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Public Service Commission

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COMMISSION CLERK

June 14, 2012

Sunrise Utilities, LLC
Attn: Mike Smallridge
P.O. Box 1798
Eaton Park, FL 33840-1798

VIA ELECTRONIC MAIL

Re: Staff-Assisted Rate Case for Sunrise Utilities, LLC in Polk County, Docket No. 110238-WU

Dear Mr. Smallridge:

Enclosed are two copies of the staff report. Please ensure that a copy of the completed Application for Staff Assistance and the staff report are available for review, pursuant to Rule 25-22.0407 (9)(b), Florida Administrative Code, by all interested persons at the following location:

1902 Barton Park Road
Unit#201
Aurburndale, FL 33840

Should you have any questions about any of the matters contained herein, please do not hesitate to contact me at (850) 413-7021.

Sincerely,

Shannon J. Hudson

Shannon J. Hudson
Regulatory Analyst IV

Enclosures

SH

cc: Division of Economic Regulation (Maurey, Smith, Daniel, Fletcher, Hudson, Simpson)
Office of General Counsel (Teitzman, Murphy)
Office of Commission Clerk (Docket No. 110238-WU)

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Public Service Commission

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

DATE: June 6, 2012

TO: Andrew Maurey, Bureau Chief, Bureau of Rate Filings

FROM: Shannon Hudson, Regulatory Analyst IV SH
Robert Simpson, Engineering Specialist II
Sonica Bruce, Regulatory Analyst IV

RE: Docket No. 110238-WU – Application for staff-assisted rate case in Polk County by Sunrise Utilities, LLC.

– STAFF REPORT –

This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting.

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Case Background

Sunrise Utilities, LLC (Sunrise or Utility) is a Class C utility serving approximately 234 water customers in Polk County. The Utility's service area is located in the Southwest Florida Water Management District (SWFWMD or District), but is not within a water use caution area. According to Sunrise's 2011 annual report, total gross revenue was $64,486 and total operating expenses were $74,030, resulting in a net loss of $9,544. Sunrise was issued Certificate No. 582-W by Order No. PSC-05-0308-PAA-WU,[1] as a result of a Commission approved transfer of the Utility from Keen Sales, Rentals, and Utilities, Inc. (Keen). Rate base was established as of the transfer date, February 10, 2004. Sunrise's last application for staff-assisted rate case (SARC) was in 2009.[2] The Utility withdrew its application.

This Staff Report is a **preliminary** analysis of the Utility prepared by the Florida Public Service Commission (Commission) staff to give utility customers and the Utility an advanced look at what staff may be proposing. The final recommendation to the Commission (currently scheduled to be filed September 6, 2012, for the September 18, 2012, Commission Conference) will be revised as necessary using updated information and results of customer quality of service or other relevant comments received at the customer meeting. The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.0814, 367.101, and 367.121, Florida Statutes (F.S.).

[1] See Order No. PSC-05-0308-PAA-WU, issued March 21, 2005, in Docket No. 040159-WU, In re: Application for transfer of portion of Certificate No. 582-W by Keen Sales, Rentals and Utilities, Inc. to Sunrise Utilities, LLC, in Polk County.
[2] Docket No. 090497-WU, In re: Application for staff-assisted rate case in Polk County by Sunrise Utilities, LLC.

Discussion of Issues

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

Preliminary Recommendation: The staff recommendation regarding customer satisfaction and the overall quality of service will not be finalized until after the June 28, 2012 customer meeting. (Simpson)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission determines the overall quality of service provided by a utility by evaluating three separate components of water operations. These components are the quality of the utility's product, the operating condition of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. The Utility's current compliance with the Polk County Health Department (PCHD) is also considered.

In the Utility's last rate case,[3] the quality of service provided by Sunrise Water Company was found to be unsatisfactory as a direct result of mismanagement. The order specifically noted the lack of an after hours emergency contact, rude utility employees, and improper noticing prior to disconnections. The system was subsequently transferred to the current owner in 2004.[4]

The PCHD conducted a sanitary survey of the Utility on October 25, 2011, and noted several deficiencies. The deficiencies included a leaking pressure relief valve, a well seal that was not watertight, inadequate well venting, a malfunctioning well flow meter, inadequate protection of the chlorine solution storage container, a malfunctioning auxiliary power unit, lack of an emergency response plan, no drinking water distribution map available for review, a dirty sight glass, a leaking chlorine pump, and a damaged fence. In addition, the Utility was put on notice that the inspections for the two hydropneumatic tanks were due by January 1, 2012. A follow-up sanitary survey inspection was conducted on March 3, 2012, which revealed that the October 2011 deficiencies had not been corrected. On April 5, 2012, the PCHD issued a warning letter based on the deficiencies found in the October and March inspections. Another warning letter was sent to the Utility on April 17, 2012 regarding the outstanding hydropneumatic tank inspections. A consent order between the PCHD and the Utility was executed on May 18, 2012, requiring the repairs addressed in the prior warning letters to be completed by May 25, 2012. The order further required the Utility to submit a written emergency plan and water distribution map by May 25, 2012, and have the two hydropneumatic tanks professionally evaluated by January 1 and May 1, 2013. The Utility was also ordered to pay $200 for costs incurred by the PCHD during the investigation and preparation of the consent order. The Utility has requested that the cost associated with correcting several of the deficiencies, including inspection and cleaning the hydropneumatic tanks, repairs to the well site, and a meter replacement program, be included in this rate case. The pro forma items are addressed in Issue 13.

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

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

Staff reviewed the Commission's Consumer Activity Tracking System (CATS) and found eight complaints over the last three years. The complaints related to water outages and billing issues. All eight complaints have been closed. The staff recommendation regarding customer satisfaction and the overall quality of service will not be finalized until the June 28, 2012 customer meeting.

Issue 2: What are the used and useful percentages for Sunrise?

Preliminary Recommendation: The Sunrise water treatment plant and distribution system are 100 percent used and useful (U&U). A 16 percent adjustment should be made to chemicals and electricity to reflect excessive unaccounted for water (EUW). (Simpson)

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

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

According to the Utility's records, 21.144 million gallons of finished water were produced during the test year and 15.594 million gallons were sold. The Utility did not provide any information regarding water used for line flushing or other uses. Pursuant to Rule 25-30.4325(1)(e), F.A.C., unaccounted for water in excess of 10 percent of the amount produced is considered EUW; therefore, 16 percent of the water produced (13.06 gpm) should be considered EUW. The Utility has indicated that the residential meters are running slow. In the last rate case, $17,500 was included in rate base to allow the Utility to replace 145 meters. In the instant case, the Utility has requested funding for a meter replacement program for an additional 75 meters. Based on a firm reliable capacity of 150 gpm, a peak day of 230 gpm, and EUW of 13.06 gpm, the WTP is 100 percent U&U.

