

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: February 18, 2016

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (Lewis) *n mg*
Division of Accounting and Finance (Golden, Vogel) *TRB*
Division of Economics (Bruce) *24*
Office of the General Counsel (Corbari) *ALM*
KFC *TUT* *TKY*

RE: Docket No. 140219-WU – Application for staff-assisted rate case in Polk County by Alturas Utilities, L.L.C.

AGENDA: 03/01/16 – Proposed Agency Action – Except for Issue Nos. 10, 11, 13, and 14 - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Edgar

CRITICAL DATES: 05/06/2016 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: Place item on Agenda immediately before Docket No. 140220-WU, *In re: Application for staff-assisted rate case in Polk County by Sunrise Utilities, L.L.C.*

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Case Background

Alturas Utilities, L.L.C., (Alturas or Utility) is a Class C utility providing water service to approximately 51 residential customers and 10 general service customers in Alturas, Florida in Polk County. The Utility's service territory is located in the Southwest Florida Water Management District (SWFWMD) and is subject to a year-round irrigation rule. Alturas has been in existence since 1928 and was granted a Grandfather certificate by the Commission in 1997 in the name of Alturas Waterworks.¹ The Utility's water treatment plant (WTP) was placed into service in 1952 and was fully depreciated in December 1992.²

In 1998, Alturas Waterworks was transferred to Keen Sales, Rentals and Utilities, Inc. (Keen).³ Alturas Utilities acquired a portion of Keen's service territory in 2005 when the Commission granted the transfer.⁴ According to the Utility's 2014 Annual Report, its total gross revenues were \$27,710 and total operating expenses were \$42,012, resulting in a net loss of \$14,302.

On November 10, 2014, Alturas filed its application for a staff-assisted rate case (SARC), in accordance with a payment plan negotiated with staff for the payment of delinquent Regulatory Assessment Fees (RAFs) owed by the Utility. Staff selected the test year ending December 31, 2014, for the instant case. Alturas' last rate case proceeding before the Commission was in 2009 in Docket No. 090477-WU.⁵

On May 19, 2015, a customer meeting was held in Bartow, Florida to receive customer questions and comments concerning Alturas' rate case and quality of service. On June 11, 2015, the Office of Public Counsel (OPC) filed comments identifying its concerns with information contained in the Staff Report.⁶ On December 9, 2015, staff held a noticed, informal meeting with OPC to discuss the status of the Utility's SARC, including issues or concerns identified by staff, OPC or other interested party.⁷ The Commission has jurisdiction in this case pursuant to Section 367.0814, Florida Statutes, (F.S.).

¹Order No. PSC-97-0513-FOF-WU, issued on May 5, 1997, in Docket No. 961109-WU, *In re: Application for Grandfather Certificate to Operate a Water Utility in Polk County by Alturas Water Works.*

²Order No. PSC-01-0323-PAA-WU, issued on February 5, 2001, in Docket No. 000580-WU, *In re: Application for staff assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc. (Alturas Water Works).*

³Order No. PSC-98-1752-FOF-WU, issued on December 22, 1998, in Docket No. 980536-WU, *In re: Application for transfer of water facilities from Alturas Water Works to Keen Sales, Rentals and Utilities, Inc. In Polk County, cancellation of Alturas' Certificate No. 591-W and amendment of Keen's Certificate No. 582-W to include additional territory.*

⁴Order No. PSC-05-0309-PAA-WU, issued on March 21, 2005, in Docket No. 040160-WU, *In re: Application for transfer of portion of Certificate No. 582-W by Keen Sales, Rentals and Utilities, Inc. to Alturas Utilities, L.L.C., in Polk County.*

⁵Order No. PSC-10-0380-PAA-WU, issued on June 15, 2010, in Docket No. 090477-WU, *In re: Application for staff-assisted rate case in Polk County by Alturas Utilities, L.L.C.*

⁶Document Nos. 03571-15, filed on June 10, 2015, and 03595-15 filed on June 11, 2015, in Docket No. 140219-WU.

⁷Document No. 07808-15, filed on December 10, 2015, in Docket Nos. 140219-WU and 140220-WU.

Discussion of Issues

Issue 1: Should the quality of service provided by Alturas be considered satisfactory?

Recommendation: No. The overall quality of service provided by Alturas should be considered unsatisfactory because the Utility has failed to address maintenance and repairs recommended by the Polk County Health Department (PCHD) in 2011. As such, staff recommends decreasing the officers' salaries by 25 percent as detailed in Issue 7. (Lewis)

Staff Analysis: Pursuant to Rule 25-30.433(1), F.A.C., in water and wastewater rate cases, the Commission shall determine the overall quality of service provided by the utility. Overall quality of service is derived from an evaluation of three separate components of the Utility's operations. These components are: (1) the quality of the utility's product; (2) the operating conditions of the utility's plant and facilities; and (3) 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 Department of Environmental Protection (DEP) and the county health department over the preceding three-year period shall be considered. Additionally, Section 367.0812(1)(c), F.S., requires the Commission to consider the extent to which the utility provides water service that meets secondary water quality standards as established by the DEP.

Quality of Utility's Product

Staff's evaluation of Alturas' product quality consisted of a review of the Utility's compliance with the DEP primary and secondary drinking water standards, county health department standards, and customer complaints. Primary standards protect public health while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water.

Based on staff's review of the DEP and the PCHD records, Alturas was in compliance with all primary and secondary standards during the three-year period (2012-2014) that preceded its application for a staff-assisted rate case. However, on June 9, 2015, the PCHD conducted a sanitary survey and found that the Utility's chlorination levels were insufficient. Follow up inspections by the PCHD on July 9, 2015, and July 17, 2015, indicated that the chlorination issue had not been resolved. On July 21, 2015, the PCHD issued a warning notice to both Alturas and its sister company, Sunrise Utilities L.L.C., for not properly maintaining chlorine residuals. Alturas' triennial testing, of both primary and secondary standards, completed on December 15, 2015, indicated that the Utility was in compliance with the DEP and the PCHD standards. Therefore, it appears that Alturas has corrected the chlorination issues and is now in compliance with the DEP and the PCHD primary and secondary standards.

Staff's review of complaints filed by customers did not reveal any issues or concerns regarding the quality of Alturas' product. Based on staff's review, giving consideration to the Utility's current compliance with the DEP and the PCHD standards, as well as the lack of customer complaints, the quality of Alturas' product should be considered satisfactory.

Operating Condition of the Utility's Plant and Facilities

Alturas' water system provides finished water obtained from a single well, which draws ground water from the aquifer. The raw water is injected with liquid chlorine prior to entering a 3,000-gallon hydropneumatic tank, and then pumped into the water distribution system. The distribution system is a composite network mix of PVC, concrete and galvanized pipe. Staff's evaluation of Alturas' facilities included a review of the Utility's compliance with the DEP and the PCHD standards of operation.⁸ In December 2011, the PCHD conducted a plant inspection and recommended that the following repairs be performed:

1. The interior of the hydropneumatic tank should be cleaned and recoated *by December 2013*.
2. Pressure relief valves should be set at 92 psi.
3. Hydropneumatic tank cradles should be replaced or repaired *by September 2014*.

On August 28, 2013, and April 22, 2014, the PCHD issued letters to Alturas requesting that the Utility provide scheduled maintenance on its hydropneumatic tank. On May 26, 2015, the PCHD issued a warning notice to Alturas for failure to respond to its previous requests concerning the status of the repairs that were recommended in December 2011. The warning notice also notified Alturas that it needed to provide scheduled maintenance on the hydropneumatic tank prior to the PCHD's next inspection scheduled for December 2016.⁹

On February 4, 2016, staff received a proposal obtained by Alturas for services to repair the tank cradles by February 19, 2016. Although Alturas has provided documentation that it is planning to perform some of the PCHD's recommended repairs, the Utility has not been responsive to the PCHD. As of the date of staff's recommendation, two of the PCHD recommended repairs have not been completed. Based on the Utility's non-compliance and non-responsiveness to the PCHD notices and standards, staff believes that the operating condition of the Utility's plant and facilities should be considered unsatisfactory. OPC also raised concerns about the Utility's non-responsiveness to the PCHD.^{10,11}

The Utility's Attempt to Address Customer Satisfaction

The final component of the overall quality of service which must be assessed is customer satisfaction. As part of staff's evaluation of customer satisfaction staff held a customer meeting (May 19, 2015) to receive customer comments concerning Alturas' quality of service. No customers attended the meeting. Staff also requested, from the DEP and the PCHD, any complaint records filed against the Utility from 2011 through 2015. The DEP and the PCHD responded that it had not received any complaints against the Utility during the specified time frame. The same request was sent to Alturas, which responded that it did not have any customer complaints outside of the ones forwarded by the Commission's Office of Consumer Assistance and Outreach for the requested period. The review of the Commission's complaint records indicated six complaints were received from January 1, 2011, through December 31, 2014, all of which occurred in 2011.

⁸Staff conducted a plant site visit on May 19, 2015.

⁹Document No. 03102-15, filed on May 26, 2015, in Docket No. 140219-WU.

¹⁰Document 03595-15, filed on June 11, 2015, in Docket No. 140219-WU.

¹¹Document 03572-15, filed on June 10, 2015, in Docket No. 140220-WU, *In re: Application for staff-assisted rate case in Polk County by Sunrise Utilities, L.L.C.*

Since January 1, 2015, one customer complaint was filed with the Commission. The customer complaint stated that a disconnect notice was not received prior to disconnection and attempts to make payments over the telephone were unsuccessful. The Utility's response to staff requests arrived after 90 days and indicated payments by the customers were returned due to non-sufficient funds. Since the response was late, it was recorded as an apparent violation of Rule 25-22.032, (6)(b) F.A.C., Customer Complaints, which requires utilities to respond to staff inquiries within 15 work days. Given the relatively low number of complaints filed with the Commission, staff does not believe any action should be taken against the Utility for its apparent Rule violation. However, the Utility should take steps to timely file any required responses to Commission complaints. All complaints filed with the Commission have been closed. Table 1-1, below summarizes the classification of complaints filed with the Commission.

