

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-**

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**DATE:** April 19, 2021

**TO:** Mark A. Cicchetti, Chief of Finance, Tax & Cost Recovery, Division of Accounting & Finance

**FROM:** Division of Accounting and Finance (Richards, D. Brown, Casper) *ALM*  
Division of Economics (Bruce, Hudson)  
Division of Engineering (Phillips, Ellis) *TB*  
Office of the General Counsel (Passidomo, Tan) *TLT*

**RE:** Docket No. 20200230-WU – Application for staff-assisted rate case in Manatee County by Sunny Shores Utilities, LLC.

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**-- STAFF REPORT --**

**This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting scheduled for May 20, 2021.**

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## Case Background

Sunny Shores Utilities, LLC. (Sunny Shores or Utility) is a Class C utility serving 262 residential and two general service water customers in Manatee County. The owner contracts with Florida Utility Services 1, LLC (FUS1) for billing and customer service. According to Sunny Shores' 2019 Annual Report, total gross revenues were \$93,256, and total operating expenses were \$91,826, resulting in net operating income of \$1,430. Sunny Shores is a reseller and purchases bulk water service from Manatee County.

In 1995, Manatee County declared the privately owned water utility in Manatee County subject to the provisions of Chapter 367, Florida Statutes (F.S.).<sup>1</sup> In 1996, Sunny Shores Water Co. was granted a grandfather certificate to operate a water system in existence since 1969.<sup>2</sup> In 2016, the Utility was granted a transfer of majority organizational control.<sup>3</sup>

On July 27, 2020, certificate No. 578-W was transferred from Sunny Shores Water Co. to Sunny Shores Utilities, LLC.<sup>4</sup> The Order also established the net book value for transfer purposes.

On October 21, 2020, Sunny Shores filed an application for a staff-assisted rate case.<sup>5</sup> Staff selected a test year ended June 30, 2020, for the instant case.

This Staff Report is a **preliminary** analysis of the Utility's books and records prepared by Commission staff to give customers and the Utility an initial look at potential staff proposals. The final recommendation to the Commission is currently scheduled to be filed July 22, 2021, for consideration at the August 3, 2021, Commission Conference. The recommendation will be revised as necessary using any relevant new or updated information, responses from pending data requests, and the results of customer quality of service concerns (if any) or other pertinent information received at the May 20, 2021, customer meeting. The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.081, 367.0812, 367.0814, 367.091, and 367.121, F.S.

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<sup>1</sup>Order No. PSC-1995-1393-FOF-WS, issued November 9, 1995, in Docket No. 19951235-WS, *In re: Resolution of the Board of County Commissioners of Manatee County declaring Manatee County subject to the provisions of Chapter 367, F.S.*

<sup>2</sup>Order No. PSC-1996-0599-FOF-WS, issued May 7, 1996, in Docket No. 19960028-WS, *In re: Application for certificates to provide water and wastewater service in Manatee County by Sunny Shores Water Co., Inc. under grandfather rights.*

<sup>3</sup>Order No. PSC-2016-0523-TRF-WU, issued November 21, 2016, in Docket No. 20160023-WU, *In re: Application for transfer of majority organizational control of Sunny Shores Water Company, Inc., holder of Certificate No. 578-W in Manatee County, from Jack E. Mason to Jack E. Mason, II and Debbie A. Mason.*

<sup>4</sup>Order No. PSC-2020-0265-PAA-WS, issued July 27, 2020, in Docket No. 20190182-WS, *In re: Application to transfer facilities and Certificate No. 578-W from Sunny Shores Water Co. to Sunny Shores Utilities, LLC, in Manatee County.*

<sup>5</sup>Document No. 11424-2020, filed on October 21, 2020.

## Discussion of Issues

**Issue 1:** Is the quality of service provided by Sunny Shores satisfactory?

**Preliminary Recommendation:** Staff's recommendation regarding quality of service will not be finalized until after the May 20, 2021, customer meeting. (Phillips)

**Staff Analysis:** Pursuant to Section 367.081(2)(a)1, F.S., and Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in water rate cases, the Commission shall determine the overall quality of service provided by the utility. This determination is made from an evaluation of the quality of the utility's product and the utility's attempt to address customer satisfaction. The Rule further states that the most recent chemical analyses, outstanding citations, violations, and consent orders on file with the Florida Department of Environmental Protection (DEP) and the county health department, and any DEP and county health department officials' testimony concerning quality of service shall be considered. In addition, any customer testimony, comments, or complaints are also reviewed. The operating condition of the water system is addressed in Issue 2.

### Quality of the Utility's Product

In evaluation of Sunny Shores' product quality, staff reviewed the Utility's compliance with the DEP primary and secondary drinking water standards. Primary standards protect public health while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water. The Utility purchases its water from Manatee County, which is passing all of DEP's primary and secondary standards as of October 21, 2020.

### The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the complaints filed in the Commission's Consumer Activity Tracking System (CATS), filed with the DEP, and received by the Utility from July 1, 2015, through June 31, 2020. The CATS system recorded a single complaint related to low water pressure by one of the general service customers during the years reviewed. The water pressure was low during this time due to Manatee County flushing its system. Sunny Shores continued to monitor the water pressure and the complaint was closed. The DEP received one complaint in 2015 regarding water pressure and the inclusion of backflow preventers throughout the distribution system. The Utility addressed the complaint to the DEP's satisfaction and the complaint was closed. The Utility received 11 complaints during the past five years. Nine were related to water pressure and two related to billing issues that were resolved by the Utility. The Utility reports that the water pressure issue may be related to the flushing and limited water pressure provided by Manatee County.

### Conclusion

Staff's recommendation regarding quality of service will not be finalized until after the May 20, 2021, customer meeting.

**Issue 2:** Are the infrastructure and operating conditions of Sunny Shores' water system in compliance with the DEP regulations?

**Preliminary Recommendation:** Staff's recommendation regarding the DEP compliance will not be finalized until after the May 20, 2021, customer meeting. (Phillips)

**Staff Analysis:** Rule 25-30.225(2), F.A.C., requires each water utility to maintain and operate its plant and facilities by employing qualified operators in accordance with the rules of the DEP. Rule 25-30.433(2), F.A.C., requires consideration of whether the infrastructure and operating conditions of the plant and facilities are in compliance with Rule 25- 30.225, F.A.C. In making this determination, the Commission must consider testimony of the DEP and county health department officials, sanitary surveys, citations, violations, and consent orders issued to the utility, customer testimony, comments, and complaints, and utility testimony and responses to the aforementioned items.

### **Water System Operating Conditions**

Sunny Shores purchases all of its water from Manatee County; and, as such, does not have any wells, water treatment facilities, or storage tanks. The water is pumped directly from Manatee County into the Utility's distribution system. A review of the DEP records did not show any consent orders against the Utility.

### **Conclusion**

Staff's recommendation regarding the DEP compliance will not be finalized until after the May 20, 2021, customer meeting.

**Issue 3:** What are the used and useful (U&U) percentages of Sunny Shores' water distribution system?

**Preliminary Recommendation:** Sunny Shores' water distribution system should be considered 100 percent U&U. Additionally, there appears to be no excessive unaccounted for water (EUW); therefore, staff recommends that no adjustment be made to operating expenses for chemicals and purchased power. These are preliminary determinations and are subject to change. (Phillips)

**Staff Analysis:** The distribution system is composed of approximately 855 feet of 3-inch and 12,654 feet of 2-inch polyvinyl chloride (PVC) pipes.

### **Used and Useful Percentages**

The water distribution system is evaluated based on Equivalent Residential Connection (ERCs) consisting of growth, customer demand, and system capacity. During the test year, 262 residential customer lots and two general service lots were being served. This is equal to 270 ERCs. The Utility's present system capacity is 276 ERCs based on existing mains. Considering all of the water mains are required to adequately serve the existing customers, staff recommends the distribution system be considered built-out and 100 percent U&U.

