

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for limited proceeding to recover costs of water system improvements in Marion County by Sunshine Utilities of Central Florida, Inc.

DOCKET NO. 992015-WU  
ORDER NO. PSC-02-0656-PAA-WU  
ISSUED: May 14, 2002

The following Commissioners participated in the disposition of this matter:

LILA A. JABER, Chairman  
J. TERRY DEASON  
BRAULIO L. BAEZ  
MICHAEL A. PALECKI  
RUDOLPH "RUDY" BRADLEY

NOTICE OF PROPOSED AGENCY ACTION  
ORDER APPROVING IN PART AND DENYING IN PART A LIMITED PROCEEDING  
FOR INCREASED WATER RATES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

Sunshine Utilities of Central Florida, Inc. (Sunshine or utility) is a Class B utility which provides water service to approximately 2,871 water customers in 21 separate small systems around the Ocala area in Marion County (see attached Map No. 1). All of these systems are under a uniform rate structure. Wastewater service is provided by septic tanks. The utility's last rate proceeding was in Docket No. 900386-WU, resulting in Order No. 25722, issued February 13, 1992.

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FPSC-COMMISSION CLERK

On December 21, 1999, Sunshine filed an application for a limited proceeding to increase water rates and charges for all of its customers in Marion County. The rate increase requested was intended to be used to initiate a water facilities plan in which the utility would interconnect and consolidate five of the 21 separate systems owned by Sunshine. These five systems are known as Lake Weir, Lakeview Hills, Oklawaha, Belleview Oaks, and Hilltop. The utility proposes to construct a centralized water treatment plant, pumping, and storage facility (see attached maps Nos. 2 & 3) to serve the five systems specified in the utility's comprehensive plan. Sunshine proposed this plan in order to resolve contamination problems faced by some customers and by a few non-customers near its service area. Further, the plan is designed to meet growth demands in the area of the interconnection. The utility proposed an increase of 22.72% to all of its customers across the board, and not just to the customers of the five systems involved.

After several meetings with our staff in 1999 and 2000, it became apparent to the utility that our staff did not support its original proposal since it would provide limited benefits to only five of the utility's 21 systems. It was staff's belief at that time that the improvements did little to improve the quality of water or the service provided to the customers of the five affected systems and provided no benefits whatsoever to the other 16 systems. In light of our staff's comments, Sunshine withdrew its original application and asked for and was allowed time to revise its proposal.

On September 8, 2000, Sunshine submitted an Amended Application (First Amended Application) in which it presented two alternatives. Under its first alternative, Sunshine submitted essentially the original proposal as discussed above. The utility still proposed a 22.19% rate increase for all of its customers. Under Alternative No. 2, Sunshine proposed a project of a more limited scope that would address only the contamination problems in Little Lake Weir and Lakeview Hills systems as well as the sulfur concerns in the Oklawaha area and the Hilltop system. This alternative resulted in an overall proposed 18.2% increase to all customers.

Our staff filed an initial recommendation on November 16, 2000, for the November 28, 2000, Agenda Conference, but that recommendation was initially deferred to the December 19, 2000, Agenda Conference. However, at the request of the utility, the recommendation was deferred from that agenda conference and never presented to us.

On June 7, 2001, Sunshine filed another amendment (Second Amended Application) to its application. The Second Amended Application contained Sunshine's proposal to consolidate the original five systems, included a facilities plan for all proposed system improvements, and presented a used-and-useful calculation that showed that not all of the new facilities would be 100% used and useful.

According to the utility, the consolidation is to eliminate the existing contamination problems and will improve the level of service that Sunshine can provide to its water customers. The consolidation is proposed to be funded by the combination of grants and low-interest loans discussed below. The plan includes a proposed 15.73% rate increase for all of Sunshine's customers.

A customer meeting was held in Ocala on September 13, 2001. Four customers spoke at the meeting and all spoke against this project. Of the four customers, only one was from one of the five systems proposed to be interconnected. The three other customers had specific service complaints including iron, sporadic pressure, and excessive chlorine which the utility subsequently addressed with written responses to these customers. The customer that resides in one of the five systems did not have a specific service complaint but stated that he did not agree with this project.

Our staff filed a revised recommendation dated October 25, 2001. In that recommendation, our staff recommended that this limited proceeding application, along with all rate case expense, be denied, and that the docket be closed. However, at the November 6, 2001, Agenda Conference, we found it necessary to obtain additional information before taking any action. As a result, we deferred a decision on the recommendation, and directed our staff to further investigate the utility's application and file another recommendation to allow consideration of other options

for allocation of costs, alternative funding, the need for possible certificate amendments, and rate case expense.

In an attempt to find other sources of funding for this project, our staff met with the Marion County Solid Waste Department personnel and the utility in regards to the contamination problems in the area and possible County funding of the project. As a result of these meetings, the Marion County Solid Waste Department proposed that an additional 38 lots with contaminated wells be served by extending the proposed water system. These lots are outside the utility's service territory, and the utility would have to amend its certificate before serving these customers. As discussed between staff, the utility, and Marion County, this extension is proposed to be funded by a combination of Department of Environmental Protection (DEP) grants and funds from Marion County. Discussions as to whether Marion County will participate in funding a portion of the main project are on-going.

In order to consider other allocation methods as directed by us in Order No. PSC-01-2312-PCO-WU, our staff reviewed the utility's current earnings level. In May 2000, our staff began auditing Sunshine's books and records for the year ended December 31, 2000. However, because of the deferral and amended applications, our staff considered the December 31, 2000, test year to be stale, and requested and received an updated schedule of rate base, net operating income, and capital structure for the year ended December 31, 2001. To determine the appropriate rate increase, we have used the audit report for the 2000 year-end and utilized the simple average test year ending December 31, 2001, pursuant to Rule 25-30.433(4), Florida Administrative Code. Further, we have incorporated pro forma plant, cost of capital, and expense adjustments.

We have jurisdiction pursuant to Sections 367.011(2), 367.081, and 367.0822, Florida Statutes.

LIMITED PROCEEDING FOR INCREASED WATER RATES

The utility's final proposal is to interconnect the five existing water systems of Little Lake Weir, Lakeview Hills, Belleview Oaks, Hilltop, and Oklawaha with 31,499 linear feet of 10-inch pipe, 15,048 linear feet of 8-inch pipe, and 3,183 linear feet of 6-inch pipe. The utility also proposes to construct a separate water treatment plant to singularly serve this new water main system. This interconnection and new water treatment plant is estimated to cost \$2,015,339. The utility states this project will address contamination in the water supply, meet peak water demand and fire flow requirements, and promote water conservation.

Contamination Problems - The Lakeview Hills water treatment plant is located across from a Marion County landfill which is located along S.E. 115th Avenue in the southeastern portion of Marion County, very near the northwesterly shoreline of Lake Weir. DEP has found the presence of dichloroethylene in the one well serving the Lakeview Hills systems. The level detected was considered satisfactory, but was very close to the Maximum Contaminant Level (MCL) as prescribed by DEP rules. At present, there are no corrective orders mandating that the utility correct this contamination problem. However, the DEP does require quarterly Volatile Organic Chemical (VOC) tests to monitor the contaminant levels.

In addition, the County has stepped in and committed to install and maintain a used filter at the Lakeview Hills water treatment plant, without charge to the utility, and with no time limit on the use of the filter. Marion County has committed to maintain the filter as long as needed and has recently replaced filtration media within the filter. Although it appears that the contamination within the utility's existing Lakeview Hills water system is being controlled, we believe that the utility's proposed project is a better long-term solution.

The detection of another contaminant, ethylene dibromide, has been found in the private wells of residents located along S.E. 138th Place Road, which is not in Sunshine's territory. If the proposed water system is constructed, Sunshine will be able to provide water service to the lots served by these wells; however,

Sunshine has no legal or regulatory responsibility to provide such water service, and would have to add these lots to its territory.

Additionally, in the general vicinity of the Marion County Landfill there are 38 lots which have wells contaminated by various compounds. Marion County has requested that these lots be served by an extension of the proposed water system and discussions between the utility and Marion County concerning funding of these extensions by Marion County are on-going. If the proposed water system is constructed, Sunshine will be able to provide water service to these 38 lots; however, Sunshine has no responsibility to provide such water service.