Table 1-1

Type	Number of Complaints
Improper Disconnects	2
Improper Bills	4
Quality of Service	1

Staff notes that Alturas does not have a physical office location for customers to make payments or service inquiries. On October 19, 2015, the Utility notified staff that its daily customer service and repair operations were under new management. Additionally, the Utility has contracted with a bookkeeper in Bartow, Florida, which allows customers to make service requests and bill payments in person from 8:30 a.m. to 5:00 p.m. Monday through Friday.¹² Staff believes that these efforts taken by the Utility demonstrate a willingness to address customer satisfaction. Additionally, given that only one complaint has been filed since 2011, staff does not believe the Utility has systemic issues with respect to adequately addressing customer satisfaction. Therefore, staff believes that the Utility has satisfactorily attempted to address customer satisfaction.

Conclusion

The overall quality of service provided by Alturas should be considered unsatisfactory because the Utility has failed to address maintenance and repairs recommended by the PCHD in 2011. As such, staff believes the officers' salaries should be decreased by 25 percent.

¹²Document 06695-15, filed on October 20, 2015, in Docket No. 140219-WU.

Issue 2: What are the used and useful percentages (U&U) of Alturas water treatment plant and distribution system?

Recommendation: Staff recommends Alturas' water treatment plant and its distribution system should both be considered 100 percent U&U. Additionally, staff recommends a 31.77 percent adjustment for Excessive Unaccounted for Water (EUW) should be made to operating expenses for chemicals and purchased power. (Lewis)

Staff Analysis: Alturas' water system is served by a single 6-inch diameter well rated at 350 gpm. The raw water is injected with liquid chlorine prior to entering the 3,000-gallon hydropneumatic tank, and then pumped into the water distribution system. The Utility is permitted to withdraw an average of 34,200 gallons per day (gpd) up to 94,600 gpd peak. The treated water is then pumped into the water distribution system. 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 U&U.

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 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.

Excessive Unaccounted for Water (EUW)

Rule 25-30.4325, F.A.C., describes EUW 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 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, and whether a proposed solution is economically feasible. The unaccounted for water is calculated by subtracting both the gallons used for other purposes, such as flushing, and the gallons sold to customers from the total gallons pumped for the test year.

The Utility treated 6,294,431 gallons and sold 3,665,000 gallons of water for the test year. Alturas did not record any gallons used for other purposes. Therefore, the amount of unaccounted for water is 2,629,431 gallons (6,294,431 – 3,665,000). Ten percent of the gallons produced, (6,294,431 x .10) or 629,443 gallons is allowed per rule; therefore, the EUW is (2,629,431 - 629,443) 1,999,988 gallons. This divided by the total gallons produced (1,999,988/6,294,431) equates to 31.77 percent EUW.

Per staff's suggestion, the Utility contacted the Florida Rural Water Association (FRWA) and scheduled a survey of its distribution system. The Utility provided documentation of FRWA's test results, dated August 25, 2015, indicating that the Utility's plant master flow meter is

inaccurate and reading 20.8 percent faster than the actuals flow.¹³ In its 2009 rate case, an EUW adjustment was not made because the master flow meter was not working properly and the Utility was working to address the problem with the master flow meter and possible leaks in the distribution system. Staff does not believe that Alturas has demonstrated an effort to address its on-going EUW issues in its current rate case. Although the Utility has joined the FRWA, the Utility has yet to provide documentation that the master flow meter has been replaced or repaired. Therefore, due to uncertainty regarding the current status of the master flow meter replacement, staff believes an adjustment should be made to operating expenses (chemicals and purchased power) due to EUW.

Conclusion

Staff recommends Alturas' water treatment plant and its distribution system should both be considered 100 percent U&U. Additionally, staff recommends a 31.77 percent adjustment for EUW should be made to operating expenses for chemicals and purchased power.

¹³Document 05581-15 filed on September 8, 2015, in Docket No. 140219-WU.

Issue 3: What is the appropriate allocation of common costs to Alturas?

Recommendation: The appropriate allocation of common costs to Alturas is 22 percent. (Golden, Vogel)

Staff Analysis: Alturas and its sister company, Sunrise Utilities, L.L.C. (Sunrise), receive services from several shared contractual service providers. During the test year, the Utility’s allocation of the common costs varied for each of the contractual service providers. Commission practice is to allocate shared administrative and general expenses based on the number of ERCs.¹⁴ In addition, the Commission previously approved this methodology for Alturas and Sunrise when the systems were owned by Keen Sales, Rentals, and Utilities. The appropriate allocation percentages are calculated as follows:

**Table 3-1
 Allocation Percentages**

<u>Name of System</u>	<u>Number of</u>	<u>Percentage of</u>
	<u>ERCs</u>	<u>Allocation</u>
Alturas Utilities, L.L.C.	69	22%
Sunrise Utilities, L.L.C.	247	78%
Total	316	100%

As shown above, Alturas represents 22 percent of the ERCs for both utilities. Therefore, staff recommends the shared reasonable and prudent common expenses should be allocated to the Alturas water system based on the allocated portion of 22 percent. This equitably reflects the distribution of costs between the two systems.

¹⁴Order Nos. 17043, issued on December 31, 1986, in Docket No. 860325-WS, *In re: Request by Southern States Utilities, Inc. for approval of test year ended 12/31/85 for rate increase in Seminole County*; Order No. PSC-01-0323-PAA-WU, issued on February 5, 2001, in Docket No. 000580-WU, *In re: Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc. (Alturas Water Works)*; Order No. PSC-05-0442-PAA-WU, issued on April 25, 2005, in Docket No. 040254-WU, *In re: Application for staff-assisted rate increase in Polk County by Keen Sales, Rentals and Utilities, Inc.*; Order No. PSC-09-0716-PAA-WU, issued on October 28, 2009, in Docket No. 090072-WU, *In re: Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc.*; Order No. PSC-13-0320-PAA-WU, issued on July 12, 2013, in Docket No. 120269-WU, *In re: Application for staff-assisted rate case in Polk County by Pinecrest Utilities, LLC*; and Order No. PSC-13-0327-PAA-SU, issued on July 16, 2013, in Docket No. 120270-SU, *In re: Application for staff-assisted rate case in Polk County by West Lakeland Wastewater, LLC*.

Issue 4: What is the appropriate average test year rate base for Alturas?

Recommendation: The appropriate average test year rate base for Alturas is \$31,718. In the event the Utility is unable to issue customer deposit refunds and interest payments to former customers, staff recommends that the resulting total of the unclaimed refunds and associated accrued interest should be credited to contributions-in-aid-of-construction in the Utility's next rate proceeding. (Golden, Vogel)

Staff Analysis: The appropriate components of the Utility's rate base include utility plant in service, land, contributions-in-aid-of-construction (CIAC), accumulated depreciation, amortization of CIAC, and working capital. Alturas' rate base was last established by Order No. PSC-10-0380-PAA-WU in a 2009 SARC.¹⁵ Staff selected the test year ended 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 officers and their Certified Public Accounting (CPA) firm to prepare the Utility's Annual Report and its Federal Tax Return. Consequently, a 2014 income statement and balance sheet were not available, and the 2014 Annual Report was not compiled before the end of the audit staff's field work. Audit staff used the Utility's 2009 through 2013 Annual Reports, 2013 Federal Tax Return, and other supporting documents to compile the Utility's rate base, capital structure, and net operating income for the test year ended December 31, 2014.

Utility Plant in Service (UPIS)

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

A review of the Utility's annual reports indicates that the Utility experienced a net operating loss in each year since the pro forma projects were completed in 2011. Specifically, the Utility reported net operating losses of \$4,933, \$5,375, and \$6,142 for 2011, 2012, and 2013, respectively. In addition, audit staff calculated a loss of \$8,096 for 2014. The increasing level of

¹⁵Order No. PSC-10-0380-PAA-WU, issued on June 5, 2010, Docket No. 090477-WU, *In re: Application for staff-assisted rate case in Polk County by Alturas Utilities, L.L.C.*

operating losses indicates that the \$7,589 overstatement of UPIS was offset by other costs, and therefore, did not cause the Utility to exceed its authorized rate of return. However, staff believes it would be appropriate to adjust the rate base prospectively to correctly reflect the pro forma that was completed. The audit staff's starting balance of \$59,612 only includes a portion of the completed pro forma projects. Based on audit staff's review, staff has increased UPIS by \$7,068 to reflect the correct test year UPIS balance including all of the completed pro forma projects.

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

Based on the adjustments shown above, staff's net adjustment to UPIS is an increase of \$5,316 ($\$7,068 - \$1,752 = \$5,316$). Staff recommends a UPIS balance of \$64,928.

Land and Land Rights

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

Non-Used and Useful Plant

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

Contribution in Aid of Construction (CIAC)

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

In addition, as will be discussed later in this recommendation, Alturas appears to be in violation of the Commission's Rules and regulations regarding customer deposits. The Utility is working with Commission staff to correct the apparent violations, however, the final results of those corrections are not yet known. In the event the Utility is unable to issue customer deposit refunds and interest payments to former customers, staff recommends that the resulting total of the unclaimed refunds and associated accrued interest should be credited to CIAC in the Utility's next rate proceeding.

Accumulated Depreciation

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

Accumulated Amortization of CIAC

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

Working Capital Allowance

Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses of the Utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of \$3,127 (based on O&M expense of $\$25,015/8$).

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base is \$31,718. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B. Also, in the event the Utility is unable to issue customer deposit refunds and interest payments to former customers, staff recommends that the resulting total of the unclaimed refunds and associated accrued interest should be credited to CIAC in the Utility's next rate proceeding.

Issue 5: What is the appropriate rate of return on equity and overall rate of return for Alturas?

