

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of Martin Downs)	DOCKET NO. 890799-WS
Utilities, Inc. for rate increase)	ORDER NO. 22869
in Martin County.)	ISSUED: 4-27-90
)	

The following Commissioners participated in the disposition of this matter:

- MICHAEL McK. WILSON, CHAIRMAN
- THOMAS M. BEARD
- BETTY EASLEY
- GERALD L. GUNTER
- JOHN T. HERNDON

NOTICE OF PROPOSED AGENCY ACTION

ORDER SETTING FINAL RATES AND ESTABLISHING METER

INSTALLATION AND MISCELLANEOUS SERVICE CHARGES

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein is preliminary in nature, and as such, will become final unless a person whose interests are substantially affected files a petition for a formal proceeding pursuant to Rule 25-22.029, Florida Administrative Code.

CASE BACKGROUND

Martin Downs Utilities, Inc. (Martin Downs or Utility) is a Class B utility providing service to approximately 2,560 water and 2,088 wastewater customers in Martin County. Martin Downs is wholly-owned by the Southern Realty Group, Inc. The Utility's last rate case (Docket No. 840315-WS) was based on the projected test year ended September 30, 1986. That case culminated in the issuance of Final Order No. 17269, on March 10, 1987. The Utility has received three price indexes since its last rate case.

On November 1, 1989, the Utility filed its application for water and wastewater rate increases and that date was established as the official date of filing. The application was filed pursuant to Sections 367.081 and .082, Florida Statutes. In its application, the Utility also requested that such application be processed under proposed agency action

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procedures pursuant to Rule 25-22.029, Florida Administrative Code. By letter dated February 21, 1990, the Utility waived the provision for issuance of a decision within five months of the official filing date as required by statute.

The Utility asked the Commission to approve implementation of rates that would generate annual revenues of \$776,574 and \$640,058 for its respective water and wastewater divisions. Compared to adjusted test year revenues, the Utility's requested rates would yield increases of \$174,977 and \$159,387 for water and wastewater, respectively. On January 10, 1990, this Commission issued Order No. 22406 to suspend implementation of the requested rates and to authorize collection of interim rates. The approved interim rates were designed to increase revenues by \$115,138 and \$73,463 for water and wastewater service. In accordance with Order No. 22406, the Utility filed a \$150,000 Irrevocable Letter of Credit as security for its collection of interim rates.

QUALITY OF SERVICE

Our review of quality of service included a review of customer satisfaction; a review to determine if the Utility was in compliance with the various regulatory agencies' rules and regulations; and an inspection of the Utility's plants and systems.

Plants and Distribution and Collection Systems

Our review of Martin Downs' plants and systems included conferring with the Department of Environmental Regulation (DER) to ensure that the Utility was operating within DER's standards. We also verified that the Utility was in compliance with the Department of Health and Rehabilitative Services' (HRS) permit standards, minimum operator requirements and standards controlling the location of its water wells in relation to potential sources of pollution. Based on our review, we find that the Utility is operating its treatment plants and systems satisfactorily.

Water and Wastewater Quality

In evaluating the quality of water, we conferred with HRS and DER to verify compliance with their water quality standards, and reviewed the number of water quality complaints filed against the Utility during the test year.

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HRS informed us that the Utility's water quality has been good and complaints about the Utility's water quality are infrequent. DER advised us that the Utility has consistently met DER's minimum water quality standards and that very few complaints have been received. Our Division of Consumer Affairs, like DER and HRS, received very few consumer complaints about the quality of service provided by the Utility.

Our review of the quality of Martin Downs' wastewater included an inspection of facilities and a check with DER to ensure that the Utility was meeting DER's wastewater quality standards.

Our inspection reveals that Martin Downs currently disposes of effluent via percolation ponds. Since the soil in the Utility's service area is sandy and loamy, and not conducive to drainage or percolation, Martin Downs applied for and was granted a DER permit to add three additional ponds to alleviate the Utility's effluent disposal problem on November 15, 1988. Since that time, Martin Downs has constructed one additional percolation pond. Overflow from the percolation ponds flows into the adjacent Crane Creek golf course lake. Martin Downs is preparing to switch to effluent disposal by means of spray irrigation. The Utility recently submitted an application to DER to spray irrigate Crane Creek and Tower golf courses. At this time Martin Downs has sufficient effluent to spray irrigate only one golf course. Crane Creek golf course will be the initial recipient of all effluent from Martin Downs. Crane Creek Golf Course and Martin Downs Utilities are both wholly owned subsidiaries of Southern Realty Group.

DER informs us that Martin Downs' plant condition is satisfactory and the quality of the Utility's effluent is within DER standards.

Based on the above, we find the quality of the Utility's water and wastewater to be satisfactory.

Customer Meeting

Our staff held a customer meeting in the service area on January 25, 1990 in order to determine the level of customer satisfaction with the service being provided by the Utility. Approximately forty-six customers attended. Twenty-two customers testified concerning the magnitude of the rate increase, billing procedures and the taste of the water.

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Several customers complained that their water had a strong chlorine taste particularly at night. Our investigation reveals that the Utility is maintaining its chlorine levels within the limits set by DER.

Some customers expressed concern about the amount of the base facility charge which is collected during the months their homes are vacant. Our review of the Utility's billing procedures reveals that the Utility is complying with our rules; therefore, no corrective action by the Utility is required.

The most prevalent concern expressed by the customers at the meeting was the magnitude of the rate increase requested by Martin Downs. The Utility's request for collection of increased rates, based upon its reported investment in plant facilities (rate base), its operating expenses, and its sources of invested capital (cost of capital), and our determination of the Utility's revenue requirement based upon these components are discussed below.

During the meeting, two customers inquired as to whether we would consider the Utility's revenues from the sale of effluent to a golf course in setting rates for the Utility. Specifically, the customers inquired about a spray irrigation agreement between the Utility and the Crane Creek golf course, both of which are owned by Southern Realty Group. The contract between the Utility and the golf course calls for the Utility to provide effluent at a rate of 5 cents per thousand gallons. This rate apparently represents the Utility's cost to pump the effluent to the golf course. The customers said that they believed that providing effluent for spray irrigation represents a substantial revenue source for the Utility, and as such, these revenues should be taken into consideration when deciding on the amount of rate increase to allow the Utility.

Theoretically, we agree with the customers that providing effluent for spray irrigation represents a potential revenue source for utilities. Nevertheless, we believe it is not reasonable to consider estimates of such revenues in this case. Martin Downs is not providing effluent at this time for spray irrigation because it has not yet received a permit from the DER to do so. The Utility's best estimate is that spray irrigation could begin late in 1990 or early 1991, but it is entirely dependent on when the permit is finally issued and when the construction of the spray irrigation facilities is

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completed. Since a historical year is used in the present case, none of the costs of providing effluent are included in our calculations of the Utility's revenue requirement. Accordingly, we believe that there is no reasonable basis for considering these future revenues in establishing current rates for the Utility.

Upon due consideration of the foregoing, we find Martin Downs' quality of service to be satisfactory.