### **Excessive Unaccounted for Water**

Rule 25-30.4325, F.A.C., additionally provides factors to be considered in determining whether adjustments to operating expenses are necessary for EUW. EUW is defined as "unaccounted for water in excess of 10 percent of the amount produced." Unaccounted for water is all water produced that is not sold, metered, or accounted for in the records of the Utility.

The Utility's 2020 Annual Report indicated that the Utility purchased 10,333,000 gallons, and used 1,173,000 gallons for line flushing purposes during the test year. According to the staff audit report, the Utility sold 8,611,000 gallons of water for the test year. The resulting calculation ( $(10,333,000 - 1,173,000 - 8,611,000) / 10,333,000$ ) for unaccounted for water is 5.31 percent; therefore, at this time there is no EUW. Staff recommends no adjustments to purchased power and chemical expenses.

### **Conclusion**

Staff believes that Sunny Shores' water distribution system should be considered 100 percent U&U. Additionally there appears to be no EUW; therefore, staff recommends that no adjustment be made to operating expenses for chemicals and purchased power. These are preliminary determinations and are subject to change.

**Issue 4:** What is the appropriate average test year rate base for Sunny Shores?

**Preliminary Recommendation:** The appropriate average test year rate base for Sunny Shores is \$49,445. (Richards, D. Brown, Casper, Phillips)

**Staff Analysis:** The appropriate components of the Utility's rate base include utility plant in service (UPIS), accumulated depreciation, and working capital. The Utility's net book value was established as part of its transfer proceeding in Docket No. 20190182-WU.<sup>6</sup> Staff selected the test year ended June 30, 2020, for the instant rate case. Commission audit staff determined that the Utility's books and records are in compliance with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA). A summary of each component and the recommended adjustments are discussed below.

### **Utility Plant in Service (UPIS)**

The Utility recorded \$26,774 for UPIS. The Utility did not record a balance in Account 341 – Transportation Equipment to reflect the allocated portion of vehicles owned by FUS1 and used by the Utility. The Utility submitted documentation supporting five vehicles with a cost of \$87,904, which are used by all utilities operating under FUS1.<sup>7</sup> Shared costs are allocated among all of the utilities in the FUS1 system based on each utility's number of customers relative to the total number of utility customers. Based on Sunny Shores' 8 percent allocation, staff increased UPIS by \$7,032 ( $\$87,904 \times 0.08$ ). In addition to those five vehicles, a 2013 Haul trailer with a cost of \$4,200 is also owned by FUS1 and used exclusively by both Sunny Shores and Heather Hills. Staff applied a 43 percent allocation to the trailer based on the number of customers for Sunny Shores.<sup>8</sup> Staff increased UPIS by \$1,806 ( $\$4,200 \times 0.43$ ) for the allocation of the trailer. In total, staff increased UPIS by \$8,838 ( $\$7,032 + \$1,806$ ) for the vehicles. Additionally, staff made an averaging adjustment to decrease UPIS by \$903 to reflect the test year beginning and ending UPIS average balance.

### **Pro-Forma Plant Additions**

The Utility plans on replacing 35 meters the first year due to the age of the current meters. The Utility projects it will cost \$312.83 per meter, resulting in an estimated cost of \$10,949 ( $\$312.83 \times 35$  meters) for the first year. In addition to the meter replacement program, FUS1 purchased a vehicle on September 29, 2020, which is outside the test year.<sup>9</sup> The vehicle cost was \$31,142 and the 8 percent allocation to Sunny Shores is \$2,491. Based on the above, staff increased UPIS by \$13,440 to reflect pro forma additions, offset by a decrease of \$8,212 for pro forma retirements.

As described above and summarized in Table 4-1, staff's adjustments to UPIS result in an increase of \$13,164 ( $\$8,838 - \$903 + \$13,440 - \$8,212$ ). Therefore, staff recommends an average UPIS balance of \$39,938 ( $\$26,774 + \$13,164$ ).

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<sup>6</sup>Order No. PSC-2020-0265-PAA-WS, issued July 27, 2020, in Docket No. 20190182-WU, *In re: Application to transfer facilities and Certificate No. 578-W from Sunny Shores Water Co. to Sunny Shores Utilities, LLC, in Manatee County.*

<sup>7</sup>Document No. 11979-2020, filed on November 13, 2020.

<sup>8</sup>Ibid.

<sup>9</sup>Ibid.

**Table 4-1  
 Staff Adjustments to UPIS**

| <b>Description</b>                                | <b>Amount</b>          |
|---|------------------------|
| To reflect 8 percent allocation of vehicles.      | \$7,032                |
| To reflect 43 percent allocation of Haui trailer. | \$1,806                |
| To reflect an averaging adjustment.               | (\$903)                |
| To reflect pro forma increase                     | \$13,440               |
| To reflect pro forma retirement.                  | (\$8,212)              |
| <b>Total adjustments to UPIS</b>                  | <b><u>\$13,164</u></b> |

Source: Utility response to staff data requests.

**Used and Useful**

As discussed in Issue 3, Sunny Shores’ distribution system is considered 100 percent U&U. Therefore, no U&U adjustments are necessary.

**Accumulated Depreciation**

The Utility recorded an accumulated depreciation balance of \$8,220. As a result of the staff audit, an adjustment was made to decrease accumulated depreciation by \$173. Additionally, staff increased accumulated depreciation by \$3,045 to reflect the Utility’s allocated portion of the vehicles and trailer discussed previously. Staff decreased accumulated depreciation by \$1,414 to reflect an averaging adjustment, and further decreased accumulated depreciation by \$7,636 to reflect pro forma adjustments. Therefore, staff recommends an accumulated depreciation balance of \$2,042 ( $\$8,220 - \$173 + \$3,045 - \$1,414 - \$7,636$ ).

**Table 4-2  
 Staff Adjustments to Accumulated Depreciation**

| <b>Description</b>                                   | <b>Amount</b>           |
|--|-------------------------|
| To reflect an auditing adjustment.                   | (\$173)                 |
| To reflect allocated percentage of vehicles.         | 3,045                   |
| To reflect an averaging adjustment.                  | (1,414)                 |
| To reflect pro forma adjustment.                     | (7,636)                 |
| <b>Total adjustments to Accumulated Depreciation</b> | <b><u>(\$6,178)</u></b> |

Source: Utility response to staff data requests.

**Working Capital Allowance**

Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses. Consistent with Rule 25-30.433(3), F.A.C., staff used the one-eighth operation and maintenance (O&M) expense (less rate case expense) formula for calculating the working capital allowance. Section 367.081(9), F.S., prohibits a utility from earning a return on the unamortized balance of rate case expense. As such, for this calculation staff removed the rate case expense balance of \$435, resulting in an adjusted O&M expense balance of \$92,395 ( $\$92,830 - \$435$ ). Applying this formula, staff recommends a working capital allowance of \$11,549 ( $\$92,395 \div 8$ ).



**Rate Base Summary**

Based on the foregoing, staff recommends that the appropriate average test year rate base is \$49,445. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

**Issue 5:** What is the appropriate return on equity and overall rate of return for Sunny Shores?

**Preliminary Recommendation:** The appropriate return on equity (ROE) is 10.55 percent with a range of 9.55 percent to 11.55 percent. The traditional rate of return does not apply in this case due to rate base being less than 125 percent of O&M expenses. As such, the Operating Ratio Method is being used in this case. (Richards, D. Brown, Casper)

**Staff Analysis:** As discussed in Issue 9, staff is recommending the Operating Ratio Methodology be used in this case. Although the traditional rate of return does not apply in this case due to rate base being less than 125 percent of O&M expenses, staff recommends that an ROE still be established for this Utility. The Utility's capital structure is comprised entirely of long-term debt.

The Utility's capital structure has been reconciled with staff's recommended rate base. The ROE is shown on Schedule No. 2. The traditional rate of return does not apply in this case due to rate base being less than 125 percent of O&M expenses. As such, the Operating Ratio Method is being used in this case.

