

State of Florida



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

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COMMISSION  
CLERK

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**DATE:** December 28, 2011

**TO:** Office of Commission Clerk (Cole)

**FROM:** Division of Economic Regulation (Cicchetti, Fletcher, Maurey, Daniel, Simpson) *MC BZ*  
Office of the General Counsel (Jaeger) *CSB PD*

**RE:** Docket No. 110257-WS – Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation.

**AGENDA:** 1/10/12 – Regular Agenda – Decision on Suspension of Rates and Interim Rates – Participation is at the Discretion of the Commission

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Brisé

**CRITICAL DATES:** 60-Day Suspension Waived Through 01/10/12

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\ECR\WP\110257.RCM.DOC

**Case Background**

Sanlando Utilities Corporation (Sanlando or Utility) is a Class A utility providing water and wastewater service to approximately 10,163 water and 8,272 wastewater customers in Seminole County. Water and wastewater rates were last established for this Utility in its 2009 rate case.<sup>1</sup>

On October 31, 2011, Sanlando filed its application for the rate increase at issue in the instant docket. The Utility's application did not meet the minimum filing requirements (MFRs). On November 30, 2011, staff sent Sanlando a letter indicating a deficiency in the filing of the

<sup>1</sup> See Order No. PSC-10-0423-PAA-WS, issued July 1, 2010, in Docket No. 090402-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation.

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MFRs. The Utility responded on December 22, 2011, which corrected its deficiencies; therefore, the official filing date has been established as December 22, 2011. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and requested interim rates. The test year established for interim and final rates is the 13-month average period ended December 31, 2010.

Sanlando requested interim revenue increases of \$365,417 (10.4 percent) for water and \$451,004 (13.5 percent) for wastewater. The Utility requested final revenue increases of \$475,925 (13.5 percent) for water and \$1,199,705 (34.7 percent) for wastewater.

The original 60-day statutory deadline for the Commission to suspend the Utility's requested final rates and approve interim rates was December 31, 2011. However, by letter dated November 18, 2011, the Utility agreed to extend the time by which the Commission is required to suspend the proposed rates and authorize interim rates through the January 10, 2012 Commission Conference. This recommendation addresses the suspension of Sanlando's requested final rates and the Utility's requested interim rates. The Commission has jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes (F.S.).

**Discussion of Issues**

**Issue 1:** Should the Utility's proposed final water and wastewater rates be suspended?

**Recommendation:** Yes. Sanlando's proposed final water and wastewater rates should be suspended. (Cicchetti, Fletcher)

**Staff Analysis:** Section 367.081(6), F.S., provides that the Commission may, for good cause, withhold consent to the implementation of the requested rates within 60 days after the date the rate request is filed. Further, Section 367.081(8), F.S., permits the proposed rates to go into effect (secured and subject to refund) at the expiration of five months from the official date of filing if: (1) the Commission has not acted upon the requested rate increase; or (2) if the Commission's PAA action is protested by a party other than the Utility.

Staff has reviewed the filing and has considered the information filed in support of the rate application and the proposed final rates. Staff believes that it is necessary to require further investigation of this information, including on-site investigations by staff accountants and engineers. To date, staff has initiated an audit of Sanlando's books and records, as well as an audit of Utilities, Inc. (UI), the Utility's parent, to examine allocated investment and operating expenses. Both of these audits are tentatively due on January 20, 2012. In addition, staff sent its first data request on December 27, 2011. The Utility's response to this data request is due on January 26, 2012. Further, staff believes additional requests will be necessary to process this case. Based on the foregoing, staff recommends suspension of the Utility's proposed rate increase.

**Issue 2:** Should any interim revenue increases be approved?

**Recommendation:** Yes, Sanlando should be authorized to collect annual water and wastewater revenues as indicated below:

	<u>Adjusted Test Year Revenues</u>	<u>\$ Increase</u>	<u>Revenue Requirement</u>	<u>% Increase</u>
Water	\$3,394,397	\$488,014	\$3,882,411	14.38%
Wastewater	\$3,525,012	\$382,524	\$3,907,533	10.85%

(Cicchetti, Fletcher)

**Staff Analysis:** On October 31, 2011, Sanlando filed its rate base, cost of capital, and operating statements to support its requested interim increase in water and wastewater rates. Pursuant to Section 367.082(1), F.S., in order to establish a prima facie entitlement for interim relief, the Utility shall demonstrate that it is earning outside the range of reasonableness on its rate of return. Pursuant to Section 367.081(2)(a), F.S., in a proceeding for an interim increase in rates, the Commission shall authorize, within 60 days of the filing for such relief, the collection of rates sufficient to earn the minimum of the range of rate of return. Based on the Utility's filing and the recommended adjustments below, staff believes that the Utility has demonstrated a prima facie entitlement in accordance with Section 367.082(1), F.S., for its water and wastewater systems.

