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: May 19, 2010

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Fletcher, Lingo, Linn, Maurey, Rieger, Stallcup, Thompson)
Office of the General Counsel (Bennett)

RE: Docket No. 090402-WS – Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation.

AGENDA: 06/01/10 – Regular Agenda – Proposed Agency Action Except for Issue Nos. 29 and 31 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Edgar

CRITICAL DATES: 5-Month Effective Date Waived Through 6/1/10

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\090402.RCM.DOC

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Case Background

Utilities, Inc. (UI or parent) is an Illinois corporation which owns approximately 75 subsidiaries throughout 15 states including 15 water and wastewater utilities within the State of Florida. Currently, UI has six separate rate case dockets pending before the Florida Public Service Commission (Commission). These dockets are as follows:

Docket No.	Utility Subsidiary
090349-WS	Cypress Lakes Utilities
090381-SU	Utilities, Inc. of Longwood
090392-WS	Utilities, Inc. of Pennbrooke
090402-WS	Sanlando Utilities Corporation
090462-WS	Utilities, Inc. of Florida
090531-WS	Lake Placid Utilities, Inc.

This recommendation addresses Docket No. 090402-WS. Sanlando Utilities Corporation (Sanlando or Utility) is a Class A utility providing service to approximately 10,154 water and 8,242 wastewater customers in Seminole County. Sanlando is a wholly-owned subsidiary of UI. Water and wastewater rates were last established for this Utility in its 2006 rate case. [1]

On September 30, 2009, Sanlando filed its Application for Rate Increase at issue in the instant docket. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and requested interim rates. Sanlando had deficiencies in the Minimum Filing Requirements (MFRs). The deficiencies were corrected and December 4, 2009, was established as the official filing date. The test year established for interim and final rates is the 13-month average period ended December 31, 2008.

Sanlando requested interim rates for both its water and wastewater systems. By Order No. PSC-10-0018-PCO-WS, the Commission approved interim rates designed to generate annual water revenues of $3,397,716, an increase of $171,388 or 5.31 percent, and wastewater revenues of $3,964,451, an increase of $401,564 or 11.27 percent.[2] The Utility requested final rates designed to generate annual water revenues of $3,634,507, an increase of $460,784 or 14.52 percent, and annual wastewater revenues of $4,145,692, an increase of $582,806 or 16.36 percent.

On March 18, 2010, the Office of Public Counsel (OPC) filed a Notice of Intervention in this docket. By Order No. PSC-10-0201-PCO-WS, the Commission acknowledged OPC intervention.[3]

By letter dated April 13, 2010, the Utility waived the statutory 5-month deadline for this case through June 1, 2010. This recommendation addresses Sanlando's requested final rates. The Commission has jurisdiction pursuant to Section 367.081, Florida Statutes (F.S.).

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[1] See Order No. PSC-07-0205-PAA-WS, issued March 6, 2007, in Docket No. 060258-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corp.
[2] See Order No. PSC-10-0018-PCO-WS, issued January 6, 2010.
[3] See Order No. PSC-10-0201-PCO-WS, issued April 1, 2010.

Discussion of Issues

QUALITY OF SERVICE

Issue 1: Is the quality of service provided by Sanlando Utilities Corporation satisfactory?

Recommendation: The quality of service provided by Sanlando Utilities Corporation is satisfactory. (Rieger)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C), the Commission determines the overall quality of service provided by a Utility by evaluating three separate components of operations, including the quality of the Utility's product, the operational condition of the Utility's plants and facilities, and the Utility's attempt to address customer satisfaction. Comments or complaints received by the Commission from customers are reviewed. The Utility's current compliance with the Department of Environmental Protection (DEP) is also considered.

Quality of Utility's Product and Operational Condition of Plant and Facilities

Sanlando is current in all of the required chemical analyses, and the Utility has met all required standards for both water and wastewater. The water and wastewater treatment facilities are currently in compliance with the DEP rules and regulations. A staff field investigation of Sanlando was conducted on January 21, 2010. Staff found no apparent problems with the operations of either the water or wastewater treatment facilities. Based on a review of the maintenance records and a physical inspection, the general condition of the facilities appeared to be adequate. Therefore, staff recommends that the operating condition of the Utility's water and wastewater plants is satisfactory.

The Utility's Attempt to Address Customer Satisfaction

Customer Meeting A customer meeting was held on February 23, 2010, near the service area at the Eastmonte Civic Center in Altamonte Springs, Florida. Ten customers attended the evening meeting. One of the four customers who spoke asked about the Utility's cost of doing business and whether it is operating efficiently. Another customer had concerns over water use, the Utility's water conservation efforts, the need for increased customer education regarding conservation, and the importance of dedicating a portion of the rate increase to conservation projects. A customer, who is a manager of a condominium project, was interested in not being charged sewer rates for water used as irrigation. The only service-related comments came from a customer who described meter boxes in his complex that are unlevel and in need of being reset, problems with making contact to request service, and the Utility's response time and customer contact when problems occur.

Correspondence The Commission received correspondence from five customers who expressed similar concerns over the proposed rate increase. One customer, after witnessing the Utility's technicians working in his area, has become concerned about inadequately trained employees and whether repairs were done properly. He also pointed out that a valve in the area had been leaking since February of 2009. This customer believes that if the Utility provided

adequate training to its employees and held their contractors responsible for their work, the Utility would realize savings that would offset or eliminate the need for the requested increase.

Customer Complaints Since 2007, there have been six customer complaints filed with the Commission. All, except one, are billing related complaints. The only service related complaint dealt with a line upgrade needed to address pressure problems on a single street. There are currently no active complaints on file.

In review of the customer complaints logged with the Utility during the test year as reported in its filing, water complaints range from low pressure and water quality to small leaks around meter installations and large leaks due to main breaks. For wastewater, there were complaints about sewage backups, force main leaks, and liftstation alarms. The Utility appeared to address customer complaints satisfactorily by addressing these problems as they occurred and by timely correcting the problem when it was clearly the responsibility of the Utility to correct. When the problem was found to be the customer's responsibility, the Utility worked with the customer by informing them of what the problem was found to be.

Sanlando's Response To Quality Of Service Concerns In response to the customer's concern about the meter boxes being off grade and being able to get in contact with service representatives, the Utility reported that two of the meter boxes in question were found to be affected by the growth of tree roots. Another box in the area was found to be off grade. All three meter boxes were reset to finished grade. In reference to customer contacts, the Utility noted that it is customary to respond within one business day to investigate service problems and identify whether the Utility or customer has ownership of the problem. If a leak is reported after normal business hours or weekends or holidays, it is customary for the Utility to respond within 24 hours. If the Utility's investigation indicates that a leak is the customer's responsibility, utility personnel will communicate with the customer, either verbally or by door hanger, that the customer is responsible for making repairs. In reference to another customer's comments about the need to achieve savings that would offset or eliminate the need for the requested rate increase, the Utility disagrees with the customer that money is being wasted and that it is sending untrained personnel into the field. The Utility believes that the complaint does not accurately reflect the maintenance and repair record of the Utility. Water and wastewater systems are complicated pieces of infrastructure that require both routine and emergency maintenance and repair activities. The Utility points out that it is diligent in ensuring its maintenance and repair crews have the training, equipment, tools, and resources needed to address problems in the most efficient manner possible. Concerning the leaking valve, the Utility points out that repairs were delayed while an attempt was made to locate repair parts in lieu of replacing the complete valve at a much higher cost. It agrees that it would have been best to attend to this leak sooner, however, the leak was not significant. It was recently determined that repair parts would not work and a complete valve replacement was completed on April 5, 2010.

Summary

Sanlando is current in all of the required chemical analyses and the operating conditions of the facilities are currently in compliance with the DEP rules and regulations. Additionally, the level of customer satisfaction concerning the quality of service provided by the Utility appears to be adequate. Staff, therefore, recommends that the overall quality of service provided by Sanlando be found to be satisfactory.

RATE BASE

Issue 2: Should audit adjustments to which the Utility agrees, be made?

Recommendation: Yes. Based on audit adjustments agreed to by the Utility and staff, staff recommends the following adjustments to rate base, O&M expenses, and taxes other than income (TOTI) for water and wastewater, respectively. (Linn)

Audit Finding	UPIS	Accum. Depr.	Depr. Exp.	O&M Exp.	TOTI	Working Capital	Accum. Amort. Of CIAC
No. 6 - Plant Sample	($3,039)	$60	($222)				
No. 7 - Acc. Amort. of CIAC							$235,903
No. 9 - Unamort. Rate Case Exp.						($39,598)	
No. 9 - Customer Deposits						$48,840	
No. 12 - Employee Not Replaced				($3,201)	($223)		
No. 18 - Property Taxes					$17,347		
No. 20 - Reg. Assessment Fees					($9,510)		
Total Water Adjustments:	($3,039)	$60	($222)	($3,201)	$7,614	$9,242	$235,903

Audit Finding	UPIS	Accum. Depr.	Depr. Expense	O&M Expenses	TOTI	Working Capital	Accum. Amort. Of CIAC
No. 1 - Comm. Ordered Adjs.	($23,620)	$30,844	($1,313)				
No. 6 - Plant Sample	($2,360)	$46	($172)				
No. 7 - Acc. Amort. of CIAC							$233,333
No. 9 - Unamort. Rate Case Exp.						($30,751)	
No. 9 - Customer Deposits						$37,929	
No. 12 - Employee Not Replaced				($2,486)	($174)		
No. 18 - Property Taxes					$13,630		
No. 20 - Reg. Assessment Fees					($10,741)		
Total Wastewater Adjustments:	($25,980)	$30,890	($1,485)	($2,486)	$2,715	$7,178	$233,333

Staff Analysis: In its response to the staff's audit report, Sanlando agreed to the adjustment amounts listed below. Staff recommends the following adjustments to rate base, O&M expenses, and TOTI for water and wastewater, respectively.

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Total Wastewater Adjustments:	($25,980)	$30,890	($1,485)	($2,486)	$2,715	$7,178	$233,333

Issue 3: Should any adjustments be made to the Utility's Project Phoenix Financial/Customer Care Billing System (Phoenix Project)?

Recommendation: Yes. Plant should be reduced by $65,210 for water and $51,237 for wastewater. In addition, accumulated depreciation and depreciation expense both should be reduced $20,251 for water and $17,251 for wastewater, respectively. (Deason, Fletcher)

Staff Analysis: The purpose of the Phoenix Project was to improve accounting, customer service, customer billing, and, financial and regulatory reporting functions of UI and its subsidiaries. The Phoenix Project became operational in December of 2008. UI allocated the cost of the Phoenix Project to all its subsidiaries based on each subsidiary's ERCs at September 30, 2009.

Allocation of Phoenix Project Costs

During 2009, the Commission approved recovery of the cost of the Phoenix Project in seven UI rate cases.[4] The approved costs were allocated based on each subsidiary's specific test year ERCs to the total UI test year ERCs. With respect to the current UI cases before the Commission, UI allocated the Phoenix Project costs based on each subsidiary's ERCs at the end of the 2008 test year, in relation to UI's total 2008 ERCs. Sanlando divided its ERCs by UI's total ERCs resulting in an allocation percentage of 7.54. This percentage was multiplied by the total investment in the Phoenix Project. Based on total Phoenix Project costs of $21,364,569, Sanlando calculated its allocated share to be 7.54 percent, or $1,610,997. Of this amount, 56 percent or $902,158 was assigned to the water system while $708,839 was assigned to the wastewater system.

As discussed in Issue 4, staff agreed with the adjustments recommended by the auditors in Audit Finding No. 4, to apply a more current ERC count provided by the Utility which recognized the divestitures of certain UI systems in 2009.

Divestiture of UI Subsidiaries

As discussed in Issue 4, staff used a more recent ERC count provided by Sanlando which recognized the divestitures of certain UI subsidiaries in 2009. According to Sanlando's March 22, 2010, response to staff's second data request, UI recently divested several Florida subsidiaries including, Miles Grant Water and Sewer Company (Miles Grant), Utilities, Inc. of Hutchinson Island (Hutchinson), and Wedgefield Utilities, Inc. (Wedgefield), as well as subsidiaries in other states.

In addition, during a conference call on April 16, 2010 between staff, OPC, and the Utility, UI stated that it purchased a wastewater system in Louisiana[5] that was not included in the ERC count previously provided to the staff auditors. The Utility stated that the ERCs for the newly acquired system should be included in order to properly account for that system's share of the costs of the Phoenix Project.

[4] In Docket Nos. 080250-SU, 080249-WS, 080248-SU, 080247-SU, 070695-WS, 070694-WS, and 070693-WS.
[5] This wastewater system represented appropriately 950 ERCs.

Staff agrees that allocating costs on ERCs is an appropriate methodology to spread the cost of Phoenix Project. However, staff does not believe the Phoenix Project costs previously allocated to the divested subsidiaries should be reallocated to the surviving utilities. Wedgefield was sold for an amount significantly greater than its rate base.[6] Miles Grant and Hutchinson were sold collectively for an amount significantly greater than the rate base.[7] Staff believes the amounts allocated to the divested subsidiaries were recovered by the shareholders through the sale of those systems. Thus, staff believes the divested subsidiaries allocation amounts should be deducted from the total cost of the Phoenix Project before any such costs are allocated to the remaining UI subsidiaries.

