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October 7, 1996

HAND DELIVERY

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

RE: Docket No. 950387-SU
Application of Florida Cities Water Company, North Ft. Myers Division, for an Increase in Wastewater Rates

Dear Ms. Bayo:

Enclosed for filing, on behalf of Florida Cities Water Company, are an original and one (1) copy of a Directions to Clerk and original and one (1) copy of a Notice of Administrative Appeal, in reference to the above docket.

Also enclosed for filing are an original and fifteen copies of Florida Cities Water Company's Motion for Stay Pending Judicial Review.

Please acknowledge receipt of the foregoing by stamping the enclosed extra copy of this letter and returning same to my attention.

Sincerely,

Kathryn G.W. Cowdery

KGWC/met
Enclosures

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AFA ___
APP 1
CAF ___
CMU ___
CTR ___
EAG ___
LEG ___
LIN 5
OPC ___
RCH ___
SEC 1
WAS ___
OTH LINDA

DOCUMENT NUMBER-DATE
10691 OCT-7 96
FPSC-RECORDS/REPORTING

Directions to clerk
DOCUMENT NUMBER-DATE
10690 OCT-7 96
FPSC-RECORDS/REPORTING

Notice
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IN THE FLORIDA PUBLIC SERVICE COMMISSION

Florida Cities Water Company, a Florida Corporation, Applicant/Appellant. v. State of Florida, Florida Public Service Commission, Appellee	)	FPSC Case No. 950387-SU **NOTICE OF ADMINISTRATIVE APPEAL**

NOTICE IS GIVEN that Florida Cities Water Company, Appellant, appeals to the District Court of Appeal, First District, State of Florida, the final order of this commission rendered September 10, 1996. A conformed copy of the final order is attached hereto in accordance with rule 9.110(d), Fla. R. App. Procedure. The nature of the order is a final order of the Florida Public Service Commission denying Florida Cities Water Company's application for increased wastewater rates for its North Ft. Myers Division in Lee County.

DATED this 7th day of October, 1996.

Respectfully submitted,

B. Kenneth Gatlin, Esquire
Fla. Bar #0027966
Kathryn G.W. Cowdery, Esquire
Fla. Bar #0363995
Gatlin, Woods & Carlson
1709-D Mahan Drive
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Attorneys for Florida Cities Water Company

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished on this 7th day of October, 1996 by hand delivery to Mr. Ralph Jaeger, Esquire, Division of Legal Services, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, and by regular U.S. Mail to the following:

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Tallahassee, Florida 32399-1400

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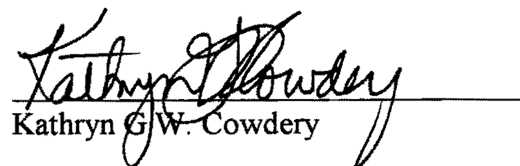

Kathryn G.W. Cowdery

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for a rate increase for North Ft. Myers Division in Lee County by Florida Cities Water Company - Lee County Division.	DOCKET NO. 950387-SU ORDER NO. PSC-96-1133-FOF-SU ISSUED: September 10, 1996

The following Commissioners participated in the disposition of this matter:

JOE GARCIA
JULIA L. JOHNSON
DIANE K. KIESLING

APPEARANCES:

B. KENNETH GATLIN, ESQUIRE, Gatlin, Woods and Carlson, 1709-D Mahan Drive, Tallahassee, Florida 32308
On behalf of Florida Cities Water Company, North Ft. Myers Division in Lee County.

JACK SHREVE, ESQUIRE, Public Counsel, and Harold McLean, ESQUIRE, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400
On behalf of the Citizens of the State of Florida.

CHERYL WALLA and JERILYN VICTOR, 1750 Dockway Drive, North Fort Myers, Florida 33903
On behalf of themselves.

RALPH JAEGER, ESQUIRE, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399
On behalf of the Commission Staff.

FINAL ORDER DENYING APPLICATION FOR INCREASED WASTEWATER RATES, REDUCING RATES, REQUIRING REFUND, AND REQUIRING REPORTS

BY THE COMMISSION:

BACKGROUND

Florida Cities Water Company (FCWC or utility) is a Class A utility that provides water and wastewater service to two communities in Ft. Myers: a northern sector and a southern sector.

A TRUE COPY
ATTEST [signature]
DIRECTOR, DIVISION OF RECORDS & REPORTING

DOCUMENT NUMBER-DATE
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The North Ft. Myers service area is the applicant in this proceeding, serving about 2,559 customers at December 31, 1994. Many of the customers are master-metered and, therefore, the number of equivalent residential connections (ERCs) served is 4,590. The utility serves an area that has been designated by the South Florida Water Management District (SFWMD) as a critical use area. Wastewater treatment is provided by a newly expanded advanced wastewater treatment (AWT) plant. Effluent is disposed into the Caloosahatchee River and to the Lochmoor golf course in the service area.

The utility's last rate case was finalized July 1, 1992 by Order No. PSC-92-0594-FOF-SU in Docket No. 910756-SU. In 1994, the utility's rates were increased due to an index proceeding. On May 2, 1995, the utility filed an application for approval of increased rates pursuant to Section 367.081, Florida Statutes. The petition met the minimum filing requirements (MFRs) on May 19, 1995, which was declared the official date of filing pursuant to Section 367.083, Florida Statutes. The utility requested that this filing be processed under the proposed agency action (PAA) procedures identified in Section 367.081(8), Florida Statutes. Interim rates were not requested.

The Commission issued PAA Order PSC-95-1360-FOF-SU on November 2, 1995. The PAA Order was protested on November 27, 1995, by a group of customers; and an individual customer, Ms. Cheryl Walla was granted intervenor status. Also, by Order No. PSC-96-0356-PCO-SU, issued on March 13, 1996, the Commission acknowledged the intervention of the Office of Public Counsel (OPC). The matter was set for hearing for April, 1996.

After the protest of the PAA, the utility requested, pursuant to statute, implementation of the rates approved in the Commission's PAA Order. This request was granted by Order No. PSC-96-0038-FOF-SU dated January 10, 1996, which also made the rates subject to refund and provided for security.

The prehearing conference was held on April 4, 1996, in Tallahassee, with all parties attending, either in person or by telephone. Thirty-four issues were identified to be addressed at the formal hearing. Prehearing Order No. PSC-96-0540-PHO-SU was issued April 17, 1996. The Commission panel conducted a formal hearing in this case on April 24 and 25, 1996, in Ft. Myers.

Pursuant to Order No. PSC-96-0035-PCO-SU and Rule 25-22.056(3)(a), Florida Administrative Code, all parties were required to file post-hearing statements. FCWC, OPC, and Ms. Walla filed post-hearing statements. Also, on July 30, 1996, FCWC filed

its Notice of Issuance of FDEP Letter of Authorization or, In the Alternative, Motion to Accept FDEP Letter of Authorization Into the Record.

FINDINGS OF FACT, LAW, AND POLICY

Having heard the evidence presented at the formal hearing and having reviewed the recommendation of staff, as well as the briefs of the parties, we now enter our findings and conclusions.

NOTICE OF ISSUANCE OF FDEP LETTER OF AUTHORIZATION OR, IN THE ALTERNATIVE, MOTION TO ACCEPT FDEP LETTER OF AUTHORIZATION INTO THE RECORD

As previously stated, on July 30, 1996, FCWC filed its Notice of Issuance of FDEP Letter of Authorization or, In the Alternative, Motion to Accept FDEP Letter of Authorization Into the Record (Motion). In this Motion, FCWC attaches a Florida Department of Environmental Protection (DEP) letter dated July 19, 1996, and notes that, in that letter, DEP authorized FCWC to place the modified 1.25 million gallons per day (mgd) AWT plant into service. FCWC then requests that the Commission take notice of this letter of authorization or reopen this docket and receive the attached letter as an exhibit.

OPC and Ms. Walla responded to this motion on August 6 and August 8, 1996, respectively. In their respective responses, they note: that the permitted capacity of the plant was fully litigated, that the docket should not be reopened, and that the admission of this letter at this late time in the proceedings should be denied.

Section 90.201, Florida Statutes, (Florida Evidence Code) sets forth the matters which must be judicially noticed. Specifically, Section 90.201(1), Florida Statutes, requires a court to notice decisional, constitutional, and public statutory law of the Florida Legislature. Section 90.202, Florida Statutes, sets forth the matters which may be judicially noticed. Specifically, Section 90.202(5), Florida Statutes, provides that official actions of the legislative, executive, and judicial departments of the United States and of any state, territory, or jurisdiction of the United States may be judicially noticed. Lastly, Section 90.203, Florida Statutes, provides that a court shall take judicial notice of any matter in Section 90.202, Florida Statutes, when a party requests it and provides timely written notice and sufficient information.

Upon review, we believe that the letter is an unneeded presentation of cumulative and redundant evidence, and that its probative value is substantially outweighed by the danger of unfair

prejudice. See Sections 90.402-403(e), Florida Statutes. Mr. Young, the author of the letter, was not a witness at the hearing, and thus the parties had no opportunity to cross-examine him. Therefore, we find that the notice was not timely. Having reviewed Sections 90.201-203, Florida Statutes, it does not appear that the DEP letter meets any of the requirements listed in those sections.

FCWC has requested in the alternative, that the Commission reopen the record in this docket and receive the DEP letter as an exhibit. The issue of the permitted capacity of the treatment plant was thoroughly discussed at hearing. DEP Witness Shoemaker testified that the permitted capacity was 1.5 mgd with the disposal capacity being 1.3 mgd. Although he testified that the permit would be issued with clarification of what is actually there for the two different parameters, he further testified that the facility was limited to 1.3 mgd due to constraints on disposal capacity for the reuse system. Witness Cummings testified that the plant capacity of the original plant was determined based upon providing reclaimed water at an annual rate of 0.30 mgd to the Lochmoor Country Club, but that the actual irrigation rate was less than expected. Witness Cummings also testified at length that the plant actually constructed by FCWC had a capacity of only 1.25 mgd based upon the average annual daily flow and the waste concentration associated with this flow, and that this capacity was reflected in the operating permit application being submitted to DEP. Witness Victor testified that the actual disposal capacity at the Lochmoor Country Club was 0.25 mgd and not the original 0.30 mgd. Based on Witness Shoemaker's testimony, and the testimony of Witnesses Cummings and Victor that the disposal capacity was 0.05 mgd less than originally estimated, the letter authorizing placing into operation a modified 1.25 mgd advanced wastewater treatment plant, by itself, adds nothing to the evidence already presented. Therefore, this letter would be redundant, cumulative, and of no additional probative value.

Based on all of the above, the request of FCWC for the Commission to take notice of the DEP letter or, in the alternative, to reopen the record and receive the letter as an exhibit, is denied.

STIPULATIONS

During the course of this proceeding, the utility, OPC, and Ms. Walla proposed numerous stipulations. We reviewed the proposed stipulations, which are set forth below, and approved them at the hearing held on April 24 and 25, 1996. The approved stipulations are:

1. Plant-in-service should be reduced by $223,175 to remove capitalized legal fees and incorrect allocations of engineering fees. This will also cause accumulated depreciation to be reduced by $24,622, and depreciation expense to be reduced by $11,718.

2. To correct accounting errors, the following adjustments shall be made:

	Plant	Accum Depr.	Depr. Exp.
Retirement Reclassification	$(9,057)	$(9,057)	$(482)
Incorrect Depr. Rate		9,127	3,028
Double Posting Error			118
Capitalized Equipment	1,352		72
Projected Retirements	(26,130)	(26,130)	(1,390)
Totals	$(33,835)	$(25,942)	$(1,228)

3. Contributions-in-Aid-of-Construction (CIAC) shall be reduced by $85,792 to reflect reduced connection charges. This correction yields a corresponding $927 reduction to Accumulated Amortization of CIAC and a $4,564 net increase to depreciation expense.

4. Since post-retirement benefits are currently unfunded, rate base shall be reduced by $81,855 to reflect the average balance associated with the unfunded balance.

5. Working capital shall be reduced by Other Deferred Credits of $10,217.

6. The testimony of James A. McPherson shall be inserted into the record as though read and all parties waived cross-examination of the witness.

7. Instead of reducing rates on July 1, 1996, to reflect the complete amortization of rate case expense from the prior rate case, the customers will (or shall) receive a credit on their bill until final rates are approved and implemented in this docket. Pursuant to this stipulation, the refunds shall be calculated based

on an annual reduction of $21,001, or a monthly reduction of $1,750. The customers are to be notified of the procedure and the parties are to review the notice before it is sent to the customers.

