

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: August 26, 2022

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Accounting and Finance (Richards) *ALM*
Division of Economics (Bethea, Hudson) *JGH*
Division of Engineering (Ellis, Phillips) *TB*
Office of the General Counsel (J. Crawford, Rubottom) *JSC*

RE: Docket No. 20220066-WS – Application for increase in water rates in Washington County, by Sunny Hills Utility Company.

AGENDA: 09/08/22 – Regular Agenda – Proposed Agency Action, Except for Issues 18, 19 and 20 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: La Rosa

CRITICAL DATES: 10/6/22 (5-Month Effective Date (PAA Rate Case))

SPECIAL INSTRUCTIONS: None

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Case Background

Sunny Hills Utility Company (Utility or Sunny Hills) is a Class B water and wastewater utility serving approximately 559 residential customers and 18 general service customers in Washington County. The Utility has not had its rates established since its transfer from Aqua Utilities Florida, Inc.¹ The Utility's last rate case was in 2012.² According to the Utility's 2021 Annual Report, Sunny Hills recorded net operating revenues of \$342,786 and net operating expenses of \$369,129.

On April 7, 2022, Sunny Hills filed its application for the rate increase at issue in the instant docket.³ In its application, the Utility is seeking a rate increase for the water system only.

On May 3, 2022, staff sent the Utility a letter indicating certain deficiencies with its minimum filing requirements (MFRs).⁴ All deficiencies were subsequently satisfied, and an official filing date of May 6, 2022, was established.⁵

The Utility requested that the application be processed as a Proposed Agency Action (PAA) and requested interim rate relief. The test year established for interim and final rates is the period ended December 31, 2021. Sunny Hills requested an interim revenue increase of \$52,872 (16.08 percent), and a final revenue increase of \$90,740 (25.79 percent).

By Order No. PSC-2022-0227-PCO-WS, the Commission suspended final rates proposed by the Utility and approved interim rates to allow staff sufficient time to process this case.⁶ Staff conducted a virtual customer meeting on July 19, 2022. Two customers spoke at the meeting. One of the customers that spoke during the virtual customer meeting raised questions concerning the impact of potential future growth in Sunny Hills' service territory. In response to a data request, the Utility indicated that it has met with the County and a developer in the area several times, but that no definitive plans have been provided regarding future growth in their service territory.⁷

The Commission has jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes (F.S.).

¹Order No. PSC-2014-0315-PAA-WS, issued June 13, 2014, in Docket No. 20130172-WS, *In re: Application for approval of transfer of certain water and wastewater facilities and Certificate Nos. 501-W and 435-S of Aqua Utilities Florida, Inc. to Sunny Hills Utility Company in Washington County.*

²Order No. PSC-2012-0102-FOF-WS, issued March 5, 2012, in Docket No. 20100330-WS, *In re: Application for increase in water/wastewater rates in Alachua, Brevard, DeSoto, Hardee, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.*

³Document No. 02296-2022, filed on April 7, 2022.

⁴Document No. 02778-2022, filed on May 3, 2022.

⁵Document No. 03123-2022, filed on May 24, 2022.

⁶Order No. PSC-2022-0227-PCO-WS, issued June 27, 2022, in Docket No. 20220066-WS, *In re: Application for increase in water rates in Washington County, by Sunny Hills Utility Company.*

⁷ Document No. 04904-2022, filed on July 22, 2022.

Discussion of Issues

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

Recommendation: Yes. Sunny Hills is meeting all Department of Environmental Protection (DEP) primary and secondary standards with the exception of the secondary standard for iron at a backup well, Well No. 1. The Utility is taking measures to address the iron levels at Well No. 1 and has been responsive to customer complaints. Therefore, the quality of service provided by Sunny Hills should be considered satisfactory. (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.), the Commission, in every rate case, shall make a determination of the quality of service provided by the utility by evaluating the quality of the utility's product (water) and the utility's attempt to address customer satisfaction. The Rule requires that the most recent chemical analyses, outstanding citations, violations, and consent orders on file with the DEP and the county health department, along with any DEP and county health department officials' testimony concerning quality of service shall be considered. In addition, any customer testimony, comments, or complaints shall also be considered. The operating condition of the water system is addressed in Issue 2.

Quality of Utility's Product

In evaluation of Sunny Hill's product, 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 most recent comprehensive chemical analyses were performed on November 22, 2021 and all results were found to be in compliance with DEP regulations, except for the secondary standard for iron at Well No. 1, one of two backup wells. A review of the DEP records did not show any consent orders against the Utility.

The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the complaints filed in the Commission's Consumer Activity Tracking System (CATS), complaints filed with the DEP, and complaints received by the Utility from January 1, 2017 through December 31, 2021. The Commission also received written customer correspondence in this docket from six customers. A customer meeting was held on Tuesday July 19, 2022, where two customers provided comments, one of whom had already provided written comments. Staff also performed a supplemental review of the complaints filed in CATS and with DEP following the July 19, 2022 customer meeting. Table 1-1 shows the number of complaints categorized by complaint type and source. The majority of the complaints filed were filed with the Utility and were related to low water pressure, discolored water, and leaks.

**Table 1-1
 Number of Complaints by Type and Source**

| Subject | CATS | Correspondence / Customer Meeting | DEP | Utility | Total |
|-------------------------|-------------|--|------------|----------------|--------------|
| Water Pressure | 1 | | | 119 | 120 |
| Discolored Water | 1 | 4 | 14 | 68 | 87 |
| Damaged Meter | | | | 12 | 12 |
| Billing | 6 | | | | 6 |
| Leaks | | 1 | | 56 | 57 |
| Rate Increase | | 5 | | | 5 |
| Total* | 8 | 10 | 14 | 255 | 287 |

*A single customer complaint may be counted multiple times if it fits into multiple categories, was reported to multiple agencies, or was reported multiple times.

Starting the week of July 22, 2022, the DEP noted an increase of complaints associated with discolored water. While the operator reported that system pressure and chlorination were adequate, the DEP conducted a site visit to investigate the complaints and noted that backup Well No. 1 had elevated iron levels and had been operating due to a valve repair on the primary well. The DEP’s field inspection observed the distribution system produce tinted water that cleared after flushing and recommended repairing the primary well and reducing iron content by means of a sequestering agent or filtration, with a notation that the Utility had already submitted plans for an iron filtration system to be installed.

