



# 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:** February 8, 2010

**TO:** Shannon Hudson, Regulatory Analyst IV, Division of Economic Regulation

**FROM:** Clarence Prestwood, Chief of Auditing, Office of Auditing & Performance Analysis

**RE:** Docket No.: 090497-WU  
 Company Name: Sunrise Utilities, LLC  
 Company Code: WU870  
 Audit Purpose: Staff Assisted Rate Case  
 Audit Control No: 09-341-2-1

RECEIVED-PPSC  
 10 FEB - 9 11 9:10  
 COMMISSION CLERK

Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, it should send a response to the Office of Commission Clerk. There were no confidential work papers associated with this audit.

DNM/ip  
 Attachment: Audit Report

cc: (With Attachment)  
 Office of Auditing and Performance Analysis (File Folder)  
 Office of Commission Clerk  
 Office of the General Counsel

(Without Attachment)  
 Office of Auditing and Performance Analysis (Harvey, Tampa District Office, Miami District Office, Tallahassee District Office)

COMM. FILE NUMBER-DATE  
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**FLORIDA PUBLIC SERVICE COMMISSION  
OFFICE OF AUDITING AND PERFORMANCE ANALYSIS**

*Bureau of Auditing*

*Tampa District Office*

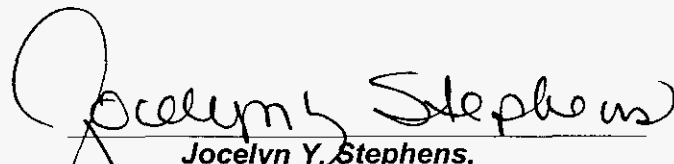
**SUNRISE UTILITIES, LLC**

**STAFF ASSISTED RATE CASE**

**HISTORICAL TEST YEAR ENDED December 31, 2009**

**DOCKET NO. 090497-WU  
AUDIT CONTROL NO. 09-341-2-1**

  
\_\_\_\_\_  
*Ron Mavrides, Audit Manager*

  
\_\_\_\_\_  
*Jocelyn Y. Stephens,  
Interim District Supervisor*

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**OFFICE OF AUDITING AND PERFORMANCE ANALYSIS  
AUDITOR'S REPORT**

**February 2, 2010**

**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 Economic Regulation in its audit service request dated December 1, 2009. We have applied these procedures to the attached schedules prepared by the audit staff in support of Sunrise Utilities, LLC's, request for a Staff Assisted Rate Case in Docket No. 090497-WU.

This audit was performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed upon procedures and the report is intended only for internal Commission use.

## OBJECTIVES AND PROCEDURES

### GENERAL

#### Utility Books and Records

*Objective:* To determine that the utility maintains its accounts and records in conformity with the National Association of Regulatory Utility Commissioner's (NARUC) Uniform System of Accounts. (USOA)

*Procedures:* We reviewed the utility's accounting system. We determined that the utility did not post the Commission ordered adjustments to its general ledger from Commission Order PSC-05-0308-PAA-WU (Docket 040159-WU). We also determined that the utility does not comply with the NARUC USOA. Audit Finding No. 1 discusses our findings on the utility's accounting system.

### RATE BASE

#### Utility Plant in Service (UPIS)

*Objective:* To determine that property exists and is owned by the utility. To determine that additions to UPIS are authentic, recorded at original cost, and properly classified in compliance with Commission rules and the NARUC USOA. To verify that the proper retirements of UPIS were made when a replacement item was put in service.

*Procedures:* We determined that only two plant items were acquired since the UPIS balance was established in Docket No. 040159-WU during the ownership transfer on February 10, 2004. Audit Finding No. 2 discusses our findings and recommended UPIS balance as of December 31, 2009.

#### Land

*Objective:* To determine that utility land is recorded at original cost and is owned or secured under a long-term lease.

*Procedures:* The utility's land balance during the last rate case was \$553. No additions or deletions to the land account have occurred since then.

