

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

RECEIVED-FPSC
59 DEC -9 AM 11:00
RECORDS AND REPORTING

DATE: DECEMBER 9, 1999

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BY)

FROM: DIVISION OF WATER AND WASTEWATER (WILLIS, BENDELL, CASEY)
DIVISION OF LEGAL SERVICES (VACCARO)

RE: DOCKET NO. 980670-WS - INVESTIGATION OF POSSIBLE
OVEREARNINGS BY SANLANDO UTILITIES CORPORATION
COUNTY: SEMINOLE

AGENDA: 12/21/99 - REGULAR AGENDA - PROPOSED AGENCY ACTION -
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: SECTION 367.081(4) (d), FLORIDA STATUTES, 15 MONTH
INDEX REFUND DATE - WAIVED THROUGH DECEMBER 31,
1999

SPECIAL INSTRUCTIONS: TO BE SCHEDULED IMMEDIATELY PRIOR TO
RECOMMENDATION FOR DOCKET NO. 971186-SU

FILE NAME AND LOCATION: S:\PSC\WAW\WP\980670.RCM

DOCUMENT NUMBER-DATE

15084 DEC-99

FPSC-RECORDS/REPORTING

TABLE OF CONTENTS

<u>ISSUE</u>	<u>DESCRIPTION</u>	<u>PAGE</u>
-	Case Background	2
	<u>RATE BASE</u>	
1	Test Year Rate Base (CASEY, RENDELL)	6
	<u>COST OF CAPITAL</u>	
2	Rate of Return on Equity, Overall Rate of Return (CASEY, RENDELL)	9
	<u>NET OPERATING INCOME</u>	
3	Test Year Revenues (CASEY, RENDELL)	10
4	Operating Expenses (CASEY, RENDELL)	11
	<u>REVENUE</u>	
5	Excess Earnings (CASEY, RENDELL)	18
	<u>OTHER ISSUES</u>	
6	Overearnings Disposition (CASEY, RENDELL)	19
7	Revenue Subject to Refund(CASEY, RENDELL)	23
8	Security (CASEY, RENDELL)	24
9	Close Docket (VACCARO, CASEY, RENDELL)	25
	<u>SCHEDULES DESCRIPTION</u>	<u>PAGE</u>
1A	Water Rate Base	26
1B	Wastewater Rate Base	27
1C	Adjustments to Rate Base	28
2	Capital Structure	29
3A	Water Operating Income	30
3B	Wastewater Operating Income	31
3C	Adjustments to Operating Income	32
3D	Water Operation and Maintenance Expenses	34
3E	Wastewater Operation & Maintenance Expenses	35

CASE BACKGROUND

Sanlando Utilities Corporation (Sanlando or utility) is a Class A water and wastewater utility located in Altamonte Springs, Florida, which operates three water and two wastewater plants. According to the 1997 annual report, Sanlando serves approximately 9,872 water and 8,889 wastewater customers. The revenue collected in 1997 by the utility was \$2,034,193 for the water system and \$2,898,138 for the wastewater system. Sanlando's entire service area lies within the St. John's River Water Management District (SJRWMD), which has declared its entire district as a water use caution area.

By Order No. PSC-92-1356-FOF-WS, issued November 23, 1992, in Docket No. 900338-WS, the Commission approved a water conservation plan for Sanlando, which plan includes the construction of an effluent reuse system. As required by that order, Sanlando filed a petition for a limited proceeding to implement the water conservation plan on March 10, 1993 in Docket No. 930256-WS.

On December 10, 1993, the Commission issued Proposed Agency Action Order No. PSC-93-1771-FOF-WS, approving Sanlando's petition and requiring the utility to file a proposed charge for reclaimed water. Moreover, the Commission authorized increased gallonage charges in order to generate revenue for the conservation plan and required the utility to establish an escrow account to deposit those funds and any excess revenues.

Several timely protests were filed to Order No. PSC-93-1771-FOF-WS, and the Office of Public Counsel (OPC) and SJRWMD intervened in the docket. Consequently, the matter was set for formal hearing. The parties reached a settlement and submitted a proposed stipulation to the Commission for approval, which they later revised. The overall goal of the stipulation was to fund the construction of the proposed reuse facilities without incurring income tax liability, and thereby reduce the total cost of the project by approximately 40%. To accomplish this goal, the parties agreed to create a non-profit corporation which would own the reuse facilities and which would seek tax exempt status from the Internal Revenue Service (IRS). By Order No. PSC-95-0536-S-WS, issued April 28, 1995, the Commission approved the revised stipulation, with modifications, and ordered the docket to remain open pending the issuance of an IRS letter ruling on the parties' proposed plan. The Commission ordered the parties to report the results of the IRS ruling to the Commission, and authorized the parties to implement the terms of the stipulation if the ruling were favorable to the proposed plan. By Order No. PSC-95-1213-S-WS, issued October 2,

DOCKET NO. 980670-WS
DATE: DECEMBER 9, 1999

1995, the Commission modified Order No. PSC-95-0536-S-WS, striking a paragraph unrelated to the IRS ruling and substituting new language in its place, and otherwise affirmed the order. Sanlando requested a tax ruling by letter dated June 15, 1995, to the IRS. The IRS letter ruling, dated March 15, 1996, ruled that the monies received by the utility in connection with the reuse facility would not qualify as contributions to capital.

On September 10, 1997, the utility filed a Motion to Hold Docket No. 930256-WS in Abeyance Pending Commission's Ruling on Application for Approval of Reuse Project Plan and Increase for Wastewater Rates. By Order No. PSC-97-1460-PCO-WS, issued November 19, 1997, the Commission granted Sanlando's motion and ordered that Docket 930256-WS be held open in monitor status pending a ruling on the merits of Sanlando's application filed in Docket No. 971186-SU.

On September 11, 1997, Sanlando filed an Application for Approval of a Reuse Project Plan and Increase in Wastewater Rates (Docket No. 971186-SU - new reuse application), which proposed to undertake the reuse project through the use of borrowed capital. The applicant's SJRWMD Consumptive Use Permit Number 2-117-0006UR2 and proposed renewal of its Florida Department of Environmental Protection (DEP) Wastewater Permit Number FL0036251 require that the utility implement a reuse program. To satisfy the permit conditions, the utility proposed to construct a reuse treatment facility along with reuse transmission and distribution mains. The project was designed to provide reclaimed water to four commercial customers (three golf courses and a commercial nursery). The applicant requested that the Commission establish reuse rates and increase wastewater rates to recover the initial cost of the reuse project. When reuse customers were hooked-up and the utility started receiving reuse revenue, the utility proposed to partially reduce the wastewater rates.

The utility's application was filed pursuant to Section 367.0817, Florida Statutes, which provides that all prudent costs of a reuse project shall be recovered in a utility's rates. The Florida Legislature has found that reuse benefits water, wastewater, and reuse customers. Section 367.0817(3), Florida Statutes. This subsection requires the Commission to allow a utility to recover all prudent costs of a reuse project from the utility's water, wastewater, or reuse customers, or any combination thereof, as it deems appropriate. Therefore, while the utility proposed that the entire cost of the reuse project be recovered from its wastewater rates initially, the Commission may find it appropriate for the costs to be shared in a different manner.

DOCKET NO. 980670-WS
DATE: DECEMBER 9, 1999

On September 23, 1997, a deficiency letter was sent to the utility outlining minimum filing requirement deficiencies in the utility's application. The utility subsequently corrected the deficiencies and an official filing date of October 16, 1997 was established.

By Order No. PSC-97-1337-PCO-SU, issued October 27, 1997, the Commission acknowledged intervention of OPC. By Order No. PSC-97-1582-PCO-SU, issued December 17, 1997, the Commission granted intervention by SJRWMD.

A recommendation concerning Sanlando's reuse application was filed on April 30, 1998, and scheduled to be brought before the Commission at the May 12, 1998 agenda conference. Staff recommended the reuse project plan be approved, but that the monies to fund the project should come from existing revenues because of overearnings of \$219,142 (10.84% of total water revenues) in water revenues and \$301,883 (10.57% of total wastewater revenues) in wastewater revenues in 1996. Staff recommended that all overearnings be held in escrow.