Low pressure, discolored water, and leaks are all related to the Utility’s distribution system. Sunny Hills has a large distribution system that is over forty years old and was installed before the current owners purchased the system. In addition to the size and age of the system, the surrounding soil is mostly sand and likely to shift. This can result in distribution lines breaking and leaking. When a line breaks the pressure is reduced throughout the distribution system. When the pressure drops the Utility uses a backup well to help maintain pressure; however, as noted above the raw water supply located at Well No. 1 has high levels of natural iron that leads to discolored water when this well is utilized. As discussed further in Issue 4, Sunny Hills is adding an iron filtration system at Well No. 1. In addition, line breaks may allow for sediment to enter the distribution system, and repairing the break will cause sediment to become dislodged resulting in discolored water. Due to the size of the distribution system it is difficult for the Utility’s workers to locate breaks when they occur; however, the Utility has capped and removed from service several unused water lines that were believed to contribute to leaks. After repairs are made, and in response to customer complaints, the operator will flush the lines to remove sediment. Sunny Hills stated that most customer complaints are resolved by flushing.

Conclusion

Sunny Hills is meeting all DEP primary and secondary standards with the exception of the secondary standard for iron at a backup well, Well No. 1. The Utility is taking measures to address the iron levels at Well No. 1 and has been responsive to customer complaints. Therefore, the quality of service provided by Sunny Hills should be considered satisfactory.

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

Recommendation: Yes. The Utility's water system is currently in compliance with DEP regulations. (Phillips)

Staff Analysis: Rule 25-30.225(2), F.A.C., requires each water and wastewater 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 for water systems and compliance evaluation inspections for wastewater systems, 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 Condition

Sunny Hill's water system consists of three wells: the main well with a capacity of 504,000 gallons per day (gpd), and two backup wells with capacities of 432,000 and 288,000 gpd for a total permitted design capacity of 1,224,000 gpd. The Utility also has three storage units: a main water storage tank with a capacity of 150,000 gallons, and two 10,000 gallon hydropneumatic tanks, for a total capacity of 170,000 gallons. Sunny Hills uses two chlorine treatment plants to treat the raw water. Staff reviewed Sunny Hills' sanitary surveys conducted by the DEP to determine the Utility's overall water facility compliance. A review of the sanitary survey conducted on December 3, 2021, and the DEP site inspection on July 29, 2022, indicated that Sunny Hills' water treatment facility is in compliance with the DEP's rules and regulations.

Conclusion

Based on the above, Sunny Hills' water system is currently in compliance with DEP regulations.

Issue 3: Should the audit adjustments to rate base be made?

Recommendation: Yes. Plant in service should be decreased by \$5,627 and accumulated depreciation should be increased by \$8,916. (Richards)

Staff Analysis: Staff's audit report was filed on July 1, 2022.⁸ Sunny Hills did not file a formal response to the audit. Audit Finding No. 1 determined that utility plant in service (UPIS) should be decreased by \$5,627 to include the actual total additions and retirements to UPIS from March 28, 2013, through December 31, 2021. Audit Finding No. 1 also determined that accumulated depreciation should be increased by \$8,916.

Conclusion

Adjustments decreasing UPIS by \$5,627 and increasing accumulated depreciation by \$8,916 should be made.

⁸Document No. 04419-2022, filed on July 1, 2022.

Issue 4: What are the used and useful (U&U) percentages of Sunny Hills' water treatment plant (WTP), storage, and water distribution system?

Recommendation: Staff recommends that Sunny Hills' water treatment system is 91 percent U&U, the water storage 100 percent U&U, and the water distribution system 10 percent U&U. Additionally, staff recommends that the Utility has 4.2 percent excessive unaccounted for water (EUW). (Phillips)

Staff Analysis: Rule 25-30.4325, F.A.C., provides factors to be considered in determining U&U and EUW calculations. As stated in Issue 2, Sunny Hills' water system is comprised of three wells with a permitted design capacity of 1,224,000 gpd, and three water tanks with a capacity of 170,000 gallons. Sunny Hills' U&U percentages were last determined by the Commission in Docket No. 20100330-WS.⁹

Used and Useful Percentages

Water Treatment Plant

Rule 25-30.4325(5), F.A.C., states that water treatment plant U&U is calculated by dividing the peak demand, which is based on the highest daily usage, by the firm reliable capacity, which is the capacity of all wells excluding the single largest well. The Utility calculated peak demand to be 509,142 gpd and firm reliable capacity to be 720,000 gpd, resulting in a 70.7 percent U&U. Staff's review determined that an alternate day should be used for peak demand value, as the highest demand day was during a line break and pursuant to Rule 25-30.4325(7)(b)1, F.A.C., the peak day must have no unusual occurrences. Based on staff's analysis, the peak demand is 351,480 gpd based on the next highest peak day. Staff also reviewed the firm reliable capacity and determined it should be modified to reflect storage on the Utility's system. Instead of using 24 hours of pumping, 16 hours of pumping should be used for the calculation pursuant to Rule 25-30.4325(6)(b), F.A.C. This yields a firm reliable capacity of 480,000 gpd. As a result, staff calculated a U&U level of 73.2 percent. However, in Sunny Hills' last rate case the water treatment system was determined to be 91 percent U&U. Therefore, to be consistent with the Commission's previous determination, staff recommends that the water treatment system is 91 percent U&U.

Water Storage

Rule 25-30.4325(8), F.A.C., states that water storage U&U is calculated by dividing the peak demand by usable storage. The Utility calculated the water storage system to be 299.5 percent U&U based on a usable storage capacity of 170,000 gallons. As noted above, staff modified the peak demand to reflect a day without an unusual occurrence. Staff's review also removed the two hydrodynamic tanks from the calculation of usable storage, consistent with Rule 25-30.4325(8), F.A.C., reducing the usable storage value to 150,000 gallons. As a result, staff calculated a U&U of 234.3 percent. Rule 25-30.4325(8), F.A.C., states that if storage capacity is less than the peak demand, the U&U should be considered 100 percent U&U. Therefore, consistent with the

⁹Order No. PSC-2012-0102-FOF-WS, issued March 5, 2012, in Docket No. 20100330, *In re: Application for increase in water/wastewater rates in Alachua, Brevard, DeSoto, Hardee, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.*

Commission's previous determination, staff recommends the water storage system is 100 percent U&U.

