

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in
Polk County by Sunrise Utilities, LLC.

DOCKET NO. 110238-WU
ORDER NO. PSC-12-0533-PAA-WU
ISSUED: October 9, 2012

The following Commissioners participated in the disposition of this matter:

RONALD A. BRISÉ, Chairman
LISA POLAK EDGAR
ART GRAHAM
EDUARDO E. BALBIS
JULIE I. BROWN

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING INCREASE IN RATES AND CHARGES AND FINAL ORDER
GRANTING TEMPORARY RATES IN THE EVENT OF A PROTEST

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission (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.

CASE BACKGROUND

Sunrise Utilities, LLC (Sunrise or Utility) is a Class C utility serving approximately 234 water customers in Polk County. The Utility's service area is located in the Southwest Florida Water Management District (SWFWMD or District), but is not within a water use caution area. According to Sunrise's 2011 annual report, total gross revenue was \$64,486 and total operating expenses were \$74,030, resulting in a net loss of \$9,544.

Sunrise was issued Certificate No. 582-W¹ as a result of a Commission-approved transfer of the Utility from Keen Sales, Rentals, and Utilities, Inc. Rate base was established as of the transfer date, February 10, 2004. Sunrise's last application for a staff-assisted rate case (SARC) was in 2009.² In that case, the Utility withdrew its application. In the instant docket, the application for a SARC was filed on July 25, 2011.

We have jurisdiction in this matter pursuant to Sections 367.011, 367.0814, 367.101, and 367.121, F.S.

¹ See Order No. PSC-05-0308-PAA-WU, issued March 21, 2005, in Docket No. 040159-WU, In re: Application for transfer of portion of Certificate No. 582-W by Keen Sales, Rentals and Utilities, Inc. to Sunrise Utilities, LLC, in Polk County.

² Docket No. 090497-WU, In re: Application for staff-assisted rate case in Polk County by Sunrise Utilities, LLC.

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

DECISION

I. Quality of Service

Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), we determine the overall quality of service provided by a utility by evaluating three separate components of water operations. These components are the quality of the utility's product, the operating condition of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. Comments or complaints received from customers are reviewed and compliance with the Polk County Health Department (PCHD) is considered.

In the Utility's 2001 rate case, the quality of service provided by Sunrise Water Company was found to be unsatisfactory as a direct result of mismanagement.³ Our order specifically noted the lack of an after hours emergency contact, rude utility employees, and improper noticing prior to disconnection. The system was transferred to the current owner in 2004.⁴

Quality of the Utility's Product

Sunrise is in compliance with all testing and chemical analyses required by the PCHD and the test results have been found to be satisfactory. The quality of the water service appears to meet the regulatory standards and is considered to be satisfactory.

Operational Condition of the Plant and Facilities

The PCHD conducted a sanitary survey of the Utility on October 25, 2011, and noted numerous deficiencies. The deficiencies included a leaking pressure relief valve, a well seal that was not watertight, inadequate well venting, a malfunctioning well flow meter, inadequate protection of the chlorine solution storage container, a malfunctioning auxiliary power unit, lack of an emergency response plan, no drinking water distribution map available for review, a dirty sight glass, a leaking chlorine pump, and a damaged fence. The Utility was put on notice that inspections of the two hydropneumatic tanks were due by January 1, 2012. A follow-up sanitary survey inspection was conducted on March 3, 2012, which revealed that the October 2011 deficiencies had not been corrected. On April 5, 2012, the PCHD issued a warning letter based on the deficiencies found in the October and March inspections. Another warning letter was sent to the Utility on April 17, 2012, regarding the outstanding hydropneumatic tank inspections. A third inspection was conducted on May 4, 2012, in which it was determined that five of the deficiencies found in the March 2012 inspection had still not been corrected. The PCHD issued a consent order on May 18, 2012, requiring that seven repairs, addressed in the prior warning letters, be completed by May 25, 2012. The order further required the Utility to submit a written emergency plan and water distribution map by May 25, 2012, and have the two hydropneumatic tanks professionally evaluated by January 1 and May 1, 2013. The Utility was also ordered to

³ See Order No. PSC-01-1162-PAA-WU, issued May 22, 2001, in Docket No. 001118-WU, In re: Application for staff assisted rate case in Polk County By Keen Sales, Rentals and Utilities, Inc.

⁴ See Order No. PSC-05-0308-PAA-WU.

pay \$200 for costs incurred by the PCHD during the investigation and preparation of the consent order.

By July 2012, some repairs had been made; however, the well seal was still not watertight, the flow meter was not working well, the site glass was not readable, and the damaged fence had yet to be repaired. The Utility is addressing the matter and has requested that the cost associated with correcting several of the deficiencies, including inspection and cleaning of the hydropneumatic tanks, repairs to the well site, and a meter replacement program, be included in this rate case. The pro forma items are addressed below under the following heading, XIV. Phase II Pro Forma. Upon review, we find that the operational condition of the Utility's plant and facilities is marginal because the Utility has consistently failed to meet the PCHD's deadlines. However, no adjustment to the Utility's operating expenses shall be made at this time because the Utility has indicated that the final repairs will be completed during the May 2013 inspection. Sunrise is hereby required to provide us with the final PCHD order following the May 2013 inspection and repairs. If the trend of delayed compliance continues an adjustment may be appropriate in the future.

Customer Satisfaction

A customer meeting was held on June 28, 2012, in Auburndale, Florida. A representative of the Utility was present. Seven customers attended and four spoke. Customer complaints addressed the rate increase, inadequate notice of the meeting, undrinkable water, high chlorine dosages in the drinking water, water testing, water outages, boil water notices, isolation valves, double billing and meter reading issues, and training/education for the system's personnel.

Although some of the customers complained about notices of the customer meeting, the Utility indicated that notices were mailed to all customers and provided an affidavit that the notice was mailed. Customers complained that they find the water to be undrinkable, that the water sometimes looks dingy brown and has a high chlorine content. Customers were also concerned about whether the water was being tested. Our staff reviewed the Utility's Consumer Confidence Reports for 2009, 2010, and 2011, and found no violations for chlorine residual. In addition, the sampling results for primary and secondary contaminants indicated no violations. Therefore, we find that the water quality is satisfactory.

Customers also complained about water outages and boil water notices. In response to our staff's inquiry, the Utility indicated that there have been 11 outages in the last three years that affected more than 10 percent of the Utility's customers. Although the Utility indicated that water interruptions and repairs are followed by precautionary boil water notices and rescissions which are hand delivered to customers, the Utility has not notified this Commission that the interruptions occurred as required by Rule 25-30.251, F.A.C. Because the Utility has represented that it will comply with the Rule in the future, we do not find that a show cause proceeding is appropriate at this time. We will monitor the Utility's compliance with this Rule and, if needed, a show cause proceeding will be initiated.

One customer raised an issue about the lack of isolation valves. When water is turned off to repair a line break, water service must be shut off to all customers while the line break is repaired. The cost associated with installing additional valves is discussed below under the heading XIV. Phase II Pro Forma. A customer complained about being double billed when he relocated to another residence and questioned whether meters are read by the Utility. The Utility indicated that meters are read monthly and the billing issue has been resolved.

Our Consumer Activity Tracking System includes eight complaints over the last three years. The complaints were related to water outages and billing issues and all have been closed. Thus, we find that the Utility's attempt to address customer satisfaction is satisfactory.

Summary

Sunrise is current in testing, chemical analyses, and treatment standards; therefore, we find that the quality of the Utility's product to be satisfactory. However, the Utility signed a consent order on May 18, 2012, requiring that the deficiencies outlined in the past three inspections be corrected. The Utility was required to comply with seven noncompliance issues by May 25, 2012, six of which have been completed. The Utility indicated that the sight glass will be replaced during the May 2013 inspection. Furthermore, Sunrise was unable to meet the deadline from the consent order regarding the replacement of the fence. In addition, it appears that the Utility has not complied with Rule 25-30.251, F.A.C., which provides that the Utility must notify this Commission of any water interruptions which affect 10 percent or more of its customers. Sunrise shall be required to provide us with the final PCHD order following the May 2013 inspection and repairs. Upon review, we find that the overall quality of service for Sunrise is marginal; however, no adjustment to the Utility's operating expenses shall be made at this time.

