BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

CITRUS COUNTY, FLORIDA,
and CYPRESS AND OAKS VILLAGES
ASSOCIATION,

Appellants,

vs.

SOUTHERN STATES UTILITIES, INC.,

Appellee.
_____/

Appeal No.:

PSC Docket No.: 92-0199-WS

SCANNED

NOTICE OF APPEAL

NOTICE IS GIVEN that Citrus County, Florida, and Cypress and Oaks Villages Association, Interested Parties/Appellants, appeal to the District Court of Appeal, First District of Florida, (1) the order of the Public Service Commission dated March 22, 1993, motions for reconsideration pending, and (2) the order of the Public Service Commission Staff dated September 15, 1993, approving implementation of the final rates approved by the March 22, 1993 order. Conformed copies of these orders are attached hereto.

The nature of the combined orders is final agency action granting increased utility rates on a permanent, nonrefundable basis (although the Commission has not entered written orders

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disposing of the motions for rehearing or reconsideration filed by the parties).

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of the foregoing has been furnished by U.S. Mail this 8th day of October, 1993 to the following persons:

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for rate increase in Brevard, Charlotte/Lee, Citrus, Clay, Duval, Highlands, Lake, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, Volusia, and Washington Counties by SOUTHERN STATES UTILITIES, INC.; in Collier County by MARCO SHORES UTILITIES (Deltona); in Hernando County by SPRING HILL UTILITIES (Deltona); and in Volusia County by DELTONA LAKES UTILITIES (Deltona)	DOCKET NO. 920199-WS ORDER NO. PSC-93-0423-FOF-WS ISSUED: 03/22/93

The following Commissioners participated in the disposition of this matter:

THOMAS M. BEARD
SUSAN F. CLARK

APPEARANCES:

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On behalf of Southern States Utilities, Inc.

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On behalf of the Citizens of the State of Florida

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On behalf of the Board of County Commissioners of Citrus County, Florida

HARRY JONES, President, and BUD HANSEN, Cypress and Oak Villages Association of Sugar Mill Woods, Homosassa, 91 West Cypress Boulevard, Homosassa, Florida 32646
On behalf of Cypress and Oak Villages of Homosassa

CATHERINE BEDELL, MATTHEW FEIL, LILA JABER, LEEANN KNOWLES, REX GOLDEN, KAREN ASHER-COHEN, and SUZANNE SUMMERLIN, Esquires, Florida Public Service Commission, 101 East Gaines Street, Tallahassee, Florida 32399-0863
On behalf of Commission Staff

PRENTICE P. PRUITT, Esquire, Florida Public Service Commission, 101 East Gaines Street, Tallahassee, Florida 32399-0861
Counsel to the Commissioners

FINAL ORDER SETTING RATES

BY THE COMMISSION:

BACKGROUND

Southern States Utilities, Inc., and Deltona Utilities, Inc., (hereinafter referred to as the utility or SSU) are collectively a class A water and wastewater utility operating in various counties in the State of Florida. SSU has filed an application to increase the rates and charges for 127 of its water and wastewater systems regulated by this Commission. According to the information contained in the minimum filing requirements (MFRs), the total

annual revenue for the water systems filed in this application for 1991 was $12,319,321 and the net operating income was $1,616,165. The total annual revenue for the wastewater systems filed in this application for 1991 was $6,669,468 and the net operating income was $324,177. For the systems involved in this rate application, the Utility serves a total of 75,055 water customers and 25,966 wastewater customers.

The utility's last rate case for 34 of its water and wastewater systems was in Docket No. 900329-WS. That case was dismissed by the Commission in Order No. 24715, issued June 26, 1991. The First District Court of Appeal affirmed this Commission's action on July 16, 1992.

On May 11, 1992, the utility filed its request for increased rates and charges. The MFRs were deficient. On June 17, 1992, the utility submitted the required information, and the official date of filing was established as June 17, 1992.

In total, the utility requested interim rates designed to generate annual revenues of $16,806,594 for its water systems and $10,270,606 for its wastewater systems, increases of $3,981,192 (31.57%) and $2,997,359 (41.22%), respectively, according to the MFRs. The utility requested final rates designed to generate annual revenues of $17,998,776 for its water systems and $10,872,112 for its wastewater systems, increases of $5,064,353 (40.16%) and $3,601,165 (49.53%), respectively, according to the MFRs. The approved test year for determining both interim and final rates is the historical year ended December 31, 1991.

By Order No. PSC-92-0832-FOF-WS, issued August 27, 1992, this Commission suspended SSU's requested rates. The utility waived the 60-day statutory period for interim rates until August 18, 1992. On that date, we voted to authorize interim rates. By Order No. PSC-92-0948-FOF-WS, issued September 8, 1992, and as amended by Order No. PSC-92-0948A-FOF-WS, issued October 13, 1992, we approved interim rates designed to generate annual water and wastewater systems revenues of $16,347,596 and $10,270,606, respectively.

Between August, 1992, and November, 1992, we held a total of ten service hearings throughout the state for the purpose of receiving customer testimony for this case. Beginning November 6, 1992, we conducted a five-day hearing in Tallahassee.

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ABBREVIATIONS

The following abbreviations are used herein for reference purposes:

Company and Party Names

COVA	Cypress and Oak Villages of Homasassa
DUI	Deltona Utilities, Inc.
PSC	Florida Public Service Commission
MP&L	Minnesota Power and Light Company
OPC	Office of Public Counsel
SSU	Southern States Utilities, Inc.
SSUSI	Southern States Utilities Services, Inc.
TGI	Topeka Group, Inc.
UFU	United Florida Utilities Corporation
VGU	Venice Gardens Utility

Technical Terms

AFPI	Allowance for Funds Prudently Invested
AFUDC	Allowance for Funds Used During Construction
AWWA	American Waterworks Association
BFC	Base Facility Charge
CIAC	Contributions In Aid Of Construction
CWIP	Construction Work In Progress
DER	Florida Department of Environmental Regulation
EPA	Environmental Protection Agency
ERCs	Equivalent Residential Connections
ERUs	Equivalent Residential Units
FASB	Financial Accounting Standards Board
gpd	Gallons Per Day
gpm	Gallons Per Minute
ITCs	Investment Tax Credits
MCLs	Maximum Contaminant Levels
MFRs	Minimum Filing Requirements
mgd	Million Gallons Per Day
MPL	Milligrams Per Liter
PHFU	Plant Held for Future Use
ppm	Parts Per Million
SFAS	Statement of Financial Accounting Standards
TDS	Total Dissolved Solids
WTP	Water Treatment Plant
WWTP	Wastewater Treatment Plant

FINDINGS OF FACT, LAW, AND POLICY

Having considered the evidence presented, the briefs of the parties, and the recommendation of our staff, we hereby enter our findings of fact, law, and policy.

STIPULATIONS

At the Prehearing Conference, the parties and our staff reached a number of proposed stipulations. We believe the stipulations are reasonable, and hereby accept them. These stipulations fall into four general categories: (1) Those stipulations where the utility and Staff agreed, but where none of the other parties took part in the stipulations or took positions on the issues from which the stipulations were derived; (2) Those where all of the parties and Staff agreed; (3) Those where the utility, OPC, and Staff agreed, but where COVA did not take part nor take positions on the issues from which the stipulations were derived; and (4) Those where the utility, COVA, and Staff agreed, but where OPC did not take part nor take positions on the issues from which the stipulations were derived. The stipulations are listed below by category.

Category One Stipulations

1. Western Shores and Silver Lake Estates should be considered one system for ratemaking purposes.

2. Interlachen Lake Estates and Park Manor should be considered one system for ratemaking purposes.

3. Saratoga Harbor and Welaka should be considered one system for ratemaking purposes.

4. The Commission should set the cost of equity using the leverage formula in effect at the time of the Agenda Conference for the final order in this case. The range for the cost of equity should be plus or minus 100 basis points.

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5. The following plant retirements should be made for the Rolling Green water system due to that systems' interconnection with another system:

Acct.#		$ Retirement
304.2	Structures & Improv - Source of Supply	$1,252.14
304.3	Structures & Improv - Treatment Plant	627.26
305.2	Collection Reservations	4.06
307.2	Wells & Springs	16,599.46
309.2	Supply Mains	7.96
310.2	Power Generation Equipment	4.58
339.2	Other Plant & Misc - Equip-Pumping Plant	(5.14)

The accumulated depreciation for these retirements is:

Acct.#		$ Retirement
304.2	Structures & Improv - Source of Supply	$ 118.60
304.3	Structures & Improv - Treatment Plant	60.36
305.2	Collection Reservations	.20
307.2	Wells & Springs	1,679.88
309.2	Supply Mains	.40
310.2	Power Generation Equipment	.22
339.2	Other Plant & Misc - Equip-Pumping Plant	(.26)

The CIAC associated with the retired assets is $16,568.64 and accumulated amortization of CIAC associated with the retired assets is $902.44.

6. Water plant distribution system additions at Quail Ridge were not classified in the proper accounts. The appropriate adjustments are contained in the utility's response to Staff Interrogatory No. 75, which will be stipulated into the record as an Exhibit.

7. The average provision for net plant for the Deltona Lakes wastewater collection system should be increased by $97,778; depreciation expense should be increased by $2,222.

8. Public fire protection rates should be eliminated.

Category Two Stipulations

9. The rate base provision for deferred income taxes should be reduced to the extent prepaid amounts (debit accounts) correspond to interim rates from Docket No. 900329-WS which are to be refunded.

10. Plant in service for the Venetian Village system should be reduced by $19,736 to correct a double-counting error. Average rate base should be reduced by $9,375, and depreciation expense should be reduced by $987.

11. The South Forty wastewater plant balance should be reduced by $269,774 with corresponding adjustments to accumulated depreciation, depreciation expense and nonused and useful balances.

12. The land balance for Deltona Lakes should be reduced by $30,000 to correspond with an appraisal performed in 1992.

13. Water systems CIAC should be adjusted to correct errors detected during the staff audit. The adjustments are as follows:

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Name of System	CIAC	Accum Amort	Depr. Exp
WATER SYSTEMS			
Amelia Island	$(10,556)	$1,161	$(372)
Apache Shores	$(387)	$80	$(12)
Carlton Village	$(100)	$11	$(3)
Daetwyler Shores	$(500)	$74	$(15)
East Lake Harris	$(350)	$39	$(11)
Fern Terrace	$225	$(29)	$7
Friendly Center	$(475)	$62	$(15)
Golden Terrace	$(1,270)	$246	$(39)
Hermits Cove	$(475)	$57	$(15)
Interlachen Lakes	$(2,100)	$287	$(65)
Keystone Heights	$(103)	$13	$(3)
Lake Conway Park	$(40)	$7	$(1)
Leilani Heights	$(11,038)	$1,430	$(342)
Oak Forest	$450	$(54)	$14
Palm Port	$(1,250)	$158	$(39)
Palms Mobile Home Park	$(75)	$13	$(2)
Piccola Isle	$(775)	$95	$(24)
Piney Woods	$450	$(50)	$14
Pomona Park	$(1,975)	$250	$(61)
Postmaster Village	$7,650	$(842)	$237
River Park	$(1,800)	$234	$(56)
Skycrest	$(9,899)	$1,089	$(307)
St. Johns Highlands	$(525)	$64	$(16)
Tropical Park	$1,690	$(310)	$52
University Shores	$(635,586)	$50,554	$(26,376)
Venetian Village	$388	$(50)	$12
Welaka	$(225)	$29	$(7)

14. Wastewater systems CIAC should be adjusted to correct errors detected during the staff audit. The adjustments are as follows:

Name of System	CIAC	Accum Amort	Depr. Exp
WASTEWATER SYSTEMS			
Amelia Island	$(6,342)	$698	$(197)
Apache Shores	$137	$(46)	$4
Lailani Heights	$412	$(159)	$13
Palm Port	$(650)	$86	$(20)
University Shores	$332,640	$(98,722)	$10,651
Venetian Village	$(613)	$80	$(19)

15. Rate bases and expenses should be adjusted to correct misclassifications detected during the staff audit. The adjustments are as follows:

Name of System	W/S	Net Plant	Depr. Exp.	Oper. Exp
Citrus Springs	W	$1,019	$13	$(1,032)
Jungle Den	S	$1,669	$16	$(1,684)
University Shores	W	$2,031	$88	$(2,118)

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16. Adjustments should be made to correct errors in reporting previously-established rate base amounts, as stated in the staff audit. The adjustments are as follows:

Name of System	W/S	Plant	Accum Depr	Depr. Exp
Citrus Park	W	$(19,471)	$1,509	$(604)
Citrus Park	S	$8,677	$(672)	$269
Daetwyler Shores	W	$3,704	$(889)	$74
Keystone Heights	W	$1,500	$0	$0
Lake Conway Park	W	$(3,705)	$889	$(74)
Rolling Green	W	$29,195	$(3,620)	$905
Salt Springs	W	$17,781	$(1,378)	$551
Salt Springs	S	$(10,675)	$827	$(331)
Samira Villas	W	$(869)	$67	$(27)
South Forty	S	$14,889	$(1,154)	$462

Name of System	W/S	CIAC	Accum Amort	Depr. Exp
Citrus Park	W	$1,439	$(112)	$45
Citrus Park	S	$213	$(17)	$7
Daetwyler Shores	W	$(7,692)	$1,894	$(158)
Fisherman's Haven	W	$100	$(11)	$3
Grand Terrace	W	$41,800	$(1,672)	$836
Interlachen Lake Est.	W	$(675)	$126	$(21)
Lake Conway Park	W	$7,892	$(1,894)	$158
Rolling Green	W	$(29,195)	$2,336	$(584)
Salt Springs	W	$11,738	$(910)	$364
Salt Springs	S	$(113)	$9	$(4)
Samira Villas	W	$(7,360)	$570	$(228)
St. Johns Highland	W	$(225)	$42	$(7)

Name of System	W/S	Acq. Adjust	Accum Amort	Depr. Exp
Apache Shores	W	$(2,358)	$542	$(47)
Apache Shores	S	$(3,937)	$906	$(79)

17. Test year revenues should be adjusted to reflect annualized miscellaneous charges, the correct original rates prior to Docket No. 900329-WS, and adjustments required based on the billing analysis. These amounts are as stated in the interim order.

18. Test year expenses should be reduced by $1,447 to remove from the test year expenses for a drinking water study performed in 1984.

19. Test year expenses should be reduced by $2,984 to remove certain organizational costs expensed during the test year.

20. Test year expenses should be reduced by $5,641 to reflect above the line treatment for vendor discounts.

21. Test year expenses should be reduced by a minimum of $1,541 to remove charitable contributions.

22. Test year expenses should be reduced by $32,739 to remove DER-mandated testing that the Company failed to defer and amortize.

Category Three Stipulations

23. The fire flow requirement for the Deltona Lakes system is 2,500 gallons per minute for 2 hours.

24. Rate base provisions for land should be adjusted due to mechanical errors in calculating the impact of appraisals as stated in the staff audit. The adjustments are as follows:

Name of System	Water	Wastewater
Marion Oaks	$22,121	$(80,850)
Pine Ridge Utilities	$(1,057)	
Spring Hill		$(185,367)
Sunny Hills	$(14,852)	

Category Four Stipulations

25. The base facility and gallonage charge rate structure should be implemented for all systems.

26. The billing cycles for all systems should be converted to monthly billing.

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QUALITY OF SERVICE

Staff witnesses employed by DER testified that not all SSU water and wastewater systems were meeting all DER rule requirements. Utility witness Sweat testified that any DER deficiencies were temporary and that SSU was providing safe, efficient, and sufficient service to its customers. Below, in alphabetical order, we address the SSU systems with quality of service problems.

Beechers Point - Staff witness Maher testified that the MCLs for sodium and chloride were exceeded at the Beechers Point water treatment plant. Utility witness Sweat responded that he expects the sodium and chloride problems at Beechers Point to be resolved when the system is interconnected with the City of Welaka in early 1993.

Staff witness Houriet testified that the Beechers Point wastewater plant had an average nitrate-nitrogen level during the period June, 1991, to May, 1992, of 15 ppm, which exceeds the permitted level of 12 ppm. Mr. Sweat testified that the utility increased the sludge removal rate and put all blowers on separate timers and that the nitrate levels are now below MCLs.

Chuluota - Staff witness Enage testified that the combined radium 226 and 288 levels exceeded the allowable MCLs at the Chuluota water treatment system. Mr. Enage further stated that pursuant to Rule 17-550.510(7)(a)10, Florida Administrative Code, quarterly sampling will be required until the annual average does not exceed the MCL. Utility witness Sweat stated in his rebuttal testimony that the Utility completed the recheck samples for radium 226 and 288, and, as of August, 1992, the results indicate full compliance. Mr. Sweat also testified that the problem of rust in the water at Chuluota would be resolved when SSU replaced approximately 3,000 feet of pipe in the system.

Fox Run - Staff witness Oblaczynski stated that even though the utility has just installed several new iron removal filters at the Fox Run water plant, iron concentration in the water still exceeds the MCL of 0.3 ppm. Mr. Sweat acknowledged the iron problem. He stated that SSU recently installed 13 iron removal filters to eliminate the iron problem and that SSU had spent about half-a-million dollars at Fox Run to resolve all water quality problems since acquiring this system. Mr. Sweat testified that the utility was still searching for the cause of the elevated iron levels at this system.

Staff witness Thiel testified that the Fox Run wastewater plant was in compliance with its permits, but SSU was falling behind on a corrective action schedule. Mr. Sweat testified that the Fox Run wastewater system is due to be tied into a regional system sometime after mid-1993.

Golden Terrace - Staff witness Ball testified that the Golden Terrace water plant was exceeding the MCLs for iron and had been issued a warning notice for this on November 14, 1991. Witness Ball also stated that DER was working with the utility to sign a consent order agreement in order to expedite correction of the violation. Mr. Sweat testified that, upon retesting at Golden Terrace, all levels met requirements.

Gospel Island - Staff witness Ball also testified that SSU was issued a warning notice on November 19, 1991, for its Gospel Island water treatment facility, which was exceeding the MCLs for manganese. Mr. Sweat did not respond to this testimony.

Hermit's Cove - Staff witness Maher testified that the Hermit's Cove water system did not meet the secondary MCLs for manganese and TDS. Mr. Maher also stated that these contaminants did not clear the 1992 rechecks and that a noncompliance letter was sent to the utility. Utility witness Sweat testified that the utility experienced no prior difficulties complying with MCLs for manganese and TDS in Hermit's Cove and that the utility suspected improper lab testing.

Leilani Heights - Staff witness Thiel testified that a noncompliance letter was sent to SSU following a DER inspection on June 2, 1992, at the Leilani Heights wastewater plant. DER noted SSU's bypassing filters, sludge in one of the percolation ponds and weir box, and a lack of a standby blower as required by the permit. Utility witness Sweat testified that Leilani Heights was near buildout and that the blower mentioned in the Leilani Heights report was being repaired at the time of the inspection.