RATE BASE

Martin Downs' application is based on the historical test year ended May 31, 1989. Our calculations of the Utility's water and wastewater rate bases are attached as Schedule No. 1A and 1B. Adjustments to rate base are itemized on Schedule No. 1C. Those adjustments which are essentially mechanical in nature or which are self-explanatory will not be further explained in the text of this Order. The major adjustments are summarized as follows:

1) Plant-in-service - Martin Downs filed a petition for Commission approval of an Allowance For Funds Used During Construction (AFUDC) rate in Docket No. 890414-WS. On May 16, 1989, by way of Order No. 21238, we approved a 12.96 percent AFUDC rate for the Utility for all qualifying construction projects began on or after January 1, 1989. The Order specifically provided that "the rates shall be effective from January 1, 1989, and may not be applied retroactively to previous fiscal years."

Rule 25-30.116(5), Florida Administrative Code, provides in part that: "No utility may charge or change its AFUDC rate without prior Commission approval. The new AFUDC rate shall be effective the month following the end of the 12-month period used to establish that rate and may not be retroactively applied to a previous fiscal year unless authorized by the Commission." The effective date of the Rule is August 11, 1986.

In the Utility's previous rate case, we approved increased rates for Martin Downs using a projected test year ending in September 30, 1986. The approved rate base included a provision for new plant construction, which included a component to reflect capitalized interest on construction. The Utility continued adding interest on construction for projects

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completed after the test year even though it had not requested or received authority to do so. For periods after September 30, 1986, Martin Downs accrued interest on its books based upon the prime rate plus 2 percent for debt monies used to fund all construction.

Staff Advisory Bulletin No. 31, issued January 27, 1989, states that "If a utility has not received an approved AFUDC rate from this Commission, the utility may petition the Commission to establish a rate and for authority to apply the rate retroactively to previous years. If the Commission declines to grant the petition for retroactive application, any AFUDC charged between August 11, 1986, and the effective date of a utility's approved AFUDC rate established by order of this Commission would not be allowed in determining the appropriate rates and charges of the utility."

Based on the above, we made several adjustments to remove the AFUDC which the Utility accrued on its books after September 30, 1986, since such accruals are in violation of our rule. These adjustments included reducing the Utility's plant-in-service accounts by \$13,648 and \$12,316 for water and wastewater, respectively. Corresponding adjustments were made to the Utility's accumulated depreciation accounts by \$485 and \$572 for water and wastewater, respectively. Also, the Utility's depreciation expense accounts were reduced by \$323 and \$381 for water and wastewater, respectively. We find such adjustments to be appropriate.

2) Water Plant - We reviewed the recorded additions to plant to verify correct accounting classifications. A \$3,985 overall cost for installing electrical equipment for lift station equipment and generators was equally divided between water and wastewater plant accounts. The Uniform System of Accounts provides for the segregation of water and wastewater charges with prescribed accounts for each system. Since the electrical installations pertained to wastewater equipment, any allocation to the water division is improper. Therefore, we removed \$1,992 in electrical installation cost from the Utility's water plant account and transferred this same amount to the Utility's wastewater plant account. Corresponding adjustments to accumulated depreciation and test year depreciation expense were needed. We reduced depreciation expense by \$123 and accumulated depreciation by \$158, with offsetting increases to the wastewater accounts. We find these adjustments to the Utility's plant accounts to be appropriate and are hereby approved.

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3) Used and Useful - The Utility's used and useful calculations were reviewed by us and they are accepted. No adjustments are included for unaccounted-for water since the Utility's unaccounted-for water is less than the ten percent normally allowed. The Utility's fire flow calculations are performed in accordance with Section 340 of the Insurance Service Office Guide, which we agree is appropriate. The capacities of the Utility's distribution and transmission lines are calculated in accordance with accepted engineering practices. The Utility's used and useful percentages are set forth below.

(A) Water Treatment Plant - The Utility's water treatment plant capacity is 1,000,000 gallons per day (GPD), with an average daily flow of 449,078 GPD. The Utility's maximum daily flow is 597,400 GPD and fire flow is 360,000 GPD, thus the Utility's water treatment plant is 95.74 percent used and useful.

(B) Water Distribution System - The Utility's distribution system has a capacity of 5,500 equivalent residential connections (ERCs), with actual connections averaging 2,406 ERCs. Thus, the Utility's water distribution system is 43.75 percent used and useful.

(C) Wastewater Treatment Plant - The Utility's wastewater treatment plant has a capacity of 450,000 GPD, with an average daily flow during its peak month of 248,000 GPD. Thus, the Utility's wastewater treatment plant is 55.11 percent used and useful.

(D) Wastewater Collection System - The Utility's wastewater collection system has a capacity of 5,000 ERCs, with connections averaging 1,912 ERCs. Thus, the Utility's wastewater collection system is 38.24 percent used and useful.

Upon due consideration, we find the above used and useful percentages to be appropriate and are hereby approved.

4) Accumulated Depreciation - In reviewing the Utility's books, we noted that the Utility was using guideline depreciation rates for a Class C utility in 1986, even though the Utility was a Class B utility during this period. In 1987

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and later periods, the Utility used Class B depreciation rates in accordance with Rule 25-30.140, Florida Administrative Code. If the Utility had used Class B depreciation rates in 1986, depreciation expense would have been \$22,333 less for the water division and \$20,203 less for the wastewater division. The corresponding credit to accumulated depreciation would have been smaller by these same amounts. Accordingly, we reduced the Utility's accumulated depreciation accounts by \$22,333 and \$20,203 for water and wastewater, respectively, to reflect the depreciation charges which should have been recorded in 1986. We find such adjustments to be appropriate, thus are hereby approved.

5) Contributions-in-aid-of-construction(CIAC) - In Docket No. 881412-WS, this Commission considered a request by Martin Downs to implement a new CIAC provision relating to extension of water and wastewater transmission lines. The Utility had previously received \$13,629 from Home Group, Inc. (HGI) as its hydraulic share of a planned extension of lines. This amount was recorded as CIAC and was allocated \$5,310 to water and \$8,319 to wastewater.

By Order No. 20564, issued January 9, 1989, we denied the Utility's request for additional CIAC relating to extensions of mains. Since the Utility's service availability charge included some fractional provision for transmission mains, the proposed addition to CIAC would be a double charge. Therefore, the Utility should reimburse HGI the above-mentioned \$13,629 amount. CIAC is reduced by \$13,629 to reflect this repayment.

6) Accumulated Amortization of CIAC - The Utility's test year depreciation expense was based on guideline depreciation rates for plant accounts and CIAC amortization rates which correspond to related plant balances. The Utility identified three functional groups to compute applicable amortization rates: plant capacity, meter installations and contributed property. This functional grouping of CIAC and derivation of appropriate amortization rates for each group, is in accordance with Rule 25-30.140, Florida Administrative Code. However, this grouping of CIAC was only used to yield the test year expense on a pro forma basis. For bookkeeping purposes, the Utility actually used a 3.5% composite amortization rate applied to CIAC account balances. Although the Utility's calculation of test year amortization of CIAC was computed in accordance with Rule 25-30.140, Florida Administrative Code, the accumulation of prior amortization amounts was incorrect.

