

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation of Rates of) DOCKET NO. 881030-WU
 Sunshine Utilities in Marion County for) ORDER NO. 21629
 Possible Overearnings.) ISSUED: 7-31-89
 _____)

The following Commissioners participated in the disposition of this matter:

MICHAEL MCK. WILSON, Chairman
 BETTY EASLEY
 GERALD L. GUNTER
 JOHN T. HERNDON

NOTICE OF PROPOSED AGENCY ACTIONORDER REDUCING RATES AND CHARGES
 AND REQUIRING REFUND OF EXCESSIVE EARNINGS

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 formal proceeding pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

On August 30, 1988, by Order No. 20038, this Commission initiated an investigation into the rates and charges of Sunshine Utilities, Inc. (Sunshine or the utility) and made revenues subject to refund. Sunshine provides water service to customers in Marion County under Certificate No. 363-W. The current rates for this utility were established in its last rate case by Order No. 13014, issued on February 20, 1984, in Docket No. 810386-W. In Docket No. 880638-WU, we approved a 1988 price index by Order No. 19416, issued June 20, 1988. The utility's last authorized rate of return, as set out in Order No. 13014, is 15.25%, with a range of reasonableness of 14.43% to 16.08%. Based upon review of the utility's 1987 Annual

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Report, which indicated that the utility was earning an overall rate of return of 22.15%, annual water revenues of \$27,208 or 7.68% were made subject to refund. The utility was ordered to file a bond or letter of credit with us in the amount of \$27,208 or escrow 7.68% of its water revenues.

In addition, we audited Sunshine's records for the twelve months ended December 31, 1987. The audit report disclosed several audit exceptions and findings which are the bases of our proposed adjustments. Our investigation has, therefore, evolved into a reverse make-whole proceeding.

QUALITY OF SERVICE

Our determination of the overall quality of service provided by this utility is derived from our evaluation of three separate components of its water utility operations: (1) the quality of the utility's product (water), (2) the operational conditions of the utility's plant or facilities, and (3) the level of customer satisfaction.

In order to assess the overall quality of service provided by the utility, we must evaluate the quality of the water supplied by the utility. This evaluation consists of a review of the utility's current compliance with Department of Environmental Regulation (DER) and Health Department standards. The ultimate concern of a water utility should be the quality of piped water consumed by customers. The degree to which a utility is able to maintain satisfactory water quality may be reflected by its ability to meet DER primary and secondary drinking water standards, as well as several unregulated standards set by the Environmental Protection Agency (EPA).

The primary drinking water standards include maximum contaminant levels (MCLs) for harmful contaminants. These MCLs are not to be exceeded, unless specified otherwise by a DER variance or exemption. Examples of primary contaminants are arsenic, lead, trihalomethanes, coliform bacteria and radium. Secondary drinking water standards generally contain MCLs which regulate the aesthetic qualities of the water such as color, corrosivity, odor, and hardness. In addition, each utility must periodically test for several unregulated contaminants which the EPA considers potentially harmful; these

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contaminants are still under investigation.

The operational conditions of the utility's treatment and distribution systems must also be evaluated in order to determine the overall quality of service provided by the utility. Our evaluation of these systems includes a review of the utility's compliance with DER standards of operation as well as an analyses of proper treatment plant and distribution design. For example, among other standards of evaluation, water treatment plants and distribution systems are reviewed for compliance with permit standards and minimum operator requirements as well as standards regarding the location of wells in regard to potential sources of pollution.

The final component of the overall quality of service which we must assess is the level of customer satisfaction which results from the utility's relations with its customers. Our evaluation of these relations includes a review of the utility's fulfillment of notification requirements for its customers, as well as the action taken by the utility regarding customer complaints. For example, utility policies are reviewed in order to insure that customers have been properly notified of scheduled service interruptions.

Sunshine currently operates twenty water treatment and distribution systems located in and around the City of Ocala. Treatment of raw water obtained from wells within each system consists solely of disinfection by means of chlorination. Each treatment plant is equipped with a hydropneumatic tank designed to regulate the pressure within a plant's corresponding distribution system.

On April 21 and 26, 1988, DER conducted inspections of eight of the utility's treatment and distribution systems. Deficiencies related to both the quality of the utility's product and the operational conditions of the utility's facilities were noted for all systems inspected. In addition, sanitary surveys, or water system evaluations, completed by DER for the remainder of the systems between 1984 and 1987 also indicated that several systems had deficiencies. A DER letter to the utility provides details of the deficiencies noted during a recent inspection. We also identified several additional deficiencies in Sunshine's systems during an August, 1988, inspection of the utility. These deficiencies included:

- 1) signs containing a 24 hour emergency telephone number were

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not posted at any of the twenty systems; 2) maintenance and operation logs were not present at any of the twenty systems; 3) several hydropneumatic tanks were not operating effectively due to air compressor problems; and 4) a number of systems had not been adequately maintained. The County Health Unit (CHU) has also indicated that it has received several complaints regarding pressure problems and line breaks.

DER has been actively involved in attempts to bring the utility into compliance with its standards. On February 7, 1989, DER indicated by letter that the deficiencies noted during its April, 1988, inspection of the utility had been corrected. In addition, we conducted an inspection of Sunshine's systems in January, 1989, and confirmed that deficiencies noted during previous inspections of the utility had been corrected.