Water Distribution

The Utility calculated the water distribution system to be 8.8 percent U&U based on a total system capacity of 6,384 equivalent residential connections (ERCs) and a projected 560 ERCs based on a negative growth rate of 3.2 percent. Staff notes that there are currently 577 ERCs on the Utility's system, and recommends that while Rule 25-30.431, F.A.C., requires the Commission to consider the rate of growth, a negative growth value in this instance would not be appropriate as the distribution system is currently being used to serve customers. Therefore, based on 577 current ERCs and 6,384 potential ERCs, the distribution system is 9.0 percent U&U. However, in Sunny Hills' last rate case the distribution system was determined to be 10 percent U&U. Therefore, to be consistent with the Commission's previous determination, staff recommends that the water distribution system is 10 percent U&U.

Excessive Unaccounted for Water

Rule 25-30.4325, F.A.C., 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. Sunny Hills estimated the EUW to be 4.5 percent based on producing 42,130,660 gallons, an estimated total sales of 25,494,000 gallons, and 10,516,498 gallons used for other uses, such as flushing and losses due to line breaks/leaks during the test year. Staff's review confirmed the values for water produced and other uses, but based on the audit report the actual gallons sold during the test year were slightly higher, at 25,628,000 gallons. The resulting calculation $([42,130,660 - 25,628,000 - 10,516,498] \div 42,130,660)$ for unaccounted for water is 14.2 percent; therefore, the Utility has EUW of 4.2 percent. Staff recommends an adjustment of 4.2 percent should be made to purchased power and chemical expenses.

Conclusion

Staff recommends that Sunny Hills' water treatment system is 91 percent U&U, the water storage 100 percent U&U, and the water distribution system 10 percent U&U. Additionally, staff recommends that the Utility has 4.2 percent EUW.

Issue 5: Should adjustments be made to the Utility's non-U&U balance?

Recommendation: Yes. The Utility's non-U&U balance should be decreased by \$27,613. (Richards)

Staff Analysis: Based on the calculations discussed in Issue 4, staff determined the non-U&U plant balance totaled \$2,177,531. When compared to the total plant balance for Sunny Hills of \$4,226,841, staff calculated a non-U&U composite rate of 51.52 percent ($\$2,177,531 \div \$4,226,841$).

Utility Plant in Service

In MFR Schedule A-5, the Utility recorded a non-U&U balance for plant of \$2,156,891. Based on staff's calculations outlined in Issue 4, staff reduced this amount by \$323. The Utility also included a non-U&U adjustment of \$20,963 for pro forma plant additions; staff made no adjustment to this amount.

Accumulated Depreciation

In MFR Schedule A-9, the Utility recorded a non-U&U balance for accumulated depreciation of \$1,244,518. Based on staff's calculations outlined in Issue 4, staff increased this amount by \$4,075. The Utility also included a non-U&U adjustment to the accumulated depreciation balance of pro forma of \$476. Staff further increased this amount by \$478.

Negative Acquisition Adjustment

The Utility recorded a non-U&U adjustment to the negative acquisition adjustment of \$839,646, and to the accumulated amortization of the negative acquisition adjustment of \$608,568. Staff used the non-U&U composite rate of 51.52 percent to decrease the Utility's non-U&U adjustments by \$47,024 and \$69,761 for acquisition adjustment and accumulated acquisition adjustment, respectively.

Conclusion

Staff recommends reducing the Utility's non-U&U balance by \$27,613 ($\$323 + \$4,075 + \$478 - \$47,024 + \$69,761$).

Issue 6: Should further adjustments be made to the Utility's rate base?

Recommendation: Yes. The Utility's test year rate base should further be reduced by \$97,414. (Richards)

Staff Analysis: Staff made adjustments to the Utility's reported accumulated depreciation, contributions in aid of construction (CIAC), accumulated amortization of CIAC, accumulated amortization of the acquisition adjustment, and working capital. Those adjustments are detailed below.

Accumulated Depreciation

In addition to Audit Finding 1 described in Issue 3, staff made an averaging adjustment to reduce accumulated depreciation by \$4,218.

CIAC and Accumulated Amortization of CIAC

To reflect an appropriate balance determined by the audit, staff increased CIAC by \$8,712 and accumulated amortization of CIAC by \$6,124. In MFR Schedules A-12 and A-14, the Utility recorded a non-U&U balance of \$381,292 for CIAC and \$183,509 for accumulated amortization of CIAC. Using the non-U&U composite rate of 51.52 percent detailed in Issue 5, staff reduced these amounts by \$3,149 and \$7,122 for CIAC and accumulated amortization of CIAC respectively.

Accumulated Amortization of Negative Acquisition Adjustment

The Utility's 2014 transfer order established a negative acquisition adjustment for the water system of \$1,538,571.¹⁰ Fifty percent of the acquisition adjustment was amortized over 7 years with the remainder amortized over the life of the assets, which was calculated as 21 years. In the instant case, the Utility recorded an accumulated amortization of the negative acquisition adjustment of \$1,148,084. Based on the 2014 order, staff calculated the accumulated amortization from June 13, 2014, through December 31, 2021, as \$1,045,888. This resulted in a decrease of \$102,196 to the Utility's recorded amount.

Working Capital Allowance

In MFR Schedule A-17, the Utility recorded a working capital balance of \$37,324. Rule 25-30.433(3), F.A.C., requires Class B utilities to use the formula method, or one-eighth of operation and maintenance (O&M) expenses, to calculate the working capital allowance. As discussed in Issue 12, staff recommends a total O&M balance of \$293,581. Section 367.081(9), F.S., prohibits a utility from earning a return on the unamortized balance of rate case expense (RCE). As such, staff removed the RCE of \$1,554; this resulted in an adjusted O&M balance of \$292,027 (\$293,581 - \$1,554). Based on this, staff calculated working capital expense of \$36,503 ($\$292,027 \div 8$). This resulted in a decrease to the Utility's recorded working capital expense of \$821 ($\$37,324 - \$36,503$).

¹⁰Order No. PSC-2014-0315-PAA-WS.

Table 6-1
Additional Staff Adjustments to Test Year Rate Base

| Description | Amount |
|---|-------------------|
| To reflect an averaging adjustment to accumulated depreciation. | \$4,218 |
| To reflect an auditing adjustment to CIAC. | (8,712) |
| To reflect a non-used and useful adjustment to CIAC. | (3,149) |
| To reflect an auditing adjustment to accum. amort. of CIAC. | 6,124 |
| To reflect a non-used and useful adj. to accum. amort. of CIAC. | 7,122 |
| To reflect the appropriate accum. amort. of negative acquisition adj. | (102,196) |
| To reflect 1/8 O&M expense, less RCE for working capital. | (\$821) |
| Total additional staff adjustments to test year rate base. | <u>(\$97,414)</u> |

Source: Staff calculations.

