

## BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for a staff- )  
 assisted rate case in Bay County )  
 by SANDY CREEK UTILITIES, INC. )  
 \_\_\_\_\_ )

DOCKET NO. 900505-WS  
 ORDER NO. 25373  
 ISSUED: 11/21/91

The following Commissioners participated in the disposition of this matter:

THOMAS M. BEARD, Chairman  
 SUSAN F. CLARK  
 J. TERRY DEASON  
 BETTY EASLEY  
 MICHAEL MCK. WILSON

Pursuant to notice, an administrative hearing was held before Commissioner Betty Easley, as Hearing Officer, on July 17, 1991, in Panama City, Florida.

## APPEARANCES:

WAYNE L. SCHIEFELBEIN, Esquire, Gatlin, Woods, Carlson & Cowdery, 1709-D Mahan Drive, Tallahassee, Florida 32308  
On behalf of Sandy Creek Utilities, Inc.

H. F. MANN II, Esquire, and JACK SHREVE, Esquire, Office of Public Counsel, Auditor General Building, Room 810, 111 West Madison Street, Tallahassee, Florida 32399-1400  
On behalf of the Citizens of the State of Florida

MATTHEW FEIL, Esquire, Florida Public Service Commission, 101 East Gaines Street, Tallahassee, Florida 32399-0863  
On behalf of the Commission Staff

PRENTICE PRUITT, Esquire, Florida Public Service Commission, 101 East Gaines Street, Tallahassee, Florida 32399-0863  
Counsel to the Commission

The Hearing Officer's Recommended Order was entered on September 18, 1991. Exceptions were timely filed by the Office of Public Counsel (OPC) and Staff of the Commission (Staff). After consideration of the evidence, we now enter our order.

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FINAL ORDER GRANTING RATES AND  
CHARGES

BY THE COMMISSION:

CASE BACKGROUND

Sandy Creek Utilities, Inc. (Sandy Creek or utility) is a Class "C" water and wastewater utility located in Bay County. On May 21, 1990, the utility filed an application for a staff-assisted rate case (SARC) pursuant to Section 367.0814, Florida Statutes. By proposed agency action Order No. 24170, issued February 27, 1991, the Commission proposed a 130% increase in water system revenues and a 158% increase in wastewater system revenues. By petition filed March 20, 1991, Mr. Alton L. Walker, a customer, protested Order No. 24170. Subsequent to the timely protest of Mr. Walker (protestor), the OPC intervened in the case on behalf of the utility's customers. The protestor, however, remained a party and participated in the hearing as such.

The text of the Hearing Officer's Recommended Order, beginning with Findings of Fact, is set forth below.

II. FINDINGS OF FACT

The following abbreviations are used in this section for purposes of citation: "T" for Transcript, "Ex." for Exhibit No., "L-F Ex." for Late-filed Exhibit No., and "p." and "pp." for page(s).

ISSUE 1: Is the quality of service provided by this utility satisfactory?

There are no complaints against the utility on file with DER or with the PSC (Ex.3, p. 3). The plants appear to be in good working order with adequate maintenance (T, p. 367). The new wastewater treatment plant has been permitted (T, p. 77) and is on line (T, p. 119). Water service outages and low pressure are frequent problems, as was testified to by customers Ruscetta (T, p. 39), Gousman (T, p. 320), Mayhew (T, p. 325), and Rudloff (T, p. 325). The lift station pumps are of inadequate size (T, p. 68) and have only a four to five year life expectancy (Ex.3, p. 5). The wastewater lift stations are prone to failure, as testified to by customers Keiser (T, p. 13), Walsh (T, p. 21), Donnelly (T, p. 42), and

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Rudloff (T, p. 325). Utility witness Swain agreed that the quality of the utility's wastewater service was unsatisfactory (T, p. 100).

ISSUE 2: Should the Commission order the utility to submit a plan to improve its collection system, and if so by what date?

The wastewater collection system consists of septic tanks, approximately 91 small lift stations, and a force main (Ex.3, p. 5). This system has high maintenance costs (Ex.3, p. 5). Due to the design of the system, preventative maintenance, which would possibly extend the life of the lift station pumps, is not economically feasible (Ex.3, p. 5). The lift stations are below the water table (Ex.3, p. 5). The lift station pumps are of inadequate size (T, p. 68) and have only a four to five year life expectancy (Ex.3, p. 5). The wastewater lift stations are prone to failure, as testified to by customers Keiser (T, p. 13), Walsh (T, p. 21), Donnelly (T, p. 42), and Rudloff (T, p. 325). Infiltration may be a problem (Ex.3, p. 5).

ISSUE 2-A: Should the Commission allow the utility to recover the cost of any study mandated to determine if there is a feasible improvement to the current collection system?

Utility witness Swain estimated the cost of having a collection system improvement study done (T, p. 71). Utility witness King testified as to the cost of implementing a wastewater system improvement plan, but gave no more than an estimate (T, pp. 181-184).

ISSUE 3: Is the utility providing water and wastewater service outside of its certificated area, and if so, should the utility be penalized?

The utility is serving outside its certificated area (Ex.3, p. 7). The utility did not notify the Commission that it was doing so (Ex.3, p. 7). The utility has filed an application to extend its certificated territory (Ex.5).

ISSUE 4: What percent of the water treatment plant and distribution system and the wastewater treatment plant and collection system is used and useful?

The test year used for this rate case is the year ended December 31, 1989 (Ex.3, p. 42). Utility witness Swain

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suggested use of the new flow data shown in Exhibit No. 2 (T, 70-71). This data covers the period June, 1990, through March, 1991 (Ex.2). The data used by witness Landis in Exhibit No. 3 to calculate used and useful is reasonable (T, pp. 228-229, 239-240). The proper used and useful calculations appear on pages 8 through 15 of Exhibit No. 3.

ISSUE 4-A: Should a margin reserve be included in the calculation of used and useful?

Regulated utilities must provide service to all customers within their territory within a reasonable time (T, p. 207). The margin reserve represents the capacity the utility is required to maintain in order to meet growth demands over an eighteen month period (T, p. 207). The margin reserve allowance recognizes the investment the utility has made in order to be ready for growth (T, p. 207). Sandy Creek is capable of serving near-term growth (T, p. 388). The proper margin reserve calculations appear in Exhibit No. 3 on pages 10-11 for water and pages 13-14 for wastewater.

ISSUE 4-B: Should a fire flow allowance be included in the calculation of used and useful?

Sandy Creek has four fire hydrants (Ex.3, p. 10). Bay County does not have a minimum fire flow requirement (Ex.3, p. 10). Since the Volunteer Fire Chief in the Sandy Creek area believes that the fire department has other water sources available to it, the 60,000 gallons of actual fire flow shown in Exhibit No. 3 is adequate (Ex.3, p. 10). This amount is less than that recommended by the National Fire Protection Association (Ex.3, p.10). It is inappropriate to disallow fire flow simply because the system cannot deliver the full fire flow requirement (T, p. 208). The proper fire flow calculations appear on page 10 of Exhibit No. 3 (Ex.3, p. 10).

ISSUE 5: Is the 1988 annual report a reasonable starting point to establish the utility's investment in assets used and useful?

Rate base has not been established prior to this case, and no original plant cost documentation is available prior to 1989 (Ex.3, p. 20). When original plant cost documentation is not available, the Commission often performs an original cost study (T., p. 232-233). Witness Landis stated that he began an original cost study, but did not complete it because

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the plant values he calculated were substantially higher than those contained in the 1988 annual report (T., p. 232-233). The Commission Staff, therefore, based further analysis on the annual report (T, p. 233). The utility's 1988 annual report figures provide a reasonable starting point for determining utility investment (Ex.3, p. 20; T, p. 78-79).

ISSUE 6: Who owns the land on which the water treatment and wastewater treatment plants are located and what is the proper valuation of land to be included in the systems' rate bases?

Sandy Creek Utilities, Inc., owns the land on which the water and wastewater plants sit (Ex.3, p. 16). Based on research of courthouse records and documents submitted by the utility, original cost of the land is \$1,300 for water and \$3,000 for wastewater (Ex.3, p. 16). As is shown in Exhibit No. 3, a non-used and useful adjustment to these land values is appropriate. Witness Landis determined that the land on which the water plant is located is 93% used and useful and the land on which the wastewater plant is located is 24% used and useful (Ex.3, p. 16). The product of \$1,300(.93) is \$1,209 and the product of \$3,000(.24) is \$720 (Ex.3, p. 16).

ISSUE 7: Should Construction Work In Progress (CWIP) be allowed in rate base, and if so, what is the appropriate amount?