The service area appears to be built out, and the water distribution system was designed to serve the existing customers. Therefore, staff recommends that the water distribution system be considered 100 percent U&U consistent with the last rate case.

Issue 3: What is the appropriate average test year rate base for Sunrise?

Preliminary Recommendation: The appropriate average test year rate base for the Utility is $57,017. (Hudson)

Staff Analysis: The appropriate components of the Utility's rate base include utility plant in service (UPIS), contributions-in-aid-of-construction (CIAC), accumulated depreciation, amortization of CIAC, and working capital. Rate base for Sunrise was last established in its 2005 transfer docket.[5] The Utility's rate base was last audited in 2009 when Sunrise applied for a SARC. The Utility subsequently withdrew the application for a SARC. Staff selected test year ended September 30, 2011 for this rate case. Rate base components established in the transfer docket have been updated through September 30, 2011 using information obtained from staff's SARC audits from the prior rate case request and the instant docket. A summary of each component and the adjustments follows:

Utility Plant in Service (UPIS): The Utility recorded a UPIS balance of $120,909. Staff has decreased UPIS by $11,000 to remove a plant addition for a pump that was recorded twice. Staff has decreased this account by $1,041 for lack of support documentation for meters. Also, staff has decreased this account by $2,215 to reflect an averaging adjustment. Staff's recommended adjustments to UPIS result in a decrease of $14,256. Staff recommends a UPIS balance of $106,652.

Land: Sunrise recorded land of $0. The amount was established at $553 during the transfer docket.[6] There have been no additions since that time. Staff has increased land by $553 to reflect the appropriate balance. Staff recommends land of $553.

Non-Used and Useful Plant: As discussed in Issue 2, Sunrise's WTP and distribution system are 100 percent U&U. Therefore, a U&U adjustment is not necessary.

Contribution in Aid of Construction (CIAC): The Utility recorded test year CIAC of $12,393. Staff has determined the appropriate CIAC to be $12,393. Therefore, staff recommends no adjustment to CIAC.

Accumulated Depreciation: Sunrise recorded a balance for accumulated depreciation of $53,327. Staff has calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff's calculated accumulated depreciation is $58,020. As a result, accumulated depreciation has been increased by $4,693. In addition, staff has decreased accumulated depreciation by $2,421 to reflect an averaging adjustment. Staff recommends accumulated depreciation of $55,599.

Accumulated Amortization of CIAC: The Utility recorded an amortization of CIAC balance of $8,496. Amortization of CIAC has been calculated by staff using composite depreciation rates. As a result, accumulated amortization of CIAC should be increased by $1,899. In addition, this

[5] See Order No. PSC-05-0308-PAA-WU, issued March 21, 2005, in Docket No. 040159-WU, In re: Application for transfer of portion of Certificate No. 582-W by Keen Sales, Rentals and Utilities, Inc. to Sunrise Utilities, LLC, in Polk County.
[6] See Order No. PSC-05-0308-PAA-WU, page 4.

account should be decreased by $276 to reflect an averaging adjustment. Staff's adjustments to this account result in an amortization of CIAC balances of $10,120.

Working Capital Allowance: Sunrise recorded working capital of $0. Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses or going-concern requirements of the Utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of $7,685 (based on O&M expense of $61,478/8). Staff has increased the working capital allowance by $7,685.

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate average test year rate base is $57,017. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

Issue 4: What is the appropriate rate of return on equity and overall rate of return for Sunrise?

Preliminary Recommendation: The appropriate return on equity (ROE) is 10.26 percent with a range of 9.26 percent to 11.26 percent. The appropriate overall rate of return is 7.10 percent. (Hudson)

Staff Analysis: The Utility's capital structure consists of common equity of $48,886, long-term debt of $46,112 and customer deposits of $51. The appropriate ROE is 10.26 percent using the Commission-approved leverage formula currently in effect.[6] The Utility's capital structure has been reconciled with staff's recommended rate base. Staff recommends an ROE of 10.26 percent, with a range of 9.26 percent to 11.26 percent, and an overall rate of return of 7.10 percent. The ROE and overall rate of return are shown on Schedule No. 2.

[6] See Order Nos. PSC-11-0287-PAA-WS, issued July 5, 2011, and PSC-11-0326-CO-WS, issued August 2, 2011, in Docket No. 110006-WS, In re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

Issue 5: What is the appropriate amount of test year revenue in this case?

Preliminary Recommendation: The appropriate test year revenue for this Utility is $67,677. (Bruce, Hudson)

Staff Analysis: Sunrise recorded total revenue of $66,609. The Utility's total revenue consisted of $61,303 of service revenue and $5,306 of miscellaneous service revenue. Staff has annualized revenue based on test year billing determinants and existing rates and determine the appropriate service revenue to be $62,371. Staff has increased test year revenue by $1,068 to reflect the appropriate service revenue. Staff has no adjustment to miscellaneous service revenue. The calculated service revenue and miscellaneous service revenue result in total test year revenue of $67,677. Staff recommends test year revenue of $67,677. Water test year revenue is shown on Schedule No. 3-A.

Issue 6: What is the appropriate amount of operating expense?

Preliminary Recommendation: The appropriate amount of operating expense for Sunrise is $71,756. (Hudson)

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

Salaries and Wages - Officers (603) – Sunrise recorded $16,192 of salaries and wages – officers in this account. The Utility president is responsible for the bookkeeping and paying monthly bills. He is also responsible for interfacing with the Utility manager on the day-to-day operations and reviewing monthly reports. For purposes of the staff report, staff believes $12,000 is reasonable for the duties of the president. However, for the final recommendation, staff will request additional documentation of hours and duties to determine an appropriate salary for the Utility president. Staff recommends salaries and wages – officers expense of $12,000.

Purchased Power (615) – Sunrise recorded $2,579 for purchased power expense in this account. Staff has reviewed invoices and the amount recorded by the Utility reflects the expense incurred for the test year. As discussed in Issue 2, staff is recommending a preliminary EUW adjustment of 16 percent. Staff has not made the adjustment in this staff report. However, staff will make the appropriate EUW adjustment for the final recommendation. Applying the EUW would result in a decrease in purchased power expense and thus, a decrease in the revenue requirement. Staff recommends purchased power expense of $2,579.