Future Development - The proposed water main extensions between the existing five systems pass through many miles of property that is not within Sunshine's current territory. Before Sunshine could begin serving future customers along the main extensions, it would have to amend its current certificate. During the engineering field visit, our staff noted that there were several subdivisions within the areas of the new main extensions that have existing, small water systems which are making drinking water available to their residents. There are no plans at this time to interconnect any of these systems or for Sunshine to pick up any new customers on these lines other than the lots with contaminated wells previously discussed. Any territorial disputes that might arise would need to be settled before Sunshine's certificate could be amended and before the utility could begin construction.

DEP Approval - The DEP makes available grant and low-interest loan money for private utilities to expand their systems to meet the needs of those outside their service territory who must seek an alternate source of drinking water. The utility has submitted an application for such funding, and DEP has approved Sunshine to receive \$682,570 in grants and \$1,475,314 in a low-interest loan subject to assurance that the utility's rate structure is sufficient to pay back the loan.

In discussions between PSC staff, DEP staff, and the utility, DEP has acknowledged that even though DEP approves of this project, the DEP is not requiring the work to be done. It appears that DEP considers "regional" systems, those combining several small systems into one, as easier to operate and regulate, thus saving money for

the utility as well as the regulators. Further, the elevated storage tank will provide a more stable water pressure than the current hydro-pneumatic tanks, even though it may not be readily apparent to the customers.

We note that Marion County is considering contributing \$175,000 toward this project with the understanding that the utility would connect customers currently outside the utility's service territory who are experiencing problems with contamination of their water supply.

Because the project is to be financed through grants and low-interest loans from DEP, we believe the project is reasonable. Based on the above, we approve the limited proceeding and increased water rates under the conditions and with the modifications as set forth below. The rates approved in this Order shall be lowered automatically by the effect of Marion County's contribution of \$175,000 toward the project and connection of the contaminated private wells. The effective date of the new rates will be the date DEP approves funding for this project.

#### HISTORICAL RATE BASE

Plant-in-Service - In Audit Exception No. 1, our staff auditors stated that the utility had informed them that a van placed in service in 1993 is currently for sale and will be removed from plant in service. In its response to the audit report, the utility agreed with this adjustment. According to Sunshine's 2001 annual report, this van has not yet been retired. Since the utility still plans to retire this van, we find that it shall be removed from plant in service, and plant in service and accumulated depreciation shall both be reduced by \$15,036. Further, retained earnings and depreciation expense shall both be reduced by \$2,506 to remove test year depreciation expense associated with this van.

Contributions-in-Aid-of-Construction (CIAC) - In Audit Exception No. 2, our staff auditors point out that the instruction for Account No. 252, Advances for Construction, from the National Association of Regulatory Utility Commissioners' (NARUC) Uniform System of Accounts (USOA) for Class B water utilities, states:

This account shall include advances by or in behalf of customers for construction which are to be refunded either wholly or in part. When a person is refunded the entire amount to which the person is entitled according to the agreement or rule under which the advance was made, the balance, if any, remaining in this account shall be credited to account 271 - Contributions in Aid of Construction.

Our staff auditors further state the utility records indicate the following balances in Account No. 252:

<u>Development</u>	<u>Last Activity</u>	<u>Lots Left</u>	<u>Balance</u>
Boulder Hill	Aug. 1989	yes - inactive	\$286
Florida Heights	Oct. 1986	yes - inactive	4,500
Fore Oaks	Mar. 1997	yes - inactive	527
Lake Weir Pines	unknown	unknown	(760)
Stone Hill	Mar. 1993	yes - inactive	556
Sunlight Acres	unknown	unknown	(69)
Cool Breeze	unknown	unknown	9,500
Lake Bryant	Nov. 1998	no - inactive	<u>1,469</u>
TOTAL			<u>\$16,009</u>

As such, the staff auditors believe that the inactive advance balances should be transferred to CIAC.

In its response to Audit Exception No. 2, the utility asserts that the NARUC USOA requirement for Account No. 252 does not apply to the Stone Hill Development. Sunshine contends that the agreement with the developer of this development requiring the advances is still in effect and there are lots still to be connected. The utility states that there is no time limit for the settlement of advances for construction, and as long as the advances for the Stone Hill Development are outstanding, they should be treated as advances for construction.



According to discussions with the utility, the above year-end 2000 balance of advances are the same for the year-end of the 2001 test year. The Stone Hill Development advances are only \$556. This is an immaterial amount compared to the utility's total rate base. Because the utility is in a better position to determine future connections of a particular development, the Stone Hill Development advances shall not be transferred to CIAC. Based on the above, CIAC shall be increased by \$15,453 (\$16,009 less \$556) to transfer inactive advances for construction. In addition, Accumulated Amortization of CIAC and Amortization of CIAC expense shall both be increased by \$479.

#### PRO FORMA RATE BASE

##### Pro Forma Plant Additions and Retirements

Central Water System - In its application, the utility reflected pro forma plant additions totaling \$2,082,997 and associated accumulated depreciation of \$54,775. As a result of the centralized water system, the utility will retire wells, hydro-pneumatic tanks, and other plant items. The utility's plant retirements and associated accumulated depreciation total \$167,043 and \$86,136, respectively. Further, the utility's associated CIAC and accumulated amortization of CIAC for these retirements are \$73,990 and \$32,031, respectively.

As reflected in the utility's water facilities plan (revised May 2001), H.W. Barrineau and Associates, Inc., a civil and environmental engineering firm, estimated the amount of pro forma plant. Our review of the estimated pro forma plant additions and retirements shows that they appear to be reasonable. As such, the utility's pro forma plant additions and retirements are appropriate with the exception of its accumulated depreciation and accumulated amortization of CIAC for retirements. According to the NARUC USOA, accumulated depreciation should be debited by the amount of the plant that is retired. Thus, pro forma accumulated depreciation shall be decreased by \$80,907 (\$167,043 less \$86,136). Consistent with the above NARUC USOA requirement, pro forma accumulated amortization of CIAC shall also be decreased by \$41,959.

Facilities Required to Serve New Area - On January 15, 2002, our staff met with Marion County and the utility staff to discuss

the contamination problems in the area and possible County funding of the project. As a result of those meetings, the County has proposed that an additional 38 lots with contaminated wells be served by extending the proposed water system. By letter dated January 29, 2002, DEP indicated that, if the utility is determined to be eligible, the utility would receive a DEP grant to fund 65 percent of the required facilities to serve this new area. At the January 15, 2002, meeting, there were limited discussions that Marion County could possibility pay for the remaining 35 percent; however, there has been no firm commitment by the County to fund any portion of this extension project to date. Based on recent discussions with DEP, Sunshine's eligibility for grant funds is still undetermined. Because the County proposed this project and DEP embraced the proposal as well, we have made the assumption that this extension project will be 100% funded by DEP and Marion County for rate setting purposes in this limited proceeding.

The utility's engineering firm provided cost estimates for the main extensions required to serve this new area. Based on our review, the estimated pro forma plant appears to be reasonable. These proposed facilities have arisen after the filing of the utility's Second Amended Application. Therefore, based on the above, the pro forma plant and CIAC shall be increased by \$195,222. Further, corresponding adjustments shall be made to increase accumulated depreciation and accumulated amortization of CIAC by \$4,549 to reflect one year of depreciation and amortization.

Because an additional 38 equivalent residential connections (ERCs) will also be served by Sunshine, CIAC shall be imputed to reflect the receipt of plant capacity charges. As such, CIAC shall be increased by \$15,960. Accordingly, accumulated amortization of CIAC shall be increased by \$507 and depreciation expense shall be decreased by \$507.

