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Public Service Commission

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

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

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. 140220-WU – Application for staff-assisted rate case in Polk County by Sunrise Utilities L.L.C.

Please file the attached in the above mentioned Docket File.

Thank you.

State of Florida

Public Service Commission

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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)
Office of Auditing & Performance Analysis (Small)
Division of Accounting and Finance (Golden, Vogel)
Division of Economics (Bruce)
Office of the General Counsel (Corbari)

RE: Docket No. 140220-WU – Application for staff-assisted rate case in Polk County by Sunrise 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 20, 2015.

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Case Background

Sunrise Utilities, L.L.C., (Sunrise or Utility) is a Class C Utility providing water service to approximately 244 residential water customers in central Polk County. The Utility's last staff-assisted rate case (SARC) before the Commission was approved in 2012.[1] According to Sunrise's 2014 Annual Report, total gross revenues were $69,411 and total operating expenses were $95,476 resulting in a net loss of $26,065. On November 10, 2014, Sunrise 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-12-0533-PAA-WU, issued October 9, 2010, in Docket No. 110238 - 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 Utilities, L.L.C., satisfactory?

Preliminary Recommendation: Staff's recommendation regarding quality of service will not be finalized until after the May 20, 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.

Sunrise's service area is located near Auburndale, Florida, in Polk County 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 two wells rated at 400 and 150 gallons per minute (gpm), respectively.

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

Staff reviewed the last DEP Sanitary Survey Report dated May 21, 2014, and four deficiencies were found. The chlorine residuals were less than 0.20 mg/L which was corrected on May 22, 2014. The other three deficiencies were related to insufficient maintenance records and were corrected within 30 days. Staff reviewed the chemical analysis conducted by the DEP dated December 23, 2014. All of the contaminants were below the Maximum Contaminant Level 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 eighteen complaints which were resolved. Only one of the complaints concerned quality of service and was resolved in 2011. The remaining complaints concerned improper bills, delays in connection, and a service outage that occurred in 2010. Staff requested copies of complaints filed with the Utility during the test year and the 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 from DEP for the test year and the 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 20, 2015, customer meeting.

Issue 2: What is the used and useful percentage (U&U) of Sunrise's water treatment plant and distribution system?

Preliminary Recommendation: Sunrise's water treatment plant distribution system should be considered 100 percent U&U. The Utility's flow data indicates the system has 9 percent excessive unaccounted for water. Therefore, at this time, staff is recommending that an adjustment be made to operating expenses for chemicals and purchased power due to the excessive unaccounted water (EUW). (C. Lewis, King)

Staff Analysis: Sunrise's water system is served by an 8-inch diameter well rated at 400 gallons per minute (gpm) and a 4-inch diameter well rated at 150 gallons per minute (gpm). The raw water is injected with liquid chlorine prior to entering either a 6,000-gallon or 3,000 - gallon hydropneumatic tanks, and then pumped into the water distribution system. The Utility is permitted to withdraw an average of 58,400 gallons per day (gpd) up to 73,000 gpd peak. The distribution system is a composite network mix of PVC and galvanized pipe. According to the Utility, there are no fire hydrants and there was no growth in the service area during the last five years. During the previous SARC both the water treatment plant and distribution system were deemed 100 percent used and useful.[2]

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 and 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 17,560,851 gallons and sold 14,161,000 gallons of water during the test year. Sunrise did not record any gallons used for other purposes. Therefore, the amount of unaccounted water is 3,399,851 gallons of which 1,643,766 gallons (9 percent) are considered EUW. At this time, staff is recommending that an adjustment be made to operating expenses for chemicals and purchased power due to the EUW.

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 have been no major plant additions or

[2] Ibid.

growth in the last five years. Therefore, consistent with the prior Commission decision, the water treatment plant and distribution system should be considered 100 percent U&U.

Conclusion

Sunrise's water treatment plant and distribution systems should be considered 100 percent U&U. The amount of EUW is 9 percent; therefore, at this time, staff is recommending an adjustment to operating expenses for chemicals and electricity due to the EUW.

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

Preliminary Recommendation: The appropriate average test year rate base for Sunrise is $50,226. (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. Sunrise's rate base was last established by Order No. PSC-12-0533-PAA-WU in a 2011 SARC[3]. 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 $124,367. In the Utility's last SARC, with a test year ended September 30, 2011, the Commission approved and included $6,755 of pro forma plant additions, without retirements. The projects included replacing the following plant items: a fence, a master flow meter, a well cover, isolation valves, and piping between the well and tank. On November 23, 2013, the Utility filed documents with the Commission that supported an actual cost of $1,733 for the approved projects to replace the fence, master flow meter, and well cover that were completed during 2012 and 2013. The Utility did not complete the two projects to replace the isolation valves and tank piping. The uncompleted projects accounted for $5,113 of the $6,755 pro forma plant additions approved. 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 has experienced a net operating loss immediately prior to and during each year since the pro forma projects were completed. Specifically, the Utility reported net operating losses of $9,544, $7,830, and $4,630 for 2011, 2012, and 2013, respectively. In addition, audit staff calculated a loss of $5,688 for 2014. The ongoing level of operating losses indicates that the $5,113 overstatement of UPIS was offset by other costs, and therefore, did not cause the Utility to exceed its authorized rate of return. In addition, due to a billing error, the Utility did not begin charging the Phase II rates

[3]Ibid.

when initially approved, thereby, minimizing the impact of the pro forma overstatement. However, staff believes it would be appropriate to adjust the rate base prospectively to correctly reflect the pro forma that was completed. Audit staff determined the Utility's UPIS should be decreased by $13,767 to remove the uncompleted pro forma projects, to remove unsupported plant additions, and to reclassify meter replacement costs that are currently covered as an expense item under a meter replacement program approved in the Utility's last SARC. Based on audit staff's review, staff has decreased UPIS by $13,767 to reflect the correct test year UPIS balance.

Audit staff noted the previously approved pro forma projects did not include any plant retirements. The three completed pro forma projects each involve the replacement of existing plant, and therefore, should include associated retirements. 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 $1,300 ($1,733 x .75 = $1,300) to reflect the plant retirements associated with the 2012 and 2013 pro forma projects to replace the fence, master flow meter, and well cover. No plant additions were made during the test year, therefore, no averaging adjustment is necessary.

Based on the adjustments shown above, staff's total adjustment to UPIS is a decrease of $15,067. Staff recommends a UPIS balance of $109,300.

