

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 27, 2015
TO: Office of Commission Clerk
FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis *LMD*
RE: Docket No.: 140219-WU
Company Name: Alturas Utilities, LLC
Company Code: WU871
Audit Purpose: Staff-Assisted Rate Case
Audit Control No: 14-350-4-2

Attached is the final audit report for the Utility stated above. I am sending the Utility a copy of this memo and the audit report. If the Utility desires to file a response to the audit report, it should send a response to the Office of Commission Clerk. There is no confidential work papers associated with this audit.

LMD/cp

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Miami District Office

Auditor's Report

Alturas Utilities, LLC
Staff-Assisted Rate Case

12 Months Ended December 31, 2014

Docket No. 140219-WU
Audit Control No. 14-350-4-2
February 16, 2015

Handwritten signature of Jeffery A. Small.

Jeffery A. Small
Audit Manager

Handwritten signature of Yen N. Ngo.

Yen N. Ngo
Audit Staff

Handwritten signature of Iliana H. Piedra.

Iliana H. Piedra
Reviewer

Table of Contents

Purpose	1
Objectives and Procedures.....	2
Audit Findings	
1: Utility Books and Records.....	6
2: Rate Base	7
3: Capital Structure	10
4: Operating Revenue	11
5: Operation and Maintenance Expense	13
6: Taxes Other Than Income	21
7: Other Information	22
Exhibits	
1: Rate Base	23
2: Capital Structure	24
3: Net Operating Income	25

Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Accounting and Finance in its audit service request dated December 12, 2014. We have applied these procedures to the attached schedules prepared by the audit staff in support of Alturas Utilities, LLC's request for a Staff-Assisted Rate Case in Docket No.140219-WU.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed-upon procedures. The report is intended only for internal Commission use.

Objectives and Procedures

Background

Alturas Utilities, LLC (Utility) is a Class C utility serving approximately 65 water customers in Polk County. Rate base was last established as of October 31, 2009 by Order No. PSC-10-0380-PAA-WU, issued June 15, 2010. On November 19, 2014, the Utility executed a payment plan with the Commission to pay \$1,724 in outstanding regulatory assessment fees. The remaining balance due was approximately \$1,384 as of December 31, 2014.

The test year for the instant proceeding is the historical twelve months ended December 31, 2014.

The Utility has filed a concurrent staff assisted rate case application for its sister operation, Sunrise Utilities, LLC, (Sunrise) in Docket No. 140200-WS.

NARUC refers to the National Association of Regulatory Utility Commissioners.

USOA refers to the NARUC Uniform System of Accounts as adopted by Rule 25-30.115, Uniform System of Accounts for Water and Wastewater Utilities, Florida Administrative Code (F.A.C.).

The Utility files an 1120 U.S. Corporate Tax Return.

General

Objective: The objective was to determine whether the Utility maintains its books and records in conformity with NARUC USOA.

Procedure: We reviewed the Utility's accounting system by examining the records provided for this proceeding. Finding 1 discusses our findings on the Utility's accounting system.

Rate Base

Utility Plant in Service

Objectives: The objectives were to determine whether Utility Plant in Service (UPIS): 1) Consists of property that exists and is owned by the Utility, 2) Additions are recorded at original cost, 3) Retirements are made when a replacement asset was put in service, and 4) Adjustments required in the Utility's last rate proceeding were recorded in its books and records.

Procedures: We determined the beginning balances for UPIS as of October 31, 2009, established in Order No. PSC-10-0380-PAA-WU. We scheduled water UPIS activity from November 1, 2009 to December 31, 2014. We traced asset additions to supporting documentation. We determined the year end and simple average UPIS balance as of December 31, 2014. Our recommended adjustment to UPIS is discussed in Finding 2.

Land & Land Rights

Objectives: The objectives were to determine whether utility land was: 1) Recorded at original cost, 2) Owned or secured under a long-term lease agreement, and that 3) Adjustments required in the Utility's last rate proceeding were recorded in its books and records.

Procedures: We determined the beginning balances for Land as of October 31, 2009, established in Order No. PSC-10-0380-PAA-WU. We reviewed the Utility's annual reports and searched the Polk County records and determined that no additions were made. We verified that the land is owned by the Utility. We determined the year end and simple average Land balance as of December 31, 2014. No exceptions were noted. Our recommended average land balance is displayed in Exhibit 1.

Accumulated Depreciation

Objectives: The objectives were to determine whether Accumulated Depreciation: 1) Accruals are properly calculated and recorded based on Rule 25-30.140 Depreciation, F.A.C., 2) Retirements are recorded when an asset was replaced, and 3) Adjustments required in the Utility's last rate proceeding were recorded to its books and records.

Procedures: We determined the beginning balances for Accumulated Depreciation as of October 31, 2009, established in Order No. PSC-10-0380-PAA-WU. We calculated Accumulated Depreciation using the depreciation rates established by Rule 25-30.140(2), F.A.C as of December 31, 2014. We determined the year end and simple average Accumulated Depreciation balance as of December 31, 2014. Our recommended adjustment to accumulated depreciation is discussed in Finding 2.

Contributions-in-Aid-of-Construction

Objectives: The objectives were to determine whether Contributions-in-Aid-of-Construction (CIAC): 1) Consist of cash or property contributions that exist and are owned by the Utility, 2) Additions are recorded using Commission approved tariffs, 3) Retirements are recorded when a contributed asset was replaced, and 4) Adjustments required in the Utility's last rate proceeding were recorded to its books and records.

Procedures: We determined the beginning balances for CIAC as of October 31, 2009, established in Order No. PSC-10-0380-PAA-WU. We reviewed the Utility's annual reports and determined that no additional customer connections were added. We determined the year end and simple average CIAC balance as of December 31, 2014. No exceptions were noted. Our recommended average CIAC balance is displayed in Exhibit 1.