#### Pro Forma Non-Used and Useful Component

Water Treatment Plant - In its Second Amended Application, the utility calculated a 75.96% used and useful for its proposed water treatment plant. The proposed plant will draw raw water from two wells rated at 330 gallons per minute (gpm) and 490 gpm. The proposed treatment plant also contains a 500,000 gallon elevated storage tank. The firm reliable capacity of the system with the

largest well removed from service is the second well pumping for 12 hours plus the storage capacity (330 gpm x 12 hour day + 500,000 gallons). This results in a firm reliable capacity of 737,600 gallons per day (gpd).

The utility's original used and useful calculation for the proposed water treatment plant did not take into account the proposed additional 38 lots. We have accepted the utility's used and useful calculation and have expanded it to include these additional lots. The growth calculation for this project contains two parts. The utility anticipates a 3% growth rate for the existing five systems and the addition of lots from the DEP/Marion County financed line extensions. These lots are estimated to come on line in 2003. The test-year 2001 projected water demand for the five systems is 391,173 gpd. Applying the 3% growth factor for the five-year statutory growth allowance per Section 367.081(2)(a)2.b., Florida Statutes, results in a demand of 453,477 gpd in 2006. In order to calculate the estimated flow to apply to the new lots, we used the historical flows per ERC for the same five systems. According to the utility's filing, the flow per ERC was calculated from the 2001 demand and ERC figures of 391,173 gpd and 870, respectively, to yield a flow per ERC of 450. Applying this figure to the 38 lots of the DEP/Marion County project yields a year 2003 additional flow of 17,086 gpd. Applying the 3% growth factor results in a flow of 18,670 gpd in 2006 for these additional lots. Adding this to the five systems' demand results in a total estimated water demand of 472,147 gpd in 2006. Adding in the 120,000 gpd fire flow and dividing the total flow by the firm reliable capacity of the water treatment plant results in a used and useful percentage of 80.3% for the proposed water treatment plant. Our calculation is summarized in Attachment A.

Water Distribution System - The utility's used and useful calculation of 51.88% for the water distribution system did not take into account the proposed additional 38 lots. We have accepted the utility's used and useful calculation and expanded on it to include these additional lots. The utility has estimated that its proposed water distribution system would have a capacity of 1,889 ERCs without the additional lots of the DEP/Marion County project. Adding in these 38 ERCs brings the total capacity to 1,927 ERCs.

The utility states in its filing that the existing five systems served 870 ERCs in 2001. Applying the 3% growth factor, we calculate that there will be 1,009 ERCs in 2006. The 38 lots of the DEP/Marion County project are estimated to come on line in 2003. Applying the 3% growth factor results in 42 ERCs in 2006. This results in a total number of ERCs served in 2006 of 1,051. Dividing this by the capacity of the system results in a used and useful percentage for the distribution system of 54.5% This calculation is summarized in Attachment B.

Non-used and Useful Component - As reflected in the utility's application, its used and useful percentages resulted in a pro forma non-used and useful balance of \$528,474. In its non-used and useful calculation, the utility netted construction grants before it applied its composite non-used and useful percentage. Because the construction grants are equivalent to receiving contributed property, we find that it is appropriate to net these grants before applying the composite non-used and useful percentage.

Based on the pro forma plant and percentages, the appropriate non-used and useful component shall be \$493,354. This represents a decrease of \$35,120 to the utility's adjusted amount. The following table illustrates our non-used and useful calculation.

	<u>Pro forma Plant in Application</u>	<u>Plant Associated W/ New Area</u>	<u>Staff's Calculation</u>
Total Construction Cost	\$2,082,997	\$195,222	\$2,278,219
Less: Construction Grants	682,570	195,222	<u>877,792</u>
Net Investment			\$1,400,427
Composite Non-Used & Useful Percentage			<u>36.21%</u>
Non-Used & Useful Plant			\$507,068
Non-Used & Useful Accumulated Depreciation	11,570	1,815	<u>13,385</u>
Non-Used & Useful Component			<u>\$493,354</u>

Pro Forma CIAC

Central Water System - According to its Second Amended Application, Sunshine was awarded a \$153,000 preconstruction grant by DEP. DEP has indicated that the utility is eligible for a total grant of \$682,570 for the construction project discussed above. This grant has been properly classified by Sunshine as CIAC. According to the utility's 2000 annual report, the utility has already received \$32,812 in grant funds from the DEP. Since the \$32,812 is included in the 2001 test year, the appropriate pro forma CIAC is \$649,758 (\$682,570 less \$32,812). Corresponding adjustments shall also be made to reduce pro forma CIAC by \$32,812 and accumulated amortization of CIAC by \$813 to reflect these amounts as part of the historical test year.

Pursuant to our directions, our staff met with Marion County and the utility to discuss the possible County funding of the project. However, Marion County has not committed to fund any portion of the proposed centralized water system to date.

Summary of Calculation of Pro Forma Rate Base - Based on the above, the pro forma rate base associated with the proposed interconnection is \$885,929.

AMENDMENT OF CERTIFICATE

As discussed above, it appears that the utility plans to serve customers that are outside of Sunshine's current certificated territory. Section 367.045(2), Florida Statutes, states that a "utility may not delete or extend its service outside the area described in its certificate of authorization until it has obtained an amended certificate of authorization from the commission." Accordingly, the utility shall file an application to amend its certificate to extend service to the additional customers, pursuant to Section 367.045(2), Florida Statutes.

HISTORICAL AND PRO FORMA RATE BASE

Based on Sunshine's 2000 and 2001 annual reports, the utility's 2001 simple average working capital is \$82,101. Rule 25-30.433(2), Florida Administrative Code, states that working capital for Class B utilities shall be calculated using the formula method,

which is one-eighth of operation and maintenance (O&M) expenses. Based on an O&M expense balance of \$599,274, the appropriate working capital allowance is \$74,909. This represents a \$7,191 decrease to the utility's working capital allowance.

Based on the simple average test year balances and our adjustments, the appropriate historical and pro forma rate base amount is \$1,160,166. This represents an increase of \$67,941 from the utility's simple average rate base balance. Schedule No. 1-A depicts our rate base calculation. Our adjustments to rate base are depicted on Schedule No. 1-B.

#### COST OF CAPITAL

Return on Equity - By Order No. 25722, issued February 13, 1992, in Docket No. 900386-WU, the Commission last authorized a return on equity (ROE) for Sunshine of 11.89%. In its Second Amended Application, the utility reflected a cost rate of 9.94% for common equity, using the 2000 Commission approved leverage formula. By Order No. PSC-01-2514-FOF-WS, issued December 24, 2001, we approved the current leverage formula used to establish the authorized ROE for water and wastewater utilities. Using the simple average 2001 capital structure, the utility has a 21.84% equity ratio. Based on the current leverage formula, the appropriate cost of equity is 11.34% with a range of 10.34% to 12.34%. To determine the appropriate rates, we have used the mid-point of the range. Further, this ROE shall be applied to any future proceedings of this utility, including, but not limited to price indexes, interim rates, and overearnings.

Reduction to Common Equity - In Audit Exception No. 4, our staff auditors note that the NARUC USOA instruction B for Account No. 142, Other Accounts Receivable, for Class B water utilities states, "this account shall be maintained as to show separately amounts due on subscriptions to capital stock and from officers and employees, but the amount shall not include amounts advanced to officers or others as working funds."

Staff auditors also state that the utility records indicate the following balances in Account No. 142:

<u>Account No.</u>	<u>Account Name</u>	<u>2000 Year-End</u>	<u>2000 Simple Average</u>
142.04	Employee Account Receivable Vice President	\$21,344	\$21,095
142.06	Employee Account Receivable President	21,669	21,669
142.10	Employee Account Receivable President Special	<u>73,225</u>	<u>73,225</u>
		<u>\$116,238</u>	<u>\$115,989</u>

Our auditors state that the above balances have existed for several years, and there is no supporting documentation or interest provision evident that illustrates the benefit of such loans to the utility's customers. Our auditors believe these accounts receivable balances are, in essence, outstanding interest-free, long-term loans to the utility's officers and should be treated as advances to officers pursuant to the above NARUC rule. Further, the auditors recommend that the average outstanding balance of \$115,989 be treated as a reduction to common equity.

In its response to Audit Exception No. 4, the utility asserts that these balances do not represent amounts advanced to officers as working funds, but rather are loans to the officers. Sunshine maintains that the loans were entered into with the understanding and intent that these amounts would be repaid.