The water and wastewater plants were expanded to satisfy DER requirements (Ex.3, p.17), the wastewater plant, particularly, to satisfy a DER Consent Order (T, p. 78). The new wastewater plant has been completed and is on line (Ex.3, p. 17). Based on a contractual agreement, the total cost for improvements construction is \$332,790, which includes \$45,909 for the water system and \$286,881 for the wastewater system (Ex.3, p. 17). The completed plant should be recognized as proforma plant in rate base (Ex.3, p. 17).

ISSUE 8: Is the utility's level of unaccounted-for-water unacceptable, and if so, what corrective action should be required of the utility?

Test year water production flow data is flawed (Ex.3, p. 18). A faulty meter was replaced in the final four months of the test year (Ex.3, p. 18). Using estimated water flows pumped during and after the test year data, unaccounted-for water is 18% (Ex.3, p. 18). More than 10% unaccounted-for

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water is normally considered excessive (T, p. 235). During the test year, the utility irrigated unmetered common areas (Ex.3, p. 18). Five meters are necessary for metering these common areas (Ex.3, p. 18). The utility has purchased these meters and is installing them (Ex.3, p. 18). The unaccounted-for water problem is a measurement problem and with the new meters, there should no longer be a problem (Ex.3, p. 18; T, p. 120). The customers would benefit more from the Commission's imputing the value of all unaccounted-for water in excess of 10% as water sold than it would from adjusting purchased power and chemical expenses (T, p. 298).

ISSUE 8-A: Is there excess infiltration into the collection system?

The wastewater collection lift stations are below the ground and below the water table (Ex.3, p. 5). Since no cursory inspections of the lift stations can be made (Ex.3, p. 5) and the test year flow data for the wastewater treatment facility is flawed (Ex.3), it cannot be determined if infiltration is a problem.

ISSUE 9: What is the appropriate method of calculating working capital allowance, and what is the appropriate amount of working capital for each system?

The one-eighth of operation and maintenance (O&M) expense formula method of calculating working capital allowance was used in Exhibit No. 3, and this method was not disputed in the record. In Finding of Fact No. 14, water system O&M expense is \$30,725; one-eighth of water O&M is \$3,844. Wastewater system O&M is \$49,622; one-eighth of wastewater O&M is \$6,203.

ISSUE 10: What is the average test year rate base for each system?

No prior rate base has been established for this utility (Ex.3, p. 20). Original plant cost documentation is not available prior to 1989 (Ex.3, p. 20). Plant additions from January, 1989, through December, 1989, were verified and reconciled with recorded plant (Ex.3, p. 20). Utility plant-in-service, including CWIP recognized as proforma plant, and net of any reclassification and averaging adjustments, is \$366,526 for the water system and \$428,675 for the wastewater system (Ex.3, pp. 20, 21, 42-45). Land value for ratemaking purposes is \$1,209 for water and \$720 for wastewater (Ex.3,

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p. 16). Plant-held-for-future-use (net of an averaging adjustment and average accumulated depreciation on non-used and useful plant) is (\$99,510) for water and (\$173,246) for wastewater (Ex.3, pp. 20, 21, 42-45). Contributions-in-aid-of-construction (CIAC) (including CIAC associated with the margin reserve and net of an averaging adjustment) is (\$64,125) for water and (\$117,800) for wastewater (Ex.3, pp. 20, 21, 42-45). Accumulated depreciation (net of an averaging adjustment) is (\$62,748) for water and (\$75,683) for wastewater (Ex.3, pp. 20, 21, 42-45). Amortization of CIAC (net of an averaging adjustment) is \$11,239 for water and \$30,717 for wastewater (Ex.3, pp. 20, 21, 42-45). Working capital allowance is \$3,844 for water and \$6,203 for wastewater. These figures are added (Ex.3, pp. 20, 21, 42-45) to arrive at rate bases of \$156,435 for water and \$99,586 for wastewater.

ISSUE 11: What is the appropriate rate of return on equity?

The method of calculating the appropriate equity ratio is shown on Exhibit No. 3, page 46. The Commission's leverage graph should be applied to the equity ratio in order to determine return on equity (Ex. 3, p. 46).

ISSUE 12: What is the appropriate overall rate of return?

The utility's cost of long term debt is 12% (Ex.3, p. 23). The utility's cost of customer deposits is 8% (Ex.3, p. 23). The standard Commission practice is to use a weighted average to calculate overall rate of return, as is illustrated on Schedule No. 2 of Exhibit No. 3 (Ex.3, p. 46).

ISSUE 13: What are the appropriate test year revenues?

For the test year, the utility recorded \$23,382 for water revenues and \$20,206 for wastewater revenue (Ex.3, p. 24). The utility's water revenue figure included \$1,473 in miscellaneous service charges, which should be removed (Ex.3, p. 24). The utility charged two different approved sets of rates during the test year (Ex.3, p. 24). Annualization of the rates in effect at the end of the test year is proper, and doing so adds \$2,027 to water revenues and \$3,123 to wastewater revenues (Ex.3, p. 24). Test year revenues are \$23,936 for water and \$23,329 for wastewater (Ex.3, pp.47-49).

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ISSUE 14: What are the appropriate amounts for the systems' operation and maintenance expense, depreciation expense, and other taxes expense?

Operation and maintenance (O&M) expenses were traced to supporting documents (Ex.3, p. 25). With the exception of rate case expense, employees' salaries and wages, and pensions and benefits expense, the proper amount of O&M expenses appear in Exhibit No. 3: \$23,287 for the water system and \$37,912 for the wastewater system.

The maintenance costs of this system are considerably higher than the maintenance costs for a typical gravity system (T, p. 217). "The utility has been replacing the inadequate pumps with more properly sized pumps, and is expecting to experience a lower failure rate" (T, p. 68). Maintenance costs are excessive for a utility of this size (T, p. 244). By disallowing the cost of a second maintenance man, there would be an incentive for the utility to make the appropriate physical changes to reduce the maintenance expenses (T, p. 245). However, one maintenance man cannot work 365 days a year (T., p. 161). It would not be advisable to eliminate all but one maintenance man for this reason (T., pp. 281-282). One full time maintenance man is paid \$13,000 per year (Ex.3, p. 25). Half of this amount is \$6,500. Insurance expense associated with one half-time maintenance man would be \$1,991 per year.

Rate case expense (see Finding of Fact No. 17) is \$43,794, or \$5,474 per system per year when amortized over four years.

Depreciation expense (net of amortization of CIAC) is \$7,567 for water and \$5,382 for wastewater (Ex.3, p. 52).

The amount of taxes other than income taxes is as shown in Exhibit No. 3, except for regulatory assessment fees to be paid on the new revenue requirement and social security tax to be paid for a half-time maintenance man. As is shown in Exhibit No. 3, the amount of regulatory assessment fees is the product of 4.5% and annual gross revenue. Regulatory assessment fees are \$2,824 for water and \$3,277 for wastewater; property taxes are \$464 for water and \$35 for wastewater; and other taxes are \$662 for water and \$1,464 for wastewater, (including social security tax for half-time maintenance man (Ex.3).

ISSUE 15: What are the appropriate revenue requirements?

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The method of calculating revenue requirement is shown in Exhibit No. 3. Using this method and the figures cited in previous Findings of Fact, the revenue requirement for water is \$62,768, and the revenue requirement for wastewater is \$72,830.

ISSUE 16: What are the appropriate rates and rate structure?

The base facility / gallonage charge rate structure for water and wastewater should be used (Ex.3). Using the figures in the above Findings of Fact and those in Findings of Fact No. 18, and using the same test year customers, consumption levels, and formula used to calculate rates in Exhibit No. 3, the appropriate rates are as follows:

WATER  
RECOMMENDED MONTHLY RATES  
RESIDENTIAL AND GENERAL SERVICE

<u>Meter Size</u>	<u>Base Facility Charge</u>
5/8x3/4"	\$ 11.92
3/4"	17.88
1"	29.80
1 1/2"	59.61
2"	95.37
3"	190.74
4"	298.04
6"	596.07
 <u>Gallonage Charge</u>	
Per 1,000 gallons	\$ 2.40

WASTEWATER  
RECOMMENDED MONTHLY RATES  
RESIDENTIAL SERVICE

<u>Meter Size</u>	<u>Base Facility Charge</u>
All meter sizes	\$ 26.36
 <u>Gallonage Charge</u>	
Per 1,000 gallons (10,000 gal. max.)	\$ 3.34

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GENERAL SERVICE

<u>Meter Size</u>	<u>Base Facility Charge</u>
5/8x3/4"	\$ 26.36
3/4"	39.54
1"	65.91
1 1/2"	131.81
2"	210.90
3"	421.81
4"	659.07
6"	1,318.14
 <u>Gallonage Charge</u>	
Per 1,000 gallons	\$ 4.00

ISSUE 17: What is the appropriate amount of rate case expense?