Accumulated Amortization of CIAC

Objectives: The objectives were to determine whether Accumulated Amortization of CIAC: 1) Accruals are properly calculated and recorded based on Rule 25-30.140 Depreciation, F.A.C., 2) Retirements are recorded when a contributed asset was replaced, and 3) Adjustments required in the Utility's last rate proceeding were recorded to its books and records.

Procedures: We determined the beginning balances for Accumulated Amortization of CIAC as of October 31, 2009, established in Order No. PSC-10-0380-PAA-WU. CIAC was fully

amortized as of the last rate proceeding, therefore, no further accruals were recorded. We determined the year end and simple average Accumulated Amortization of CIAC balance as of December 31, 2014. No exceptions were noted. Our recommended average Accumulated Amortization of CIAC balance is displayed in Exhibit 1.

Acquisition Adjustment

Objectives: The objective was to determine whether an acquisition adjustment has been approved in a prior Commission proceeding and if so, that it is recorded and amortized pursuant to Rule 25-30.0371, Acquisition Adjustments, F.A.C.

Procedures: We reviewed utility records and Commission documents to determine if an acquisition adjustment was recorded or approved. Nothing was found, so no further work was performed.

Working Capital

Objectives: The objective was to determine the working capital adjustment to be included in rate base per Rule 25-30.433- Rate Proceedings, F.A.C.

Procedures: We calculated the working capital adjustment for the test year using one-eighth of Operation and Maintenance (O&M) Expense as required by Rule. Our recommended Working Capital adjustment is discussed in Finding 5.

Capital Structure

Objectives: The objectives were to determine the: 1) Components of the Utility's capital structure, 2) Cost rate for each class of capital, 3) Overall weighted cost of capital, and that 4) Components are properly recorded in compliance with the NARUC USOA.

Procedures: We reviewed the Utility's annual reports and determined that the Utility's Capital Structure is composed of common equity. We determined the year end and simple average Capital Structure balance and its weighted average cost as of December 31, 2014. No exceptions were noted. Our recommended average Capital Structure and its weighted average cost are discussed in Finding 3.

Net Operating Income

Operating Revenue

Objectives: The objectives were to determine whether Revenues are: 1) Representative of the Utility's operations for the test year, 2) Calculated using Commission approved tariff rates, and 3) Recorded in compliance with NARUC USOA.

Procedures: We determined individual customer consumption for the test year using the Utility's monthly billing registers. We normalized the number of bills by adjusting for customers moving in or out to reflect 12 months of bills for each service address with the data obtained from the billing registers. We calculated test year Revenues based on billing determinates and compared our calculated revenue amount to the revenues reflected in the billing register. We determined whether the Utility is charging its authorized tariff rates. We estimated

Miscellaneous Revenues based on the service fees paid to connect or disconnect customers during the test year using the authorized miscellaneous service tariff rate. Our recommended amount for Revenues for the test year is discussed in Finding 4.

Operation and Maintenance Expense

Objectives: The objectives were to determine whether Operation and Maintenance Expense (O&M) is: 1) Representative of the Utility's ongoing operations for the test year, 2) Recorded in the appropriate period for the correct amount, 3) Required for the provision of utility services, and 4) Recorded in compliance with the NARUC USOA.

Procedures: We reviewed all invoices for the Utility's O&M Expense for the test year. We ensured all expenses were correctly classified, and verified that they were recurring in nature. We verified each expense against the invoice and supporting documentation. Our recommended amount for O&M Expense for the test year is discussed in Finding 5.

Depreciation Expense

Objectives: The objectives were to determine whether Depreciation Expense is properly calculated and recorded in compliance with the NARUC USOA.

Procedures: : We calculated the Utility's Depreciation Expense for the test year ended December 31, 2014, using the rates established by Rule 25-30.140, F.A.C. Our recommended amount for Depreciation Expense is discussed in Finding 2.

Taxes Other than Income

Objectives: The objectives were to determine whether Taxes Other Than Income Expense (TOTI) is: 1) Representative of the Utility's ongoing operations for the test year, 2) Recorded in the appropriate period for the correct amount, 3) Required for the provision of utility services, and 4) Recorded in compliance with the NARUC USOA.

Procedures: We compiled the Utility's TOTI Expense for the test year using the supporting documentation provided. We included property taxes and Regulatory Assessment Fees (RAF) for the test year and confirmed their utility classification. We recalculated RAFs based on test year Revenues. Our recommended amount for TOTI Expense for the test year is discussed in Finding 6.

Audit Findings

Finding 1: Utility Books and Records

Audit Analysis: The Utility's accounting system consists of a billing software program that is used to record monthly revenues and generate customer bills. All other accounting activities are compiled at the end of each calendar year by the Utility's owners and their Certified Public Accounting (CPA) firm to prepare the Utility's Annual Report and its Federal Tax Return.

The test year for the instant proceeding was calendar year 2014, therefore, no formalized balance sheet or income statement that reflects the Utility's results from operations in 2014 were provided. The 2014 Annual Report was not compiled before the end of field work.

The Utility provided a schedule of actual/estimated revenues and expenses for 2014 based on known information during the test year. We requested the Utility's bank statements and canceled checks for 2014. The canceled checks were all that was provided.

We 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 twelve month period ended December 31, 2014.

We recommend that the Utility be reminded of its obligation to maintain its books in accordance with the NARUC USOA and that it be required to adopt an accounting system that records its operations in a consistent and timely manner.

Effect on the General Ledger: None

Effect on the Filing: None

Finding 2: Rate Base

Audit Analysis: No utility Rate Base balances for 2014 were available per our discussion in Finding 1. The 2009 and 2013 Annual Report balances are displayed below.