Land and Land Rights – No land and land rights balance were available for 2014. The Commission approved a land balance of $553 in the Utility's 2011 SARC. The Utility's sister company, Alturas Utilities, LLC (Alturas), has also filed an application for a SARC that is being processed concurrently under Docket No. 140219-WU. On February 10, 2004, the Utility's former owner, Keen Sales, Rentals and Utilities, Inc., executed a warranty deed that transferred the real properties containing the Sunrise and Alturas systems to Sunrise. On November 8, 2004, the same former owner executed a corrective warranty deed that transferred both real properties back to Alturas, rather than only transferring the Alturas portion back to Alturas. Based on audit staff's review, the land occupied by the Sunrise water plant is still owned by Alturas.

Pursuant to Rule 25-30.433(10), F.A.C., utilities are required to own the land upon which the treatment facilities are located, or possess the right to the continued use of the land, such as a 99-year lease. Staff recommends that the Utility be required to either correct the land ownership issue by transferring the Sunrise real properties back to Sunrise, or in the alternative, execute a long-term lease between Alturas and Sunrise. The Utility should be required to provide documentation that the land ownership issue has been corrected prior to implementation of the Phase II rates. Also, audit staff determined that there has been no activity related to land since the last case, and therefore, no adjustments are necessary to the previously approved land value. Therefore, staff increased this account by $553 to reflect the previously approved land balance. Staff recommends a land and land rights balance of $553.

Non-Used and Useful Plant – As discussed in Issue 2, Sunrise's 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) – No CIAC balance was available for the 2014 test year. The Commission approved a CIAC balance of $12,393 in the Utility's 2011 SARC. However, a review of the Utility's 2011, 2012, and 2013 Annual Reports indicates that the Utility never adjusted its previous CIAC balance of $5,168 to reflect the Commission approved balance. Therefore, staff increased this account by $7,225 ($12,393 - $5,168 = $7,225) to reflect the Commission approved balance. Audit staff determined there has been no activity related to CIAC since that case, therefore, no additional adjustments are necessary. Staff recommends a CIAC balance of $12,393.

Accumulated Depreciation – Audit staff calculated a test year accumulated depreciation balance of $68,952. A review of the Utility's 2011, 2012, and 2013 Annual Reports indicates that the Utility never adjusted its records to reflect the accumulated depreciation balance approved by the Commission in the 2011 SARC. Further, audit staff determined the depreciation accruals had been recorded inconsistently since 2011. Therefore, audit staff calculated the annual accruals to accumulated depreciation beginning with the Utility's last SARC in 2011 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 $3,131 to reflect the correct test year balance. In addition, staff decreased this account by a total of $1,412 to reflect retirement of the replaced fence, master flow meter, and well cover discussed above. Staff's retirement adjustment includes removal of $1,300 in accumulated depreciation for the retired fence, master flow meter, and well cover, as well as removal of $112 in additional accumulated depreciation that continued to accrue during the years following the plant replacements ($1,300 + $112 = $1,412). Also, staff decreased this account by $2,254 to reflect an averaging adjustment. Staff's net adjustment to accumulated depreciation is a decrease of $535, resulting in an accumulated depreciation balance of $68,417.

Accumulated Amortization of CIAC – The Commission approved an accumulated amortization of CIAC balance of $10,395 in the Utility's 2011 SARC, however, the Utility's records were never adjusted to reflect that balance. Audit staff calculated CIAC amortization using the amortization rates established by Rule 25-30.140(9)(c), F.A.C., as of December 31, 2014, and determined that this account should be increased $6,900 to reflect the appropriate test year balance. However, audit staff also noted the Utility's CIAC will become fully amortized by August 2015. 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. Because the CIAC is due to become fully amortized prior to implementation of the Phase I rates, staff believes it would be appropriate to make a pro forma adjustment to reflect the full amortization of the CIAC in August 2015. Therefore, staff increased this account by $325 to reflect the full amortization of CIAC. Due to the recognition of the full amortization of CIAC in this proceeding, no averaging adjustment is necessary. Staff's total adjustment to accumulated amortization of CIAC is an increase of $7,225. Therefore, staff recommends an accumulated amortization of CIAC balance of $12,393.

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 $8,791 (based on O&M expense of $70,324/8).

Rate Base Summary – Based on the foregoing, staff recommends that the appropriate average test year rate base is $50,226. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

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

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 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-05-0308-PAA-WU, which approved the transfer of Sunrise to the current owner, the purchase price was $90,000 for the system.[4] The purchase price was paid with cash in several installments. Therefore, staff has increased common equity by $90,000 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.[5] 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.

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[4] 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, L.L.C., in Polk County.

[5] 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 Sunrise's water system?

Preliminary Recommendation: The appropriate test year revenues for Sunrise's water system are $74,938. (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. Sunrise estimated test year revenues of $69,416, which did not include any miscellaneous revenues. Staff has determined miscellaneous revenues should be $2,640 and should be adjusted accordingly. During the test year, the Utility had a Phase II rate increase that became effective on July 1, 2014. However, the Utility did not increase its rates, which resulted in an undercharge for the customers. Based on the appropriate test year billing determinants and the increased rates, service revenues should be increased by $2,882 to reflect annualized service revenue of $72,298. Staff recommends that the appropriate test year revenues for Sunrise's water system are $74,938 ($72,298 + $2,640).

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

Preliminary Recommendation: The appropriate amount of operating expenses for the Utility is $79,613. 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. (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 $84,912, some invoices, and some cancelled checks. The Utility's sister company, Alturas Utilities, LLC (Alturas), has also filed an application for a SARC that is being processed concurrently under Docket No. 140219-WU. Audit staff noted the majority of information used to verify Sunrise's 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 Sunrise and Alturas, audit staff determined Sunrise's test year operating expenses to be $75,104 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 reflects $12,000 in this account. The Utility currently has two officers, one of whom is the Utility owner. In the Utility's last SARC, the Commission approved an annual officer's salary of $12,000 for the primary officer.[6] 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 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 increased this account by $375 to allocate one-half of the $750 annual payment to Sunrise. The remaining half will be allocated to Alturas. Staff's total adjustment to this account is an increase of $375. Therefore, staff recommends salaries and wages – officers' expense of $12,375.