8. The Commission may take notice of any Commission Order.

MISREPRESENTATIONS

Ms. Walla claims that there are three separate instances of misrepresentation in the documents in Exhibit 19, which she sponsored. Exhibit 19 consists of a billing insert, a summary of a meeting, and a fact sheet dated July 19, 1995, which was prepared by the utility. The billing insert discusses average cost of water and wastewater to customers of Florida Cities and Poinciana Utilities. The meeting summary erroneously stated that twelve customers had withdrawn their protest [to the PAA Order] in this docket. The third document stated on page 2 that none of the litigation expenses involving Florida Cities and the United States Environmental Protection Agency (USEPA) were included in this rate case docket, yet the staff audit found some of these litigation expenses had been capitalized as part of the plant expansion project.

The billing insert was sent to all customers of FCWC and Poinciana Utilities as a general information piece. The purpose of the insert according to witness Coel was to inform customers of the value of water and wastewater service on a company-wide basis and not to compare that information between divisions.

The meeting summary prepared by Mr. Dick, an employee, stated that twelve customers had withdrawn their protests. As a witness, Mr. Dick testified at hearing that he thought this had indeed occurred, but that he was incorrect. The mistake was brought to his attention at the next meeting with the North Ft. Myers utility committee and he apologized for the misinformation.

Witness Coel testified the third document (titled "FACT SHEET") correctly states that there are no litigation expenses included in this rate case. Mr. Coel explained that the Operation and Maintenance (O&M) schedules do not contain any legal costs associated with the USEPA litigation, and that this is the information that was conveyed to the customers.

Witness Walla believes the information in the insert is false and that the statements are not accurate for the North Ft. Myers system. She suggests if the information is perceived as true by the Commission, flows which result in costs of $1.85 per day per

bill for the North Ft. Myers customers should be computed and the utility's used and useful adjusted in accordance with those flows. After reading Mr. Dick's meeting summary, Ms. Walla believes FCWC was attempting to discredit the merit of the customers' protest. Ms. Walla expressed concern over the $210,734 legal fees related to the USEPA litigation that were capitalized in 1992, 1993, and part of 1994.

The billing insert states that "[a]lthough the cost varies from system to system, the average cost of providing water service to your home, on a company-wide basis is 88¢ per day. . . . The average cost of FCWC/PUI [Poinciana Utilities, Inc.] wastewater service, on a company-wide basis is 97¢ per day."

The insert clearly states that costs vary between systems and the specific amount stated was only an average cost. While the North Ft. Myers wastewater rates are significantly higher than the average, there appears to be no misrepresentation in the billing insert.

The meeting summary prepared by Mr. Dick does contain a mistake, as was admitted to by Witness Dick, and was discussed at the next committee meeting. He apologized for the error. While the statement was not accurate, it does not appear to have been intentional, and did not affect the processing of this case or in any way diminish the effect of the customers' protests in the eyes of the Commission.

The legal fees involved in the USEPA litigation were removed from rate base. These costs were discovered during the staff audit and appropriate reductions have been made. During 1994, FCWC began treating the expenses as non-utility expense (expensed below the line). The record does not address why these fees were capitalized for more than 2 years, and then expensed below the line. In any event, the fees were removed and the customers, through their rates, have not incurred any legal expenses involving this litigation.

We conclude that there has been no intentional misrepresentation by the utility in the documents in Exhibit 19.

QUALITY OF SERVICE

Ms. Walla takes the position that the Commission should consider the 1,065 letters, the 54-name "odor petition", and the testimony of the customers at the customer meeting held on July 26, 1995. However, only the odor petition was placed into the record at the hearing held on April 24 and 25, 1996. From a policy

standpoint, the Commission considers each of the complaints at an informal customer meeting (such as was held July 26, 1995) or received through its Division of Consumer Affairs as a serious matter. However, for this specific proceeding, we must evaluate and consider the testimony and evidence in the record.

Concerning the odor petition, there appears to be no question but that there have been odor problems over the past several years, but it is not clear how recent those problems are. Witness Barienbrock testified that DEP had received complaints from a nearby restaurant about odors and the problem had been resolved. He explained that Rule 62-600.400(2), Florida Administrative Code, referring to treatment plant design and location so as to minimize adverse effects of odors, noise, aerosol drift, and lighting was really a permitting requirement. He noted that no recent complaints had been received by the DEP, and that representatives from the DEP can respond quickly to odor complaints, although they are generally not available nights and weekends. He encouraged customers to call if an odor problem occurs. He also testified that while the plant was meeting effluent standards, it was operating above its permitted capacity. He noted that the utility did have a construction permit to expand its facilities and the work was nearly complete.

The DEP conducted an inspection of the facilities on November 28, 1995, rating all categories as satisfactory. FCWC Witness Dick explained that the plant was in compliance with regulations prescribed by the DEP and the USEPA. He also explained the utility's interactions with its customers to include the procedure used by the utility to address customer inquiries, and testified that he thought the utility's customer service was excellent.

Regarding the odor petition, FCWC Witness Karleskint explained that the majority of customers who signed the petition did not live near the wastewater plant. She noted that the DEP had inspected the plant eight times in the last year and had not found any obnoxious odors. She did not consider that some of these customers might frequent the restaurant or marina adjacent to the wastewater plant. The utility has made some changes in its procedures to help control odor.

In addition to the odor petition, customers Ebie, Mills, Brillhart, and Catalano complained at the hearing of odor from this utility's facilities. Also, several customers spoke of identical or estimated bills they had received. Others spoke of repairs that were not properly made. One customer spoke of the water storage tank that overflows two or three times a month, and had been overflowing for a couple of years.

In evaluating the quality of service, the Commission considers the quality of the utility's product, operational conditions of the facilities, and the utility's attempts to address customer satisfaction, as well as testimony and records of the DEP and its witnesses, and testimony of customers. See, Rule 25-30.433(1), Florida Administrative Code. DEP Witness Barienbrock testified that the quality of the product is meeting effluent standards. The plant was operating in excess of its capacity and has been enlarged to accommodate more flow. A construction permit was in effect for this expansion and an operating permit was to be applied for in May, 1996.

Operational conditions are more difficult to assess. DEP Witness Barienbrock testified that the plant is meeting effluent standards and that steps have been taken to control odor, noise, and aerosol drift. The utility met with the DEP on these problems and DEP states that the utility has complied with the suggestions of the DEP. Although the plant could be covered with a dome to alleviate odor problems, this solution would be cost prohibitive. Noise from trucks is minimized by restricting traffic to the plant to the hours of 7 a.m. to 5 p.m., except in the case of emergency.

The overflowing water storage tank testified to by Witness Mills is significant and should be addressed, even though it is not part of this wastewater case. This service area is located in a critical use area as designated by the SFWMD; thus, the utility should never have an overflowing tank. FCWC witness Dick explained that since the water plant is not staffed at night, there is a high level alarm that alerts operators at other treatment facilities. However, it is apparent that the operators are not responding. Possible solutions are to activate the alarm sooner by repositioning the sensor in the tank, or to install an automatic pump shut-off.

At the hearing, customers testified about inefficient and incomplete repairs. However, FCWC Witness Dick testified that it is the utility's policy to perform complete restoration to the grounds once all work is finished. As to those customers who testified to problems with repairs made by the utility, our staff will be following up with each of those customers to ensure satisfaction with the repair.

Although the utility believes its customer service is excellent, it appears that there are problems with billing and completion of construction or repair projects. The number of customers who attended the Commission hearing, as well as those who spoke about dissatisfaction, should indicate to the utility that customer service is not perceived by the customers to be excellent.

However, based on all the above, although there is considerable customer dissatisfaction, we find the quality of service is satisfactory. Our staff will contact the customers to resolve the problems brought to the Commission's attention at the hearing, and staff will monitor the utility's steps and will provide assistance in problem resolution.

RATE BASE

Our calculation of the appropriate rate base for the purpose of this proceeding is depicted on Schedule No. 1-A, and our adjustments are itemized on Schedule No. 1-B. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Capacity of Wastewater Plant

Witness Cummings testified that the plant was originally designed to treat 1.3 mgd on an annual average daily flow basis (AADF), and that the plant could be expanded to treat 1.5 mgd. This design was changed at the direction of FCWC to a maximum of 1.25 mgd based on AADF and the design waste concentration associated with this flow. This change is not reflected in the DEP construction permit, but is anticipated to be shown in the operating permit application. The operating permit application was expected to be submitted to the DEP in May, 1996, and will show a design capacity of 1.25 mgd, based on AADF. In Witness Cummings' opinion, the plant as constructed could not be permitted to treat more than 1.25 mgd. He argues that, using AADF, the plant capacity is 1.25 mgd due to biological loading, even though the discharge is permitted at 1.3 mgd.

The evidence shows that the limiting factor of this plant is the treatment process, not the disposal capacity to the Caloosahatchee River and Lochmoor Country Club. The DEP construction permit allows expansion of the plant to 1.5 mgd, limiting the discharge to 1.3 mgd due to treatment capacity and discharge limits. The permit does not delineate between the 1.3 mgd first stage expansion, and the ultimate expansion to 1.5 mgd. More specifically, the permit allows the utility "To construct a modification to the existing 1.0 MGD, (Annual Average) advanced wastewater treatment facility (AWWT) by expanding a 1.5 MGD limited to 1.3 disposal capacity" Discussions with the DEP in the initial design and planning stages of this expansion led FCWC to design for the 1.5 mgd plant instead of 1.3 mgd, and avoid redesign and resubmittal of another permit to reach 1.5 mgd.

To enlarge the plant to 1.5 mgd, no additional tanks will be required. Modification to the chlorination system would be necessary and additional air diffusers would be installed. Rough estimates for these items are less than $100,000 for the chlorine equipment and in the hundreds of thousands of dollars for the diffusers. The reclaimed water system would need an additional pump, electrical work, valves and piping which also would be in the hundreds of thousands of dollars. The transfer pumps may have to be replaced, and there is a likely chance that an additional effluent filter will be needed.

From a design standpoint, FCWC Witness Cummings stated that it is prudent engineering design to focus not only on the immediate need, but to allow for economical expansion to the ultimate capacity and to accommodate that in the future without currently expending additional funds. Since no additional tanks are required, it is apparent that the design and construction for 1.5 mgd is complete.

Capacity is not only based upon the hydraulic capacity received by the facility. The final determination of plant capacity is the ability of the plant to respond to variations in flow and pollutant load, and whichever of these variables is the most limiting is usually the final determining factor. A plant can experience short term loadings greater than its rated capacity and still provide adequate treatment. The fact that FCWC continues to meet discharge limits on effluent indicates the flow does, indeed, get treated. On a hydraulic basis, a plant can typically handle three times the average daily flow, although Witness Cummings suspected that the biochemical oxygen demands (BOD), carbonaceous BOD (CBOD), and total suspended solids (TSS) would be lower on those days of higher flows. The 1.25 mgd (AADF) plant was designed to handle peak design flow of 2.5 mgd, rather than the more typical three times average daily flows (ADF) which was the design of the 1.0 mgd plant.

Exhibit 24 shows that the construction of the expanded facilities began on March 16, 1995, and was completed by March 15, 1996. Prior to the expansion, the plant was rated at 1.0 mgd. Exhibit 26 shows that the plant's ADF in July, 1995, was 110 percent of its permitted capacity. More specifically, the second line shows six days where flow exceeded 1.0 mgd between July 1 and 17, 1995. The effluent CBOD ranged from 0.3 milligrams per liter (mg/L) to 1.9 mg/L, with one day at 2.7 mg/L. Results of TSS effluent ranged between 2.0 mg/L and 3.3 mg/L, with one day at 4.0 mg/L. Between July 18 and 31, plant flows were above 1.0 mgd every day, averaging 1.634 mgd for that fourteen-day period. Three non-consecutive days were above 2 mgd. Effluent CBOD for this period

ranged between 0.8 and 1.4 mg/L, with one day at 4.3 mg/L (this one day showed flows of 1.3 mgd). Results of effluent TSS ranged between 0.7 and 3.0 mg/L, with two days above that at 4.0 mg/L. The influent TSS was higher during the last two weeks than during the first part of the month, yet achieved effluent results were similar. Comparing the last half of the month with the first half of the month shows similar achieved results of treatment of effluent. Therefore, Witness Cummings' suspicions that treatment plant results are less on those days with higher flows are unfounded.

Exhibit 26 and its test results show that the utility's plant can consistently operate above its permitted capacity and achieve similar and sometimes better results than at flows less than its permitted capacity of 1.0 mgd. Witness Cummings stated the expanded plant capacity as constructed is 1.25 mgd, annual average. He reiterated that the plant is not a 1.5 mgd plant and cannot treat 1.5 mgd a day on an annual average. The plant at the time of the hearing was permitted to treat 1.0 mgd annual average.