Conclusion

Based on the above adjustments and detailed in Table 6-1 above, staff recommends reducing the Utility's test year rate base by \$97,414.

Issue 7: Should any adjustments be made to the Utility's pro forma adjustments?

Recommendation: Yes. Pro forma accumulated depreciation should be reduced by \$6,245 and depreciation expense should be increased by \$5,767. Additionally, property taxes should be decreased by \$1,172. There is no adjustment to the Utility's pro forma plant. (Phillips, Richards)

Staff Analysis: The Utility requested two pro forma plant additions. For its first project, Sunny Hills is seeking to add an iron filtration system to the backup well by the end of 2022. As discussed in Issue 1, the raw water located at this well contains high amounts of iron that can cause discolored water when this well is utilized. In order to reduce the iron levels, the Utility is planning on placing a "green sand" filtration system that will remove the raw iron from the water. Sunny Hills will be utilizing a retired filtration vessel skid that was previously used to remove sulfur from an affiliated utility in order to reduce cost. For the second project, Sunny Hills is also seeking to retire and replace the existing damaged generator located at Well No. 1. Rule 62-555.320(14)(a), F.A.C., requires Sunny Hills to have this generator due to the number of customers the Utility serves. As is Commission practice, the Utility received three bids for each pro forma project and selected the least cost option.

In MFR Schedule A-3, the Utility recorded a cost of \$232,925 for the iron filtration system described above. Additionally, the Utility recorded a cost of \$150,357 for the new generator located at Well No. 1, with a retirement amount of \$112,768 for the old generator. These two projects resulted in a pro forma increase to plant of \$270,514 ($\$232,925 + \$150,357 - \$112,768$). Staff made no adjustments to the pro forma plant balance.

Additionally, the Utility recorded an adjustment reducing accumulated depreciation by \$106,534 for the two pro forma projects. Staff recalculated this amount, and reduced the Utility's adjustment by \$6,245 to reflect the appropriate accumulated depreciation.

The Utility made corresponding adjustments to increase depreciation expense by \$5,757 net of non-U&U adjustment, and increased property taxes by \$2,868. Staff made further adjustments to these amounts, increasing depreciation expense by an additional \$5,767 net of non-U&U, and decreasing property taxes by \$1,172.

Conclusion

Accumulated depreciation should be reduced by \$6,245 and depreciation expense should be increased by \$5,767. Additionally, property taxes should be decreased by \$1,172.

Issue 8: What is the appropriate rate base for the test year ended December 31, 2021?

Recommendation: Consistent with staff's recommended adjustments, the appropriate rate base for the test year ended December 31, 2021, is \$665,162. (Richards)

Staff Analysis: In its MFRs, the Utility requested a rate base of \$755,752. Based on staff's previously recommended adjustments, the appropriate rate base is \$665,162. The schedule for rate base is attached as Schedule No. 1-A, and the adjustments are shown on Schedule No. 1-B.

Issue 9: What is the appropriate return on equity (ROE)?

Recommendation: Based on the Commission's leverage formula currently in effect, the appropriate ROE for the Utility is 7.84 percent. (Richards)

Staff Analysis: The ROE included in the Utility's MFR Schedule D-1 is 8.74 percent. Based on the current leverage formula in effect, and the Utility's equity ratio of 97.27 percent, the appropriate ROE is 7.84 percent.¹¹ Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

Conclusion

The appropriate ROE for the Utility is 7.84 percent.

¹¹Order No. PSC-2022-0208-PAA-WS, issued June 15, 2022, in Docket No. 20220006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*

Issue 10: What is the appropriate weighted average cost of capital based on the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2021?

Recommendation: The appropriate weighted average cost of capital for the test year ended December 31, 2021, is 7.68 percent. (Richards)

Staff Analysis: In its filing, the Utility requested an overall cost of capital of 8.56 percent. The Utility's capital structure consists of common equity and customer deposits. Based upon the proper components, amounts, and cost rates associated with the capital structure, staff recommends a weighted average cost of capital of 7.68 percent. Schedule No. 2 details staff's recommended overall cost of capital.

Conclusion

The appropriate weighted average cost of capital for the test year ended December 31, 2021, is 7.68 percent.

Issue 11: What are the appropriate amount of test year revenues for Sunny Hills' water system?

Recommendation: The appropriate test year revenues for Sunny Hills' water system are \$361,770 (Bethea)

Staff Analysis: Sunny Hills reflected, in its MFRs, test year revenues of \$351,891. The water revenues included \$344,137 of service revenues and \$7,754 of miscellaneous revenues. Staff determined service revenues by applying the number of billing determinants to the rates in effect at the time of filing. As a result, staff determined that service revenues should be \$356,495, which is an increase of \$12,358. Staff also made an adjustment to miscellaneous revenues to remove \$2,479 of Allowance for Funds Prudently Invested charges that were inaccurately reflected in miscellaneous revenues. Staff determined that miscellaneous revenues should be \$5,275 (\$7,754 - \$2,479). Based on the above, the appropriate test year revenues for Sunny Hills' water system, including miscellaneous revenues, are \$361,770 (\$356,495 + \$5,275).

Issue 12: Should further adjustments be made to the Utility's O&M expense?

Recommendation: Yes. O&M expense should be decreased by \$4,677. (Richards)

Staff Analysis: Based on its review of the test year O&M expense, staff recommends several adjustments to the Utility's O&M expense as summarized below.

Purchased Power

In its filing, Sunny Hills reflected purchased power expense of \$14,677, which included an adjustment for excessive unaccounted for water (EUW). Based on the EUW calculation described in Issue 4, staff made an adjustment increasing this amount by \$50.

Chemicals Expense

Sunny Hills recorded chemicals expense of \$1,355 which included an adjustment for EUW, in its MFR filing. Based on the EUW calculation described in Issue 4, staff made an adjustment increasing this amount by \$4.

Insurance Expense

The Utility recorded insurance expense of \$2,924 for the cost of an insurance policy. During the audit, the Utility provided a copy of the insurance policy which had a total cost of \$3,069. Staff allocated 50 percent of this total cost to water, and the other 50 percent to wastewater. Staff calculated the water portion of the insurance policy to be \$1,535 ($\$3,069 \div 2$). Therefore, staff decreased the insurance expense by \$1,389 ($\$2,924 - \$1,535$).