Purchased Power (615) – The Utility's Expense Summary reflects $2,340 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 $63 to reflect the correct test year purchased power expense, resulting in an adjusted balance of $2,277. The $63 adjustment includes removal of $5 in late payment fees that are not recoverable through the Utility's rates.

In addition, as discussed in Issue 2, staff is recommending an EUW adjustment of 9 percent. Therefore, staff decreased the adjusted balance by $205 ($2,277 x .09 = $205) to reflect a 9 percent EUW adjustment. Staff's total adjustment is a decrease of $268. Therefore, staff recommends purchased power expense of $2,072.

[6] Order No. PSC-12-0533-PAA-WU.

Fuel for Power Production (616) – The Utility's Expense Summary does not include this account. Audit staff determined the Utility paid a total of $219 for propane fuel for its emergency generator at the water plant during the test year. Therefore, staff increased this account by $219, and recommends fuel for power production expense of $219 for the test year.

Chemicals (618) – The Utility's Expense Summary reflects chemicals expense of $1,431. Based on audit staff's review, staff increased this account by $131 to reflect the appropriate test year chemicals expense, resulting in an adjusted chemicals expense of $1,562. However, as discussed Issue 2, staff is recommending an EUW adjustment of 9 percent. Accordingly, staff decreased this account by $141 to reflect an EUW adjustment of 9 percent ($1,562 x .09 = $141). Staff's net adjustment is a decrease of $10, resulting in a recommended chemicals expense of $1,421.

Contractual Services - Billing (630) – The Utility's Expense Summary reflects $9,802 in this account. Audit staff determined this account should only include a total of $4,290 to cover $2,940 for meter reading services provided by the contractual office manager and $1,350 for billing services provided by another contractual vendor. Therefore, staff decreased this account by $5,512 ($9,802 - $4,290 = $5,512) to reflect the correct test year balance. Staff recommends contractual services – billing expense of $4,290.

Contractual Services - Professional (631) – 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 $4,577 in outstanding legal fees related to Sunrise's 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 Sunrise for $2,926 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 $271 per month started on August 2014, which are to continue until the balance is extinguished. The outstanding payable balance to Blount was approximately $2,440 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.

<u>Contractual Services – Testing (635)</u> – The Utility's Expense Summary does not include this account. Audit staff determined the Utility incurred $2,340 in testing expense for the test year Accordingly, staff increased this account by $2,340. 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 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 three-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 $3,507. Therefore, staff recommends contractual services – testing expense of $3,507.

<u>Contractual Services - Other (636)</u> – The Utility's Expense Summary reflects $29,173 in this account broken down by $10,008 for contractual office management; $10,139 for contractual utility operations; and $9,026 for supplies, maintenance, and repairs. Sunrise and Alturas 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 $21,308 of the total should be allocated to Sunrise, with the remaining $8,440 being allocated to Alturas. As noted above, the Utility's Expense Summary reflected a total of $10,008 for the contractual office manager. Audit staff determined that the correct allocation for the office manager's services for Sunrise, excluding other expenditures such as supplies, is

$18,368. Therefore, staff increased this account by $8,360 ($18,368 - $10,008 = $8,360) 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 Sunrise and Alturas, 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, $13,607 of the total $22,641 should be allocated to Sunrise, with the remaining $9,035 allocated to Alturas. The $13,607 allocation includes $8,750 for the plant operation portion of the contract operator's expenses, as well as $1,562 for chemical expenses, $2,340 for testing expenses, and $954 for miscellaneous expenses that were reclassified to the appropriate expense accounts by audit staff ($8,750 + $1,562 + $2,340 + $954 = $13,607). Regarding the plant operation portion of the contract operator's expenses, the Utility's Expense Summary reflected a total of $10,139. Therefore, staff decreased this account by $1,389 ($8,750 - $10,139 = -$1,389) to reflect the appropriate allocation of $8,750 for the contract operator's services for the test year.

As noted above, the Utility's Expense Summary reflected $9,026 for supplies, maintenance, and repairs. The Utility's total includes test year repairs of $2,299 based on one invoice for a broken water main repair. 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 the test year repair 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 $6,727 ($2,299 - $9,026 = -$6,727) to reflect the appropriate repair expense for the test year.

Also, in the Utility's 2011 SARC, the Commission approved a meter replacement program that would allow the Utility to replace 23 meters per year over 10 years at an annual expense of $1,359. In the instant proceeding the Utility has renewed its request to continue the meter replacement program. The Utility's operator has provided an estimated annual expense of $3,500, which is a $2,141 increase over the previously authorized annual expense of $1,359. The estimate did not include a breakdown of costs or an explanation for the requested increase.

As will be discussed in Issue 11, staff is recommending a phased approach in this proceeding to address the Utility's request for approval of several pro forma projects. Staff believes that it would be appropriate to continue the previously approved meter replacement expense of $1,359 in the Phase I revenue requirement. However, staff believes additional information is needed regarding the Utility's cost estimate, planned meter replacement schedule, and maintenance of meter replacement and testing records, before a determination can be made regarding the reasonableness of the requested increase of $2,141 in the annual meter replacement expense. Therefore, staff increased this account by $1,359 to reflect a continuation of the previously approved annual meter replacement program expense. The Utility's requested $2,141 increase and the annual expense will be addressed in Issue 11.

In addition, in the Utility's 2011 SARC, the Commission approved a pro forma project related to the inspection and cleaning of the Utility's two hydropneumatic tanks. The project was completed during 2013, and the Utility provided documentation to support an actual expense of $3,811. Therefore, staff increased this account by $762 to reflect the five-year amortization of this non-recurring expense ($3,811 / 5 = $762). Based on audit staff's review, the expense should continue to be amortized through 2018.

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 Alturas SARC docket. Further, staff believes that 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 expenses. 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.

Finally, as discussed above, a Judgment was issued against the Utility for $2,926 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 $271 in the instant case. Although the Judgment and payment plans 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 an increase of $4,765. Therefore, staff recommends contractual services – other expense of $33,938.

<u>Transportation Expense (650)</u> – The Utility's Expense Summary reflects $1,976 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 $1,976, and recommends no test year transportation expense in this account.

Insurance Expense (655) – The Utility's Expense Summary reflects $2,010 in this account. Staff decreased this account by $182 to reflect the current year's general liability insurance premium, and recommends insurance expense for the test year of $1,828.