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Pursuant to the above rule, contributed property and non-contributed property shall be separately amortized to the extent records permit. Different amortization rates are also appropriate where functional categories of CIAC can be identified from a utility's records. The 3.5% composite rate actually used by the Utility for accumulation of amortization since the Utility's last rate case was apparently determined based upon plant balances in 1984 and was not changed to recognize a different mix of plant accounts in later years, or separate identification of contributed and non-contributed properties.

We believe rates for amortization of CIAC require yearly review to assure compliance with the intent of the rule. Our initial review indicated that a rate below the 3.5% composite rate actually used by Martin Downs should have been used to recognize different plant mixes and CIAC levels. Informed of this concern, the Utility prepared additional schedules to show what amounts would have been recorded in accordance with the depreciation rule. Using the functional CIAC accounts described above, the accumulated amortization balance (average amount) would be \$326,006 for the water division and \$266,280 for the wastewater division. These amounts are less than the amounts reported in the Utility's application and adjustments were, therefore, necessary. The adjustments resulted in a decreases to accumulated amortization of CIAC by \$31,140 and \$23,738 for water and wastewater, respectively. These adjustments reduced the rate base amounts. However, a portion of the Utility's CIAC was considered prepaid; therefore, used and useful adjustments were also necessary. The adjustments increased the Utility's rate bases by \$7,612 and \$4,591 for water and wastewater, respectively. We find these adjustments to be appropriate.

7) Allowance for Working Capital - Working capital is the amount of investor-supplied cash needed to operate a utility during the interval between providing service and receiving payment from the customers. By including it in rate base, a utility is allowed a return on this portion of its investment.

The method we prefer in calculating a working capital allowance is the balance sheet method. This methodology allows the rate base and capital structure to be reconciled, which ensures that current and deferred asset accounts are properly compared with current liabilities and deferred credits. However, in Order No. 21202, issued May 8, 1989, we recognized

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that another method, referred to as the "formula method", may also yield a reasonable allowance for working capital for water and wastewater utilities and we instructed our staff to initiate rulemaking. The formula method permits the use of one-eighth (1/8) of a utility's operation and maintenance (O&M) expenses as a reasonable allowance for working capital. The advantages produced by the formula method are simplicity of calculation and expected savings in rate case expense.

Martin Downs requested that it be permitted to use the formula method to establish an appropriate allowance for working capital in the present proceeding. In Order No. 21885, issued September 13, 1989, we approved the Utility's request. Upon due consideration, we find that working capital allowances of \$47,606 and \$43,342 for water and wastewater, respectively, as derived from the formula method discussed herein, are reasonable and are hereby approved.

Conclusion

In consideration of the above determinations, we find the appropriate test year rate bases to be \$1,977,596 and \$1,235,657 for water and wastewater, respectively.

COST OF CAPITAL

Our calculations of this Utility's cost of capital are shown on Schedule No. 2 attached hereto.

Martin Downs requested that it be permitted to use the simple average method to calculate its test year capital structure. By way of Order No. 21885, issued September 13, 1989, we approved the Utility's request to use this method in this rate proceeding. The Utility's capital structure consists of long term debt and customer deposits. The interest rate for debt capital is based on the prime interest rate plus a 2 percent premium. Since the current prime rate is 10 percent, we find that the Utility's approved interest rate for debt capital should be 12 percent, instead of 12.5 percent as requested by the Utility. This is consistent with our policy which provides that interest rates which vary depending upon prime rate conditions are measured using current rather than historical information. Using the Utility's capital structure and reconciling each item to rate base on a pro rata basis, we find an overall rate of return of 11.89 percent to be reasonable.

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NET OPERATING INCOME

Our calculations of the Utility's net operating income are reflected on Schedules Nos. 3A and 3B for the respective water and wastewater operating divisions. Adjustments to the operating statements are shown on Schedule No. 3C. Those adjustments essentially mechanical in nature or which are self-explanatory are shown on these Schedules without further explanation in the text of this Order. Our review of the Utility's application revealed that several adjustments were necessary to certain expenses claimed by the Utility. These adjustments are as follows:

1) Purchased Power Expense - Our review of the Utility's invoices for purchased power revealed a miscoding of billings for three months. Purchased power bills for the wastewater plant were erroneously assigned to the water plant in December, 1989, and for January and February, 1990. We corrected this error by increasing the Utility's wastewater purchased power expense by \$8,590 and by decreasing the Utility's water purchased power expense by a like amount. We find these adjustments to be appropriate.

2) Insurance Expense - Several of the Utility's proposed adjustments to its operating statement concerned an expected increase in insurance costs. These pro forma adjustments included general liability insurance, workman's compensation insurance, vehicle insurance and employee health insurance. Increased expenses for employee education and pension benefits were also included in test year expenses. The Utility estimated that its annual insurance expense would be \$70,852, which exceeded the test year allowance by \$28,607. We determined that actual insurance premiums exceeded the Utility's estimate. Specifically, the combined costs for general liability insurance, vehicle insurance, workman's compensation, and employee benefits was understated by \$6,700. Therefore, we increased the Utility's insurance expense allowance by \$6,700. We allocated this increased allowance equally between the water and wastewater systems. We find these adjustments to be reasonable.

3) Maintenance Expense - During the test year, the Utility paid \$5,552 to repair its lime softening equipment. This equipment was approximately five years old at its repair date. Based upon our analysis, we estimate that this repair will recur approximately once every five years. Therefore, we find it appropriate to amortize these repair costs over five

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years. Our treatment of this item is consistent with the Utility's own treatment of extraordinary maintenance charges. Accordingly, we reduced test year maintenance expenses by \$4,442 to reflect one year of amortization of this expense in the test year.

4) Engineering and Management Services Expense - Pursuant to an agreement between Martin Downs and Martin County, the Utility's plant facilities may be sold to the County in 1994. An earlier closing may occur if certain prior conditions are met, including the County having secured the necessary funds to conclude the purchase. The Utility incurred certain expenses relating to this planned sale in its test year. Specifically, the Utility included \$7,650 in engineering services and \$2,170 for management services relating to the possible sale. We do not believe that these particular expenses should be considered representative of the recurring day-to-day operating expenses, but rather, should be considered to be either non-recurring expenses, or below-the-line expense items. Accordingly, we find it appropriate to reduce test year operating expenses by \$9,820.

5) Sludge Removal Expense - From June until November, 1988, the Utility paid \$80.00 per thousand gallons for removal of sludge from its wastewater treatment plant. Subsequent to November, 1988, the Utility hired a different contractor and the unit price for sludge removal was reduced to \$28.50 per thousand gallons. Thus, on a going-forward basis, a reduced expense for sludge removal services is expected. Our review indicates that the Utility paid \$21,600 for removal of 270,000 gallons of sludge at a unit price of \$80.00. Using the year-end cost of \$28.50 per thousand gallons, a \$13,905 savings would occur. Thus, we find it appropriate to make a pro forma adjustment to reduce test year sludge removal expense by \$13,905.

