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Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE:	May 1, 2015
TO:	Carlotta S. Stauffer, Commission Clerk, Office of Commission Clerk
FROM:	Clayton Lewis, Engineering Specialist, Division of Engineering CKL
RE:	Docket No. 140219-WU – Application for staff-assisted rate case in Polk County by Alturas Utilities L.L.C.

Please file the attached in the above mentioned Docket File.

Thank you.

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

DATE:	May 1, 2015
TO:	Paul Vickery, Chief of Reliability & Resource Planning, Division of Engineering
FROM:	Division of Engineering (C. Lewis, King) CKL Office of Auditing & Performance Analysis (Small) Division of Accounting and Finance (Golden, Vogel) Division of Economics (Bruce) Office of the General Counsel (Corbari) KFC
RE:	Docket No. 140219-WU – Application for staff-assisted rate case in Polk County by Alturas Utilities L.L.C.

--STAFF REPORT--

This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting on May 19, 2015.

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Case Background

Alturas Utilities, L.L.C., (Alturas or Utility) is a Class C Utility providing water service to approximately 55 residential customers and 10 general service customers in south central Polk County. The Utility's last staff-assisted rate case (SARC) before the Commission was approved in 2010.[1] According to Alturas' 2014 annual report, its total gross revenues were $27,710 and total operating expenses were $42,012, resulting in a net loss of $14,302. On November 10, 2014, Alturas filed its application for a SARC. Staff selected the test year ending December 31, 2014, for the instant case.

This Staff Report is a **preliminary** analysis of the Utility prepared by the Commission staff to give utility customers and the Utility a preview of what staff may be proposing. The final recommendation to the Commission is currently scheduled to be filed on August 6, 2015, for consideration at the August 18, 2015, Commission Conference. The recommendation will be revised as necessary using any updated information and results of customer quality of service concerns or other relevant information received during the customer meeting. The Commission has jurisdiction in this case pursuant to Section 367.0814, Florida Statutes, (F.S.).

[1] Order No. PSC-10-0380-PAA-WU, issued June 5, 2010, Docket No. 090477-WU, In re: Application for staff-assisted rate case in Polk County by Alturas Utilities, L.L.C.

Discussion of Issues

Issue 1: Is the quality of service provided by Alturas Utilities, L.L.C. satisfactory?

Preliminary Recommendation: Staff's recommendation regarding quality of service will not be finalized until after the May 19, 2015, customer meeting. (C. Lewis, King)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code, (F.A.C). in water and wastewater rate cases, the Commission shall determine the overall quality of service provided by a utility. This is derived from an evaluation of three separate components of the utility operations. These components are the quality of the utility's product, the operating conditions of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. The Rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with the Florida Department of Environmental Protection (DEP) and the county health department over the preceding three-year period shall be considered. In addition, input from the DEP and health department officials and customer comments or complaints will be considered.

Alturas' service area is located near Bartow, Florida in Polk County, and is within the Southwest Florida Water Management District and is subject to a year-round irrigation rule. The Utility's water system provides finished water that is obtained from one well rated at 350 gallons per minute (gpm).

Quality of Utility's Product and Operating Condition of the Utility's Plant and Facilities

Staff reviewed the last DEP Sanitary Survey Report dated September 19, 2014, and no deficiencies were found. The Utility's monitoring and reporting compliances were also graded satisfactory by DEP. Staff reviewed the chemical analysis conducted by the DEP dated December 22, 2014. All of the contaminants were below the Maximum Contaminant Levels established by DEP.

The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the Commission's complaint records from January 1, 2010, through December 31, 2014, and found 6 complaints, which were all resolved. Staff requested copies of complaints filed with the Utility during the test year and four years prior to the test year. The Utility responded that it did not have any customer complaints for the requested period. Staff also requested complaints against the Utility filed with the DEP for the test year and four years prior. DEP responded that it had not received any complaints against the Utility during that time frame.

Conclusion

Quality of service will be determined at a later date, pending review of comments made at the May 19, 2015, customer meeting.

Issue 2: What is the used and useful percentages (U&U) of Alturas Utilities, L.L.C., water treatment plant and distribution system?

Preliminary Recommendation: Alturas' water treatment plant and distribution system should be considered 100 percent U&U. The Utility's flow data indicates the system has 32 percent excessive unaccounted for water (EUW). Therefore, at this time, staff is recommending an adjustment be made to operating expenses for chemicals and purchased power due to the EUW. (C. Lewis, King)

Staff Analysis: Alturas' water system is served by a single 6-inch diameter well rated at 350 gpm. The raw water is injected with liquid chlorine prior to entering the 3,000-gallon hydropneumatic tank, and then pumped into the water distribution system. The Utility is permitted to withdraw an average of 34,200 gallons per day (gpd) up to 94,600 gpd peak. The distribution system is a composite network mix of PVC and galvanized pipe. According to the Utility, there are no fire hydrants. During the previous SARC, both the water treatment plant and distribution system were deemed 100 percent used and useful.

Excessive Unaccounted for Water

Rule 25-30.4325, F.A.C., describes excessive unaccounted for water as unaccounted for water in excess of 10 percent of the amount produced. When establishing the Rule, the Commission recognized that some uses of water are readily measurable and others are not. Unaccounted for water is all water that is produced that is not sold, metered or accounted for in the records of the Utility. The Rule provides that to determine whether adjustments to plant and operating expenses, such as purchased electrical power and chemicals cost, are necessary, the Commission will consider all relevant factors as to the reason for EUW, solutions implemented to correct the problem, or whether a proposed solution is economically feasible. The unaccounted for water is calculated by subtracting both the gallons used for other purposes, such as flushing, and the gallons sold to customers from the total gallons pumped for the test year.

The Utility treated 6,294,431 gallons and sold 3,665,000 gallons of water for the test year. Alturas did not record any gallons used for other purposes. Therefore, the amount of unaccounted for water is 2,629,431 gallons of which 1,999,998 gallons (32 percent) are considered EUW. At this time, staff is recommending an adjustment be made to operating expenses for chemicals and purchase power due to the EUW. Staff is continuing to investigate what is causing the EUW situation.

Water Treatment Plant and Distribution System Used &Useful

As noted above, the Commission found both the water treatment plant and distribution system to be 100 percent U&U in the prior SARC. There are no plans to expand the service territory; therefore, consistent with the prior Commission decision the water treatment plant and distribution system should be considered 100 percent U&U.

Conclusion

Alturas' water treatment plant and distribution systems should be considered 100 percent U&U. The amount of excessive unaccounted water (EUW) is 32 percent; therefore, at this time, staff is recommending an adjustment be made to operating expenses for chemicals and purchase power due to the EUW.

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

Preliminary Recommendation: The appropriate average test year rate base for Alturas is $32,827. (Golden, Vogel)

Staff Analysis: The appropriate components of the Utility's rate base include utility plant in service, land, contributions-in-aid-of-construction (CIAC), accumulated depreciation, amortization of CIAC, and working capital. Alturas' rate base was last established by Order No. PSC-10-0380-PAA-WU in a 2009 SARC.[2] Staff selected the test year ending December 31, 2014, for the instant case. A summary of each component of rate base and the recommended adjustments are discussed below.

Pursuant to Rule 25-30.115, F.A.C., water and wastewater utilities are required to maintain their accounts and records in conformity with the 1996 National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA). As will be discussed further in Issues 6 and 13, the Utility is not currently maintaining its books and records on a monthly basis as prescribed by the NARUC USOA. Commission audit staff determined that the Utility's accounting activities are compiled at the end of each calendar year by the Utility's owners and their Certified Public Accounting (CPA) firm to prepare the Utility's annual report and its federal tax return. Consequently, a 2014 income statement and balance sheet were not available, and the 2014 Annual Report was not compiled before the end of the audit staff's field work. Audit staff used the Utility's 2009 through 2013 Annual Reports, 2013 Federal Tax Return, and other supporting documents to compile the Utility's rate base, capital structure, and net operating income for the test year ended December 31, 2014.