Pursuant to Section 367.082(5)(b)1., F.S., the achieved rate of return for interim purposes must be calculated by applying adjustments consistent with adjustments made in the Utility's most recent rate proceeding and annualizing any rate changes. Staff has reviewed Sanlando's interim request, as well as Order No. PSC-10-0423-PAA-WS, in which the Commission last established rate base. Staff's recommended adjustments are discussed below. Staff has attached accounting schedules to illustrate staff's recommended rate base, capital structure, and test year operating income amounts. Rate base is labeled as Schedule Nos. 1-A and 1-B. Capital structure is labeled as Schedule No. 2. Operating income for water and wastewater, respectively, are labeled as Schedule Nos. 3-A and 3-B, with the adjustments shown on Schedule No. 3-C.

#### RATE BASE

Pursuant to Section 367.082(5)(b)1., F.S., the achieved rate of return for interim purposes must be calculated by applying adjustments consistent with adjustments made in the Utility's most recent rate proceeding and annualizing any rate changes. Based on staff's review, an adjustment to rate base is necessary to remove amounts associated with the Utility's Phoenix Project to be consistent with the last rate case. Accordingly, staff has reduced rate base by \$71,674 for water and \$58,337 for wastewater, and reduced accumulated depreciation by \$4,157 and \$3,384, respectively.

Pursuant to Rule 25-30.433(2), Florida Administrative Code (F.A.C.), working capital for class A utilities shall be calculated using the Balance Sheet Method. To appropriately reflect

deferred rate case expense, staff increased working capital by \$19,494 for water and \$15,039 for wastewater. This adjustment was calculated by taking one-half of the 13-month average of the test year deferred rate case expense. This treatment is consistent with the methodology applied in the last rate case.

Pursuant to Section 367.082, F.S., the method used to calculate Used and Useful (U&U) in Sanlando's last rate case must be used for interim purposes. In Order No. PSC-10-0423-PAA-WS, the Commission found that Sanlando's water and wastewater systems should be considered 100 percent U&U. Therefore, no U&U adjustments are necessary for interim purposes.

Based on the above, staff recommends that Sanlando's interim water rate base be established at \$8,799,520, and the wastewater rate base be established at \$10,770,676.

### COST OF CAPITAL

Based on an analysis of the MFRs and staff's review of Order No. PSC-10-0423-PAA-WS from the Utility's last rate proceeding, staff believes no cost of capital adjustments are necessary. Therefore, staff recommends an interim weighted average cost of capital of 7.93 percent.

### NET OPERATING INCOME

To attain the appropriate amount of interim test year operating revenues, staff first removed the requested interim revenue increase of \$365,417 for water and \$451,004 for wastewater from the Utility's requested revenues. Staff then adjusted operating revenues to reflect the appropriate amount of annualized revenues by decreasing water operating revenues by \$122,597 and increasing wastewater revenues by \$68,480. Based on the staff's revenue adjustment, the appropriate amount of operating revenues are \$3,394,397 for water and \$3,525,012 for wastewater.

Pursuant to Section 367.082(5)(b)1., F.S., the achieved rate of return for interim purposes must be calculated by applying adjustments consistent with adjustments made in the Utility's most recent rate proceeding and annualizing any rate changes. Based on staff's review, several adjustments to operation and maintenance (O&M) expenses, depreciation, and taxes other than income (TOTI) taxes are necessary for interim purposes.

First, regarding O&M expenses, Sanlando included a net adjustment to water O&M of \$58,298 and a net adjustment to wastewater of \$34,114 related to salaries, employee pensions and benefits, and transportation expense. In its filing, the Utility stated these adjustments were to correct allocations and to annualize salary and related expenses. Staff believes the Utility's proposed adjustments for annualizing salary and related expenses are pro forma because they are outside the interim test year. Since Sanlando did not provide a breakdown of what amount related to correcting allocations and to annualizing salary and related expenses, staff recommends that the net adjustment of \$58,298 for water and the net adjustment of \$34,114 for wastewater be removed from the interim net operating income calculation. Finally, adjustments should be made to increase pro forma payroll taxes by \$7,620 for water and decrease payroll taxes by \$5,946 for wastewater.