During our August, 1988, inspection of the utility and its operations, Sunshine's representatives indicated that no customer complaint log existed prior to initiation of these overearnings proceedings. It was, therefore, difficult to determine the quantity of, and concerns addressed by, customer complaints received at the utility prior to June, 1988. However, it appears that, based on a review of the complaints we have received and received by the CHU, a number of complaints regarding pressure problems, outages, and water odor have been made by Sunshine customers. Complaints regarding customer relations and "rudeness" were also received. In consideration of these facts, we find that there is a high level of customer dissatisfaction with this utility. However, complaints received by the utility since August, 1988, have been logged and the utility recently has made several corrections to both its treatment and distribution systems which are expected to improve customer satisfaction regarding pressure, outages, and water odor.

Based on the deficiencies noted within Sunshine's systems by DER and our inspection and the low level of customer satisfaction as evidenced by the number of complaints received by this Commission and the CHU, we find that the quality of service provided by this utility is unsatisfactory. Therefore, we find it appropriate to require that this utility significantly improve the quality of service it provides within the six months following the effective date of this Order. If such improvement cannot be demonstrated at that time, we will

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then fine this utility \$5,000.

RATE BASE

Plant in Service; Requirement that Utility Submit Documentation Demonstrating Ownership of Land or Providing for Continuous Use of Land

During this investigation, we have discovered that the utility may not, in fact, own the land where its water treatment facilities are located. Rule 25-30.035(3)(f), Florida Administrative Code, provides that a utility shall provide evidence that it owns the land where its treatment facilities are located or that it has continuous use of the land. Therefore, we find it appropriate to require the utility to submit copies of the deeds and/or lease agreements to the various parcels of land on which its treatment facilities are located within 15 days of the effective date of this Order. If the utility does not own the land, it shall acquire the deeds and/or lease agreements and submit copies to this Commission within 30 days of the effective date of this Order.

The audit report disclosed that over \$400,000 of plant additions from 1983 through 1987 included materials and labor from Water Utilities, Inc., which is affiliated with Sunshine. We have reviewed these additions and have determined that an adjustment is necessary. Mr. James Hodges, owner/operator of Sunshine, indicated to our auditor that Water Utilities, Inc., an affiliated construction company, is able to obtain material for construction of water treatment and distribution systems at a cost that is not available to Sunshine. He further stated that the material costs are marked up according to a 1981 Florida Pump and Supply catalog price list, and then billed to Sunshine.

We contacted several of the major suppliers which provide material to Water Utilities, Inc., for construction of the Sunshine systems. These suppliers indicated that there is no discount available to Water Utilities, Inc., which would not be available to Sunshine, or that no discount or "wholesale" price is available to anyone. The audit report revealed that materials are marked up for Accounts Nos. 311, Pumping and Equipment (by 100%), 320, Water Treatment Equipment (by 20%), and 331, Transmission and Distribution Mains (by 100%). We

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believe that, in contracting construction work on Sunshine's systems, it is appropriate for Water Utilities, Inc., to include a reasonable mark up of material costs because it charges the utility a very low cost for labor, of \$1 per foot of line laid. Based on our analysis, a reasonable charge for labor ranges between \$6 to \$7 per linear foot. Additionally, we have found that it is normal practice for contractors to mark up equipment and main costs as part of the construction cost of projects. However, we do not find that a 100% mark up of material costs is reasonable.

Materials for Account No. 320, Water Treatment Equipment, are marked up by 20% and we believe this is a reasonable mark up considering the low labor charge. Therefore, we find it appropriate to allow a mark up of 20% to plant additions for Accounts Nos. 311, 320, and 331. We have made an average adjustment of \$196,878 to reduce plant in service for the overstated cost of materials. This represents a year-end adjustment of \$213,879.

Depreciation and Amortization of CIAC

A review of the utility's books and records indicates that the utility did not accrue depreciation and amortization of contributions-in-aid-of-construction (CIAC) on a monthly basis. To be consistent with the use of a 13-month average rate base, it is appropriate to correctly reflect the balance in these accounts. We find it appropriate to increase accumulated depreciation and amortization of CIAC, therefore, by \$15,755 and \$2,151, respectively.

Negative Acquisition Adjustment Inappropriate

During our review of the 1987 Annual Report, we discovered that the utility was carrying an unapproved, negative acquisition adjustment of \$280,753 on its books. In the utility's prior rate case, Docket No. 810386-W, the utility was asked to submit an original cost study to support its plant in service. We reviewed the plant costs submitted in comparison with the blueprint maps of the systems, equipment noted during on-site inspections, and cost data from our technical library.

Our auditor determined that this negative acquisition adjustment was the result of an adjusting entry that the utility made to its books to reconcile to the amount of plant

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being depreciated on its tax return. We valued the utility's system at \$615,858, while the utility's tax return reflected an investment of \$335,105. The utility recorded a negative acquisition adjustment of \$280,753 on its books to offset our level of plant in service.

We find nothing which demonstrates that the utility has an investment in the amount of plant in service that exceeds the amount being depreciated on its tax return. Thus, we must assume that the plant was CIAC and written off to the cost of goods sold. Therefore, we find that an increase of \$280,753 and \$37,587 to CIAC and accumulated amortization of CIAC, respectively, is appropriate.