According to the utility's response to a staff auditor data request, Sunshine stated that its policy for these receivables is that the entire outstanding balance or a portion is to be deducted from the employees' weekly payroll until the account is satisfied. Since these balances have existed for several years, we find that the utility has ignored its own policy regarding these receivables. Further, the utility stated that there are no interest provisions for these receivables. Given the circumstances and the history of these balances, we agree with the staff auditors that these loans provide no apparent benefit to the ratepayers.

The stockholders, who are also the officers, have been enriched by having these outstanding interest-free loans for years.

As such, the loans to the officers shall be treated as a reduction to common equity. Based on discussions with the utility, the above 2000 balances are the same for the 2001 test year-end. Thus, the total 2001 simple average balance of these receivables is \$116,238. Based on the above, common equity shall be reduced by \$116,238.

Long-Term Debt - According to Sunshine's 2001 annual report, the total long-term debt consists of two debt issues. These debt issues include a pre-construction loan from DEP of \$32,500 and a credit-line account of \$80,000. Based on discussions with the utility, Sunshine asserted that the credit-line balance of \$80,000 is incorrect. The utility stated that in December 2001, its bank erroneously credited this credit-line account by \$40,000. Sunshine has provided support documentation that shows the bank correcting the credit-line balance by debiting the account by \$40,000. Based on the above, long-term debt shall be reduced by \$20,000 (\$40,000 divided by 2).

According to Sunshine's Second Amended Application, DEP has indicated that Sunshine is eligible for an additional loan of \$1,442,814. The effective interest rates are 3.05% and 3.56% for the DEP preconstruction and the construction loans, respectively. Payments on these loans are to be made semiannually over a thirty-year period. Based on the above, the appropriate amount of long-term debt is \$1,495,314.

Weighted Average Cost of Capital - The capital structure consists of long-term debt, short-term debt, common equity, and customer deposits. As discussed previously, the low-interest loans from DEP have significantly increased the long-term debt component. As a result of this debt, the utility's equity ratio is 21.11%. Based on this equity ratio, Sunshine's cost of equity is capped at 11.34%, with a range of 10.34% to 12.34%. Consistent with our other adjustments, the appropriate weighted average cost of capital is 5.31%, with a range of 5.10% to 5.52%. Our calculation of the cost of capital and our capital structure adjustments are shown on Schedules Nos. 2-A and 2-B, respectively.

#### NET OPERATING INCOME

Imputation of Revenues - As discussed above, we imputed the CIAC for the 38 customers that the County and DEP wish to be connected.



Consistent with that imputation, revenues shall be imputed for these additional customers. Using the currently authorized rates and assuming a 10,000 monthly gallonage usage, the imputed revenue for the test year for the additional 38 ERCs is \$3,834.

Salaries of the President and Vice-President - By Order No. PSC-94-0738-FOF-WU, issued June 15, 1994, in Docket No. 900386-WU, in complying with the First District Court of Appeals' mandate, we set the president's 1990 salary at \$69,055. This 1990 salary level was for 100% of the president's time spent under this capacity. In response to a data request by staff auditors, the utility stated that the duties and responsibilities of Sunshine's officers have not changed since its last rate case.

However, according to Sunshine's 2001 annual report, the president's salary was \$91,731 for 50% of his time spent under this capacity. When annualizing the 2001 salary level, it represents an effective annualized salary of \$183,462. Given our approved 1990 level of salary and the fact that the duties of the president have not changed since the last rate case, we find the 2001 president's salary to be excessive.

In determining an appropriate salary for the president, we find it is appropriate to escalate the above 1990 salary by our approved price index rate adjustment factors from 1991 to 2001. This would yield an appropriate salary level of \$90,465 for 100% of time spent under this capacity. While the duties have remained the same, it appears that the president is currently only spending 50% of his time under this capacity. Thus, we find that the appropriate salary shall be \$45,233 (\$90,465 divided by 2). Based on the above, the president's salary shall be decreased by \$46,498 (the difference between the \$45,233 approved and the \$91,731 actually paid).

By Order No. 25722, issued February 13, 1992, in Docket No. 900386-WU, we found that the appropriate 1990 salary for the vice-president was \$17,144. In that proceeding, the utility agreed that the vice-president worked part-time. According to Sunshine's 2001 annual report, the vice-president's salary is \$50,962 for 50% of her time spent in this capacity. When annualizing the 2001 salary level, the amount recorded by Sunshine represents an effective annualized salary of \$101,942. As stated above, the utility

indicated that the duties and responsibilities of Sunshine's officers have not changed since its last rate case. In light of the above, we believe the 2001 vice-president's salary is excessive.

In determining an appropriate salary level for the vice-president, we again find it appropriate to escalate the above 1990 salary by our approved indexes from 1991 to 2001. This would yield a salary level of \$20,459. Therefore, the vice-president's salary shall be decreased by \$28,503.

Pro Forma Expenses Associated With Plant Additions and Retirements

- According to its Second Amended Application, the utility reflected the following pro forma expenses, including reductions in expenses associated with retirement of the contaminated wells.

<u>Expense</u>	<u>Increases from Additions</u>	<u>Decreases from Retirements</u>	<u>Net Effect</u>
Chemicals and Supplies	\$15,000	(\$16,221)	(\$1,221)
Purchased Power	12,000	(11,327)	673
Miscellaneous Expenses	19,000	(14,668)	4,332
Rental of Real Property	<u>0</u>	<u>(2,872)</u>	<u>(2,872)</u>
Total	<u>\$46,000</u>	<u>(\$45,088)</u>	<u>\$912</u>

Based on our review, the above estimated pro forma expenses associated with additions and retirements appear to be reasonable. As such, the appropriate pro forma expense associated with plant additions and retirements is \$912.

Rate Case Expense - The utility included a \$35,000 estimate in its original filing on December 23, 1999, for current rate case expense: \$20,000 for legal and \$15,000 for accounting. After meeting with our staff and the Office of Public Counsel (OPC), the utility filed a Second Amended Application on June 7, 2001. In that revision the utility requested rate case expense of \$115,338, an increase over the original of \$85,338. That amended filing increased requested legal fees by \$30,439, accounting fees by \$19,207 and added an additional \$30,439 for engineering. The original filing did not contain any requested rate case expense for

engineering, but only capitalized engineering expense in the plant additions.

As part of its analysis, our staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete. On September 20, 2001, the utility submitted support documentation for its revised estimated rate case expense through completion of the Proposed Agency Action (PAA) process in the amount of \$115,338. The components of the estimated rate case expense are as follows:

	<u>ORIGINAL ESTIMATE</u>	<u>ACTUAL PER UTILITY</u>	<u>ADDITIONAL ESTIMATE</u>	<u>REVISED TOTAL</u>
Legal Fees	\$15,000	\$42,112	\$3,580	\$45,692
Accounting Fees	20,000	32,548	6,659	39,207
Engineering	<u>0</u>	<u>30,439</u>	<u>0</u>	<u>30,439</u>
Total Rate Case Expense	<u>\$35,000</u>	<u>\$106,059</u>	<u>\$9,279</u>	<u>\$115,338</u>
Annual Amortization	<u>\$8,750</u>			<u>\$28,835</u>

On September 20, 2001, the utility submitted the detail behind the actual rate case expense incurred to date. We have examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. We note that the revised estimate includes \$40,409 incurred to file two sets of revisions to its application in this limited proceeding. This includes \$27,239 in legal fees and \$13,170 of accounting fees. These are the fees incurred between August 2000, and the present. These fees appear to have been incurred to duplicate the original application and did not add anything that could not have been included in the original. The actual project has remained relatively unchanged, and it appears to us that the ratepayers are being asked to pay for three filings for the same project. We find these amounts to be unreasonable.