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 8.53 percent. (Golden, Vogel)

Staff Analysis: No capital structure balance was available for 2014. Based on a review of the Utility's Annual Reports, audit staff initially determined that the Utility's capital structure is composed entirely of owners' equity because no debt or customer deposits were disclosed. However, audit staff could not determine the Utility's equity balance from its 2013 Annual Report or 2013 Federal Tax Return. Pursuant to Order No. PSC-05-0309-PAA-WU, that approved the transfer of Alturas to the current owner, the purchase price was \$45,000 for the system.¹⁶ The purchase price was paid with cash in several installments. Therefore, staff has increased common equity by \$45,000 to reflect the owner's equity in the system. In addition, Alturas subsequently provided customer deposit records that indicated the Utility was holding \$986 in customer deposits during the test year. Accordingly, staff increased customer deposits by \$986 to reflect the Utility's customer deposit balance as of December 31, 2014.

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.¹⁷ 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 8.53 percent. The ROE and overall rate of return are shown on Schedule No. 2.

¹⁶Order No. PSC-05-0309-PAA-WU, issued on March 21, 2005, in Docket No. 040160-WU, *In re: Application for transfer of portion of Certificate No. 582-W by Keen Sales, Rentals, and Utilities, Inc. to Alturas Utilities, L.L.C., in Polk County.*

¹⁷Order No. PSC-15-0259-PAA-WS, issued on July 2, 2015, in Docket No. 150006-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 6: What are the appropriate test year revenues for Alturas' water system?

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

Staff Analysis: At the time of staff's audit, the Utility had not closed its books for calendar year 2014, which is the test year in this docket. As a result, staff's adjustments are to the Utility's estimated test year revenues. Alturas estimated test year revenues of \$26,138, which did not include any miscellaneous revenues. The Utility recorded five months of miscellaneous revenues during the test year, which totaled \$75. Because no records were provided for the remaining seven months of the test year, staff estimated that a similar number of miscellaneous service events would occur throughout the remaining months and determined that additional miscellaneous revenues of \$75 should be added. Therefore, test year revenues should be increased by \$150. As discussed in Issue 7, the utility has taken steps to properly record miscellaneous revenues. During the test year, the Utility had a four year rate reduction that became effective on August 14, 2014. However, the Utility did not reduce the rates when the revised tariff was approved. Staff has verified that the rates were reduced in May 2015. The disposition of the overcollection of rate case expense is discussed in Issue 11. Based on staff's adjustments to miscellaneous revenues and the annualized reduced rates, service revenues should be increased by \$1,855 to reflect service revenue of \$27,993. Staff recommends that the appropriate test year revenues for Alturas' water system are \$28,143 (\$27,993 + \$150).

Issue 7: What is the appropriate amount of operating expense?

Recommendation: The appropriate amount of operating expenses for the Utility is \$28,395. Staff recommends that the Utility be required to file documentation in this docket by December 31, 2016, showing that the pro forma trihalomethane and haloacetic acid tests have been completed. The documentation should include a copy of the test results and final invoices. (Golden, Vogel)

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

Subsequent to the audit, the Utility made several changes in its contractual service providers. The Utility also changed some procedures to improve the operation of the Utility and address some concerns discussed in staff's audit report and raised by customers. In response to several staff data requests, the Utility also provided additional documentation to support some previously unsupported expenses, some requested pro forma expenses, and some new pro forma expenses related to the Utility's efforts to improve its operations. Based on both the test year and supplemental information, staff made several adjustments to the Utility's operating expenses, as summarized below. In addition, staff made several adjustments in response to concerns raised by OPC in its June 11, 2015, letter, filed in this docket and at a December 9, 2015, noticed informal meeting.

Operation and Maintenance (O&M) Expenses

Salaries and Wages – Officers (603)

The Utility's Expense Summary does not include this account. The Utility currently has two officers; an administration officer and a president. The administration officer is the Utility owner and serves as the primary officer responsible for overseeing the daily operations of the Utility. The Commission previously approved an annual officer's salary of \$12,000 for Alturas' sister company, Sunrise, in its last SARC.¹⁸ At that time, the owner's duties included interfacing with the Utility's contractual manager on the day-to-day operations, reviewing the monthly meter reading reports, reviewing monthly bank statements, preparing the annual report, and compiling financial data for the CPA to prepare the federal income tax return. Currently, the owner works with the Utility's four contractual service providers to oversee the financial and operational functions of Alturas and Sunrise.

¹⁸Order No. PSC-12-0533-PAA-WU, issued on October 9, 2012, in Docket No. 110238-WU, *Re: Application for staff-assisted rate case in Polk County by Sunrise Utilities, LLC*.

As discussed in Issue 3, staff recommends that common costs be allocated between Alturas and Sunrise based on ERCs, with 22 percent allocated to Alturas and the remaining 78 percent allocated to Sunrise. Staff determined that the appropriate allocation of the administration officer/owner's salary to Alturas is \$2,640 ($\$12,000 \times .22 = \$2,640$). Accordingly, staff increased this account by \$2,640 to allocate the 22 percent of the \$12,000 salary to Alturas.

During the test year, the Utility also paid \$750 to the Utility's president who assists the owner with utility matters as needed, including annual work related to preparation of the Annual Report and income tax forms. Staff increased this account by \$165 to reflect the appropriate 22 percent allocation of the president's salary to Alturas ($\$750 \times .22 = \165).

In its June 11, 2015 letter, OPC suggested that the administration officer/owner's salary should be re-evaluated due to the severe accounting record deficiencies and the owner's lack of response to several warning letters from the PCHD. As discussed in Issue 1, staff recommends that a 25 percent penalty be applied to the officers' salaries for unsatisfactory quality of service. The penalty was applied to the administration officer/owner's salary of \$2,640, resulting in a \$660 penalty decrease. The penalty was also applied to the president's salary of \$165, resulting in a \$41 decrease. Therefore, staff decreased this account by a total of \$701 to reflect a 25 percent reduction in both officers' salaries allocated to Alturas. The resulting officers' salaries allocated to Alturas following the penalty reduction are \$1,980 for the administration officer/owner and \$124 for the president. As additional information, the total combined salaries for Alturas and Sunrise following all of staff's adjustments are \$9,000 for the administration officer/owner and \$563 for the President.

In summary, staff's total adjustment to this account is an increase of \$2,104 ($\$2,640 + 165 - 701 = \$2,104$). Staff recommends salaries and wages – officers' expense of \$2,104.

Purchased Power (615)

The Utility's Expense Summary reflects \$1,542 in this account. The Utility was only able to provide nine electric power invoices for the test year. Audit staff was able to substantiate the amounts for two of the three missing invoices using payment information included on subsequent invoices. Also, audit staff estimated the missing December 2014 invoice amount by using the average of the billed amounts for January through November 2014. Consequently, staff decreased this account by \$104 to reflect the correct test year purchased power expense, resulting in an adjusted balance of \$1,438. The \$104 adjustment includes removal of \$20 in late payment fees that are not recoverable through the Utility's rates.

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

Chemicals (618)

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

Contractual Services – Overview

Subsequent to the test year, the Utility made several changes in its contractual service providers that will affect the contractual service expenses going forward. The changes are intended to address concerns raised by staff and the Utility's customers, and improve the Utility's operations going forward. Staff believes these changes will be beneficial to both the Utility and its customers. Accordingly, staff believes it would be appropriate to make some pro forma adjustments to reflect those changes. Due to the level of changes made, staff believes it will be helpful to provide an overview of the changes between the test year and current year's contractual service providers. It should be noted that the Utility does not have written contracts for any of the current contractual service providers.

As background information, the Utility began the test year with four part-time contractual service providers; an office manager, management assistant, billing assistant, and plant operator. The contractual office manager and plant operator services also included on-call work for emergency purposes. The first office manager left abruptly in the middle of the test year, causing the management assistant to immediately assume the office manager's duties, in addition to continuing the management assistant duties. Due to cash flow shortages, the Utility did not replace the management assistant, and only requested assistance from the billing assistant a few times during the test year. Consequently, the Utility only operated with an office manager and plant operator for part of the test year and much of 2015. It appears that the abrupt management changes during the test year and limited staffing may have contributed to many of the billing and service issues raised by the Utility's customers.

In September 2015, the second office manager discontinued working for the Utility. The Utility subsequently hired three additional contractual service providers; an accountant, a Utility service technician, and the former billing assistant. The Utility expanded the duties of the new contractual service providers to cover more utility functions than were covered by the previous workers. The expanded duties and specific skills of the new contractual service providers are expected to improve the Utility's operations and customer service.

In order to reduce overhead costs, the Utility owner never established a physical office in the service area. Previously, the only option for customers who wanted to pay their bill in person was to go to the office manager's house to drop off the payment or arrange for the office manager to pick up the payment at their house. The recently hired contractual accountant has an office near the service area and has agreed to accept customer payments at that location in order to help address this concern. The contractual accountant now serves as the office manager and bookkeeper for the Utility. The contractual accountant's services include: updating and maintaining the Utility's books and records; preparing and issuing monthly bills; preparing the monthly billing detail reports; collecting customer payments and deposits; providing a location

where customers may mail or drop-off payments; providing a utility drop-box where customers may drop off payments during non-business hours; checking for payments daily during the work week; transmitting customer payments electronically to the bank on a daily basis when received during the work week; reviewing payment records and assisting with service disconnections due to non-payment; accepting customer calls regarding billing questions; handling customer complaints regarding billing issues; and assisting with preparing the financial information for the Utility's Annual Report. The accountant's contractual fees will be discussed under the contractual services – professional (631) section below.

The contractual utility service technician's duties include assisting with general system repairs, customer service repairs, new customer connections, service disconnections, monthly meter reading, mowing, answering the Utility's emergency cell phone, and being on-call 24 hours a day, 7 days a week. The utility service technician's meter reading fees will be discussed in contractual services – billing (630), and the fees for the remaining duties will be discussed in the contractual services – other (636).