**Issue 6:** Should the Commission approve an Allowance for Funds Used During Construction (AFUDC) rate for Sunny Shores?

**Preliminary Recommendation:** Yes. The appropriate AFUDC rate for Sunny Shores is 7.83 percent. The appropriate monthly compounding rate to achieve an annual rate of 7.83 percent is 0.630192 percent. (Richards)

**Staff Analysis:** On November 13, 2020, Sunny Shores submitted a request that the Commission establish an AFUDC rate in this proceeding. In its request, the Utility stated “FUS1 plans to file a petition for approval of Capital Project Improvement plans for a majority of its systems with the Commission.”<sup>10</sup> According to the Utility, FUS1 has engaged the engineering services of the Florida Rural Water Association (FRWA) to prepare an analysis report evaluating each of its systems and recommend corrective actions along with funding sources. The Utility further stated that it believes “most, if not all, of the proposed capital projects will qualify for AFUDC treatment as authorized by Rule 25-30.116, F.A.C.”<sup>11</sup> Sunny Shores is not currently authorized to accrue AFUDC and does not have a Commission-approved AFUDC cost rate. Staff believes it is appropriate to establish an AFUDC rate for the Utility. The Commission recently established an AFUDC rate for two sister utilities.<sup>12</sup>

As discussed in Issue 5, the Utility’s capital structure is comprised of long-term debt. Therefore, staff used the year-end long-term debt to calculate the annual AFUDC rate and monthly compounding rate for Sunny Shores. Based on its review, staff believes an AFUDC rate of 7.83 percent is appropriate and recommends Commission approval. Staff also recommends a monthly compounding rate of 0.630192 percent to achieve an annual AFUDC rate of 7.83 percent.

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<sup>10</sup>Document No. 11979-2020, filed on November 13, 2020.

<sup>11</sup>Ibid.

<sup>12</sup>Order No. PSC-2021-0107-PAA-WU, issued March 19, 2021, in Docket No. 20200168-WU, *In re: Application for staff-assisted rate case in Polk County, and request for interim rate increase, by McLeod Gardens Utilities, LLC.*; Order No. PSC-2021-0106-PAA-WU, issued March 17, 2021, in Docket No. 20200169-WS, *In re: Application for staff-assisted rate case in Lake County, and request for interim rate increase, by Lake Yale Utilities, LLC.*

**Issue 7:** What are the appropriate amount of test year revenues for Sunny Shores' water system?

**Preliminary Recommendation:** The appropriate test year revenues for Sunny Shores' water system are \$93,505. (Bruce)

**Staff Analysis:** Sunny Shores recorded test year revenues of \$93,205. The water revenues included \$89,371 of service revenues and \$3,834 of miscellaneous revenues. Subsequent to the test year, the Utility was granted a price index rate increase. In order to determine the appropriate test year service revenues, staff annualized service revenues by applying the number of billing determinants to the rates in effect as of August 18, 2020. As a result, staff determined that service revenues should be \$92,305, which is an increase of \$2,934.

Staff also made an adjustment to miscellaneous revenues. As discussed in further detail in Issue 13, the Utility currently charges its customers a quarterly backflow maintenance charge for an annual inspection of backflow prevention devices. However, on a prospective basis, the Utility is requiring customers to have their backflow prevention device inspected independently. Therefore, staff is decreasing miscellaneous revenues by \$2,634 to remove revenues associated with the backflow maintenance charge. This adjustment results in miscellaneous revenues of \$1,200 (\$3,834 - \$2,634) for the test year. Based on the above, the appropriate test year revenues for Sunny Shores' water system are \$93,505 (\$92,305 + \$1,200).

**Issue 8:** What is the appropriate test year operating expense for Sunny Shores?

**Preliminary Recommendation:** The appropriate amount of operating expense for Sunny Shores is \$102,743. (Richards, D. Brown, Casper)

**Staff Analysis:** The Utility recorded operating expense of \$103,031. The test year O&M expenses have been reviewed by staff, including invoices and other supporting documentation. Staff has made several adjustments to the Utility's operating expenses as described below.

### **Operation and Maintenance Expenses**

Previously, the Commission approved common O&M expenses be shared by all utilities operating under the parent company, FUS1.<sup>13</sup> As mentioned earlier, O&M common costs are allocated among all of the utilities in the FUS1 system based on each utility's number of customers relative to the total number of utility customers. Based on the number of customers for Sunny Shores, the allocation of FUS1 common costs for this utility is 8 percent.

#### **Salaries and Wages – Employees (601)**

The Utility recorded salaries and wages expense for employees of \$19,937. Staff increased this amount by \$5,924 to reflect the Utility's allocated portion of a \$74,046 increase approved in Docket No. 20200152-WS.<sup>14</sup> This amount included salary increases for eight positions and the addition of one new Compliance Technician position. Therefore, staff recommends salary and wages expense for employees of \$25,861 (\$19,937 + \$5,924).

#### **Purchased Water (610)**

The Utility recorded purchased water expense of \$34,041. As a result of the staff audit, an adjustment was made decreasing purchased water by \$58. Therefore, staff recommends purchased water expense of \$33,983 (\$34,041 - \$58).

#### **Contractual Services – Professional (631)**

The Utility recorded contractual services - professional expense of \$868. As a result of the staff audit, an adjustment was made decreasing this account by \$618. Therefore, staff recommends a contractual services - professional expense of \$250 (\$868 - \$618).

#### **Contractual Services – Other (636)**

The Utility recorded contractual services - other expense of \$1,385. Staff increased this amount by \$106 to reflect the allocated portion of replacing an air conditioning system at FUS1's New Port Richey office. The total cost of the system was \$6,650. The Commission approved the expense of the air conditioning system in Docket No. 20200152-WS, and determined that the cost should be amortized over five years.<sup>15</sup> As such, staff increased contractual services – other expense for all FUS1 systems by \$1,330 (\$6,650 ÷ 5 years) in that docket. The allocated portion

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<sup>13</sup>Order No. PSC-2019-0503-PAA-SU, issued November 25, 2019, in Docket No. 201802020-SU, *In re: Application for staff-assisted rate case in Polk County by West Lakeland Wastewater, LLC.*

<sup>14</sup>Order No. PSC-2020-0396-PAA-WS, issued October 22, 2020, in Docket No. 20200152-WS, *In re: Application for a limited alternative rate increase proceeding in Polk and Marion Counties, by Alturas Water, LLC. Sunrise Water, LLC. Pinecrest Utilities, LLC. and East Marion Utilities, LLC.*

<sup>15</sup>Ibid

attributable to Sunny Shores is \$106. Therefore, staff recommends contractual services - other expense of \$1,491 ( $\$1,385 + \$106$ ).

**Rents (640)**

The Utility recorded rent expense of \$3,482, which included \$533 as the allocated portion of the HVAC system discussed above. The \$533 represents the full, unamortized amount allocated at 8 percent to the Utility ( $\$6,650 \times 0.08$ ). Staff removed the full \$533 from rent expense and applied the amortized portion to account 636. Additionally, the Utility included an insurance premium of \$128 in account 640. Staff removed the premium from account 640 and reassigned it to account 655. Therefore, staff recommends rent expense of \$2,821 ( $\$3,482 - \$533 - \$128$ ).

**Insurance Expense (655)**

The Utility recorded insurance expense of \$2,482. Staff increased this amount by \$570 to reflect the allocated portion of an increase of \$7,130 approved by the Commission in Docket No. 20200152-WS.<sup>16</sup> This increase covers auto insurance based on the premium for the policy period November 2019 through November 2020, as reflected in support documentation in that docket. The amount also includes a \$200 increase for workman's compensation insurance for the period November 2019 to November 2020. Additionally, staff increased insurance expense by \$128 to reflect the amount reassigned from account 640. Therefore, staff recommends insurance expense of \$3,180 ( $\$2,482 + \$570 + \$128$ ).