II. Used and Useful

Pursuant to Rule 25-30.4325(5), F.A.C., the used and useful (U&U) calculation for a water treatment plant (WTP) is determined by dividing the peak demand by the firm reliable capacity. Because the system has no storage, the calculation is in gallons per minute (gpm). Consideration of growth, fire flow requirements, unaccounted for water, and other factors may also be included.

Sunrise serves approximately 234 residential and one general service customer. In the last rate case, the WTP was found to be 100 percent U&U. The WTP has two wells rated at 150 and 400 gpm, respectively. Pursuant to Rule 25-30.4325(6), F.A.C., the firm reliable capacity is 150 gpm. Raw water is injected with liquid chlorine, discharged into a hydropneumatic tank, and channeled into the distribution system. The Utility's peak day of 166,000 gallons, or 230 gpm, occurred on April 11, 2011. It does not appear that there was a fire, line break, or other unusual occurrence on that day. There is no fire flow requirement for the service area and it appears that the service area is built out.

According to the Utility's records, 21.144 million gallons of finished water were produced during the test year and 15.594 million gallons were sold. The Utility did not provide

any information regarding water used for line flushing or other uses. Pursuant to Rule 25-30.4325(1)(e), F.A.C., unaccounted for water in excess of 10 percent of the amount produced is considered excessive unaccounted for water (EUW); therefore, 16 percent of the water produced (13.06 gpm) shall be considered EUW. Based on a peak day of 230 gpm, EUW of 13.06 gpm, and firm reliable capacity of 150 gpm, the WTP⁵ is 100 percent used and useful.

The service area appears to be built out, and the water distribution system was designed to serve the existing customers; therefore we find that the water distribution system shall be considered 100 percent U&U, consistent with the last rate case.

III. Average Test Year Rate Base

The appropriate components of the Utility's rate base include utility plant in service, contributions-in-aid-of-construction (CIAC), accumulated depreciation, accumulated amortization of CIAC, and working capital. Rate base for Sunrise was last established in its 2005 transfer docket.⁶ The Utility's rate base was last audited in 2009 when Sunrise applied for a SARC. The Utility subsequently withdrew that application for a SARC. We have selected the test year ended September 30, 2011 for this rate case. Rate base components established in the transfer docket have been updated through September 30, 2011, using information obtained from our SARC audit from the prior rate case request and the instant docket. A summary of each component and the approved adjustments follows.

Utility Plant in Service (UPIS)

The Utility recorded a UPIS balance of \$120,909. We have decreased UPIS 1) by \$11,000 to remove a plant addition for a pump that was recorded twice, 2) by \$1,041 for lack of support documentation for meters, 3) by \$2,215 to reflect an averaging adjustment. These adjustments result in a decrease of \$14,256 and a UPIS balance of \$106,652.

Land

Sunrise recorded land of \$0. The amount was established at \$553 during the transfer docket.⁷ There have been no additions since that time. We have increased land by \$553 to reflect the appropriate balance of \$553.

Non-Used and Useful Plant

As discussed above under the heading, II. Used and Useful, Sunrise's WTP and distribution system are 100 percent U&U. Therefore, a U&U adjustment is not necessary.

⁵ (Peak Day – EUW + FF + growth)/FRC = (230 – 13.06 + 0 + 0)/150 =>100%

⁶ See Order No. PSC-05-0308-PAA-WU, page 4.

⁷ See Order No. PSC-05-0308-PAA-WU, page 4.

Contribution in Aid of Construction (CIAC)

The Utility recorded test year CIAC of \$12,393. We find this amount to be appropriate with no adjustment.

Accumulated Depreciation

Sunrise recorded a balance for accumulated depreciation of \$53,327. We have calculated accumulated depreciation using the prescribed rates as set forth in Rule 25-30.140, F.A.C., resulting in an accumulated depreciation of \$58,020. As a result, accumulated depreciation has been increased by \$4,693. We have also decreased accumulated depreciation by \$2,421 to reflect an averaging adjustment. These adjustments result in an accumulated depreciation of \$55,599.

Accumulated Amortization of CIAC

The Utility recorded an accumulated CIAC amortization balance of \$8,496. We have calculated accumulated amortization of CIAC using composite depreciation rates resulting in an increase of \$1,899. This account must also be decreased by \$276 to reflect an averaging adjustment. These adjustments result in an accumulated amortization of CIAC balance of \$10,120.

Working Capital Allowance

Sunrise recorded working capital of \$0. Working capital represents the investor-supplied funds that are necessary to meet operating expenses or going-concern requirements of the Utility. Consistent with Rule 25-30.433(2), F.A.C., we have employed the one-eighth of the operation and maintenance (O&M) expense formula to calculate the working capital allowance. Applying this formula, we find that a working capital allowance of \$7,708 (based on O&M expense of \$61,662/8) is appropriate. As such, we have increased the working capital allowance by \$7,708

Rate Base Summary

Based on the foregoing, we find that the appropriate average test year rate base is \$57,040. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

IV. Rate of Return on Equity and Overall Rate of Return

The Utility's capital structure consists of common equity of \$48,886, long-term debt of \$46,112 and customer deposits of \$51. The appropriate ROE is 10.26 percent using the Commission-approved leverage formula currently in effect.⁸ The Utility's capital structure has

⁸ See Order Nos. PSC-12-0339-PAA-WS, issued June 28, 2012, and PSC-12-0372-CO-WS, issued July 20, 2012, in Docket No. 120006-WS, In re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

been reconciled with our approved rate base. Upon review, we find an ROE of 10.26 percent, with a range of 9.26 percent to 11.26 percent, and an overall rate of return of 7.10 percent to be appropriate. The ROE and overall rate of return are shown on Schedule No. 2.

V. Test Year Revenue

Sunrise recorded total revenue of \$66,609. The Utility's total revenue consisted of \$61,303 of service revenue and \$5,306 of miscellaneous service revenue. We have annualized revenue based on test year billing determinants and existing rates and determined the appropriate service revenue to be \$62,371. We have increased test year revenue by \$1,068 to reflect the appropriate service revenue. We have no adjustment to miscellaneous service revenue. The calculated service revenue and miscellaneous service revenue result in total test year revenue of \$67,677. Thus, upon review, we find that a test year revenue of \$67,677 is appropriate. Water test year revenue is shown on Schedule No. 3-A.

VI. Operating Expense

Sunrise recorded operating expense of \$65,748 for the test year ended September 30, 2011. The test year O&M expenses have been reviewed, and invoices, canceled checks, and other supporting documentation have been examined. We have made several adjustments to the Utility's operating expenses which are summarized below.

Salaries and Wages - Officers (603)

Sunrise recorded \$16,192 for salaries and wages – officers in this account. The Utility president is responsible for reviewing the monthly meter reading reports, reviewing monthly bank statements, preparing the Annual Report, and compiling financial data for the accountant to prepare federal tax form. He is also responsible for interfacing with the Utility manager on the day-to-day operations. Based on the duties and responsibilities of the president, we find that a reasonable salary is \$12,000. The amount recorded in this account was actually loan payments. However, in order to reflect the appropriate amount for salaries and wages – officers, we have decreased this account by \$4,192. Thus, we find that salaries and wages – officers expense of \$12,000 is appropriate.

Purchased Power (615)

Sunrise recorded \$2,579 for purchased power expense in this account. We have reviewed invoices and the amount recorded by the Utility reflects the expense incurred for the test year. As discussed above, under the heading, II. Used and Useful, we have made an EUW adjustment of 16 percent. Applying the EUW adjustment results in a decrease of \$413 to purchased power expense. As such, we find a purchased power expense of \$2,166 to be appropriate.

