State of Florida

Public Service Commission

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

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

DATE: APRIL 11, 2002

TO: DIRECTOR, DIVISION OF THE COMMISSION CLERK & ADMINISTRATIVE SERVICES (BAYÓ)

FROM: DIVISION OF ECONOMIC REGULATION (FLETCHER, WETHERINGTON, MERCHANT, D. DRAPER, MAUREY) OFFICE OF THE GENERAL COUNSEL (JAEGER)

RE: DOCKET NO. 992015-WU - APPLICATION FOR LIMITED PROCEEDING TO RECOVER COSTS OF WATER SYSTEM IMPROVEMENTS IN MARION COUNTY BY SUNSHINE UTILITIES OF CENTRAL FLORIDA, INC.
COUNTY: MARION

AGENDA: APRIL 23, 2002 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\992015.RCM

CASE BACKGROUND

Sunshine Utilities of Central Florida, Inc. (Sunshine or utility) is a Class B utility which provides water service to approximately 2,871 water customers in 21 separate small systems around the Ocala area in Marion County (see attached map No. 1). All of these systems are under a uniform rate structure. Wastewater service is provided by septic tanks. The utility's last rate proceeding was in Docket No. 900386-WU, resulting in Order No. 25722, issued February 13, 1992. Order No. PSC-94-0738-FOF-WU, issued June 15, 1994, addressed Sunshine's appellate rate case expense for Docket No. 900386-WU.

On December 21, 1999, Sunshine filed an application for a limited proceeding to increase water rates and charges for all of its customers in Marion County. The rate increase requested was

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intended to be used to initiate a water facilities plan in which the utility would interconnect and consolidate five of the 21 separate systems owned by Sunshine. These five systems are known as Lake Weir, Lakeview Hills, Oklawaha, Belleview Oaks, and Hilltop. In conjunction, the utility intends to construct a centralized water treatment plant, pumping, and storage facility (see attached maps Nos. 2 & 3) to serve the five systems specified in the utility's comprehensive plan. Sunshine proposed this plan in order to resolve contamination problems faced by some customers and by a few non-customers near its service area. Further, the plan is designed to meet growth demands in the area of the interconnection. The utility proposed an increase of 22.72% to all of its customers across the board.

After several meetings with Commission staff in 1999 and 2000, it became apparent to the utility that staff did not support its original proposal since it would provide limited benefits to only five of the utility's 21 systems. It was staff's belief at that time that the improvements did little to improve the quality of water or the service provided to the customers of the five affected systems and provided no benefits whatsoever to the other 16 systems. In its original filing, Sunshine requested that the rate increase be passed on to all of its customers, not only to the customers of the five systems involved. In light of staff's comments, Sunshine withdrew its original application and asked for and was allowed time to revise its proposal.

On September 8, 2000, Sunshine submitted an Amended Application (1st Amended Application) in which it presented two alternatives. Under its first alternative, Sunshine submitted essentially the original proposal as discussed above. The utility still proposed a 22.19% rate increase for all of its customers. Under Alternative No. 2, Sunshine proposed a project of a more limited scope that would address only the contamination problems in Little Lake Weir and Lakeview Hills systems as well as the sulfur concerns in the Oklawaha area and the Hilltop system. This alternative resulted in an overall 18.2% increase to all customers.

Staff filed a recommendation on November 16, 2000 for the November 28, 2000 Agenda Conference, but that recommendation was initially deferred to the December 19, 2000 Agenda Conference. However, at the request of the utility, staff's recommendation was deferred from that Agenda Conference and never presented to the Commission.

On June 7, 2001, Sunshine filed another amendment (2nd Amended Application) to its application. In its 2nd Amended Application, Sunshine is proposing to consolidate the original five systems and included a facililties plan for all proposed system improvements and a used and useful calculation that showed that not all of the new facilities would be 100% used and useful.

According to the utility, the consolidation is to eliminate the existing contamination problems and will improve the level of service that Sunshine can provide to its water customers. The consolidation is proposed to be funded by the combination of grants and low interest loans discussed below. The plan includes a proposed 15.73% rate increase for all of Sunshine's customers.

A customer meeting was held in Ocala on September 13, 2001. Four customers spoke at the meeting and all spoke against this project. Of the four customers, only one was from one of the five systems proposed to be interconnected. The three other customers had specific service complaints including iron, sporadic pressure, and excessive chlorine which the utility subsequently addressed with written responses to these customers. The customer that resides in one of the five systems did not have a specific service complaint but stated that he did not agree with this project.

Staff filed a revised recommendation dated October 25, 2001. Staff recommended that this limited proceeding application, along with all rate case expense, be denied, and that the docket be closed. At the November 6, 2001, Agenda Conference, the Commission found it necessary to obtain additional information before taking any action on this limited proceeding. As a result, the Commission deferred a decision on the recommendation. Instead, the Commission directed staff to further investigate the utility's application and to file another recommendation to allow consideration of other options for allocation of costs, alternative funding, the need for possible certificate amendments, and rate case expense. See Order No. PSC-01-2312-PCO-WU, issued November 26, 2001.

In an attempt to find other sources of funding for this project, the PSC staff met with the Marion County Solid Waste Department personnel and the utility in regards to the contamination problems in the area and possible county funding of the project. As a result of these meetings, the Marion County Solid Waste Department proposed that an additional thirty eight lots with contaminated wells be served by extending the proposed water system. Staff notes that the utility would have to amend its certificate before serving these customers. As discussed between staff, the utility, and Marion County, this extension is proposed to be funded by a combination of Department of Environmental Protection (DEP) grants and funds from Marion County. Discussions as to whether Marion County will participate in funding a portion of the main project are on-going.

Staff's discussions with the DEP Bureau of Water Facilities Funding have indicated that for Sunshine to receive funding this fiscal year, the PSC must approve the rate case quickly. The April 23, 2002, agenda conference date is the last one scheduled that would allow enough time for Sunshine to receive funding for this project this fiscal year.

In order to consider other allocation methods as directed by the Commission in Order No. PSC-01-2312-PCO-WU, staff has reviewed the utility's current earnings level. At the time the utility filed its original application in this docket, it had been approximately nine years since Sunshine's last rate case. Thus, staff thought it was necessary to review the utility's earnings level. In May 2000, staff commenced an audit of Sunshine's books and records for the year ended December 31, 2000. Since it is now April, 2002, staff believes that the audited test year ending December 31, 2000, is stale. As such, staff requested and received an updated schedule of rate base, net operating income, and capital structure for the year ended December 31, 2001. To determine the appropriate rate increase, staff has used the audit report for the 2000 year-end and utilized the simple average test year ending December 31, 2001, pursuant to Rule 25-30.433(4), Florida Administrative Code. Further, staff has incorporated pro forma plant, cost of capital, and expense adjustments.

Staff's recommendation contains both a primary and an alternative. The primary recommendation remains the same as in our past October 25, 2001, recommendation, which is to deny the utility's request. Staff's alternate recommendation addresses the requested additional costs, the revenue increase, and the rate increase. If the Commission approves staff's primary recommendation in Issue 1, the remaining issues should be considered moot, with the exception of the close the docket issue. The Commission has jurisdiction pursuant to Sections 367.011(2), 367.081, and 367.0822, Florida Statutes.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve Sunshine's requested limited proceeding to increase its rates for all customers to interconnect five of its water systems?

PRIMARY RECOMMENDATION: No. The utility's proposal to interconnect five separate water supply and treatment systems to eliminate contamination problems and to meet development demands is not prudent or justified, and it should therefore be denied. Further, the rate case expense for this limited proceeding should be disallowed. (WETHERINGTON)

ALTERNATIVE RECOMMENDATION: Yes. The plan as modified by staff, which includes the low cost funding from DEP appears reasonable. (FLETCHER, MERCHANT)

PRIMARY ANALYSIS: The utility's final proposal is to interconnect the five existing water systems of Little Lake Weir, Lakeview Hills, Belleview Oaks, Hilltop, and Oklawaha with 31,499 linear feet of 10-inch pipe, 15,048 linear feet of 8-inch pipe, and 3,183 linear feet of 6-inch pipe. The utility also proposes to construct a separate water treatment plant to singularly serve this new water main system. This interconnection and new water treatment plant is estimated to cost $2,015,339. The utility states this project will address contamination in the water supply, meet peak water demand and fire flow requirements, and promote water conservation.