During the test year, the Utility hired a contractual billing assistant to analyze the monthly accounts receivable and assist the office manager with collection of past due accounts for both Sunrise and Alturas. Due to cash flow shortages, the Utility only requested service from the billing assistant during part of the test year. In September 2015, the Utility re-hired the contractual billing assistant with expanded duties. The billing assistant's current duties include: answering the Utility's main phone number; assisting with customer complaints; assisting with reviewing and correcting the Utility's customer deposit records; assisting with researching customer records as needed; analyzing the monthly accounts receivable; and assisting with collection of past due accounts. The billing assistant's fees will be discussed in the contractual services – billing (630) section below.

Contractual Services - Billing (630)

The Utility's Expense Summary reflects \$3,169 in this account for meter reading provided by the former office manager and bill collection services provided by the billing assistant. In September 2015, the Utility hired a contractual utility service technician to begin providing the monthly meter reading services. The utility service technician's contractual fee for meter reading is \$65 per month or \$780 per year. The current fee is the same as the audited test year meter reading expense. In addition, staff believes this is a reasonable meter reading expense for Alturas. Therefore, no adjustments are needed.

During the test year, the Utility hired a contractual billing assistant to review the monthly accounts receivable and assist with the collection of past due accounts for both Alturas and Sunrise at a monthly fee of \$400, for an annual total of \$4,800. However, the Utility only incurred \$2,100 of the contracted \$4,800 fees for Alturas and Sunrise combined. The Utility indicated that it had only requested billing assistance from this vendor for part of the test year due to cash flow shortages.

As discussed above, in September 2015, the Utility re-hired the contractual billing assistant and indicated that the previous duties would be expanded to include answering the Utility's main phone number, assisting with customer complaints, and assisting with reviewing and correcting the Utility's customer deposit records. The new contractual fee is still \$400 per month, which

covers approximately 40 hours of work per month at \$10 per hour, for an annual total of \$4,800 for Alturas and Sunrise combined. The Utility has not fully supported its request for the increase in this expense over the audited test year expense. However, staff confirmed that the billing assistant is currently working with the office manager to review delinquent accounts and address customer complaints. Staff believes it will be beneficial to both the Utility and its customers to have a billing assistant available on a regular basis to assist customers with service complaints. Staff believes the hourly rate of \$10 is reasonable. Also, staff believes the request for 40 hours of work per month is reasonable considering that the work will cover both Alturas and Sunrise. At the December 9, 2015, noticed informal meeting, OPC requested that the contractual worker expenses be reviewed to avoid any duplication of duties. Based on staff's review, it does not appear that there will be a duplication of duties between the billing assistant and office manager. Staff determined that the appropriate allocation of the contractual billing assistant's expense to Alturas is \$1,056 ($\$4,800 \times .22 = \$1,056$). Staff decreased this account by \$1,333 to remove the unsupported expenses in this account and reflect a pro forma increase in the contractual billing services expense.

Staff's total adjustment to this account is a decrease of \$1,333. Therefore, staff recommends contractual services – billing expense of \$1,836.

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.

As discussed in Issue 4, 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. Audit staff determined that the Utility was not maintaining its books and records on a monthly basis as required. During the test year, the Utility did not have any employees or contractual service providers specifically hired to work on the Utility's day-to-day bookkeeping operations. Therefore, in the May 1, 2015 Staff Report, staff recommended a pro forma adjustment to include an allowance for contractual bookkeeping expense to assist the Utility in meeting the rule requirement going forward.

Subsequently, in September 2015, the Utility hired a contractual accountant to handle the Utility's bookkeeping, billing, payment collections, billing inquiries, and billing complaints. As of the end of January 2016, the Utility had not yet begun providing any accounting records to the accountant to begin maintaining the Utility's books and records. Due to the severe accounting deficiencies and the Utility's difficulty in complying with both audit and technical staffs' requests for accounting supporting documentation during this case, staff believes it will be beneficial to the Utility and its customers for the Utility to allow a trained accountant to handle the Utility's day-to-day bookkeeping activities. Further, staff believes that properly maintained accounting records may help the Utility to better monitor and manage its cash flow. Therefore, despite the Utility's delay in implementing this process, staff believes it would be appropriate to make a pro forma adjustment to recognize the contractual bookkeeping expense going forward.

By a letter dated January 15, 2016, the contractual accountant estimated that the initial set-up fee for Alturas will be \$250, for setting up the Utility's books and bringing forward the beginning

balances. After the set-up is complete, the monthly fee will be \$100 per month, which equals \$1,200 per year. Because the initial set-up fee is non-recurring in nature, staff believes it would be appropriate to amortize that portion of the bookkeeping expense over a five-year period, resulting in an annual expense of \$50 ($\$250 / 5 = \50). Therefore, staff increased this account by \$1,250 to reflect the pro forma increase for the recurring annual bookkeeping fees of \$1,200 and the non-recurring fees of \$50.

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

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

Staff reviewed the Utility's last SARC and recent annual reports to determine if the Utility incurred any other legal fees in recent years that would be more representative of routine, recurring legal services. Based on the information available, it appears that the Utility has not incurred any other legal fees in recent years.

Therefore, staff's total adjustment to this account is an increase of \$1,250 to include the new contractual accountant's bookkeeping services. Staff recommends contractual services – professional expense of \$1,650.

Contractual Services – Testing (635)

The Utility's Expense Summary does not include this account. Audit staff determined the Utility incurred \$1,465 in testing expense for the test year. Accordingly, staff increased this account by \$1,465.

In addition, the Utility was required by the PCHD on behalf of the DEP to conduct triennial water tests by the end of 2015. The Utility provided invoices from the contract operator totaling \$3,310 for the triennial tests. Therefore, staff increased this account by \$1,103 ($\$3,310 / 3 = \$1,103$) to include a pro forma adjustment to reflect the three-year amortization of the triennial water test costs.

Finally, the Utility requested a pro forma increase to cover \$1,900 in testing expenses for additional trihalomethane (TTHM) and haloacetic acid (HAA5) testing required by the PCHD on a quarterly basis beginning in the last quarter of 2015 and continuing through the third quarter of 2016. The first quarter's tests have been completed and it is anticipated that the second quarter's test will be completed prior to implementation of any rates approved by the Commission in this case. According to the operator's invoices, the cost for the first quarter's tests is \$475 and the estimated cost for the remaining three quarters is \$1,425, for a total of \$1,900. The Utility's operator also provided documentation from the PCHD to support that the additional testing is required. The additional testing requirement was caused by the Utility exceeding the TTHM limit on one test, and therefore, is not part of the Utility's normally recurring tests. Rule 25-30.433(8), F.A.C., requires that non-recurring expenses be amortized over a five-year period unless a shorter or longer period of time can be justified. Amortizing the \$1,900 testing expense over a five-year period results in an annual increase of \$380 in the Utility's testing expense. Due to the serious nature of this testing requirement, staff believes it warrants inclusion in this rate proceeding.

In accordance with Commission practice, staff calculated a Phase II revenue requirement for the pro forma testing that will not be completed until the second and third quarters of 2016 and determined that the Phase II revenue requirement would be only \$201 or 0.69 percent above the Phase I revenue requirement. If all of the pro forma testing expense is included in Phase I, rate case expense can be reduced by a total of \$41 or approximately \$10 per year over the four-year amortization period due to elimination of the additional customer noticing that would be required upon implementation of the Phase II rate increase. Although pro forma plant additions and expenses are often addressed using a phased approach, staff believes it would be appropriate to include the pro forma testing expenses in the initial revenue requirement in this case because of the minimal impact of the pro forma testing expense on the initial revenue requirement, as well as the additional benefit of reducing rate case expense. Therefore, staff increased this account by \$380 to reflect a pro forma increase to cover the additional TTHM and HAA5 testing expense. Staff recommends that the Utility be required to file documentation in this docket by December 31, 2016, showing that the tests have been completed. The documentation should include a copy of the test results and final invoices. However, staff does not believe it is necessary to hold the docket open until this information is filed since the PCHD is monitoring the Utility's completion of these tests and the test results.

Staff's total adjustment to this account is an increase of \$2,948. Therefore, staff recommends contractual services – testing expense of \$2,948.

Contractual Services - Other (636)

The Utility's Expense Summary reflects \$19,545 in this account broken down by \$5,950 for contractual office management; \$6,855 for contractual utility operations; and \$6,740 for supplies, maintenance and repairs. In September 2015, the Utility hired a contractual accountant to take over the majority of the office management duties. Staff confirmed that the contractual accountant has charged Alturas and Sunrise a combined fee of \$1,200 per month beginning September 10, 2015 through January 10, 2016. It was initially expected that the \$1,200 fee would only be charged for the first three months for additional work required to learn the billing system, bring the billing records up-to-date, and address unresolved billing inquiries and complaints. However, the workload has not yet decreased as expected. Consequently, the \$1,200 per month fee will continue until the office begins to operate more smoothly, and then will decrease to \$800 per month thereafter. At this time, it is expected that the \$1,200 per month fee will be needed through May 2016. In addition to the monthly fee, the contractual accountant will also be reimbursed for any additional costs incurred, such as postage and utility office supplies.

Because the additional \$400 per month fee is considered to be temporary and part of the initial set-up cost under the new office management arrangement, staff believes it would be appropriate to allow recovery of those costs as non-recurring expenses over a five-year period. The total non-recurring expense for Alturas and Sunrise combined is \$3,600 ($\$400 \times 9 \text{ months} = \$3,600$), which translates to an annual expense of \$720 when amortized over five years. Staff determined that the appropriate allocation of the non-recurring contractual office management fees to Alturas is \$158 ($\$720 \times .22 = \158). The remaining \$800 per month fee should be treated as a recurring expense, which equals \$9,600 per year. The appropriate allocation of the recurring contractual office management expense to Alturas is \$2,112 ($\$9,600 \times .22 = \$2,112$). Alturas' total contractual office management expense allocation, including both the recurring and non-recurring fees, is \$2,270. Therefore, staff decreased this account by \$3,680 to reflect the pro forma change in contractual office management expense ($\$2,270 - \$5,950 = -\$3,680$).