#### Contributions-in-Aid-of-Construction (CIAC)

*Objective:* To determine that additions to CIAC are properly recorded in compliance with Commission rules and the NARUC USOA. To verify and insure that all donated property is properly accounted for and recorded as CIAC.

*Procedures:* We determined that no additions to CIAC have been added since the CIAC balance was established in Docket No.040159-WU during the ownership transfer on February 10, 2004. Audit Finding No. 3 discusses our findings and recommended CIAC balance as of December 31, 2009.

### Accumulated Depreciation

*Objective:* To determine that accruals to accumulated depreciation are properly recorded in compliance with Commission Rules and the NARUC USOA. To verify that depreciation expense accruals are calculated using the Commission's authorized rates and that retirements are properly recorded.

*Procedures:* Using the utility's accumulated depreciation balance that was established in Docket No. 040159-WU, we compiled accumulated depreciation accruals for the period February 10, 2004 through December 31, 2009 to determine the utility's accumulated depreciation balance as of December 31, 2009. Audit Finding No. 2 discusses our findings and recommended balances for accumulated depreciation and depreciation expense for December 31, 2009.

### Accumulated Amortization of CIAC

*Objective:* To determine that accruals to accumulated amortization of CIAC are properly recorded in compliance with Commission rules and the NARUC USOA.

*Procedures:* Using the utility's accumulated amortization of CIAC balance that was established in Docket No. 040159-WU, we compiled accumulated amortization of CIAC accruals for the period February 10, 2004 through the end of the test period to determine the utility's accumulated amortization of CIAC balance as of December 31, 2009. Audit Finding No. 3 discusses our findings and recommended accumulated amortization of CIAC for December 31, 2009.

### Working Capital Allowance

*Objective:* To determine that the utility's working capital allowance is properly calculated in compliance with Commission rules.

*Procedures:* We calculated the utility's working capital allowance as of December 31, 2009 using one-eighth of operation and maintenance expense as required by Commission Rule 25-30.433 (2), Florida Administrative Code (F.A.C.). Audit Finding No. 5 discusses our finding and recommended balance for Working Capital Allowance.

## NET OPERATING INCOME

### Revenues

*Objective:* To determine that revenues are properly recorded in compliance with the NARUC Uniform System of Accounts and are based on the utility's Commission approved tariff rates.

*Procedures:* We determined revenues for the 12-month period ending December 31, 2009, by obtaining water volume meter readings and applying the applicable tariff rates to each customer's meter reading. Audit Finding No. 4 discusses our findings for revenues.

### Operation and Maintenance Expense

*Objective:* To determine that operation and maintenance expenses are properly recorded in compliance with the NARUC USOA and were reasonable and prudent for ongoing utility operations.

*Procedures:* We compiled operation and maintenance expense using supporting documents provided by the utility. Where an invoice did not exist we used bank statements and cancelled checks to substantiate expenses. We obtained a full year of invoices for the plant operator, purchased power, chemicals and testing services. For contractors services we obtained a mix of invoices and cancelled checks. We reviewed all vendor invoices that were provided to determine proper amount, period, classification, NARUC account and recurring nature. Audit Finding No. 5 discusses our findings and recommended operation and maintenance expense for the 12-month period ending December 31, 2009.

### Taxes-Other-Than-Income (TOTI)

*Objective:* To determine what TOTI tax expense should be for the 12-month period ending December 31, 2009. Audit Finding No. 5 discusses our findings and recommended taxes other than income for the 12-month period ending December 31, 2009.

*Procedures:* We calculated the regulatory assessment fee based on the revenues calculated by staff. We also obtained the 2009 tangible property tax bill from the tax collectors office. No documentation was provided by the company for real estate taxes.

### Depreciation Expense

*Objective:* To determine depreciation expense is properly recorded in compliance with Commission Rules and that it accurately represents the depreciation of plant in service assets and amortization of contribution in aid of construction assets from ongoing utility operations based upon UPIS balances calculated by staff.

