $2,369,433 multiplied by 0.16% equaling $3,751 and the per books amount of $3,920) equals Pro Forma Proposed total of $143,894.

WITNESS: Lowell Yap

8. Refer to WSKY's Response to the Commission's Second Request, Item 5.

a. Provide a copy of any time-study analysis or any other empirical study performed by WSKY or Water Service Corporation showing that allocation of Water Service Corporation salaries using the Equivalent Residential Connections formula results in a reasonable cost allocation to WSKY.

b. Explain in detail why the Water Service Corporation employees do not track their time to directly charge salaries to the appropriate subsidiary.

RESPONSE:

a. WSCK has provided the testimony of Gary Shambaugh and his empirical study demonstrating that the allocation of WSC salaries using the ERC formula result in a reasonable cost allocation to WSCK. Mr. Shambaugh's review of similarly sized water utilities in Kentucky indicated that the salary expenses allocated to WSCK were lower than similarly sized water utilities on a per customer basis. This is particularly true when you compare WSCK with other similarly sized water utilities with treatment facilities.

b. This request falsely presumes that Water Service Corporation employees never track their time and directly charge their salaries to the appropriate subsidiaries. The terms of the agreement between WSCK and Water Service Corporation require that "[a]ll costs of the Service Company, including salaries and other expenses, incurred in connection with services rendered by the Service Company for the Operating Companies which can, without excessive effort or expense, be identified and related to services rendered to a particular Operating Company, shall be charged directly to such company."

Consistent with this policy, Water Service Corporation employees track and book capitalized time directly to an asset or rate case, as reflected in WSCK's response to Item 5 of Staff's Second Request for Information. Employees' salaries that are not directly booked to a capital or deferred asset are allocated using the Equivalent Residential Connections formula, which the company submits is reasonable. There are multiple ways in which costs could be allocated to from the service company to the appropriate subsidiaries. In considering our company and its components, management determined that the ERC allocation methodology was the most efficient and effective means of allocating costs.

For other activities, WSC employees are involved in providing shared services to operating companies. Their activities cannot be attributed to a specific UI operating company. Just a few examples of these shared services include maintenance and operation of the financial and billing/customer care systems, arranging enterprise-wide financing, administering employee salary and benefits plans, maintaining and operating the call center and operating and maintaining UI's data center and network.

Number of equivalent residential connections (ERC) is a sound and reasonable basis for allocating WSC personnel-related expenses primarily because it is the most equitable to the customer, it is straightforward, easily understood and relatively inexpensive to administer.

WSCK finds no other allocation basis fairer than number of ERCs. This is because from a customer's perspective, similar WSC services cost the same from one operating company to another. For instance, if WSC incurs $10,000 in expenses to prepare the year-end consolidated financial statements and those costs are allocated on the basis of number of ERCs, then each UI retail customer pays the same amount for this necessary service. If another allocation factor was used (e.g., amount of revenues), different dollar amounts would invariably be assigned to operating companies. When those amounts are divided by each operating company's ERCs, the cost per ERC would be different from one state to another. We believe this is an unfair distortion because the value to each customer is the same.

In addition, the allocation method is easier to administer among WSC personnel. By using number of ERCs as the single basis for allocating WSC expenses that are not directly charged to operating companies, we are able to keep the time reporting process for WSC personnel relatively uncomplicated. This definitely helps ensure accuracy. If we were to use multiple allocation factors, there would be a significant increase in the number of "formula" that WSC personnel would use. The added complexity could result in incorrect charging of time and assignment of expenses to operating companies.

Commissions in other states where UI does business have accepted the use of ERCs as the basis for allocating WSC personnel expense. Evidence of this is being submitted below include the following: (1) Florida Public Service Commission, Audit Report for the 12 months ended December 31, 2013 (see pg. 19), (2) Virginia State Corporation Commission order approving amended services agreement to allocate shared expenses based on ERCs, (3) Pennsylvania Public Utility Commission approval of UI operating company Penn Estates Utilities Inc's service agreement with WSC, (4) Penn Estates Utilities Inc. service agreement with WSC.

WITNESS: Lowell Yap

State of Florida

Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Miami District Office

Auditor's Report

Utilities, Inc.
Audit of Affiliate Transactions

Twelve Months Ended December 31, 2012

Docket No. 130212-WS
Audit Control No. 13-296-4-2
January 3, 2013

Debra Dobiac
Audit Manager

Lynn M. Deamer
Reviewer

Table of Contents

Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Accounting and Finance in its audit service request dated October 23, 2013. We have applied these procedures to the schedules prepared by Utilities, Inc. in support of its filing for rate relief for Cypress Lakes Utilities, Inc. and Lake Placid Utilities, Inc. in Dockets No. 130213-WS and 130243-WS.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed-upon procedures. The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

The term "Company" refers to Utilities, Inc., the parent of Cypress Lakes Utilities, Inc. and Lake Placid Utilities, Inc.

Background

The Company's allocated costs were last audited in Docket 120209-WS. This audit addresses the costs allocated from the Company to the respective Utilities that are currently under review before the Commission. Cypress Lakes Utilities, Inc. (CLUI) and Lake Placid Utilities, Inc. (LPUI) use the test year ended December 31, 2012 in their applications for rate relief in Docket Nos. 130212-WS and 130243-WS.

The Company allocates its costs to each of its utility subsidiaries based on Equivalent Residential Customers (ERCs). Each subsidiary receives costs based on its ERC ratio to the total ERCs at the corporate level for the Northbrook, Illinois costs. The Company allocates costs using the same method for its Regional and Florida Altamonte Springs offices based on the total ERCs for the Region and the State of Florida, respectively.

Rate Base

Utility Plant in Service

Objectives: The objectives were to determine whether: 1) Plant additions that are allocated to subsidiaries are authentic, recorded at original cost, and properly classified in compliance with Commission rules and the NARUC USOA, 2) Proper retirements were made when a replacement item was put in service, and 3) The allocation basis was reasonable for the assets allocated.

Procedures: We determined the plant balance as of December 31, 2011, that was established in Docket No. 120209-WS. We reviewed and sampled the Illinois and Florida headquarters additions for the period January 1, 2012, through December 31, 2012, and verified the ledger to the Company's allocation worksheets. We ensured that retirements were made when a capital item was removed or replaced. We reconciled the differences between the Company's allocated balances in its allocation worksheets and the CLUI and LPUI allocation ledgers to the rate base adjustments in the CLUI filing. Findings 1, 2, and 4 discuss plant in service.

Accumulated Depreciation and Amortization

Objectives: The objectives were to determine whether: 1) Commission ordered adjustments to accumulated depreciation were included in the beginning balances, 2) Accruals to accumulated depreciation accounts that are allocated to subsidiaries are properly recorded in compliance with Commission rules and the NARUC USOA, 3) Depreciation Expense accruals for accounts that are allocated are calculated using previously authorized rates, and 4) Retirements are properly recorded.

Procedures: We determined the accumulated depreciation balances as of December 31, 2011, that were established in Docket No. 120209-WS. We recalculated the Illinois and Florida headquarters accrual to accumulated depreciation for the period January 1, 2012, through December 31, 2012, using rates from prior audits and the verified Company's allocation worksheets. We ensured that retirements to accumulated depreciation were made when a capital item was removed or replaced. We reconciled the differences between the Company's allocation worksheets and the CLUI and LPUI allocation ledgers to the rate base adjustments in the CLUI filing. Findings 1, 2, 3, and 4 discuss accumulated depreciation.

Working Capital

Objectives: The objectives were to determine whether the adjustments made in the CLUI and LPUI filing for working capital were based on the correct ledger balances of the affiliate companies and that correct allocation factors were used.

Procedures: Both CLUI and LPUI used the 1/8 of operation and maintenance (O&M) expense method. The O&M balance may changed for each Utility based on adjustments in the Cypress Lakes Audit, Docket No. 130212-WS, Audit Control No. 13-296-4-1, and the Lake Placid Audit, Docket No. 130243-WS, Audit Control No. 13-301-2-1. No allocation or review of the balance sheet accounts from the parent was done for this audit.

Net Operating Income

Operation and Maintenance Expense

Objectives: The objectives were to determine whether operation and maintenance (O&M) expense allocated to subsidiaries are properly recorded in compliance with NARUC USOA and Commission rules and that they are representative of its subsidiary's ongoing utility operations.

Procedures: We verified O&M expense accounts allocated for the 12 months ended December 31, 2012, by tracing a sample of invoices selected to the original source documentation. We reviewed invoices for proper amount, period, classification, NARUC account, and recurring nature. We reconciled the ledger to the Company's allocation worksheets. We reconciled the differences between the Company's allocation worksheets and the CLUI and LPUI allocation ledgers to the net operating income (NOI) adjustments in the CLUI filing.

Salaries, benefits, and transportation expenses from the Illinois office, Regional office, call center locations, and Florida offices by employee were recalculated and reconciled to payroll department data. The allocation factors were reviewed for applicability to the type of job. We tested the benefit and tax calculations. We reconciled the differences between the audited allocated balances and the CLUI and LPUI allocation ledgers to the NOI adjustments in the CLUI filing. Findings 1 and 6 discuss O&M expenses.

Depreciation and Amortization

Objectives: The objectives were to determine whether the depreciation expense allocated is properly recorded in compliance with Commission rules and that they accurately represent the depreciation of the Company's asset used to manage ongoing utility operations.

Procedures: We determined that the Company's calculation of depreciation expense was consistent with the balances in the ledger and the rates used in prior audits. We reconciled the differences between the Company's allocation worksheets and the CLUI and LPUI allocation ledgers to the NOI adjustments in the CLUI filing. Findings 1, 2, 3, and 4 discuss depreciation expense.

Taxes Other than Income

Objectives: The objectives were to determine whether the Company's allocation of taxes represented the actual taxes recorded in the ledger and that they were allocated using the appropriate ERC factors.

Procedures: We determined the real estate taxes for the Company and the ERC factors used. We re-calculated payroll taxes based on allocated payroll and compared it to the amounts included in the CLUI and LPUI allocation ledgers. We reconciled the ledger to the Company's allocation worksheets. We reconciled the differences between the Company's allocation worksheets and the CLUI and LPUI allocation ledgers to the NOI adjustments in the CLUI filing. Finding 6 discusses payroll taxes.

Capital Structure

Objectives: The objectives were to determine whether the equity and debt components of the Company's capital structure and the respective cost rates used to arrive at the overall weighted cost of capital are based on the weighted percent of the Company's financial statements audited by Price, Waterhouse, Coopers, LLP and Commission's authorized rate of return.

Procedures: We verified the Company's long-term debt and common equity to the audited financial statements and general ledger. We traced the long-term debt to the prior audit. We traced short term debt to the audited financial statements and its supporting documentation. The equity rate filed was compared to Order No. PSC-13-0241-PAA-WS. Finding 5 discusses the cost of capital.

Audit Findings

Finding 1: Transportation

Audit Analysis: In prior cases, the Utility has taken the 13-month or simple average of the cost of the vehicles and its accumulated depreciation, the depreciation expense, and the associated transportation costs, and allocated each vehicle based on the payroll allocation used for the employee assigned to the vehicle. The Utility uses the ERC ratio to the total ERCs for the State of Florida for pool vehicles and special equipment. Several errors were found in the CLUI and LPUI schedules provided by the Company applicable to Florida only.

1. The ending balance of the plant accounts included the cost of some vehicles, which were reassigned during the test year to employees whose time is not allocated to CLUI or LPUI.

2. A full year of depreciation expense was calculated on the vehicles that were reassigned.

3. A full year of transportation expense was calculated for both the reassigned vehicles and the replacement vehicles.

4. The pool vehicles and special equipment were allocated with an incorrect ERC factor for the State of Florida.

In addition, the CLUI filing had adjustments regarding vehicles for plant, accumulated depreciation, and transportation expense, but made no adjustment for depreciation expense.

Tables 1-1 and 1-2 following this Finding detail the corrections.

Effect on the General Ledger: For affiliate adjustments, the Utility adjusts the filings but not the Company's ledger.

Effect on the Filing: The effect on CLUI's filing in this Docket and the Cypress Lake Audit Report, Audit Control No. 13-296-4-1, is a decrease of $9,820 to the simple average water plant balance and a decrease of $9,025 to the simple average wastewater plant balance. The decrease to the simple average water accumulated depreciation balance is $1,017. The decrease to the simple average wastewater accumulated depreciation balance is $935. The decrease to water depreciation expense is $1,716. The decrease to wastewater depreciation expense is $1,577. The decrease to water transportation expense is $2,043. The decrease to wastewater transportation expense is $1,877.

The effect on LPUI's exhibits in the Audit Report from Docket No.130243-WS, Audit Control No. 13-301-2-1 is a decrease of $4,121 to the simple average water plant balance and a decrease of $4,154 to the simple average wastewater plant balance. The decrease to the simple average water accumulated depreciation balance is $2,854. The decrease to the simple average wastewater accumulated depreciation balance is $2,877. The decrease to water depreciation expense is $531. The decrease to wastewater depreciation expense is $535. The increase to water transportation expense is $254. The increase to wastewater transportation expense is $257.

Table 1-1

CYPRESS LAKES UTILITIES, INC.	Per Filing	Audit Adjusted Utility Schedules Add. Vehicle	 Staff Vehicle	 Total	Variance	Water	Wastewater
Vehicles - Simple Average NARUC 341.5/391.7 (JDE account 1555)	$ 69,903.00	$ 6,265.88	$ 44,792.87	$ 51,058.75	$ (18,844.25)	$ (9,819.74)	$ (9,024.51)
Vehicle Accumulated Depreciation - Simple Average NARUC 108.1 (JDE account 2300)	$ (45,799.00)	$ (6,054.57)	$ (37,792.93)	$ (43,847.50)	$ 1,951.50	$ 1,016.93	$ 934.57
Vehicle Depreciation Expense NARUC 403 (JDE account 6905)	$ 11,925.00	$ 290.65	$ 8,340.82	$ 8,631.47	$ (3,293.53)	$ (1,716.26)	$ (1,577.27)
Transportation Expense NARUC 650/750 (JDE account 6215-6230)	$ 20,490.00	$ 353.03	$ 16,216.85	$ 16,569.88	$ (3,920.12)	$ (2,042.77)	$ (1,877.35)

Table 1-2

LAKE PLACID UTILITIES, INC.	Per GL	Audit Adjusted Utility Schedules Add. Vehicle	 Staff Vehicle	 Total	Variance	Water	Wastewater
Vehicles - Simple Average NARUC 341.5/391.7 (JDE account 1555)	$ 12,600.63	$ 78.53	$ 4,246.95	$ 4,325.48	$ (8,275.15)	$ (4,121.02)	$ (4,154.13)
Vehicle Accumulated Depreciation - Simple Average NARUC 108.1 (JDE account 2300)	$ (10,048.55)	$ (78.53)	$ (4,238.19)	$ (4,316.72)	$ 5,731.83	$ 2,854.45	$ 2,877.38
Vehicle Depreciation Expense NARUC 403 (JDE account 6905)	$ 1,208.42	$ -	$ 141.70	$ 141.70	$ (1,066.72)	$ (531.23)	$ (535.49)
Transportation Expense NARUC 650/750 (JDE account 6215-6230)	$ 1,589.76	$ 50.43	$ 2,050.33	$ 2,100.76	$ 511.00	$ 254.48	$ 256.52

Finding 2: Project Phoenix

Audit Analysis: Project Phoenix is the Company's financial, customer care, and billing system, which became operational in December 2008. In Order No. PSC-10-0407-PAA-SU, the Commission established that the total cost for Project Phoenix at December 31, 2008, was $21,617,487. The Commission reduced this balance to $19,893,321, before allocating costs to the remaining UI subsidiaries. The Company provided audit staff a restatement schedule for all computer balances on its books to take into account past ordered adjustments. These schedules do not reflect the adjustments ordered for Project Phoenix. The Company's restatement schedule shows the Project Phoenix balance at December 31, 2008, to be $21,525,403. The difference between the Company's balance and the ordered amount is $1,632,082.

The amount of allocated costs received by CLUI and LPUI is based on its ERC ratio to the total ERCs at the corporate level. In 2012, the Illinois office allocated .91% of its costs to CLUI and .09% to LPUI. Table 2-2 shows the adjustments to the CLUI and LPUI allocated rate base and expense accounts.

Table 2-1 shows the calculation of the adjustment to plant, accumulated depreciation, and depreciation expense needed to comply with the Order. In the Order, Project Phoenix's depreciation rate was changed from eight to ten years. However, the Company continues to depreciate the project over eight years. In Finding 3, we adjusted the accumulated depreciation and depreciation expense on Project Phoenix from eight to ten years to comply with the Order using the Company's booked amount. However, Table 2-1 removes depreciation for the reduction in plant of $1,632,082 using the ten year depreciation rate to avoid duplicating the adjustment.

Effect on the General Ledger: The following adjustment corrects the Company's ledger as of December 31, 2012. Since the test year is already closed in the ledger, the depreciation expense should be recorded to retained earnings.

Co. No.	Co. Acct.	NARUC Acct.	Account Description	Debit	Credit
102	1590	340.5	Computer System Cost		$ 1,632,082
102	2330	108.1	Computer System Acc. Dep.	$ 734,437	
102	4998	215	Retained Earnings	$ 897,645	
			Total	**$ 1,632,082**	**$ 1,632,082**

Effect on the Filing: The Company's plant and accumulated depreciation's simple average balances should be reduced by $1,632,082 and $652,833, respectively. Depreciation expense should be reduced by $163,208.

The effect on CLUI's filing in this Docket and the Cypress Lake Audit Report, Audit Control No. 13-296-4-1, is a decrease of $7,741 to the simple average water plant balance and a decrease of $7,110 to the simple average wastewater plant balance. The decrease to the simple average water accumulated depreciation balance is $3,096. The decrease to the simple average wastewater accumulated depreciation balance is $2,844. The decrease to water depreciation expense is $774. The decrease to wastewater depreciation expense is $711.

The effect on LPUI's exhibits in the Audit Report from Docket No.130243-WS, Audit Control No. 13-301-2-1 is a decrease of $732 to the simple average water plant balance and a decrease of $737 to the simple average wastewater plant balance. The decrease to the simple average water accumulated depreciation balance is $293. The decrease to the simple average wastewater accumulated depreciation balance is $295. The decrease to water depreciation expense is $73. The decrease to wastewater depreciation expense is $74.

Table 2-1

Project Phoenix Reconciliation

Description	Amount
Project Phoenix Total Cost Per Order	$ 21,617,487
Ordered Adjustments Per Order	$ (1,724,166)
Difference	**$ 19,893,321**
Project Phoenix Total Cost Per Company	$ (21,525,403)
Adjustment to Correct Beginning Balance	**$ (1,632,082)**

Co. No.	Co. Acct.	Description	Beg. Bal. Adjustment	Retained Earnings	Acct.	Life (Year)	Dep. Exp/RE	Acct.	Months	Acc. Dep.	Acct.
102	1590	Project Phoenix	$ (1,632,082)	$ 1,632,082	4998	10	$ (163,208)	6920	54	$ 734,437	2330

Simple Average Calculation

Date				Plant Adjustment	Acc. Dep. Adjustment
December 31, 2011				$ (1,632,082)	$ 571,229
January 31, 2012				$ (1,632,082)	$ 584,829
February 28, 2012				$ (1,632,082)	$ 598,430
March 31, 2012				$ (1,632,082)	$ 612,031
April 30, 2012				$ (1,632,082)	$ 625,631
May 31, 2012				$ (1,632,082)	$ 639,232
June 30, 2012				$ (1,632,082)	$ 652,833
July 31, 2012				$ (1,632,082)	$ 666,433
August 31, 2012				$ (1,632,082)	$ 680,034
September 30, 2012				$ (1,632,082)	$ 693,635
October 31, 2012				$ (1,632,082)	$ 707,236
November 30, 2012				$ (1,632,082)	$ 720,836
December 31, 2012				$ (1,632,082)	$ 734,437
SIMPLE AVERAGE				**$ (1,632,082)**	**$ 652,833**

Table 2-2

Allocation of Adjustment to Divisions

	Total Company Adjustment	CLUI Water	CLUI Wastewater	LPUI Water	LPUI Wastewater
Illinois Allocation	(A)	0.91%	0.91%	0.09%	0.09%
Water / Wastewater	(B)	52.12%	47.87%	49.80%	50.20%
Percent Allocated 2012	(A) x (B)	0.47%	0.44%	0.04%	0.05%
Average Plant	$ (1,632,082)	$ (7,740.83)	$ (7,109.63)	$ (731.50)	$ (737.37)
Average Accumulated Depreciation	$ 652,833	$ 3,096.33	$ 2,843.85	$ 292.60	$ 294.95
Depreciation Expense	$ (163,208)	$ (774.08)	$ (710.96)	$ (73.15)	$ (73.74)

Finding 3: Project Phoenix Accumulated Depreciation and Depreciation Expense

Audit Analysis: In Order No. PSC-10-0407-PAA-SU, the Company was directed to change the depreciation life for Project Phoenix from eight years to ten years. The Company did not change the rate at which the software is being depreciated.