Second, in its last rate proceeding, the Commission disallowed the costs associated with duplicative billing, that is, a separate wastewater bill in addition to a reuse bill. Accordingly, staff has adjusted O&M expenses by \$1,135 for wastewater to remove the cost of duplicative billing.

Third, staff has adjusted bad debt expense by \$12,837 for water and \$9,927 for wastewater to reflect the 3-year average for bad debt expense consistent with the last rate case.

Fourth, in its last rate proceeding, the Commission approved an annual amortization of rate case expense of \$27,032 for water and \$21,240 for wastewater. In its MFRs, the Utility recorded rate case expense of \$35,278 for water and \$28,573 for wastewater. Pursuant to Section 367.082(5)(b)1., F.S., staff reduced expenses by \$8,246 (\$35,278 - \$27,032) for water and \$7,333 (\$28,573 - \$21,240) for wastewater.

Fifth, staff has reduced the expense for salaries and pensions by \$188,641 for water and increased the expense for salaries and pensions for wastewater by \$207,844 to reflect the benchmark adjustment for customer growth and inflation used in the last rate case.

Sixth, staff reduced depreciation expense by \$55,131 for water and \$44,873 for wastewater to reflect the adjustment made to rate base for the Phoenix Project discussed earlier.

Seventh, staff reversed the Utility's adjustment to annualize contributions in aid of construction (CIAC) amortization for plant additions during the test year because the annualized numbers are not actual interim test year expenses. The amount to remove annualized CIAC amortization expense is \$1,087 for water and \$1,361 for wastewater.

Eighth, staff lowered taxes other than income (TOTI) by \$21,961 for water and \$17,214 for wastewater to reflect the revenue adjustments cited above; increased TOTI by \$7,620 for water and decreased TOTI by \$5,946 to reflect the adjustment to annualized salaries and expenses, and finally; staff reduced payroll taxes for water by \$11,044 and increased payroll taxes by \$12,169 for wastewater to reflect payroll taxes consistent with the last rate case.

Based on the above, staff recommends that the appropriate test year operating income, before any revenue increase, is \$608,007 for water and \$263,225 for wastewater.

#### REVENUE REQUIREMENT

In its filing, Sanlando requested revenue requirements of \$3,882,411 for water and \$3,907,537 for wastewater. In the last rate proceeding, the Commission shifted \$546,558 from the wastewater revenue requirement to the water revenue requirement. In accordance with Section 367.082(5)(b)1., F.S., the same amount should be shifted for interim purposes.

Before any revenue requirement shifting adjustments, staff calculated water and wastewater revenue requirements of \$3,545,369 and \$4,517,313, respectively, which represented a revenue increase of \$150,9720 for water and \$992,302 for wastewater. When the amount of \$546,558 is shifted from the wastewater revenue requirement to the water revenue requirement, the resulting water and wastewater requirements are \$4,091,927 and \$3,970,755, respectively.

These resulting requirements are greater than the Utility's requested requirements for water and wastewater. In such circumstances, it has been Commission practice to limit the revenue requirement to the level requested.<sup>2</sup>

As such, staff recommends water and wastewater revenue requirements of \$3,882,411 and \$3,907,537, respectively, for interim purposes. This results in a water increase of \$488,014 (or 14.38 percent) for water and \$382,524 (or 10.85 percent) for wastewater. The recommended water and wastewater increases will allow on a total Utility basis the opportunity to recover Sanlando's operating expenses and earn a 7.10 percent return on its total rate base.

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<sup>2</sup> See Order No. PSC-05-0287-PAA-SU, issued March 17, 2005, in Docket No. 040972-SU, In re: Application for rate increase in Pinellas County by Ranch Mobile WWTP, Inc. and Order No. PSC-95-0191-FOF-WS, issued February 9, 1995, in Docket No. 940917-WS, In re: Application for rate increase for increased water and wastewater rates in Seminole, Orange, and Pasco Counties by Utilities, Inc. of Florida.