*Procedures:* We calculated depreciation expense and amortization of plant balances using the UPIS determined by staff. Audit Finding No. 2 discusses our findings and

recommended depreciation and amortization expense for the 12-month period ending December 31, 2009.



## **CAPITAL STRUCTURE**

### General

*Objective:* To determine that the components of the utility's capital structure and the respective cost rates used to arrive at the overall weighted cost of capital are properly recorded in compliance with Commission rules.

*Procedures.* Audit Finding No. 6 discusses our findings and recommended capital structure for the 12-month period ending December 31, 2009.

**AUDIT FINDING NO. 1**

**SUBJECT: UTILITY BOOKS AND RECORDS**

**AUDIT ANALYSIS:** The utility does not maintain its accounts using the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) as required by Rule 25-30.115, Florida Administrative Code and as ordered by the Commission in Order No. PSC-05-0308-PAA-WU. At the time of utility transfer of ownership, February 10, 2004, the accounts were set up as proper NARUC accounts, but immediately afterwards have reverted to a system not recognized as NARUC.

**CONCLUSION:** The utility should again be ordered to maintain accounting books and records in accordance with the NARUC USOA.

## **AUDIT FINDING NO. 2**

### **SUBJECT: UTILITY PLANT IN SERVICE (UPIS), ACCUMULATED DEPRECIATION, AND DEPRECIATION EXPENSE**

#### **AUDIT ANALYSIS:**

In our analysis of UPIS, we determined that the utility did not make the adjustment to restate its plant balances as required in Commission Order PSC-05-0308-PAA-WU, Docket No. 040159-WU. To correct this non-compliance, staff calculated an adjustment to reduce the plant balance as of December 31, 2008 by \$77,645.

The utility also provided documentation supporting two plant additions since the 2004 transfer. These additions were replacements of existing plant and increased plant by \$23,017. The adjustment to reduce the UPIS for associated retirements is \$17,263.

The total adjustment to the UPIS is a reduction of \$71,891 as of December 31, 2009.

We calculated annual depreciation expense and compiled accumulated depreciation accruals for the period February 10, 2004 through the end of the test year to determine the utility's accumulated depreciation balance as of December 31, 2009. We depreciated the plant balances using the depreciation rates prescribed in Commission Rule 25-30.140 (1) F.A.C. Based on our calculations, the UPIS and accumulated depreciation balances are \$104,437 and (\$48,711), respectively, as of December 31, 2009. Depreciation expense for the 12-month period ending December 31, 2009 is \$4,331.

<u>Acct. No.</u>	<u>Account Description</u>	<u>Plant in Service</u>	<u>Accumulated Depreciation</u>	<u>Depreciation Expense</u>
301.00	Organization	\$ 750	\$ (194)	\$ 19
304.00	Structures & Improvements	5,169	(3,179)	191
307.00	Wells and Springs	16,972	(11,609)	629
310.00	Power Generation Equipment	14,078	(1,023)	521
311.00	Pumping Equipment	17,301	425	937
320.00	Water Treatment Equipment	4,055	(3,928)	239
330.00	Distribution Reservoirs & Standpipes	21,485	(12,721)	651
331.00	Transmission & Distribution	12,393	(6,661)	326
334.00	Meter and Meter Installations	9,846	(7,048)	579
348.00	Other Tangible Plant	2,388	(2,773)	239
	<b>Total</b>	<u>\$ 104,437</u>	<u>\$ (48,711)</u>	<u>\$ 4,331</u>

**EFFECT ON THE FILING:** The utility's UPIS and accumulated depreciation balances are \$104,437 and (\$48,711), respectively, and test year depreciation expense is \$4,331 as of December 31, 2009.

**EFFECT ON THE GENERAL LEDGER:** The utility should adjust its general ledger and annual report to the balances determined above.