Chemicals (618) – Sunrise recorded $1,325 for chemicals in this account. Staff has reviewed invoices and the amount recorded by the Utility reflects the expense incurred for the test year. Staff believes the chemical expenses are reasonable for the treatment of water for Sunrise. As discussed in Issue 2, staff is recommending a preliminary EUW adjustment of 16 percent. Staff has not made the adjustment in this staff report. However, staff will make the appropriate EUW adjustment for the final recommendation. Staff recommends chemicals expense of $1,325.

Contractual Services – Billing (630) – The Utility recorded $0 for contractual services – billing. Staff has reclassified meter reading expense of $1,668 from Account No. 360 – miscellaneous expense. Sunrise's meters are read by a contract meter reader. The meter reader fee is $250 a month or $3,000, annually. Staff believes the meter reading fee is reasonable. Staff has made a pro forma increase of $1,332 to reflect the annual meeting reading fee. Staff recommends contractual services – billing of $3,000.

Contractual Services – Professional (631) – Sunrise recorded $6,954 in this account for contractual services – professional. Staff has made adjustments to this account to reclassify expenses to the appropriate account. Staff recommends the following adjustments to contractual services - professional.

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

Staff's adjustment to contractual services - professional is a decrease of $5,224. Staff recommends contractual services – professional expense of $1,730.

Contractual Services – Testing (635) – The Utility recorded $500 in this account for testing expense. Staff has reclassified $290 of testing expense from Account No. 631 – contractual services - professional. Also, staff reclassified $120 of testing expense from Account No. 636 – contractual services - other. Based on the $910 ($500+$290+$120) of testing expense paid by Sunrise during the test year, staff has determined it does not reflect all of the cost of the Utility's required testing for its system. In the Utility's last rate case, the Commission approved $2,162 for Sunrise's required testing. For the staff report, staff has indexed the testing expense from the last rate case and determined an appropriate testing expense for the Utility of $2,676. Staff has increased testing expense by $1,766 ($2,676-$500+$290+$120) to reflect the appropriate testing expense. For the final recommendation, staff will request the Utility obtain a detail list of all the required test and testing cost from its testing service provider. Staff recommends contractual services – testing expense of $2,676.

Contractual Services – Other (636) – Sunrise recorded $21,297 in this account for contractual services – other. The Utility's contractual services include contract repairs, operator services, clerical services and management. Sunrise's contract operator fee is $430 per month or $5,160, annually. The contract operator is responsible for operation services for the water treatment plant. The Utility's contract clerical personnel is responsible for collecting checks; entering checks into the billing program; depositing checks in bank; and all matters related to customer service. The clerical personnel's fee is $240 per month or $2,880, annually. Sunrise is managed by a contract manager. The manager is responsible for processing customer complaints; acting as the liaison between the Utility and all regulatory agencies; preparing and mailing customer bills; making the deposits at the bank; and preparing late notices. The management fee is $925 per month or $11,100, annually. Staff believes the contract services expenses are reasonable for this Utility. Staff has adjusted this account to reflect reclassifying expenses and recognizing the appropriate expense level of services. Staff recommends the following adjustments to contractual services – other.

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

Staff's net adjustment to contractual services - other is an increase of $4,529. Staff recommends contractual services – other expense of $25,826.

Rents (640) – Sunrise recorded rent expense of $538. The amount included in this account was for equipment rental and post office box rental. Sunrise did not record any rent for office space. Since the test year, the management company is now leasing an office space. The rent is allocated based on the number of customers managed by the management company. Sunrise's allocation is 29 percent. The Utility's share of the office rental is $291 per month or $3,497, annually. The office rental includes electric, telephone and water service. Staff believes this amount is reasonable. Staff has increased rent by $3,497. Staff recommends rent expense of $4,034.

Insurance Expense (655) – Sunrise recorded $0 for in this account. During the test year, the Utility did not have general liability insurance. Sunrise has obtained a general liability insurance quote of $1,716. For the staff report, staff recommends an increase of $1,716 for the general liability policy. However, for the final recommendation, the Utility will have to provide documentation that it has paid the premium for the policy. Staff recommends insurance expense of $1,716.

Regulatory Commission Expense (665/765) – Sunrise recorded $0 for in this account. Pursuant to Rule 25-22.0407, F.A.C., the Utility is required to mail notices of the customer meeting and notices of final rates in this case to its customers. For these notices, staff has estimated $209 for postage expense, $143 for printing expense, and $24 for envelopes. The cost is $376 for postage, mailing notices, and envelopes. The Utility paid a $1,000 rate case filing fee. The total rate case expense including postage, mailing notices, envelopes, filing fees and consultant fees is $1,376. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a four-year period. Staff recommends regulatory commission expense of $344.

Miscellaneous Expense (675/775) – Sunrise recorded $5,537 in this account for miscellaneous expense. For the staff report, staff has no adjustments to miscellaneous expense. However, staff will ask for additional documentation and explanation from the Utility in support of some expenses recorded in miscellaneous expenses for the final recommendation. Staff recommends miscellaneous expense of $5,537.

Operation and Maintenance Expenses (O&M) Summary – Total adjustments to O&M expense result in an increase of $5,846. Staff's recommended O&M expense is $61,478. O&M expenses are shown on Schedule No. 3-A.

Depreciation Expense (Net of Related Amortization of CIAC) – Sunrise recorded $4,929 in this account for net depreciation expense. Staff has calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. Also, staff has calculated amortization of CIAC based on composite rates. Staff has decreased net depreciation by $740. Staff recommends net depreciation expense of $4,189.

Taxes Other Than Income (TOTI) – The Utility recorded $5,187 in this account for TOTI. Staff has increased this account by $442 to reflect the appropriate property taxes. As discussed in Issue 8, revenues have been increased by $10,226 to reflect the change in revenue required to cover expenses and allow the recommended return on investment. As a result, TOTI should be increased by $460 to reflect RAFs of 4.5 percent on the change in revenues. Accordingly, staff's recommended TOTI is $6,089.

Income Tax – The Utility is an 1120C Corporation and did not record income tax for the test year. Based on its current income tax return, Sunrise has a large amount of net loss carry forwards. These net loss carry forwards are sufficient enough to offset any income tax liability for the next few years. Therefore, staff has not made any adjustments to this account.