Palm Terrace - Staff witness Barker testified that a noncompliance letter had been sent to the utility regarding the Palm Terrace (Ell-Nar) water system. The letter addressed turbidity, primary organics, primary inorganics, secondary contaminants, unregulated contaminants, and quarterly testing for volatile organic contaminants. Mr. Sweat responded that sampling kits were received on October 21st and samples would soon be forwarded to DER.

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Pine Ridge - One customer of the Pine Ridge Utilities water system testified that pressure at Pine Ridge was inconsistent and often inadequate. He stated that although SSU was responsive, the problem was not rectified. Another Pine Ridge customer stated that with a one-inch meter on her home, she can only draw 10.5 gpm, when the meter has a maximum potential of 50 gpm. If the shower is on, she complained, she could not wash her hands at another fixture. She noted that she has a gauge at her home and the gauge indicates that she does not get 20 pounds of pressure. With the new well SSU brought on line in September, the customer perceived no difference.

Point O' Woods - Staff witness Ball testified that iron has commonly exceeded MCLs at the Point O' Woods water plant ever since February, 1991. The utility entered into a consent order with DER, witness Ball stated, and therein agreed to add iron filters to the system. Customers from Point O' Woods testified that the water quality was less than desirable; specifically, they complained of iron (rust), hardness, and sand in the water. One customer testified that she had to install filters to remove the rust and sand from her water. Another customer testified that the iron level at Point O' Woods is 0.3 ppm, and the hardness of the water is undesirable. Utility witness Sweat testified that a new well and iron removal filters have been installed at Point O' Woods.

Staff witness Squitieri testified that, according to the Citrus County Health Department, the percolation ponds at the Point O' Woods wastewater treatment plant are overgrown with vegetation. Utility witness Sweat responded that pond cleaning had been budgeted for 1993.

Sugar Mill Woods - Staff witness Squitieri also testified that the Sugar Mill Woods wastewater plant violated standards for wastewater residuals, poorly maintained its effluent disposal facilities, had inadequate digester capacity, failed to report abnormal events, spilled raw influent at bar screens, and discharged plant solids in the sprayfields and groundwater monitoring area. Mr. Squitieri also testified that the site lacked a fence as required by DER Rule 17-6.070(2)(b), Florida Administrative Code. Utility witness Sweat responded that SSU was experiencing some difficulties with a developer in the area, but SSU was informed that the developer was planning to relieve the problem with construction of new wastewater lines. Mr. Sweat did not address the fence violation.

University Shores - Staff witness Dentice testified that results of a bioassay of the effluent from the University Shores No. 1 wastewater treatment plant showed that the effluent was

acutely toxic. He also stated that effluent from the No. 2 plant at University Shores was ponding on the drainfields and that two of the percolation ponds were discharging to surface waters. Utility witness Sweat testified that resampling of effluent was performed, and the results were sent to DER. As of October, 1992, he stated, no formal results had been received. Mr. Sweat testified that problems at University Shores No. 2 wastewater treatment plant were caused by rainwater, not effluent.

Zephyr Shores - Staff witness Burghardt testified that the Zephyr Shores wastewater treatment plant has inadequate effluent disposal capacity and that SSU needs to build additional capacity or divert flows to Pasco County. Utility witness Sweat testified that SSU has a bulk wastewater agreement with the County, but a force main and pumping station must be constructed before an interconnect can occur. Mr. Sweat further stated that the work should be completed by the end of 1993.

Finally, several of the DER witnesses testified that the utility had no cross-connection control program. In his rebuttal testimony, utility witness Sweat testified that SSU has a cross-connection control program for each of its systems and that copies of the program were provided to each DER office in April, 1989.

In consideration of the evidence on the record, as detailed above, we find that Fox Run, Golden Terrace, Gospel Island, Pine Ridge Utilities, and Point O' Woods water systems are not in compliance with DER rules, and we therefore conclude that their quality of service is definitively unsatisfactory. Further, we find that both the Beechers Point water and wastewater systems, the Chuluota, Hermit's Cove and Palm Terrace (Ell-Nar) water systems, and the Fox Run, Leilani Heights, Point O' Woods, Sugar Mill Woods, University Shores 1 and 2, and Zephyr Shores wastewater systems have also failed to meet DER standards. However, since the regulatory deficiencies for those systems are of a lesser magnitude, we find that the quality of service for these systems is less than satisfactory.

The service problems cited above do not appear to be immediate health or safety hazards. As indicated, some of the problems appear to have been resolved or are in the process of being resolved. Nonetheless, we are concerned by the problems at each of the systems. From time to time, a sample taken will not meet MCLs. This could result from an improper sampling technique or contamination of the sample. Immediate resampling and testing should be conducted, and the alleged problem resolved. Our greatest concerns are with those water or wastewater systems with

quality problems which either have a direct and immediate impact on the customers or which create a health hazard. For instance, for those water systems where excessive iron or sand are problems, the customers experience a direct and immediate impact. The need for a fence around the treatment facility or the lack of automatic start on an auxiliary power unit, while important, should have less priority.

In its brief, OPC suggests that any rate increases granted be held in abeyance for those systems which are not meeting DER standards. Although we are sympathetic to OPC's rationale, we shall not adopt its suggestion. For some systems with quality of service problems, the rate increase is insignificant, but for most, we have ordered a rate decrease. We find that corrective action in a specific time frame is, in this case, a sound approach. If the utility fails to comply with any required corrective action, we will consider initiating show cause proceedings to compel compliance.

We shall not at this time penalize SSU for the above-described quality of service deficiencies; however, the following corrective actions shall be taken. For all of the below-listed 16 systems, SSU shall submit, within 30 days of the date of this Order, a status report on the deficiencies of each system. In addition, within 60 days of the date of this Order, SSU shall submit a specific, detailed plan describing what will be required for it to correct the deficiencies and bring each system into compliance, including a time schedule for doing so. SSU shall submit quarterly reports on the status of each of the below-listed deficiencies until all of the deficiencies have been corrected and verified in writing by DER. Our staff will notify SSU of its receipt and acceptance of any such DER compliance letters, and upon staff's so doing, SSU may cease sending a report for the system(s) covered.

For the following five systems, SSU shall complete all work required to cure the listed deficiency within eight months of the date of this Order. If DER grants a rule waiver pertinent to any of these deficiencies, SSU shall advise us of the waiver and shall comply with same.

WATER SYSTEM	DEFICIENCY
Fox Run	Iron exceeds MCLs
Golden Terrace	Iron exceeds MCLs
Gospel Island	Manganese exceeds MCLs
Pine Ridge Utilities	Inadequate pressure
Point O' Woods	Iron exceeds MCLs

For the following eleven systems, SSU shall complete all work required to cure the listed deficiency within 12 months of the date of this Order. If DER grants a rule waiver pertinent to any of these deficiencies, SSU shall advise us of the waiver and shall comply with same.

WATER SYSTEM	DEFICIENCY
Beechers Point	Sodium and Chlorides exceed MCLs
Chuluota	Radium 226 and 288 exceed MCLs; rust in the system
Hermits Cove	Manganese and TDS exceed MCLs
Palm Terrace (Ell-Nar)	Outstanding DER noncompliance letter

WASTEWATER SYSTEM	DEFICIENCY
Beechers Point	Nitrate level exceeds MCLs
Fox Run	Inadequate disposal capacity
Leilani Heights	Outstanding DER noncompliance letter
Point O' Woods	Overgrown percolation ponds
Sugar Mill Woods	Various effluent violations, no fence as required by rule
University Shores	Effluent disposal capacity
Zephyr Shores	Inadequate disposal capacity

Further, the utility should keep a copy of its cross-connection control program on site for each system. This way, DER inspectors can verify the plan's existence during his or her inspection.

RATE BASE

Our calculations of the appropriate rate bases for the purpose of this proceeding are depicted on Schedules Nos. 2-A for water systems and on Schedules Nos. 2-B for wastewater systems. Our adjustments are itemized on Schedules Nos. 2-C. All of the foregoing schedules are grouped by system, in alphabetical order. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

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MARGIN RESERVE

Utility witness Hartman described the use of a margin reserve in the regulation of water and wastewater utilities as follows:

> The margin reserve is the additional water and wastewater facilities necessary to meet the customer demands while additional facilities are being constructed. The Commission realizes that a utility must construct facilities beyond the needs of its current customers and has an obligation to do so, since the utility's customer base is a continuously growing and dynamic element, while the construction of facilities takes a great deal of time.

Failure to recognize a margin reserve in used and useful calculations would encourage utilities to construct plant in increments, Mr. Hartman claimed, and this would increase the utility's plant investment at build-out and, ultimately, increase the customers' rates. Conversely, he explained, economies of scale can produce significant cost savings in plant construction.

Staff witness Shafer also described the margin reserve concept:

> The Commission requires every utility to serve all customers in its service territory within a reasonable time. . . . . Essentially, a margin reserve allowance is recognition in rate base of that portion of plant needed to serve short-term growth. Through the margin reserve, a utility will earn a return on that capacity needed for growth.

OPC provided no direct testimony in opposition to a margin reserve, but it expresses disagreement with the margin in its brief. OPC states,

> "The Citizens take no issue with the engineering requirement which suggests that a margin reserve must be maintained to protect existing customers against a deterioration of service occasioned by the addition of customers to the system."

However, OPC continues, it takes issue with requiring the utility's current customers to pay the carrying costs for that increment of plant maintained for future customers. OPC argues that it is illogical and unfair to require existing customers to pay these

costs. Chapter 367, Florida Statutes, authorizes a fair return to investors on property used and useful in the public service, and, OPC contends, the margin reserve is not used and useful to present customers.

In its brief, the utility emphasizes Mr. Hartman's testimony, and it cites several examples of Commission precedents wherein the margin reserve was allowed.

In consideration of the evidence, we find it proper to include a margin reserve in the calculation of used and useful plant. A margin reserve allows the utility to recover investment in plant which is needed to serve future customers the utility must, by law, serve within a reasonable time. Further, a margin reserve benefits existing customers by ensuring that future customers will not overload existing facilities and impact on the quality and safety of service provided. We have recognized and allowed a margin reserve in numerous cases in the past. See, e.g., Order No. 22844, issued March 23, 1990, and Order No. PSC-92-0594-FOF-SU, issued July 1, 1992, both of which we took official notice of in this case.

The record reveals several proposed methods for calculating the amount of the margin reserve. In its MFRs, SSU did not request a margin reserve for all of the systems included in this rate request, but where it did request a margin reserve, it calculated the amount by averaging the percentage of growth in ERCs over the past five years (the five-year average).

OPC witness Dismukes recommended using the ERC growth projections SSU provided in response to OPC interrogatory no. 210, (Exhibit No. 127). Ms. Dismukes testified that she compared the historical growth rates shown in the MFRs to those projected by the utility in the interrogatory response, and, in many instances, the historic growth rates were not similar to what SSU projected. Ms. Dismukes advocated that the Commission use the projected number of ERCs in the interrogatory response where a difference existed between the projections and the five-year average growth rate.

Utility witness Hartman testified that the data provided in the interrogatory response was prepared for a report which was reviewed at an annual meeting of the Board of Directors of MP&L, SSU's ultimate parent. Mr. Hartman explained that the subject growth projections were needed in order for SSU to calculate a conservative estimate of revenues as part of the process of obtaining capital financing. Mr. Hartman opined that the data

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should not be relied on for margin reserve calculations since it was not prepared for that purpose.

Mr. Hartman recommended using the five-year average to calculate margin reserve. He stated that the five-year average is the most reasonable method for calculating the margin and it is the standard method historically utilized by this Commission. Mr. Hartman opined that the five-year average levelizes misleading recent experiences of declining growth which result from a recessionary economy, experiences which may be reversed when economic conditions improve. We note, however, that Mr. Hartman did not present any evidence tending to show that declining growth rates for any SSU systems were misleading or that the economy would improve. Mr. Hartman also testified that if the Commission were to use a method other than the five-year average, he advocated extending the time periods covered by the margin (12 months for lines and 18 months for treatment plant) in order for the margin periods to better coincide with real-world permitting and construction requirements.

Staff witness Shafer testified that the margin reserve should reflect positive or negative growth trends. Because calculating growth by means of an average ignores the fact that there may be a relationship between time and the rate of growth, Mr. Shafer recommended that we use a method which takes such relationships into account, specifically, a regression analysis. Mr. Shafer testified that linear regression is a relatively simple, but superior method for calculating the margin reserve and that the linear regression has the benefit of reflecting positive or negative growth trends.

Mr. Hartman testified that he agreed that using a regression analysis would more accurately reflect the actual historical data in certain situations, but he questioned the regression's accuracy as a tool for projecting growth for the future. Further, he contended that growth for small SSU systems could be greatly changed by new residential or commercial development within the service areas. The regression analysis, he stated, would not reflect such growth. We note, however, that Mr. Hartman did not present evidence tending to prove that new residential or commercial development was planned for the small systems involved in this proceeding.

In its brief, SSU argues that since Mr. Shafer did not conduct and present the output of the regression analysis, SSU was deprived of its due process rights to study, evaluate, and cross-examine Mr. Shafer. We disagree. Due process does not require an expert to

apply the methodology which he or she advocates in order for the expert's methodology to be adopted. This is not to say, however, that an expert's failure to apply the methodology he or she advocates to available data does not detract from the credibility of the methodology. Opinions against Mr. Shafer's suggested methodology and the numbers necessary to calculate margin reserve by the various methods are all in the record, and we have carefully considered all of this evidence.

In its brief, SSU also argued,

> [S]hould the Commission elect to calculate margin reserves by use of the linear regression analysis advocated . . . by Mr. Shafer or choose to use the projections of growth employed by Ms. Dismukes, a larger margin reserve period as supported by Mr. Hartman should also enter the calculation.

SSU witness Hartman testified that SSU limited the margin reserve in the MFRs to 18 months to avoid controversy in this proceeding but that he believed four years for wastewater treatment plants was appropriate. Mr. Hartman cited DER Rule 17-600.405, Florida Administrative Code, which addresses the permitting process for wastewater treatment plants, to support his position that 48 months is required for designing, permitting, constructing, and placing wastewater treatment plant into service.

We are not persuaded by SSU's argument. SSU did not request the longer margin reserve period in its direct case. To a degree, then, by requesting a different method for calculating the margin in its rebuttal case, SSU impeaches the method it used in its direct case. Notably, SSU did not propose a method for calculating growth over the four-year margin period it recommended in rebuttal, and it failed to offer any reason why our rejecting the five-year average mandated our accepting the longer margin reserve period. In addition, we do not believe DER Rule 17-600.405, Florida Administrative Code, compels us to extend the margin reserve period for wastewater treatment plants to four years. The subject rule requires utilities to begin preliminary planning and design of facilities if flows will equal or exceed design capacity within four years. This rule does not address actual construction time. It only speaks to planning. Most of the costs for building plant will be incurred during the construction phase, so we believe that the 12 and 18 month periods are appropriate when calculating a margin reserve.

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In consideration of the above, we find Mr. Shafer's proposal for using a linear regression analysis the most persuasive. Mr. Shafer's methodology was the only one offered that accounts for growth trends. The five-year average fails to account for growth trends. Further, there is no explanation on the record for how the projections in SSU's response to OPC interrogatory no. 210 were calculated, and we do not think it appropriate to accept them for this reason.

In addition, based on our experience with statistical projections, we believe one change is necessary to the regression analysis examples offered by Mr. Shafer in order to maintain theoretical accuracy: total ERCs (including growth), rather than just growth in ERCs should be used. If we were to use growth in ERCs, the final points plotted in the analysis do not take into account the ERCs added to and removed from the system during prior periods. To illustrate, for the Deltona Lakes water system, where the number of ERCs has increased each year over the last five years but where the rate of growth in ERCs has decreased, the regression analysis using growth in ERCs predicts 131 ERCs of growth at 12 months, but a negative 228 ERCs of growth at 18 months. By using actual ERCs in the regression analysis, we avoided this sort of problematic result and generally found a better correlation of the data than when using growth in ERCs.

We used the regression analysis to calculate the margin reserve for all systems for which we deemed a margin appropriate, with the following exceptions: Quail Ridge water, Palisades water, Fountains water, and Salt Springs wastewater. In addition, we used the ERC data provided in Schedules Nos. F-9 and F-10 of the MFRs for our regression calculations, with the exception of data for Sugar Mill Woods, where we recalculated the water and wastewater systems' ERCs (1935 water ERCs and 1812 wastewater ERCs for the test year) as discussed later in this Order.

SSU did not use the five-year average for the Quail Ridge, Palisades, and Fountains water systems, all of which were placed in service during the 1991 test year. Utility witness Morse testified that SSU's proposed margin reserves for Quail Ridge and Palisades were based on his conversation with Mr. Mangold, an employee of the utility who did not testify. There is no information in the record indicating how the margin reserve at Fountains was estimated.

A regression analysis cannot be done with only one year of ERC information. Therefore, we find that the growth that occurred during 1991 should be used to calculate the margin reserve for the Quail Ridge, Palisades, and Fountains water systems. We find that

actual growth during the test year is a better measure for estimating the margin reserve than is the recommendation of a utility employee who did not testify in this proceeding.

With regard to the Salt Springs wastewater system, utility witness Hartman testified that the system was not built out and still had vacant lots. Mr. Hartman admitted that the system has not shown any growth during the past three years, but he stated he believed a margin reserve is appropriate because a bulk customer is considering an expansion. We disagree and find that a margin reserve is not appropriate for Salt Springs. The system has had no growth during the past three years. MFR Schedule No. F-10 shows that the average number of ERCs has decreased between 1988 and 1991, from 181 to 167.5. Therefore, a margin reserve is not appropriate.

In a later section of this Order, we discuss our use of the average five maximum days to calculate used and useful water plant and our exclusion of fill-in lots from used and useful for collection and distribution lines. In some cases, these calculations lowered the used and useful percentage below SSU's requested 100%. When this occurred, we used regression analysis to calculate a margin reserve even though SSU did not request a margin reserve, since growth for those systems was present. Such adjustments were made to the following systems and facilities: Beacon Hills water and wastewater lines, Leisure Lakes wastewater lines, Marco Shores water and wastewater lines, Marion Oaks water plant (supply wells), Woodmere water lines, Springhill wastewater lines, Venetian Village water and wastewater lines, and Zephyr Shores water and wastewater lines.

The approved margin reserves for each system are set forth in Attachment A, which is affixed to this Order and by reference incorporated herein.

USED AND USEFUL

In its MFRs, the utility evaluated used and useful by plant component. Witness Hartman testified that in its component analysis for water treatment equipment, SSU compared firm reliable capacity to a single maximum day of flows since water treatment equipment is designed to meet demand on a maximum day. According to the MFRs, firm reliable capacity means the pumping capacity of a water system's wells with the largest well out of service for those systems with more than one well and with the two largest wells out of service for those systems with ten or more wells. For

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wastewater plants, he stated, SSU compared rated capacity to average daily flow from the peak month.