6) Rate Case Expense - In its application, the Utility requested total rate case expenses of \$76,009. This amount included \$17,509 for prior unamortized rate case expenses from the Utility's previous rate case and \$58,500 for the current case. The Utility estimated that its rate case expense for the current case would be as follows:

Accounting Consultant	\$30,000
Legal Services	20,000
Out of Pocket	5,500
Other Expenses	3,000
Total Utility Estimate	<u>\$58,500</u>

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As part of our review, we requested an update of the actual rate case expenses incurred, with supporting documentation, as well as the estimated amount of rate case expense required to complete this case on a proposed agency action basis. The Utility reported that the rate case cost would exceed its initial estimate by \$13,943. We have reviewed the supporting documentation for projected rate case costs. We believe that numerous adjustments are needed to accurately reflect a reasonable rate case expense.

(a) Prior Unamortized Rate Case Expense - In its application, the Utility included a provision to represent the unamortized portion of prior rate case expense as of May 30, 1989. Since the Utility's interim rates included an allowance for this prior expense, the unamortized portion has decreased and will continue to decrease until the date that the final rates are placed into effect. Accordingly, we reduced the prior balance of unamortized rate case expense by \$10,008, resulting in a remaining balance of unamortized rate case expense of \$7,501.

(b) Misclassified Rate Case Expense - The Utility classified certain legal and accounting fees related to a petition for approval of service availability charges as test year expenses. These amounts were booked as contractual services, but should have been reported as regulatory commission expenses. Since these expenses are not recurring charges, they should be amortized over a reasonable period, which we believe to be four years. The reported expense was \$2,205 for accounting services and \$3,370 for legal services. Thus, we find it appropriate to amortize these expenses over four years by including these amounts in the overall provision for rate case costs.

(c) In-House Salaries - In its update of actual rate case costs, the Utility included a provision for the wages of three of its employees. The reported amount included regular and overtime pay. Each of the employees' annual salaries was included as a test year operating expense. Thus, only the overtime portion is properly allowable as rate case expense. Accordingly, we removed \$2,082 from the Utility's updated rate case expense. We find this adjustment to be reasonable.

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(d) Legal Fees - The Utility originally estimated that legal fees would be \$20,000 for this rate case. The updated rate case expense documentation showed that only \$11,706 in legal fees had been actually incurred. This amount appears reasonable and no adjustment is necessary.

(e) Accounting Consultant Fees - The Utility initially estimated that accounting consultant fees would be \$30,000. This represents an increase of \$9,000 beyond the accounting cost in Docket No. 840315-WS. Further, the Utility's update indicated that accounting fees and related expenses totalled \$48,964. This amount exceeded the Utility's initial estimate by \$18,964. We find this amount to be unreasonably high for numerous reasons.

First, this case was filed under Section 367.081(8), Florida Statutes, which provides that a utility may request that its rate case be processed using the proposed agency action (PAA) procedure. This statute was specifically intended to reduce rate case expense by streamlining rate case procedures.

Second, the Utility filed this case using the proposed minimum filing requirements (MFRs), which was intended to reduce the amount of required discovery, which in turn, should have reduced rate case expense.

Third, as previously stated, by Order No. 21885, issued September 13, 1989, the Utility was granted permission to use a simple average test year as opposed to a thirteen month average, and to use the formula method for deriving a working capital allowance as opposed to the more time-consuming balance sheet method. Both procedures should have reduced rate case expense since simpler calculations are involved.

Fourth, we recently processed two rate applications from utilities similar in size to Martin Downs. The accounting consultant fees in both cases were less than the amount incurred by Martin Downs in the present case. The cases we refer to are Florida Cities Water Company - Golden

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Gate Division, Docket No. 890509-WU, and Southern States Utilities, Inc. - Duval County, Docket No. 890951-WS. Both applications were processed using the PAA procedure discussed above. Also, like the present case, both previous cases were processed using more efficient filing procedures, such as the proposed MFRs, the simple average test year and the formula method for establishing a working capital allowance. In the Florida Cities case, which was a water-only case, the accounting consultant fees totalled \$14,656. The Southern States case was an application for a wastewater rate increase and a water rate restructuring case, which required submission of complete rate schedules for the water and wastewater systems. Yet, Southern States' accounting consultant fees totalled approximately \$22,000, which is less than half than the \$48,964 requested by Martin Downs.

Fifth, in reviewing the updated rate case expense data, we analyzed the hours and description of work performed by the accounting consultant. We believe an unreasonably large amount of time was charged. The following are examples of the hours charged:

<u>TASK</u>	<u>HOURS</u>
Field Work	41
Administration	53
Plant & Accum. Depr.	21
Depreciation Exp.	37
Used & Useful	23
CIAC	70
Computer Input	<u>93</u>
Total Hours	<u>317</u>

When asked to explain the updated amount for accounting fees, the consultant responded with further detail of the services performed. The consultant reported that substantial time was spent in analysis and reconciliation of information from the last rate case. Further, the consultant reported that mere gathering of raw numbers from the Utility would mean skipping some work and would not constitute a professional job. Finally, the

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consultant said that thoroughness reduced future rate case expense because our auditors would encounter fewer problems.

In response to the Utility's first contention concerning updating of information from a prior test period, we again refer to the two recent rate cases processed by us. In the Florida Cities' case, the previous test year was a projected period and it was also an initial filing. In the Southern States case, its previous rate case was in 1977. Thus, both cases would presumably require more accounting work, yet less time was evidently needed by their consultants. In response to the consultant's second comment, we believe that a professional accounting job could be been done with expenditure of fewer hours than that reported by the consultant. As for the consultant's final point, we do not believe that the consultant's efforts substantially reduced the time or questions during the audit visit.

Sixth, our review revealed that the Utility's books and records were in good condition. Therefore, the consultant should have been able to use available data to produce the MFR schedules without an unusual expenditure of time. We recognize that certain schedules require more accounting expertise, nevertheless, we believe that the condition of the Utility's books should have reduced the consultant's hours significantly.

Section 367.081(7), Florida Statutes, requires us to determine the reasonableness of rate case expense and disallow any unreasonable amount. In Docket No. 850031-WS, Orange/Osceola Utilities, Inc., Order No. 17366, we determined that accounting expenses for that rate case were excessive based upon a comparative analysis of average billing rates. We believe that a comparative adjustment is necessary in this case due to an excessive number of billed hours. Since accounting expenses of approximately \$22,000 were incurred in the above-discussed Southern States-Duval rate case, we believe that a similar amount is appropriate in the present case.

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Accordingly, we find it appropriate to reduce the allowance for accounting fees in this case to \$22,000.

All of our adjustments result in a \$33,479 reduction to the \$89,952 updated provision for overall rate case costs for the Utility. We find such adjustments to be reasonable and appropriate.

7) Real Estate and Property Taxes - In its application, the Utility reported that its projected test year real estate and property taxes would be \$147,492. Upon review, we determined that actual test year real estate and property taxes amounted to \$137,812, or \$9,680 less than the amount reflected in the Utility's application. After making the appropriate used and useful adjustments and allocations to each system, reductions of \$2,877 and \$502, for water and wastewater, respectively, were required. We find such adjustments to be appropriate.