Regulatory Commission Expense (665) – The Utility's Expense Summary does not include this account. Staff increased this account by $344 to reflect the annual amortization of rate case expense approved in the Utility's 2011 SARC that will continue to be amortized until December 1, 2016. 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 $359 for postage expense, $244 for printing expense, and $36 for envelopes. This results in $639 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 Sunrise and Alturas. The work performed was similar for both Utilities. Therefore, staff believes it would be appropriate to allow Sunrise to recover half or $225 of the accounting expense and allow Alturas 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 four-year period. Based on the above, staff recommends total rate case expense for the instant case of $1,864 ($639 + $1,000 + $225), which amortized over four years is $466. Staff's total adjustment to this account is an increase of $810. Staff recommends regulatory commission expense of $810.

Bad Debt Expense (670) – The Utility's Expense Summary reflects $3,899 in this account. Consistent with Commission practice, staff calculated an average bad debt expense of $4,509 based upon a three-year average of bad debt expense for the years 2012 through 2014. Staff increased this account by $610 to reflect the appropriate bad debt expense based on the three-year average. Staff recommends bad debt expense of $4,509.

Miscellaneous Expense (675) – The Utility's Expense Summary reflects $6,342 in this account. Staff decreased this account by $1,643 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, the Utility's 2011 SARC included recovery of the Utility's annual membership dues to the Florida Rural Water Association (FRWA). However, the Utility's test year expense records did not reflect any payments to FRWA for current dues. Therefore, staff increased this account by $198 to reflect a pro forma adjustment for the Utility's annual FRWA membership dues pending additional information from the Utility regarding its current and intended future membership status. Staff's net adjustment to this account is a decrease of $1,387, resulting in a recommended miscellaneous expense of $4,955 for the test year.

Operation and Maintenance Expense (O&M Summary) – Based on the above adjustments, O&M expense should be increased by $951, resulting in total O&M expense of $70,324. Staff's recommended adjustments to O&M expense are shown on Schedule Nos. 3-A and 3-B.

Depreciation Expense (Net of Amortization of CIAC) – No depreciation or CIAC amortization 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 $4,559. Staff decreased this account by $51 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 $4,508.

As discussed in Issue 3, the Utility's CIAC will become fully amortized by August 2015. 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. Because the CIAC is due to become fully amortized prior to implementation of the Phase I rates, staff recommends a pro forma adjustment in Issue 3 to reflect the full amortization of the CIAC in August 2015. Consequently, the CIAC amortization expense will end in August 2015 as well. Therefore, staff recommends no CIAC amortization expense. This results in a net depreciation expense of $4,508 ($4,508 - $0). Therefore, staff recommends depreciation expense of $4,508.

<u>Taxes Other Than Income (TOTI)</u> – The Utility's Expense Summary reflects $5,731 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 $249 to reflect the appropriate test year RAFs. Also, staff decreased this account by $1,726 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 $1,477. In addition, as discussed in Issue 8, revenues have been increased by $11,707 to reflect the change in revenue required to cover expenses and allow the recommended operating ratio. As a result, TOTI should be increased by $527 to reflect RAFs of 4.5 percent of the change in revenues. Therefore, staff recommends TOTI of $4,781.

<u>Operating Expenses Summary</u> – The application of staff's recommended adjustments to Sunrise's test year operating expenses result in operating expenses of $79,613. 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 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: 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?

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

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 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 revenue of less than $275,000 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 to set rates in this case. The operating ratio methodology is an alternative to the traditional calculation of revenue requirements. Under this methodology, instead of applying a return on the Utility's rate base, the revenue requirement is based on the margin of Sunrise's O&M expenses. This methodology has been applied in cases in which the traditional calculation of revenue requirements would not provide sufficient revenue to protect against potential variances in revenues and expenses.

By Order No. PSC-96-0357-FOF-WU (March 1996 Order),[7] the Commission, for the first time, utilized the operating ratio methodology as an alternative means for setting rates. This order also established criteria to determine 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] and most recently, the Commission approved the operating ratio methodology for setting rates in Order No. PSC-13-0327-PAA-SU.[9]

By the March 1996 Order, the Commission established criteria to determine whether to utilize the operating ratio methodology for those utilities with low or non-existent rate base. The qualifying criteria established by the March 1996 Order, and how they apply to the Utility are discussed below:

1) Whether the Utility's O&M expense exceeds rate base. The operating ratio method substitutes O&M expense for rate base in calculating the amount of return. A Utility generally would not benefit from the operating ratio method if rate base exceeds O&M expense. The decision to use the operating ratio method depends on the determination of whether the primary risk resides in capital costs or operating expenses. In the instant case, the rate base is less than the level of O&M expense. The Utility's primary risk resides with covering its operating

[7] Order No. PSC-96-0357-FOF-WU, issued March 13, 1996, in Docket No. 950641-WU, In re: Application for staff-assisted rate case in Palm Beach County by Lake Osborne Utilities Company, Inc.

[8] Order No. PSC-97-0130-FOF-SU, issued February 10, 1997, in Docket No. 960561-SU, In re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.

[9] Order No. PSC-13-0327-PAA-SU, issued July 16, 2013, in Docket No. 120270-SU, In re: Application for staff-assisted rate case in Polk County by West Lakeland Wastewater, LLC.

expense. Based on the staff's recommendation, the adjusted rate base for the test year is $50,226, while adjusted O&M expense is $70,324.

2) <u>Whether the Utility is expected to become a Class B utility in the foreseeable future</u>. Pursuant to Section 367.0814(9), F.S., the alternative form of regulation being considered in this case only applies to small utilities with gross annual revenue of $275,000 or less. Sunrise is a Class C utility and the recommended revenue requirement for Phase I of $86,645 is below the threshold level for Class B status ($200,000 per system). In addition, the recommended revenue requirement for Phase II of $89,677 is also well below the threshold for Class B status.

3) <u>Quality of service and condition of plant</u>. As discussed in Issue 1, the recommended quality of service will not be finalized until after the May 20, 2015, customer meeting.

4) <u>Whether the Utility is developer-owned</u>. The current Utility owner is not a developer.

5) <u>Whether the Utility operates treatment facilities or is simply a distribution system</u>. The issue is whether or not purchased water costs should be excluded in the computation of the operating margin. Sunrise operates a water treatment plant and water distribution system.

Based on staff's review of the Utility's situation relative to the above criteria, staff recommends that Sunrise is a viable candidate for the operating ratio methodology. As outlined in Order Nos. PSC-96-0357-FOF-WU and Order No. 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 is 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.