Working Capital

Based on the utility's books and records, its working capital allowance was calculated to be \$40,454. However, several adjustments are necessary. First, the utility's accrued taxes were overstated by \$4,022 as of December 31, 1986. When the utility corrected this error on December 31, 1987, the offsetting entry was to improperly reduce tax expense instead of equity as provided by the NARUC, Class B, Accounting Instruction No. 8. We find appropriate an average adjustment of \$8,626 to increase accrued taxes to correctly reflect the balance for the test year. This results in a decrease to the utility's working capital allowance.

The utility also failed to reclassify a 1986 owner's loan (asset) in the amount of \$1,455 to a proprietary draw (equity) until December 31, 1987. The effect was an overstatement of 1986 miscellaneous current assets by \$1,455. We find a thirteen month average adjustment of \$1,343 to reduce the utility's miscellaneous assets to be appropriate.

Additionally, we find it appropriate to adjust this utility's working capital to include an average unamortized balance of \$9,851, related to legal and miscellaneous expenses incurred due to a territorial dispute. Based on these adjustments, we find it appropriate to reduce working capital by \$118 to reflect a balance of \$40,336 to be included in test year rate base.

Using a thirteen-month average and our proposed adjustments, excluding pro forma depreciation and amortization

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of CIAC, we find an average rate base of \$308,552 to be appropriate for determining the amount of the required refund. On a prospective basis, an average rate base of \$305,833 is appropriate.

The utility's rate base and our adjustments used in determining the appropriate amount of the refund are attached as Schedules Nos. 1 and 1-A. The utility's rate base and our adjustments on a prospective basis are attached as Schedules Nos. 4 and 4-A.

CAPITAL STRUCTURE

1) For Purposes of Determining the Refund - In the utility's last rate case, by Order No. 13014, issued in Docket No. 810386-W on February 20, 1984, we authorized a return on equity of 14.65% for this utility, with a range of reasonableness of 13.65% to 15.65%. For purposes of determining the appropriate amount of the refund for overearnings, we utilized Sunshine's capital structure consisting of 2.06% long term debt at 9.96%, 1.09% customer deposits at 8.00%, and 98.86% equity at 15.65%, the high end of the utility's last authorized range of return on equity. Based on this capital structure and an equity cost of 15.65%, the overall rate of return, for purposes of determining the amount of the refund is 15.44%. The utility's capital structure and overall rate of return for refund purposes and our adjustments thereto are reflected on Schedules Nos. 3 and 3-A.

2) For Purposes of Setting Final Rates - It has been our practice to use our current leverage graph when determining the final rates in a rate proceeding. Although this proceeding began as an overearnings investigation, and not a rate proceeding initiated by the utility, it has evolved into a reverse make-whole proceeding. Thus, we find it appropriate to adjust Sunshine's return on equity on a prospective basis because current costs of capital are significantly less than the costs when Sunshine's return on equity was last set. We find such a change appropriate here because we are considering in this proceeding all of the issues that are normally considered in a rate case. Therefore, we find it appropriate to use the return on equity based upon the application of the leverage graph we adopted in Docket No. 880006-WS, by Order No. 19718, issued July 26, 1988. Using Sunshine's capital structure and an equity ratio of 97.92%, and

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applying our current leverage graph, a return on equity of 12.16% is appropriate. Based on an equity cost of 12.16% for developing final rates, the overall rate of return, using our current leverage graph is 12.07%. The utility's capital structure and overall rate of return, as well as our adjustments thereto, are reflected on Schedules Nos. 6 and 6-A.

NET OPERATING INCOME

Attached as Schedules Nos. 2 and 2-A are the operating income statements for the utility's water system that we have utilized to determine the appropriate amount of the refund. Also attached, as Schedules Nos. 5 and 5-A, are the operating income statements for the utility's water system that we have used for rate-setting purposes. These Schedules demonstrate all of the adjustments we have made. Those adjustments requiring some further explanation are discussed below.

Turnberry Plant Loss

In 1986, Sunshine began constructing water treatment facilities for its Turnberry Subdivision. The utility had dug wells, installed a water storage tank, laid water lines, and installed chlorination devices. The developer of this subdivision subsequently became insolvent and caused the utility to abandon its plant assets worth \$42,097. The utility was able to salvage an \$8,000 water tank and retain a \$12,700 developer's advance for construction. Accumulated depreciation on the plant was \$526. Thus, Sunshine was able to recoup all but \$20,871 of its investment in this project. This loss was charged in total to 1987 expenses.

The audit report states that the loss should have been charged to 1986 expenses since the loss occurred during that year. In its response to our audit report, the utility asserts that although the loss was sustained in 1986, it was well into 1987 that the facts and circumstances indicated that a plant write-off was appropriate. Therefore, the utility believes it was appropriate to charge 1987 operations with this loss.

The utility has stated that the Turnberry Subdivision was not in its service area when construction began, and therefore, it was not required to serve this area. Because the utility wanted to provide service to the Turnberry Subdivision, it

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applied for an amendment to its certificate to include this area. The fact that the utility had to build a completely new treatment plant in order to serve this subdivision, and that it was not merely an extension of the utility's lines, indicates that the utility assumed a risk when it asked for an amendment of its certificate to include this area. The ratepayers should not have to assume costs associated with the risks that a utility takes. Therefore, we find it appropriate to remove the unrecovered loss on the abandonment of the Turnberry plant assets from test year expenses. This results in a reduction of \$20,871 to test year expenses.