Section 367.081(7), Florida Statutes, states that we "shall disallow all rate case expenses determined to be unreasonable. No rate case expense determined to be unreasonable shall be paid by the customer." Moreover, although we have broad discretion with respect to the allowance of rate case expense (see Meadowbrook Utility Systems, Inc. v. FPSC, 518 So. 2d 326 (Fla. 1st DCA 1988),

we find that these additional and duplicative costs to amend and then to completely re-do the filing should not have been incurred and should not be passed on to the ratepayers. This is consistent with our decisions in Order No. PSC-00-1528-PAA-WU, issued August 23, 2000, in Docket No. 991437-WU for Wedgefield Utilities, Inc.; Order No. PSC-00-2054-PAA-WS, issued October 27, 2000, in Docket No. 990939-WS for Indiantown Company, Inc.; and Order No. PSC-01-0327-PAA-WU, issued February 6, 2001, in Docket No. 000295-WU for Placid Lakes Utilities, Inc. In all three of those cases, we denied recovery of duplicative rate case expense associated with filing revisions of minimum filing requirements.

Based on this disallowance of the duplicative filing, we find the appropriate total rate case expense to be \$74,929. A breakdown of this amount is as follows:

	<u>UTILITY REVISED ACTUAL &amp; ESTIMATE</u>	<u>COMMISSION ADJUSTMENTS</u>	<u>COMMISSION ADJUSTED BALANCE</u>
Legal Fees	\$45,692	(\$27,239)	\$18,453
Accounting Fees	39,207	(13,170)	26,037
Engineering Fees	<u>30,439</u>	<u>0</u>	<u>30,439</u>
Total Rate Case Expense	<u>\$115,338</u>	<u>(\$40,409)</u>	<u>\$74,929</u>
Annual Amortization	<u>\$28,835</u>		<u>\$18,732</u>

Based on the above, the utility's requested rate case expense shall be reduced by \$40,409 to \$74,929. The total allowable rate case expense shall be amortized over four years, pursuant to Section 367.0816, Florida Statutes, at \$18,732 per year.

Summary of Calculation of NOI - Based on our adjustments discussed above, the test year net operating income before calculation for an increase is \$33,678. Our calculation of NOI and our adjustments are shown on Schedules Nos. 3-A and 3-B, respectively.

#### REVENUE REQUIREMENT

Our computation of the revenue requirement is shown on Schedule No. 3-A and is \$837,368, which represents an increase of

\$46,813 or 5.92%. Our adjustments are shown on Schedule No. 3-B.

RATES

Based on our adjustments discussed in previous issues, the rates shall be designed to allow the utility the opportunity to generate annual operating revenues of \$837,368, which represents an increase of \$46,813. To determine the appropriate increase to apply to the service rates, miscellaneous service and other revenues are removed from the test year revenues. Our calculation is as follows:

1 Total Test Year Revenues	\$790,555
2 Less: Miscellaneous & Other Revenues	<u>23,995</u>
3 Test Year Revenues from Service Rates	<u>\$766,560</u>
4 Revenue Increase	<u>\$46,813</u>
5 % Service Rate Increase (Line 4/Line 3)	<u>6.11%</u>

This increase of 6.11% in rates shall be applied as an across the board increase to present service rates.

The utility shall file revised tariff sheets and a proposed customer notice to reflect the appropriate rates pursuant to Rule 25-22.0407(10), Florida Administrative Code. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The revised tariff pages shall be approved upon our staff's verification that they are consistent with our decision herein, that the proposed customer notice is adequate, and that the Department of Environmental Protection confirms that funding has been approved for the project. The rates shall not be implemented until proper notice has been received by the customers. The utility shall provide proof of the date notice was given within 10 days after the date of the notice. Also, if the utility receives funding from the County in the amount of \$175,000, the utility shall automatically submit revised tariff sheets and reduce rates as shown on Schedule No. 4.

A comparison of the utility's present rates, Sunshine's requested rates, and our approved rates are shown on Schedule No. 4.

STATUTORY FOUR-YEAR RATE REDUCTION

Section 367.0816, Florida Statutes, requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees. The reduction in revenues will result in the rate reduction shown in the last column of Schedule No. 4.

The utility shall file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. Sunshine shall also file a proposed customer notice setting forth the lower rates and the reason for the reduction.

If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall 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.

SERVICE AVAILABILITY CHARGES AND EXTENSION OF TERRITORY

At the November 6, 2001, Agenda Conference, we questioned: 1) whether the utility's service territory should be extended to areas in the immediate proximity of the proposed centralized water system that are not currently authorized in Sunshine's certificate; and 2) whether the utility's service availability charges should be increased as an alternative to fund the proposed centralized water system.

Extension of Service Territory - By Order No. PSC-01-2312-PCO-WU, issued November 26, 2001, we directed our staff to file another recommendation to address the need for possible certificate amendments. Based on our staff's discussions with the utility, Sunshine indicated that it had inquired, through ads in the local newspaper, whether there were any planned developments in the

immediate proximity of the proposed centralized water system that are outside of the utility's certificated area. Sunshine asserted it has received no responses of any planned developments in this area. Based on information received from Marion County, the area is predominantly zoned as agricultural, and there are no new developments or building permits in this area. Therefore, with the exception of the specific customers with contamination problems and over which the County has expressed concern, there is no need for the utility to file for an extension of service territory for areas in the immediate proximity of the proposed centralized water system at this time.

Service Availability Charges - The utility's existing service availability charges total \$520, including a meter installation fee. Rules 25-30.580(1) and (2), Florida Administrative Code, state that a utility's service availability policy shall be designed in accordance with the following guidelines:

(1) The maximum amount of contributions-in-aid-of-construction, net of amortization, should not exceed 75% of the total original cost, net of accumulated depreciation, of the utility's facilities and plant when the facilities and plant are at their designed capacity; and

(2) The minimum amount of contributions-in-aid-of-construction should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution and sewage collection systems.

Before any pro forma plant adjustments are taken into account, the utility's CIAC ratio is 81%. We note that the utility's Water Facilities Plan briefly outlines other planned plant improvements, including other centralized water systems. However, the utility does not address any specific time tables and cost estimates for these other planned improvements. As such, our analysis of service availability charges only considers the pro forma plant for the proposed centralized water system and the facilities required to serve the additional 38 ERCs that were discussed earlier in this Order. After this pro forma plant is accounted for, Sunshine's CIAC ratio is 52%.

However, using the growth rate of 3% experienced by the utility in 2001, we have determined that the utility will not reach its designed capacity in 10 years. In addition, Sunshine's CIAC ratio will be approximately 71% in 10 years. Based on the above, the utility's existing service availability charges are in compliance with Rule 25-30.580, Florida Administrative Code. As such, the utility's existing charges are appropriate, and we will make no change to the utility's existing service availability charges.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the petition of Sunshine Utilities of Central Florida, Inc. for a limited proceeding for increased water rates is granted in part as set out in the body of this Order. It is further

ORDERED that, prior to implementing the rates approved herein, Sunshine Utilities of Central Florida, Inc. shall submit revised tariff pages reflecting the rates approved herein. It is further

ORDERED that the rates approved herein will be lowered automatically upon Marion County's contribution of \$175,000 toward the project and connection of the contaminated wells as shown on Schedule No. 4, and Sunshine Utilities of Central Florida, Inc. shall submit revised tariff sheets reflecting the appropriate reduced rates if Marion County provides the funding. It is further

ORDERED that, prior to implementing the rates approved herein, Sunshine Utilities of Central Florida, Inc. shall submit for approval by our staff a proposed notice to its customers of the rates approved herein. It is further

ORDERED that, in accordance with Rule 25-30.475, Florida Administrative Code, the rates approved herein shall be effective for services rendered on or after the stamped approval date on the revised tariff pages, provided the customers have received notice. It is further

ORDERED that the revised tariff pages shall be approved upon our staff's verification that they are consistent with our decision herein, that the proposed customer notice is adequate, and that the



ORDER NO. PSC-02-0656-PAA-WU  
DOCKET NO. 992015-WU  
PAGE 25

Department of Environmental Protection confirms that funding has been approved for the project. It is further

ORDERED that Sunshine Utilities of Central Florida, Inc. shall submit written proof that notice was given to its customers no later than ten days after notice is given. It is further