Contamination Problems

The Lakeview Hills water treatment plant is located across from a Marion County landfill which is located along S.E. 115th Avenue in the southeastern portion of Marion County, very near the northwesterly shoreline of Lake Weir. DEP has found the presence of dichloroethylene in the one well serving the Lakeview Hills systems. The level detected was considered satisfactory, but was very close to the Maximum Contaminant Level (MCL) as prescribed by DEP rules. At present, there are no corrective orders mandating that the utility correct this contamination problem. However, the DEP does require quarterly Volatile Organic Chemical (VOC) tests to monitor the contaminate levels. In addition, the County has stepped in and committed to install and maintain a used filter at the Lakeview Hills water treatment plant, without charge to the utility, and with no time limit on the use of the filter. Marion

County has committed to maintain the filter as long as needed and has recently replaced filtration media within the filter. Staff believes that the contamination within the utility's existing Lakeview Hills water system has been brought under control.

The detection of another contaminant, ethylene dibromide, has been found in the private wells of residents located along S.E. 138th Place Road, which is not in Sunshine's territory. If the proposed water system is constructed, Sunshine will be able to provide water service to the lots served by these wells; however, Sunshine has no legal or regulatory responsibility to provide such water service, and would have to add these lots to its territory.

Additionally, in the general vicinity of the Marion County Landfill there are thirty-eight lots which have wells contaminated by various compounds. Marion County has requested that these lots be served by an extension of the proposed water system and discussions between the utility and Marion County concerning funding of these extensions by Marion County are on-going. If the proposed water system is constructed, Sunshine will be able to provide water service to these thirty-eight lots; however, Sunshine has no responsibility to provide such water service.

<u>DEP Approval</u>

The DEP makes available grant and low interest loan money for private utilities to expand their system to meet the needs of those outside their service territory who must seek an alternate source of drinking water. The utility has made application with DEP, and DEP has approved that Sunshine receive $682,570 in grants and $1,475,314 in a low-interest loan, subject to assurance that the utility's rate structure will be sufficient to repay the loan.

In discussions between PSC staff, DEP staff, and the utility, DEP has acknowledged that even though DEP approves of this project, the DEP is not requiring the work to be done. DEP considers "regional" systems, those combining several small systems into one, as easier to operate and regulate.

<u>Future Development</u>

The proposed water main extensions between the existing five systems pass through many miles of property that is not within Sunshine's current territory. Before Sunshine could begin serving future customers along the main extensions, it would have to amend its current certificate. During the engineering field visit, staff noted that there were several subdivisions within the areas of the new main extensions that have existing, small water systems which are making drinking water available to their residents. There are no plans at this time to interconnect any of these systems or for Sunshine to pick up any new customers on these lines other than the lots with contaminated wells previously discussed. Any territorial disputes that might arise would need to be settled before Sunshine's certificate could be amended and before the utility could begin construction.

Primary Staff Summary

Because the contamination concern in the Sunshine well has been eliminated by the use of the County's filter system, Sunshine is not under a mandate concerning the high MCL for dichloroethylene. Interconnecting the five systems and construction of a single plant to serve those existing customers is not required. Staff believes that the Sunshine customers are not responsible for the contamination in the area and should not be required to pay for facilities to eliminate the contamination. Staff does not believe that the plan, as proposed, provides a significant increase in the quality of service or any significant benefit for Sunshine's existing customers in the five systems to be interconnected. Also, the plan does not provide any benefit to the other sixteen Sunshine water systems. Based on the discussions in Issues 4 and 17, it is apparent that the only viable source of funding for this project is through increased rates.

Therefore, staff recommends that the utility's proposal to combine and interconnect five separate, existing water supply and treatment systems to eliminate contamination problems and to meet development demands at the expense of all its existing customers is not prudent or justified, and it should therefore be denied. If the Commission agrees with this recommendation then all other issues are moot.

Further, staff believes that the decision to file for rate relief was imprudent because without these pro forma costs the utility would not be entitled to a rate increase. As such, the customers should not have to bear this cost. Section 367.081(7), Florida Statutes, states that the Commission "shall disallow all rate case expense determined to be unreasonable. No rate case expense determined to be unreasonable shall be paid by the customer." Moreover, the Commission has broad discretion with respect to the allowance of rate case expense. Meadowbrook Utility Systems, Inc. v. FPSC, 518 So. 2d 326 (Fla. 1st DCA 1988). The Commission has previously disallowed rate case expense in a limited proceeding in which the requested rate increase was denied. See Order No. PSC-98-1583-FOF-WS, issued November 25, 1998, in Docket No. 971663-WS; and Order No. PSC-99-1917-PAA-WS, issued September 28, 1999, in Dockets Nos. 970536-WS and 980245-WS. Therefore, staff also recommends that rate case expense associated with this limited proceeding should be disallowed.

ALTERNATIVE ANALYSIS: The DEP makes available grant and low-interest loan money for private utilities to expand their systems to meet the needs of those outside their service territory who must seek an alternate source of drinking water. The utility has submitted an application for such funding, and DEP has approved Sunshine to receive $682,570 in grants and $1,475,314 in a low-interest loan subject to assurance that the utility's rate structure is sufficient to pay back the loan.

Staff notes that even though DEP approves of this project, DEP is not requiring the work to be done. Staff believes that DEP considers "regional" systems easier to operate and regulate, thus saving money for the utility as well as the regulators. Further, staff believes that the elevated storage tank will provide a more stable water pressure than the current hydro-pneumatic tanks, although staff notes that the difference probably would not be readily apparent to the customers. Since the project is to be financed through grants and low interest loans from DEP, staff believes the project is reasonable. Based on the above, the Commission should approve a rate increase pursuant to staff's recommendations in the following issues.

HISTORICAL RATE BASE

ISSUE 2: Should an adjustment be made to plant in service to retire a utility vehicle?

RECOMMENDATION: Yes. Plant in service and accumulated depreciation should both be reduced by $15,036 to reflect the retirement of the utility's van. Further, staff recommends that retained earnings and depreciation expense should both be reduced by $2,506 to remove test year depreciation expense associated with this van. (FLETCHER)

STAFF ANALYSIS: In Audit Exception No. 1, the staff auditors stated that the utility had informed them that a van placed in service in 1993 is currently for sale and will be removed from plant in service. In its response to the audit report, the utility agreed with this adjustment. According to Sunshine's 2001 annual report, this van has not yet been retired. Since the utility still plans to retire this van, staff agrees that it should be removed from plant in service. Therefore, staff recommends that plant in service and accumulated depreciation should both be reduced by $15,036. Further, staff recommends that retained earnings and depreciation expense should both be reduced by $2,506 to remove test year depreciation expense associated with this van.

ISSUE 3: Should any adjustment be made to the test year amount of CIAC and Accumulated Amortization of CIAC?

RECOMMENDATION: Yes. CIAC should be increased by $15,453 to transfer inactive advances for construction. Accumulated Amortization of CIAC and Amortization of CIAC expense should be increased both by $479. (FLETCHER)

STAFF ANALYSIS: In Audit Exception No. 2, the staff auditors point out that the instruction for Account No. 252, Advances for Construction, from the National Association of Regulatory Utility Commissioners' (NARUC) Uniform System of Accounts (USOA) for Class B water utilities, states:

> This account shall include advances by or in behalf of customers for construction which are to be refunded either wholly or in part. When a person is refunded the entire amount to which the person is entitled according to the agreement or rule under which the advance was made, the balance, if any, remaining in this account shall be credited to account 271 - Contributions in Aid of Construction.

Staff auditors further state the utility records indicate the following balances in Account No. 252:

Development	Last Activity	Lots Left	Balance
Boulder Hill	Aug. 1989	yes - inactive	$286
Florida Heights	Oct. 1986	yes - inactive	4,500
Fore Oaks	Mar. 1997	yes - inactive	527
Lake Weir Pines	unknown	unknown	(760)
Stonehill	Mar. 1993	yes - inactive	556
Sunlight Acres	unknown	unknown	(69)
Cool Breeze	unknown	unknown	9,500
Lake Bryant	Nov. 1998	no - inactive	1,469
TOTAL			$16,009

As such, the staff auditors believe that the inactive advance balances should be transferred to CIAC. In light of the above, the staff auditors recommended that CIAC should be increased by $16,009 and that Accumulated Amortization of CIAC and Amortization of CIAC Expense should be increased both by $496, in order to transfer the inactive balances, pursuant to the above NARUC USOA requirement.

In its response to Audit Exception No. 2, the utility asserts that the NARUC USOA requirement for Account No. 252 does not apply to the Stone Hill Development. Sunshine contends that the agreement with the developer of this development requiring the advances is still in effect and there are lots still to be connected. The utility states that there is no time limit for the settlement of advances for construction, and as long as the advances for the Stone Hill Development are outstanding, they should be treated as advances for construction.