The utility plant's treatment capability, and its ability to provide effluent meeting quality standards, does not appear to match its hydraulic permit allowances. The 1.0 mgd plant in July, 1995 was able to achieve similar effluent standards at ADF of 0.907 mgd for the first 17 days of July as for the last two weeks of the months when flows were 1.634 mgd.

The record indicates that Ms. Walla's position that peak capacity of 3 mgd should be used is not correct. The DEP permit specifically allows annual average flows, and to recognize peak flows is contrary to the permit. Additionally, Witness Cummings stated that the plant expansion was designed hydraulically to accommodate a peaking factor of 2.5, while the plant prior to expansion had a peaking factor of 3. He noted that the old plant was designed by another firm.

Witness Shoemaker testified that the plant is capable of handling 1.5 mgd and is permitted for 1.5 mgd, although limited to 1.3 mgd due to disposal. These are the amounts specified in the utility's application for a construction permit submitted to the DEP. This current capacity of 1.5 mgd is expected to accommodate the future build out of the utility's service area.

When considering the biological loading criteria, we are not persuaded by the testimony of Witness Cummings that the plant's true capacity is 1.25 mgd. It is obvious that the 1.0 mgd plant, prior to expansion, could effectively treat flows considerably in excess of the plant's permitted capacity, and for an extended

period of time. The construction permit issued by the DEP is for 1.5 mgd. Although some additional chlorine equipment, diffusers, pumps, and a filter may be necessary, all the tanks are in place to accommodate the plant's ultimate capacity of 1.5 mgd. Based on the tank sizing and the amount of the equipment in place requiring no modification, we conclude that the capacity of the plant is 1.5 mgd.

Infiltration and Inflow

In the last rate case for this system, there was considerable testimony addressing the amount of infiltration and inflow (I & I). Order No. PSC-92-0594-FOF-SU discussed the utility's 29 miles of pipe in the system, and the allowance of 10,000 gpd per mile, or 290,000 gpd, at the low end of the range specified in the Water Pollution Control Federational Manual of Practice No. 9 (MOP 9). This 290,000 gpd was a little less than 22 percent of the water sold. The high end of the range would allow 30,000 gpd per mile or 870,000 gpd. On page 13 of that Order, the Commission concluded that infiltration was not excessive and made no adjustments to pumping and treatment expenses.

The utility performed calculations on the amount of I & I and found an average of 0.239 mgd, or 25 percent of the average daily flow, which is within the guidelines of MOP 9. The manual's upper limit would allow this system to have 0.870 mgd I & I and still be acceptable. FCWC witness Young explained that the parameters referred to by OPC witness Dismukes are for newly constructed extensions to systems, and said that an allowance of 30,000 gpd per mile is the correct amount to use. He also noted that the collection system is below groundwater, and has been in service over 20 years.

FCWC Witness Acosta admitted that infiltration had been increasing since 1985, yet he did not think it was a problem. He agreed that additional increments of capacity would not have to be built if I & I were reduced by a specific amount. He believed the utility's I & I program, a preventative maintenance program, is keeping I & I within limits as prescribed by MOP 9. He thought that it would be more expensive to further reduce I & I than to build plant.

Mr. Acosta explained that I & I also enters the utility's systems from customer laterals. He said it would be extremely expensive to eliminate I & I and would not be in the customers' interest to do that because of cost. He agreed with MOP 9 which allows 30,000 gpd per mile for the total length of mains, laterals, and house connections without regard to the diameter of the line.

This amount is allowable for an existing system, as opposed to a new system. His testimony also shows that the utility has an ongoing program for inspections and repairs to mains and manholes. Over the last four years, the utility has spent an average of $24,800 per year in rehabilitating its collection system, and plans to continue working on I & I control.

Witness Dismukes performed calculations showing the amount of infiltration in this system. The allowances she used allow 5,000 gpd per mile for pipe up to 8 inches in diameters; 6,000 gpd per mile for pipe 9-12 inches in diameter, and 12,000 gpd per mile for pipe 13-24 inches in diameter. Her calculations show excessive I & I of 13.4 million gallons for the peak month. Other calculations performed included default formulas in the Commission staff's proposed rule and the last Commission Order involving this system. Witness Dismukes' evaluation was based on peak month flows since she concluded the plant design must meet peak requirements and treat I & I. She believes the company's examination of I & I on an average annual basis fails to recognize I & I affected during the peak month and that capacity additions were required to treat the I & I.

Witness Biddy stated that if excessive I & I exists, an alternative to a plant expansion was to rebuild the collection system, as is being done in the City of Apalachicola. He had no basis, however, to compare that system with the North Ft. Myers system.

Ms. Walla points out that Witness Barienbrock's analysis is flawed because he did not remove the 550 water-only customers who do not contribute flows to the wastewater plant, and used water flows instead of water sold data. She correctly notes that witness Dick assumed 100 percent of water returned as wastewater.

Witness Barienbrock testified that both the Ten State Standards and MOP 9 are manuals that refer to I & I allowances for new systems. This North Ft. Myers system is not a new system. While acknowledging that DEP's concern over infiltration was limited to hydraulic and pollutant loading affecting the treatment of wastewater, and not economic considerations, he concluded that the system does not have a serious infiltration problem.

In reaching this conclusion, he reviewed flows from the water and wastewater plants, based on annual averages, which is how the wastewater plant is permitted. He did not consider the water-only customers, although he was aware that some existed. In looking at the flows, and taking into account the difference in the water and

wastewater customers, witness Barienbrock concluded that there was no problem.

We are not persuaded by Witness Dismukes' testimony that I & I is excessive. Witnesses Young and Acosta noted that Ms. Dismukes' allowances were for newly constructed extensions to systems, not for older systems. Ms. Dismukes' calculations using peak data contradict other testimony in the record which use annual average flows. Her statement that plant capacity must be designed to treat peak flows and to treat I & I is misleading. As explained by witness Cummings, a plant can experience short term loadings greater than its rated capacity and still provide adequate treatment. FCWC continues to meet its discharge limits on effluent and is satisfactorily treating the flows. Witness Biddy's inability to compare this system to the City of Apalachicola's sheds little light on the amount of I & I that might be excessive.

While witness Barienbrock did not consider the water-only customers, he did compare the water to wastewater flows and concluded there was not a great difference. We agree with Ms. Walla that Mr. Dick's assumption of 100 percent of water sold returned as wastewater is unreasonable, but we also believe that a very high percentage of water is returned as wastewater due to conservation factors.

The allowances in MOP 9 indicate that this utility is within prescribed limits, and we conclude that the amount of I & I is not excessive. Therefore, no reduction in flows is necessary when calculating used and useful percentages. Also, no reduction shall be made to chemical and purchased power expense.

I & I is a challenging problem for every wastewater company. Because the collection system is in the groundwater table, FCWC must be even more vigilant in its I & I maintenance program. During rainy periods, or when ground water levels are high, utilities should conduct visual inspections of lift stations, review lift station pump times, and whatever else it finds productive in controlling I & I.

Engineering references such as MOP 9 do not always specifically address the capital costs that must be incurred if plant expansions are required to handle flows that are greatly affected by I & I. Generally, the reference concludes that if it is less expensive to pump and treat the I & I than to repair the system, it is best not to make the repair. In these times when plant expansions are expensive, and the degree of treatment is very refined, plant expansions should be avoided whenever possible by reducing demand on the treatment facility (and thereby "freeing up"

capacity for additional connections). This is exactly what has occurred in the electric industry through conservation and the implementation of more efficient electrical components. This is likewise occurring in the water industry is seeing this too as a result of reduced flow plumbing fixtures.

Used and Useful Plant

The utility suggests that the plant capacity is 1.25 mgd, as discussed above. The utility further argues that the plant flows should be those in the MFRs, that is, average daily flows. Witness Acosta supports the inclusion of a margin reserve to serve the existing and changing demands of the present customers, and the demands of potential customers within a reasonable time period.

OPC suggests using average annual daily flow (.942 mgd) as compared to the plant capacity of 1.5 mgd, which yields used and useful of 62.8 percent. OPC's calculations do not include a margin reserve.

Ms. Walla states in her position that the concept is a difficult one, and a written standard would be a better method. She also notes that infiltration should be removed prior to making the used and useful calculation. In her brief, she points out that until the biological and hydraulic capacities are determined, used and useful cannot be calculated.

With regards to the reuse being sent to Lochmoor Country Club, there is conflicting testimony as to the amount of effluent that will be sent. The amount originally planned was 300,000 gpd, which matched the plant addition's preliminary design. This was reduced after it became apparent that the actual irrigation was less than originally estimated. The amount of the decrease was 50,000 gpd, although Witness Cummings did not know for certain why there was a decrease. He acknowledged that the amount sent could be as high as 300,000 on a dry day. The construction application submitted to the DEP showed reuse of 300,000 gpd, and the change occurred after construction had begun.

The flows to be considered should be annual average flows, as specified in the DEP permit, and as testified to by Witnesses Cummings and Acosta. Flows shown in the MFRs for the used and useful calculations are not annual average flows, but instead are average flows from the peak month. These flows do not match the plant design the permitting considerations in the DEP construction permit. For these reasons, the flows shown in the MFRs are rejected.

Due to the constraints in the DEP permit of annual average flows, as testified to by the utility witnesses, and the change from the use of average daily flow from the maximum month, the used and useful percentage decreases from the last rate case. While the plant expansion above 1.0 mgd will be needed at some time in the near future, it is obvious from the record in this case that it was not needed for the customers on line during the test year, including the small number of connections in the margin reserve. The record shows that the utility's plant can consistently operate above its permitted capacity and achieve similar and sometimes better results than at flows less than its permitted capacity of 1.0 mgd.

Based upon the testimony, we conclude that the correct flow in this calculation is the annual average daily flow of 0.942 mgd, plus margin reserve flows of 0.0458 mgd, or a total daily demand of 0.9878 mgd. Dividing this daily demand by 1.5 mgd yields 65.9 percent used and useful. For the reuse system, we believe the higher amount of 300,000 gpd being sent to the golf course should be used, as this more closely matches the plant capacity of 1.5 mgd.

When the used and useful ratios are applied to test year plant balances, the resulting used and useful reductions to gross plant are $2,883,790 for treatment facilities and $55,555 for disposal facilities. Because these facilities are subject to depreciation, the net reductions to rate base are smaller: $2,375,511 for treatment facilities and $50,312 for disposal facilities. The utility's overall rate base investment, including plant, CIAC, and working capital accounts (as discussed herein) would be $7,951,738 before used and useful adjustments are considered, or $5,525,915 thereafter. This $5,525,915 investment is approximately $800,000 less than the $6,343,868 rate base amount approved in FCWC's last rate proceeding. See Order No. PSC-92-0594-FOF-SU, issued on July 1, 1992, in Docket No. 910756-SU.

In Docket No. 910756-SU, using the projected test year ended June 30, 1993, the Commission observed that FCWC's investment would be substantially enlarged when it completed construction of a 1.0 mgd advanced wastewater treatment plant. In that proceeding, the Commission found that FCWC's investment was 100 percent used and useful based upon a comparison of average daily flow conditions during a peak month to available capacity. In this proceeding, we are disregarding the peak month measurements and are using annual average daily flow considerations.

In part, the above mentioned $800,000 approximate reduction is due to elimination of peak flow measurements. In other respects,

the reduction can be traced to additional depreciation on the $10,181,421 plant balance recognized in Docket No. 910756-SU. In that proceeding, an average test year was used for the projected test period ended June 30, 1993. Thus, compared to the current year-end rate base for this proceeding, three years will have transpired since that prior docket. The added depreciation on the $10,181,421 earlier plant balance would approximate $1,600,000. Retirement entries and used and useful corrections would affect that amount. Likewise, the current CIAC amount is about $200,000 larger than the amount included in Docket No. 910756-SU. Thus, the rate base reduction in this proceeding relative to the prior proceeding can be traced to several factors -- added depreciation, increased CIAC (including an imputation adjustment in this proceeding), and plant flow considerations. Overall, the provision for plant investment, before depreciation but after used and useful adjustments, is $10,185,984. The allowed plant balance in Docket No. 910756-SU was $10,186,421 before depreciation, CIAC, and other corrections.

Margin Reserve

Utility Witness Acosta supports the inclusion of margin reserve to serve the existing and changing demands of the present customers, and the demands of potential customers within a reasonable time period. He compares the margin reserve period to the time frame imposed upon utilities by Section 62-600, Florida Administrative Code, discussing the impact of a capacity analysis report and the timing of construction for expanded facilities, and advocates three years as a reasonable period of time. The number of ERCs and the amount to be included in the margin are contained in the MFRs.