Territorial Dispute

During the test year, the utility incurred costs in the amount of \$19,698 which were related to a territorial dispute. The utility was awarded the territory in Docket No. 860724-WU, culminating in the issuance of Order No. 180081. The utility asserts that because the costs were associated with protecting an asset the utility already owned, the costs represent an operating expense.

We find that the costs related to the territorial dispute represent a cost of providing utility service and are reasonable. This expense is not, however, an annually recurring cost. It benefits more than one accounting period. Therefore, we find it appropriate to authorize the utility to amortize the total expense of \$19,698 over a more reasonable period of five years, which results in an annual amortization of \$3,939. The amount remaining in test year expenses is \$15,759. We find it appropriate, also, to remove that \$15,759 from test year expenses.

During the test year, the utility calculated depreciation and amortization expense based on a composite rate of 2.5%, the depreciation rate we authorized by Order No. 13014, dated February 20, 1984.

However, our current practice is to use the guideline rates in accordance with Rule 25-30.140, Florida Administrative Code. The composite rate calculated using the guideline rates also applies to the amortization of CIAC. We find it appropriate to use the guideline rates to calculate test year depreciation and amortization expense. This adjustment applies to the reduction of rates and not the refund. Restatement in

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compliance with our Rule will increase test year depreciation and amortization expense by \$9,869 and \$4,301, respectively. An adjustment should also be made to increase accumulated depreciation and accumulated amortization of CIAC by \$4,869 and \$2,150, respectively.

During our auditor's review of the utility's books and records, it was discovered that the utility's CIAC account included contributed land. The utility, however, did not deduct the amount of land when it calculated amortization expense. Thus, accumulated amortization of CIAC and amortization expense are overstated because land is a non-depreciable asset. We find it appropriate to reduce accumulated amortization of CIAC by \$4,550 and test year amortization expense by \$1,108.

REVENUE REQUIREMENT

Based on the test year ending December 31, 1987, we find that the annual water revenues required by this utility are \$294,314. Therefore, we find it appropriate to decrease annual water revenues by \$60,159 (16.97%). These revenues are designed to allow recovery of test year operation and maintenance expenses and depreciation, and to provide the utility with an opportunity to earn an overall rate of return of 12.07% on its average rate base. Our calculation of the revenue requirement is presented on Schedule No. 5.

REFUND PURSUANT TO ORDER NO. 20038

By Order No. 20038, issued on September 20, 1988, we initiated this overearnings investigation and ordered the utility to place \$27,308 or 7.68% of its revenues collected for service rendered on or after August 30, 1988, subject to refund. Based on our analysis during this proceeding, it appears that, for the test year ended December 31, 1987, this utility had excessive earnings of \$54,710, or 15.43%, based on annual water revenues of \$299,763. However, we can require the utility to refund to customers only those revenues we placed subject to refund at the outset of this proceeding--the \$27,308. Therefore, we hereby require the utility to refund \$27,308 with interest, to its customers of record as of the effective date of this proposed agency action Order in

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accordance with Rule 25-30.360, Florida Administrative Code. Our calculation of the amount of the refund is presented on Schedule No. 2.

This rate reduction will be effective for meters read on or after thirty days from the effective date of this proposed agency action Order. The existing rates and those approved herein are attached as Schedule No. 7.

SERVICE AVAILABILITY POLICY AND CHARGES

By Order No. 20038, issued on September 20, 1988, we required that the investigation also extend to the utility's service availability policy and charges. The investigation extension was prompted because our desk audit indicated that the utility's CIAC level was only 39.00%, net plant to net CIAC. However, the audited figures, as shown on Schedule No. 1-A, reveal that the utility's CIAC level is actually 71.43%, net plant to net CIAC. This level falls within the guidelines prescribed by our Rule 25-30.580, Florida Administrative Code, and, therefore, we find it appropriate not to change the existing service availability charges.

This proposed agency action Order will become final and effective unless an appropriate petition of protest is filed by one whose substantial interests may or will be affected by this proposed agency action, as provided by Rule 25-22.029, Florida Administrative Code. This docket shall remain open for six months, at which point we will evaluate the utility's progress in improving its quality of service, especially its improvement of the level of customer satisfaction.

Based on the foregoing, it is, therefore,

ORDERED by the Florida Public Service Commission that Sunshine Utilities, Inc., shall refund with interest \$27,308 of its annual water revenues collected for service rendered on or after August 30, 1988. Such refund shall be made to customers of record as of the effective date of this proposed agency action Order in accordance with Rule 25-30.360, Florida Administrative Code. It is further

ORDERED that such refund shall be accomplished within 90 days of the effective date of this Order. It is further

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ORDERED that the utility shall reduce its water rates as set out in the body of this Order. It is further

ORDERED that the utility shall file revised tariff sheets within 14 days of the effective date of this Order. It is further

ORDERED that this utility shall demonstrate significant improvement in the quality of service it provides, especially in the level of customer satisfaction, within the six months following the effective date of this Order. If such improvement is not demonstrated by that time, the utility shall be fined \$5,000. It is further

ORDERED that the provisions of this Order are issued as proposed agency action and shall become final unless an appropriate petition in the form provided by Rule 25-22.036, Florida Administrative Code, is received by the Director of the Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on August 18, 1989. It is further

ORDERED that all matters contained in the body of this Order and all schedules appended hereto are, by this reference, made integral parts of this Order. It is further

ORDERED that this docket shall remain open for six months to provide for our evaluation of the utility's progress in improving its quality of service.