Description	Annual Report Balance		
	2009	Change	2013
Utility Plant in Service (UPIS)	\$56,194	\$3,418	\$59,612
Land	\$500	\$0	\$500
Contribution in Aid of Construction (CIAC)	(\$18,637)	\$0	(\$18,637)
Accumulated Depreciation	(\$31,436)	(\$2,794)	(\$34,230)
Accumulated Amortization of CIAC	\$18,637	\$0	\$18,637
Net Water Rate Base	\$25,258	\$624	\$25,882

The rate base balances in the 2009 Annual Report reconciled to the balances established in the Utility's last rate case in Order No. PSC-10-038-PAA-WU. A comparison of UPIS additions that we found and the UPIS additions reflected in the Annual Reports is displayed below.

Net Additions	Utility	Adjustments	Audit
2009	\$0	\$0	\$0
2010	\$981	\$2,171	\$3,152
2011	\$0	\$7,334	\$7,334
2012	\$0	\$0	\$0
2013	\$2,437	(\$2,437)	\$0
Total	\$3,418	\$7,068	\$10,486

The Utility did not provide supporting documentation for any additions in the Annual Reports. Order No. 10-0380-PAA-WU, approved and included \$18,075 of proforma plant additions, without retirements, that was requested by the Utility in its last rate proceeding. On August 8, 2011, the Utility filed documents, with the Commission, that supports an actual cost of \$10,486 for the approved projects, as included in the Order. Commission staff reviewed and approved the Utility's filed documents and administratively closed the docket in that proceeding. The details for these additions are displayed below.

NARUC	Description of Addition	2010	2011	Total
304	Installation of shed	\$0	\$519	\$519
309	Rebuild master meter at well	\$237	\$0	\$237
311	Well pump electric refurbish	\$686	\$0	\$686
330	Water tank piping, refurbished w/plant lines and tank	\$0	\$6,557	\$6,557
331	New 2" blowoff at tank	\$150	\$0	\$150
334	Meters, supplies & installation	\$2,078	\$258	\$2,337
Total UPIS Additions		\$3,152	\$7,334	\$10,486

We did not calculate retirements for the plant additions above because the additions were approved prospectively without retirements in the prior order. The analyst should consider whether retirements are appropriate for this proceeding.

We believe that the majority of the differences between the Utility's additions and our additions are due to timing issues and the lack of communication between the Utility's owner who prepared the Annual Reports and the prior contract manager who left in 2013.

Our review of the Utility's Annual Reports indicates that no depreciation was recorded in years 2011 or 2012. Therefore, we recalculated accumulated depreciation accruals from October 2009 through the end of the test year using the Class C rates reflected in Rule 25-30.140 Depreciation, F.A.C. We calculated depreciation to be \$1,727 for the test year.

There was no activity for Land or CIAC since the last Rate Case. Therefore, these balances remain the same for this proceeding. There is no change to accumulated amortization of CIAC because CIAC is fully amortized.

Effect on the General Ledger: UPIS and accumulated depreciation should be increased by \$7,068 and \$5,623, respectively, as of December 31, 2014. The specific account adjustments are detailed in Table 1-1 and 1-2 that follow.

Effect on the Filing: The Utility's average rate base before a working capital adjustment is \$28,190 for the test year. The individual components are detailed below. Depreciation is \$1,727 for the test year.

Description	Test Year Average Rate Base
Utility Plant in Service (UPIS)	\$66,680
Land	\$500
Contribution in Aid of Construction (CIA C)	(\$18,637)
Accumulated Depreciation	(\$38,990)
Accumulated Amortization of CIA C	\$18,637
Net Water Rate Base	\$28,190

Table 1-1

Utility Plant in Service		Per Utility		Per Audit	Average
NARUC	AccountDescription	@12/31/2013	Adjustments	@12/31/2014	Test Year
304	Structures & Improvements	\$0	\$519	\$519	\$519
307	Wells & Springs	\$6,987	\$0	\$6,987	\$6,987
309	Supply Mains	\$0	\$237	\$237	\$237
311	Pumping Equipment	\$8,422	\$686	\$9,108	\$9,108
320	Water Treatment Equipment	\$610	(\$390)	\$220	\$220
330	Distribution Reservoirs & Standpipes	\$16,265	\$6,557	\$22,822	\$22,822
331	Transmission & Distribution Mains	\$18,637	\$150	\$18,787	\$18,787
334	Meters & Meter Installations	\$8,691	(\$691)	\$8,000	\$8,000
Total		\$59,612	\$7,068	\$66,680	\$66,680

Table 1-2

Accumulated Depreciation		Per Utility		Per Audit	Average
NARUC	AccountDescription	@12/31/2013	Adjustments	@12/31/2014	Test Year
304	Structures & Improvements	\$0	(\$67)	(\$67)	(\$58)
307	Wells & Springs	(\$6,987)	\$0	(\$6,987)	(\$6,987)
309	Supply Mains	\$0	(\$33)	(\$33)	(\$30)
311	Pumping Equipment	(\$1,796)	(\$2,179)	(\$3,975)	(\$3,707)
320	Water Treatment Equipment	(\$220)	\$0	(\$220)	(\$220)
330	Distribution Reservoirs & Standpipes	(\$4,545)	(\$2,749)	(\$7,294)	(\$6,948)
331	Transmission & Distribution Mains	(\$18,637)	(\$10)	(\$18,647)	(\$18,646)
334	Meters & Meter Installations	(\$2,045)	(\$584)	(\$2,629)	(\$2,394)
Total		(\$34,230)	(\$5,622)	(\$39,852)	(\$38,990)

Per information disclosed in Finding 1 the Utility did not have general ledger balances for 2014. We included the balances from the Utility's 2013 Annual Report for comparison purposes.

