

Angela Charles

From: Selena Chambers
Sent: Monday, May 04, 2015 3:14 PM
To: Commissioners & Staffs; Braulio Baez; Apryl Lynn; Lisa Harvey; Charlie Beck; Andrew Maurey; Tom Ballinger; Jim Dean
Cc: CLK - Agenda Staff; Jacqueline Moore; Kate Hamrick; Robert Graves; Paul Vickery; Patti Zellner; Terri Fleming; Keino Young; Jennifer Crawford; Selena Chambers; Mary Anne Helton; Cheryl Bulecza-Banks; Kyesha Mapp
Subject: FW: Request for Oral Modification to Item 4 on May 5, 2015 Commission Conference, Docket No. 140060-WS, Application for increase in water and wastewater rates by Sanlando Utilities Corporation
Attachments: Sanlando Oral Modification Schedules.docx
Importance: High

Please see the approved request and the attached addition to Item 4.

Thank you,

Selena Chambers

Executive Assistant to
Braulio Baez, Executive Director
Florida Public Service Commission
850.413.6053

From: Selena Chambers **On Behalf Of** Braulio Baez
Sent: Monday, May 04, 2015 3:10 PM
To: Andrew Maurey; Braulio Baez; Lisa Harvey
Cc: Kate Hamrick; Tom Ballinger; Jim Dean; Mary Anne Helton
Subject: RE: Request for Oral Modification to Item 4 on May 5, 2015 Commission Conference, Docket No. 140060-WS, Application for increase in water and wastewater rates by Sanlando Utilities Corporation

Approved.

From: Andrew Maurey
Sent: Monday, May 04, 2015 2:39 PM
To: Braulio Baez; Lisa Harvey
Cc: Selena Chambers; Kate Hamrick; Tom Ballinger; Jim Dean; Mary Anne Helton
Subject: Request for Oral Modification to Item 4 on May 5, 2015 Commission Conference, Docket No. 140060-WS, Application for increase in water and wastewater rates by Sanlando Utilities Corporation

From: Cheryl Bulecza-Banks
Sent: Monday, May 04, 2015 12:12 PM

To: Andrew Maurey

Subject: Request for Oral Modification to Item 4 on May 5, 2015 Commission Conference, Docket No. 140060-WS, Application for increase in water and wastewater rates by Sanlando Utilities Corporation

As a result of information filed by Sanlando Utilities Corporation (Sanlando or Utility) late last week, staff requests approval to make an oral modification to Item 4 scheduled for the May 5, 2015 Commission Conference. Staff's proposed modification relates to taxes other than income associated with pro forma plant addressed in Issue 5 (page 14) and salaries and wages expense addressed in Issue 13 (page 27) of staff's recommendation regarding Sanlando's application for a file and suspend rate case. Staff is also correcting Schedule No. 1-C for a formula error related to Issue 3, and a scrivener error in Issue 4. The effect of this modification is captured in fall out Issues 8 (Rate Base) 17 (Revenue Requirement), 18 (Rates), and 19 (Interim Refund.) Staff requests administrative authority to adjust rates after the Commission vote on all issues in this case.

Subsequent to filing its recommendation, staff determined that modifications are necessary in order to reflect the appropriate amount of property taxes associated with pro form plant. To reflect the appropriate amount of property taxes associated with staff's recommended pro forma plant, taxes other than income should be increased by \$55,296. As a result, the following modifications should be made to Issue 5.

Issue 5: Should any adjustments be made to the Utility's pro forma plant? (page 14)

Recommendation: Yes. Water plant should be increased by \$37,029 and wastewater plant should be decreased by \$59,420. Corresponding adjustments should be made to increase water and wastewater accumulated depreciation by \$3,086 and \$249,954, respectively. Depreciation expense should also be increased by \$3,086 for water and decreased by \$14,988 for wastewater. Additionally, pro forma property taxes should be increased by \$527 for water and ~~decreased~~ increased by ~~\$6,532~~ \$55,296 for wastewater. (Graves, D. Buys)

On page 17

Conclusion

Based on the above, staff recommends that water plant should be increased by \$37,029 and wastewater plant should be decreased by \$59,420. Corresponding adjustments should be made to increase water and wastewater accumulated depreciation by \$3,086 and \$249,954, respectively. Depreciation expense should also be increased by \$3,086 for water and decreased by \$14,988 for wastewater. Additionally, pro forma property taxes should be increased by \$527 for water and ~~decreased~~ increased by ~~\$6,532~~ \$55,296 for wastewater.