By ORDER of the Florida Public Service Commission,
this 31st day of July, 1989.


STEVE TRIBBLE, Director
Division of Records and Reporting

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), 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.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this Order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on August 21, 1989. In the absence of such a petition, this Order shall become effective August 22, 1989, as provided by Rule 25-22.029(6), Florida Administrative Code, and as reflected in a subsequent 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.

If this Order becomes final and effective on August 22, 1989, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting 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 of the effective date 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.

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SUNSHINE UTILITIES (REFUND)
SCHEDULE OF WATER RATE BASE
TEST YEAR ENDED DECEMBER 31, 1987

SCHEDULE NO. 1
DOCKET NO. 880130-WU

COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$ 1,279,537	\$ 0	\$ 1,279,537	(\$ 196,878)	1,082,659
2					
3 LAND	71,839	0	71,839		71,839
4					
5 NON-USED & USEFUL COMPONENTS	0	0	0		0
6					
7 C.W.I.P.	0	0	0		0
8					
9 C.I.A.C.	(458,389)	0	(458,389)	(280,753)	(739,142)
10					
11 ACCUMULATED DEPRECIATION	(210,731)	0	(210,731)	(9,545)	(220,276)
12					
13 AMORTIZATION OF C.I.A.C.	38,241	0	38,241	34,895	73,136
14					
15 ADVANCES FOR CONSTRUCTION	0	0	0		0
16					
17 WORKING CAPITAL ALLOWANCE	40,454	0	40,454	(118)	40,336
18					
19 RATE BASE	\$ 760,951	\$ 0	\$ 760,951	(\$ 452,399)	308,552
20					

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SUNSHINE UTILITIES (REFUND)
ADJUSTMENTS TO RATE BASE
TEST YEAR ENDED DECEMBER 31, 1987

SCHEDULE NO. 1-A
PAGE 1 OF 1
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EXPLANATION	ADJUSTMENT WATER
-----	-----
1 UTILITY PLANT IN SERVICE	
2 A. TO REDUCE OVERSTATED MATERIAL	\$ (196,878)
3 COSTS.	-----
4	
5	
6 ACCUMULATED DEPRECIATION	
7 A. TO REFLECT 13-MONTH AVERAGE.	\$ (15,755)
8	
9 B. TO REFLECT DEPRECIATION RELATED TO	
10 OVERSTATED PLANT.	6,210
11	-----
12 NET ADJUSTMENT	\$ (9,545)
13	-----
14	
15 CONTRIBUTIONS-IN-AID OF CONSTRUCTION	
16 A. TO IMPUTE CIAC FOR THAT AMOUNT	
17 OF PLANT THAT THE UTILITY HAS	
18 NO INVESTMENT IN.	\$ (280,753)
19	-----
20	
21 ACCUM AMORTIZATION OF CIAC	
22 A. AMORTIZATION RELATED TO	
23 THE IMPUTATION OF CIAC.	\$ 37,294
24	
25 B. TO CORRECT THE UTILITY'S	
26 INCORRECT AMORTIZATION OF LAND.	\$ (4,550)
27	
28 C. TO REFLECT AMORTIZATION AT THE	
29 13-MONTH AVERAGE.	\$ 2,151
30	-----
31 NET ADJUSTMENT	34,895
32	-----
33	
34 WORKING CAPITAL ALLOWANCE	
35 A. TO PROPERLY REFLECT ACCRUED TAXES.	\$ (8,626)
36	
37 B. TO PROPERLY REFLECT MISC CURR ASSETS.	(1,343)
38	
39 C. TO INCLUDE AVERAGE DEFERRED	
40 BALANCE OF AMORTIZED EXPENSES.	9,851
41	-----
42 NET ADJUSTMENT	\$ (118)
43	-----
..	

SUNSHINE UTILITIES (REFUND)
STATEMENT OF WATER OPERATIONS
TEST YEAR ENDED DECEMBER 31, 1987

SCHEDULE NO. 2
DOCKET NO. 880130-WJ

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE OR (DECREASE)	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 354,473	\$ 0	\$ 354,473	\$ 0	\$ 354,473	(\$ 54,710)	\$ 299,763
2							
3 OPERATING EXPENSES						15.43%	
4							
5 OPERATION AND MAINTENANCE	\$ 258,783	\$ 0	\$ 258,783	(\$ 36,630)	\$ 222,153	\$	\$ 222,153
6							
7 DEPRECIATION	38,649	0	38,649	(8,203)	30,446		30,446
8							
9 AMORTIZATION	(11,447)		(11,447)	(6,470)	(17,917)		(17,917)
10							
11 TAXES OTHER THAN INCOME	14,773	0	14,773	4,022	18,795	(1,368)	17,427
12							
13 INCOME TAXES	0	0	0	0	0		0
14							
15							
16 TOTAL OPERATING EXPENSES	\$ 300,758	\$ 0	\$ 300,758	(\$ 47,281)	\$ 253,477	(\$ 1,368)	\$ 252,109
17							
18							
19 OPERATING INCOME	\$ 53,715	\$ 0	\$ 53,715	\$ 47,281	\$ 100,996	(\$ 53,343)	\$ 47,653
20							
21							
22 RATE BASE	\$ 760,951		\$ 760,951		\$ 308,552		\$ 308,552
23							
24							
25 RATE OF RETURN	7.06%		7.06%		32.73%		15.44%
26							