Rate Case Expense

The Utility estimated annual amortization of rate case expense of \$1,509 in its filing. Staff calculated rate case expense of \$6,218 which amortized over four years is \$1,554, resulting in an increase of \$45. Staff's amount includes \$468 for travel to the Commission Conference, a filing fee of \$3,500, and total noticing costs of \$2,250.¹²

Bad Debt Expense

In its filing, the Utility recorded bad debt expense of \$7,246. This amount reflects the amount of bad debt expense in the Utility's 2021 Annual Report. It is Commission practice to use a 3-year average when calculating bad debt expense. Staff calculated bad debt expense of \$3,859 which reflects an average of the Utility's reported 2019, 2020, and 2021 amounts. Therefore, staff recommends a decrease of \$3,387 ($\$7,246 - \$3,859$) to the Utility's recorded bad debt expense.

Conclusion

Based on the adjustments above, staff recommends a decrease of \$4,677 ($\$50 + \$4 - \$1,389 + \$45 - \$3,387$) to the Utility's test year O&M expense.

¹²Document No. 02415-2022, filed on April 14, 2022.

Issue 13: Should further adjustments be made to the Utility's operating expense?

Recommendation: Yes. The Utility's operating expenses should be further decreased by \$1,111. (Richards)

Staff Analysis: Staff made several adjustments to the Utility's operating expenses which are detailed below.

Net Depreciation Expense

In MFR Schedule B-13, the Utility recorded test year depreciation expense of \$51,050 net of a non-U&U adjustment. Staff decreased this amount by \$9,353 to reflect the removal of depreciation expense for accounts which were fully depreciated. Staff further decreased this amount by \$339 to reflect the appropriate non-U&U adjustments. As discussed in Issue 7, staff increased depreciation expense by \$5,767 to reflect the appropriate depreciation expense associated with pro forma additions. In the audit, staff recommended CIAC be increased by \$1,134 with a decrease of \$912 for a non-U&U adjustment. Therefore, staff recommends a decrease of \$4,148 ($\$9,353 + \$339 - \$5,767 + \$1,134 - 912$) to the Utility's depreciation expense.

Amortization of Negative Acquisition Adjustment

As discussed in Issue 6, the 2014 transfer order for Sunny Hills, detailed how the negative acquisition adjustment will be amortized over the life of the assets.¹³ Based on staff's calculations, the amortization of the negative acquisition adjustment is \$36,633. This represents a \$688 increase from the Utility's recorded amortization amount of \$35,945. Using staff's composite non-U&U rate of 51.52 percent, staff decreased the amortization of the negative acquisition adjustment by \$18,872 which represents a further decrease of \$986 from the Utility's recorded non-U&U adjustment. Therefore, staff recommends decreasing amortization of the acquisition adjustment by \$298 ($\$688 - \986).

Taxes Other Than Income

In the Utility's MFR Schedule B-15, Sunny Hills recorded property and tangible taxes of \$18,709 net of non-used and useful adjustments. Staff increased this amount by \$961 to reflect the appropriate amount of property and tangible taxes using the composite non-U&U percentage of 51.52 percent. As discussed in Issue 6, staff made an adjustment decreasing tax expense by \$1,172 to reflect pro forma projects. Additionally, staff increased TOTI by \$445 to reflect the appropriate regulatory assessment fees (RAFs). Taken together, this result in a test year adjustment of \$234 ($\$961 - \$1,172 + \445) to TOTI.

Additionally, as discussed in Issue 15, staff recommends revenues be increased by \$55,646 in order 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 \$2,504 to reflect RAFs of 4.5 percent of the change in revenues.

¹³Order No. PSC-2014-0315-PAA-WS.

Conclusion

Based on the adjustment above, staff recommends further decreasing the Utility's test year operating expense by \$3,615 (\$4,148 - \$298 - \$234). This amount is offset by an increase in TOTI of \$2,504 to reflect RAFs for the recommended change in revenues. As such, staff recommends a net decrease of \$1,111 (\$3,615 - \$2,504) to the Utility's operating expense.

Issue 14: What is the appropriate operating expense for the test year ended December 31, 2021?

Recommendation: Consistent with staff's recommended adjustments, the appropriate operating expense for the test year ended December 31, 2021, is \$363,822. (Richards)

Staff Analysis: In its MFRs, the Utility recorded operating expense of \$372,114. Based on staff's previously recommended adjustments, the appropriate operating expense is \$363,822. The schedule for water operations is attached as Schedule No. 3-A, and the adjustments are shown on Schedule No. 3-B.

Conclusion

The appropriate operating expense for the test year ended December 31, 2021, is \$363,822.

Issue 15: What is the appropriate revenue requirement for the test year ended December 31, 2021?

Recommendation: Staff recommends a revenue requirement of \$417,416 be approved.

Table 15-1
Staff's Recommended Revenue Requirement

| Test Year Revenue | \$ Increase | Revenue Requirement | % Increase |
|--------------------------|--------------------|----------------------------|-------------------|
| \$361,770 | \$55,646 | \$417,416 | 15.38% |

Source: Staff's calculations

(Richards, Bethea)

Staff Analysis: In its filing, the Utility requested an annual revenue requirement of \$442,631. This requested revenue requirement represents an increase of \$90,740, or approximately 20.50 percent, over the reported test year revenues of \$351,891. Consistent with its recommendations concerning rate base, cost of capital, and operating income issues, staff recommends a revenue requirement of \$417,416.

Conclusion

Staff recommends a revenue requirement of \$417,416 be approved.

Issue 16: What are the appropriate rate structures and rates for Sunny Hills' water system?

Recommendation: The recommended rate structure and monthly 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 sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice 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 the notice. (Bethea)

Staff Analysis: Sunny Hills is located in Washington County within the Northwest Florida Water Management District. The Utility provides water service to 559 residential and 18 general service customers. Approximately 23 percent of the residential customer bills during the test year had zero gallons, indicating a seasonal customer base. The average residential water demand is 3,343 gallons per month. The average water demand excluding zero gallon bills is 4,312 gallons per month. Currently, the Utility's water rate structure consists of a monthly base facility charge (BFC) and a three-tier inclining block rate structure, which includes separate gallonage charges for discretionary and non-discretionary usage for residential water customers. The rate blocks are: (1) 0-6,000 gallons; (2) 6,001-12,000 gallons; and (3) all usage in excess of 12,000 gallons per month. The general service rate structure consists of a monthly BFC and a uniform gallonage charge.