According to Audit Finding No. 5, staff auditors determined that the correct ledger balance of the software is $21,617,487, not the $21,364,569 Sanlando used to calculate its allocated share of the Phoenix Project. Based on the ERC percentages of all the divested subsidiaries immediately prior to their respective closing dates, staff determined the actual amount paid of $21,617,487 for the Phoenix Project should be reduced by $1,724,166 resulting in a remaining balance of $19,893,321. Based on the unrecovered cost of the Phoenix Project and the ECRs adjusted for divestiture, staff recommends that the appropriate amount of Sanlando's allocated share of the Phoenix Project is $1,500,058. As such, staff recommends that plant be reduced by $116,447, or $65,210 for water and $51,237 for wastewater.

Amortization Period

In previous UI cases, the Commission approved a 6-year amortization period.[8] In subsequent UI cases,[9] staff determined and the Commission found that an 8-year amortization period was more appropriate for a software project of this magnitude. For several reasons, staff now believes that the amortization period for the Phoenix Project should be changed to 10 years. First, the Phoenix Project was specifically tailor-made to meet all of UI's needs. Such a project is not "off the shelf" software, but software designed to fulfill long term accounting, billing, and customer service needs. Second, staff believes the software will be used at least 10 years. UI's legacy accounting system had been used for 21 years. Third, in a recent docket involving a UI subsidiary in Nevada,[10] UI responded that any amortization period between 4 and 10 years would be in compliance with Generally Accepted Accounting Principles. As such, staff believes 10 years is a more reasonable amortization period than the 8-year amortization period currently approved by this Commission. Thus, staff recommends that accumulated depreciation and depreciation expense be reduced $20,251 for water and $17,251 for wastewater, respectively.

[6] The sale price of Wedgefield Utilities, Inc. in April of 2009 was $7,300,000. Based on the rate base reported in its 2008 annual report, this amount is approximately 13.81 percent or $885,852 greater than rate base.
[7] The sale price of Miles Grant Water and Sewer Company and Utilities, Inc. of Hutchinson Island in August of 2009 was $7,500,000. Based on the rate base reported in their respective 2008 annual reports, this amount is approximately 33.88 percent or $1,897,837 greater than their collective rate bases.
[8] In Docket Nos. 070695-WS, 070694-WS, and 070693-WS.
[9] In Docket Nos. 080250-SU, 080249-WS, 080248-SU, and 080247-SU.
[10] Modified Final Order, issued January 15, 2009, in Docket No. 08-06036.

Summary

In summary, staff recommends that plant be reduced by $65,210 for water and $51,237 for wastewater. In addition, the balances of accumulated depreciation and depreciation expense both should be reduced $20,251 for water and $17,251 for wastewater, respectively.

Issue 4: Should any further adjustments be made to the test year plant in service?

Recommendation: Yes. Plant should be reduced by $798,818 for water and $644,145 for wastewater. Accordingly, accumulated depreciation should be reduced by $231,121 for water and $181,971 for wastewater. In addition, depreciation expense should be reduced by $791 for water and $1,550 for wastewater. Finally, a corresponding adjustment should be made to increase wastewater O&M expenses in the amount of $12,480. (Linn)

Staff Analysis: Sanlando reflected test year Utility Plant in Service (UPIS) of $19,152,193 for water and $27,200,634 for wastewater. As discussed above in Issue 2, staff reduced UPIS by $3,039 for water and $25,980 for wastewater. Based on audit findings, staff adjustments, and Utility responses to data requests as discussed below, staff believes further adjustments should be made to the test year UPIS.

Plant Samples

Audit staff sampled plant entries taken from the Utility's ledger to trace to support documentation. The auditors identified amounts that were non-utility related, that should have been expensed, or that were unsupported or misclassified. Accordingly, staff recommends that plant be reduced by $9,195 for water and $35,795 for wastewater. In addition, accumulated depreciation should be reduced by $590 for water and $1,260 for wastewater, and depreciation expense should be reduced by $256 for water and $1,550 for wastewater. Finally, a corresponding adjustment should be made to increase wastewater O&M expenses in the amount of $12,480.

Error in Pro Forma Adjustment to Change ERCs

UI's new accounting system automatically allocates costs each month using the monthly ERC for each region. UI sold off some of its systems in 2009 and this changed its ERC calculations. The Utility personnel attempted to make a pro forma adjustment to the 2008 ledger to reflect this change. But in doing so, their calculation was only for plant additions and not for its accumulated depreciation balance. This caused an overstatement of allocated net plant to the Utility.

Sanlando agreed with the audit finding that an error was made. The Utility did not agree with audit staff's calculation. Sanlando provided its corrected calculations but staff was not able to reconcile its numbers. In the Utility's response to staff's data request dated January 26, 2010, Sanlando provided another calculation that did not match its own audit response. Therefore, staff agrees with the audit finding. Based on audit staff's calculations to correct this error, staff recommends plant be reduced by $774,263 for water and $608,350 for wastewater. Accordingly, accumulated depreciation should be reduced by $229,996 for water and $180,711 for wastewater.

Construction Work in Progress

In its MFRs, Sanlando included a negative Construction Work in Progress (CWIP) balance of negative $26,296 for water and wastewater. Staff requested in its January 26, 2010

data request for the Utility to provide an explanation of the negative CWIP balance. In the Utility's response dated February 16, 2010, it stated that the negative number was due to the Utility closing capital projects for more dollars than were in the project. The Utility also said that it will continue to investigate and if it finds that UPIS was overstated then it will agree to reduce UPIS by the overstated amount.

At this time, as no additional information has been provided by the Utility regarding this issue, staff can only assume that the Utility's received reimbursements for the projects subsequent to the closing of CWIP to UPIS. Staff calculated the 13-month average for the test year CWIP. In calculating the 13-month average, staff used the first negative balance from October 2008 for December 2007 through September 2008 because it could not determine if there was a negative amount included in the net amounts in those prior months. A majority of CWIP is for water, therefore an adjustment should be made only to the water UPIS. Accordingly, staff recommends that water UPIS be reduced by $15,360, accumulated depreciation be reduced by $535 and depreciation expense be reduced by $535.

Summary

In summary, staff recommends that UPIS be reduced by $798,818 ($9,195+$774,263+$15,360) for water and $644,145 ($35,795+$608,350) for wastewater. Accordingly, accumulated depreciation should be reduced by $231,121 ($590+$229,996+$535) for water and $181,971 ($1,260+$180,711) for wastewater. In addition, depreciation expense should be reduced by $791 ($256+$535) for water and $1,550 for wastewater. Finally, a corresponding adjustment should be made to increase wastewater O&M expenses in the amount of $12,480.

Issue 5: Should adjustments be made to the Utility's pro forma plant additions?

Recommendation: Yes. Plant should be increased by $40,618 for water and decreased by $687,500 for wastewater. Accordingly, accumulated depreciation and depreciation expense should be increased by $783 for water and decreased by $34,536 for wastewater. Finally, taxes other than income should be increased by $1,390 for water and decreased by $10,070 for wastewater. (Linn, Rieger)

Staff Analysis: According to its MFRs, Sanlando reflected pro forma plant additions of $142,500 for water and $687,500 for wastewater. The specific pro forma plant additions are shown below.

Water Pro Forma Additions	Amount	Wastewater Pro Forma Additions	Amount
Replace Well Pumps	$80,000	Electrical Improvement Design	$75,000
Main Relocations	62,500	Force Main Relocations	62,500
Total Water Additions	$142,500	Nitrogen Removal Design	50,000
		Des Pinar WWTP upgrades	500,000
		Total Wastewater Additions	$687,500

Staff has reviewed the supporting documentation and the prudence of these pro forma plant additions and believes several adjustments are necessary as discussed below.

First, based on the Utility's response to Staff's data request dated January 26, 2010, Sanlando provided quotes for the replacements of the well pumps in the amount of $124,789, instead of the requested $80,000 amount included in its filings. The estimated completion date for this project is June 30, 2010. The Utility stated that the pro forma projects related to the water main relocation project and all of its wastewater projects have been postponed to a later date. Second, the Utility has requested a new pro forma item not listed on the MFRs to replace eight well flow meters. This project was completed on March 31, 2010. On April 20, 2010, the Utility provided invoices totaling $58,329 for this project.

Based on the above, staff recommends that the appropriate amount of pro forma water plant additions should be $183,118 ($124,789+$58,329). Accordingly, plant should be increased by $40,618 ($183,118-$142,500) for water and decreased by $687,500 for wastewater. In addition, accumulated depreciation and depreciation expense should be increased by $783 for water and decreased by $34,536 for wastewater. Finally, taxes other than income should be increased by $1,390 for water and decreased by $10,070 for wastewater.

Issue 6: What are the used and useful percentages of the Utility's water and wastewater systems?

Recommendation: The Utility's water and wastewater systems are 100 percent used and useful. (Rieger)

Staff Analysis: In its application, the Utility asserted that the water and wastewater treatment plants, as well as the water distribution and wastewater collection systems, are all 100 percent used and useful. In the Utility's last rate case,[11] the Commission evaluated the water and wastewater systems and found them to be 100 percent used and useful. However, in Order No. PSC-07-0535-AS-WS,[12] a settlement agreement was approved which recognized that the Parties (Sanlando and the Office of Public Counsel (OPC)) agreed to eliminate the language regarding a used and useful calculation in the PAA Order. This was done so that the used and useful determination in the PAA Order would have no precedential value. The Commission allowed the language to be stricken because it was noted that each rate case is decided on its own merits. Sanlando's water treatment plants (Des Pinar, Knollwood, and Wekiva) are interconnected; therefore, only one used and useful calculation is needed. The wastewater treatment plants (Wekiva and Woodlands/Des Pinar) are not interconnected; therefore, separate used and useful calculations can be made for each system.

Water Treatment Plant & Storage

In its filing, the Utility provided a used and useful analysis for the water treatment plant pursuant to Rule 25-30.4325, F.A.C. Sanlando determined that both the water treatment plant and storage facility are 100 percent used and useful. The used and useful calculation of the water treatment plant is determined by dividing the peak demand (14,605,100 gallons per day (gpd)) by the firm reliable capacity of the water treatment system based on 16 hours of pumping (12,267,840 gpd). Consideration is given to fireflow (150,000 gpd), unaccounted for water (11.8 percent), and growth (586,314 gpd). The used and useful storage capacity is determined by dividing the peak demand (14,605,100 gpd) by the usable storage capacity (3,127,500 gallons). Similar to the water plant analysis, consideration is given to fireflow, unaccounted for water, and growth. The peak day (June 8, 2008) appears to be appropriate since it is not associated with unusual occurrences. Also, at 11.8 percent unaccounted for water, the Utility made a 1.8 percent adjustment (142,825 gpd) to reflect excessive amounts above the allowable 10 percent. The Utility did not make any subsequent adjustments to operation and maintenance expenses to reflect excessive unaccounted for water. It appears that any adjustments of that type would not affect the overall revenue requirement. Therefore, no further adjustments are recommended. The Utility also indicated that its service area is approaching buildout as evidenced by the fairly constant flows and less than 1 percent annual average growth. Therefore, pursuant to Rule 25-30.4325, F.A.C., staff recommends that the water treatment plant and storage should be considered 100 percent used and useful.

[11] See Order No. PSC-07-0205-PAA-WS, issued March 6, 2007, in Docket No 060258-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corp. – PAA Order.
[12] See Order No. PSC-07-0535-AS-WS, issued June 26, 2007, in Docket No 060258-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corp. – Settlement Agreement Order.

Wastewater Treatment Plants

Pursuant to Rule 25-30.432, F.A.C., the used and useful analysis of the Utility's wastewater treatment plants is determined by dividing the daily flow by the permitted plant capacity based on the annual average daily flow. Consideration is given for growth and inflow and infiltration (I&I). The Wekiva Plant's daily flows are 1,893,101 gpd, growth is 79,394 gpd, and the permitted capacity is 2,900,000 gpd. The Woodlands/Des Pinar Plant's daily flows are 315,354 gpd, growth is 0 gpd, and the permitted capacity is 500,000 gpd. Both systems have experienced a decline in customers since the last rate case. The Utility requested that both facilities be considered 100 percent used and useful, although based on Rule 25-30.432, F.A.C., the Wekiva plant is 68 percent used and useful and the Woodlands/Des Pinar Plant is 63 percent used and useful.

As a result, staff agrees with the Utility's position that, pursuant to Rule 25-30.432, F.A.C., the Wekiva and Woodlands/Des Pinar wastewater treatment plants should both be considered 100 percent used and useful because the systems are built out.

Water Distribution and Wastewater Collection Systems

The used and useful calculations for water distribution and wastewater collection systems are determined by the number of customers connected to the systems divided by the capacity of the systems with consideration given for growth. In this case, a used and useful calculation was not offered by the Utility, as the existing lines are built out and significantly contributed. Therefore, the water distribution and wastewater collection systems should be considered 100 percent used and useful.