The amount of allocated cost received by CLUI and LPUI is based on its ERC ratio by utility to the total ERCs at the corporate level. CLUI and LPUI then allocates the cost from headquarters between its water and wastewater systems by each system's ERC ratio.

Table 3-1 shows the calculation for accumulated depreciation and depreciation expense adjustments to correct the accrual balances for the Company, CLUI and LPUI.

Effect on the General Ledger: The following adjustment is recommended to correct the Company's ledger balance as of December 31, 2012. Since the test year is already closed in the ledger, the depreciation expense should be recorded to retained earnings.

Co. No.	Co. Acct.	NARUC Acct.	Account Description	Debit	Credit
102	2330	108.1	Computer System Acc. Dep.	$ 2,421,608	
102	4998	215	Retained Earnings		$ 2,421,608
			Total	**$ 2,421,608**	**$ 2,421,608**

Effect on the Filing: The effect on CLUI's filing in this Docket and the Cypress Lake Audit Report, Audit Control No. 13-296-4-1, is a decrease of $10,209 to the simple average water accumulated depreciation balance. The decrease to the simple average wastewater accumulated depreciation balance is $9,377. The decrease to water depreciation expense is $2,552. The decrease to wastewater depreciation expense is $2,344.

The effect on LPUI's exhibits in the Audit Report from Docket No.130243-WS, Audit Control No. 13-301-2-1 is a decrease of $965 to the simple average water accumulated depreciation balance. The decrease to the simple average wastewater accumulated depreciation balance is $973. The decrease to water depreciation expense is $241. The decrease to wastewater depreciation expense is $243.

Table 3-1

Computation of Depreciation

	Project Phoenix Cost	Depr Rate	2008 Dep. Exp.	2009 Dep. Exp.	2010 Dep. Exp.	2011 Dep. Exp.	2012 Dep. Exp.	Acc. Dep. at 12/31/12
STAFF	$ 21,525,402.85	10.00%	$ 1,076,270	$ 2,152,540	$ 2,152,540	$ 2,152,540	$ 2,152,540	$ 9,686,431
COMPANY	$ 21,525,402.85	12.50%	$ 1,345,338	$ 2,690,675	$ 2,690,675	$ 2,690,675	$ 2,690,675	$ 12,108,039
DIFFERENCE			$ (269,068)	$ (538,135)	$ (538,135)	$ (538,135)	$ (538,135)	$ (2,421,608)

Computation of Simple Average

Date	Acc. Dep. Adj. Debit
December 31, 2011	$ 1,883,473
January 31, 2012	$ 1,928,318
February 28, 2012	$ 1,973,162
March 31, 2012	$ 2,018,007
April 30, 2012	$ 2,062,851
May 31, 2012	$ 2,107,696
June 30, 2012	$ 2,152,541
July 31, 2012	$ 2,197,385
August 31, 2012	$ 2,242,230
September 30, 2012	$ 2,287,074
October 31, 2012	$ 2,331,919
November 30, 2012	$ 2,376,763
December 31, 2012	$ 2,421,608
Simple Average	**$ 2,152,541**

Allocation of Adjustment to Divisions

	Total Company Adjustment	CLUI Water	CLUI Wastewater	LPUI Water	LPUI Wastewater
Illinois Allocation	(A)	0.91%	0.91%	0.09%	0.09%
Water / Wastewater	(B)	52.12%	47.87%	49.80%	50.20%
Percent Allocated 2011	(A) x (B)	0.47%	0.44%	0.04%	0.05%
Average Accumulated Depreciation	$ 2,152,541	$ 10,209.33	$ 9,376.83	$ 964.77	$ 972.52
Depreciation Expense	$ (538,135)	$ (2,552.33)	$ (2,344.21)	$ (241.19)	$ (243.13)

Finding 4: Allocated Plant, Accumulated Depreciation, and Depreciation Expense

Audit Analysis: The CLUI filing did not contain adjustments to rate base to reflect the Commission Ordered Adjustments that had not been recorded on the Company's books to allocate Division 102-Northbrook, Illinois Headquarters and Division 855-Altamonte Springs, Florida Headquarters plant, accumulated depreciation, and depreciation expense. Therefore, audit staff calculated the adjustments by utilizing the schedules provided in Docket 120209-WS for both CLUI and LPUI. Tables 4-1, 4-2, 4-3, and 4-4 following this Finding detail the adjustments.

Effect on the General Ledger: These adjustments are allocations from the Illinois and Florida Headquarters for ratemaking purposes. The Utility should determine the effect these adjustments have on its general ledgers.

Effect on the Filing: The effect on CLUI's filing in this Docket and the Cypress Lake Audit Report, Audit Control No. 13-296-4-1, is a decrease of $7,377 to the simple average water plant balance, a decrease of $6,780 to the simple average wastewater plant balance, a decrease of $14,957 to the simple average water accumulated depreciation balance, and a decrease of $13,745 to the simple average wastewater accumulated depreciation balance. Water depreciation expense should be decreased by $671 and wastewater depreciation expense should be decreased by $617.

The effect on LPUI's exhibits in the Audit Report from Docket No.130243-WS, Audit Control No. 13-301-2-1 is a decrease of $560 to the simple average water plant balance, a decrease of $564 to the simple average wastewater plant balance, a decrease of $901 to the simple average water accumulated depreciation balance, and a decrease of $909 to the simple average wastewater accumulated depreciation balance. Water depreciation expense should be decreased by $48 and wastewater depreciation expense should be decreased by $49.

Table 4-1

CYPRESS LAKES UTILITIES, INC. SUMMARY RATE BASE ADJUSTMENT

Obj Acct	NARUC	Account Description	WSC	Regional	Audit Balance	UA Ledger	Adjustment	52.11% Water	47.89% Wastewater
1025	302.1	FRANCHISES		$ 77	$ 77	$ 77	$ 0	$ 0	$ 0
1045	303.5	LAND & LAND RIGHTS GEN PLT	$ 867	$ -	$ 867	$ 856	$ 10	$ 5	$ 5
1175	304.5	OFFICE STRUCT & IMPRV	$ 25,387	$ 35,588	$ 60,976	$ 60,656	$ 320	$ 167	$ 153
1180	340.5	OFFICE FURN & EQPT	$ 12,623	$ 7,854	$ 20,477	$ 20,330	$ 147	$ 76	$ 70
1190	343.5	TOOL SHOP & MISC EQPT	$ 191	$ 8,480	$ 8,672	$ 8,666	$ 6	$ 3	$ 3
1205	346.5	COMMUNICATION EQPT	$ 3,243	$ -	$ 3,243	$ 3,204	$ 39	$ 20	$ 19
1580	340.5	MAINFRAME COMPUTER WTR	$ 1,832	$ 805	$ 2,637	$ 10,599	$ (7,962)	$ (4,149)	$ (3,813)
1585	340.5	MINI COMPUTERS WTR	$ 9,661	$ 17,171	$ 26,832	$ 31,725	$ (4,893)	$ (2,550)	$ (2,343)
1590	340.5	COMP SYS COST WTR	$ 9,141	$ 1,458	$ 10,599	$ 11,586	$ (987)	$ (515)	$ (473)
1595	340.5	MICRO SYS COST WTR	$ 4,231	$ 708	$ 4,938	$ 5,776	$ (838)	$ (436)	$ (401)
		TOTAL PLANT	$ 67,176	$ 72,141	$ 139,317	$ 153,475	$ (14,157)	$ (7,377)	$ (6,780)
1840	108.1	ACC DEPR-FRANCHISES	$ -	$ (6)	$ (6)	$ (6)	$ 0	$ 0	$ 0
1970	108.1	ACC DEPR-OFFICE STRUCTURE	$ (14,287)	$ (11,235)	$ (25,522)	$ (23,764)	$ (1,758)	$ (916)	$ (842)
1975	108.1	ACC DEPR-OFFICE FURN/EQPT	$ (11,333)	$ (5,806)	$ (17,139)	$ (16,427)	$ (712)	$ (371)	$ (341)
1985	108.1	ACC DEPR-TOOL SHOP & MISC EQPT	$ (189)	$ (7,782)	$ (7,971)	$ (7,972)	$ 1	$ 1	$ 1
2000	108.1	ACC DEPR-COMMUNICATION EQPT	$ (574)	$ -	$ (574)	$ (755)	$ 180	$ 94	$ 86
2320	108.1	ACC DEPR-MAINFRAME COMP WTR	$ (1,772)	$ (803)	$ (2,575)	$ (8,128)	$ 5,553	$ 2,893	$ 2,659
2325	108.1	ACC DEPR-MINI COMP WTR	$ (7,669)	$ (17,034)	$ (24,703)	$ (30,630)	$ 5,926	$ 3,088	$ 2,838
2330	108.1	COMP SYS AMORTIZATION WTR	$ (2,805)	$ (708)	$ (3,513)	$ (22,935)	$ 19,422	$ 10,121	$ 9,301
2335	108.1	MICRO SYS AMORTIZATION WTR	$ (4,229)	$ (1,458)	$ (5,687)	$ (5,776)	$ 89	$ 47	$ 43
		TOTAL ACCUMULATED DEPRECIATION	$ (42,859)	$ (44,832)	$ (87,690)	$ (116,392)	$ 28,702	$ 14,957	$ 13,745

Table 4-2

LAKE PLACID UTILITIES, INC. SUMMARY RATE BASE ADJUSTMENT

Obj Acct	NARUC	Account Description	WSC	Regional	Audit Balance	UA Ledger	Adjustment	49.80% Water	50.20% Wastewater
1025	302.1	FRANCHISES	$ -	$ 8	$ 8	$ 8	$ 0	$ 0	$ 0
1045	303.5	LAND & LAND RIGHTS GEN PLT	$ 89	$ -	$ 89	$ 87	$ 2	$ 1	$ 1
1175	304.5	OFFICE STRUCT & IMPRV	$ 2,613	$ 3,669	$ 6,282	$ 6,177	$ 105	$ 52	$ 53
1180	340.5	OFFICE FURN & EQPT	$ 1,299	$ 810	$ 2,109	$ 2,071	$ 38	$ 19	$ 19
1190	343.5	TOOL SHOP & MISC EQPT	$ 20	$ 874	$ 894	$ 883	$ 11	$ 6	$ 6
1205	346.5	COMMUNICATION EQPT	$ 334	$ -	$ 334	$ 326	$ 8	$ 4	$ 4
1580	340.5	MAINFRAME COMPUTER WTR	$ 189	$ 83	$ 272	$ 1,079	$ (808)	$ (402)	$ (406)
1585	340.5	MINI COMPUTERS WTR	$ 995	$ 1,770	$ 2,765	$ 3,231	$ (467)	$ (232)	$ (234)
1590	340.5	COMP SYS COST WTR	$ 941	$ 150	$ 1,091	$ 1,026	$ 65	$ 33	$ 33
1595	340.5	MICRO SYS COST WTR	$ 436	$ 73	$ 508	$ 588	$ (80)	$ (40)	$ (40)
		TOTAL PLANT	$ 6,915	$ 7,437	$ 14,352	$ 15,476	$ (1,124)	$ (560)	$ (564)
1840	108.1	ACC DEPR-FRANCHISES	$ -	$ (1)	$ (1)	$ (1)	$ -	$ -	$ -
1970	108.1	ACC DEPR-OFFICE STRUCTURE	$ (1,471)	$ (1,158)	$ (2,629)	$ (2,421)	$ (208)	$ (104)	$ (105)
1975	108.1	ACC DEPR-OFFICE FURN/EQPT	$ (1,167)	$ (599)	$ (1,765)	$ (1,673)	$ (92)	$ (46)	$ (46)
1985	108.1	ACC DEPR-TOOL SHOP & MISC EQPT	$ (19)	$ (802)	$ (822)	$ (812)	$ (10)	$ (5)	$ (5)
2000	108.1	ACC DEPR-COMMUNICATION EQPT	$ (59)	$ -	$ (59)	$ (77)	$ 18	$ 9	$ 9
2320	108.1	ACC DEPR-MAINFRAME COMP WTR	$ (182)	$ (83)	$ (265)	$ (828)	$ 563	$ 280	$ 283
2325	108.1	ACC DEPR-MINI COMP WTR	$ (789)	$ (1,756)	$ (2,546)	$ (3,121)	$ 576	$ 287	$ 289
2330	108.1	COMP SYS AMORTIZATION WTR	$ (289)	$ (73)	$ (362)	$ (1,322)	$ 961	$ 478	$ 482
2335	108.1	MICRO SYS AMORTIZATION WTR	$ (435)	$ (150)	$ (586)	$ (588)	$ 3	$ 1	$ 1
		TOTAL ACCUMULATED DEPRECIATION	$ (4,412)	$ (4,622)	$ (9,034)	$ (10,843)	$ 1,810	$ 901	$ 909

Table 4-3

CYPRESS LAKES UTILIITIES, INC. SUMMARY INCOME STATEMENT ADJUSTMENT

Obj Acct	NARUC	Account Description	WSC	Regional	Audit Balance	UA Ledger	Adjustment	52.11% Water	47.89% Wastewater
6450	403	Dep - Franchises	$ -	$ 2	$ 2	$ 2	$ 0	$ 0	$ 0
6580	403	Dep - Office Structure	$ 637	$ 887	$ 1,524	$ 1,218	$ 307	$ 160	$ 147
6585	403	Dep - Office Furn/Eqpt	$ 260	$ 515	$ 776	$ 726	$ 49	$ 26	$ 24
6595	403	Dep - Tool Shop & Misc Eqpt	$ 1	$ 529	$ 530	$ 535	$ (5)	$ (3)	$ (2)
6610	403	Dep - Communication Equipment	$ 356		$ 356	$ 275	$ 81	$ 42	$ 39
6835	403	Dep - Tool Shop & Misc Eqpt	$ -	$ 1	$ 1	$ 1	$ 0	$ 0	$ 0
6920	403	Dep - Computer	$ 1,746	$ 57	$ 1,802	$ 3,523	$ (1,721)	$ (897)	$ (824)
		TOTAL DEPRECIATION	$ 3,000	$ 1,991	$ 4,991	$ 6,280	$ (1,288)	$ (671)	$ (617)

Table 4-4

LAKE PLACID UTILIITIES, INC. SUMMARY INCOME STATEMENT ADJUSTMENT

Obj Acct	NARUC	Account Description	WSC	Regional	Audit Balance	UA Ledger	Adjustment	49.80% Water	50.20% Wastewater
6450	403	Dep - Franchises	$ -	$ 0	$ 0	$ 0	$ (0)	$ (0)	$ (0)
6580	403	Dep - Office Structure	$ 66	$ 91	$ 157	$ 118	$ 39	$ 20	$ 20
6585	403	Dep - Office Furn/Eqpt	$ 27	$ 53	$ 80	$ 70	$ 10	$ 5	$ 5
6595	403	Dep - Tool Shop & Misc Eqpt	$ 0	$ 55	$ 55	$ 52	$ 3	$ 1	$ 1
6610	403	Dep - Communication Equipment	$ 37		$ 37	$ 27	$ 10	$ 5	$ 5
6920	403	Dep - Computer	$ 180	$ 6	$ 186	$ 345	$ (159)	$ (79)	$ (80)
		TOTAL DEPRECIATION	$ 309	$ 205	$ 514	$ 611	$ (97)	$ (48)	$ (49)

Finding 5: Cost of Capital

Audit Analysis: The CLUI filing allocated rate base to equity, long term debt, and short term debt based on the consolidated capital structure of Utilities, Inc. However, the total equity balances used did not agree with the audited financial statements. According to the Utility representative, the most updated equity balances for 2011 and 2012 had not been used in the filing. The Utility did provide us with a revised MFR Schedule D-2, but this schedule has not been filed with the Commission Clerk as of January 2, 2014.

The revised simple average equity balance is $170,132,500. The new balance changed the long-term debt and equity ratios. Using the equity formula from Order No. PSC-13-0241-PAA-WS and the revised equity ratio, the equity cost rate should be 10.29%. We re-computed cost of capital using the revised equity amounts and rates for both CLUI and LPUI. Tables 5-1 and 5-2 following this Finding show the details of the corrections.

Effect on the General Ledger: There is no effect on the general ledger.

Effect on the Filing: The cost of capital for Cypress Lakes is 8.27%. The cost of capital for Lake Placid is 9.19%.

Table 5-1

Class of Capital	Reconciled to Rate Base Simple Average TYE 12/31/12	Ratio	Revised Cost Rate	Weighted Cost
Long Term Debt	$ 1,346,799	50.45%	6.64%	3.35%
Short Term Debt	$ 1,871	0.07%	0.00%	0.00%
Preferred Stock				
Common Equity	$ 1,272,968	47.69%	10.29%	4.91%
Subtotal	$ 2,621,637			
Customer Deposits	$ 13,366	0.50%	3.00%	0.02%
Tax Credits-Zero Cost	$ -			
Tax Credits-Weighted Cost				
Accumulated Deferred Income Tax	$ 34,531	1.29%		0.00%
Other (Explain)				
Total	$ 2,669,534	100.00%		8.27%
Per Filing				8.27%
Difference				0.00%

Rate Base does not include any adjustments from this Audit and the Cypress Lakes Audit Report, Audit Control No. 13-296-4-1, in this Docket.

Table 5-2

Lake Placid Cost of Capital

Class of Capital	Reconciled to Rate Base Simple Average TYE 12/31/12		Ratio	Revised Cost Rate	Weighted Cost
Long Term Debt	$	135,521	56.13%	6.64%	3.73%
Short Term Debt	$	188	0.08%	0.00%	0.00%
Preferred Stock					
Common Equity	$	128,092	53.06%	10.29%	5.46%
Subtotal	$	263,801			
Customer Deposits	$	626	0.26%	2.00%	0.01%
Tax Credits-Zero Cost					
Tax Credits-Weighted Cost					
Accumulated Deferred Income Tax	$	(22,995)	-9.52%		0.00%
Other (Explain)					
Total	$	241,432	100.00%		9.19%

The Rate Base balance may change based on adjustments in the Lake Placid Audit, Docket No. 130243-WS, Audit Control No. 13-301-2-1.

Finding 6: Payroll, Benefits, and Taxes

Audit Analysis: The Company allocates costs monthly to the divisions. In prior Utilities, Inc. subsidiary rate cases, the Company provided schedules by employee. In these schedules the Company allocated the most current annualized salary and allocated the salary, benefits, and taxes using the appropriate ERC allocation factor based on the employees duties. The schedule was then compared to the costs recorded in the ledger by division. The difference was adjusted in the filings. In the CLUI case, adjustments were made to the filing for annualizing salary, benefits, and payroll tax expenses.

We requested support for the adjustments in CLUI's filing. The Company sent a copy of the schedule for this Utility using the salaries at the end of April 2013 and the ERC factors at the end of April 2013. Overtime for the first four months was annualized. The Company schedule was compared to the booked amounts for the CLUI division. No exceptions were noted.

We requested the Company prepare a similar schedule for LPUI as was done for CLUI using the salaries at the end of April 2013 and the ERC factors at the end of April 2013. We were told that the Utility wouldn't be making any adjustments to the books in this proceeding. Therefore, we utilized the schedule provided by the Company for CLUI and recalculated salary, benefits, and payroll tax expenses for LPUI using the applicable ERC factors. We compared audit staff's schedule to the booked amounts and noted variances. Table 6-1 following this Finding shows the details.

Effect on the General Ledger: Since the test year is already closed in the ledger, there is no effect on the general ledger.