OPC opposes the inclusion of a margin reserve because it is for the benefit of future customers, but paid for by the present customers. Ms. Walla agrees with OPC that margin reserve should be excluded, and that the present customers should not incur any cost to provide for future customers.

Although there have been some variations for the time period for a margin reserve, we have traditionally used an eighteen-month margin reserve when growth is occurring. When there is no growth, or when the service area is built out, margin reserve is not needed or allowed. Inclusion of the margin in rate base does require the present customers to pay for the plant in the margin. An Allowance for Funds Prudently Invested (AFPI) can be an alternative to margin reserve, although generally it applies to plant both within and beyond the margin reserve period. The purpose of margin reserve is

to allow an increment of plant in readiness to serve new customers, and to help avoid some constant expansion.

Based on the record, and particularly the testimony of Witness Acosta, we find that a three-year margin reserve is appropriate in this case. Growth in the service area is slow, and the number of ERCs in the margin reserve is 222.

Imputation of CIAC for the Margin Reserve

Utility Witness Acosta testified that the used and useful determination should include an appropriate provision for margin reserve "to meet the demands of potential customers and the changing demands of existing customers within a reasonable time." However, he argued that the practice of imputing CIAC detracts from the utility's ability to earn a return on its investment, and that the addition of a margin reserve becomes meaningless when the imputation adjustment is either substantial or, as in this case, equals the investment in the margin reserve.

Mr. Acosta indicated that Section 62-600, Florida Administrative Code, a rule enforced by DEP, necessitates timely planning and construction of wastewater treatment facilities. He stated that the Commission's current practice concerning imputation of CIAC combined with limited time frames for margin reserve produces disincentives for economically designed plant expansions. He testified that: "[t]he present Commission policy results in perpetual design/construction of wastewater treatment facilities and small incremental plant expansions, in direct conflict with the intent of Section 62-600 Florida Administrative Code." Mr. Acosta asserted that FCWC should be allowed to earn a return on its investment in margin reserve. He stated that the imputation of CIAC produced a mismatch between current investment and speculative future collections. He testified that: "[p]resent customers should be responsible for the return on the investment in margin reserve. The recovery of capital should come from future customers as they make CIAC payments."

OPC Witness Dismukes testified that margin reserve should not be included in the used and useful calculation. She stated that FCWC could receive compensation for margin reserve through collection of an AFPI charge. However, in the event margin reserve is considered in the used and useful calculation, Ms. Dismukes testified that "to achieve a proper matching, an amount of CIAC equivalent to the number of equivalent residential connections (ERCs) represented by margin reserve should be included in rate base." Since expansion of the utility's wastewater plant will serve future customers, she observed that imputing CIAC would

mitigate the impact on existing customers. Ms. Dismukes testified that failure to impute CIAC would allow FCWC to earn a return on an investment in margin reserve that would eventually be recovered from customers. She stated that the risk of any inaccurate forecasting regarding customer growth should be borne by the utility. Ms. Dismukes reported that the Commission usually imputes CIAC associated with margin reserve, but it does not likewise recognize additional revenues from those customers. She suggested that this growth in potential earnings is a balancing argument to the claimed mismatch between existing investment and anticipated CIAC.

During rebuttal testimony, Mr. Acosta testified that Ms. Dismukes was incorrect in her premise that FCWC would overearn on its investment if CIAC were not imputed. He stated that, "Rate base changes continuously due to additional investment in plant, depreciation and CIAC. The lack of imputation of CIAC is not a causal factor that ultimately leads to overearning on used and useful plant." Mr. Acosta also disagreed with the suggestion that revenues from margin reserve customers should be imputed, because the expenses associated with serving future customers were likewise omitted from operating expenses.

When an allowance for margin reserve is included in the used and useful determination, in accordance with past practice, we will impute CIAC as an offsetting adjustment. We agree with Ms. Dismukes that such imputation is a matching consideration that limits the impact on current customers. Our review indicates that a portion of the investment in treatment plant was designed to accommodate customer growth.

On May 19, 1995, FCWC filed an application for authority to increase its plant capacity charge for wastewater service from $350 to $1,800 per ERC. FCWC's application disclosed that an $1,800 plant capacity fee closely matched a pro rata division of its investment in treatment plant facilities among projected customers. Pursuant to Order No. PSC-95-1351-FOF-SU, issued November 1, 1995, in Docket No. 950586-SU, we approved collection of the requested charge.

Based upon 222 ERCs (the amount in the margin reserve) paying a $1,800 plant capacity charge, the potential CIAC totals $399,600. However, the imputed CIAC cannot exceed the amount of investment directly related to margin reserve. Based upon a 1.5 mgd treatment plant, with 45,800 gpd assigned to margin reserve, about 3.05 percent of the net investment in treatment plant is directly attributable to margin reserve. The net investment in treatment plant for the test year is $7,[illegible]5[illegible]0. Thus, based upon these

ratios, we find the provision for imputed CIAC is $219,105 and the consequent reduction to depreciation expense is $14,113.

Year-End Rate Base

FCWC filed its application using projected information for the test year ended December 31, 1995. FCWC used actual expenses and investment levels for the twelve months ended December 31, 1994, and applied various adjustments to provide updated cost information.

FCWC requested approval of a year-end rate base to reflect the full weight of various additions to plant in service. Significant construction costs were anticipated, including expansion of the wastewater treatment plant and installation of an effluent disposal system. The projected cost of those improvements was $1,611,673. In its application, FCWC claimed that the magnitude of the projected addition to plant was an extraordinary condition that justified a year-end rate base determination. As stated in FCWC's application: "[w]ith the investment that will be placed into effect during the projected test year, the rate of return will be deteriorated to the point that FCWC's property will be being confiscated in violation of the federal and state constitutions."

Overall, the planned improvements were expected to cost $1,728,332 for the wastewater division, a 14.8 percent increase compared to the beginning balance. Conversely, historical growth patterns suggested a 1.6 percent increase in the number of customers. The projected cost to expand the wastewater plant and upgrade effluent treatment was $1,611,673. Accounting schedules in the MFRs indicated completion of those projects in December of 1995. When the rate base calculation is averaged, the later a project's completion date, the smaller is its consequent impact. Under the averaging process, using the December 1995 in-service date shown in the MFRs, about 92 percent (thirteen-month basis) of the wastewater plant expansion and effluent disposal cost would be eliminated. Utility Witness Coel testified that an extraordinary condition existed since major improvements that served the public interest were expected in 1995, but a major growth in customers was not expected.

In the absence of extraordinary conditions or circumstances, the Commission should apply average investment during the test year in determining rate base. Citizens of Fla. v. Hawkins, 356 So. 2d 254, 257 (Fla. 1978). The wastewater plant expansion project is a substantial improvement that serves the public interest. According to Witness Young, FCWC's manager for engineering and construction, completion of the wastewater plant expansion was projected for mid-

January 1996. He testified that the expansion was delayed beyond its originally scheduled October 1995 completion date due to excessive rainfall and delayed shipments from equipment suppliers. This completion date falls within the 24-month limit prescribed by Section 367.081(2)(a), Florida Statutes. In this case, we are persuaded that an average rate base determination would distort the revenue requirement picture, since factors which are increasing the investment in operating plant are not matched by a concomitant growth in customers. We have approved a year-end rate base determination under similar circumstances (see Orders Nos. PSC-95-0720-FOF-WS and 25821).

No party opposed a year-end rate base calculation during the hearing. OPC did not address this issue in its brief. Ms. Walla argued in her brief that expansion of the wastewater plant was the result of treating excessive infiltration. We have determined that there is not excessive infiltration. Based on the above, we find that year-end rate base should be used.

Working Capital Allowance

Since this utility is a Class A utility system, pursuant to Rule 25-30.433, Florida Administrative Code, the working capital provision for this system was calculated using the balance sheet approach. FCWC initially requested approval of a $124,774 year-end provision for working capital using the balance sheet approach. That amount represents an allocated share (6.6 percent) of selected balance sheet accounts for all of its operating divisions. FCWC's allocation process is based upon comparative operating and maintenance expenses. Although FCWC used year-end balances to calculate working capital, average account balances were also reported.

OPC Witness Dismukes testified that working capital should be determined on an average basis since that approach yields a more representative amount than a year-end approach. Ms. Dismukes proposed further reductions to include certain deferred credits in the working capital determination. The aggregate balance for deferred credits was $539,071 on an average basis and $538,664 at year-end. Using average test-year balances, in accordance with the utility's allocation practice, Ms. Dismukes testified that a $57,635 provision for working capital was appropriate for this utility.

Utility Witness Coel testified that three sub-accounts were excluded through FCWC's omission of deferred credits: a) Account 257.03 -- Deferred Metered Sales; b) Account 257.05 -- Deferred Pension Cost; and c) Account 257.06 -- Deferred Gross Receipts Tax

(4.5 percent) on Carrying Charges on Capacity Fees. Witness Coel agreed that the working capital provision should include deferred credits for metered sales and pension costs. The consequent reduction to working capital, using year-end balances and appropriate allocations, was $10,217. All parties stipulated that this correction was appropriate and the Commission approved that stipulation. Mr. Coel testified that deferred credits due to carrying charges on capacity fees, $383,861, should not be included in working capital because the matching deferred debit account, $8,530,251, was likewise excluded from working capital. To the extent deferred debit and credit accounts are considered part of working capital, each division will receive an allocated share.

Utility witness Coel testified that FCWC proposed and supported a year-end working capital amount to avoid a mismatch with its requested year-end rate base. However, FCWC did not dispute Ms. Dismukes' contention that an average balance is more representative of the utility's working capital requirement.

We find that the stipulated $10,217 reduction is appropriate to include in Deferred Pension Costs and Deferred Metered Sales. Also, since the Deferred Debit for AFPI carrying charges was excluded, the Deferred Credit associated with AFPI carrying charges shall also be excluded. Further, because the averaging process tends to suppress ebb and flow conditions during the test year, which fluctuations would include property tax obligations and other conditions that mature at irregular dates, we find that working capital shall be the 13-month average balance proposed by Ms. Dismukes.

Based upon a year-end rate base determination and our adjustments, the appropriate rate base amount is $5,525,915 for FCWC's wastewater division in North Ft. Myers.

COST OF CAPITAL

Our calculation of the appropriate cost of capital, including our adjustments, is depicted on Schedule No. 2. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on that schedule without further discussion in the body of this Order. The major adjustments are discussed below.

Adjustments to Debt Component

As stated above, a projected capital structure is used in this case. FCWC forecasted that an additional $5 million in senior securities would be issued in 1995 with a corresponding 9.5 percent interest rate. Based upon projected balances when the MFRs were

filed, the utility anticipated that its capital structure would include $36,660,000 for long-term debt with an attending 9.53 percent weighted debt cost.

OPC Witness Dismukes testified that FCWC presented updated cost of capital information when it filed a rate application for its Barefoot Bay system in Docket No. 951258-WS. That application disclosed that FCWC borrowed $18 million when it issued its Series L bonds, and that the corresponding interest rate was 7.27 percent. Ms. Dismukes reported that FCWC anticipated retiring other securities (Series D, F, and H) and a $10 million line of credit. Ms. Dismukes prepared a schedule showing the consequent impact on the utility's cost of debt capital. As adjusted, the debt component in the capital structure would be $36,820,000 and the corresponding cost of debt capital would be reduced from 9.53 percent to 8.34 percent.

Utility Witness Coel agreed that FCWC issued an $18,000,000, 7.27 percent senior note in December 1995. He testified that a $2,000,000 equity investment was also made in December 1995. Utility Witness Schifano was asked whether this $2,000,000 addition to equity capital was obtained through repayment of an equivalent $2,000,000 intercompany loan. He testified that the intercompany loan identified in the MFRs was repaid, but the equity infusion was a separate transaction.

Based on the testimony of FCWC Witness Coel, we find that there was an infusion of $2,000,000 in equity capital, and a repayment of the $2 million intercompany loan. Further, with the December 1995 issuance of $18 million in senior notes at 7.27 percent, the debt component of FCWC's capital structure shall be adjusted. These adjustments reduce the embedded cost of debt to 8.34 percent and reduce the debt ratio to 45.78 percent.

Return on Equity

When FCWC filed its petition for increased rates, it requested approval of a return on equity consistent with the leverage formula then in effect, which was at that time delineated in Order No. PSC-94-1051-FOF-WS. That return on equity formula was subsequently revised pursuant to Order No. PSC-95-0982-FOF-WS, which was effective September 1, 1995. Further, Order No. PSC-96-0729-FOF-WS, effective June 22, 1996, found the leverage formula in Order No. PSC-95-0982-FOF-WS to still be appropriate. Therefore, those orders were in effect when this decision was made on August 13, 1996. In accordance with Rule 25-30.433(11), Florida Administrative Code, the return on equity shall be established using the equity leverage order in effect when the Commission

decides the case unless evidence is presented to support a different return.