**Issue 3:** What are the appropriate interim water and wastewater rates?

**Recommendation:** The water and wastewater service rates for Sanlando in effect as of December 31, 2010, should be increased by 14.60 percent for water and 10.91 percent for wastewater to generate the recommended revenue increase for the interim period. The approved rates should be effective for service rendered as of the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1)(a), F.A.C. The rates should not be implemented until staff verifies that the tariff sheets are consistent with the Commission’s decision, the proposed customer notice is adequate, and the required security has been filed. The Utility should provide proof of the date notice was given within 10 days after the date of notice. (Cicchetti, Fletcher)

**Staff Analysis:** Staff recommends that interim water and wastewater service rates for Sanlando be designed to allow the Utility the opportunity to generate annual operating revenues of \$3,882,411 for water operations and \$3,907,537 for wastewater operations. Before removal of miscellaneous revenues, this would result in increases of \$488,014 or 14.38 percent for water and \$382,524 or 10.85 percent for wastewater. To determine the appropriate percentage increase to apply to the service rates, miscellaneous service revenues should be removed from the test year revenues. The calculation is as follows:

Table 3-1

	<u>Water</u>	<u>Wastewater</u>
1 Total Test Year Revenues	\$3,394,397	\$3,525,012
2 Less: Miscellaneous Revenues	<u>50,862</u>	<u>17,753</u>
3 Test Year Revenues from Service Rates	\$3,343,535	\$3,507,259
4 Revenue Increase	<u>488,014</u>	<u>382,524</u>
5 % Service Rate Increase (Line 4/Line3)	<u>14.60%</u>	<u>10.91%</u>

The interim rate increases of 14.60 percent for water and 10.91 percent for wastewater should be applied as an across-the-board increase to the service rates in effect as of December 31, 2010. The approved rates should be effective for service rendered as of the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until staff verifies that the tariff sheets are consistent with the Commission’s decision, the proposed customer notice is adequate, and the required security has been filed. The Utility should provide proof of the date notice was given within 10 days after the date of notice.

The Utility’s test year, proposed interim and final rates, as well as staff’s recommended interim rates are shown on Schedule No. 4-A for water and Schedule No. 4-B for wastewater.



**Issue 4:** What is the appropriate security to guarantee the interim increase?

**Recommendation:** The Utility should be required to open an escrow account or file a surety bond or letter of credit to guarantee any potential refund of revenues collected under interim conditions. If the security provided is an escrow account, the Utility should deposit 12.57 percent of its water revenues and 9.79 percent of its wastewater revenues into the escrow account each month. Otherwise, the surety bond or letter of credit should be in the amount of \$507,948. Pursuant to Rule 25-30.360(6), F.A.C., the Utility should provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and in accordance with Rule 25-30.360, F.A.C. (Cicchetti, Buys, Fletcher)

**Staff Analysis:** Pursuant to Section 367.082, F.S., revenues collected under interim rates shall be placed under bond, escrow, letter of credit, or corporate undertaking subject to refund with interest at a rate ordered by the Commission. As recommended in Issue 2, the total annual interim increase is \$870,538. In accordance with Rule 25-30.360, F.A.C., staff calculated the potential refund of revenues and interest collected under interim conditions to be \$507,948. This amount is based on an estimated seven months of revenue being collected from staff's recommended interim rates over the Utility's current authorized rates shown on Schedule No. 4-B.

Sanlando is a wholly-owned subsidiary of UI, which provides all investor capital to its subsidiaries. Based on the requested interim rate increase for its Sanlando system, the incremental increase in UI's corporate undertaking is \$507,948. The current cumulative corporate undertaking amount outstanding for other UI systems is \$909,602. The new request would bring the cumulative amount outstanding to \$1,417,550.

The criteria for a corporate undertaking include sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. Staff reviewed UI's 2008, 2009, and 2010 financial statements to determine if the Company can support a corporate undertaking on behalf of its subsidiary. UI reported deficient liquidity in 2008 and 2009 and low levels of interest coverage over the review period. However, in 2010, the Company achieved sufficient liquidity, and its interest coverage ratio has also been trending upwards since 2008. In addition, UI reported adequate ownership equity over the 3-year review period. In 2008, the Company experienced a net loss in the amount of \$635,405, but improved profitability to sufficient levels in 2009 achieving net income in the amount of \$5,492,924. UI's profitability in 2010 increased from \$5,276,388 to \$15,576,121 by virtue of a one-time gain on the disposition of utility systems in the amount of \$10,299,733. The amount of the one-time gain is atypical of the amounts UI reported in prior-year financial statements and there is no indication a gain of that magnitude will occur in future years. Replacing the \$10 million gain with the Company's 5-year average gain on the disposition of utility systems, or \$4,076,430, UI's average net income over the 3-year period from 2008 to 2010 is \$4,736,779.

Based on staff's review of the financial reports submitted by UI, staff believes UI has inadequate resources to support a cumulative corporate undertaking in the amount requested. Based on the analysis, staff recommends that that UI be required to secure a surety bond, letter of credit, or escrow agreement to guarantee any new monies collected subject to refund.