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.

The Utility's existing rate structure was implemented in 2012 when Sunny Hills was part of Aqua Utilities Florida, Inc. (Aqua) system.¹⁴ In 2014, the Commission approved the transfer of certain water and wastewater facilities of Aqua to Sunny Hills with the existing rates and charges remaining in effect at the time of the transfer.¹⁵ Staff believes that for a stand-alone system, the existing three-tier rate structure should be evaluated based on the usage characteristics of Sunny Hills' customers. Staff evaluated alternate rate structures, such as a two-tier inclining block rate structure, with usage blocks of monthly consumption of 0-4,000 gallons and all usage above 4,000 gallons. However, due to the staff-recommended relatively modest percentage increase in the total revenue requirement (15.38 percent), changing the rate structure results in higher bill increases at lower consumption levels and reductions in bills at higher consumption levels, which is contrary to a conservation-oriented rate structure. Therefore, in this instance, staff recommends an across-the-board increase to the Utility's rates at the time of filing. To determine the appropriate percentage increase to apply to the service rates, miscellaneous revenues should

¹⁴In 2012, Aqua provided water and wastewater service to 58 water and 27 wastewater systems in 17 counties under Commission jurisdiction.

¹⁵Order No. PSC-2014-0315-PAA-WS.

be removed from the test year revenues, which results in a 15.61 percent increase to be applied across-the-board.

Based on the above, the recommended rate structure and monthly 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 sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice 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 the notice.

Issue 17: Should Sunny Hills' miscellaneous service charges be revised to conform to amended Rule 25-30.460, F.A.C.?

Recommendation: Yes. Staff recommends the miscellaneous service charges be revised to conform to the recent amendment to Rule 25-30.460, F.A.C. The tariff should be revised to reflect the removal of initial connection and normal reconnection charges. Sunny Hills should be required to file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective 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 charge should not be implemented until staff has approved the proposed customer notice and the notice has been received by customers. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Bethea)

Staff Analysis: Effective June 24, 2021, Rule 25-30.460, F.A.C., was amended to remove initial connection and normal reconnection charges.¹⁶ The definitions for initial connection charges and normal reconnection charges were subsumed in the definition of the premises visit charge. Sunny Hills' miscellaneous service charges consist of initial connection and normal reconnection charges. Therefore, staff recommends that the initial connection and normal reconnection charges be removed, and the definition for the premises visit charge be updated to comply with amended Rule 25-30.460, F.A.C. The premises visit will remain at \$22.96 for normal hours and \$34.44 for after hours.

Based on the above, staff recommends the miscellaneous service charges be revised to conform to the recent amendment to Rule 25-30.460, F.A.C. The tariff should be revised to reflect the removal of initial connection and normal reconnection charges. Sunny Hills should be required to file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective 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 charge should not be implemented until staff has approved the proposed customer notice and the notice has been received by customers. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

¹⁶Order No. PSC-2021-0201-FOF-WS, issued June 4, 2020, in Docket No. 20200240-WS, *In re: Proposed amendment of Rule 25-30.460, F.A.C., Application for Miscellaneous Service Charges.*

Issue 18: What is the appropriate amount by which rates should be reduced to reflect the removal of amortized rate case expense?

Recommendation: The water rates should be reduced, as shown on Schedule No. 4, to remove the annual amortization of rate case expense grossed-up for RAFs. The decrease in rates should become effective immediately following the expiration of the rate case expense recovery period. Sunny Hills should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Bethea, Richards)

Staff Analysis: The water rates should be reduced, as shown on Schedule No. 4, to remove the annual amortization of rate case expense grossed-up for RAFs. The decrease in rates should become effective immediately following the expiration of the rate case expense recovery period, pursuant to Section 367.081(8), F.S. Sunny Hills should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Issue 19: Should any portion of the interim water revenue increase granted be refunded?

Recommendation: No. The Commission approved an interim revenue increase of \$21,472 to allow the Utility to earn an operating revenue of \$385,727. This amount is less than the recommended revenue requirement of \$417,416. (Richards)

Staff Analysis: The Commission approved an interim rate increase of \$21,472 or 5.98 percent to allow Sunny Hills to earn an operating revenue of \$385,727.¹⁷ Because this amount is less than staff's recommended revenue requirement of \$417,416, no refund is necessary.

¹⁷Order No. PSC-2022-0227-PCO-WS, issued June 27, 2022, in Docket No. 20220066-WS; *In re: Application for increase in water rates in Washington County, by Sunny Hills Utility Company.*

Issue 20: Should the Utility be required to notify, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Commissioners Uniform System of Accounts (NARUC USOA) associated with the Commission approved adjustments?

Recommendation: Yes. The Utility should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Sunny Hills should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. (Richards)

Staff Analysis: The Utility should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Sunny Hills should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days.

Issue 21: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the Proposed Agency Action Order, a Consummating Order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, and the Utility has provided staff with proof that the adjustments for all applicable NARUC USOA accounts have been made. Once these actions are complete, this docket should be closed administratively. (Rubottom)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the Proposed Agency Action Order, a Consummating Order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, and the Utility has provided staff with proof that the adjustments for all applicable NARUC USOA accounts have been made. Once these actions are complete, this docket should be closed administratively.

Docket No. 20220066-WS

Date: August 26, 2022

| Sunny Hills Utility Company | | | | Schedule No. 1-A | |
|--|--------------------------------------|--------------------------------------|---|------------------------------------|---|
| Schedule of Water Rate Base | | | | Docket No. 20220066-WS | |
| Test Year Ended 12/31/2019 | | | | | |
| Description | Test Year Per Utility | Utility Adjust- ments | Adjusted Test Year Per Utility | Staff Adjust- ments | Staff Adjusted Test Year |
| 1. Utility Plant in Service | \$3,961,954 | \$270,514 | \$4,232,468 | (\$5,627) | \$4,226,841 |
| 2. Utility Land & Land Rights | 10,779 | 0 | 10,779 | 0 | 10,779 |
| 3. Non-Used & Useful Components | 0 | (701,782) | (701,782) | 27,613 | (674,170) |
| 4. Accumulated Depreciation | (2,347,823) | 106,534 | (2,241,289) | (10,942) | (2,252,231) |
| 5. CIAC | (725,308) | 381,292 | (344,015) | (11,862) | (355,877) |
| 6. Accumulated Amortization of CIAC | 336,263 | (183,509) | 152,754 | 13,246 | 166,000 |
| 7. Acquisition Adjustments | (1,538,571) | 0 | (1,538,571) | 0 | (1,538,571) |
| 8. Accumulated Amort. of Acquisition Adjustments | 1,148,084 | 0 | 1,148,084 | (102,196) | 1,045,888 |
| 9. Working Capital Allowance | <u>0</u> | <u>37,324</u> | <u>37,324</u> | <u>(821)</u> | <u>36,503</u> |
| Total Rate Base | <u>\$845,377</u> | <u>(\$89,625)</u> | <u>\$755,752</u> | <u>(\$90,590)</u> | <u>\$665,162</u> |