Chemicals (618)

Sunrise recorded \$1,325 for chemicals in this account. We have reviewed invoices and the amount recorded by the Utility reflects the expense incurred for the test year. Upon review,

we find that the chemical expenses are reasonable for the treatment of water for Sunrise. As discussed above under the heading, II. Used and Useful, we have made an EUW adjustment of 16 percent. Applying the EUW percentage to chemicals results in a decrease of \$212. Thus, we find that a chemicals expense of \$1,113 to be appropriate.

Contractual Services – Billing (630)

The Utility recorded \$0 for contractual services – billing. We have reclassified meter reading expense of \$1,668 from Account No. 360 – miscellaneous expense. Sunrise’s meters are read by a contract meter reader. The meter reader fee is \$250 a month or \$3,000, annually. Upon review, we find that the meter reading fee is reasonable. We have made a pro forma increase of \$1,332 to reflect the annual meter reading fee. We find contractual services – billing of \$3,000 to be appropriate.

Contractual Services – Professional (631)

Sunrise recorded \$6,954 in this account for contractual services – professional. We have made adjustments to reclassify expenses to the appropriate account. Upon review, we shall make the following adjustments to contractual services - professional.

Table 6-1	
	WATER
1. To reclassify contractor operator expense to Acct. No. 636.	(3,066)
2. To reclassify testing expense to Acct. No. 635	(290)
3. To reclassify contract expense for clerical personnel to Acct. No. 636	(1,868)
Total	<u>(\$5,224)</u>

Our adjustment to contractual services - professional is a decrease of \$5,224. We find a contractual services – professional expense of \$1,730 to be appropriate.

Contractual Services – Testing (635)

The Utility recorded \$500 in this account for testing expense. We have reclassified \$290 of testing expense from Account No. 631 – contractual services - professional. We also reclassified \$120 of testing expense from Account No. 636 – contractual services - other. These adjustments increase test year testing expense to \$910. The Utility provided documentation from its operator indicating that testing expense is \$230 for disinfection byproducts and \$1,915 for secondary testing. The secondary testing is conducted every three years which would result in an annual amount of \$638 ($\$1,915/3$). Thus, upon review, we find that the annual testing expense shall be \$868 ($\$230+\638). We have decreased this account by \$42 to represent the appropriate balance.

Contractual Services – Other (636)

Sunrise recorded \$21,297 in this account for contractual services – other. The Utility’s contractual services include contract repairs, operator services, clerical services and management. Sunrise’s contract operator fee is \$430 per month or \$5,160, annually. The contract operator is responsible for operation services for the water treatment plant. The Utility’s contract clerical personnel is responsible for collecting checks, entering checks into the billing program, depositing checks in the bank, and all matters related to customer service. The clerical personnel’s fee is \$240 per month or \$2,880, annually. Sunrise is managed by a contract manager. The manager is responsible for processing customer complaints, acting as the liaison between the Utility and all regulatory agencies, preparing and mailing customer bills, preparing late notices, filing annual index and pass-through applications, and coordinating with service providers. The management fee is \$925 per month or \$11,100, annually. We have made adjustments to this account to reclassify certain expenses and recognize the appropriate expense level of services. Our adjustments to contractual services – other are below.

Table 6-2	
	<u>WATER</u>
1. To reclassify contract operator expense from Acct. No. 631.	\$3,066
2. To reclassify testing expense to Acct. No. 631.	(120)
3. To reflect the appropriate operator expense.	(169)
4. To reclassify contract expense for clerical personnel from Acct. No. 631.	1,868
5. To annualize contract expense for clerical personnel.	1,012
6. To reclassify meter reading expense to Acct. No. 630.	(1,668)
7. To reflect the appropriate management fee.	540
	<u>\$4,529</u>

Our net adjustment to contractual services - other is an increase of \$4,529. We find that a contractual services – other expense of \$25,826 is appropriate.

Rents (640)

Sunrise recorded rent expense of \$538. The amount included in this account was for equipment rental and post office box rental. Sunrise did not record any rent for office space. Since the test year, the management company is now leasing office space. The rent is allocated based on the number of customers managed by the management company. Sunrise’s allocation is 29 percent. The Utility’s share of the office rental is \$291 per month or \$3,497, annually. The office rental includes electric, telephone and water service. Upon review, we find that this amount is reasonable. We have increased rent by \$3,497 and approve rent expense of \$4,034.

Insurance Expense (655)

Sunrise recorded \$0 for in this account. During the test year, the Utility did not have general liability insurance. Since the test year, Sunrise has obtained general liability insurance and paid the premium of \$1,716. We find that an insurance expense of \$1,716 is appropriate.

Regulatory Commission Expense (665/765)

Sunrise recorded \$0 for in this account. Pursuant to Rule 25-22.0407, F.A.C., the Utility is required to mail notices of the customer meeting and notices of final rates in this case to its customers. For these notices, we have estimated \$209 for postage expense, \$143 for printing expense, and \$24 for envelopes. The cost is \$376 for postage, mailing notices, and envelopes. The Utility paid a \$1,000 rate case filing fee. The total rate case expense including postage, mailing notices, envelopes, filing fees and consultant fees is \$1,376. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a four-year period. Upon review we approve a regulatory commission expense of \$344.

Miscellaneous Expense (675/775)

Sunrise recorded \$5,537 in this account for miscellaneous expense. This account includes fees of \$620 for bank charges (i.e. overdraft charges, and activity fees). We do not find that these fees should be recovered from the general body of ratepayers. Therefore, we have reduced miscellaneous expense by \$620 to remove the bank charges. Also, since the test year, the Utility has paid for a membership to the Florida Rural Water Association. The annual fee is \$125. We have increased miscellaneous expenses to include the membership fee. Thus, our net adjustment to miscellaneous expense is a decrease of \$495 (\$125-\$620). Upon review we approve a miscellaneous expense of \$5,041.

Operation and Maintenance Expenses (O&M) Summary

Total adjustments to O&M expense result in an increase of \$6,030. Our approved O&M expense is \$61,662. O&M expenses are shown on Schedule No. 3-A.

Depreciation Expense (Net of Related Amortization of CIAC)

Sunrise recorded \$4,929 in this account for net depreciation expense. We have calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. We also have calculated amortization of CIAC based on composite rates and decreased net depreciation by \$740. We hereby approve a net depreciation expense of \$4,189.

Taxes Other Than Income (TOTI)

The Utility recorded \$5,187 in this account for TOTI. We have increased this account by \$442 to reflect the appropriate property taxes. As discussed below, under the heading VIII. Revenue Requirement, revenues have been increased by \$10,439 to reflect the change in revenue

required to cover expenses and allow the approved return on investment. As a result, TOTI shall be increased by \$470 to reflect RAFs of 4.5 percent on the change in revenues. Accordingly, we approve \$6,098 in TOTI.

Income Tax

The Utility is an 1120C Corporation and did not record income tax for the test year. Based on its current income tax return, Sunrise has a large amount of net loss carry forwards. These net loss carry forwards are sufficient to offset any income tax liability for the next few years. Therefore, we have made no adjustments to this account.

Operating Expenses Summary

The application of our adjustments to Sunrise's recorded test year operating expenses result in operating expenses of \$71,950. Operating expenses are shown on Schedule No. 3-A. The related adjustments are shown on Schedule No. 3-B.

VII. Operating Ratio Methodology

Section 367.0814(9), F.S., provides that this Commission may, by rule, establish standards and procedures for setting rates and charges of small utilities using criteria other than those set forth in Sections 367.081(1), (2)(a) and (3), F.S. Rule 25-30.456, F.A.C., provides, in part, an alternative to a staff assisted rate case as described in Rule 25-30.455, F.A.C. As an alternative, utilities with total gross annual operating revenues of less than \$250,000 per system may petition this Commission for staff assistance in alternative rate setting.

Although Sunrise did not petition for alternative rate setting under the aforementioned rule, we shall exercise our discretion to employ the operating ratio methodology as an alternative means to set water rates in this case. The operating ratio methodology is an alternative to the traditional calculation of revenue requirements. Under this methodology, instead of applying a return on the Utility's rate base, the revenue requirement is based on the margin of Sunrise's O&M expenses. This methodology has been applied in cases in which the traditional calculation of revenue requirements do not provide sufficient revenues to protect against potential variances in revenues and expenses.