If the security provided is an escrow account, said account should be established between the Utility and an independent financial institution or the Division of Treasury for the Florida Department of Financial Services pursuant to a written escrow agreement. The Commission should be a party to the written escrow agreement and a signatory to the escrow account. The written escrow agreement should state the following: that the account is established at the direction of the Commission for the purpose set forth above; that no withdrawals of funds shall occur without the prior approval of the Commission through the Commission Clerk, Office of Commission Clerk; the account shall be interest bearing; information concerning that escrow account shall be available from the institution to the Commission or its representative at all times; the amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt; and, pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla 3d DCA 1972), escrow accounts are not subject to garnishments.

The Utility should deposit 12.57 percent of its water revenues and 9.79 percent of its wastewater revenues into the escrow account each month for possible refund. The escrow agreement should also state that if a refund to the customers is required, all interest earned on the escrow account shall be distributed to the customers, and if a refund to the customers is not required, the interest earned on the escrow account shall revert to the Utility.

If the security provided is a surety bond or a letter of credit, said instrument should be in the amount of \$507,948. If the Utility chooses a surety bond as security, the surety bond should state that it will be released or terminated only upon subsequent order of the Commission. If the Utility chooses to provide a letter of credit as security, the letter of credit should state that it is irrevocable for the period it is in effect and that it will be in effect until a final Commission order is rendered releasing the funds to the Utility or requiring a refund.

Regardless of the type of security provided, the Utility should keep an accurate and detailed account of all monies it receives. Pursuant to Rule 25-30.360(6), F.A.C., the Utility should provide a report by the 20th day of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, F.A.C.

In no instance should maintenance and administrative costs associated with any refund be borne by the customers. Such costs are the responsibility of, and should be borne by, the Utility.

Docket No. 110257-WS  
Date: December 28, 2011

**Issue 5:** Should the docket be closed?

**Recommendation:** No. The docket should remain open pending the Commission's PAA decision on the Utility's requested rate increase. (Jaeger, Cicchetti)

**Staff Analysis:** The docket should remain open pending the Commission's PAA decision on the Utility's requested rate increase.

Sanlando Utilities Corporation Schedule of Water Rate Base Test Year Ended 12/31/10			Schedule No. 1-A Docket No. 110257-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	\$24,623,945	(\$2,228,950)	\$22,394,995	(\$71,674)	\$22,323,321
2 Land and Land Rights	128,519	213	128,732	0	128,732
3 Non-used and Useful Components	\$0	\$0	0	0	0
4 Accumulated Depreciation	(12,371,122)	1,022,971	(11,348,151)	(4,157)	(11,352,308)
5 CIAC	(11,942,826)	522,723	(11,420,103)	0	(11,420,103)
6 Amortization of CIAC	9,038,180	(71,829)	8,966,351	0	8,966,351
7 Net Debit Deferred Income Taxes	0	0	0	0	0
8 Construction Work in Progress	10,151	(10,151)	0	0	0
9 Working Capital Allowance	<u>0</u>	<u>134,032</u>	<u>134,032</u>	<u>19,494</u>	<u>153,526</u>
10 <b>Rate Base</b>	<u>\$9,486,847</u>	<u>(\$630,991)</u>	<u>\$8,855,856</u>	<u>(\$56,336)</u>	<u>\$8,799,520</u>

Sanlando Utilities Corporation Schedule of Wastewater Rate Base Test Year Ended 12/31/10			Schedule No. 1-B Docket No. 110257-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	\$25,530,759	\$1,374,420	\$26,905,179	(\$58,337)	\$26,846,842
2 Land and Land Rights	203,894	166	204,060	0	204,060
3 Non-used and Useful Components	\$0	\$0	0	0	0
4 Accumulated Depreciation	(13,380,589)	(672,549)	(14,053,138)	(3,384)	(14,056,522)
5 CIAC	(13,202,126)	643,365	(12,558,761)	0	(12,558,761)
6 Amortization of CIAC	10,007,078	95,649	10,102,727	0	10,102,727
7 CWIP	0	0	0	0	0
8 Construction Work in Progress	28,411	(28,411)	0	0	0
9 Working Capital Allowance	<u>0</u>	<u>217,291</u>	<u>217,291</u>	<u>15,039</u>	<u>232,330</u>
10 <b>Rate Base</b>	<u>\$9,187,427</u>	<u>\$1,629,931</u>	<u>\$10,817,358</u>	<u>(\$46,682)</u>	<u>\$10,770,676</u>