Issue 13: Should any adjustment be made to the Utility's salaries and wages expense? (page 27)

Recommendation: Yes. Salaries and wages expense should be decreased by the amounts included in Issue 2, Audit Adjustments Agreed to by the Utility and staff. In addition, Salaries and Wages expense should be increased by \$22,309 for water and by \$17,607 for wastewater. Further, Employee Pensions and Benefits expense should be further decreased by \$5,794 and \$4,573, for water and wastewater, respectively. (D. Buys)

Staff Analysis: In its MFRs, the Utility reflected water and wastewater salaries and wages expense of \$716,973 and \$503,889, respectively. In the audit of UI affiliate transactions for Sanlando and Labrador Utilities, Inc. (Labrador), audit staff compared the most current annualized salaries and the allocated salaries, benefits, and payroll taxes for Sanlando to the total adjusted amounts in the Utility's filing. Adjustments were made to

reflect the variances between the amounts in the audited schedules and the amounts in the MFRs. The Utility agreed with the audit findings and the resulting adjustments to the expenses are reflected in Table 13-1, which are also shown in Issue 2.

Table 13-1

Audit Adjustments		
	Water	Wastewater
Salaries and Wages	(\$49,932)	\$22,519
Payroll Taxes	(\$7,698)	(\$6,017)
Pensions and Benefits	(\$14,411)	(\$11,077)
Total	(\$72,041)	\$5,425

The schedules provided to the audit staff by the Utility contained the most recent salary expenses at the end of April 2014, plus an increase of 3 percent to reflect the Utility’s 2015 salaries and wages expense. Staff believes that the 3 percent increase for 2015 represents a pro forma expense that is outside of the test year and normally would be disallowed. The Commission, however, has previously allowed recovery of operation and maintenance (O&M) expenses that reflect increases associated with inflation, and recognized that reducing expenses back to the amount approved in the Utility’s last rate case would effectively remove an increase the Commission has already granted in prior index applications. The Commission approved index increases for Sanlando in 2012 and 2013 for a total O&M increase of approximately 4 percent. Disallowance of the 3 percent increase for 2015 would result in decreasing the Utility’s salaries and wages and payroll taxes expenses below the amount previously approved by the Commission through the index increases. **Consequently, staff recommends no adjustment to salaries and payroll taxes other than the adjustment for the audit finding.**

As discussed in Issue 15, staff recommended the removal of in-house staff fees associated with processing the instant docket. As such, Salaries and Wages expense should be increased by \$22,309 for water and \$17,607 for wastewater.

No changes to the remainder of the staff analysis.

Formula Error in Schedule C-1

On Schedule 1-C, page 59, under the heading Accumulated Depreciation, line 2, the amount listed for water, (\$26,326), should not be in parentheses. As stated in the recommendation statement related to Issue 3 (page 9), water accumulated depreciation should be decreased, thus, the number \$26,326, should be positive.

Scrivener Error in Issue 4

The numbers contained in the recommendation statement are correct and thus, there is no revenue requirement impact of this correction. The accumulated depreciation number in the body of staff’s analysis is being changed to reflect the correct number as stated in the recommendation statement.

Issue 4: Should any further adjustments be made to test year rate base? (page 12)

Recommendation: Yes. Plant should be reduced by \$112,706 for water and \$27,535 for wastewater. Accumulated depreciation should be increased by \$126,680 for water and \$115,219 for wastewater. CIAC should be increased by \$15,383 for water. Accumulated amortization of CIAC should be decreased by \$17,836 for water and \$24,862 for wastewater. Additionally, depreciation expense should be

increased by \$15,494 for water and \$212,775 for wastewater. Amortization of CIAC should be increased for water and wastewater by \$256,503 and \$159,012, respectively. (Norris)

Staff Analysis: Staff has reviewed the test year rate base components along with other support documentation. As such, staff believes further adjustments are necessary to the Utility’s rate base, as discussed below.