ORDERED that Sunshine Utilities of Central Florida, Inc. shall automatically reduce its rates four years after the established effective date to reflect the removal of amortized rate case expense as required by Section 367.0816, Florida Statutes. It is further

ORDERED that Sunshine Utilities of Central Florida, Inc. shall file revised tariff sheets no later than one month prior to the actual date of the four-year rate reduction reflecting the appropriate rates. The utility also shall file at that same time a proposed customer notice setting forth the lower rates and the reason for the reduction. It is further

ORDERED that if Sunshine Utilities of Central Florida, Inc. files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall 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. It is further

ORDERED that all matters contained in the body of this Order and in the schedules and attachments hereto are by reference incorporated herein. It is further

ORDERED that Sunshine Utilities of Central Florida, Inc. shall file an application to amend its certificate to extend service to the additional customers outside its current service territory, pursuant to Section 367.045(2), Florida Statutes. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth

ORDER NO. PSC-02-0656-PAA-WU  
DOCKET NO. 992015-WU  
PAGE 26

in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that this docket shall be closed administratively if a timely request for a Section 120.57, Florida Statutes, hearing is not filed by a substantially affected person within the twenty-one day protest period, and upon the issuance of a consummating order, and our staff's verification that the appropriate revised tariff sheets and customer notice have been filed.

By ORDER of the Florida Public Service Commission this 14th day of May, 2002.

BLANCA S. BAYÓ, Director  
Division of the Commission Clerk  
and Administrative Services

By: Kay Flynn  
Kay Flynn, Chief  
Bureau of Records and Hearing  
Services

( S E A L )

RRJ

DISSENT: Commissioners Baez and Bradley dissented concerning the reduction of the President's salary.

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

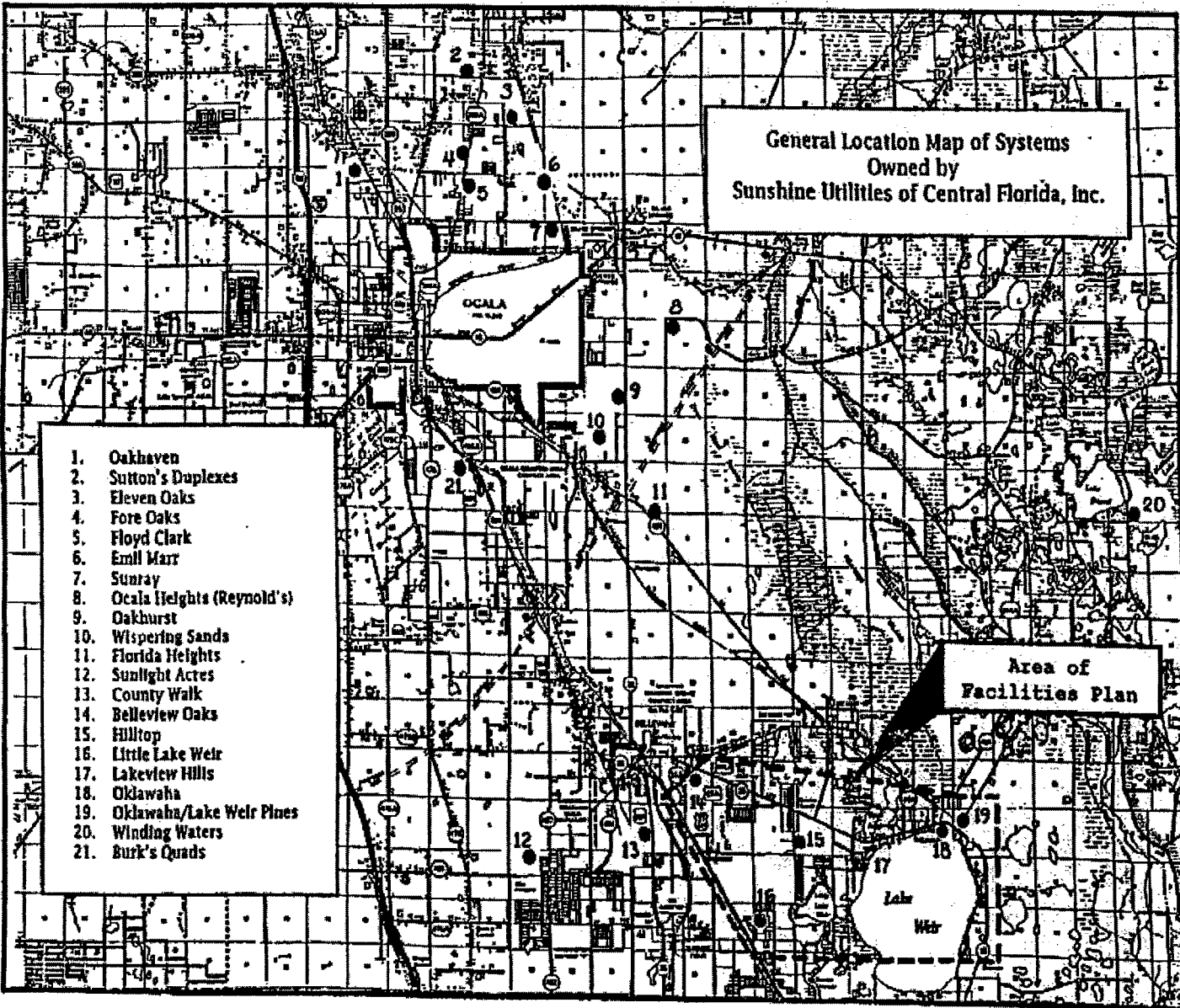
The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on June 4, 2002.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

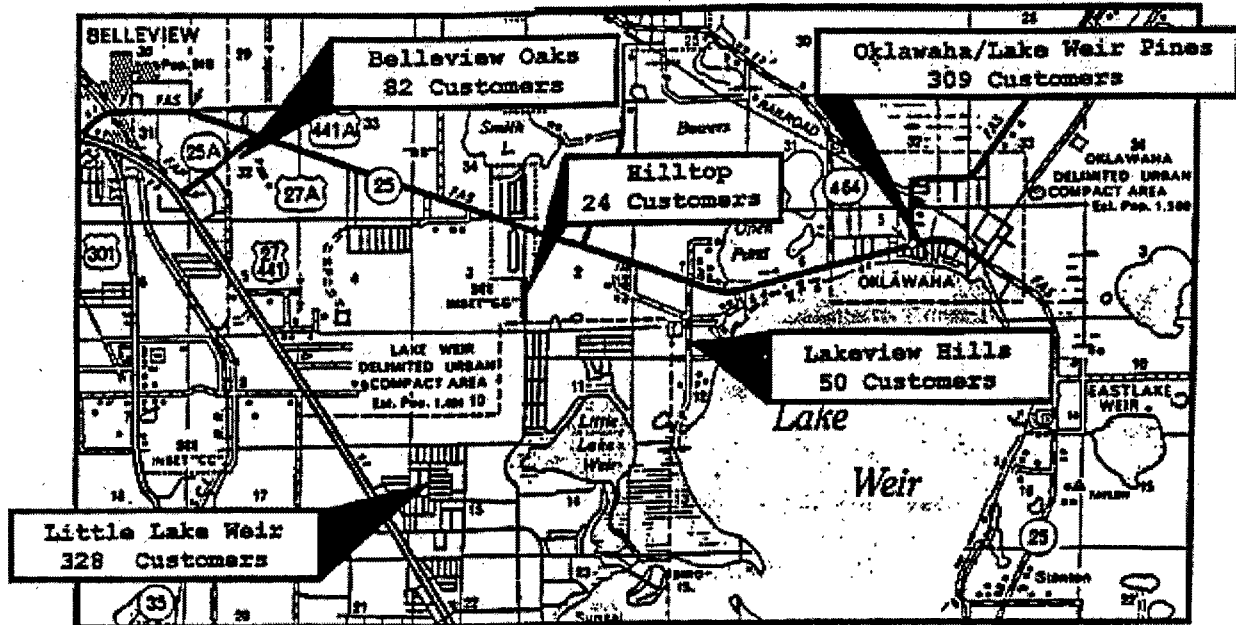
Map No. 1

General Location Map of Systems  
Owned by  
Sunshine Utilities of Central Florida, Inc.