The utility requested rate case expense totalling \$54,014.90, including the filing fee, attorneys' fees and costs, and consultants' fees and costs (L-F Ex. 6). The filing fee for this rate case is \$1,050 (Ex.3, p. 35).

Rate case expense billed in Late-Filed Exhibit No. 6 through July 31, 1991, for attorneys' fees and costs is listed as \$17,480.30 (L-F Ex. 6). Projected attorney expense at July 31, 1991, is \$8,143 (L-F Ex. 6). The sum of these figures is \$25,623.30. No invoices for attorneys' fees are included in Late-Filed Exhibit No. 6. Exhibit No. 5 includes an invoice substantiating \$5,939.67 of billed hours and a detail of the projected attorneys' fees and costs as of July 3, 1991, for the period June 26, 1991, through October 7, 1991 (Ex.5). The projected attorneys' fees and costs in Exhibit No. 5 total \$18,675 (Ex.5). The sum of the billed hours in Exhibit No. 5 and the detailed projected costs in Exhibit No. 5 is \$24,614.67. The difference between \$25,623.30 and \$24,614.67 is \$1,008.63.

Billed and projected rate case expense for consultant Robert L. King is \$1,350 in Late Filed Exhibit No. 6 (L-F Ex. 6). Approximately one-third of Mr. King's testimony is devoted to wastewater system design, which is essentially background information not in dispute (T, pp. 177-184). The remainder of King's testimony is devoted to approximating a

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cost for implementing improvements to the wastewater system (T, pp. 177-184).

Gatlin, Woods, Carlson & Cowdery's client ledger card indicates that time was spent reviewing, editing, and proofreading Robert King's testimony (Ex.5). Gatlin, Woods, Carlson & Cowdery charged \$125 per hour for assistance on this rate case (Ex.5).

The consulting firm Milian, Swain & Associates, Inc., billed and projected rate case expense of \$25,991.60 as of July 31, 1991 (L-F Ex. 6). Invoice No. 3002-SC for \$1,460.50 is described as being for a meeting with a PSC Staff auditor regarding the annual report and preparation of schedules for the rate case application (Ex.5).

Approximately 30% of the testimony of utility witness Swain is devoted to case background not in dispute and discussion of an original cost study performed by the consulting firm which was not admitted into evidence because of an objection (T, pp. 63-69, 79-99, 109, 169-173). Swain charges \$95 per hour (Ex.5). Invoice No. 3016-SC charging 10.25 hours of work, Invoice No. 3017-SC charging 11.75 hours, Invoice No. 3018-RC charging 20.75 hours, and Invoice No. 3019-RC charging 60.75 hours, all pertain to hours worked by Deborah Swain in preparation of testimony and preparation for the prehearing and hearing.

Swain testified that costs such as copying, telephone calls, facsimile transmission, and Federal Express are represented on the invoices at actual cost (T, p. 168).

Utility witness Milian devoted hearing preparation time to running two Hardy-Cross analyses, both of which were based on inaccurate information (T, pp. 453-454). Invoice No. 3018-RC lists 18 hours of hearing preparation time charged for Mr. Milian (L-F Ex. 6). On Invoice No. 3018-RC, the consulting firm charged \$510 for the work of C. Bezos (L-F Ex. 6). C. Bezos is an engineer with Milian, Swain & Associates, Inc., and was instructed by Mr. Milian to perform some research for him in preparation of his testimony (T, p. 134). Approximately one-half of Mr. Milian's time on the stand was devoted to cross examination concerning the two inaccurate Hardy Cross analyses (T, pp. 431-445). Mr. Milian was on the stand for approximately an hour. Milian charges \$125 per hour (Ex.5).

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Invoice No. 3018-RC lists a charge of \$200 for the work of J. Jimenez (L-F Ex. 6). Invoice No. 3019-RC lists a charge of \$60 for M. Bravo and a charge of \$1,650 for C. Hinkley (L-F Ex. 6). The specific work of these individuals was never substantiated in testimony.

ISSUE 18: Should there be an apportionment of rate case expense as required by Section 367.0815, Florida Statutes?

This rate case was filed as a staff-assisted rate case (Ex.3). The utility did not, in its application, request for rate relief in the form of a specific revenue requirement; however, a specific requested revenue requirement can be determined from the utility's testimony where it accepted Staff's original PAA recommendation with several specific exceptions (T., p. 69).

The utility specifically requested that more recent data be used to recalculate used and useful for the wastewater treatment plant, that the utility be allowed to recover the cost of an improvement study within the framework of this rate case, that an additional full time maintenance man and associated costs be allowed in O&M, and that the entire amount of rate case expense incurred by the utility be allowed (T., pp. 70-72).

On cross-examination from the utility, staff witness Landis testified that the used and useful percentage of the wastewater treatment plant using "current average daily flows" is 62% (T., p. 280). The utility estimated the cost of the improvement study to be \$10,000 to \$20,000 (T., p. 71). The utility's updated rate case expense is \$54,014.90 (L-F Ex.6). Costs associated with one full-time maintenance man are shown in Exhibit No. 3 (Ex.3, pp. 25-26, 46-53).

Using the same method used for calculating revenue requirement in Exhibit No. 3 and accepting the low-end of the estimate for the improvement study, the requested revenue requirements are \$66,006 for water and \$95,414 for wastewater, which represent increases over test year revenues of \$42,070 for water and \$72,085 for wastewater.

ISSUE 19: What are the appropriate service availability charges for this utility?

The service availability charges which were in place before the utility filed for this rate case were approved in Order

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No. 21022, issued April 11, 1989 (Ex.3, p. 36). Witness Dewberry designed a recommended service availability policy outlined on page 37 of Exhibit No. 3 (T, p. 351). It is reasonable to divide the old wastewater Tap-In Charge of \$700 into a Plant Capacity Charge of \$250 and a Main Extension Charge of \$450 (Ex.3, p. 37). In Exhibit No. 3, Ms. Dewberry did not recommend continuance of the \$300 Wastewater Pretreatment Pumping System Connection Fee (Ex.3, p. 37), but she testified that she did not object to its reinstatement (T, p. 351).

ISSUE 20: Should the utility be authorized to collect miscellaneous service charges, and if so, what should the charges be?

In Exhibit No. 3, staff proposed updating the utility's miscellaneous service charges (Ex.3, p. 38). The charges were updated to reflect the appropriate labor and materials required for these services consistent with Commission Practice as stated in Rule 25-30.345, Florida Administrative Code (Ex.3, pp. 38-39). The proper miscellaneous service charges appear on pages 38 and 39 of Exhibit No. 3 (Ex.3, pp. 38-39). They are as follows:

	<u>WATER</u>
Initial Connection	\$ 15.00
Normal Reconnection	\$ 15.00
Violation Reconnection	\$ 15.00
Premises Visit (in lieu of disconnection)	\$ 10.00

### III. CONCLUSIONS OF LAW

The Commission has jurisdiction to determine the water and wastewater rates of Sandy Creek Utilities, Inc., pursuant to Sections 367.081 and 367.101, Florida Statutes.

As the applicant in this case, Sandy Creek Utilities, Inc., had the burden of proving that its requested rate relief is justified.

The Commission accepts the parties' stipulation that if rate case expense is allowed, the amount allowed should be amortized over a four-year period and a reduction in rates

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should occur at the end of the period as is provided in Section 367.0815, Florida Statutes.

The rates approved herein are just, reasonable, compensatory, not unfairly discriminatory and in accordance with the requirements of Section 367.081(2), Florida Statutes, and other governing law.

Pursuant to Rule 25-9.001(3), Florida Administrative Code, no rules and regulations, or schedules of rates and charges, or modifications or revisions of the same, shall be effective until filed with and approved by the Commission.

Attached hereto and incorporated herein by reference are schedules of the Commission's calculations of rate base, cost of capital, and net operating income. Schedules Nos. 1 and 1-A depict the calculations of the water and wastewater system rate bases. Schedule No. 1-B shows adjustments to the rate bases. Schedule No. 2 depicts the calculation of the cost of capital. Schedules Nos. 3 and 3-A depict the calculations of the water and wastewater system net operating incomes. Schedule No. 3-B shows adjustments to the net operating incomes. Schedules Nos. 4 and 4-A show the rate case expense rate reduction. Schedule No. 5 shows application of Section 367.0815, Florida Statutes, apportionment of rate case expense.

1. The quality of service provided by the utility is unsatisfactory as to both the water and wastewater systems. In light of the customer testimony presented at the hearing, the utility should submit, within ninety days of the date of the final order, an evaluation of the problems of the water system, along with suggested improvements thereto and cost estimates for the suggested improvements. The docket should remain open pending the Commission's receipt, review, and consideration of the this evaluation.