Effect on the Filing: The effect on LPUI's exhibits in the Audit Report from Docket No.130243-WS, Audit Control No 13-301-2-1 is water expenses should be increased by $973 and wastewater expenses should be increased by $981.

Table 6-1

Salaries	LPUI Water Per Books (TB)	LPUI Wastewater Books (TB)
NARUC 601/701 (JDE account 6110)	$ 536.90	$ 541.22
NARUC 601/701 (JDE account 6115)	$ 29.03	$ 29.26
NARUC 603/703 (JDE account 6120)	$ 761.01	$ 767.13
NARUC 601/701 (JDE account 6125)	$ 136.74	$ 137.83
NARUC 601/701 (JDE account 6130)	$ 156.76	$ 158.01
NARUC 601/701 (JDE account 6135)	$ 367.19	$ 370.13
NARUC 601/701 (JDE account 6140)	$ 349.11	$ 351.91
NARUC 601/701 (JDE account 6145)	$ 494.14	$ 498.10
NARUC 601/701 (JDE account 6146)	$ 91.61	$ 92.37
NARUC 601/701 (JDE account 6147)	$ 98.62	$ 99.42
NARUC 601/701 (JDE account 6150)	$ 4,369.92	$ 4,405.02
NARUC 601/701 (JDE account 6155)	$ 283.41	$ 285.68
NARUC 601/701 (JDE account 6165)	$ (660.91)	$ (666.22)
Total Booked	$ 7,013.53	$ 7,069.86
Per Salary Detail for Annualized 2013	$ 8,091.92	$ 8,157.03
Total Payroll Adjustment	$ 1,078.39	$ 1,087.17

Payroll Taxes	LPUI Water Per Books (TB)	LPUI Wastewater Books (TB)
NARUC 408.12 (JDE account 7510-7520)	$ 879.98	$ 887.06
Per Salary Detail for Annualized 2013	$ 842.24	$ 849.02
Total Payroll Tax Adjustment	$ (37.74)	$ (38.04)

Benefits	LPUI Water Per Books (TB)	LPUI Wastewater Books (TB)
NARUC 604/704 (JDE account 5625-5690)	$ 1,994.57	$ 2,010.61
Per Salary Detail for Annualized 2013	$ 1,927.26	$ 1,942.77
Total Benefits Adjustment	$ (67.30)	$ (67.85)

Total Adjustment to Payroll, Benefit, and Taxes	$ 973.35	$ 981.28

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, August 18, 2008

2008 AUG 18 A 11: 52

APPLICATION OF

CASE NO. PUE-2008-00040

MASSANUTTEN PUBLIC SERVICE CORPORATION

For approval of amended
services agreement

ORDER GRANTING APPROVAL

On May 19, 2008, Massanutten Public Service Corporation ("MPSC") filed an application with the State Corporation Commission ("Commission") pursuant to Chapter 4 of Title 56 of the Code of Virginia ("Code") for approval of an amended services 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 was first certificated by 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 fifteen states. Water Service Corporation ("WSC") is also 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. 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. MPSC currently receives services from WSC under a services agreement ("Agreement") approved by the Commission on October 19, 2005, in Case No. PUE-2005-00063.

The Applicant has determined that certain provisions of the Agreement should be revised. The Agreement, as revised, ("the Revised Agreement") changes the allocation method of shared expenses from a "customer equivalent" ("CE") basis to an "equivalent residential customer" ("ERC") basis. Secondly, under the Revised Agreement, the allocation of expenses will be made on a monthly basis, rather than quarterly. Lastly, the provision of the Agreement that provided for specific allocation methods with respect to the cost of the corporate headquarters of Utilities, Inc., which, at the time, also served as the base of operations for the operating subsidiaries in the states of Illinois, Indiana, and Ohio, has been eliminated as those subsidiaries are no longer served out of the corporate headquarters and are now served from a regional headquarters.

MPSC represents that changes to allocate charges on a monthly basis and the elimination of costs attributed to the Illinois, Indiana, and Ohio subsidiaries are expected to have an insignificant impact on MPSC. In fact, it is expected that the elimination of costs from Illinois, Indiana, and Ohio will result in less costs being allocated to MPSC. However, in a response to a Staff data request, the Applicant states that these savings would be minimal.

As for the change in allocating costs based on CEs to ERCs, the Applicant states that it is expected to increase MPSC's costs by slightly less than two tenths of one percent (0.2%). In the Applicant's June 23, 2008, response to a Staff data request, the Applicant states that MPSC's share of total allocated costs will increase from 1.55% to

1.74% of the total. Based on 2007 data, the total increase in allocated costs to MPSC would be approximately $67,383.81.

As represented by the Applicant, the purpose of the change in the allocation method is to create a uniform system of allocating costs across all of Utilities, Inc.'s subsidiaries. The Applicant states that the use of ERCs is required by all of Utilities, Inc.'s Florida subsidiaries, as mandated by the Florida Public Service Commission. The Florida subsidiaries make up approximately 29% of Utilities, Inc.'s subsidiaries. The Applicant further states that Utilities, Inc., and MPSC are currently implementing a new computer system. With the new computer system, it is anticipated that the only allocation method that will be used is ERCs. According to the Applicant, the continued use of CEs as MPSC's allocation method would result in increased costs for MPSC.

NOW THE COMMISSION, upon consideration of the application and representations of the Applicant 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 continue to 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 continue to 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.

Accordingly, IT IS ORDERED THAT:

1) Pursuant to § 56-77 of the Code of Virginia, Massanutten Public Service Corporation is hereby granted approval to enter into the Revised Agreement with Water Service Corporation, as described herein.

2) Regarding services obtained from WSC for which a market exists, MPSC shall continue to make the necessary comparisons to ensure that it is paying the lower of cost or market for such services.

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) 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.

6) 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.

7) The approval granted herein shall have no ratemaking implications for annual informational filings or future rate proceedings.

8) The Commission reserves the right to examine the books and records of any affiliate in connection with the authority granted herein, whether or not such affiliate is regulated by this Commission.

9) MPSC shall include the transactions covered under the Revised Agreement in its Annual Report of Affiliate Transactions submitted to the Commission's Director of Public Utility Accounting on or before May 1 of each year, which deadline may be extended administratively by the Commission's Director of Public Utility Accounting.

10) If Annual Informational and/or General Rate Case 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) The approval granted herein shall supersede the approval granted in Case No. PUE-2005-00063.

12) There appearing nothing further to be done in this matter, it is hereby 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 to the Commission's Office of General Counsel and Divisions of Public Utility Accounting and Energy Regulation.

COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

IN REPLY PLEASE
REFER TO OUR FILE

August 31, 2010

G-2009-2134767

DANIEL P. DELANEY
K & L GATES
17 NORTH SECOND STREET
18TH FLOOR
HARRISBURG, PA 17101-1507

Re: Affiliated Interest Agreement between Utilities Inc., Penn Estates Utilities, Inc. – Sewer, and Water Service Corporation.

Dear Mr. Delaney:

On October 6, 2009, Penn Estates Utilities Inc. - Sewer (Operating Co.) filed with the Commission, pursuant to 66 Pa. C.S. §§ 2102, et seq., the above-captioned Affiliated Interest Agreement. By Secretarial letter dated October 19, 2009, the Commission extended the statutory consideration period for this Agreement until further action of the Commission.

The Agreement was entered into between Operating Co. and its affiliates Utilities, Inc. (Parent Co.) and Water Services Corporation (Service Co.). The Agreement authorizes the Service Co. to provide management, supervisory, construction, engineering, accounting, legal, financial, billing and customer relations, and other services included in Appendix C of the Agreement.

Upon review of the filing, it does not appear that this Agreement is unreasonable or contrary to the public interest. However, approval of this filing does not constitute a determination that the associated costs or expenses are reasonable or prudent for the purposes of determining just and reasonable rates. Furthermore, the Commission's approval is contingent upon the possibility that subsequent audits, reviews and inquiries in any Commission proceeding may be conducted, pursuant to 66 Pa. C.S. §§ 2102, *et seq*.

In addition, this approval will apply only to the agreement, services, matters and parties specifically and clearly defined under this instant proceeding as well as under any associated and previously filed filings.

Very truly yours,

Rosemary Chiavetta

Rosemary Chiavetta
Secretary

Attachment
cc: Jeannine Snyder

AMENDED
Affiliate Interest Agreement
Between
Utilities, Inc.
AND
Penn Estates Utilities, Inc. - Sewer
AND
Water Service Corporation

C - 2009-2134767

This agreement is made this 26th day of August, 2010 by and between Utilities, Inc. ("Parent Company"), a corporation organized under the laws of Illinois; Penn Estates Utilities, Inc. - Water ("Operating Company"), a Pennsylvania Public Utility Corporation organized under the laws of Pennsylvania; and Water Service Corporation ("Service Company"), a corporation organized under the laws of Delaware.

WHEREAS, the Parent Company is located at 2335 Sanders Rd., Cook County, Northbrook, IL 60062-6108 and is a national water and wastewater service corporation whose majority owner is Highstar Capital; and

WHEREAS, the Parent Company is engaged in the business of furnishing water and wastewater service to the public in Pennsylvania and other states through its operating subsidiary companies as identified by the organizational chart attached hereto as Appendix A; and

WHEREAS, Operating Company is a wholly owned subsidiary of the Parent Company and is located at 503 Hallet Road, Monroe County, East Stroudsburg, PA, 18301; and

WHEREAS, by order entered February 10, 1997, the Commission issued certificates of public convenience to Operating Company at Docket No. A-210072 (water) and at Docket No. A-230063 (sewer) to provide water and wastewater services in portions of Stroud and Pocono Townships, Monroe County, Pennsylvania; and

WHEREAS, the Service Company is a wholly owned subsidiary of the Parent Company and has a corporate address at 2711 Centerville Road Suite 400, Wilmington, DE, 19808; and

WHEREAS, the Service Company maintains an organization which includes among its officers and employees persons who are (1) familiar with the development, business, and property of the Operating Company; (2) experienced in the furnishing of management, supervisory, construction, engineering, accounting, legal, financial, and similar services related to the operation of water and sewer properties; and (3) qualified to be of great aid and assistance to the Operating Company through the services to be performed under this Agreement; and

WHEREAS, the services to be rendered by the Service Company under this Agreement are to be rendered at cost and without profit to the Operating Company;

NOW, THEREFORE, in consideration of the promises and the mutual agreements herein contained, the parties hereto agree as follows:

The Service Company will furnish to the Operating Company, upon the terms and conditions hereinafter set forth, the following services:

A. MANAGEMENT: The principal executive officers of the Service Company, such as the Chairman of the Board, President and Vice President, and Treasurer, whose name, title and salary are set forth in Appendix B, will assist and advise the Operating Company in respect to corporate, financial, operating, engineering, organization, regulatory, and other matters. The executive officers will keep themselves informed in regard to the operation, maintenance and financial condition of, and other matters relating to, the Operating Company through contacts with the officers, directors and other representatives of the Operating Company.

B. SUPERVISORY: The principal executive officers of the Service Company will visit the property of the Operating Company when necessary to the proper furnishing of the services provided for in this Agreement. They will also supervise the personnel of the Service Company to the end that services under this Agreement shall be performed efficiently, economically and satisfactorily to the Operating Company.

C. CONSTRUCTION: The Service Company will perform directly or supervise all construction, including customer connections, meter installations, main extensions, plant expansions, or capital additions of any nature as required by the Operating Company.

D. ENGINEERING: The Service Company will supply engineering services as required in all areas of design, construction, operation, and management of the Operating Company.

E. ACCOUNTING: The Service Company will provide total accounting service, including bookkeeping, payroll, tax determination, financial statement preparation, budgets, credit, PUC annual reports, etc. Periodic analyses will be made for purposes of planning and measurement of efficiency.

F. LEGAL: The Service Company will employ general counsel as necessary to advise and assist it in the performance of the services herein provided for and to aid the operating company in all matters where such assistance may be desired.

G. FINANCIAL: The executive officers of the Service Company will keep themselves informed in regard to the operation, maintenance and financial condition of, and other matters relating to, the Operating Company through contacts with the officers, directors and other representatives of the Operating Company.

H. BILLING AND CUSTOMER RELATIONS: the Service Company will handle all billing and collections. It will serve as the link between the customer and the Operating Company in all areas such as new accounts, deposits, meter reading, inquiries, and complaints.

I. ALL OTHER SERVICES AS PROVIDED FOR IN APPENDIX C: In addition to items (A) through (H), the Service Company will employ or provide personnel to perform the services set forth in Appendix C. The allocated costs from these services will be for costs attributable to all operating companies, costs attributable to the Service Company, or for costs that cannot, without excessive effort and expense, be directly identified and related to services rendered to a particular operating company.

In consideration for the services to be rendered by the Service Company as hereinabove provided, the Operating Company agrees to pay to the Service Company the cost of said services. Said cost shall not include a markup for profit. In addition, the Operating Company agrees to pay to the Service Company its share of the cost of the investment in the Service Company rate base, including depreciation, amortization, interest on debt and a return on the equity invested.

All costs of the Service Company, including salaries and other expenses, incurred in connection with services rendered by the Service Company for the operating companies which can, without excessive effort or expense, be identified and related to services rendered to a particular operating company, shall be charged directly to such company. Examples of such costs to be directly allocated include salary and other expenses incurred for specific projects such as rate cases, construction projects, legal proceedings, etc. Similarly, all such costs which may be identified and related to services rendered to a particular group of the operating companies shall be charged directly to such group of the operating companies.

All such costs which, because of their nature, cannot, without excessive effort or expense, be identified and related to services rendered to a particular operating company, shall be allocated among all the operating companies, in the manner set forth below.

First, the allocable costs shall be distributed on a monthly basis, unless the Parent Company should elect to make a supplementary analysis for a special purpose.

Secondly, these costs will be prorated on the basis of the proportion of active Equivalent Residential Customers ("ERCs") served by the Operating Company to the total number of active ERCs served by the Parent and its affiliates (including, without limitation, the Operating Company), determined as of the end of each month. For purposes of this Agreement, the number of ERCs attributable to each water and sewer connection maintained by the Parent Company and its affiliates (including, without limitation, the Operating Company) will be determined by applying the formulae set forth in Appendix D.

The Service Company will also at any time, upon request of the Operating Company, furnish to it any and all information required by the Operating Company or by any governmental authorities having jurisdiction over the Operating Company with respect to the services rendered by the Service Company hereunder, the cost thereof and the allocation of such cost among the operating companies. In the case of services in connection with construction, the Service Company will, to the extent practicable, furnish to the Operating Company such information as shall be necessary to permit the allocation of charges for such services to particular work orders.

This Agreement shall be in full force and effect from the date as hereinabove mentioned and shall continue in full force and effect until termination by either of the parties hereto upon ninety days notice in writing.

This Agreement shall become effective upon Public Utility Commission ("Commission") approval according to Chapter 21 of the Public Utility Code, 66 Pa. C.S. §§ 2101-2107, and upon approval shall cover all transactions subject to Chapter 21 after the date of its execution. This Agreement and Appendices incorporated herein shall be modified and/or amended only by writing signed by appropriate parties and shall not be effective until filed with and approved by the Commission. The procedure in the prior sentence shall not apply to periodic changes to Appendix B, the level of annual affiliated expenses identified in Appendix C, or the number of Equivalent Residential Customers used in the formulae identified in Appendix C.

IN WITNESS WHEREOF, the Parent Company, the Service Company, and the Operating Company have caused these presents to be signed in their respective corporate names by their respective Presidents or Vice Presidents, and attested by their respective Secretaries or Assistant Secretaries, all as of the day and year first above written.

ATTEST:

Utilities, Inc.

BY:

Jim Japczyk
Chief Financial Officer

ATTEST:

Penn Estates Utilities, Inc.

BY:

Jim Japczyk
Chief Financial Officer

ATTEST:

Water Service Corporation

BY:

Jim Japczyk
Chief Financial Officer

AFFILIATE AGREEMENT

APPENDIX A

(Organizational Chart)

Organizational chart of Utilities, Inc.

As of 11/30/09

Hydro Star, LLC

Utilities, Inc.

Water Service Corporation

Western Region

Arizona
- Bermuda Water Company, Inc.
- Perkins Mountain Water Company
- Perkins Mountain Utility Company

Nevada
- Spring Creek Utilities Co.
- Sky Ranch Water Service Corp
- Utilities Inc. of Nevada
- Utilities Inc. of Central Nevada

Southeast Region

Georgia
- Utilities Inc. of Georgia
- Water Service Company of Georgia, Inc.

South Carolina
- Carolina Water Service, Inc.
- Southland Utilities, Inc.
- Tega Cay Water Service, Inc.
- United Utility Companies, Inc.
- Utilities Services of South Carolina, Inc.

Florida Region

Florida
- Alafaya Utilities, Inc.
- Bayside Utilities, Inc.
- Cypress Lakes Utilities, Inc.
- Labrador Utilities, Inc.
- Lake Placid Utilities, Inc.
- Lake Utility Services, Inc.
- Mid-County Services, Inc.
- Sandy Creek Utility Services, Inc.
- Sanlando Utilities Corp.
- Tierra Verde Utilities, Inc.
- Utilities Inc. of Eagle Ridge
- Utilities Inc. of Florida
- Utilities Inc. of Longwood
- Utilities Inc. of Pennbrooke
- Utilities Inc. of Sandalhaven

Atlantic Region

Kentucky
- Water Service Corporation of Kentucky

North Carolina
- Bradfield Farms Water Company
- Carolina Pines Utilities, Inc.
- Carolina Trace - Utilities, Inc.
- Carolina Water Service Inc. of North Carolina
- CWS Systems, Inc.
- Elk River Utilities, Inc.
- Nero Utility Services, Inc.
- Transylvania Utilities, Inc.

Tennessee
- Tennessee Water Service, Inc.

Virginia
- Massanutten Public Service Corporation

South Region

Louisiana
- Louisiana Water Service, Inc.
- Utilities Inc. of Louisiana

Midwest Region

Indiana
- Indiana Water Service, Inc.
- Twin Lakes Utilities, Inc.
- Water Service Company of Indiana, Inc.

Maryland
- Green Ridge Utilities, Incorporated
- Maryland Water Service, Inc.
- Provinces Utilities, Inc.

New Jersey
- Montague Sewer Co., Inc.
- Montague Water Co., Inc.

Pennsylvania
- Penn Estates Utilities, Inc.
- Utilities, Inc. of Pennsylvania
- Utilities, Inc. - Westgate

Virginia
- Colchester Utilities, Inc.

Midwest Region

Illinois
- Apple Canyon Utility Company
- Camelot Utilities, Inc.
- Cedar Bluff Utilities, Inc.
- Charmar Water Company
- Cherry Hill Water Company
- Clarendon Water Company
- *Del-Mar* Water Company
- Ferson Creek Utilities Company
- Galena Territory Utilities, Inc.
- Great Northern Utilities, Inc.
- Harbor Ridge Utilities, Inc.
- Holiday Hills Utilities, Inc.
- Killarney Water Co.
- Lake Holiday Utilities Corporation
- Lake Marian Water Corporation
- Lake Wildwood Utilities Corporation
- Medina Utilities Corp.
- Northern Hills Water and Sewer Company
- Valentine Water Service Inc.
- Walk-Up Woods Water Company
- Westlake Utilities, Inc.
- Whispering Hills Water Co.
- Wildwood Water Service Company

Unregulated Business

Bio Tech, Inc.

CONFIDENTIAL/PROPRIETARY
MATERIAL FOLLOWS:

NO SCANNED IMAGE AVAILABLE

ACTUAL DOCUMENT IN
CONFIDENTIAL FILE FOLDER

AFFILIATE AGREEMENT

APPENDIX C

(Additional Services Provided by Water Service Corporation)

Additional services provided by Water Services Corporation (WSC) to Penn Estates Utilities, Inc. water and sewer utilities (Penn Estates) and allocation of expenses by WSC to Penn Estates for test year ending December 31, 2008, filed at docket R-2009-2117532 and R-2009-2117740.