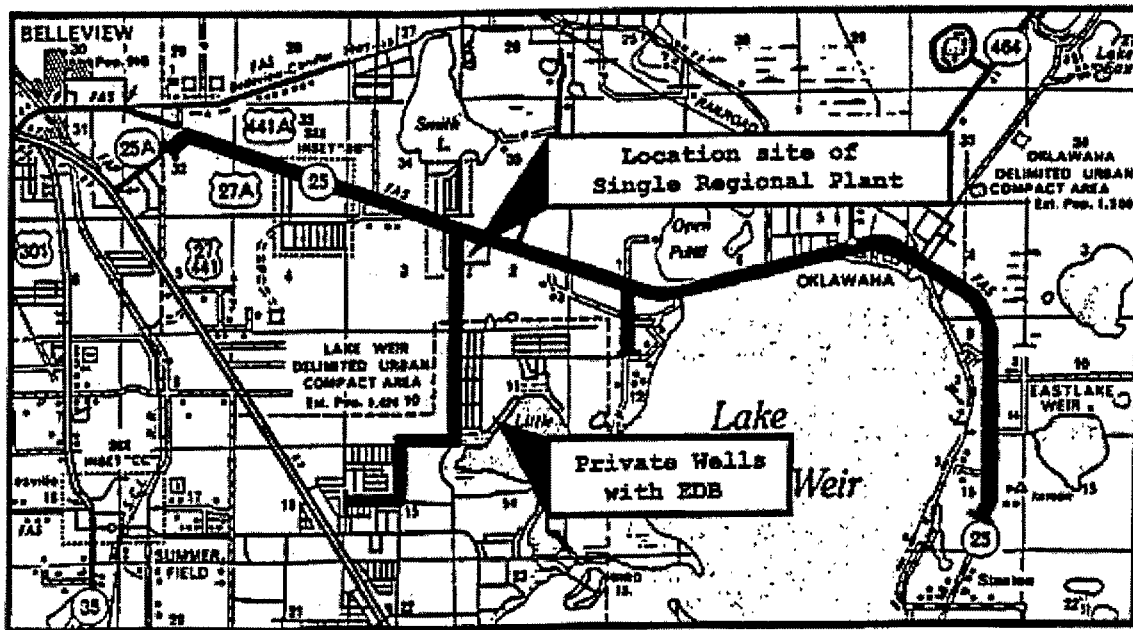
1. Oakhaven
2. Sutton's Duplexes
3. Eleven Oaks
4. Fore Oaks
5. Floyd Clark
6. Emil Marr
7. Sunray
8. Ocala Heights (Reynold's)
9. Oakhurst
10. Whispering Sands
11. Florida Heights
12. Sunlight Acres
13. County Walk
14. Belleview Oaks
15. Hilltop
16. Little Lake Weir
17. Lakeview Hills
18. Oklawaha
19. Oklawaha/Lake Weir Pines
20. Winding Waters
21. Burk's Quads

### Existing Five Independent Water Systems



MAP No. 2

### Proposed Plant and Regional Transmission System



MAP No. 3

Attachment A

WATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 992015-WU - Sunshine Utilities of Central Fla. Inc.

- 1) Firm Reliable Capacity of Plant                      737,600 gallons per day
- 2) Test Year Water Demand                                391,173 gallons per day
- 3) Fire Flow Capacity                                        120,000 gallons per day

(Fire Flow: 1000 gallons per minute for 2 hours. Sunshine is providing fire flow in limited areas)

4) Growth (gallons per day)

Year	Demand/5 systems	Demand/DEP-Mar. Co.	Total
2001	391,173	0	
2002	402,909	0	
2003	414,996	17,086	
2004	427,446	17,599	
2005	440,269	18,127	
2006	453,477	18,670	472,147

Growth = 472,147 - 391,173 = 80,974 gallons per day

- 5) Excessive Unaccounted for Water                      0 gallons per day

USED AND USEFUL FORMULA

$$[(2) + (3) + (4) - (5)]/1 = \text{Used and Useful}$$

$$[391,173+120,000+80,974-0]/737,600 = 80.3\% \text{ Used and Useful}$$

Attachment B

WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA

Docket No. 992015-WU - Sunshine Utilities of Central Fla. Inc.

- 1) Capacity of System (Number of Potential Customers without expansion) 1,927 ERCs
- 2) Test Year ERCs 870 ERCs
- 3) Growth

Year	ERC/5 systems	ERC/DEP-Mar. Co.	Total
2001	870	0	
2002	896	0	
2003	923	38	
2004	951	39	
2005	980	40	
2006	1,009	42	1,051

$$\text{Growth} = 1,051 - 870 = 181 \text{ ERC}$$

USED AND USEFUL FORMULA

$$[(2) + (3)] / (1) = \text{Used and Useful}$$

$$[870 + 181] / 1,927 = 54.5\%$$

SUNSHINE UTILITIES, INC.		SCHEDULE NO. 1-A			
SCHEDULE OF WATER RATE BASE		DOCKET NO. 992015--WU			
SIMPLE AVERAGE TEST YEAR ENDED 12/31/01					
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMMN ADJUST- MENTS	COMMN ADJUSTED TEST YEAR
<u>HISTORICAL RATE BASE</u>					
1 UTILITY PLANT IN SERVICE	\$2,043,440	\$0	\$2,043,440	(\$15,036)	\$2,028,404
2 LAND & LAND RIGHTS	61,724	0	61,724	0	61,724
3 NON-USED & USEFUL COMPONENTS	0	0	0	0	0
4 ACCUMULATED DEPRECIATION	(961,441)	0	(961,441)	15,036	(946,405)
5 CIAC	(1,568,654)	0	(1,568,654)	(15,453)	(1,584,107)
6 AMORTIZATION OF CIAC	639,234	0	639,234	479	639,713
7 WORKING CAPITAL ALLOWANCE	<u>82,101</u>	<u>0</u>	<u>82,101</u>	<u>(7,191)</u>	<u>74,909</u>
SUBTOTAL HISTORICAL RATE BASE	<u>\$296,403</u>	<u>\$0</u>	<u>\$296,403</u>	<u>(\$22,166)</u>	<u>\$274,237</u>
<u>PRO FORMA RATE BASE</u>					
8 PLANT ADDITIONS & RETIREMENTS			\$1,915,954	\$195,222	\$2,111,176
9 NON-USED & USEFUL COMPONENTS			(528,474)	35,120	(\$493,354)
10 ACCUMULATED DEPRECIATION			31,361	75,851	\$107,212
11 CIAC			(608,580)	(178,370)	(\$786,950)
12 AMORTIZATION OF CIAC			<u>(14,439)</u>	<u>(37,716)</u>	<u>(52,155)</u>
SUBTOTAL PRO FORMA RATE BASE			<u>\$795,822</u>	<u>\$90,107</u>	<u>\$885,929</u>
TOTAL RATE BASE			<u>\$1,092,225</u>	<u>\$67,941</u>	<u>\$1,160,166</u>



SUNSHINE UTILITIES, INC. ADJUSTMENTS TO RATE BASE SIMPLE AVERAGE TEST YEAR ENDED 12/31/01	
EXPLANATION	WATER
<u>PLANT IN SERVICE</u>	
1 To reflect the retirement of a 1993 Dodge van.	(\$15,036)
2 To reflect the appropriate pro forma plant.	<u>195,222</u>
Total	<u>\$180,186</u>
<u>NON-USED AND USEFUL</u>	
To reflect appropriate non-used and useful component.	<u>\$35,120</u>
<u>ACCUMULATED DEPRECIATION</u>	
1 To reflect the retirement of a 1993 Dodge van.	\$15,036
2 To reflect the appropriate accumulated depreciation of pro forma plant.	<u>75,851</u>
Total	<u>\$90,887</u>
<u>CIAC</u>	
1 To transfer inactive advances to CIAC.	(\$15,453)
2 To reflect the appropriate pro forma CIAC.	<u>(178,370)</u>
Total	<u>(\$193,823)</u>
<u>ACCUM. AMORT. OF CIAC</u>	
1 To transfer inactive advances to CIAC.	\$479
2 To reflect the appropriate accumulated amortization of pro forma CIAC.	<u>(37,716)</u>
Total	<u>(\$37,237)</u>
<u>WORKING CAPITAL</u>	
To reflect the appropriate working capital allowance.	<u>(\$7,191)</u>