2. There is a need for the utility to improve its wastewater collection system. The utility shall therefore submit a plan for improvement to its wastewater collection system, along with cost estimates for those improvements. The plan will address system design, as well as infiltration. As is suggested by Exhibit No. 3, ninety days from the date of the order is a reasonable time for the utility to submit such a plan. The docket should remain open pending the Commission's receipt, review, and consideration of the merits and cost effectiveness of this plan.

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2-A. It is unknown at this time what improvements to the collection system, if any, will be required. The cost of performing the improvement plan can be capitalized at the time such improvements are completed. The cost of implementing an improvement plan is unknown at this time; therefore, we cannot include a cost in rate base. The utility is not allowed to recover either the cost of the study or the cost of implementing improvements in this rate case. When we review the improvement plan, we shall also consider the cost of obtaining or creating the plan.

3. The Commission should not penalize the utility for providing service outside of its certificated territory since the utility has made efforts to correct the situation by filing an application for amendment.

4. It is not reasonable to use the alternative flow data presented by the utility, as that data is far outside of the test year. The data used in Exhibit No. 3 is reasonable. Therefore, the appropriate used and useful percentages are as follows: The water treatment plant is 93% used and useful; the water distribution system is 57% used and useful; the wastewater treatment plant is 24% used and useful; the wastewater collection mains are 54% used and useful; and the wastewater collection pumping stations are 100% used and useful.

4-A. Including a margin reserve in the used and useful calculations is both necessary and appropriate. The margin reserve represents that portion of the utility's capacity needed for short-term growth. Sandy Creek has the capacity to meet short-term growth. Accordingly, the used and useful percentages shown in the previous conclusion incorporate a margin reserve.

4-B. It would be inappropriate to disallow all fire flow simply because the system cannot deliver the full fire flow requirement. Therefore, the actual amount of fire flow is included in the used and useful calculation for the water treatment plant.

5. The Commission is not absolutely obligated to perform an original cost study when there is no original cost documentation. The utility's 1988 annual report is a reasonable starting point for determining the utility's investment in plant. Therefore, plant calculations begin with the values contained in the 1988 annual report.

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6. The utility owns the land upon which its water and wastewater treatment plants are located. The proper values for land to be included in the rate bases are \$1,209 for the water system and \$720 for the wastewater system.

7. The rate bases should include \$45,909 in water system improvements and \$286,881 in wastewater system improvements.

8. Unaccounted-for water is 18%. Normally, more than 10% unaccounted-for water is found to be excessive. Making adjustments to expenses is not, in every instance, the best course of action when unaccounted-for water is excessive. The value of all unaccounted-for water in excess of 10% should be imputed as water sold, and the utility shall install meters for the five unmetered common areas within ninety days.

8-A. There is insufficient evidence to determine whether or not infiltration is a problem, and, therefore, no action should be taken regarding this issue at this time. However, the utility shall address infiltration in its wastewater system improvement plan.

9. The one-eighth O&M formula method is a reasonable method for calculating working capital. The amount of working capital to be included in the rates bases is therefore \$3,844 for the water system and \$6,203 for the wastewater system.

10. Rate base for the water system is \$156,435 and rate base for the wastewater system is \$99,586.

11. It is reasonable to use the current leverage graph in effect at the time of the Commission's decision to determine the utility's return on equity. The current leverage graph is contained in Order No. 24246, effective April 9, 1991. Applying that graph to the utility's 33.89% equity ratio yields a 13.11% rate of return on equity, with a range of 12.11% to 14.11%.

12. The appropriate overall rate of return is 12.32%, with a range of 11.98% to 12.66%.

13. The appropriate amount of test year revenues are \$23,936 for the water system and \$23,329 for the wastewater system.

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14. Since by the utility's own admission, maintenance on the wastewater collection system will be reduced by its replacement of the small, inadequate service pumps, the utility should not recover costs associated with two full-time maintenance men. However, because one maintenance man cannot monitor this utility's systems twenty-four hours a day, 365 days a year, an allowance should be made for one-half of a maintenance man. Including the \$5,474 annual per system rate case expense allowed, operation and maintenance expense is \$30,752 for the water system and \$49,622 for the wastewater system; depreciation expense, net of amortized CIAC, is \$7,567 for water and \$5,382 for wastewater; and other taxes expense is \$3,950 for water and \$4,777 for wastewater.

15. The appropriate revenue requirements are \$62,768 for the water system and \$72,830 for the wastewater system.

16. The appropriate rates are those shown in Finding of Fact No. 16, above. The approved rates shall be effective for meter readings taken on or after thirty (30) days after the stamped approval date on the revised tariff sheets. The utility shall submit revised tariff sheets reflecting the approved rates along with a proposed customer notice listing the new rates and explaining the reasons therefor. The revised tariff sheets will be approved upon our staff's verification that the tariff sheets are consistent with our decision herein and that the proposed customer notice is adequate.

17. The total rate case expense the utility should be allowed to recover is \$43,794, which is \$10,220.00 less than what the utility requested. The utility should recover the \$1,050 filing fee. The \$1,008.63 difference between the projection for attorney's fees in Exhibit No. 5 and the actual attorney's fees in Late-Filed Exhibit No. 6 is unsupported in the record, therefore, total legal fees allowed is \$24,614.67.

Utility witness King did not provide any useful testimony pertinent to any issues in dispute; he testified as to case background not in dispute and provided what he admitted to be only a rough estimate for costs to improve the wastewater system. The \$1,350 of rate case expense attributable to Mr. King is not justified and is therefore disallowed. From Exhibit No. 5, it appears as though approximately 48 minutes of the law firm's billed time is attributable to work

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associated with King's testimony. Therefore, the \$100 in legal fees attributable to Mr. King's testimony is not allowed.

The Commission should not allow the utility to recover the \$1,460.50 in claimed expense attributable to the consulting firm's work on the annual report and rate case application schedules, since this expense was not adequately justified on the record.

The Commission should disallow the \$2,949.77, or 30% of the 60.75 hours billed, attributable to that portion of witness Swain's testimony which pertained to background information, matters not in dispute, and an exhibit not admitted into evidence. All fees charged for copying, faxes, telephone charges, and mailing are accepted.

Since Mr. Milian devoted one-half of his time on the stand to the two Hardy-Cross analysis which were based on erroneous information, we think it reasonable to infer that one-half of his billed time prior to the hearing was devoted to the same pursuit. The Commission should disallow \$1,380 in prehearing expenses attributable to Mr. Milian's preparation of two Hardy-Cross analyses. These analyses were based on inaccurate information and, therefore, imprudently performed. The disallowed amount includes fees attributable to C. Bezos, Mr. Milian's assistant who helped him prepare the erroneous Hardy Cross analyses. The Commission should also disallow \$62.50, which represents half of Mr. Milian's fee for his time on the stand discussing the aforementioned analyses.

Finally, requested rate case expense should be reduced by the \$1,910 attributable to the unexplained, and therefore unjustified expenses, attributed to duties of M. Bravo, J. Jimenez, and C. Hinkley.

The total amount of rate case expense allowed is \$43,794. When amortized over a four-year period, as set forth in Section 367.0815, Florida Statutes, and agreed upon in the stipulation, annual per system rate case expense is \$5,474. Schedules Nos. 4 and 4-A show the rate reduction after four years.

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18. Section 367.0815, Florida Statutes, apparently applies "[i]n any case where an increase in rates has been requested . . . pursuant to this chapter and that increase is challenged . . . ." The mandate of Section 367.0815 which the Commission is concerned with in this case is as follows.

"In the event that a rate increase is granted but in an amount less than requested, the rate case expenses . . . shall be apportioned in such a way that the public utility shall pay a proportion of the rate expenses which is equal to the percentage difference between the rate increase requested and the rate increase approved.

On its face, this section makes no distinction between file-and-suspend rate cases, staff-assisted rate cases (SARCs), or any other proceeding in which a rate increase is requested and rate case expense is incurred. The broad, undistinguishing language of Section 367.0815 is troubling because it may be applied to situations not contemplated by the Legislature, and the Legislature may want to consider amending it so that its application is clear. That suggestion notwithstanding, the question the Commission must now answer is whether it must be applied to the instant case, and, if so, how.

When a utility applies for a SARC, it requests only "rate relief," not a "rate increase." However, in this instance, after the proposed agency action (PAA) Order was protested, the utility committed itself to acquiring revenues higher than those set forth in the PAA staff recommendation. Through testimony and exhibits, the utility quantified its desired adjustments, namely, the use of current data to recalculate used and useful for the wastewater treatment plant, the recovery of the costs for an improvement study, addition of a full-time maintenance man and associated costs, and recovery of all rate case expense.

Since the utility has quantified a specific "rate increase," i.e., an identifiable revenue requirement, Section 367.0815 must be applied to see if an apportionment adjustment is required.