**Regulatory Commission Expense (665)**

The Utility did not record any regulatory commission expense. In response to Staff's Second Data Request, the Utility provided details of fees associated with its transfer docket.<sup>17</sup> Staff increased this account by \$594 to reflect the four-year amortization of regulatory commission expense related to legal, consulting, and filing fees associated with the transfer docket.<sup>18</sup> Staff believes that the amount should be included in the instant docket because it has not been recovered in rates to date.

Regarding the instant case, the Utility is required by Rule 25-22.0407, F.A.C., to mail notices of the rate case overview, final rates, and four-year rate reduction. Staff calculated noticing costs to be \$739. Staff did not include any travel expense due to the customer meeting and the Commission Conference both currently scheduled to be held remotely. Additionally, the Utility paid a \$1,000 filing fee.<sup>19</sup> Staff recommends noticing costs and filing fee of \$1,739 ( $\$739 + \$1,000$ ), which amortized over four years is \$435 ( $\$1,739 \div 4$  years) per year. Therefore, staff recommends a regulatory commission expense of \$1,028 ( $\$594 + \$435$ ).

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<sup>16</sup>Order No. PSC-2020-0396-PAA-WS, issued October 22, 2020, in Docket No. 20200152-WS, *In re: Application for a limited alternative rate increase proceeding in Polk and Marion Counties, by Alturas Water, LLC, Sunrise Water, LLC, Pinecrest Utilities, LLC, and East Marion Utilities, LLC.*

<sup>17</sup>Document No. 02561-2021, filed on March 3, 2021.

<sup>18</sup>Order No. PSC-2020-0265-PAA-WS, issued July 27, 2020, in Docket No. 20190182-WS, *In re: Application to transfer facilities and Certificate No. 578-W from Sunny Shores Water Co. to Sunny Shores Utilities, LLC, in Manatee County.*

<sup>19</sup>Document No. 11550-2020, filed on October 27, 2020.

### ***Bad Debt Expense (670)***

The Utility recorded \$7 in bad debt expense. Staff believes that it is likely that bad debt expense may have increased since the end of the test year as a result of the financial difficulties some customers may have experienced during the COVID-19 pandemic. For purposes of the staff report, staff increased this amount by \$1,863 to reflect bad debt expense as 2 percent of the revenues for the Utility, but notes that the preliminary recommended increase requires additional review. Therefore, staff recommends bad debt expense of \$1,870 ( $\$7 + \$1,863$ ).

### ***Miscellaneous Expense***

The Utility recorded \$17,485 as miscellaneous expense. As a result of the staff audit, an adjustment was made decreasing this amount by \$392. In response to Staff's Second Data Request, the Utility advised there was an erroneous amount of \$12,331 included in miscellaneous expense.<sup>20</sup> As such, staff further decreased this amount by \$12,331. Therefore, staff recommends miscellaneous expense of \$4,762 ( $\$17,485 - \$392 - \$12,331$ ).

### **Operation and Maintenance Expense Summary**

The Utility recorded O&M expenses of \$97,270 for the test year. Based on the above adjustments, staff recommends the O&M expense balance be decreased by \$4,440, resulting in a total O&M expense of \$92,830 ( $\$97,270 - \$4,440$ ). Staff's recommended adjustments to O&M expenses are shown on Schedule No. 3-C.

### **Depreciation Expense**

The Utility did not record any depreciation expense. As a result of the staff audit, an adjustment was made to increase depreciation expense by \$1,418. Using the depreciation rates prescribed in Rule 25-30.140, F.A.C., staff increased depreciation expense by \$1,410 to reflect the depreciation on the allocated portion of vehicles owned by FUS1 and used by the Utility. Staff further increased depreciation expense by \$576 to reflect pro forma additions. Therefore, staff recommends depreciation expense of \$3,404 ( $\$1,418 + \$1,410 + \$576$ ).

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

The Utility recorded TOTI of \$5,761. As a result of the staff audit, an adjustment was made increasing TOTI by \$94. Additionally, staff decreased TOTI by \$80 to reflect the appropriate RAFs based on corrected Utility test year revenues. As discussed in Issue 7, revenues have been increased by \$16,299 to reflect the change in revenue required to cover expenses and allow an opportunity to earn the recommended rate of return. As a result, TOTI should be increased by \$733 to reflect RAFs of 4.5 percent of the change in revenues. Therefore, staff recommends TOTI of \$6,508 ( $\$5,761 + \$94 - \$80 + \$733$ ).

### **Operating Expenses Summary**

The Utility recorded operating expense of \$103,031. The application of staff's recommended adjustments to the Utility's operating expenses result in a total operating expense of \$102,743. Operating expenses are shown on Schedule No. 3-A, and the related adjustments are shown on Schedule No. 3-B.

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<sup>20</sup>Document No. 02561-2021, filed on March 3, 2021.

**Issue 9:** Does Sunny Shores meet the criteria for the application of the Operating Ratio Methodology?

**Preliminary Recommendation:** Yes. Sunny Shores meets the requirement for application of the Operating Ratio Methodology for calculating revenue requirement. The margin should be 12 percent of O&M expenses less the amount for purchased water. (Richards, D. Brown)

**Staff Analysis:** Rule 25-30.4575(2), F.A.C., provides that, in rate cases processed under Rule 25-30.455, F.A.C., the Commission will use the operating ratio methodology to establish the Utility's revenue requirement when a Utility's rate base is no greater than 125 percent of O&M expenses and the use of the Operating Ratio Methodology does not change the Utility's qualification for a SARC.

Under the Operating Ratio Methodology, instead of calculating the Utility's revenue requirement based on a rate of return on the Utility's rate base, the revenue requirement is calculated using a margin of 12 percent of O&M expenses, not to exceed \$15,000. Purchased water and wastewater expenses, if any, must be removed from O&M expense prior to calculating the margin of 12 percent.

With respect to Sunny Shores, staff has recommended a rate base of \$49,445, and O&M expense of \$92,830 (Issues 4 and 8, respectively). Based on the recommended amounts, Sunny Shores' rate base is only 53.3 percent of its O&M expense. Pursuant to Rule 25-30.4575(2), F.A.C., staff removed the purchased water expense of \$33,983 from the total O&M expense of \$92,830. Therefore, staff used an adjusted O&M expense of \$58,847 (\$92,830 - \$33,983). In addition, the application of the Operating Ratio Methodology does not change the Utility's qualification for a SARC. As such, Sunny Shores meets the criteria for the Operating Ratio Methodology established in Rule 25-30.4575(2), F.A.C. Therefore, staff recommends the application of the Operating Ratio Methodology at a margin of 12 percent of the adjusted O&M expense of \$58,847 for determining the revenue requirement.



**Issue 10:** What is the appropriate revenue requirement for Sunny Shores?

**Preliminary Recommendation:** The appropriate revenue requirement is \$109,804, resulting in an annual increase of \$16,299 (17.43 percent). (Richards)

**Staff Analysis:** Sunny Shores should be allowed an annual increase of \$16,299 (17.43 percent). This should allow the Utility the opportunity to recover its expenses and a 12 percent operating margin on its adjusted O&M expenses. The calculations are shown in Table 10-1.

**Table 10-1**  
**Water Revenue Requirement**

|                               |                  |
|-------------------------------|------------------|
| Adjusted O&M Expense          | \$58,847         |
| Operating Margin (%)          | <u>12.00%</u>    |
| Operating Margin (\$)         | <u>\$7,062</u>   |
| Water O&M Expense             | \$92,830         |
| Depreciation Expense          | \$3,404          |
| Taxes Other Than Income       | <u>\$6,508</u>   |
| Revenue Requirement           | <u>\$109,804</u> |
| Less Test Year Revenues       | <u>\$93,505</u>  |
| Annual Increase / (Decrease)  | <u>\$16,299</u>  |
| Percent Increase / (Decrease) | 17.43%           |

Source: Staff calculations.