Several factors must be considered in determining the reasonableness of a margin. First, the margin must provide sufficient revenue for the Utility to cover its interest expense. As discussed in Issue 4, the Utility does not currently hold any debt. Therefore, coverage of interest expense is not a concern in this case.

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. Also, the operating ratio method recognizes that a major issue for small utilities is cash flow, therefore, the operating ratio method focuses more on cash flow than on investment. In the instant case, the Utility's primary risk resides with covering its operating expense. A traditional calculation of the revenue requirement would not provide sufficient revenue to protect against potential variances in revenues and expenses. Under the rate base method, the return to Sunrise would be $4,390, which is enough to cover an approximate 6.24 percent variance in O&M expense. Staff believes $4,390 may be an insufficient financial cushion.

Third, if the return on rate base method was applied, a normal return would generate such a small level of revenue that in the event revenue or expenses vary from staff's estimates, Sunrise could be left with insufficient funds to cover operating expenses. Therefore, the margin should provide adequate revenue to protect against potential variability in revenue and expenses. Again, the return on rate base method would provide the Utility $4,390. If the Utility's operating expenses increase or revenues decrease, Sunrise may not have the funds required for day-to-day operations.

In conclusion, staff believes the above factors show the Utility needs a higher margin of revenue over operating expenses than the traditional return on rate base method would allow. Therefore, in order to provide Sunrise with adequate cash flow to provide some assurance of safe and reliable service, staff recommends application of the operating ratio methodology. Applying a 10 percent margin would result in an operating margin of $7,032. When the criteria was established, the Commission found it was reasonable and prudent to initially limit the dollar amount of the margin to $10,000.[10] Because Sunrise's operating margin is well below the $10,000 limit, staff believes it would be appropriate to apply the full 10 percent margin. Therefore, staff is recommending a 10 percent operating margin ratio in the instant case.

[10] Order No. PSC-96-0357-FOF-WU, p.8.

Issue 8: What is the appropriate Phase I revenue requirement?

Preliminary Recommendation: The appropriate Phase I revenue requirement is $86,645, resulting in an annual increase of $11,707 (15.62 percent). (Golden, Vogel)

Staff Analysis: Sunrise should be allowed an annual increase of $11,707 (15.62 percent). This will allow the Utility the opportunity to recover its expenses and a 10 percent cushion over its O&M expenses. The calculations are as follows:

Table 8-1

Water Revenue Requirement	
Adjusted O&M Expense	$70,324
Operating Margin Ratio	10.00%
Operating Margin	$7,032
Adjusted O&M Expense	70,324
Depreciation Expense (Net)	4,508
Taxes Other Than Income	4,781
Income Taxes	0
Revenue Requirement	$86,645
Less Test Year Revenues	74,938
Annual Increase	$11,707
Percent Increase	15.62%

Issue 9: What are the appropriate rate structures and rates for Sunrise's water and wastewater systems?

Preliminary Recommendation: The recommended rate structures 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 the notice was given within 10 days of the date of the notice. (Bruce)

Staff Analysis: Sunrise is located in Polk County within the Southwest Florida Water Management District (SWFWMD). The Utility provides water service to approximately 246 residential customers and no general service customers. Approximately five percent of the residential customer's bills during the test year had zero gallons, indicating a non-seasonal customer base. The average residential water demand is 4,797 gallons per month. Currently, the Utility's current water system rate structure for residential customers consists of a base facility charge (BFC) and a three-tier inclining block rate structure. The rate blocks are: (1) 0-5,000 gallons; (2) 5,001-10,000 gallons; and (3) all usage in excess of 10,000 gallons per month. The general service rates include a BFC and uniform gallonage charge. In the Utility's last rate case, 34 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 32 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 BFC and a two tier inclining block 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; 5,001-10,000 gallons; and (3) all usage in excess of 10,000 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 15 percent, the residential consumption can be expected to decline by 332,000 gallons resulting in anticipated average residential demand of 4,685 gallons per month. Staff recommends a 2.30 percent reduction in total residential consumption and corresponding reductions of $49 for purchased power, $33 for chemicals, and $4 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of $83,919, excluding miscellaneous service revenues. Staff recommends an allocation of 32 percent of the water revenue requirement to the BFC. Staff recommends a BFC/two tier inclining block 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; 5,001-10,000 gallons; and (3) all usage in excess of 10,000 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 that the notice was given within ten days of the date of the notice.

Issue 10: 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 Sunrise 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 operating margin, and the gross-up for RAFs which is \$537. 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.

Sunrise 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 Sunrise 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 11: Should the Commission approve a Phase II increase for pro forma items for Sunrise?

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 $89,677 which equates to a 3.50 percent increase over the Phase I revenue requirement. Staff recommends that the increase be applied as a 3.60 percent increase to the Phase I rates, excluding miscellaneous service revenues.

Sunrise 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 the pro forma triennial water test expense 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. Sunrise 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. (Golden, Vogel, Lewis, Bruce)

Staff Analysis: The Utility has requested recognition of several pro forma plant items in the instant case. The Utility's pro forma triennial water tests 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 Issue 6. As noted in Issue 3, the Utility did not complete all of the pro forma projects that were approved by the Commission in the Utility's 2011 SARC. Specifically, the Utility did not complete replacement of the piping between the well and tanks at an approved cost of $2,400, or replacement of nine isolation valves at an estimated cost of $2,713. The Utility has renewed its request for approval of these two projects in the instant proceeding. The Utility's contract operator provided an estimated cost of $6,500 for both projects combined, but did not provide a breakdown of costs between the two projects. Pending additional information from the Utility, staff has divided the estimated cost equally between the two projects.

Also, in the Utility's 2011 SARC, the Commission approved a meter replacement program that would allow the Utility to replace 23 meters per year over ten years at an annual expense of $1,359. The Phase II rates that included the pro forma expense did not go into effect until July 1, 2014, and as noted in previous issues, were not actually charged by the Utility until recently due to a billing program error. Based on staff's audit, prior to the July 1, 2014, implementation of the Phase II rates, the Utility provided documentation to support total water meter replacement expenses of $4,439 that were incurred during 2013. In the instant proceeding the Utility has renewed its request to continue the meter replacement program. The Utility's operator has provided an estimated annual expense of $3,500, which is a $2,141 increase over the previously authorized annual expense of $1,359. The estimate did not include a breakdown of costs or an explanation for the requested increase. As discussed in Issue 6, staff recommends continuing the previously approved meter replacement expense of $1,359 in the Phase I revenue requirement. However, staff believes additional information is needed regarding the Utility's cost estimate, planned meter replacement schedule, and maintenance of meter replacement and testing records before a determination can be made regarding the reasonableness of the requested increase of $2,141 in the annual meter replacement expense. Therefore, staff recommends that the requested pro forma increase in the annual meter replacement expense be included in the Phase II revenue requirement pending additional review by staff.