8) Regulatory Assessment Fee - Section 367.145, Florida Statutes, gives us authority to increase our regulatory assessment fee to 4.5 percent of a utility's gross revenues derived from intrastate business. Rule 25-30.120, Florida Administrative Code, has been amended to read "For the year beginning January 1, 1990, each utility shall pay a regulatory assessment fee in the amount of two and one-half percent for the second six months of that year. Thereafter, beginning January 1, 1991 each utility shall pay a regulatory assessment fee in the amount of four and one-half percent for the entire year."

The Utility's new rates will go into effect on approximately June 15, 1990, or approximately two weeks prior to the effective date of the 4.5 percent regulatory assessment fee set forth in the above-cited rule. We have analyzed the effect of allowing the 4.5 percent regulatory assessment fee in the final rates. If the Utility is allowed to earn the full amount for two weeks prior to the effective date of the increase, the impact would be too immaterial to have any effect on the Utility's rates. Thus, we find that it is reasonable to allow the Utility to implement the 4.5 percent regulatory assessment fee in its final rates approved herein.

Our determination of the new fee required two separate calculations. First, using the 4.5 percent rate we increased

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the Utility's allowance for regulatory assessment fees in the test year by \$12,032 and \$9,613 for water and wastewater, respectively. Second, we calculated the regulatory assessment fee based on the Utility's anticipated increase in revenues and determined that such increase would generate additional fees of \$6,825 and \$6,964 for water and wastewater, respectively. Based on the above, we find that the allowance for the Utility's regulatory assessment fee should be increased by \$18,857 and \$16,577 for water and wastewater, respectively.

Conclusion

Based on the adjustments discussed above, we find that absent provision for collection of increased rates, the Utility would experience test year operating income of \$89,899 for the water system and (\$1,268) for the wastewater system.

REVENUE REQUIREMENT

To provide the Utility with the opportunity to earn an 11.89 percent return on its investment, annual operating revenues should be \$753,736 for the water system and \$635,879 for the wastewater system. These revenue requirements result in increases of \$152,139 for the water system and \$155,208 for the wastewater system on an annual basis.

RATES AND CHARGES

Rate Structure

Our review reveals that the Utility is utilizing a water rate structure which consists of a base facility charge based on meter size, plus a gallonage charge to reflect usage. We find that since this is consistent with our policy, the Utility shall continue to use its existing water rate structure.

Martin Downs' existing wastewater rate structure includes a base facility charge which is the same for all residential customers regardless of meter size, with a cap of 10,000 gallons per month for billing purposes. We believe that the cap on gallons is necessary to recognize that a portion of a residential customer's water usage will not be returned to the wastewater system. The Utility was billing its general service wastewater customers on a base facility charge with no cap on usage for billing purposes. Upon due consideration, we find the Utility's existing wastewater rate structure to be

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appropriate and the Utility shall continue to use such structure.

Water and Wastewater Rates

The new rates, which we find to be fair, just and reasonable, and which are designed to achieve the authorized revenue requirements, are set forth below. The current and interim rates are shown for comparison.

WATER

Schedule of Current, Interim and Commission Approved Rates

Monthly Rates

	<u>Current</u>	<u>Interim</u>	<u>Commission Approved</u>
<u>Residential</u>			
Base Facility Charge:			
Meter Size:			
5/8"x3/4"	\$ 11.84	\$ 14.13	\$ 14.83
3/4"	17.76	21.21	22.25
1"	29.85	35.63	37.40
1-1/2"	59.17	70.64	74.13
2"	94.67	113.02	118.60
Gallorage Charge per 1,000 G.	\$ 1.82	\$ 2.17	\$ 2.28
<u>General Service</u>			
Base Facility Charge:			
Meter Size:			
5/8"x3/4"	\$ 11.84	\$ 14.13	\$ 14.83
3/4"	17.76	21.21	22.25
1"	29.85	35.63	37.40
1-1/2"	59.17	70.64	74.13
2"	94.67	113.02	118.60
3"	189.32	226.01	237.18
4"	295.81	353.14	370.59
6"	591.64	706.30	741.21
Gallorage Charge per 1,000 G.	\$ 1.82	\$ 2.17	\$ 2.28

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WASTEWATER

Schedule of Current, Interim and Commission Approved Rates

Monthly Rates

	<u>Current</u>	<u>Interim</u>	<u>Commission Approved</u>
<u>Residential</u>			
Base Facility Charge:			
Meter Size:			
All Meter Sizes	\$ 11.83	\$ 13.66	\$ 15.63
 Gallorage Charge			
per 1,000 G.	\$ 2.43	\$ 2.81	\$ 3.21
(Maximum 10,000 G.)			
 <u>General Service</u>			
Base Facility Charge:			
Meter Size:			
5/8"x3/4"	\$ 11.83	\$ 13.66	\$ 15.63
3/4"	17.76	20.53	23.47
1"	29.60	34.18	39.11
1-1/2"	59.16	68.31	78.17
2"	94.66	109.30	125.08
3"	189.33	218.62	250.18
4"	295.82	341.58	390.90
6"	591.65	683.17	781.81
 Gallorage Charge			
per 1,000 G.	\$ 2.43	\$ 2.81	\$ 3.21

The approved rates will be effective for meter readings taken on or after thirty (30) days from the effective date of this Order, if no protest is timely filed, subject to our approval of the Utility's revised tariff sheets. The tariff sheets will be approved upon Staff's verification that the tariff revisions are consistent with our decisions herein; that the proposed customer notice is adequate; and that the time for protesting this Order has expired.

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Miscellaneous Service Charges

Rule 25-30.345, Florida Administrative Code, permits utilities to assess charges for miscellaneous services. The principal purpose of such is to provide a means by which the utility can recover its costs of providing miscellaneous services from those customers who require the services. Thus, costs are more closely borne by the cost causer rather than the general body of ratepayers. Second Revised Staff Advisory Bulletin (SAB) No. 13 encourages utilities to establish charges for the following miscellaneous services:

INITIAL CONNECTION - This charge would be levied for service initiation at a location where service did not previously exist.

NORMAL RECONNECTION - This charge would be levied for transfer of service to a new customer account at a previously served location, or reconnection of service subsequent to a customer requested disconnection.

VIOLATION RECONNECTION - This charge would be levied prior to reconnection for an existing customer after disconnection of service for cause according to Rule 25-30.320(2), F.A.C., including a delinquency in bill payment.

PREMISES VISIT CHARGE (IN LIEU OF DISCONNECTION) - This charge would be levied when a service representative visits a premises for the purpose of discontinuing service for nonpayment of a due and collectible bill and does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill.

Martin Downs' proposed charges conform to the charges suggested in SAB No. 13, except that the Utility requested authority to charge \$15 instead of actual cost for a wastewater-only violation reconnection. We believe that in the case of a wastewater-only violation disconnection, the actual capping and uncapping of the lateral serving the customer's premises would cost considerably more than the Utility's proposed \$15 charge. Therefore, we approve a wastewater-only service charge based on actual costs of re-establishing

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service. We find the following miscellaneous service charges to be reasonable; thus they are hereby approved.

	<u>WATER</u>	<u>WASTEWATER</u>
Initial Connection	\$15	\$15
Normal Reconnection	15	15
Violation Reconnection	15	Actual Cost
Premises Visit	10	10

When both water and wastewater services are provided, only a single charge is appropriate unless circumstances beyond the control of the utility require multiple actions. The new miscellaneous service charges will be effective for services rendered on or after the stamped approval date on the revised tariff sheets.