Finding 3: Capital Structure

Audit Analysis: No utility capital structure balance for 2014 was available per our discussion in Finding 1.

The Utility is authorized to collect a customer deposit of \$65 per its tariff.

The Utility's equity balance could not be determined from its 2013 Annual Report. Based on our review of the Annual Reports we did determine that the Utility's capital structure is composed entirely of owners' equity because no debt or customers deposits were displayed or disclosed.

The Utility's 2013 Federal Tax Return, Schedule L, Balance Sheet per Books, does not include an equity balance or any asset or liability balances as well.

It would be assumed that the owner does have an equity stake in the Utility which should be treated as common equity based on prior Commission policy.

We believe that the owners' common equity is equal to the net rate base as determined in Finding 2.

Effect on the General Ledger: None

Effect on the Filing: The Utility's average capital structure balance is \$31,888 when reconciled to the rate base balance displayed in Exhibit 1. The cost rate for common equity and the weighted average cost for the Utility's capital structure is 8.74 percent as authorized in Order No. PSC-14-0272-WS, issued May 29, 2014.

Finding 4: Operating Revenue

Audit Analysis: No utility revenue amount for 2014 was available per our discussion in Finding 1. The Utility provided a schedule that reflects estimated revenues of \$26,138 for the test year. The Utility provided twelve monthly billing registers (BR) for 2014 that indicate customer billings of \$28,177 based on approximately 3.664 million gallons of water sold.

A review of the Utility's authorized tariffs indicates that the Utility's current rates became effective on August 14, 2014. These rates incorporated a four year rate reduction that was approved in Order No. PSC-10-0380-PAA-WU.

Our review of the Utility's billing registers indicates that they did not reduce the rates as required and continue to charge the tariff rates approved in a price index increase that became effective on August 7, 2011. See Finding 7 for further details.

We calculated the following 2014 estimated Revenues and corresponding difference from the Utility's billed amount using the customer usage information recorded in the monthly billing register and the tariff information discussed above.

Utility BR	Audit Calculation	Over(Under) Amount	Recalculation using actual consumption and:
\$28,177	\$28,328	(\$151)	Tariff rates effective 08/07/11
\$28,177	\$28,205	(\$28)	Tariff rates effective 08/07/11 & 08/15/14
\$28,177	\$27,993	\$184	Tariff rates effective 08/15/14

Based on our calculation, we estimate that the Utility overcharged its customers by \$123 (\$28,328 - \$28,205) during the last five months of 2014 because of not reducing its rates in August 2014 as required by the four year rate reduction. However, since it appears that the Utility already under billed its customers by \$151 during 2014 based on our recalculation of actual customer usage and the rates in effect before the four year rate reduction throughout 2014, the apparent rate reduction oversight may be offsetting and moot.

We calculated annualized revenues of \$27,993 for the test year using actual customer usage information and the four year rate reduction tariff rates effective August 15, 2014, as if these tariff rates were in effect for all of 2014.

We do not believe that the Utility's estimated revenues included miscellaneous revenues such as premise visits, new connections, disconnects and reconnects and there is no evidence that they are included in the billing register either. None of the Utility's prior Annual Reports that we reviewed include a miscellaneous revenue amount.

The Utility's tariff authorizes the collection of \$15 for events such as these. In Finding 5 we discuss the role of the office manager and the detailed records that were kept for the first five months of the test year. One of the services provided by the office manager was for customer interactions such as these events which were included as a fee for service in the expense register we reviewed. In that five month period the office manager was paid \$75 for one premise visit, one new connection and three disconnects. No records were provided for the remaining seven months of the test year.

These events should be recorded as miscellaneous revenues per the Utility's tariff and to properly match the expense that was charged. Additionally, we recommend imputing an

additional \$75 of miscellaneous revenues based on the assumption that events such as these would occur throughout the test year.

Based on the above information we calculated that the Utility's 2014 actual revenues should be \$28,355 (\$28,205+\$150). This incorporates the change in tariff rates as required. The regulatory assessment fee (RAF) due on this amount is \$1,276 (\$28,205 x 4.50%).

For this proceeding, we calculated that the test year annualized revenues are \$28,143 (\$27,993+\$150). This incorporates the current tariff rate as if it had been in effect for the entire test year. The regulatory assessment fee (RAF) due on this amount is \$1,266 (\$28,143 x 4.50%).

Effect on the General Ledger: To be determined by the Utility.

Effect on the Filing: Annualized revenues are \$28,143 and the associated RAF's are \$1,266 for the test year.

Finding 5: Operation and Maintenance Expense

Audit Analysis: No utility Operation and Maintenance Expense (O&M) for 2014 was available per our discussion in Finding 1. The Utility provided an estimated/actual schedule for O&M Expense that reflects expenses of \$43,921 for the test year. Our review of the Utility's schedule indicates that several of the expense categories included by the Utility should be included as TOTI expense or the expenses are outside the test year or are non-utility in nature. The schedule that follows is our revision of the Utility's schedule that best reflects what we believe are the appropriate expense categories based on the information provided for this proceeding. We have included information for Sunrise, a sister operation, because the majority of the information we used to verify the test year expenses for the two utility's rate filings was from shared operator services or was comingled banking operations because of severe cash flow problems.