Operating Expenses Summary – The application of staff's recommended adjustments to Sunrise's recorded test year operating expenses result in staff's recommended operating expenses of $71,756. Operating expenses are shown on Schedule No. 3-A. The related adjustments are shown on Schedule No. 3-B.

Issue 7: Should the Commission utilize the operating ratio methodology as an alternative means to calculate the revenue requirement for Sunrise, and if so, what is the appropriate margin?

Recommendation: Yes, the Commission, on its own motion, should utilize the operating ratio methodology for calculating the revenue requirement for the Utility. The margin should be 10 percent of O&M expense. (Hudson)

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

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

By Order No. PSC-96-0357-FOF-WU, the Commission, for the first time, utilized the operating ratio methodology as an alternative means for setting rates.[7] This order also discussed criteria related to the use of the operating ratio methodology and a guideline margin of 10 percent of O&M expense. This criteria was applied again in Order No. PSC-97-0130-FOF-SU.[8] Most recently, the Commission approved the operating ratio methodology for setting rates in Order No. PSC-10-0167-PAA-WU.[9]

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

1) <u>Whether the Utility's O&M expense exceeds rate base</u>. In the instant case, the rate base is less than the level of O&M expense. Based on the staff adjustments, the adjusted rate base for the test year is $57,017, while adjusted O&M expense is $61,478.

2) <u>Whether the Utility is expected to become a Class B utility in the foreseeable future</u>. According to Chapter 367.0814(9), F.S., the alternative form of regulation being considered in

[7] Issued March 13, 1996, in Docket No. 950641-WU, <u>In re: Application for staff-assisted rate case in Palm Beach County by Lake Osborne Utilities Company, Inc.</u>
[8] Issued February 10, 1997, in Docket No. 960561-SU, <u>In re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.</u>
[9] <u>See</u> Order No. PSC-10-0167-PAA-WU, issued March 23, 2010, in Docket No. 090346-WU, <u>In re: Application for a staff-assisted rate increase in Lake County by Brendenwood Water System</u>.

this case only applies to small utilities with gross annual revenues of $250,000 or less. Sunrise is a Class C utility and the recommended revenue requirement of $77,904 is below the threshold level for Class B status ($250,000 per system). The Utility's service area is essentially built out. Therefore, the Utility will not become a Class B utility in the foreseeable future.

3) Quality of service and condition of plant. As discussed in Issue 1, staff has not made a determination of the quality of service and condition of plant for the staff report. Staff will make its recommended determination with the final recommendation. However, in the event of a recommendation of unsatisfactory quality of service, it does not necessarily disqualify the Utility from the operating ratio method.

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

5) Whether the Utility operates treatment facilities or is simply a distribution and/or collection system. Sunrise operates a WTP and a water distribution system.

By Order Nos. PSC-96-0357-FOF-WS and PSC-97-0130-FOF-WU, the Commission determined that a margin of 10 percent shall be used unless unique circumstances justify the use of a greater or lesser margin. The important question was not what the return percentage should be, but what level of operating margin will allow the Utility to provide safe and reliable service and remain a viable entity. The answer to this question requires a great deal of judgment based upon the particular circumstances of the Utility. In these cases, the Commission applied a 10 percent margin.

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

Second, use of the operating ratio methodology rests on the contention that the principal risk to the Utility resides in operating cost rather than in capital cost of the plant. The fair return on a small rate base may not adequately compensate the utility owner for incurring the risk associated with covering the much greater operating cost. Therefore, the margin must adequately compensate the Utility owner for that risk. Under the rate base method, the return to Sunrise amounts to only $4,048, which is enough to cover only a 3.80 percent variance in O&M expense. Staff believes $4,048 is an insufficient financial cushion.

Third, if the return on rate base method were applied, a normal return would generate a small level of revenues that in the event revenues or expenses vary from staff's estimates, Sunrise could be left with insufficient funds to cover operating expenses. Therefore, the margin should provide adequate revenues to protect against potential variability in revenues and expenses. The return on rate base method would provide the Utility $4,048. After deducting interest expense, Sunrise would only have $2,319 of operating income to cover revenue and expense variances. If the Utility's operating expenses increase, Sunrise would not have the funds required for day-to-day operations.

In conclusion, staff believes the above factors show that the Utility needs a higher margin of revenues over operating expenses than the traditional return on rate base method would provide. Therefore, in order to provide Sunrise with adequate cash flow to satisfy environmental requirements and to provide some assurance of safe and reliable service, staff recommends application of the operating ratio methodology at a margin of 10 percent of O&M expense for determining the revenue requirement.

Issue 8: What is the appropriate revenue requirement?

Preliminary Recommendation: The appropriate revenue requirement is $77,904. (Hudson)

Staff Analysis: Sunrise should be allowed an annual increase of $10,226 (15.11 percent). This will allow the Utility the opportunity to recover its expenses and a 10.00 percent cushion over its O&M expense. The calculations are as follows:

Table 8-1

Water Revenue Requirement	
Adjusted O&M Expense	$61,478
Rate of Return/Operating Margin	x .1000
Operating Margin	$ 6,148
Adjusted O&M expense	61,478
Depreciation expense (Net)	4,189
Amortization	0
Taxes Other Than Income	6,089
Income Taxes	0
Revenue Requirement	$77,904
Less Test Year Revenues	67,677
Annual Increase	$10,226
Percent Increase/(Decrease)	15.11%

Issue 9: What are the appropriate rate structures for Sunrise's water system?

Preliminary Recommendation: The appropriate rate structure for the residential class is a continuation of the three tier inclining block rate structure. Staff's preliminary rate design called for a two-tier rate structure with usage blocks of 0-10,000 gallons in the first usage block and all usage in excess of 10,000 gallons in the second usage block. As discussed in Issue 10, staff did not apply a repression adjustment to non-discretionary usage. As a result, an additional tier is necessary for non-discretionary usage below 5,000 gallons per month. This results in a three-tier rate structure for monthly consumption with usage blocks of: a) 0-5,000 gallons; b) 5,000-10,000 gallons; and c) all usage in excess of 10,000 gallons and usage block rate factors of .91, 1.00, and 2.00 respectively. The appropriate rate structure for non-residential class is a continuation of its BFC/uniform gallonage charge rate structure. The BFC cost recovery percentage should be set at 34 percent. (Bruce)

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

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

The Utility is located in Polk County in SWFWMD. Over the past few years, the District has requested, whenever possible, that an inclining block rate structure be implemented. The Utility implemented its current rate structure in a prior rate case.[10] During that time the average consumption per customer was 8,200 gallons per month. Presently, based on staff's billing analysis, the customers' average consumption has reduced to 5,500 gallons per month.