Meter Installation Charges

The utility has requested an increase in its meter installation charges. Our review of the charges revealed that higher material costs accounted for the large increase in charges for the 1-1/2 inch and 2 inch meter sizes. The Utility is now installing double check valve backflow preventers in the 1-1/2 inch and 2 inch meters which add \$250 and \$310, respectively, to the total cost. According to information the Utility provided, the total cost of materials is \$476 for a 1-1/2 inch meter and \$604 for a 2 inch meter, while labor and overhead add another \$103 and \$141, respectively, to the costs.

We believe that Martin Downs assigned excessive overhead charges to its meter installations. Martin Downs informed us that in developing its overhead charges, the Utility first computed the costs of the installation labor, clerical and administrative help, and the trucks, tools and equipment. The Utility then applied a ten percent overhead factor to the sum total of all the costs including the investment in materials. The resulting overhead charges for the 1-1/2 inch and 2 inch meters are \$53 and \$68, respectively, or approximately three times the direct labor cost. We believe that an overhead charge equal to the direct installation labor charge is more appropriate. This would assign \$16 of overhead to the 1-1/2 inch meter and \$24 to the 2 inch meter.

Upon due consideration, we find that the meter installation charges set forth below are reasonable and are

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hereby approved. The approved charges shall be effective for all installations performed on or after the stamped approval date on the revised tariff sheets.

Martin Downs' present and proposed meter installation charges and our approved charges are as follows:

<u>Meter Size</u>	<u>Present</u>	<u>Utility Proposed</u>	<u>Commission Approved</u>
5/8" x 3/4"	\$ 90	\$ 100	\$ 100
1"	175	160	160
1-1/2"	300	579	542
2"	400	745	701
Over 2"	Actual Cost	Actual Cost	Actual Cost

Plant Capacity Charge

Martin Downs' present plant capacity charges are \$700 for water and \$925 for wastewater. When originally set, the charges were projected to achieve a contribution level of 79 percent for water and 81 percent for wastewater. Although those levels exceeded the 75 percent maximum allowed by Rule 25-30.580, Florida Administrative Code, they were nonetheless approved because we believed that the future contribution level could be reduced by capitalized repairs or the cost of future expansion, estimates of which were not included in our original projections.

The Utility's present policy is to construct the trunk lines for the water transmission system and wastewater collection system, but to require donation of on-site lines. New customers or developers are required to pay plant capacity charges based on anticipated usage and to pay meter installation fees based on meter size. The Utility is also authorized to collect guaranteed revenues and the gross-up on CIAC.

Martin Downs proposed to increase its water plant capacity charge from \$700 to \$808. The Utility's current water plant capacity is 1.0 MGD, or 2857 ERCs. Active connections at December 31, 1989 totalled 2948 ERCs. The proposed capacity charge is based on expansion of the water plant in two phases. The Utility projected that the requested charge would achieve a 75 percent contribution level at designed capacity in 1994.

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The Utility proposed to increase its wastewater plant capacity charge from \$925 to \$940. The current wastewater treatment capacity is .450 MGD, or 2250 ERCs. Active connections at December 31, 1989, totalled 2422 ERCs. The proposed capacity charge is based on the planned expansion of the wastewater plant which will also occur in two phases. The Utility projected that the requested charge would achieve a 75 percent contribution level at designed capacity in 1994.

In analyzing the Utility's projections, we incorporated the rate base adjustments previously discussed herein. We also used test year amortization rates for prospective CIAC balances instead of the composite rate the Utility used which was developed in its last rate case. Incorporating these adjustments produced a contribution level for both water and wastewater that exceeded the 75 percent level projected by the Utility. In addition, as of May 31, 1989, the Utility's contribution level was approximately 68 percent for water and 66 percent for wastewater, which is within the guidelines of Rule 25-30.580, Florida Administrative Code. Thus, we believe that the Utility's proposed capacity charges are not appropriate. Further, when the existing capacity charges are applied to the Utility's growth projections, the results are contribution levels of 76 percent for water and 77 percent for wastewater at designed capacity. Although the existing rates may produce contribution levels that exceed the maximum allowed by the rule, we believe they are reasonable given the difficulty of accurately predicting future construction costs, timing of connections and capitalized repairs. Therefore, we find that it is appropriate for the Utility's existing water and wastewater capacity charges to remain in effect.

Guaranteed Revenues

The Utility also requested to change its average daily flow (adf) per ERC. The adf is being reduced for a water ERC from 400 gallons per day (gpd) to 350 gpd, and increased for a wastewater ERC from 140 gpd to 200 gpd. These revisions are based on the Utility's actual flows and were recommended by the Utility's professional engineer to be used for planning purposes and permitting activities. Upon due consideration, we find these revisions to be reasonable and are hereby approved.

Changing ERC figures necessitates an adjustment to the guaranteed revenue charges. The existing residential charge for water is \$5.92 monthly per ERC, while all others pay \$0.0148 per gallon monthly. The monthly wastewater charges are

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\$4.70 per ERC for residential customers and \$0.03357 per gallon for all others. The Utility proposed to change the per gallon rate from \$0.0148 to \$0.017 for water and from \$0.03357 to \$0.0235 for wastewater to properly adjust the rates consistent with the revised ERC flows. The flat monthly rate for guaranteed revenues will not change. We concur with these changes and hereby approve them. The new guaranteed revenue charges will be effective for capacity reserved on or after the stamped approval date on the revised tariff sheets.

Reduction in Rates

Section 367.0816, Florida Statutes, requires that rate case expense be apportioned for recovery over a period of four years. The statute further requires that the rates of a utility be reduced immediately by the amount of rate case expense previously included in its rates. This statute applies to all rate cases filed on or after October 1, 1989. Pursuant to the above cited statute, we find upon the expiration of the four year period, the Utility's water rates shall be reduced by \$7,392 and its wastewater rates shall be reduced by \$7,392. These annual revenue reductions reflect the annual rate case amounts amortized plus the gross-up for regulatory assessment fees. The Utility shall also file revised tariff sheets no later than one month prior to the actual date of the required rate reduction and a proposed customer letter setting forth the lower rates and the reason for the reduction. Further, 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 the reduction in the rates due to the amortized rate case expense.

No Refund of Interim Rates

By Order No. 22406, interim rates for water and wastewater service were approved with the added provision that refunds might be required if final rates were less than interim rates. A \$150,000 Irrevocable Letter of Credit was filed by the Utility to guarantee any subsequent refund.

The final rates approved for this proceeding exceed the interim rates and thus a refund of interim rates is not required. Therefore, since the Utility's Letter of Credit is no longer needed, we will return it to the Utility.