With regard to lines (water transmission and distribution facilities and wastewater collection facilities), Mr. Hartman explained that lines for some SSU systems are in developments which have some vacant lots. Since building in many of these areas never reaches 100% of development capacity, Mr. Hartman opined that calculating used and useful by comparing occupied lots to total lots would never allow the utility to receive a full return on its prudent investment in lines. He testified that he did not believe electric and telephone utilities were subject to a used and useful adjustment for vacant lots, but he assumed the materiality of such an adjustment was similar among all utilities. He admitted, however, that this assumption stemmed from conversations he had with other persons and was not drawn directly from his own knowledge.

In the Deltona Lakes development, there are about 7,000 vacant, or "fill-in," lots. Mr. Hartman admitted on cross-examination that Deltona Lakes' present customers may be paying a return on these vacant lots, if included as used and useful, for an indefinite period of time. Mr. Hartman also stated that he believed a prudently designed system was one that met the needs of the overall customer base, as well as projected needs. Some aspects of the system, although prudently designed, he said, might be held for future use and would therefore not be used and useful.

Staff witness Chapdelaine agreed with the utility that different components of water and wastewater systems have different regulatory requirements. He explained that the reason the Commission makes used and useful adjustments is to prevent current customers from paying for plant capacity that should be paid for by future customers. Mr. Chapdelaine testified that design and construction requirements established by DER should be considered, as well as the prudence of investment and maximum flow rates. Commission practice for calculating water treatment facilities' used and useful levels, he said, is to compare capacity to the average flows of the five highest pumping days in the highest flow month. For wastewater, the Commission traditionally compares capacity to the average daily flow from the peak flow month. In calculating used and useful, Mr. Chapdelaine stated, the Commission also considers margin reserve, redundancy, fire flow requirements, excessive unaccounted-for water, and infiltration, where applicable.

Mr. Chapdelaine specified those areas where SSU deviated from Commission practice for calculating used and useful as follows: SSU used a single peak day for water plant, it used a factor of 15 instead of 10 for pressure tanks, and it included fill-in lots as used and useful for distribution and collection facilities. With regard to SSU's use of a singular maximum day for water plant, Mr. Chapdelaine testified that an anomalous occurrence on the maximum day would result in an excessive used and useful level. In his rebuttal testimony, Mr. Hartman admitted that an anomaly, a line break, occurred at the Marion Oaks system on the maximum day reported in the MFRs and that the utility therefore revised its used and useful figures to reflect that discovery.

We note here that we agree with the utility's used and useful methodology and percentages for wastewater plant, so further discussion on that subject is unnecessary.

We agree with Mr. Chapdelaine's testimony on using an average of the five highest flow days of the highest flow month (the five maximum day average) to calculate water plant used and useful. We have serious concerns with SSU's use of a singular maximum day. An anomaly, such as a line break, will cause used and useful to be inflated. Moreover, if the plant flow meter is not read every day at the same time, the flows recorded for the maximum day will be skewed. Using a five maximum day average mitigates these problems.

In his testimony, Mr. Hartman emphasized the water plant design requirements for demand and storage. He testified that when a water system has little or no storage, as is true for most of the small systems in this case, the water plant must meet the maximum demands of the system. We understand this; for if the plant is not able to meet the maximum flow demand, pressure to the customers will diminish. We are not, however, persuaded that such concerns mandate use of the maximum flow day for calculating water plant used and useful, since storage facilities would help prevent such problems from occurring.

We agree with the utility's proposed component analysis; however, we have corrected used and useful by incorporating the preferred five maximum day average. Generally, using the five maximum day average lowers SSU's requested used and useful percentage for supply wells, finished water storage, and high service pumps.

With respect to Mr. Chapdelaine's observation regarding SSU's use of a factor of 15 for pressure tanks, we note that we consider the factor SSU used to be slightly excessive. However, from a

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practical standpoint, a larger pressure tank will promote better operation of the water plant and will help provide consistent pressure throughout the water distribution system. Moreover, investment in the pressure tanks is not significant according to the A-5 schedules of the MFRs. We are therefore not greatly concerned with allowing an additional increment of pressure tank capacity as used and useful, and, accordingly, we have not adjusted the pressure tank accounts.

In its brief, OPC expresses its opposition to counting fill-in lots as used and useful for distribution and collection facilities. SSU argues that its prudent investment in lines designed and sized to serve the area as if built-out does not change if the service area is less than built-out and, therefore, the used and useful percentage should not change either. OPC argues that under this logic, used and useful would not change even if there was a substantial change in the number of customers.

In resolving the controversy over fill-in lots, we focus on the principle enunciated by Mr. Chapdelaine: timing. As he indicated, this Commission makes used and useful adjustments to prevent current customers from paying for plant capacity that will be used by future customers.

Witness Hartman gave an example of a 100-lot subdivision where 95 units are constructed and the other 5 lots abut lots owned by existing customers, are unbuildable lots, or are lots which will never be sold. In such a case, Mr. Hartman postulated, the utility's investment in lines for 100 lots is prudent and should be 100% used and useful. We agree that such a system should be 100% used and useful. We also accept that customer density will vary from system to system and that some lots may never be built on. However, SSU did not refute the proposition that fill-in lots will be built on in those developments which have experienced historical growth. Many of the systems included in this filing have experienced growth, and SSU requested a margin reserve to account for that growth.

Exhibit No. 110 presents a much different scenario for fill-in lots than the one presented by Mr. Hartman. This exhibit shows that there are lines in Deltona Lakes which are capable of serving 7,000 vacant lots. SSU asserts that these lines are 100% used and useful since the investment in said lines was prudently made from both an engineering and economic perspective. We are compelled to differ with this used and useful evaluation. In our view, it is inconceivable that these 7,000 vacant lots are lots which either abut other lots owned by existing customers, are unbuildable lots,

or are lots that will never be sold. Besides, even if it was prudent from an engineering or economic viewpoint to install lines for an entire subdivision at one time, OPC makes a valid point in that such prudence is of no benefit to the existing customer.

In consideration of the foregoing, we have calculated used and useful for water distribution and wastewater collection facilities by comparing lots served to lots available, thereby excluding vacant lots from used and useful plant. As discussed earlier, a margin reserve has been added to this ratio for those systems with growth.

Our formulae for calculating used and useful are contained on Attachment B, which is affixed hereto and by reference incorporated herein. The formulae for determining the used and useful percentages of water plant components for water systems without storage are contained on page 1 of Attachment B. The formulae for determining the used and useful percentages of water plant components for water systems with storage are contained on page 2 of Attachment B. The formula for determining used and useful for water distribution and wastewater collection facilities is contained on page 3 of Attachment B. We note that if the regression analysis for calculating margin reserve resulted in a used and useful percentage greater than what SSU requested, we capped used and useful at the level requested.

We used the aforementioned formulae for all of the systems in this filing. What follows is a discussion of used and useful adjustments for certain SSU systems, listed in alphabetical order.

Keystone Heights - Water

As stated earlier, the utility used firm reliable capacity to calculate water plant used and useful. According to the MFRs, firm reliable capacity means the pumping capacity of a water system's wells with the largest well out of service for those systems with more than one well and with the two largest wells out of service for those systems with ten or more wells.

Keystone Heights has three wells. In its MFRs, SSU treated Keystone Heights as a two-well, rather than a three-well, water system when calculating firm reliable capacity. According to SSU witness Morse, this was done because the second of the three wells was taken out of service in 1989 and was not available for service during the test year. Exhibit No. 114, a SSU response to a staff interrogatory, reveals that in April, 1992, SSU installed a 430 gpm nine stage peerless pump at the well at a cost of $9,800; the

Exhibit does not contain receipts, work orders, or invoices. After the repairs in the exhibit were made, the well was placed back on line. Mr. Morse agreed that when a well is off-line for repairs, the utility does not remove or retire the well from its books since the expectations are that the repairs will be successful and the well will be returned to service.

In its brief, SSU states that it does not object to the Commission's adjusting used and useful to account for the known and measurable change of the second well's being placed back into service, but it argues that the Commission must also allow SSU to recover the known and measurable costs incurred for repairing the well.

We are not persuaded by the utility's argument. All three wells were on the utility's books before, during, and after the test year; therefore, all three wells should be considered in the used and useful calculations. Our adjustment to used and useful is based on continuity in ratemaking, rather than on what is known and measurable. Accordingly, we adjusted used and useful to add one well to the system's firm reliable capacity, but we shall not allow the $9,800 pro forma, out-of-period expense.

River Park - Water

According to the MFRs and SSU witness Morse, the River Park water system consists of four water supply wells and three water treatment plants. Plant no. 2 and one well were removed from service and were not in service during the test year. To calculate firm reliable capacity in the MFRs, SSU removed two of the total four wells. Mr. Morse agreed again that when, as here, facilities are temporarily taken out of service, the amount of plant-in-service does not normally change. He also acknowledged that removing two wells instead of one to calculate firm reliable capacity causes used and useful to be greater. Mr. Morse then stated his belief that if the Commission adjusted used and useful to account for SSU's returning plant no. 2 to service, an event outside the test year, it should also allow the utility to recover the costs incurred to bring the plant back on line. In its brief, SSU echoes Mr. Morse's latter point.

Since the well and plant were not removed from the utility's books, we think said facilities must also be considered in used and useful calculations. Although SSU requests recovery of costs incurred to return the facilities to service, the record does not reveal an amount for SSU's doing so. Accordingly, we have adjusted

used and useful to include the third well in firm reliable capacity, but have not allowed any out-of-period expense.

Silver Lake Oaks - Water

In 1991, the utility made improvements to its Silver Lake Oaks system in order to comply with a June 6, 1990, letter from DER concerning the level of iron and air in the water. The utility's MFRs indicate that the subject improvements were included in rate base for the test year, but Mr. Morse agreed that they were not considered in the used and useful calculation. Mr. Morse agreed that it was appropriate to recalculate used and useful, and he prepared Late-filed Exhibit No. 117 for that purpose. We agree that used and useful should be recalculated, but Late-filed Exhibit No. 117 reflects SSU's use of the single peak day which we have above rejected. Therefore, we have adjusted the utility's figures using the five-day average.

Sugar Mill - Water

According to the MFRs, SSU removed two of the four wells at the Sugar Mill water system to determine firm reliable capacity. Mr. Hartman testified that several of the wells are too close to each other and that SSU could not "operate more than two wells at a time without causing a problem in the aquifer system in yield." Mr. Hartman testified that this problem was not anticipated in designing the system because the technology and criteria used at the time were not as sensitive to this type of problem as they are now.

We believe firm reliable capacity allows for redundancy of facilities on the premise that maintenance will occasionally be needed or mechanical failure may occur so that some of the system will be shut down for a period. In this instance, we do not think that the utility's rationale for removing a second well from the firm reliable capacity calculation agrees with the purpose of redundancy. Moreover, we do not think that the utility should receive the benefit of a poorly designed system. Accordingly, we have adjusted used and useful so that only one well is removed to calculate firm reliable capacity for this system.

Sugar Mill Woods

COVA took issue with three aspects of SSU's used and useful calculations for the Sugar Mill Woods systems: the ERC calculation, the firm reliable capacity calculation, and the fire flow requirement. The first affects water distribution and

wastewater collection used and useful, whereas the latter two affect only water plant used and useful.

ERC Calculation

In the MFRs, SSU calculated distribution and collection facilities used and useful, before adding margin reserve, to be 47%, which equals the ratio of 4,291 to 9,054 "ERCs/Lots." According to utility witness Hartman, 4,291 represents the number of active ERCs during the test year. He stated he arrived at that figure by using AWWA meter equivalency standards, under which certain meter sizes equate to a set number of ERCs. For instance, 1" meters are the equivalent of 2.5 ERCs. Mr. Hartman indicated that SSU used 9,054 as the denominator for its comparison because it was the number which SSU and COVA stipulated using in the last rate case.

COVA witness Jones testified that the 9,054 ERCs figure used in the last case was based on the premise that each lot was served by a 1" meter. In the case of Sugar Mill Woods, ERCs should be based on lots instead of meter equivalents, Mr. Jones stated. Therefore, he asserted, SSU improperly used strict meter equivalents for test year ERCs in the numerator of the used and useful equation and 9,054 in the denominator. In order to make the comparison consistent, Mr. Jones contended, SSU should have multiplied 9,054 by the 2.5 AWWA meter equivalent.

Mr. Hartman never definitively stated whether the 9,054 listed in the MFRs represented lots or ERCs. He stated only that Mr. Jones suggestion of multiplying 9,054 by the AWWA meter equivalents "would require us to assume that all residential connections in the future would contain a 1 inch meter. This may not be true as time goes on in the Sugar Mill Woods development." We note, however, that according to the MFRs, 98% of the test year water bills were rendered to customers in the residential class with meter sizes of 1" or smaller.

In consideration of the above, we reject SSU's calculation of used and useful for the Sugar Mill Woods water distribution and wastewater collection facilities. Each of the lots with service available should be counted as one ERC, as each residential lot will have one meter to serve the dwelling, regardless of meter size. This comparison will encompass 98% of the billings for the test period. When each lot with an active customer is treated as one ERC, the systems will be 100% used and useful at build-out. However, since commercially zoned lots may have a higher density and have individually metered units, we believe using meter

equivalents for such customers is a better measurement than counting each lot as one ERC.

We used the billing data in the MFRs to calculate the appropriate number of ERCs below. For water, we relied on Schedule No. E-2A and calculated each residential customer with a 1" or smaller meter as one ERC. Counting all other meter sizes using meter equivalents, we find 1,800 residential ERCs and 135 general service ERCs. For wastewater, we counted all residential customers as one ERC and used meter equivalents for all general service customers. We calculated 1,717 residential ERCs and 95 general service ERCs.

Water ERCs, from p. 359, Volume II, Book 8 of 11:

Residential Meter size	Bills		Equivalents		ERCs
5/8" X 3/4"	1843	÷ 12 =	154 X 1 ERC	=	154 ERCs
3/4"	439	÷ 12 =	36 X 1 ERC	=	36 ERCs
1"	18,858	÷ 12 =	1572 X 1 ERC	=	1572 ERCs
1 1/2"	71	÷ 12 =	6 X 5 ERCs	=	30 ERCs
2"	12	÷ 12 =	1 X 8 ERCs	=	8 ERCs
					1800 ERCs

Commercial Meter size	Bills		Equivalents		ERCs
5/8" X 3/4"	48	÷ 12 =	4 X 1.0 ERC	=	4 ERCs
3/4"	73	÷ 12 =	6 X 1.5 ERC	=	9 ERCs
1"	138	÷ 12 =	12 X 2.5 ERC	=	36 ERCs
1 1/2"	144	÷ 12 =	12 X 5.0 ERCs	=	60 ERCs
2"	48	÷ 12 =	4 X 8.0 ERCs	=	32 ERCs
					135 ERCs

TOTAL WATER ERCS: 1835

Wastewater ERCs, from p. 165, Volume III, Book 4 of 6:

Residential Meter size	Bills		Equivalents		ERCs
5/8" X 3/4"	1753	÷ 12 =	146 X 1 ERC	=	146 ERCs
3/4"	433	÷ 12 =	36 X 1 ERC	=	36 ERCs
1"	18,345	÷ 12 =	1529 X 1 ERC	=	1529 ERCs
1 1/2"	59	÷ 12 =	5 X 5 ERCs	=	25 ERCs
2"	12	÷ 12 =	1 X 8 ERCs	=	8 ERCs
					1717 ERCs

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Commercial Meter size	Bills		Equivalents		ERCs
5/8" X 3/4"	37	÷ 12 =	3 X 1.0 ERC	=	3 ERCs
3/4"	60	÷ 12 =	5 X 1.5 ERC	=	8 ERCs
1"	84	÷ 12 =	7 X 2.5 ERC	=	18 ERCs
1 1/2"	120	÷ 12 =	10 X 5.0 ERCs	=	50 ERCs
2"	24	÷ 12 =	2 X 8.0 ERCs	=	16 ERCs
					95 ERCs

TOTAL WASTEWATER ERCS: 1812

Fireflow

In its MFRs, SSU included a 2,500 gpm fire flow requirement in its used and useful calculation for the Sugar Mill Woods water system. COVA witness Jones testified that the fire flow requirement for this system should be 1,500 gpm, not 2,500 gpm. Mr. Jones sponsored Exhibit No. 122 which contains a letter from the Citrus County Deputy Fire Marshall stating that the fire flow requirement for Sugar Mill Woods is 1,500 gpm. The subject letter addresses Sugar Mill Woods and specifies the commercial corridor along US 19, but it is not clear how much or what portion of the development requires the 1,500 gpm for fireflow.

SSU witness Hartman testified that the 2,500 gpm fireflow requirement the utility used is straight out of Citrus County Ordinance No. 86-10, which was entered as Exhibit No. 103. Mr. Hartman disagreed with Mr. Jones' testimony and testified that the Citrus County Ordinance requires fire flow of 2,500 gpm. According to this ordinance, when peak demand is between 1,250 and 1,500 gpm, the fire flow requirement is 2,500 gpm. According to the utility's MFRs, peak hour demand was 1,258 gpm. Mr. Hartman stated that the Deputy Fire Marshall's letter would not relieve the utility of its obligation to provide fire flows as dictated by County Ordinance and that he believed the letter was referring to a specific area in the Sugar Mill development smaller than the whole service area. Mr. Hartman also testified that his firm contacted the Fire Marshall's office, which confirmed that the fireflow requirement was indeed 2,500 gpm.

We find the testimony of witness Hartman more persuasive. It is not clear how much or what portion of the Sugar Mill Woods development was required to have the 1,500 fire flow requirement referred to in Exhibit No. 122. Therefore, based on the foregoing, we find that the appropriate fire flow requirement for Sugar Mill Woods is 2,500 gpm.

Firm Reliable Capacity

In its application, the utility deducted two 600 gpm wells in the Sugar Mill Woods system when it calculated firm reliable capacity. The introduction to the engineering schedules in the MFRs states that for water systems with no storage, the wells must be able to meet the peak hour demand, which is twice the maximum day demand, plus the fire flow requirement. Utility witness Hartman testified that the Sugar Mill Woods system has nine wells to meet the maximum hour demand and the fire flow requirement. Mr. Hartman testified that in order for the utility to meet this requirement, the water system should be evaluated with the two largest wells out of service. He explained that two wells could be out of service at the same time; one well may be down for maintenance, and another may have a mechanical failure.

As stated earlier, SSU's generic formula for calculating firm reliable capacity for systems with ten or more wells was to remove the capacity of the two largest wells. Sugar Mill Woods system has nine wells, yet SSU removed two. Although Mr. Hartman's justification for removing two wells has some merit, we think it unlikely that SSU would voluntarily allow the two largest wells to be out of service at the same time. Scheduled maintenance should be planned during an off-peak period (such as during the wet season) when demand is lower. Maximum flows during such a period would be lower than those during the dry season, and capacity would still be sufficient.

Therefore, although Mr. Hartman's suggestion to remove two wells may promote an additional degree of safety and reliability, we believe the better approach is to be consistent with the firm reliable capacity formula in the MFRs. Accordingly, based on the foregoing, we find that only one well should be removed when calculating used and useful for the Sugar Mill Woods system. The well capacity for the eight remaining wells is 4,200 gpm.