Sanlando Audit Finding Nos. 1 and 2

The staff audit report for Sanlando was filed on October 23, 2014. The Utility’s response to the audit was received on January 30, 2015. In its response, the Utility contested Audit Finding Nos. 1, 2, 17, and 18. Only Finding Nos. 1 and 2 will be discussed in this issue, while the other audit findings are addressed elsewhere in this recommendation.

In regard to Audit Finding No. 1, audit staff identified Commission Ordered Adjustments (COAs) from Order No. PSC-13-0085-PAA-WS that were incorrectly booked to the Utility’s general ledger on May 31, 2013. In addition to erroneous plant adjustments, the Utility used incorrect depreciation rates. Audit staff requested more information and an explanation of the adjustment schedules; however, the Utility did not respond to these requests in a timely manner. Although the Utility contested Audit Finding No. 1, it failed to provide an explanation as to why it disagreed. As such, audit staff calculated the effect of the COAs on the test year for the instant proceeding and compared the balance to the Utility’s filing. Based on this analysis, plant should be reduced by \$112,706 for water and \$27,535 for wastewater. Accumulated depreciation should be increased by \$126,680 for water and ~~\$117,089~~ **\$115,219** for wastewater. (The remainder of the staff analysis is unaffected.)

FALL OUT ISSUES

Issue 8: What is the appropriate rate base for the test year ended December 31, 2013? (page 21)

Recommendation: The appropriate 13-month average rate base for the test year ended December 31, 2013, is ~~\$8,756,187~~ **\$8,808,839** for water and \$14,051,164 for wastewater. (D. Buys)

Staff Analysis:

In its MFRs, the Utility recorded rate base of \$8,535,204 for water and \$14,862,863 for wastewater. Staff calculated Sanlando’s water and wastewater rate bases using the Utility’s MFRs with adjustments as recommended in the preceding issues. Accordingly, staff recommends that the appropriate 13-month average rate base for the test year ended December 31, 2013, is ~~\$8,756,187~~ **\$8,808,839** for water and \$14,051,164 for wastewater. Staff’s recommended water and wastewater rate bases are shown on Schedule Nos. 1-A and 1-B, respectively. The adjustments are shown on Schedule No. 1-C.

Issue 17: What is the appropriate revenue requirement for the test year ended December 31, 2013? (page 45)

Recommendation: Staff recommends the following revenue requirement should be approved.

	Test Year Revenue	\$ Increase/ (Decrease)	Revenue Requirement	% Increase/ (Decrease)
Water	\$4,115,972	(\$250,461) (\$221,024)	\$3,865,511 \$3,894,948	(6.09%) (5.37%)

Wastewater	\$3,905,490	\$748,919 \$832,301	\$4,654,409 \$4,737,791	19.18% 21.31%
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(D. Buys)

Staff Analysis: In its filing, Sanlando requested revenue requirements to generate annual revenue of \$4,823,551 for water and \$4,473,063 for wastewater. These requested revenue requirements represent revenue increases of \$654,796, or approximately 15.70 percent, for water, and \$537,442, or approximately 13.66 percent, for wastewater.

Consistent with staff's recommendations concerning rate base, cost of capital, and operating income issues, staff recommends approval of rates designed to generate a water revenue requirement of ~~\$3,865,511~~ \$3,894,948, and a wastewater revenue requirement of ~~\$4,654,409~~ \$4,737,791. Staff's recommended water revenue requirement of ~~\$3,865,511~~ \$3,894,948 is ~~\$250,461~~ \$221,024 less than staff's adjusted test year revenue of ~~\$4,654,409~~ \$3,894,948 or a decrease of ~~6.09~~ 5.37 percent. Staff's recommended wastewater revenue requirement exceeds staff's adjusted test year revenue by ~~\$748,919~~ \$832,301, or ~~19.18~~ 21.31 percent. These recommended pre-repression revenue requirements will allow the Utility the opportunity to recover its expenses and earn a 7.94 percent return on its investment in water and wastewater rate base.