Issue 7: Should an adjustment be made to the Utility's accumulated amortization of CIAC for their service lines?

Recommendation: Yes. Staff recommends that accumulated amortization of CIAC service lines should be increased by $8,519 for water. (Linn)

Staff Analysis: On MFR Schedule A-1, the adjustment to CIAC service lines included the calculation of accumulated amortization of service lines using a depreciation rate of 30 years. According to Rule 25-30.140, F.A.C., Class A utilities should depreciate their service lines, Account 333, at 40 years. Audit staff calculated the accumulated amortization from the last test year of 2005 to the current test year of 2008 for 30 years to be $50,899 and for 40 years to be $42,380. Based on the above, staff recommends that accumulated amortization of CIAC service lines should be increased by $8,519 ($50,899-$42,380) for water.

Issue 8: What is the appropriate working capital allowance?

Recommendation: The appropriate working capital allowance is $303,106 for water and $375,125 for wastewater. As such, working capital should be increased by $3,285 for water and $2,497 for wastewater. (Linn)

Staff Analysis: Rule 25-30.433(2), F.A.C., requires Class A utilities to use the balance sheet approach to calculate the working capital allowance. According to its filing, Sanlando utilized the balance sheet approach and calculated a working capital allowance of $299,821 for water and $372,628 for wastewater. However, as discussed below, staff believes that several adjustments to the Utility's working capital balance are necessary.

In order to reflect the audit adjustments agreed to by the Utility and staff, as discussed in Issue 2, there was a net increase in working capital of $9,242 for water and $7,178 for wastewater. As addressed in Issue 19, staff is recommending total rate case expense of $193,087. Based on commission practice,[13] one half of the total rate case expense of $96,543 should be subtracted from the 13-month average balance for Sanlando's unamortized rate case expense of $107,181. Thus, staff recommends that working capital be decreased by $5,957 for water and $4,681 for wastewater.

Based on the above, staff recommends an appropriate working capital allowance of $303,106 for water and $375,125 for wastewater. As such, working capital should be increased by $3,285 for water and $2,497 for wastewater.

[13] See Order Nos. PSC-09-0057-FOF-SU, issued January 27, 2009, in Docket No. 070293-SU, In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.; and PSC-04-0369-AS-EI, issued April 6, 2004, in Docket No. 030438-EI, In re: Petition for rate increase by Florida Public Utilities Company; and PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, In re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.

Issue 9: What is the appropriate rate base for the December 31, 2008 test year?

Recommendation: Consistent with other recommended adjustments, the appropriate 13-month average rate base for the test year ended December 31, 2008 is $6,036,005 for water and $11,168,365 for wastewater. (Linn)

Staff Analysis: In addition to the preceding issues, staff has identified additional issues below that impact rate base. In Issue 13, there are three adjustments relating to plant. The first adjustment represents a $9,300 increase in the amount for wastewater plant related to deferred maintenance that was placed into O&M expenses but should have been added to plant. The second adjustment is an increase to plant in the amount of $563 for water and $437 for wastewater related to invoices that were expensed but should have been capitalized. The third adjustment is an increase to plant in the amount of $3,920 for water and $785 for wastewater for capital projects that were treated as expenses.

Consistent with other recommended adjustments, staff recommends the appropriate 13-month average rate base for the test year ended December 31, 2008 is $6,036,005 for water and $11,168,365 for wastewater. Staff's recommended schedules for water and wastewater rate base are shown on Schedules 1-A and 1-B, respectively. The adjustments are shown on Schedule 1-C.

COST OF CAPITAL

Issue 10: What is the appropriate return on equity?

Recommendation: The appropriate return on equity is 11.17 percent based on the Commission leverage formula currently in effect. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. (Linn)

Staff Analysis: The return on equity (ROE) included in the Utility's filing is 11.24 percent. Based on the current leverage formula approved in Order No. PSC-09-0430-PAA-WS and an equity ratio of 41.92 percent, the appropriate ROE is 11.17 percent.[14] This represents a seven basis points reduction from Sanlando's requested ROE of 11.24 percent. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes

[14] See Order No. PSC-09-0430-PAA-WS, issued June 19, 2009, in Docket No. 090006-WS, In re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

Issue 11: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2008?

Recommendation: The appropriate weighted average cost of capital for the test year ended December 31, 2008 is 8.10 percent. (Linn)

Staff Analysis: In its filings, the Utility requested an overall cost of capital of 8.14 percent. Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2008, staff recommends a weighted average cost of capital of 8.10 percent. This represents a 4 basis point reduction from Sanlando's requested overall cost of capital of 8.14 percent. Schedule No. 2 details staff's recommended overall cost of capital.

NET OPERATING INCOME

Issue 12: What are the appropriate annualized revenue adjustments?

Recommendation: The appropriate water and wastewater annualized revenue adjustments are $164,420 and $159,873, respectively. The Utility's annualized revenue adjustments of $111,977 and $123,625 for water and wastewater, respectively, should be increased by $52,443 for water and $36,248 for wastewater. (Linn, Fletcher)

Staff Analysis: In its filing, the Utility included water and wastewater annualized revenue adjustments of $111,977 and $123,625, respectively. Using test year billing units, staff calculated water and wastewater annualized revenue adjustments of $164,420 and $159,873, respectively. Thus, staff recommends that test year revenues be increased by $52,443 for water and $36,248 for wastewater.

Issue 13: Should any adjustments contested by the Utility be made to test year O&M expenses?

Recommendation: Yes. O&M expenses should be decreased by $36,834 for water and $60,991 for wastewater. Accordingly, corresponding adjustments should be made to increase plant by $4,483 for water and $10,522 for wastewater. Finally, accumulated depreciation should be increased by $58 for water and $274 for wastewater, and depreciation expense should be increased by $353 for water and $560 for wastewater. (Linn)

Staff Analysis: In Sanlando's MFRs, the Utility reflected adjusted test year O&M expenses in the amount of $3,116,830 for water and $3,163,479 for wastewater. As discussed in Issue 2, staff reduced O&M expenses by $3,201 for water and $2,486 for wastewater. Based on audit findings, staff adjustments, and Utility responses to data requests, further adjustments should be made to the test year O&M expenses.

Headquarter Samples

Audit staff sampled entries for O&M expenses taken from the parent company's headquarters in Northbrook, IL to trace to support documentation. Audit staff identified $75,180 for water and $58,360 for wastewater in items that should have been capitalized, were non-reoccurring in nature, or were not supported by documentation. Sanlando agreed with the audit that some entries should have been capitalized and others removed. The Utility did provide support documentation for some of the entries. Therefore, staff recommends that O&M expenses be reduced by $30,049 for water and $23,348 for wastewater. Accordingly, corresponding adjustments should be made to increase plant by $563 for water and $437 for wastewater. Finally, accumulated depreciation and depreciation expense should be increased by $28 for water and $22 for wastewater.

O&M Sample

Audit staff tested a sample of O&M expenses taken from Sanlando's books. Entries totaling $7,600 for water and $31,277 for wastewater were items that either should have been capitalized, were recorded in the wrong period, or lacked support documentation. Sanlando agreed to the audit findings that some entries should be capitalized and others removed. Based on staff's calculation, staff recommends that O&M expenses be reduced by $6,785 for water and $28,343 for wastewater. Accordingly, corresponding adjustments should be made to increase plant by $3,920 for water and $785 for wastewater. Finally, accumulated depreciation should be increased by $30 for water and $15 for wastewater, and depreciation expense should be increased by $325 for water and $21 for wastewater.

Deferred Maintenance

In audit staff's review of Sanlando's O&M expenses, they found items that extend the life of the plant. The Utility agreed in its response to the audit that the staff engineer should determine which items need to be expensed or capitalized. The staff engineer agreed that two items should in fact be capitalized. As such, staff recommends that wastewater expense be decreased by $9,300. Accordingly, corresponding adjustments should be made to increase the

balance of wastewater plant by $9,300, accumulated depreciation by $237, and depreciation expense by $517.

Summary

In summary, staff recommends that O&M expenses be decreased by $36,834 ($30,049+$6,785) for water and $60,991 ($23,348+$28,343+$9,300) for wastewater. Accordingly, corresponding adjustments should be made to increase plant by $4,483 ($563+$3,920) for water and $10,522 ($437+$785+$9,300) for wastewater. Finally, accumulated depreciation should be increased by $58 ($28+$30) for water and $274 ($22+$15+$237) for wastewater, and depreciation expense should be increased by $353 ($28+$325) for water and $560 ($22+$21+$517) for wastewater.

Issue 14: Should an adjustment be made to the Utility's salaries and wages, pensions and benefits, and payroll taxes?

Recommendation: Yes. Sanlando's balances of salaries and wages and pensions and benefits should be decreased by $254,307 for water and increased by $199,166 for wastewater. Accordingly, payroll taxes should be reduced by $15,237 for water and increased by $11,933 for wastewater. (Deason, Linn, Fletcher)

Staff Analysis: On MFR Schedules B-5 and B-6, the Utility recorded water salaries and wages, pensions and benefits, and payroll taxes of $651,261, $180,244, and $62,311, respectively, and wastewater salaries and wages, pensions and benefits, and payroll taxes of $505,750, $139,972, and $48,390, respectively. The proposed amount of salaries and wages represents an increase of 56.39 percent for water and a decrease of 17.24 percent for wastewater, or a combined net increase of 12.60 percent over the levels reflected in the Utility's last rate case in 2006. The proposed amount of pensions and benefits represents increases of 34.46 percent for water and 28.64 percent for wastewater, or a combined net increase of 31.85 percent over the same period.

Staff's review of O&M expenses included a comparison of reported expenses with the levels approved in Sanlando's last rate case. Schedules B-7 and B-8 require the Utility to explain why any increases in expenses exceed customer growth and inflation (collectively, "benchmark"). Sanlando calculated a benchmark of 9.73 percent for water and 8.28 percent for wastewater.[15] For salaries and wages and pensions and benefits, the Utility stated that the reason for the increases resulted from the number of employees and available positions that have increased between the 2005 and 2008 year-end periods, as well as associated cost of living increases. In addition, the number of affiliate companies has decreased, thus increasing the relative allocation percentage to Sanlando.

In staff's data request dated January 26, 2010, the Utility was asked to explain why its salaries and wage increases were significantly greater than the level of salaries the Commission approved in its 2006 rate case. In its response, Sanlando explained that the increases are attributable to several factors. First, the Utility gives a standard cost of living increase to its employees on an annual basis. Second, the adjustment in 2008 has been annualized to account for a full year of salaries for all allocated personnel. Third, between 2003 and 2007, six new positions were created within the Utility, including a regional vice president serving the Florida and South Regions, a business manager serving the same area, a cross connection specialist, an operator, and a part-time operator, all of whom are allocated to various Florida companies. These new employees alone account for much of the difference between 2003 and 2008. In response to staff auditor's data requests, Sanlando provided an updated salary request reflecting annualized adjustments of 2.25 percent and 3.5 percent effective September 2009 and April 2010, respectively. As discussed in Issue 3, UI has divested numerous subsidiaries. As a result, staff would expect the level of allocated employees to decrease, not increase, as stated above by the Utility.

In its response dated April 9, 2010, to staff's data request, Sanlando stated that a major cost saving measure since the last rate case was the closure of three call centers in various states

[15] Staff notes that Sanlando actually experienced a decrease in its number of customers since the last rate case.

in the first quarter of 2010. These closures were part of its parent company's customer service optimization program. The personnel from those closed call centers were terminated. All customer service is now being maintained by the remaining call centers in Nevada, North Carolina, and Florida. The costs for these remaining call centers are now being allocated based on total parent company ERCs. Because the costs for the Florida call center were previously being allocated by only ERCs from Florida and Louisiana, the effect of the above-mentioned customer service optimization program should result in cost savings to all of UI's Florida subsidiaries. However, to date, Sanlando failed to provide Commission staff any adjustments to salaries related to these cost savings.

Based on the above, staff believes the requested salary increases are excessive. The Utility has the burden of proving that its costs are reasonable.[16] Staff believes that the Utility has not met its burden of proof regarding the proposed salary increases from 2005 to 2008. Further, staff believes, Sanlando has not demonstrated any substantial benefit to the Utility as a result of the additional allocated personnel since the last rate case.

Therefore, staff has used the benchmark analysis found on Schedules B-7 and B-8 of the MFRs to support a reduction to salaries and wages. The Commission has utilized the benchmark analysis found on MFR Schedules B-7 and B-8 in previous rate cases.[17] Accordingly, staff believes salaries and wages and pensions and benefits should be decreased by $254,307 for water and increased by $199,166 for wastewater.[18] Finally, payroll taxes should be decreased by $15,237 for water and increased by $11,933 for wastewater.