Used and Useful - Conclusion

Our calculations of the appropriate used and useful percentages for the systems included in this filing are depicted on Attachments C, D, E, and F, all of which are affixed hereto and by reference incorporated herein. Attachment C, pages 1-10, contains the used and useful percentages for the water treatment plant components. Attachment D, pages 1-2, contains the used and useful percentages for the water distribution facilities. Attachment E, pages 1-2, contains the used and useful percentages for the wastewater treatment and effluent disposal facilities. Attachment

F, which is one page, contains the used and useful percentages for the wastewater collection facilities.

SYSTEM PLANT-IN-SERVICE ADJUSTMENTS

Adjustments to the plant-in-service balances of certain SSU systems, arranged in alphabetical order, are discussed below.

Fox Run - Water

By Order No. 21408, issued June 19, 1989, in Docket No. 880294-WS, the Commission established rate base for the Fox Run water and wastewater systems. By a previous Order entered in the docket, Order No. 19860, issued August 22, 1988, the Commission had approved the transfer of the Fox Run systems to SSU, but delayed establishing rate base because of Fox Run's water quality problem. The Commission ordered SSU to present options for improving water quality and the costs therefor, including the option of interconnecting with the nearby Martin Downs Utilities, Inc. In Order No. 21408, the Commission discussed the various options SSU considered.

According to Order No. 21408, SSU reported that the least-cost alternative for improving water quality and complying with DER standards was to refurbish three existing iron filters, install two additional filters, add two high service pumps and three backwash ponds, and connect two existing tanks to the system. SSU estimated that these improvements would cost approximately $99,388 using an outside contractor and $83,088 using in-house personnel. The next-to-least-cost alternative was to interconnect with the Martin Downs system, which the Order indicates would have cost $159,840 in service availability fees and lines. The Commission accepted SSU's preferred least-cost alternative, but indicated it would review the choice and the costs involved in Fox Run's next rate proceeding.

According to its MFRs, the utility booked a total of $132,418 of net plant additions for 1989 and 1990. In Exhibit No. 144, which contains the utility's response to staff interrogatory no. 178, the utility indicates that none of the plant additions contemplated in Order No. 21408 were included in rate base, but that the installation cost of eight additional iron removal filters may be as much as $352,082 in CWIP. Ms. Kimball, the same utility witness who prepared the response to interrogatory no. 178, also prepared Late-filed Exhibit No. 145. That exhibit indicates that the utility spent approximately $117,545 on plant additions contemplated in Order No. 21408, but the exhibit does not state how

much of that amount is included in the 1989 and 1990 plant additions.

After completing the installation of eight iron removal filters, the utility has continued to experience iron problems at Fox Run. Both utility witness Sweat and staff witness Oblaczynski, from DER, confirmed this. Mr. Sweat also testified that the utility has spent approximately $500,000 on improving water quality since it acquired Fox Run.

In consideration of the evidence discussed above, we can only conclude that some or all of the $117,545 the utility admits it spent on plant improvements contemplated in Order No. 21408 is included in the 1989 and 1990 additions reported in the MFRs. Thus, it appears the utility spent considerably more than what it estimated it would spend to improve water quality in Order No. 21408. Although we question the prudence of SSU's decision not to interconnect with Martin Downs, we need not make any adjustments in this proceeding since the accumulated plant additions for 1989 and 1990 were less than the $159,840 interconnect cost.

Rosemont and Rolling Green - Water

In May, 1992, the Rosemont and Rolling Green systems were interconnected. SSU witness Wood explained that the two 4" wells at Rolling Green had to be taken out of service. Mr. Wood testified that the plant additions booked at Rosemont pertained to a new well, the transmission main required to interconnect the two systems, and other equipment needed to implement the interconnection. As a result of the interconnection, Rolling Green no longer has its own source of supply and relies upon the Rosemont water plant. That being so, we think these two systems should be combined for ratemaking purposes.

In addition, we are concerned with whether the utility's decision to interconnect Rosemont and Rolling Green was prudent. In 1991, SSU increased plant-in-service by $243,941 to upgrade the Rosemont plant and interconnect with Rolling Green. Mr. Wood testified that the City of Inverness was willing to provide service to Rolling Green, but only on a temporary basis. He testified that in order for Rolling Green to have a permanent long-term supply, the utility would have to drill another well or tie into the Rosemont system. The utility concluded that upgrading Rosemont was the most feasible alternative.

Exhibit No. 152 contains a September, 1989, letter, from the City of Inverness to SSU; a May, 1990, letter from SSU to the City;

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and a draft agreement for a temporary interconnect. The letter from the City addresses service to both Rolling Green and Rosemont and the separate metering of each system, and it lists the connection fees for each meter and monthly charges. The letter states, apparently in response to a request from SSU, that the City had no bulk rate for water, and it lists the connection charges for Rolling Green as $30,125. The letter makes no reference to the proposal being for temporary service or for a permanent interconnect.

SSU's letter to the City discusses an emergency connection and wholesale water sales for Rolling Green through two master meters. The letter also mentions the possibility of Rosemont's 12" well providing service to the City, if needed, once the well was placed in service. The letter states that other alternatives could be discussed, but it is clear that SSU was interested in meeting its immediate water needs. No mention of a permanent interconnect is made in this letter.

From the testimony and exhibits, we can conclude that the City of Inverness was willing to provide temporary service to Rolling Green. It appears that the least-cost alternative for providing service to Rolling Green was to have the City provide the water on a permanent basis; connection charges were $30,125, compared to the $243,000 the utility invested. However, there is insufficient evidence to make the determination that long-term or permanent service from the City was available, and, therefore, we refrain from making any adjustments to rate base for imprudence. In addition, we believe that the utility's decision to put another well in service and to install an emergency generator at Rosemont coincident to the interconnect enhances water plant reliability for the benefit of customers at both systems.

Salt Springs - Water

During the test year, the utility abandoned its Salt Springs water plant in Marion County and constructed a new plant. Utility witness Kimball testified that this was an extraordinary abandonment and, therefore, a loss should be recognized. She testified that rate base should be adjusted to reflect the retirement of the assets as well as the related contributions, depreciation, and amortization. Specifically, she stated plant should be credited $18,704, accumulated depreciation be debited $7,561, and CIAC and CIAC amortization should be debited and credited, respectively, $3,703. The $11,143 loss calculated from these figures, Ms. Kimball testified, should be deferred and amortized.

Exhibit No. 146 contains Accounting Instruction 27 of the Uniform System of Accounts. Paragraph B of the instruction requires that equal and offsetting entries to plant and accumulated depreciation be recorded for ordinary plant retirements. Paragraph H allows recognition of an extraordinary loss when the reserve account would be seriously depleted or eliminated by the accounting treatment prescribed in paragraph B. On cross-examination regarding the instruction, Ms. Kimball explained that in the case of the Salt Springs retirement, there was not a sufficient reserve in the system subaccounts to handle the write-off.

Although Ms. Kimball advocated extraordinary retirement treatment for the loss, she did not specify an appropriate amortization period. In addition, the record does not divulge circumstances, other than reserve account depletion, which tend to justify treating the retirement as an extraordinary one.

Since the record fails to indicate an appropriate amortization period, we believe that it is appropriate to calculate an amortization period based on current Commission practice. Accordingly, we calculated the return on the net plant that would have been allowed if the plant were to remain in rate base. The net investment, and the amount of the loss, is $11,143. The rate of return on the plant (10.67%), adjusted for income taxes, is $1,297. To that amount we added $812 in annual depreciation expense. The total, $2,208, represents the revenue requirement effect of the assets had the plant remained in service. We then divided the $11,143 loss by the revenue effect and rounded off the quotient. Thus, we determined that an amortization period of five years is appropriate. The utility shall retire this asset on its books and recognize a loss of $11,143 over five years.

We conclude that the recognition of an extraordinary retirement loss does not increase the revenue requirement in this proceeding. Ms. Kimball testified that the loss should be deferred and amortized. However, as noted above, the amortization period is established to produce the same revenue amount before and after the extraordinary retirement is officially recognized. Accordingly, revenues are neither enlarged nor reduced while the loss is being amortized. Thus, while we agree that an extraordinary retirement entry is appropriate for the Salt Springs water system, the utility's revenue requirement is unaltered due to this accounting treatment. And, while the attached accounting schedules do not reflect this extraordinary retirement, we shall verify that the appropriate retirement entries have been recorded in the utility's next rate filing.

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Skycrest - Water

During our review of SSU's application, we discovered that a double-counting error had been made in determining plant-in-service for the Skycrest water system. The parties stipulated that there was an error, and we have therefore reduced Skycrest's plant-in-service by $4,124 to correct the error.

METHOD FOR GENERAL PLANT ALLOCATION

In its MFRs, the utility allocated common plant, administrative and general expenses, and customer accounting expenses on the basis of the relative number of customers. Utility witness Ludsen testified that this allocation methodology is the standard used by the Commission for water and wastewater systems. He stated that he was not aware of any comparable utility in this state that employs a different allocation approach and that he was not aware of any Commission order declaring that allocating on the basis of customers is unreasonable.

OPC witness Dismukes testified that there are many ways to allocate common costs, but regulatory commissions have not adopted one method as universally preferable. She stated that the administrative convenience of allocating common costs on the basis of customers might justify this method for small systems, but this approach "may not be appropriate for SSU, which is the largest water and wastewater operation in Florida." She stated that for SSU, allocation based on relative customers assigns less common costs to the utility's non-regulated gas operations than allocation based on direct labor, which is the method SSU employs for internal accounting purposes. Ms. Dismukes added that the same skewed distribution may be true for costs allocated to SSU water and wastewater systems not subject to this Commission's jurisdiction.

Ms. Dismukes said she reviewed the reasons offered by the utility in its last rate proceeding, in Docket No. 900329-WS, for allocating common charges based on direct labor. Testimony in that proceeding indicated that an allocation based on direct labor would assign greater costs to labor intensive operations, specifically wastewater systems and reverse osmosis water systems. Ms. Dismukes testified that allocating by relative customers might cause water customers to subsidize the cost of providing wastewater service. She opined that any such subsidization, if deemed appropriate, should be implemented through the revenue distribution process, not through improper allocations.

Ms. Dismukes testified that common costs should be distributed based on a cause-and-effect relationship, but she conceded such treatment was generally impossible for administrative expenses and general plant accounts. She therefore concluded that some "arbitrary" allocation method must be used. She stated that various factors should be considered, including benefits received, ability to pay, and the fair distribution of costs. Ms. Dismukes proposed allocating common costs based on a two-part factor: 50% for direct labor and 50% for ERCs. With this factor, she stated, any relationship between direct labor and administrative costs would be accounted for in the labor portion and that customers and their usage characteristics would be accounted for in the ERC factor. This approach, Ms. Dismukes therefore concluded, was superior to the utility's. Using her proposed allocation method, she determined that 63.51%, rather than 72.21%, of common costs would be assigned to the water systems, and 36.49%, rather than 27.79%, would be assigned to the wastewater systems.

Under cross-examination, Ms. Dismukes acknowledged that she had never before proposed her recommended allocation methodology to any regulatory body. She also stated that she was not aware of any Commission precedent adopting her recommended approach.

In rebuttal, utility witness Ludsen testified that, to his knowledge, Ms. Dismukes' proposed allocation technique was unlike any previously presented before a regulatory agency. He contended that Ms. Dismukes inaccurately presumed a non-existent relationship between water usage (ERCs) and the level of administrative and general costs. He also opined that her methodology added needless complexity and obfuscation to the principal issues: whether a particular allocation is fair and whether it helps create reasonable rates.

Mr. Ludsen explained that his advocacy in Docket No. 900329-WS for allocating common costs based on direct labor was rooted in his experience in the electric industry. He stated, however, that he was now convinced that allocating common costs based on relative customers is best for the utility and its customers. He offered the following reasons to support SSU's customer-based allocation: (1) In Docket No. 900329-WS, the Commission expressed dissatisfaction with the results of allocating common costs based on labor, particularly the corresponding assignment of substantial charges to small systems; (2) No allocation technique is perfect; (3) Allocations based on relative customers have been employed in previous SSU rate proceedings; (4) Labor-based allocations undermine some of the benefits resulting from economies of scale; (5) Small utility systems may incur different labor costs from year

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to year because of maintenance projects, whereas customer numbers are relatively steady; (6) Most administrative expenses are not directly related to the staffing requirements that regulatory agencies impose through rules and permitting provisions; (7) Since labor costs are more pronounced in the wastewater division, labor-based allocations would lower water rates and, accordingly, confound water conservation efforts; and (8) Customer-based allocations are easy to administer and verify, whereas Ms. Dismukes' proposed method would be both difficult to administer and verify.

We hereby approve the utility's proposal to allocate common plant, administrative, and customer accounting expenses based on relative customer numbers. We agree with Mr. Ludsen's evaluation of the beneficial results of customer-based allocations. We also agree that customer-based allocations provide consistent results compared to labor-based allocations because small systems are particularly sensitive to yearly variations in labor costs. While no method of allocation is perfect, a division of common costs in a reasonably fair manner is essential. Ms. Dismukes' observations that customer-based allocations may be unreasonable for SSU, that water users may be subsidizing the cost of wastewater service, that non-jurisdictional systems may benefit from this allocation are speculations not supported by the evidence in the record.

Ms. Dismukes acknowledged that a direct cause-and-effect relationship for administrative costs is impossible to devise and that some arbitrary allocation was therefore needed. Since labor-based allocations significantly affect small water and wastewater systems, the ability of customers of these systems to pay their allocated share of common costs would certainly be strained. While Ms. Dismukes' proposed re-allocations are not profoundly different from the utility's when the water and wastewater systems are combined, the re-allocations within those groups show greater variation.

Although the issue we directly address hereinabove concerns allocating general plant, the same rationale applies to the allocation of administrative and general, customer accounting, and depreciation expenses. We therefore accept the utility's allocation of those expenses based on relative customers without further discussion elsewhere in this Order.

ALLOCATION OF GENERAL PLANT TO ACQUISITION EFFORTS

OPC witness Dismukes testified that a portion of the utility's general plant balances, administrative and general expenses, and

depreciation expense should be allocated to its acquisition and sales efforts because SSU devotes considerable effort to such activities. She testified that her proposed allocation was proper because that activity benefits from administrative expenses and general plant no less than the utility's water and wastewater business. She said treating this acquisition activity as a separate division would warrant a corresponding allocation.

Ms. Dismukes calculated her recommended allocation percentage by comparing test year expenses charged to two specific deferred accounts--Account 166.100, Possible Acquisitions-Miscellaneous, and Account 166.200, Possible Sale-Gas Division--with the level of "direct" wages. She calculated a ratio of 2.28%. Applying the ratio, she recommended the following: reduce administrative expenses by $166,975, reduce net general plant by $259,737, and reduce depreciation expense by $34,820.

Utility witness Ludsen testified that the utility's sales and acquisition efforts are not separate business units; rather, they are activities within the water, wastewater, and gas businesses. On that basis, he stated that the rationale underlying Ms. Dismukes' proposed allocation was factually defective. He testified that SSU labor related to acquisition and sales efforts was minimal. TGI and MP&L personnel, he contended, performed the "vast majority" of work in that area. He also testified that any SSU administrative labor related to those activities was charged below the line and, thus, Ms. Dismukes' proposed allocation would double count those labor charges. He stated that only $24,007 out of the total company payroll of $10,200,389 was charged to possible acquisitions and that the resulting 0.2% ratio was de minimis. SSU's acquisition activities, Mr. Ludsen added, did not impact the utility's customer service, rates, purchasing, engineering, human resource, or accounting departments. He also explained that the deferred charges used by Ms. Dismukes to calculate a 2.28% allocation factor included both labor and non-labor charges, and, thus, her calculation was flawed.

We agree with Mr. Ludsen that general plant should not be allocated to acquisition and sales activities. The record indicates that only about 0.2% of SSU's total test year payroll cost was incurred for this activity. We consider this an insignificant share. Further, we believe that Ms. Dismukes' proposed 2.28% allocation factor is flawed in at least two respects: the numerator includes non-labor costs; and the denominator consists of direct labor, not total company labor. We agree that since the administrative payroll charge related to acquisition and sales activity is already charged below-the-line,

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a further allocation of administrative overhead would double count that element. We also agree that the administrative expenses to be allocated in this proceeding include rate, customer service, engineering, and other departments with very little or no involvement in the subject activities.

As with the previous section of this Order, although we directly address allocating general plant, the same rationale applies to the allocation of administrative and general, customer accounting, and depreciation expenses. Therefore, we deny OPC's recommendation to allocate a portion of those expenses to acquisition activities without further discussion elsewhere in this Order.

ALLOCATION OF GENERAL PLANT TO GAS MERCHANDISING AND JOBBING

The utility's operating divisions that serve liquid propane (LP) gas customers also sell and install gas appliances for their customers. That collateral service is considered a "merchandising and jobbing" function. The LP gas business is not regulated by this Commission. Utility witness Ludsen testified that the costs related to merchandising and jobbing are charged to a separate below-the-line account. During cross-examination, he testified that administrative expenses are allocated to the gas operation based on relative customers, so charges related to merchandising and jobbing are thereby allocated to the gas operations.

In its brief, OPC argues that merchandising and jobbing should receive an additional allocation of administrative charges. OPC makes the analogy that customers using water service also may use wastewater service, but each service is considered a separate business and allocated a separate share of expenses. The gas merchandising and jobbing services of the LP gas business should therefore also be considered separate and distinct, OPC contends.

In its brief, the utility argues that since the gas operation is unregulated, its share of common costs is already exaggerated because it receives allocated costs associated with water and wastewater regulatory requirements.

We find that an additional share of common plant and expenses should not be allocated to the merchandising and jobbing segment of the LP gas operation. Mr. Ludsen testified that common costs related to merchandising and jobbing are allocated to the gas business based on customers served by the gas systems. That testimony was not refuted. Further, we agree that allocating additional general plant and expenses to the merchandising segment

would be inappropriate since the LP gas operation, a non-regulated business, receives a proportionate share of the incremental costs that are introduced through regulation of the water and wastewater systems.

Again, although we directly address only allocating general plant, the same rationale applies to the allocation of administrative and general, customer accounting, and depreciation expenses. Therefore, we deny OPC's recommendation to allocate additional expenses to the gas operations without further discussion elsewhere in this Order.

LAND - FUTURE USE PLANT SITES

Exhibit No. 112 is Appendix 70-B provided by SSU in response to OPC interrogatory no. 70. The exhibit lists various parcels of land under headings for the Citrus Springs, Sunny Hills, Pine Ridge, Marion Oaks, Spring Hill, and Deltona Lakes systems. Beside some of the parcels listed, the description "held for future use" appears. SSU witness Morse testified that these parcels currently have no utility assets on them. Mr. Morse stated that he thought the utility might have a plan of intended uses for these parcels. Utility witness Lewis stated his belief that the subject parcels would probably have some construction on them within the next 18 months to five years. Mr. Lewis also stated that he believed a written plan of intended uses existed. SSU was requested to provide its plan for use of the parcels in Late-filed Exhibit No. 116.