In addition, the Utility's contract operator has recommended a project related to installation of backflow prevention devices based on conversations with the PCHD. The project is not required by PCHD, but is recommended for safety concerns. The estimated cost of $4,000 was provided by the Utility's contract operator. The anticipated completion date is not yet known for the pipe replacement, isolation valve replacement, or backflow prevention device installation projects. Therefore, staff is recommending that those projects be included in the Phase II revenue requirement at this time. Also, as noted above, staff is recommending that the annual increase in the meter replacement program expense be included in the Phase II revenue requirement at this time. The following table summarizes the Phase II pro forma plant and expense items and estimated costs, prior to adjustments for associated retirements.

Table 11-1

	Phase II Pro Forma Plant Items	**Estimated Cost**
1.	Replace Piping Between Well and Tanks	$3,250
2.	Replace Isolation Valves	3,250
3.	Backflow Prevention Device Project.	4,000
	Total	**$10,500**
	Phase II Pro Forma Expense Item	
1.	Meter Replacement Program Annual Cost Increase	**$2,141**

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 and expense 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.[11]

Additional information is needed to determine the extent to which 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. However, based on staff's preliminary review, staff believes it is likely that the pipe and isolation valve replacement projects will require the retirement of existing plant. Therefore, staff has included retirement adjustments for those two projects in the preliminary revenue requirement. Staff has not included a retirement adjustment for the backflow prevention device project pending further review. 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 $89,677, representing a 3.60 percent increase over the recommended Phase I revenue requirement. Staff recommends that the increase be applied as a 3.60 percent increase to the Phase I rates, excluding miscellaneous service revenues.

As discussed previously, 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 calculated retirement adjustments of $2,438 each for the two pipe and valve replacement projects based on an equal split of the estimated $6,500 combined cost as discussed above ($3,250 x .75 = $2,438.50). This results in total retirements of $4,875 ($2,438 x 2 = $4,875). Therefore, staff's recommendation includes a net increase to UPIS of $5,625 to reflect the $10,500 increase for the pro forma plant additions shown above and a decrease of $4,875 for the associated retirements ($10,500 - $4,875 = $5,625). As noted above, staff has not included a retirement adjustment for the backflow prevention device project at this time. Also, staff decreased accumulated depreciation by a net adjustment of $4,410 to reflect the pro forma plant additions and retirements. The accumulated depreciation adjustment is comprised of a decrease of $4,875 to remove the accumulated depreciation associated with the retirements and an increase of $465 to reflect the accumulated depreciation on the additions ($4,875 - $465 = $4,410). In addition, staff increased the working capital allowance by $268 to reflect the increase in O&M expense associated with the requested increase in the meter replacement program expense.

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. Further, staff increased the Utility's O&M expenses by $2,141 to reflect the Utility's requested pro forma

[11] 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, LLC.; 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.

increase to the meter replacement program annual expense, as reflected in Account No. 636 – contractual services – other. Lastly, staff increased depreciation expense by $465 to reflect the depreciation expense associated with the pro forma plant additions and retirements, and increased TOTI by $75 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.

Sunrise 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 the pro forma triennial water test expense 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. 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.

Issue 12: Should the recommended rates be approved for Sunrise 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. 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 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. 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.

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 $7,808. 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 Sunrise 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, 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. 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, 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.

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 Alturas 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 that customer notice have been filed by the Utility and approved by staff, and 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.

SUNRISE UTILITIES, LLC
TEST YEAR ENDED 12/31/14
SCHEDULE OF WATER RATE BASE (PHASE I)

SCHEDULE NO. 1-A
DOCKET NO. 140220-WU

	DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1.	UTILITY PLANT IN SERVICE	$124,367	($15,067)	$109,300
2.	LAND & LAND RIGHTS	0	553	553
3.	NON-USED AND USEFUL COMPONENTS	0	0	0
4.	CIAC	(5,168)	(7,225)	(12,393)
5.	ACCUMULATED DEPRECIATION	(68,952)	535	(68,417)
6.	AMORTIZATION OF CIAC	5,168	7,225	12,393
7.	WORKING CAPITAL ALLOWANCE	0	8,791	8,791
8.	WATER RATE BASE	$55,415	($5,189)	$50,226

SUNRISE UTILITIES, LLC
TEST YEAR ENDED 12/31/14
ADJUSTMENTS TO RATE BASE (PHASE I)

SCHEDULE NO. 1-B
DOCKET NO. 140220-WU

	UTILITY PLANT IN SERVICE	
1.	To reflect appropriate plant in service per audit.	($13,767)
2.	To reflect retirements associated with 2012 and 2013 plant additions.	(1,300)
	Total	($15,067)
	LAND & LAND RIGHTS	
	To reflect appropriate land and land rights.	$553
	CIAC	
	To reflect appropriate CIAC.	($7,225)
	ACCUMULATED DEPRECIATION	
1.	To reflect accumulated depreciation per Rule 25-30.140, F.A.C.	($3,131)
2.	To reflect retirements associated with 2012 and 2013 plant additions.	1,412
3.	To reflect an averaging adjustment.	2,254
	Total	$535
	AMORTIZATION OF CIAC	
1.	To reflect appropriate amortization of CIAC.	$6,900
2.	To reflect pro forma adjustment to fully amortize CIAC in August 2015.	325
	Total	$7,225
	WORKING CAPITAL ALLOWANCE	
	To reflect 1/8 of test year O&M expenses.	$8,791

SUNRISE UTILITIES, LLC
TEST YEAR ENDED 12/31/14
SCHEDULE OF CAPITAL STRUCTURE (PHASE I)

SCHEDULE NO. 2
DOCKET NO. 140220-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	90,000	90,000					
	TOTAL COMMON EQUITY	$0	$90,000	$90,000	($39,774)	$50,226	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	$90,000	$90,000	($39,774)	$50,226	100.00%		8.74%