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

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

Staff's recommended rate design is shown on Table 9-1. Also, staff has presented two alternate rate structures to illustrate other recovery methodologies.

Table 9-1

SUNRISE UTILTIES, LLC.
STAFF'S RECOMMENDED AND ALTERNATIVE
WATER RATE STRUCTURES AND RATES

Current Rate Structure and Rates		**Recommended Rate Structure and Rates**		
3-Tier Inclining Block Rate Structure Rate Factors 1.00, 1.50, and 2.00 BFC = 46%		3-Tier Inclining Block Rate Structure Rate Factors .91, 1.00 and 2.00 BFC = 34%		
BFC	$10.10	BFC		$8.72
0-5 kgals	$1.64	1st tier (no repression)	0-5 kgals	$2.78
5-10 kgals	$2.46	2nd tier (discretionary)	5-10 kgal	$3.05
10+	$4.92	3rd tier (discretionary)	10+	$6.10
Typical Monthly Bills (1)		**Typical Monthly Bills**		
Cons (kgals)		**Cons (kgals)**		
0	$10.10	0		$8.72
1	$11.74	1		$11.50
3	$15.02	3		$17.06
5	$18.30	5		$22.62
10	$30.60	10		$37.87
20	$79.80	20		$98.87

Alternative 1		**Alternative 2**	
3-Tier Inclining Block Rate Structure Rate Factors .90, 1.00 and 2.00 BFC = 30%		3- Tier Inclining Block Rate Structure Rate Factors .93, 1.00 and 2.00 BFC =40%	
BFC	$7.70	BFC	$10.26
0-5 kgals	$2.95	0-5 kgals	$2.53
5-10 + kgals	$3.27	5-10 kgals	$2.72
10+	$6.55	10 kgals	$5.45
Typical Monthly Bills		**Typical Monthly Bills**	
Cons (kgals)		**Cons (kgals)**	
0	$7.70	0	$10.26
1	$10.65	1	$12.79
3	$16.55	3	$17.85
5	$22.45	5	$22.91
10	$38.80	10	$36.51
20	$104.30	20	$91.01

Staff recommends that the current BFC cost recovery of 46 percent be reduced to 34 percent. Staff's recommended BFC allocation reduces price increases for customers who are at non-discretionary levels and allowing these customers to pay a lower price for their water consumption while targeting those customers with a higher level of consumption.

The Commission has an MOU with the five Water Management Districts to set the BFC such that the utilities recover no more than 40 percent of the revenues from the monthly service fee. Moreover, as discussed in Issue 13, staff recommends a Phase II revenue requirement associated with pro forma plant improvements. Because the revenue requirement increase is very small, staff recommends that the 3.61 percent revenue requirement increase be applied as an across-the-board increase to the BFC and gallonage charges. This results in a monthly BFC charge of $9.03. The usage charges for block 1, block 2, and block 3 are $2.88 per 1,000 gallons, $3.16 per 1,000 gallons, and $6.32 per 1,000 gallons, respectively

Based on the foregoing, staff recommends a continuation of the three tier inclining block rate structure. Staff's preliminary rate design called for a two-tier rate structure with usage blocks of 0-10,000 gallons in the first usage block and all usage in excess of 10,000 gallons in the second usage block. As discussed in Issue 10, staff did not apply a repression adjustment to non-discretionary usage. As a result, an additional tier is necessary for non-discretionary usage below 5,000 gallons per month. This result in a three-tier rate structure for monthly consumption with usage blocks of: a) 0-5,000 gallons; b) 5,000-10,000 gallons; and c) all usage in excess of 10 gallons and usage block rate factors of .91, 1.00, and 2.00 respectively. The BFC allocation should be set at 34 percent. The rate structure for the system's non-residential class consists of a traditional monthly BFC/uniform gallonage charge rate structure and should remain unchanged.

Issue 10: Is a repression adjustment appropriate in this case, and, if so, what are the appropriate adjustments?

Preliminary Recommendation: Yes, a repression adjustment is appropriate for this Utility. Test year residential gallons sold should be reduced by 3.07 percent, resulting in a consumption reduction of 477,000 gallons. Purchased power expense should be reduced by $79, chemical expense should be reduced by $41, and regulatory assessment fees (RAFs) should be reduced by $6. The final post-repression revenue requirement should be $72,474.

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

Staff Analysis: Staff conducted a detailed analysis of the consumption patterns of the Utility's residential customers as well as the increase in residential bills resulting from the increase in revenue requirements. This analysis showed the overall average consumption is 5,500 gallons per month. This does not indicate a high overall average level of consumption. However, the billing data indicates that 13 percent of the customers consume over 10,000 gallons of water per month. Furthermore, in Issue 9, staff recommended that the threshold for the customer's essential usage be 5,000 gallons per month. Therefore, staff's recommended repression adjustment only applies to water consumption above 5,000 gallons per month.

Using the database of utilities that have previously had repression adjustments made, staff calculated a repression adjustment for this Utility based upon the recommended increase in revenue requirements in this case, and the historically observed response rates of consumption to changes in price. This is the same methodology for calculating repression adjustments that the Commission has approved in prior cases.[11] This methodology also restricts any price changes due to repression from being applied to non-discretionary consumption (consumption less than 5,000 gallons per month), and allocates all cost recovery due to repression to discretionary levels of consumption (consumption above 5 kgals per month).

Therefore, based on this methodology, staff calculated that the test year residential consumption for this Utility should be reduced by 477,000 gallons. Purchased power expense should be reduced by $79, chemical expense should be reduced by $41, and regulatory

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

assessment fees (RAFs) should be reduced by \$6. The final post-repression revenue requirement should be \$72,474.

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

Issue 11: What are the appropriate rates for Sunrise?

Preliminary Recommendation: The appropriate monthly water rates are shown on Schedule No. 4. The recommended rates should be designed to produce revenue $72,474, excluding miscellaneous service charges. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice. (Bruce)

Staff Analysis: The recommended rates should be designed to produce pre-repression revenue requirement, including miscellaneous service charges of $77,904. The appropriate adjustments for metered ratesetting purposes are: 1) the removal of miscellaneous service charges of $5,306; and a water system reduction of $125 to reflect expense reductions associated with repression adjustments. The resulting rates are designed to recover revenues from metered rates of $72,474.