Issue 18: What are the appropriate rate structures and rates for Sanlando's water and wastewater systems? (page 46)

Rates will be revised based on the Commission's vote in this case.

Issue 19: In determining whether any portion of the interim water and wastewater revenue increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any? (page 52)

Recommendation:

The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense and other items not in effect during the interim period. The total net difference between the combined water and wastewater interim revenue requirements granted and the combined interim collection period revenue should be used because of the reallocation of wastewater revenues. No refund is required because the total interim collection period revenue requirement calculated is greater than the total interim revenue requirement granted. As a result, the corporate undertaking amount of \$59,819 should be released. (D. Buys)

Staff Analysis: The Commission authorized Sanlando to collect interim water rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirement for water of \$4,270,819 represented an increase of \$102,527 or 2.46 percent. The Utility did not request an interim revenue increase for wastewater.

According to Section 367.082, F.S., any refund should be calculated to reduce the rate of return of the Utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period that interim rates are in effect should be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates is the 12-month period ended December 31, 2013. Sanlando's approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest expense, and the lower limit of the last authorized range for equity earnings.

To establish the proper refund amount, staff calculated adjusted interim period revenue requirements utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period. Using the principles discussed above, the interim test year revenue requirements of \$4,270,819 for water and \$3,935,620 for wastewater, granted in Order PSC-14-0591-PCO-WS, issued October 22, 2014, are greater than the final revenue requirement for water by 9.88 9.18 percent and less than the final revenue requirement for wastewater by ~~18.05~~ 20.18 percent. This would result in a ~~9.88~~ 9.18 percent water refund and no refund for wastewater.

However, as stated in Issue 18, staff is recommending that wastewater revenues of \$625,000 related to the Utility's reuse system be shifted and reallocated to the water system. Because of the reallocation of these revenues, staff recommends using Sanlando's total company revenue requirement for determining whether an interim refund is warranted. This methodology is consistent with the Commission's decision in the Utility's last two rate cases. No refund is required because the total interim collection period revenue requirement calculated is greater than the total interim revenue requirement granted. As a result, the corporate undertaking amount of \$59,819 should be released.

Sanlando Utilities Corporation
Schedule of Water Rate Base
Test Year Ended 12/31/13

Schedule No. 1-A
Docket No. 140060-WS

	Test Year	Utility	Adjusted	Staff	Staff
Description	Per	Adjust-	Test Year	Adjust-	Adjusted
	Utility	ments	Per Utility	ments	Test Year
1 Plant in Service	\$26,039,977	(\$1,497,684)	\$24,542,293	(\$657,328)	\$23,884,965
2 Land and Land Rights	97,286	(18)	97,268	0	97,268
3 Accumulated Depreciation	(15,022,215)	1,146,809	(13,875,406)	405,497	(13,469,909)
4 CIAC	(11,147,950)	(463)	(11,148,413)	1,298,924	(9,849,489)
5 Amortization of CIAC	8,755,443	0	8,755,443	(820,695)	7,934,748
6 Construction Work in Progress	174,744	(174,744)	0	0	0
7 Working Capital Allowance	<u>0</u>	<u>164,019</u>	<u>164,019</u>	<u>47,237</u>	<u>211,256</u>
8 Rate Base	<u>\$8,897,285</u>	<u>(\$362,081)</u>	<u>\$8,535,204</u>	<u>\$273,635</u>	<u>\$8,808,839</u>

Sanlando Utilities Corporation
Schedule of Wastewater Rate Base
Test Year Ended 12/31/13