On May 11, 1998, the utility sent a "Response to Commission staff's memorandum dated April 30, 1998", and requested a deferral of the recommendation for two months "to enable the utility time to respond more fully to the staff's recommendation and also provide additional information regarding financing requirements and other matters which the utility believes will be helpful to the Commission in deciding the relevant issues". The Chairman's office deferred the item on May 11, 1998.

The utility's 1997 annual report was received on May 1, 1998. Due to the observations made in Docket No. 971186-SU concerning overearnings, staff completed an expedited review of the annual report. By Order No. PSC-98-0892-PCO-WS, issued July 6, 1998, in this docket, the Commission initiated an investigation into the utility's rates and charges, ordered the utility to hold 5.17% of water revenues and 9.86% of wastewater revenues subject to refund, and required security in the form of a corporate undertaking to protect the potential refund. Additional revenues are subject to refund because of price indexes initiated in 1996 and 1997. On July 21, 1998, the utility timely filed a motion for reconsideration of that order. By Order No. PSC-98-1238-FOF-WS, issued September 21, 1998, the Commission ordered that Sanlando Utilities Corporation's Motion for Reconsideration of Order No. PSC-98-0892-PCO-WS be denied.

DOCKET NO. 980670-WS
DATE: DECEMBER 9, 1999

On July 29, 1998, Utilities, Inc. filed an application for transfer of majority control of Sanlando Utilities Corporation to Utilities, Inc. By Order No. PSC-99-0152-FOF-WS, issued January 25, 1999, in Docket No. 980957-WS, the Commission approved the transfer of majority control.

On November 24, 1998, staff requested an audit of Sanlando's books and records using a test year ending December 31, 1997. On May 6, 1999, the audit was suspended when staff was advised that Sanlando wished to enter into negotiation/settlement discussions on the reuse and overearnings dockets. On June 15, 1999, all parties were invited to an informal meeting which was held in room 309 of the Gunter Building. Staff presented a proposal which included a one time \$5 refund to customers, a revenue sharing plan, resetting of the utility's return on equity, initiation of a water conservation plan, and an adjustment to CIAC of the remaining overearnings. The settlement was to be effective July 31, 1999, and contingent upon the utility's agreement to complete construction of the reuse project.

By letter dated September 16, 1999, the utility responded to the proposed resolution presented by staff. The utility's response was to stipulate that all alleged overearnings through December 31, 1999 should be booked as revenue, and all alleged overearnings commencing January 1, 2000 will be booked as CIAC. On September 29, 1999, a letter was sent to Sanlando notifying it that booking all alleged overearnings through December 31, 1999 as revenue was unacceptable to the Commission staff, and advising it that the Commission is statutorily required to act upon any overearnings, and booking them as revenues would ignore that position. The utility was informed that staff would begin reviewing the audit and would be preparing a recommendation to be filed December 9, 1999 for the December 21, 1999 agenda. Sanlando was also notified that if it desired to submit a revised settlement offer prior to the December 9th filing date, staff would gladly review it. No revised settlement offer has been received, and staff has filed this recommendation to address the utility overearnings. A recommendation concerning the Sanlando Reuse Project was also filed on December 9, 1999 for consideration at the December 21, 1999 agenda conference.

DISCUSSION OF ISSUES

ISSUE 1: What is the utility's appropriate average amount of rate base for 1997?

RECOMMENDATION: The appropriate average amount of test year rate base should be \$834,067 for the water system and \$2,043,476 for the wastewater system. (CASEY, RENDELL)

STAFF ANALYSIS: The appropriate components of the utility's rate base include land and land rights, utility plant in service, construction work in process, accumulated depreciation, contributions-in-aid-of-construction (CIAC), amortization of CIAC, deferred income taxes, and a working capital allowance.

Based on our audit and analysis of the utility's books, staff is using average rate base figures from the utility's annual report which we believe to be reasonable with the exception of working capital allowance which is discussed below. The utility's annual report showed debit deferred taxes of \$75,468 for 1997. Pursuant to Rule 25-30.433(3), Florida Administrative Code, which states "Net debit deferred taxes shall be included as a separate line item in the rate base calculation", staff included \$75,468 in the rate base calculations allocated to water and wastewater using the same methodology as the working capital allocations.

Staff made water rate base averaging adjustments of (\$202) to land and land rights, (\$105,881) to utility plant in service, (\$15,722) to construction work in process, \$172,294 to accumulated depreciation, \$30,950 to CIAC, (\$145,056) to accumulated amortization of CIAC, and (\$467) to deferred income taxes. Staff made wastewater rate base averaging adjustments of (\$172) to land and land rights, (\$86,399) to utility plant in service, (\$81,290) to construction work in process, \$239,081 to accumulated depreciation, \$35,297 to CIAC, (\$170,137) to accumulated amortization of CIAC, and (\$1,092) to deferred income taxes.

The utility's 1997 annual report showed working capital of \$211,440 for water and \$267,001 for wastewater. The utility calculated test year working capital using the one-eighth of operation and maintenance expense formula approach approved for Class B and Class C water and wastewater utilities. Rule 25-30.433(2), Florida Administrative Code states: "Working capital for Class A utilities shall be calculated using the balance sheet approach." Staff calculated test year working capital using the balance sheet approach utilizing balance sheet figures recorded in the utility's 1996 and 1997 annual reports as shown below:

	<u>12/31/96</u>	<u>12/31/97</u>	<u>Average</u>
<u>Current Assets</u>			
Cash	\$ 288,031	\$234,072	
Accts. Rec. (Customers)	616,718	554,375	
Materials & Supplies	18,309	16,850	
Prepaid Insurance	50,451	50,092	
Prepaid Interest	15,496	29,040	
Other prepaid	<u>10,190</u>	<u>6,995</u>	
Total	\$ 999,195	\$891,424	\$945,310
<u>Current Liabilities</u>			
Accounts Payable	\$213,953	\$236,789	
Accrued Taxes	254,162	229,706	
Misc. Current & Accrued	<u>372,832</u>	<u>376,711</u>	
Total	\$840,947	\$843,206	<u>\$842,077</u>
Net Working Capital			<u>\$103,233</u>

Allocation between water and wastewater rate base

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Rate Base before working capital	\$869,492	\$2,033,625	\$2,903,117
%of Total Rate Base	29.95%	70.05%	
Working Capital Allowance	<u>\$ 30,918</u>	<u>\$ 72,315</u>	<u>\$ 103,233</u>

Staff made an adjustment of (\$180,522) to water and (\$194,686) to wastewater to reflect working capital using the balance sheet approach. Staff recommends test year working capital of \$30,918 for water and \$72,315 for wastewater.

Rate Base Summary: Based on the foregoing, the appropriate rate base balance should be \$834,067 for the water system and \$2,043,477 for the wastewater system.

DOCKET NO. 980670-WS
DATE: DECEMBER 9, 1999

Rate base is shown on Schedules Nos. 1A and 1B; the related adjustments are shown on Schedule No. 1-C.

ISSUE 2: What is the appropriate rate of return on equity and the appropriate overall rate of return for this utility?

RECOMMENDATION: Using the 1997 leverage formula to coincide with the test year, the appropriate rate of return on equity should be 10.46% with a range of 9.46% to 11.46% and the appropriate overall rate of return should be 8.58% with a range of 8.45% to 8.70%. For purposes of determining the refund regarding the price index adjustments, the upper limit of the last authorized rate of return on equity, 14.51%, should be used, resulting in an overall rate of return of 9.08%. (CASEY, RENDELL)

STAFF ANALYSIS: The utility's 1997 capital structure consists of \$482,945 of equity, thirteen debt instruments totaling \$3,216,076 with cost rates ranging from 8.40% to 10.54%, and \$171,481 of customer deposits at a cost of 6.00%.

The return on equity for interim purposes should be the mid-point of the range of return on equity using the leverage formula in effect during the test year. The rate of return on equity, when based on the leverage graph formula established in Order No. PSC-97-0660-FOF-WS issued June 10, 1997, in Docket No. 970006-WS, is 10.46% with a range of 9.46% to 11.46% and the overall rate of return is 8.58% with a range of 8.45% to 8.70%. Staff made pro rata adjustments to reconcile the capital structure downward to match the recommended rate base. Sanlando's return on equity and overall rate of return for interim purposes are shown on Schedule No. 2.