Services Provided by
Water Service Corporation

Accounting Studies
AFLAC
Agency Expense
Answering Serv
Audit Fees
Bank Serv Charges
Bill Stock
Cap Sal - Admin
Cleaning Supplies
Computer Maint
Computer Maint
Computer Salaries
Computer Supplies
Computer Supplies
Computer Supplies - Billing
Computer Supplies - Billing
Computer-Amort & Prog. Cost
Computer-Amort & Prog. Cost
Decor & Repaint Structures
Deferred Inc. Taxes - Federal
Dental Ins. Reimbursements
Dental Premiums
Depend Life Ins.- OPT & AFLAC
Depreciation - Computer
Depreciation - Computer
Depreciation - Office Furn.
Depreciation - Office Struct.
Depreciation - Telephones
Director Fees
Disability Insurance
Employ Finder Fees
Employee Ins. Deductions

Employee Pensions & Benefits
Engineering Fees
Envelopes
ESOP Contributions
FICA Expense
Franchise Tax
FUTA
Health Costs & Other
Health Ins. Premiums
Health Ins. Reimb
Income Taxes - Federal
Interest - Interco.
Interest During Const
Interest Income
Internet Supplier
Internet Supplier
Landscaping, Mowing,Snow
Legal Fees
Meals & Related Exp
Memberships
Microfilming
Microfilming
Misc. Income
Non-Utility Salaries
Off Supply Stores
Office Cleaning Serv
Office Comp Phone Line
Office Comp Phone Line
Office Education/Train Exp
Office Electric
Office Fax Phone Line
Office Garbage Removal

Office Gas
Office Telephone
Office Telephone - Long Dist
Office Utilities - Other
Office Water
Operators - Memberships
Operators - Memberships
Operators - Other Office Exp
Operators Telephones
Other Emp Pens & Benefits
Other Insurance
Other Insurance
Other Misc General
Other Office Expense
Other Office Maint
Other Outside Services
Other Trans. Exp.
Payroll Services
Pension Contributions
Postage
Printing & Blueprints
Printing Customer Service
Publ Subscriptions & Tapes
Real Estate Tax
Reim of Off Emp Exp.
Rental Income
Repair Off Mach & Heating
S/T Int Exp Other
Salaries - Office
Salaries - Operations
Sal-Computer
Sale of Trans Equipment

Sales/Use Tax Exp.
Sal-IL Customer Service
Sal-IL Office
Sal-IL Office Exempt
SUTA-IL
SUTA-NC
Tax Return Review
Temp Empl.
Term Life Ins.
Term Life Ins. - OPT
UPS & Air Freight
Xerox
Chemicals
Publ Subscriptions & Tapes
Printing & Blueprints
UPS & Air Freight
Reim of Off Emp Exp.
Memberships - Office Employee
Other Office Expense
Operations Telephone - LD
Memberships - Company
Meals & Related Exp
Bank Serv Charges
Other Misc General
Operators Exp
Communication Exp
Operators Ed Exp
Uniform Rent & Cleaning
Operators - Postage
Oper. - Office Supply Stores
Operators - Memberships
Operators - Cleaning Supplies

Operators - Other Office Exp
Operators - Publications/Subs
Operators Transp Reimb
Gasoline
Auto Repairs & Tires
Auto Licenses
Other Trans. Exp.
Depreciation - Computer
Temp Empl.
Publ Subscriptions & Tapes
Answering Serv
Computer Supplies
Printing & Blueprints
Postage
UPS & Air Freight
Xerox
Off Supply Stores
Reim of Off Emp Exp.
Cleaning Supplies
Other Office Expense
Office Telephone
Office Telephone - LD
Alarm System Phone Expense
Office Cleaning Serv
Office Education/Train Exp
Other Misc General

Land & Land Rights
Office Structure & Improv.
Office Furniture & Equip.
Telephones
Tools Shop & Misc. Eqpt
Communication Eqpt
A/D - Office Structures
A/D - Office Furniture & Equip.
A/D - Telephones
A/D - Tools Shop & Misc. Eqpt
A/D - Communication Eqpt
Water Plant in Progress
Other Plant in Progress
Def Chgs - Emp Fees
Def Chgs - Other
Misc. Regulatory Comm. Exp.
Mainframe Computer
Mini Computer
Comp System Cost
Micro System Cost
A/D - Mainframe Computer
A/D - Mini Computer
Comp System Amortization
Micro System Amortization
Accumulated Deferred Income Taxes

The following list includes expense accounts at the Water Service Corporation level which have dollars booked to them and allocated to all Utilities, Inc operating companies at a business unit level:

JDE Object Number	Account Description
5505	Agency Expense
5525	Bill Stock
5530	Billing Computer Supplies
5535	Billing Envelopes
5540	Billing Postage
5545	Customer Service Printing
5625	401K/ESOP Contributions
5630	Dental Premiums
5635	Dental Ins Reimbursements
5640	Emp Pensions & Benefits
5645	Employee Ins Deductions
5650	Health Costs & Other
5655	Health Ins Reimbursements
5660	Other Emp Pensions/Benefits
5665	Pension Contributions
5670	Term Life Ins
5675	Term Life Ins - Opt
5680	Depend Life Ins - Opt
5685	Supplemental Life Ins
5690	Tuition
5700	Insurance -Vehicle
5705	Insurance -Gen Liab
5710	Insurance -Workers Comp
5715	Insurance -Other
5735	Computer Maintenance
5740	Computer Supplies
5745	Computer Amort & Prog Cost
5750	Internet Suppiler
5755	Microfilming
5760	Website Development
5785	Advertising/Marketing
5790	Bank Service Charges
5795	*Contributions*
5800	Letter or Credit Fee
5805	License Fees
5810	Memberships
5815	Penalties/Fines
5820	Training Expense
5825	Other Misc Expense
5855	Answering Service
5855	Answering Service
5860	Cleaning Supplies
5865	Copy Machine
5870	Holiday Events/Picnics
5875	Kitchen Supplies
5880	Office Supply Stores
5885	Printing/Blueprints
5890	Publ Subscriptions/Tapes
5895	Shipping Charges
5900	Other Office Expenses
5930	Office Electric
5935	Office Gas
5940	Office Water
5945	Office Telecom
5950	Office Garbage Removal
5955	Office Landscape / Mow / Plow
5960	Office Alarm Sys Phone Exp
5965	Office Maintenance
5970	Office Cleaning Service
5975	Office Machine/Heat&Cool
5980	Other Office Utilities
5985	Telemetering Phone Expense
6005	Accounting Studies
6010	Audit Fees
6015	Employ Finder Fees
6020	Engineering Fees
6025	Legal Fees
6030	Management Fees
6035	Payroll Services
6040	Tax Return Review
6045	Temp Employ -Clerical
6050	Olher Outside Serv
6075	Water Resource Conserve Exp
6090	Rent
6105	Salaries - System Project
6110	Salaries -Acctg/Finance
6115	Salaries -Admin
6120	Salaries -Officers/Stkhldr
6125	Salaries -HR
6130	Salaries -MIS

The following list includes asset and liability accounts at the Water Service Corporation level which have dollars booked to them and allocated to all Utilities, Inc operating companies:

JDE Object Number	Subsidiary Number	Account Description
1030		Land & Land Rights Pump
1035		Land & Land Rights Wtr Trt
1040		Land & Land Rights Trans Dist
1045		Land & Land Rights Gen Plt
1175		Office Struct & Imprv
1180		Office Furn & Eqpt
1190		Tool Shop & Misc Eqpt
1205		Communication Eqpt
1260		Land & Land Rights Intang Plt
1265		Land & Land Rights Coll Plt
1270		Land & Land Rights Trtmnt Plt
1275		Land & Land Rights Reclaim Wtp
1280		Land & Land Rights Rcl Dst Plt
1285		Land & Land Rights Gen Plt
1455		Office Struct & Imprv
1460		Office Furn & Eqpt
1470		Tool Shop & Misc Eqpt
1485		Communication Eqpt
1575		Desktop Computer Wtr
1580		Mainframe Computer Wtr
1585		Mini Computers Wtr
1590		Comp Sys Cost Wtr
1595		Micro Sys Cost Wtr
1605		Desktop Computer Swr
1610		Mainframe Computer Swr
1615		Mini Computers Swr
1620		Comp Sys Cost Swr
1625		Micro Sys Cost Swr
1741		Other Plant In Process History
1745	301	Wip-Cap Time Office Renovation
1745	302	Wip-Cap Time Electrical
1745	303	Wip-Cap Time Lab Expansion
1745	*304*	*Wip-Cap Time Computer Equpmnt*
1745	305	Wip-Cap Time Computer Software
1745	306	Wip-Cap Time Radio Equipment
1746	301	Wip -Interest During Constr
1746	302	Wip- Interest During Constr
1746	303	Wip -Interest During Constr
1746	304	Wip- Interest During Constr
1746	305	Wip- Interest During Constr
1746	306	Wip -Interest During Constr
1747	303	Wip -Labor/Installation
1747	304	Wip -Labor/Installation
1747	305	Wip -Labor/Installation
1748	302	Wip -Equipment
1748	303	Wip-Equipment
1748	304	Wip -EqUlpment
1748	306	Wip -Equipment
1749	301	Wip -Material
1749	302	Wip-Matenal
1749	303	Wip-Material
1749	304	Wip-Material
1749	305	Wip-Material
1749	306	Wip-Material
1750	301	Wip -Electrical
1751	301	Wip -Site Work
1752	301	Wip -Contractor/Labor
1752	302	Wip -Contractor/Labor
1753	301	Wip -Architect/Designer
1753	302	Wip -Architect/Designer
1753	303	Wip -Architect/Designer
1754	303	Wip -Building Addition
1755	301	Wip -Furniture
1755	302	Wip -Furniture
1756	301	Wip -Heating/Air Condition
1756	302	Wip -Heating/Air Condition
1757	301	Wip -Interior Finish
1757	302	Wip -Interior Finish
1758	305	Wip -Modification/Convert
1759	304	Wip -Remodeling
1769	301	Wip -Transfer To Fixed Assets
1769	302	Wip -Transfer To Fixed Assets
1769	303	Wip -Transfer To Fixed Assets
1769	304	Wip -Transfer To Fixed Assets
1769	305	Wip -Transfer To Fixed Assets
1769	306	Wip -Transfer To Fixed Assets
1771		Deferred Plant In Process History
1775	401	Wip -Cap Time Water Tower Paint
1775	402	Wip-Cap Time W/S Plt Paint
1775	403	Wip-Cap Time Water Tank Paint
1775	404	Wip-Cap Time Clean Sewer Line

The following list includes expense accounts at the Water Service Corporation level which have dollars booked to them and allocated to all Utilities, Inc operating companies at a business unit level:

JDE Object Number	Account Description
6135	Salaries -Leadership Ops
6140	Salaries -Regulatory
6145	Salaries -Customer Service
6185	Travel Lodging
6190	Travel Airfare
6195	Travel Transportation
6200	Travel Meals
6205	Travel Entertainment
6207	Travel Other
6355	Deferred Maint Expense
6360	Communication Expense
6365	Equipment Rentals
6385	Uniforms
6390	Weather/Hurricane Costs
6580	Deprec-Office Structure
6585	Deprec-Office Furn/Eqpt
6610	Deprec-Communciation Eqpt
6615	Deprec-Misc Equipment
6820	Deprec-Office Structure
6825	Deprec-Office Furn/Eqpt
6850	Deprec-Communciation Eqpt
6855	Deprec-Misc Equipment
6920	Depree-Computer
7510	FICA Expense
7515	Federal Unemployment Tax
7520	State Unemployment Tax
7535	Franchise Tax
7540	Gross Receipts Tax
7545	Personal Property/ICT Tax
7550	Property/Otller General Tax
7555	Real Estate Tax
7560	Sales/Use Tax Expense
7565	Special Assessments
7665	Extraordinary Gain/Loss
7670	Extraordinary Deductions
7680	Rental Income
7685	Interest Income
7690	Sale of Equipment

The following list includes asset and liability accounts at the Water Service Corporation level which have dollars booked to them and allocated to all Utilities, Inc operating companies:

JDE Object Number	Subsidiary Number	Account Description
1775	405	Wip-Cap Time Chng Filter Media
1775	406	Wip-Cap Time Tv Sewer Main
1775	407	Wip-Cap Time Sludge & Hauling
1775	408	Wip-Cap Time W/S Plt Landscape
1776	401	Wip -Interest During Constr
1776	401	Wip -Interest During Constr
1776	403	Wip -Interest During Constr
1776	404	Wip -Interest During Constr
1776	405	Wip -Interest During Constr
1776	406	Wip -Interest During Constr
1776	407	Wip -Interest During Constr
1776	408	Wip -Interest During Constr
1777	408	Wip -Engineering
1778	401	Wip -Labor/Installation
1779	401	Wip -Equipment
1779	404	Wip -Equipment
1779	406	Wip -Equipment
1780	401	Wip -Material
1780	402	Wip -Material
1780	403	Wip -Material
1780	404	Wip -Material
1780	405	Wip -Material
1780	406	Wip -Material
1780	407	Wip -Material
1780	408	Wip -Material
1781	408	Wip -Site Work
1782	401	Wip -Contractor/Labor
1782	402	Wip -Contractor/Labor
1782	403	Wip -Contractor/Labor
1782	405	Wip -Contractor/Labor
1782	406	Wip -Contractor/Labor
1783	404	Wip -Grouting/Sealing
1784	404	Wip -Jet Cleaning
1785	407	Wip -Pump & Haul Sludge
1786	404	Wip -Rental/Machine
1786	405	Wip -Rental/Machine
1787	402	Wip -Repair
1787	403	Wip -Repair
1799	401	Wip -Transfer To Fixed Assets
1799	402	Wip -Transfer To Fixed Assets
1799	403	Wip -Transfer To Fixed Assets
1799	404	Wip -Transfer To Fixed Assets
1799	405	Wip -Transfer To Fixed Assets
1799	406	Wip -Transfer To Fixed Assets
1799	407	Wip -Transfer To Fixed Assets
1799	408	Wip -Transfer To Fixed Assets
1970		Acc Depr-Office Structure
1975		Acc Depr-Office Furn/Eqpt
1985		Acc Depr-Tool Shop & Misc Eqpt
2000		Acc Depr-Communication Eqpt
2215		Acc Depr-Office Structure
2220		Acc Depr-Office Furn/Eqpt
2230		Acc Depr-Tool Shop & Misc Eqpt
2245		Acc Depr-Communication Eqpt
2315		Acc Depr-Desktop Computer Wtr
2320		Acc Depr-Mainframe Comp Wtr
2325		Acc Depr-Mini Comp Wtr
2330		Comp Sys Amortization Wtr
2335		Micro Sys Amortization Wtr
2345		Acc Depr-Desktop Computer Swr
2350		Acc Depr-Mainframe Comp Swr
2355		Acc Depr-Mini Comp Swr
2360		Comp Sys Amortization Swr
2365		Micro Sys Amortization Swr
2950		Def Chgs-Landscaping
2955		Def Chgs-Customer Complaints
2960		Def Chgs-Tank Maint&Rep Wtr
2965		Def Chgs-Relocation Expenses
2970		Def Chgs-Attorney Fee
2975		Def Chgs-Hurricane/Storms Cost
2980		Def Chgs-Emp Fees
2985		Def Chgs-Other
3000		Def Chgs-Other Wtr & Swr
3005		Def Chgs-Voc Testing
3020		Def Chgs-Sludge Hauling
3025		Def Chgs-Pr Wash/Jet Swr Mains
3030		Def Chgs-Tv Sewer Mains
3040		Def Chgs-Tank Maint&Rep Swr
3080		Amort -Landscaping
3090		Amort -Customer Complaints

The following list includes expense accounts at the Water Service Corporation level which have dollars booked to them and allocated to all Utilities, Inc operating companies at a business unit level:

JDE Object Number	Account Description

The following list includes asset and liability accounts at the Water Service Corporation level which have dollars booked to them and allocated to all Utilities, Inc operating companies:

JDE Object Number	Subsidiary Number	Account Description
3110		Amort -Tank Maint&Rep Wtr
3120		Amort -Relocation Exp
3125		Amort -Attorney Fee
3130		Amort -Hurricane/Storms
3135		Amort -Employee Fees
3140		Amort -Other
3155		Amort -Other Wtr & Swr
3160		Amort -Voc Testing
3175		Amort -Sludge Hauling
3180		Amort -Pr Wash/Jet Swr Mains
3185		Amort -Tv Sewer Mains
3195		Amort -Tank Maint&Rep Swr
4367		Accum Def Income Tax-Fed
4369		Def Fed Tax -Ciac Pre 1987
4371		Def Fed Tax -Tap Fee Post 2000
4373		Def Fed Tax -Idc
4375		Def Fed Tax -Rate Case
4377		Def Fed Tax -DefMaint
4379		Def Fed Tax -Other Operation
4381		Def Fed Tax -Sold Co
4383		Def Fed Tax -Orgn Exp
4385		Def Fed Tax -Bad Debt
4387		Def Fed Tax -Depreciation
4389		DefFed Tax -Nol
4391		Def Fed Tax -Cont Prop
4393		Def Fed Tax -Amt
4395		Def Fed Tax -Pre Acrs
4397		Def Fed Tax -Res Cap Fee
4417		Accum Def Income Tax -St
4419		Def St Tax -Ciac Pre 1987
4421		Def St Tax -Tap Fee Post 2000
4423		Def St Tax -Idc
4425		Def St Tax -Rate Case
4427		Def St Tax -Def Maint
4429		Def St Tax -Other Operation
4431		Def St Tax -Sold Co
4433		Def St Tax -Orgn Exp
4435		Def St Tax -Bad Debt
4437		Def St Tax -Depreciation
4439		Def St Tax -Nol
4441		Def St Tax -Cont Prop
4443		Def St Tax -Amt
4445		Def St Tax -Res Cap Fee

A	B	C	D	E	F
		Column Labels			
		WSC			
Row Labels	Account	Sum of WSC expenses to allocate Per books	Sum of Penn Estates Water Allocated Expenses	Sum of Penn Estates Sewer Allocated Expenses	Sum of Total Penn Estates Allocated Expenses
Revenue	Bad Debt Expense	20,723.01	120.32	120.03	240.35
Revenue Total		**20,723.01**	**120.32**	**120.03**	**240.35**
Maint Exp	Chemicals	-	-	-	-
	Legal Fees	123,014.95	714.22	712.50	1,426.73
	Maintenance and Repair	299,646.48	1,739.75	1,735.55	3,475.30
	Maintenance Testing	-	-	-	-
	Meter Reading	(1,070.18)	(6.21)	(6.20)	(12.41)
	Operating Exp. *Charged to Plant*	*(769,259.88)*			
	Other Outside Services	129,959.49	754.54	752.73	1,507.27
	Outside Service Expense	744,492.78	4,322.53	4,312.10	8,634.63
	Purchased Power	-	-	-	-
	Salaries and Wages	463,055.37			
	Transportation	(417.78)	(2.43)	(2.42)	(4.85)
Maint Exp Total		**989,421.23**	**7,522.40**	**7,504.26**	**15,026.67**
Gen Exp	Insurance	2,343,959.43	13,609.03	13,576.21	27,185.24
	Miscellaneous	392,705.74	2,280.05	2,274.55	4,554.60
	Office Supplies & Other Office Exp.	2,745,496.75	15,940.35	15,901.92	31,842.27
	Office Utilities	655,174.24	3,803.94	3,794.77	7,598.71
	Pension & Other Benefits	5,287,337.80			
	Regulatory Commission Exp.	7,084.71			
	Rent	-	-	-	-
	Salaries and Wages	4,496,181.75			
Gen Exp Total		**15,927,940.42**	**35,633.37**	**35,547.45**	**71,180.82**
Other Exp	Amortization of ITC	-	0.01	-	0.01
	Depr Computers	2,392,725.71	13,892.17	13,858.67	27,750.83
	Depr Transportation	37,236.60	216.20	215.67	431.87
	Depreciation	140,137.12	813.64	811.67	1,625.31
	Income Taxes - Federal	-	-	-	-
	Income Taxes - State	28,882.00	167.69	167.28	334.97
	Taxes Other Than Income	435,444.13			
Other Exp Total		**3,034,425.56**	**15,089.69**	**15,053.30**	**30,142.99**
Non-Op Exp	Interest During Construction	(218,620.05)	(1,269.31)	(1,266.25)	(2,535.56)
	Interest on Debt	(16,343.17)			
	Other Income	(500.00)	(2.90)	(2.90)	(5.80)
Non-Op Exp Total		**(235,463.22)**	**(1,272.21)**	**(1,269.14)**	**(2,541.35)**
Grand Total		**19,737,047.00**	**57,093.58**	**56,955.90**	**114,049.48**