Schedule No. 1-B
Docket No. 140060-WS

Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$27,282,234	\$4,818,824	\$32,101,058	(\$379,560)	\$31,721,498
2 Land and Land Rights	203,894	-14	203,880	0	203,880
3 Accumulated Depreciation	(15,335,542)	(948,640)	(16,284,182)	11,377	(16,272,805)
4 CIAC	(11,976,178)	(420)	(11,976,598)	68,564	(11,908,034)
5 Amortization of CIAC	10,603,129	0	10,603,129	(552,391)	10,050,738
6 Construction Work in Progress	1,792,058	(1,792,058)	0	0	0
7 Working Capital Allowance	<u>0</u>	<u>215,575</u>	<u>215,575</u>	<u>40,312</u>	<u>255,887</u>
8 Rate Base	<u>\$12,569,595</u>	<u>\$2,293,267</u>	<u>\$14,862,862</u>	<u>(\$811,698)</u>	<u>\$14,051,164</u>

Sanlando Utilities Corporation
Adjustments to Rate Base
Test Year Ended 12/31/13

Schedule No. 1-C
Docket No. 140060-WS

Explanation	Water	Wastewater
<u>Plant In Service</u>		
1 Reflect audit adjustments agreed to by Utility and staff. (Issue 2)	(\$581,651)	(\$292,605)
2 Reflect appropriate adjustments for Phoenix Project. (Issue 3)	0	0
3 Test year plant adjustments (Issue 4)	(112,706)	(27,535)
4 Reflect the appropriate pro forma plant. (Issue 5)	<u>37,029</u>	<u>(59,420)</u>
Total	<u>(\$657,328)</u>	<u>(\$379,560)</u>
<u>Accumulated Depreciation</u>		
1 Reflect audit adjustments agreed to by Utility and staff. (Issue 2)	\$508,937	\$355,773
2 Reflect appropriate adjustments for Phoenix Project. (Issue 3)	26,326	20,777
3 Test year plant adjustments. (Issue 4)	(126,680)	(115,219)
4 Reflect the appropriate pro forma accumulated depreciation. (Issue 5)	<u>(3,086)</u>	<u>(249,954)</u>
Total	<u>\$405,497</u>	<u>\$11,377</u>
<u>CIAC</u>		
1 Reflect audit adjustments agreed to by Utility and staff. (Issue 2)	\$1,314,307	\$68,564
2 Test year plant adjustments. (Issue 4)	(15,383)	<u>0</u>
Total	<u>\$1,298,924</u>	<u>\$68,564</u>
<u>Accumulated Amortization of CIAC</u>		
1 Reflect audit adjustments agreed to by Utility and staff. (Issue 2)	(\$802,859)	(\$527,529)
2 Test year plant adjustments. (Issue 4)	<u>(17,836)</u>	<u>(24,862)</u>
Total	<u>(\$820,695)</u>	<u>(\$552,391)</u>
<u>Working Capital</u>		
1 Reflect audit adjustments agreed to by Utility and staff. (Issue 2)	\$27,695	\$21,854
2 Reflect appropriate adjustments for Phoenix Project. (Issue 3)	2,496	1,948
3 Reflect appropriate working capital allowance per Rule 25-30.433, F.A.C. (Issue 7)	<u>17,046</u>	<u>16,510</u>
Total	<u>\$47,237</u>	<u>\$40,312</u>

Sanlando Utilities Corporation
 Capital Structure-Simple Average
 Test Year Ended 12/31/13