In Order No. 23809, issued November 27, 1990, in Docket No. 900338-WS, Sanlando's return on equity was established at 13.51%, with a range of 12.51% to 14.51%. For purposes of determining the refund regarding the price index adjustments, the upper limit of the last authorized rate of return, 14.51%, should be used.

Staff will be addressing any potential overearnings for 1999 once the utility submits its 1999 annual report and staff completes an audit of the utility's books for 1999. At that time, staff will be including a capital structure reflecting the change of majority control to Utilities, Inc. and recommending re-setting of the utility's rate of return on equity on a going-forward basis.

DOCKET NO. 980670-WS
DATE: DECEMBER 9, 1999

ISSUE 3: What is the appropriate test year revenue for this utility?

RECOMMENDATION: The appropriate test year revenue should be \$2,034,193 for the water system and \$2,898,138 for the wastewater system. (CASEY, RENDELL)

STAFF ANALYSIS: The utility recorded revenues of \$2,034,193 for the water system and \$2,898,138 for the wastewater system for the test year ending December 31, 1997. A revenue check completed by staff auditors showed test year revenues were recorded properly.

Test year revenues are shown on Schedule No. 3A and Schedule No. 3-B, adjustments are shown on Schedule No. 3-C.

ISSUE 4: What is the appropriate amount of test year operating expenses, prior to any revenue decrease, for this proceeding?

RECOMMENDATION: The appropriate amount of operating expenses prior to any revenue decrease for this proceeding should be \$1,860,099 for the water system and \$2,492,966 for the wastewater system. (CASEY, RENDELL)

STAFF ANALYSIS: The components of the utility's operating expenses include operation and maintenance expenses, depreciation expense (net of CIAC amortization), taxes other than income taxes, and income taxes.

Test Period Operating Expenses

The utility recorded test year water system operating expenses of \$1,956,929, and wastewater system operating expenses of \$2,611,258. Staff made several adjustments to the utility's operating expenses. A summary of adjustments to operating expenses are as follows:

OPERATION AND MAINTENANCE EXPENSE

Salaries and Wages-Employees - The utility recorded test year employee salaries and wages of \$516,285 for water and \$634,310 for wastewater. As stated in Audit Exception No. 5, two utility employees performed duties for both Sanlando and Greater Construction Company (an affiliated company) during the test year. The utility recorded 100% of the salary for these two employees. An inquiry by the staff auditor showed the two employees spend approximately 50% of their time with each of the companies. The two utility employee salaries totaled \$39,827 for water, and \$44,542 for wastewater. Staff made adjustments of (\$19,913) to water and (\$22,271) to wastewater to reflect 50% of their salaries. Staff recommends test year employee salaries and wages of \$496,372 for water and \$612,039 for wastewater.

Salaries and Wages-Officers - The utility recorded test year officer salaries and wages of \$99,805 for water and \$138,270 for wastewater. As stated in Audit Exception No. 5, one utility officer performed duties for both Sanlando and Greater Construction Company (an affiliated company) during the test year. The utility recorded 100% of the officer's salary. An inquiry by the staff auditor showed the officer spent approximately 50% of his time with each of the companies. The officer's salary totaled \$55,067 for water, and \$70,085 for wastewater. Staff made adjustments of

(\$27,534) to water and (\$35,043) to wastewater to reflect 50% of his salary.

Staff reclassified director's fees of \$79,500 for water and \$70,500 for wastewater from contractual services - management fees to officer salaries and wages pursuant to the NARUC uniform system of accounts. As stated in Audit Exception No. 8, the utility had six directors who were paid \$25,000 each during 1997 for a total of \$150,000 in director's fees. In the utility's last rate proceeding (Docket No. 900338-WS), the utility was allowed director's fees of \$6,500 each, split \$3,510 for water, and \$2,990 for wastewater. In that docket the Commission indexed the director's fees from the last rate case by the index growth. Staff used the same methodology and indexed up these figures using the Commission approved yearly index figures to calculate director's fees of \$8,000, split \$4,300 to water and \$3,700 to wastewater for each director which staff believes is more reasonable. Staff made an adjustment of (\$53,700) to water and (\$48,300) to wastewater to reduce total director's fees to \$25,800 for the water system and \$22,200 for the wastewater system, a total reduction of \$102,000 to director's fees.

Total adjustments for officer salaries and wages amount to (\$1,734) for water and (\$12,843) for wastewater. Staff recommends test year officer salaries and wages of \$98,071 for water and \$125,427 for wastewater.

Employee Pensions and Benefits - The utility recorded employee pensions and benefits of \$112,550 for water and \$140,766 for wastewater during the test year. As shown in Audit Exception No. 6, these figures included \$4,963 of water and \$6,317 of wastewater health insurance costs for the two employees and one officer who only spent 50% of their time on utility related matters. Staff made adjustments of (\$2,482) to water and (\$3,159) to wastewater employee pensions and benefits to remove 50% of the health insurance costs for the two employees and officer.

This account also included training costs of \$5,253 for water and \$5,207 for wastewater, along with hepatitis shot costs of \$115 for water and \$146 for wastewater. Staff made adjustments of (\$5,368) to water and (\$5,353) to wastewater to reclassify these costs to miscellaneous expenses.

Staff also made adjustments of (\$17,198) to water and (\$21,845) to wastewater to remove non-utility expenses recorded in this account. Total adjustments for employee pensions and benefits amount to (\$25,048) for water and (\$30,357) for wastewater. Staff

recommends test year employee pensions and benefits of \$87,502 for water and \$110,409 for wastewater.

Purchased Wastewater Service - The utility did not record any costs in the purchased wastewater service account for the test year. As disclosed in Audit Exception No. 7, the utility recorded \$58,745 of purchased wastewater costs in the contractual services - testing account during the test year. Pursuant to the NARUC uniform system of accounts, staff made an adjustment of \$58,745 to reclassify these costs from contractual services - testing to purchased wastewater service. Staff recommends test year purchased wastewater service cost of \$58,745.

Contractual Services - Engineering - The utility recorded contractual services - engineering costs of \$28,778 for water and \$53,675 for wastewater during the test year. Staff made adjustments of (\$23,324) to water and (\$31,029) to wastewater to reclassify testing costs to contractual services - testing. Staff recommends test year contractual services - engineering of \$5,454 for water and \$22,646 for wastewater.

Contractual Services -Legal - The utility recorded contractual services - legal costs of \$26,997 for water and \$59,275 for wastewater during the test year. During the audit of the utility's books, staff discovered that legal retainer fees from a related party did not show hours or hourly rates on the invoices, and most listed general services for a description. The NARUC Class "A" Accounting Instruction No. 2, General Records, states, in part, that "Each entry shall be supported by such detailed information as will permit a ready identification, analysis and verification of all facts relevant thereto."

By Order No. 23809, the Commission found that the utility's response to the audit report listed many general areas of service provided by the attorney. The Commission stated that:

We are not persuaded by the utility's audit response. We were not provided with sufficient description of legal work performed, legal proceedings or any detail supporting the benefit derived by the utility. All utilities are held to the same requirement that expenses recovered through rates must be justified as reasonable and prudently incurred. Just because the utility incurred these amounts does not lend any support to the reasonableness or prudence thereof. The fact that the attorney is a related party requires an even greater

degree of scrutiny to assure that expenses are incurred on an arm's-length basis. Order No 23809 at 11.

Finally, the Commission placed the utility on notice that "in future rate proceedings it must provide greater detail to justify contract or outside legal services." Id.

Staff is recommending using the \$40,000 base figure approved by Order No. 23809 and indexing it up using the Commission approved yearly index figures to arrive at staff's recommended total contractual legal services figure of \$48,810, which is a reduction in legal costs of \$37,162.

Staff made an adjustment of (\$11,543) to water legal contractual services, and made an adjustment of (\$25,629) to wastewater legal contractual services. Staff recommends \$15,454 of water and \$33,646 of wastewater legal contractual services.