[16] See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (1982).
[17] See Order Nos. PSC-92-0578-FOF-SU, issued June 29, 1992, in Docket No. 910540-SU, In re: Application for sewer service rate adjustment in Aloha Gardens service area by Aloha Utilities, Inc. in Pasco County; and PSC-92-0336-FOF-WS, issued May 12, 1992, in Docket No. 911194-WS, In re: Application for a rate increase in Collier County by Florida Cities Water Company, Golden Gate Division.
[18] Staff notes that it utilized the Utility's test year ratio of pensions & benefits to salaries in order to determine the corresponding adjustments for pensions & benefits.

Issue 15: Should an adjustment be made to Sanlando's O&M expenses for the costs associated with mailing two sets of bills to the same customers who have reuse?

Recommendation: Yes. The costs of mailing 145 duplicate bills in the amount of $709 should be removed from wastewater O&M expense. (Linn)

Staff Analysis: According to Sanlando's MFRs, a total of 145 bills were mailed out to customers that had wastewater reuse. The same customers also receive a separate wastewater bill in addition to their reuse bill. Staff believes the Utility's billing system should be efficient enough to generate one bill per customer, not two bills per customer. The general body of customers should not have to pay the additional cost of the Utility's duplicative billing. Therefore, the costs associated with the mailing of the reuse bills should be disallowed.

Staff calculated a rate of $4.89 per reuse bill. This was calculated by using the costs of postage, envelopes, and the employee overhead. Accordingly, staff determined that the cost of mailing 145 bills, $709, should be removed from wastewater O&M expense.

Issue 16: Should any adjustment be made to chemical expense?

Recommendation: Yes. Proposed chemical expenses of $88,161 for water and $138,709 for wastewater should be reduced by $9,009 and $1,435, respectively. (Linn, Rieger)

Staff Analysis: The Utility recorded chemical expense of $88,161 for water and $138,709 for wastewater, totaling $226,875. When staff reviewed Volume III of the MFRs, it noticed that the $226,875 included expenses outside of the 2008 test year. Invoice dates recorded in the MFRs were from October 10, 2007, through December 17, 2008. Staff believes that chemicals purchased from October 10, 2007, through December 17, 2007, or $10,444 should be removed. Chemicals purchased after December 17, 2007, should be allowed because they would have been used in the 2008 test year. Chemicals used during the above time frame consisted of 7,654 gallons of Sodium Hypochlorite valued at $5,740, and 784 gallons of Polyphosphate Aquadene, valued at $4,704. In the MFRs, 75 percent of Sodium Hypochlorite was used for the water system and 25 percent was used for the wastewater system. Polyphosphate Aquadene is used for the water system only. Based on the above, staff recommends that chemical expense of $226,875 be reduced by $10,444. This adjustment represents a decrease of $9,009 [($5,740x.75)+$4,704)] for water and $1,435 ($5,740x.25) for wastewater.

Issue 17: Should there be an adjustment made to relocation expenses?

Recommendation: Yes. Consistent with Commission practice, relocation expense should be based on a 4-year average. Accordingly, Sanlando's allocated relocation expense of $11,858 should be reduced by $3,783 for water and $3,389 for wastewater. (Linn)

Staff Analysis: UI's relocation expenses for the 2008 test year was $156,647, which represented a 59 percent increase over the amount in 2007. Sanlando's allocated portion of this expense was $11,858. The relocation expenses for 2008 related to the relocation of one headquarter employee. UI's relocation expenses vary significantly from year to year. For example, UI did not have any relocation expenses in 2004 and 2005. However, UI recorded relocation expenses of $16,145 for 2006 and $98,577 for 2007. The year over year increase from 2006 to 2007 represented a 511 percent increase.

Recognizing that relocation expenses have varied significantly from year to year, it has been Commission practice to base this expense on a 4-year average of actual experience rather than the specific expense in any given year. To be consistent with Commission practice, staff recommends relocation expenses should be based on a 4-year average.[19] Accordingly, staff believes that relocation expenses be reduced by $3,783 for water and $3,389 for wastewater.

[19] See Order Nos. PSC-04-1110-PAA-GU, issued November 8, 2004, in Docket No. 040216-GU, In re: Application for a rate increase by Florida Public Utilities Company; and PSC-02-0787-FOF-EI, issued June 10, 2002, in Docket No. 010949-EI, In re: Request for rate increase by Gulf Power Company, and PSC-92-0924-FOF-GU, issued September 3, 1992, in Docket No. 91150-GU, In re: Application for a rate increase by Peoples Gas System, Inc.

Issue 18: Should any adjustments be made to transportation expense?

Recommendation: Yes. Transportation expense should be decreased by $7,180 for water and $5,642 for wastewater. (Deason, Fletcher, Linn)

Staff Analysis: On MFR Schedules B-5 and B-6, Sanlando recorded transportation expenses of $76,326 for water and $59,727 for wastewater in the test year. Staff requested in its March 10, 2010 data request, staff asked the Utility to provide the amount of its transportation expenses that related to fuel purchases and the total gallons of fuel purchased. In its response, the Utility stated that $99,520 was booked to fuel with $55,731 allocated to water and $43,789 allocated to wastewater. The Utility further stated that it could not determine the total gallons of fuel purchased for Sanlando because its parent company (Utilities, Inc.) utilized GE Capital Fleet to manage its entire convoy, but recently had switched vendors and the information relating to purchased gallons was no longer available.

By e-mail dated March 31, 2010, from an employee of UI to Commission staff, UI asserted that the total gallons for Sanlando was 35,672.31. Based on the total dollar amount of $99,520 for fuel, the cost per gallon would be approximately $2.79 per gallon.

In its April 9, 2010, response to a staff data request, Sanlando proposed that the appropriate fuel costs for the Utility was $83,558. In support of its position, Sanlando provided workpapers for its calculations. Specifically, the Utility multiplied the gallons per vehicle by the nominal price per gallon of $3.27 in 2008, then allocated the costs based on 2008 year-end ERCs percentages for allocated employees and assigned the full amount for direct employees of the Utility. However, staff believes the gallons reported on Sanlando's workpapers are unreliable. First, staff applied the ERC percentages for all allocated employees to determine the Utility's gallons associated with these employees and added all the gallons associated with the direct employees of Sanlando. Using this method, staff calculated total gallons attributable to the Utility of 27,522.06. Applying the initial dollar of $99,520 yields an approximate cost of $3.61 per gallon.

It is the Utility's burden to prove that its costs are reasonable.[20] Based on the above, staff believes the Utility's gallonage data is unreliable in determining the appropriate level of fuel costs for prospective ratemaking purposes.

Based on the recent United States Energy Information Administration Short-Term Energy Outlook Report dated April 6, 2010, retail gasoline prices are expected to be an annual average of $2.84 per gallon for 2010 while the annual average for 2008 was $3.26 per gallon. The Commission has utilized the United States Energy Information Administration Short-Term Energy Outlook Report in recent formal file and suspend rate case to determine the appropriate level of fuel cost.[21] The difference between the annual average price in 2008 and 2010 represents a decrease of 42 cents or 12.88 percent. In the absence of reliable gallonage data,

[20] See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (1982).
[21] See Order No. PSC-09-0385-FOF-WS, issued May 29, 2009, in Docket No. 080121-WS, In re: Application for increase in water and wastewater rates in Alachua, Brevard, DeSoto, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.

staff believes a reasonable method to determine the prospective fuel expense for ratemaking purposes is to decrease test year fuel costs by 12.88 percent. Therefore, staff recommends that the Utility's transportation expense be decreased by $7,180 for water and $5,642 for wastewater.

Issue 19: Should any adjustment be made to unamortized rate case expense from the Utility's prior case?

Recommendation: Yes. Staff recommends reducing expenses by $11,468 for water and $9,168 for wastewater. (Linn)

Staff Analysis: Based on an analysis of the MFRs and Order No. PSC-07-0205-PAA-WS, staff believes an adjustment is necessary for prior rate case expense included in the Utility's test year O&M expenses. In its last rate proceeding, the Commission approved an annual amortization of rate case expense of $22,086 for water and $16,889 for wastewater. In its MFRs, the Utility recorded rate case expense from their prior case of $33,554 for water and $26,057 for wastewater.[22] Consistent with the annual amortization amount approved in the Utility's last rate case, staff recommends that test year rate case expense be reduced by $11,468 ($33,554-$22,086) for water and $9,168 ($26,057-$16,889) for wastewater.

[22] For informational purposes, the prior rate case expense four-year rate reduction for Sanlando's last rate case will occur in April 2011.

Issue 20: What is the appropriate amount of rate case expense?

Recommendation: The appropriate amount of rate case expense is $193,088. This expense should be recovered over four years for an annual expense of $48,272. Thus, rate case expense should be decreased by $6,107 and $4,798 for water and wastewater, respectively. (Linn)

Staff Analysis: Sanlando included in its MFRs, an estimate of $236,709 for current rate case expense. Staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On April 14, 2010, the Utility submitted a revised estimated rate case expense through completion of the PAA process of $123,586. The components of the estimated rate case expense are as follows:

	MFR Estimated	Actual	Additional Estimated	Revised Total
Legal and Filing Fees	$68,625	$32,686	$29,257	$61,943
Consultant Fees – MS&A	46,700	55,663	12,600	68,263
Consultant Fees – M&R	5,000	5,293	2,175	7,468
Consultant Fees – CPH	0	1,271	1,000	2,271
WSC In-house Fees	77,521	50,972	37,331	88,303
Filing Fee	4,000	0	0	0
Travel- WSC	3,200	0	3,200	3,200
Temp Employee Fees-WSC	0	673	800	1,473
Miscellaneous	12,000	3,202	12,359	15,561
PSC Auditor Travel	0	623	0	623
Alliant Insurance Services	0	3,801	3,801	7,602
PriceWaterhouseCoopers	0	1,500	1,000	2,500
Notices	19,663	0	20,063	20,063
Total Rate Case Expense	$236,709	$155,684	$123,586	$279,270

Pursuant to Section 367.081(7), F.S., the Commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. Also, it is the utility's burden to justify its requested costs.[23] Further, the Commission has broad discretion with respect to allowance of rate case expense; however, it would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings.[24] As such, staff has examined the requested actual

[23] See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (1982).
[24] See Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), 529 So. 2d 694 (Fla. 1988).

expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on our review, staff believes several adjustments are necessary to the revised rate case expense estimate.

The first adjustment relates to costs incurred to correct deficiencies to the MFR filing. Based on staff's review of invoices and the Utility's consultants, a combined amount of $2,505 was billed for correcting the MFR deficiencies and revising the Utility's filing. According to invoices, Christian Marcelli and Martin Friedman of Rose, Sundstrom & Bentley, LLP (RS&B), billed the Utility 4.6 hours and .3 hours, respectively, related to the correction of MFR deficiencies. Based on Mr. Marcelli's hourly rate of $290 and Mr. Friedman's hourly rate of $320, the total amount billed to Sanlando was $1,430 [($290x4.6)+($320x.30)]. Additionally, Cynthia Yapp and Deborah Swain of Milian, Swain & Associates (MS&A), billed 6.5 hours at Ms. Yapp's hourly rate of $150 and .5 hours at Ms. Swain's hourly rate of $200 to prepare and review deficiencies. The total amount billed to the Utility from MS&A came to $1,075 [(6.5x$150) + (.5x$200)]. The Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicative filing costs.[25] Accordingly, staff recommends that $2,505 ($1,430+$1,075) be removed as duplicative and unreasonable rate case expense.

The second adjustment relates to the Utility's estimated legal fees and expenses to complete the rate case. RS&B, the Utility's counsel, estimated 89.9 hours or $29,257 in fees. However, the list of tasks to complete the case provided by the Utility's legal counsel came to 67.1 hours plus $1,018 in expenses. The specific amount of time associated with each item is listed below:

Estimate To Complete Through PAA Process

Description	Hours	Fees
Unbilled hours through date of filing	19.1	$5,826
Respond to formal data requests and informal requests for information from Staff	17.5	5,338
Legal research and documentation regarding confidentiality of work papers, NSF tariffs, WSC allocation issues, water quality and customer concerns.	6.0	1,830
Review staff recommendation; conference with client and consultant regarding recommendation; conference with staff regarding recommendation	3.5	1,068
Prepare for and attend Agenda conference; discuss Agenda with client and staff	15.0	4,575

[25] See Order Nos. PSC-05-0624-PAA-WS, issued Jun 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.; and PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, In re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.

Review PAA Order; Conference with client and consultant regarding PAA Order	2.0	610
Prepare revised tariff sheets; Obtain Staff approval of tariffs; Draft and revise customer notice; Obtain Staff approval of notice; Coordinate mailing of notices and implementation of tariffs	4.0	1,220
Total Estimated Fees	67.1	$20,466

As discussed above, it is the utility's burden to justify its requested costs. Staff believes that 67.1 hours is a reasonable amount of time to respond to data requests, perform legal research, review staff's recommendation, conference with the client and consultants, travel to the Agenda Conference, and attend to miscellaneous post-PAA matters. Staff does not agree with the hourly rate of $330 proposed by RS&B. Based on the MFRs and the invoices provided, Christian Marcelli's most recent hourly rate is $305. The total remaining legal fees should be $21,484 ($20,466+$1,018). Therefore, staff believes that legal fees should be decreased by $7,773 ($29,257-$21,484).