According to discussions with the utility, the above year-end 2000 balance of advances are the same for the 2001 test year-end. The Stone Hill Development advances are only $556. This is an immaterial amount compared to the utility's total rate base. Further, staff believes the utility is in a better position than staff to determine future connections of a particular development. Thus, staff recommends that the Stone Hill Development advances should not be transferred to CIAC. Based on the above, staff recommends that CIAC should be increased by $15,453 ($16,009 less $556) to transfer inactive advances for construction. In addition, staff recommends that Accumulated Amortization of CIAC and Amortization of CIAC expense should be increased both by $479.

PRO FORMA RATE BASE

ISSUE 4: What rate base components should be approved for Sunshine's proposed project?

RECOMMENDATION: The pro forma rate base associated with the proposed interconnection is $885,929. The detail adjustments that make up this amount are discussed in staff's analysis. The utility should file an application to amend its certificate to extend service to the additional 38 ERCs, pursuant to Section 367.045, Florida Statutes. (FLETCHER, WETHERINGTON)

STAFF ANALYSIS: The following is staff's analysis of the appropriate pro forma plant additions and retirements, accumulated depreciation, non-used and useful component, CIAC, and accumulated amortization of amounts to be included if the Commission approves Sunshine's proposed plant interconnection project. In addition, staff discusses the need for the utility to amend its certificate.

PRO FORMA PLANT ADDITIONS AND RETIREMENTS

Central Water System - In its application, the utility reflected pro forma plant additions totaling $2,082,997 and associated accumulated depreciation of $54,775. As a result of the centralized water system, the utility will retire wells, hydro-pneumatic tanks, and other plant items. The utility's plant retirements and associated accumulated depreciation total $167,043 and $86,136, respectively. Further, the utility's associated CIAC and accumulated amortization of CIAC for these retirements are $73,990 and $32,031, respectively.

As reflected in the utility's water facilities plan (revised May 2001), the pro forma plant was estimated by H.W. Barrineau and Associates, Inc., a civil and environmental engineering firm. Based on staff's review, the estimated pro forma plant additions and retirements appear to be reasonable. As such, staff recommends that the utility's pro forma plant additions and retirements are appropriate with the exception of its accumulated depreciation and accumulated amortization of CIAC for retirements. According to the NARUC USOA, accumulated depreciation should be debited by the amount of the plant that is retired. Thus, pro forma accumulated depreciation should be decreased by $80,907 ($167,043 less $86,136). Consistent with the above NARUC USOA requirement, pro forma accumulated amortization of CIAC should also be decreased by $41,959.

Facilities Required to Serve New Area - On January 15, 2002, staff met with Marion County and the utility staff to discuss the contamination problems in the area and possible county funding of the project. As a result of those meetings, the county has proposed that an additional thirty-eight lots with contaminated wells be served by extending the proposed water system. By letter dated January 29, 2002, DEP indicated that, if the utility is determined to be eligible, the utility would receive a DEP grant to fund 65 percent of the required facilities to serve this new area. At the January 15th meeting, there were limited discussions that Marion County could possibility pay for the remaining 35 percent; however, there has been no firm commitment by the county to fund any portion this project to date. Based on recent discussions with DEP, Sunshine's eligibility for grant funds is still undetermined. Since the County proposed this project and DEP embraced the proposal as well, staff has assumed that this project will be 100% funded by DEP and Marion County for rate setting purposes in this limited proceeding.

The utility's engineering firm provided cost estimates for the main extensions required to serve this new area. Based on staff's review, the estimated pro forma plant appears to be reasonable. Staff notes that these proposed facilities have arisen after the filing of the utility's 2nd Amended Application. Therefore, based on the above, staff recommends that both the pro forma plant and CIAC should be increased by $195,222. Further, staff recommends that corresponding adjustments should be made to increase accumulated depreciation and accumulated amortization of CIAC by $4,549 to reflect one year of depreciation and amortization.

Since an additional 38 ERCs will also be served by Sunshine, staff believes that CIAC should be imputed to reflect the receipt of plant capacity charges. As such, staff recommends that CIAC should be increased by $15,960. Accordingly, staff recommends that accumulated amortization of CIAC should be increased by $507 and depreciation expense should be decreased by $507.

PRO FORMA NON-USED AND USEFUL COMPONENT

The following is staff's analysis of the used and useful percentages of the pro forma water treatment plant and the water distribution system additions and the resulting effect on the utility's non-used and useful component.

Water Treatment Plant - In its 2nd Amended Application, the utility calculated a 75.96% used and useful for its proposed water treatment plant. The proposed plant will draw raw water from two wells rated at 330 gallons per minute (gpm) and 490 gpm. The proposed treatment plant also contains a 500,000 gallon elevated storage tank. The firm reliable capacity of the system with the largest well removed from service is the second well pumping for 12 hours plus the storage capacity (330 gpm x 12 hour day + 500,000 gallons). Staff agrees with the utility's calculation that this results in a firm reliable capacity of 737,600 gallons per day (gpd).

The utility's original used and useful calculation for the proposed water treatment plant did not take into account the proposed additional thirty-eight lots. Staff has accepted the utility's used and useful calculation and has expanded it to include these additional lots. The growth calculation for this project contains two parts. The utility anticipates a 3% growth rate for the existing five systems and the addition of lots from the DEP/Marion County financed line extensions. These lots are estimated to come on line in 2003. The test year 2001 projected water demand for the five systems is 391,173 gpd. Applying the 3% growth factor for the five-year statutory growth allowance per Section 367.081(2)(a)2.b., Florida Statutes, results in a demand of 453,477 gpd in 2006. In order to calculate the estimated flow to apply to the new lots, staff used the historical flows per ERC for the same five systems. According to the utility's filing, the flow per equivalent residential connection (ERC) was calculated from the 2001 demand and ERC figures of 391,173 gpd and 870, respectively, to yield a flow per ERC of 450. Applying this figure to the 38 lots of the DEP/Marion County project yields a year 2003 additional flow of 17,086 gpd. Applying the recommended 3% growth factor results in a flow of 18,670 gpd in 2006 for these additional lots. Adding this to the five systems' demand results in a total estimated water demand of 472,147 gpd in 2006. Adding in the 120,000 gpd fire flow and dividing the total flow by the firm reliable capacity of the water treatment plant results in a used and useful percentage of 80.3% for the proposed water treatment plant. This calculation is summarized in Attachment A.

Water Distribution System - The utility's used and useful calculation of 51.88% for the water distribution system did not take into account the proposed additional thirty-eight lots. Staff has accepted the utility's used and useful calculation and expanded on it to include these additional lots. The utility has estimated that its proposed water distribution system would have a capacity of 1,889 ERCs without the additional lots of the DEP/Marion County project. Adding in these 38 ERCs brings the total capacity to 1,927 ERCs.

The utility states in its filing that the existing five systems serve 870 ERCs in 2001. Staff has applied the 3% growth factor and this results in 1009 ERCs in 2006. The 38 lots of the DEP/Marion County project are estimated by staff to come on line in 2003. Applying the 3% growth factor results in 42 ERCs in 2006. This results in a total number of ERCs served in 2006 of 1051. Dividing this by the capacity of the system results in a used and useful percentage for the distribution system of 54.5% This calculation is summarized in Attachment B.

Non-used and Useful Component - As reflected in the utility's application, its used and useful percentages resulted in a pro forma non-used and useful balance of $528,474. In its non-used and useful calculation, the utility netted construction grants before it applied its composite non-used and useful percentage. Staff believes that the construction grants are equivalent to receiving contributed property. As such, staff recommends that it is appropriate to net these grants before applying the composite non-used and useful percentage.

Based on staff's recommended pro forma plant and percentages, the appropriate non-used and useful component should be $493,354. This represents a decrease of $35,120 to the utility's adjusted amount. The following table illustrates staff's non-used and useful calculation.

	Pro forma Plant in Application	Plant Associated W/ New Area	Staff's Calculation
Total Construction Cost	$2,082,997	$195,222	$2,278,219
Less: Construction Grants	682,570	195,222	877,792
Net Investment			$1,400,427
Composite Non-Used & Useful Percentage			36.21%
Non-Used & Useful Plant			$507,068
Non-Used & Useful Accumulated Depreciation	11,570	1,815	13,385
Non-Used & Useful Component			**$493,354**

PRO FORMA CIAC

Central Water System - According to its 2nd Amended Application, Sunshine was awarded a $153,000 pre-construction grant by DEP. DEP has indicated that the utility is eligible for a total grant of $682,570 for the construction project discussed above. This grant has been properly classified by Sunshine as CIAC. According to the utility's 2000 annual report, the utility has already received $32,812 in grant funds from the DEP. Since the $32,812 is included in the 2001 test year, staff recommends that the appropriate pro forma CIAC is $649,758 ($682,570 less $32,812). Staff recommends that corresponding adjustments should also be made to reduce pro forma CIAC by $32,812 and accumulated amortization of CIAC by $813 to reflect these amounts as part of the historical test year.