PER 2014 EXPENSE SUMMARIES PROVIDED				
NARUC	Description	Alturas	Sunrise	Total
603	Officer	\$0	\$12,000	\$12,000
615	Power	\$1,542	\$2,340	\$3,882
618	Chemicals	\$772	\$1,431	\$2,203
630	Meter Reading	\$780	\$3,000	\$3,780
630	Billing	\$2,389	\$6,802	\$9,191
631	Accounting	\$400	\$400	\$800
636	Manager Salaries	\$5,950	\$10,008	\$15,958
636	Operator	\$6,855	\$10,139	\$16,994
636	Repairs/Supplies	\$4,877	\$6,983	\$11,860
636	Maintenance	\$1,863	\$2,043	\$3,906
650	Trans/Gas	\$1,233	\$1,976	\$3,209
655	Insurance	\$1,576	\$2,010	\$3,586
670	Bad Debt	\$516	\$3,899	\$4,415
675	Office Expense	\$2,201	\$4,611	\$6,812
675	Miscellaneous	\$0	\$1,731	\$1,731
	Total O&M Expense	\$30,954	\$69,373	\$100,327
	Taxes/License	\$2,104	\$2,608	\$4,712
	RAF	\$1,176	\$3,123	\$4,299
	Total TOTI	\$3,280	\$5,731	\$9,011
	Blount 2015 payments due	\$1,400	\$1,313	\$2,713
	Boswell 2015 payments due	\$300	\$300	\$600
	RAF 2015 payments due	\$340	\$750	\$1,090
	Total Payments Due	\$2,040	\$2,363	\$4,403
	Blount (Payable)	\$2,700	\$2,168	\$4,868
	Boswell (Payable)	\$3,947	\$4,277	\$8,224
	Szabo (Payable)	\$1,000	\$1,000	\$2,000
	Total Payables Outstanding	\$7,647	\$7,445	\$15,092
	Total All	\$43,921	\$84,912	\$128,833

The TOTI amount of \$3,280 is discussed in Finding 6. Information on the 2015 payments of \$2,040 and the outstanding payables of \$7,647 is provided in Finding 7.

The Utility's revised estimated/actual O&M expense for the test year is \$30,954. The specific audit findings for each NARUC account identified and the supporting documentation provided by the Utility are discussed below.

Account 603 – Officer Salaries

The Utility's schedule reflects \$0 for this account. We have included \$3,843 (3,468+\$375) for the test year. Order No. PSC-12-0533-WU, issued October 9, 2012, included an officer's salary of \$12,000 for Sunrise Utilities, LLC, the Utility's sister operation, in its petition for rate relief in Docket No. 110238-WU. In that case, Sunrise had approximately 234 customers which equates to an allocated officer's salary of approximately \$51 per customer. The Utility presently serves approximately 68 customers which would equate to an annual officers salary of \$3,468. We also included one-half or \$375 of a \$750 payment to the Utility's other officer who assists the Utility's owner in utility operations as needed.

Account 615 – Purchased Power

The Utility's schedule reflects \$1,542 in this account. We have reduced this amount by \$104 to \$1,438 for the test year. The Utility could only provide copies of nine of the twelve electric power invoices requested. We were able to substantiate two of the three missing invoice amounts using payments information provided on the copy of the subsequent months power invoice. We estimated the missing December 2014 power invoice amount using the average of the proceeding eleven months billed amounts. We also removed late fees for failure to make timely payments.

Account 618 – Chemicals

The Utility's schedule reflects \$772 in this account. We verified that the amount included was for chemical expense and that it is appropriate for the test year. See our discussion for operator services that follows for additional details.

Account 630 – Contractual Services Billing

The Utility's schedule reflects \$3,169 (\$780+\$2,389) in this account. We have reduced this amount by \$1,639 to \$1,530 (\$750+\$780) for the test year. We included \$750 for services provided by a collection agent and \$780 for our estimated meter reading fees performed by the office manager. See our discussion for the office manager that follows for additional details.

Account 631 - Contractual Services Professional

The Utility's schedule reflects \$400 in this account. We verified that the amount included was for preparing the Utility's annual report and federal tax return and that it is appropriate for the test year.

Account 635 - Contractual Services Testing

The Utility's schedule does not include this account. We have included \$1,465 for the test year. See our discussion for operator services that follows for additional details.

Account 636 – Contractual Services Other

The Utility's schedule reflects \$19,545 (\$5,950+\$6,855+\$4,877+\$1,863) in this account. We have reduced this amount by \$4,641 to \$14,904 (\$1,009+\$7,660+\$6,225) for the test year. We included invoices totaling \$1,019 with our allocated amounts of \$7,660 and \$6,225 for office manager and operator services, respectively. See our discussion for office manager and operator services that follow for additional details.

Account 650 – Transportation Expense

The Utility's schedule reflects \$1,233 in this account. We have reduced this amount by \$1,233 to \$0 for the test year. We could not verify how this amount was determined. We do note that mileage fees were included in a number of instances for services provided by the office manager. To include them here would not be appropriate because we do not exclude them in the office manager allocation in Table 1.

Account 655 – Insurance Expense

The Utility's schedule reflects \$1,576 in this account. We have increased this amount by \$31 to \$1,607 for the test year. We adjusted the amount in the account by \$31 to reflect the current year's general liability insurance premium.

Account 670 - Bad Debt Expense

The Utility's schedule reflects \$516 in this account. We have increased this amount by \$155 to \$671 for the test year to record the actual uncollectable debt balance that was written off during the test year.

Account 675 – Miscellaneous Expense

The Utility's schedule reflects \$2,201 in this account. We have increased the amount by \$756 to \$2,957 (\$795+\$1,418+\$573+\$171) for the test year. We included invoices totaling \$795 for estimated/actual office supplies and postage of \$1,418, our allocated amount of \$573 for operator services and an additional \$171 to annualize the costs for two cell phones provided by the operator. See our discussion for operator services that follows for additional details.

Office Manager

The Utility shares an office manager with Sunrise, its sister operation. During the test year there was a personnel change in this position at the end of May 2014. The Utility's owner states that the position and the services provided were essentially the same throughout the test year. There is no formal contract for services. According to the owner and the invoices provided, the office manager delivers multiple services for each utility system including but not limited to the following tasks.