| Sunny Hills Utility Company | | Schedule No. 1-B |
|------------------------------------|--|-------------------------------|
| Adjustments to Rate Base | | Docket No. 20220066-WS |
| Test Year Ended 12/31/21 | | |
| | Explanation | Water |
| | <u>Utility Plant in Service</u> | |
| | To reflect an auditing adjustment. | <u>(\$5,627)</u> |
| | <u>Non-Used and Useful</u> | |
| 1. | To reflect non-used and useful adj. to UPIS. | \$323 |
| 2. | To reflect a non-used and useful adj to accumulated depreciation. | 4,075 |
| 3. | To reflect a non-used and useful adj. to pro forma | 478 |
| 4. | To reflect a non-used and useful adj. to negative acquisition adjustment. | (47,024) |
| 5. | To reflect a non-used and useful adj. to accumulated amortization of negative acquisition adj. | <u>69,761</u> |
| | Total | <u>\$27,613</u> |
| | <u>Accumulated Depreciation</u> | |
| 1. | To reflect an auditing adjustment. | (\$8,916) |
| 2. | To reflect an averaging adjustment. | 4,218 |
| 3. | To reflect pro forma adjustment. | <u>(6,245)</u> |
| | Total | <u>(\$10,943)</u> |
| | <u>Contributions In Aid of Construction</u> | |
| 1. | To reflect an auditing adjustment. | (\$8,712) |
| 2. | To reflect appropriate non-used and useful adjustment. | <u>(3,149)</u> |
| | Total | <u>(\$11,861)</u> |
| | <u>Accumulated Amortization of CIAC</u> | |
| 1. | To reflect an auditing adjustment. | \$6,124 |
| 2. | To reflect appropriate non-used and useful adjustment. | <u>7,122</u> |
| | Total | <u>\$13,246</u> |
| | <u>Accumulated Amortization of Negative Acquisition Adjustment</u> | |
| | To reflect appropriate accumulated amortization of negative acquisition adjustment. | <u>(\$102,196)</u> |
| | <u>Working Capital Allowance</u> | |
| | To reflect the appropriate amount of working capital. | <u>(\$821)</u> |

| Sunny Hills Utility Company | | | | | | Schedule No. 2 | |
|---|----------------------|------------------------------|--|--------------|------------------|-------------------------------|--|
| Capital Structure – Simple Average | | | | | | Docket No. 20220066-WS | |
| Test Year Ended 12/31/21 | | | | | | | |
| Description | Total Capital | Pro rata Adjust-ments | Capital Reconciled To Rate Base | Ratio | Cost Rate | Weighted Cost | |
| Per Utility | | | | | | | |
| 1. Long-Term Debt | \$0 | \$0 | \$0 | 0.00% | 0.00% | 0.00% | |
| 2. Short-Term Debt | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% | |
| 3. Preferred Stock | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% | |
| 4. Common Equity | 1,121,274 | (386,154) | 735,120 | 97.27% | 8.74% | 8.51% | |
| 5. Customer Deposits | 31,448 | (10,816) | 20,632 | 2.73% | 2.00% | 0.05% | |
| 6. Accumulated Deferred Income Taxes | <u>0</u> | <u>0</u> | <u>0</u> | <u>0.00%</u> | 0.00% | <u>0.00%</u> | |
| Total Capital | <u>\$1,152,722</u> | <u>(\$396,970)</u> | <u>\$755,752</u> | <u>100%</u> | | <u>8.56%</u> | |
| Per Staff | | | | | | | |
| 1. Long-Term Debt | \$0 | \$0 | \$0 | 0.00% | 0.00% | 0.00% | |
| 2. Short-Term Debt | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% | |
| 3. Preferred Stock | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% | |
| 4. Common Equity | 1,121,274 | (474,258) | 647,016 | 97.27% | 7.84% | 7.63% | |
| 5. Customer Deposits | 31,448 | (13,301) | 18,147 | 2.73% | 2.00% | 0.05% | |
| 6. Accumulated Deferred Income Taxes | <u>0</u> | <u>0</u> | <u>0</u> | <u>0.00%</u> | 0.00% | <u>0.00%</u> | |
| Total Capital | <u>\$1,152,722</u> | <u>(\$487,560)</u> | <u>\$665,162</u> | <u>100%</u> | | <u>7.68%</u> | |
| RANGE OF REASONABLENESS | | | | | LOW | HIGH | |
| RETURN ON EQUITY | | | | | 6.84% | 8.84% | |
| OVERALL RATE OF RETURN | | | | | 6.71% | 8.65% | |

| Sunny Hills Utility Company | | | | | | Schedule No. 3-A | |
|---|-----------------------------|-----------------------------|--------------------------------------|---------------------------|--------------------------------|---------------------------|------------------------|
| Statement of Water Operations | | | | | | Docket No. 20220066-WS | |
| Test Year Ended 12/31/21 | | | | | | | |
| Description | Test Year Per Utility | Utility Adjust- ments | Adjusted Test Year Per Utility | Staff Adjust- ments | Staff Adjusted Test Year | Revenue Increase | Revenue Requirement |
| 1. Operating Revenues | <u>\$345,265</u> | <u>\$6,626</u> | <u>\$351,891</u> | <u>\$9,879</u> | <u>\$361,770</u> | <u>\$55,646</u> 15.38% | <u>\$417,416</u> |
| Operating Expenses | | | | | | | |
| 2. Operation & Maintenance | \$297,509 | \$749 | \$298,258 | (\$4,677) | \$293,581 | \$0 | \$293,581 |
| 3. Depreciation, net of CIAC Amort, U&U | 83,035 | (35,560) | 47,475 | (4,148) | 43,327 | 0 | 43,327 |
| 4. Amortization Acquisition Adjustment | (54,261) | 36,202 | (18,059) | 298 | (17,761) | 0 | (17,761) |
| 5. Amortization Deferred Assets | 7,029 | 0 | 7,029 | 0 | 7,029 | 0 | 7,029 |
| 6. Taxes Other Than Income | 35,817 | 1,595 | 37,411 | 235 | 37,646 | 2,504 | 40,150 |
| 7. Income Taxes | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total Operating Expenses | <u>\$369,129</u> | <u>\$2,986</u> | <u>\$372,115</u> | <u>(\$8,292)</u> | <u>\$363,822</u> | <u>\$2,504</u> | <u>\$366,327</u> |
| 8. Net Operating Income | (\$23,863) | \$3,640 | (\$20,223) | \$18,171 | (\$2,052) | | \$51,089 |
| 9. Rate Base | \$845,377 | | \$755,752 | | | | \$665,162 |
| 10. Rate of Return | | | | | | | 7.68% |