As stated in the case background, the Commission requested that staff explore alternative sources of funding for this project. Staff met with Marion County and the utility to discuss the possible County funding of the project. However, Marion County has not proposed or committed to fund any portion of the proposed centralized water system to date.

AMENDMENT OF CERTIFICATE

As discussed above, the utility plans to serve customers that are outside of Sunshine's current PSC certificated territory. Section 367.045(2), Florida Statutes, states that a "utility may not delete or extend its service outside the area described in its certificate of authorization until it has obtained an amended certificate of authorization from the commission." Accordingly, staff recommends that the utility should file an application to amend its certificate to extend service to the additional customers, pursuant to Section 367.045(2), Florida Statutes.

SUMMARY

Based on the above, staff recommends the pro forma rate base associated with the proposed interconnection is $885,929. The utility should file an application to amended its certificate to extend service to this new area, pursuant to Section 367.045, Florida Statutes.

ISSUE 5: What is the appropriate test year rate base?

RECOMMENDATION: The historical and pro forma rate base amount should be $1,160,166. (FLETCHER)

STAFF ANALYSIS: Based on Sunshine's 2000 and 2001 annual reports, the utility's 2001 simple average working capital is $82,101. Rule 25-30.433(2), Florida Administrative Code, states that working capital for Class B utilities shall be calculated using the formula method, which is one-eighth of operation and maintenance (O&M) expenses. Consistent with staff's recommended O&M expense balance of $599,274, the appropriate working capital allowance should be $74,909. This represents a $7,191 decrease of the utility's working capital allowance.

Based on the simple average test year balances and staff's recommended adjustments, staff recommends that the appropriate historical and pro forma rate base amount is $1,160,166. This represents an increase of $67,941 from the utility's simple average rate base balance. Schedule No. 1-A depicts staff's rate base calculation. Staff's proposed adjustments to rate base are depicted on Schedule No. 1-B.

COST OF CAPITAL

ISSUE 6: What is the appropriate return on equity for Sunshine?

RECOMMENDATION: Based on the current leverage formula, the appropriate return on equity for Sunshine should be 11.34%, with a range of 10.34% to 12.34%. (FLETCHER)

STAFF ANALYSIS: By Order No. 25722, issued February 13, 1992, in Docket No. 900386-WU, the Commission last authorized a return on equity (ROE) for Sunshine of 11.89%. In its 2nd Amended Application, the utility reflected a cost rate of 9.94% for common equity, using the 2000 Commission approved leverage formula. By Order No. PSC-01-2514-FOF-WS, issued December 24, 2001, the Commission approved the current leverage formula used to establish the authorized ROE for water and wastewater utilities. Using the simple average 2001 capital structure, the utility has a 21.84% equity ratio. Based on the current leverage formula, the appropriate cost of equity should be 11.34% with a range of 10.34% to 12.34%. Staff has used the mid-point of the ROE to determine whether any increase in rates is warranted. Further, staff recommends that this ROE should be applied to any future proceedings of this utility, including, but not limited to price indexes, interim rates, and overearnings.

ISSUE 7: What is the appropriate regulatory treatment of loans to officers?

RECOMMENDATION: These loans to the officers should be treated as a reduction to common equity. Common equity should be reduced by $116,238. (D. DRAPER, FLETCHER)

STAFF ANALYSIS: In Audit Exception No. 4, the staff auditors state that the NARUC USOA instruction B for Account No. 142, Other Accounts Receivable, for Class B water utilities indicates, "this account shall be maintained as to show separately amounts due on subscriptions to capital stock and from officers and employees, but the amount shall not include amounts advanced to officers or others as working funds."

Staff auditors also state that the utility records indicate the following balances in Account No. 142:

Account No.	Account Name	2000 Year-End	2000 Simple Average
142.04	Employee Account Receivable Vice President	$21,344	$21,095
142.06	Employee Account Receivable President	21,669	21,669
142.10	Employee Account Receivable President Special	73,225	73,225
		$116,238	$115,989

Staff auditors state that the above balances have existed for several years, and there is no supporting documentation or interest provision evident that illustrates the benefit of such loans to the utility's customers. Staff auditors believe these accounts receivable balances are, in essence, outstanding interest-free, long-term loans to the utility's officers and should be treated as advances to officers pursuant to the above NARUC rule. Further, staff auditors recommend that the average outstanding balance of $115,989 should be treated as a reduction to common equity.

In its response to Audit Exception No. 4, the utility asserts that these balances do not represent amounts advanced to officers as working funds, but rather are loans to the officers. Sunshine maintains that the loans were entered into with the understanding and intent that these amounts would be repaid.

According to the utility's response to a staff auditor data request, Sunshine stated that its policy for these receivables is that the entire outstanding balance or a portion is to be deducted from the employees' weekly payroll until the account is satisfied. Since these balances have existed for several years, staff believes that the utility has ignored its own policy regarding these receivables. Further, the utility stated that there are no interest provisions for these receivables. Given the circumstances and the history of these balances, staff agrees with the staff auditors that these loans provide no apparent benefit to the ratepayers.

Staff believes that the stockholders, who are also the officers, have been enriched by having these outstanding interest-free loans for years. As such, staff recommends that these loans to the officers should be treated as a reduction to common equity. Based on discussions with the utility, the above 2000 balances are the same for the 2001 test year-end. Thus, the total 2001 simple average balance of these receivables is $116,238. Based on the above, staff recommends that common equity should be reduced by $116,238.

ISSUE 8: What is the appropriate test-year amount of long-term debt?

RECOMMENDATION: The appropriate test-year amount of long-term debt is $1,495,314. (FLETCHER, WETHERINGTON)

STAFF ANALYSIS: According to Sunshine's 2001 annual report, the total long-term debt consists of two debt issues. These debt issues include a pre-construction loan from DEP of $32,500 and a credit-line account of $80,000. Based on discussions with the utility, Sunshine asserted that the credit-line balance of $80,000 is incorrect. The utility stated that in December 2001, its bank erroneously credited this credit-line account by $40,000. Sunshine has provided support documentation that shows the bank correcting the credit-line balance by debiting the account by $40,000. Based on the above, staff recommends that long-term debt should be reduced by $20,000 ($40,000 divided by 2).

According to Sunshine's 2nd Amended Application, DEP has indicated that Sunshine is eligible for an additional loan of $1,442,814. The effective interest rates are 3.05% and 3.56% for the DEP pre-construction and the construction loans, respectively. Payments on these loans are to be made semiannually over a thirty-year period. Based on the above, staff recommends that the appropriate amount of long-term debt is $1,495,314.

ISSUE 9: What is the appropriate weighted average cost of capital for the test year-ended December 31, 2001?

RECOMMENDATION: Consistent with staff's other recommended adjustments, the appropriate weighted average cost of capital is 5.31%. (FLETCHER)

STAFF ANALYSIS: The capital structure consists of long-term debt, short-term debt, common equity, and customer deposits. As discussed previously, the low-interest loans from DEP have significantly increased the long-term debt component. As a result of this debt, the utility's equity ratio is 21.11%. Based on this equity ratio, Sunshine's cost of equity is capped at 11.34%, with a range of 10.34% to 12.34%. Consistent with staff's other recommended adjustments, the appropriate weighted average cost of capital is 5.31%, with a range of 5.10% to 5.52%. Staff's calculation of the cost of capital and our capital structure adjustments are shown on Schedule No. 2-A and 2-B, respectively.

NET OPERATING INCOME

ISSUE 10: Should revenues be imputed for additional customers?

RECOMMENDATION: Yes. The Commission should impute test year revenues of $3,834.

STAFF ANALYSIS: As discussed in Issue 4, staff is recommending that the CIAC should be imputed for an additional 38 customers. Consistent with staff's recommendation in Issue 4, staff also believes that revenues should be imputed for these additional customers. Using the currently authorized rates and assuming a 10,000 monthly gallons usage, the imputed revenues for the additional 38 ERCs are $3,834. As such, staff recommends that the Commission should impute test year revenues of $3,834.

ISSUE 11: Should an adjustment be made to the salary levels of the utility's officers?

RECOMMENDATION: Yes. The salaries of the president and vice-president should be reduced by $46,498 and $28,503, respectively. (FLETCHER)

STAFF ANALYSIS: The following is staff's analysis regarding the appropriate salary levels of the utility's president and vice-president.

President's Salary

By Order No. PSC-94-0738-FOF-WU, issued June 15, 1994, in Docket No. 900386-WU, the Commission complied with the First District Court of Appeals' mandate by setting the president's 1990 salary at $69,055. This 1990 salary level was for 100% of the president's time spent under this capacity. In response to a data request by staff auditors, the utility stated that the duties and responsibilities of Sunshine's officers have not changed since its last rate case.