Based upon the evidence in the record, the components of capital structure are as shown on Schedule No. 2, and the equity ratio for FCWC is 29.96 percent. Using the current leverage formula, the appropriate rate of return on equity is 11.88 percent. Accordingly, the appropriate range of reasonableness for the return on equity is 10.88 percent to 12.88 percent.

Adjustments to Equity Component

When FCWC filed its application for increased rates on May 19, 1995, a projected capital structure for 1995 was employed. The projected capital structure included $20,782,539 for equity investment. The forecasted balance also included $36,660,000 for long-term debt. The anticipated interest rate for long-term debt was 9.53 percent. The projected provision for debt capital included $5,000,000 to represent issuance of a new bond with a 9.5 percent interest rate.

In December of 1995, FCWC actually issued $18,000,000 worth of senior notes. The corresponding interest rate was 7.27 percent. This transaction resulted in a substantial reduction to the cost of debt. As part of the proceeds of that issue, FCWC repaid a $2,000,000 intercompany loan.

Also in December of 1995, FCWC's parent company increased its equity investment by $2,000,000. According to utility Witness Schifano, this infusion of equity capital was similar to previous capital contributions. He testified that because FCWC's equity ratio was approaching 30 percent, the minimum condition permitted by controlling debt instruments, additional equity investment was needed. He explained an improved equity ratio was needed so that FCWC would remain financially viable.

In its brief, OPC argues that the equity contribution by the parent company was merely a paper transaction which converted $2,000,000 of intercompany debt at 9 percent interest to equity capital with an 11.88 percent corresponding cost. Since no additional funds were provided, OPC argues that this transaction should not increase the cost of capital.

We find that FCWC's equity capital should be increased by $2,000,000 to recognize an additional equity contribution by FCWC's parent company in December of 1995. Mr. Schifano, the Controller for FCWC, testified that additional equity was needed to satisfy existing obligations pursuant to outstanding debt instruments and

to preserve FCWC's ability to acquire additional financing. Although this equity contribution was accompanied by an identical repayment of intercompany debt, the utility's comptroller testified that an improved equity ratio was the driving factor for this transaction.

Adjustments to Investment Tax Credits

The utility's reported cost for Deferred Investment Tax Credits (ITCs) included a return factor associated with customer deposits. Such inclusion is improper since customer deposits are not considered a source of outside funding relative to ITCs. In its brief, FCWC concurs that Deferred ITCs should be calculated independent of customer deposits. However, FCWC asserts that the cost of capital is unaffected by this correction.

The cost rate for deferred ITCs is derived pursuant to a mechanical formula using the respective interest and return features for long-term debt, preferred stock, and common stock. Using those respective elements, the cost of deferred ITCs is 9.62 percent.

Based on the above adjustments, we find that the appropriate overall cost of capital is 8.72 percent, with a range of 8.42 percent to 9.02 percent.

NET OPERATING INCOME

Our calculation of net operating income is depicted on Schedule No. 3-A, and our adjustments are itemized on Schedule No. 3-B. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Adjustments for Customer Growth and PSC Index

FCWC requested recovery of operating and maintenance expenses that reflect increases associated with customer growth and the PSC Index factor. FCWC increased some of its expenses to account for customer growth alone, but most of the expenses were increased to account for both growth and inflation. FCWC used a 1.62 percent factor to match historical customer growth patterns. Based upon the Commission's 1995 Index Factor, FCWC used a 1.95 percent factor to adjust for inflation.

OPC Witness Dismukes testified that it is unrealistic to assume that expenses will automatically increase in proportion to

customer growth and inflation. Ms. Dismukes explained that some expenses in 1994 were less than corresponding expenses in the utility's last rate proceeding for the twelve-month period ended June 30, 1993. She testified that after evaluating each of the utility's proposed adjustments, she removed any increases "where it is not evident that the expense will necessarily increase in 1995."

Ms. Dismukes proposed reducing test year operating expenses by $7,494. That amount includes a $2,800 reduction for projected increases in postage and billing costs, which is discussed below. Ms. Dismukes proposed reducing the other expenses, $4,694, based upon the proposition that 1995 expenses should not exceed the 1994 expenses if 1994 expenses were less than costs incurred in 1993. Ms. Dismukes recommended reducing materials and supplies by $227, transportation expenses by $1,269, and miscellaneous expenses by $3,198 because those expenses did not increase in 1994 relative to the prior test year. Ms. Dismukes suggested that the increase relative to miscellaneous expenses was particularly onerous because that expense is controllable by the Company.

Utility Witness Coel testified that FCWC uses the "Price Index Factor" to cover anticipated inflation in lieu of filing a Price Index Application immediately after the test year. He testified that FCWC believes this practice is reasonable and more prudent than filing two petitions. In response to Ms. Dismukes' contention that it is unrealistic to assume that expenses will automatically increase, Mr. Coel testified that it is also unrealistic to assume that expenses will remain constant or decrease. He testified that FCWC believes it is reasonable to employ growth and inflation factors when a projected test year is employed.

With respect to the disputed increases in materials and supplies, $727, and transportation expenses, $1,269, Mr. Coel testified that while some expenses may be reduced from year to year, other expenses will increase. "To adjust or true-up one expense item creates a mismatch." With respect to the disputed increase for miscellaneous expenses, $3,198, Mr. Coel stated that increased charges to this account are mostly due to required sampling analysis for the wastewater treatment plant and effluent disposal to the Caloosahatchee River. He testified that "FCWC's projections are reasonable, logical and supported by changed conditions or past experience."

We find that it is unreasonable to assume that expenses will remain fixed when customer growth and inflation are present. Therefore, we shall allow FCWC's utilization of index adjustments and growth factors for this proceeding.

Adjustments for Increased Postage and Envelope Billing Costs

FCWC requested recovery of a $2,800 provision for increased postage and billing costs. Utility Witness Dick testified that FCWC's billing practice will be enhanced through implementation of a laser-printed bill with a return envelope. He testified that customers should benefit by the improved readability of the full-sized bill. He stated that FCWC previously used 5 X 7 cards that were frequently misplaced by the postal service or mixed with other 4th class mail and accidently discarded. He testified that customers should realize benefits through communication about conservation and water quality, receipt of information about rate changes and service related matters, and the convenience of having a return envelope.

OPC Witness Dismukes testified that the utility did not explain why this new billing method would necessitate an increase in postage and billing charges. Although she recognized that some increased costs would be expected, she predicted that the utility's cash flow would improve if customer bills were no longer accidentally discarded. She further asserted that postage costs should be reduced since messages could be sent to customers without sending separate mailings. She suggested that the proposed cost increase was simply the difference between the cost of sending an envelope versus a postcard.

In response, FCWC Witness Coel testified that the new billing method produced increased expenses due to the extra paper cost for the larger bill, the envelope, and a return envelope. He reported that postage costs have increased since the last rate application. He testified that Ms. Dismukes offered no evidence to support her position that the utility's cash flow would suddenly improve and thus reduce costs. Regarding Ms. Dismukes' contention that postage costs should decrease due to the elimination of separate mailings, Mr. Coel reported that FCWC rarely sent separate mailings before conversion to stuffed billings because of the added expense. Only with the change "did FCWC have a cost effective means to communicate with its customers."

The record shows that additional costs will be incurred for added postage and production costs. Although cash flow may theoretically increase if bills are more readily delivered, there is no direct evidence to suggest an overall cost reduction. Testimony further discloses that FCWC will obtain a cost effective means for communication with its customers and that the enclosed envelope will be an additional convenience for customers. Therefore, the added expense of $2,800 shall be allowed.

Adjustment for Affiliate Expenses

FCWC is a member of an affiliated group of related companies, some of which charge or allocate costs to FCWC for management and administrative services. First, FCWC allocates administrative and general expenses and customer billing and customer accounting expenses among its operating divisions and other related parties. Second, Avatar Utility Services, Inc., directly charges FCWC for data processing services. Third, Avatar Utilities, Inc., provides management services to FCWC. And last, Avatar Holdings, Inc., charges management fees to Avatar Utilities, Inc.

OPC Witness Dismukes testified that due to the affiliation among FCWC and various companies that allocate or assign expenses to the utility's cost of service, whether direct or indirect, the Commission should closely scrutinize allocation methods and techniques. Ms. Dismukes' major concerns are summarized as follows:

1. Lack of support concerning reasonableness and necessity of affiliated charges;

2. Possible duplication of services from affiliates;

3. Lack of support for the allocation method regarding the equitable cost distribution among affiliates;

4. Allocation method employed by parent under-allocates costs to non-regulated business;

5. Appearance of a discrepancy between the allocation method described in the MFRs compared to how the allocations actually occur; and

6. Lack of supporting documentation verifying allocations of administrative and general and customer expenses from FCWC to its various divisions.

OPC Witness Dismukes further testified that FCWC failed to follow Rule 25-30.436(4)(h), Florida Administrative Code, since the utility's MFRs did not include workpapers to support some of its allocations. That Rule states that the following should be provided as part of a utility's application when it files for a rate increase:

(h) Any system that has costs allocated or charged to it from a parent, affiliate or related party, in addition to those costs reported on Schedule B-12 . . . shall file three copies of additional schedules that show the following information:

1. The total costs being allocated or charged prior to any allocation or charging as well as the name of the entity from which the costs are being allocated or charged and its relationship to the utility.
2. For costs allocated or charged to the utility in excess of one percent of test year revenues:
   a. A detailed description and itemization;
   b. the amount of each itemized cost.
3. The allocation or direct charging method used and the bases for using that method.
4. The workpapers used to develop the allocation method, including but not limited to the numerator and denominator of each allocation factor.
5. The workpapers used to develop, where applicable, the basis for the direct charging method.
6. An organizational chart of the relationship between the utility and its parent and affiliated companies and the relationship of any related parties.
7. A copy of any contracts or agreements between the utility and its parent or affiliated companies for services rendered between or among them.

Ms. Dismukes testified that the utility provided all the required information with respect to Avatar Utilities, Inc., as well as the information required in parts 6 and 7 for all other affiliates. On the other hand, Ms. Dismukes testified that the company did not provide any of the information required in parts 1, 3, 4, or 5, with respect to the costs allocated from Avatar Holdings, Inc. Likewise, the company did not provide the information required in parts 1, 2, 3, 5, and part of 4, with respect to the allocations from FCWC. Ms. Dismukes also noted that a schedule in the MFRs describing FCWC allocations states: "Due to the voluminous number of allocations made, schedules showing the computation of allocation percentages for all expenses allocated are available for inspection at the utility's office in Sarasota Florida." Based on the arguments listed above, Ms. Dismukes recommended removal of 10 percent of the company's administrative and general expenses and customer accounting expenses. The combined reductions totalled $36,795.

In response to Ms. Dismukes' proposed adjustments, FCWC Witness Coel testified as follows:

> Included on page 51 of the MFRs, FCWC provided the basis for its divisional allocations. This schedule has been included in all recent FCWC rate cases and has been subject to review at FCWC's General Office in Sarasota. This allocation method has been accepted by the PSC in its recent FCWC rate orders without adjustment.

FCWC Witness Coel also stated that additional details presented in the MFRs show: a) an Organization Chart listing the members of the affiliated group, b) the services provided by affiliated parties, and c) the service contract with Avatar Utility Services regarding specified fees for recordkeeping and support services. Schedules that show the allocated charges from Avatar Utilities, Inc., are also found in the MFRs. This information shows the basis for a $22,148 allocation of expenses to FCWC's North Ft. Myers wastewater division. The MFRs also disclose how FCWC allocates common costs among its operating divisions and related companies in terms of plant investment, payroll charges, and relative customers. However, this description of the allocation practice does not show total FCWC expenses before allocations. Further, Mr. Coel testified that the Commission confirmed that the utility's MFRs were accepted as complete on May 19, 1995.

To further support the reasonableness of the company's allocations among its affiliates, FCWC Witness Coel presented a Commission Staff Audit Report regarding FCWC's affiliated company transactions. The Audit Opinion for this affiliated audit examination stated: "The services provided by the affiliate companies to the Water Utility are ordinary and necessary, effective and beneficial, not redundant and reasonably costed and appropriately allocated."

To further support FCWC's argument that affiliated charges should not be reduced, Mr. Coel referred to the Commission's finding in Order No. PSC-93-1288-FOF-SU, issued September 7, 1993, in Docket No. 920808-SU. The Commission ruled in that case: "We find that it is inappropriate to make a reduction when the record does not support an argument that any specific charge is unreasonable. Therefore, we find that no adjustment shall be made to the allocation of transactions with affiliated companies."