By Order No. PSC-96-0357-FOF-WU, we first used the operating ratio methodology as an alternative means for setting rates,⁹ and considered criteria related to the use of the operating ratio methodology and a guideline margin of 10 percent of O&M expense. This criteria was

⁹ Issued March 13, 1996, in Docket No. 950641-WU, In re: Application for staff-assisted rate case in Palm Beach County by Lake Osborne Utilities Company, Inc.

applied again in Order No. PSC-97-0130-FOF-SU.¹⁰ Most recently, we approved the operating ratio methodology for setting rates in Order No. PSC-12-0436-PAA-WS.¹¹

In Order No. PSC-96-0357-FOF-WU, we described criteria to determine whether to utilize the operating ratio methodology for those utilities with low or non-existent rate base. The qualifying criteria outlined in Order No. PSC-96-0357-FOF-WU, and how they apply to the Utility are discussed below.

Whether the Utility's O&M expense exceeds rate base

In the instant case, the rate base is less than the level of O&M expense. Based on our adjustments, the adjusted rate base for the test year is \$57,040, while adjusted O&M expense is \$61,662.

Whether the Utility is expected to become a Class B utility in the foreseeable future

Pursuant to Chapter 367.0814(9), F.S., the alternative form of regulation being considered in this case only applies to small utilities with gross annual revenues of \$250,000 or less. Sunrise is a Class C utility and the approved revenue requirement of \$78,116 is below the threshold level for Class B status (\$250,000 per system). The Utility's service area is essentially built out. Therefore, the Utility will not become a Class B utility in the foreseeable future.

Quality of service and condition of plant

As discussed above, under the heading I. Quality of Service, we found the quality of service to be marginal. Sunrise still has a remaining compliance issue with PCHD. Nonetheless, we do not find that the Utility shall be disqualified from the operating ratio method.

Whether the Utility is developer-owned.

The current utility owner is not a developer. The service territory is not in the early stages of growth, and there has not been any customer growth in the last five years.

Whether the Utility operates treatment facilities or is simply a distribution and/or collection system

Sunrise operates a WTP and a water distribution system.

By Order Nos. PSC-96-0357-FOF-WS and PSC-97-0130-FOF-WU, we determined that a margin of 10 percent shall be used unless unique circumstances justify the use of a greater or

¹⁰ Issued February 10, 1997, in Docket No. 960561-SU, In re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.

¹¹ Issued August 24, 2012, in Docket No. 110282-WS, In re: Application for staff-assisted rate case in Duval County by Regency Utilities, Inc.

lesser margin. The important question was not what the return percentage should be, but what level of operating margin will allow the Utility to provide safe and reliable service and remain a viable entity. The answer to this question requires a great deal of judgment based upon the particular circumstances of the Utility. In these cases, we have applied a 10 percent margin.

Several factors must be considered in determining the reasonableness of a margin. First, the margin must provide sufficient revenues for the Utility to cover its interest expense. The interest expense is approximately \$1,729.

Second, use of the operating ratio methodology rests on the premise that the principal risk to the Utility resides in operating cost rather than in capital cost of the plant. The fair return on a small rate base may not adequately compensate the utility owner for incurring the risk associated with covering the much greater operating cost. Therefore, the margin must adequately compensate the Utility owner for that risk. Under the rate base method, the return to Sunrise amounts to only \$4,050, which is enough to cover only a 6.57 percent variance in O&M expense. Upon review, we find that \$4,050 is an insufficient financial cushion when the Utility's interest expense is considered.

Third, if the return on rate base method were applied, a normal return would generate a small level of revenues that in the event revenues or expenses vary from our estimates, Sunrise could be left with insufficient funds to cover operating expenses. However, the margin should provide adequate revenues to protect against potential variability in revenues and expenses. The return on rate base method would provide the Utility \$4,050. After deducting interest expense, Sunrise would only have \$2,321 of operating income to cover revenue and expense variances. If the Utility's operating expenses increase, Sunrise would not have the funds required for day-to-day operations.

We find that the factors discussed above show that the Utility needs a higher margin of revenues over operating expenses than the traditional return on rate base method will provide. Therefore, in order to provide Sunrise with adequate cash flow to satisfy environmental requirements and to provide some assurance of safe and reliable service, we shall apply the operating ratio methodology at a margin of 10 percent of O&M expense to determine the revenue requirement.

VIII. Revenue Requirement

Upon review we find that Sunrise shall be allowed an annual increase of \$10,439 (15.42 percent). This will allow the Utility the opportunity to recover its expenses and a 10.00 percent cushion over its O&M expense. The calculations are as follows.

<u>Water Revenue Requirement</u>	
Adjusted O&M Expense	\$61,662
Operating Margin Percentage	x .1000

Operating Margin	\$ 6,166
Adjusted O&M expense	61,662
Depreciation expense (Net)	4,189
Amortization	0
Taxes Other Than Income	6,098
Income Taxes	0
Revenue Requirement	\$78,116
Less Test Year Revenues	67,677
Annual Increase	\$10,439
Percent Increase/(Decrease)	15.42%

IX. Rate Structures

Sunrise currently has a three-tier inclining block rate structure which includes a monthly BFC of \$10.10. The usage blocks are set at a) 0-5,000 gallons, b) 5,000-10,000 gallons, and (c) in excess of 10,000 gallons, with usage block rate factors of 1.00, 1.50, and 3.0, respectively. The usage charges are \$1.64 per 1,000 gallons, \$2.46 per 1,000 gallons, and \$4.92 per 1,000 gallons respectively.

The Utility is located in Polk County in the SWFWMD. Over the past few years, the District has requested, whenever possible, that an inclining block rate structure be implemented. The Utility implemented its current rate structure in a prior rate case.¹² During that time, the average consumption per customer was 8,200 gallons per month. Presently, based on our billing analysis, the customers' average consumption has reduced to 5,500 gallons per month.

We performed a detailed analysis of the Utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential rate class. The goal of the evaluation was to select rate design parameters that 1) allow the Utility to recover its revenue requirement, 2) equitably distribute cost recovery among the Utility's customers, and 3) implement, where appropriate, water conservation rate structures consistent with the our Memorandum of Understanding (MOU) with the state's five Water Management Districts.

¹² See Order No. PSC-01-1162-PAA-WU, issued May 22, 2001, in Docket No. 001118-WU, In re: Application for staff assisted rate case in Polk County by Keen Sales, Rentals, and Utilities, Inc. (Sunrise Water Company).

Upon review, the current BFC cost recovery of 46 percent shall be reduced to 34 percent. This BFC allocation reduces price increases for customers who are at non-discretionary levels and allows these customers to pay a lower price for their water consumption while targeting those customers with a higher level of consumption. Based on our MOU with the five Water Management Districts we set the BFC so that the utilities recover no more than 40 percent of the revenues from the monthly service fee.

Our analysis of the billing data indicates that 13 percent of the customers consume over 10,000 gallons of water per month. The Utility indicated that its service area consists of retirees and families with children. For this reason, the appropriate threshold for a customer's discretionary usage is 5,000 gallons per month. This number is derived based on the average number of persons per household, gallons per day per person, and the number of days per month (3 x 50 x 30). Therefore, we find that a continuation of the three-tier inclining block rate structure with usage blocks set at 0-5,000 gallons, 5,000-10,000 gallons, and usage in excess of 10,000 gallons is appropriate. This rate structure is done in an effort to restrict recovery due to repression being applied to non-discretionary usage below 5,000 gallons in the first block.

Our approved rate design for the water system is as follows.