Furthermore, as discussed in Issue 9, staff recommends a continuation of the three tier inclining block rate structure. Staff's preliminary rate design called for a two-tier rate structure with usage blocks of 0-10,000 gallons in the first usage block and all usage in excess of 10,000 gallons in the second usage block. As discussed in Issue 10, staff did not apply a repression adjustment to non-discretionary usage. As a result, an additional tier is necessary for non-discretionary usage below 5,000 gallons per month. This result in a three-tier rate structure for monthly consumption with usage blocks of: a) 0-5,000 gallons; b) 5,000-10,000 gallons; and c) all usage in excess of 10 gallons and usage block rate factors of .91, 1.00, and 2.00 respectively. The BFC allocation should be set at 34 percent. The recommended rate structure for the system's non-residential class consists of a traditional monthly BFC/uniform gallonage charge rate structure and should remain unchanged.

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

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

Based on the foregoing, the appropriate rates for monthly service are shown on Schedule No. 4.

Issue 12: What is the appropriate amount by which rates should be reduced four years after the published effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816 F.S.?

Preliminary Recommendation: The water rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Sunrise should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Hudson)

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

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

If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Issue 13: Should the Commission approve pro forma items for Sunrise?

Preliminary Recommendation: Yes. The Commission should approve a Phase II revenue requirement associated with pro forma items. The operating ratio method of 10 percent should be used to determine the revenue requirement. The Utility's Phase II revenue requirement is $80,715 which equates to a 3.61 percent increase over the Phase I revenue requirement. Sunrise should complete the pro forma items within 12 months of the issuance of the consummating order. The Utility should be allowed to implement the resulting rates once the pro forma items have been completed and documentation provided showing that all improvements have been made to the system. Once verified, the rates should be effective for service rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until notice has been received by the customers. Sunrise should provide proof of the date notice was given within 10 days of the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission in writing. (Hudson, Simpson)

Staff Analysis: The Utility requested recognition of additional pro forma plant and expense items that it intends to complete. The following table summarizes the pro forma plant and expense items, the cost, and staff's recommended treatment:

Table 13-1

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

The Utility requested that the costs associated with replacing a portion of the fence at the WTP and replacing 75 meters, 35 meter boxes, 17 curb stops, 9 isolation valves, and piping between the well and the tanks, be included as pro forma items in this rate case. In addition, the Utility requested that the cost of some of the items addressed by the consent order be included in this rate case, including inspecting and cleaning the hydropneumatic tanks, replacing a malfunctioning flow meter, and repairing the well leak. Staff recommends that these pro forma plant items are reasonable and prudent because they will allow the Utility to improve its quality of service, and therefore, the costs should be included in this rate case.

Staff is recommending a Phase II revenue requirement associated with the pro forma items for a number of reasons. First, it assures that the pro forma items are completed prior to the Utility's recovery of the investment in rates. In the past, there have been instances when the Commission approved an increase in revenue requirement associated with pro forma items only to have the Utility in question fail to complete the pro forma investments. In addition, addressing the pro forma items in a single case saves additional rate case expense to the customers because the Utility would not need to file another rate case or limited proceeding to seek recovery for these items. The Commission has approved a Phase-In approach in Docket Nos. 090072-WU and 100471-SU.[12]

The Utility's Phase II revenue requirement should be $80,715. Sunrise should complete the pro forma items within 12 months of the issuance of the consummating order. Phase II rate base is shown on Schedule Nos. 5-A, and 5-B. The capital structure for Phase II is shown on Schedule No. 6. The revenue requirement is shown on Schedule Nos. 7-A and 7-B. The resulting rates are shown on Schedule No. 8.

Sunrise should be required to complete the pro forma items within 12 months of the issuance of the consummating order. The Utility should also be required to submit a copy of the final invoices and cancelled checks for all pro forma plant items within 15 days of the completion. The Utility should be allowed to implement the above rates once all pro forma items have been completed and documentation provided showing that the improvements have been made. Once verified, the rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until notice has been received by the customers. Sunrise should provide proof of the date notice was given within 10 days of the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission in writing.

[12] See Order Nos. PSC-09-0716-PAA-WU, issued October 28, 2009, in Docket No. 090072-WU, In re: Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc.; and PSC-11-0444-PAA-SU, issued October 7, 2011, in Docket No. 100471-SU, In re: Application for staff-assisted rate case in Marion County by S&L Utilities, Inc.

Issue 14: Should the recommended rates be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility?

Preliminary Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility. Sunrise should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. Prior to implementation of any temporary rates, the Utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the Utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Hudson)

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

Sunrise should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of $6,823. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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

1) The Commission approves the rate increase; or,

2) If the Commission denies the increase, the Utility shall refund the amount collected that is attributable to the increase.

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

1) The letter of credit is irrevocable for the period it is in effect, and,

2) The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

If security is provided through an escrow agreement, the following conditions should be part of the agreement:

1) No monies in the escrow account may be withdrawn by the Utility without the express approval of the Commission;

2) The escrow account shall be an interest bearing account;

3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;

4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to Sunrise;

5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;

6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;

7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments;

8) The Commission Clerk must be a signatory to the escrow agreement; and,

9) The account must specify by whom and on whose behalf such monies were paid.

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

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

Issue 15: Should the Utility be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all applicable National Association of Regulatory Commissioners Uniform System of Accounts (NARUC USOA) primary accounts associated with the Commission approved adjustments?

Preliminary Recommendation: Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, Sunrise should provide proof, within 90 days of the final order in this docket, that the adjustments for all applicable NARUC USOA primary accounts have been made. (Hudson)

Staff Analysis: To ensure that the Utility adjusts its books in accordance with the Commission's decision, Sunrise should provide proof, within 90 days of the final order in this docket, that the adjustments for all applicable NARUC USOA primary accounts have been made.