<b>Sanlando Utilities Corporation</b>		<b>Schedule No. 1-C</b>	
<b>Adjustments to Rate Base</b>		<b>Docket No. 110257-WS</b>	
<b>Test Year Ended 12/31/10</b>			
<b>Explanation</b>	<b>Water</b>	<b>Wastewater</b>	
<u>Plant In Service</u>			
Reflect Pheonix Project Adjustment.	<u>(\$71,674)</u>	<u>(\$58,337)</u>	
<u>Accumulated Depreciation</u>			
Reflect Pheonix Project Adjustment.	<u>(\$4,157)</u>	<u>(\$3,384)</u>	
<u>Working Capital</u>			
To reflect appropriate working capital.	<u>\$19,494</u>	<u>\$15,039</u>	

**Sanlando Utilities Corporation**  
**Capital Structure – 13-Month Average**  
**Test Year Ended 12/31/10**

**Schedule No. 2**  
**Docket No. 110257-WS**

Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
<b>Per Utility</b>									
1 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$170,608,522)	\$9,391,478	47.74%	6.65%	3.17%	
2 Short-term Debt	16,123,077	0	16,123,077	(15,281,451)	841,626	4.28%	3.88%	0.17%	
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
4 Common Equity	169,648,509	0	169,648,509	(160,797,122)	8,851,387	44.99%	10.17%	4.58%	
5 Customer Deposits	53,649	0	53,649	0	53,649	0.27%	6.00%	0.02%	
6 Tax Credits-Zero Cost	0	0	0	0	0	0.00%	0.00%	0.00%	
7 Deferred Income Taxes	<u>535,073</u>	<u>0</u>	<u>535,073</u>	<u>0</u>	<u>535,073</u>	<u>2.72%</u>	0.00%	<u>0.00%</u>	
8 <b>Total Capital</b>	<u>\$366,360,308</u>	<u>\$0</u>	<u>\$366,360,308</u>	<u>(\$346,687,095)</u>	<u>\$19,673,213</u>	<u>100.00%</u>		<u>7.93%</u>	
<b>Per Staff</b>									
9 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$170,659,020)	\$9,340,980	47.73%	6.65%	3.17%	
10 Short-term Debt	16,123,077	0	16,123,077	(15,286,381)	836,696	4.28%	3.88%	0.17%	
11 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
12 Common Equity	169,648,509	0	169,648,509	(160,844,712)	8,803,797	44.99%	10.17%	4.58%	
13 Customer Deposits	53,649	0	53,649	0	53,649	0.27%	6.00%	0.02%	
14 Tax Credits-Zero Cost	0	0	0	0	0	0.00%	0.00%	0.00%	
15 Deferred Income Taxes	<u>535,073</u>	<u>0</u>	<u>535,073</u>	<u>0</u>	<u>535,073</u>	<u>2.73%</u>	0.00%	<u>0.00%</u>	
16 <b>Total Capital</b>	<u>\$366,360,308</u>	<u>\$0</u>	<u>\$366,360,308</u>	<u>(\$346,790,113)</u>	<u>\$19,570,195</u>	<u>100.00%</u>		<u>7.93%</u>	
						<b>LOW</b>	<b>HIGH</b>		
RETURN ON EQUITY						<u>10.17%</u>	<u>12.17%</u>		
OVERALL RATE OF RETURN						<u>7.93%</u>	<u>8.83%</u>		

Sanlando Utilities Corporation Statement of Water Operations Test Year Ended 12/31/10						Schedule No. 3-A Docket No. 110257-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 <b>Operating Revenues:</b>	<u>\$3,281,289</u>	<u>\$601,122</u>	<u>\$3,882,411</u>	<u>(488,014)</u>	<u>3,394,397</u>	<u>\$488,014</u> 14.38%	3,882,411
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$2,131,700	\$65,085	\$2,196,785	(242,348)	1,954,437		1,954,437
3 Depreciation	112,219	147,655	259,874	(64,083)	195,791		195,791
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	473,115	(206)	472,909	(25,385)	447,524	21,961	469,485
6 Income Taxes	<u>79,778</u>	<u>169,911</u>	<u>249,689</u>	<u>(61,051)</u>	<u>188,638</u>	<u>175,376</u>	<u>364,014</u>
7 <b>Total Operating Expense</b>	<u>\$2,796,812</u>	<u>\$382,445</u>	<u>\$3,179,257</u>	<u>(392,867)</u>	<u>2,786,390</u>	<u>197,337</u>	<u>2,983,726</u>
8 <b>Operating Income</b>	<u>\$484,477</u>	<u>\$218,677</u>	<u>\$703,154</u>	<u>(95,147)</u>	<u>608,007</u>	<u>290,678</u>	<u>898,685</u>
9 <b>Rate Base</b>	<u>\$9,486,847</u>		<u>\$8,855,856</u>		<u>8,799,520</u>		<u>8,799,520</u>
10 <b>Rate of Return</b>	<u>5.11%</u>		<u>7.94%</u>		<u>6.91%</u>		<u>10.21%</u>