### **AUDIT FINDING NO. 3**

#### **SUBJECT: CONTRIBUTIONS IN AID OF CONSTRUCTION AND ACCUMULATED AMORTIZATION OF CIAC**

**AUDIT ANALYSIS:** In Docket No. 040159-WU, the Commission established a CIAC balance of (\$12,393) and an accumulated amortization of CIAC of \$6,214. This was for Transmission/Distribution Mains (Account 331). No other CIAC was added between February 10, 2004 and December 31, 2009. Based on our findings discussed below, the utility's CIAC and accumulated amortization of CIAC balances are (\$12,393) and \$8,170, respectively, as of December 31, 2009.

We calculated amortization based on using the balance from Order No. PSC-05-0308-PAA-WU and applying the annual composite depreciation rate as prescribed in Commission Rule 25-30.140(9) F.A.C. We compiled CIAC amortization accruals for the period February 10, 2004 through December 31, 2009 to determine the utility's accumulated amortization of CIAC balance as of December 31, 2009.

Additionally, we calculated \$326 for CIAC amortization for the 12-month period ending December 31, 2009.

**EFFECT ON THE FILING:** The utility's CIAC and accumulated amortization of CIAC balances are (\$12,393) and \$8,170, respectively, and the test year amortization is \$326 as of December 31, 2009.

**EFFECT ON THE GENERAL LEDGER:** The utility should adjust its general ledger and annual report to the balances determined above.

**AUDIT FINDING NO. 4**

**SUBJECT: REVENUES**

**AUDIT ANALYSIS:** The utility provides water service for approximately 243 residential and one general service customer. Sample bills were recalculated for both residential and general service customers. The residential customers were incorrectly billed at \$2.46 per 1000 gallon for usage over 10,000 gallons, instead of the tariff rate of \$4.92 per 1000 gallon for usage over 10,000 gallons. The general customer was incorrectly billed at a rate not approved in their tariff. Both billings errors resulted in revenues being under billed.

We calculated the utility's water revenues to be \$67,691 for the 12-month period ending December 31, 2009, as shown on the following schedule.

<u>Operating Revenues</u>	
Residential	\$ 67,364
General Service	267
	<u>\$ 67,631</u>
Other Revenues (Reconnection Fees)	60
Total Revenues	<u><u>\$ 67,691</u></u>

**EFFECT ON THE FILING:** The utility's water revenues are \$67,691 for the 12-month period ending December 31, 2009.

**EFFECT ON THE GENERAL LEDGER:** None.

The following schedule details the revenues from residential and general service customers.