According to Sunshine's 2001 annual report, the president's salary was $91,731 for 50% of his time spent under this capacity. When annualizing the 2001 salary level, it represents an effective annualized salary of $183,462. Given the Commission approved 1990 level of salary and the fact that the duties of the president have not changed since the last rate case, staff believes the 2001 president's salary is excessive.

In determining an appropriate salary for the president, staff believes it is appropriate to escalate the above 1990 salary by the Commission approved price index rate adjustment factors from 1991 to 2001. This would yield an appropriate salary level of $90,465 for 100% of time spent under this capacity. As stated above, the president currently only spends 50% under this capacity. Thus, staff believes that the appropriate salary should be $45,233 ($90,465 divided by 2). Based on the above, staff recommends that the president's salary should be decreased by $46,498 ($91,731 less $45,233).

Vice-President's Salary

By Order No. 25722, issued February 13, 1992, in Docket No. 900386-WU, the Commission found that the appropriate 1990 salary for the vice-president was $17,144. In that proceeding, the utility agreed that the vice-president worked part-time. According to Sunshine's 2001 annual report, the vice-president's salary is $50,962 for 50% of her time spent in this capacity. When annualizing the 2001 salary level, the amount recorded by Sunshine represents an effective annualized salary of $101,942. As stated above, the utility indicated that the duties and responsibilities of Sunshine's officers have not changed since its last rate case. In light of the above, staff believes the 2001 vice-president's salary is excessive.

In determining an appropriate salary level for the vice-president, staff believes it is appropriate to escalate the above 1990 salary by the Commission approved indexes from 1991 to 2001. This would yield a salary level of $20,459. Therefore, staff recommends that the vice-president's salary should be decreased by $28,503 ($50,962 less $20,459).

ISSUE 12: What are the appropriate pro forma expenses associated with plant additions and retirements?

RECOMMENDATION: The appropriate pro forma expenses associated with plant additions and retirements are $912. (FLETCHER, WETHERINGTON)

STAFF ANALYSIS: According to its 2nd Amended Application, the utility reflected the following pro forma expenses, including reductions in expenses associated with retirement of the contaminated wells.

Expense	Increases from Additions	Decreases from Retirements	Net Effect
Chemicals and Supplies	$15,000	($16,221)	($1,221)
Purchased Power	12,000	(11,327)	673
Miscellaneous Expenses	19,000	(14,668)	4,332
Rental of Real Property	0	(2,872)	(2,872)
Total	$46,000	($45,088)	**$912**

Based on staff's review, the above estimated pro forma expenses associated with additions and retirements appear to be reasonable. As such, staff recommends that the appropriate pro forma expenses associated with plant additions and retirements are $912.

ISSUE 13: What is the appropriate amount of rate case expense for this docket?

RECOMMENDATION: If this project is approved, total rate case expense of $74,929 should be allowed. This results in a decrease of $40,409 to the utility's updated rate case expense request. The total allowable rate case expense should be amortized over four years, pursuant to Section 367.0816, Florida Statutes, at $18,732 per year. (FLETCHER)

STAFF ANALYSIS: The utility included a $35,000 estimate in its original filing on December 23, 1999, for current rate case expense: $20,000 for legal and $15,000 for accounting. The utility submitted no additional rate case expense. Although staff filed a recommendation for the November 28, 2000 Agenda Conference, it was deferred and was never presented at agenda. Staff met with the utility and the Office of Public Counsel (OPC), and, subsequent to that meeting, the utility filed a 2nd Amended Application on June 7, 2001. In that revision the utility requested rate case expense of $115,338, an increase over the original of $85,338. That amended filing increased requested legal fees by $30,439, accounting fees by $19,207 and added an additional $30,439 for engineering. The original filing did not contain any requested rate case expense for engineering, only capitalized engineering expense in the plant additions.

As part of its analysis, staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete. On September 20, 2001, the utility submitted support documentation for its revised estimated rate case expense through completion of the Proposed Agency Action (PAA) process in the amount of $115,338. The components of the estimated rate case expense are as follows:

	ORIGINAL ESTIMATE	ACTUAL PER UTILITY	ADDITIONAL ESTIMATE	REVISED TOTAL
Legal Fees	$15,000	$42,112	$3,580	$45,692
Accounting Fees	20,000	32,548	6,659	39,207
Engineering	0	30,439	0	30,439
Total Rate Case Expense	$35,000	$106,059	$9,279	$115,338
Annual Amortization	$8,750			$28,835

On September 20, 2001, the utility submitted the detail behind the actual rate case expense incurred to date. Staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Staff believes that the revised estimate includes $40,409 incurred to file two sets of revisions to its application in this limited proceeding. This includes $27,239 in legal fees and $13,170 of accounting fees. These are the fees incurred between August 2000, and the present. Staff believes that these fees were incurred to duplicate the original application and did not add anything that could not have been included in the original. The actual project has remained relatively unchanged. The ratepayers are being asked to pay for three filings for the same project. Staff believes that these amounts are unreasonable.

Section 367.081(7), Florida Statutes, states that the Commission "shall disallow all rate case expenses determined to be unreasonable. No rate case expense determined to be unreasonable shall be paid by the customer." Moreover, the Commission has broad discretion with respect to the allowance of rate case expense. Meadowbrook Utility Systems, Inc. v. FPSC, 518 So. 2d 326 (Fla. 1st DCA 1988).

Staff believes that the decision to file this limited proceeding was the utility's choice. It then made a management decision to amend the filing. After discussions with staff, the utility submitted yet another completely revised filing which did little to change the actual project, but did add a used and useful adjustment. Staff believes that these additional and duplicative costs to amend and then to completely re-do the filing should not have been incurred and should not be passed on to the ratepayers. This is consistent with Commission decisions in Order No. PSC-00-1528-PAA-WU, issued August 23, 2000, in Docket No. 991437-WU for Wedgefield Utilities, Inc.; Order No. PSC-00-2054-PAA-WS, issued October 27, 2000, in Docket No. 990939-WS for Indiantown Company, Inc.; and Order No. PSC-01-0327-PAA-WU, issued February 6, 2001, in Docket No. 000295-WU for Placid Lakes Utilities, Inc. In all three of those cases, the Commission denied recovery of duplicative rate case expense associated with filing revisions of minimum filing requirements.

Based on the above, staff recommends that the appropriate total rate case expense is $74,929. A breakdown of this amount is as follows:

	UTILITY REVISED ACTUAL & ESTIMATE	STAFF ADJUSTMENTS	STAFF ADJUSTED BALANCE
Legal Fees	$45,692	($27,239)	$18,453
Accounting Fees	39,207	(13,170)	26,037
Engineering Fees	30,439	0	30,439
Total Rate Case Expense	$115,338	($40,409)	$74,929
Annual Amortization	$28,835		$18,732

The total allowable rate case expense should be amortized over four years, pursuant to Section 367.0816, Florida Statutes, at $18,732 per year. Based on the data provided by the utility and the staff recommended adjustments mentioned above, staff recommends that the utility's requested rate case expense should be reduced by $40,409.

ISSUE 14: What is the appropriate net operating income (NOI) before any calculation for any increase for this docket?

RECOMMENDATION: Based on recommended adjustments discussed in previous issues, the appropriate test year operating income is $33,678. (FLETCHER)

STAFF ANALYSIS: This issue is subject to the resolution of other issues related to revenues and operating expenses and rate base, and is primarily a "fall-out" number. Based on recommended adjustments discussed in previous issues, staff recommends that the test year operating income before calculation for an increase is $33,678. Schedules Nos. 3-A and 3-B depict staff's NOI calculation and adjustments, respectively.

REVENUE REQUIREMENT

ISSUE 15: What is the appropriate revenue requirement?

RECOMMENDATION: The following revenue requirement should be approved: (FLETCHER)

	TOTAL	$ INCREASE	% INCREASE
Water	$837,368	$46,813	5.92%

STAFF ANALYSIS: The issue is a summary computation that is subject to the resolution of other issues related to rate base, cost of capital, and rate base, and is primarily a "fall-out" number. The computation of the revenue requirement is shown on Schedule No. 3-A and is $837,368, which represents an increase of $46,813 or 5.92%. Staff's adjustments are shown on Schedule No. 3-B.

RATES

ISSUE 16: What are the appropriate water rates?