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SUNSHINE UTILITIES (REFUND)
ADJUSTMENTS TO OPERATING STATEMENT
TEST YEAR ENDED DECEMBER 31, 1987

SCHEDULE NO. 2-A
PAGE 1 OF 1
DOCKET NO. 880130-WU

EXPLANATION	ADJUSTMENT WATER
-----	-----
1 OPERATION AND MAINTENANCE EXPENSE	
2 A. TO REMOVE EXPENSES RELATED TO THE	
3 LOSS ON THE TURNBERRY PROJECT	\$ (20,871)
4	
5 B. TO REMOVE 4/5 OF EXPENSES RELATED TO	
6 A TERRITORIAL DISPUTE.	(15,759)
7	-----
8 NET ADJUSTMENT	\$ (36,630)
9	-----
10	
11 DEPRECIATION EXPENSE	
12 A. TO REFLECT TEST YEAR EXPENSE RELATED	
13 TO THE OVERSTATED PLANT COSTS.	\$ (8,203)
14	-----
15	
16	
17 AMORTIZATION EXPENSE	
18 A. AMORTIZATION RELATED TO THE	
19 IMPUTATION OF CIAC.	\$ (7,578)
20	
21 B. TO CORRECT THE UTILITY'S	
22 INCORRECT AMORTIZATION OF LAND.	1,108
23	-----
24 NET ADJUSTMENT	\$ (6,470)
25	-----
26	
27 ACCRUED TAXES	
28 A. TO REFLECT THE APPROPRIATE	
29 BALANCE IN ACCRUED TAXES.	\$ 4,022
30	-----
31	
32	
33	
34 OPERATING REVENUES	
35 A. TO ADJUST REVENUES TO REFLECT THE LEVEL	
36 GENERATED USING THE HIGH END OF THE	
37 LAST AUTHORIZED ROE.	\$ (54,710)
38	-----
39	
40	
41 TAXES OTHER THAN INCOME	
42 A TO REFLECT REGULATORY ASSESSMENT FEES	
43 RELATED TO STAFF ADJUSTMENTS TO REVENUES.	\$ (1,368)
44	-----
45	
46	

SUNSHINE UTILITIES (REFUND)
CAPITAL STRUCTURE
TEST YEAR ENDED DECEMBER 31, 1987

SCHEDULE NO. 3
DOCKET NO. 880130-WU

DESCRIPTION	ADJUSTED TEST YEAR PER UTILITY	WEIGHT	COST	WEIGHTED COST	COMMISSION ADJUSTMENTS TO UTILITY EXHIBIT	BALANCE PER COMMISSION	WEIGHT	COST	WEIGHTED COST
LONG TERM DEBT	\$ 8,732	2.06%	9.86%	0.20%	\$ (2,388)	\$ 6,344	2.06%	9.69%	0.20%
SHORT TERM DEBT	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
CUSTOMER DEPOSITS	4,621	1.09%	8.00%	0.09%	(1,264)	3,357	1.09%	8.00%	0.09%
PREFERRED STOCK	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
COMMON EQUITY	411,368	96.86%	15.65%	15.16%	(112,517)	298,851	96.86%	15.65%	15.16%
INVESTMENT TAX CREDITS	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
DEFERRED INCOME TAXES	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
OTHER CAPITAL	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
TOTAL CAPITAL	\$ 424,721	100.00%		15.45%	\$ (116,169)	\$ 308,552	100.00%		15.44%

RANGE OF REASONABLENESS

LOW HIGH

EQUITY

14.65% 16.65%

OVERALL RATE OF RETURN

14.48% 16.41%

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SUNSHINE UTILITIES (REFUND)
 ADJUSTMENTS TO CAPITAL STRUCTURE
 TEST YEAR ENDED DECEMBER 31, 1987

SCHEDULE NO. 3-A
 DOCKET NO. 880130-WU

DESCRIPTION	ADJUST FOR ACCRUED TAXES	ADJUST FOR OWNER'S LOAN	PRO RATA RECONCILE	NET ADJUSTMENT
1 LONG TERM DEBT	\$ 0	\$ 0	(2,388)	(2,388)
2				
3 SHORT TERM DEBT	0		0	0
4				
5 CUSTOMER DEPOSITS	0		(1,264)	(1,264)
6				
7 PREFERRED STOCK	0		0	0
8				
9 COMMON EQUITY	8,626	1,343	(112,517)	(112,517)
10				
11 INVESTMENT TAX CREDITS	0		0	0
12				
13 DEFERRED INCOME TAXES	0		0	0
14				
15 OTHER CAPITAL	0		0	0
16				
17 TOTAL CAPITAL	\$ 0	\$ 0	(116,169)	(116,169)
18				

SUNSHINE UTILITIES
 SCHEDULE OF WATER RATE BASE
 TEST YEAR ENDED DECEMBER 31, 1987

SCHEDULE NO. 4
 DOCKET NO. 880130-WU

COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$ 1,279,537	\$ 0	\$ 1,279,537	\$ (196,878)	\$ 1,082,659
2					
3 LAND	71,839	0	71,839		71,839
4					
5 NON-USED & USEFUL COMPONENTS	0	0	0		0
6					
7 C.W.I.P.	0	0	0		0
8					
9 C.I.A.C.	(458,389)	0	(458,389)	(280,753)	(739,142)
10					
11 ACCUMULATED DEPRECIATION	(210,731)	0	(210,731)	(14,414)	(225,145)
12					
13 AMORTIZATION OF C.I.A.C.	38,241	0	38,241	37,045	75,286
14					
15 ADVANCES FOR CONSTRUCTION	0	0	0		0
16					
17 WORKING CAPITAL ALLOWANCE	40,454	0	40,454	(118)	40,336
18					
19 RATE BASE	\$ 760,951	\$ 0	\$ 760,951	\$ (455,118)	\$ 305,833
20					