Schedule No. 2
 Docket No. 140060-WS

Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility								
1 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$168,894,856)	\$11,105,144	47.46%	6.64%	3.15%
2 Short-term Debt	9,315,385	0	9,315,385	(8,740,943)	574,442	2.46%	2.82%	0.07%
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4 Common Equity	170,208,617	0	170,208,617	(159,708,965)	10,499,652	44.87%	10.53%	4.73%
5 Customer Deposits	49,549	0	49,549	0	49,549	0.21%	6.00%	0.01%
6 Deferred Income Taxes	<u>1,169,279</u>	<u>0</u>	<u>1,169,279</u>	<u>0</u>	<u>1,169,279</u>	<u>5.00%</u>	0.00%	<u>0.00%</u>
7 Total Capital	<u>\$360,742,830</u>	<u>\$0</u>	<u>\$360,742,830</u>	<u>(\$337,344,764)</u>	<u>\$23,398,066</u>	<u>100.00%</u>		<u>7.96%</u>
Per Staff								
8 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$169,161,454)	\$10,838,546	47.41%	6.64%	3.15%
9 Short-term Debt	9,315,385	0	9,315,385	(8,754,467)	560,918	2.45%	2.82%	0.07%
10 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
11 Common Equity	170,208,617	0	170,208,617	(159,959,651)	10,248,966	44.83%	10.53%	4.72%
12 Customer Deposits	49,549	0	49,549	0	49,549	0.22%	2.00%	0.00%
13 Deferred Income Taxes	<u>1,169,279</u>	<u>(7,254)</u>	<u>1,162,025</u>	<u>0</u>	<u>1,162,025</u>	<u>5.08%</u>	0.00%	<u>0.00%</u>
14 Total Capital	<u>\$360,742,830</u>	<u>(\$7,254)</u>	<u>\$360,735,576</u>	<u>(\$337,875,572)</u>	<u>\$22,860,004</u>	<u>100.00%</u>		<u>7.94%</u>
						LOW	HIGH	
					RETURN ON EQUITY	<u>9.53%</u>	<u>11.53%</u>	
					OVERALL RATE OF RETURN	<u>7.49%</u>	<u>8.39%</u>	

Sanlando Utilities Corporation
Statement of Water Operations
Test Year Ended 12/31/13

Schedule No. 3-A
Docket No. 140060-WS

	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$4,076,016</u>	<u>\$747,535</u>	<u>\$4,823,551</u>	<u>(\$707,579)</u>	<u>\$4,115,972</u>	<u>(\$221,024)</u> -5.37%	<u>\$3,894,948</u>
Operating Expenses							
2 Operation & Maintenance	\$2,054,858	\$12,890	\$2,067,748	(\$9,361)	\$2,058,387	\$0	\$2,058,387
3 Depreciation	911,369	(3,903)	907,466	(19,487)	887,979	0	887,979
4 Amortization	0	0	0	(416,853)	(416,853)	0	(416,853)
5 Taxes Other Than Income	478,042	(16,637)	461,405	(36,636)	424,769	(9,946)	414,823
6 Income Taxes	<u>380,867</u>	<u>36,995</u>	<u>417,862</u>	<u>(87,511)</u>	<u>330,351</u>	<u>(79,428)</u>	<u>250,922</u>
7 Total Operating Expense	<u>3,825,136</u>	<u>29,345</u>	<u>3,854,481</u>	<u>(569,848)</u>	<u>3,284,633</u>	<u>(89,375)</u>	<u>3,195,259</u>
8 Operating Income	<u>\$250,880</u>	<u>\$718,190</u>	<u>\$969,070</u>	<u>(\$137,731)</u>	<u>\$831,339</u>	<u>(\$131,649)</u>	<u>\$699,690</u>
9 Rate Base	<u>\$8,897,285</u>		<u>\$8,535,204</u>		<u>\$8,808,839</u>		<u>\$8,808,839</u>
10 Rate of Return	<u>2.82%</u>		<u>11.35%</u>		<u>9.44%</u>		<u>7.94%</u>

Sanlando Utilities Corporation
Statement of Wastewater Operations
Test Year Ended 12/31/13