Contractual Services - Management Fees - The utility recorded contractual services - management fees of \$122,748 for water and \$108,852 for wastewater during the test year. Staff made adjustments of (\$79,500) to water and (\$70,500) to wastewater to reclassify director fees to officer salaries and wages.

Per Audit Disclosure No. 3, this account also included \$81,600 in consulting fees charged by Greater Construction Corporation, an affiliated company. The consulting fee was allocated \$43,656 to water and \$37,944 to wastewater.

Staff believes that related party transactions require close scrutiny. However, the fact that the transaction is between related parties does not mean the transaction is unreasonable. It is the utility's burden to prove that its costs are reasonable. Florida Power Corp. v. Cresse, 413, So. 2d 1187, 1191 (Fla. 1982). The burden is even greater when the transaction is between related parties. In GTE Florida Inc. v. Deason, 642 So. 2d 545 (Fla. 1994), the court established that the standard to use in evaluating affiliate transactions is whether those transactions exceed the going market rate or are otherwise inherently unfair.

The utility provided a breakdown of costs for the management fee which showed over 84% of the fee was allocated to the President and Chief Financial officer of Greater Construction Company for review of utility reports. Staff believes the reviews completed by the officers of Greater Construction is duplicitive of work performed by utility officers and directors, but do realize that some work is necessary between the two company staffs due to

allocations of rent, utility services, payroll, and so forth. By Order No. PSC-92-1356-FOF-WS, in Docket No. 900338-WS, the Commission allowed a total consulting fee of \$25,000 for Greater Construction Corporation. Staff indexed up the previously approved consulting amount for Greater Construction Corporation using the Commission approved yearly index figures, and made an adjustment of (\$27,339) to water and (\$23,761) to wastewater which results in a total Greater Construction consulting fee of \$30,500 which staff believes is more reasonable. Staff recommends a Greater Construction consulting fee allocation of \$16,317 for water and \$14,183 for wastewater.

Staff also made adjustments of \$2,067 to water and \$1,833 to wastewater to reclassify consulting costs from contractual services - testing. Total adjustments for contractual services - management fees amount to (\$106,839) for water and (\$94,261) for wastewater. Staff recommends test year contractual services - management fees of \$15,909 for water and \$14,591 for wastewater.

Contractual Services - Testing - The utility recorded contractual services - testing costs of \$9,271 for water and \$66,411 for wastewater during the test year. Audit Exception No. 7 recommends reclassifications of some test year expenses. Staff made adjustments to water contractual services testing to: reclassify \$23,324 of testing costs from contractual services - engineering; reclassify \$2,067 of consulting fees to contractual services - management fees; reclassify \$1,569 of garbage service to contractual services - other; and reclassify \$5,635 of maintenance expenses to contractual services - other.

Staff made adjustments to wastewater contractual services testing to: reclassify \$31,029 of testing costs from contractual services - engineering; reclassify \$1,833 of consulting fees to contractual services - management fees; reclassify \$58,745 of purchased wastewater service to account No. 710; reclassify \$1,391 of garbage service to contractual services - other; and reclassify \$2,432 of maintenance expenses to contractual services - other.

Total adjustments for contractual services - testing amount to \$14,053 for water and (\$33,372) for wastewater. Staff recommends test year contractual services - testing of \$23,324 for water and \$33,039 for wastewater.

Contractual Services - Other - The utility recorded no contractual services - other costs during the test year. Audit Exception No. 7 recommends reclassifications of some test year expenses. Staff made adjustments of \$1,569 to water and \$1,391 to wastewater to

reclassify garbage service costs from contractual services - testing. Staff also made adjustments of \$5,635 to water and \$2,432 to wastewater to reclassify maintenance expenses from contractual services - testing.

Total adjustments for contractual services - other amount to \$7,204 for water and \$3,823 for wastewater. Staff recommends test year contractual services - other of \$7,204 for water and \$3,823 for wastewater.

Transportation - The utility recorded transportation costs of \$26,737 for water and \$29,600 for wastewater during the test year. Audit Exception No. 10 recommends reclassifications of some test year expenses. Staff made adjustments of \$2,171 to water and \$3,266 to wastewater to reclassify truck expenses from the miscellaneous expense account. Staff also made adjustments of (\$1,456) to water and (\$1,575) to wastewater to reclassify officer's car expense to miscellaneous non-utility expense. Total adjustments for transportation expense amount to \$715 for water and \$1,691 for wastewater. Staff recommends test year transportation expense of \$27,452 for water and \$31,291 for wastewater.

Miscellaneous Expenses - The utility recorded miscellaneous expenses of \$122,950 for water and \$174,377 for wastewater during the test year. Audit Exception No. 7 recommends reclassifications of some test year expenses. Staff made adjustments of \$2,171 to water and \$3,266 to wastewater miscellaneous expenses to reclassify truck expenses to transportation expense, and made adjustments of \$5,363 to water, and \$5,353 to wastewater to reclassify training and hepatitis shot costs from employee pensions and benefits.

As disclosed in Audit Exception No. 11, this account also included \$256 of water and \$211 of wastewater charitable contributions. Rule 25-30.433(6), Florida Administrative Code, states "Charitable contributions shall not be recovered through rates." Staff made adjustments of (\$256) to water and (\$211) to wastewater to reclassify charitable contributions to non-utility expense. Total adjustments for miscellaneous expense amount to \$2,941 for water and \$1,876 for wastewater. Staff recommends test year miscellaneous expense of \$125,891 for water and \$176,253 for wastewater.

Operation and Maintenance Expenses (O & M) Summary

Total operation and maintenance adjustments are (\$163,488) for water and (\$183,627) for wastewater. Staff recommends operation and maintenance expenses of \$1,548,347 for water and \$1,934,558 for

wastewater. Operation and maintenance expenses for water are shown in Schedule No. 3D and operation and maintenance expenses for wastewater are shown in Schedule No. 3E.

Taxes Other Than Income Taxes

The utility recorded test year taxes other than income of \$166,208 for water and \$245,852 for wastewater. Per Audit Exception No. 12, the utility did not pay some of its real estate taxes on the earliest due date thereby forfeiting any discounts. Staff made adjustments of (\$168) to water and (\$342) to wastewater to reflect the discounted amount of real estate taxes. Staff also made adjustments of (\$3,717) to water and (\$4,490) to wastewater to reflect the reduction in utility payroll after the salaries of two employees and one officer were allocated 50-50 between the utility and Greater Construction Company.

Total adjustments for taxes other than income amount to (\$3,885) for water and (\$4,832) for wastewater. Staff recommends test year taxes other than income of \$162,323 for the water system and \$241,020 for the wastewater system, prior to any revenue decrease.

Income Taxes

The utility recorded test year income taxes of (\$774) for water and \$87,881 for wastewater. Staff made an adjustment of \$70,543 to water and \$70,167 to wastewater income taxes to reflect the amount of income tax associated with staff's recommended test year operating income.

Operating Expenses Summary

The application of staff's recommended adjustments to the utility's test year operating expenses results in staff's recommended operating expenses prior to any revenue decrease of \$1,860,099 and \$2,492,966 for water and wastewater, respectively.

Operating expenses for water are shown on Schedule No. 3A and operating expenses for wastewater are shown on Schedule No. 3B. Adjustments are shown on Schedule No. 3C.

ISSUE 5: Did Sanlando earn in excess of its authorized return on equity for 1997?

RECOMMENDATION: Yes, the Commission should recognize \$172,146 of water revenue and \$385,898 of wastewater revenue which exceeds Sanlando's recommended 1997 authorized return on equity of 10.46% as final determination of 1997 earnings. For purposes of the index refund using the upper range of 14.51% established in the utility's last rate case order, the Commission should recognize \$165,070 of water revenue and \$368,561 of wastewater revenue which exceeds the upper range of return on common equity. (CASEY, RENDELL)

STAFF ANALYSIS: In Order No. 23809, Sanlando's return on equity was established at 13.51%, with a range of 12.51% to 14.51%. Issue No. 2 recommends the Commission establish a new authorized return on equity of 10.46% for Sanlando using the 1997 leverage graph for purposes of this recommendation. Staff's adjusted test year figures show water revenues of \$2,034,193 with operating expenses of \$1,860,099 resulting in a water operating income of \$174,094 which reflects a 108.98% rate of return on equity.