## Residential

<u>Gallons</u>	<u>Number of Bills</u>	<u>Gallons Used</u>	<u>Base</u>	<u>Water Usage Rates</u>			<u>Total Bill</u>
			<u>Rate 10.10</u>	<u>Level 1 1.64</u>	<u>Level 2 2.46</u>	<u>Level 3 4.92</u>	
-	125	-		-			\$ 1,263
1-1000	198	93,456	\$ 2,000	\$ 153			2,325
1001-2000	270	413,721	2,727	679			3,613
2001-3000	314	789,927	3,171	1,295			4,716
3001-4000	379	1,327,735	3,828	2,177			6,314
4001-5000	344	1,542,083	3,474	2,529			6,295
5001-6000	290	1,593,009	2,929	2,378	\$ 352		5,659
6001-7000	205	1,330,884	2,071	1,681	752		4,504
7001-8000	183	1,370,176	1,848	1,501	1,120		4,469
8001-9000	111	944,318	1,121	910	958		2,989
9001-10,000	107	1,019,692	1,081	877	1,192		3,150
10,001-11,000	75	800,438	758	615	1,047	\$ 248	2,667
11,001-12,000	42	471,050	424	344	642	251	1,662
12,001-13,000	50	622,167	505	410	916	601	2,432
13,001-14,000	28	393,230	283	230	623	557	1,692
14,001-15,000	21	287,809	212	172	450	383	1,217
15,001-16,000	26	403,160	263	213	672	704	1,852
16,001-17,000	13	212,969	131	107	364	408	1,010
17,001-18,000	12	208,570	121	98	365	436	1,021
18,001-19,000	9	165,250	91	74	296	370	831
19,001-20,000	7	136,713	71	57	250	328	707
20,001-21,000	8	163,840	81	66	305	412	864
21,001-22,000	10	215,395	101	82	407	568	1,158
22,001-23,000	4	89,699	40	33	171	245	489
23,001-24,000	3	70,970	30	25	138	202	394
24,001-25,000	4	97,890	40	33	192	285	550
25,001-26,000	2	50,252	20	16	99	149	284
26,001-27,000	2	53,730	20	16	108	166	310
27,001-28,000	3	82,185	30	25	165	257	477
28,001-29,000	3	85,160	30	25	173	271	499
29,001-30,000	-	-	-	-	-	-	-
30,001-31,000	1	30,710	10	8	63	102	183
31,001-32,000	1	31,790	10	8	66	107	191
34,001-35,000	2	69,020	20	16	145	241	423
35,001-36,000	2	70,800	20	16	150	250	436
-	-	-	-	-	-	-	-
39,001-40,000	1	39,160	10	8	84	143	246
40,001-41,000	1	40,450	10	8	87	150	255
-	-	-	-	-	-	-	-
43,001-44,000	1	43,590	10	8	95	165	278
-	-	-	-	-	-	-	-
45001-46000	1	45,820	10	8	100	176	295
46001-47000	1	46,210	10	8	101	178	298
-	-	-	-	-	-	-	-
83,001-84,000	1	83,780	10	8	194	363	575
			<u>\$ 28,886</u>	<u>\$ 16,920</u>	<u>\$ 12,841</u>	<u>\$ 8,717</u>	<u>\$ 67,364</u>

**General**

<u>Gallons</u>	<u>Number of Bills</u>	<u>Gallons Used</u>	<u>Base Rate \$10.10</u>	<u>Tariff \$2.51</u>	<u>Total Bill</u>
0	0	0	0	0	0
1-1000	0	0	0	0	0
1001-2000	0	0	0	0	0
2001-3000	0	0	0	0	0
3001-4000	3	11620	\$30	\$29	\$59
4001-5000	5	22040	51	55	106
5001-6000	3	17830	30	45	75
6001-7000	1	6570	10	16	27
			<u>\$121</u>	<u>\$146</u>	<u>\$267</u>



## AUDIT FINDING NO. 5

### SUBJECT: OPERATION AND MAINTENANCE EXPENSE and TAXES OTHER THAN INCOME

**AUDIT ANALYSIS:** We determined the operation and maintenance expense for the 12-month period ended December 31, 2009 to be \$33,256.

We determined this balance based on the invoices provided. In instances where the invoices were not provided by the utility we used bank statements and cancelled checks as evidence of provided services and expenses.

We compiled the account balances using the utility's transaction activities and information obtained from vendors shown below.

#### Account No. 610 Purchased Power

We acquired the power bills for the utility TECO for the test year. Non-utility items were removed from the totals. Total purchased power expense is \$3,129.

#### Account No. 618 Chemicals

We acquired a schedule of the actual chemicals purchased for the test year ended December 31, 2009 from the vendor. Total chemicals expense is \$1,443.

#### Account No. 620 Materials and Supplies

Total materials and supplies were \$150.

#### Account No. 631 Contractual Services – Professional

An accounting firm provided tax preparation services for the utility for the year ended December 31, 2009. Total contractual services professional for the test year were \$1,750.

#### Account No. 635 Contractual Services - Testing

We obtained the invoices for the test year. Contractual services – testing were calculated to be \$8,966.

#### Account No. 636 Contractual Services - Other

We obtained invoices, contracts, and cancelled checks to substantiate other contractual services expenses. The majority of these expenses were to pay for meter reading, mowing, and management consulting.