In Late-filed Exhibit No. 116, the utility explained that the land held for future use should be included in rate base because it was considered as a part of the master plan at build-out. The exhibit also includes several maps of projected water pressure design at build-out of the distribution system. However, the exhibit provided no written development plans for the near future, as was discussed at the hearing.

In consideration of the above, we can only conclude that, while the lands held for future use may be used at build-out, none will be developed within the next five years. Exhibit No. 116 provides no definite plan for future use, and none of SSU's witnesses could categorically state that the subject parcels would be developed within the next five years. Therefore, we find that the subject parcels are non-used and useful property and have removed from rate base the following: Citrus Springs - $19,400; Deltona Lakes - $108,670; Marion Oaks - $126,300; Pine Ridge - $35,000; Spring Hill - $376,241; and Sunny Hills - $18,380.

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IMPUTATION OF CIAC TO OFFSET MARGIN RESERVE

Utility witness Hartman testified that CIAC should not be imputed on any of the margin reserve capacity. In his view, the utility's duty to maintain an increment of capacity so that it may provide service to future customers in a timely manner is a fixed regulatory requirement. However, he contended, whether the utility collects CIAC in the future and how much it will collect is uncertain. He concluded that any CIAC offset to the margin would be merely an estimate, and this estimate would preclude the utility from recovering a return on a portion of prudently invested funds.

In its brief, OPC recommends imputing CIAC as an offset to the margin reserve, if one is allowed. OPC argues that having granted recovery on non-used and useful property, i.e., the capacity needed to serve future customers on demand, the Commission has, as a practice, assumed that there will be additional contributions from the future customers. The utility recovers its investment in plant from those customers, OPC states, so the utility's shareholders should not earn a return on that plant in the interim. Moreover, OPC argues, current ratepayers should not have to pay a return on non-used and useful plant held for future customers. Lastly, OPC states that the utility should be required to recover a return on this excess plant through AFPI charges, developer agreements, advances for construction, and/or AFUDC allowances.

In its brief, SSU argues that the imputation of CIAC unfairly penalizes the utility because the collection of future contributions is fortuitous and beyond the utility's control, yet the utility is required to invest funds for the additional plant which makes up the margin reserve.

We find that an offset to margin reserve should be made to account for the anticipated collection of CIAC from future ratepayers. Contrary to the utility's belief that the imputation is a penalty, we believe it merely recognizes that future customers will hook up to the system with contributions in hand. These contributions will change the investment balance between customers and investors by reducing the shareholders' investment in used and useful plant. Our practice of imputing CIAC on margin reserve is well established, as evidenced by the decisions which we took official notice of: Order No. 23660, issued October 24, 1990, and Order No. PSC-92-0594-FOF-SU, issued July 1, 1992. We are not persuaded to reverse our practice here. Accordingly, for these systems where we allowed a margin reserve and where the utility has approved CIAC charges, we have imputed CIAC on the ERCs in the margin reserve.

LEHIGH PLANT OMISSION FROM GENERAL PLANT

In its MFRs, the utility grouped all general plant assets, however dispersed among the operating divisions, into a single general plant category, and then allocated the total among the various systems based on relative customers. Thus, allocations were made to jurisdictional water and wastewater systems and to non-jurisdictional gas, water, and wastewater systems.

During the audit investigation, our staff auditor discovered that a $222,290 general plant structure was omitted from the merged common plant accounts. According to the audit report, Exhibit No. 131, that facility, located in the Lehigh Utilities (Lehigh) service area, evidently serves some general purpose in the Lehigh LP gas division. Lehigh's water, wastewater, and gas divisions, just like all other operating systems, receive a share of pooled general plant balances. As the omission was an inadvertent mistake, the auditor proposed an adjustment that would include this general plant item with all other pooled general plant.

In its brief, OPC contends that a gas plant account should not be allocated to water and wastewater utilities. We do not agree with OPC's perspective. General plant facilities that primarily or exclusively serve water and wastewater systems are pooled for allocation to the gas systems. The subject plant item here should not be singled out for separate treatment. Based on average test year balances, we have increased general plant by $221,662, accumulated depreciation by $77,178, and depreciation expense by $5,542. Consistent with the allocation treatment applied in this case, general plant items are allocated to each system's rate base in direct proportion to each system's relative number of customers.

ALLOCATION OF DEBIT DEFERRED INCOME TAX RELATED TO CIAC

The utility included some debit deferred taxes in rate base. This Commission allows debit deferred taxes to be included in rate base only when said amounts relate to CIAC collected without gross-up charges, i.e., where the utility makes an investment in the taxes paid on the CIAC. See Order No. 23541, issued October 1, 1990.

The utility allocated debit deferred taxes related to CIAC on the basis of the systems' 1991 CIAC activity. Although we think that allocating on the basis of CIAC activity is reasonable, we do not believe that allocation on the basis of 1991 CIAC activity is appropriate because 1991 does not appear to be representative of taxable CIAC activity.

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According to Late-filed Exhibit No. 141, several systems had no taxable CIAC activity after 1986, the year section 118(b) of the Internal Revenue Code (IRC) was amended to make all CIAC taxable. The utility did not allocate any deferred taxes to these systems, and we agree there should be none now. However, Late-filed Exhibit No. 141 also indicates that several systems had taxable CIAC activity after 1986, but, according to the MFRs, Volume I, Book 2 of 4, pages 4-30, those systems had no taxable CIAC activity in 1991. Since there was no taxable CIAC activity for those systems in 1991, the utility did not allocate any deferred taxes to those systems. We do not believe that this allocation is equitable, and we conclude that 1991 is not representative.

The systems that had taxable CIAC activity should have deferred taxes related to CIAC allocated to them. Late-filed Exhibit No. 141 indicates that most of the systems have had some level of taxable CIAC activity since 1986. We have, therefore, allocated CIAC-related deferred taxes to the various systems on the basis of taxable CIAC activity since 1986. As a result, deferred taxes have been allocated to the following systems to which the utility allocated none: Bay Lake Estates, Daetwyler Shores, Fisherman's Haven, Friendly Center, Imperial Mobile Terrace, Kingswood Manor, Palm Terrace, Pine Ridge Estates, Salt Springs, Samira Villas, Skycrest, St. Johns Highlands, Stone Mountain, Windsong, and Zephyr Shores. We have changed only the utility's method of allocating deferred taxes related to CIAC in Account 190.

DEFERRED INCOME TAXES RELATED TO OPEBs

OPC witness Montanaro testified that the application of SFAS 106 would create a tax timing difference unless a corporation funds its post-retirement plan using a tax-advantaged fund. Ms. Montanaro further stated that if SFAS 106 is adopted for ratemaking purposes, booked tax expense will be less than the tax payable amount, resulting in a debit deferred tax. The debit deferred taxes, she stated, should offset zero cost deferred taxes.

Later in this Order, we adopt SFAS 106 for ratemaking purposes in this case and remove from rate base the unfunded liability of the utility's SFAS 106 obligation. As a result, debit deferred taxes are created which, we agree, should offset zero cost (credit) deferred taxes. Volume 1, Book 2 of 4, pages 4-30, of the MFRs indicates that for SSU, debit deferred taxes from all sources exceed credit deferred taxes from all sources. Therefore, we find it appropriate to allocate debit deferred taxes related to OPEBs to the rate bases of the systems based on relative customers.

TREATMENT OF UNFUNDED LIABILITY FOR OPEBs

Witness Gangnon stated that SSU intends to fund its SFAS 106 obligation because it does not want the liability reported on its balance sheet and because funding ensures that the money will be used for its intended purpose. In its brief, OPC contends that the unfunded liability should be treated as a zero cost source of capital and that the Commission should reduce rate base.

We note from the MFRs that SSU has no specific plans to fund the SFAS 106 obligation and that SSU is in the process of finding a funding method. We also note that funding for OPEBs lacks the tax advantages of funding for pensions. In both the United Telephone and Florida Power rate cases, the unfunded SFAS 106 liability reduced working capital and therefore, rate base. See Orders Nos. PSC-92-0708-FOF-TL, pp. 39-40 and PSC-92-197-FOF-EI, p. 25. We believe that the unfunded liability should reduce rate base because SSU's funding plans are unclear. Therefore, we have reduced water and wastewater rate bases by the amount of the unfunded liability.

NEGATIVE ACQUISITION ADJUSTMENT

In its brief, OPC argued that the utility should be required to make a negative acquisition adjustment to its rate base. In support of its position, OPC stated, "The Commission can not allow a return on investment which was not actually made in providing utility service to customers."

OPC did not sponsor or solicit evidence on the record tending to show that any specific negative acquisition adjustment(s) should be made. It is our policy to disallow positive or negative acquisition adjustments unless extraordinary circumstances exist. No such circumstances were shown. Therefore, based on the foregoing, we have made no acquisition adjustment to rate base.

WORKING CAPITAL

In its MFRs, the utility used the formula method (one-eighth of annual operation and maintenance expenses) to calculate a working capital allowance. This calculation comports with Rule 25-30.437, Florida Administrative Code, which incorporates and requires the use of Form PSC/WAS 17 Minimum Filing Requirements for class A and B utilities. This form's instructions state that the utility should calculate working capital using the formula method.

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In its brief, OPC argues that in the absence of an acceptable showing of working capital calculated by the balance sheet method, working capital should be $0. However, OPC did not sponsor or solicit any evidence in the record disputing SSU's use of the formula method. Therefore, we find that the allowance for working capital shall be established in accordance with the formula approach.

Based on our adjustments to operation and maintenance expenses, working capital allowances are approved as shown in the individual system schedules attached hereto: Schedules Nos. 2-A for water systems, Schedules Nos. 2-B for wastewater systems, and adjustments on Schedules Nos. 2-C.

TEST YEAR RATE BASES

Based upon our decisions and adjustments discussed above, we find the appropriate test year rate bases are as shown in the individual system schedules attached hereto: Schedules Nos. 2-A for water systems, Schedules Nos. 2-B for wastewater systems, and adjustments on Schedules Nos. 2-C. Total water systems rate base is $30,064,565; total wastewater systems rate base is $19,486,775.

COST OF CAPITAL

Our calculation of the appropriate cost of capital is depicted on Schedule No. 1-A, and our adjustments appear on Schedule No. 1-B. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on that schedule without further discussion in the body of this Order. The major adjustments are discussed below.

Cost of Variable Rate Debt

In its MFRs, SSU used 11.16% as the cost rate for debt. Part of SSU's debt is variable rate debt with interest rates based on the prime rate, the London Interbank Offered Rate (LIBOR), the T-Bill rate, and other short-term interest rates. SSU witness Vierima agreed that the cost of capital set in this proceeding should reflect current economic conditions. OPC, the utility, and Staff agreed that the cost of variable rate debt should be based on current interest rates. We agree that the utility's cost of capital should reflect current economic conditions. At the time of the hearing, the current prime rate was 6.00%, the current 30 day LIBOR rate was 3.25%, and the current T-Bill rate was 3.05%. Based on these rates, we find the appropriate effective cost rate of the

utility's variable rate long-term debt to be 5.47% and the overall cost of debt to be 10.31%.

Deferred Investment Tax Credits

In the MFRs, the utility calculated the cost rate for deferred investment tax credits (ITCs) based on the weighted cost rate of long-term debt, preferred stock and common stock. Deltona Utilities, Inc. (DUI) and United Florida Utilities (UFU) which merged with SSU in 1991, had elected ITC treatment under the Internal Revenue Code (IRC), Section 46(f)(1), which allows zero cost or rate base reduction with amortization below the line. SSU made its election under IRC section 46(f)(2) which allows weighted cost of investor funds, if included in capital structure, and amortization above the line. The record does not reflect the ITC treatment selected by SSU prior to its acquisition by MP&L in 1984.

In a later portion of this Order, we have determined that the appropriate capital structure is a total company capital structure. Thus, we find it appropriate to assign a weighted average cost rate to the reconciled, unamortized ITC balance included in that total company capital structure which recognizes the elections of DUI, UFU and SSU. Accordingly, we find the appropriate cost rate for deferred ITCs to be 2.22%.

Deferred Income Taxes

The amount of our adjustment to accumulated deferred income taxes is based on the resolution of other issues in this case. Based on the record, we find that the appropriate amount of net accumulated deferred income taxes is a debit balance to be included in rate base. The allocation to rate base is addressed in an earlier portion of this Order. Our adjustments to deferred income taxes are shown by system on Schedules Nos. 2-A and 2-B, attached to this Order.

Short-term Debt

In its MFRs, the utility did not include short-term debt in the capital structure. However, short-term debt is included in the capital structure filed in the MFRs for the utility's pending rate application for its Marco Island systems in Docket No. 920655-WS. When asked to explain this apparent discrepancy in the capital structures, utility witness Vierima testified that the short-term debt included in the Marco Island rate case was issued in 1992, after the conclusion of the 1991 historic test year used in this proceeding. Since this short-term debt was not issued until after

the test year, we find the utility correctly excluded short-term debt from the capital structure. Accordingly, we have made no adjustments to the capital structure to include short-term debt.

Long-term Mortgage Bonds

OPC raised the issue of whether the interest rate on the long-term mortgage bonds should be reduced from the 15.95% fixed rate to what would be a reasonable rate had the bonds been refinanced. In its brief, OPC argues that it is the failure of the utility to take the high cost of debt into consideration in the negotiation of the purchase price that is really at issue here, not the high cost of debt itself. The utility argues that if the issue is not the cost of debt but the purchase price, then the adjustment would be more appropriately addressed in the acquisition adjustment issue and not in the cost of debt issue. We agree with the utility. We find no evidence in the record to support OPC's position. In Marco Island Utilities v. Public Service Commission, 566 So.2d 1325 (1st DCA 1990), the First District Court of Appeal held that where there was no basis in the record for the Commission to disregard the provision that the bonds could not be refinanced, "it was incumbent on the Commission to view the bond-financing transaction as being fixed in its terms without an opportunity to renegotiate for a lower interest rate." Id. at 1329. In the instant case, utility witness Vierima testified that the bonds cannot be refinanced. We find that the Marco Island case clearly controls in this instance. Therefore, it would be inappropriate for this Commission to assign another debt cost to the $22,500,000 of fixed-cost mortgage bonds for the reasons raised by OPC. Accordingly, we have made no adjustments to the cost of debt capital for the long-term mortgage bonds.

Overall Cost of Capital

Based on the adjustments discussed above, we have calculated the appropriate overall cost of capital by using the utility's total company capital structure, as adjusted. The components, amounts and cost rates associated with the capital structure are shown on Schedule 1-A; our adjustments are shown on Schedule 1-B. Based on the current leverage formula determined in Order No. PSC-92-0686-FOF-WS, issued July 21, 1992, the appropriate cost rate for equity is 12.14% with a range of plus or minus 100 basis points. Based on the foregoing, we find the appropriate weighted average cost of capital to be 10.67%.

NET OPERATING INCOME

Our calculations of net operating income are depicted on Schedules Nos. 3-A for the water systems and on Schedules Nos. 3-B for the wastewater systems. Our adjustments are itemized on Schedules Nos. 3-C. All of the foregoing schedules are grouped by system, in alphabetical order. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

ADJUSTMENTS TO ADMINISTRATIVE AND GENERAL (A&G) EXPENSES

What follows is a discussion of issues pertaining to SSU's A&G expenses.

OPEBs

In its MFRs, the utility included $914,574 for SFAS 106 related (OPEB) expenses. This amount represented Lehigh's share of a total of $1,435,469 of SFAS 106 expenses requested. Utility witness Gangnon testified that the utility wished to fully fund its SFAS 106 expenses, and he explained that the failure to provide for these expenses will negatively impact the utility's ability to obtain the lowest cost financing, since investors and lenders will be confronted with significant unfunded liabilities in the absence of such recovery. The utility's adjustment to expenses to reflect SFAS 106 implementation is a pro forma adjustment as SSU did not incur SFAS 106 OPEB expenses during the test year.

SSU witness Gangnon testified that this Commission should use SFAS 106 for ratemaking purposes. He further testified that the OPEB expense should be recovered as employees earn them, and the OPEB expense should be paid by the ratepayers for whom the employee is performing services rather than by future ratepayers. Mr. Gangnon testified that, although the utility will adopt a SFAS 106 plan in 1993, SFAS 106 should be used to calculate OPEB expense in this rate case because it is a known cost that will be incurred before final rates in this docket become effective.

Exhibit No. 38 is the transcript of and late-filed exhibits for Mr. Gangnon's deposition. At his deposition, Mr. Gangnon testified that he did not know the following: how long SSU had offered OPEBs; whether the benefits had increased, decreased, or stayed the same; and the number of employees enrolled in the benefits plan. The transcript also reveals that Mr. Gangnon was not familiar with the policy reasons for SSU's decision to provide

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the OPEBs requested in the MFRs. The late-filed exhibits attached to the deposition indicate that SSU informally offered OPEBs beginning in the early 1980's and that a formal OPEB policy was adopted on January 1, 1991.

OPC witness Montanaro testified that we should use the pay-as-you-go method, not SFAS 106, to calculate OPEB expense for the following reasons: 1) SSU may restructure its benefits plan to reduce costs in the future; 2) SFAS 106 calculations are unreliable; 3) the application of SFAS 106 reassigns the costs of prior periods to current ratepayers; 4) future ratepayers will enjoy the benefits of reliable cost estimates and cost containment measurements; and 5) there is no assurance that funds collected through rates will actually go to pay benefits.

In rebuttal, SSU witness Gangnon testified that, while SFAS 106 cost estimates cannot be exact, the estimates are based on carefully researched assumptions and the costs are reasonable. In addition, he testified that the accumulated OPEB obligation that exists today was incurred in providing utility service to present and previous customers, unlike the pay-as-you-go method which does not match the customer who pays the costs with the customer who incurs the cost.

We find it appropriate to use SFAS 106 for ratemaking purposes. SFAS 106 allows the matching of OPEB costs with the period in which the employees are working and earning the benefits, whereas the pay-as-you-go method does not allow such matching. Further, we believe the utility's estimated expenses are based on reasonable assumptions and calculations. Our conclusion is consistent with our decisions in other recent rate cases. See Orders Nos. PSC-92-0708-FOF-TL, issued July 24, 1992, and PSC-92-1197-FOF-EI, issued October 22, 1992.

In determining the appropriate amount of the OPEB expense, we examined the costs of the various plans SSU considered, the discount rate, and the capitalized amounts. We have made several adjustments, discussed below.

First, we have substituted the lowest cost OPEB plan SSU considered to calculate the OPEB expense. We base this decision on the following: witness Gangnon's testimony that SSU is considering several proposed plans contained in its actuarial study; the inconsistencies in witness Gangnon's testimony; witness Gangnon's scant knowledge of the policy behind, as well as the mechanics of, the utility's SFAS 106 request; OPC witness Montanaro's testimony that there is an overall trend to reduce OPEB costs; and OPC

witness Montanaro's specific testimony that SSU may restructure its benefits plan to reduce costs in the future. Accordingly, we have used the utility's Proposed Plan 2 to determine the appropriate SFAS 106 costs. The utility's annual net periodic cost of this plan is $730,793.