Utility Plant in Service (UPIS) – As discussed above, no rate base balances were available for 2014. Using the Utility's 2009 through 2013 Annual Reports, audit staff calculated a test year UPIS balance of $59,612. In the Utility's last SARC, with a test year ended October 31, 2009, the Commission approved and included $18,075 of pro forma plant additions, without retirements. The projects included installing a shed, rebuilding a master meter at the well, refurbishing a well pump, refurbishing the water tank and tank piping, installing a new blowoff at the tank, and installing new water meters. On August 8, 2011, the Utility filed documents with the Commission that supported an actual cost of $10,486 for the approved projects that were completed during 2010 and 2011. Commission staff reviewed and approved the Utility's filed documents and administratively closed the docket in that proceeding.

A review of the Utility's annual reports indicates that the Utility experienced a net operating loss in each year since the pro forma projects were completed in 2011. Specifically, the Utility reported net operating losses of $4,933, $5,375, and $6,142 for 2011, 2012, and 2013, respectively. In addition, audit staff calculated a loss of $8,096 for 2014. The increasing level of operating losses indicates that the $7,589 overstatement of UPIS was offset by other costs, and therefore, did not cause the Utility to exceed its authorized rate of return. However, staff believes it would be appropriate to adjust the rate base prospectively to correctly reflect the pro forma that was completed. The audit staff's starting balance of $59,612 only includes a portion of the completed pro forma projects. Based on audit staff's review, staff has increased UPIS by

[2] Ibid.

$7,068 to reflect the correct test year UPIS balance including all of the completed pro forma projects.

Audit staff noted that the previously approved pro forma projects did not include any plant retirements. The majority of the projects involve new plant additions or refurbishments, and do not require plant retirements. However, staff believes it would be appropriate to recognize plant retirements for the meter replacements. Staff attempted to calculate the retirements based upon the original cost of the meters, however, there is insufficient information at this time to determine the exact number of meters that were replaced. It is Commission practice to use 75 percent of the cost of the replacement as the retirement value when the original cost or original in-service date is not known. Accordingly, staff has decreased this account by $1,752 ($2,336 x .75 = $1,752) to reflect the plant retirements associated with the 2010 and 2011 meter replacements. No plant additions were made during the test year, therefore, no averaging adjustment is necessary.

Based on the adjustments shown above, staff's net adjustment to UPIS is an increase of $5,316. Staff recommends a UPIS balance of $64,928.

Land and Land Rights – The Commission approved a land balance of $500 in the Utility's 2009 SARC. Audit staff determined that there has been no activity related to land since the last case, therefore, no adjustments are necessary. Staff recommends a land and land rights balance of $500.

Non-Used and Useful Plant – As discussed in Issue 2, Alturas' water treatment plant and distribution system are considered 100 percent U&U. Therefore, a U&U adjustment is unnecessary.

Contribution in Aid of Construction (CIAC) – The Commission approved a CIAC balance of $18,637 in the Utility's 2009 SARC. Audit staff determined there has been no activity related to CIAC since that case, therefore, no adjustments are necessary. Staff recommends a CIAC balance of $18,637.

Accumulated Depreciation – Audit staff calculated a test year accumulated depreciation balance of $34,230. Audit staff determined that no depreciation was recorded during 2011 and 2012. Therefore, audit staff calculated the annual accruals to accumulated depreciation beginning with the Utility's last SARC in 2009 through the end of the test year, using the prescribed rates set forth in Rule 25-30.140, F.A.C, and determined that accumulated depreciation should be increased by $5,623 to reflect the correct test year balance. In addition, staff decreased this account by a total of $2,204 to reflect the retirement of the replaced meters discussed above. Staff's retirement adjustment includes removal of $1,752 in accumulated depreciation for the retired meters, as well as removal of $452 in additional accumulated depreciation that continued to accrue during the years following the meter replacements ($1,752 + $452 = $2,204). Also, staff decreased this account by $811 to reflect an averaging adjustment. Staff's net adjustment to accumulated depreciation is an increase of $2,607, resulting in an accumulated depreciation balance of $36,837.

Accumulated Amortization of CIAC – The Commission approved an accumulated amortization of CIAC balance of $18,637 in the Utility's 2009 SARC, and determined that CIAC had become fully amortized as of February 10, 2004. As noted above, there has been no activity related to CIAC since the last case, therefore, no adjustments to amortization of CIAC are necessary. Although there is a net zero effect of having balances of $18,637 for CIAC and accumulated amortization of CIAC, these balances should still be maintained for accounting purposes. These balances represent contributions toward plant assets by the Utility's customers. When those plant assets are replaced and retired, a corresponding retirement to CIAC and accumulated amortization of CIAC will be required and therefore, staff recommends an accumulated amortization of CIAC balance of $18,637.

Working Capital Allowance – Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses 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 $4,236 (based on O&M expense of $33,887/8).

Rate Base Summary – Based on the foregoing, staff recommends that the appropriate average test year rate base is $32,827. 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 Alturas?

Preliminary Recommendation: The appropriate return on equity (ROE) is 8.74 percent with a range of 7.74 percent to 9.74 percent. The appropriate overall rate of return is 8.74 percent. (Golden, Vogel)

Staff Analysis: No utility capital structure balance was available for 2014. Based on a review of the Utility's annual reports, audit staff determined that the Utility's capital structure is composed entirely of owners' equity because no debt or customer deposits were displayed or disclosed. However, the Utility's equity balance could not be determined from its 2013 Annual Report or 2013 Federal Tax Return. Pursuant to Order No. PSC-05-0309-PAA-WU that approved the transfer of Alturas to the current owner, the purchase price was $45,000 for the system.[3] The purchase price was paid with cash in several installments. Therefore, staff has increased common equity by $45,000 to reflect the owner's equity in the system.

The Utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE is 8.74 percent based upon the Commission-approved leverage formula currently in effect.[4] Staff recommends an ROE of 8.74 percent, with a range of 7.74 percent to 9.74 percent, and an overall rate of return of 8.74 percent. The ROE and overall rate of return are shown on Schedule No. 2.

[3] Order No. PSC-05-0309-PAA-WU, issued March 21, 2005, in Docket No. 040160-WU, In re: Application for transfer of portion of Certificate No. 582-W by Keen Sales, Rentals, and Utilities, Inc. to Alturas Utilities, L.L.C., in Polk County.

[4] Order No. PSC-14-0272-PAA-WS, issued May 29, 2014, in Docket No. 140006-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), F.S.

Issue 5: What are the appropriate test year revenues for Alturas' water system?

Preliminary Recommendation: The appropriate test year revenues for Alturas' water system are $28,143. (Bruce)

Staff Analysis: At the time of staff's audit, the Utility had not closed its books for calendar year 2014, which is the test year in this docket. As a result, staff's adjustments are to the Utility's estimated test year revenues. Alturas estimated test year revenues of $26,138, which did not include any miscellaneous revenues. Staff has determined miscellaneous revenues should be $150 and should be adjusted accordingly. During the test year, the Utility had a four year rate reduction that became effective on August 14, 2014. However, the Utility did not reduce the rates as required. The Utility has since implemented the reduced rates. For the final recommendation, staff will address the disposition of any revenues that may have been over collected. Based on the appropriate test year billing determinants and the reduced rates, service revenues should be increased by $1,855 to reflect annualized service revenue of $27,993. Staff recommends that the appropriate test year revenues for Alturas' water system are $28,143 ($27,993 + $150).