In its June 11, 2015, letter, OPC expressed concern about the Utility's procedures for handling cash payments from customers. Specifically, OPC expressed concern about whether or not the cash payments are being properly recorded against accounts receivable, whether or not the cash collections of miscellaneous service charges are being recorded and included in test year revenues, and whether or not the accounts receivable aging reports accurately reflect these collections.

Staff determined that the Utility includes the type of payment in its billing records when recording monthly bill payments. For example, the records indicate if the payment was made by cash, check, money order, or money transfer. In addition, the Utility's customer deposit records indicate if the initial customer deposits were paid by cash, check, money order, or money transfer.

The area of concern appears to be limited to the handling of miscellaneous service charges. The Utility owner acknowledged that he had authorized the contractual office manager and office manager assistant to keep any miscellaneous service charges collected as payment for their work

related to the customer disconnections and reconnections. Because miscellaneous service charges are designed to cover the additional costs incurred to provide a specific miscellaneous service, it is acceptable for the Utility to use those funds to pay for the contractual work needed to accomplish those services. However, it is incorrect for the Utility to omit the miscellaneous service charge assessments and payments from the billing records and revenues.

In addition, staff attempted to review the Utility's billing records to determine whether or not the Utility properly assessed the miscellaneous service charges in accordance with Commission rules and the Utility's approved tariff. The Utility was not able to provide all of the records that are needed to complete this type of review. The Utility owner informed staff that the former office manager had deleted 11 months of billing records in error. Therefore, the only records available during that time period are the specific reports that were printed prior to the deletion. Based on the available records, staff believes that the Utility does experience some issues with delinquent payments. However, staff was unable to determine if the customers were given proper disconnection notices and assessed the miscellaneous service charges within the proper timeframes prescribed by Commission rules during the test year. Also, staff notes that the delinquent payments appear to be more of an issue for Sunrise than Alturas.

Based on staff's review, it appears the Utility may be in apparent violation of the following rules and statute. Rule 25-30.335(7), F.A.C., which requires that utilities shall maintain a record of each customer's account for the most current two years so as to permit reproduction of the customer's bills during the time that the utility provided service to that customer. Rule 25-30.320, F.A.C., which sets forth the guidelines that utilities must follow when refusing or discontinuing service, including disconnection for non-payment of bills. Section 367.081, F.S., requires that a utility may only charge rates and charges that have been approved by the Commission.

Staff does not believe show cause proceedings should be initiated at this time for the apparent violations related to the maintenance of customer records and handling of miscellaneous service charges. It appears that the Utility has taken steps to correct these issues. The Utility indicated that it has discontinued accepting customer payments in the field. As discussed previously, customers now have the additional option of paying in person or using a drop box at the contractual accountant's office. Based on staff's review, it appears that the Utility has taken the necessary steps to ensure that future miscellaneous service charges are correctly recorded. Also, the separation of duties between the office manager and utility service technician working in the field allows for better oversight of the handling of cash collections. Finally, under the Utility's current procedures, customers are first sent a letter regarding their past due payment, and then sent a second notice regarding disconnection only if the bill remains unpaid. Providing a past due notice prior to a disconnection notice goes beyond what it required in the Rule and helps to demonstrate the Utility's willingness to work with customers to resolve payment issues prior to disconnecting service. However, staff believes Alturas should be put on notice that if the Utility fails to maintain its customer records or to properly account for miscellaneous service charges in compliance with Commission regulations in the future, Alturas may be subject to a show cause proceeding by the Commission, including penalties.

As noted above, the Utility included \$6,855 in this account for contractual utility operations. Staff determined that the appropriate contractual operator's expense for Alturas is \$4,288, which includes the plant operator's monthly fees, inspection reports, repairs, and flushing. In its June 11, 2015, letter, OPC expressed a concern about possible duplication of mowing expenses because the test year included charges for mowing by the office manager and plant operator. As discussed above, the new contractual utility service technician will be responsible for mowing the plant site going forward. Therefore, staff did not include any mowing expense in the \$4,288 operator's expense calculation. Although the utility service technician will be assisting with repairs in the field going forward, staff believes there will still be a need for the operator to make utility repairs related to the plant. Consequently, staff does not believe a reduction to the repair portion of the operator's expenses is necessary. The operator's monthly fees are allocated between Alturas and Sunrise based on ERCs. The inspection report, repair, and flushing expenses are based on direct costs for Alturas. Staff decreased this account by \$2,567 to reflect the appropriate contractual operator's expense ($\$4,288 - \$6,855 = \$2,567$).

The Utility's Expense Summary reflected \$6,740 for supplies, maintenance, and repairs. The Utility's total includes test year repairs of \$1,019 based on four repair invoices for electrical plant repairs and meter repairs. In its June 11, 2015, letter, OPC questioned whether it was reasonable and prudent for the Utility to make four chlorine pump repairs in one year, and whether the repair costs should be treated as non-recurring expenses. According to information provided by the Utility's contract operator, the chlorine pump required repairs in January and April 2014 due to calcium build up, in May 2014 due to a lightening strike, and in June 2014 due to a hole in a discharge tube. Staff believes it is reasonable to expect that the Utility may require this level of repairs on an annual basis. Therefore, staff does not believe it is necessary to amortize any of the test year repairs as non-recurring.

As noted above, the Utility's Expense Summary also includes expenses related to chemicals, testing, and miscellaneous expenses. Audit staff reclassified those expenses to the correct expense accounts. In addition, audit staff determined that some expenses were unsupported and should be removed. Accordingly, staff decreased this account by \$5,721 ($\$1,019 - \$6,740 = -\$5,721$) to reflect the appropriate repair expense for the test year.

In its June 11, 2015, letter, OPC noted that the Alturas test year expenses included an invoice for \$225 for checking meters, but that only \$56 of that expense was for checking meters for Alturas. The remaining \$159 was for checking meters for Sunrise. OPC proposed that \$159 should be removed from the Alturas expenses. Staff agrees that it would be appropriate to reclassify \$159 of the meter testing expense to Sunrise. Therefore, staff decreased this account by \$159.

In September 2015, the Utility hired a contractual utility service technician to assist with general system repairs, customer service repairs, new customer connections, service disconnections, monthly meter reading, mowing, answering the Utility's emergency cell phone, and being on-call 24 hours a day, 7 days a week. As discussed above under Account 630 – Contractual Services – Billing, the utility service technician's contractual fee for meter reading is \$65 per month or \$780 per year. In addition to the meter reading fees, the Utility indicated that it intends to pay this contractual service worker \$250 per week for 25 hours of work at an hourly rate of \$10 for the remaining work duties. This results in an annual expense of \$13,000 for Alturas and

Sunrise combined for the remaining field work and on-call duties. In addition, the Utility has requested a transportation expense allowance for this contractual service worker, which is discussed in more detail below under Account 650 – Transportation Expense.

The Utility has not fully supported its request for this level of contractual service fees. However, audit staff did verify test year expenses for the former office manager and office manager assistant related to some of these duties. In addition, the Utility provided several invoices for work performed by a new utility service technician in September and October 2015. Staff also confirmed that the Utility currently has a contractual service worker performing these job duties. Staff believes it will be beneficial to both the Utility and its customers to have a contractual utility service technician available on a regular basis to assist customers with service issues and to work on utility maintenance. Staff believes the hourly rate of \$10 is reasonable and comparable to fees approved for other utilities. Also, staff believes the request for 25 hours of work per week is reasonable considering that the work will cover both the Alturas and Sunrise service territories. Consequently, staff increased this account by \$2,860 to reflect Alturas' allocation of this expense ($\$13,000 \times .22 = \$2,860$).

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

Staff's net adjustment to this account is a decrease of \$9,267 ($-\$3,680 - \$2,567 - \$5,721 - 159 + 2,860 = -\$9,267$). Therefore, staff recommends contractual services – other expense of \$10,278.

Transportation Expense (650)

The Utility's Expense Summary reflects \$1,233 in this account. Audit staff could not verify how this amount was determined. Staff determined that the former office manager's expense included mileage reimbursements of approximately \$14 for Alturas and \$97 for Sunrise during January through May 2014. The expense was primarily related to mileage incurred conducting customer disconnections and reconnections, and was calculated based on a mileage rate of \$0.50 per mile. The second office manager during the test year did not claim any mileage, but expressed concern about having to use her personal vehicle for utility work at her own expense.

In its January 26, 2016, letter, the Utility requested a transportation expense for the contractual utility service technician of \$75 per month, or \$900 annually, for Sunrise and Alturas combined. The Utility did not provide any documentation to support this request, such as records of any recent mileage reimbursements or written contracts indicating that transportation expense will be provided. However, in consideration of the Utility's previous practice of reimbursing the former office manager's mileage expense and the physical distance between the Alturas and Sunrise service areas, staff believes it would be appropriate to include a mileage allowance. Also, it

appears that the lack of full reimbursement of additional expenses incurred by the Utility's contractual service workers may be a contributing factor in the high level of turnover experienced by Alturas and Sunrise. Inclusion of a mileage allowance may help the Utility retain its contractual service workers longer, thereby improving the consistency and stability in the Utility's field operations.

The Utility requested \$75 per month transportation expense would allow reimbursement of approximately 34 miles per week at the test year mileage rate of \$0.50 per mile. The Alturas and Sunrise service territories are located approximately 18 miles apart. Staff believes the majority of the utility service technician's work will be conducted within each Utilities' service territory with minimal driving required. However, on occasion it will be necessary for the utility service technician to drive between the Alturas and Sunrise service territories or to a store to purchase parts for repairs. Staff believes the Utility's requested expense should be sufficient to cover the transportation expense for both the more frequent in-territory driving, as well as the less frequent out-of-territory driving. Staff determined that the appropriate allocation of the transportation expense to Alturas is \$198 ($\$900 \times .22 = \198). The remaining \$702 will be allocated to Sunrise. Consequently, staff decreased this account by \$1,035 to remove the unsupported test year expenses and reflect a pro forma transportation expense increase. Staff recommends transportation expense of \$198.