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SUNSHINE UTILITIES
ADJUSTMENTS TO RATE BASE
TEST YEAR ENDED DECEMBER 31, 1987

SCHEDULE NO. 4-A
PAGE 1 OF 1
DOCKET NO. 880130-WU

EXPLANATION	ADJUSTMENT WATER

1 UTILITY PLANT IN SERVICE	
2 A. TO REDUCE OVERSTATED MATERIAL	\$ (196,878)
3 COSTS.	-----
4	
5 ACCUMULATED DEPRECIATION	
6 A. TO REFLECT GUIDELINE RATES.	\$ (4,869)
7	
8 B. TO REFLECT 13-MONTH AVERAGE.	(15,755)
9	
10 C. TO REFLECT DEPRECIATION RELATED TO	
11 OVERSTATED PLANT.	6,210
12	-----
13 NET ADJUSTMENT	\$ (14,414)
14	-----
15	
16 CONTRIBUTIONS-IN-AID OF CONSTRUCTION	
17 A. TO IMPUTE CIAC FOR THAT AMOUNT	
18 OF PLANT THAT THE UTILITY HAS	
19 NO INVESTMENT IN.	\$ (280,753)
20	-----
21	
22 ACCUM AMORTIZATION OF CIAC	
23 A. AMORTIZATION RELATED TO	
24 THE IMPUTATION OF CIAC.	\$ 37,294
25	
26 B. TO CORRECT THE UTILITY'S	
27 INCORRECT AMORTIZATION OF LAND.	(4,550)
28	
29 C. TO REFLECT AMORTIZATION AT THE	
30 GUIDELINE RATES.	2,150
31	
32 D. TO REFLECT THE 13-MONTH AVERAGE.	2,151
33	-----
34 NET ADJUSTMENT	37,045
35	-----
36	
37 WORKING CAPITAL ALLOWANCE	
38 A. TO REDUCE ACCRUED TAXES	\$ (8,626)
39	
40 B. TO REDUCE MISC. CURRENT ASSETS.	(1,343)
41	
42 B. TO INCLUDE AVERAGE DEFERRED	
43 BALANCE OF AMORTIZED EXPENSES.	9,851
44	-----
45 NET ADJUSTMENT	\$ (118)
46	-----

SUNSHINE UTILITIES
STATEMENT OF WATER OPERATIONS
TEST YEAR ENDED DECEMBER 31, 1987

SCHEDULE NO. 5
DOCKET NO. 880130-WU

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE OR (DECREASE)	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 354,473	\$ 0	\$ 354,473	\$ 0	\$ 354,473	(\$ 60,159)	\$ 294,314
2						16.97%	
3 OPERATING EXPENSES							
4							
5 OPERATION AND MAINTENANCE	\$ 258,783	\$ 0	\$ 258,783	(\$ 36,630)	\$ 222,153	\$	\$ 222,153
6							
7 DEPRECIATION	38,649	0	38,649	1,535	40,184		40,184
8							
9 AMORTIZATION	(11,447)		(11,447)	(10,771)	(22,218)		(22,218)
10							
11 TAXES OTHER THAN INCOME	14,773	0	14,773	4,022	18,795	(1,504)	17,291
12							
13 INCOME TAXES	0	0	0	0	0	0	0
14							
15							
16 TOTAL OPERATING EXPENSES	\$ 300,758	\$ 0	\$ 300,758	(\$ 41,844)	\$ 258,914	(\$ 1,504)	\$ 257,410
17							
18							
19 OPERATING INCOME	\$ 53,715	\$ 0	\$ 53,715	\$ 41,844	\$ 95,559	(\$ 58,655)	\$ 36,904
20							
21							
22 RATE BASE	\$ 760,951		\$ 760,951		\$ 305,833		\$ 305,833
23							
24							
25 RATE OF RETURN	7.06%		7.06%		31.25%		12.07%
26							

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SUNSHINE UTILITIES
ADJUSTMENTS TO OPERATING STATEMENT
TEST YEAR ENDED DECEMBER 31, 1987