The third adjustment relates to the Utility's $68,263 of consultant fees for MS&A. Based on staff's review of invoices, Sanlando was billed a total of 51 hours or $7,650 for Utilities, Inc. of Longwood's rate case. This amount should be removed. The estimated remaining hours through the PAA for rate case expense for MS&A totaled 80.5 hours, or $12,600. There was no support documentation provided for these estimated costs. Accordingly, staff recommends that $20,250 ($7,650+$12,600) be removed as unreasonable and unsupported rate case expense.

The fourth adjustment relates to the Utility's estimated consultant fees for M&R Consultants (M&R) to complete the rate case. The estimated remaining hours through the PAA for rate case expense for M&R totaled 15 hours or $2,175. There was no support documentation provided for these estimated costs. Accordingly, staff recommends that $2,175 (15x$145) should be removed as unsupported rate case expense.

The fifth adjustment addresses the Utility's $2,271 of consultant fees for CPH Engineers, Inc. (CPH). CPH's actual costs for mapping the service area per MFR B-10, totaled $1,271. The remaining estimated charges for CPH is $1,000. There was no support provided for this latter expense. Based on the above, staff believes the Utility has not met its burden to justify the $1,000 of estimated fees for CPH to complete the rate case. Thus, staff recommends that rate case expense be decreased by $1,000.

The sixth adjustment relates to WSC In-house employee fees. In its rate case expense update, the Utility stated that the WSC employees estimated 747 hours or $37,331 related to assistance with MFRs, data requests, audit facilitation, billing analysis, implementation of rates, and customer notice mailings. Staff has concerns regarding these estimated hours. First, as stated earlier, there should be no estimated hours related to the MFRs or the audit in this case because the Utility has already completed the MFRs and has responded to the audit requests and those associated hours are reflected in the actual hours. Second, in those cases where rate case

expense has not been supported by detailed documentation, the Commission's practice has been to disallow some portion or remove all unsupported amounts.[26] Staff believes a reasonable method to estimated WSC employee hours to complete the rate case is to utilize the actual average monthly hours of WSC employees. Using this method, staff calculated an estimate for WSC employees to complete the case of 541 hours, or $21,224 which represents a reduction of 206 hours. Thus, staff recommends that rate case expense should be decreased by $16,107 ($37,331-$21,224).

The seventh adjustment addresses WSC travel expenses. In its MFRs, Sanlando estimated $3,200 for travel. However, there was no support provided for the travel expenses. Based on several previous UI rates cases, it is staff's experience for PAA rate cases that UI does not send a representative from their Illinois office to attend the Agenda Conference; therefore, staff recommends that rate case expense be decreased by $3,200.

The eighth adjustment relates to the Utility's WSC temporary employee costs to complete the rate case of $800. There was no support documentation provided for these estimated costs. Accordingly, staff recommends that $800 should be removed as unsupported rate case expense.

The ninth adjustment relates to WSC expenses for FedEx Corporation (FedEx) and other miscellaneous costs. In its MFRs, the Utility estimated $15,561 for these items. In support of these expenses, the Utility provided only $41 in costs from FedEx invoices for services through March 31, 2010. There was no breakdown or support for the remaining $15,520. Staff is also concerned with the amount of requested costs for FedEx expense. UI has requested and received authorization from the Commission to keep its records outside the state in Illinois. This is pursuant to Rule 25-30.110(1)(c), F.A.C. However, when a utility receives this authorization, it is required to reimburse the Commission for the reasonable travel expense incurred by each Commission representative during the review and audit of the books and records. Further, these costs are not included in rate case expense or recovered through rates. In a 1993 rate case for Mid-County Service, Inc. (another UI subsidiary),[27] the Commission found the following:

> The Utility also requested recovery of the actual travel costs it paid for the Commission auditors. Because the Utility's books are maintained out of state, the auditors had to travel out of state to perform the audit. We have consistently disallowed this cost in rate case expense.[28]

Staff believes that the requested amount of shipping costs in this rate case directly relates to the records being retained out of state. The Utility typically ships its MFRs, answers to data

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[26] See Order No. PSC-94-0075-FOF-WS, issued January 21, 1994 in Docket No. 921261-WS, In re: Application for a Rate Increase in Lee County by Harbor Utilities Company, Inc.; Order No. PSC-96-0629-FOF-WS, issued May 10, 1996, in Docket No. 950515-WS, In re: Application for staff-assisted rate case in Martin County by Laniger Enterprises of America, Inc.; and Order No. PSC-96-0860-FOF-SU, issued July 2, 1996, in Docket No. 950967-SU, In re: Application for staff-assisted rate case in Highlands County by Fairmount Utilities, the 2nd, Inc. Staff notes that, in all of these cases, the Commission removed the entire unsupported amounts.

[27] See Order No. PSC-93-1713-FOF-SU, p. 19., issued November 30, 1993, in Docket No. 921293-SU, In re: Application for a Rate Increase in Pinellas County by Mid-County Services, Inc.

[28] See Order No. 25821, issued February 27, 1991, and Order No. 20066, issued September 26, 1988.

requests, etc., to its law firm located in central Florida. Then, these are submitted to the Commission. Staff does not believe that the ratepayers should bear the related costs of having the records located out of state. This is a decision of the shareholders of the Utility, and, therefore, they should bear the related costs. Therefore, staff recommends that rate case expense be decreased by $15,561.

The tenth adjustment relates to the travel of two PSC auditors, in the amount of $623. As stated above in the ninth adjustment, pursuant to Rule 25-30.110(2)(b), F.A.C., UI has requested and received authorization from the Commission to keep its records outside the state in Illinois. However, when a utility receives this authorization, it is required to reimburse the Commission for the reasonable travel expense incurred by each Commission representative during the review and audit of the books and records. Such expenses have not been allowed to be recovered through rates. Therefore, staff recommends that rate case expense be decreased by $623.

The eleventh adjustment relates to the Utility's actual and estimated court bond fees from Alliant Insurance Services to complete the rate case. The estimated remaining fees through PAA for rate case expense for Alliant Insurance totaled $7,602. There was no support documentation provided for these estimated costs. Accordingly, staff recommends that $7,602 should be removed as unsupported rate case expense.

The twelfth adjustment relates to the Utility's estimated completion costs from PriceWaterhouseCoopers, LLC of $1,000. This expense is for the review of audit work papers. No support documentation was provided. Accordingly, staff recommends that $1,000 should be removed as unsupported rate case expense.

The thirteenth adjustment relates to customer notices and postage thereof. The Utility initially requested costs of $17,519 for postage and $2,143 for envelopes. In its update of rate case expense, the Utility did not provide any support for its postage. However, in the Utility's response to staff's data request dated March 10, 2010, the Utility stated that it made a calculation error. In its original calculation, the Utility used the average number of customer bills instead of the actual number of customers. The calculation also included four notice mailings, instead of three, and used the regular postage price of $0.44 instead of its presorted rate of $0.357. Using the Utility's total customer count and a unit cost of $0.357 for the above-mentioned number of notices, the Utility re-calculated the total postage for notices to be $10,875. The re-calculation for the cost of envelopes with the estimated price of $.0526 per envelope was $1,602. This represents decreases of $6,644 for postage and $541 for envelopes. In the Utility's updated rate case expense schedule there was an additional estimated expense of $400 for printing services and copies. There was no documentation provided, therefore this amount should be removed. Based on the above, staff recommends that rate case expense should decreased by $7,585 ($6,644+$541+$400).

In summary, staff recommends that the Utility's revised rate case expense be decreased by $86,181. The appropriate total rate case expense is $193,487. A breakdown of rate case expense is as follows:

	MFR Estimate	Utility Revised Actual & Estimate	Staff Adjustment	Allowed Total
Legal and Filing Fees	$68,625	$61,943	($9,204)	$52,740
Consultant Fees – MS&A	46,700	68,263	(21,326)	46,938
Consultant Fees – M&R	5,000	7,468	(2,175)	5,293
Consultant Fees – CPH	0	2,271	(1,000)	1,271
WSC In-house Fees	77,521	88,303	(16,107)	72,196
Filing Fee	4,000	0	(0)	0
Travel- WSC	3,200	3,200	(3,200)	0
Temp Employee Fees-WSC	0	1,473	(800)	673
Miscellaneous	12,000	15,561	(15,561)	0
PSC Auditor Travel	0	623	(623)	0
Alliant Insurance Services	0	7,602	(7,602)	0
PriceWaterHouseCoopers	0	2,500	(1,000)	1,500
Notices	19,663	20,063	(7,585)	12,478
Total Rate Case Expense	$236,709	$279,270	($86,182)	$193,088
Annual Amortization Amounts	$59,177	$69,818	($21,546)	$48,272

In its MFRs, the Utility requested total rate case expense of $236,709. When amortized over four years, this represents an annual expense of $59,177. This amount was comprised of $33,309 ($59,177x.56) for water and $25,868 ($59,177x.44) for wastewater. The recommended annual rate case expense of $48,272 ($193,088 divided by four) should be recovered over four years, pursuant to Section 367.016, F.S. Therefore, annual rate case expense should be decreased by $6,107 and $4,798 for water and wastewater, respectively

Issue 21: Should any adjustments be made to bad debt expense?

Recommendation: Yes. Bad debt expense should be $11,357. Accordingly, Sanlando's bad debt expense of $17,360 should be reduced by $2,821 for water and $3,181 for wastewater. (Linn)

Staff Analysis: The Utility recorded bad debt expense of $17,360 for 2008. Consistent with Commission practice, bad debt expense should be based on a 3-year average. The Commission has previously approved the application of a 3-year average to determine the appropriate level of bad debt expense. The Commission has set bad debt expense using the 3-year average in three electric cases,[29] two gas cases,[30] and two water and wastewater case.[31] The Commission approved a 3-year average in these cases based on the premise that a 3-year average fairly represented the expected bad debt expense. Overall, the basis for determining bad debt expense has been whether the amount is representative of the bad debt expense to be incurred by the Utility. Based on the 3-year average calculation, Sanlando should be entitled to bad debt expense of $11,357 which staff believes is representative of Sanlando's bad debt expense. As a result, staff recommends that Sanlando's bad debt expense of $17,360 be reduced by $2,821 for water and $3,181 for wastewater.

[29] See Order Nos. PSC-94-0170-FOF-EI, issued February 10, 1994, in Docket No. 930400-EI, In re: Application for a Rate Increase for Marianna electric operations by Florida Public Utilities Company, at p. 20; PSC-93-0165-FOF-EI, issued February 2, 1993, in Docket No. 920324-EI, In re: application for a rate increase by Tampa Electric Company, at pp. 69-70; and PSC-92-1197-FOF-EI, issued October 22, 1992, in Docket No. 910890-EI, In Re: Petition for a rate increase by Florida Power Corporation, at p. 48.

[30] See Order Nos. PSC-92-0924-FOF-GU, issued September 3, 1992, in Docket No. 911150-GU, In re: Application for a rate increase by Peoples Gas System, Inc., at p. 6; and PSC-92-0580-FOF-GU, issued June 29, 1992, in Docket No. 910778-GU, In re: Petition for a rate increase by West Florida Natural Gas Company, at pp. 30-31.

[31] See Order No. PSC-07-0505-SC-WS, issued June 13, 2007, in Docket No. 060253-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida, at pp. 41-42; and See Order No. PSC-09-0385-FOF-WS, issued May 29, 2009, in Docket No. 080121-WS, In re: Application for increase in water and wastewater rates in Alachua, Brevard, DeSoto, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc., at pp. 92-96.

Issue 22: Should an adjustment be made to taxes other than income taxes (TOTI)?

Recommendation: Yes. TOTI should be reduced by $3,702 for water and $2,875 for wastewater. (Linn)

Staff Analysis: In Sanlando's MFRs, TOTI were recorded as $419,120 for water and $398,310 for wastewater. Included in this calculation were adjustments of $3,702 for water and $2,875 for wastewater on Schedule B-15 of the MFRs relating to a General Expense Allocation from Headquarters. There was a second set of adjustments in the amount of $4,882 for water and $12,945 for wastewater. Included in the second set of adjustments was the General Expense adjustments of $3,702 for water and $2,875 for wastewater, along with an adjustment to increase Ad Valorem Tax by $1,180 for water and $10,070 for wastewater. Therefore, on Schedule B-15 of the MFRs, the adjustment for the General Expense Allocation for Headquarters was double counted.

The Utility partially agreed with the audit finding that Schedule B-15 did double count the adjustment, but stated that Schedule B-3 of the MFRs reported the adjustment correctly. Staff does agree that Schedule B-3 of the MFRs is in fact correct, but Schedule B-15 ties directly to the main Operating Schedules B-1 and B-2. Thus, the double counting carried over to Schedules B-1 and B-2 of the MFRs. Based on the above, staff believes that TOTI should be reduced by $3,702 for water and $2,875 for wastewater.

Issue 23: What is the test year water and wastewater operating income before any revenue increase?