A	B	G	H	I	J
		RVP			
Row Labels	Account	Sum of WSC expenses to allocate Per books	Sum of Penn Estates Water Allocated Expenses	Sum of Penn Estates Sewer Allocated Expenses	Sum of Total Penn Estates Allocated Expenses
Revenue	Bad Debt Expense				
Revenue Total					
Maint Exp	Chemicals	-	-	-	-
	Legal Fees				
	Maintenance and Repair	430.51	11.14	11.11	22.25
	Maintenance Testing	-	-	-	-
	Meter Reading	-	-	-	-
	Operating Exp. Charged to Plant				
	Other Outside Services				
	Outside Service Expense				
	Purchased Power	25,556.49	661.27	659.74	1,321.01
	Salaries and Wages	312,228.04			
	Transportation	-	-	-	-
Maint Exp Total		338,215.04	672.41	670.85	1,343.27
Gen Exp	Insurance	-	-	-	-
	Miscellaneous	33,770.81	873.82	871.79	1,745.61
	Office Supplies & Other Office Exp.	63,054.01	1,631.52	1,627.74	3,259.26
	Office Utilities	60,601.46	1,568.06	1,564.43	3,132.49
	Pension & Other Benefits	4,343.00			
	Regulatory Commission Exp.	-	-	-	-
	Rent	47,850.00	1,238.12	1,235.25	2,473.37
	Salaries and Wages	-	-	-	-
Gen Exp Total		209,619.28	5,311.52	5,299.21	10,610.73
Other Exp	Amortization of ITC	-	-	-	-
	Depr Computers				
	Depr Transportation				
	Depreciation	-	-	-	-
	Income Taxes - Federal	-	-	-	-
	Income Taxes - State	-	-	-	-
	Taxes Other Than Income	-	-	-	-
Other Exp Total		-	-	-	-
Non-Op Exp	Interest During Construction	-	-	-	-
	Interest on Debt				
	Other Income	-	-	-	-
Non-Op Exp Total		-	-	-	-
Grand Total		547,834.32	5,983.94	5,970.06	11,954.00

A	B	K	L	M	N
		Regional			
Row Labels	Account	Sum of WSC expenses to allocate Per books	Sum of Penn Estates Water Allocated Expenses	Sum of Penn Estates Sewer Allocated Expenses	Sum of Total Penn Estates Allocated Expenses
Revenue	Bad Debt Expense				
Revenue Total					
Maint Exp	Chemicals	-	-	-	-
	Legal Fees				
	Maintenance and Repair	2,483.46	111.35	111.09	222.44
	Maintenance Testing	-	-	-	-
	Meter Reading	-	-	-	-
	Operating Exp. Charged to Plant	-	-	-	-
	Other Outside Services				
	Outside Service Expense	-	-	-	-
	Purchased Power	-	-	-	-
	Salaries and Wages	-	-	-	-
	Transportation	549.01	24.62	24.56	49.17
Maint Exp Total		3,032.47	135.97	135.65	271.62
Gen Exp	Insurance	-	-	-	-
	Miscellaneous	20,996.14	941.40	939.22	1,880.62
	Office Supplies & Other Office Exp.	5,750.51	257.84	257.24	515.07
	Office Utilities	5,125.38	229.81	229.27	459.08
	Pension & Other Benefits	3,118.86			
	Regulatory Commission Exp.	-	-	-	-
	Rent	4,338.00	194.50	194.05	388.55
	Salaries and Wages	-	-	-	-
Gen Exp Total		39,328.89	1,623.55	1,619.78	3,243.33
Other Exp	Amortization of ITC	-	-	-	-
	Depr Computers				
	Depr Transportation				
	Depreciation	-	-	-	-
	Income Taxes - Federal	-	-	-	-
	Income Taxes - State	-	-	-	-
	Taxes Other Than Income	-	-	-	-
Other Exp Total		-	-	-	-
Non-Op Exp	Interest During Construction	-	-	-	-
	Interest on Debt				
	Other Income	-	-	-	-
Non-Op Exp Total		-	-	-	-
Grand Total		42,361.36	1,759.52	1,755.43	3,514.95

A	B	O	P	Q	R
		PA			
Row Labels	Account	Sum of WSC expenses to allocate Per books	Sum of Penn Estates Water Allocated Expenses	Sum of Penn Estates Sewer Allocated Expenses	Sum of Total Penn Estates Allocated Expenses
Revenue	Bad Debt Expense	-	-	-	-
Revenue Total		-	-	-	-
Maint Exp	Chemicals	-	-	-	-
	Legal Fees				
	Maintenance and Repair	127.04	34.30	34.22	68.52
	Maintenance Testing	-	-	-	-
	Meter Reading	-	-	-	-
	Operating Exp. Charged to Plant	(2,451.53)			
	Other Outside Services				
	Outside Service Expense	-	-	-	-
	Purchased Power	-	-	-	-
	Salaries and Wages	1,102.00			
	Transportation	48,270.01	13,032.26	13,002.02	26,034.28
Maint Exp Total		47,047.52	13,066.56	13,036.24	26,102.80
Gen Exp	Insurance	-	-	-	-
	Miscellaneous	1,698.93	458.69	457.62	916.31
	Office Supplies & Other Office Exp.	4,080.00	1,101.55	1,098.99	2,200.54
	Office Utilities	90.00	24.30	24.24	48.54
	Pension & Other Benefits	1,852.36			
	Regulatory Commission Exp.	-	-	-	-
	Rent	-	-	-	-
	Salaries and Wages	-	-	-	-
Gen Exp Total		7,721.29	1,584.53	1,580.86	3,165.39
Other Exp	Amortization of ITC	-	-	-	-
	Depr Computers	7,742.39	2,090.34	2,085.49	4,175.83
	Depr Transportation	12,683.89	3,424.48	3,416.54	6,841.02
	Depreciation	-	-	-	-
	Income Taxes - Federal	-	-	-	-
	Income Taxes - State	-	-	-	-
	Taxes Other Than Income	29,911.05			
Other Exp Total		50,337.33	5,514.82	5,502.03	11,016.85
Non-Op Exp	Interest During Construction	-	-	-	-
	Interest on Debt				
	Other Income	-	-	-	-
Non-Op Exp Total		-	-	-	-
Grand Total		105,106.14	20,165.92	20,119.13	40,285.04

A	B	S	T	U	V
		PE			
Row Labels	Account	Sum of WSC expenses to allocate Per books	Sum of Penn Estates Water Allocated Expenses	Sum of Penn Estates Sewer Allocated Expenses	Sum of Total Penn Estates Allocated Expenses
Revenue	Bad Debt Expense				242.55
Revenue Total					242.55
Maint Exp	Chemicals				-
	Legal Fees				1,443.94
	Maintenance and Repair				3,816.44
	Maintenance Testing				-
	Meter Reading				(12.51)
	Operating Exp. Charged to Plant				
	Other Outside Services				1,528.75
	Outside Service Expense				8,755.74
	Purchased Power				-
	Salaries and Wages				
	Transportation				27,611.65
Maint Exp Total					43,144.01
Gen Exp	Insurance				27,531.31
	Miscellaneous				9,267.47
	Office Supplies & Other Office Exp.				37,282.55
	Office Utilities				11,131.77
	Pension & Other Benefits				
	Regulatory Commission Exp.				
	Rent				2,864.95
	Salaries and Wages				
Gen Exp Total					88,078.05
Other Exp	Amortization of ITC				-
	Depr Computers				32,809.95
	Depr Transportation				8,161.46
	Depreciation				1,385.69
	Income Taxes - Federal				-
	Income Taxes - State				-
	Taxes Other Than Income				
Other Exp Total					42,357.10
Non-Op Exp	Interest During Construction				(2,575.82)
	Interest on Debt				
	Other Income				(5.80)
Non-Op Exp Total					(2,581.62)
Grand Total					171,240.09

A	B	W	X	Y	Z
		Total Sum of WSC expenses to allocate Per books	Total Sum of Penn Estates Water Allocated Expenses	Total Sum of Penn Estates Sewer Allocated Expenses	Total Sum of Total Penn Estates Allocated Expenses
Row Labels	Account				
Revenue	Bad Debt Expense	20,723.01	120.32	120.03	482.90
Revenue Total		**20,723.01**	**120.32**	**120.03**	**482.90**
Maint Exp	Chemicals	-	-	-	-
	Legal Fees	123,014.95	714.22	712.50	2,870.67
	Maintenance and Repair	302,687.49	1,896.54	1,891.98	7,604.96
	Maintenance Testing	-	-	-	-
	Meter Reading	(1,070.18)	(6.21)	(6.20)	(24.92)
	Operating Exp. Charged to Plant	(771,711.41)	-	-	-
	Other Outside Services	129,959.49	754.54	752.73	3,036.02
	Outside Service Expense	744,492.78	4,322.53	4,312.10	17,390.37
	Purchased Power	25,556.49	661.27	659.74	1,321.01
	Salaries and Wages	776,385.41	-	-	-
	Transportation	48,401.24	13,054.45	13,024.16	53,690.26
Maint Exp Total		**1,377,716.26**	**21,397.34**	**21,347.01**	**85,888.37**
Gen Exp	Insurance	2,343,959.43	13,609.03	13,576.21	54,716.55
	Miscellaneous	449,171.62	4,553.96	4,543.19	18,364.62
	Office Supplies & Other Office Exp.	2,818,381.27	18,931.26	18,885.88	75,099.69
	Office Utilities	720,991.08	5,626.11	5,612.71	22,370.59
	Pension & Other Benefits	5,296,652.02			
	Regulatory Commission Exp.	7,084.71	-	-	-
	Rent	52,188.00	1,432.62	1,429.30	5,726.87
	Salaries and Wages	4,496,181.75	-	-	-
Gen Exp Total		**16,184,609.88**	**44,152.98**	**44,047.30**	**176,278.33**
Other Exp	Amortization of ITC	-	0.01	-	0.01
	Depr Computers	2,400,468.10	15,982.51	15,944.16	64,736.62
	Depr Transportation	49,920.49	3,640.68	3,632.21	15,434.35
	Depreciation	140,137.12	813.64	811.67	3,011.00
	Income Taxes - Federal	-	-	-	-
	Income Taxes - State	28,882.00	167.69	167.28	334.97
	Taxes Other Than Income	465,355.18	-	-	-
Other Exp Total		**3,084,762.89**	**20,604.52**	**20,555.33**	**83,516.94**
Non-Op Exp	Interest During Construction	(218,620.05)	(1,269.31)	(1,266.25)	(5,111.38)
	Interest on Debt	(16,343.17)			
	Other Income	(500.00)	(2.90)	(2.90)	(11.60)
Non-Op Exp Total		**(235,463.22)**	**(1,272.21)**	**(1,269.14)**	**(5,122.97)**
Grand Total		**20,432,348.82**	**85,002.94**	**84,800.52**	**341,043.56**

Penn Estates Utilities, Inc.
Allocation of Expenses
Test Year Ended December 31, 2008

A	B	AA	BB	CC	DD	EE
Row Labels	Account	Should be	Booked	Adj	W	S
Revenue	Bad Debt Expense	240.35	242.55	(2.20)		
Revenue Total		240.35	242.55	(2.20)	(1.10)	(1.10)
Maint Exp	Chemicals	-	-	-		
	Legal Fees	1,426.73	1,443.94	(17.21)		
	Maintenance and Repair	3,788.52	3,816.44	(27.92)		
	Maintenance Testing	-	-	-		
	Meter Reading	(12.41)	(12.51)	0.10		
	Operating Exp. Charged to Plant	-	-	-		
	Other Outside Services	1,507.27	1,528.75	(21.48)		
	Outside Service Expense	8,634.63	8,755.74	(121.11)		
	Purchased Power	1,321.01	-	1,321.01		
	Salaries and Wages	-	-	-		
	Transportation	26,078.61	27,611.65	(1,533.04)		
Maint Exp Total		42,744.36	43,144.01	(399.65)	(200.06)	(199.60)
Gen Exp	Insurance	27,185.24	27,531.31	(346.07)		
	Miscellaneous	9,097.15	9,267.47	(170.32)		
	Office Supplies & Other Office Exp.	37,817.14	37,282.55	534.59		
	Office Utilities	11,238.82	11,131.77	107.05		
	Pension & Other Benefits	-	-	-		
	Regulatory Commission Exp.	-	-	-		
	Rent	2,861.92	2,864.95	(3.03)		
	Salaries and Wages	-	-	-		
Gen Exp Total		88,200.28	88,078.05	122.23	61.18	61.04
Other Exp	Amortization of ITC	0.01	-	0.01		
	Depr Computers	31,926.67	32,809.95	(883.28)		
	Depr Transportation	7,272.89	8,161.46	(888.57)		
	Depreciation	1,625.31	1,385.69	239.62		
	Income Taxes - Federal	-	-	-		
	Income Taxes - State	334.97	-	334.97		
	Taxes Other Than Income	-	-	-		
Other Exp Total		41,159.84	42,357.10	(1,197.26)	(599.32)	(597.93)
Non-Op Exp	Interest During Construction	(2,535.56)	(2,575.82)	40.26		
	Interest on Debt	-	-	-		
	Other Income	(5.80)	(5.80)	0.00		
Non-Op Exp Total		(2,541.35)	(2,581.62)	40.27	20.16	20.11
Grand Total		169,803.47	171,240.09	(1,436.62)		

AFFILIATE AGREEMENT

APPENDIX D

(Formulae for Calculating Equivalent Residential Customers ("ERCs"))

Formulae for calculating Equivalent Residential Customers ("ERCs") with calculation of 1.16% ERC for Penn Estates Utilities, Inc., i.e.:

$\frac{3,444}{296,949.50}$	Penn Estates ERCs / Total Utilities, Inc. ERCs	1.16%
$\frac{3,444}{296,949.50}$	Penn Estates ERCs / Water Services Corp. ERCs	1.16%
$\frac{3,444}{66,628.60}$	Penn Estates ERCs / Regional Vice President ERCs	5.17%
$\frac{3,444}{38,450.00}$	Penn Estates ERCs / Regional ERCs	8.96%
$\frac{3,444}{6,385.50}$	Penn Estates ERCs / Pennsylvania ERCs	53.93%

* the costs are received in from each cost center:

Water Services Corp.
Regional Vice President
Region
Pennsylvania

Costs associated with each cost center are applied to Water and Sewer as per %'s above.

Costs are further allocated between Penn Estates Water & Sewer as follows:

$\frac{1,724.00}{3,444.00}$	Penn Estates Water ERCs / Penn Estates ERCs	50.06%
$\frac{1,720.00}{3,444.00}$	Penn Estates Sewer ERCs / Penn Estates ERCs	49.94%

							ERC Percentages			
Row Labels	RVP	Region	State	Co	Company name	Sum of Dec	WSC %	RVP %	Region %	State%
WSC	MIDWEST/WEST	MIDWEST	IL	110	Apple Canyon Utility Co	2,677.00	0.90%	4.02%	6.96%	15.01%
				111	Camelot Utilities Inc	432.00	0.15%	0.65%	1.12%	2.42%
				112	Charmar Water Co	53.00	0.02%	0.08%	0.14%	0.30%
				113	Cherry Hill Water Co	256.60	0.09%	0.39%	0.67%	1.44%
				114	Clarendon Water Co	360.50	0.12%	0.54%	0.94%	2.02%
				116	County Line Water Co	115.40	0.04%	0.17%	0.30%	0.65%
				117	Del Mar Water Co	76.50	0.03%	0.11%	0.20%	0.43%
				118	Ferson Creek Utilities Co	756.00	0.25%	1.13%	1.97%	4.24%
				119	Galena Territory Utilities	3,035.10	1.02%	4.56%	7.89%	17.01%
				120	Killarney Water Co	348 00	0.12%	0.52%	0.91%	1.95%
				121	Lake Holiday Utilities Corp	2,076.00	0.70%	3.12%	5.40%	11.64%
				122	Lake Wildwood Utilities Co	1,420.50	0.48%	2.13%	3.69%	7.96%
				123	Northern Hills W & S Co	355 00	0.12%	0.53%	0.92%	1.99%
				124	Lake Marian Water Corp	290.00	0.10%	0.44%	0.75%	1.63%
				125	Wildwood Water Service Co	194 00	0.07%	0.29%	0.50%	1.09%
				126	Valentine Water Service Inc	70.00	0.02%	0.11%	0.18%	0.39%
				127	Walk Up Woods Water Co	219.00	0.07%	0.33%	0.57%	1.23%
				128	Whispering Hills Water Co	2,333.50	0.79%	3.50%	6.07%	13.08%
				129	Holiday Hills Utilities Inc	246.00	0.08%	0.37%	0.64%	1.38%
				130	Medina Utilities Corp	464 20	0.16%	0.70%	1.21%	2.60%
				131	Westlake Utilities Inc	940.80	0.32%	1.41%	2.45%	5.27%
				132	Cedar Bluff Utilities Inc	124 00	0.04%	0.19%	0.32%	0.70%
				133	Harbor Ridge Utilities Inc	635.00	0.21%	0.95%	1.65%	3.56%
				134	Great Northern Utilities	361.00	0.12%	0 54%	0.94%	2.02%
			IL Total			17,839.10	6.01%	26.77%	46.40%	100.00%
			IN	150	Twin Lakes Utilities Inc	6,188.00	2.08%	9.29%	16.09%	73.72%
				151	WSC Indiana	386.40	0.13%	0.58%	1.00%	4.60%
				152	Indiana Water Service Inc	1,819.50	0.61%	2.73%	4.73%	21.68%
			IN Total			8,393.90	2.83%	12.60%	21.83%	100.00%
			MD	286	Green Ridge Utilities Inc	923.00	0.31%	1.39%	2.40%	20.10%
				287	Provinces Utilities Inc	1,480.00	0.50%	2.22%	3.85%	32.23%
				288	Maryland Water Services Inc	2,189.50	0.74%	3.29%	5.69%	47.68%
			MD Total			4,592.50	1.55%	6.89%	11.94%	100.00%
			NJ	300	Montague Water & Sewer Co	1,070.00	0.36%	1.61%	2.78%	100.00%
			NJ Total			1,070.00	0.36%	1.61%	2.78%	
			OH	170	Holiday Service Corp		0.00%	0.00%	0.00%	#DIV/0!
			OH Total				0.00%	0.00%	0.00%	
			PA	315	Utilities Inc of Westgate	768.50	0.26%	1.15%	2.00%	12.04%
				316	Utilities Inc of Pennsylvania	2,173.00	0.73%	3.26%	5.65%	34.03%
				317	Penn Estates Utilities Inc	3,444.00	1.16%	5.17%	8.96%	53.93%
			PA Total			6,385.50	2.15%	9.58%	16.61%	100.00%
			VA	332	Colchester Public Service Corp	169 00	0.06%	0.25%	0.44%	100.00%
			VA Total			169.00	0.06%	0.25%	0.44%	
		MIDWEST Total				38,450.00	12.95%	57.71%	100.00%	
		WEST	AZ	425	Bermuda Water Co	8,690.10	2.93%	13.04%	30.84%	100.00%
			AZ Total			8,690.10	2.93%	13.04%	30.84%	
			NV	450	Utilities Inc of Nevada	3,326.50	1.12%	4.99%	11.81%	17.07%
				451	Spring Creek Utilities Co	4,437.90	1.49%	6.66%	15.75%	22.77%
				452	Sky Ranch Water Service	580.50	0.20%	0.87%	2.06%	2.98%
				453	Util Inc of Central Nevada	11,143.60	3.75%	16.72%	39.55%	57.18%
			NV Total			19,488.50	6.56%	29.25%	69.16%	100.00%
		WEST Total				28,178.60	9.49%	42.29%	100.00%	
	RVP (MIDWEST/WEST Total)					66,628.60	22.44%	100.00%		
	ATLANTIC/MIDATLANTIC/SOUTHEAST	ATLANTIC	NC	180	Hardscrabble		0.00%			
				181	Elk River Utilities Inc	375.40	0.13%			
				182	Carolina Water Service Inc of NC	40,465.90	13.63%			
				183	CWS Systems	12,877.40	4.34%			
				187	Carolina Trace Utilities Inc	2,922.00	0.98%			
				188	Transylvania Utilities Inc	3,464.20	1.17%			
				189	North Topsail Utilities Inc	2,959.00	1.00%			
				190	Carolina Pines Utilities Inc	337.00	0.11%			
				191	Bradfield Farms Water Co	2,319.00	0.78%			
				192	Nero Utility Services Inc	254.00	0.09%			
			NC Total			65,973.90	22.22%			
			TN	220	Tennessee Water Service	557.00	0.19%			
			TN Total			557.00	0.19%			
		ATLANTIC Total				66,530.90	22.40%			
		MID-ATLANTIC	KY	345	Water Serv Corp of Kentucky	7,334.80	2.47%			
			KY Total			7,334.80	2.47%			
			VA	333	Massanutten Public Serv Corp	5,346.40	1.80%			
			VA Total			5,346.40	1.80%			
		MID-ATLANTIC Total				12,681.20	4.27%			
		SOUTHEAST	GA	385	Utilities Inc of Georgia	10,238.90	3.45%			
				386	Water Service Co of Georgia	2,095.00	0.71%			
			GA Total			12,333.90	4.15%			
			SC	400	Carolina Water Service Inc	19,503.00	6.57%			
				401	Util Serv of South Carolina	6,846.70	2.31%			
				402	Southland Utilities Inc	175.00	0.06%			
				403	United Utility Company	1,285.60	0.43%			
				406	Tega Cay Water Service Inc	3,415.00	1.15%			
			SC Total			31,225.30	10.52%			
		SOUTHEAST Total				43,559 20	14.67%			
	RVP (ATLANTIC/MIDATLANTIC/SOUTHEAST Total)					122,771.30	41.34%			
	CORPORATE	CORPORATE	Non-Operating	900	Biotech Inc	296.80	0.10%			
			Non-Operating Total			296.80	0.10%			
		CORPORATE Total				296.80	0.10%			
	RVP (CORPORATE Total)					296.80	0.10%			
	FLORIDA/SOUTH	FLORIDA	FL	241	Tierra Verde Utilities Inc	2,093.20	0.70%			
				242	Lake Placid Utilities Inc	261.40	0.09%			
				243	Eastlake Water Service Inc	1,784.40	0.60%			
				244	Pebble Creek Utilities Inc	2,886.10	0.97%			
				245	Alafaya Utilities Inc	8,610.90	2.90%			
				246	Utilities Inc of Longwood	1,745.00	0.59%			
				247	Wedgefield Utilities Inc	3,059.60	1.03%			
				248	Cypress Lakes Utilities Inc	2,392.50	0.81%			
				249	Utilities Inc of Eagle Ridge	2,510.60	0.85%			
				250	Mid-County Services Inc	3,355.00	1.13%			
				251	Lake Utility Services Inc	11,825.40	3.98%			
				252	Utilities Inc of Florida	9,582.00	3.23%			
				253	Miles Grant Water & Sewer Co	2,134.90	0.72%			
				254	ACME Water Supply & Mgmt Co	939.50	0.32%			
				255	Sanlando Utilities Corp	20,959.70	7.06%			
				256	Utilities Inc of Sandalhaven	1,083.90	0.37%			
				257	Bayside Utility Services	483.00	0.16%			
				258	South Gate Utilities Inc	5,706 60	1.92%			
				259	Labrador Utilities Inc	1,541.80	0.52%			
				260	Utilities Inc of Pennbrooke	2,712.00	0.91%			
				261	Util Inc of Hutchinson Island	362.40	0.12%			
				262	Sandy Creek Utility Services	374 80	0.13%			
			FL Total			86,404.70	29.10%			
		FLORIDA Total				86,404.70	29.10%			
		SOUTH	LA	356	Louisiana Water Service Inc	10,254.70	3.45%			
				357	Utilities Inc of Louisiana	10,593.80	3.57%			
			LA Total			20,848.50	7.02%			
			MS	370	Charleston Utilities Inc		0.00%			
			MS Total				0.00%			
		SOUTH Total				20,848.50	7.02%			
	RVP (FLORIDA/SOUTH Total)					107,253.20	36.12%			
WSC Total						296,949.90	100.00%			
Grand Total						296,949.90				