Insurance Expense (655)

The Utility's Expense Summary reflects \$1,576 in this account. Staff increased this account by \$31 to reflect the current year's general liability insurance premium, and recommends insurance expense for the test year of \$1,607.

Regulatory Commission Expense (665)

The Utility's Expense Summary does not include this account. 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 in this case. For noticing, staff estimated \$55 for postage expense, \$34 for printing expense, and \$5 for envelopes. This results in \$94 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 SARC's for both Alturas and Sunrise. The work performed was similar for both Utilities. Therefore, staff believes it would be appropriate to allow Alturas to recover half or \$225 of the accounting expense and allow Sunrise to recover the remaining \$225 of rate case related accounting expense. In addition, the Utility provided invoices for \$800 in additional work performed by the Utility's contract operator to assist with the Alturas SARC, such as answering staff data requests related to plant operations and attending the customer meeting. Staff has reviewed the invoices and believes it would be appropriate to allow recovery of these expenses in rate case 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 \$2,119 ($\$94 + \$1,000 + \$225 + \800), which amortized over four years is \$530. Staff's total adjustment to this account is an increase of \$530, resulting in a recommended regulatory commission expense of \$530.

Bad Debt Expense (670)

The Utility's Expense Summary reflects \$516 in this account. During the audit, the Utility provided a list of Alturas and Sunrise accounts that were written-off during the test year. Only one account was written-off for Alturas in the amount of \$671, which equals 2.38 percent of the test year revenues or 2.16 percent of staff's recommended revenue requirement. In its June 11, 2015, letter, OPC expressed concern that Sunrise's bad debt expense is excessive, but did not discuss Alturas' bad debt expense. The Utility did not provide any supporting documentation showing how it calculated the bad debt write-offs, but did acknowledge that the test year bad debt expense included multiple years of bad debt write-offs.

Commission practice is to calculate bad debt expense using a three-year average, typically based on the test year plus two years of annual report data. It appears that the bad debt expense for the two years prior to the test year may have included multiple years of write-offs as well. Therefore, staff is unable to calculate a reliable three-year average using the traditional method. As an alternative, staff believes it would be appropriate to calculate an average bad debt expense based solely on the test year expense. This approach results in a bad debt expense of \$224 ($\$671 / 3 = \224), that is 0.72 percent of staff's recommended revenue requirement.

At the December 9, 2015, noticed informal meeting, OPC indicated that it believes the large write-offs may be the result of errors in the recording of cash payments and poor bookkeeping practices, and that bad debt expense should not exceed 1 percent. Staff reviewed a sample of 15 SARCs, which had bad debt expense ranging from zero to over 4 percent, with 60 percent of the sample falling below the 1 percent range and 27 percent of the sample falling in the 0.50 to 1 percent range. Therefore, staff believes a bad debt expense of 0.72 percent falls within a reasonable range. Although staff is not opposed to OPC's 1 percent suggestion, that approach would actually increase the bad debt expense for Alturas above the amount recommended by staff. Based on staff's review of the available billing records, it appears that Alturas has a lower incidence of high delinquent balances than Sunrise, and therefore, would be expected to have a lower bad debt expense percentage. In an effort to provide as much uniformity in the ratesetting methods used for both companies, staff believes it would be more appropriate calculate a specific bad debt expense for each company based on the test year data. Based on the above, staff decreased this account by \$292, and recommends a bad debt expense of \$224.

Miscellaneous Expense (675)

The Utility's Expense Summary reflects \$2,201 in this account. Staff decreased this account by \$260 to reflect the appropriate test year miscellaneous expense for the Utility's annual permit and license renewal fees, cell phones, postage, and office supplies. Staff used the Utility's direct actual expense for the PCHD annual drinking water permit, the SWFWMD annual water permit, and the Department of State's Division of Corporation's annual filing fee. In addition, staff used the ERC allocation method to allocate the common miscellaneous expenses related to the Utility's cell phone, postage, and office supplies.

In its June 11, 2015, letter, OPC noted the Utility's test year miscellaneous expense included additional work performed by the contractual plant operator to assist with the transition between office managers. OPC believes this is a non-recurring expense that should not be included in setting future rates. Staff agrees that this work is outside the scope of the operator's regularly

recurring duties, however, staff believes it would be more appropriate to amortize the non-recurring expense over a five-year period consistent with Rule 25-30.433(8), F.A.C. The operator's expense was \$740 for Sunrise and Alturas combined. Staff increased this account by \$33 to reflect Alturas' amortized allocation of that expense ($\$740 / 5 = \148 ; $\$148 \times .22 = \33).

In August 2015, the Utility became a member of the Florida Rural Water Association (FRWA) and provided proof of payment of the Utility's annual membership dues. Therefore, staff increased this account by \$163 to reflect a pro forma adjustment for the Utility's annual FRWA membership dues. Staff believes the Utility should be reminded that the membership dues included in the Utility's revenue requirement are intended to serve as annual recurring expense for the purpose of renewing the Utility's FRWA membership each year.

In addition, staff increased this account by \$30 to make a pro forma adjustment to reflect Alturas' amortized allocation of the Utility's purchase of a billing software update, an additional billing software license, and billing software training for the contractual office manager. Finally, staff increased this account by \$17 to make a pro forma adjustment to reflect Alturas' amortized allocation of an electronic bank deposit machine that enables the contractual office manager to electronically deposit customers payments on the business day the payments are received. The Utility made these pro forma purchases in an effort to improve the Utility's billing and collection practices. Therefore, staff believes it would be appropriate to make these pro forma adjustments and allow the Utility to recover these expenses as non-recurring expenses over a five-year period. Staff's net adjustment to this account is a decrease of \$64 ($-\$260 + 33 + 163 + 30 + 17 = -\64), resulting in a recommended miscellaneous expense of \$2,137 for the test year.

Operation and Maintenance Expense (O&M Summary)

Based on the above adjustments, O&M expense should be decreased by \$5,939, resulting in total O&M expense of \$25,015. 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 expense balances were available for 2014. Audit staff calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C., and determined a test year depreciation expense of \$1,727. Staff decreased this account by \$103 to reflect retirement of certain pro forma items from the Utility's last SARC, as discussed in Issue 3, reducing the test year depreciation expense to \$1,624. In addition, because the Utility's CIAC is fully amortized and there has been no CIAC activity since the Utility's last SARC, there is no amortization of CIAC expense. Therefore, staff recommends depreciation expense of \$1,624.

Taxes Other Than Income (TOTI)

The Utility's Expense Summary reflects \$3,280 in TOTI for the test year, although an official balance for 2014 was not yet available at the time of staff's audit. Staff increased this account by \$90 to reflect the appropriate test year RAFs. Also, staff decreased this account by \$1,747 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 \$1,657. In addition, as discussed in Issue 7, revenues have been increased by \$2,958 to reflect the change in revenue required to cover expenses and allow the

recommended rate of return. As a result, TOTI should be increased by \$133 to reflect RAFs of 4.5 percent of the change in revenues. Therefore, staff recommends TOTI of \$1,757.

Operating Expenses Summary

The application of staff's recommended adjustments to Alturas' test year operating expenses result in operating expenses of \$28,395. Staff recommends that the Utility be required to file documentation in this docket by December 31, 2016, showing that the pro forma trihalomethane and haloacetic acid tests have been completed. The documentation should include a copy of the test results and final invoices.

Issue 8: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirement is \$31,101, resulting in an annual increase of \$2,958 (10.51 percent). (Golden, Vogel)

Staff Analysis: Alturas should be allowed an annual increase of \$2,958 (10.51 percent). This will allow the Utility the opportunity to recover its expenses and earn an 8.53 percent return on its investment. The calculations are as follows:

**Table 8-1
Water Revenue Requirement**

Adjusted Rate Base	\$31,718
Rate of Return	x 8.53%
Return on Rate Base	\$2,706
Adjusted O&M Expense	25,015
Depreciation Expense (Net)	1,624
Taxes Other Than Income	1,757
Income Taxes	0
Revenue Requirement	\$31,101
Less Adjusted Test Year Revenues	28,143
Annual Increase	\$2,958
Percent Increase	10.51%

Issue 9: What are the appropriate rate structure and rates for Alturas?

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

Staff Analysis: Alturas is located in Polk County within the SWFWMD. The Utility provides water service to approximately 51 residential customers and 10 general service customers. Approximately 5 percent of the residential customer bills during the test year had zero gallons, indicating a non-seasonal customer base. The average residential water demand is 5,455 gallons per month. Currently, the Utility's water rate structure consists of a monthly base facility charge (BFC) and uniform gallonage charge for all customers. In the Utility's last rate case, a BFC allocation of 30 percent was approved.

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 evaluated whether it was appropriate to change the design of the Utility's current rate structure. Based on staff's analysis, establishing a non-discretionary usage threshold for restricting repression results in a de minimis amount of repression to residential gallons for rate setting purposes. Therefore, staff recommends an across-the-board increase of 10.57 percent to the existing rates and no repression adjustment to water consumption. The 10.57 percent increase reflects the recommended revenue increase excluding miscellaneous revenue. Table 9-1, on the following page, contains staffs' recommended rates as an across-the-board increase to the existing rate structure and rates and two alternative rate structures, which include a block for non-discretionary usage.

**Table 9-1
 Staff's Recommended and Alternative Water Rate Structures and Rates**

	RATES AT	STAFF	ALTERNATIVE	ALTERNATIVE
	TIME OF	RECOMMENDED	I	II
	FILING	ACROSS-THE-BOARD	(30% BFC)	(35% BFC)
Residential				
5/8" x 3/4" Meter Size	\$11.28	\$12.47	\$12.67	\$14.79
Charge per 1,000 gallons				
All Gallons	\$5.09	\$5.63		
0-5,000 gallons			\$5.91	\$5.49
Over 5,000 gallons			\$6.27	\$5.74
Typical Residential 5/8" x 3/4" Meter Bill Comparison				
3,000 Gallons	\$26.55	\$29.36	\$30.40	\$31.26
5,000 Gallons	\$36.73	\$40.62	\$42.22	\$42.24
10,000 Gallons	\$62.18	\$68.77	\$73.57	\$70.94

Source: Current tariff and staff's calculations

Summary

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 sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice.