RECOMMENDATION: Based on recommended adjustments discussed in previous issues, the recommended rates should be designed to allow the utility the opportunity to generate annual operating revenues of $837,368, which represents an increase of $46,813. To generate this revenue increase, the present service rates should be increased by 6.11%. The utility should be required to file revised tariff sheets and a proposed customer notice to reflect the appropriate rates pursuant to Rule 25-22.0407(10), Florida Administrative Code. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The rates should not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice. (FLETCHER)

STAFF ANALYSIS: Staff recommends that rates should be designed to allow the utility the opportunity to generate annual operating revenues of $837,368, which represents an increase of $46,813. To determine the appropriate increase to apply to the service rates, miscellaneous service and other revenues should be removed from the test year revenues. The calculation is as follows:

1	Total Test Year Revenues	$790,555
2	Less: Miscellaneous & Other Revenues	23,995
3	Test Year Revenues from Service Rates	$766,560
4	Revenue Increase	$46,813
5	% Service Rate Increase (Line 4/Line 3)	6.11%

This increase of 6.11% in rates should be applied as an across the board increase to present service rates.

The utility should be required to file revised tariff sheets and a proposed customer notice to reflect the appropriate rates pursuant to Rule 25-22.0407(10), Florida Administrative Code. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-

30.475(1), Florida Administrative Code, provided the customers have received notice. The rates should not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice.

A comparison of the utility's present rates, Sunshine's requested rates, and staff's recommended rates are shown on Schedule No. 4.

ISSUE 17: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of amortized rate case expense as required by Section 367.0816, Florida Statutes?

RECOMMENDATION: The water rates should be reduced as shown on Schedule No. 5, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year recovery period, pursuant to Section 367.0816, Florida Statutes. The utility should be required to file revised tariff sheets and a proposed customer notice setting forth the lower rates and the reason for the reduction not later than one month prior to the actual date of the required rate reduction. (FLETCHER)

STAFF ANALYSIS: Section 367.0816, Florida Statutes, requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees. The reduction in revenues will result in the rates recommended by staff on Schedule No. 5.

The utility should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. Sunshine also should be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction.

If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

ISSUE 18: Should the utility's service availability charges be revised?

RECOMMENDATION: No. The utility's existing service availability charges are appropriate. (FLETCHER, WETHERINGTON)

STAFF ANALYSIS: At the November 6, 2001 Agenda Conference, the Commission had questions regarding: 1) whether the utility's service territory should be extended to areas in the immediate proximity of the proposed centralized water system that are not currently authorized in Sunshine's certificate; and 2) whether the utility's service availability charges should be increased as an alternative to fund the proposed centralized water system.

Extension of Service Territory - By Order No. PSC-01-2312-PCO-WU, issued November 26, 2001, the Commission ordered staff to file another recommendation to address the need for possible certificate amendments. Based on discussions with the utility, Sunshine indicated that it had inquired, through ads in the local newspaper, whether there were any planned developments in the immediate proximity of the proposed centralized water system that are outside of the utility's certificated area. Sunshine asserted it has received no responses of any planned developments in this area. Based on information received from Marion County, the area is predominately zoned as agricultural, and there are no new developments or building permits in this area. Therefore, with the exception of the territory extension discussed in Issue 4, staff believes that there is no need for the utility to file for an extension of service territory for areas in the immediate proximity of the proposed centralized water system at this time.

Service Availability Charges - The utility's existing service availability charges total $520, including a meter installation fee. Rule 25-30.580, Florida Administrative Code, states that a utility's service availability policy shall be designed in accordance with the following guidelines:

> (1) The maximum amount of contributions-in-aid-of-construction, net of amortization, should not exceed 75% of the total original cost, net of accumulated depreciation, of the utility's facilities and plant when the facilities and plant are at their designed capacity; and

(2) The minimum amount of contributions-in-aid-of-construction should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution and sewage collection systems.

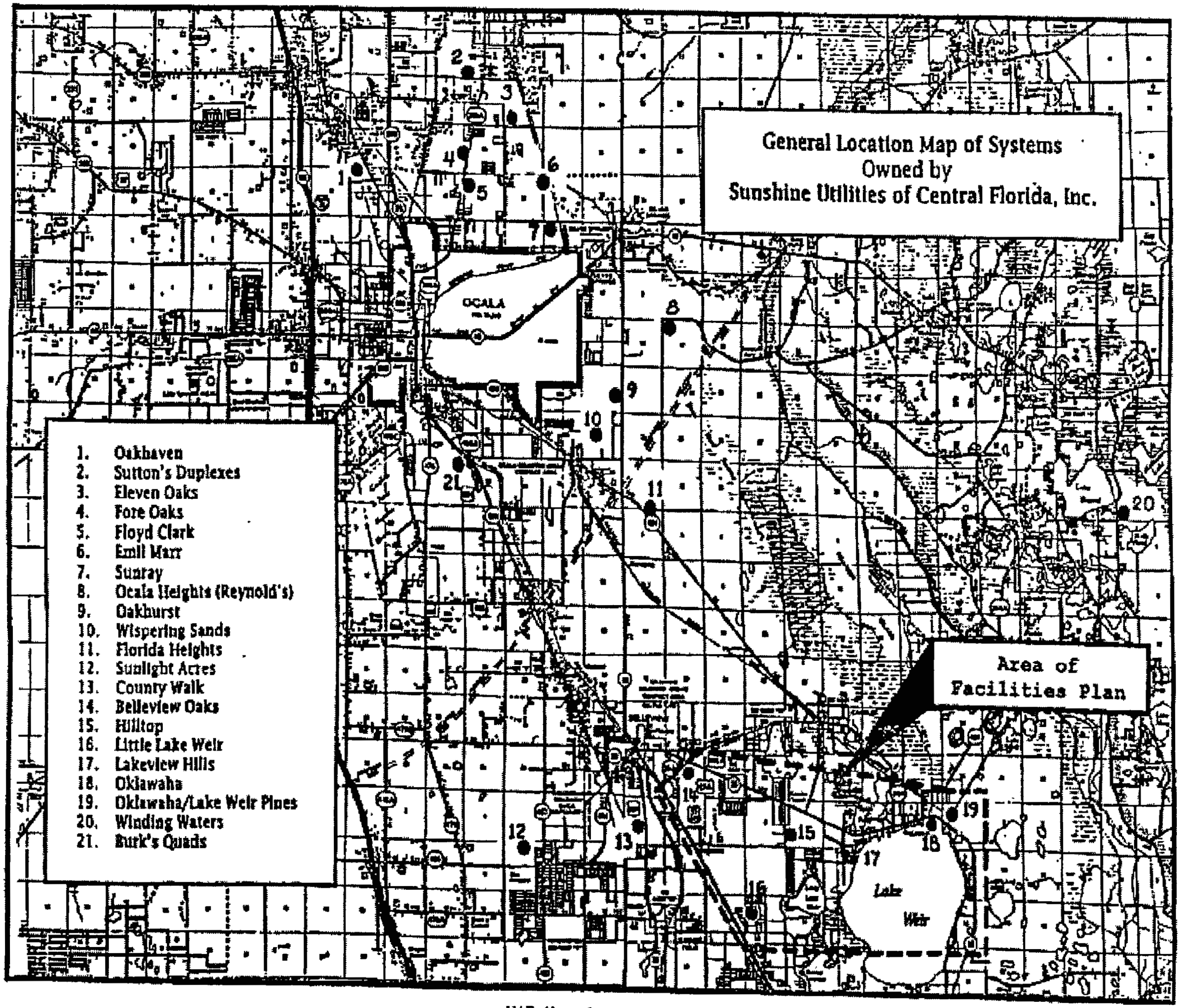
Before any pro forma plant adjustments are taken into account, the utility's CIAC ratio is 81%. Staff notes that the utility's Water Facilities Plan briefly outlines other planned plant improvements, including other centralized water systems. However, the utility does not address any specific time tables and cost estimates for these other planned improvements. As such, staff's analysis of service availability charges only considers the pro forma plant for the proposed centralized water system and the facilities required to serve the additional 38 ERCs that were discussed earlier in this recommendation. After this pro forma plant is accounted for, Sunshine's CIAC ratio is 52%.

The utility experienced a growth rate of 3% in 2001. Staff utilized this growth rate and calculated the current system demand based on flows from the utility's 2001 annual report. According to staff's review, the utility will not reach its designed capacity in 10 years. In addition, Sunshine's CIAC ratio will be approximately 71% in 10 years. Based on the above, staff believes that the utility's existing service availability charges are in compliance with Rule 25-30.580, Florida Administrative Code. As such, staff recommends that the utility's existing service availability charges are appropriate.

ISSUE 19: Should this docket be closed?