- Reads the customer meters monthly.
- Prepares and distributes customer bills monthly.
- Collects, posts and deposits customer payments in a timely manner.
- Prepares monthly billing summaries of customer billing and consumption information.
- Prepares and distributes delinquent payment and cut off notices as needed.
- Performs premise visits for delinquent collections, disconnects, reconnects, and new service connections.
- Arranges for and schedules emergency and recurring maintenance and repairs of the water treatment plant and service lines.
- Purchases material and supplies for water system operations as needed.
- Arranges for the mowing of utility plant sites as needed.

- Arranges for the distribution of boil water and rescind notices as required.
- Purchases office and billing supplies to perform the administrative task as needed.

We were provided canceled checks totaling \$29,748 that was paid to the office manager for customer and billing services and reimbursements of expenditures incurred for materials, supplies and services provided by others by the office manager during the test year for both utility systems. We were also provided an expense register for the five month period Jan-May 2014 that provided extensive accounting detail for approximately \$16,132 of the \$29,748 in canceled checks mentioned above.

Based on our review of the detail provided in the expense register and other information provided by the Utility's owner, we believe that \$29,748 in canceled checks for office manager expense is reasonable for the two utility operations and should be allocated to each utility system. Our allocation by NARUC account and methodology is explained in the Table 5-1.

Operator Services

The Utility shares an operator with Sunrise, its sister operation. There is no formal contract for services. According to the owner and the invoices provided the operator delivers multiple services for each utility system including but not limited to the following tasks.

- Daily monitoring of water plant operations as required.
- Draws, submits and reports monthly water samples required.
- Draws, submits and reports boil water samples as required.
- Draws, submits and reports annual water sampling for Consumer Confidence Report.
- Provides chlorine for water treatment.
- Provides minor maintenance service at the water plants such as, monthly flushing of the systems, chlorine pump repairs, and pressure switch repairs.
- Provides cellular phone service for the office manager and himself for utility operations. The office manager's telephone is the primary contact for the Utility's customers. The operator's telephone provides an emergency contact for events at the respective Utility's plants. This service began in June 2014.

We were provided canceled checks totaling \$23,893 that was paid to the contract operator for both utility systems. We were provided invoices totaling \$22,641 that detailed the services and supplies provided by the operator during the test year.

Based on our review of the detail provided in the invoices and other information provided by the Utility's owner, we believe that \$22,641 for operator expense is supported and reasonable for the two utility operations and should be allocated to each utility system based on the NARUC accounts identified in the Table 5-2.

The schedule that follows provides a summary of our adjustments to the Utility's O&M Expense accounts discussed above.

**Operation & Maintenance Expense
12-Months Ended December 31, 2014**

Acct. Nos.	Acct. Description	Per Utility	Adjustment	Per Audit
601	Salaries & Wages - Employees	\$0	\$0	\$0
603	Salaries & Wages - Officers	\$0	\$3,843	\$3,843
604	Employee Pension & Benefits	\$0	\$0	\$0
610	Purchased Water	\$0	\$0	\$0
615	Purchased Power	\$1,542	(\$104)	\$1,438
616	Fuel for Power Production	\$0	\$0	\$0
618	Chemicals	\$772	\$0	\$772
620	Materials & Supplies	\$0	\$0	\$0
630	Contractual Services - Billing	\$3,169	(\$1,639)	\$1,530
631	Contractual Services - Professional	\$400	\$0	\$400
635	Contractual Services - Testing	\$0	\$1,465	\$1,465
636	Contractual Services - Other	\$19,545	(\$4,641)	\$14,904
640	Rents	\$0	\$0	\$0
650	Transportation Expense	\$1,233	(\$1,233)	\$0
655	Insurance Expense	\$1,576	\$31	\$1,607
665	Reg. Commission Expense	\$0	\$0	\$0
670	Bad Debt Expense	\$516	\$155	\$671
675	Miscellaneous Expense	\$2,201	\$756	\$2,957
	Total	\$30,954	(\$1,368)	\$29,586

Effect on the General Ledger: To be determined by the Utility.

Effect on the Filing: O&M Expense is \$29,586 for the test year and the associated Working Capital adjustment for Rate Base inclusion is \$3,698 (\$29,586/8).

Table 5-1 – Office Manager Expense

TOTALS BY NARUC ACCOUNT											
NARUC	Amount	Alturas					Sunrise				
		Manager	Meter	Mowing	Other	Total	Manager	Meter	Mowing	Other	Total
630	\$3,720		\$780			\$780		\$2,940			\$2,940
636	\$26,028	\$5,564		\$800	\$1,296	\$7,660	\$10,036		\$1,000	\$7,332	\$18,368
Total	\$29,748	\$5,564	\$780	\$800	\$1,296	\$8,440	\$10,036	\$2,940	\$1,000	\$7,332	\$21,308
Date	Amount	Alturas					Sunrise				
		Manager	Meter	Mowing	Other	Total	Manager	Meter	Mowing	Other	Total
01/10/14	\$390	\$107		\$40		\$147	\$193		\$50		\$243
01/17/14	\$300	\$107				\$107	\$193				\$193
01/24/14	\$300	\$107				\$107	\$193				\$193
01/31/14	\$1,019	\$107			\$108	\$215	\$193			\$611	\$804
02/07/14	\$700	\$107	\$65	\$40		\$212	\$193	\$245	\$50		\$488
02/14/14	\$300	\$107				\$107	\$193				\$193
02/21/14	\$300	\$107				\$107	\$193				\$193
02/28/14	\$1,019	\$107			\$108	\$215	\$193			\$611	\$804
03/07/14	\$700	\$107	\$65	\$40		\$212	\$193	\$245	\$50		\$488
03/14/14	\$300	\$107				\$107	\$193				\$193
03/21/14	\$390	\$107		\$40		\$147	\$193		\$50		\$243
03/28/14	\$1,019	\$107			\$108	\$215	\$193			\$611	\$804
04/04/14	\$700	\$107	\$65	\$40		\$212	\$193	\$245	\$50		\$488
04/11/14	\$300	\$107				\$107	\$193				\$193
04/18/14	\$390	\$107		\$40		\$147	\$193		\$50		\$243
04/25/14	\$1,019	\$107			\$108	\$215	\$193			\$611	\$804
05/02/14	\$700	\$107	\$65	\$40		\$212	\$193	\$245	\$50		\$488
05/09/14	\$300	\$107				\$107	\$193				\$193
05/16/14	\$390	\$107		\$40		\$147	\$193		\$50		\$243
05/23/14	\$300	\$107				\$107	\$193				\$193
05/30/14	\$1,109	\$107		\$40	\$108	\$255	\$193		\$50	\$611	\$854
06/06/14	\$610	\$107	\$65			\$172	\$193	\$245			\$438
06/13/14	\$390	\$107		\$40		\$147	\$193		\$50		\$243
06/20/14	\$300	\$107				\$107	\$193				\$193
06/27/14	\$1,109	\$107		\$40	\$108	\$255	\$193		\$50	\$611	\$854
07/04/14	\$610	\$107	\$65			\$172	\$193	\$245			\$438
07/11/14	\$390	\$107		\$40		\$147	\$193		\$50		\$243
07/18/14	\$300	\$107				\$107	\$193				\$193
07/25/14	\$1,109	\$107		\$40	\$108	\$255	\$193		\$50	\$611	\$854