We have also increased the discount rate from 8% to 8.25%. OPC witness Montanaro testified that the appropriate rate should be SSU's cost of capital. Utility witness Gangnon testified that the use of a discount rate for ratemaking that differs from the discount rate used for financial reporting unnecessarily complicates an already complex issue.

Regarding the selection of an appropriate discount rate, SFAS 106, ¶ 31, states the following:

> [E]mployers shall look to rates of return on high-quality fixed income investments currently available whose cash flows match the timing and amount of expected benefit payments.

Based on this provision of SFAS 106, we have not used the utility's cost of capital as the discount rate. However, we find an AA-rated utility bond rate of 8.25% is the appropriate discount rate to use for SSU. AA utility bonds are high quality, fixed income securities, and 8.25% is closely in line with the AA utility bond yield. Accordingly, we have reduced the net periodic cost from Proposed Plan 2 by 4.825% and made a corresponding reduction in the OPEB cost from $730,793 to $697,155.

Our third adjustment concerns the capitalized portion of the SFAS 106 costs. During the test year the utility capitalized approximately 18.02% of its salaries. Utility witness Gangnon testified that a reduction to OPEB expense is appropriate for this reason. In its brief, SSU agrees that 18.02% of SFAS 106 costs should be capitalized, but it also contends that the capitalized amounts should be included in rate base. The OPEB expense is a pro forma expense, but we believe it appropriate to capitalize 18.02% of the SFAS 106 costs. We address rate base augmentation below.

Based on the foregoing, we find the appropriate total OPEB expense amount to be $410,515, which we have allocated to the various water and wastewater systems.

On cross-examination, utility witness Gangnon testified that since the utility will not begin accruing post-retirement benefits until 1993, no portion of that pro forma adjustment should be added

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to plant built in 1991 or before. However, on redirect, Mr. Gangnon agreed that the excluded portion should be added to rate base to permit recovery of the full cost of post-retirement benefits. Utility witness Ludsen stated that the 18.02% portion related to construction should be considered general plant and allocated among the various systems based on relative customer numbers.

The utility's requested provision for an added element of general plant as a representative sum, a surrogate for costs to be incurred in later years, is denied. Since accrual of these post-retirement benefits will not commence until 1993, plant built before that time could not possibly include this incremental cost. Conceptually, this incremental increase for employee benefits is no different than a wage increase, and we certainly would not allow an increase in test year plant to account for a potential increase in employees' wages after the test year. Therefore, recovery of subsequent construction costs should be considered when plant additions are placed in service.

OPC questioned whether SFAS requires the utility to incur expenses it would not otherwise incur. Clearly, the application of SFAS 106 does not alter the ultimate amount of OPEB costs. It only changes the reporting period in which such costs are recognized due to the change in the accounting method: from pay-as-you-go accounting to accrual accounting. We conclude that SFAS 106 does not require the utility to incur OPEB costs. However, as stated above, we believe that the accrual accounting for such costs is appropriate.

OPC also questioned whether SSU's OPEB obligation was certain enough to justify SSU's recovering the expenses. In its brief, OPC argued that this Commission has a statutory obligation to determine whether an identified expense will actually be incurred prior to allowing the expense. OPC asserts that SSU's SFAS 106 obligation may be amended during the period of time that the rates set in this case will be in effect. Therefore, OPC contends, SSU's OPEB obligation is not certain enough to be the basis for an expense allowance. SSU witness Gangnon testified that the utility's OPEB obligation is certain enough to justify expense recovery since the expense was calculated according to SFAS 106 and since the Commission has adopted this methodology for estimating OPEB expense in other cases.

OPC witness Montanaro testified that SFAS 106 calculations are inherently unreliable and that the estimates are volatile. SSU witness Gangnon testified that while SFAS 106 cost estimates cannot

be exact, the estimates are based on carefully researched assumptions and result in a reasonable cost.

Above, we determined that estimated OPEB costs are acceptable for ratemaking purposes if the estimates are based on reasonable assumptions, and we made several adjustments to the utility's requested level of OPEB expense. Therefore, we believe that with these adjustments, the utility's OPEB obligation is appropriate for determining a reasonable SFAS 106 expense allowance.

In its MFRs, SSU proposed to amortize the transition obligation of its SFAS 106 expense. OPC witness Montanaro testified that the amortization of the transition obligation is the utility's request to recover expenses incurred in prior periods from current ratepayers.

We believe that the amortization of the transition obligation is a necessary component of the utility's SFAS 106 expense and is necessary for the transition from pay-as-you-go accounting to accrual accounting. We have ruled on a similar issue in the recent Florida Power rate case. Order No. PSC-92-1197-FOF-EI states:

> The transition obligation represents the present value of benefits to be paid in the future and the amortization of the transition obligation allocates the present value of those future benefits to a 20 year period in the future. Under pay-as-you-go accounting, there will always be a mismatch between the time an employee earns post-retirement benefits and the time the company recognizes the cost of those benefits. Even with the amortization of the transition obligation, SFAS No. 106 is closer to achieving intergenerational equity than the pay-as-you-go method.

Order No. PSC-92-1197-FOF-EI, p. 12. Since the utility will implement SFAS 106 in 1993, it will not incur the transition obligation before 1993.

In consideration of the above, we find that the transition adjustment is not a request to recover expenses incurred in prior periods. Rather it is a necessary component of the utility's SFAS 106 obligation, and, as discussed earlier in this Order, SFAS 106 matches the expense to the period in which the employee earns the benefit.

Finally, we approve of the stipulation which the parties reached at the final hearing that $32,806 in pay-as-you-go expenses

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be removed since we have adopted SFAS 106. In addition, we have also removed the utility's 3.63% inflation augmentation to the pay-as-you-go amount.

GAIN ON SALE OF TWO SYSTEMS

The utility sold the St. Augustine Shores water and wastewater utility division to St. Johns County in August, 1991, as a result of condemnation by St. Johns County. St. Augustine Shores was not regulated by this Commission. SSU sold a portion of the University Shores wastewater system before the test year. OPC witness Dismukes testified that the gains on the sales of these systems should be recognized to the benefit of utility's customers by treating an amortized portion of the gain as above-the-line test year revenue. OPC also recommends that the unamortized portion of the gains reduce rate base.

St. Augustine Shores

OPC witness Dismukes testified that according to MP&L's Annual Report, the net after-tax gain associated with SSU's sale of St. Augustine Shores (SAS) was $4.2 million. Ms. Dismukes proposed that SSU share a portion of the gain on this sale with its customers. In support of her proposal, Ms. Dismukes testified that additional costs are being borne by the remaining Commission-regulated systems because those systems are absorbing the general plant costs and administrative and general expenses that would have been allocated to SAS had it not been sold. She contended that since SSU has persistently argued in the past that its acquisition of small water and wastewater systems is beneficial to the customers, the gain on the sale should also be shared with the customers. Ms. Dismukes also asserted that in past proceedings, this Commission has required utilities to share with ratepayers the gain on the sale of utility property.

Ms. Dismukes recommended allocating a portion of the gain on the sale of SAS on the basis of relative customers: $1,932,332 to the water systems and $668,304 to the wastewater systems. The gain, she stated, should be amortized over four years so that the adjustment to increase test year above-the-line income would be $483,083 for water and $167,076 for wastewater. Ms. Dismukes testified that she would allow a portion of the gain, $118,162, to be kept by the stockholders.

Ms. Dismukes proposed an alternative to sharing and amortizing the gain for SAS (and University Shores, discussed below). She recommended removing the associated dollars from the equity portion

of SSU's capital structure, which would reduce the utility's equity ratio and overall cost of capital.

Utility witness Sandbulte testified that Ms. Dismukes' proposal should be rejected because SSU's remaining ratepayers contributed nothing to SSU's recovery of its investment in the SAS water system and they bore none of the risk of loss. He testified that the condemnation of the SAS system involved not only the sale of SSU's assets, but the loss of customers and revenues as well. Mr. Sandbulte opined that Ms. Dismukes' theory was illogical. According to her theory, the utility would be permitted to retain only that portion of the condemnation gain equal to the common costs which would have been allocated to SAS's customers. Mr. Sandbulte continued,

> If the only adverse impact on SSU's remaining customers is the allocation to them of the portion of the common costs that would have been allocated to St. Augustine Shores' customers, then SSU's remaining customers can be made whole by requiring Southern States to absorb this portion of the common costs. Ms. Dismukes' rationale supports no further adjustment than that. However . . . the suggestion that SSU's remaining customers are entitled to benefit from the condemnation gain based solely on the condemnation's impact on common cost allocations is without merit.

Mr. Sandbulte also disputed Ms. Dismukes' alternative recommendation that the dollars associated with the gains from the sale of SAS (and University Shores) be removed from SSU's capital structure, thus reducing the utility's overall equity ratio. He testified that the proceeds derived from the condemnations have been retained by SSU as equity and deployed for utility purposes. He contended that the capital rightfully belongs to SSU and its shareholders, and SSU should not be penalized for devoting this capital to its other utility systems.

The utility cross-examined Ms. Dismukes regarding information in Exhibit No. 128. This exhibit shows that the number of SSU customers for the 1991 historic year, less SAS's customers, was 158,594. With SAS's customers, the total is 163,185. Thus, according to the exhibit, SAS's customers represent 2.8134% of the total. Total customer and administrative and general expenses reported for the test year were $9,060,797. Ms. Dismukes acknowledged that 2.8134%, or $254,917, of the $9,060,797 total would have been allocated to SAS had it not been sold. However, Ms. Dismukes disagreed with the suggestion that these costs would

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have been offset by SSU's acquisition of and allocation of costs to Lehigh.

In its brief, SSU emphasizes that the Commission should not accept OPC's rationale to give SSU's remaining customers the benefit of some $2 million of the gain because the same customers may theoretically bear an additional $254,917 in common costs.

<u>University Shores</u>

Ms. Dismukes testified that during the test year the utility received a pre-tax gain of $229,703 associated with condemned property at the University Shores wastewater system. She continued that in response to OPC's interrogatory no. 113, the utility indicated that the property was previously included in rate base as 100% used and useful property--paid for by the ratepayers. Therefore, she concluded, the gain should be shared with the ratepayers. Ms. Dismukes advocated moving 98%, or $141,120, of the $144,000 after-tax gain above the line, leaving the remainder to SSU's stockholders. She explained that the percentage she would have the Commission give the stockholders was based on the percentage of SSU's efforts devoted to the acquisition and sale of various water, wastewater, and gas systems. She proposed using a four-year amortization, so the adjustment to test year net operating income would be $35,280.

Mr. Sandbulte testified that Ms. Dismukes' proposal should be rejected because neither the customers served by University Shores nor SSU's remaining customers contributed to SSU's recovery of its investment in the condemned wastewater facilities. Further, neither the customers currently served by the University Shores wastewater system nor SSU's remaining customers bore any risk of loss of the utility's investment in the condemned facilities. He testified that the condemned University Shores wastewater facilities were not placed into service until March, 1986. According to the utility's MFRs, rate base was last established for the twelve months ended June 30, 1979. Mr. Sandbulte contended that the condemned University Shores facilities were ever included in rate base.

<u>Conclusion</u>

We agree with Mr. Sandbulte that customers who did not reside in the SAS service area did not contribute to recovery of any return on investment in the SAS system. Further, when this system was acquired by St. Johns County, SSU's investment in the SAS system and its future contributions to profit were forever lost.

Thus, the gain on the sale serves to compensate the utility's shareholders for the loss of future earnings. Arguably, if the sale of this system had been accompanied by a loss, any suggestion that the loss be absorbed by the remaining SSU customers would be met with great opposition. However, the rationale for sharing a loss is basically the same as the rationale for sharing a gain. Since SSU's remaining customers never subsidized the investment in the SAS system, they are no more entitled to share in the gain from that sale than they would be required to absorb a loss from it.

However, Mr. Sandbulte seemed to concede that some element of administrative costs previously incurred to manage the SAS system persisted in the pool of common expenses to be allocated in this proceeding. He testified that the only possible adverse impact on the remaining SSU customers is that they will bear that portion of common costs that would have otherwise been assigned to the SAS system if it had not been sold. As shown in Exhibit No. 128, SAS's allocated share of A&G expenses under would have been $254,917. We have removed this amount from the administrative expenses to be allocated in this proceeding. With this adjustment, the ratepayers in this proceeding are assured that they will incur no expense related to operation of the sold SAS system.

We believe that the gain from the sale should not be shared with SSU's current customers because the sold University Shores assets were never included in SSU's rate base.

We also consider it inappropriate to remove either of the subject gains from SSU's capital structure because, as Mr. Sandbulte testified, the proceeds have been retained as equity and deployed for utility purposes. If we made the proposed adjustment, it would penalize the utility in its efforts to properly maintain and improve its systems.

Employee Wages and Compensation

Bonuses

In its MFRs, SSU requested provision for employee wages and compensation, including an allowance for bonuses. Utility witness Sandbulte testified that bonuses are important because they help the utility retain good employees by rewarding them for exceptional performance. Utility witness Phillips testified that an employees could qualify for a bonus by being one of the ten employees covered by the bonus plan or by being an employee not covered by the plan, but rendering extraordinary service.

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The salary provision in the MFRs assumes that the same number of persons will qualify for the same amount of bonus money each year. Utility witness Ludsen stated that $47,490 for 1990 bonuses were paid in March of 1991 and were included in the administrative salaries.

In its brief, SSU argues that the administrative salaries it requested are reasonable and that the bonuses are appropriate. The bonuses, SSU contends, are beneficial to its customers and to the shareholders by creating an incentive to achieve targeted results. SSU states that, similar to its merit incentive payroll system, the bonuses provide continuing quality of performance incentives that result in a higher quality of service and efficiencies for the utility's customers. In its brief, OPC argues only that all bonus or at-risk compensation should be eliminated from test year expenses.

We believe that incentives such as bonuses are useful in improving the performance of employees. Such improvement in performance will benefit the ratepayers, as well as the stockholders. There is no evidence that indicates that the overall amount of employee wages and compensation requested is excessive or unreasonable. Therefore, we find the utility's request for employee wages and compensation, including the $47,970 in bonuses, to be appropriate and we hereby approve it.

Increased Payroll Costs

In its MFRs, the utility requested a 5% pro forma allowance for increased payroll costs. Utility witness Ludsen testified that the increase is not simply an across-the-board salary increase. He stated that the increase reduces employee turnover, produces more skilled and experienced utility personnel, and improves job performance. He further testified that the wage increases include equity and licensing adjustments and education reimbursements. Employees in the lowest ten pay grades are hired below market salaries, Mr. Ludsen explained, and they are gradually given step increases as they demonstrate an ability to fulfill the responsibilities of their jobs. Mr. Ludsen testified, and Exhibit No. 40 confirms, that SSU's actual payroll increase since the test year and through July, 1992, would be 5.34%.

Mr. Ludsen testified that each employee was evaluated individually to determine whether a merit increase was appropriate. On cross-examination witness Ludsen testified that 3.33% was the actual merit increase and the bonus portion was 0.75%. It is apparent from Exhibit No. 40 that equity and licensing adjustments

and step increases account for the remaining 1.26% of the adjustment.

We believe that it is appropriate to allow a 4.59%, rather than a 5% increase in payroll. By this reduction, we have removed that portion of the requested salary increase attributable to bonuses. Were this adjustment not made, the utility would recover bonuses in the test year payroll expense and a second provision for bonuses in the .75% factor.

Reallocation of Lehigh A&G Expenses

In its MFRs, the utility proposed two pro forma adjustments to customer accounting and administrative charges due to the acquisition of Lehigh.

Utility witness Phillips testified that the first adjustment was needed to restore three months of common expenses allocated to Lehigh in 1991 after SSU acquired that system. Mr. Phillips explained that the adjustment was necessary so that prospectively a full twelve months of expenses would be allocated to Lehigh, rather than just three months, as was the case in the test year. The impact of this adjustment was $70,082 to water and $24,238 to wastewater. These amounts were pooled, like all other common expenses and general plant costs, then allocated to SSU's gas, water, and wastewater systems based on the number of customers served.

Mr. Phillips testified that the second adjustment was needed to show the additional A&G expenses SSU will incur as a result of its acquisition of Lehigh on June 30, 1991. This adjustment was necessary, Mr. Phillips testified, to annualize the Lehigh customer accounting and administrative expenses. The adjustment increases A&G expenses for the systems in this filing by a total of $125,226 for water and $43,310 for wastewater.

Based on the above testimony, we believe that these adjustments are reasonable, and we approve them.

Inflation Factor

In its application, the utility adjusted its operating and maintenance expenses other than payroll by a price indexing factor of 3.63%. Utility witness Ludsen testified that the requested price index adjustment would be available to the utility but for the dire financial circumstances facing the utility which required a general rate increase. Mr. Ludsen testified that he thought the

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3.63% adjustment was reasonable. He stated that in Order No. PSC-92-0136-FOF-WS, issued March 31, 1992, Docket No. 920005-WS, the Commission recognized that the annual rate of inflation is 3.63%. In arriving at the 3.63% figure, he stated, the Commission relied on information which impacts and will continue to impact SSU in 1992.

Mr. Ludsen pointed out that by the time this Commission establishes final rates in this proceeding, the utility's historic annual expenses for the twelve months ended December 31, 1991, will be more than thirteen months old and that the utility will have forever lost the ability to recover additional expenses associated with inflation since March 31, 1992. Mr. Ludsen opined that SSU should not be penalized for its urgent need for rate relief, which virtually forced the utility to file this case based on a historic test year in an attempt to eliminate some of the controversy which pervaded Docket No. 900329-WS.

In its brief, OPC argues that SSU's requested inflation factor is an attrition allowance, but the utility has failed to provide any evidence showing it will experience attrition. OPC cites Commission precedent in support of this argument: Order No. 17600, issued May 26, 1987. In that Order, the Commission did not accept the utility's proposal to use a price index mechanism in lieu of pro forma adjustments where the utility made no showing attrition was present. OPC also contends that § 367.081(4)(a), Florida Statutes, defines the price indexing mechanism as an entirely separate process from the rate case procedure and no provision exists for combining the two processes.

In consideration of the above, we find that SSU will have experienced inflation during 1992. Therefore, we shall allow the 3.63% inflation index. We note that Order No. 17600 indicates that the utility made no showing that it was entitled to the inflation index. That is not the case here. However, to the extent our decision herein conflicts with our decision in Order No. 17600, we believe the change is justified in this case.

Merger Expenses

In its MFRs, the utility included test year expenses of $11,640 associated with the 1991 merger of SSU, UPU, VGU, and DUI. SSU believes that the merger will result in future savings such as lower accounting fees and costs of reporting.