Staff's adjusted test year figures show wastewater revenues of \$2,898,138 with operating expenses of \$2,492,966 resulting in a wastewater operating income of \$405,172 which reflects a 100.61% rate of return on equity.

The Commission should recognize \$172,146 of water revenue and \$385,898 of wastewater revenue which exceeds Sanlando's recommended authorized return on equity of 10.46% as final determination of 1997 earnings. For purposes of the index refund using the upper range of 14.51% established in utility's last rate case order, the Commission should recognize \$165,070 of water revenue and \$368,561 of wastewater revenue which exceeds the upper range of return on common equity.

ISSUE 6: What should be the disposition of 1997 and 1998 overearnings which are subject to refund?

RECOMMENDATION: The amount of utility overearnings held subject to refund for 1997 and 1998, \$126,940 for water and \$238,763, should be credited to CIAC within 90 days of the effective date of the Commission Order. The amount of these credits should be made with interest (\$11,520 for water and \$21,669 for wastewater) as required by Rule 25-30.360 (4), Florida Administrative Code. Staff is recommending deferring any change in rates until a comprehensive analysis of the utility's 1999 books can be concluded. Any potential overearnings for 1999 will be addressed once the utility submits its 1999 annual report and staff completes an audit of the utility's books for 1999. (CASEY, RENDELL)

STAFF ANALYSIS: Normally, if a utility is found to be earning in excess of its authorized rate of return and revenues are held subject to refund, a refund is made to customers and the utility's rates are reduced to prevent future overearnings. In this case, staff is recommending that the overearnings for 1997 and 1998 which are subject to refund should be credited, with interest, to CIAC.

Sanlando presently has some of the lowest rates in the state with a water base facility charge of \$4.36 and gallonage rate of \$0.386 per 1,000 gallons, and a wastewater base facility charge of \$10.30 and gallonage rate of \$1.359 per 1,000 gallons (up to a maximum of 10,000 gallons). Staff would not want to send the wrong signal to the customers by reducing already low rates which may result in increased water usage. The estimated average monthly consumption for 1997 was 24,458 gallons per month per customer. Conservation measures to reduce this average consumption will be addressed in a future recommendation.

Sanlando is in the process of developing a reuse project which will increase its rate base by approximately \$5,000,000 and which staff believes will eliminate any overearnings. By crediting the utility overearnings and interest to CIAC, costs of the reuse project will be partially offset, and customers will benefit through lower rates on a prospective basis.

By Order No. PSC-98-0892-PCO-WS, issued July 6, 1998, the Commission ordered the utility to hold 5.17% of water revenues and 9.86% of wastewater revenues subject to refund as of the June 16, 1998, the date of the Commission vote.

DOCKET NO. 980670-WS
DATE: DECEMBER 9, 1999

In addition to the revenues held subject to refund beginning June 16, 1998, additional revenues are subject to refund because of price indexes initiated in 1996 and 1997. Pursuant to Section 367.081(4)(d), Florida Statutes, the Commission may order a utility to refund, with interest, a price index and/or pass-through rate adjustment if, within 15 months after the filing of a utility's annual report, the Commission finds that the utility exceeded the range of its last authorized rate of return on equity after an index and/or pass-through rate adjustment was implemented within the year for which the annual report was filed or was implemented in the preceding year. The utility's 1997 annual report was filed on April 30, 1998. Consequently, fifteen months from that date is July 30, 1999 which would be the normal deadline for determining possible overearnings for 1997; however, the utility has provided the Commission with a waiver of the fifteen month deadline through December 31, 1999.

The utility implemented a 1997 price index on December 5, 1997 which provided additional annual revenues of \$27,337 for water and \$39,630 for wastewater. The 1997 index revenues which are subject to refund are \$1,947 for water and \$2,823 for wastewater. The statute also provides that indexes implemented in the previous year of the annual report which caused the utility to overearn in the year of the annual report are also subject to refund. The utility implemented a 1996 price index on September 8, 1996 which provided additional annual revenues of \$32,048 for water and \$45,157 for wastewater. This also caused the utility to overearn by those amounts in 1997. Therefore, an additional \$32,048 of water revenues and \$45,157 of wastewater revenues are also subject to refund. For 1997, revenues subject to refund from indexes total \$33,995 for water and \$47,980 for wastewater.

By Order No. PSC-99-0152-FOF-WS, issued January 25, 1999, the Commission approved the transfer of majority organizational control to Utilities, Inc. The actual transfer took place July 2, 1998. Staff believes that this transfer will provide the utility with reduced operating expenses through economies of scale; however, staff also believes overearnings continued through 1998. In 1998 the utility was controlled by Sanlando for six months and Utilities, Inc. for six months. Staff believes it is preferable to audit a full year of 1999 utility records when Utilities, Inc. managed the utility, rather than completing an audit of 1998.

Index overearnings subject to refund from January 1, 1998 through June 16, 1998 (167 days) are \$27,169 for water and \$38,790 as shown below:

DOCKET NO. 980670-WS
 DATE: DECEMBER 9, 1999

	<u>Water</u>	<u>Wastewater</u>
From 1996 Index	\$32,048	\$45,157
From 1997 Index	<u>\$27,337</u>	<u>\$39,630</u>
Sub Total	\$59,385	\$84,787
167 days/365 days	<u>x .4575</u>	<u>x .4575</u>
Total	<u>\$27,169</u>	<u>\$38,790</u>

As mentioned above, by Order No. PSC-98-0892-PCO-WS, issued July 6, 1998, the Commission ordered the utility to hold 5.17% of water revenues and 9.86% of wastewater revenues subject to refund as of the June 16, 1998, the date of the Commission vote. These percentages include the amounts from the 1996 and 1997 indexes. The following amounts were held subject to refund from June 16, 1998 through December 31, 1998:

	<u>Water</u>	<u>Wastewater</u>
June 1998 (14 days)	\$ 4,361	\$ 8,862
July 1998	\$ 10,589	\$ 20,080
August 1998	\$ 12,973	\$ 23,913
September 1998	\$ 9,283	\$ 23,761
October 1998	\$ 9,334	\$ 27,046
November 1998	\$ 9,434	\$ 24,124
December 1998	<u>\$ 9,800</u>	<u>\$ 24,204</u>
Total	<u>\$ 65,774</u>	<u>\$ 151,990</u>

Total 1998 revenues held subject to refund are \$92,782 for water and \$190,551 for wastewater.

The following is a staff breakdown of 1997 and 1998 overearnings including interest calculated using Rule 25-30.360 (4), Florida Administrative Code:

<u>Overearnings subject to refund</u>	<u>Water</u>	<u>Wastewater</u>
1997 overearnings from 1996 index	\$ 32,048	\$ 45,157
1997 overearnings from 1997 index	\$ 1,947	\$ 2,823
1998 overearnings from 1996 index (January 1, 1998-June 16, 1998)	\$ 14,663	\$ 20,659
1998 overearnings from 1997 index (January 1, 1998-June 16, 1998)	\$ 12,508	\$ 18,131
1998 overearnings since June 16, 1998	<u>\$ 65,774</u>	<u>\$ 151,990</u>
Sub Total	\$126,940	\$ 238,763
Interest	<u>\$ 11,520</u>	<u>\$ 21,669</u>
Total Overearnings and Interest	<u>\$138,460</u>	<u>\$ 260,432</u>

The utility should credit water CIAC in the amount of \$138,460 and wastewater CIAC in the amount of \$260,432 within 90 days of the

DOCKET NO. 980670-WS
DATE: DECEMBER 9, 1999

effective date of the Commission Order to reflect overearnings for 1997 and 1998 which have been held subject to refund plus interest.

Although overearnings may have carried over to 1999, staff is recommending deferring any change in rates until a comprehensive analysis of the utility's 1999 books can be done. This would provide staff a full year of Utilities, Inc. management and costs for Sanlando. As mentioned above, Sanlando presently has some of the lowest rates in the state and staff would not want to send the wrong signal to the customers by reducing already low rates which may result in increased usage. Implementing the estimated \$5,000,000 reuse project for Sanlando should eliminate any overearnings. Any potential overearnings for 1999 will be addressed once the utility submits its 1999 annual report and staff completes an audit of the utility's books for 1999.