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Upon due consideration of the foregoing, it is, therefore,

ORDERED by the Florida Public Service Commission that the application by Martin Downs Utilities, Inc. to increase its rates and charges is approved to the extent set forth in the body of this Order. It is further

ORDERED that all matters contained herein or attached hereto, whether in the form of discourse or schedules, are by this reference, specifically made integral parts of this Order. It is further

ORDERED that each of the specific findings herein are approved in every respect. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective unless an appropriate petition in the form provided by Rule 25-22.36, Florida Administrative Code, is received by the Director, Division of Records and Reporting, at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the date set forth in the Notice of Further Proceedings below. It is further

ORDERED that in the event this Order becomes final, the Utility shall notify each customer of the increases authorized herein, and explain the reasons for the increases. The letter of explanation shall be submitted to the Commission for prior approval. It is further

ORDERED that the Utility is authorized to implement the new rates and charges set forth in the body of this Order. It is further

ORDERED that the rates approved herein shall be effective for meter readings taken on or after thirty (30) days from the effective date of this Order if no protest is timely filed, subject to our approval of the Utility's revised tariff sheets. It is further

ORDERED that the revised tariff sheets will be approved upon Staff's verification that the tariff sheets are consistent with our decisions herein; that the proposed customer notice is adequate; and that the time for protesting this Order has expired and no such protests were filed. It is further

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ORDERED that the Utility's request to change its water and wastewater average daily flows per equivalent residential connection is granted as set forth in the body of this Order. It is further

ORDERED that the guaranteed revenue charges approved herein shall be effective for capacity reserved on or after the stamped approval date on the revised tariff sheets. It is further

ORDERED that the meter installation charges approved herein shall be effective for all installations performed on or after the stamped approval date of the revised tariff sheets. It is further

ORDERED that the miscellaneous service charges approved herein shall be effective for services rendered on or after the stamped approval date on the revised tariff sheets. It is further

ORDERED that pursuant to Section 367.0816, Florida Statutes, upon the expiration of four years from the effective date of the rates approved herein, the Utility's rates shall be reduced as set forth herein. It is further

ORDERED that there is no requirement for a refund and the Utility's Letter of Credit shall be returned to the Utility upon this Order becoming final. It is further

ORDERED that in the event no protest is timely received, this docket shall be closed.

By ORDER of the Florida Public Service Commission
this 27th day of APRIL, 1990.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

JRF

by: Kay Flynn
Chief, Bureau of Records

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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.

As identified in the body of this order, our action herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on May 21, 1990. In the absence of such a petition, this order shall become effective on the date subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code, and as reflected in a subsequent order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If the relevant portion of this order becomes final and effective on the date described above, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or sewer 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 of the effective date 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.

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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 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 or sewer 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.

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MARTIN DOWNS UTILITIES, INC.
SCHEDULE OF WATER RATE BASE
TEST YEAR ENDED MAY 31, 1989

SCHEDULE NO. 1-A
DOCKET NO. 890799-WS

COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$ 5,908,529	\$ 0	\$ 5,908,529	\$(15,640)	\$ 5,892,889
2					
3 LAND	99,704	0	99,704	0	99,704
4					
5 NON-USED & USEFUL COMPONENTS	(895,639)	0	(895,639)	172	(895,467)
6					
7 C.W.I.P.	0	0	0	0	0
8					
9 C.I.A.C.	(2,693,516)	0	(2,693,516)	5,310	(2,688,206)
10					
11 ACCUMULATED DEPRECIATION	(748,213)	0	(748,213)	22,976	(725,237)
12					
13 AMORTIZATION OF C.I.A.C.	269,835	0	269,835	(23,528)	246,307
14					
15 ADVANCES FOR CONSTRUCTION	0	0	0		0
16					
17 WORKING CAPITAL ALLOWANCE	0	50,432	50,432	(2,826)	47,606
18					
19 RATE BASE	\$ 1,940,700	\$ 50,432	\$ 1,991,132	\$(13,536)	\$ 1,977,596
20					

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MARTIN DOWNS UTILITIES, INC.
 SCHEDULE OF SEWER RATE BASE
 TEST YEAR ENDED MAY 31, 1989

SCHEDULE NO. 1-B
 DOCKET NO. 890799-WS

COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$ 5,184,663	\$ 0	\$ 5,184,663	\$(10,324)	\$ 5,174,339
2					
3 LAND	814,791	0	814,791		814,791
4					
5 NON-USED & USEFUL COMPONENTS	(1,822,961)	0	(1,822,961)	(3,922)	(1,826,883)
6					
7 C.W.I.P.	0	0	0	0	0
8					
9 C.I.A.C.	(2,552,158)	0	(2,552,158)	8,319	(2,543,839)
10					
11 ACCUMULATED DEPRECIATION	(661,499)	0	(661,499)	20,617	(640,882)
12					
13 AMORTIZATION OF C.I.A.C.	233,936	0	233,936	(19,147)	214,789
14					
15 ADVANCES FOR CONSTRUCTION	0	0	0		0
16					
17 WORKING CAPITAL ALLOWANCE	0	44,507	44,507	(1,165)	43,342
18					
19 RATE BASE	\$ 1,196,772	\$ 44,507	\$ 1,241,279	\$(5,622)	\$ 1,235,657

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MARTIN DOWNS UTILITIES, INC.
ADJUSTMENTS TO RATE BASE
TEST YEAR ENDED MAY 31, 1989

SCHEDULE NO. 1-C
PAGE 1 OF 1
DOCKET NO. 890799-WS

EXPLANATION	ADJUSTMENT	
	WATER	SEWER

1 UTILITY PLANT IN SERVICE		
A. To reclassify plant from water to sewer.	\$ (1,992)	\$ 1,992
B. To remove unauthorized AFUDC.	(13,648)	(12,316)
	-----	-----
NET ADJUSTMENT	\$ (15,640)	\$ (10,324)
	-----	-----
2 NON-USED & USEFUL PLANT		
A. The unauthorized AFUDC on the plant acct.	\$ 3,435	\$ 3,476
B. The unauthorized AFUDC affects on the accum. depr.	(119)	(44)
C. Adjustment due to reduction to accum. depr.	(3,144)	(7,354)
	-----	-----
NET ADJUSTMENT	172	(3,922)
	-----	-----
3 CONTRIBUTIONS IN AID OF CONSTRUCTION		
A. To remove CIAC reflect to refund developers.	\$ 5,310	\$ 8,319
	-----	-----
NET ADJUSTMENT	\$ 5,310	\$ 8,319
	-----	-----
4 ACCUMULATED DEPRECIATION		
A. To reflect the reclassification to plant in adjustment 1A.	\$ 158	\$ (158)
B. To reflect the adjustment for unauthorized AFUDC.	485	572
C. To adjust from class "C" depr. rates to "B" rates.	22,333	20,203
	-----	-----
NET ADJUSTMENT	\$ 22,976	\$ 20,617
	-----	-----
5 ACCUMULATED AMORTIZATION OF CIAC		
A. To reflect revised amortization rates for 86-88.	\$ (31,140)	\$ (23,738)
B. The effects of revised amortization rates on U/U.	7,612	4,591
	-----	-----
NET ADJUSTMENT	\$ (23,528)	\$ (19,147)
	-----	-----
6 WORKING CAPITAL ALLOWANCE		
A. To adjust the working capital allowance to 1/8 of O&M expenses.	\$ (2,826)	\$ (1,165)
	-----	-----
NET ADJUSTMENT	\$ (2,826)	\$ (1,165)
	-----	-----