Mr. Coel further testified that Ms. Dismukes did not show that any particular charge exceeds the going market rate or is otherwise inherently unfair, and that all her adjustments were totally unsupported and should be rejected. In its brief, FCWC argues that Ms. Dismukes' proposed adjustment to arbitrarily disallow 10 percent of affiliate expenses is irreconcilable with the Supreme Court's holding in GTE Fla. Inc. v. Deason, 642 So.2d 545, 547

(Fla. 1994). In that case, the Court held that the Commission abused its discretion by disallowing affiliated charges and stated that "[t]he mere fact that a utility is doing business with an affiliate does not mean that unfair or excess profits are being generated, without more. . . . We believe the standard must be whether the transactions exceed the going market rate or are otherwise inherently unfair."

OPC Witness Dismukes testified that FCWC did not submit the detailed information required pursuant to Rule 25-30.436(4)(h), Florida Administrative Code, for affiliated company transactions. And although Ms. Dismukes provided no documentation to support her proposed disallowance of affiliated expenses, it is the utility's burden to prove that these charges are reasonable and necessary.

However, we believe that sufficient and reasonable information was presented by FCWC to demonstrate that no abnormal costs or excessive costs were incurred. Therefore, we find that no adjustment is warranted in this case.

Rate Case Expense

When FCWC filed its MFRs, a $51,600 provision for rate case expense was estimated for a PAA proceeding. In addition, $24,418 was added for rate case expenses from Docket No. 910756-SU. However, the amortization period for that docket has expired and, therefore, shall not be included in the rates for this proceeding. See, Order No. PSC-92-0594-FOF-SU, which was issued on July 1, 1992.

At the hearing, Utility Witness Coel filed updated information (EXH. 30) showing a revised estimate of $90,863 for rate case expense. That amount amortized over 4 years yields a $22,716 annual expense. The original estimate and the revised amount are compared below:

	MFRs	EXH 30
Mail, Printing, Supplies & Miscellaneous	$ 1,500	$ 5,390
FCWC (Rate Dept.)	18,000	15,263
Avatar Utility Services	2,600	18,358
Avatar Utilities	0	840
Legal	25,000	41,512

Outside Counsulting	0	5,000
Filing Fee	4,500	4,500
Total	$51,600	$90,863

OPC Witness Dismukes recommended removal of $13,949 for services provided by FCWC's rate department to eliminate a potential double-counting error if that charge was already included in test year expenses. Amortized over 4 years, the resulting reduction would be $3,487.

In response, FCWC Witness Coel testified that Ms. Dismukes' assumption regarding duplication of charges was incorrect. He testified that the disputed charges were incurred by him to prepare testimony, respond to interrogatories, prepare customer notices, and to generally administer the rate proceeding. According to Mr. Coel, these charges are assigned to a "deferred rate case" account and were not included in labor expenses.

Intervenor Witness Walla testified that some rate case expenses were not prudent and should not be paid by the customers. She questioned 21 separate items in the FCWC's list of charges. In her brief, Ms. Walla proposed an invoice by invoice audit of all rate case expenses because many invoices and hours logged for work on this case appeared to be questionable.

Utility Witness Coel's rebuttal testimony explained in detail why the disputed charges were prudently incurred and properly recovered. To the extent Ms. Walla challenged his time and expense, Mr. Coel explained that his time was devoted to preparation of testimony and performing other meaningful tasks related to this proceeding. Disputed payments for copying source documents, postage, transcript fees, customer meeting payments, and other minor charges were adequately explained. Mr. Coel explained that the disputed charges for lunch and dinner were work-related.

With regard to Ms. Walla's contested charges, excluding the 2 items that relate to Mr. Coel's hourly wages, we note that the disputed expenses totalled $2,816. Amortized over 4 years, the consequent impact on rate case expense would be $704, and would not affect final rates.

Based upon review of the supporting documentation, we believe that the utility's requested rate case expense is prudent and reasonable. Therefore, we find that the appropriate amount for rate case expense should be $90,863, and when amortized over four

years, results in an annual expense of $22,716. This increases the originally requested test year provision for rate case expense by $9,816.

Personal Property Tax Expense

In accordance with Rule 25-30.433(5), Florida Administrative Code, property taxes on non-used and useful plant shall not be allowed in rate case proceedings. The utility contended that its utility system is 100 percent used and useful. However, because we have found that the utility's investment is partly non-used and useful, reductions to the test-year provision for property taxes are appropriate.

The utility's net plant investment is $10,032,653 before used and useful corrections are considered. The used and useful adjustment is $2,425,823. Thus, 24.18 percent of the utility's net investment in utility plant is considered non-used and useful. Multiplying the utility's reported $104,349 test year provision for property taxes by this 24.18 percent shows that a reduction of $25,231 is required, and test year expenses are reduced by this amount.

Regulatory Assessment Fee

Utility Witness Coel testified that his review of Ms. Dismukes' proposed provision for "Taxes Other Than Income" indicated that her calculation did not include an appropriate provision for regulatory assessment fees. He testified that this tax expense should be calculated in a manner consistent with the Commission's PAA order in this proceeding.

The provision of regulatory assessment fees is derived pursuant to a mechanical calculation that multiplies adjustments to the revenue requirement by 4.5 percent to yield appropriate corrections to the reported test year expense. Consistent with the revenue requirement, the appropriate provision for regulatory assessment fees is $90,385.

Income Tax Expense

Utility Witness Coel testified that he was unable to reconstruct Ms. Dismukes' proposed provision for income taxes due to the absence of a supporting schedule. However, he testified that her calculation seemed to produce an unreasonably low amount. He reported that income taxes should be calculated in a manner consistent with PAA Order No. PSC-95-1360-FOF-SU.

The calculation of income taxes is derived pursuant to a mechanical calculation using appropriate state (5.5 percent) and federal (34 percent) income tax rates applied to the utility's net operating income after considering certain tax reductions. The most significant reduction is the interest expense that corresponds to the rate base determination. Based upon the Cost of Capital for this proceeding, that reduction was $223,558. Other reductions include: a) $5,644 to amortize Investment Tax Credits; b) $15,074 due to the Parent-Debt rule; c) $5,646 to correspond with post-retirement benefits; and d) $4,633 to show the tax effect of depreciating CIAC. Those other reductions were reported on Schedule B-2 (page 2) of the MFRs.

Therefore, based on our calculation of operating income, we shall allow a $106,035 provision for income taxes.

Test Year Operating Income Before Rate Increase

Based on the adjustments above, the test year operating income before any provision for increased revenues is $546,173 for FCWC's wastewater division in North Ft. Myers.

REVENUE REQUIREMENT

Based upon our calculation of rate base, cost of capital, and operating income, the revenue requirement is as follows:

	Total	$ Decrease	Percent Decrease
Wastewater	$2,003,347	($108,368)	(5.13 percent)

FCWC requested approval of final rates that were designed to generate annual revenues of $2,591,990. The requested revenues exceed test year revenues by $506,833 (24.3 percent). The approved revenue requirement of $2,003,347 is a reduction relative to annualized test year revenues for 1995.

RATES AND RATE STRUCTURE

Reuse Rate

An agreement between the Lochmoor Country Club (Lochmoor) and FCWC allows for the provision of reuse to Lochmoor. Pursuant to the agreement, Lochmoor will pay the reuse rate established by the Commission. The utility has requested a rate of 13¢ per 1,000 gallons. However, Ms. Walla believes a rate of 32¢ per 1,000 gallons is appropriate, and OPC believes that a rate of 21¢ per 1,000 gallons is appropriate.

Ms. Walla's brief argues that a 32¢ per 1,000 is appropriate because it is a cost based rate, using a cost analysis contained in Exhibit 32. According to Ms. Walla, any rate lower than 32¢ per 1,000 would be inappropriate since it causes the remaining customers to bear the remaining costs.

Exhibit 32 contains FCWC's response to a request made by Commission staff during the PAA proceeding. It was offered into evidence by Ms. Walla. As shown in the exhibit, staff's request was that FCWC prepare a detailed schedule of the estimated revenue requirement associated with the provision of reuse to Lochmoor.

An analysis of Exhibit 32 indicates that a reuse rate of 32¢ per 1,000 gallons is not appropriate. First, the expenses are understated because O & M expenses are not included and depreciation expense is calculated using a half year rather than a full year. This would understate the reuse revenue requirement.

Second, in Exhibit 32, the company allocated the entire portion of plant specifically related to reuse and calculated the resulting rate by spreading these costs over the expected consumption of Lochmoor. Therefore, this exhibit assumes that Lochmoor will be the only reuse customer and that all reuse costs would be recovered by Lochmoor. This is inappropriate because FCWC's master plan indicates that there are other potential reuse customers, such as El Rio Golf Course, Orange Grove Boulevard Median, the North Fort Myers High School, Palm Island Development, Tropic Isles Elementary School and the Tropic Terrace Condo Association.

A cost-based reuse rate should include O & M associated with reuse in the determination of the revenue requirement. Further, the reuse rate should be calculated by dividing the full reuse revenue requirement by the total wastewater flows. In this way a reuse rate can be calculated that will apply to all reuse customers, both existing and future. The record in this case is not sufficient to calculate a cost-based reuse rate because there is no testimony on the appropriate O & M costs that should be included in the revenue requirement. Based on the above, we find that Exhibit 32 is misleading and should not be used to determine the appropriate reuse rate in this case.

OPC has argued that a rate of 21¢ per 1,000 gallons is appropriate. According to its brief, this rate is appropriate because it is competitive with Lee County and because Mr. Coel conceded that this was the appropriate rate to use. In its brief, the company argues that the pricing of reclaimed water is market driven. Ms. Karleskint testified that when the price is higher than the market, little or none will be sold. Therefore, the

company proposed that the reuse rate be the market price in North Lee County.

While the utility proposes that the rate be the market price in North Lee County, there is no testimony regarding a price specific to North Lee County. There is testimony, however, describing a rate for Lee County. Ms Karleskint testified that she was aware of only two reuse rates in Lee County, the South Fort Myers Division of FCWC and Lee County. Lee County's reuse rate is 21¢ per 1,000 gallons and the rate for the South Fort Myers facility is 13¢ per 1,000 gallons.

In this case, we believe that there are three elements that should be considered when determining the appropriate rate for reuse. First, we should consider the options of the reuse customer. Ms. Karleskint testified that Lochmoor has other options for its sources of supply. According to her testimony, these options allow Lochmoor to exercise its right to terminate the contract with FCWC should the price for reclaimed water become too high.

It appears, however, that Lochmoor's options are limited. Stormwater and groundwater are the current sources of supply at Lochmoor. Currently, Lochmoor is permitted by the SFWMD to withdraw groundwater at a rate of 250,000 gallons per day. FCWC's average capacity for reuse is 250,000 gallons per day. Once reclaimed water is available to Lochmoor, the consumptive use permit for groundwater will be reviewed to determine whether it will be feasible for the golf course to continue using groundwater. FCWC's witness Cummings testified that it is possible that the review of Lochmoor's permit will result in either a denial of the permit or a reduction in the amount of groundwater that can be withdrawn. Therefore, Lochmoor's options for irrigation water may be limited.

Second, we should consider whether FCWC could secure any other customer should Lochmoor terminate the contract. We believe that FCWC could secure another reuse customer if Lochmoor terminated the contract. As shown above, the master plan prepared by FCWC indicates that six other entities were identified as potential customers. An extension of the main would be required for these entities to become customers; however, if required, the utility would make the extension.

Additionally, FCWC has been working on an arrangement with the City of Cape Coral in which the city would supply FCWC with potable water in exchange for reuse from FCWC. At present, the city is not willing to pay for the reuse. However, Ms. Karleskint testified

that she hoped something could be arranged in the future and she identified the city as a potential customer.

Third, we should consider the contract between Lochmoor and FCWC. The contract specifically states that the User shall pay the utility at the rates and charges . . . approved by the FPSC." Accordingly, there was nothing in the contract that obligated Lochmoor to pay a rate of 13¢ per 1,000 gallons. Ms. Karleskint testified that Lochmoor has stated that it would accept a rate of 13¢ per 1,000 gallons; however, it has been advised that the rate would be determined by the Commission. Also, while we may consider the contract, we are not bound by the contract. Pursuant to Sections 367.081 and 367.0817, Florida Statutes, we have jurisdiction to set rates which are just, reasonable, compensatory and not unfairly discriminatory.

In addition to the three elements discussed above, we note that, with the exception of margin reserve and rate case expense, the utility agreed with the provisions of the PAA order. FCWC Witness Coel testified that he believes that the rate set forth in the PAA was reasonable and that he did not take issue with this amount.

Based on the above, we find that a reuse rate of 21¢ per 1,000 gallon rate is appropriate.