Approved Rate Structure and Rates		
3-Tier Inclining Block Rate Structure Rate Factors .91, 1.00 and 2.00 BFC = 34%		
BFC		\$8.75
1 st tier (no repression)	0-5 kgals	\$2.79
2 nd tier (discretionary)	5-10 kgal	\$3.07
3 rd tier (discretionary)	10+	\$6.14
Typical Monthly Bills		
Cons (kgals)		
0		\$8.75
1		\$11.54
3		\$17.12
5		\$22.70
10		\$38.05
20		\$99.45

In summation, we find that the appropriate rate structure for the residential class is a continuation of the three tier inclining block rate structure with the three-tier rate structure for monthly consumption consisting of usage blocks of a) 0-5,000 gallons, b) 5,000-10,000 gallons, and c) all usage in excess of 10,000 gallons with usage block rate factors of .91, 1.00, and 2.00 respectively. The appropriate rate structure for the non-residential class is a continuation of the current BFC/uniform gallonage charge rate structure. The BFC cost recovery percentage is hereby set at 34 percent.

X. Repression Adjustments

We conducted an analysis of the consumption patterns of the Utility's residential customers as well as the increase in residential bills resulting from the increase in revenue requirements. This analysis showed the overall average consumption is 5,500 gallons per month. This does not indicate a high overall average level of consumption. However, the billing data also indicates that 13 percent of the customers consume over 10,000 gallons of water per month. Under the heading, IX. Rate Structures, above we established the threshold for a customer's essential usage at 5,000 gallons per month. Thus, a repression adjustment shall apply to only water consumption above 5,000 gallons per month.

Using the database of utilities that have previously had repression adjustments made, we calculated a repression adjustment for this Utility based upon our approved increase in revenue requirements in this case, and the historically observed response rates of consumption to changes in price. This is the same methodology for calculating repression adjustments that we have approved in prior cases.¹³ This methodology restricts any price changes due to repression from being applied to non-discretionary consumption (consumption less than 5,000 gallons per month), and allocates all cost recovery due to repression to discretionary levels of consumption (consumption above 5 kgals per month).

Based on this methodology, we calculated that the test year residential consumption for this Utility shall be reduced by 486,000 gallons. Purchased power expense shall be reduced by \$68, chemical expense shall be reduced by \$35, and RAFs shall be reduced by \$5. The final post-repression revenue requirement shall be \$72,703.

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

XI. Rates

The approved rates must be designed to produce the pre-repression revenue requirement, including miscellaneous service charges, of \$78,116. The appropriate adjustments for metered rate setting purposes are: 1) the removal of miscellaneous service charges of \$5,306; and 2) a

¹³ See Order Nos. PSC-10-0400-PAA-WS, issued June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke; PSC-10-0423-PAA-WS, issued July 1, 2010, in Docket 090402-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; PSC-10-0117-PAA-WU, issued February 26, 2010, in Docket No. 080695-WU, In re: Application for general rate increase by Peoples Water Service Company of Florida, Inc.; and PSC-09-0623-PAA-WS, issued September 15, 2009, in Docket No. 080597-WS, In re: Application for general rate increase in water and wastewater systems in Lake County by Southlake Utilities, Inc.

water system reduction of \$107 to reflect expense reductions associated with repression adjustments. The resulting rates are designed to recover revenues from metered rates of \$72,703.

As discussed above, under the heading IX. Rate Structures, we have approved a continuation of the three tier inclining block rate structure for monthly consumption. Usage blocks are a) 0-5,000 gallons, b) 5,000-10,000 gallons, and c) all usage in excess of 10,000 gallons with usage block rate factors of .91, 1.00, and 2.00 respectively. The BFC allocation is 34 percent. The existing rate structure for the system's non-residential class consists of a traditional monthly BFC/uniform gallonage charge rate structure and shall remain unchanged.

The approved rates shall be effective for service rendered on or after stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers. The Utility shall provide proof of the date that notice was given within 10 days of the date of the notice.

If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. The old charge shall be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge shall be prorated based on the number of days in the billing cycle on and after the effective date of the new rates. In no event shall the rates be effective for service rendered prior to the stamped approval date.

The approved rates for monthly service are shown on Schedule No. 4.

XII. Rate Case Expenses Pursuant to Section 367.0816 F.S.

Section 367.0816, F.S., requires that the Utility's rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for RAFs. The total reduction is \$396. Using Sunrise's current revenue, expenses, capital structure and customer base, the reduction in revenue will result in the rate decreases as shown on Schedule No. 4.

The Utility shall be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. Sunrise also shall be required to 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.

XIII. Non-Sufficient Funds Fee

Section 367.091, F.S., requires that rates, charges, and customer service policies be approved by this Commission. We have authority to establish, increase, or change a rate or charge. Sunrise has requested an Non-Sufficient Funds (NSF) fee in accordance with Sections

68.065 and 832.08(5), F.S. Section 68.065, F.S., provides for the assessment of charges for the collection of worthless checks, drafts, or orders of payment. As currently set forth in Sections 832.08(5) and 68.065(2), F.S., the following fees may be assessed:

1. \$25, if the face value does not exceed \$50,
2. \$30, if the face value exceeds \$50 but does not exceed \$300,
3. \$40, if the face value exceeds \$300,
4. or five percent of the face amount of the check, whichever is greater.

Approval of an NSF fee is consistent with our prior decisions.¹⁴ An NSF fee places the cost on the cost-causer, rather than requiring that the costs associated with the return of the NSF checks be spread across the general body of ratepayers. As such, Sunshine's proposed NSF fee is hereby approved and Sunrise shall revise its tariffs to reflect the NSF charges currently set forth in Sections 68.065 and 832.08(5) F.S. The fee shall be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the fees shall not be implemented until our staff has approved the proposed customer notice. The Utility shall provide proof of the date the notice was given within 10 days of the date of the notice.

XIV. Phase II Pro Forma

The Utility requested recognition of pro forma plant and expense items that it intends to complete. The following table summarizes the pro forma plant and expense items, the cost, and our approved treatment:

Table 13-1

	Pro forma Plant Items	Approved Amount
1.	Replace fence at WTP	\$ 950
2.	Replace piping between well and tank	2,400
3.	Replace isolation valves	2,713
4.	Replace flow meter	352
5.	Replace well cover	340
	Total	<u>\$6,755</u>
	Pro forma Expense Items	Approved Amount
1.	Meter Replacement Program	\$1,359
2.	Inspect and clean hydropneumatic tanks (\$4,500/5)	900
	Total	<u>\$2,259</u>

¹⁴ See Order Nos. PSC-10-0364-TRF-WS, issued June 7, 2010, in Docket No. 100170-WS, In re: Application for authority to collect non-sufficient funds charges, pursuant to Sections 68.065 and 832.08(5), F.S., by Pluris Wedgefield Inc., and PSC-10-0168-PAA-SU, issued March 23, 2010, in Docket No. 090182-SU, In re: Application for increase in wastewater rates in Pasco County by Ni Florida, LLC.

The Utility requested that the costs associated with replacing a portion of the fence at the WTP, meters, 9 isolation valves, and piping between the well and the tanks, be included as pro forma items in this rate case. In addition, the Utility requested that the cost of some of the items addressed by the consent order be included in this rate case, including inspecting and cleaning the hydropneumatic tanks, replacing a malfunctioning flow meter, and repairing the well leak. In the last rate case, pro forma plant in the amount of \$17,500 was included in rate base to allow the Utility to replace 145 meters. There is documentation indicating that the 145 meters have been replaced. In the instant case, the Utility has requested additional funding for a meter replacement program. The Utility has meters that are old. Therefore, the Utility shall implement a meter replacement program whereby it shall replace 23 meters a year over the next 10 years. We have previously found a 10-year meter replacement program to be reasonable.¹⁵ We find that these pro forma plant and expense items are reasonable and prudent because they will allow the Utility to improve its quality of service, and therefore, the costs shall be included in this rate case.

We approve a Phase II revenue requirement associated with the pro forma items for a number of reasons. First, it assures that the pro forma items are completed prior to the Utility's recovery of the investment in rates. In the past, there have been instances when we approved an increase in revenue requirement associated with pro forma items only to have the utility in question fail to complete the pro forma investments. In addition, addressing the pro forma items in a single case saves additional rate case expense to the customers because the Utility will not need to file another rate case or limited proceeding to seek recovery for these items. We have approved this approach in Docket Nos. 110165-SU and 100471-SU.¹⁶

The Utility's Phase II revenue requirement shall be \$80,927. Sunrise shall complete the pro forma items within 12 months of the issuance of the consummating order. Phase II rate base is shown on Schedule Nos. 5-A and 5-B. The capital structure for Phase II is shown on Schedule No. 6. The revenue requirement is shown on Schedule Nos. 7-A and 7-B. The resulting rates are shown on Schedule No. 8.