According to the calculations contained in Schedule No. 5, if the Commission apportions the prudent rate case expense

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found above, the utility's generated rate of return will be 12.03% for water and 10.48% for wastewater. Thus, the apportionment adjustment causes the utility's overall rate of return to drop below the utility's authorized range for the wastewater system. However, an apportionment adjustment can be applied to the water system.

The apportionment adjustment directly affects rate case expense. Because rate case expense is affected, fall-out adjustments must be made to taxes other than income taxes and income taxes. The bottom line adjustment to the water system revenue requirement is a \$449 decrease. These adjustments are shown in Schedules Nos. 3 and 3-B. The water rates listed in Finding of Fact No. 16 account for the apportionment and fall-out adjustments.

19. Service availability charges should not be altered, but should be restructured so that there is a \$250 plant capacity charge and a \$450 main extension charge, rather than a \$700 tap-in charge. The charges approved above shall be effective for connections made on or after the stamped approval date on the revised tariff sheets. The utility shall submit revised tariff sheets reflecting the approved charges along with a proposed customer notice listing the new charges and explaining the reasons therefor. The revised tariff sheets will be approved upon our staff's verification that the tariff sheets are consistent with our decision herein and that the proposed customer notice is adequate.

20. Miscellaneous service charges should be those set forth in Finding of Fact on this Issue. The charges approved shall be effective for service rendered on or after the stamped approval date on the revised tariff sheets. The utility shall submit revised tariff sheets reflecting the approved charges along with a proposed customer notice listing the new charges and explaining the reasons therefor. The revised tariff sheets will be approved upon our staff's verification that the tariff sheets are consistent with our decision herein and that the proposed customer notice is adequate.

As previously indicated, Exceptions were filed by OPC and Staff. The Hearing Officer rejected three of OPC's proposed findings of fact and OPC filed exceptions to those rejections. OPC

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also filed an exception to one of the Hearing Officer's findings of fact.

The first of OPC's proposed Findings of Fact rejected by the Hearing Officer, No. 1, related to Issue 4-B. Issue 4-B was: "Should a fire flow allowance be included in the calculation of used and useful?" OPC's rejected finding states:

The ability of a utility to provide fire protection depends on its ability to provide the necessary pumping and storage capacity to meet the local fire ordinance with the largest pump out of service. This is to allow for the eventuality of the pump being off-line during a fire.

In support of its proposed finding, OPC cites three references in the transcript. OPC argues that there is no evidence in the record which contradicts this proposed finding and the Hearing Officer was therefore required to accept the proposed finding.

One of the difficulties with OPC's argument is that its proposed finding is not entirely factual; it is primarily the opinion of the OPC witness on how to quantify the ability of the utility to provide fire flow. Notwithstanding this distinction, we believe OPC's argument must be rejected.

The pertinent issue is whether or not the Commission should make a fire flow allowance in the used and useful calculation. Frequently for issues of this sort, expert witnesses will express different opinions. That is what occurred in the instant case and the experts disagreed.

Contrary to OPC's assertion, there is evidence in the record adverse to its proposed finding. The Hearing Officer's recommended finding is that fire flow capacity is available and should not be ignored because it is questionable whether or not the system can deliver all of the available capacity. All of her findings on this issue are accompanied by citations to the transcript. In addition, the Hearing Officer accepted the utility's Proposed Findings of Fact Nos. 39-43, all of which address whether or not the capacity should be included in used and useful and the ability of the system to provide the fire flow. As stated in Section 120.57(10), Florida Statutes, the Commission cannot alter the Hearing Officer's findings unless the findings are not supported by competent

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substantial evidence. We believe that the Hearing Officer's findings are supported by competent substantial evidence.

For the foregoing reasons, we will not accept OPC's first exception.

The second of OPC's proposed Findings of Fact rejected by the Hearing Officer, No. 3, related to Issue 5. Issue 5 was: "Is the 1988 annual report a reasonable starting point to establish the utility's investment in assets used and useful?" OPC's proposed finding states:

Rather than following Commission practice, the Staff engineer decided that the amounts listed by the utility in its 1988 annual report for rate base components should instead be used as the starting point for the utility's investment in assets used and useful.

OPC argues that the Commission practice of performing an original cost study is undisputed in the record.

The third proposed Finding of Fact rejected by the Hearing Officer, No. 7, also related to Issue 5. It states:

Even though no original cost documentation was considered and no original cost study was performed by Staff, the Staff engineer somehow determined that the unverified amounts proposed by the utility were "reasonable."

Upon review of the record, we believe that the Hearing Officer's rejection of OPC's proposed Findings of Fact for Issue 5 was proper and supported in the record. In her Recommended Order, the Hearing Officer accepted OPC's Proposed Findings of Fact Nos. 1, 2, and 4 for Issue 5. Those findings state: "Commission practice allows for Staff to perform an original cost study when original documentation of a utility plant is not available;" "In this case, the Staff auditor advised Staff that original cost documentation for the water and wastewater systems was not available;" and "The utility did not review any original cost documents." The Hearing Officer properly accepted all those proposed findings, as they were supported in the record.

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It appears that OPC has inferred too much from the testimony in the record in its rejected findings. Nowhere in the record is it stated or even suggested that Commission practice requires that an original cost study be performed when original cost documentation is not available or that not performing an original cost study in this case was capricious or unreasonable.

The Hearing Officer properly rejected OPC's Proposed Finding of Fact No. 7, again, because of an improper inference drawn from the testimony in the record. In her recommended findings, the Hearing Officer makes it clear that the Staff began an original cost study, but did not complete it because the plant values calculated were substantially higher than those contained in the annual report. Staff witness Landis indicated that he evaluated the numbers and that he was "certain" the plant values of an original cost study would have been higher.

Lastly, OPC took exception to the Hearing Officer's recommended finding of fact which states, "The utility's 1988 annual report figures provides a reasonable starting point for determining utility investment." OPC argues that the Hearing Officer erred in making this finding because it is an "ultimate fact," and not a "evidentiary fact." An ultimate fact, OPC asserts, cannot be accepted as an evidentiary fact. In addition, any finding of ultimate fact must be supported by evidentiary facts, and in this case, the evidentiary facts do not support the Hearing Officer's finding of ultimate fact.

For the purpose of understanding the Hearing Officer's Recommended Order, we interpret OPC's term "ultimate fact" to be synonymous for legal conclusion. OPC's argument, then, appears to be essentially that the Hearing Officer improperly included a legal conclusion in her recommended findings of fact. Although OPC does not directly make exception to the Hearing Officer's legal conclusion on the issue, it argues that given the Hearing Officer's acceptance of OPC's proposed findings of fact on this issue, there is nothing in the record supporting the Hearing Officer's legal conclusion.

As with the fire flow issue, most of the evidence presented on this issue was in the form of opinion testimony from expert witnesses. As is cited in the Hearing Officer's recommended findings, two witnesses testified that using the 1988 annual report was reasonable. These two witnesses thought that a good reason for

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using the 1988 report was that doing so was reasonable; the Hearing Officer agreed. No witness advocated that using the 1988 annual report was not reasonable. We believe that the Hearing Officer's recommended finding was supported in the record.

Eliminating the finding which OPC protests does not require rejection of the Hearing Officer's legal conclusion that using the 1988 report was reasonable. There is, as demonstrated earlier, ample record support for the Hearing Officer's conclusion on this issue.

As previously indicated, Staff filed an exception to the Hearing Officer's Conclusion of Law relating to Issue 18. Issue 18 asks: "Should there be an apportionment of rate case expense as required by Section 367.0815, Florida Statutes?"

The Hearing Officer notes that the statute "makes no distinction between file-and-suspend rate cases, staff-assisted rate cases (SARCs), or any other proceeding in which a rate increase is requested and rate case expense is incurred." Although recognizing that in a SARC, a utility requests "rate relief," and not a "rate increase," the Hearing Officer states that after the (PAA) Order was protested, the utility quantified through its testimony and exhibits its desired rate increase. She concludes that since the utility has quantified a specific "rate increase," i.e., an identifiable revenue requirement, Section 367.0815 must be applied to see if an apportionment adjustment is required.

The Hearing Officer calculated, pursuant to the terms of Section 367.0815, Florida Statutes, that an apportionment adjustment could be made to water system revenues. She then made the adjustment, a \$449 decrease to the water system revenue requirement.

In the Exception filed by Staff, Staff questioned only the Hearing Officer's application of Section 367.0815, Florida Statutes, to a SARC. In its exception, Staff stresses that the primary reason not to apply Section 367.0815, Florida Statutes, to a SARC is that in a SARC a utility seeks only "rate relief," unlike in a file-and-suspend rate case where a utility specifically requests a revenue requirement and rates. For instance, Staff argues, it would not make sense to apply Section 367.0815 in a SARC where the revenue requirement approved by the Commission in its

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final order is lower than that approved in the PAA Order which the utility supported at hearing.

