

SUNNY HILLS UTILITY COMPANY

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FPSC - COMMISSION CLERK

March 16, 2022

Honorable Andrew Fay, Chairman
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

Re: Sunny Hills Utility Company - Request for Test Year Approval Pursuant to Rule 25-30.430, Florida Administrative Code for Water system in Washington County.

Dear Chairman Fay:

Sunny Hills Utility Company, Inc. ("Sunny Hills" or "Company") intends to submit an application for general rate relief to the Florida Public Service Commission ("Commission") for its water system in Washington County. Sunny Hills plans to file its application, including the minimum filing requirements ("MFRs"), on or before May 31, 2022.

The need for rate relief is driven by both capital investments in plant and equipment to improve the quality of water service in the service area, as well as increased operating expenses since the systems was granted rate relief in 2012. Further, the amortization period for one-half of the acquisition adjustment ended during 2021, this has caused this offset to depreciation expense to be eliminated. This causes a further pressure on earnings.

In addition, this utility was previously grouped together in "Rate Bands" under the Commission approved rate structure for its previously owner, Aqua Utilities Florida, Inc. (AUF). Under the grouping of Rate Bands, the less efficient systems were grouped together with more efficient systems in order to provide subsidies through the rate structure. Since AUF sold the majority of its systems, primarily the more efficient systems, to the Florida Governmental Utility Authority (FGUA), the subsidies previously being received to Sunny Hills systems no longer exists. Sunny Hills has worked diligently to lower the operating costs, as well as the capital needs in order to delay the need for rate relief.

Background

Sunny Hills acquired the water and the wastewater systems in 2013. Prior to Sunny Hills' acquisition, those systems had a general rate case in Docket No. 20100330-WS under the prior ownership of Aqua Utilities Florida, Inc. As previously addressed, AUF sold the majority of its systems, primarily the more efficient systems, to the FGUA.

The Need for Rate Relief

As explained above, the last general rate increase for the Sunny Hills' water and wastewater systems was in 2012. Without a rate increase, the Company's rate of return for the requested test year ending December 31, 2021 was (1.99%) for its water system. At this earnings level the

Company cannot realistically maintain a stable financial position and, without rate relief, will not be in a position to meet the needs of its customers for safe and reliable water service.

As previously mentioned, the amortization of the acquisition adjustment changed dramatically during the requested test year. Previously, the amortization period for 50 percent of the acquisition adjustment ended in March 2021. As a result, there is a significant financial impact on Sunny Hills's earning levels. For water, the negative offset of amortization will cause the net Depreciation Expense to increase by \$18,316 annually. This amount is not recovered in the existing rates as Sunny Hills has not had rate case under the current owners. Sunny Hills is requesting an annualized adjustment to include a full year of the total depreciation expense previously offset by this amortization amount.

The decision to seek rate relief is not one that the Company has taken lightly. However, Sunny Hills' current revenues are simply insufficient to continue to meet its utility responsibilities in the manner that the Commission and our customers expect. The Company's rate of return will continue to remain below the returns that the Commission has awarded to other water and wastewater utilities without the requested rate relief. Thus, the Company has no choice but to seek timely rate relief for its water system.

To minimize rate case expense, Sunny Hills requests that this case be processed using the proposed agency action ("PAA") procedures set forth in Section 367.081(8), Florida Statutes. These PAA procedures have historically provided a cost-effective mechanism through which the Commission and its staff can thoroughly address all of the customers' and the Company's issues related to the rate case. Through this process, Sunny Hills' customers will have ample opportunity to voice any concerns they may have at customer meetings held in Sunny Hills service territory. Utilizing the PAA process should minimize rate case expense and result in lower rates for the customer.

The Test Year

Finally, as part of its request for rate relief, and pursuant to Rule 25-30.430, Florida Administrative Code, Sunny Hills requests approval of a historic test year ending December 31, 2021. The requested test year is representative of a normal full year of operation, and will best fulfill the purpose of a test year, which is to set rates based on costs and revenues that are representative of the period when new rates will be in effect. Sunny Hills has not experienced any significant changes in its operations since December 31, 2021, and does not anticipate any such changes prospectively. The Company will also request interim rates based on the same historic test year and, as indicated above, and intends to submit the MFRs on or May 31, 2022.

Pro Forma Plant

Sunny Hills will be requesting pro forma plant for its water system consisting of new iron removal filters at its Well #1. This well historically has high concentrations of iron in the source ground water. As a result, this well is used more as a back-up well in case of emergencies. This well isn't utilized due to these iron concentrations. For this interconnected system, there are currently two wells (Well #1 & Well #4). The primary well utilized is Well #4 that is at a higher

elevation and provides the majority of the water. In the event Well #4 has to be taken out of service for maintenance, repair, or tank inspection, then Well #1 has to be placed into service. This causes high levels of iron to enter the distribution system. This in turn causes customer complaints on water quality. To address the iron issues, Sunny Hills is installing a new iron filtration system to Well #1 for iron removal. Thus there will be a more reliable back-up well with higher quality of service.

In addition, Sunny Hills has to replace an old inoperable and irreparable generator also at Well #1. Although there is a generator at Well # 4, the one at Well #1 needs to be replaced. Due to the number of customers, this generator is required by FDEP rules and regulations. It has been determined that the existing generator is unreparable. This replacement provides more reliable service in the event of power failure due to hurricanes or thunderstorms.

Sunny Hills estimates the cost of both the iron filters and generator is \$383,282. It should be noted there is a smaller water system with fewer customers and a smaller well.

Sunny Hills is committed to continuing to provide excellent service to its customers. Should you or members of the Staff have any questions regarding this request, please do not hesitate to contact me.

Sincerely,



Gary Deremer
President

cc: Richard Gentry, Public Counsel
Adam Teitzman, Commission Clerk
Andrew Maurey, Florida Public Service Commission
Mr. Troy Rendell, U.S. Water Service Corporation