The Utility shall be required to submit a copy of the final invoices and cancelled checks for all pro forma plant items. The Utility shall be allowed to implement the above rates once all pro forma items have been completed and documentation provided showing that the improvements have been made. Once verified, the rates shall be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. The rates shall not be implemented until notice has been received by the customers. Sunrise shall provide proof of the date notice was given within 10 days of the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility shall immediately notify this Commission in writing.

¹⁵ See Order No. PSC- PSC-96-1474-FOF-WS, issued December 4, 1996, in Docket No. 960523-WS, In re: Application for staff-assisted rate case in Citrus County by J & J Water and Sewer Corporation.

¹⁶ See Order Nos. PSC-12-0410-PAA-SU, issued August 13, 2012, in Docket No. 110165-SU, In re: Application for staff-assisted rate case in Highlands County by Utility Corporation of Florida, Inc.; and PSC-11-0444-PAA-SU, issued October 7, 2011, in Docket No. 100471-SU, In re: Application for staff-assisted rate case in Marion County by S&L Utilities, Inc.

XV. Temporary Rates Subject to Refund with Interest

By this Order, we propose an increase in water rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the Utility, the approved rates shall be approved as temporary rates. Sunrise shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates shall not be implemented until our staff has approved the proposed notice, and the notice has been received by the customers. The approved rates collected by the Utility shall be subject to the refund provisions discussed below.

Sunrise shall be authorized to collect the temporary rates upon our staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security shall be in the form of a bond or letter of credit in the amount of \$6,966. Alternatively, the Utility may establish an escrow agreement with an independent financial institution.

If Sunrise chooses a bond as security, the bond shall contain wording to the effect that it will be terminated only under the following conditions:

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

If Sunrise chooses a letter of credit as a security, it shall contain the following conditions:

- 1) The letter of credit is irrevocable for the period it is in effect, and,
- 2) The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

If security is provided through an escrow agreement, the Utility shall deposit 13.36 percent of revenues into the escrow account each month. In addition, the following conditions shall be part of the agreement:

- 1) No monies in the escrow account may be withdrawn by the Utility without the express approval of the Commission;
- 2) The escrow account shall be an interest bearing account;
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;

- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to Sunrise;
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments;
- 8) The Commission Clerk must be a signatory to the escrow agreement; and,
- 9) The account must specify by whom and on whose behalf such monies were paid.

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

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

XVI. Account Adjustments

To ensure that the Utility adjusts its books in accordance with our decision in this case, Sunrise shall provide proof, within 90 days of the final order in this docket, that the adjustments for all applicable National Association of Regulatory Commissioners Uniform System of Accounts (NARUC USOA) primary accounts have been made

XVII. Docket to Remain Open

If no person whose substantial interests are affected by this proposed agency action files a protest within 21 days of the issuance of the order, a consummating order shall be issued. The docket shall remain open for our staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Further, the docket shall remain open to allow our staff to verify that the pro forma items have been completed and the Phase II

rates properly implemented. Once these actions are complete, this docket shall be closed administratively.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Sunrise Utilities, LLC's application for a staff assisted rate case is hereby approved as set forth in the body of this Order. It is further

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

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

ORDERED that Sunrise shall notify this Commission of water interruptions that affect more than 10 percent of its customers. It is further

ORDERED that Sunrise shall provide this Commission with the final Polk County Health Department order following the May 2013 inspection and repairs. It is further

ORDERED that Sunrise shall file revised tariff sheets and the proposed customer notices to reflect the approved rates. It is further

ORDERED that the approved rates shall not be implemented until our staff has approved the proposed customer notices. Sunrise shall provide our staff with proof of the date each notice was given within 10 days after the date of the notice. It is further

ORDERED that the approved rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers. It is further

ORDERED that Sunrise shall provide proof of the date notice was given no less than 10 days after the date of the notice. It is further

ORDERED that 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), F.A.C. The tariff sheets shall be approved upon our staff's verification that the tariffs are consistent with this Order and that the customer notices are adequate. It is further

ORDERED that the rates shall be reduced at the end of the four-year rate case expense amortization period as set forth in the body of this Order and Schedule No. 4. It is further

ORDERED that the decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. It is further

ORDERED that Sunrise shall file revised tariff sheets and a proposed customer notice setting forth the lower rates and the reason for the reductions no later than one month prior to the actual date of the required rate reduction. If Sunrise 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 for the reduction in rates due to the amortized rate case expense. It is further

ORDERED that pursuant to Section 367.0814(7), F.S., the rates approved herein shall be approved for Sunrise on a temporary basis, subject to the refund provisions set forth in the body of this Order, in the event of a protest filed by a party other than Sunrise. It is further

ORDERED that Sunrise's request for a Non-Sufficient Funds (NSF) fee is approved. The NSF fee shall be established consistent with Section 68.065, F.S., which allows for the assessment of charges for the collection of worthless checks, drafts, or orders of payment. The NSF fee shall be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. It is further

ORDERED that after the increased rates are in effect on a temporary basis, pursuant to Rule 25-30.360(6), F.A.C., Sunrise shall file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed shall also indicate the status of the security being used to guarantee repayment of any potential refund. It is further

ORDERED that prior to implementation of any temporary rates, Sunrise shall provide the proposed customer notices and appropriate security for the potential refund. Security shall be in the form of a bond or letter of credit in the amount of \$6,966. Alternatively, Sunrise may establish an escrow agreement with an independent financial institution. It is further

ORDERED that without respect to the form of security chosen by Sunrise, an account of all monies received as a result of the rate increase shall be maintained by Sunrise. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C. It is further

ORDERED that Sunrise shall provide proof within 90 days of the final order issued in this docket that the appropriate adjustments for all the applicable NARUC USOA primary accounts have been made. It is further

ORDERED that, except for the granting of temporary rates, subject to refund, in the event of a protest, reducing rates at the end of the four-year amortization period, and requiring books to be kept in accordance with the NARUC USOA which are final agency action, 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, F.A.C., is received by the Office of Commission Clerk, 2540 Shumard Oak

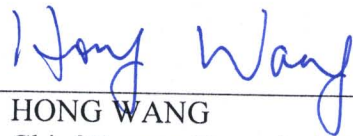
Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that this docket shall remain open until a Consummating Order or other final order has been issued, our staff has approved the revised tariff sheets and customer notices, Sunrise has sent the notices to its customers, our staff has received proof that the customers have received notice, and Sunrise has provided our staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. It is further

ORDERED that this docket shall remain open pending our staff's review of the completion of pro forma plant items described herein. It is further

ORDERED that once our staff has verified that all of the pro forma plant items described herein have been completed, and the utility has complied with all related requirements, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 9th day of October, 2012.



HONG WANG
Chief Deputy Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

CWM

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 or judicial review of Commission orders that is available under Sections 120.57 or 120.68, 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 or judicial review will be granted or result in the relief sought.