OPC witness Dismukes testified that these costs should be disallowed for the following reasons: the utility did not recognize

any associated savings in the test year; there will be a mismatch between expenses incurred and the benefits to be derived as a result of the merger; and the costs were non-recurring. Ms. Dismukes testified that the merger expense should be allowed only if the expected savings are also recognized. However, she could not cite any prior Commission decision which supported her position on that point.

Utility witness Vierima testified that the merger expenses should not be disallowed because the future savings were not known and measurable. Mr. Vierima also testified that expenses should not be disallowed simply because they may be non-recurring. The merger costs, he emphasized, were prudent and reasonable, and disallowing them would discourage the utility from seeking ways to streamline. Mr. Vierima also contended that the merger costs were not necessarily non-recurring since SSU is active in the acquisition of other utilities, so future mergers were probable.

Although the utility anticipates that future merger costs will be incurred, when and how frequently such costs will be incurred is uncertain. However, there is no evidence in the record which indicates that the test year merger expenses were imprudently incurred. Therefore, based on the foregoing, we find that the costs associated with the merger should be recovered over a five year period. Accordingly, we have reduced test year expenses by $9,312.

Office Closings

OPC witness Dismukes testified that SSU did not reduce its costs to reflect the consolidation and closing of some of its customer service offices. Because these consolidations occurred in 1992, she stated, certain expenses incurred during the test year would not be incurred in the future and therefore adjustments should be made to reflect the cost savings. Ms. Dismukes calculated that the total annualized savings for the office consolidations and closings was $70,024.

Utility witness Ludsen testified that reducing the utility's test year expense by the projected savings from these consolidations would not be appropriate because potential cost savings in one area of customer service expenses does not translate into an overall reduction to such expenses. In its brief, SSU argued that the adjustment proposed by OPC is not "known and measurable" and, thus, should not be made.

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We do not find the utility's argument persuasive since the utility itself provided OPC with the anticipated savings from the closings and consolidations which Ms. Dismukes testified to. Based on the record, we believe that a savings adjustment should be made. Accordingly, we find it appropriate to reduce common expenses by $70,024.

In-house Remittance Processing

According to Exhibit No. 150, the utility purchased a computer recording device for in-house processing of utility bills and checks. This device, according to the exhibit, will perform work previously done at SSU's banks, at a possible savings of $79,798.

Utility witness Kimball testified that expenses should not be adjusted for potential savings because this case is based on a historic period and reducing expenses without adjusting for known increases in costs is inherently unfair. She further testified that although the subject equipment was placed in service on December 9, 1991, it was not booked until 1992. Thus, the equipment is not in rate base. Ms. Kimball explained that the cost savings estimate in Exhibit No. 150 did not account for a return on the utility's investment in the equipment, depreciation, or labor costs for running the machine. Ms. Kimball also explained that credits which the utility's banks allowed for remittance processing would be lost and, thus, SSU's banking charges would increase.

In consideration of the above, we shall not adjust expenses. We have considered Ms. Kimball's explanation that the cost savings may be difficult to quantify at this point. In addition, we recognize that billing costs will escalate as a result of the utility's switching all systems to a monthly cycle (hereinabove).

In-house Mail Processing

Exhibit No. 150 also shows that SSU estimated that mailing costs would be reduced by $.02 per item by the utility's processing its mail in-house. We calculated a potential savings of $12,125.

However, as discussed previously, we have approved monthly billing for all systems. The utility argues in its brief that the changed billing cycles will increase its costs for postage, bills, and envelopes by $45,000, but it cites no evidence supporting this figure. In consideration of the change in the utility's billing cycle, we believe that the aforementioned calculation of anticipated savings is no longer applicable. Accordingly, we find that no adjustment is appropriate for postage expense.

Chamber of Commerce Dues and Florida Public Relations Association Expenses

In its MFRs, SSU requested recovery of its Chamber of Commerce dues and related expenses, totalling $1,843, as well as expenses related to SSU and two of its employees' membership in the Florida Public Relations Association (FPRA), totalling $1,180.

OPC's witness Dismukes testified that the Commission should disallow the utility's request to recover these expenses because the benefits of these expenses flow to the stockholders, not to the ratepayers. OPC also presented Commission orders in which this Commission has, in other cases, disallowed such expenses.

Utility witness Phillips testified that the Chamber of Commerce assisted in defeating tax proposals that would have effectively cost SSU's customers a minimum of $1,200,000 in 1991. He also stated that the Chamber of Commerce is involved in health care issues, workers' compensation costs and abuses, and provides information on a timely basis so that SSU's position can be heard.

Mr. Phillips testified that the FPRA provides services and programs dedicated to improving the professional competence of its members. The utility has two employees who participate in the FPRA's activities and who have been able to share the communications techniques they learned with other company personnel, especially the Speakers' Bureau. According to Mr. Phillips, the Speakers' Bureau made more than 50 presentations in 1991 regarding the benefits of and techniques for general conservation and xeriscaping.

Mr. Phillips stated that the utility wished to change the Commission's view from previous cases that Chamber of Commerce dues benefit the image of the utility, which benefit inures to the stockholders and not the ratepayers. He asserted that the benefits of the Chamber of Commerce activities do flow to the ratepayers because they assist in holding down the cost of doing business.

Upon cross-examination, Mr. Phillips acknowledged that the ratepayers would be paying for such activities whether or not they supported the position taken by SSU or the Chamber of Commerce. Although SSU's presentations regarding water conservation and xeriscaping are commendable, we continue to believe that the benefits from the utility's Chamber of Commerce and FPRA activities flow to the stockholders and not to the ratepayers. Upon consideration, we find it appropriate to disallow the utility's request to recover its Chamber of Commerce dues and related

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expenses, as well as the expenses related to its membership in the FPRA.

Professional Association Membership Dues

In its MFRs, SSU included a request for professional association membership dues. In its brief, OPC argues that an adjustment should be made to disallow those membership dues because they support the lobbying efforts of those professional associations. Also, OPC argues that there should be an adjustment to reflect a reduction in these membership dues resulting from the consolidation of the SSU corporate structure. In its brief, the utility agrees that a $3,137 adjustment should be made to reflect the membership dues savings resulting from the consolidation of SSU.

The record does not contain any evidence suggesting that the balance of the membership dues is inappropriate. Therefore, we find it appropriate to disallow $3,137 in the requested membership dues representing the savings resulting from the consolidation of the SSU corporate structure.

Savings Plan Audit

OPC witness Dismukes testified that a portion of Price Waterhouse audit fees should be removed from test year expenses because a Price Waterhouse employee stated that recurring fees should be substantially less. She proposed an adjustment of $3,800, which represents one-fourth of Price Waterhouse's labor charges, to remove the non-recurring portion of the total.

Utility witness Vierima contended that this adjustment is not known and measurable, that there is no historic data to support a projection of 25% as being non-recurring, and that there is no certainty that the Price Waterhouse audit fee will be substantially less in future years.

We agree with the utility. OPC's proposed adjustment is not, in a strict sense, known and measurable, and it is based on an assumption that may or may not come to pass. Ms. Dismukes acknowledged that she used no historic data to derive her projection that 25% of these expenses will be non-recurring. She also agreed with Mr. Vierima that there is no certainty that the Price Waterhouse audit fee will be substantially less in future years. We believe that OPC based its adjustment primarily on a sales representation made by Price Waterhouse. Without a signed contract for a lesser sum, historical information showing the fee

was reduced, or other evidence showing that the expense is overstated, we cannot agree that an adjustment is warranted.

Relocation Expenses

OPC witness Dismukes asserted that the level of relocation expenses included in the test year was excessive. She explained that SSU has been undergoing a fairly significant reorganization over the last three years and that it appeared that the level of relocation expense incurred in the test year would not recur in the future. According to Ms. Dismukes' sponsored Exhibit No. 127, as of July 31, 1992, SSU had incurred only $6,795 in relocation expenses with the reorganization substantially completed.

Ms. Dismukes recommended a $22,000 reduction to total relocation expenses. She calculated the difference between the $42,000 1992 budgeted amount and the $58,788 test year expense. To the $16,788 difference, she added $6,795 in 1992 to-date relocation expenses and the utility's $25,000 in estimated relocation costs. She rounded off the $31,795 total to $32,000. The difference between this amount and the $58,788 test year amount is $26,788. Ms. Dismukes then averaged the $26,788 and the $16,788 figures to arrive at her recommended $22,000 adjustment. The adjustment she arrived at would allow the utility to recover $36,788 in relocation expenses for the test year. The allocated portion of the $22,000 adjustment to the 127 systems in this filing was $13,697.

Mr. Ludsen testified that test year relocation expenses were not unusual because they were significantly lower than the $191,402 expense for 1989 and the $85,532 expense for 1990. He disputed Ms. Dismukes' belief that the 1991 level of relocation expense was unrepresentative. Late-filed Exhibit No. 63, prepared by SSU, shows that estimated expenses for the last three months of 1992 were $39,843.

As noted in Exhibit No. 131, the staff audit report, the utility contends that relocation expenses are an ordinary cost of doing business, particularly for a company of SSU's size and complexity. Given the specialized nature of utility work, as well as its licensing requirements, it is often difficult to locate and attract qualified experienced personnel, and therefore, the utility claimed, it is more likely that new employees would have to be relocated. Reimbursing new employees for relocation expenses, the utility continued, is a standard practice for companies like SSU and is offered as part of the new employee's compensation package in order to attract qualified and experienced personnel.

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Mr. Todd, the staff auditor, testified that in performing audits he may analyze a particular category of costs for years prior to the test year in order to determine whether an expense is recurring. He agreed that an average of relocation costs over a four-year period is one standard to estimate future costs. Mr. Todd agreed that the four-year trend for SSU's relocation expenses indicated that those costs were declining.

We believe that the evidence in the record shows that SSU will incur relocation expenses over the next several years. However, we conclude that the amount will be less than in the test year. The record contains several different methods for reducing test year relocation expenses. The method apparently suggested by SSU is an average of relocation costs over the last four years. We consider this average, $94,430, to be unreasonable since the expense has been steadily decreasing over that period. Thus, the record leaves us with two remaining options: OPC's calculated amount, which is an average of estimated and actual expenses, and SSU's $42,000 budgeted amount. We accept SSU's 1992 budgeted amount as a reasonable allowance on a going-forward basis. We have therefore reduced test year relocation expense by $11,781.

Bad Debt Expense

OPC witness Dismukes testified that four adjustments should be made to SSU's bad debt expense. She testified that bad debt expense should be reduced by $30,000 to reflect SSU's sale of M&M Utilities (M&M) and by $15,000 to reflect SSU's sale of the Deltona Gas operations. Since M&M's and Deltona Gas's customers are removed from SSU's allocation base, Ms. Dismukes concluded that SSU's current customers should not have to pay for bad debts for these systems.

Utility witness Kimball testified that M&M's actual 1991 bad debt expense was $17,719. If an adjustment was appropriate, she contended, the adjustment should be $11,774--$17,719 multiplied by the 66.4503% allocation factor for systems included in this filing. However, we note that Late-filed Exhibit No. 139 indicates that bad debt expense was increased $31,283 as a result of an aging analysis specifically related to M&M. Ms. Kimball generally agreed that non-regulated expenses should not be allocated to SSU's water and wastewater customers. She testified that SSU's gas customers were allocated $14,411 of bad debt expense as a result of the pooling of customer service expenses, and the $15,000 in bad debt expense from Deltona Gas was included in this allocation pool.

In its brief, OPC argued that Ms. Kimball failed to recognize that the utility's current customers will pay for 62% of this $15,000 expense when SSU's gas customers should pay their allocated share of bad debt expense plus the $15,000.

Ms. Dismukes' third adjustment was to reduce bad debt expense by an amount attributable to a single customer, Citrus Sun Club Condo Association, Inc. (CSCCA). During the test year, SSU filed a lawsuit against CSCCA for $20,000 it owed SSU. After the lawsuit was settled, the customer agreed to a payment plan. Ms. Dismukes testified that this amount should be removed from the test year bad debt expense.

Ms. Kimball testified that CSCCA owed SSU this money for several years and by year-end 1990, it owed $20,523. The 1991 increase in bad debt expense, she said, was unrelated to CSCCA, even though CSCCA still owed $19,398 at that time. Although CSCCA had a payment agreement with SSU, she explained, it was not until September, 1992, that CSCCA became current on its account.

In its brief, OPC proposed a fourth adjustment to bad debt expense based on Late-filed Exhibit No. 139. In this exhibit, SSU set forth how it calculated the increase to bad debt expense which appears in the MFRs and the reserve for bad debts on a company-by-company basis. The exhibit indicates that on October 31, 1991, SSU increased its reserve account for bad debts by the difference between the current reserve and the closed accounts. SSU increased bad debt expense when the reserve was less than accounts receivable over 60 days old. However, the utility did not reduce bad debt expense when the reserve was more than accounts receivable over 60 days old.

Ms. Kimball testified that reserve requirements are analyzed on a total company basis, not on a system-by-system basis and that the resulting expense charged to each system is based on that system's balance of the accounts receivable over 60 days past due as a percent of the total. She explained that customers who may repay the utility for outstanding sums are replaced by other customers who do not pay their bills. Further, Ms. Kimball emphasized, the bad debt expense in this case is 0.6% of revenue. This, she said, is reasonable given industry averages, SSU's system demographics, and the state of the economy.

Even though we consider a 0.6% level of bad debt expense reasonable, we believe it is appropriate to make adjustments for known changes. We do not believe that SSU's water and wastewater customers should be expected to pay for the bad debt expense of

sold utilities because those expenses have become non-recurring. We disagree with OPC's proposed adjustment to reduce bad debt expense because the allowance for bad debt expense is greater than accounts receivable over 60 days. The allocation process takes into account the fact that customers may repay the utility for outstanding sums.

Since the level of bad debt expense less adjustments for the sold systems and the amount owed by CSCCA is reasonable, we do not believe that a further reduction to the allowance is necessary. Bad debt expense associated with M&M, Deltona Gas, and CSCCA totals $61,950. We adjusted this amount by 62.26%; thus, the total reduction for filed systems is $38,570.

Test Year Legal Expenses

DER/EPA Fines

OPC witness Dismukes testified that legal fees associated with SSU's defending itself against DER fines and violations should be disallowed since the fines themselves are nonrecoverable. On cross-examination, however, Ms. Dismukes acknowledged that if the utility defends itself against DER action, the customers would benefit if rate base were lower because the utility did not have to make improvements. In its brief, OPC argues that these defense efforts accrue directly to the benefit of the stockholders just as the utility's avoidance of a fine does.

Utility witness Ludsen testified that not allowing SSU to recover expenses incurred in defending itself against the various regulatory entities would deny SSU a legitimately incurred cost of operating its systems. He further testified that knowledge of how DER operates is critical to the Commission's determination of the merit of this adjustment.

We believe that the evidence supports the contention that ratepayers benefit from the utility's defending itself in regulatory proceedings. If the utility succeeds in its efforts, rate base or other expenses may be lower. We, therefore, find it appropriate to allow the utility to recover legal fees associated with DER/EPA violations or fines.

Developer Agreements

Exhibit No. 53 contains the utility's response to OPC interrogatory no. 272. In this response, SSU asserted that legal fees regarding developer agreements should be allowed in test year

expenses because those expenses benefit customers through expansion of the customer base. The utility also stated that "the majority of these legal fees resulted from the drafting of a form effluent disposal agreement which will allow the company to spray effluent on golf courses located in various developments throughout the State of Florida."

Exhibit No. 55 is the late-filed exhibit OPC requested during utility witness Ludsen's deposition. In this exhibit, the utility responded that no test year legal fees were associated with "developer agreements." At hearing, Mr. Ludsen testified that at the time he prepared the deposition exhibit, he knew of no legal fees associated with developer agreements. Subsequently, OPC moved to strike any evidence supporting the $5,700 in legal fees associated with developer agreements because of what OPC perceived as a discovery violation.

During the debate over this motion, the use of the term "developer agreement" was discussed. The utility stated that a utility employee other than Mr. Ludsen was responsible for the questions regarding legal expenses. Later in the day, however, Mr. Ludsen testified that during a hearing break, OPC was given the effluent disposal agreements.

We note that it was the utility's choice of words that linked developer agreements with effluent agreements in the MFRs and discovery responses. Although we understand OPC's frustration on this question, the evidence in the record indicates that prior to the completion of Mr. Ludsen's testimony, OPC received the effluent agreements and Mr. Ludsen was available for cross-examination on same.

The only evidence in the record that supports the prudence of test year expenses is the statement in Exhibit No. 53 that the legal fees benefit the ratepayers by increasing the customer base, which creates economies of scale. No evidence was produced that showed these amounts were unreasonable or should be recorded below-the-line.

Based on the foregoing, we believe that OPC's rights were not compromised in this instance, and OPC did not experience substantial harm from any alleged discovery violation. Therefore, we find it appropriate to allow the utility to recover its legal expenses relating to developer agreements. Accordingly, no adjustment to the legal expenses related to the developer agreements has been made.

Acquisition Adjustment Research

In its brief, OPC argued that $7,014 of legal fees associated with researching acquisition adjustment policies of other state commissions should be disallowed because the utility's research efforts in this matter only benefitted its stockholders.

Utility witness Ludsen testified that legal fees associated with research concerning the acquisition adjustment policies of other states is appropriate to pass on to the customers because this type of research may be necessary to persuade the Commission that its policies are consistent with other jurisdictions. OPC, he stated, conducts similar research, and it would be unfair for the Commission to disallow this expense and thus deter the utility from presenting the Commission with both sides of an issue.

The utility spent $15,689 on its acquisition policy project, including legal fees for research on the acquisition policies of other states. We believe that $15,689 is excessive.

The utility hired outside attorneys to perform research when it could have been performed by utility employees. We believe Exhibit No. 67 supports our finding of excessiveness. This exhibit is SSU's filed submittal from this Commission's acquisition adjustment docket, Docket No. 891309-WS. The exhibit should contain SSU's best arguments against this Commission's making a change to its acquisition adjustment policy. Notably, the document is fifteen pages long, and only three pages are devoted to the acquisition adjustment policies of other jurisdictions. We think it unreasonable that SSU would spend so much--$15,689--on its acquisition adjustment project. However, we recognize that some amount should be allowed for research and for participating in Commission-sponsored proceedings, especially since SSU's participation may be warranted at similar proceedings in the future. Therefore, we find it appropriate to allow one-fifth of the incurred amount, or $3,138, in test year expenses. Test year expenses are reduced by $12,551.

Non-recurring Legal Fees - Shadowbrook

OPC argued in its brief that legal fees of $5,499 associated with the utility's sale of its Shadowbrook system should be disallowed because the utility will not incur this expense in the future. The utility agreed to sell this system to the Shadowbrook Homeowners' Association. Exhibit No. 53 indicates that the legal fees were incurred in order to maintain the utility's ownership in this system. In light of the utility's arguments regarding gains

on the sale of utility property, we believe it would not be appropriate to require the remaining customers to pay legal fees which ultimately resulted in the sale of a system. Therefore, we find that these fees shall not be allowed. Accordingly, we have reduced those test year legal fees by $5,499.