For the test period, the amount charged monthly by the utility consultant for management consulting was \$800. The services scheduled to be provided were for billing, annual written capital improvement report, optional bill paying services offered online with the owner's bank, 24/7 customer service phone support, filing of annual index & pass through adjustments (excluding filing fees), computer generated general ledger for use with tax preparation & annual report generation, turn-on-& shut-off

services, annual bidding of services, utility compliance with governmental regulatory agencies and coordination with service providers. Beginning January 1, 2010, the monthly contractual costs will increase from \$800 to \$1,100. All prior year services will be performed except for turn-on & shut-off. A copy of both the 2009 and the 2010 management proposals were provided.

Contractual services-other expense for the test year was \$15,568 which does not include the projected monthly increase from \$800 to \$1,100.

Account No. 665 Regulatory Commission Expenses

We obtained the application for this SARC and the corresponding cancelled check. We reviewed the contract and the cancelled check for the consulting services performed for this SARC. The utility hired the services of its consultant to represent the utility before the Commission. This fee was \$1,200. Because this is a SARC, we did not include the consultant fee in Regulatory Commission Expense. We recommend that only the utility filing fee with the Florida Public Service Commission of \$1,000 be considered for rate case expense and should be amortized over a four year period. We recommend Regulatory Commission Expense of \$250 for rate making purposes.

Account No. 675 Miscellaneous Expenses

The utility received a bill for the 2009 Annual Drinking Water License Operating Fee for the period July 1, 2009 through June 30, 2010. This bill remains unpaid through the end of the test period. Cost of the license is \$1,000.

Account No. 921 Administrative and General Expenses

The administrative and general expenses for the test year consisted of postage stamps and an annual P.O. Box rental charge. The utility submits 243 bills to its customers on a monthly basis. The annual number of bills is approximately 3,000. We determined that the cost of a postcard and postage to mail out customer bills is \$.31. Based upon this calculation, we have determined \$1,000 for administrative and general expense.

Account 655 - Insurance Expense

Insufficient information was provided for us to determine an appropriate amount for insurance expense.

Account 670 – Bad debt Expense

Insufficient information was provided for us to determine an appropriate amount for bad debt expense.

Account 408 – Taxes Other than Income

Taxes Other than Income was calculated to be \$4,033 based upon the Regulatory Assessment Fee applied to operating revenues as calculated by staff and tangible taxes charged by the Polk County Tax Collector.

### SUMMARY OF O&M EXPENSES

<u>A/C No.</u>	<u>Account Title</u>	<u>Expense Amount</u>
610	Purchased Power	\$ 3,129
618	Chemicals	1,443
620	Materials and Supplies	150
631	Contractual Services - Professional	1,750
635	Contractual Services - Testing	8,966
636	Contractual Services - Other	15,568
665	Regulatory Commission Expense	250
675	Miscellaneous Expenses	1,000
921	Administrative and General Expense	1,000
	Total O&M Expenses	<u>\$ 33,256</u>

**EFFECT ON THE FILING:** The utility's operation and maintenance expense balance is \$33,256 for the 12-month period ending December 31, 2009. Working capital is calculated to be \$4,157.

**EFFECT ON THE GENERAL LEDGER:** None

## AUDIT FINDING NO. 6

### SUBJECT: CAPITAL STRUCTURE

**AUDIT ANALYSIS:** The company's capital structure was composed of the following accounts and account balances as recorded in the trial balance as of January 31, 2009.

<u>Class of Capital</u>	<u>Balance at 1/31/09</u>
Note Payable - Shareholder	\$10,191
Note Payable - Lesage	20,551
Note Payable - Due to Related Party	10,500
Customer Deposits	
Equity	<u>71,155</u>
Total	<u><u>\$112,397</u></u>

We reviewed the company's balance for each capital and equity item. The results of our work are described in further detail below.

#### Notes Payable

The company's note payable balances are based on cash flow exchanges between related parties and its sole shareholder. There are no documents to support the debt that describe the terms, obligations or repayment of the debt. Under this scenario the Commission has treated the entire amount as contributed capital in prior rate cases and included it as equity for capital structure presentation purposes.