Table 5-1 – Office Manager Expense, continued

Date	Amount	Alturas					Sunrise				
		Manager	Meter	Mowing	Other	Total	Manager	Meter	Mowing	Other	Total
08/01/14	\$610	\$107	\$65			\$172	\$193	\$245			\$438
08/08/14	\$390	\$107		\$40		\$147	\$193		\$50		\$243
08/15/14	\$300	\$107				\$107	\$193				\$193
08/22/14	\$390	\$107		\$40		\$147	\$193		\$50		\$243
08/29/14	\$1,019	\$107			\$108	\$215	\$193			\$611	\$804
09/05/14	\$700	\$107	\$65	\$40		\$212	\$193	\$245	\$50		\$488
09/12/14	\$300	\$107				\$107	\$193				\$193
09/19/14	\$390	\$107		\$40		\$147	\$193		\$50		\$243
09/26/14	\$1,019	\$107			\$108	\$215	\$193			\$611	\$804
10/03/14	\$700	\$107	\$65	\$40		\$212	\$193	\$245	\$50		\$488
10/10/14	\$300	\$107				\$107	\$193				\$193
10/17/14	\$300	\$107				\$107	\$193				\$193
10/24/14	\$300	\$107				\$107	\$193				\$193
10/31/14	\$1,019	\$107			\$108	\$215	\$193			\$611	\$804
11/07/14	\$700	\$107	\$65	\$40		\$212	\$193	\$245	\$50		\$488
11/14/14	\$300	\$107				\$107	\$193				\$193
11/21/14	\$300	\$107				\$107	\$193				\$193
11/28/14	\$1,019	\$107			\$108	\$215	\$193			\$611	\$804
12/05/14	\$700	\$107	\$65	\$40		\$212	\$193	\$245	\$50		\$488
12/12/14	\$300	\$107				\$107	\$193				\$193
12/19/14	\$300	\$107				\$107	\$193				\$193
12/26/14	\$1,019	\$107			\$108	\$215	\$193			\$611	\$804
01/02/15	\$610	\$107	\$65			\$172	\$193	\$245			\$438
	\$29,748	\$5,564	\$780	\$800	\$1,296	\$8,440	\$10,036	\$2,940	\$1,000	\$7,332	\$21,308

- Office manager expense of \$300 per week is split between Alturas (\$107) and Sunrise (\$193) based on information provided by the owner.
- Meter reading expense of \$310 per month is split between Alturas (\$65) and Sunrise (\$245) based on the average annual number of customer bills and an approximately \$1 charge paid to read the meters.
- Mowing expense of \$1,800 per year is split between Alturas (\$800) and Sunrise (\$1,000) based on annualized actual payments by the office manager for the service and our estimate of when the service would be needed during the year.
- Other expense of \$8,628 per year is split between Alturas (\$1,296) and Sunrise (\$7,332) based on the ratio of the actual "other type" of expenses recorded in the managers expense register after accounting for the known costs described above. These costs include premise visits for customer connections and disconnections, payments for repairs & maintenance, distribution of customer correspondence and other miscellaneous services.

Table 5-2 – Operator Services Expense

Combined Charges for 2014 Test Year				
Alturas Utilities				
NARUC	Description	Direct	Allocated	Total
618	Chemical Expense	\$772	\$0	\$772
635	Contractual Services - Testing	\$1,465	\$0	\$1,465
636	Contractual Services - Other	\$2,265	\$3,960	\$6,225
675	Miscellaneous Expense	\$0	\$573	\$573
	Total	\$4,502	\$4,533	\$9,035
Sunrise Utilities				
NARUC	Description	Direct	Allocated	Total
618	Chemical Expense	\$1,562	\$0	\$1,562
635	Contractual Services - Testing	\$2,340	\$0	\$2,340
636	Contractual Services - Other	\$2,150	\$6,600	\$8,750
675	Miscellaneous Expense	\$0	\$954	\$954
	Total	\$6,052	\$7,554	\$13,607
	Total Both Utilities	\$10,554	\$12,087	\$22,641

Finding 6: Taxes Other Than Income

Audit Analysis: No utility Taxes Other Than Income (TOTI) amount for 2014 was available per our discussion in Finding 1. The Utility provided an estimated/actual schedule for O&M Expense that included TOTI expenses of \$3,280 for the test year.