**Issue 11:** What is the appropriate rate structure and rates for Sunny Shores' water system?

**Preliminary Recommendation:** The recommended rate structure and quarterly water rates are shown on Schedule No. 4. The Utility should 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 on the tariff sheet 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 and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of this notice. (Bruce)

**Staff Analysis:** Sunny Shores is a reseller located in Manatee County and purchases bulk water from the County. The Utility provides water service to 262 residential customers and two general service customers. Seasonality is typically determined based on the percentage of bills at zero gallons shown on the billing analysis, which is 13 percent in this case. However, the Utility bills on a quarterly basis, so an average was used to determine the approximate monthly usage. Averaging the quarterly bill on a monthly basis may allocate usage to a month in the quarter where there could have been no usage. For this reason, staff believes it is appropriate to evaluate the seasonality based on the percentage of bills at the 1,000-gallon level, which is approximately 34 percent. This is an indication that the customer base is seasonal. The average residential water demand is 2,664 gallons per month. The average water demand excluding zero gallon bills is 3,055 gallons per month. Furthermore, the Utility's current rate structure consists of a quarterly base facility charge (BFC), which includes a 10,800 gallons allotment, and a uniform gallonage charge for usage over 10,800 gallons.

Staff performed an analysis of the Utility's billing in order to evaluate the appropriate rate structure for the residential water customers. The goal of the evaluation was to select the rate design parameters that: 1) produce the recommended revenue requirement; 2) equitably distribute cost recovery among the Utility's customers; 3) establish the appropriate non-discretionary usage threshold for restricting repression; and 4) implement, where appropriate, water conserving rate structures consistent with Commission practice.

Due to the customers' low average monthly consumption coupled with a seasonal customer base, staff recommends that 75 percent of the revenue requirement be recovered through the BFC in an effort to maintain revenue stability. In addition, staff recommends the Utility's current allotment of 10,800 gallon should be eliminated. This type of rate structure is considered a non-conservation-oriented rate structure. Therefore, in order to promote the goal of eliminating water rate structures that discourage conservation, the allotment of 10,800 gallons should be eliminated in this case. Further, monthly billing is the preferred method for the purposes of conservation, which allows the customers to monitor their usage in an effort to minimize the impact on their bill. However, the Utility requested that the Utility's quarterly billing remain unchanged. Staff believes the Utility's request is appropriate because the cost of implementing monthly billing outweighs any benefits and there are no issues with excessive usage in this case. Although the quarterly billing is non-conservation oriented, removing the allotment is a step in the right direction in terms of conservation. Staff recommends a rate structure with a quarterly BFC for all meter sizes and uniform gallonage charge for all gallons.

Based on staff's recommended revenue increase of 17.4 percent, which excludes miscellaneous revenues, the residential consumption can be expected to decline by 1,249,000 gallons resulting in anticipated average residential demand of 2,266 gallons per month. Staff recommends a 14.9 percent reduction in test year residential gallons for rate setting purposes and corresponding reductions of \$4,929 for purchased water and \$232 for RAFs to reflect the anticipated repression. This results in a post-repression revenue requirement of \$103,442.

Staff's recommended rate structure and quarterly water rates are shown on Schedule No. 4. The Utility should 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 on the tariff sheet 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 and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of this notice.

**Issue 12:** Should the requested initial customer deposits for Sunny Shores be approved?

**Preliminary Recommendation:** The appropriate initial customer deposits should be \$195 for the single family residential 5/8 inch x 3/4 inch meter size for water. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water. The approved initial customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The Utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding. (Bruce)

**Staff Analysis:** Rule 25-30.311, F.A.C., provides the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the Utility and, ultimately, the general body of ratepayers. An initial customer deposit ensures that the cost of providing service is recovered from the cost causer. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill.<sup>21</sup> The Utility currently does not have customer deposits for its residential and general service customers.

Commission practice has been to set initial customer deposits equal to two billing periods based on the average consumption for a 12-month period for each class of customers.<sup>22</sup> The Utility's average monthly residential usage is 2,664 gallons per customer. The Utility's average monthly residential water usage after repression is 2,266 gallons per customer. Sunny Shores bills on a quarterly basis; however, an average residential monthly bill based on staff's recommended rates is approximately \$32.49 for water, which results in \$97.47 quarterly.

Based on the above, the appropriate initial customer deposit for the residential 5/8 inch x 3/4 inch meter size is \$195 for water. The initial customer deposit for all other residential meter sizes and all general service meter sizes should be two times the average estimated quarterly bill for water. The approved initial customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The Utility should be required to collect the approved initial customer deposits until authorized to change them by the Commission in a subsequent proceeding.

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<sup>21</sup>Order No. PSC-2018-0446-FOF-SU, issued September 4, 2018, in Docket No. 20170141-SU, *In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*

<sup>22</sup>Order Nos. PSC-2017-0428-PAA-WS, issued November 7, 2017, in Docket No. 20160195-WS, *In re: Application for staff-assisted rate case in Lake County by Lakeside Waterworks, Inc.* and PSC-2017-0113-PAA-WS, issued March 28, 2017, in Docket No. 20130105-WS, *In re: Application for certificates to provide water and wastewater service in Hendry and Collier Counties, by Consolidated Services of Hendry & Collier, LLC.*

**Issue 13:** Should the Commission approve the Utility's request to remove the tariff charge for maintenance of the customers' backflow prevention devices?

**Preliminary Recommendation:** Yes. The Utility's request to remove the tariff charge for maintenance of customers' backflow prevention devices should be approved. The Utility should require customers to provide documentation of the annual inspection by a date specified by the Utility. (Bruce)

**Staff Analysis:** The Utility currently has a backflow maintenance charge of \$5.46, which was approved in 2010 when the Utility was under previous ownership.<sup>23</sup> The backflow maintenance charge was billed quarterly and allowed the Utility to pay a contracted state certified plumber the costs of annual inspections of backflow prevention devices. Annual inspections are mandated by the DEP.

In its application, the Utility is requesting to remove the backflow maintenance charge from its tariff or reclassify the charge. The backflow prevention devices are the property of customers, and the Utility believes the customers should be responsible for having their backflow prevention devices inspected independently.<sup>24</sup> The Utility indicated that it will conduct a physical inspection once per year to verify that the backflow prevention devices are in working order. However, staff does not believe that the Utility should conduct a system-wide physical inspection to verify that backflow devices are in working order. Once customers have their backflow prevention device inspected, staff recommends that the Utility require the customers to provide documentation of the inspection by a date certain. A backflow prevention device that is not working properly is hazardous to the entire water system. Failing to comply with the annual inspection of the backflow prevention device to determine it is functioning properly is a deficiency. If a customer fails to provide proof the backflow prevention device has been inspected by the date certain, the Utility can discontinue service pursuant to Rule 25-30.320(2)(b), F.A.C., for failure to correct deficiencies.

Based on the above, staff recommends that the Utility's request to remove the tariff charge for maintenance of customers' backflow prevention devices be approved. The Utility should require customers to provide documentation of the annual inspection by a date specified by the Utility.

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<sup>23</sup>Order No. PSC-2010-0553-TRF-WU, issued September 3, 2010, in Docket No. 20100038-WU, *In re: Application to implement a backflow maintenance program by Sunny Shores Water Co.*

<sup>24</sup>Order No. PSC-2020-0118-PAA-WS, issued April 20, 2020, in Docket No. 20190071-WS, *In re: Application for staff-assisted rate case in Polk County by Deer Creek RV Golf & Country Club, Inc.*; Order No. PSC-2018-0271-PAA-WS, issued May 30, 2018, in Docket No. 20160220-WS, *In re: Application for original water and wastewater certificates in Sumter County, by South Sumter Utility Company, LLC.*

**Issue 14:** Should the Commission approve the Utility's request to implement a meter tampering charge and, if so, what is the appropriate charge?