| Sunny Hills Utility Company | | Schedule No. 3-B |
|--|------------------|-------------------------------|
| Adjustments to Operating Income | | Docket No. 20220066-WS |
| Test Year Ended 12/31/21 | | |
| Explanation | Water | |
| Operating Revenues | | |
| To reflect appropriate test year revenues. | <u>\$9,879</u> | |
| Operations and Maintenance Expense | | |
| 1. To reflect 4.2 percent EUW for purchased power. | \$50 | |
| 2. To reflect 4.2 percent EUW for chemicals expense. | 4 | |
| 3. To reflect water portion of insurance expense. | (1,389) | |
| 4. To reflect appropriate rate case expense. | 45 | |
| 5. To reflect 3-year average bad debt expense. | <u>(3,387)</u> | |
| Total | <u>(\$4,676)</u> | |
| Depreciation Expense – Net | | |
| 1. To reflect removal of fully depreciated items. | (\$9,353) | |
| 2. To reflect non-used and useful adjustment to depreciation. | (339) | |
| 3. To reflect appropriate depreciation expense for pro forma projects. | 6,245 | |
| 4. To reflect non-used and useful adjustment to pro forma projects. | (478) | |
| 5. To reflect appropriate amortization of CIAC. | (1,134) | |
| 6. To reflect non-used and useful adjustment to amortization of CIAC. | <u>912</u> | |
| Total | <u>(\$4,148)</u> | |
| Amortization of Negative Acquisition Adjustment | | |
| 1. To reflect appropriate amortization of negative acquisition adjustment. | (\$688) | |
| 2. To reflect non-used and useful adjustment to negative acquisition adjustment. | <u>986</u> | |
| Total | <u>\$298</u> | |
| Taxes Other Than Income | | |
| 1. To reflect appropriate property and tangible taxes. | (\$63) | |
| 2. To reflect appropriate non-used and useful adjustment to taxes. | 1,024 | |
| 3. To reflect appropriate taxes on pro forma additions. | 631 | |
| 4. To reflect non-used and useful adjustment to pro forma taxes. | (1,803) | |
| 5. To reflect appropriate RAFs. | <u>445</u> | |
| Total | <u>\$234</u> | |

| Sunny Hills Utility Company | | | | | Schedule No. 4 |
|---|----------------|----------------------|--------------------|--------------|-------------------------------|
| Monthly Water Rates | | | | | Docket No. 20220066-WS |
| Test Year Ended 12/31/21 | | | | | |
| | Current | Commission | Utility | Staff | 4-Year |
| | Rates | Approved | Requested | Rec. | Rate |
| | | Interim Rates | Final Rates | Rates | Reduc. |
| Residential and General Service | | | | | |
| Base Facility Charge by Meter Size | | | | | |
| 5/8"X3/4" | \$19.77 | \$20.95 | \$27.99 | \$22.86 | \$0.09 |
| 3/4" | \$29.66 | \$31.43 | \$41.99 | \$34.29 | \$0.14 |
| 1" | \$49.43 | \$52.38 | \$69.98 | \$57.15 | \$0.23 |
| 1-1/2" | \$98.85 | \$104.75 | \$139.96 | \$114.30 | \$0.45 |
| 2" | \$158.16 | \$167.60 | \$223.94 | \$182.88 | \$0.72 |
| 3" | \$316.32 | \$335.20 | \$447.89 | \$365.76 | \$1.44 |
| 4" | \$494.25 | \$523.75 | \$699.82 | \$571.50 | \$2.25 |
| 6" | \$988.50 | \$1,047.50 | \$1,399.64 | \$1,143.00 | \$4.50 |
| 8" | \$1,581.60 | \$1,676.00 | \$2,239.43 | \$1,828.80 | \$7.20 |
| 10" | \$2,273.55 | \$2,409.25 | \$3,219.17 | \$2,628.90 | \$10.35 |
| Gallonage Charge - Residential Service | | | | | |
| 0 - 6,000 Gallons | \$6.82 | \$7.23 | \$7.91 | \$7.88 | \$0.03 |
| 6,001 - 12,000 Gallons | \$10.24 | \$10.85 | \$11.86 | \$11.84 | \$0.05 |
| Over 12,000 Gallons | \$13.63 | \$14.45 | \$15.81 | \$15.76 | \$0.06 |
| Charge per 1,000 gallons - General Service | \$7.64 | \$8.10 | \$8.60 | \$8.83 | \$0.03 |
| Private Fire Protection | | | | | |
| 2" | \$13.18 | \$13.97 | \$18.66 | \$15.24 | \$0.06 |
| 3" | \$26.36 | \$27.93 | \$37.32 | \$30.48 | \$0.12 |
| 4" | \$41.19 | \$43.65 | \$58.32 | \$47.63 | \$0.19 |
| 6" | \$82.38 | \$87.29 | \$116.64 | \$95.25 | \$0.38 |
| 8" | \$131.80 | \$139.67 | \$186.62 | \$152.40 | \$0.60 |
| 10" | \$189.46 | \$200.77 | \$268.26 | \$219.08 | \$0.86 |
| <u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u> | | | | | |
| 2,000 Gallons | \$33.41 | \$35.41 | \$43.81 | \$38.62 | |
| 4,000 Gallons | \$47.05 | \$49.87 | \$59.63 | \$54.38 | |
| 6,000 Gallons | \$60.69 | \$64.33 | \$75.45 | \$70.14 | |