9. Refer to WSKY's responses to the Commission's Second Request, Item 7.

a. Confirm that the file PSC DR 2-7 referenced in response to 7(a) contains WSKY's current proposed depreciation schedule.

b. If the file PSC DR 2-7 does not contain WSKY's current proposed depreciation schedule, provide WSKY's current proposed depreciation schedule with specific verifiable evidence for service lives that are outside the range identified in the NARUC Study.

c. If the file PSC DR 2-7 does contain WSKY's current proposed depreciation schedule, provide specific verifiable evidence for the service life of each asset group that lists a service life outside the range stated in the NARUC Study.

d. If WSKY cannot provide specific verifiable evidence to justify the service life of an asset group outside the range identified in the NARUC Study as requested in 9(b) or 9(c), provide the service life for that asset group using the NARUC Study.

e. Provide specific verifiable evidence to justify the service life of each asset listed in response to 7(c), 7(d), 7(e), 7(f), and 7(g) of Commission's Second Request. Reference to depreciation rates accepted in another jurisdiction is not specific verifiable evidence justifying the service life of an asset.

f. If WSKY cannot provide specific verifiable evidence to justify the service life of an asset as requested in 9(e), provide the service life for that asset using the NARUC Study.

g. Recalculate accumulated depreciation, depreciation expense, amortization of contributions in aid of construction and advances in aid of construction, and deferred income taxes using service lives within the range identified in the NARUC Study or using specific verifiable evidence justifying the service life of an asset that is outside the range identified in the NARUC Study.

h. Identify the effect of the recalculations in 9(g) on WSKY's pro forma operating expenses and requested revenue requirement.

i. Provide all workpapers, show all calculations, and state all assumptions that WSKY used in response to 9(g) and 9(h).

RESPONSE:

a. The file PSC DR 2-7 referenced in response to 7(a) contains WSCK's current proposed depreciation rates.

b. N/A

c. The Company did not perform a depreciation study or analysis related to the service life of each asset group. The cost of a depreciation study was not included within the proposed revenue requirement. The list of depreciation rates include in PSC DR 2-7 were taken from the recommended and approved depreciation rates by the North Carolina Utilities Commission.

d. Please refer to the attachment for PSC DR 3-9(d) which contains the depreciation rates in the referenced 1979 NARUC Study, where applicable. The Company notes that the account numbers provided in the 1979 NARUC Study may be outdated. Please also see the attached 1996 NARUC Uniform System of Accounts (USOA) for Water and Wastewater Utilities which lists the most current NARUC account structure. In the instances where a rate was not presented in the 1979 NARUC Study, the Company used the depreciation rates approved by the North Carolina Utilities Commission.

e. The Company did not perform a depreciation study or analysis related to the service life of each asset group. The cost of a depreciation study was not included within the proposed revenue requirement.

f. Please refer to the response in "PSC DR 3-9d".

g. Please refer to the depreciation schedule in PSC DR 3-9(d) recalculating the depreciation and amortization expense using the service lives provided in the 1979 NARUC Study and the depreciation rates approved by the North Carolina Utilities Commission. The Company objects to the re-calculation of accumulated depreciation and deferred income taxes because it would be overly burdensome without a full depreciation study as it would not produce an accurate result. Moreover, a full depreciation study would be costly and burdensome on the customers of WSCK. The Company proposes using the accumulated depreciation and deferred income taxes calculations as identified in the Application and will adjust accumulated depreciation on a going-forward basis.

h. Please refer to the attachment "PSC DR 3-9h" identifying the effect of the recalculations in 9(g) on WSCK's pro forma operating expenses and requested revenue requirement.

i. Please refer to the responses provided in PSC DR 3-9(d) and PSC DR 3-9(h).

WITNESS: Lowell Yap

UNIFORM SYSTEM OF ACCOUNTS FOR CLASS A WATER UTILITIES

1996

NATIONAL ASSOCIATION OF REGULATORY UTILITY COMMISSIONERS

1101 Vermont Avenue NW
Washington, D.C. 20005
USA
Tel: (202) 898-2200
Fax: (202) 898-2213
www.naruc.org

$25.00

INDEX OF ACCOUNTS

UNIFORM SYSTEM OF ACCOUNTS FOR CLASS A WASTEWATER UTILITIES

1996

NATIONAL ASSOCIATION OF REGULATORY UTILITY COMMISSIONERS

1101 Vermont Avenue NW
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USA
Tel: (202) 898-2200
Fax: (202) 898-2213
www.naruc.org

$26.00

INDEX OF ACCOUNTS

Contributions in Aid of Construction

Accumulated Deferred Income Taxes

WASTEWATER UTILITY PLANT ACCOUNTS

10. Refer to WSKY's Responses to the Commission's Second Request, Item 9, and the Commission's First Request, Item 3, Workpaper Wp b- Salary.

a. The workpaper lists ten maintenance employees and uses an employee identification number, while the response to Item 9 lists 11 maintenance employees and identifies each employee by name. Explain the difference in the number of employees listed in the two responses and provide the employee identification number for the employees in Item 9.

b. For each maintenance employee listed in the response to Item 9, explain in detail why he or she worked over 2,080 regular hours in calendar 2012.

c. Provide a schedule listing the regular and overtime hours each maintenance employee worked for the calendar years 2009, 2010, and 2011. Provide hours for 2013 when they become available.

RESPONSE:

a. Please refer to Workpaper Wp b- Salary and WSCK's Responses to the Commission Staff's Second Request, Item 9. The number of maintenance employees listed is 11. There is no discrepancy in the number of employees.

b. Please see the attached schedule ("PSC DR 3-10b"). of maintenance employees which lists in detail how each of the employees' total hours are calculated in columns I-AF. Employees worked overtime hours in 2012 because it was necessary for them work more than 40 hours during certain weeks in order for WSCK to continue providing safe, reliable water service.

c. Please see the attached schedules for 2009-2011 and 2013 ("PSC DR 3-10c").

WITNESS: Lowell Yap

11. Refer to WSKY's Responses to the Commission's Second Request, Item 10.

a. Confirm that a study of the prevailing hourly wage rates was not conducted in the Clinton region, the Middlesboro region, or in the state of Kentucky.

b. Explain how a per-customer cost analysis that divides total salary expense by the number of customers served shows that the employee hourly wage rates are reasonable.

c. In its salary analysis WSKY selected 12 water utilities that are regulated by the Commission. For each utility selected, indicate whether it purchases or produces its water and identify the region of the state in which it operates.

d. WSKY analyzed the management and office staff costs contained in four Commission rate decisions. For each utility selected, indicate whether it purchases or produces its water and identify the region of the state in which it operates.

e. Provide documentation to support WSKY's statement that "[s]alary increases are necessary to enable WSCK to maintain a skilled and competent workforce...."

RESPONSE:

a. Mr. Shambaugh did not perform an analysis specifically addressing the prevailing wage rate as part of the Affiliate Charges study that addresses the allocation of corporate charges related to direct and indirect administrative costs.

b. The information set forth on Exhibit D of Mr. Shambaugh's testimony was taken from the records on file with the Commission as reported by the various water districts. Exhibit D, Page 1 of 3, was utilized to assess the relative size of the comparable group to WSCK. Mr. Shambaugh utilized the data as factual and representative of those systems total salaries and wages. He had no indications from the documents reviewed that the reported actual salaries and wages for each system were not reasonable.

   A per-customer cost analysis can show that employee wage rates are reasonable by demonstrating that customers are paying similar costs for similar services. This type of analysis has the advantage of factoring in productivity where other analyses may not. For example, a company with highly productive workers can have a smaller workforce and pay higher salaries to their efficient workers than a company that has less productive workers and still maintain the same value of its product. A per-customer cost analysis shows that the company's expenses are reasonable because that company is providing the same service at the same price; whereas, a generic comparison of mean salaries in the industry would discourage workplace productivity and salary recognition thereof.

c. Based on annual reports filed with the Commission,[1] it appears that McCreary County Water District, Henry County Water District No. 2, Green River Valley Water District and Oldham County Water District produce their own treated water. Grayson County Water District and Bullock Pen Water District produce a portion of their treated water. The Company believes that the other systems listed purchase treated water. WSCK purchases raw water and then treats the water before selling the finished water to their customers.

Henderson County Water District, Southeast Daviess County Water District, Muhlenberg County Water District, and Grayson County Water District operate in western Kentucky. Oldham County Water District, Henry County Water District No. 2 and Bullock Pen Water District operate in northern Kentucky. Green River Valley Water District, Western Pulaski County Water District, South Eastern Water Association, and McCreary County Water District operate in south central Kentucky. Rowan Water, Inc., operates in eastern Kentucky.

d. Based on annual reports filed with the Commission,[2] it appears that Henry County Water District No. 2 and Jackson County Water Association produce their own treated water. Bullock Pen Water District produces a portion of its treated water. Muhlenberg County Water District purchases the water that it distributes to the public.

Muhlenberg County Water District operates in western Kentucky. Henry County Water District No. 2 and Bullock Pen Water District operate in northern Kentucky. Jackson County Water Association operates in eastern Kentucky.

e. There are numerous publications, including the following, that discuss and demonstrate the importance of annual salary increases in retention of employees.

- Suzanne Dibble, *Keeping Your Valuable Employees* 96 (1999) ("Surveys show that salary ranks high on employees' lists of what keeps them with their employer.").

- Max Messmer, *Human Resources Kit for Dummies* 176 (3rd ed. 2012) ("Offering competitive compensation is key to attracting top talent to your organization. But after employees are onboard, salary levels don't stay competitive for long. As employees develop new skills and increase their knowledge of your business, they become increasing valuable. Their value in the marketplace increases as well, meaning that they become attractive

[1] WSCK cannot definitively state the accuracy as to whether the utilities produce or purchase their water. For example, a review of WSCK's annual report suggests that it purchases its water. This indication, however, fails to consider that WSCK's only purchases raw water, which it must then treat. WSCK is more analogous to a producing utility.
[2] *See supra* note 1.

targets for other companies. To keep your best and brightest, you need to figure out fair (and affordable) ways to augment what you pay them. Most companies enhance their compensation through raises, bonuses, and incentives designed to give their best workers a reason to stay.").

- John McCarter and Ray Schreyer, *Recruit and Retain the Best: Key Solutions for the HR Professional* 83 (2000) ("The #1 reason cited by over 60% of individuals in a recent study as to reasons to accept or leave a job was compensation.").

- John McCarter and Ray Schreyer, *Recruit and Retain the Best: Key Solutions for the HR Professional* 97 (2000) ("As has been discussed elsewhere in this book, salary and wage compensation are great opportunities for motivation and building company commitment, but are too frequently the most painful source of employee discontent.").

- Mercer, LLC, "As Workforce Hiring Increases, Organizations Stay Focused on Employee Engagement," *available at* http://www.mercer.com/press-releases/focused-on-engagement (last visited Jan. 22, 2014) ("Although use of non-cash rewards continues to grow, top reward elements that organizations expect to have the biggest impact on employee engagement and retention in 2012 are base pay increases (reported by 50% of participating organizations), followed by vertical career progression (47%) and leadership development (46%).").

- *The Wall Street Journal*, "Employee Retention — How to Retain Employees," *available at* http://guides.wsj.com/small-business/hiring-and-managing-employees/how-to-retain-employees/ (last visited Jan. 22, 2014) ("Also, provide meaningful annual raises. Nothing dashes employee enthusiasm more than a paltry raise. If you can afford it, give more to your top performers.").

It is also worth noting that there is also support demonstrating that employees "are more likely to *under*report than to overreport the importance of pay as a motivational factor in most situations." In other words, "research suggests that pay is much more important in people's actual choices and behaviors than it is in their self-reports of what motivates them." Sara L. Rynes, et al., "The Importance of Pay in Employee Motivation: Discrepancies Between What People Say and What They Do," *Human Resources Management* 381 (Winter 2004).

Scholarly literature also recognizes that there is a cost benefit to paying employees higher wages so as to avoid the inherent costs associated with employee turnover. *See, e.g.*, Beverly Kaye and Sharon Jordan-Evans, *Love*

'Em or Lose 'Em: Getting Good People to Stay 134 (4th ed. 2008) ("You may think these dedicated, talented people who have been critical to your success are easily replaced. And yes, you might even find replacements at lower salaries. We hear this argument often, especially during periods of high unemployment when many good people are looking for work. Often, though, the managers who say this have simply not calculated the real costs of turnover. Most experts agree that replacing a key person on your staff will cost you two times that person's annual compensation. 'Platinum' workers (highly skilled professionals) could easily cost you four to five times their annual salaries.")

WITNESSES: Gary Shambaugh, Lowell Yap

KEEPING YOUR VALUABLE EMPLOYEES

Retention Strategies for Your Organization's Most Important Resource

SUZANNE DIBBLE

John Wiley & Sons, Inc.
New York • Chichester • Weinheim • Brisbane • Singapore • Toronto

Surveys show that salary ranks high on employees' lists of what keeps them with their employer. The "Survey of Factors Influencing Employees to Stay With or Leave Their Employers" (see Chapter 18) showed:

Attractors (factors that make employees want to stay):
- "Salary"—5th place, 47%.

Preventers (factors that keep employees from leaving):
- "Do not believe I can match my pay"—4th place, 20%.
- "Unable to match my pay elsewhere"—10th place, 13%.

Reasons for leaving previous job:
- "Was not paid what I was worth"—4th place, 22%.
- "Could not live on the pay"—6th place, 20%.

Employees think salary is important. Employers agree. Surveys of pay practices report that employers consider compensation (and benefits) an important and often the most important part of their retention strategy. The Bibliography lists several recent surveys. The question asked of us is: Since salary is so important, how do we get it right? How do we determine salaries that retain employees?

Our compensation philosophy helps us determine the relative importance of salary in the total compensation our employees may receive. It tells employees what we pay for and how we do so. Employees come to work for us because there is a match between our philosophy and what they want. What do they look for, now that they have made the decision to work for us?

What Do Employees Want?

Although some of the employees we want to retain will chase money and are always looking for more, most employees want to be paid well for what they do, but not necessarily be the highest paid. They have a concept of fair pay based on:

Human Resources Kit FOR DUMMIES®

3RD EDITION

by Max Messmer

WILEY

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nearing retirement to avoid increasing retirement benefits that are based on salary. The EEOC enforces this law, too.

- **The Americans with Disabilities Act of 1990:** This law prohibits discrimination in compensation (and other employment terms and conditions), including access to insurance, against qualified applicants and workers on the basis of disability.
- **The Davis-Bacon Act of 1931, the Copeland Act of 1934, the Walsh-Healey Act of 1936, and the Anti-Kickback Act of 1948:** These four laws focus, in different ways, on the compensation policies of companies with federal contracts. Each law has its own wrinkle, but the basic purpose is to ensure that employers pay prevailing wages and overtime while prohibiting excessive wage deductions and under-the-table payments by employees to obtain work.
- **The Wage Garnishment Law:** This law prohibits employers from firing workers whose wages, for whatever reason, are subject to garnishment by creditors or a spouse. In most cases, it also limits garnishments to no more than 25 percent of an employee's take-home pay.

For more information on the first four laws in the preceding list, see Chapter 17.

What You Need to Know about Raises, Bonuses, and Incentives

Offering competitive compensation is key to attracting top talent to your organization. But after employees are onboard, salary levels don't stay competitive for long. As employees develop new skills and increase their knowledge of your business, they become increasingly valuable. Their value in the marketplace increases as well, meaning that they become attractive targets for other companies. To keep your best and brightest, you need to figure out fair (and affordable) ways to augment what you pay them. Most companies enhance their compensation through raises, bonuses, and incentives designed to give their best workers a reason to stay.

Effective bonus and incentive programs are

- **Results-oriented:** Employees must accomplish something to receive a bonus.
- **Fair:** The rules for bonuses are clear and enforced equitably.
- **Competitive:** The program rewards extra effort and superior performance.

ability that the person will choose to return to your unit in the future.

· Continually monitor the types and levels of the work of your staff. Make sure some of each employee's day contains some passionate work!