**Preliminary Recommendation:** Yes. The Utility's request to implement a \$178 meter tampering charge should be approved. The Utility should be required to file a proposed customer notice to reflect the Commission-approved charge. The approved charge should be effective for services rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(2), F.A.C. In addition, the approved charge 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. (Bruce)

**Staff Analysis:** In its application, the Utility requested a meter tampering charge. In response to Staff's First Data Request, the Utility requested approximately \$154 for a meter tampering charge. However, in staff's second data request, the Utility revised its request to include the cost of a meter lock, which increased the Utility's request to \$178.79 for meter tampering charge. Nonetheless, the Utility rounded its request down to \$178. The Utility's request to establish a meter tampering charge was accompanied by a cost justification as required by Section 367.091, F.S. The Utility indicated that there has been no evidence of meter tampering.

Rule 25-30.320(2)(i), F.A.C., provides that a customer's service may be discontinued without notice in the event of tampering with the meter or other facilities furnished or owned by the Utility. In addition, Rule 25-30.320(2)(j), F.A.C., provides that a customer's service may be discontinued in the event of an unauthorized or fraudulent use of service. The rule allows the Utility to require the customer to reimburse the utility for all changes in piping or equipment necessary to eliminate illegal use and to pay an amount reasonably estimated as the deficiency in revenue resulting from the customer's fraudulent use before restoring service.

Pursuant to Rule 25-30.345, F.A.C., a Utility may charge a reasonable fee to defray the cost of restoring service that was discontinued for proper cause as specified in Rule 25-30.320, F.A.C. In recent Commission decisions, a meter tampering charge based on the typical costs to be incurred in investigating and resolving situations of meter tampering should be approved. As shown in the Utility's cost justification, if there is evidence of meter tampering, the Utility's estimate to perform the labor consists of 4.00 hours, which includes 3.5 hours of driving time, 15 minutes to perform the meter repair, and 15 minutes to charge the customer's account. The cost justification also reflects transportation cost at \$0.56 per mile, which is consistent with the IRS standard mileage rate. Staff believes the Utility's request of \$178 appears to be cost based. The Utility's cost justification is summarized on the following page in Table 14-1.

**Table 144-1  
Cost Basis for Meter Tampering Charge**

| <b>Item</b>          | <b>Description</b>                                 | <b>Quantity</b> | <b>Rate</b> | <b>Cost</b> |
|----------------------|--|-----------------|-------------|-------------|
| Equipment            | Meter Lock   | 1               | \$14.76     | \$14.76     |
| Mileage              | Round trip from utility to service area            | 140<br>miles    | \$0.56      | \$78.40     |
| Technical Labor      | Driving Time (round trip) and Meter repair         | 3.75            | \$21.50     | \$80.63     |
| Administrative Labor | Phone call to customer and charge customer account | 0.25            | \$20.00     | \$5.00      |
| Total Charge         |  |                 |             | \$178.79    |

Source: Response to staff inquiry.

Based on the above, the Utility's request to implement a \$178 meter tampering charge should be approved. The Utility should be required to file a proposed customer notice to reflect the Commission-approved charge. The approved charge should be effective for services rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(2), F.A.C. In addition, the approved charge 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.

**Issue 15:** What is the appropriate amount by which rates should be reduced four years after the published effective date to reflect the removal of the amortized rate case expense?

**Preliminary Recommendation:** The rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. Pursuant to Section 367.081(8), F.S., the decrease in rates should become effective immediately following the expiration of the rate case expense recovery period. Sunny Shores should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and rationale no later than one month prior to the effective date of the new rates. If the Utility files revised tariffs reflecting 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 the reduction in the rates due to the amortized rate case expense. (D. Brown, Bruce) (Procedural Agency Action)

**Staff Analysis:** Section 367.081(8), F.S., requires that the rates be reduced by the amount of the rate case expense previously included in rates immediately following the expiration of the recovery period. With respect to Sunny Shores, the reduction will reflect the removal of revenue associated with the amortization of rate case expense and the gross-up for RAFs. The total reduction is \$455.

Staff recommends that the rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. Pursuant to Section 367.081(8), F.S., the decrease in rates should become effective immediately following the expiration of the rate case expense recovery period. Sunny Shores should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and rationale no later than one month prior to the effective date of the new rates. If the Utility files revised tariffs reflecting 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 the reduction in the rates due to the amortized rate case expense.



**Issue 16:** Should the recommended rates be approved for Sunny Shores on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility?

**Preliminary Recommendation:** Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the Utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility. Sunny Shores should file revised tariff sheets and a proposed customer notice reflecting the Commission-approved rates. The approved rates should be effective for services rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. Further, prior to implementing any temporary rates, the Utility should provide appropriate financial security.

If the recommended rates are approved on a temporary basis, the rates collected by the Utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating both the current monthly and total amount subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (D. Brown) (Procedural Agency Action)

**Staff Analysis:** This recommendation proposes an increase in rates. A timely protest might delay a rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the Utility, staff recommends that the proposed rates be approved on a temporary basis. Sunny Shores should file revised tariff sheets and a proposed customer notice reflecting the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and it has been received by the customers. The additional revenue produced by staff's recommended rates and collected by the Utility should be subject to the refund provisions discussed below.

Sunny Shores should be authorized to initiate the temporary rates upon staff's approval of an appropriate security for the potential refund and cost of the proposed customer notice. Security should be in the form of either a bond or letter of credit in the amount of \$10,871. Alternatively, the Utility may establish an escrow agreement with an independent financial institution.

If the Utility chooses a bond for securing the potential refund, the bond should contain wording to the effect that it will be terminated only under the following conditions:

1. The Commission approves the rate increase; or,
2. If the Commission denies the increase, the Utility shall refund the amount collected that is attributable to the increase.

If the Utility chooses a letter of credit for securing the potential refund, the letter of credit should contain the following conditions:

1. The letter of credit is irrevocable for the period it is in effect.

2. The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

If security is provided through an escrow agreement, the following conditions should be part of the agreement:

1. The Commission Clerk, or his or her designee, must be a signatory to the escrow agreement.
2. No monies in the escrow account may be withdrawn by the Utility without the prior written authorization of the Commission Clerk, or his or her designee.
3. The escrow account shall be an interest bearing account.
4. If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.
5. If a refund to the customers is not required, the interest earned by the escrow account shall revert to the Utility.
6. All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.
7. The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.
8. This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to *Cosentino v. Elson*, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.
9. The account must specify by whom and on whose behalf such monies were paid.

In no instance should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the Utility. Irrespective of the form of security chosen by the Utility, an account of all monies received as a result of the rate increase should be maintained by the Utility. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

The Utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission Clerk's office no later than the 20th of every month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

**Issue 17:** Should Sunny Shores be required to notify the Commission within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) associated with the Commission approved adjustments?

**Preliminary Recommendation:** Yes. Sunny Shores should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Sunny Shores should submit a letter within 90 days of the Commission's final order in this docket, confirming that the adjustments to all applicable NARUC USOA primary accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, a notice providing good cause should be filed not less than seven days prior to the deadline. Upon providing a notice of good cause, staff should be given administrative authority to grant an extension of up to 60 days. (D. Brown) (Procedural Agency Action)

**Staff Analysis:** Sunny Shores should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Sunny Shores should submit a letter within 90 days of the Commission's final order in this docket, confirming that the adjustments to all the applicable NARUC USOA primary accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, a notice providing good cause should be filed not less than seven days prior to the deadline. Upon providing a notice of good cause, staff should be given administrative authority to grant an extension of up to 60 days.