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

Preliminary Recommendation: The appropriate amount of operating expenses for the Utility is $37,711. The Utility should be required to submit a copy of the final invoices and proof of payment for the pro forma triennial water tests and hydropneumatic tank inspection and repairs prior to implementation of the Phase II rates. (Golden, Vogel)

Staff Analysis: As discussed in Issue 3, the Utility had not yet prepared its accounting records for 2014 at the time of staff's audit. Instead, the Utility provided audit staff with an Expense Summary schedule of actual and estimated expenses of $43,921, some invoices, and some cancelled checks. The Utility's sister company, Sunrise Utilities, L.L.C. (Sunrise), has also filed an application for a SARC that is being processed concurrently under Docket No. 140220-WU. Audit staff noted that the majority of information used to verify Alturas' test year expenses involved shared operator services between the two Utilities or comingled banking operations due to severe cash flow problems. Based on a review of the available information for both Alturas and Sunrise, audit staff determined Alturas' test year operating expenses to be $34,234 for the test year ended December 31, 2014. In addition, staff made several adjustments to the Utility's operating expenses, as summarized below.

Salaries and Wages – Officers (603) – The Utility's Expense Summary does not include this account. The Utility currently has two officers, one of whom is the Utility owner. Pursuant to Order No. PSC-12-0533-PAA-WU, the Commission approved an annual officer's salary of $12,000 for the primary officer for the Utility's sister company, Sunrise.[5] In that case, Sunrise served approximately 234 customers which equates to an allocated officer's salary of approximately $51 per customer. In the instant case, audit staff determined that Alturas serves approximately 68 customers and that applying the same allocation results in an officer's salary of $3,468 ($51 x 68 = $3,468) for Alturas. Based on the Commission's prior decision that it is appropriate and reasonable to allow an officer's salary for Sunrise, staff believes it would also be appropriate to include an officer's salary for Alturas. Therefore, staff has increased this account by $3,468 to reflect the primary officer's salary. In addition, during the test year, the Utility paid $750 to the Utility's other officer who assists the Utility's owner in utility operations as needed. Audit staff determined that the work performed by the second officer is similar for both Utilities, and therefore, an equal split of the expense is appropriate. Based on audit staff's review, staff has increased this account by $375 to allocate half of the $750 annual payment to Alturas. The remaining half will be allocated to Sunrise. Staff's total adjustment to this account is an increase of $3,843. Therefore, staff recommends salaries and wages – officers' expense of $3,843.

Purchased Power (615) – The Utility's Expense Summary reflects $1,542 in this account. The Utility was only able to provide nine electric power invoices for the test year. Audit staff was able to substantiate the amounts for two of the three missing invoices using payment information included on subsequent invoices. Also, audit staff estimated the missing December 2014 invoice amount by using the average of the billed amounts for January through November 2014. Consequently, staff decreased this account by $104 to reflect the correct test year purchased

[5] Issued October 9, 2012, in Docket No. 110238-WU, In re: Application for staff-assisted rate case in Polk County by Sunrise Utilities, L.L.C.

power expense, resulting in an adjusted balance of $1,438. The $104 adjustment includes removal of $20 in late payment fees that are not recoverable through the Utility's rates.

In addition, as discussed in Issue 2, staff is recommending a EUW adjustment of 32 percent. Therefore, staff decreased the adjusted balance by $460 ($1,438 x .32 = $460) to reflect a 32 percent EUW adjustment. Staff's total adjustment is a decrease of $564. Therefore, staff recommends purchased power expense of $978.

<u>Chemicals (618)</u> – The Utility's Expense Summary reflects chemicals expense of $772. Audit staff verified this amount and determined it was appropriate for the test year. However, as discussed in Issue 2, staff is recommending a EUW adjustment of 32 percent. Accordingly, staff decreased this account by $247 to reflect a EUW adjustment of 32 percent ($772 x .32 = $247), resulting in a recommended chemicals expense of $525.

<u>Contractual Services - Billing (630)</u> – The Utility's Expense Summary reflects $3,169 in this account. Audit staff determined that this account should only include a total of $1,530 to cover $780 for meter reading services provided by the contractual office manager and $750 for billing services provided by another contractual vendor. Therefore, staff decreased this account by $1,639 ($3,169 - $1,530 = $1,639) to reflect the correct test year balance. Staff recommends contractual services – billing expense of $1,530.

<u>Contractual Services - Professional (631)</u> – The Utility's Expense Summary reflects $400 in this account for preparation of the Utility's annual report and federal tax return by its CPA. Audit staff verified that this amount is appropriate for the test year, and that no adjustments are necessary.

In addition, the Utility has requested recovery of $4,247 in outstanding legal fees related to Alturas' defense in a 2013 law suit filed by the Utility's former contract operator, Blount Utilities, Inc. (Blount), for outstanding payments that occurred prior to the test year. The outstanding legal fees are due in full before the end of 2015. On July 22, 2014, a judgment was issued against Alturas for $3,960 by the Tenth Judicial Circuit Court in favor of Blount for the uncontested outstanding balance owed for contractual services performed by Blount prior to the test year. The parties subsequently reached a settlement agreement regarding a payment plan for the balance owed, and payments of $300 per month started on August 2014, which are to continue until the balance is extinguished. The outstanding payable balance to Blount was approximately $2,700 as of December 31, 2014, the end of the test year.

In order to determine if it is appropriate to allow recovery of utility litigation costs from the ratepayers, the Commission generally considers whether the litigation resulted in a benefit to the customers, whether the customers gained a benefit that would not have occurred absent the litigation process, and the materiality of the litigation costs. For example, if a utility engaged in legal action to oppose government required plant improvements that it deemed to be unnecessary and won the law suit, the customers would receive the direct benefit of a lower rate base and thus lower rates. In the instant case, staff does not believe the litigation resulted in any direct benefit to the customers. The litigation was the result of one of the Utility's former managers not paying the plant operator in a timely manner for services rendered. The Utility was successful in receiving a lower interest rate as a result of the litigation. However, since Commission practice is to disallow recovery of late payment fees or interest charges resulting from untimely payments, the reduced interest rate is a direct benefit to the stockholders/owners rather than the customers. In addition, the interest savings is not sufficient to offset the litigation costs. Consequently, the legal action only served to increase the Utility's expenses rather than reduce them to the benefit of the customers. Based on the above, staff does not believe it would be appropriate to require the customers to pay the litigation costs.

Staff reviewed the Utility's last SARC and recent annual reports to determine if the Utility incurred any other legal fees in recent years that would be more representative of routine, recurring legal services. Based on the information available, it appears that the Utility has not incurred any other legal fees in recent years. Consequently, staff does not recommend an allowance for annual legal fees at this time. Therefore, staff recommends contractual services – professional expense of $400.

Contractual Services – Testing (635) – The Utility's Expense Summary does not include this account. Audit staff determined that the Utility incurred $1,465 in testing expenses for the test year. Accordingly, staff increased this account by $1,465. In addition, the Utility is required to conduct triennial water tests prior to the end of 2015. The Polk County Health Department (PCHD) has strongly recommended that the Utility complete both the annual and triennial sampling by September 30, 2015, to provide time for revisions, re-tests, and/or corrections. If approved by the Commission, it is anticipated that the Utility's Phase I rates in this SARC will go into effect in October 2015. Staff believes it would appropriate to include a pro forma adjustment for the triennial water tests in Phase I because the tests are required by PCHD and are expected to be completed either before or shortly after implementation of the Phase I rates.

The Utility's operator has estimated that the total cost for the triennial water tests will be $3,500. Therefore, staff has increased this account by $1,167 ($3,500/3 = $1,167) to include a pro forma adjustment to reflect the 3-year amortization of the triennial water test costs. The Utility should be required to submit a copy of the final invoices and proof of payment for the pro forma triennial water tests prior to implementation of the Phase II rates. Staff's total adjustment to this account is an increase of $2,632. Therefore, staff recommends contractual services – testing expense of $2,632.