Sanlando Utilities Corporation Statement of Wastewater Operations Test Year Ended 12/31/10						Schedule No. 3-B Docket No. 110257-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 <b>Operating Revenues:</b>	<u>\$3,602,240</u>	<u>\$305,297</u>	<u>\$3,907,537</u>	<u>(382,524)</u>	<u>3,525,012</u>	<u>382,524</u> 10.85%	3,907,536
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$2,189,391	\$62,333	\$2,251,724	175,189	2,426,913		2,426,913
3 Depreciation	(75,463)	606,423	530,960	(49,334)	481,626		481,626
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	383,202	40,335	423,537	(10,991)	412,546	17,214	429,760
6 Income Taxes	<u>64,616</u>	<u>(222,198)</u>	<u>(157,582)</u>	<u>98,284</u>	<u>(59,298)</u>	<u>137,466</u>	<u>78,168</u>
7 <b>Total Operating Expense</b>	<u>\$2,561,746</u>	<u>\$486,893</u>	<u>\$3,048,639</u>	<u>213,148</u>	<u>3,261,787</u>	<u>154,680</u>	<u>3,416,467</u>
8 <b>Operating Income</b>	<u>\$1,040,494</u>	<u>(\$181,596)</u>	<u>\$858,898</u>	<u>(595,672)</u>	<u>263,225</u>	<u>227,844</u>	<u>491,069</u>
9 <b>Rate Base</b>	<u>\$9,187,427</u>		<u>\$10,817,358</u>		<u>10,770,676</u>		<u>10,770,676</u>
10 <b>Rate of Return</b>	<u>11.33%</u>		<u>7.94%</u>		<u>2.44%</u>		<u>4.56%</u>

Sanlando Utilities Corporation		Schedule No. 3-C	
Adjustments to Operating Income		Docket No. 110257-WS	
Test Year Ended 12/31/10			
Explanation	Water	Wastewater	
<u>Operating Revenues</u>			
1 Remove requested interim revenue increase.	(\$365,417)	(\$451,004)	
2 To reflect the appropriate amount of annualized revenues.	<u>(122,597)</u>	<u>68,480</u>	
Total	<u>(\$488,014)</u>	<u>(\$382,524)</u>	
<u>Operation and Maintenance Expense</u>			
1 Remove annualize salaries and related expenses.	(\$58,298)	(\$34,114)	
2 Duplicative bill adjustment from last rate case.	0	(1,135)	
3 Reflect 3-Year Average BDE Consistent w/ LRC.	12,837	9,927	
4 Reflect approved rate case expense in last rate case.	(8,246)	(7,333)	
5 Reflect salaries and pensions consistent with LRC.	<u>(188,641)</u>	<u>207,844</u>	
Total	<u>(\$242,348)</u>	<u>\$175,189</u>	
<u>Depreciation Expense - Net</u>			
1 Reflect Phoenix Project Adjustment.	(\$55,131)	(\$44,873)	
2 Remove annualized depreciation expense.	(10,039)	(5,822)	
3 Remove annualized amortization expense.	<u>1,087</u>	<u>1,361</u>	
Total	<u>(\$64,083)</u>	<u>(\$49,334)</u>	
<u>Taxes Other Than Income</u>			
1 RAFs on revenue adjustments above.	(\$21,961)	(\$17,214)	
2 Remove annualize salaries and related expenses.	7,620	(5,946)	
3 Reflect payroll taxes consistent with LRC.	<u>(11,044)</u>	<u>12,169</u>	
Total	<u>(\$25,385)</u>	<u>(\$10,991)</u>	