Recommendation: Based on the adjustments discussed in previous issues, the test year operating income is $570,249 for water and $482,085 for wastewater. (Linn)

Staff Analysis: As shown on Schedule Nos. 3-A and 3-B, after applying staff's adjustments, the Utility's net operating income is $570,249 for water and $482,085 for wastewater. Staff's adjustments to operating income are shown on Schedule No. 3-C.

REVENUE REQUIREMENT

Issue 24: What is the appropriate revenue requirement for the December 31, 2008 test year?

Recommendation: The following revenue requirement should be approved. (Linn)

	Test Year Revenues	($ Decrease) $ Increase	Revenue Requirement	(% Decrease) % Increase
Water	$3,226,166	($136,317)	$3,089,848	(4.23%)
Wastewater	$3,599,134	$546,558	$4,145,692	15.19%

Staff Analysis: Sanlando's requested revenue requirements should generate annual revenues of $3,634,507 and $4,145,692, for water and wastewater, respectively. These requested revenue requirements represent revenue increases of $460,784 or 14.52 percent for water and $582,806 or 16.36 percent for wastewater.

Consistent with staff's recommendations concerning the underlying rate base, cost of capital, and operating income issues, staff recommends approval of rates that are designed to generate a water revenue requirement of $3,089,848 and a wastewater revenue requirement of $4,145,692. The recommended water revenue requirement is below staff's adjusted test year revenues by $136,317, or 4.23 percent, for water. The recommended wastewater revenue requirement exceeds staff's adjusted test year revenues by $546,558, or 15.19 percent, for wastewater. These recommended pre-repression revenue requirements will allow the Utility the opportunity to recover its expenses and earn a 8.10 percent return on its investment in water and wastewater rate base.

RATES

Issue 25: What are the appropriate rate structures for the utility's water and wastewater systems?

Recommendation: The appropriate rate structure for the water system's residential class is a change to a three-tier inclining-block rate structure. The appropriate usage blocks are 0-10 kgal/month in the first usage block, 10.001 kgal/month to 15 kgal/month in the second usage block, and in excess of 15 kgal/month in the third usage block. The appropriate rate factors are 1.0, 1.25, and 1.75 respectively. As discussed in the following issue, by restricting any cost recovery due to repression to discretionary usage, an additional fourth tier will be created for non-discretionary usage below 6 kgals per month. The appropriate rate structure for the water system's nonresidential classes is a continuation of its base facility charge (BFC)/uniform gallonage charge rate structure. The BFC cost recovery percentage for the water system should be set at 25.65 percent. The entire water system revenue increase should be applied to the gallonage charge. In addition, $546,558 of the wastewater system revenue requirement associated with the reuse facilities should be reallocated to the water system's gallonage charge. The appropriate rate structure for the wastewater system is a continuation of the BFC/gallonage charge rate structure. The residential wastewater monthly gallonage cap should continue at 10 kgal. The wastewater rates prior to filing should remain unchanged. (Stallcup, Lingo, Thompson)

Staff Analysis: The utility's current water system rate structure for the residential class consists of a two-tiered rate structure with usage blocks of 0 kgal/month to 10 kgal/month in the first usage block, and all usage in excess of 10 kgal/month in the second usage block. Prior to filing for rate relief, the BFC for 5/8" x 3/4" meter customers was $4.30 per month. The usage charge prior to filing was $0.55 per kgal in the first block and $1.08 per kgal in the second block.

Sanlando is located in Seminole County within the St. Johns River Water Management District (SJRWMD or District). The entire District has been designated a water resource caution area. Furthermore, many areas of the SJRWMD, including the Sanlando service area, are identified as priority water resource caution areas. These are areas where existing and reasonably anticipated sources of water and water conservation efforts may not be adequate to supply water for all existing legal uses and anticipated future needs, or to sustain the water resources and related natural systems. In 1991, the Commission entered into a Memorandum of Understanding (MOU) with the five Water Management Districts (WMDs), in which the agencies recognized that it is in the public interest to engage in a joint goal to ensure the efficient and conservative utilization of water resources in Florida, and that a joint cooperative effort is necessary to implement an effective, state-wide water conservation policy.

Water Rates Staff performed a detailed analysis of the utility's billing data. Based on this analysis, staff believes that it is appropriate to implement a three tiered inclining block rate structure for this utility's residential rate class. During the 2008 test year, average residential consumption was 18.6 kgal/month, with approximately 18 percent of residential customers consuming over 30 kgal/month. This level of usage is indicative of a very high level of discretionary, or non-essential, usage that is relatively sensitive to price increases. Therefore, in light of the SJRWMD's desire to reduce water consumption in this area, staff believes that it is

appropriate to implement a three-tiered inclining block rate structure for this utility in order to encourage water conservation.

Staff performed additional analyses of the utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential rate class. The goal of the evaluation was to select the rate design parameters that 1) allow the utility to recover its revenue requirement, 2) equitably distribute cost recovery among the utility's customers, and 3) implement where appropriate water conserving rate structures consistent with the Commission's Memorandum of Understanding with the state's Water Management Districts.

To increase the water-conserving nature of the rate structure, staff recommends that the entire increase in water system revenue requirements be allocated to the gallonage charge, and that the BFC remain unchanged at $4.36 for a 5/8" x 3/4" meter customer. By shifting cost recovery to the water system gallonage charge while holding the BFC constant, staff is able to design a more effective water conserving rate structure. Furthermore, by setting the rate factors at 1.0, 1.25, and 1.75 for the three usage blocks, staff is able to target the water conserving rate structure to customers who use more than 15 kgal/month. At the same time this will also minimize price increases to customers who use less than 15 kgal/month.

The traditional BFC/uniform gallonage charge rate structure has been the Commission's water rate structure of choice for nonresidential customer classes. The uniform gallonage charge should be calculated by dividing the total revenues to be recovered through the gallonage charge by the total of gallons attributable to all rate classes. This should be the same methodology used to determine the general service gallonage charge in this case. With this methodology, the general service customers would continue to pay their fair share of the cost of service.

Allocation of Reuse Costs Traditionally, costs associated with the provision of water service are allocated to the water customers, and those associated with the provision of wastewater service are allocated to the wastewater customers. The evolution of reuse of reclaimed water as a method of effluent disposal, aquifer recharge, and water conservation has brought change to the traditional allocation of revenue requirement. In recognition that water customers benefit from the conservation facilitated by reuse, it is appropriate to consider whether a portion of the wastewater or reuse costs should be shared by the water customers.

Section 367.0817, F.S., sets forth the Commission's authority to allocate the costs of providing reuse among any combination of a utility's customer base and recognizes that all customers benefit from the water resource protection afforded by reuse. Specifically, Section 367.0817(3), F.S., states:

> All prudent costs of a reuse project shall be recovered in rates. The Legislature finds that reuse benefits water, wastewater, and reuse customers. The commission shall allow a utility to recover the costs of a reuse project from the utility's water, wastewater, or reuse customers or any combination thereof as deemed appropriate by the commission.

This provision recognizes that all customers benefit from the water resource protection afforded by reuse.

Determining how much of the wastewater revenue requirement should be allocated to the water customers is difficult given the discretionary nature of Section 367.0817, F.S.. Although the statute acknowledges that reuse benefits water, wastewater and reuse customers, there is no guidance in the statute as to how to measure these benefits. In addition, the statute does not state when it is appropriate to undertake such an allocation or how much should be allocated. These decisions are left solely to the Commission's discretion.[32] Different criteria to consider in deciding whether and how much of a reuse system's costs may be allocated to water customers include but are not limited to: 1) recognition of perceived benefit; 2) average usage of the water customers; 3) the level of water rates; 4) the magnitude of the wastewater revenue increases; and 5) the need to send a stronger price signal to achieve water conservation.[33]

In the Utility's last rate case, the Commission approved shifting $500,000 of the wastewater system revenue requirement associated with the reuse facilities to the gallonage charge portion of the water rate structure.[34] This shifting of the revenue requirement associated with the reuse facilities to the water system was seen as a step toward designing a more aggressive water conversation rate structure geared to target those users with high levels of discretionary consumption. Given the high level of average residential consumption of 18.6 kgal/month that still exists in the instant case, staff believes that it is appropriate to continue to shift recovery of the reuse facility's revenue requirement to the gallonage charge portion of the water system rate structure. The reuse facility's revenue requirement is greater than staff's calculated wastewater revenue increase of $546,558. Therefore, staff recommends that the entire recommended wastewater revenue requirement increase of $546,558 be shifted to the gallonage portion of the water rate structure.

In addition to the recommended rate structure described above, staff also evaluated two alternative water rate structures. The first alternative rate structure consists of the same three-tiered rate structure described above, but without shifting the $546,558 from the wastewater revenue requirement to the water system revenue requirement. This leads to a slight decline in water system revenue requirements, a negligible change in customer bills, and no material change in consumption. The second alternative represents a continuation of the utility's current two-tiered rate structure with the rate factor for usage above 10 kgals being twice that for usage below 10 kgals. This rate structure results in approximately the same amount of conservation due to repression as staff's recommended rate structure. These rate structures and their resulting bills are shown on Table 25-1.

[32] Order No. PSC-96-1147-FOF-WS, issued September 12, 1996 in Docket No. 951258-WS, In re: Application for a rate increase in Brevard County by Florida Cities Water Company (Barefoot Bay Division), p. 47.
[33] Order No. PSC-02-1111-PAA-WS, issued August 13, 2002 in Docket No. 010823-WS, In re: Application for staff-assisted rate case in Seminole County by CWS Communities LP d/b/a Palm Valley, p. 33.
[34] Order No. PSC-07-0205-PAA-WS, issued March 6, 2007 in Docket No. 060258-WS, In re: Application for Increase in water and wastewater rates in Seminole County by Sanlando Utilities Corp.

Table 25-1

SANLANDO UTILITIES
STAFF'S RECOMMENDED AND ALTERNATIVE RATE STRUCTURES FOR TYPICAL RESIDENTIAL CUSTOMERS ON 5/8" x 3/4" METERS
POST-REPRESSION ANALYSIS

Current Rate Structure and Rates		Recommended Rate Structure and Rates	
BFC/uniform gallonage charge rate structure, with kgals included in the BFC (greater meter sizes have greater kgal allotments included)		Three-tiered inclining-blocks – consumption of 0-10 kgals, 10-15, 15+ kgals; rate factors at 1.0, 125, and 1.75; BFC = 25.65 percent	
BFC	$4.30	BFC	$4.36
0-10 kgals	$0.55	0-6 kgals (no repression adjustment)	$0.75
In excess of 10 kgals	$1.08	6.001-10 kgals	$0.79
		10.001-15 kgals	$0.99
		In excess of 15 kgals	$1.39
Typical Monthly Bills		**Typical Monthly Bills**	
Cons (kgal)		**Cons (kgal)**	
0	$4.30	0	$4.36
1	$4.85	1	$5.11
3	$5.95	3	$6.61
5	$7.05	5	$8.11
10	$9.80	10	$12.02
15	$15.20	15	$16.97
20	$20.60	20	$23.92
25	$26.00	25	$30.87
30	$31.40	30	$37.82
Alternative 1		**Alternative 2**	
Three-tiered inclining-blocks – consumption of 0-10 kgals, 10-15, 15+ kgals; rate factors at 1.0, 1.25, and 1.75; BFC = 25.65 percent Without Shifting $546,558 from Wastewater		Two-tiered inclining-blocks – consumption of 0-10 kgals, 10+ kgals rate factors of 1.0, and 2.0; BFC = 25.85 percent	
BFC	$4.36	BFC	$4.36
0-6 kgals (no repression adjustment)	$0.60	0-6 kgals (no repression adjustment)	$0.65
6.001-10 kgals	$0.60	6.001-10 kgals	$0.69
10.001-15 kgals	$0.75	In Excess of 10 kgals	$1.38
In excess of 15 kgals	$1.05		
Typical Monthly Bills		**Typical Monthly Bills**	
Cons (kgal)		**Cons (kgal)**	
0	$4.36	0	$4.36
1	$4.96	1	$5.01
3	$6.16	3	$6.31
5	$7.36	5	$7.61
10	$10.36	10	$11.02
15	$14.11	15	$17.92
20	$19.36	20	$24.82
25	$24.61	25	$31.72
30	$29.86	30	$38.62

Wastewater Rates The utility's current wastewater system rate structure consists of a BFC/gallonage charge rate structure. Prior to filing for rate relief, the BFC for 5/8" x 3/4" meter customers was $12.18 per month. The corresponding monthly gallonage charge for residential service was $1.61, capped at 10 kgal of usage, while the general service gallonage charge rate was 1.2 times greater than the residential charge, at $1.93 per kgal, with no usage cap.

As a consequence of shifting the entire recommended increase in wastewater revenue requirement of $546,558 to the water system, there would be no need to increase wastewater rates if staff's recommendation is approved. Therefore, staff recommends that the utility's current wastewater rate structure and rates remain unchanged. If, however, the Commission decides not to shift the $546,558 in wastewater revenue requirement to the water system, the resulting wastewater rates would increase by approximately 15.2 percent to a BFC for 5/8" x 3/4" meter customers of $14.01. The monthly gallonage charge for a residential customer would increase to $1.85 and for a general service customer to $2.22.