SUNSHINE UTILITIES, INC.  
CAPITAL STRUCTURE  
SIMPLE AVERAGE TEST YEAR ENDED 12/31/01

DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST	
PER UTILITY 2001 - SIMPLE AVERAGE								
1 LONG TERM DEBT	\$72,500	\$1,442,814	(\$736,748)	\$778,566	71.28%	3.59%	2.56%	
2 SHORT-TERM DEBT	2,168	0	(1,054)	1,114	0.10%	8.75%	0.01%	
3 PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%	
4 COMMON EQUITY	536,290	0	(260,745)	275,545	25.23%	11.34%	2.86%	
5 CUSTOMER DEPOSITS	37,000	0	0	37,000	3.39%	6.00%	0.20%	
6 TOTAL CAPITAL	<u>\$647,958</u>	<u>\$1,442,814</u>	<u>(\$998,547)</u>	<u>\$1,092,225</u>	<u>100.00%</u>		<u>5.63%</u>	
PER COMMISSION 2001 - SIMPLE AVERAGE								
7 LONG TERM DEBT	\$1,515,314	(\$20,000)	(\$618,317)	\$876,997	75.59%	3.59%	2.71%	
8 SHORT-TERM DEBT	2,168	0	(896)	1,272	0.11%	8.75%	0.01%	
9 PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%	
10 COMMON EQUITY	536,290	(118,729)	(172,663)	244,898	21.11%	11.34%	2.39%	
11 CUSTOMER DEPOSITS	37,000	0	0	37,000	3.19%	6.00%	0.19%	
12 TOTAL CAPITAL	<u>\$2,090,772</u>	<u>(\$138,729)</u>	<u>(\$791,877)</u>	<u>\$1,160,166</u>	<u>100.00%</u>		<u>5.31%</u>	
					LOW	HIGH		
RETURN ON EQUITY					<u>10.34%</u>	<u>12.34%</u>		
OVERALL RATE OF RETURN					<u>5.10%</u>	<u>5.52%</u>		

SUNSHINE UTILITIES, INC.		SCHED. NO. 2-B
ADJUSTMENTS TO RATE BASE		DOCKET NO. 992015--WU
SIMPLE AVERAGE TEST YEAR ENDED 12/31/01		
EXPLANATION	WATER	
<u>LONG-TERM DEBT</u>		
To reflect the appropriate balance of credit-line with the bank.	<u>(\$20,000)</u>	
<u>COMMON EQUITY</u>		
1 To reflect the retirement of a 1993 Dodge van.	(\$2,506)	
2 To reflect receivables from stockholders as a return on equity.	<u>(116,223)</u>	
Total	<u>(\$118,729)</u>	

SUNSHINE UTILITIES, INC.  
STATEMENT OF WATER OPERATIONS  
SIMPLE AVERAGE TEST YEAR ENDED 12/31/01

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMMN ADJUST- MENTS	COMMN ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	<u>\$786,721</u>	<u>\$123,245</u>	<u>\$909,966</u>	<u>(\$119,411)</u>	<u>\$790,555</u>	<u>\$46,813</u> 5.92%	<u>\$837,368</u>
OPERATING EXPENSES:							
2 OPERATION & MAINTENANCE	<u>\$654,630</u>	<u>\$29,747</u>	<u>\$684,377</u>	<u>(\$85,103)</u>	<u>\$599,274</u>		<u>\$599,274</u>
3 DEPRECIATION	<u>26,367</u>	<u>20,089</u>	<u>46,456</u>	<u>(2,985)</u>	<u>43,471</u>		<u>43,471</u>
4 AMORTIZATION	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>		<u>0</u>
5 TAXES OTHER THAN INCOME	<u>73,447</u>	<u>25,185</u>	<u>98,632</u>	<u>0</u>	<u>98,632</u>	<u>2,107</u>	<u>100,739</u>
6 INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>15,500</u>	<u>15,500</u>	<u>16,823</u>	<u>32,323</u>
7 TOTAL OPERATING EXPENSES	<u>\$754,444</u>	<u>\$75,021</u>	<u>\$829,465</u>	<u>(\$72,588)</u>	<u>\$756,877</u>	<u>\$18,929</u>	<u>\$775,806</u>
8 OPERATING INCOME	<u>\$32,277</u>	<u>\$48,224</u>	<u>\$80,501</u>	<u>(\$46,823)</u>	<u>\$33,678</u>	<u>\$27,883</u>	<u>\$61,561</u>
9 RATE BASE	<u>\$296,403</u>		<u>\$1,092,225</u>		<u>\$1,160,166</u>		<u>\$1,160,166</u>
10 RATE OF RETURN	<u>10.89%</u>		<u>7.37%</u>		<u>2.90%</u>		<u>5.31%</u>

SUNSHINE UTILITIES, INC.		SCHED. NO. 3-B
ADJUSTMENTS TO OPERATING INCOME		DOCKET NO. 992015--WU
SIMPLE AVERAGE TEST YEAR ENDED 12/31/01		
EXPLANATION		WATER
<u>OPERATING REVENUES</u>		
1 Remove requested final revenue increase.		(\$123,245)
2 To impute revenues associated with additional customers.		\$3,834
Total		<u>(\$119,411)</u>
<u>OPERATION &amp; MAINTENANCE EXPENSE</u>		
1 To reflect appropriate salary levels of officers.		(\$75,001)
2 To amortize the appropriate amount of rate case expense.		(10,102)
Total		<u>(\$85,103)</u>
<u>DEPRECIATION EXPENSE-NET</u>		
1 To reflect the retirement of a 1993 Dodge van.		(\$2,506)
2 To transfer inactive advances to CIAC.		(479)
Total		<u>(\$2,985)</u>
<u>INCOME TAXES</u>		
To adjust to test year income tax expense.		<u>\$15,550</u>

SUNSHINE UTILITIES, INC. WATER MONTHLY SERVICE RATES SIMPLE AVERAGE TEST YEAR ENDED 12/31/01		SCHEDULE NO. 4 DOCKET NO. 992015--WU			
	<u>Present Rates</u>	<u>Utility Requested Final</u>	<u>Commission Approved Final (1)</u>	<u>Commission Approved Final (2)</u>	<u>Four Year Rate Reduction</u>
<u>Residential and General Service</u>					
Base Facility Charge:					
Meter Size:					
5/8" x 3/4"	\$7.90	\$9.14	\$8.38	\$8.28	\$0.20
1"	\$19.74	\$22.85	\$20.95	\$20.70	\$0.49
1-1/4"	\$29.60	\$34.26	\$31.41	\$31.04	\$0.74
1-1/2"	\$39.48	\$45.69	\$41.89	\$41.40	\$0.98
2"	\$63.16	\$73.10	\$67.02	\$66.24	\$1.57
3"	\$126.52	\$146.42	\$134.25	\$132.68	\$3.14
4"	\$197.37	\$228.42	\$209.42	\$206.98	\$4.91
6"	\$394.75	\$456.84	\$418.86	\$413.97	\$9.81
Gallage Charge, per 1,000 Gallons	\$1.93	\$2.23	\$2.05	\$2.02	\$0.05
<u>Typical Residential Bills</u>					
5/8" x 3/4" Meter Size					
3,000 Gallons	\$13.69	\$15.83	\$14.53	\$14.36	
5,000 Gallons	\$17.55	\$20.29	\$18.62	\$18.40	
10,000 Gallons	\$27.20	\$31.44	\$28.86	\$28.52	
<u>Notes:</u>					
(1) These rates reflect the assumption that the utility will receive cash contributions from Marion County in the amount of \$68,328.					
(2) These rates reflect the receipt of \$175,000 in cash contributions from Marion County.					