Contractual Services - Other (636) – The Utility's Expense Summary reflects $19,545 in this account broken down by $5,950 for contractual office management; $6,855 for contractual utility operations; and $6,740 for supplies, maintenance and repairs. Alturas and Sunrise have a shared office manager and shared operator. The Utility's former office manager left abruptly in May 2014 and was replaced by the current office manager. The Utility provided cancelled checks totaling $29,748 that were paid to the two office mangers for customer and billing services, as well as reimbursements for expenditures incurred by the office manager for materials, supplies, and services provided by other vendors during the test year. In addition, audit staff was provided with extensive accounting detail for approximately $16,132 of the $29,748. Audit staff determined that $29,748 is a reasonable expense for the two Utilities, and determined that $8,440 of the total should be allocated to Alturas, with the remaining $21,308 being allocated to Sunrise. As noted above, the Utility's Expense Summary reflected a total of $5,950 for the contractual office manager. Audit staff determined that the correct allocation for the office manager's services for Alturas, excluding other expenditures such as supplies, is $7,660. Therefore, staff increased this account by $1,710 ($7,660 - $5,950 = $1,710) to reflect the appropriate allocation for the contractual office manager's services for the test year.

In addition, the Utility provided cancelled checks totaling $23,893 that were paid to the contract operator for both Alturas and Sunrise, supported by invoices totaling $22,641. Audit staff determined that the total of $22,641 supported by invoices is a reasonable expense for the two Utility systems. Based on audit staff's review, $9,035 of the total $22,641 should be allocated to Alturas, with the remaining $13,607 allocated to Sunrise. The $9,035 allocation includes $6,225 for the plant operation portion of the contract operator's expenses, as well as $772 for chemical expenses, $1,465 for testing expenses, and $573 for miscellaneous expenses that were reclassified to the appropriate expense accounts by audit staff ($6,225 + $772 + $1,465 + $573 = $9,035). Regarding the plant operation portion of the contract operator's expenses, the Utility's Expense Summary reflected a total of $6,855. Therefore, staff decreased this account by $630 ($6,225 - $6,855 = -$630) to reflect the appropriate allocation of $6,225 for the contract operator's services for the test year.

As noted above, the Utility's Expense Summary reflected $6,740 for supplies, maintenance, and repairs. The Utility's total includes test year repairs of $1,019 based on four repair invoices for electrical plant repairs and meter repairs. Staff believes it is reasonable to expect that the Utility may require this level of repairs on an annual basis. Therefore, staff does not believe it is necessary to amortize any of the test year repairs as non-recurring. As noted above, the Utility's Expense Summary also includes expenses related to chemicals, testing, and miscellaneous expenses that audit staff reclassified to the correct expense accounts. In addition, audit staff determined that some expenses were unsupported. Accordingly, staff decreased this account by $5,721 ($1,019 - $6,740 = -$5,721) to reflect the appropriate repair expense for the test year.

As discussed in Issue 3, Rule 25-30.115, F.A.C., requires that water and wastewater utilities maintain their accounts and records in conformity with the 1996 NARUC USOA. The Utility is not currently maintaining its books and records on a monthly basis as required. The lack of properly maintained books and records proved to be a significant impediment to the audit staff, substantially increasing the work required to process the audit for this docket, as well as the audit in the Sunrise SARC docket. Further, staff believes the lack of frequent bookkeeping activities may hinder the Utility's ability to detect and respond to cash flow concerns on a more regular basis.

The Utility does not currently have an employee or contractual service provider responsible for handling the Utility's day-to-day bookkeeping operations. Regardless of whether the Utility ultimately decides to hire a new employee or contract with a third party vendor, the Utility will incur additional expenses related to the bookkeeping activities. Therefore, staff believes it would be appropriate to make a pro forma adjustment to include an allowance for bookkeeping expense pending the Utility's final determination of how it plans to address its monthly bookkeeping activities. Because the Utility currently relies on contractual service providers rather than employees for its other day-to-day operations, staff's pro forma adjustment is based on an estimated cost of $200 per month or $2,400 annually for services provided by a third party vendor, such as a bookkeeping firm that is well versed in the NARUC USOA. Therefore, staff has increased this account by $2,400 to reflect a pro forma increase for annual bookkeeping expense. This is a preliminary estimate for the Staff Report pending additional information from the Utility, and may be either modified or removed from the Proposed Agency Action (PAA) recommendation as deemed appropriate.

Further, the Utility is required by the PCHD to complete a hydropneumatic tank inspection and repairs by May 2015. The Utility's operator has estimated a total project cost of $4,000. As noted above, if approved, the Phase I rates in this case are expected to go into effect in October 2015. Staff believes it would be appropriate to include a pro forma adjustment for tank inspection and repairs in Phase I because these actions are required by PCHD and are expected to be completed before implementation of the Phase I rates. Therefore, staff has increased this account by $800 to reflect the 5-year amortization of the tank inspection and repairs ($4,000/5 = $800). The Utility should be required to submit a copy of the final invoices and proof of payment for the pro forma tank inspection and repairs prior to implementation of the Phase II rates.

Finally, as discussed above, a judgment was issued against the Utility for $3,960 for outstanding payments owed to Blount for contractual services related to the plant operation and maintenance. The Utility has requested consideration of the outstanding balance and monthly payments of $300 in the instant case. Although the judgment and payment plan were finalized during the 2014 test year, the outstanding balance is for work performed by Blount prior to the test year. Historically, the Commission has determined that the recovery of past expenses from current customers constitutes retroactive ratemaking and is disallowed. Accordingly, staff does not believe it would be appropriate to recognize the past amounts owed to Blount in the instant proceeding.

Staff's net adjustment to this account is a decrease of $1,441. Therefore, staff recommends contractual services – other expense of $18,104.

<u>Transportation Expense (650)</u> – The Utility's Expense Summary reflects $1,233 in this account. Audit staff could not verify how this amount was determined. Further, audit staff determined that mileage fees were already included in the office manager's expense reflected in Account No. 636 contractual services – other. Therefore, staff decreased this account by $1,233, and recommends no test year transportation expense in this account.

<u>Insurance Expense (655)</u> – The Utility's Expense Summary reflects $1,576 in this account. Staff increased this account by $31 to reflect the current year's general liability insurance premium, and recommends insurance expense for the test year of $1,607.

<u>Regulatory Commission Expense (665)</u> – The Utility's Expense Summary does not include this account. Regarding the instant case, the Utility is required by Rule 25-22.0407, F.A.C., to provide notices to its customers of the customer meeting and notices of final rates for Phases I and II in this case. For noticing, staff estimated $96 for postage expense, $65 for printing expense, and $10 for envelopes. This results in $170 for the noticing requirement. The Utility paid a $1,000 rate case filing fee. The Utility also provided an invoice for accounting fees of $450 for work performed by the Utility's CPA related to the SARCs for both Alturas and

Sunrise. The work performed was similar for both Utilities. Therefore, staff believes it would be appropriate to allow Alturas to recover half or $225 of the accounting expense and allow Sunrise to recover the remaining $225 of rate case related accounting expense. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a 4-year period. Based on the above, staff recommends total rate case expense of $1,395 ($170 + $1,000 + $225), which amortized over four years is $349. Staff's total adjustment to this account is an increase of $349. Staff recommends regulatory commission expense of $349.

<u>Bad Debt Expense (670)</u> – The Utility's Expense Summary reflects $516 in this account. Consistent with Commission practice, staff calculated an average bad debt expense of $760 based upon a three-year average of bad debt expense for the years 2012 through 2014. Staff increased this account by $244 to reflect the appropriate bad debt expense based on the three-year average. Staff recommends bad debt expense of $760.