Just Compensation and Pay

The # 1 reason cited by over 60% of individuals in a recent study as to reasons to accept or leave a job was compensation.

People demand to be compensated fairly and equitably with others in their job, profession, and industry. In addition, they desire to be kept abreast of how the organization is growing financially and to be rewarded for their contribution to its success. The # 1 reason cited by over 60% of individuals in a recent study as to reasons to accept or leave a job was compensation. Pay and compensation do matter, especially now that retirement programs and long term employment contracts between worker and company are less common, though highly desirable.

· **Specific Strategies**

· Research pay and compensation levels for positions in your organization.

· Adjust levels as needed to create balance and equity.

· Institute a performance based bonus system.

· Establish a policy of long term employment; only discharging those who cannot or will not perform at expected levels.

· Have available spot bonus and rewards for performers who do outstanding efforts.

· Celebrate, celebrate, celebrate—nothing builds excitement and energy as well as the opportunity to share socially with your trusted friends and colleagues.

Paying for Productivity—Energizers

As has been discussed elsewhere in this book, salary and wage compensation are great opportunities for motivation and building company commitment, but are too frequently the most painful source of employee discontent. Few things are as damaging to the corporate retention and recruitment processes than a perception, true or not, that the company will sacrifice all the lofty goals of fairness and employee orientation in order to meet the quarterly profit projections.

Some useful guiding principles and tactics are:

· Surprise your excellent performers with out-of-sequence raises. It may be less of an administrative burden to dispense general pay increases at one time during the year, but the excellent performers deserve both more and earlier. Add some excitement to their lives by making their increase special and unexpected.

· Distinguish between recognizing one-time accomplishments and long term growth in value to the company. If an employee develops an idea that produces a half million dollar savings, give him or her a bonus that recognizes the size of the contribution, instead of a modest pay raise that seems insignificant in comparison. A fox's share bonus beats a warm handshake pay raise any time.

· Pay for results instead of potential. Be cautious of "pay for learning programs" that become a sinecure for persons

THE IMPORTANCE OF PAY IN EMPLOYEE MOTIVATION: DISCREPANCIES BETWEEN WHAT PEOPLE SAY AND WHAT THEY DO

Sara L. Rynes, Barry Gerhart, and Kathleen A. Minette

A majority of human resources professionals appear to believe that employees are likely to overreport the importance of pay in employee surveys. However, research suggests the opposite is actually true. We review evidence showing the discrepancies between what people say and do with respect to pay. We then discuss why pay is likely to be such an important general motivator, as well as a variety of reasons why managers might underestimate its importance. We note that pay is not equally important in all situations or to all individuals, and identify circumstances under which pay is likely to be more (or less) important to employees. We close with recommendations for implementing research findings with respect to pay and suggestions for evaluating pay systems.

> It is easy to overestimate the frequency with which adults actually go to the opera and underestimate the frequency with which they watch TV cartoons on Saturday mornings, based on their self-reports. (Nunnally & Bernstein, 1994, p. 383)

Rynes, Colbert, and Brown (2002) presented the following statement to 959 members of the Society for Human Resource Management (SHRM): "Surveys that directly ask employees how important pay is to them are likely to overestimate pay's true importance in actual decisions" (p. 158). If our interpretation (and that of Rynes et al.) of the research literature is accurate, then the correct true-false answer to the above statement is "false." In other words, people are more likely to *under*report than to overreport the importance of pay as a motivational factor in most situations. Put another way, research suggests that pay is much more important in people's actual choices and behaviors than it is in their self-reports of what motivates them, much like the cartoon viewers mentioned in the quote above. Yet, only 35% of the respondents in the Rynes et al. study answered in a way consistent with research findings (i.e., chose "false").

Our objective in this article is to show that employee surveys regarding the importance of various factors in motivation generally produce results that are inconsistent with studies of actual employee behavior. In particular, we focus on well-documented findings that employees tend to say that pay

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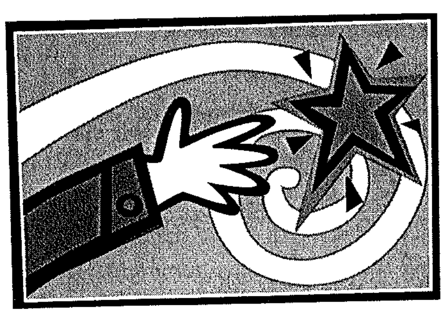
Human Resource Management, Winter 2004, Vol. 43, No. 4, Pp. 381–394

DOI: 10.1002/hrm.20031

LOVE 'EM
OR
LOSE 'EM

GETTING GOOD PEOPLE TO STAY

Fourth Edition



BEVERLY KAYE AND SHARON JORDAN–EVANS

BK

Berrett–Koehler Publishers, Inc.
San Francisco
a BK Business book

A major healthcare organization conservatively estimated "regrettable" turnover at $60 million in one year, while a Silicon Valley high-tech firm found its turnover costs to exceed $120 million per year.

*****

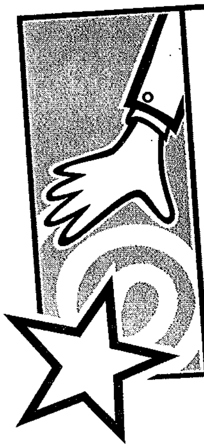
We're not just losing good people; we're losing great people. Almost one in every five of the people who leave us voluntarily every year is our top performer. The cost of this turnover in lost productivity, paperwork, recruitment, and training is huge—it's in the tens of millions of dollars.

—COO of a major bank

A careful assessment of the numbers might just convince you to focus more heavily on retaining your talent.

What's the Price Tag?

You may think these dedicated, talented people who have been critical to your success are easily replaced. And yes, you might even find replacements at lower salaries. We hear this argument often, especially during periods of high unemployment when many good people are looking for work. Often, though, the managers who say this have simply not calculated the real costs of turnover. Most experts agree that replacing a key person on your staff will cost you two times that person's annual compensation. "Platinum" workers (highly skilled professionals) could easily cost you four to five times their annual salaries.



Alas

John was one of our most talented engineers and was responsible for inventing some of our key technology. After a phenomenally successful year, he expected some kind of reward or recognition from his boss. When nothing was offered (not even a thank you), he met with his boss and

(continued)

12. Refer to WSKY's Responses to the Commission's Second Request, Item 12(d). Explain in detail how the Agreement between Water Service Corporation and WSKY would affect the allocation of costs incurred to operate or manage Clinton's sewer operations.

RESPONSE: All costs incurred on behalf of WSCK to operate or manage the City of Clinton's sewer operations are related to salary expenses from employees of the service company, Water Service Corporation. The Affiliate Agreement between WSC and WSCK establishes the Equivalent Residential Customer allocation method by which expenses, including WSC's salary expenses, are allocated to WSCK. The Agreement specifies that ERCs are based on each water and sewer connection served by the service company's affiliates. Thus, Clinton's sewer connections are factored into the ERC calculations. For ratemaking purposes, the costs allocated to WSCK based on Clinton's sewer operations are removed, as provided in workpaper q provided and supplemented in response to Item 3 of the Commission Staff's Initial Request for Information.

WITNESS: Lowell Yap

13. Refer to WSKY's Responses to the Commission's Second Request, Item 14.

a. Provide evidence to support WSKY's statement that the 2007 Affiliate Agreement ensures that the expenses incurred by the Service Company allocated to WSKY are reasonable and appropriate.

b. WSKY states that the "company regularly reviews costs from various cost centers" to ensure that "all costs are reasonable and appropriate." Identify the corporate level at which the referenced review occurs.

c. In Case No. 2008-00563, the Commission noted that the 2007 Affiliate Agreement was the product of a less-than-arm's-length transaction and that it lacked a review clause "that would serve as a check and balance system to allow only those reasonable costs that relate to the Water Service operations to be allocated to Water Service." Identify the new procedures that Utilities, Inc. or Water Service Corporation have implemented since November 9, 2009, to address the Commission's concerns.

RESPONSE:

a. The Affiliate Agreement, itself, is evidence that the expenses incurred by the Service Company that are allocated to WSCK are reasonable and appropriate. The Affiliate Agreement is structured so as to reasonably allocate expenses from the Service Company to WSCK through the use of ERCs. This process ensures that WSCK's regulated operations do not subsidize other operations supported by the Service Company. Additional evidence is being provided by WSCK in the form of data responses to Items 4 and 8 of this information request and the testimony of Helen Lupton.

b. There are multiple corporate levels at which expenses are reviewed to determine that all costs are reasonable and appropriate. At the corporate level, each manager reviews expenses for his or her respective department. Directors oversee the department managers' review process, and the executive team has final approval of those expenses. There is a similar process for expenses on a regional level. Area Managers and Regional Managers review and approve expenses for their respective areas. The Regional Finance Manager performs a high-level monthly review and analysis of expenses within each region compared to budget, obtaining explanations for variances from the operations team. The Regional Director and Regional Vice President oversee this process. The corporate executive team ultimately provides supervision over the Regional Vice President. In addition to this information, responses to Items 4 and 8 of this information request and the testimony of Helen Lupton provide additional information that is responsive to this request.

c. The review process that is described above serves as a check-and-balance system to ensure that the costs that are allocated to WSCK are reasonable and appropriate. Executives at the corporate and regional levels have a duty to WSCK to ensure the expenses that are incurred are reasonable and appropriate to each of the operating subsidiaries. It is also important to note that each operating subsidiary has the ability, as WSCK has done in this case, to determine which allocated expenses it will seek to recover from its customers in a rate case. For example, any items that were related expense reports in workpaper w/p [r], which was included in response to Item 3 of the Staff's Initial Request for Information, were removed for rate making purposes.

   Moreover, in the Commission's order in Case No. 2008-00563, the Commission quoted two provisions from an American Water service company affiliate agreement, which the Commission indicated showed an appropriate level of review for allocations from the service company. Specifically, those two provisions were as follows: "4.2 Service Company agrees to keep its books and records available at all times for inspection by representatives of Water Company or by regulatory bodies having jurisdiction over Water Company. 4.3 Service Company shall at any time, upon request of Water Company, furnish any and all information required by Water Company with respect to the services rendered by Service Company hereunder, the costs thereof, and the allocation of such costs among Water Companies." WSCK has the same substantive provision in its Affiliate agreement with WSCK. Our Agreement states, "The Service Company will also at any time, upon request of the Operating Company, furnish to it any and all information required by the Operating Company or by any governmental authorities having jurisdiction over the Operating Company with respect to the services rendered to the Service Company hereunder, the cost thereof, and the allocation of such cost among the Operating Companies."[3] Accordingly, WSCK submits that it has the necessary check-and-balance system, similar to that of other water utilities operating in Kentucky and approved by the Commission.

WITNESS: Lowell Yap

[3] In addition, WSCK agreed in Case No. 2012-00133 to maintain its books and records in a manner that is easily accessible to the Commission for inspection at reasonable times upon reasonable notice.

14. Refer to WSKY's Responses to the Commission's Second Request, Item 19. In its decision in Case No. 2008-00563, the Commission noted that Utilities, Inc. did not perform a cost-benefit analysis of Project Phoenix's impact on WSKY? Did Patrick Baryenbruch perform a cost-benefit analysis of the Project Phoenix's impact on WSKY?

RESPONSE: Mr. Baryenbruch did not perform a separate cost-benefit analysis of Project Phoenix. Instead, he relied on information developed before the project started to validate the project's need.

The need for and benefits of Project Phoenix are documented in the project's business case, which is dated September 15, 2006 and lays out the issues and risks associated with UI's existing systems and business processes. This document was submitted to the Commission with a petition for confidentiality in response to Item 34 of the Attorney General's Initial Request for Information and identified with the electronic file name "AG 34.f A1. Business Case 2006-09-15.pdf." The business case articulated a solution to address these risks and documented the benefits to customers.

For Mr. Baryenbruch, the business case's "Technical Observations" section of this document provided important additional information validating the need for Project Phoenix. This section documents deficiencies with UI's information technology ("IT") infrastructure and processes that also needed to be addressed. For instance, security of the old billing system was weak because connections over the internet were not encrypted and were vulnerable to attack. Neither of the old systems, billing or general ledger, had a separate hardware/software environment where planned changes could be tested before being put into "production" where the actual application runs. These are two examples of high risk IT issues that Project Phoenix addressed.

As mentioned in response to Item 2 above, the principal reason for undertaking Project Phoenix was not to realize immediate cost savings but rather to remedy the considerable operational and financial risks posed by the old systems.

The cost of Project Phoenix was comparable to similar projects for other Kentucky utility organizations. That was demonstrated in the company's response to PSC 1-21, where Project Phoenix's customer care and billing system's cost per customer of $26.90 was shown to be less than that of LG&E/KU ($68), American Water ($30) and Louisville Water Company ($92).

Considering all these information, Mr. Baryenbruch was able to conclude the benefits of Project Phoenix justified its cost.

WITNESS: Pat Baryenbruch

15. Refer to WSKY's Responses to the Commission's Second Request, Item 22. Provide the documentation as requested to support the benefits of Project Phoenix that are outlined in the response.

RESPONSE: Please see the attached documentation. The documents describe the capabilities of the Oracle Customer Care and Billing System and JD Edwards EnterpriseOne financial system. For the financial system, the documents cover various modules—general ledger, accounts payable and fixed asset accounting. These documents present third-party support of what Project Phoenix accomplished. In addition, please see the documents related to Project Phoenix that were filed in response to Item 34(f) of the Attorney General's Initial Request for Information.

WITNESS: Lowell Yap

Effectively Managing Change with Oracle Utilities Customer Care and Billing for Water Utilities

"[Oracle Utilities Customer Care and Billing] for Water Utilities has revolutionized the level of customer support we can offer".

—**Dan Stockton,** CIO, California Water Service Co.

Water: The Oil of the Twenty-First Century?

Escalating population growth and rapid industrial development are increasing global demand for water. At the same time, utilities throughout the world are struggling to generate sufficient revenue to fix deteriorating infrastructure and comply with ever-changing regulatory requirements. Oracle Utilities Customer Care and Billing for Water Utilities allows you to respond swiftly and effectively to these challenges. By providing comprehensive system support for all your customer service and billing needs, Oracle Utilities Customer Care and Billing gives you the flexibility to adapt your internal processes to the way you do business today—no matter how that varies from what you did yesterday, or what you will do tomorrow.

Cope With Rapid Change

Few industries face the pace of change that the water utilities industry currently does. High-tech companies, searching for ways to reduce energy consumption, are increasingly turning to water as a cooling element in industry processes. Growing populations—especially in developing countries—need access to more, and more dependable, sources of uncontaminated drinking water. And countries around the globe are stepping up efforts to pass strict laws regulating water prices, quality, and usage to prepare for the possibility that future supplies of this all-important resource will be insufficient to meet demand.

Oracle Utilities Customer Care and Billing for Water Utilities helps you meet present challenges as well as prepare for future ones. At the heart of this solution is better support for all customer- and billing-centric operations. You can expand your service offerings or change rates overnight. Offer energy conservation loans or special rates for niche customer groups in quick response to regulatory changes. Efficiently audit water use, maintain and repair equipment, and process credit card and other forms of payment without rewriting complex code. Taken altogether, the features and functionality of Oracle Utilities Customer Care and Billing for Water Utilities allows you to thrive in a fiercely competitive industry.

Meet Demands of Your Particular Market

Not all utilities are the same. Although most use customer-centric business processes, others have a premises-based focus. The approach you take depends on the characteristics of your individual market.

Most likely, you make customers the center of your operations. This means that your primary concern is keeping customers happy, to encourage the timely paying of bills and to reduce demands on your call center staff.

A premises strategy, on the other hand, works well when public health regulations mandate providing continuous service to properties without regard to occupants. Utility companies choose this approach when supplying water to markets with a large proportion of low-income or transitory residents.

Oracle Utilities Customer Care and Billing for Water Utilities offers a best-of-breed solution that supports both approaches. By providing you with sufficient flexibility to adapt your billing system to the way you do business, it enables you to better control costs, optimize cash flow, and reduce risks when implementing new initiatives in response to market changes.

Cut Costs While Improving Customer Service Quality

With regulatory requirements and infrastructure-improvement initiatives squeezing your profit margins, cost containment is not an option, but an imperative. For competitive reasons, however, you can't afford to sacrifice customer service quality when pursuing cost-cutting goals.

The call center is the lifeblood of your customer service strategy. It is the primary conduit through which your customers contact you, and your first—and best—method for responding in a way that communicates your dedication to delivering the best possible quality of care.

Yet your call center personnel may still be dependent on outdated legacy systems or even manual processes for accessing customer records. This makes it difficult—if not impossible—for them to respond quickly to customer queries. Likewise, data collection and billing errors can take significant amounts of time to properly research, and often require calling customers back hours or even days after the initial call. Not only does this frustrate customers—who want to resolve problems immediately—but it is an extremely costly and nonproductive use of call center representatives' time.

Oracle Utilities Customer Care and Billing for Water Utilities streamlines call center activities, increasing customer satisfaction while significantly reducing costs.

Among other benefits, the system allows you to

- Shorten call times and significantly cut down on callbacks by giving call center staff members complete and immediate access to customer account histories
- Minimize employee training time through an intuitive user interface, online help, and prewritten scripts to handle the most common customer service scenarios
- Increase the productivity of call center workers, reducing the need for personnel and therefore dramatically cutting employee costs

- Steer customers to alternate sources of help via integrated voice response (IVR) systems and self-service Web sites
- Spread call volumes out over the month by varying billing cycles of customer accounts

" The system is highly flexible and configurable to our needs. We were able to configure it so we could keep track of field activities and create reports or make queries when tasks are completed to see how we can do things better."

—**Will Ross,** Computer Services Manager, Miami Dade Water and Sewer Authority

Automate Field Service Tasks

Field service tasks—such as establishing new connections, dispatching field personnel to make special reads, performing final reads, and scheduling routine and emergency service calls—are activities that water utility firms perform every day. You can reap enormous efficiencies—and dramatically reduce costs—by streamlining and automating the underlying business processes that support them.

With Oracle Utilities Customer Care and Billing for Water Utilities, you can

- Automate service order initiation
- Enable rapid service order dispatch
- Upload data from completed field service tasks to a centralized integrated database for call center personnel to access in real time
- Redirect field personnel to respond to emergency calls for service

Optimize Cash Flow

Water utility companies must minimize the time it takes to turn customer water usage into billing statements, and billing statements into cash. Both consumer and industrial customers pay more quickly when they receive easy-to-read, accurate bills that are timed to coordinate with the availability of financial resources, or that fit into their schedules for disbursing funds for monthly expenses. Consumer customers, for example, might prefer to receive their billing statements at the beginning of the month, after they have been paid by employers. Companies with multiple offices might request that individual statements sent to regional hubs be consolidated into one bill that's sent to their headquarters. And large industrial customers might ask for water utility bills to be provided in the form of electronic data tables.

Oracle Utilities Customer Care and Billing for Water Utilities allows you to do all this in addition to monitoring debt levels, adjusting collection methods to the specific financial situations of individual customers—whether consumer, corporate, or industrial—and better managing deposits to speed payments and reduce uncollected debt.

Oracle Utilities Customer Care and Billing for Water Utilities also allows you to

- Ensure bill accuracy by automatically identifying and resolving issues before sending out billing statements
- Tailor bill formats according to customer preferences
- Provide easy-to-understand billing graphs that show how energy consumption varies over customer-specified time periods
- Let customers choose the end date for their billing cycles
- Offer a choice of bill and payment methods, including e-mail, internet, cash deposit, direct debit, and postal service

Manage Risk

The system you choose to support your business must be scalable enough to grow as you do. You also need to be able to accommodate single-customer signups or add large numbers of customers simultaneously without affecting overall system performance. Additionally, you must be able to offer incentives like discounts, water conservation programs or affinity programs swiftly in response to competitors' actions.

With Oracle Utilities Customer Care and Billing for Water Utilities, you can

- Scale readily from thousands to millions of customer accounts
- Process new customer accounts in any number
- Support both short- and long-term signup incentives
- Upgrade your system quickly and easily without undermining the investments you've already made in customer care automation

Reduce Total Cost of System Ownership

Upgrading systems requires extensive personnel time, which results in high costs but often fails to produce tangible benefits. With Oracle Utilities Customer Care and Billing for Water Utilities, utilities can benefit from one of the lowest-cost-in-industry upgrades.