We reject Staff's exception. We concur with the Hearing Officer's assessment that the broad language of this section of the statute makes no distinction between file and suspend rate cases, or any other proceeding in which a rate increase is requested and rate case expense is incurred. In light of the facts in this case, that is, the utility quantifying its desired adjustments after the PAA Order was protested, it appears that the Hearing Officer correctly applied the statute and was correct in concluding that the apportionment should be made.

Upon review and consideration of the complete record, we find that the Recommended Order should be adopted in its entirety with certain corrections to the rates contained in the Recommended Order. The corrections are necessitated because of a calculation error we discovered in reviewing the record. The corrected rates are shown on Attachment A, which by reference is incorporated herein.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application of Sandy Creek Utilities, Inc. for increased water and wastewater rates in Bay County is granted to the extent set forth in the body of this Order. 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 utility shall submit within 90 days of the date of this Order, an evaluation of the problems of the water system, along with suggested improvements to the water and wastewater systems and cost estimates for the suggested improvements. It is further

ORDERED that the rates approved herein shall be effective for meter readings taken on or after 30 days after the stamped approval date on the revised tariff sheets. It is further

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ORDERED that the restructured service availability charges shall be effective for connections made 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 prior to its implementation of the rates and charges approved herein, Sandy Creek Utilities, Inc., shall submit and have approved a proposed notice to its customers of the increased rates and charges and the 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 and charges approved herein, Sandy Creek Utilities, Inc., shall submit and have approved revised tariff sheets. The revised tariff sheets will be approved upon Staff's verification that the sheets are consistent with our decisions herein and that the protest period has expired. It is further

ORDERED that this docket will remain open pending our receipt, review and consideration of the plan for improvements and the release of funds escrowed when the utility implemented temporary rates pursuant to Order No. 24170.

By ORDER of the Florida Public Service Commission, this 21st day of NOVEMBER, 1991.

  
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STEVE TRIBBLE, Director  
Division of Records and Reporting

( S E A L )

NSD

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Commissioner Deason dissents in part as follows:

I dissent from the majority decision on a very limited basis. I concur in virtually all of the hearing officer's recommended order, which was reached in an extremely difficult case. My dissent is based solely on the legal issue surrounding the apportionment methodology dictated by Section 367.0815, Fla. Stat. (1990). That statute requires the Commission to apportion the allowance of rate case expense based on the relative success of the utility as measured against its initial request. It is my understanding from reviewing the recommended order that an apportionment was not made for the wastewater segment because making the entire adjustment would drop that segment's ROE below the bottom of the authorized range. I believe failure to make the adjustment is inconsistent with both the intent of the legislature and the language of the statute.

This particular statute has been the subject of some controversy. In fact the statute has been subject to varying interpretation on occasion. I do agree that the wording of the statute needs clarification. However, I firmly believe that the statute -- read in its entirety -- clearly mandates that this Commission apportion allowance of rate case expense recovery based on the relative success of the applicant - subject only to a disallowance limit to the bottom of the authorized range. Unfortunately, the last sentence of the statute has been unnecessarily read so narrowly as to completely frustrate the purposes of the law. That sentence reads:

However, no such apportionment shall be allowed if it will cause the utility's return on equity to drop below its authorized range.

Based upon staff's advice, the word "if" has been given a meaning apart from its obvious intended meaning of "to the extent that." The reading that has been given leads to results that were not contemplated by the legislature. Additionally a bizarre incentive is created. Instead of encouraging settlement and

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<sup>1</sup>I do not take issue with the hearing officer's recommended order insofar as she has correctly applied the statute to the SARC. I agree with the majority on denial of staff's exception.

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prudent expenditure of customer provided funds, the statute -- as interpreted by the majority -- actually gives an incentive to spend more on rate case costs and to pursue potentially unjustified increases, so as to avoid any disallowance. I hasten to add that I am not suggesting that such occurred in this case. My concern is a generic one.

My own review of the available legislative history leaves no doubt that the clear intent was to limit disallowances to the bottom of the range of reasonableness. An "all or nothing" result was not intended. The range was intended to insulate the legislation from possible claims of unconstitutional taking. I believe that resort to the legislative history of the statute is necessary because of the inherent conflict in the section. The only previous Commission decision where this issue was squarely at issue and decided by the full Commission was in Re: Application for Increase in Lee County by Gulf Utility Company, Order No. 24735, issued July 1, 1991 (Commissioners Wilson and Beard dissenting). The majority noted there that:

[t]he last sentence of the statute seems to conflict with the first portion.

Order No. 24735 at 18. Because of this conflict the legislative intent was found to control.

I see no reason to depart from this approach. I believe that the Commission's interpretation would be upheld on any judicial review. I do concede that legislative clarification is needed in order to remove any controversy. However, I do not think at this time the ambiguity should be resolved contrary to legislative intent and against the customers.

#### 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

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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 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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SANDY CREEK UTILITIES, INC.  
SCHEDULE OF WATER RATE BASE  
TEST YEAR ENDED DECEMBER 31, 1989

SCHEDULE NO. 1  
DOCKET NO. 900505-WS

	TEST YEAR PER UTILITY	COMM. ADJUST. TO UTIL. BAL.	BALANCE PER COMM.
	-----	-----	-----
UTILITY PLANT IN SERVICE	\$ 342,980 A	\$ 23,546	\$ 366,526
LAND/NON-DEPRECIABLE ASSETS	0 B	1,209	1,209
PLANT HELD FOR FUTURE USE	0 C	(99,510)	(99,510)
ACQUISITION ADJUSTMENT	0 D	0	0
C.W.I.P.	0 E	0	0
C.I.A.C.	(46,050) F	(18,075)	(64,125)
ACCUMULATED DEPRECIATION	(66,194) G	3,446	(62,748)
AMORTIZATION OF ACQUISITION ADJUSTMENT	0 H	0	0
AMORTIZATION OF C.I.A.C.	8,559 I	2,680	11,239
WORKING CAPITAL ALLOWANCE	3,966 J	(122)	3,844
	-----	-----	-----
WATER RATE BASE	\$ 243,261	\$ (86,826)	\$ 156,435
	-----	-----	-----

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SANDY CREEK, UTILITIES, INC.  
SCHEDULE OF WASTEWATER RATE BASE  
TEST YEAR ENDED DECEMBER 31, 1989

SCHEDULE NO. 1-A  
DOCKET NO. 900505-WS

	TEST YEAR PER UTILITY	COMM. ADJUST. TO UTIL. BAL.	BALANCE PER COMM.
	-----	-----	-----
UTILITY PLANT IN SERVICE	\$ 289,251 A	\$ 139,424	\$ 428,675
LAND/NON-DEPRECIABLE ASSETS	0 B	720	720
PLANT HELD FOR FUTURE USE	0 C	(173,246)	(173,246)
ACQUISITION ADJUSTMENT	0 D	0	0
C.W.I.P.	42,615 E	(42,615)	0
C.I.A.C.	(84,700) F	(33,100)	(117,800)
ACCUMULATED DEPRECIATION	(72,273) G	(3,410)	(75,683)
AMORTIZATION OF ACQUISITION ADJUSTMENT	0 H	0	0
AMORTIZATION OF C.I.A.C.	13,399 I	17,318	30,717
WORKING CAPITAL ALLOWANCE	4,661 J	1,542	6,203
WASTEWATER RATE BASE	\$ 192,953	\$ (93,367)	\$ 99,586
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**SANDY CREEK UTILITIES, INC.**  
**SCHEDULE OF ADJUSTMENTS TO RATE BASE**  
**SCHEDULE NO. 1-B**  
PAGE 1 OF 2

A. <u>UTILITY PLANT IN SERVICE</u>	<u>WATER</u>	<u>WASTEWATER</u>
1. To reflect CWIP completed after the test year and recognized as proforma plant.	\$ 45,909	\$ 244,266
2. To reflect reclassification from CWIP.		42,615
3. To reflect proforma meter installations.	825	
4. To reflect reclassification from operation and maintenance expense.	4,495	
5. To reflect average adjustment.	<u>(27,683)</u>	<u>(147,457)</u>
	<u>\$ 23,546</u>	<u>\$ 139,424</u>
B. <u>LAND</u>		
1. To reflect plant valuation.	\$ 1,300	\$ 3,000
2. To reflect non-used and useful land.	<u>(91)</u>	<u>(2,280)</u>
	<u>\$ 1,209</u>	<u>\$ 720</u>
C. <u>PLANT HELD FOR FUTURE USE</u>		
1. To reflect year end amount.	\$(120,997)	\$(313,622)
2. To reflect average adjustment.	2,505	108,948
3. To reflect year end accumulated depreciation on non-used and useful plant.	20,493	40,305
4. To reflect average adjustment for accumulated depreciation.	<u>(1,511)</u>	<u>(8,877)</u>
	<u>\$ (99,510)</u>	<u>\$ (173,246)</u>