<u>Miscellaneous Expense (675)</u> – The Utility's Expense Summary reflects $2,201 in this account. As noted above, audit staff determined that a portion of the contract operator's expense should be reclassified to miscellaneous expense. Accordingly, staff increased this account by $756 to reflect the appropriate test year miscellaneous expense per the audit. In addition, staff increased this account by $58 to reflect a pro forma adjustment for the Utility's annual business license renewal fee that is required by Polk County. Finally, staff increased this account by $145 to reflect a pro forma adjustment for the Utility's annual membership dues to the Florida Rural Water Association (FRWA) pending additional information from the Utility regarding its current and intended future membership status. Staff's total adjustment to this account is an increase of $958, resulting in a recommended miscellaneous expense of $3,159 for the test year.

<u>Operation and Maintenance Expense (O&M Summary)</u> – Based on the above adjustments, O&M expense should be increased by $2,933, resulting in total O&M expense of $33,887. Staff's recommended adjustments to O&M expense are shown on Schedule Nos. 3-A and 3-B.

<u>Depreciation Expense (Net of Amortization of CIAC)</u> – No depreciation expense balances were available for 2014. Audit staff calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. and determined a test year depreciation expense of $1,727. Staff decreased this account by $103 to reflect retirement of certain pro forma items from the Utility's last SARC, as discussed in Issue 3, reducing the test year depreciation expense to $1,624. In addition, because the Utility's CIAC is fully amortized and there has been no CIAC activity since the Utility's last SARC, there is no amortization of CIAC expense. Therefore, staff recommends depreciation expense of $1,624.

<u>Taxes Other Than Income (TOTI)</u> – The Utility's Expense Summary reflects $3,280 in TOTI for the test year, although an official balance for 2014 was not yet available at the time of staff's audit. Staff increased this account by $90 to reflect the appropriate test year RAFs. Also, staff decreased this account by $1,730 to reflect the appropriate test year property taxes and remove license and permit renewal fees that are currently included in Account No. 675 – Miscellaneous Expense. Staff's net adjustment to test year TOTI is a decrease of $1,640. In addition, as discussed in Issue 7, revenues have been increased by $12,437 to reflect the change in revenue required to cover expenses and allow the recommended rate of return. As a result, TOTI should

be increased by $560 to reflect RAFs of 4.5 percent of the change in revenues. Therefore, staff recommends TOTI of $2,200.

Operating Expenses Summary – The application of staff's recommended adjustments to Alturas' test year operating expenses result in operating expenses of $37,711. Staff recommends that the Utility be required to submit a copy of the final invoices and proof of payment for the pro forma triennial water tests and hydropneumatic tank inspection and repairs prior to implementation of the Phase II rates. Operating expenses are shown on Schedule No. 3-A. The adjustments are shown on Schedule No. 3-B.

Issue 7: What is the appropriate Phase I revenue requirement?

Preliminary Recommendation: The appropriate Phase I revenue requirement is $40,580, resulting in an annual increase of $12,437 (44.19 percent). (Golden, Vogel)

Staff Analysis: Alturas should be allowed an annual increase of $12,437 (44.19 percent). This will allow the Utility the opportunity to recover its expenses and earn an 8.74 percent return on its investment. The calculations are as follows:

Table 7-1

Water Revenue Requirement	
Adjusted Rate Base	$32,827
Rate of Return	x 8.74%
Return on Rate Base	$2,869
Adjusted O&M Expense	33,887
Depreciation Expense (Net)	1,624
Taxes Other Than Income	2,200
Income Taxes	0
Revenue Requirement	$40,580
Less Test Year Revenues	28,143
Annual Increase	$12,437
Percent Increase	44.19%

Issue 8: What are the appropriate rate structure and rates for Alturas?

Preliminary Recommendation: The recommended rate structure and monthly water rates are shown on Schedule No. 4. 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: Alturas is located in Polk County within the Southwest Florida Water Management District (SWFWMD). The Utility provides water service to approximately 46 residential customers and nine general service customers as of December 31, 2014. Approximately five percent of the residential customer bills during the test year had zero gallons, indicating a non-seasonal customer base. The average residential water demand is 5,455 gallons per month. Currently, the Utility's water rate structure consists of a monthly base facility charge (BFC) and uniform gallonage charge for all customers. In the Utility's last rate case, 30 percent of the water revenue requirement was allocated to the BFC.

Staff performed an analysis of the Utility's billing data in order to evaluate the appropriate rate structure for the residential water customers. The goal of the evaluation was to select the rate design parameters that: 1) produce the recommended revenue requirement; 2) equitably distribute cost recovery among the Utility's customers; 3) establish the appropriate non-discretionary usage threshold for restricting repression; and 4) implement, where appropriate, water conserving rate structures consistent with Commission practice.

Staff recommends that 25 percent of the water revenues should be generated from the BFC, which will provide sufficient revenues to design gallonage charges that send pricing signals to customers using above the non-discretionary level. The average people per household served by the water system is three; therefore, based on the number of persons per household, 50 gallons per day per person, and the number of days per month, the non-discretionary usage threshold should be 5,000 gallons per month. Staff recommends a traditional BFC and gallonage charge rate structure, which includes separate gallonage charges for discretionary and non-discretionary usage for residential water customers. The rate blocks are: (1) 0-5,000 gallons and (2) all usage in excess of 5,000 gallons per month. General service customers should be billed a BFC and uniform gallonage charge.

In addition, based on a recommended revenue increase of approximately 44 percent, the residential consumption can be expected to decline by 302,000 gallons resulting in anticipated average residential demand of 4,914 gallons per month. Staff recommends a 9.90 percent reduction in total residential consumption and corresponding reductions of $81 for purchased power, $43, for chemicals, and $6 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of $40,300, excluding miscellaneous service revenues. Staff recommends an allocation of 25 percent of the water revenue requirement to the BFC. Staff recommends a traditional BFC and gallonage charge rate structure, which includes separate gallonage charges for discretionary and non-discretionary usage for residential water customers. The rate blocks are: (1) 0-5,000 gallons and (2) all usage in excess of 5,000 gallons per month. General service customers should be billed a BFC and uniform gallonage charge.

Based on the above, the recommended rate structure and monthly water rates are shown on Schedule No. 4. 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.

Issue 9: 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 RAFs 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. The Utility 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 Alturas 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. (Bruce, Golden, Vogel)

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 the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, the associated return on working capital, and the gross-up for RAFs which is $369. Using the Utility's current revenues, expenses, and customer base, the reduction in revenues will result in the rate decrease shown on Schedule No. 4.

Alturas should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The Utility also should be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction. If Alturas 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 10: Should the Commission approve a Phase II increase for pro forma items for Alturas?

Preliminary Recommendation: Yes. The Commission should approve a Phase II revenue requirement associated with pro forma items. The Utility's Phase II revenue requirement is $41,998 which equates to a 3.50 percent increase over the Phase I revenue requirement. Staff recommends that the increase be applied as an across-the-board increase to the Phase I rates.

Alturas should be required to complete the pro forma items within 12 months of the issuance of the consummating order. Also, the Utility should be required to submit a copy of the final invoices and proof of payment for all pro forma plant items. Acceptable forms of proof of payment include, but are not limited to, cancelled checks, payments issued directly by a lending institution, approved contractor's applications and certificates for payment, and credit card statements or subsequent invoices showing payments made and an updated balance. In addition, the Utility should be required to submit a copy of the final invoices and proof of payment for all pro forma expense items discussed in Issue 6. The Utility should be allowed to implement the Phase II rates once all pro forma items have been completed, and documentation has been 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. Alturas 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. (Golden, Vogel, Lewis, Bruce)

Staff Analysis: The Utility has requested recognition of several pro forma plant items in the instant case. Some of the pro forma items are expected to be completed either before or near implementation of the Phase I rates and, therefore, have been included in the Phase I revenue requirement as reflected in previous issues. The Utility's contract operator has also recommended projects related to an electric panel repair and installation of backflow prevention devices based on conversations with the PCHD. These projects are not required by PCHD, but are recommended for safety concerns. The estimated cost of each project was provided by the Utility's contract operator. The anticipated completion date is not yet known for the electric panel repair and backflow prevention device projects, therefore, staff is recommending that those projects be included in the Phase II revenue requirement at this time. The following table summarizes the Phase II pro forma plant items and estimated cost.