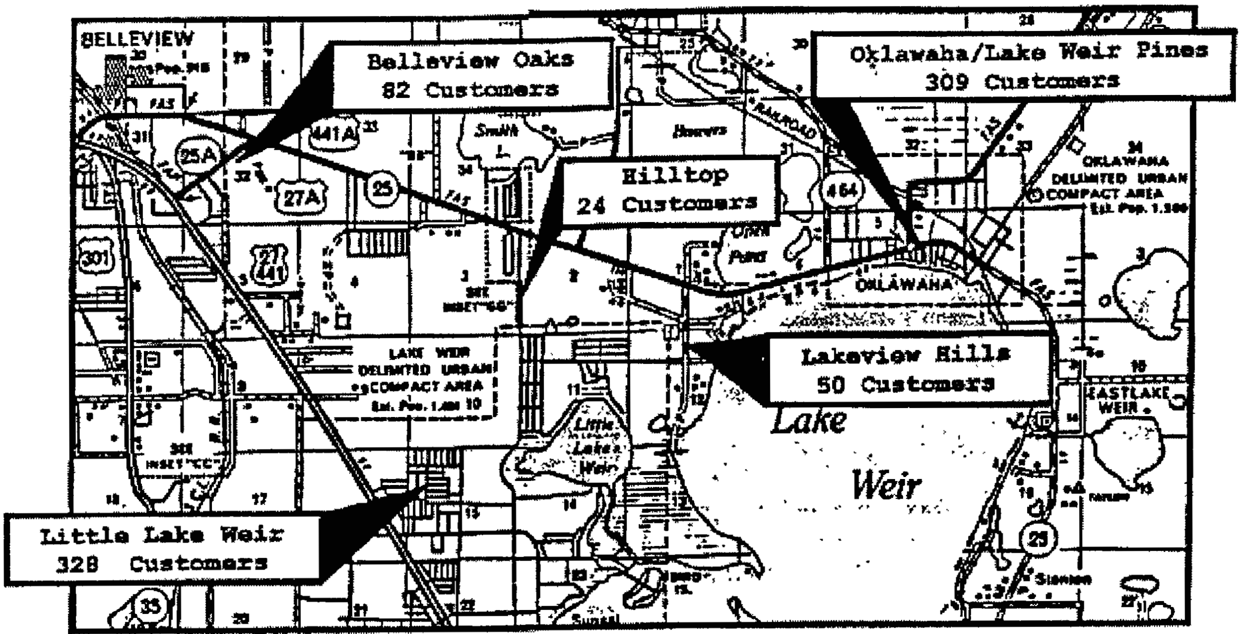
RECOMMENDATION: Yes. If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, this docket should be closed upon the issuance of a consummating order, and staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff. (FLETCHER, JAEGER)

STAFF ANALYSIS: If no person whose substantial interests are affected by the proposed agency action files a timely request for a Section 120.57, Florida Statutes, hearing within the twenty-one day protest period, no further action will be required and this docket should be closed upon the issuance of a consummating order, and staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff.


General Location Map of Systems
Owned by
Sunshine Utilities of Central Florida, Inc.
1. Oakhaven
2. Sutton's Duplexes
3. Eleven Oaks
4. Fore Oaks
5. Floyd Clark
6. Emil Marr
7. Sunray
8. Ocala Heights (Reynold's)
9. Oakhurst
10. Wispering Sands
11. Florida Heights
12. Sunlight Acres
13. County Walk
14. Belleview Oaks
15. Hilltop
16. Little Lake Weir
17. Lakeview Hills
18. Oklawaha
19. Oklawaha/Lake Weir Pines
20. Winding Waters
21. Burk's Quads
Area of
Facilities Plan
OCALA
Lake
Weir

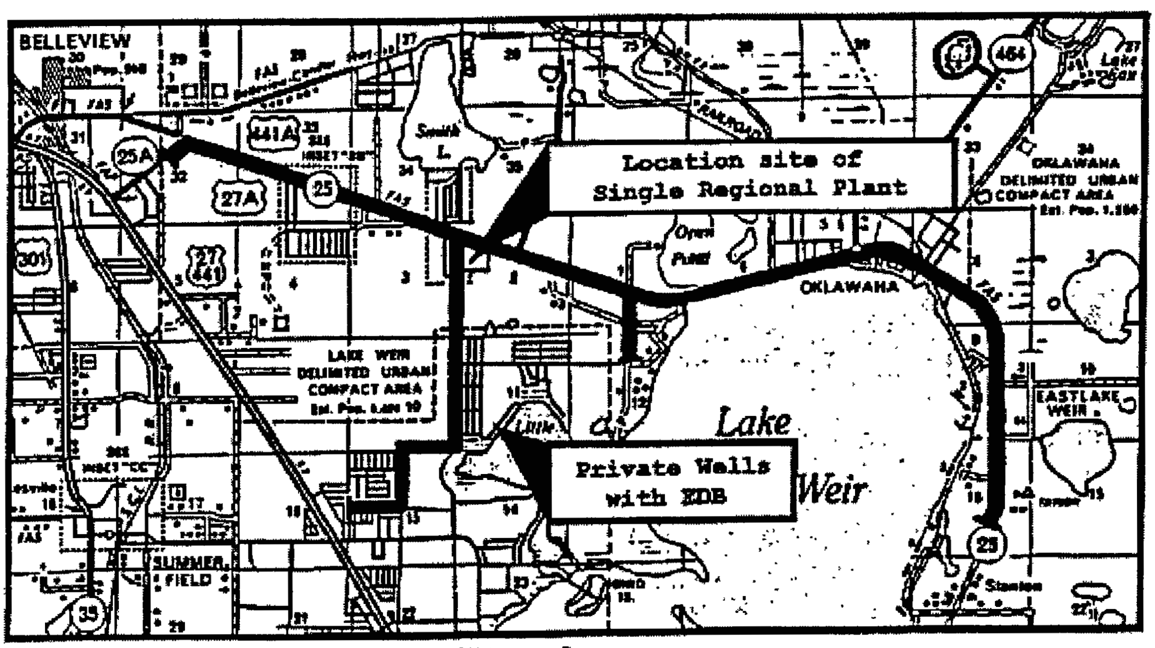
Map No. 1

Existing Five Independent Water Systems



MAP No. 2

Proposed Plant and Regional Transmission System



MAP No. 3

Attachment A

WATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 992015-WU - Sunshine Utilities of Central Fla. Inc.

1) **Firm Reliable Capacity of Plant** 737,600 gallons per day

2) **Test Year Water Demand** 391,173 gallons per day

3) **Fire Flow Capacity** 120,000 gallons per day

(Fire Flow: 1000 gallons per minute for 2 hours. Sunshine is providing fire flow in limited areas)

4) **Growth** (gallons per day)

Year	Demand/5 systems	Demand/DEP-Mar. Co.	Total
2001	391,173	0	
2002	402,909	0	
2003	414,996	17,086	
2004	427,446	17,599	
2005	440,269	18,127	
2006	453,477	18,670	472,147

Growth = 472,147 - 391,173 = 80,974 gallons per day

5) **Excessive Unaccounted for Water** 0 gallons per day

USED AND USEFUL FORMULA

[(2) + (3) + (4) - (5)]/1 = Used and Useful

[391,173+120,000+80,974-0]/737,600 = 80.3% Used and Useful

Attachment B

WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA

Docket No. 992015-WU - Sunshine Utilities of Central Fla. Inc.

1) **Capacity of System** (Number of Potential Customers without expansion)	1927 ERCs
2) **Test Year ERCs**	870 ERCs
3) **Growth**	

Year	ERC/5 systems	ERC/DEP-Mar. Co.	Total
2001	870	0	
2002	896	0	
2003	923	38	
2004	951	39	
2005	980	40	
2006	1,009	42	1,051

Growth = 1,051 - 870 = 181 ERC

USED AND USEFUL FORMULA

[(2) + (3)]/ (1) = Used and Useful

[870 + 181] / 1,927 = 54.5%

SUNSHINE UTILITIES, INC. **SCHEDULE NO. 1-A**
SCHEDULE OF WATER RATE BASE - ALTERNATIVE RECOMMENDATION **DOCKET NO. 992015--WU**
SIMPLE AVERAGE TEST YEAR ENDED 12/31/01

	DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST-MENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUST-MENTS	STAFF ADJUSTED TEST YEAR
	HISTORICAL RATE BASE					
1	UTILITY PLANT IN SERVICE	$2,043,440	$0	$2,043,440	($15,036)	$2,028,404
2	LAND & LAND RIGHTS	61,724	0	61,724	0	61,724
3	NON-USED & USEFUL COMPONENTS	0	0	0	0	0
4	ACCUMULATED DEPRECIATION	(961,441)	0	(961,441)	15,036	(946,405)
5	CIAC	(1,568,654)	0	(1,568,654)	(15,453)	(1,584,107)
6	AMORTIZATION OF CIAC	639,234	0	639,234	479	639,713
7	WORKING CAPITAL ALLOWANCE	82,101	0	82,101	(7,191)	74,909
	SUBTOTAL HISTORICAL RATE BASE	$296,403	$0	$296,403	($22,166)	$274,237
	PRO FORMA RATE BASE					
8	PLANT ADDITIONS & RETIREMENTS			$1,915,954	$195,222	$2,111,176
9	NON-USED & USEFUL COMPONENTS			(528,474)	35,120	($493,354)
10	ACCUMULATED DEPRECIATION			31,361	75,851	$107,212
11	CIAC			(608,580)	(178,370)	($786,950)
12	AMORTIZATION OF CIAC			(14,439)	(37,716)	(52,155)
	SUBTOTAL PRO FORMA RATE BASE			$795,822	$90,107	$885,929
	TOTAL RATE BASE			$1,092,225	$67,941	$1,160,166