<b>Sanlando Utilities Corporation</b>			<b>Schedule No. 4-A</b>		
<b>Water Monthly Service Rates</b>			<b>Docket No. 110257-WS</b>		
<b>Test Year Ended 12/31/10</b>					
	<b>Test Year Rates</b>	<b>Present Rates</b>	<b>Utility Requested Interim</b>	<b>Utility Requested Final</b>	<b>Staff Recomm. Interim</b>
<b><u>Residential</u></b>					
Base Facility Charge All Meter Sizes:	\$4.43	\$4.41	\$4.84	\$4.94	\$5.08
Gallage Charge, per 1,000 Gallons					
Gallons from 0-6,000	\$0.76	\$0.75	\$0.82	\$0.84	\$0.87
Gallons from 6,001-10,000	\$0.80	\$0.79	\$0.86	\$0.88	\$0.92
Gallons from 10,001-15,000	\$1.01	\$1.01	\$1.10	\$1.13	\$1.16
Gallons over 15,000	\$1.41	\$1.41	\$1.54	\$1.57	\$1.62
<b><u>General Service</u></b>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$4.43	\$4.41	\$4.84	\$4.94	\$5.08
3/4"	\$11.08	\$11.04	\$12.10	\$12.35	\$12.70
1"	\$22.17	\$22.09	\$24.20	\$24.70	\$25.41
1-1/2"	\$35.47	\$35.35	\$38.72	\$39.52	\$40.65
2"	\$70.93	\$70.69	\$72.60	\$74.10	\$81.28
3"	\$110.83	\$110.46	\$121.00	\$123.50	\$127.01
4"	\$221.66	\$220.92	\$242.00	\$247.00	\$254.01
6"	\$354.66	\$353.47	\$387.20	\$395.20	\$406.43
Gallage Charge, per 1,000 Gallons					
	\$0.76	\$0.75	\$0.82	\$0.84	\$0.87
<b><u>Private Fire Protection</u></b>					
1-1/2" Private Fire Line	\$1.85	\$1.84	\$2.02	\$2.06	\$2.12
2"	\$2.96	\$2.95	\$3.24	\$3.30	\$3.39
4"	\$9.23	\$9.20	\$10.10	\$10.30	\$10.58
6"	\$18.48	\$18.42	\$20.23	\$20.63	\$21.18
8"	\$29.56	\$29.46	\$32.36	\$33.00	\$33.87
<b><u>Typical Residential Bills 5/8" x 3/4" Meter</u></b>					
3,000 Gallons	\$6.71	\$6.66	\$7.30	\$7.46	\$7.69
5,000 Gallons	\$8.23	\$8.16	\$8.94	\$9.14	\$9.43
10,000 Gallons	\$12.03	\$11.91	\$13.04	\$13.34	\$13.79
Average Usage of 7.331kgals	\$10.05	\$9.96	\$10.90	\$11.15	11.52

<b>Sanlando Utilities Corporation Wastewater Monthly Service Rates Test Year Ended 12/31/10</b>			<b>Schedule No. 4-B Docket No. 110257-WS</b>		
	<b>Test Year Rates</b>	<b>Present Rates</b>	<b>Utility Requested Interim</b>	<b>Utility Requested Final</b>	<b>Staff Recomm. Interim</b>
<b><u>Residential</u></b>					
Base Facility Charge All Meter Sizes:	\$12.35	\$12.37	\$13.71	\$16.30	\$13.70
Gallonge Charge - Per 1,000 gallons (10,000 gallon cap)	\$1.63	\$1.63	\$1.80	\$2.14	\$1.81
<b><u>General Service</u></b>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$12.35	\$12.37	\$13.71	\$16.30	\$13.70
3/4"	\$30.87	\$30.92	\$34.28	\$40.75	\$34.24
1"	\$61.71	\$61.81	\$68.55	\$81.50	\$68.44
1-1/2"	\$98.73	\$98.89	\$109.68	\$130.40	\$109.50
2"	\$197.45	\$197.77	\$205.65	\$244.50	\$218.99
3"	\$308.52	\$309.01	\$342.75	\$407.50	\$342.17
4"	\$617.08	\$618.08	\$685.50	\$815.00	\$684.38
6"	\$987.31	\$988.90	\$1,096.80	\$1,304.00	\$1,094.99
Gallonge Charge, per 1,000 Gallons	\$1.98	\$1.98	\$2.19	\$2.61	\$2.20
<b><u>Typical Residential Bills 5/8" x 3/4" Meter</u></b>					
3,000 Gallons	\$17.24	\$17.26	\$19.11	\$22.72	\$19.12
5,000 Gallons	\$20.50	\$20.52	\$22.71	\$27.00	\$22.74
10,000 Gallons (Wastewater Gallonge Cap - 10,000 Gallons)	\$28.65	\$28.67	\$31.71	\$37.70	\$31.77
Average Gallons of 7.331kgals	\$24.30	\$24.32	\$26.91	\$31.99	\$26.95