Description	Amount	
RAF	\$1,176	Calculated on estimated revenues of \$26,138.
Tax/License	\$2,104	Property tax, licences and permits
Total	\$3,280	

We have reduced this amount by \$1,616 to \$1,664 to reflect the actual 2014 property taxes and estimated RAF's due on annualized revenues.

Description	Amount	
RAF	\$1,266	Calculated on annualized revenues in Finding 4.
Real Property Tax	\$358	2014 property taxes at maximum discount
Tangible Property Tax	\$40	
Total	\$1,664	

We did not include costs for licenses and permits because those items are included in our O&M expense reflected in Finding 5.

Effect on the General Ledger: To be determined by the Utility.

Effect on the Filing: TOTI Expense is \$1,664 for the test year.

Finding 7: Other Information

Audit Analysis: The following items were discovered by audit staff during fieldwork for this proceeding.

- The Utility's tariff rates were reduced effective August 15, 2014 per a four year rate reduction required by Order No. PSC-10-0380-PAA-WU from the prior rate case in Docket No. 090477-WU. The Utility continues to charge for tariff rates effective August 7, 2011 that were established in a price index increase. (As of the December 2014 billing cycle)
- On July 22, 2014, a judgment was issued against Alturas for \$3,960 by Tenth Judicial Circuit (Case No. 2013CC-002822) in favor of Blount Utilities, Inc. for uncontested outstanding balance owed. A settlement agreement was reached and payments of \$300 per month started on August 2014, which are to continue until the balance is extinguished. The outstanding payable balance was approximately \$2,700 as of December 31, 2014.
- There are outstanding legal expenses related to Alturas's defense in the above suit that total \$4,247. The balance is due in full before the end of year 2015.
- On November 19, 2014, Alturas established a payment plan with the Commission to satisfy an outstanding RAF balance of \$1,724 at a rate of \$85 per month until the balance is extinguished. The outstanding balance was approximately \$1,384 as of December 31, 2014. (Alturas has remitted a total of 5 payments totaling \$340 in 2014)
- Alturas is required by Polk County Health Department to have its 3,000 gallon hydro pneumatic tank inspected and upgraded at an estimated cost of \$4,000 by May 2015.
- Alturas is required by Polk County Health Department to conduct a 2015 Drinking Water Monitoring (3 year requirement) testing and Consumer Confidence Report at an estimated cost of \$3,500 before the end of 2015.

The last two items are only general estimates provided by the Utility's operator. No actual bids or cost estimates have been provided or performed.

Effect on the General Ledger: None

Effect on the Filing: The analyst should determine the effect on the filing of these items. The final cost associated with the Polk County Health Department requirements, when determined, should be amortized over the respective life of the improvement or testing cycle.

Exhibits

Exhibit 1: Rate Base

Alturas Utilities, LLC				
Docket No.140219-WU				
As of December 31, 2014				
Description	Per Utility @12/31/13	Adjustments	Per Audit @12/31/14	Test Year Average
Plant in Service	\$59,612	\$7,068	\$66,680	\$66,680
Land & Land Rights	\$500	\$0	\$500	\$500
Contributions in Aid of Construction	(\$18,637)	\$0	(\$18,637)	(\$18,637)
Accumulated Depreciation	(\$34,230)	(\$5,623)	(\$39,853)	(\$38,990)
Accumulated Amortization of CIAC	\$18,637	\$0	\$18,637	\$18,637
Working Capital	\$0	\$3,698	\$3,698	\$3,698
Total	\$25,882	\$5,143	\$31,025	\$31,888
Per information disclosed in Finding 1 the Utility did not have general ledger balances for 2014. We included the 2013 Annual Report balance for comparison purposes.				

Exhibit 2: Capital Structure

Alturas Utilities, LLC						
Docket No.140219-WU						
As of December 31, 2014						
Description	Per Utility @12/31/13	Adjustments	Per Audit @12/31/14	Cost Rate	Ratio	Weighted Average Cost
Common Equity	\$0	\$31,888	\$31,888	8.74%	100.00%	8.74%
Long Term Debt	\$0	\$0	\$0	0.00%	0.00%	0.00%
Customer Deposits	\$0	\$0	\$0	2.00%	0.00%	0.00%
Total	\$0	\$31,888	\$31,888			8.74%
The Utility's equity balance could not be determined from the Annual Reports.						
The Utility's 2013 Federal Tax Return , Schedule L, Balance Sheet per Books does not include an equity balance.						
The audit balance for Common Equity equals the Net Rate Base balance displayed on Exhibit 1.						

Exhibit 3: Net Operating Income

Alturas Utilities, LLC			
Docket No.140219-WU			
Twelve Months Ended December 31, 2014			
Description	Per Utility	Adjustments	Per Audit
Operating Revenues	\$26,138	\$2,005	\$28,143
Operating Expenses			
Operation & Maintenance Expense	\$30,954	(\$1,368)	\$29,586
Depreciation Expense	\$0	\$1,727	\$1,727
CIAC Amortization Expense	\$0	\$0	\$0
Taxes Other Than Income Expense	\$3,280	(\$1,616)	\$1,664
Income Tax Expense	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Total Operating Expenses	\$34,234	(\$1,257)	\$32,977
Net Operating Income	(\$8,096)	\$3,262	(\$4,834)
<p>Per information disclosed in Finding 1 the Utility did not have general ledger balances for 2014. Revenues and Expenses except depreciation expense were estimated by the Utility. The Utility's 2013 Federal & State Tax returns reflect a Net Operating Loss of \$3,822. Based on this loss and other matters disclosed in Finding 7 we do not believe that the Utility will present a positive taxable income in the near future. Therefore, we have set Income Tax Expense to \$0.</p>			