Based on the foregoing, the appropriate rate structure for the water system's residential class is a change to a three-tier inclining-block rate structure. The appropriate usage blocks are for monthly usage of 0-10 kgal in the first usage block, 10.001-15 kgal in the second usage block, and in excess of 15 kgal in the third usage block. The appropriate rate factors are 1.0, 1.25, and 1.75, respectively. The appropriate rate structure for the water system's nonresidential classes is a continuation of its base facility charge (BFC)/uniform gallonage charge rate structure. The BFC cost recovery percentage for the water system should be set at 25.65 percent. The entire water system revenue increase should be applied to the gallonage charge. In addition, $546,558 of the wastewater system revenue requirement associated with the reuse facilities should be reallocated to the water system's gallonage charge. The appropriate rate structure for the wastewater system is a continuation of the BFC/gallonage charge rate structure. The residential wastewater monthly gallonage cap should be set at 10 kgal. The wastewater rates prior to filing should remain unchanged.

Issue 26: Are repression adjustments appropriate in this case, and, if so, what are the appropriate adjustments to make for this utility, what are the corresponding expense adjustments to make and what are the final revenue requirements for respective water and wastewater systems?

Recommendation: Yes, a repression adjustment to the water system is appropriate for this utility. For the water system, test year residential kgal sold should be reduced by 110,231 kgal to 2,004,186 kgal, purchased power expense should be reduced by $18,123, chemicals expenses should be reduced by $3,407 and RAFs should be reduced by $1,014. The final post-repression revenue requirement for the water system should be $3,586,885. Staff recommends no repression adjustment to the wastewater system.

In order to monitor the effect of the rate structure and rate changes, the utility should be ordered to file reports detailing the number of bills rendered, the consumption billed and the revenues billed on a monthly basis. In addition, the reports should be prepared by customer class, usage block, and meter size. The reports should be filed with staff, on a semi-annual basis, for a period of two years beginning with the first billing period after the approved rates go into effect. To the extent the utility makes adjustments to consumption in any month during the reporting period, the utility should be ordered to file a revised monthly report for that month within 30 days of any revision. (Stallcup, Thompson)

Staff Analysis: Staff conducted a detailed analysis of the consumption patterns of the utility's residential customers as well as the increase in residential bills resulting from the increase in revenue requirements. This analysis showed that a very small portion (7.5 percent) of the residential bills rendered during the test year were for consumption levels below 1 kgal per month. This indicates that the bulk of the customer base of the utility are full time residents. This analysis also showed that average residential consumption per customer was 18.610 kgal per month. This level of consumption indicates that there is a very high level of discretionary, or non-essential, consumption of approximately 12.610 kgal per customer per month. Discretionary usage, such as outdoor irrigation, is relatively responsive to changes in price, and is therefore subject to the effects of repression.

Using our database of utilities that have previously had repression adjustments made, staff calculated a repression adjustment for this utility based upon the recommended increase in revenue requirements in this case, and the historically observed response rates of consumption to changes in price. This is the same methodology for calculating repression adjustments that the Commission has approved in prior cases. This methodology also restricts any price changes due to repression from being applied to non-discretionary consumption (consumption less than 6 kgals per month), and allocates all cost recovery due to repression to discretionary levels of consumption (consumption above 6 kgals per month). Based on this methodology, staff calculated that test year residential consumption for this utility should be reduced by 110,231 kgal. purchased power expense should be reduced by $18,123, chemicals expenses should be reduced by $3,407 and RAFs should be reduced by $1,014. The final post-repression revenue requirement for the water system should be $3,586,885. Because staff is recommending that wastewater rates remain unchanged, staff recommends no repression adjustment to the wastewater system.

In order to monitor the effect of the rate changes, the utility should be ordered to file reports detailing the number of bills rendered, the consumption billed, and the revenues billed on a monthly basis. In addition, the reports should be prepared by customer class, usage block, and meter size. The reports should be filed with staff, on a semi-annual basis, for a period of two years beginning with the first billing period after the approved rates go into effect. To the extent the utility makes adjustments to consumption in any month during the reporting period, the utility should be ordered to file a revised monthly report for that month within 30 days of any revision.

Issue 27: What are the appropriate monthly rates for the water and wastewater systems for the utility?

Recommendation: The appropriate monthly water rates are shown on Schedule No. 4-A. The appropriate wastewater monthly rates are shown on Schedule No. 4-B. Excluding miscellaneous service charges, the recommended water rates produce revenues of $3,586,885. Excluding miscellaneous service charges, the recommended wastewater rates produce revenues of $3,599,134. The Utility should file revised water and wastewater tariff sheets and a proposed customer notice to reflect the Commission-approved rates for the water and wastewater systems. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Stallcup, Linn)

Staff Analysis: Excluding miscellaneous service charges, the recommended rates for the water system are designed to produce annual revenues of $3,586,885. Excluding miscellaneous service charges, the recommended rates for the wastewater system are designed to produce annual revenues of $3,599,134. Approximately 26.2 percent (or $939,764) of the water monthly service revenues is recovered through the base facility charges, while approximately 73.8 percent (or $2,647,121) represents revenue recovery through the consumption charges. As staff is not recommending revisions to the Utility's wastewater or reuse rates, the Utility should file revised water tariff sheets and a proposed customer notice to reflect the Commission-approved rates for the water system. The approved water rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved water rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

A comparison of the Utility's original rates, requested rates, and staff's recommended water, wastewater and reuse rates are shown on Schedules Nos. 4-A and 4-B, respectively.

OTHER ISSUES

Issue 28: In determining whether any portion of the interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund if any?

Recommendation: The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense and other items not in effect during the interim period. Because of the reallocation of wastewater revenues, staff recommends using Sanlando's total net percentage of the interim refund. This would result in a water refund of 2.38 percent. Further, the surety bond should be released upon staff's verification that the required refunds have been made. (Linn)

Staff Analysis: By Order No. PSC-10-0018-PCO-WS, the Commission approved an interim revenue requirement of $3,397,716 for water and $3,964,451 for wastewater.[35] This represents an increase of $171,388 or 5.31 percent for water and $401,564 or 11.27 percent for wastewater. The interim collection period is January 2010 through July 2010.

According to Section 367.082, F.S., any refund should be calculated to reduce the rate of return of the Utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates are in effect should be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates is the 12-month period ending December 31, 2008. Sanlando's approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the lower limit of the last authorized range for equity earnings.

To establish the proper refund amount, staff has calculated interim period revenue requirements utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period. Using the principles discussed above, the interim test year revenue requirements of $3,397,716 for water and $3,964,451 for wastewater, granted in order PSC-10-0018-PCO-WS, are greater than the revenue requirement for water by 10.49 percent and less than the revenue requirement for wastewater by 4.57 percent. This would result in a 10.49 percent water refund and no refund for wastewater.

However, as stated in Issue 25 above, staff is recommending that the wastewater revenue increase of $546,558 related to the Utility's reuse system be shifted and reallocated to the water system. Because of the reallocation of these revenues, staff recommends using Sanlando's total net percentage of the interim refund. This would result in a water refund of 2.38 percent. Further, the surety bond should be released upon staff's verification that the required refunds have been made.

[35] See Order No. PSC-10-0018-PCO-WS, issued January 6, 2010.

Issue 29: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S.?

Recommendation: The water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B to remove $32,893 of water rate case expense and $25,844 of wastewater rate case expense (grossed-up for regulatory assessment fees). The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than 30 days prior to the actual date of the required rate reduction. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Linn)

Staff Analysis: Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization 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, the associated return included in working capital, and the gross-up for RAFs, which is $58,737. This amount is comprised of $32,893 for water and $25,844 for wastewater. The decreased revenue will result in the rate reduction recommended by staff on Schedule No. 4-A and Schedule No. 4-B.

The Utility should be required to file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

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

Issue 30: Should the Utility's request for approval of a Non-Sufficient Funds fee be granted?

Recommendation: Yes. The Utility's requested Non-Sufficient Funds (NSF) fee should be approved. The NSF fee should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given no less than 10 days after the date of the notice. (Linn)

Staff Analysis: Section 367.091, F.S., requires that rates, charges, and customer service policies be approved by the Commission. The Commission has authority to establish, increase, or change a rate or charge. Sanlando has requested an NSF fee in accordance with the Section 832.08(5), F.S.

Staff believes that Sanlando should be authorized to collect an NSF fee. Staff believes the NSF fee should be established consistent with Section 68.065, F.S., which allows for the assessment of charges for the collection of worthless checks, drafts, or orders of payment. As currently set forth in Sections 68.065(2) and 832.08(5), F.S., the following fees may be assessed:

1.) $25, if the face value does not exceed $50,

2.) $30, if the face value exceeds $50 but does not exceed $300,

3.) $40, if the face value exceeds $300, or

4.) five percent of the face amount of the check, whichever is greater.

Staff recommends that Sanlando's tariff for an NSF fee be revised to reflect the charges set by Sections 68.065(2) and 832.08(5) F.S. Approval of an NSF fee is consistent with prior Commission decisions.[36] As such, staff recommends that Sanlando's proposed NSF fee be approved. This fee should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C.

[36] See Order Nos. PSC-08-0831-PAA-WS, issued December 23, 2008, in Docket No. 070680-WS, In re: Application for staff-assisted rate case in Pasco County by Orangewood Lakes Services, Inc.; and PSC-97-0531-FOF-WU, issued May 9, 1997, in Docket No. 960444-WU, In re: Application for rate increase and for increase in service availability charges in Lake County by Lake Utility Services, Inc., at p.20; and PSC-10-0168-PAA-SU, issued March 23, 2010, in Docket No. 090182-SU, In re: Application for increase in wastewater rates in Pasco County by Ni Florida, LLC; and PSC-94-0036-FOF-TL, issued January 11, 1994, in Docket No. 930901-TL, In re: Request for approval of tariff filing to increase service connection charges and establish a non-sufficient funds check charge by Vista-United Telecommunications.

Issue 31: Should the Utility be required to provide proof that it has adjusted its books for all Commission approved adjustments?

Recommendation: Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, Sanlando should provide proof, within 90 days of the final order in this docket, that the adjustments for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts primary accounts have been made. (Linn)

Staff Analysis: To ensure that the Utility adjusts its books in accordance with the Commission's decision, Sanlando should provide proof, within 90 days of the final order in this docket, that the adjustments for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts primary accounts have been made.

Issue 32: Should this docket be closed?

Recommendation: No. If no timely protest is filed by a substantially affected person within 21 days of the Proposed Agency Action Order, a Consummating Order should be issued and the corporate undertaking released. However, the docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. (Bennett, Linn)

Staff Analysis: If no timely protest is filed by a substantially affected person within 21 days of the Proposed Agency Action Order, a Consummating Order should be issued and the corporate undertaking released. However, the docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff.

Sanlando Utilities Corporation
Schedule of Water Rate Base
Test Year Ended 12/31/08

Schedule No. 1-A
Docket No. 090402-WS

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	Staff Adjust-ments	Staff Adjusted Test Year
1	Plant in Service	$19,643,029	($490,836)	$19,152,193	($821,967)	$18,330,226
2	Land and Land Rights	130,342	(33,628)	96,714	0	96,714
3	Accumulated Depreciation	(10,099,856)	137,467	(9,962,389)	250,590	(9,711,799)
4	CIAC	(11,951,929)	582,948	(11,368,981)	0	(11,368,981)
5	Amortization of CIAC	8,287,105	(144,788)	8,142,317	244,422	8,386,739
6	CWIP	3,021,010	(3,021,010)	0	0	0
7	Working Capital Allowance	0	299,821	299,821	3,285	303,106
8	**Rate Base**	$9,029,701	($2,670,026)	$6,359,675	($323,670)	$6,036,005

Sanlando Utilities Corporation
Schedule of Wastewater Rate Base
Test Year Ended 12/31/08

Schedule No. 1-B
Docket No. 090402-WS

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	Staff Adjust-ments	Staff Adjusted Test Year
1	Plant in Service	$24,962,220	$2,238,414	$27,200,634	($1,398,339)	$25,802,295
2	Land and Land Rights	203,378	6,675	210,053	0	210,053
3	Accumulated Depreciation	(11,968,283)	(484,909)	(12,453,192)	264,374	(12,188,818)
4	CIAC	(13,236,312)	698,756	(12,537,556)	0	(12,537,556)
5	Amortization of CIAC	9,263,728	10,206	9,273,934	233,333	9,507,267
6	CWIP	32,289	(32,289)	0	0	0
7	Working Capital Allowance	0	372,628	372,628	2,497	375,125
8	**Rate Base**	$9,257,020	$2,809,481	$12,066,501	($898,136)	$11,168,365