Schedule No. 3-B
Docket No. 140060-WS

	Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1	Operating Revenues:	<u>\$3,888,457</u>	<u>\$584,605</u>	<u>\$4,473,062</u>	<u>(\$567,572)</u>	<u>\$3,905,490</u>	<u>\$832,301</u> 21.31%	<u>\$4,737,791</u>
	Operating Expenses							
2	Operation & Maintenance	\$2,009,026	\$9,667	\$2,018,693	(\$24,414)	\$1,994,279	\$0	\$1,994,279
3	Depreciation	538,829	257,934	796,763	152,576	949,339	0	949,339
4	Amortization	0	0	0	(295,310)	(295,310)	0	(295,310)
5	Taxes Other Than Income	384,902	129,786	514,688	21,001	535,689	37,454	573,142
6	Income Taxes	<u>39</u>	<u>249,466</u>	<u>249,505</u>	<u>(148,355)</u>	<u>101,150</u>	<u>299,101</u>	<u>400,252</u>
7	Total Operating Expense	<u>2,932,796</u>	<u>646,853</u>	<u>3,579,649</u>	<u>(294,502)</u>	<u>3,285,147</u>	<u>336,555</u>	<u>3,621,702</u>
8	Operating Income	<u>\$955,661</u>	<u>(\$62,248)</u>	<u>\$893,413</u>	<u>(\$273,070)</u>	<u>\$620,343</u>	<u>\$495,747</u>	<u>\$1,116,090</u>
9	Rate Base	<u>\$12,569,595</u>		<u>\$14,862,862</u>		<u>\$14,051,164</u>		<u>\$14,051,164</u>
10	Rate of Return	<u>7.60%</u>		<u>6.01%</u>		<u>4.41%</u>		<u>7.94%</u>

Sanlando Utilities Corporation
Adjustment to Operating Income
Test Year Ended 12/31/13

Schedule No. 3-C
Docket No. 140060-WS

Explanation	Water	Wastewater
<u>Operating Revenues</u>		
1 Remove requested final revenue increase	(\$654,796)	(\$537,442)
2 To reflect the appropriate amount of annualized revenues.	<u>(52,783)</u>	<u>(30,130)</u>
Total	<u>(\$707,579)</u>	<u>(\$567,572)</u>
<u>Operation and Maintenance Expense</u>		
1 Reflect audit adjustments agreed to by Utility and staff. (Issue 2)	(\$53,488)	(\$14,397)
2 Reflect appropriate amount for Salaries, Wages, Pensions and Benefits. (Issue 11)	16,515	13,034
3 Reflect appropriate amount of operating expense. (Issue 12)	34,060	(91,693)
4 Reflect proforma operating expense. (Issue A)	0	73,731
5 Reflect the appropriate rate case expense. (Issue 13)	<u>(6,449)</u>	<u>(5,090)</u>
Total	<u>(\$9,362)</u>	<u>(\$24,414)</u>
<u>Depreciation Expense</u>		
1 Reflect audit adjustments agreed to by Utility and staff. (Issue 2)	(\$11,741)	(\$24,434)
2 Reflect appropriate depreciation expense for Project Phoenix. (Issue 3)	(26,326)	(20,777)
3 Reflect appropriate test year plant adjustments. (Issue 4)	15,494	212,775
4 Reflect corresponding adjustments for proforma plant. (Issue 5)	3,086	(14,988)
Total	<u>(\$19,487)</u>	<u>\$152,576</u>
<u>Amortization - Other Expense</u>		
1 Reflect audit adjustments agreed to by Utility and staff. (Issue 2)	(\$161,182)	(\$139,245)
2 Reflect revenue impact of regulatory asset for Project Phoenix (Issue 3)	832	649
3 Reflect appropriate test year plant adjustments. (Issue 4)	(256,503)	(159,012)
4 Reflect additional proforma cost to retire Des Pinar WWTP. (Issue 5)	<u>0</u>	<u>2,298</u>
Total	<u>(\$416,853)</u>	<u>(\$295,310)</u>
<u>Taxes Other Than Income</u>		
1 RAFs on revenue adjustments above.	(\$31,841)	(\$25,541)
2 Reflect audit adjustments agreed to by Utility and staff for payroll taxes. (Issue 2)	(7,698)	(6,017)
3 Reflect the appropriate pro forma property taxes. (Issue 5)	527	55,296
4 Reflect increase in property taxes for 2014. (Issue B)	449	(1,868)
5 Audit Finding 18 - reflect appropriate amount of RAFs. (Issue B)	<u>1,927</u>	<u>(869)</u>
Total	<u>(\$36,636)</u>	<u>\$21,001</u>