Table 10-1

	Phase II Pro Forma Plant Items	**Estimated Cost**
1.	Electric Panel Repair Project	$6,000
2.	Backflow Prevention Device Project.	2,000
	Total	**$8,000**

Staff's analysis regarding the reasonableness of the cost and the Utility's prudent management of the pro forma investment has not been finalized. However, staff recommends that these pro forma plant items be included in a Phase II revenue requirement on a preliminary basis pending further review.

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 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. 130178-SU, 130265-WU, 110238-WU, 110165-SU, and 100471-SU.[6]

Additional information is needed to determine whether these projects involve installation of new plant components, repair of existing plant items, or replacement of existing plant items in order to determine if these projects will include plant retirements. Consequently, no retirements are recommended at this time. Also, additional information is needed regarding the cost estimates, estimated completion dates, and sources of funding for the projects before a final revenue requirement can be determined. However, based on the information available at this time, staff recommends that the preliminary Phase II revenue requirement should be $41,998, representing a 3.50 percent increase over the recommended Phase I revenue requirement. Staff recommends that the increase be applied as an across-the-board increase to the Phase I rates.

Staff's recommendation includes an increase to UPIS of $8,000 to reflect the pro forma plant additions, as well as an increase of $600 to accumulated depreciation. The Utility has previously funded its plant improvements through equity rather than debt. Consequently, staff's recommended Phase II capital structure continues to reflect equity funding for the proposed pro forma projects, pending additional information from the Utility. In addition, staff increased depreciation expense by $600 to reflect the depreciation expense associated with the pro forma plant additions, and increased TOTI by $108 to reflect the additional property tax on the net pro forma plant. The 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.

Alturas should be required to complete the pro forma items within 12 months of the issuance of the consummating order. Also, the Utility should be required to submit a copy of the final invoices and proof of payment for all pro forma plant items. Acceptable forms of proof of payment include, but are not limited to, cancelled checks, payments issued directly by a lending institution, approved contractor's applications and certificates for payment, and credit card

[6] Order Nos: PSC-15-0142-PAA-SU, issued March 26, 2015, in Docket No. 130178-SU, In re: Application for staff-assisted rate case in Polk County by Crooked Lake Park Sewerage Company; PSC-14-0626-PAA-WU, issued October 29, 2014, in Docket No. 130265-WU, In re: Application for staff-assisted rate case in Charlotte County by Little Gasparilla Water Utility, Inc.; PSC-12-0533-PAA-WU, issued October 9, 2012, in Docket No. 110238-WU, In re: Application for staff-assisted rate case in Polk County by Sunrise Utilities, L.L.C.; PSC-12-0410-PAA-SU, issued August 13, 2012, in Docket No. 110165-SU, In re: Application for staff-assisted rate case in Highlands County by Utility Corporation of Florida, Inc.; and PSC-11-0444-PAA-SU, issued October 7, 2011, in Docket No. 100471-SU, In re: Application for staff-assisted rate case in Marion County by S&L Utilities, Inc.

statements or subsequent invoices showing payments made and an updated balance. In addition, the Utility should be required to submit a copy of the final invoices and proof of payment for all pro forma expense items discussed in Issue 6. The Utility should be allowed to implement the Phase II rates once all pro forma items have been completed, and documentation has been 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. Alturas should provide proof of the date notice was given within ten 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.

Issue 11: What are the appropriate initial customer deposits for Alturas?

Preliminary Recommendation: The appropriate initial customer deposits should be $120 for the residential 5/8 inch x 3/4 inch meter size for water. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for wastewater. The approved customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475, F.A.C. The Utility should be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding. (Bruce)

Staff Analysis: Rule 25-30.311, F.A.C., contains the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the Utility and, ultimately, the general body of ratepayers. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill.[7] Currently, the Utility's existing initial deposit for residential and general service customers is $65 for the 5/8 inch x 3/4inch meter size. The initial customer deposits for all other general service meter sizes are two times the average estimated bill. Based on staff's recommended rates, the existing initial customer deposit is not sufficient to cover two months' bills for water service. Staff recommends the existing initial customer deposit be increased to reflect two times the average estimated bill for water service to ensure that the cost of providing service is recovered from those incurring cost.

Staff recommends the appropriate initial customer deposits should be $120 for the residential 5/8 inch x 3/4 inch meter size for water. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for wastewater. The approved customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475, F.A.C. The Utility should be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding.

[7] Order No. PSC-13-0611-PAA-WS, issued November 19, 2013, in Docket No. 130010-WS, In re: Application for increase in water rates in Lee County and wastewater rates in Pasco County by Ni Florida, L.L.C., and Order No. PSC-14-0016-TRF-WU, issued January 6, 2014, in Docket No. 130251-WU, In re: Application for approval of miscellaneous service charges in Pasco County, by Crestridge Utility Corporation.

Issue 12: Should the recommended rates be approved for Alturas 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 for Phase I 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. Alturas 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 Clerk's office no later than the 20th of every 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. (Golden, Vogel)

Staff Analysis: This recommendation proposes an increase in 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. Alturas 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.

The Utility 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 $8,295. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

If the Utility 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 the Utility 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 the Utility.
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.
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 the Utility, 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.

The Utility 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 Clerk's office no later than the 20th of every 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 13: Should Alturas be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted all applicable NARUC USOA primary accounts to reflect the Commission-approved adjustments?

Preliminary Recommendation: Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, Alturas 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. In addition, the Utility should be required to maintain its books and records on a monthly basis in accordance with the NARUC USOA. (Golden, Vogel)

Staff Analysis: To ensure that the Utility adjusts its books in accordance with the Commission's decision, Alturas 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.

In addition, as discussed in Issues 3 and 6, Rule 25-30.115, F.A.C., requires that water and wastewater utilities maintain their accounts and records in conformity with the 1996 NARUC USOA. The Utility is not currently maintaining its books and records on a monthly basis as required. The lack of properly maintained books and records proved to be a significant impediment to the audit staff, substantially increasing the work required to process the audit for this docket, as well as the audit in the Sunrise SARC docket. Further, staff believes the lack of frequent bookkeeping activities may hinder the Utility's ability to detect and respond to cash flow concerns on a more regular basis. Therefore, staff recommends that the Utility be required to maintain its books and records on a monthly basis in accordance with the NARUC USOA.

Issue 14: Should this docket be closed?

Preliminary Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, and that the Utility has provided staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. Also, the docket should remain open to allow staff to verify that the Phase I and II pro forma items have been completed, and the Phase II rates properly implemented. Once these actions are complete, this docket should be closed administratively. (Corbari)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, and that the Utility has provided staff with proof that the adjustments for all applicable NARUC USOA primary accounts have been made. Also, the docket should remain open to allow staff to verify that the Phase I and Phase II pro forma items have been completed and the Phase II rates properly implemented. Once these actions are complete, this docket should be closed administratively.