DOCKET NO. 980670-WS
DATE: DECEMBER 9, 1999

ISSUE 7: Should the utility continue to hold annual water and wastewater revenues subject to refund?

RECOMMENDATION: Yes, Sanlando should continue to hold 5.17% of annual water and 9.86% of annual wastewater revenues subject to refund as ordered by Commission Order No. PSC-98-0892-PCO-WS, issued July 6, 1998, pending a review of 1999 earnings. (CASEY, RENDELL)

STAFF ANALYSIS: By Order No. PSC-99-0152-FOF-WS, issued January 25, 1999, the Commission approved the transfer of majority organizational control to Utilities, Inc. The actual transfer took place July 2, 1998. Staff believes that this transfer will provide the utility with reduced operating expenses through economies of scale; however, staff also believes overearnings continued through 1998. In 1998 the utility was controlled by Sanlando for six months and Utilities, Inc. for six months. Staff believes it is preferable to audit a full year of 1999 utility records when Utilities, Inc. managed the utility, rather than completing an audit of 1998.

Staff also believes the utility overearnings may have carried over to 1999. In Issue No. 6, staff is recommending deferring any change in rates until a comprehensive analysis of the utility's 1999 books can be done through a staff audit. Sanlando should continue to hold 5.17% of annual water and 9.86% of annual wastewater revenues subject to refund as ordered by Commission Order No. PSC-98-0892-PCO-WS, issued July 6, 1998, pending a review of 1999 earnings.

ISSUE 8: Should the existing corporate undertaking submitted by Utilities, Inc. for security to guarantee the amount subject to refund be maintained?

RECOMMENDATION: Yes, Utilities, Inc.'s existing corporate undertaking for this proceeding should be maintained as security pending the outcome of an analysis of the utility's 1999 earnings. Further, an accurate and detailed account of all monies received should continue to be kept by the utility. By no later than the twentieth (20th) day of each month, the utility should file a report showing the amount of revenues collected each month subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code. (MAUREY, CASEY, RENDELL)

STAFF ANALYSIS: By Order No. PSC-98-0892-PCO-WS, the Commission required Sanlando to collect revenues subject to refund pending the outcome of its investigation in this docket. Pursuant to Section 367.082, Florida Statutes, the utility is authorized to continue collecting the previously authorized rates; however, revenues collected under those rates sufficient to reduce the achieved rate of return to the maximum of the rate of return shall be placed under bond, escrow, letter of credit, or corporate undertaking subject to refund with interest at a rate ordered by the Commission. Utilities, Inc. submitted a corporate undertaking to guarantee the amount subject to refund. Staff believes utility overearnings may continue into 1999 and is recommending an audit of 1999 utility records be completed once the utility's annual report has been submitted, to determine if Sanlando's 1999 revenues exceeded its recommended return on equity.

Staff recommends that the utility maintain the existing corporate undertaking as guarantee of any potential refund of revenues collected under the interim conditions pending the outcome of an analysis of the utility's 1999 earnings. Further, an accurate and detailed account of all monies received should continue to be kept by the utility. By no later than the twentieth (20th) day of each month, the utility should file a report showing the amount of revenues collected each month subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code.

In no instance should maintenance and administrative costs associated with any refund be borne by the customers. These costs are the responsibility of, and should be borne by the utility.

DOCKET NO. 980670-WS
DATE: DECEMBER 9, 1999

ISSUE 9 Should this docket be closed?

RECOMMENDATION: No. If no timely protest is received upon expiration of the protest period, the PAA Order will become final upon the issuance of a Consummating Order. However, this docket should remain open pending an audit and analysis of the utility's earnings for 1999. (VACCARO, CASEY, RENDELL)

STAFF ANALYSIS: If no timely protest is received upon expiration of the protest period, the PAA Order will become final upon the issuance of a Consummating Order. However, this docket should remain open pending an audit and analysis of the utility's earnings for 1999. This recommendation addresses 1997 and 1998 Sanlando overearnings. In Issue No. 6, staff is recommending deferring any change in rates until a comprehensive analysis of the utility's 1999 books can be done. Any potential overearnings for 1999 will be addressed once the utility submits its 1999 annual report and staff completes an audit of the utility's books for 1999.

SANLANDO UTILITIES CORPORATION
 TEST YEAR ENDING DECEMBER 31, 1997
 SCHEDULE OF WATER RATE BASE

SCHEDULE NO. 1 A
 DOCKET NO. 980670-WS

	<u>BALANCE PER UTILITY</u>	<u>STAFF ADJUST. TO UTIL. BAL.</u>	<u>BALANCE PER STAFF</u>
LAND AND LAND RIGHTS	\$ 116,578	\$ (202) A	\$ 116,376
UTILITY PLANT IN SERVICE	12,095,967	(105,881) B	11,990,086
CONSTRUCTION WORK IN PROCESS	33,507	(15,722) C	17,785
ACCUMULATED DEPRECIATION	(5,554,127)	172,294 D	(5,381,833)
CIAC	(10,330,055)	30,950 E	(10,299,105)
ACCUMULATED AMORTIZATION OF CIAC	4,482,760	(145,056) F	4,337,704
DEFERRED INCOME TAXES	22,603	(467) G	22,136
WORKING CAPITAL	211,440	(180,522) H	30,918
WATER RATE BASE	\$ <u>1,078,673</u>	\$ <u>(244,606)</u>	\$ 834,067

SANLANDO UTILITIES CORPORATION
 TEST YEAR ENDING DECEMBER 31, 1997
 SCHEDULE OF WASTEWATER RATE BASE

SCHEDULE NO. 1 B
 DOCKET NO. 980670-WS

	<u>BALANCE PER UTILITY</u>	<u>STAFF ADJUST. TO UTIL. BAL.</u>	<u>BALANCE PER STAFF</u>
LAND AND LAND RIGHTS	\$ 202,552	\$ (172) A	\$ 202,380
UTILITY PLANT IN SERVICE	13,510,685	(86,399) B	13,424,286
CONSTRUCTION WORK IN PROCESS	167,573	(81,290) C	86,283
ACCUMULATED DEPRECIATION	(7,079,969)	239,081 D	(6,840,888)
CIAC	(10,405,584)	35,297 E	(10,370,287)
ACCUMULATED AMORTIZATION OF CIAC	5,587,752	(170,137) F	5,417,615
DEFERRED INCOME TAXES	52,865	(1,092) G	51,773
WORKING CAPITAL	267,001	(194,686) H	72,315
WASTEWATER RATE BASE	\$ <u>2,302,875</u>	\$ <u>(259,398)</u>	\$ <u>2,043,477</u>

SANLANDO UTILITIES CORPORATION
 TEST YEAR ENDING DECEMBER 31, 1997
 ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1 C
 DOCKET NO. 980670-WS

	<u>WATER</u>	<u>WASTEWATER</u>
A. <u>LAND AND LAND RIGHTS</u>		
1. To reflect an averaging adjustment.	\$ <u>(202)</u>	\$ <u>(172)</u>
B. <u>UTILITY PLANT IN SERVICE</u>		
1. To reflect an averaging adjustment.	\$ <u>(105,881)</u>	\$ <u>(86,399)</u>
C. <u>CONSTRUCTION WORK IN PROCESS</u>		
1. To reflect an averaging adjustment.	\$ <u>(15,722)</u>	\$ <u>(81,290)</u>
D. <u>ACCUMULATED DEPRECIATION</u>		
1. To reflect an averaging adjustment.	\$ <u>172,294</u>	\$ <u>239,081</u>
E. <u>CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)</u>		
1. To reflect an averaging adjustment.	\$ <u>30,950</u>	\$ <u>35,297</u>
F. <u>ACCUMULATED AMORTIZATION OF CIAC</u>		
1. To reflect an averaging adjustment.	\$ <u>(145,056)</u>	\$ <u>(170,137)</u>
G. <u>DEFERRED INCOME TAXES</u>		
1. To reflect an averaging adjustment.	\$ <u>(467)</u>	\$ <u>(1,092)</u>
H. <u>WORKING CAPITAL ALLOWANCE</u>		
1. To reflect working capital using balance sheet approach.	\$ <u>(180,522)</u>	\$ <u>(194,686)</u>