SUNSHINE UTILITIES, INC. **SCHED. NO. 1-B**
ADJUSTMENTS TO RATE BASE - ALTERNATIVE RECOMMENDATION **DOCKET NO. 992015--WU**
SIMPLE AVERAGE TEST YEAR ENDED 12/31/01

	EXPLANATION	WATER
	PLANT IN SERVICE	
1	To reflect the retirement of a 1993 Dodge van.	($15,036)
2	To reflect the appropriate pro forma plant.	195,222
	Total	$180,186
	NON-USED AND USEFUL	
	To reflect appropriate non-used and useful component.	$35,120
	ACCUMULATED DEPRECIATION	
1	To reflect the retirement of a 1993 Dodge van.	$15,036
2	To reflect the appropriate accumulated depreciation of pro forma plant.	75,851
	Total	$90,887
	CIAC	
1	To transfer inactive advances to CIAC.	($15,453)
2	To reflect the appropriate pro forma CIAC.	(178,370)
	Total	($193,823)
	ACCUM. AMORT. OF CIAC	
1	To transfer inactive advances to CIAC.	$479
2	To reflect the appropriate accumulated amortization of pro forma CIAC.	(37,716)
	Total	($37,237)
	WORKING CAPITAL	
	To reflect the appropriate working capital allowance.	($7,191)

SUNSHINE UTILITIES, INC. SCHEDULE NO. 2-A
CAPITAL STRUCTURE - ALTERNATIVE RECOMMENDATION DOCKET NO. 992015--WU
SIMPLE AVERAGE TEST YEAR ENDED 12/31/01

	DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUST-MENTS (EXPLAIN)	PRO RATA ADJUST-MENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
	PER UTILITY 2001 - SIMPLE AVERAGE							
1	LONG TERM DEBT	$72,500	$1,442,814	($736,748)	$778,566	71.28%	3.59%	2.56%
2	SHORT-TERM DEBT	2,168	0	(1,054)	1,114	0.10%	8.75%	0.01%
3	PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%
4	COMMON EQUITY	536,290	0	(260,745)	275,545	25.23%	11.34%	2.86%
5	CUSTOMER DEPOSITS	37,000	0	0	37,000	3.39%	6.00%	0.20%
6	**TOTAL CAPITAL**	$647,958	$1,442,814	($998,547)	$1,092,225	100.00%		5.63%
	PER COMMISSION 2001 - SIMPLE AVERAGE							
7	LONG TERM DEBT	$1,515,314	($20,000)	($618,317)	$876,997	75.59%	3.59%	2.71%
8	SHORT-TERM DEBT	2,168	0	(896)	1,272	0.11%	8.75%	0.01%
9	PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%
10	COMMON EQUITY	536,290	(118,729)	(172,663)	244,898	21.11%	11.34%	2.39%
11	CUSTOMER DEPOSITS	37,000	0	0	37,000	3.19%	6.00%	0.19%
12	**TOTAL CAPITAL**	$2,090,772	($138,729)	($791,877)	$1,160,166	100.00%		5.31%

	LOW	HIGH
RETURN ON EQUITY	10.34%	12.34%
OVERALL RATE OF RETURN	5.10%	5.52%

SUNSHINE UTILITIES, INC. — **SCHED. NO. 2-B**
ADJUSTMENTS TO RATE BASE - ALTERNATIVE RECOMMENDATION — **DOCKET NO. 992015--WU**
SIMPLE AVERAGE TEST YEAR ENDED 12/31/01

	EXPLANATION	WATER
	LONG-TERM DEBT	
	To reflect the appropriate balance of credit-line with the bank.	($20,000)
	COMMON EQUITY	
1	To reflect the retirement of a 1993 Dodge van.	($2,506)
2	To reflect receivables from stockholders as a return on equity.	(116,223)
	Total	($118,729)

SUNSHINE UTILITIES, INC.
STATEMENT OF WATER OPERATIONS - ALTERNATIVE RECOMMENDATION
SIMPLE AVERAGE TEST YEAR ENDED 12/31/01

SCHEDULE NO. 3-A
DOCKET NO. 992015--WU

	DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST-MENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUST-MENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1	**OPERATING REVENUES**	$786,721	$123,245	$909,966	($119,411)	$790,555	$46,813	$837,368
							5.92%	
	OPERATING EXPENSES:							
2	OPERATION & MAINTENANCE	$654,630	$29,747	$684,377	($85,103)	$599,274		$599,274
3	DEPRECIATION	26,367	20,089	46,456	(2,985)	43,471		43,471
4	AMORTIZATION	0	0	0	0	0		0
5	TAXES OTHER THAN INCOME	73,447	25,185	98,632	0	98,632	2,107	100,739
6	INCOME TAXES	0	0	0	15,500	15,500	16,823	32,323
7	**TOTAL OPERATING EXPENSES**	$754,444	$75,021	$829,465	($72,588)	$756,877	$18,929	$775,806
8	**OPERATING INCOME**	$32,277	$48,224	$80,501	($46,823)	$33,678	$27,883	$61,561
9	**RATE BASE**	$296,403		$1,092,225		$1,160,166		$1,160,166
10	**RATE OF RETURN**	10.89%		7.37%		2.90%		5.31%

SUNSHINE UTILITIES, INC. ADJUSTMENTS TO OPERATING INCOME - ALTERNATIVE RECOMMENDATION SIMPLE AVERAGE TEST YEAR ENDED 12/31/01		SCHED. NO. 3-B DOCKET NO. 992015--WU
	EXPLANATION	WATER
	OPERATING REVENUES	
1	Remove requested final revenue increase.	($123,245)
2	To impute revenues associated with additional customers.	$3,834
	Total	($119,411)
	OPERATION & MAINTENANCE EXPENSE	
1	To reflect appropriate salary levels of officers.	($75,001)
2	To amortize the appropriate amount of rate case expense.	(10,102)
	Total	($85,103)
	DEPRECIATION EXPENSE-NET	
1	To reflect the retirement of a 1993 Dodge van.	($2,506)
2	To transfer inactive advances to CIAC.	(479)
	Total	($2,985)
	INCOME TAXES	
	To adjust to test year income tax expense.	$15,550

SUNSHINE UTILITIES, INC. **SCHEDULE NO. 4**
WATER MONTHLY SERVICE RATES - ALTERNATIVE RECOMMENDATION **DOCKET NO. 992015--WU**
SIMPLE AVERAGE TEST YEAR ENDED 12/31/01

	Present Rates	Utility Requested Final	Staff Recomm. Final
Residential and General Service			
Base Facility Charge:			
Meter Size:			
5/8" x 3/4"	$7.90	$9.14	$8.38
1"	$19.74	$22.85	$20.95
1-1/4"	$29.60	$34.26	$31.41
1-1/2"	$39.48	$45.69	$41.89
2"	$63.16	$73.10	$67.02
3"	$126.52	$146.42	$134.25
4"	$197.37	$228.42	$209.42
6"	$394.75	$456.84	$418.86
Gallonage Charge, per 1,000 Gallons	$1.93	$2.23	$2.05
	Typical Residential Bills		
5/8" x 3/4" Meter Size			
3,000 Gallons	$13.69	$15.83	$14.53
5,000 Gallons	$17.55	$20.29	$18.62
10,000 Gallons	$27.20	$31.44	$28.86

SUNSHINE UTILITIES, INC. WATER SERVICE RATES - ALTERNATIVE RECOMMENDATION FOUR YEAR RATE REDUCTION SIMPLE AVERAGE TEST YEAR ENDED 12/31/01		SCHEDULE NO. 5 DOCKET NO. 992015--WU
Class	Recommended Final Rates	Decrease
Residential and General Service		
Base Facility Charge:		
Meter Size		
5/8" x 3/4"	$8.38	$0.20
1"	$20.95	$0.49
1 1/4"	$31.41	$0.74
1 1/2"	$41.89	$0.98
2"	$67.02	$1.57
3"	$134.25	$3.14
4"	$209.42	$4.91
6"	$418.86	$9.81
Gallonage Charge:		
All Usage Per 1,000 Gallons	$2.05	$0.05