As identified in the body of this order, our action, except for the granting of temporary rates in the event of a protest and proof of adjustments, 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 Office of Commission Clerk, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on October 30, 2012. If such a petition is filed, 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. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

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

Any party adversely affected by the Commission's final action in this matter may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Office of Commission Clerk, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Office of Commission Clerk and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

SUNRISE UTILITIES, LLC			SCHEDULE NO. 1-A
TEST YEAR ENDED 09/30/2011			DOCKET NO. 110238-WU
SCHEDULE OF WATER RATE BASE (PHASE I)			
DESCRIPTION	BALANCE PER UTILITY	ADJUST. TO UTIL. BAL.	COMMISSION APPROVED BALANCE
1. UTILITY PLANT IN SERVICE	\$120,909	(\$14,256)	\$106,652
2. LAND & LAND RIGHTS	0	553	553
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(12,393)	0	(12,393)
5. ACCUMULATED DEPRECIATION	(53,327)	(2,272)	(55,599)
6. AMORTIZATION OF CIAC	8,496	1,624	10,120
7. WORKING CAPITAL ALLOWANCE	0	7,708	7,708
8. WATER RATE BASE	<u>\$63,685</u>	<u>(\$6,644)</u>	<u>\$57,040</u>

SUNRISE UTILITIES, LLC
TEST YEAR ENDED 09/30/2011
ADJUSTMENTS TO RATE BASE (PHASE I)

SCHEDULE NO. 1-B
DOCKET NO. 110238-WU

UTILITY PLANT IN SERVICE

1. To remove a plant addition recorded twice.	(\$11,000)
2. To remove plant from Acct. No. 334 for lack of support documentation.	(1,041)
3. To reflect an averaging adjustment.	(2,215)
Total	<u>(\$14,256)</u>

LAND AND LAND RIGHTS

Include land rights unrecorded by Utility.	\$553
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ACCUMULATED DEPRECIATION

1. To reflect test year depreciation calculated per Rule 25-30.140 F.A.C.	(\$4,693)
2. To reflect an averaging adjustment.	2,421
Total	<u>(\$2,272)</u>

AMORTIZATION OF CIAC

1. To reflect accumulated amortization per Rule 25-30.140 F.A.C.	\$1,899
2. To reflect an averaging adjustment.	(276)
Total	<u>\$1,624</u>

WORKING CAPITAL ALLOWANCE

To reflect 1/8 of test year O & M expenses.	<u>\$7,708</u>
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SUNRISE UTILITIES, LLC
 TEST YEAR ENDED 09/30/2011
 SCHEDULE OF CAPITAL STRUCTURE (PHASE I)

SCHEDULE NO. 2
 DOCKET NO. 110238-WU

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. TOTAL COMMON EQUITY	\$48,886	\$0	\$48,886	(\$19,559)	\$29,327	51.41%	10.26%	5.27%
2. TOTAL LONG TERM DEBT	\$46,112	\$0	\$46,112	(\$18,449)	\$27,663	48.50%	3.75%	1.82%
3. CUSTOMER DEPOSITS	<u>\$51</u>	<u>\$0</u>	<u>\$51</u>	<u>\$0</u>	<u>\$51</u>	<u>0.09%</u>	6.00%	<u>0.01%</u>
4. TOTAL	<u>\$95,049</u>	<u>\$0</u>	<u>\$95,049</u>	<u>(\$38,009)</u>	<u>\$57,040</u>	<u>100.00%</u>		<u>7.10%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>9.26%</u>	<u>11.26%</u>	
OVERALL RATE OF RETURN						<u>6.58%</u>	<u>7.61%</u>	

SUNRISE UTILITIES, LLC TEST YEAR ENDED 09/30/2011 SCHEDULE OF WATER OPERATING INCOME (PHASE I)				SCHEDULE NO. 3-A DOCKET NO. 110238-WU	
	TEST YEAR PER UTILITY	ADJ. PER UTILITY	ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$66,609</u>	<u>\$1,068</u>	<u>\$67,677</u>	<u>\$10,439</u> 15.42%	<u>\$78,116</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$55,632	\$6,030	\$61,662	\$0	\$61,662
3. DEPRECIATION (NET)	4,929	(740)	4,189	0	4,189
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	5,187	442	5,629	470	6,098
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$65,748</u>	<u>\$5,732</u>	<u>\$71,480</u>	<u>\$470</u>	<u>\$71,950</u>
8. OPERATING INCOME/(LOSS)	<u>\$861</u>		<u>(\$3,803)</u>		<u>\$6,166</u>
9. WATER RATE BASE	<u>\$63,685</u>		<u>\$57,040</u>		<u>\$57,040</u>
10. OPERATING MARGIN	<u>1.35%</u>		<u>-6.67%</u>		<u>10.00%</u>

SUNRISE UTILITIES, LLC
TEST YEAR ENDED 09/30/2011
ADJUSTMENTS TO OPERATING INCOME (PHASE I)

SCHEDULE NO. 3-B
DOCKET NO. 110238-WU
PAGE 1 OF 2

OPERATING REVENUES

To reflect the appropriate test year revenues. \$1,068

OPERATION AND MAINTENANCE EXPENSES

1. Salaries and Wages – Officers (603)
 To reflect the appropriate officer's salary. (\$4,192)
2. Purchased Power (615)
 To reflect EUW adjustment. (\$413)
3. Chemicals (618)
 To reflect EUW adjustment. (\$212)
4. Contractual Services (Billing) 630
 - a. To reclassify meter reading expense from Acct. No. 636. \$1,668
 - b. To reflect the appropriate meter reading expense. 1,332\$3,000
5. Contractual Services - Professional (631)
 - a. To reclassify contract operator expense to Acct. No. 636. (\$3,066)
 - b. To reclassify testing expense to Acct. No. 635. (290)
 - c. To reclassify contract expense for clerical personnel to Acct. No. 636. (1,868)(\$5,224)
6. Contractual Services - Testing (635)
 - a. To reclassify testing expense from Acct. No. 631. \$290
 - b. To reclassify testing expense from Acct. No. 636. 120
 - c. To reflect the appropriate testing expense. (42)

Total \$368
7. Contractual Services - Other (636)
 - a. To reclassify contract operator expense from Acct. No. 631. \$3,066
 - b. To reclassify testing expense to Acct. No. 631. (120)
 - c. To reflect the appropriate operator expense. (169)
 - d. To reclassify contract expense for clerical personnel from Acct. No. 631. 1,868
 - e. To annualize contract expense for clerical personnel. 1,012
 - f. To reclassify meter reading expense to Acct. No. 630. (1,668)
 - g. To reflect the appropriate management fee. 540\$4,529
8. Rent Expense (640)
 - a. To reflect office rent expense. \$3,497

SUNRISE UTILITIES, LLC		SCHEDULE NO. 3-B
TEST YEAR ENDED 09/30/2011		DOCKET NO. 110238-WU
ADJUSTMENTS TO OPERATING INCOME (PHASE I)		PAGE 2 OF 2
9.	Insurance (655) To reflect the appropriate insurance expense.	<u>\$1,716</u>
10.	Regulatory Commission Expense (665) To reflect the 4 year amortization of rate case expense.	<u>\$344</u>
11.	Bad Debt Expense (670) To reflect the appropriate bad debt expense.	<u>\$3,112</u>
12.	Miscellaneous Expense (675)	
	a. To remove bank charges.	(\$620)
	b. To reflect pro forma dues for Florida Rural Water Association.	<u>125</u>
	Total	<u>(\$495)</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS		<u>\$6,030</u>
DEPRECIATION EXPENSE		
1.	To reflect test year depreciation calculated per 25-30.140, F.A.C.	(\$599)
2.	To reflect test year amortization of CIAC.	(141)
	Total	<u>(\$740)</u>
TAXES OTHER THAN INCOME		
	To reflect the appropriate property taxes.	<u>\$442</u>
	Total	

SUNRISE UTILITIES, LLC		SCHEDULE NO. 3-C	
TEST YEAR ENDED 09/30/2011		DOCKET NO. 110238-WU	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE (PHASE I)			
	TOTAL PER UTILITY	COMMISSION PER ADJUST.	COMMISSION APPROVED TOTAL
(601) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(603) SALARIES AND WAGES - OFFICERS	16,192	(4,192)	12,000
(604) EMPLOYEE PENSION & BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	2,579	(413)	2,166
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	1,325	(212)	1,113
(620) MATERIALS AND SUPPLIES	711	0	711
(630) CONTRACTUAL SERVICES - BILLING	0	3,000	3,000
(631) CONTRACTUAL SERVICES - PROFESSIONAL	6,954	(5,224)	1,730
(635) CONTRACTUAL SERVICES - TESTING	500	368	868
(636) CONTRACTUAL SERVICES - OTHER	21,297	4,529	25,826
(640) RENTS	538	3,497	4,034
(650) TRANSPORTATION EXPENSE	0	0	0
(655) INSURANCE EXPENSE	0	1,716	1,716
(665) REGULATORY COMMISSION EXPENSE	0	344	344
(670) BAD DEBT EXPENSE	0	3,112	3,112
(675) MISCELLANEOUS EXPENSES	<u>5,537</u>	<u>(495)</u>	<u>5,041</u>
	<u>\$55,632</u>	<u>\$6,030</u>	<u>\$61,662</u>