SANLANDO UTILITIES CORPORATION
 TEST YEAR ENDING DECEMBER 31, 1997
 SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
 DOCKET NO. 980670-WS

	BALANCE PER UTILITY 1997 ANN.RPT	SPECIFIC ADJUSTMENTS	PRO-RATA ADJUSTMENTS	ADJUSTED BALANCE	RATIO	COST RATE	WEIGHTED COST
COMMON EQUITY	\$ 3,575	\$ 0	\$ (917)	\$ 2,658	0.09%	10.46%	0.01%
OTHER PAID-IN-CAPITAL	74,750	0	\$ (19,177)	\$ 55,573	1.93%	10.46%	0.20%
RETAINED EARNINGS	1,404,620	0	\$ (360,348)	\$ 1,044,272	36.29%	10.46%	3.80%
REACQUIRED STOCK	(1,000,000)	0	\$ 256,545	\$ (743,455)	-25.84%	10.46%	-2.70%
LONG TERM DEBT	455	0	(117)	338	0.01%	9.51%	0.00%
LONG TERM DEBT	1,344	0	(345)	999	0.03%	10.54%	0.00%
LONG TERM DEBT	3,765	0	(966)	2,799	0.10%	10.26%	0.01%
LONG TERM DEBT	5,908	0	(1,516)	4,392	0.15%	9.08%	0.01%
LONG TERM DEBT	11,651	0	(2,989)	8,662	0.30%	9.05%	0.03%
LONG TERM DEBT	12,640	0	(3,243)	9,397	0.33%	9.08%	0.03%
LONG TERM DEBT	12,172	0	(3,123)	9,049	0.31%	9.32%	0.03%
LONG TERM DEBT	12,217	0	(3,134)	9,083	0.32%	9.53%	0.03%
LONG TERM DEBT	12,217	0	(3,134)	9,083	0.32%	9.53%	0.03%
LONG TERM DEBT	17,033	0	(4,370)	12,663	0.44%	9.26%	0.04%
LONG TERM DEBT	19,927	0	(5,112)	14,815	0.51%	9.76%	0.05%
LONG TERM DEBT	2,243,400	0	(575,533)	1,667,867	57.96%	8.40%	4.87%
LONG TERM DEBT	863,347	0	(221,487)	641,860	22.31%	8.40%	1.87%
CUSTOMER DEPOSITS	171,481	0	(43,993)	127,488	4.43%	6.00%	0.27%
INVESTMENT TAX CREDITS	0	0	0	0	0.00%	0.00%	0.00%
DEFERRED INCOME TAXES	0	0	0	0	0.00%	0.00%	0.00%
TOTAL	\$ 3,870,502	\$ 0	\$ (992,958)	\$ 2,877,544	100.00%		8.58%

RANGE OF REASONABLENESS

LOW HIGH

RETURN ON EQUITY	9.46%	11.46%
OVERALL RATE OF RETURN	8.45%	8.70%

SANLANDO UTILITIES CORPORATION
 TEST YEAR ENDING DECEMBER 31, 1997
 SCHEDULE OF WATER OPERATING INCOME

SCHEDULE NO. 3 A
 DOCKET NO. 980670-WS

	BALANCE PER UTILITY	STAFF ADJ. TO UTILITY	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE/ (DECREASE)	TOTAL PER STAFF
OPERATING REVENUES	\$ 2,034,193	\$ 0	\$ 2,034,193	\$ (172,146) D -8.46%	\$ 1,862,047
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	1,711,835	(163,488) A	1,548,347	0	1,548,347
DEPRECIATION (NET)	79,660	0	79,660	0	79,660
AMORTIZATION (OTHER)	0	0	0	0	0
TAXES OTHER THAN INCOME	166,208	(3,885) B	162,323	(7,747) E	154,576
INCOME TAXES	(774)	70,543 C	69,769	(61,863) F	7,906
TOTAL OPERATING EXPENSES	\$ 1,956,929	\$ (96,830)	\$ 1,860,099	\$ (69,610)	\$ 1,790,489
OPERATING INCOME/(LOSS)	\$ 77,264		\$ 174,094		\$ 71,558
WATER RATE BASE	\$ 1,078,673		\$ 834,067		\$ 834,067
RATE OF RETURN	7.16%		20.87%		8.58%
RATE OF RETURN ON EQUITY	-0.89%		108.98%		10.46%

SANLANDO UTILITIES CORPORATION
 TEST YEAR ENDING DECEMBER 31, 1997
 SCHEDULE OF WASTEWATER OPERATING INCOME

SCHEDULE NO. 3 B
 DOCKET NO. 980670-WS

	BALANCE PER UTILITY	STAFF ADJ. TO UTILITY	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE/ (DECREASE)	TOTAL PER STAFF
OPERATING REVENUES	\$ 2,898,138	\$ 0	\$ 2,898,138	\$ (385,898) D -13.32%	\$ 2,512,240
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	2,118,185	(183,627) A	1,934,558	0	1,934,558
DEPRECIATION	159,340	0	159,340	0	159,340
AMORTIZATION	0	0	0	0	0
TAXES OTHER THAN INCOME	245,852	(4,832) B	241,020	(17,365) E	223,655
INCOME TAXES	87,881	70,167 C	158,048	(138,679) F	19,369
TOTAL OPERATING EXPENSES	\$ 2,611,258	\$ (118,292)	\$ 2,492,966	\$ (156,044)	\$ 2,336,921
OPERATING INCOME/(LOSS)	\$ 286,880		\$ 405,172		\$ 175,318
WASTEWATER RATE BASE	\$ 2,302,875		\$ 2,043,477		\$ 2,043,477
OVERALL RATE OF RETURN	12.46%		19.83%		8.58%
RATE OF RETURN ON EQUITY	41.54%		100.61%		10.46%

SANLANDO UTILITIES CORPORATION
 TEST YEAR ENDING DECEMBER 31, 1997
 ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3 C
 DOCKET NO. 980670-WS
 PAGE 1 OF 2