#### Customer Deposits

The utility collected \$832 in customer deposits during the test year which is included in the staff adjusted balance for the capital structure. The utility was authorized to collect customer deposits in the utility tariff, but no deposits were recorded in Commission Order PSC-05-0308-PAA-WU transferring ownership of the utility in 2004, nor were customer deposits collected prior to 2009.

The company's capital structure balance, before rate base reconciliation, is displayed below.

<u>Class of Capital</u>	<u>Balance at 12/31/09</u>
Equity	\$112,397
Customer Deposits	<u>832</u>
Total	\$113,229

**EFFECT ON THE FILING:** The company's capital structure balance, after rate base reconciliation, is \$56,213 as of December 31, 2009, and the corresponding rate for the weighted average cost of capital is 9.64 percent. Our calculations are displayed in Exhibit III of this report.

**EFFECT ON THE GENERAL LEDGER:** None.

**EXHIBIT I****SUNRISE UTILITIES, LLC  
WATER RATE BASE  
AS OF DECEMBER 31, 2009  
DOCKET NO. 090497-WU**

	<u>PER UTILITY @1/31/2009</u>	<u>AUDIT ADJUSTMENTS</u>	<u>PER AUDIT @12/31/2009</u>
UTILITY PLANT IN SERVICE	\$ 176,328	\$ (71,891)	\$ 104,437
LAND AND LAND RIGHTS		\$ 553	\$ 553
CONTRIBUTIONS IN AID OF CONSTRUCTION		\$ (12,393)	\$ (12,393)
AMORTIZATION OF CIAC		\$ 8,170	\$ 8,170
ACCUMULATED DEPRECIATION	\$ (81,482)	\$ 15,508	\$ (48,711)
WORKING CAPITAL ALLOWANCE (a)		\$ 4,157	\$ 4,157
NET RATE BASE	<u>\$ 94,846</u>	<u>\$ (55,896)</u>	<u>\$ 56,213</u>

(a) Working Capital is calculated as 1/8th of the test year operating and maintenance expense balance - (\$33,256 / 8) See Exhibit II.

**EXHIBIT II**

**SUNRISE UTILITIES, LLC  
NET OPERATING INCOME  
12 MONTHS ENDED DECEMBER 31, 2009**

<u>Item Description</u>	
OPERATING REVENUES	\$ 67,631
OTHER REVENUE	60
OPERATING REVENUE	<u>\$ 67,691</u>
OPERATION & MAINTENANCE EXPENSE	\$ 33,256
DEPRECIATION EXPENSE	4,331
CIAC AMORTIZATION	(326)
TAXES OTHER THAN INCOME	4,033
OPERATING EXPENSE	<u>\$ 41,294</u>
NET OPERATING INCOME	<u><u>\$ 26,397</u></u>

EXHIBIT III

SUNRISE UTILITIES, LLC  
 COST OF CAPITAL  
 AT DECEMBER 31, 2009

<u>Account</u>		<u>Balance</u>	<u>Staff</u>	<u>Staff</u>		<u>Staff Adj</u>		<u>Cost</u>	<u>Weighted</u>
<u>No.</u>	<u>Item Description</u>	<u>1/31/2009</u>	<u>Adjustment</u>	<u>Adj Balance</u>	<u>Ratio</u>	<u>Rate Base</u>	<u>Prorata</u>	<u>Rate</u>	<u>Cost</u>
				<u>12/31/2009</u>		<u>12/31/2009</u>	<u>Cap Struc</u>		<u>Cost</u>
232	N/P - Shareholder	10,191	(10,191)	-					
232	N/P - Due to Szabo	10,500	(10,500)	-					
232	N/P - Due to Lesage, In	20,551	(20,551)	-					
235	Customer Deposits	-	832	832	0.0073		832	6.00%	0.04%
211	Equity	71,155	41,242	112,397	0.9927		55,381	9.67%	9.60%
			832		100.00%	56,213			9.64%
		<u>112,397</u>		<u>113,229</u>			<u>56,213</u>		