| <b>SUNNY SHORES UTILITIES, LLC</b>  |                                    | <b>SCHEDULE NO. 1-A</b>       |                                  |  |
|-------------------------------------|------------------------------------|-------------------------------|----------------------------------|--|
| <b>TEST YEAR ENDED 6/30/2020</b>    |                                    | <b>DOCKET NO. 20200230-WU</b> |                                  |  |
| <b>SCHEDULE OF WATER RATE BASE</b>  |                                    |                               |                                  |  |
| <b>DESCRIPTION</b>                  | <b>BALANCE<br/>PER<br/>UTILITY</b> | <b>STAFF<br/>ADJUST.</b>      | <b>BALANCE<br/>PER<br/>STAFF</b> |  |
| 1. UTILITY PLANT IN SERVICE         | \$26,774                           | \$13,164                      | \$39,938                         |  |
| 2. LAND & LAND RIGHTS               | 0                                  | 0                             | 0                                |  |
| 3. ACCUMULATED DEPRECIATION         | (8,220)                            | 6,178                         | (2,042)                          |  |
| 4. CIAC                             | 0                                  | 0                             | 0                                |  |
| 5. ACCUMULATED AMORTIZATION OF CIAC | 0                                  | 0                             | 0                                |  |
| 6. WORKING CAPITAL ALLOWANCE        | <u>0</u>                           | <u>11,549</u>                 | <u>11,549</u>                    |  |
| 7. WATER RATE BASE                  | <u>\$18,554</u>                    | <u>\$30,891</u>               | <u>\$49,445</u>                  |  |

| <b>SUNNY SHORES UTILITIES, LLC</b> |  | <b>SCHEDULE NO. 1-B</b>       |
|------------------------------------|--|-------------------------------|
| <b>TEST YEAR ENDED 6/30/2020</b>   |  | <b>DOCKET NO. 20200230-WU</b> |
| <b>ADJUSTMENTS TO RATE BASE</b>    |  |                               |
|                                    |  | <b>WATER</b>                  |
|                                    | <b><u>UTILITY PLANT IN SERVICE</u></b>       |                               |
| 1.                                 | To reflect allocated percentage of vehicles. | \$8,838                       |
| 2.                                 | To reflect an averaging adjustment.          | (903)                         |
| 3.                                 | To reflect pro forma additions.              | 13,440                        |
| 4.                                 | To reflect pro forma retirement.             | <u>(8,212)</u>                |
|                                    | Total  | <u>\$13,164</u>               |
|                                    | <b><u>ACCUMULATED DEPRECIATION</u></b>       |                               |
| 1.                                 | To reflect an auditing adjustment.           | \$173                         |
| 2.                                 | To reflect allocated percentage of vehicles. | (3,045)                       |
| 3.                                 | To reflect an averaging adjustment.          | 1,414                         |
| 4.                                 | To reflect pro forma adjustment.             | <u>7,636</u>                  |
|                                    | Total  | <u>\$6,178</u>                |
|                                    | <b><u>WORKING CAPITAL ALLOWANCE</u></b>      |                               |
|                                    | To reflect 1/8 of test year O&M expenses.    | <u>\$11,549</u>               |

| <b>SUNNY SHORES UTILITIES, LLC</b>   |                    |                              |                          |                         | <b>SCHEDULE NO. 2</b>         |                      |
|--------------------------------------|--------------------|------------------------------|--------------------------|-------------------------|-------------------------------|----------------------|
| <b>TEST YEAR ENDED 6/30/2020</b>     |                    |                              |                          |                         | <b>DOCKET NO. 20200230-WU</b> |                      |
| <b>SCHEDULE OF CAPITAL STRUCTURE</b> |                    |                              |                          |                         |                               |                      |
| <b>CAPITAL COMPONENT</b>             | <b>PER UTILITY</b> | <b>PRO RATA ADJUST-MENTS</b> | <b>BALANCE PER STAFF</b> | <b>PERCENT OF TOTAL</b> | <b>COST</b>                   | <b>WEIGHTED COST</b> |
| 1. LONG-TERM DEBT                    | \$42,034           | \$7,411                      | \$49,445                 | 100.00%                 | 7.90%                         | 7.90%                |
| 2. SHORT-TERM DEBT                   | 0                  | 0                            | 0                        | 0.00%                   | 0.00%                         | 0.00%                |
| 3. COMMON EQUITY                     | 0                  | 0                            | 0                        | 0.00%                   | 10.55%                        | 0.00%                |
| 4. CUSTOMER DEPOSITS                 | 0                  | 0                            | 0                        | 0.00%                   | 2.00%                         | 0.00%                |
| 5. DEFERRED INCOME TAXES             | <u>0</u>           | <u>0</u>                     | <u>0</u>                 | <u>0.00%</u>            | 0.00%                         | <u>0.00%</u>         |
| 6. TOTAL CAPITAL                     | <u>\$42,034</u>    | <u>\$7,411</u>               | <u>\$49,445</u>          | <u>100.00%</u>          |                               | <u>7.90%</u>         |
| <b>RANGE OF REASONABLENESS</b>       |                    |                              |                          |                         | <b>LOW</b>                    | <b>HIGH</b>          |
| RETURN ON EQUITY                     |                    |                              |                          |                         | 9.55%                         | 11.55%               |
| OVERALL RATE OF RETURN               |                    |                              |                          |                         | 7.90%                         | 7.90%                |

| <b>SUNNY SHORES UTILITIES, LLC</b>        |                                      | <b>SCHEDULE NO. 3-A</b>            |                                     |                                    |                           |                  |
|---|--------------------------------------|------------------------------------|-------------------------------------|------------------------------------|---------------------------|------------------|
| <b>TEST YEAR ENDED 6/30/2020</b>          |                                      | <b>DOCKET NO. 20200230-WU</b>      |                                     |                                    |                           |                  |
| <b>SCHEDULE OF WATER OPERATING INCOME</b> |                                      |                                    |                                     |                                    |                           |                  |
|   | <b>TEST<br/>YEAR PER<br/>UTILITY</b> | <b>STAFF<br/>ADJUST-<br/>MENTS</b> | <b>STAFF<br/>ADJ.<br/>TEST YEAR</b> | <b>ADJUST<br/>FOR<br/>INCREASE</b> | <b>REV.<br/>REQ.</b>      |                  |
| 1.  | <b>TOTAL OPERATING REVENUES</b>      | <u>\$93,205</u>                    | <u>\$300</u>                        | <u>\$93,505</u>                    | <u>\$16,299</u><br>17.43% | <u>\$109,804</u> |
|   | <b>OPERATING EXPENSES:</b>           |                                    |                                     |                                    |                           |                  |
| 2.  | OPERATION & MAINTENANCE              | \$97,270                           | (\$4,440)                           | \$92,830                           | \$0                       | \$92,830         |
| 3.  | DEPRECIATION (NET)                   | 0                                  | 3,404                               | 3,404                              | 0                         | 3,404            |
| 4.  | AMORTIZATION (NET)                   | 0                                  | 0                                   | 0                                  | 0                         | 0                |
| 5.  | TAXES OTHER THAN INCOME              | 5,761                              | 14                                  | 5,775                              | 733                       | 6,508            |
| 6.  | INCOME TAXES                         | <u>0</u>                           | <u>0</u>                            | <u>0</u>                           | <u>0</u>                  | <u>0</u>         |
|   | <b>TOTAL OPERATING EXPENSES</b>      | <u>\$103,031</u>                   | <u>(\$1,022)</u>                    | <u>\$102,009</u>                   | <u>\$733</u>              | <u>\$102,743</u> |
| 7.  | <b>OPERATING INCOME / (LOSS)</b>     | <u>(\$9,826)</u>                   |                                     | <u>(\$8,504)</u>                   |                           | <u>\$7,062</u>   |
| 8.  | <b>WATER RATE BASE</b>               | \$18,554                           |                                     | \$30,891                           |                           | \$49,445         |
| 9.  | <b>OPERATING MARGIN</b>              |                                    |                                     |                                    |                           | 12.00%           |