A. OPERATION AND MAINTENANCE EXPENSES	WATER	WASTEWATER
1. Employee Salaries and Wages		
a. To reflect salaries of employees working for both Sanlando & Greater Construction Co. on a 50-50 time basis.	\$ <u>(19,913)</u>	\$ <u>(22,271)</u>
2. Officer Salaries and Wages		
a. To reflect 50% of salaries for employees working for both Sanlando and Greater Construction Co. on a 50-50 time basis.	\$ (27,534)	\$ (35,043)
b. To reclassify director's salaries from contractual services-mgt. fees.	79,500	70,500
c. To adjust director's salaries to staff recommended level.	<u>(53,700)</u>	<u>(48,300)</u>
	\$ <u>(1,734)</u>	\$ <u>(12,843)</u>
3. Employee Pensions and Benefits		
a. To reflect 50% of insurance expense for employees working for both Sanlando and Greater Construction Co. on a 50-50 time basis.	\$ (2,482)	\$ (3,159)
b. To reclassify training and hepatitis shots to miscellaneous expenses.	(5,368)	(5,353)
c. To reclassify non-utility expenses to Account No. 426, miscellaneous non-utility expense.	<u>(17,198)</u>	<u>(21,845)</u>
	\$ <u>(25,048)</u>	\$ <u>(30,357)</u>
4. Purchased Water and Wastewater Service		
a. To reclassify treated sewage expense from contractual services-testing.	\$ <u>0</u>	\$ <u>58,745</u>
5. Contractual Services - Engineering		
a. To reclassify testing costs to contractual services-testing.	\$ <u>(23,324)</u>	\$ <u>(31,029)</u>
6. Contractual Services - Legal		
a. To adjust legal fees to staff recommended level.	\$ <u>(11,543)</u>	\$ <u>(25,629)</u>
7. Contractual Services - Mgt. Fees		
a. To reclassify directors fees to officer salaries and wages.	\$ (79,500)	\$ (70,500)
b. To adjust Greater Construction consulting fees.	(27,339)	(23,761)
c. To reclassify consulting fees from contractual services-testing.	<u>2,067</u>	<u>1,833</u>
	\$ <u>(106,839)</u>	\$ <u>(94,261)</u>
8. Contractual Services - Testing		
a. To reclassify testing costs from contractual services-engineering.	\$ 23,324	\$ 31,029
b. To reclassify consulting fees to contractual services-mgt. fees.	(2,067)	(1,833)
c. To reclassify garbage service to contractual services-other.	(1,569)	(1,391)
d. To reclassify treated sewage expense to purchased sewer treatment.	0	(58,745)
e. To reclassify maintenance expense to contractual services-other.	<u>(5,635)</u>	<u>(2,432)</u>
	\$ <u>14,053</u>	\$ <u>(33,372)</u>
9. Contractual Services - Other		
a. To reclassify garbage service from contractual services-testing.	\$ 1,569	\$ 1,391
b. To reclassify maintenance expense from contractual services-testing.	<u>5,635</u>	<u>2,432</u>
	\$ <u>7,204</u>	\$ <u>3,823</u>
10. Transportation Expense		
a. To reclassify transportation expense from miscellaneous expenses.	\$ 2,171	\$ 3,266
b. To reclassify officer's car expense to miscellaneous non-utility expense.	<u>(1,456)</u>	<u>(1,575)</u>
	\$ <u>715</u>	\$ <u>1,691</u>
11. Miscellaneous Expenses		
a. To reclassify truck expenses to transportation expense.	\$ (2,171)	\$ (3,266)
b. To reclassify training and hepatitis shots from E.P. & B.	5,368	5,353
c. To reclassify charitable contributions to non-utility expense.	<u>(256)</u>	<u>(211)</u>
	\$ <u>2,941</u>	\$ <u>1,876</u>
TOTAL O & M ADJUSTMENTS	\$ <u>(163,488)</u>	\$ <u>(183,627)</u>

SANLANDO UTILITIES CORPORATION
 TEST YEAR ENDING DECEMBER 31, 1997
 ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3 C
 DOCKET NO. 980670-WS
 PAGE 2 OF 2

B. TAXES OTHER THAN INCOME	WATER	WASTEWATER
1. To reflect real estate tax discounts not taken.	\$ (168)	\$ (342)
2. To reflect reduction of payroll taxes due to payroll allocation.	(3,717)	(4,490)
	\$ (3,885)	\$ (4,832)
C. INCOME TAXES		
1. To adjust income taxes on test year operating income.	\$ 70,543	\$ 70,167
D. OPERATING REVENUES		
1. To reflect staff's recommended decrease in revenue.	\$ (172,146)	\$ (385,898)
E. TAXES OTHER THAN INCOME		
1. To reflect regulatory assessment fee associated with recommended revenue requirement.	\$ (7,747)	\$ (17,365)
F. INCOME TAXES		
1. To adjust for recommended revenue requirement.	\$ (61,863)	\$ (138,679)

SANLANDO UTILITIES CORPORATION
 TEST YEAR ENDING DECEMBER 31, 1997
 ANALYSIS OF WATER OPERATION AND
 MAINTENANCE EXPENSE

SCHEDULE NO. 3 D
 DOCKET NO. 980670-WS

	BALANCE PER UTILITY	STAFF ADJUST.	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$ 516,285	\$ (19,913)	\$ 496,372
(603) SALARIES AND WAGES - OFFICERS	99,805	(1,734)	98,071
(604) EMPLOYEE PENSIONS AND BENEFITS	112,550	(25,048)	87,502
(610) PURCHASED WATER	11,374	0	11,374
(615) PURCHASED POWER	362,419	0	362,419
(616) FUEL FOR POWER PRODUCTION	1,940	0	1,940
(618) CHEMICALS	100,002	0	100,002
(620) MATERIALS AND SUPPLIES	46,960	0	46,960
(631) CONTRACTUAL SERVICES-ENGINEERING	28,778	(23,324)	5,454
(632) CONTRACTUAL SERVICES-ACCOUNTING	3,972	0	3,972
(633) CONTRACTUAL SERVICES-LEGAL	26,997	(11,543)	15,454
(634) CONTRACTUAL SERVICES-MANAGEMENT FEE	122,748	(106,839)	15,909
(635) CONTRACTUAL SERVICES-TESTING	9,271	14,053	23,324
(636) CONTRACTUAL SERVICES-OTHER	0	7,204	7,204
(641) RENTAL OF BUILDING/REAL PROPERTY	64,234	0	64,234
(642) RENTAL OF EQUIPMENT	1,328	0	1,328
(650) TRANSPORTATION EXPENSES	26,737	715	27,452
(656) INSURANCE-VEHICLE	10,573	0	10,573
(657) INSURANCE-GENERAL LIABILITY	17,827	0	17,827
(658) INSURANCE-WORKER'S COMPENSATION	23,936	0	23,936
(659) INSURANCE-OTHER	0	0	0
(660) ADVERTISING EXPENSE	0	0	0
(666) REGULATORY COMMISSION EXPENSE			0
- AMORTIZATION OF RATE CASE EXPENSE	0	0	0
(667) REGULATORY COMMISSION EXPENSE-OTHER	0	0	0
(670) BAD DEBT EXPENSE	1,149	0	1,149
(675) MISCELLANEOUS EXPENSES	122,950	2,941	125,891
	\$ 1,711,835	\$ (163,488)	\$ 1,548,347

SANLANDO UTILITIES CORPORATION
 TEST YEAR ENDING DECEMBER 31, 1997
 ANALYSIS OF WASTEWATER OPERATION AND
 MAINTENANCE EXPENSE

SCHEDULE NO. 3 E
 DOCKET NO. 980670-WS

	BALANCE PER UTILITY	STAFF ADJUST.	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$ 634,310	\$ (22,271)	\$ 612,039
(703) SALARIES AND WAGES - OFFICERS	138,270	(12,843)	125,427
(704) EMPLOYEE PENSIONS AND BENEFITS	140,766	(30,357)	110,409
(710) PURCHASED SEWER TREATMENT	0	58,745	58,745
(711) SLUDGE REMOVAL EXPENSE	125,840	0	125,840
(715) PURCHASED POWER	236,193	0	236,193
(716) FUEL FOR POWER PURCHASED	1,220	0	1,220
(718) CHEMICALS	119,777	0	119,777
(720) MATERIALS AND SUPPLIES	48,241	0	48,241
(731) CONTRACTUAL SERVICES-ENGINEERING	53,675	(31,029)	22,646
(732) CONTRACTUAL SERVICES-ACCTOUNTING	4,428	0	4,428
(733) CONTRACTUAL SERVICES-LEGAL	59,275	(25,629)	33,646
(734) CONTRACTUAL SERVICES-MANAGEMENT FEES	108,852	(94,261)	14,591
(735) CONTRACTUAL SERVICES-TESTING	66,411	(33,372)	33,039
(736) CONTRACTUAL SERVICES-OTHER	0	3,823	3,823
(741) RENTAL OF BUILDING/REAL PROPERTY	85,147	0	85,147
(742) RENTAL OF EQUIPMENT	1,410	0	1,410
(750) TRANSPORTATION EXPENSES	29,600	1,691	31,291
(756) INSURANCE-VEHICLE	11,821	0	11,821
(757) INSURANCE-GENERAL LIABILITY	46,726	0	46,726
(758) INSURANCE-WORKER'S COMPENSATION	30,465	0	30,465
(759) INSURANCE-OTHER	0	0	0
(760) ADVERTISING EXPENSE	0	0	0
(766) REGULATORY COMMISSION EXPENSE	0	0	0
- AMORTIZATION OF RATE CASE EXPENSE	0	0	0
(767) REGULATORY COMMISSION EXPENSE-OTHER	0	0	0
(770) BAD DEBT EXPENSE	1,381	0	1,381
(775) MISCELLANEOUS EXPENSES	174,377	1,876	176,253
	\$ 2,118,185	\$ (183,627)	\$ 1,934,558