	Sanlando Utilities Corporation Adjustments to Rate Base Test Year Ended 12/31/08	Schedule No. 1-C Docket No. 090402-WS	
	Explanation	**Water**	**Wastewater**
	Plant In Service		
1	To reflect audit adjustments agreed to by the utility and staff. (Issue 2)	($3,039)	($25,980)
2	To reflect Project Phoenix Adjustment. (Issue 3)	(65,210)	(51,237)
3	To reflect appropriate UPIS. (Issue 4)	(798,818)	(644,145)
4	To reflect pro forma adjustment. (Issue 5)	40,618	(687,500)
5	To reflect appropriate UPIS. (Issue 13)	4,483	10,522
	Total	($821,967)	($1,398,339)
	Accumulated Depreciation		
1	To reflect audit adjustments agreed to by the utility and staff. (Issue 2)	$60	$30,890
2	To reflect Project Phoenix Adjustment. (Issue 3)	20,251	17,251
3	To reflect appropriate Acc. Depr. (Issue 4)	231,120	181,971
4	To reflect pro forma adjustment. (Issue 5)	(783)	34,536
5	To reflect the deferred maintenance adjustment. (Issue 13)	(58)	(274)
	Total	$250,590	$264,374
	Accumulated Amortization of CIAC		
1	To reflect audit adjustments agreed to by the utility and staff. (Issue 2)	$235,903	$233,333
2	To reflect CIAC service lines. (Issue 7)	8,519	0
	Total	$244,422	$233,333
	Working Capital		
1	To reflect audit adjustments agreed to by the utility and staff. (Issue 2)	$9,242	$7,178
2	To reflect deferred rate case adjustment to working capital. (Issue 8)	(5,957)	(4,681)
	Total	$3,285	$2,497

Sanlando Utilities Corporation
Capital Structure-Simple Average
Test Year Ended 12/31/08

Schedule No. 2
Docket No. 090402-WS

	Description	Total Capital	Specific Adjust-ments	Subtotal Adjusted Capital	Prorata Adjust-ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility									
1	Long-term Debt	$180,000,000	$0	$180,000,000	($171,457,106)	$8,542,894	46.36%	6.65%	3.08%
2	Short-term Debt	39,713,462	0	39,713,462	(37,828,208)	1,885,254	10.23%	4.30%	0.44%
3	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4	Common Equity	158,595,058	0	158,595,058	(151,068,405)	7,526,653	40.85%	11.24%	4.59%
5	Customer Deposits	86,777	0	86,777	0	86,777	0.47%	6.00%	0.03%
6	Deferred Income Taxes	384,596	0	384,596	0	384,596	2.09%	0.00%	0.00%
7	**Total Capital**	$378,779,893	$0	$378,779,893	($360,353,719)	$18,426,174	100.00%		8.14%
Per Staff									
8	Long-term Debt	$180,000,000	$0	$180,000,000	($172,038,404)	$7,961,596	46.28%	6.65%	3.08%
9	Short-term Debt	39,713,462	0	39,713,462	(37,956,892)	1,756,570	10.21%	4.30%	0.44%
10	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
11	Common Equity	158,595,058	0	158,595,058	(151,580,226)	7,014,832	40.77%	11.17%	4.56%
12	Customer Deposits	86,777	0	86,777	0	86,777	0.50%	6.00%	0.03%
13	Deferred Income Taxes	384,596	0	384,596	0	384,596	2.24%	0.00%	0.00%
14	**Total Capital**	$378,779,893	$0	$378,779,893	($361,575,522)	$17,204,371	100.00%		8.10%

	LOW	HIGH
RETURN ON EQUITY	10.17%	12.17%
OVERALL RATE OF RETURN	7.69%	8.51%

	Sanlando Utilities Corporation Statement of Water Operations Test Year Ended 12/31/08						Schedule No. 3-A Docket No. 090402-WS	
	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:**	$3,061,746	$572,761	$3,634,507	-$408,341	$3,226,166	-$136,317 -4.23%	$3,089,848
	Operating Expenses							
2	Operation & Maintenance	$2,195,615	($118,099)	$2,077,516	($334,711)	$1,742,805		$1,742,805
3	Depreciation	424,469	(96,931)	327,538	(20,127)	307,411		307,411
4	Taxes Other Than Income	396,002	23,119	419,121	(28,311)	390,810	(6,134)	384,676
5	Income Taxes	(37,428)	330,083	292,655	(77,765)	214,890	(48,988)	165,902
6	**Total Operating Expense**	$2,978,658	$138,172	$3,116,830	($460,913)	$2,655,917	($55,122)	$2,600,795
7	**Operating Income**	$83,088	$434,589	$517,677	$52,572	$570,249	($81,195)	$489,054
8	**Rate Base**	$9,029,701		$6,359,675		$6,036,005		$6,036,005
9	**Rate of Return**	0.92%		8.14%		9.45%		8.10%

Sanlando Utilities Corporation
Statement of Wastewater Operations
Test Year Ended 12/31/08

Schedule No. 3-B
Docket No. 090402-WS

	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:**	$3,439,261	$706,431	$4,145,692	($546,558)	$3,599,134	$546,558 15.19%	$4,145,692
	Operating Expenses							
2	Operation & Maintenance	$1,965,278	$118,545	$2,083,823	$119,847	$2,203,670		$2,203,670
3	Depreciation	352,743	187,608	540,351	(54,262)	486,089		486,089
5	Taxes Other Than Income	359,429	38,881	398,310	(22,892)	375,418	24,595	400,013
6	Income Taxes	(28,582)	169,577	140,995	(89,122)	51,873	196,415	248,288
7	**Total Operating Expense**	$2,648,868	$514,611	$3,163,479	($46,430)	$3,117,049	$221,010	$3,338,059
8	**Operating Income**	$790,393	$191,820	$982,213	($500,128)	$482,085	$325,548	$807,633
9	**Rate Base**	$9,257,020		$12,066,501		$11,168,365		$11,168,365
10	**Rate of Return**	8.54%		8.14%		4.32%		7.23%

	Sanlando Utilities Corporation Adjustment to Operating Income Test Year Ended 12/31/08	Schedule 3-C Docket No. 090402-WS	
	Explanation	**Water**	**Wastewater**
	Operating Revenues		
1	Remove requested final revenue increase.	($460,784)	($582,806)
2	To reflect annualized revenues. (Issue 12)	52,443	36,248
	Total	($408,341)	($546,558)
	Operation and Maintenance Expense		
1	To reflect audit adjustments agreed to by the utility and staff. (Issue 2)	($3,201)	($2,486)
2	To reflect appropriate O & M expenses. (Issue 4)	0	12,480
3	To reflect appropriate O & M expenses. (Issue 13)	(36,834)	(60,991)
4	To reflect the appropriate amount of employee salary& benefits. (Issue 1	0	199,166
5	To reflect appropriate expenses related to mailing bills. (Issue 15)		(709)
6	To reflect chemical expense adjustment. (Issue 16)	(9,009)	(1,435)
7	To reflect relocation expense adjustment. (Issue 17)	(3,783)	(3,389)
8	To reflect transportation expense adjustment. (Issue 18)	(7,180)	(5,642)
9	To reduce current rate case expense. (Issue 19)	(6,107)	(4,798)
10	To reduce rate case expense from last rate case. (Issue 20)	(11,468)	(9,168)
11	To reflect bad debt expense adjustment. (Issue 21)	(2,821)	(3,181)
	Total	($80,404)	$119,847
	Depreciation Expense - Net		
1	To reflect audit adjustments agreed to by the utility and staff. (Issue 2)	($222)	($1,485)
2	To reflect Project Phoenix Adjustment. (Issue 3)	(20,251)	(17,251)
3	To reflect UPIS adjustment. (Issue 4)	(791)	(1,550)
4	To reflect pro forma adjustment. (Issue 5)	783	(34,536)
5	To reflect appropriate Depreciation expenses. (Issue 13)	353	560
	Total	($20,127)	($54,262)
	Taxes Other Than Income		
1	RAFs on revenue adjustments above.	($18,375)	($24,595)
2	To reflect audit adjustments agreed to by the utility and staff. (Issue 2)	7,614	2,715
3	To reflect pro forma adjustment. (Issue 5)	1,390	(10,070)
4	To reflect the payroll tax adjustment. (Issue 14)	(15,237)	11,933
5	To reflect audit adjustments for taxes other then income. (Issue 22)	(3,702)	(2,875)
	Total	($28,311)	($22,892)

Sanlando Utilities Corporation Water Monthly Service Rates Test Year Ended 12/31/08				Schedule No. 4-A Docket No. 090402-WS	
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	4-year Rate Reduction
Residential, General Service and Multi-Family					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	$4.36	$4.91	$4.91	$4.36	$0.05
3/4"	$6.55	$7.37	$7.37	$6.54	$0.07
1"	$10.90	$12.28	$12.28	$10.90	$0.12
1-1/2"	$21.80	$24.55	$24.55	$21.80	$0.23
2"	$0.00	$39.28	$39.28	$34.88	$0.37
3"	$0.00	$73.65	$73.65	$69.76	$0.74
4"	$0.00	$122.75	$122.75	$109.00	$1.16
6"	$0.00	$245.50	$245.50	$218.00	$2.32
8"	$0.00	$392.80	$392.80	$348.80	$3.71
Gallonage Charge					
0-10,000 gallons	$0.56	$0.63	$0.63		
over 10,000 gallons	$1.10	$1.24	$1.24		
per 1,000 gallons	$0.86	$0.97	$0.97		
0-6,000 gallons				$0.75	$0.01
6,001-10,000 gallons				$0.79	$0.01
10,001-15,000 gallons				$0.99	$0.01
Over 15,000 gallons				$1.39	$0.01
Private Fire Protection					
Base Facility Charge by Meter Size:					
1-1/2"	$1.82	$2.05	$2.05	$1.82	$0.02
2"	$2.90	$3.26	$3.26	$2.91	$0.03
4"	$9.08	$10.22	$10.22	$9.08	$0.10
6"	$18.17	$20.46	$20.46	$18.17	$0.19
8"	$29.06	$32.73	$32.73	$29.07	$0.31
		Typical Residential Bills 5/8" x 3/4" Meter			
3,000 Gallons	$6.94	$7.82	$7.82	$6.61	
5,000 Gallons	$8.66	$9.76	$9.76	$8.11	
10,000 Gallons	$12.96	$14.61	$14.61	$12.02	

Sanlando Utilities Corporation Wastewater Monthly Service Rates Test Year Ended 12/31/08				Schedule No. 4-B Docket No. 090402-WS	
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	4-year Rate Reduction
Residential					
Base Facility Charge All Meter Sizes:	$12.18	$14.04	$14.04	$12.18	$0.08
Base Facility Wholesale:	$25.76	$29.70	$29.70	$25.76	$0.16
Gallonage Charge - Per 1,000 gallons (10,000 gallon cap)	$1.61	$1.85	$1.85	$1.61	$0.01
Multi-Residential					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	$12.18	$14.04	$14.04	$12.18	$0.08
3/4"	$18.27	$21.06	$21.06	$18.27	$0.11
1"	$30.43	$35.10	$35.10	$30.43	$0.19
1-1/2"	$60.84	$70.20	$70.20	$60.84	$0.38
2"	$97.34	$112.32	$112.32	$97.34	$0.61
3"	$194.67	$210.60	$210.60	$194.67	$1.21
4"	$304.17	$351.00	$351.00	$304.17	$1.90
6"	$608.38	$702.00	$702.00	$608.38	$3.79
8"	$973.39	$1,123.20	$1,123.20	$973.39	$6.07
Base Facility Wholesale:	$25.76	$29.70	$29.70	$25.76	$0.16
Gallonage Charge, per 1,000 Gallons	$1.95	$2.24	$2.24	$1.95	$0.01
General Service					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	$12.18	$14.04	$14.04	$12.18	$0.08
3/4"	$18.27	$21.06	$21.06	$18.27	$0.11
1"	$30.43	$35.10	$35.10	$30.43	$0.19
1-1/2"	$60.48	$70.20	$70.20	$60.48	$0.38
2"	$97.34	$112.32	$112.32	$97.34	$0.61
3"	$194.67	$210.60	$210.60	$194.67	$1.21
4"	$304.17	$351.00	$351.00	$304.17	$1.90
6"	$608.38	$702.00	$702.00	$608.38	$3.79
8"	$973.39	$1,123.20	$1,123.20	$973.39	$6.07
Base Facility Wholesale:	$25.76	$29.70	$29.70	$25.76	$0.16
Gallonage Charge, per 1,000 Gallons	$1.95	$2.24	$2.24	$1.95	$0.01
Reuse					
Residential Reuse	$3.74	$4.31	$4.31	$3.74	$0.02
Gall. Charge, per 1,000 Gallons	$0.40	$0.46	$0.46	$0.40	$0.00
		Typical Residential Bills 5/8" x 3/4" Meter			
3,000 Gallons	$17.01	$19.59	$19.59	$17.01	$0.11
5,000 Gallons	$20.23	$23.29	$23.29	$20.23	$0.13
10,000 Gallons	$28.28	$32.54	$32.54	$28.28	$0.18
(Wastewater Gallonage Cap - 10,000 Gallons)					