SUNRISE UTILITIES, LLC TEST YEAR ENDED 09/30/2011 SCHEDULE OF WATER RATE BASE (PHASE I)			SCHEDULE NO. 1-A DOCKET NO. 110238-WU
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	$120,909	($14,256)	$106,652
2. LAND & LAND RIGHTS	0	553	553
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(12,393)	0	(12,393)
5. ACCUMULATED DEPRECIATION	(53,327)	(2,272)	(55,599)
6. AMORTIZATION OF CIAC	8,496	1,624	10,120
7. WORKING CAPITAL ALLOWANCE	0	7,685	7,685
8. WATER RATE BASE	$63,685	($6,667)	$57,017

SUNRISE UTILITIES, LLC	SCHEDULE NO. 1-B
TEST YEAR ENDED 09/30/2011	DOCKET NO. 110238-WU
ADJUSTMENTS TO RATE BASE (PHASE I)	

		WATER
	UTILITY PLANT IN SERVICE	
1.	To remove a plant addition recorded twice.	($11,000)
2.	To remove plant from Acct. No. 334 for lack of support documentation.	(1,041)
3.	To reflect the appropriate balance for Acct. No. 341.	0
4.	To reflect an averaging adjustment.	(2,215)
	Total	($14,256)
	LAND AND LAND RIGHTS	
	Include land rights unrecorded by Utility.	$553
	ACCUMULATED DEPRECIATION	
1.	To reflect test year depreciation calculated per 25-30.140 F.A.C.	($4,693)
2.	To reflect an averaging adjustment.	2,421
	Total	($2,272)
	AMORTIZATION OF CIAC	
1.	To reflect accumulated amortization per 25-30.140 F.A.C.	$1,899
2.	To reflect an averaging adjustment.	(276)
	Total	$1,624
	WORKING CAPITAL ALLOWANCE	
	To reflect 1/8 of test year O & M expenses.	$7,685

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

SCHEDULE NO. 2
DOCKET NO. 110238-WU

	CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1.	TOTAL COMMON EQUITY	$48,886	$0	$48,886	($19,571)	$29,315	51.41%	10.26%	5.27%
2.	TOTAL LONG TERM DEBT	$46,112	$0	$46,112	($18,461)	$27,651	48.50%	3.75%	1.82%
3.	CUSTOMER DEPOSITS	$51	$0	$51	$0	$51	0.09%	6.00%	0.01%
4.	TOTAL	$95,049	$0	$95,049	($38,032)	$57,017	100.00%		7.10%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	9.26%	11.26%
OVERALL RATE OF RETURN	6.58%	7.61%

SUNRISE UTILITIES, LLC
TEST YEAR ENDED 09/30/2011
SCHEDULE OF WATER OPERATING INCOME (PHASE I)

SCHEDULE NO. 3-A
DOCKET NO. 110238-WU

		TEST YEAR PER UTILITY	STAFF ADJ. PER UTILITY	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1.	OPERATING REVENUES	$66,609	$1,068	$67,677	$10,226	$77,904
					15.11%	
	OPERATING EXPENSES:					
2.	OPERATION & MAINTENANCE	$55,632	$5,846	$61,478	$0	$61,478
3.	DEPRECIATION (NET)	4,929	(740)	4,189	0	4,189
4.	AMORTIZATION	0	0	0	0	0
5.	TAXES OTHER THAN INCOME	5,187	442	5,629	460	6,089
6.	INCOME TAXES	0	0	0	0	0
7.	TOTAL OPERATING EXPENSES	$65,748	$5,548	$71,296	$460	$71,756
8.	OPERATING INCOME/(LOSS)	$861		($3,618)		$6,148
9.	WATER RATE BASE	$63,685		$57,017		$57,017
10.	OPERATING MARGIN**	1.35%		-6.35%		10.00%

SUNRISE UTILITIES, LLC TEST YEAR ENDED 09/30/2011 ADJUSTMENTS TO OPERATING INCOME (PHASE I)		SCHEDULE NO. 3-B DOCKET NO. 110238-WU PAGE 1 OF 2
		WATER
	OPERATING REVENUES	
	To reflect the appropriate test year revenues.	$1,068
	OPERATION AND MAINTENANCE EXPENSES	
1.	Salaries and Wages - Officers	
	To reflect the appropriate officer's salary.	($4,192)
2.	Contractual Services (Billing) 630	
	a. To reclassify meter reading expense from Acct. No. 636.	$1,668
	b. To reflect the appropriate meter reading expense.	1,332
		$3,000
3.	Contractual Services - Professional (631)	
	a. To reclassify contract operator expense to Acct. No. 636.	($3,066)
	b. To reclassify testing expense to Acct. No. 635.	(290)
	c. To reclassify contract expense for clerical personnel to Acct. No. 636.	(1,868)
		($5,224)
4.	Contractual Services - Testing (635)	
	a. To reclassify testing expense from Acct. No. 631.	$290
	b. To reclassify testing expense from Acct. No. 636.	120
	c. To reflect the appropriate testing expense.	1,766
	Total	$2,176
5.	Contractual Services - Other (636)	
	a. To reclassify contract operator expense from Acct. No. 631.	$3,066
	b. To reclassify testing expense to Acct. No. 631.	(120)
	c. To reflect the appropriate operator expense.	(169)
	d. To reclassify contract expense for clerical personnel from Acct. No. 631.	1,868
	e. To annualize contract expense for clerical personnel.	1,012
	f. To reclassify meter reading expense to Acct. No. 630.	(1,668)
	g. To reflect the appropriate management fee.	540
		$4,529
6	Rent Expense (640)	
	a. To reflect office rent expense.	$3,497

	SUNRISE UTILITIES, LLC TEST YEAR ENDED 09/30/2011 ADJUSTMENTS TO OPERATING INCOME (PHASE I)		SCHEDULE NO. 3-B DOCKET NO. 110238-WU PAGE 2 OF 2
7.	Insurance (655)		
	To reflect the appropriate insurance expense.		$1,716
8.	Regulatory Commission Expense (665)		
	To reflect the 4 year amortization of rate case expense.		$344
	TOTAL OPERATION & MAINTENANCE ADJUSTMENTS		$5,846
		WATER	
	DEPRECIATION EXPENSE		
1.	To reflect test year depreciation calculated per 25-30.140, F.A.C.		($599)
2.	To reflect test year amortization of CIAC.		(141)
	Total		($740)
	TAXES OTHER THAN INCOME		
	To reflect the appropriate property taxes.		$442
	Total		

SUNRISE UTILITIES, LLC			SCHEDULE NO. 3-C
TEST YEAR ENDED 09/30/2011			DOCKET NO. 110238-WU
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE (PHASE I)			
	TOTAL PER UTILITY	STAFF PER ADJUST.	TOTAL PER PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	$0	$0	$0
(603) SALARIES AND WAGES - OFFICERS	16,192	(4,192)	12,000
(604) EMPLOYEE PENSION & BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	2,579	0	2,579
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	1,325	0	1,325
(620) MATERIALS AND SUPPLIES	711	0	711
(630) CONTRACTUAL SERVICES - BILLING	0	3,000	3,000
(631) CONTRACTUAL SERVICES - PROFESSIONAL	6,954	(5,224)	1,730
(635) CONTRACTUAL SERVICES - TESTING	500	2,176	2,676
(636) CONTRACTUAL SERVICES - OTHER	21,297	4,529	25,826
(640) RENTS	538	3,497	4,034
(650) TRANSPORTATION EXPENSE	0	0	0
(655) INSURANCE EXPENSE	0	1,716	1,716
(665) REGULATORY COMMISSION EXPENSE	0	344	344
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSES	5,537	0	5,537
	$55,632	$5,846	$61,478