Issue 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.?

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

Staff Analysis: Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, the associated return on working capital, and the gross-up for RAFs which is \$561. Using the Utility's current revenues, expenses, and customer base, the reduction in revenues will result in the rate decrease shown on Schedule No. 4.

Alturas should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The Utility also should be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction. If Alturas files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Issue 11: What is the appropriate disposition of the overcollection of rate case expense approved by Order No. PSC-10-0380-PAA-WU for Alturas' water system?¹⁹

Recommendation: The Utility should be required to refund customers the amount of overcollected rate case expense. The refund should be made in accordance with Rule 25-30.360, F.A.C. The Utility should be required to file monthly reports on the status of the refund by the twentieth of the following month pursuant to Rule 25-30.311(7) F.A.C. (Burce)

Staff Analysis: As discussed previously, staff discovered that Alturas did not implement the four-year rate reduction that became effective on August 14, 2014, as a result of the staff audit. Staff verified that the Utility began billing the reduced rates in May 2015. The Utility has indicated it issued refunds to customers for the overcollection of rate case expense. On several occasions, staff requested the utility provide documentation of the refund, including the total amount issued. To date, the Utility has not provided the documentation. Staff estimates the amount of overcollection to be approximately \$281.

Based on the above, staff recommends that the Utility should be required to refund customers the amount of overcollected rate case expense. The refund should be made in accordance with Rule 25-30.360, F.A.C. The Utility should be required to file monthly reports on the status of the refund by the twentieth of the following month pursuant to Rule 25-30.311(7) F.A.C.

¹⁹Order No. PSC-10-0380-PAA-WU, issued on June 15, 2010, in Docket No. 090477-WU, *In re: Application for staff-assisted rate case in Polk County by Alturas Utilities, L.L.C.*

Issue 12: What are the appropriate initial customer deposits for Alturas and in what manner should the utility's noncompliance with Rule 25-30.311, F.A.C. be addressed?

Recommendation: The appropriate initial customer deposits should be \$86 for the residential 5/8 inch x 3/4 inch meter size for water. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water. The approved customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475, F.A.C. The Utility should be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding.

Staff recommends that the Utility continue to work on its compliance with Rule 25-30.311 F.A.C. Alturas should be required to reconcile its customer deposit accounts and records within a reasonable time. The Utility should be required to provide monthly reports beginning March 31, 2016, until it has satisfactorily refunded the appropriate amount of customer deposits and applied the appropriate interest on customer deposits. Staff should be given administrative authority to determine when the Utility is in compliance with Rule 25-30.311, F.A.C. Staff recommends that enforcement action is not warranted at this time. (Bruce)

Staff Analysis: Rule 25-30.311, F.A.C., contains the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the Utility and, ultimately, the general body of ratepayers. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill.²⁰ Currently, the Utility's existing initial deposit for residential and general service customers is \$65 for the 5/8 inch x 3/4 inch meter size. The initial customer deposits for all other general service meter sizes are two times the average estimated bill. Based on staff's recommended rates, the appropriate initial deposit for residential customers should be \$86 for the 5/8 inch x 3/4 inch meter size to reflect a two month average customer bill and two times the average estimated bill for all other residential and general services meter sizes.

In response to staff's request for information, staff discovered that the Utility was in apparent violation of Rule 25-30.311, F.A.C. During staff's review of the Utility's customer records, staff noted that the Utility failed to properly record the amount of each deposit, failed to pay the appropriate amount of interest on customer deposits, and failed to refund residential customer deposits after 23 months of satisfactory payment. The Utility is currently working on correcting these issues. On February 15, 2016, the Utility provided a copy of its current Customer Deposit Report, which indicated that a few customers had received a credit for interest payments on their deposits. The Utility has indicated it will refund customer deposits by the end of February 2016 to those customers who are entitled to a refund. Staff recommends that the utility continue to work on its compliance with Rule 25-30.311, F.A.C. The Utility should be required to provide monthly reports until it has satisfactorily refunded the appropriate amount of customer deposits and applied the appropriate interest on customer deposits. Staff should be given administrative authority to determine when the Utility is in compliance with Rule 25-30.311, F.A.C. Staff

²⁰Order No. PSC-13-0611-PAA-WS, issued on November 19, 2013, in Docket No. 130010-WS, *In re: Application for increase in water rates in Lee County and wastewater rates in Pasco County by Ni Florida, LLC.*, and Order No. PSC-14-0016-TRF-WU, issued on January 6, 2014, in Docket No. 130251-WU, *In re: Application for approval of miscellaneous service charges in Pasco County, by Crestridge Utility Corporation.*

believes the Utility is moving forward to make corrective actions to resolve the issues regarding the customer deposits. Therefore, staff recommends that enforcement action is not warranted at this time. However, staff believes Alturas should be put on notice that if the Utility does not resolve the customer deposit errors within a reasonable times and/or its deposit records are found to be out of compliance with Commission regulations in the future, the Utility may be subject to a show cause proceeding by the Commission, including penalties.

Based on the above, staff recommends the appropriate initial customer deposits should be \$86 for the residential 5/8 inch x 3/4 inch meter size for water. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water. The approved customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475, F.A.C. The Utility should be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding.

Staff recommends that the Utility continue to work on its compliance with Rule 25-30.311 F.A.C. Alturas should be required to reconcile its customer deposit accounts and records within a reasonable time. The Utility should be required to provide monthly reports beginning March 31, 2016, until it has satisfactorily refunded the appropriate amount of customer deposits and applied the appropriate interest on customer deposits. Staff should be given administrative authority to determine when the Utility is in compliance with Rule 25-30.311, F.A.C. Staff recommends that enforcement action is not warranted at this time.

Issue 13: Should the recommended rates be approved for Alturas on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility?

Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility. 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 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 twentieth 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. 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 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 \$1,976. 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.
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. The Commission Clerk, or his or her designee, must be a signatory to the escrow agreement.
2. No monies in the escrow account may be withdrawn by the Utility without the prior written authorization of the Commission Clerk, or his or her designee.
3. The escrow account shall be an interest bearing account.
4. If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.
5. If a refund to the customers is not required, the interest earned by the escrow account shall revert to the Utility.
6. All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.
7. The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.
8. 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.
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 twentieth 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 14: Should Alturas be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision?

Recommendation: Yes. The Utility should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Alturas should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA primary accounts as shown on Schedule No. 5 have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. 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: The Utility should be required to notify the Commission, in writing that it has adjusted its books in accordance with the Commission's decision. Schedule No. 5 reflects the accumulated plant, depreciation, CIAC, and amortization of CIAC balances as of December 31, 2014. Alturas should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA primary accounts as shown on Schedule No. 5 have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days.

In addition, as discussed in Issues 4 and 7, Rule 25-30.115, F.A.C., requires that water and wastewater utilities maintain their accounts and records in conformity with the 1996 NARUC USOA. The Utility is not currently maintaining its books and records on a monthly basis as required. The lack of properly maintained books and records proved to be a significant impediment to the audit staff, substantially increasing the work required to process the audit for this docket, as well as the audit in the Sunrise SARC docket. The lack of properly maintained books and records also proved to be a significant impediment to technical staff's work on this docket as well. 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.

Due to the Utility's recent efforts to hire a contractual accountant to begin maintaining the books and records going forward, staff does not believe it is necessary to initiate a show cause proceeding at this time. However, staff believes the Utility should be put on notice that if the Utility's books and records are found to be out of compliance with Commission regulations in the future, the Utility may be subject to a show cause proceeding by the Commission including penalties.

Issue 15: Should this docket be closed?

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 will 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 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 Utility has adjusted its customer deposit records and all deposit amounts that may be owed to customers have been properly refunded and to verify the Utility has properly refunded the rate case expenses it over-collected. Once the above actions are completed this docket will 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 will 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 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 Utility has adjusted its customer deposit records and all deposit amounts that may be owed to customers have been properly refunded and to verify the Utility has properly refunded the rate case expenses it over-collected. Once the above actions are completed this docket will be closed administratively.

ALTURAS UTILITIES, L.L.C. TEST YEAR ENDED 12/31/14 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 140219-WU	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$59,612	\$5,316	\$64,928
2. LAND & LAND RIGHTS	500	0	500
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(18,637)	0	(18,637)
5. ACCUMULATED DEPRECIATION	(34,230)	(2,607)	(36,837)
6. AMORTIZATION OF CIAC	18,637	0	18,637
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>3,127</u>	<u>3,127</u>
8. WATER RATE BASE	<u>\$25,882</u>	<u>\$5,836</u>	<u>\$31,718</u>

ALTURAS UTILITIES, L.L.C.		SCHEDULE NO. 1-B
TEST YEAR ENDED 12/31/14		DOCKET NO. 140219-WU
ADJUSTMENTS TO RATE BASE		
<u>UTILITY PLANT IN SERVICE</u>		
1.	To reflect appropriate amount of additions in 2010 and 2011 per audit.	\$7,068
2.	To reflect retirements associated with 2010 and 2011 plant additions.	<u>(1,752)</u>
	Total	<u>\$5,316</u>
<u>ACCUMULATED DEPRECIATION</u>		
1.	To reflect accumulated depreciation per Rule 25-30.140, F.A.C.	(\$5,623)
2.	To reflect retirements associated with 2010 and 2011 plant additions.	2,204
3.	To reflect an averaging adjustment.	811
	Total	<u>(\$2,607)</u>
<u>WORKING CAPITAL ALLOWANCE</u>		
	To reflect 1/8 of test year O&M expenses.	<u>\$3,127</u>