ALTURAS UTILITIES, L.L.C.
TEST YEAR ENDED 12/31/14
SCHEDULE OF WATER RATE BASE (PHASE I)

SCHEDULE NO. 1-A
DOCKET NO. 140219-WU

	DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1.	UTILITY PLANT IN SERVICE	$59,612	$5,316	$64,928
2.	LAND & LAND RIGHTS	500	0	500
3.	NON-USED AND USEFUL COMPONENTS	0	0	0
4.	CIAC	(18,637)	0	(18,637)
5.	ACCUMULATED DEPRECIATION	(34,230)	(2,607)	(36,837)
6.	AMORTIZATION OF CIAC	18,637	0	18,637
7.	WORKING CAPITAL ALLOWANCE	0	4,236	4,236
8.	WATER RATE BASE	$25,882	$6,945	$32,827

ALTURAS UTILITIES, L.L.C. TEST YEAR ENDED 12/31/14 ADJUSTMENTS TO RATE BASE (PHASE I)		SCHEDULE NO. 1-B DOCKET NO. 140219-WU
	UTILITY PLANT IN SERVICE	
1.	To reflect appropriate amount of additions in 2010 and 2011 per audit.	$7,068
2.	To reflect retirements associated with 2010 and 2011 plant additions.	(1,752)
	Total	$5,316
	ACCUMULATED DEPRECIATION	
1.	To reflect accumulated depreciation per Rule 25-30.140, F.A.C.	($5,623)
2.	To reflect retirements associated with 2010 and 2011 plant additions.	2,204
3.	To reflect an averaging adjustment.	811
	Total	($2,607)
	WORKING CAPITAL ALLOWANCE	
	To reflect 1/8 of test year O&M expenses.	$4,236

ALTURAS UTILITIES, L.L.C.
TEST YEAR ENDED 12/31/14
SCHEDULE OF CAPITAL STRUCTURE (PHASE I)

SCHEDULE NO. 2
DOCKET NO. 140219-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.	COMMON STOCK	$0	$0	$0					
2.	RETAINED EARNINGS	0	0	0					
3.	PAID IN CAPITAL	0	0	0					
4.	OTHER COMMON EQUITY	0	45,000	45,000					
	TOTAL COMMON EQUITY	$0	$45,000	$45,000	($12,173)	$32,827	100.00%	8.74%	8.74%
5.	LONG TERM DEBT	$0	$0	$0	$0	$0	0.00%	0.00%	0.00%
6.	SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%
7.	PREFERRED STOCK	0	0	0	0	0	0.00%	0.00%	0.00%
	TOTAL DEBT	$0	$0	$0	$0	$0	0.00%		
8.	CUSTOMER DEPOSITS	$0	$0	$0	$0	$0	0.00%	2.00%	0.00%
9.	TOTAL	$0	$45,000	$45,000	($12,173)	$32,827	100.00%		8.74%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	7.74%	9.74%
OVERALL RATE OF RETURN	7.74%	9.74%

ALTURAS UTILITIES, L.L.C.
TEST YEAR ENDED 12/31/14
SCHEDULE OF WATER OPERATING INCOME (PHASE I)

SCHEDULE NO. 3-A
DOCKET NO. 140219-WU

		TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1.	**OPERATING REVENUES**	$26,138	$2,005	$28,143	$12,437	$40,580
					44.19%	
	OPERATING EXPENSES:					
2.	OPERATION & MAINTENANCE	$30,954	$2,933	$33,887	$0	$33,887
3.	DEPRECIATION (NET)	0	1,624	1,624	0	1,624
4.	TAXES OTHER THAN INCOME	3,280	(1,640)	1,640	560	2,200
5.	INCOME TAXES	0	0	0	0	0
6.	**TOTAL OPERATING EXPENSES**	$34,234	$2,917	$37,151	$560	$37,711
7.	**OPERATING INCOME/(LOSS)**	($8,096)		($9,008)		$2,869
8.	**WATER RATE BASE**	$25,882		$32,827		$32,827
9.	**RATE OF RETURN**	(31.28%)		(27.44%)		8.74%

ALTURAS UTILITIES, L.L.C.
TEST YEAR ENDED 12/31/14
ADJUSTMENTS TO OPERATING INCOME (PHASE I)

SCHEDULE NO. 3-B
DOCKET NO. 140219-WU
Page 1 of 2

	OPERATING REVENUES	
1.	To reflect the appropriate test year revenues.	$1,855
2.	To reflect the appropriate test year miscellaneous service revenues.	150
	Subtotal	$2,005
	OPERATION AND MAINTENANCE EXPENSES	
1.	Salaries and Wages - Officers (603)	
	a. To reflect primary officer's salary.	$3,468
	b. To reflect allocation of second officer's salary.	375
	Subtotal	$3,843
2.	Purchased Power (615)	
	a. To reflect appropriate purchased power expense and removal of late fees..	($104)
	b. To reflect 32% excessive unaccounted for water adjustment.	(460)
	Subtotal	($564)
3.	Chemicals (618)	
	To reflect 32% excessive unaccounted for water adjustment	($247)
4.	Contractual Services - Billing (630)	
	To reflect appropriate billing expense.	($1,639)
5.	Contractual Services - Testing (635)	
	a. To reflect appropriate annual testing expense.	$1,465
	b. To reflect pro forma 3-year amortization of triennial water tests.	1,167
	Subtotal	$2,632
6.	Contractual Services - Other (636)	
	a. To reflect appropriate test year office manager expense.	$1,710
	b. To reflect appropriate test year operator expense.	(630)
	c. To reflect appropriate test year maintenance expense.	(5,721)
	d. To reflect pro forma contractual bookkeeping expense.	2,400
	e. To reflect pro forma 5-year amortization of hydropneumatic tank inspection/repair.	800
	Subtotal	($1,441)
7.	Transportation Expense (650)	
	To remove office manager's mileage fees included in Acct. No. 636.	($1,233)
8.	Insurance Expense (655)	
	To reflect appropriate insurance expense.	$31
9.	Regulatory Commission Expense (665)	
	To reflect 4-year amortization of rate case expense ($1,395/4).	$349

ALTURAS UTILITIES, L.L.C.
TEST YEAR ENDED 12/31/14
ADJUSTMENTS TO OPERATING INCOME (PHASE I)

SCHEDULE NO. 3-B
DOCKET NO. 140219-WU
Page 2 of 2

	OPERATION AND MAINTENANCE EXPENSES (CONTINUED)	
10.	Bad Debt Expense (670)	
	a. To reflect appropriate bad debt expense based on 3-year average.	$244
11.	Miscellaneous Expense (675)	
	a. To reflect appropriate test year miscellaneous expense.	$756
	b. To reflect pro forma annual county business license fee.	58
	c. To reflect pro forma annual FRWA membership dues.	145
	Subtotal	$958
	TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	$2,933
	DEPRECIATION EXPENSE	
	To reflect test year depreciation calculated per Rule 25-30.140, F.A.C.	$1,624
	TAXES OTHER THAN INCOME	
1.	To reflect appropriate test year RAFs.	$90
2.	To reflect appropriate test year utility property taxes.	(1,730)
	Total	($1,640)

ALTURAS UTILITIES, L.L.C. **SCHEDULE NO. 3-C**
TEST YEAR ENDED 12/31/14 **DOCKET NO. 140219-WU**
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE (PHASE I)

	TOTAL PER UTILITY	STAFF ADJUST-MENTS	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	$0	$0	$0
(603) SALARIES AND WAGES - OFFICERS	0	3,843	3,843
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	1,542	(564)	978
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	772	(247)	525
(620) MATERIALS AND SUPPLIES	0	0	0
(630) CONTRACTUAL SERVICES - BILLING	3,169	(1,639)	1,530
(631) CONTRACTUAL SERVICES - PROFESSIONAL	400	0	400
(635) CONTRACTUAL SERVICES - TESTING	0	2,632	2,632
(636) CONTRACTUAL SERVICES - OTHER	19,545	(1,441)	18,104
(640) RENTS	0	0	0
(650) TRANSPORTATION EXPENSE	1,233	(1,233)	0
(655) INSURANCE EXPENSE	1,576	31	1,607
(665) REGULATORY COMMISSION EXPENSE	0	349	349
(670) BAD DEBT EXPENSE	516	244	760
(675) MISCELLANEOUS EXPENSE	2,201	958	3,159
	$30,954	$2,933	$33,887