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SANDY CREEK UTILITIES, INC.  
SCHEDULE OF ADJUSTMENTS TO RATE BASE  
SCHEDULE NO. 1-B  
PAGE 2 OF 2

	<u>WATER</u>	<u>WASTEWATER</u>
E. <u>CONSTRUCTION WORK IN PROGRESS</u>		
<u>(CWIP)</u>		
To reflect reclassification to proforma plant.		<u>\$ (42,615)</u>
F. <u>CONTRIBUTIONS IN AID OF</u>		
<u>CONSTRUCTION (CIAC)</u>		
1. To reflect the total.	\$ (16,500)	\$ (27,300)
2. To reflect CIAC associated with margin reserve.	(2,700)	(6,300)
3. To reflect average adjustment.	<u>1,125</u>	<u>500</u>
	<u>\$ 18,075</u>	<u>\$ 33,100</u>
G. <u>ACCUMULATED DEPRECIATION</u>		
1. To reflect the total.	\$ (2,574)	\$ (18,160)
2. To reflect average adjustment.	<u>6,020</u>	<u>14,750</u>
	<u>\$ 3,446</u>	<u>\$ 3,410</u>
I. <u>AMORTIZATION OF CIAC</u>		
1. To reflect the total.	\$ (3,604)	\$ (19,942)
2. To reflect average adjustment.	<u>924</u>	<u>2,624</u>
	<u>\$ 2,680</u>	<u>\$ 17,318</u>
J. <u>WORKING CAPITAL ALLOWANCE</u>		
To reflect one-eighth of operation and maintenance expense.	<u>\$ (122)</u>	<u>\$ 1542</u>

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SANDY CREEK UTILITIES, INC.  
SCHEDULE OF CAPITAL STRUCTURE  
TEST YEAR ENDED DECEMBER 31, 1989

SCHEDULE NO. 2  
DOCKET NO. 900505-WS

	PER UTILITY	COMM. ADJUST. TO UTIL. BAL.	BALANCE PER COMM.	PERCENT OF TOTAL	COST	WEIGHTED COST
	-----	-----	-----	-----	-----	-----
LONG-TERM DEBT	\$ 250,000	\$ (84,469)	\$ 165,531	64.66%	12.00%	7.76
SHORT-TERM DEBT	0	0	0	0.00%	0.00%	0.00
PREFERRED EQUITY	0	0	0	0.00%	0.00%	0.00
CUSTOMER DEPOSITS	3,726	0	3,726	1.46%	8.00%	0.12
COMMON EQUITY	133,000	(46,236)	86,764	33.89%	13.11%	
INVESTMENT TAX CREDITS	0	0	0	0.00%	0.00%	
DEFERRED TAXES	0	0	0	0.00%	0.00%	0.00
OTHER	0	0	0	0.00%	0.00%	0.00
	-----	-----	-----	-----	-----	-----
TOTAL	\$ 386,726	\$ (130,705)	\$ 256,021	100.00%		12.32
	-----	-----	-----	-----	-----	-----

RANGE OF REASONABLENESS

	LOW	HIGH
	-----	-----
RETURN ON EQUITY	12.11%	14.11%
OVERALL RATE OF RETURN	11.98%	12.66%

SANDY CREEK UTILITIES, INC.  
 SCHEDULE OF WATER OPERATING INCOME  
 TEST YEAR ENDED DECEMBER 31, 1989

SCHEDULE NO. 3  
 DOCKET NO. 900505-WS

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DESCRIPTION	TEST YEAR PER UTILITY	COMM. ADJUST TO UTIL BAL.	COMM. ADJUST. TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT	ADJ. FOR STATUTORY RC EXP.	ADJUSTED REVENUE REQUIREMENT
OPERATING REVENUES	\$ 23,382 A	\$ 554	\$ 23,936 G	\$ 38,832	\$ 62,768 I	(449)	62,319
OPERATING EXPENSES:							
OPERATION AND MAINTENANCE	40,243 B	(9,491)	30,752	0	30,752 J	(421)	30,331
DEPRECIATION (NET)	8,844 C	(1,277)	7,567	0	7,567	0	7,567
AMORTIZATION	0 D	0	0	0	0	0	0
TAXES OTHER THAN INCOME TAXES	2,299 E	(96)	2,203 H	1,747	3,950 K	(20)	3,930
INCOME TAXES	0 F	1,226	1,226	0	1,226 L	(1)	1,225
TOTAL OPERATING EXPENSES	\$ 51,386	\$ (9,638)	41,748	1,747	43,495	(442)	43,053
OPERATING INCOME/(LOSS)	\$ (28,004)	\$ 10,192	(17,812)	37,085	19,273	(7)	19,266
WATER RATE BASE	243,261		156,435		156,435		156,382
RATE OF RETURN	-11.51%		-11.39%		12.32%		12.32%

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SANDY CREEK UTILITIES, INC.  
SCHEDULE OF WASTEWATER OPERATING INCOME  
TEST YEAR ENDED DECEMBER 31, 1989

SCHEDULE NO. 3-A  
DOCKET NO. 900505-WS

	TEST YEAR PER UTILITY	COMM. ADJUST. TO UTIL. BAL.	COMM. ADJUST. TEST YEAR	COMM. ADJUST. FOR INCREASE	BALANCE PER COMM.
OPERATING REVENUES	\$ 20,206 A	\$ 3,123	\$ 23,329 G	\$ 49,501	\$ 72,830
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	41,306 B	8,316	49,622	0	49,622
DEPRECIATION (NET)	8,797 C	(3,415)	5,382	0	5,382
AMORTIZATION	0 D	0	0	0	0
TAXES OTHER THAN INCOME	2,219 E	330	2,549 H	2,228	4,777
INCOME TAXES	0 F	780	780	0	780
TOTAL OPERATING EXPENSES	52,322	\$ 6,011	\$ 58,333	\$ 2,228	\$ 60,561
OPERATING INCOME/(LOSS)	(32,116)	\$ (2,888)	\$ (35,004)	\$ 47,273	\$ 12,269
WASTEWATER RATE BASE	192,953	\$	99,586	\$	99,586
RATE OF RETURN	-16.64%		-35.15%		12.32%

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SANDY CREEK UTILITIES, INC.  
SCHEDULE OF ADJUSTMENTS TO OPERATING INCOME  
SCHEDULE NO. 3 - B  
PAGE 1 OF 6

	<u>WATER</u>	<u>WASTEWATER</u>
<b>A. <u>OPERATING REVENUES</u></b>		
1. To remove miscellaneous revenue.	\$ (1,473)	
2. To reflect annualized test year revenue.	2,027	3,123
	<u>\$ 554</u>	<u>\$ 3,123</u>
<b>B. <u>OPERATION AND MAINTENANCE EXPENSE</u></b>		
1. To adjust test year salary to gross.	\$ 1,834	\$ 1,834
2. To reflect annualized salary for secretary.	758	758
3. To adjust secretary's salary to reflect 40% of time performing utility duties.	(4,680)	(4,680)
4. To reflect allowance for one maintenance man.	(5,440)	(5,440)
5. To reflect 25% and 75% allocation to water and wastewater respectively for one full time maintenance man.	(3,250)	3,250
6. To reflect 25% and 75% allocation to water and wastewater respectively for additional one half time maintenance man as a result of hearing.	1,625	4,875
7. To remove non-utility insurance expense for secretary.	(400)	(399)

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SANDY CREEK UTILITIES, INC.  
SCHEDULE OF ADJUSTMENTS TO OPERATING INCOME  
SCHEDULE NO. 3-B  
PAGE 2 OF 6

	<u>Water</u>	<u>Wastewater</u>
8. To remove insurance expense for one maintenance man.	\$ (912)	\$ (912)
9. To reflect 25% and 75% allocation of insurance expense to water and wastewater respectively.	(496)	499
10. To reflect 25% and 75% allocation of insurance expense for additional half time maintenance man.	498	1,493
11. To reflect reclassification telephone expense to Account Nos. 675 and 775.	(512)	(512)
12. To reflect purchased power expense as determined by Commission.	(256)	1,503
13. To reflect reclassification to water plant.	(712)	
14. To reflect reclassification of repairs and maintenance expense to Account Nos. 675 and 775.	(1,397)	(1,330)
15. To reflect an annual chemical expense allowance as determined by the Commission.		(960)
16. To reflect reclassification to water plant.	(703)	
17. To reflect annual contractual operator allowance.	283	283
18. To reflect reclassification of water and wastewater expense from Account Nos. 675 and 775.	645	2,110

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SANDY CREEK UTILITIES, INC.  
 SCHEDULE OF ADJUSTMENTS TO OPERATING INCOME  
 SCHEDULE NO. 3-B  
 PAGE 3 OF 6