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

SUNRISE UTILITIES, LLC
TEST YEAR ENDED 12/31/14
SCHEDULE OF WATER OPERATING INCOME (PHASE I)

SCHEDULE NO. 3-A
DOCKET NO. 140220-WU

		TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1.	**OPERATING REVENUES**	$69,416	$5,522	$74,938	$11,707	$86,645
					15.62%	
	OPERATING EXPENSES:					
2.	OPERATION & MAINTENANCE	$69,373	$951	$70,324	$0	$70,324
3.	DEPRECIATION (NET)	0	4,508	4,508	0	4,508
4.	TAXES OTHER THAN INCOME	5,731	(1,477)	4,254	527	4,781
5.	INCOME TAXES	0	0	0	0	0
6.	**TOTAL OPERATING EXPENSES**	$75,104	$3,982	$79,086	$527	$79,613
7.	**OPERATING INCOME/(LOSS)**	($5,688)		($4,148)		$7,032
8.	**WATER RATE BASE**	$55,415		$50,226		$50,226
9.	**RATE OF RETURN**	(10.26%)		(8.26%)		
10.	**OPERATING RATIO**					10.00%

SUNRISE UTILITIES, LLC
TEST YEAR ENDED 12/31/14
ADJUSTMENTS TO OPERATING INCOME (PHASE I)

SCHEDULE NO. 3-B
DOCKET NO. 140220-WU
Page 1 of 2

	OPERATING REVENUES	
1.	To reflect the appropriate test year revenues.	$2,882
2.	To reflect the appropriate test year miscellaneous service revenues.	2,640
	Subtotal	$5,522
	OPERATION AND MAINTENANCE EXPENSES	
1.	Salaries and Wages - Officers (603)	
	To reflect allocation of second officer's salary.	$375
2.	Purchased Power (615)	
	a. To reflect appropriate purchased power expense and removal of late fees..	($63)
	b. To reflect 9% excessive unaccounted for water adjustment.	(205)
	Subtotal	($268)
3.	Fuel for Power Production (616)	
	To reflect propane fuel expense for emergency generator.	$219
4.	Chemicals (618)	
	a. To reflect appropriate chemicals expense.	$131
	b. To reflect 9% excessive unaccounted for water adjustment.	(141)
	Subtotal	($10)
5.	Contractual Services - Billing (630)	
	To reflect appropriate billing expense.	($5,512)
6.	Contractual Services - Testing (635)	
	a. To reflect appropriate annual testing expense.	$2,340
	b. To reflect pro forma 3-year amortization of triennial water tests.	1,167
	Subtotal	$3,507
7.	Contractual Services - Other (636)	
	a. To reflect appropriate test year office manager expense.	$8,360
	b. To reflect appropriate test year operator expense.	(1,389)
	c. To reflect appropriate test year maintenance expense.	(6,727)
	d. To reflect annual meter replacement program expense.	1,359
	e. To reflect annual amortization of hydropneumatic tank inspection/cleaning.	762
	f. To reflect pro forma contractual bookkeeping expense.	2,400
	Subtotal	$4,765
8.	Transportation Expense (650)	
	To remove office manager's mileage fees included in Acct. No. 636.	($1,976)
9.	Insurance Expense (655)	
	To reflect appropriate insurance expense.	($182)

	SUNRISE UTILITIES, LLC TEST YEAR ENDED 12/31/14 ADJUSTMENTS TO OPERATING INCOME (PHASE I)	SCHEDULE NO. 3-B DOCKET NO. 140220-WU Page 2 of 2
	OPERATION AND MAINTENANCE EXPENSES (CONTINUED)	
10.	Regulatory Commission Expense (665)	
	a. To reflect 4-year amortization of rate case expense (Docket No. 110238-WU).	$344
	b. To reflect 4-year amortization of rate case expense for current case ($1,864/4).	466
	Subtotal	$810
11.	Bad Debt Expense (670)	
	a. To reflect appropriate bad debt expense based on 3-year average.	$610
12.	Miscellaneous Expense (675)	
	a. To reflect appropriate test year miscellaneous expense.	($1,643)
	b. To reflect pro forma annual county business license fee.	58
	c. To reflect pro forma annual FRWA membership dues.	198
	Subtotal	($1,387)
	TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	$951
	DEPRECIATION EXPENSE	
	To reflect test year depreciation calculated per Rule 25-30.140, F.A.C.	$4,508
	TAXES OTHER THAN INCOME	
1.	To reflect appropriate test year RAFs.	$249
2.	To reflect appropriate test year utility property taxes.	(1,726)
	Total	($1,477)

SUNRISE UTILITIES, LLC — **SCHEDULE NO. 3-C**
TEST YEAR ENDED 12/31/14 — **DOCKET NO. 140220-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	12,000	375	12,375
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	2,340	(268)	2,072
(616) FUEL FOR POWER PRODUCTION	0	219	219
(618) CHEMICALS	1,431	(10)	1,421
(620) MATERIALS AND SUPPLIES	0	0	0
(630) CONTRACTUAL SERVICES - BILLING	9,802	(5,512)	4,290
(631) CONTRACTUAL SERVICES - PROFESSIONAL	400	0	400
(635) CONTRACTUAL SERVICES - TESTING	0	3,507	3,507
(636) CONTRACTUAL SERVICES - OTHER	29,173	4,765	33,938
(640) RENTS	0	0	0
(650) TRANSPORTATION EXPENSE	1,976	(1,976)	0
(655) INSURANCE EXPENSE	2,010	(182)	1,828
(665) REGULATORY COMMISSION EXPENSE	0	810	810
(670) BAD DEBT EXPENSE	3,899	610	4,509
(675) MISCELLANEOUS EXPENSE	6,342	(1,387)	4,955
	$69,373	$951	$70,324

SUNRISE UTILITIES, LLC.
TEST YEAR ENDED DECEMBER 31, 2014
MONTHLY WATER RATES (PHASE I)