ALTURAS UTILITIES, L.L.C. TEST YEAR ENDED 12/31/14 SCHEDULE OF CAPITAL STRUCTURE							SCHEDULE NO. 2 DOCKET NO. 140219-WU		
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	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	<u>0</u>	<u>45,000</u>	<u>45,000</u>						
TOTAL COMMON EQUITY	\$0	\$45,000	\$45,000	(\$14,268)	\$30,732	96.89%	8.74%	8.47%	
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	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	0.00%	
TOTAL DEBT	\$0	\$0	\$0	\$0	\$0	0.00%			
8. CUSTOMER DEPOSITS	<u>\$0</u>	<u>\$986</u>	<u>\$986</u>	<u>\$0</u>	<u>\$986</u>	<u>3.11%</u>	2.00%	<u>0.06%</u>	
9. TOTAL	<u>\$0</u>	<u>\$45,986</u>	<u>\$45,986</u>	<u>(\$14,268)</u>	<u>\$31,718</u>	<u>100.00%</u>		<u>8.53%</u>	
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>		
RETURN ON EQUITY						<u>7.74%</u>	<u>9.74%</u>		
OVERALL RATE OF RETURN						<u>7.56%</u>	<u>9.50%</u>		

ALTURAS UTILITIES, L.L.C. TEST YEAR ENDED 12/31/14 SCHEDULE OF WATER OPERATING INCOME		SCHEDULE NO. 3-A DOCKET NO. 140219-WU				
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	<u>\$28,177</u>	<u>(\$34)</u>	<u>\$28,143</u>	<u>\$2,958</u> 10.51%	<u>\$31,101</u>	
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$30,954	(\$5,939)	\$25,015	\$0	\$25,015	
3. DEPRECIATION (NET)	0	1,624	1,624	0	1,624	
4. TAXES OTHER THAN INCOME	3,280	(1,657)	1,623	133	1,757	
5. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
6. TOTAL OPERATING EXPENSES	<u>\$34,234</u>	<u>(\$5,972)</u>	<u>\$28,262</u>	<u>\$133</u>	<u>\$28,395</u>	
7. OPERATING INCOME/(LOSS)	<u>(\$6,057)</u>		<u>(\$119)</u>		<u>\$2,706</u>	
8. WATER RATE BASE	<u>\$25,882</u>		<u>\$31,718</u>		<u>\$31,718</u>	
9. RATE OF RETURN	<u>(23.40%)</u>		<u>(0.38%)</u>		<u>8.53%</u>	

ALTURAS UTILITIES, L.L.C. TEST YEAR ENDED 12/31/14 ADJUSTMENTS TO OPERATING INCOME	SCHEDULE NO. 3-B DOCKET NO. 140219-WU Page 1 of 2
OPERATING REVENUES	
1. To reflect the appropriate test year revenues.	(\$184)
2. To reflect the appropriate test year miscellaneous service revenues.	150
Subtotal	<u>(\$34)</u>
OPERATION AND MAINTENANCE EXPENSES	
1. Salaries and Wages - Officers (603)	
a. To reflect appropriate allocation of administration officer/owner's salary.	\$2,640
b. To reflect appropriate allocation of president's salary.	165
c. To reflect reduction in officers' salaries due to quality of service penalty.	(701)
Subtotal	<u>\$2,104</u>
2. Purchased Power (615)	
a. To reflect appropriate purchased power expense and removal of late fees..	(\$104)
b. To reflect 32% excessive unaccounted for water adjustment.	(460)
Subtotal	<u>(\$564)</u>
3. Chemicals (618)	
To reflect 32% excessive unaccounted for water adjustment	<u>(\$247)</u>
4. Contractual Services - Billing (630)	
To reflect pro forma contractual billing assistant expense.	<u>(\$1,333)</u>
5. Contractual Services - Professional (631)	
To reflect pro forma contractual bookkeeping expense.	<u>\$1,250</u>
6. Contractual Services - Testing (635)	
a. To reflect appropriate annual testing expense.	\$1,465
b. To reflect pro forma 3-year amortization of triennial water tests.	1,103
c. To reflect pro forma 5-year amortization of DEP-required additional tests.	380
Subtotal	<u>\$2,948</u>
7. Contractual Services - Other (636)	
a. To reflect appropriate contractual office manager expense.	(\$3,680)
b. To reflect appropriate test year contractual operator expense.	(2,567)
c. To reflect appropriate test year maintenance expense.	(5,721)
d. To reclassify meter checking expense from Alturas to Sunrise.	(159)
e. To reflect pro forma contractual utility service technician expense.	2,860
Subtotal	<u>(\$9,267)</u>
8. Transportation Expense (650)	
To reflect pro forma transportation expense.	<u>(\$1,035)</u>
9. Insurance Expense (655)	
To reflect appropriate insurance expense.	<u>\$31</u>

ALTURAS UTILITIES, L.L.C.		SCHEDULE NO. 3-B
TEST YEAR ENDED 12/31/14		DOCKET NO. 140219-WU
ADJUSTMENTS TO OPERATING INCOME		Page 2 of 2
OPERATION AND MAINTENANCE EXPENSES (CONTINUED)		
10.	Regulatory Commission Expense (665) To reflect 4-year amortization of rate case expense (\$2,119/4)	<u>\$530</u>
11.	Bad Debt Expense (670) To reflect appropriate bad debt expense.	<u>(\$292)</u>
12.	Miscellaneous Expense (675)	
	a. To reflect appropriate test year miscellaneous expense.	(\$260)
	b. To reflect 5-year amortization of non-recurring miscellaneous operator expense.	33
	c. To reflect pro forma annual FRWA membership dues.	163
	d. To reflect pro forma 5-year amort. of software update, additional license, and training.	30
	e. To reflect pro forma 5-year amortization of electronic bank deposit machine.	<u>17</u>
	Subtotal	<u>(\$64)</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS		<u>(\$5,939)</u>
DEPRECIATION EXPENSE		
	To reflect test year depreciation calculated per Rule 25-30.140, F.A.C.	<u>\$1,624</u>
TAXES OTHER THAN INCOME		
1.	To reflect appropriate test year RAFs.	\$90
2.	To reflect appropriate test year utility property taxes.	<u>(1,747)</u>
	Total	<u>(\$1,657)</u>

ALTURAS UTILITIES, L.L.C.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 12/31/14		DOCKET NO. 140219-WU	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENTS	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(603) SALARIES AND WAGES - OFFICERS	0	2,104	2,104
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	1,542	(564)	978
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	772	(247)	525
(620) MATERIALS AND SUPPLIES	0	0	0
(630) CONTRACTUAL SERVICES - BILLING	3,169	(1,333)	1,836
(631) CONTRACTUAL SERVICES - PROFESSIONAL	400	1,250	1,650
(635) CONTRACTUAL SERVICES - TESTING	0	2,948	2,948
(636) CONTRACTUAL SERVICES - OTHER	19,545	(9,267)	10,278
(640) RENTS	0	0	0
(650) TRANSPORTATION EXPENSE	1,233	(1,035)	198
(655) INSURANCE EXPENSE	1,576	31	1,607
(665) REGULATORY COMMISSION EXPENSE	0	530	530
(670) BAD DEBT EXPENSE	516	(292)	224
(675) MISCELLANEOUS EXPENSE	<u>2,201</u>	<u>(64)</u>	<u>2,137</u>
	<u>\$30,954</u>	<u>(\$5,939)</u>	<u>\$25,015</u>

ALTURAS UTILITIES, LLC.		SCHEDULE NO. 4	
TEST YEAR ENDED 12/31/14		DOCKET NO. 140219-WU	
MONTHLY WATER RATES			
	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"	\$11.28	\$12.47	\$0.23
3/4"	\$16.92	\$18.71	\$0.34
1"	\$28.19	\$31.18	\$0.56
1-1/2"	\$56.40	\$62.35	\$1.13
2"	\$90.23	\$99.76	\$1.81
3"	\$180.46	\$199.52	\$3.61
4"	\$281.97	\$311.75	\$5.64
6"	\$563.95	\$623.50	\$11.29
Charge per 1,000 gallons - Residential and General Service	\$5.09	\$5.63	\$0.10
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$26.55	\$29.36	
5,000 Gallons	\$36.73	\$40.62	
10,000 Gallons	\$62.18	\$68.77	

ALTURAS UTILITIES, L.L.C.			SCHEDULE NO. 5	
TEST YEAR ENDED 12/31/2014			DOCKET NO. 140219-WU	
SCHEDULE OF WATER PLANT, DEPRECIATION, CIAC, & CIAC AMORTIZATION BALANCES				
ACCT NO.	DEPR. RATE PER RULE 25-30.140	DESCRIPTION	UPIS 12/31/2014 (DEBIT)	ACCUM. DEPR. 12/14/2014 (CREDIT)*
303	0.00%	LAND AND LAND RIGHTS (NON-DEPRECIABLE)	\$500	\$0
304	3.70%	STRUCTURES AND IMPROVEMENTS	519	67
307	3.70%	WELLS AND SPRINGS	6,987	6,987
309	3.13%	SUPPLY MAINS	237	33
311	5.88%	PUMPING EQUIPMENT	9,108	3,975
320	5.88%	WATER TREATMENT EQUIPMENT	220	220
330	3.03%	DISTRIBUTION RESERVOIRS AND STANDPIPES	22,822	7,294
331	2.63%	TRANSMISSION AND DISTRIBUTION MAINS	18,787	18,647
334	5.88%	METERS AND METER INSTALLATIONS	<u>6,247</u>	<u>424</u>
		TOTAL INCLUDING LAND	<u>\$65,427</u>	<u>\$37,647</u>
			CIAC AMORT. 12/31/2014 (DEBIT)	CIAC 12/31/2014 (CREDIT)
			<u>\$18,637</u>	<u>\$18,637</u>

*The accumulated depreciation balance excludes the staff-recommended averaging adjustment that is only used for ratesetting purposes and should not be reflected on the Utility's books.