ALTURAS UTILITIES, L.L.C..
TEST YEAR ENDED DECEMBER 31, 2014
MONTHLY WATER RATES (PHASE I)

SCHEDULE NO. 4
DOCKET NO. 140219-WU

	UTILITY CURRENT RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
Residential and General Service			
Base Facility Charge by Meter Size			
5/8"X3/4"	$11.28	$13.76	$0.13
3/4"	$16.92	$20.64	$0.19
1"	$28.19	$34.40	$0.32
1-1/2"	$56.40	$68.80	$0.63
2"	$90.23	$110.08	$1.01
3"	$180.46	$220.16	$2.03
4"	$281.97	$344.00	$3.16
6"	$563.95	$688.00	$6.33
Charge per 1,000 gallons - Residential			
0 - 5,000 gallons	$5.09	$8.27	$0.08
Over 5,000 gallons	$5.09	$10.54	$0.10
Charge per 1,000 gallons - General Service	$5.09	$8.99	$0.09
Typical Residential 5/8" x 3/4" Meter Bill Comparison			
3,000 Gallons	$26.55	$38.57	
6,000 Gallons	$41.82	$65.65	
10,000 Gallons	$62.18	$107.81	

ALTURAS UTILITIES, L.L.C.
TEST YEAR ENDED 12/31/14
SCHEDULE OF WATER RATE BASE (PHASE II)

SCHEDULE NO. 5-A
DOCKET NO. 140219-WU

	DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1.	UTILITY PLANT IN SERVICE	$64,928	$8,000	$72,928
2.	LAND & LAND RIGHTS	500	0	500
3.	NON-USED AND USEFUL COMPONENTS	0	0	0
4.	CIAC	(18,637)	0	(18,637)
5.	ACCUMULATED DEPRECIATION	(36,837)	(600)	(37,437)
6.	AMORTIZATION OF CIAC	18,637	0	18,637
7.	WORKING CAPITAL ALLOWANCE	4,236	0	4,236
8.	WATER RATE BASE	$32,827	$7,400	$40,227

ALTURAS UTILITIES, L.L.C.
TEST YEAR ENDED 12/31/14
ADJUSTMENTS TO RATE BASE (PHASE II)

SCHEDULE NO. 5-B
DOCKET NO. 140219-WU

	UTILITY PLANT IN SERVICE	
1.	To reflect pro forma electric panel project to Acct. 311.	$6,000
2.	To reflect pro forma backflow prevention devices to Acct. 336.	2,000
	Total	$8,000
	ACCUMULATED DEPRECIATION	
	To reflect accumulated depreciation on pro forma plant additions.	($600)

ALTURAS UTILITIES, L.L.C.
TEST YEAR ENDED 12/31/14
SCHEDULE OF CAPITAL STRUCTURE (PHASE II)

SCHEDULE NO. 6
DOCKET NO. 140219-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.	COMMON STOCK	$0	$0	$0					
2.	RETAINED EARNINGS	0	0	0					
3.	PAID IN CAPITAL	0	0	0					
4.	OTHER COMMON EQUITY	45,000	0	45,000					
	TOTAL COMMON EQUITY	$45,000	$0	$45,000	($4,773)	$40,227	100.00%	8.74%	8.74%
5.	LONG TERM DEBT	$0	$0	$0	$0	$0	0.00%	0.00%	0.00%
6.	SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%
7.	PREFERRED STOCK	0	0	0	0	0	0.00%	0.00%	0.00%
	TOTAL DEBT	$0	$0	$0	$0	$0	0.00%		
8.	CUSTOMER DEPOSITS	$0	$0	$0	$0	$0	0.00%	2.00%	0.00%
9.	TOTAL	$45,000	$0	$45,000	($4,773)	$40,227	100.00%		8.74%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	7.74%	9.74%
OVERALL RATE OF RETURN	7.74%	9.74%

ALTURAS UTILITIES, L.L.C.
TEST YEAR ENDED 12/31/14
SCHEDULE OF WATER OPERATING INCOME (PHASE II)

SCHEDULE NO. 7-A
DOCKET NO. 140219-WU

		TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1.	**OPERATING REVENUES**	$40,580	$0	$40,580	$1,418	$41,998
					3.50%	
	OPERATING EXPENSES:					
2.	OPERATION & MAINTENANCE	$33,887	$0	$33,887	$0	$33,887
3.	DEPRECIATION (NET)	1,624	600	2,224	0	2,224
4.	TAXES OTHER THAN INCOME	2,200	108	2,308	64	2,372
5.	INCOME TAXES	0	0	0	0	0
6.	**TOTAL OPERATING EXPENSES**	$37,711	$708	$38,419	$64	$38,482
7.	**OPERATING INCOME/(LOSS)**	$2,869		$2,161		$3,516
8.	**WATER RATE BASE**	$32,827		$40,227		$40,227
9.	**RATE OF RETURN**	8.74%		5.37%		8.74%

ALTURAS UTILITIES, L.L.C. **TEST YEAR ENDED 12/31/14** **ADJUSTMENTS TO OPERATING INCOME (PHASE II)**	**SCHEDULE NO. 7-B** **DOCKET NO. 140219-WU**
DEPRECIATION EXPENSE	
To reflect depreciation expense for pro forma plant additions.	$600
TAXES OTHER THAN INCOME	
To reflect additional utility property taxes for net pro forma plant.	$108

ALTURAS UTILITIES, L.L.C. **SCHEDULE NO. 7-C**
TEST YEAR ENDED 12/31/14 **DOCKET NO. 140219-WU**
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE (PHASE II)

	TOTAL PER UTILITY	STAFF ADJUST-MENTS	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	$0	$0	$0
(603) SALARIES AND WAGES - OFFICERS	3,843	0	3,843
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	978	0	978
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	525	0	525
(620) MATERIALS AND SUPPLIES	0	0	0
(630) CONTRACTUAL SERVICES - BILLING	1,530	0	1,530
(631) CONTRACTUAL SERVICES - PROFESSIONAL	400	0	400
(635) CONTRACTUAL SERVICES - TESTING	2,632	0	2,632
(636) CONTRACTUAL SERVICES - OTHER	18,104	0	18,104
(640) RENTS	0	0	0
(650) TRANSPORTATION EXPENSE	0	0	0
(655) INSURANCE EXPENSE	1,607	0	1,607
(665) REGULATORY COMMISSION EXPENSE	349	0	349
(670) BAD DEBT EXPENSE	760	0	760
(675) MISCELLANEOUS EXPENSE	3,159	0	3,159
	$33,887	$0	$33,887

ALTURAS UTILTIES, L.L.C..
TEST YEAR ENDED DECEMBER 31, 2014
MONTHLY WATER RATES (PHASE II)

SCHEDULE NO. 8
DOCKET NO. 140219-WU

	STAFF'S RECOMMENDED PHASE I RATES	STAFF'S RECOMMENDED PHASE II RATES
Residential and General Service		
Base Facility Charge by Meter Size:		
5/8"X3/4"	\$13.76	\$14.24
3/4"	\$20.64	\$21.36
1"	\$34.40	\$35.60
1-1/2"	\$68.80	\$71.20
2"	\$110.08	\$113.92
3"	\$220.16	\$227.84
4"	\$344.00	\$356.00
6"	\$688.00	\$712.00
Charge per 1,000 gallons - Residential		
0 - 5,000 gallons	\$8.27	\$8.56
Over 5,000 gallons	\$10.54	\$10.91
Charge per 1,000 Gallons - General Service	\$8.99	\$9.30
Typical Residential 5/8" x 3/4" Meter Bill Comparison		
3,000 Gallons	\$38.57	\$39.92
6,000 Gallons	\$65.65	\$67.95
10,000 Gallons	\$107.81	\$111.59