MARTIN DOWNS UTILITIES, INC.
 CAPITAL STRUCTURE
 TEST YEAR ENDED MAY 31, 1989

SCHEDULE NO. 2
 DOCKET NO. 890799-WS

DESCRIPTION	ADJUSTED TEST YEAR PER UTILITY	WEIGHT	COST	WEIGHTED COST	COMMISSION PRO RATA ADJ TO UTILITY EXHIBIT	BALANCE PER COMMISSION	WEIGHT	COST	WEIGHTED COST
LONG TERM DEBT	\$ 3,145,802	97.32%	12.00%	11.68%	\$ (18,644)	\$ 3,127,158	97.32%	12.00%	11.68%
SHORT TERM DEBT	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
CUSTOMER DEPOSITS	86,609	2.68%	8.00%	0.21%	(513)	86,096	2.68%	8.00%	0.21%
PREFERRED STOCK	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
COMMON EQUITY	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
INVESTMENT TAX CREDITS	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
DEFERRED INCOME TAXES	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
OTHER CAPITAL	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
TOTAL CAPITAL	\$ 3,232,411	100.00%		11.89%	\$ (19,158)	\$ 3,213,253	100.00%		11.89%

RANGE OF REASONABLENESS	LOW	HIGH
EQUITY	NA	NA
OVERALL RATE OF RETURN	11.89%	11.89%

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MARTIN DOWNS UTILITIES, INC.
 STATEMENT OF WATER OPERATIONS
 TEST YEAR ENDED MAY 31, 1989

SCHEDULE NO. 3-A
 DOCKET NO. 890799-WS

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE OR (DECREASE)	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 569,682	\$ 206,892	\$ 776,574	\$ (174,977)	\$ 601,597	\$ 152,139	\$ 753,736
2							
3 OPERATING EXPENSES							
4							
5 OPERATION AND MAINTENANCE	\$ 360,638	\$ 42,818	\$ 403,456	\$ (22,609)	\$ 380,847	\$ 0	\$ 380,847
6							
7 DEPRECIATION	33,323	21,838	55,161	(446)	54,715		54,715
8							
9 AMORTIZATION	0		0	0	0		0
10							
11 TAXES OTHER THAN INCOME	72,118	(663)	71,455	4,681	76,136	6,846	82,982
12							
13 INCOME TAXES	0	0	0	0	0	0	0
14							
15							
16 TOTAL OPERATING EXPENSES	\$ 466,079	\$ 63,993	\$ 530,072	\$ (18,374)	\$ 511,698	\$ 6,846	\$ 518,544
17							
18							
19 OPERATING INCOME	\$ 103,603	\$ 142,899	\$ 246,502	\$ (156,603)	\$ 89,899	\$ 145,293	\$ 235,192
20							
21							
22 RATE BASE	\$ 1,940,700		\$ 1,991,132		\$ 1,977,596		\$ 1,977,596
23							
24							
25 RATE OF RETURN	5.34%		12.38%		4.55%		11.89%
26							

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MARTIN DOWNS UTILITIES, INC.
 STATEMENT OF SEWER OPERATIONS
 TEST YEAR ENDED MAY 31, 1989

SCHEDULE NO. 3-B
 DOCKET NO. 890799-WS

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE OR (DECREASE)	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 456,156	\$ 183,902	\$ 640,058	(\$ 159,387)	\$ 480,671	\$ 155,208	\$ 635,879
2							
3 OPERATING EXPENSES							
4							
5 OPERATION AND MAINTENANCE	\$ 314,066	\$ 41,992	\$ 356,058	(\$ 9,317)	\$ 346,741	\$ 0	\$ 346,741
6							
7 DEPRECIATION	39,694	(11,110)	28,584	(258)	28,326	0	28,326
8							
9 AMORTIZATION	0		0		0		0
10							
11 TAXES OTHER THAN INCOME	67,853	33,893	101,746	5,126	106,872	6,984	113,857
12							
13 INCOME TAXES	0	0	0	0	0	0	0
14							
15							
16 TOTAL OPERATING EXPENSES	\$ 421,613	\$ 64,775	\$ 486,388	(\$ 4,449)	\$ 481,939	\$ 6,984	\$ 488,924
17							
18							
19 OPERATING INCOME	\$ 34,543	\$ 119,127	\$ 153,670	(\$ 154,938)	(\$ 1,268)	\$ 148,224	\$ 146,955
20							
21							
22 RATE BASE	\$ 1,196,772		\$ 1,241,279		\$ 1,235,657		\$ 1,235,657
23							
24							
25 RATE OF RETURN	2.89%		12.38%		-0.10%		11.89%
26							
27							
28							
29							

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MARTIN DOWNS UTILITIES, INC.
ADJUSTMENTS TO OPERATING STATEMENT
TEST YEAR ENDED MAY 31, 1989

SCHEDULE NO. 3-C
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EXPLANATION	ADJUSTMENT	
	WATER	SEWER
1 OPERATING REVENUES		
To remove utility's requested increase.	\$ (174,977)	\$ (159,387)
2 OPERATION AND MAINTENANCE EXPENSE		
A. To reclassify purchased power.	\$ (8,590)	8,590
B. To adjust liability insurance.	5,604	\$ 5,605
C. To reduce workmen compensation.	(1,414)	(1,415)
D. To reflect actual on vehicle insurance.	71	71
E. To adjust employee benefits.	(911)	(911)
F. To reclassify charge as rate case expense.	(5,575)	
G. To amortize maintenance of water treatment.	(4,442)	
H. Reduction of management fees that are related to the sale of County.	(1,085)	(1,085)
I. Adjustment to engineer services that are related to the sale to County.	(3,825)	(3,825)
J. To adjust rate case expense to staff calculation.	(2,442)	(2,442)
K. To adjust for sludge hauling expense.		(13,905)
NET ADJUSTMENT	\$ (22,609)	\$ (9,317)
3 DEPRECIATION EXPENSE		
A. To reflect adjustment due to disallowed AFUDC.	\$ (323)	(381)
B. To reflect the adjustment due to reclassification.	(123)	123
NET ADJUSTMENT	\$ (446)	\$ (258)

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MARTIN DOWNS UTILITIES, INC.
ADJUSTMENTS TO OPERATING STATEMENT
TEST YEAR ENDED MAY 31, 1989

SCHEDULE NO. 3-C
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EXPLANATION	ADJUSTMENT	
	WATER	SEWER

4 TAXES OTHER THAN INCOME		
A. To remove regulatory assessment fees related to requested revenues.	\$ (4,374)	\$ (3,985)
B. Adjustment to property taxes.	(2,977)	(502)
C. Adjustment in regulatory assessment fee.	12,032	9,613
	-----	-----
	4,681	\$ 5,126
	*****	*****
5 OPERATING REVENUES		
A. To adjust revenues to reflect revenues which allow a fair rate of return.	\$ 152,139	\$ 155,208
	*****	*****
6 TAXES OTHER THAN INCOME		
A. To reflect regulatory assesment fees related to staff adjustment to revenues.	\$ 6,846	\$ 6,984
	*****	*****