SCHEDULE NO. 5-A
PAGE 1 OF 1
DOCKET NO. 880130-WU

EXPLANATION -----	ADJUSTMENT WATER -----
1 OPERATION AND MAINTENANCE EXPENSE	
2 A. TO REMOVE EXPENSES RELATED TO THE	
3 TURNBERRY PROJECT.	\$ (20,871)
4	
5 B. TO REMOVE 4/5 OF THE EXPENSES RELATED	
6 TO A TERRITORIAL DISPUTE.	(15,759)
7	-----
8	\$ (36,630)
9	-----
10 DEPRECIATION EXPENSE	
11 A. TO REFLECT TEST YEAR EXPENSE RELATED	
12 TO THE OVERSTATED PLANT COSTS.	\$ (8,203)
13	
14 B. TO REFLECT DEPRECIATION AT	
15 THE GUIDELINE RATES.	9,738
16	-----
17 NET ADJUSTMENT	\$ 1,535
18	-----
19	
20 AMORTIZATION EXPENSE	
21 A. AMORTIZATION RELATED TO THE	
22 IMPUTATION OF CIAC.	\$ (7,578)
23	
24 B. TO CORRECT THE UTILITY'S	
25 INCORRECT AMORTIZATION OF LAND.	1,108
26	
27 C. TO REFLECT AMORTIZATION AT THE	
28 GUIDELINE RATES.	(4,301)
29	-----
30 NET ADJUSTMENT	(10,771)
31	-----
32	
33 ACCRUED TAXES	
34 A. TO CORRECTLY REFLECT ACCOUNT BALANCE.	\$ 4,022
35	-----
36	
37 OPERATING REVENUES	
38 A. TO ADJUST REVENUES TO REFLECT REVENUES	
39 WHICH ALLOW A FAIR RATE OF RETURN.	\$ (60,159)
40	-----
41	
42 TAXES OTHER THAN INCOME	
43 A. TO REFLECT REGULATORY ASSESSMENT FEES	
44 RELATED TO STAFF ADJUSTMENTS TO REVENUES.	\$ (1,504)
45	-----
46	

SUNSHINE UTILITIES
CAPITAL STRUCTURE
TEST YEAR ENDED DECEMBER 31, 1987

SCHEDULE NO. 6
DOCKET NO. 880130-WU

DESCRIPTION	ADJUSTED TEST YEAR PER UTILITY	WEIGHT	COST	WEIGHTED COST	COMMISSION ADJUSTMENTS TO UTILITY EXHIBIT	BALANCE PER COMMISSION	WEIGHT	COST	WEIGHTED COST
LONG TERM DEBT	\$ 8,732	2.06%	9.86%	0.20%	\$ (2,588)	\$ 6,144	2.01%	9.69%	0.19%
SHORT TERM DEBT	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
CUSTOMER DEPOSITS	4,621	1.09%	8.00%	0.09%	(1,370)	3,251	1.06%	8.00%	0.09%
PREFERRED STOCK	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
COMMON EQUITY	411,368	96.86%	14.65%	14.19%	(114,930)	296,438	96.93%	12.16%	11.79%
INVESTMENT TAX CREDITS	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
DEFERRED INCOME TAXES	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
OTHER CAPITAL	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
TOTAL CAPITAL	\$ 424,721	100.00%		14.48%	\$ (118,888)	\$ 305,833	100.00%		12.07%

RANGE OF REASONABLENESS

LOW HIGH

EQUITY

11.16% 13.16%

OVERALL RATE OF RETURN

11.10% 13.04%

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SUNSHINE UTILITIES
 ADJUSTMENTS TO CAPITAL STRUCTURE
 TEST YEAR ENDED DECEMBER 31, 1987

SCHEDULE NO. 6-A
 DOCKET NO. 880130-WU

DESCRIPTION	ADJUST FOR ACCRUED TAXES	ADJUST FOR OWNER'S LOAN	PRO RATA RECONCILE	NET ADJUSTMENT
1 LONG TERM DEBT	\$ 0	\$ 0	(2,588)	(2,588)
2				
3 SHORT TERM DEBT	0		0	0
4				
5 CUSTOMER DEPOSITS	0		(1,370)	(1,370)
6				
7 PREFERRED STOCK	0		0	0
8				
9 COMMON EQUITY	8,626	1,343	(124,899)	(114,930)
10				
11 INVESTMENT TAX CREDITS	0		0	0
12				
13 DEFERRED INCOME TAXES	0		0	0
14				
15 OTHER CAPITAL	0		0	0
16				
17 TOTAL CAPITAL	\$ 8,626	\$ 1,343	(128,857)	(118,888)
18				

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SCHEDULE NO. 7
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SUNSHINE UTILITIES

SCHEDULE OF RATES

WATER

(16.97% REDUCTION IN RATES)

RESIDENTIAL AND GENERAL SERVICE
(ALL SYSTEMS EXCEPT WHISPERING SANDS)
& LAKEVIEW HILLS

<u>Meter Size</u>	<u>Utility Current Rates</u>	<u>Commission-Approved Rates</u>
5/8" x 3/4"	\$ 6.75	\$ 5.60
1"	16.90	14.03
1-1/4"	25.35	21.05
1-1/2"	33.78	28.05
2" 54.06	44.89	
3" 107.92	89.61	
4" 168.94	140.27	
6" 377.87	313.75	
Gallage Charge per 1,000 Gallons	1.73	\$ 1.44

WHISPERING SANDS SYSTEM

RESIDENTIAL

<u>Description</u>	<u>Utility Current Rates</u>	<u>Commission-Approved Rates</u>
Per Unit (Flat Rate)	\$ 6.11	\$ 5.07
Per Quadruplex (Flat Rate)	\$24.44	\$20.28

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SCHEDULE 7
PAGE 2 OF 2

LAKEVIEW HILLS SYSTEM

RESIDENTIAL & GENERAL SERVICE

<u>Meter Size</u>	<u>Utility Current Rates</u>	<u>Commission- Approved Rates</u>
5/8" x 3/4"	\$ 6.10	\$ 5.06
1"	15.25	12.66
1 1/2"	30.50	25.32
2"	48.80	40.52
Gallage Charge Per 1,000 Gallons	\$.86	\$.71