Prudency of Lochmoor as Reuse Site

FCWC's witness Karleskint testified as to the current and potential reuse customers of FCWC. Currently, FCWC is providing reuse to Lochmoor, through an agreement dated March 3, 1995. Lochmoor was chosen because it was the closest reuse customer with the least cost. There are five other entities who could become customers. However, at this time it is not cost effective for these entities to become customers.

According to Ms. Walla, the selection of Lochmoor Golf Course reflects a questionable reuse site design. In addition, confusing testimony from the utility's witness makes it difficult for customers to understand the factors that establish a wastewater plant's rated capacity and how the capacity links to the reuse requirements at Lochmoor.

As the record indicates, although other reuse customers are available if needed, Lochmoor was chosen because it was the closest customer with the least cost, and connecting any additional customers would require a more costly extension. Also, SFWMD may decide not to renew Lochmoor's consumptive use permit or it may

decide to renew the permit, but allow the withdrawal of less groundwater. If this should occur, FCWC will be Lochmoor's primary source of irrigation water, and more effluent might be taken by Lochmoor. This will require less wet weather discharge to the Caloosahatchee River since less effluent will be pumped to the ponds. The reclaimed water is disposed of in the Caloosahatchee River when the ponds are at a high level. Therefore, having Lochmoor as a customer will aid in protecting the water resources in that area as well as promoting water conservation.

Therefore, we find that it was a prudent decision to choose Lochmoor as a reuse site. It is the closest site to the treatment plant; it was agreeable to taking effluent; it needs irrigation during the non-rainy season; it had ponds already in place to accept reclaimed water; and it has a wet weather discharge permit to allow discharge to the river when irrigation is not needed.

Wastewater Rates

The company requested permanent rates designed to produce revenues of $2,591,990. The requested revenues represent an increase of $480,078 or 22.73 percent. However, we have found that the required annual operating revenues are only $1,959,347, adjusted to remove miscellaneous revenues, guaranteed revenues, and reuse revenues. This results in a reduction of rates. The allocation of the revenue requirement for ratemaking purposes was not at issue in this case. Therefore, 100 percent of the revenue requirement was allocated to the wastewater customers, consistent with the company's proposed allocation methodology in its MFRs.

When calculating the base facility and gallonage charges, we must consider the portion of the revenue requirement which is to be recovered through service rates. Miscellaneous revenues, guaranteed revenues and reuse revenues are generated through sources other than the service rates. Therefore, when calculating base facility and gallonage charges, miscellaneous revenues, guaranteed revenues, and reuse revenues are excluded from the revenue requirement so that the utility is not collecting these revenues twice.

The appropriate reuse revenue to be deducted from the wastewater revenue requirement is $22,995. This amount was calculated by applying the reuse rate of $.21 per 1,000 gallons to an annual average daily flow of 300,000 gpd.

The utility requested, a 20 percent differential between the residential and general service wastewater gallonage charges. The purpose of the differential is to recognize that approximately 20

percent of the water used by residential customers is used for purposes such as irrigation and is not collected by the wastewater systems. We find such differential to be reasonable and therefore approve it.

Based on the foregoing, we have set rates which we find are just, reasonable, compensatory, and not unfairly discriminatory. A comparison of the utility's current tariffed rates, implemented PAA rates, requested rates, and the Commission approved rates is shown on Schedule 4.

The utility shall file revised tariff sheets and a proposed customer notice to reflect the appropriate rates pursuant to Rule 25-22.0407(10), Florida Administrative Code. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The rates may not be implemented until proper notice has been received by the customers. The utility shall provide proof of the date notice was given within 10 days after the date of the notice.

Statutory Four-Year Rate Reduction

Section 367.0816, Florida Statutes, requires that the rates be reduced immediately following the expiration of the four-year period by the amount of rate case expense previously authorized in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is $23,786. The removal of rate case expense will reduce rates as shown on Schedule No. 5.

The utility shall file revised tariffs no later than one month prior to the actual date of the required rate reduction. The utility also shall file a proposed customer notice setting forth the lower rates and reason for the reduction.

If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the removal of the amortized rate case expense.

REFUND OF REVENUES

The Commission approved PAA rates in Order No. PSC-95-1360-FOF-WS, issued November 2, 1995. Pursuant to Section 367.081(8),

Florida Statutes, the utility implemented these PAA rates effective December 13, 1995, subject to refund. However, we have approved a revenue requirement which is lower than the revenue requirement established in Order No. PSC-95-1360-FOF-WS. Therefore a refund is appropriate.

To establish the appropriate refund, we compare the approved revenues to those revenues collected pursuant to Order No. PSC-95-1360-FOF-WS and held subject to refund. In that comparison, we remove any miscellaneous revenues, guaranteed revenues, and reuse revenues.

In accordance with Order No. PSC-96-0038-FOF-SU, issued January 10, 1996, as a result of the utility's implementation of PAA rates, the total 17.29 percent increase above original rates was held subject to refund. Since the revenue requirement is less than adjusted test year revenues the entire 17.29 percent rate increase which was implemented by the utility must be refunded with interest. More than this cannot be refunded because the actual refund cannot exceed the amount collected subject to refund pursuant to Section 367.082(4), Florida Statutes.

In addition to the refunds being made with interest as required by Rule 25-30.360(4), Florida Administrative Code, the utility shall be required to submit the proper refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code. Further, the utility shall treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code. Upon staff's verification that the refund has been completed, the utility's corporate undertaking may re released.

ORDER ESTABLISHING PROCEDURE

Ms. Walla in her prehearing statement and at the Prehearing Conference held on April 4, 1996, expressed concern about the Order Establishing Procedure and requested that the issue of whether such Order facilitated the participation of lay customers in the hearing process be added. However, at hearing, no testimony was presented which specifically addressed this issue.

In Ms. Walla's post-hearing statement, she argues that OPC may not always assist the customer in a protest of a Commission order, but that the customer still has the right to protest such order. She then states that there should be a booklet drawn up by the Commission showing the different steps to protest a PAA order and to process such protest through final hearing. She suggests that such booklet should provide information on how the protest sheet, testimony, interrogatories, request for documents, prehearing

statement and post hearing statement should be set up, and should include specific examples of each of these documents. If she had had such a booklet, Ms. Walla states that it would have saved her telephone calls, time and personal funds. Also, Ms. Walla takes the position that the procedures delineated in the Order do not allow an average customer to successfully protest an order of the Commission without outside assistance of professionals.

OPC states only that it agrees with Ms. Walla. FCWC states only that due process safeguards must be preserved.

We believe that the Order Establishing Procedure (Order) sets out the requirements, referring, where appropriate, to the applicable rule for: conducting discovery; prefiling of testimony and exhibits; content of the prehearing statements; the prehearing conference; the prehearing procedure to include waiver of issues; the controlling dates of the case; the use of confidential information at hearing; and the post-hearing procedure. We do not believe that the Order prevents an average customer from successfully protesting an order of the Commission without outside assistance of professionals. The Order merely sets out the procedures that have been developed and used by this Commission. They are the procedures which actually make the formal hearing process proceed more smoothly. Through this Order, everyone is put on notice of the legal and procedural requirements, and no one's due process rights are violated.

Further, our staff attempts to provide any requested information as soon as possible (to include samples of any of the documents listed by Ms. Walla) to the customer protestors. This information is provided on a case by case basis and has not been gathered in booklet form. Therefore, we will make no changes to Commission practice as regards this issue.

CHARGE FOR DOCUMENTS

Ms. Walla in her prehearing statement and at the Prehearing Conference held on April 4, 1996, also expressed concern about having to pay for documents that were requested from the Commission's Division of Records and Reporting. However, there was no testimony which specifically addressed this issue.

Ms. Walla, in her post-hearing statement, argues that a customer intervenor should not be charged for documents that are needed for discovery purposes from the Commission, because, unlike the utility, a customer intervenor cannot recover such expense through rate case expense. The OPC states that all accommodations

should be made to intervening customers, and FCWC had no position.

We note that a letter dated February 16, 1996, in which Ms. Walla discussed obtaining various documents, was mailed to OPC. This letter was forwarded to the Division of Records and Reporting, which then forwarded a copy of the request to the Division of Legal Services on March 11, 1996.

The letter, upon being forwarded to the Division of Records and Reporting, was received as a "public records" request. Staff in the Division of Water and Wastewater (Water and Wastewater) were asked to assist in identifying the documents listed. In response, Water & Wastewater produced some copies which, because of their brevity and ready availability, were provided to Ms. Walla at no charge.

However, other documents on the list required research and copy time, and the Division of Records and Reporting advised Ms. Walla of the potential costs as prescribed by Sections 119.07(1)(a) and (b), Florida Statutes. Ms. Walla indicated that she did not want to pay these charges, and the other documents requested were not produced. Other than this letter and other questions about procedures which our staff promptly answered, we are not aware of any other requests, either formal or informal, for documents or information from Ms. Walla.

Regarding copying of public records. Subsections 119.07(1)(a) and (b), Florida Statutes, state, in pertinent part:

> The custodian shall furnish a copy . . . of the record upon payment of the fee . . . of not more than 15 cents per one-sided copy, and for all other copies, upon payment of the actual cost of duplication of the record. . . .
> (b) If the nature or volume of public records requested to be . . . copied pursuant to this section is such as to require extensive use of information technology resources or extensive clerical or supervisory assistance by personnel of the agency involved . . . the agency may charge, in addition to the actual cost of duplication, a special service charge, which shall be reasonable and shall be based on the cost incurred . . . or the labor cost of the personnel providing the service.

In pointing out the possible costs to Ms. Walla, we believe that the Division of Records and Reporting was following the requirements of Section 119.07, Florida Statutes. Based on the above, we believe our staff attempted to work with Ms. Walla.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Florida Cities Water Company, North Ft. Myers, Barefoot Bay Division's application for increased wastewater rates is denied as set forth in the body of this Order. It is further

ORDERED that the Notice of Issuance of Florida Department of Environmental Protection Letter of Authorization or, in the Alternative, Motion to Accept Florida Department of Environmental Protection Letter of Authorization Into the Record and request to take judicial notice filed by Florida Cities Water Company, North Ft. Myers Division, is denied. It is further

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

ORDERED that all matters contained in the schedules attached hereto are by reference incorporated herein. It is further

ORDERED that the rates approved herein shall be effective for service rendered on or after the stamped approval date on the revised tariff sheets, pursuant to Rule 25-30.475, Florida Administrative Code, provided the customers have received notice. It is further

ORDERED that Florida Cities Water Company, North Ft. Myers Division shall provide proof that the customers have received notice within 10 days of the date of notice. It is further

ORDERED that prior to its implementation of the rates approved herein, Florida Cities Water Company, Barefoot Bay Division shall submit and have approved a proposed customer notice to its customers of the decreased rates and reasons therefor. The notice will be approved upon staff's verification that it is consistent with our decision herein. It is further

ORDERED that prior to its implementation of the rates approved herein, Florida Cities Water Company, North Ft. Myers Division shall submit and have approved revised tariff pages. The revised tariff pages will be approved upon staff's verification that the pages are consistent with our decision herein and that the proposed customer notice is adequate. It is further

ORDERED that Florida Cities Water Company, North Ft. Myers Division, shall refund with interest, calculated pursuant to Rule 25-30.360(4), Florida Administrative Code, the wastewater revenues

collected subject to refund as set forth in the body of this Order. It is further

ORDERED that Florida Cities Water Company, North Ft. Myers Division, shall make the refund to customers of record as of the date of this Order pursuant to Rule 25-30.360(3), Florida Administrative Code. Florida Cities Water Company, North Ft. Myers Division, shall submit the proper refund report reports pursuant to Rule 25-30.360(7), Florida Administrative Code. It is further

ORDERED that Florida Cities Water Company, North Ft. Myers Division, shall treat any unclaimed refunds as contributions-in-aid-of-construction pursuant to Rule 25-30.360(8), Florida Administrative Code. It is further

ORDERED that the rates shall be reduced at the end of the four-year rate case expense amortization period, consistent with our decision herein. Florida Cities Water Company, North Ft. Myers Division shall file revised tariff sheets no later than one month prior to the actual date of the reduction and shall file a customer notice. It is further

ORDERED that the corporate undertaking of Florida Cities Water Company may be released upon our staff's verification that the refund has been completed.

ORDERED that this docket shall be closed after the time for filing an appeal has run, upon staff's verification the Florida Cities Water Company, North Ft. Myers Division has made the required refunds as set forth in this Order and upon Florida Cities Water Company, North Ft. Myers Division's filing and staff's approval of revised tariff sheets and a customer notice.

By ORDER of the Florida Public Service Commission, this 10th day of September, 1996.

BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)
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DISSENT

Commissioner Kiesling dissents on the issue of the capacity of the wastewater treatment plant.

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900 (a), Florida Rules of Appellate Procedure.

FLORIDA CITIES WATER CO.–NORTH FT. MYERS DIVISION
SCHEDULE OF WASTEWATER RATE BASE
TEST YEAR ENDED 12/31/95

SCHEDULE NO. 1–A (P)
DOCKET NO. 950387–SU

COMPONENT		TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	$	11,649,007 $	1,728,332 $	13,377,339 $	(257,010)$	13,120,329
2 LAND		5,000	0	5,000	0	5,000
3 PROPERTY HELD FOR FUTURE USE		0	0	0	(2,425,823)	(2,425,823)
4 CONSTRUCTION WORK IN PROGRESS		91,345	(91,345)	0	0	0
5 ACCUMULATED DEPRECIATION		(2,558,856)	(584,542)	(3,143,398)	50,722	(3,092,676)
6 CIAC		(3,183,270)	(136,760)	(3,320,030)	(133,313)	(3,453,343)
7 AMORTIZATION OF CIAC		1,159,806	172,988	1,332,794	14,845	1,347,639
8 UNFUNDED FASB 106 OBLIGATION		0	0	0	(81,855)	(81,855)
9 OTHER: ALLOC. OF GENERAL OFFICE		0	27,799	27,799	0	27,799
10 WORKING CAPITAL ALLOWANCE		0	124,774	124,774	(45,929)	78,845
RATE BASE	$	7,163,032 $	1,241,246 $	8,404,278 $	(2,878,363)$	5,525,915

FLORIDA CITIES WATER CO.-NORTH FT. MYERS DIVISION
ADJUSTMENTS TO RATE BASE
TEST YEAR ENDED 12/31/95

SCHEDULE NO. 1-B (P)
DOCKET NO. 950387-SU
PAGE 1 OF 1

EXPLANATION		WASTEWATER
(1) UTILITY PLANT IN SERVICE		
a) Adjustment to reclassify costs associated with EPA lawsuit	$	(210,734)
b) Reclassification of engineering charges (audit disclosure 2)		(12,441)
c) Adjustment to reclassify retirement cost (audit disclosure 3)		(9,057)
d) Capitalize laboratory equipment		1,352
e) Projected provision for retirements in 1995		(26,130)
	$	(257,010)
(2) PROPERTY HELD FOR FUTURE USE		
a) Used and Useful Adjustment - Treatment Plant	$	(2,375,511)
b) Used and Useful Adjustment - Reuse Facilities		(50,312)
	$	(2,425,823)
(3) ACCUMULATED DEPRECIATION		
a) Adjustment to reclassify litigation costs and engineering charges	$	24,662
b) Adjustment to reclassify retirement entry		9,057
c) Additional depreciation on power operated equipment		(9,127)
d) Show provision for projected retirements in 1995		26,130
	$	50,722
(4) CIAC		
a) Imputation of CIAC to offset margin reserve	$	(219,105)
b) Adjustment to restate projected provision for CIAC in 1995		85,792
	$	(133,313)
(5) ACCUMULATED AMORTIZATION		
a) Pro Forma adjustment that imputes CIAC to offset margin reserve		14,113
b) Adjustment to restate projected provision for CIAC in 1995		(927)
c) Adjustment to accumulated amortization per Audit Disclosure No. 4		1,659
	$	14,845
(6) UNFUNDED FASB 106 OBLIGATION		
Allocation of average balance for unfunded post retirement benefits	$	(81,855)
(7) WORKING CAPITAL		
a) Adjustment to reflect average working capital determination	$	(35,712)
b) Adjustment to include unfunded pension costs and deferred meter sales		(10,217)
	$	(45,929)

FLORIDA CITIES WATER CO.–NORTH FT. MYERS DIVISION
CAPITAL STRUCTURE
TEST YEAR ENDED 12/31/95

SCHEDULE NO. 2 (F)
DOCKET NO. 950387–SU

DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
PER UTILITY							
1 LONG TERM DEBT	$ 36,660,000	$ 0	$ (32,600,479)	$ 4,059,521	48.30%	9.53%	4.60%
2 SHORT–TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
3 PREFERRED STOCK	9,000,000	0	(8,003,391)	996,609	11.86%	9.00%	1.07%
4 COMMON EQUITY	20,782,539	0	(18,481,198)	2,301,341	27.38%	11.34%	3.11%
5 CUSTOMER DEPOSITS	1,013,037	0	(900,859)	112,178	1.33%	6.00%	0.08%
6 DEFERRED ITC'S–ZERO COST	0	0	0	0	0.00%	0.00%	0.00%
7 DEFERRED ITC'S–WTD COST	1,678,281	0	(1,492,438)	185,843	2.21%	9.96%	0.22%
8 DEFERRED INCOME TAXES	6,762,006	0	(6,013,220)	748,786	8.91%	0.00%	0.00%
9 TOTAL CAPITAL	$ 75,895,863	$ 0	$ (67,491,585)	$ 8,404,278	100.00%		9.08%
PER COMMISSION							
10 LONG TERM DEBT	$ 34,820,000	$ 0	$ (32,290,118)	$ 2,529,882	45.78%	8.30%	3.80%
11 SHORT–TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
12 PREFERRED STOCK	9,000,000	0	(8,346,096)	653,904	11.83%	9.00%	1.07%
13 COMMON EQUITY	22,782,539	0	(21,127,251)	1,655,288	29.96%	11.88%	3.56%
14 CUSTOMER DEPOSITS	1,013,037	0	(939,434)	73,603	1.33%	6.00%	0.08%
15 DEFERRED ITC'S–ZERO COST	0	0	0	0	0.00%	0.00%	0.00%
15 DEFERRED ITC'S–WTD COST	1,878,281	0	(1,556,344)	121,937	2.21%	9.62%	0.21%
16 DEFERRED INCOME TAXES	6,762,006	0	(6,270,706)	491,300	8.89%	0.00%	0.00%
17 TOTAL CAPITAL	$ 76,055,863	$ 0	$ (70,529,948)	$ 5,525,915	100.00%		8.72%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	10.88%	12.88%
OVERALL RATE OF RETURN	8.42%	9.02%

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FLORIDA CITIES WATER CO.–NORTH FT. MYERS DIVISION
STATEMENT OF WASTEWATER OPERATIONS
TEST YEAR ENDED 12/31/95

SCHEDULE NO. 3-A (P)
DOCKET NO. 950387-SU

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	$ 2,085,157	$ 506,833	$ 2,591,990	$ (480,275)	$ 2,111,715	$ (108,368)	$ 2,003,347
OPERATING EXPENSES						-5.13%	
2 OPERATION AND MAINTENANCE	$ 919,804	$ 40,349	$ 960,153	$ (15,954)	$ 944,199	$	$ 944,199
3 DEPRECIATION	379,659	73,908	453,567	(174,230)	279,337		279,337
4 AMORTIZATION	949	0	949	0	949		949
5 TAXES OTHER THAN INCOME	205,132	37,790	242,922	(46,843)	196,079	(4,877)	191,202
6 INCOME TAXES	105,294	65,998	171,292	(26,314)	144,978	(38,944)	106,035
7 TOTAL OPERATING EXPENSES	$ 1,610,838	$ 218,045	$ 1,828,882	$ (263,341)	$ 1,565,542	$ (43,821)	$ 1,521,721
8 OPERATING INCOME	$ 474,319	$ 288,788	$ 763,108	$ (216,934)	$ 546,173	$ (64,548)	$ 481,625
9 RATE BASE	$ 7,163,032		$ 8,404,278		$ 5,525,915		$ 5,525,915
RATE OF RETURN	6.62%		9.08%		9.88%		8.72%

FLORIDA CITIES WATER CO.–NORTH FT. MYERS DIVISION
ADJUSTMENTS TO OPERATING STATEMENTS
TEST YEAR ENDED 12/31/95

SCHEDULE NO. 3–B (P)
DOCKET NO. 950387–SU
PAGE 1 OF 1

EXPLANATION		WASTEWATER
(1) OPERATING REVENUES		
a) Adjustment to restate miscellaneous revenues	$	(7,987)
b) Adjustment to remove utility's proposed rate increase		(480,078)
c) Adjustment to revenues per billing analysis		7,790
	$	(480,275)
(2) OPERATION & MAINTENANCE EXPENSES		
a) Adjustment to capitalize purchased lab equipment	$	(1,352)
b) Adjustment to reflect recommended provision for rate case cost		(14,602)
	$	(15,954)
(3) DEPRECIATION EXPENSE		
a) Provision for increased depreciation expense – power equipment	$	3,028
b) Depreciation related to litigation costs and engineering fees		(11,718)
c) Adjustment to reflect double posting error		118
d) Adjustment to reflect capitalized equipment		72
e) Provision to revise projected CIAC in 1995		4,564
f) Adjustment to depreciation expense to reflect assorted retirements		(1,390)
g) Provision to show imputation of CIAC		(14,113)
h) Used and useful adjustment		(154,791)
	$	(174,230)
(4) TAXES OTHER THAN INCOME TAXES		
a) Regulatory assessment fees related to revenue adjustment	$	(21,612)
b) Used and useful adjustment to property taxes		(25,231)
	$	(46,843)
(5) INCOME TAXES		
Income taxes associated with adjusted test year income	$	(26,314)
(6) OPERATING REVENUES		
Adjustment to reflect recommended revenue requirement	$	(108,368)
(7) TAXES OTHER THAN INCOME TAXES		
Regulatory assessment taxes on additional revenues	$	(4,877)
(8) INCOME TAXES		
Income taxes related to recommended income amount	$	(38,944)

UTILITY: FLORIDA CITIES WATER COMPANY
SYSTEM: NORTH FT. MYERS
COUNTY: LEE COUNTY DIVISION
DOCKET NO. 950387-SU

Schedule 4

RATE SCHEDULE

Wastewater
Monthly Rates

RESIDENTIAL	Tariffed Rates Prior to Filing	Implemented PAA Rates	Utility Requested Final Rates	Commission Approved Final Rates
Base Facility Charge All Meter Sizes	$24 37	$28 56	$32.61	$23 38
Residential Gallonage Charge, per 1,000 gallons (Maximum 6,000 gallons)	$4 62	$5 15	$5 14	$4 06

GENERAL SERVICE & ALL OTHER CLASSES	Tariffed Rates Prior to Filing	Implemented PAA Rates	Utility Requested Final Rates	Commission Approved Final Rates
Base Facility Charge				
5/8"x3/4"	$24.37	$28.56	$32.61	$23.38
1"	$60.94	$71.41	$81.53	$58.45
1-1/2"	$121.87	$142.80	$163 05	$116.90
2"	$194.99	$228.52	$260 88	$187.04
3"	$389.98	$457.03	$521 76	$374.08
4"	$609.35	$714.11	$815.25	$584.50
6"	$1,218.69	$1,428.23	$1,630.50	$1,169.01
General Service Gallonage Charge, per 1,000 gallons (No Maximum)	$5.55	$6 18	$6 17	$4.87

TYPICAL MONTHLY BILL COMPARISONS	Tariffed Rates Prior to Filing	Implemented PAA Rates	Utility Requested Final Rates	Commission Approved Final Rates
- Residential Usage (gallons) -				
3,000	$38.23	$44.01	$48.03	$35.56
5,000	$47.47	$54.31	$58.31	$43.68
10,000	$52 09	$59.46	$63.45	$47.74

RECLAIMED WATER CUSTOMERS (REUSE)	Tariffed Rates Prior to Filing	Implemented PAA Rates	Utility Requested Final Rates	Commission Approved Final Rates
- Per 1,000 gallons -	$0.00	$0.21	$0.13	$0.21

UTILITY: FLORIDA CITIES WATER COMPANY
SYSTEM: NORTH FT. MYERS
COUNTY: LEE COUNTY DIVISION
DOCKET NO. 950387-SU

Schedule 5

Schedule of Rate Decrease After Expiration of Amortization Period for Rate Case Expense

Residential	Commission Approved Rates	Commission Approved Rate Decrease
Base Facility Charge (meter size):		
All Meter Sizes	$23.38	$0.28
Gallonage Charge, per 1,000 gallons (Maximum 6,000 gallons)	$4.06	$0.05

General Service and all other classes	Commission Approved Rates	Commission Approved Rate Decrease
Base Facility Charge (meter size):		
5/8"x3/4"	$23.38	$0.28
1"	$58.45	$0.71
1-1/2"	$116.90	$1.41
2"	$187.04	$2.26
3"	$374.08	$4.53
4"	$584.50	$7.07
6"	$1,169.01	$14.15
Gallonage Charge, per 1,000 gallons	$4.87	$0.06