SCHEDULE NO. 4
DOCKET NO. 140220-WU

	UTILITY CURRENT RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8"X3/4"	$9.07	$9.10	$0.06
3/4"	$13.61	$13.65	$0.09
1"	$22.68	$22.75	$0.15
1-1/2"	$45.35	$45.50	$0.29
2"	$72.56	$72.80	$0.47
3"	$145.12	$145.60	$0.93
4"	$226.75	$227.50	$1.46
6"	$453.50	$455.00	$2.91
Charge per 1,000 Gallons - Residential			
0-5,000 gallons	$2.89	$3.81	$0.02
5,001-10,000 gallons	$3.18	$4.14	$0.03
Over 10,000 gallons	$6.35	$7.25	$0.05
Charge per 1,000 gallons - General Service	$3.29	$4.13	$0.03
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	$17.74	$20.53	
6,000 Gallons	$26.70	$32.29	
10,000 Gallons	$39.42	$48.85	

SUNRISE UTILITIES, LLC | **SCHEDULE NO. 5-A**
TEST YEAR ENDED 12/31/14 | **DOCKET NO. 140220-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	$109,300	$5,625	$114,925
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	(68,417)	4,410	(64,008)
6.	AMORTIZATION OF CIAC	12,393	0	12,393
7.	WORKING CAPITAL ALLOWANCE	8,791	268	9,058
8.	WATER RATE BASE	$50,226	$10,302	$60,529

	SUNRISE UTILITIES, LLC	**SCHEDULE NO. 5-B**
	TEST YEAR ENDED 12/31/14	**DOCKET NO. 140220-WU**
	ADJUSTMENTS TO RATE BASE (PHASE II)	
	UTILITY PLANT IN SERVICE	
1.	To reflect pro forma replacement of piping between well and tanks to Acct. 330.	$3,250
2.	To reflect retirement of replaced piping	(2,438)
3.	To reflect pro forma isolation valve replacements to Acct. 331.	3,250
4.	To reflect retirement of replaced isolation valves.	(2,438)
5.	To reflect pro forma installation of backflow prevention devices to Acct. 336.	4,000
	Total	$5,625
	ACCUMULATED DEPRECIATION	
	To reflect accumulated depreciation on pro forma plant additions and retirements.	$4,410
	WORKING CAPITAL ALLOWANCE	
	To reflect 1/8 of test year O&M expenses.	$268

SUNRISE UTILITIES, LLC
TEST YEAR ENDED 12/31/14
SCHEDULE OF CAPITAL STRUCTURE (PHASE II)

SCHEDULE NO. 6
DOCKET NO. 140220-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	90,000	0	90,000					
	TOTAL COMMON EQUITY	$90,000	$0	$90,000	($29,471)	$60,529	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	$90,000	$0	$90,000	($29,471)	$60,529	100.00%		8.74%

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

SUNRISE UTILITIES, LLC
TEST YEAR ENDED 12/31/14
SCHEDULE OF WATER OPERATING INCOME (PHASE II)

SCHEDULE NO. 7-A
DOCKET NO. 140220-WU

		TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1.	**OPERATING REVENUES**	$86,645	$0	$86,645	$3,032	$89,677
					3.50%	
	OPERATING EXPENSES:					
2.	OPERATION & MAINTENANCE	$70,324	$2,141	$72,465	$0	$72,465
3.	DEPRECIATION (NET)	4,508	465	4,973	0	4,973
4.	TAXES OTHER THAN INCOME	4,781	75	4,856	136	4,992
5.	INCOME TAXES	0	0	0	0	0
6.	**TOTAL OPERATING EXPENSES**	$79,613	$2,681	$82,294	$136	$82,431
7.	**OPERATING INCOME/(LOSS)**	$7,032		$4,351		$7,247
8.	**WATER RATE BASE**	$50,226		$60,529		$60,529
9.	**OPERATING RATIO**	10.00%		6.00%		10.00%

SUNRISE UTILITIES, LLC
TEST YEAR ENDED 12/31/14
ADJUSTMENTS TO OPERATING INCOME (PHASE II)

SCHEDULE NO. 7-B
DOCKET NO. 140220-WU

OPERATION AND MAINTENANCE EXPENSES	
Contractual Services - Other (636)	
To reflect pro forma increase to annual meter replacement program expense.	$2,141
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	$2,141
DEPRECIATION EXPENSE	
To reflect depreciation expense for pro forma plant additions and retirements.	$465
TAXES OTHER THAN INCOME	
To reflect additional utility property taxes for net pro forma plant.	$75

SUNRISE UTILITIES, LLC TEST YEAR ENDED 12/31/14 ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE (PHASE II)		SCHEDULE NO. 7-C DOCKET NO. 140220-WU	
	TOTAL PER UTILITY	STAFF ADJUST-MENTS	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	$0	$0	$0
(603) SALARIES AND WAGES - OFFICERS	12,375	0	12,375
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	2,072	0	2,072
(616) FUEL FOR POWER PRODUCTION	219	0	219
(618) CHEMICALS	1,421	0	1,421
(620) MATERIALS AND SUPPLIES	0	0	0
(630) CONTRACTUAL SERVICES - BILLING	4,290	0	4,290
(631) CONTRACTUAL SERVICES - PROFESSIONAL	400	0	400
(635) CONTRACTUAL SERVICES - TESTING	3,507	0	3,507
(636) CONTRACTUAL SERVICES - OTHER	33,938	2,141	36,079
(640) RENTS	0	0	0
(650) TRANSPORTATION EXPENSE	0	0	0
(655) INSURANCE EXPENSE	1,828	0	1,828
(665) REGULATORY COMMISSION EXPENSE	810	0	810
(670) BAD DEBT EXPENSE	4,509	0	4,509
(675) MISCELLANEOUS EXPENSE	4,955	0	4,955
	$70,324	$2,141	$72,465

SUNRISE UTILTIES, LLC.
TEST YEAR ENDED DECEMBER 31, 2014
MONTHLY WATER RATES (PHASE II)

SCHEDULE NO. 8
DOCKET NO. 140220-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"	$9.10	$9.43
3/4"	$13.65	$14.15
1"	$22.75	$23.58
1-1/2"	$45.50	$47.15
2"	$72.80	$75.44
3"	$145.60	$150.88
4"	$227.50	$235.75
6"	$455.00	$471.50
Charge per 1,000 gallons - Residential		
0 - 5,000 gallons	$3.81	$3.95
5,000 - 10,000 gallons	$4.14	$4.29
Over 10,000 gallons	$7.25	$7.51
Charge per 1,000 Gallons - General Service	$4.13	$4.28
Typical Residential 5/8" x 3/4" Meter Bill Comparison		
3,000 Gallons	$20.53	$21.28
6,000 Gallons	$32.29	$33.47
10,000 Gallons	$48.85	$50.63