Oracle Utilities Customer Care and Billing for Water Utilities has a number of key features that help minimize total cost of ownership, including

- An increasing number of pre-packaged integrations with other Oracle applications
- Low-cost archiving that stores and protects data over its lifecycle
- Customer relationship management capabilities that facilitate tracking and management of complex customer interactions
- Access to a configuration lab that moves data safely from testing to production

- A robust architecture that supports internal business process engineering initiatives
- Automated workflow processing

Oracle Utilities Customer Care and Billing for Water Utilities condenses volumes of complex, disparate data from multiple legacy sources into a cohesive knowledgebase from which water utilities can identify risks, determine trends, forecast demand, and predict changing market conditions.

Thrive in the Midst of Market Disruption

You face an increasingly tough competitive climate. Rising infrastructure and energy costs, shifting regulatory requirements, and customers who demand superior service all contribute to your need to continuously improve organizational effectiveness and maximize revenues. Oracle Utilities Customer Care and Billing for Water Utilities allows you accomplish these goals and more. By evolving your business according to market demands, it reduces risk while simultaneously boosting customer satisfaction.

Contact Us

For more information on Oracle Utilities Customer Care and Billing for Energy Water Utilities, call +1.800.ORACLE1 to speak to an Oracle representative, or visit oracle.com/goto/utilities.

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Effectively Managing Change with
Oracle Utilities Customer Care and
Billing for Water Utilities
January 2010

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Oracle is committed to developing practices and products that help protect the environment

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JD EDWARDS ENTEPRISEONE GENERAL LEDGER

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PRODUCT HIGHLIGHTS

- Respond quickly to change.
- Streamline your financial operations.
- Improve financial accuracy and accountability.
- One View Reporting for Financials – General Ledger

The Issue: Improving Responsiveness and Accountability

You are being asked to produce more with fewer resources, which requires maximum efficiency and flexibility. How else can you meet the financial consolidation and reporting needs of a complex and changing business environment, as well as keep up with new regulations? Having the right financial foundation for your organization is critical, particularly when you must account for every penny that comes in or goes out—in every currency, in every country.

The Solution: A Flexible, Integrated General Ledger

Oracle's JD Edwards EnterpriseOne General Ledger can help you to respond to your changing environment, streamline your financial operations, and improve the accuracy and efficiency of your financial reporting. It integrates financial information from throughout your business and helps you monitor the fiscal health of your organization in real time, enforcing the consistency that translates into increased accountability and faster response.

Improving Flexibility and Responsiveness

Your business operations and strategic goals should drive the configuration of your accounting system—not the other way around. Whether you are reorganizing to adapt to changing markets, adding branches to take advantage of new opportunities, or initiating a new project, you continually face the need to revamp your reporting structure.

General Ledger is designed to adapt and grow with your business. It gives you the flexibility to tailor your reporting structure as needed, without overhauling your chart of accounts and undergoing a massive data conversion with each organizational change. By enabling you to organize your financial operations by company, business unit, and user-defined codes, General Ledger allows you to avoid the pain of reworking accounting and reporting systems every time your business changes.

First, General Ledger is set up with companies. Legal entities, nonlegal entities, reporting groups, and consolidation entities can all be set up as companies with their own fiscal date pattern and base currency. For example, if you require a balance sheet at the division, district, or store level, you can set up each of these entities as a company. Once companies are created, you can create individual business units and assign them to a company. A business unit is the lowest level at which you track revenues and expenses for your organization. A particular sales office or warehouse, a specific administrative division within your organization—any group or physical site—can be designated as a business unit.

The true flexibility of the system comes with the next step—user-defined codes. User-defined codes are used to organize and group your business units in several different ways. This capability allows you to create customized reports by grouping business units by product, geographical region, division, or any other type of grouping that you require. For example, your New York parts warehouse business unit can be assigned a product category code of "AP" (for automobile parts), a region category code of "NE" (for the Northeastern

United States), and a division category code of "WH" (for a warehouse). This powerful capability enables you to group business units in multiple ways for different reporting requirements.

Once your companies, business units, and category codes have been established, you can set up object and subsidiary accounts for each business unit that describe transaction types, such as rent expense, paper supplies expense, or sales revenue. The combination of the business unit, object, and subsidiary creates unique account numbers that together form your chart of accounts.

Now that your foundation accounting structure is established, you can take advantage of the incredible flexibility this structure allows. If your company reorganizes, expands, or merges with another company, you may need to move business units from one company to another or create new business units and move existing account detail and balances over. With General Ledger, you save time and preserve the accuracy of your data. You can automatically change your account transaction and balance tables without manually assigning a new company number to the chart of accounts or creating journal entries to transfer balances to the new company.

Data relationships can be defined to manage the data defined in these reporting attributes to ensure reporting accuracy. Based on your configuration and use of the financial system you define relationships between business unit columns and data values within those columns. These rules result in simpler, more accurate data entry, and ultimately more accurate financial reporting. When organization and grouping requirements change, these date effective rules can be automatically applied globally to facilitate the changes quickly and accurately. This built-in flexibility allows you to quickly react to changes and grow your business while preserving your data integrity.

Integrating Information to Streamline Operations

With JD Edwards EnterpriseOne, you can streamline the day-to-day functions of your accounting department. The system provides an accurate and cost-effective way of organizing, maintaining, recording, and analyzing financial information. A key element of a streamlined operation is built-in integration with other systems. In addition to its direct integration with the accounts payable, accounts receivable, payroll, and fixed assets systems, General Ledger also ties directly to our JD Edwards EnterpriseOne solutions for manufacturing and distribution.

For example, sales order updates automatically generate the general ledger transactions associated with the appropriate accounts receivable invoices. Similarly, purchase order receipts from procurement trigger corresponding updates to General Ledger. You eliminate the need to re-enter the same information and ensure the consistency of information across all departments—in real time.

Managing Global Initiatives with a Single Information Source

JD Edwards EnterpriseOne provides the flexibility to conduct business in multiple countries, languages, and currencies while maintaining an integrated view of the business through an accurate and consistent general ledger. Multinational functionality lets you:

- Accommodate country-specific practices for magnetic media processing, electronic funds transfers, and direct bank involvement with bank statement processing capabilities.

- Maintain a chart of accounts for both a parent company and its subsidiaries to comply with statutory reporting requirements for individual countries or regions.
- Create charts of accounts with business unit descriptions in multiple languages.
- Designate different currency preferences for each company, supplier, customer, account, and employee, with automatic conversions of transactions entered in domestic or foreign currencies.
- Ensure compliance with local, regional, and national regulations.

Integration also facilitates a consolidated view of your business. For each of your subsidiaries, the General Ledger consolidation capability dynamically creates business units, accounts, and related category codes that comply with the requirements of your main reporting company. You can consolidate account balances at multiple locations and validate the information sent to the reporting company. You can also review consolidated amounts at any level of detail, in online or printed formats, at any point in time—not just at period end.

Improving Accuracy in Financial Operations and Reporting

While regulatory requirements such as Sarbanes-Oxley mandate a baseline of reporting accuracy, improving the integrity and accuracy of financial information and operations throughout your enterprise can also improve your competitive footing. The more accurate your information, the more efficient and profitable your organization will be. General Ledger helps you build an effective compliance program. You have the ability to:

- Ensure the ongoing balance of debits and credits with system-enforced balancing of all transactions at the time of entry. This capability significantly helps to cut down on user error and improves data and transaction accuracy within the system.
- Improve financial data integrity with the simultaneous creation of general ledger batches from source data originating in other JD Edwards EnterpriseOne applications.
- Strengthen internal control procedures and identify data inconsistencies by using general ledger integrity reports and other tools such as data relationships.
- Verify that batch entries correspond to the manual record of the batch through automated controls.
- Automatically edit all valid accounts at the time of transaction entry to identify the appropriate account for posting.
- Maintain audit trails back to source transactions and entries to support purge audits, invoice creation, approvals, and payroll processing.

JD Edwards EnterpriseOne Financial Management can help you to respond more quickly to your changing environment, streamline your financial operations, and improve your accuracy in financial reporting. With our solutions, you can meet today's challenging business requirements, produce more with fewer resources, and establish the right financial foundation for your organization.

Feature/Function Highlights

- Global financial foundation
- Built-in system interoperability
- Flexible accounting structure
- Multilanguage, multicurrency support
- System-enforced internal controls
- Data relationships master data controls
- Consolidations
- Flexible localization capabilities
- One View for Financials – General Ledger
- Multiple global tax structures
- Multiple exchange rates and types
- Multiple restatement methods
- Repeatable monthly and annual closes
- General ledger integrity reports
- Multiple restatement methods
- Ability to drill down from balance to detail
- Automatic recurring journal entries
- Flexible allocation methods

Solution Integration

This module is designed to be integrated with these JD Edwards EnterpriseOne products and suites across your operations using common tools and a Pure Internet Architecture:

- JD Edwards EnterpriseOne Financial Management
- JD Edwards EnterpriseOne Capital Asset Management
- JD Edwards EnterpriseOne Human Capital Management
- JD Edwards EnterpriseOne Project Management
- JD Edwards EnterpriseOne Supply Management (Procurement)
- JD Edwards EnterpriseOne Order Management
- JD Edwards EnterpriseOne Supply Chain Planning
- JD Edwards EnterpriseOne One View Reporting for Financials
  - General Ledger

Contact Us

For more information about JD Edwards EnterpriseOne, visit oracle.com or call +1.800.ORACLE1 to speak to an Oracle representative.

JD EDWARDS ENTERPRISEONE ACCOUNTS PAYABLE

JD EDWARDS ENTERPRISEONE

PRODUCT HIGHLIGHTS

- Improve supplier relationships
- Process invoices accurately
- Manage cash flow effectively
- One View Reporting for Financials – Accounts Payable

The Issue: Accounts Payable—More than Just Paying Bills

Your accounts payable personnel have responsibilities beyond simply paying the bills. They help build supplier relationships by ensuring that all delivery, payment, and contractual conditions are fulfilled. They manage the flow of invoice processing to ensure prompt and accurate processing. And, they add value to the bottom line with targeted use of invoice discounts and tactical timing of cash flow disbursements. Effectively balancing supplier needs, payment terms, discounts, and cash management requires a flexible and adaptable system that optimizes the entire accounts payable process.

The Solution: A Flexible, Integrated Accounts Payable System

Oracle's JD Edwards EnterpriseOne Accounts Payable provides the integration and flexibility you need to streamline and personalize your accounts payable operation. You can enhance supplier relationships by fulfilling payment obligations in an accurate and timely manner. And, with automated discount calculations and prepayment support, you can ensure that your cash management is both efficient and effective.

Improve Supplier Relationships

Flexibility is critical to meeting the unique needs of your suppliers, and Accounts Payable provides the tools to help you build and maintain efficient, personalized supplier partnerships. Whether a supplier prefers electronic funds transfers (ETFs), drafts, or paper checks, JD Edwards EnterpriseOne supports individual payment terms and ensures the recognition of preferences. You can handle prepayment, specific information, and multicurrency payments requests. And, you and your suppliers save time with self-service functionality for independent supplier review of vouchers and payments within your Accounts Payable system.

Negotiate More Favorable Supplier Contracts

Integration improves visibility. With JD Edwards EnterpriseOne, you can access account balance and total purchase information by supplier—and use this valuable information to leverage your organization's purchasing power for better terms and conditions. Improved contract pricing can create hard-dollar savings and lay the foundation for profitable, long-term supplier relationships.

Establish Prompt, Efficient Invoice Processing

With Accounts Payable, you have the flexibility to meet your unique business requirements— whether you process multiple recurring invoices or high-dollar prepayments. The system automatically calculates taxes, discounts, and currency conversions based on your preconfigured specifications. This capability enables you to take full advantage of discounts and pay your suppliers according to their terms, without interrupting the accounts payable process.

With JD Edwards EnterpriseOne, you can choose from a variety of payment instruments, including electronic funds transfer (EFT), drafts, and paper checks. You can even set up multiple bank accounts for currency-specific balances or take advantage of special discounts offered by banks. And, for global organizations, JD Edwards EnterpriseOne supports multicurrency and multiple language needs.

As with the many control opportunities that exist throughout Accounts Payable, you can choose how you want to be notified of potential duplicate invoices—either by a preliminary warning or an elevated alert. The ability to proactively examine invoices with the same invoice number can reduce confusion, improve control, and help prevent duplicate payments.

Manage Cash Effectively

An effective cash management approach takes maximum advantage of discounts while maintaining your suppliers' preferred payment methods. Accounts Payable allows you to consider a virtually unlimited number of variables before submitting payment to a supplier, including date due, discount offered, and amount of cash on hand.

Whether you pay vouchers automatically or manually, the result is always controlled, efficient, and accurate. You can organize your vouchers and have Accounts Payable handle the payments or select vouchers for manual, split, or partial payments based on current cash requirements. On a supplier-by-supplier basis, online inquires allow you to review information quickly, such as balances forward and open items, before authorizing payments.

Accounts Payable provides timely and accurate information on cash flow, aging information, and discount opportunities. With online access to real-time supplier information, payment history, and vouchers, you are able to improve supplier relationships, negotiate better contracts, and control cash flow.

Feature/Function Highlights

- Multiple voucher entry method
- Multiple payment methods and terms
- Duplicate invoice detection and notification
- Multinational currency processing
- Multiple language correspondence
- Invoice logging
- VAT, GST, and withholding tax processing
- Side-by-side currency comparison
- Online supplier ledger inquiry
- Multiple cash (bank) accounts
- Third-party payee

- Split and partial payments
- 1099 coding
- Manual payment processing with or without matching
- Supplier master information
- Supplier totals by general ledger number
- Batch upload
- Voucher match automation process
- One View Reporting for Financials – Accounts Payable

Solution Integration

This module is designed to be integrated with these JD Edwards EnterpriseOne products across your operations using common tools and a Pure Internet Architecture:

- JD Edwards EnterpriseOne Financial Management
  - General Ledger
- JD Edwards EnterpriseOne Supply Management (Procurement)
  - Procurement and Subcontracts Management
- JD Edwards EnterpriseOne Supply Chain Execution (Logistics)
  - Inventory Management
- JD Edwards EnterpriseOne Project Management
- JD Edwards EnterpriseOne Capital Asset Management
  - Capital Asset Management
- JD Edwards EnterpriseOne Human Capital Management
  - Payroll
- JD Edwards EnterpriseOne One View Reporting for Financials
  - Accounts Payable

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Oracle is committed to developing practices and products that help protect the environment

Hardware and Software, Engineered to Work Together

JD EDWARDS ENTERPRISEONE FIXED ASSET ACCOUNTING

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PRODUCT HIGHLIGHTS

- Streamline daily fixed-asset transactions
- Maximize the profitability of fixed assets
- Improve visibility throughout the fixed-asset accounting lifecycle

The Issue: Controlling Fixed-Asset Accounting

Accounting for fixed assets—the long-term tangible and intangible assets of a company— can be a complex balancing act. Organizations strive to ensure compliance with changing tax and accounting regulations while constantly recording, updating, and disposing of fixed assets. And, because these are often high value assets, the ability to select and apply the best depreciation parameters—from useful lives to the most advantageous depreciation method or schedule—can significantly impact the bottom line.

The Solution: Manage Fixed Assets for Maximum Bottom-Line Impact

Oracle's JD Edwards EnterpriseOne Fixed Asset Accounting provides unsurpassed flexibility and control of the fixed-asset accounting lifecycle— from acquisition and depreciation to revaluation and eventual disposal. Quick asset set up, detailed data capture, and sophisticated depreciation calculations helps streamline the process and allow you to assign optimal depreciation methods, realize full economic benefits, and ensure compliance with government mandated depreciation rules.

Streamline Fixed-Asset Transactions and Records

Fixed Asset Accounting streamlines the process and minimizes the costs associated with tracking your physical assets. You can capture and analyze extensive asset information— including valuation, location, insurance, and claim information—throughout the asset accounting lifecycle. Because the solution is fully integrated, you enter account information only once, improving accuracy and saving considerable time and money. With intuitive asset entry pages, you can establish default depreciation rules for common assets, automatically populating account information whenever you add a new asset to the system. And, you always have the flexibility to override the defaults for special circumstances. With Fixed Asset Accounting, you can easily make comprehensive changes across your accounting structure—and maintain the integrity of the system—by leveraging global updates to revise account numbers, business units, or companies.

Use Flexible Depreciation Methods for Improved Profitability

To help maximize the value of your fixed-asset inventory—and ultimately improve your bottom line—Fixed Asset Accounting allows you to select the most advantageous depreciation method for each asset in your organization. The system gives you the ability to define and maintain an unlimited number of depreciation methods by using one of 18 predefined methods, creating your own custom method, or modifying a predefined method. And, you can calculate depreciation for any period— daily, weekly, monthly, quarterly, or annually. Customize your depreciation by substituting various depreciation conventions, formulas, and spread patterns to define company-specific depreciation methods. And, where international depreciation methods and multicurrency asset valuation are required, leverage the sophisticated multicurrency capabilities of the system.

Manage the Compete Asset Accounting Lifecycle

Although managing depreciation is important, it is just one aspect of the fixed-asset accounting lifecycle. Fixed Asset Accounting allows you to record asset transfers, splits, and disposals in your accounting ledger. You can choose to split assets by units, monetary value, or percentage or easily record the disposal of your assets via scrap, theft, or charity. What's more, Fixed Asset Accounting automatically creates the necessary journal entries, so business decisions can be based on timely, accurate fixed-asset records.

Improve Visibility and Control over Fixed Assets

Fixed Asset Accounting uses a highly flexible approach to revaluation, ensuring that your capital, financial, and strategic plans are based on the most current information. You can elect constant currency or current cost accounting as the basis for asset revaluation and leverage government indices to quickly revalue a large number of assets. And, while providing maximum control, Fixed Asset Accounting gives you the flexibility to set up multiple books for the same asset. For example, you can assign a three-year life for taxation purposes and a five-year life for financial statements—ensuring regulatory compliance and maximizing bottom-line benefits.

Feature/Function Highlights

- Streamline asset lifecycle management.
- Add, depreciate, split, revalue, and dispose of fixed assets.
- Ensure compliance with tax and accounting requirements.
- Configure and maintain an unlimited number of depreciation methods.
- Use predefined or custom depreciation methods.
- Use the most advantageous depreciation method for each asset.
- Value assets by using an unlimited number of currencies.
- Produce fixed-asset reports.
- Maintain insurance and tax information by asset.
- Automate asset definition and configuration.
- Update asset information daily, monthly, quarterly, or annually.

Solution Integration

This module is designed to be integrated with these JD Edwards EnterpriseOne products across your operations using common tools and a Pure Internet Architecture:

- JD Edwards EnterpriseOne Financial Management
  - General Ledger
  - Accounts Payable

- Accounts Receivable
- JD Edwards EnterpriseOne Supply Management (Procurement)
  - Procurement and Subcontracts Management
- JD Edwards EnterpriseOne Supply Chain Execution (Logistics)
  - Inventory Management
- JD Edwards EnterpriseOne Capital Asset Management
  - Capital Asset Management

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16. In Case No. 2012-00133, Croix Infrastructure, Croix Utilities, Utilities, Inc., and Water Service Corporation accepted the following condition: "Water Service Corporation will have a meaningful process to monitor all allocations from corporate parents or affiliates to ensure the appropriateness of the allocations." Provide a complete description of the monitoring process that was implemented by Water Service Corporation to comply with this merger condition.

RESPONSE: At the hearing in Case No. 2012-00133, counsel for WSCK clearly indicated that the above-referenced condition did not require WSCK to implement a new process to monitor allocation from its corporate parents or affiliates.[4] Rather, WSCK explained that it already had that process in place and that it was committed to demonstrating the process before the Commission. As more fully discussed in response to Item 13 above, the expenses allocated to WSCK are reviewed at multiple corporate levels to ensure that those expenses are reasonable and appropriate.

WITNESS: Lowell Yap

[4] VR: 8/2/12; 10:18:01 (Commission Staff Attorney Question: "I ask that simply, if someone were to ask, does this impose a requirement of writing a process or developing a process, it does not. The process already exists?" WSCK Attorney Answer: "That is correct. Yes.")