SUNRISE UTILITIES, LLC
 TEST YEAR ENDED 09/30/2011
 MONTHLY WATER RATES (PHASE I)

SCHEDULE NO. 4
 DOCKET NO. 110238-WU

	UTILITY'S EXISTING RATES	COMMISSION APPROVED PHASE I RATES	4-YEAR RATE REDUCTION
<u>Residential and General Service</u>			
<u>All Meter Sizes</u>			
<u>Base Facility Charge by Meter Size:</u>			
5/8"X3/4"	\$10.10	\$8.75	\$0.04
3/4"	\$15.15	\$13.13	\$0.07
1"	\$25.25	\$21.88	\$0.11
1-1/2"	\$50.50	\$43.75	\$0.22
2"	\$80.80	\$70.00	\$0.36
3"	\$161.60	\$140.00	\$0.71
4"	\$252.50	\$218.75	\$1.11
6"	\$505.00	\$437.50	\$2.22
<u>Residential Service Gallonage Charge</u>			
0 - 5,000 gallons	\$1.64	\$2.79	\$0.01
5,001 - 10,000 gallons	\$2.46	\$3.07	\$0.02
Over 10,000	\$4.92	\$6.13	\$0.03
<u>General Service Gallonage Charge</u>			
Per 1,000 Gallons	\$2.51	\$3.18	\$0.02
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$15.02	\$17.12	
5,000 Gallons	\$18.30	\$22.70	
10,000 Gallons	\$30.60	\$38.05	

SUNRISE UTILITIES, LLC

SCHEDULE NO. 5-A

TEST YEAR ENDING 09/30/2011

DOCKET NO. 110238-WU

SCHEDULE OF WATER RATE BASE (PHASE II)

DESCRIPTION	BALANCE PER UTILITY	COMMISSION ADJUST. TO UTIL. BAL.	COMMISSION APPROVED BALANCE
1. UTILITY PLANT IN SERVICE	\$106,652	\$6,755	\$113,407
2. LAND & LAND RIGHTS	553	0	553
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(12,393)	0	(12,393)
5. ACCUMULATED DEPRECIATION	(55,599)	(200)	(55,799)
6. AMORTIZATION OF CIAC	10,120	0	10,120
7. WORKING CAPITAL ALLOWANCE	<u>7,708</u>	<u>282</u>	<u>7,990</u>
8. WATER RATE BASE	<u>\$57,040</u>	<u>\$6,838</u>	<u>\$63,878</u>

SUNRISE UTILITIES, LLC
TEST YEAR ENDING 09/30/2011
ADJUSTMENTS TO RATE BASE (PHASE II)

SCHEDULE NO. 5-B
DOCKET NO. 110238-WU

UTILITY PLANT IN SERVICE

1. Replace portion of WTP fence.	\$950
2. Replace piping between well and tank.	2,400
3. Replace isolation valves.	2,713
4. Replace meter.	352
5. Replace well cover.	340
Total	<u>\$6,755</u>

ACCUMULATED DEPRECIATION

To reflect test year depreciation calculated per Rule 25-30.140 F.A.C. (\$200)

WORKING CAPITAL ALLOWANCE

To reflect 1/8 of test year O & M expenses. \$282

SUNRISE UTILITIES, LLC
 TEST YEAR ENDING 09/30/2011
 SCHEDULE OF CAPITAL STRUCTURE (PHASE II)

SCHEDULE NO. 6
 DOCKET NO. 110238-WU

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE	PERCENT OF TOTAL	COST	WEIGHTED COST
1. TOTAL COMMON EQUITY	\$48,886	\$0	\$48,886	(\$16,040)	\$32,846	51.42%	10.26%	5.27%
2. TOTAL LONG TERM DEBT	\$46,112	\$0	\$46,112	(\$15,130)	\$30,982	48.50%	3.75%	1.82%
3. CUSTOMER DEPOSITS	<u>\$51</u>	<u>\$0</u>	<u>\$51</u>	<u>\$0</u>	<u>\$51</u>	<u>0.08%</u>	6.00%	<u>0.01%</u>
4. TOTAL	<u>\$95,049</u>	<u>\$0</u>	<u>\$95,049</u>	<u>(\$31,171)</u>	<u>\$63,878</u>	<u>100.00%</u>		<u>7.10%</u>
RANGE OF REASONABLENESS						LOW	HIGH	
RETURN ON EQUITY						<u>9.26%</u>	<u>11.26%</u>	
OVERALL RATE OF RETURN						<u>6.58%</u>	<u>7.61%</u>	

SUNRISE UTILITIES, LLC			SCHEDULE NO. 7-A			
TEST YEAR ENDING 09/30/2011			DOCKET NO. 110238-WU			
SCHEDULE OF WATER OPERATING INCOME (PHASE II)						
	TEST YEAR PER UTILITY	ADJ. PER UTILITY	ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	<u>\$78,116</u>	<u>\$0</u>	<u>\$78,116</u>	<u>\$2,811</u> 3.60%	<u>\$80,927</u>	
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$61,662	\$2,259	\$63,921	\$0	\$63,921	
3. DEPRECIATION (NET)	4,189	200	4,389	0	4,389	
4. AMORTIZATION	0	0	0	0	0	
5. TAXES OTHER THAN INCOME	6,098	0	6,098	126	6,225	
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
7. TOTAL OPERATING EXPENSES	<u>\$71,950</u>	<u>\$2,459</u>	<u>\$74,408</u>	<u>\$126</u>	<u>\$74,535</u>	
8. OPERATING INCOME/(LOSS)	<u>\$6,166</u>		<u>\$3,708</u>		<u>\$6,392</u>	
9. WATER RATE BASE	<u>\$57,040</u>		<u>\$63,878</u>		<u>\$63,878</u>	
10. OPERATING MARGIN	<u>10.00%</u>		<u>5.80%</u>		<u>10.00%</u>	

SUNRISE UTILITIES, LLC		SCHEDULE NO. 7-B
TEST YEAR ENDING 09/30/2011		DOCKET NO. 110238-WU
ADJUSTMENTS TO OPERATING INCOME (PHASE II)		
1. Contractual Services - Other (636)		
a. To amortize cost of tank inspection (\$4,500/5).		\$900
b. To reflect meter change out program.		<u>1,359</u>
		<u>\$2,259</u>
DEPRECIATION EXPENSE		
To reflect test year depreciation calculated per 25-30.140, F.A.C.		<u>\$200</u>

SUNRISE UTILITIES, LLC		SCHEDULE NO. 8	
TEST YEAR ENDING 09/30/2011		DOCKET NO. 110238-WU	
MONTHLY WATER RATES (PHASE II)			
		APPROVED	APPROVED
		PHASE I RATES	PHASE II RATES
<u>Residential and General Service</u>			
<u>All Meter Sizes</u>			
<u>Base Facility Charge by Meter Size:</u>			
5/8"X3/4"	\$8.75		\$9.07
3/4"	\$13.13		\$13.61
1"	\$21.88		\$22.68
1-1/2"	\$43.75		\$45.35
2"	\$70.00		\$72.56
3"	\$140.00		\$145.12
4"	\$218.75		\$226.75
6"	\$437.50		\$453.50
<u>Residential Service Gallonage Charge</u>			
0 - 5,000 gallons	\$2.79		\$2.89
5,001 - 10,000 gallons	\$3.07		\$3.18
Over 10,000	\$6.13		\$6.35
<u>General Service Gallonage Charge</u>			
Per 1,000 Gallons	\$3.18		\$3.29
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$17.12		\$17.74
5,000 Gallons	\$22.70		\$23.52
10,000 Gallons	\$38.05		\$39.42