| <b>SUNNY SHORES UTILITIES, LLC</b><br><b>TEST YEAR ENDED 6/30/2020</b><br><b>ADJUSTMENTS TO OPERATING INCOME</b> | <b>SCHEDULE NO. 3-B</b><br><b>DOCKET NO. 20200230-WU</b><br><b>PAGE 1 OF 2</b> |
|--|--|
|  | <b>WATER</b>   |
| <b>OPERATING REVENUES</b>  |  |
| 1. To reflect an auditing adjustment to Service Revenues.  | \$1,930  |
| 2. To reflect an auditing adjustment to Miscellaneous Revenues.  | 143  |
| 3. To reflect the appropriate test year Service Revenues.  | 1,004  |
| 4. To reflect the appropriate test year Miscellaneous Revenues.  | <u>(2,777)</u>   |
| Total  | <u>\$300</u>   |
| <b>OPERATION AND MAINTENANCE EXPENSE</b>   |  |
| 1. Salaries and Wages – Employees (601)<br>To reflect allocated pro forma increase.                              | <u>\$5,924</u>   |
| 2. Purchased Water (610)<br>To reflect an auditing adjustment.   | <u>(\$58)</u>  |
| 3. Contractual Services – Professional (631)<br>To reflect an auditing adjustment.                               | <u>(\$618)</u>   |
| 4. Contractual Services – Other (636)<br>To reflect allocated pro forma increase for HVAC system.                | <u>\$106</u>   |
| 5. Rental Expense (640)  |  |
| a. To reassign insurance to Account 655.   | (\$128)  |
| b. To reassign HVAC system to Account 636.   | <u>(533)</u>   |
| Subtotal   | <u>(\$661)</u>   |
| 6. Insurance Expense (655)   |  |
| a. To reflect reassignment of insurance from Account 640.  | \$128  |
| b. To reflect allocated pro forma increase.  | <u>570</u>   |
| Subtotal   | <u>\$698</u>   |
| 7. Rate Case Expense (665)   |  |
| a. To reflect annual amortization costs incurred in Transfer Docket.   | <u>\$594</u>   |
| b. To reflect 1/4 rate case expense.   | <u>435</u>   |
| Subtotal   | <u>\$1,028</u>   |
| 8. Bad Debt Expense (670)<br>To reflect 2 percent of test year revenues.   | <u>\$1,863</u>   |
| 9. Miscellaneous Expense (675)   |  |
| a. To reflect an auditing adjustment.  | (\$392)  |
| b. To reflect removal of error amount.   | <u>(12,331)</u>  |
| Subtotal   | <u>(\$12,723)</u>  |
| <b>TOTAL OPERATION &amp; MAINTENANCE ADJUSTMENTS</b>   | <u>(\$4,440)</u>   |



Date: April 19, 2021

| <b>SUNNY SHORES UTILITIES, LLC</b>     |  | <b>SCHEDULE NO. 3-B</b>       |
|--|--|-------------------------------|
| <b>TEST YEAR ENDED 6/30/2020</b>       |  | <b>DOCKET NO. 20200230-WU</b> |
| <b>ADJUSTMENTS TO OPERATING INCOME</b> |  | <b>PAGE 2 OF 2</b>            |
|  |  | <b>WATER</b>                  |
| <b>DEPRECIATION EXPENSE</b>            |  |                               |
| 1.                                     | To reflect an auditing adjustment.           | \$1,418                       |
| 2.                                     | To reflect allocated percentage of vehicles. | 1,410                         |
| 3.                                     | To reflect pro forma additions.              | <u>576</u>                    |
|  | Total  | <u>\$3,404</u>                |
| <b>TAXES OTHER THAN INCOME</b>         |  |                               |
| 1.                                     | To reflect an auditing adjustment.           | \$94                          |
| 2.                                     | To reflect appropriate test year RAFs.       | <u>(80)</u>                   |
|  | Total  | <u>\$14</u>                   |
| <b>TOTAL OPERATING EXPENSE</b>         |  | <u>(\$1,022)</u>              |

| <b>SUNNY SHORES UTILITIES, LLC</b>       |   | <b>SCHEDULE NO. 3-C</b>          |                                   |                                |
|--|---|----------------------------------|-----------------------------------|--------------------------------|
| <b>TEST YEAR ENDED 6/30/2020</b>         |   | <b>DOCKET NO. 20200230-WU</b>    |                                   |                                |
| <b>ANALYSIS OF WATER O&amp;M EXPENSE</b> |   |                                  |                                   |                                |
| <b>ACCT. #</b>                           | <b>DESCRIPTION</b>                        | <b>TOTAL<br/>PER<br/>UTILITY</b> | <b>STAFF<br/>ADJUST-<br/>MENT</b> | <b>TOTAL<br/>PER<br/>STAFF</b> |
| 601                                      | Salaries and Wages – Employees            | \$19,937                         | \$5,924                           | \$25,861                       |
| 603                                      | Salaries and Wages – Officers & Directors | 6,252                            | 0                                 | 6,252                          |
| 604                                      | Employee Pensions and Benefits            | 485                              | 0                                 | 485                            |
| 610                                      | Purchased Water                           | 34,041                           | (58)                              | 33,983                         |
| 620                                      | Materials and Supplies                    | 978                              | 0                                 | 978                            |
| 631                                      | Contractual Services – Professional       | 868                              | (618)                             | 250                            |
| 635                                      | Contractual Services – Testing            | 6,564                            | 0                                 | 6,564                          |
| 636                                      | Contractual Services – Other              | 1,385                            | 106                               | 1,491                          |
| 640                                      | Rents                                     | 3,482                            | (661)                             | 2,821                          |
| 650                                      | Transportation Expense                    | 3,304                            | 0                                 | 3,304                          |
| 655                                      | Insurance Expense                         | 2,482                            | 698                               | 3,180                          |
| 665                                      | Rate Case Expense                         | 0                                | 1,028                             | 1,028                          |
| 670                                      | Bad Debt Expense                          | 7                                | 1,863                             | 1,870                          |
| 675                                      | Miscellaneous Expenses                    | <u>17,485</u>                    | <u>(12,723)</u>                   | <u>4,762</u>                   |
|  | Total O&M Expense                         | <u>\$97,270</u>                  | <u>(\$4,440)</u>                  | <u>\$92,830</u>                |
|  | Working Capital is 1/8 of O&M Less RCE    |                                  |                                   | \$11,549                       |

| <b>SUNNY SHORES UTILITIES, LLC.</b>                                 |                                      | <b>SCHEDULE NO. 4</b>           |                                      |
|---|--------------------------------------|---------------------------------|--------------------------------------|
| <b>TEST YEAR ENDED 6/30/2020</b>                                    |                                      | <b>DOCKET NO. 20200230-WU</b>   |                                      |
| <b>QUARTERLY WATER RATES</b>  |                                      |                                 |                                      |
|   | <b>UTILITY<br/>CURRENT<br/>RATES</b> | <b>STAFF<br/>REC.<br/>RATES</b> | <b>4-YEAR<br/>RATE<br/>REDUCTION</b> |
| <b><u>Residential and General Service</u></b>                       |                                      |                                 |                                      |
| Base Facility Charge by Meter Size                                  |                                      |                                 |                                      |
| Includes 10,800 gallons   | \$74.97                              | N/A                             | N/A                                  |
| Charge per 1,000 over 10,800 gallons                                | \$5.14                               | N/A                             | N/A                                  |
| 5/8" x 3/4"   |                                      | \$73.62                         | \$0.32                               |
| 3/4"  |                                      | \$110.43                        | \$0.49                               |
| 1"  |                                      | \$184.05                        | \$0.81                               |
| 1-1/2"  |                                      | \$368.10                        | \$1.62                               |
| 2"  |                                      | \$588.96                        | \$2.59                               |
| 3"  |                                      | \$1,177.92                      | \$5.18                               |
| 4"  |                                      | \$1,840.50                      | \$8.10                               |
| 6"  |                                      | \$3,681.00                      | \$16.20                              |
| Charge per 1,000 gallons  |                                      | \$3.51                          | \$0.02                               |
| <b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b> |                                      |                                 |                                      |
| 3,000 Gallons   | \$74.97                              | \$84.15                         |                                      |
| 6,000 Gallons   | \$74.97                              | \$94.68                         |                                      |
| 10,000 Gallons  | \$74.97                              | \$108.72                        |                                      |