	<u>WATER</u>	<u>WASTEWATER</u>
B. <u>OPERATION AND MAINTENANCE</u>		
<u>EXPENSE</u>		
19. To remove unamortized portion of primary organic test expense.	\$ (112)	
20. To reflect annual allowance for DER required water tests.	65	\$ 1,825
21. To reflect annual sludge analysis as determined by the Commission.		200
22. To reflect reclassification from Account Nos. 665 and 765.	900	900
23. To reflect allowance for annual report preparation.	(400)	(400)
24. To reflect reclassification to water plant.	(650)	(650)
25. To reflect reclassification to Account Nos. 675 and 775.	(217)	(217)
26. To remove non-recurring legal expense.	(428)	(428)
27. To remove non-recurring expense.	(138)	(138)
28. To reflect annual liability insurance.	758	758
29. To reflect reclassification to Account Nos. 630 and 730.	(900)	(900)
30. To reflect rate case expense amortized over four years.	5474	5474

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SANDY CREEK UTILITIES, INC.  
SCHEDULE OF ADJUSTMENTS TO OPERATING INCOME  
SCHEDULE NO. 3 - B

PAGE 4 OF 6

	<u>WATER</u>	<u>WASTEWATER</u>
<b>B. <u>OPERATION AND MAINTENANCE</u></b>		
<b><u>EXPENSE</u></b>		
31. To reflect reclassification of telephone expense from Account Nos. 615 and 715.	512	512
32. To reflect allowance for telephone expense.	\$ (212)	\$ (212)
33. To reflect reclassification of repairs and maintenance expense from Account Nos. 618 and 718.	1,397	1,330
34. To reflect reclassification of water and wastewater plant.	(1,780)	
35. To reflect reclassification of water and wastewater testing expense to Account Nos. 630 and 730.	(645)	(2,110)
	<u>\$ (9,491)</u>	<u>\$ 8,316</u>
<b>C. <u>DEPRECIATION EXPENSE</u></b>		
To reflect Commission's calculated depreciation expense net of amortization of CIAC.	\$ (1,277)	\$ (3,415)
<b>E. <u>TAXES OTHER THAN INCOME</u></b>		
1. To reflect regulatory assessment fee at 4.5% on test year revenue.	\$ 493	\$ 546
2. To adjust test year payroll taxes.	(1,175)	(617)

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SANDY CREEK UTILITIES, INC.  
SCHEDULE OF ADJUSTMENTS TO OPERATING INCOME  
SCHEDULE NO. 3 - B  
PAGE 5 OF 6

	<u>WATER</u>	<u>WASTEWATER</u>
<u>E. TAXES OTHER THAN INCOME</u>		
3. To adjust test year payroll taxes for additional one half time maintenance man.	122	366
4. To reflect real estate taxes.	499	144
5. To adjust real estate taxes based on land used and useful percentage as determined by the Commission.	(35)	(109)
	<u>\$ (96)</u>	<u>\$ 330</u>
<u>F. INCOME TAXES</u>		
To reflect income tax expense.	<u>\$ 1,226</u>	<u>\$ 780</u>
<u>G. OPERATING REVENUE</u>		
To reflect increase in revenue required to cover expenses and allow authorized return on investment.	<u>\$36,446</u>	<u>\$42,339</u>
<u>H. TAXES OTHER THAN INCOME</u>		
To reflect regulatory assessment fee at 4.5% on increase in revenue.	<u>\$ 1,640</u>	<u>\$ 1,905</u>
<u>I. OPERATING REVENUES</u>		
To adjust for decrease in statutory rate case expense.	<u>\$ (449)</u>	

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SANDY CREEK UTILITIES, INC.  
SCHEDULE OF ADJUSTMENTS TO OPERATING INCOME  
SCHEDULE NO. 3 - B  
PAGE 6 OF 6

	<u>WATER</u>	<u>WASTEWATER</u>
J. <u>OPERATION AND MAINTENANCE</u> <u>EXPENSE</u>		
To adjust to statutory rate case expense.	\$ <u>(421)</u>	
K. <u>TAXES OTHER THAN INCOME</u>		
To adjust for decrease in statutory rate case expense.	\$ <u>(20)</u>	
L. <u>INCOME TAXES</u>		
To adjust for decrease in statutory rate case expense.	\$ <u>(1)</u>	

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SANDY CREEK UTILITIES, INC.  
 SCHEDULE OF WATER RATE CASE EXPENSE  
 RATE REDUCTION AFTER FOUR YEARS  
 TEST YEAR ENDED DECEMBER 31, 1989

SCHEDULE NO. 4  
 DOCKET NO. 900505-WS

## MONTHLY RATES

## RESIDENTIAL AND GENERAL SERVICE

## BASE FACILITY CHARGE:

Meter Size:

	FINAL RATES	RATE DECREASE
5/8"x3/4"	\$ 11.92	\$ 1.10
3/4"	17.88	1.64
1"	29.80	2.74
1-1/2"	59.61	5.48
2"	95.37	8.77
3"	190.74	17.55
4"	298.04	27.42
6"	596.07	54.84

GALLONAGE CHARGE  
 PER 1000 GALLONS

\$ 2.40	\$ 0.22
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SANDY CREEK UTILITIES, INC.  
 SCHEDULE OF WASTEWATER RATE CASE EXPENSE  
 RATE REDUCTION AFTER FOUR YEARS  
 TEST YEAR ENDED DECEMBER 31, 1989

SCHEDULE NO. 4-A  
 DOCKET NO. 900505-WS

## MONTHLY RATES

RESIDENTIAL AND GENERAL SERVICE -----	FINAL RATES -----	RATE DECREASE -----
BASE FACILITY CHARGE:		
Meter Size:		
5/8"x3/4"	\$ 26.36	\$ 2.07
3/4"	39.54	3.11
1"	65.91	5.19
1-1/2"	131.81	10.37
2"	210.90	16.60
3"	421.81	33.20
4"	659.07	51.87
6"	1,318.14	103.74
GALLONAGE CHARGE-RESIDENTIAL SERVICE PER 1000 GALLONS	\$ 3.34	\$ 0.26
GALLONAGE CHARGE-GENERAL SERVICE PER 1000 GALLONS	\$ 4.00	\$ 0.31

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SANDY CREEK UTILITIES, INC.  
 WATER RATE CASE EXPENSE REDUCTION PER  
 SECTION 367.0815, FLORIDA STATUTES  
 TEST YEAR ENDED DECEMBER 31, 1991

SCHEDULE NO. 5  
 DOCKET NO. 900505-WS

DESCRIPTION	WATER	WASTEWATER
REVENUE INCREASE	38,832	49,501
REVENUE INCREASE REQUESTED	42,070	72,085
% OF INCREASE TO AMT REQUESTED	92.30%	68.67%
PRUDENT RATE CASE EXPENSE AMORTIZATION	5,474 92.30%	5,474 68.67%
STATUTORY LEVEL OF RATE CASE EXPENSE	5,053	3,759
TOTAL REDUCTION TO RATE CASE EXPENSE	(421)	(1,715)
EFFECT ON RATE BASE (1/8 O&M)	(53)	(214)
RETURN REDUCTION ASSOC WITH RATE BASE	(7)	(26)
INCOME TAX EFFECT ON RATE BASE	(1)	(5)
TOTAL EXPENSE ADJUSTMENT	(429)	(1,746)
GROSS-UP FOR RAF	0.955	0.955
TOTAL REVENUE ADJUSTMENT	(449)	(1,828)
TOTAL RAF ADJUSTMENT	(20)	(82)
AUTHORIZED NOI	19,273	12,269
LESS: RATE CASE EXPENSE	(449)	(1,828)
ADJUSTED NOI	18,824	10,441
RATE BASE	156,435	99,586
GENERATED ROR	12.03%	10.48%
RANGE OF OVERALL RATE OF RETURN	11.98% TO	12.66%

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Sandy Creek Utilities, Inc.  
 Schedule of Corrected Apportioned  
 Water Rates and Four Year Rate Case  
 Expense Decrease  
 Test Year Ended December 31, 1989

Attachment A  
 Docket No. 900505-WS

WATER  
CORRECTED MONTHLY RATES

RESIDENTIAL AND GENERAL SERVICE

<u>Meter Size</u>	<u>Base Facility Charge</u>	<u>4 Year Rate Decrease</u>
5/8x3/4"	\$ 11.81	\$ 1.00
3/4"	17.72	1.50
1"	29.53	2.51
1 1/2"	59.06	5.01
2"	94.49	8.02
3"	188.99	16.05
4"	295.29	25.07
6"	590.58	50.14
 <u>Gallonge Charge</u>		
Per 1,000 gallons	\$ 2.39	\$ 0.20