SUNRISE UTILITIES, LLC TEST YEAR ENDED 09/30/2011 MONTHLY WATER RATES (PHASE I)			SCHEDULE NO. 4 DOCKET NO. 110238-WU
	UTILITY'S EXISTING RATES	STAFF PRELIMINARY RECOMMENDED PHASE I RATES	4 -YEAR RATE REDUCTION
Residential and General Service			
All Meter Sizes			
Base Facility Charge by Meter Size:			
5/8"X3/4"	$10.10	$8.72	$0.04
3/4"	$15.15	$13.08	$0.07
1"	$25.25	$21.80	$0.11
1-1/2"	$50.50	$43.60	$0.22
2"	$80.80	$69.76	$0.35
3"	$161.60	$139.52	$0.71
4"	$252.50	$218.00	$1.11
6"	$505.00	$436.00	$2.22
Residential Service Gallonage Charge			
0 - 5,000 gallons	$1.64	$2.78	$0.01
5,001 - 10,000 gallons	$2.46	$3.05	$0.02
Over 10,000	$4.92	$6.10	$0.03
General Service Gallonage Charge			
Per 1,000 Gallons	$2.51	$3.16	$0.02
Typical Residential 5/8" x 3/4" Meter Bill Comparison			
3,000 Gallons	$15.02	$17.06	
5,000 Gallons	$18.30	$22.62	
10,000 Gallons	$30.60	$37.87	

SUNRISE UTILITIES, LLC — SCHEDULE NO. 5-A
TEST YEAR ENDING 09/30/2011 — DOCKET NO. 110238-WU
SCHEDULE OF WATER RATE BASE (PHASE II)

	DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1.	UTILITY PLANT IN SERVICE	$106,652	$6,755	$113,407
2.	LAND & LAND RIGHTS	553	0	553
3.	NON-USED AND USEFUL COMPONENTS	0	0	0
4.	CIAC	(12,393)	0	(12,393)
5.	ACCUMULATED DEPRECIATION	(55,599)	(200)	(55,799)
6.	AMORTIZATION OF CIAC	10,120	0	10,120
7.	WORKING CAPITAL ALLOWANCE	7,685	282	7,967
8.	WATER RATE BASE	$57,017	$6,838	$63,855

	SUNRISE UTILITIES, LLC TEST YEAR ENDING 09/30/2011 ADJUSTMENTS TO RATE BASE (PHASE II)	SCHEDULE NO. 5-B DOCKET NO. 110238-WU
		WATER
	UTILITY PLANT IN SERVICE	
1.	Replace portion of WTP fence.	$950
2.	Replace piping between well and tank.	2,400
3.	Replace isolation valves.	2,713
4.	Replace meter.	352
5.	Replace well cover.	340
	Total	$6,755
	ACCUMULATED DEPRECIATION	
	To reflect test year depreciation calculated per 25-30.140 F.A.C.	($200)
	WORKING CAPITAL ALLOWANCE	
	To reflect 1/8 of test year O & M expenses.	$282

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

SCHEDULE NO. 6
DOCKET NO. 110238-WU

	CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1.	TOTAL COMMON EQUITY	$48,886	$0	$48,886	($16,052)	$32,834	51.42%	10.26%	5.27%
2.	TOTAL LONG TERM DEBT	$46,112	$0	$46,112	($15,141)	$30,971	48.50%	3.75%	1.82%
3.	CUSTOMER DEPOSITS	$51	$0	$51	$0	$51	0.08%	6.00%	0.01%
4.	TOTAL	$95,049	$0	$95,049	($31,194)	$63,855	100.00%		7.10%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	9.26%	11.26%
OVERALL RATE OF RETURN	6.58%	7.61%

SUNRISE UTILITIES, LLC TEST YEAR ENDING 09/30/2011 SCHEDULE OF WATER OPERATING INCOME (PHASE II)						SCHEDULE NO. 7-A DOCKET NO. 110238-WU
		TEST YEAR PER UTILITY	STAFF ADJ. PER UTILITY	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1.	OPERATING REVENUES	$77,904	$0	$77,904	$2,811 3.61%	$80,715
	OPERATING EXPENSES:					
2.	OPERATION & MAINTENANCE	$61,478	$2,259	$63,737	$0	$63,737
3.	DEPRECIATION (NET)	4,189	200	4,389	0	4,389
4.	AMORTIZATION	0	0	0	0	0
5.	TAXES OTHER THAN INCOME	6,089	0	6,089	126	6,215
6.	INCOME TAXES	0	0	0	0	0
7.	TOTAL OPERATING EXPENSES	$71,756	$2,459	$74,214	$126	$74,341
8.	OPERATING INCOME/(LOSS)	$6,148		$3,689		$6,374
9.	WATER RATE BASE	$57,017		$63,855		$63,855
10.	RATE OF RETURN	10.78%		5.78%		10.00%

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

SUNRISE UTILITIES, LLC TEST YEAR ENDING 09/30/2011 MONTHLY WATER RATES (PHASE II)		SCHEDULE NO. 8 DOCKET NO. 110238-WU
	STAFF PRELIMINARY RECOMMENDED PHASE I RATES	STAFF PRELIMINARY RECOMMENDED PHASE II RATES
Residential and General Service		
All Meter Sizes		
Base Facility Charge by Meter Size:		
5/8"X3/4"	$8.72	$9.03
3/4"	$13.08	$13.55
1"	$21.80	$22.58
1-1/2"	$43.60	$45.15
2"	$69.76	$72.24
3"	$139.52	$144.48
4"	$218.00	$225.75
6"	$436.00	$451.50
Residential Service Gallonage Charge		
0 - 5,000 gallons	$2.78	$2.88
5,001 - 10,000 gallons	$3.05	$3.16
Over 10,000	$6.10	$6.32
General Service Gallonage Charge		
Per 1,000 Gallons	$3.16	$3.27
Typical Residential 5/8" x 3/4" Meter Bill Comparison		
3,000 Gallons	$17.06	$17.67
5,000 Gallons	$22.62	$23.43
10,000 Gallons	$37.87	$39.23