Aircraft Expense

In its MFRs, the utility requested aircraft expenses of $3,400. Utility witness Ludsen testified that several senior management employees traveled to Tallahassee on December 2, 1991, to attend an Internal Affairs meeting of the Commission. Mr. Ludsen testified that the expenses for this trip were charged to A&G expenses and not rate case expense because the trip did not specifically relate to any rate case. The purpose of the meeting was not to influence the Commission on any particular matter relating to SSU, Mr. Ludsen stated, but rather to inform the Commission about SSU. He explained that other similar expenses could be incurred in the future. The invoices in Exhibit No. 56 indicate that the trip cost $3,200 and that additional expenses for rooms and meals was $200.

In its brief, OPC argues that the Commission should not allow such lobbying expenses. We find that the record is clear that the purpose of the trip was to inform the Commission and not to lobby about any particular matter. Nonetheless, we find that these expenses are non-recurring and should be removed. Accordingly, we have reduced aircraft expense by $3,400.

Advertising Expense

In its MFRs, the utility requested advertising expenses of $11,744, a portion of which included gas promotional expenses. Utility witness Kimball agreed that $5,468 in gas advertising expenses should be removed. Ms. Kimball also agreed that $1,384 related to a possible Collier County condemnation, as well as a $500 promotional expense for Florida Blue Key should not be included in advertising expense.

We are satisfied that all other advertising expenses are reasonable and relate to the provision of water and wastewater utility services. Based on the foregoing, we find it appropriate to reduce total advertising expenses by $7,352.

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Professional Studies and Contractual Services

In its MFRs, SSU requested recovery of expenses related to professional studies and contractual services. OPC's witness Dismukes proposed reducing the utility's request by $8,141 for a non-recurring actuarial study, by $15,758 for MP&L organizational development charges, and by $18,156 for a survey done by Cambridge Reports of Massachusetts.

Regarding the actuarial study, OPC asserts that this study, done by the firm Milliman and Robertson, is a non-recurring expense related to analysis of SSU's OPEB program. The purpose of the study was to attest to the actuarial assumptions that the OPEB plan is based upon and to calculate its tax consequences and funding requirements.

In its brief, SSU argues that professional studies such as this actuarial study are an ordinary cost of doing business and, that the utility would be "taken to task" if it did not conduct such studies. Therefore, SSU asserts, this actuarial study is a recurring expense and should be allowed.

Based on the record, we find that an actuarial valuation of a retirement plan is a determination of the present value of future benefits and the funding requirements necessary to meet future obligations. According to the record, SSU has had an actuarial review of its pension plan for the past two years in order to implement SFAS 106. We do not find any evidence supporting Ms. Dismukes' conclusion that these studies are non-recurring expenses. Indeed, Ms. Dismukes herself testified that such studies are necessarily recurring in nature because the utility would be irresponsible if it did not review the level of benefits it provides to its employees. She also testified that these benefits are a prudent business expense and that they are necessary to attract and retain quality employees.

We agree with the utility and with Ms. Dismukes that it is prudent and necessary for the utility to review the level of benefits it provides and to review its pension plans for funding and tax consequences. Therefore, we find that the Millaman and Robertson actuarial study is not a non-recurring expense and hereby authorize SSU's recovery of this expense.

SSU has also requested recovery of organizational development costs paid to MP&L. In its brief, SSU describes these as ongoing costs related to "effective, inter-departmental relations, communications and coordination, as well as functional work designs

to achieve Company goals in the most efficient manner possible." OPC contends that SSU will not experience costs at this level on a recurring basis. Therefore, OPC states that these costs should be amortized over five years. OPC's adjustment would result in a $15,758 reduction to SSU's test year expenses. The utility argues in its brief that these costs are both prudent and recurring, and it offers as support the evidence in the record of the costs it has incurred over 1990, 1991 and 1992.

We find that OPC is correct that these costs should be amortized because costs of this nature will contribute to the acquisition of resources that produce revenue for more than one fiscal period. The benefit received here, the training of employees, is properly allocated over future years. We find that five years is an appropriate amortization period to approximate the average period of time for which employees stay at the utility and utilize the organizational training they receive.

SSU has also requested recovery of $18,156 in expenses related to a customer survey performed by Cambridge Reports of Massachusetts. OPC contends that this survey is a non-recurring expense because there is no evidence that the utility will incur this expense in the future. SSU witness Kimball asserted that SSU will incur this expense again in 1993 and that it is a recurring expense. Witness Kimball also testified that this expense provides direct benefits to customers by enhancing the utility's quality of service in responding to customer complaints.

As the record reflects that SSU has planned another customer survey and since it is clearly prudent for the utility to perform such surveys, we find it appropriate to allow SSU to recover this expense.

Rate Case Expense

In its MFRs, SSU estimated total rate case expense would be $1,772,200, consisting of $771,597 in accounting fees, $337,090 in legal fees, $82,972 in engineering fees, $578,291 in miscellaneous charges, and $2,250 in filing fees. In Late-filed Exhibit No. 71, SSU updated its rate case expense figures. That exhibit shows total rate case expense (actual expenses to date and estimates to complete) to be $1,305,399, consisting of $673,199 in accounting fees, $237,959 in legal fees, $66,180 in engineering fees, $319,061 in miscellaneous charges, and $9,000 in filing fees. Late-filed Exhibit No. 71 also contains supporting information for SSU's attorneys and engineering consultant to complete the case.

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In addition to Late-filed Exhibit No. 71, the record contains several other exhibits pertinent to the issue of rate case expense. Exhibit No. 41 contains the bulk of the supporting documentation for rate case expense incurred as of October, 1992. Late-filed Exhibit No. 69 contains SSU's explanation for certain items billed by legal counsel in the invoices in Exhibit No. 41. Late-filed Exhibit No. 70 contains general ledger entries tying the legal services invoices of Exhibit No. 41 to SSU's books, and it also contains SSU's explanation for certain billing errors on the legal services invoices. The total rate case expense in Late-filed Exhibit No. 71 reflects the adjustments which SSU suggested in Late-filed Exhibits Nos. 69 and 70.

In its brief, OPC advocates several adjustments to SSU's requested rate case expense, all of which pertain to legal services. OPC argues rate case expense should be reduced as follows: (1) $330 should be removed for legal fees attributable to two attorneys' monitoring a Commission Agenda item in another case where a motion similar to one filed in SSU's case was considered because it would be inappropriate for SSU's ratepayers to pay for educating SSU's attorneys in this manner; (2) $56 should be removed for a billing error which SSU admits in Exhibit No. 69; and (3) $1,914 should be removed for legal fees attributable to curing MFR deficiencies.

We agree with OPC's proposed adjustments and the reasons therefor. In addition, we have reduced rate case expense by $908 to remove expenses not properly supported by invoices. Combined, the above adjustments represent a reduction of 0.246% to the total rate case expense requested in Late-filed Exhibit No. 71.

In its brief, OPC asserts that a utility files a rate case to benefit itself, not its ratepayers. OPC continues, "Although the ratepayer has no say in what course of action the utility will take to raise rates, he/she bears the entire burden of an expense that should at least be shared with stockholders." OPC apparently suggests that rate case expense be in some way prorated between the utility and the ratepayers.

We find nothing in the record in this case which tends to support sharing rate case expense between utility and ratepayers. Notably, OPC proposes no factor or methodology for making a sharing adjustment, nor does it cite precedent where its suggestion was accepted. Rate case expense is an operating expense which must be considered as part of the cost of providing service pursuant to § 367.081(2), Florida Statutes. Section 367.081(7), Florida Statutes, supports this interpretation. It provides,

> The commission shall determine the reasonableness of rate case expense and shall disallow all rate case expense determined to be unreasonable. No rate case expense determined to be unreasonable shall be paid by a consumer.

We, therefore, reason that the Legislature intended us to protect the ratepayers' interests by examining the reasonableness of rate case expense, not by exercising discretion to treat reasonable rate case expense as a below-the-line expense by virtue of a sharing concept. Accordingly, we conclude that OPC's suggestion is without merit.

In COVA's brief, under the heading "Real Estate Taxes," the following sentence appears: "Approximately $130,000 should be adjusted from the rate case expenses." Given the context of the statement, we conclude that COVA's use of the words "rate case expense" was inadvertent and that COVA instead advocates a reduction to property tax expense.

We have reviewed the amounts requested for each category of rate case expense and the invoices and documentation filed in support thereof. After making the above-described adjustments, we conclude that $1,302,191 in total rate case expense is reasonable. Considering the volume and complexity of the MFRs, interrogatories, production of document requests, and exhibits involved, we believe SSU did reasonably well in preparing, processing, and presenting its case. We note that the $237,959 total for legal fees in Late-Filed Exhibit No. 71 is $99,131 less than what SSU estimated in its MFRs; the $66,179 total for engineering fees in Late-Filed Exhibit No. 71 is $16,796, or 20%, less than the MFRs estimate; the $673,199 total for accounting fees in Late-Filed Exhibit No. 71 is $98,398 less than the MFRs estimate (according to the exhibit, no additional costs for accounting work after the hearing were incurred); and, finally, the $328,060 total for miscellaneous expense is $252,481, or 43%, less than the MFRs estimate.

Furthermore, we are impressed by the per system and per ratepayer costs of this rate case. Whereas most water and wastewater rate cases involve between one and four systems, this case involved 127 systems. SSU witness Ludsen testified that the almost $250,000 in legal rate case expense from SSU's last rate case, which involved 34 systems, was about the same as legal rate case expense for this case. Legal rate case expense per system for the last case, then, would be approximately $7,352, whereas legal rate case expense per system for this filing is $1,874. Total rate case expense per system for this filing is $10,253. This figure

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compares very favorably to rate case expense incurred for cases involving only one or several systems. For instance, the total allowed rate case expense for Lehigh Utilities, a SSU subsidiary which filed a stand-alone rate case, was $263,103. Docket No. 911188-WS, In Re: Application for a Rate Increase in Lee County by Lehigh Utilities, Inc., Order No. PSC-93-0301-FOF-WS, issued February 25, 1993.

Total allowed rate case expense for this case is $1,302,191. Pursuant to § 367.0816, Florida Statutes, this amount shall be amortized over four years; thus, the annual allowance for rate case expense shall be $325,547.

The following table compares requested rate case expense to what we have allowed above; it also shows the aggregate division of rate case expense between the water and wastewater systems.

	Total	Water	Wastewater
Amt. In MFRs	$1,772,200	$1,316,777	$455,423
Reduction To Request	(466,801)	(346,840)	(119,961)
Total Request Per LF EXH 71	$1,305,399	$969,937	$335,462
Adjustments	(3,208)	(2,388)	(820)
Approved Rate Case Expense	$1,302,191	$967,549	$334,642
Amort. Per MFRs	$443,049	$329,194	$113,855
Amort. Per Comm.	325,547	241,887	83,660
Required Adj.	$117,502	$87,307	$30,195

For our record-keeping purposes, SSU shall submit a detailed statement of the actual rate case expense incurred within 60 days of the date of this Order or, if applicable, within sixty days after the issuance of an Order disposing of a motion for reconsideration of this Order. The information shall be submitted in the form prescribed for Schedule B-10 of the MFRs.

SYSTEM OPERATION AND MAINTENANCE (O&M) EXPENSE ADJUSTMENTS

Adjustments to the O&M expenses of certain SSU systems are discussed below.

Unaccounted-for Water

Staff witness Chapdelaine testified that unaccounted-for water levels exceeding 10% should be investigated in order to determine if adjustments should be made to expenses or used and useful plant.

Utility witness Sweat testified that according to the AWWA Manual, the proper amount of unaccounted-for water in any given system is a function of that system alone. He stated, "I believe we can't look at a system as an individual and hold fast to our 10 percent policy. I think they have to be weighed on an individual system, taken [sic] into consideration age, types of meters, types of material, et cetera." Mr. Sweat testified that the AWWA Manual provides that a fair average of unaccounted-for water might be 10% to 20% for fully metered systems with a good meter maintenance program and average system conditions. Mr. Sweat indicated that for those systems experiencing unaccounted-for water levels above 20%, SSU has provided sufficient evidence of mitigating circumstances to justify acceptance of the indicated levels without any adjustments for ratemaking purposes.

At the hearing, we took official notice of Orders Nos. 23511, issued September 18, 1990, and 24485, issued May 7, 1991, wherein we enunciate our practice of allowing 10% unaccounted-for water without explanation. In its brief, SSU emphasizes the AWWA Manual's indication that unaccounted-for water levels of 20% are reasonable and, therefore, suggests that the Commission modify its standard to 15%.

We do not believe SSU has justified its request for us to alter what we have done in the past. The AWWA Manual offers a range for what levels of unaccounted-for water are acceptable. SSU does not deny that we have discretion to choose the lower end of that range, which we have done in the past and will do so here. Proper maintenance and record keeping should enable a utility to document most of the uses designated as "Other Uses" in F Schedules in the MFRs. For some of the systems in this filing, the utility has estimated substantial amounts of water in the "Other Uses" category. Accordingly, we find that 10% is an acceptable level of unaccounted-for water and anything above that percentage is considered excessive absent justification.

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We examined the F Schedules in the MFRs to determine whether any of the systems included in this filing have been experiencing excessive unaccounted-for water. When unaccounted-for water is excessive, we have traditionally reduced chemical, electric power, and purchased water expenses (if applicable) because we do not think it is appropriate for the customers to pay for chemicals and power required to treat non-revenue producing water. In the case of purchased water, the reduction does not allow the utility to recover expenses for excess water purchased which is lost by the utility.

The following is a discussion of SSU's explanations for unaccounted-for water at some of SSU's systems. Exhibit No. 94, referenced below, contains Mr. Sweat's answers to staff interrogatories concerning unaccounted-for water.

Beechers Point

At Beechers Point, excess unaccounted-for water is 25%. In Exhibit No. 94, Mr. Sweat explained that there was a leak on the bottom side of a valve which allowed the water to leak into the ground. He stated that if the 3,200 gallons per day or 96,000 gallons per month lost through the leak were subtracted from the F-1 schedule, the unaccounted-for water percentage would be 18%. However, we note, 18% is 8% higher than the acceptable level. Mr. Sweat explained that some of the unaccounted-for water could have been caused by the placement of this system's flow meters. We find it inappropriate for customers to bear expenses arising from engineering errors, problems with system components, or the failure to follow proper maintenance procedures that would have revealed such problems. Therefore, we find that adjustments are appropriate.

Intercession City

Intercession City experienced 7.4% excess unaccounted-for water during the test year. The utility's MFRs state that it was upgrading this distribution system because it was undersized and contained several thousand feet of black thin wall PVC tubing. In Exhibit No. 94, Mr. Sweat stated that the old tubing was deteriorating and that an estimated 25% of the pumped water was lost due to leakage. Mr. Sweat also stated that improvements were to be completed before the first quarter of 1993. With the completion of the planned upgrade, the utility should be able to control some of its unaccounted-for water problem. However, we find that adjustments are appropriate since unaccounted-for water

was excessive during the test year and since the excess expenses will no longer be incurred once the improvements are complete.

Interlachen Lake Estates

In Exhibit No. 94, Mr. Sweat stated that the utility attributed 13% of excess unaccounted-for water at Interlachen Estates to thinwall and schedule 40 PVC pipe in the distribution system, sandy soil, and lightning in the area. Interlachen Estates is experiencing losses of approximately 6,000 gallons per day. The utility apparently has no plans to upgrade or repair this system. We do not think that the utility's justification is sufficient.

Keystone Heights

In Exhibit No. 94, Mr. Sweat explained that the 6% excessive unaccounted-for water at the Keystone Heights system is a result of the system's age. It was built 50 years ago with PVC, transite, cast iron, and galvanized pipe, and a portion of the system is beneath pavement. Mr. Sweat also reported that the unaccounted-for water was 12.9% for the period January through June, 1992. The utility has not provided plans or objectives for corrective action regarding the unaccounted-for water. Therefore, we find that adjustments are appropriate.

Kingswood

In the MFRs, the utility states that the Kingswood system purchases all of its water from Brevard County. However, in Exhibit No. 94, Mr. Sweat indicated that the flowmeter malfunctioned, necessitating SSU's use of an estimated gallonage figure. The problem existed during the entire year. We believe that the utility could have been more diligent in correcting it. Therefore, we find that an adjustment to purchased water expense is appropriate.

Oakwood

In its MFRs, the utility estimated that there were approximately 1,200 pipe joints leaking at a rate of 120,000 gallons per month. We consider this water to be unaccounted for, and we therefore find that an adjustment is appropriate.

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Palisades

Palisades experienced 17% excess unaccounted-for water during the test year. This is a new system, and the MFRs indicate that the problem may now be under control. Since unaccounted-for water during the test year exceeded acceptable limits, we find that an adjustment is appropriate.

River Grove

In Exhibit No. 94, Mr. Sweat stated that the 32% excess unaccounted-for water in the River Grove system was the result of an erroneous calculation. The plant flowmeter became inoperable during the test year, and utility personnel used 650 gallons per kilowatt hour to estimate the flows during that period. The calculation, Mr. Sweat stated, was later found to be incorrect. We find that adjustments of $21 to chemical expense and $404 to electrical expense are appropriate.

Saratoga Harbor

According to Mr. Sweat's explanation in Exhibit No. 94, the 5% excess unaccounted-for water at Saratoga Harbor is attributable to water lost during road construction performed by the County. Mr. Sweat also stated that water lost during replacement of a section of pipe was not recorded. The utility should take measures to record such uses in the future in order to more accurately account for water losses. We find that adjustments are appropriate.

Stone Mountain

In the MFRs, the utility states that it has not been able to determine the cause of the 40% excess unaccounted-for water at the Stone Mountain system. According to Mr. Sweat's explanation in Exhibit No. 94, the utility believes that the configuration of the pipes at the flowmeter is causing the problem. We find that adjustments are appropriate.

Conclusion

In sum, the following systems have experienced excessive unaccounted-for water, and we have made the following adjustments for chemicals, electricity, and purchased water:

SYSTEM	% EXCESSIVE UNACCOUNTED-FOR WATER	ADJUSTMENTS CHEM.	ADJUSTMENTS ELEC.	PURCHD. WATER
Beechers Point	25	$ 22	$ 347	n.a.
Harmony Homes	5	$ 55	$ 19	n.a.
Intercession City	7	$ 25	$ 166	n.a.
Interlachen Lake Est.	13	$ 6	$ 277	n.a.
Keystone Heights	6	$ 6	$ 689	n.a.
Kingswood	15	0	0	$1,086
Lake Harriet Estates	7	$ 41	$ 267	n.a.
Oakwood	2	0	$ 475	n.a.
Palisades	17	0	$ 69	n.a.
River Grove	32	$ 21	$ 404	n.a.
Saratoga Harbor/Welaka	5	$ 4	$ 77	n.a.
Stone Mountain	43	$ 44	$ 294	n.a.

*Percentages are net of acceptable level of 10%.

Infiltration and Inflow (I&I)

Utility witness Hartman explained that infiltration is the passing of groundwater into the gravity sewer system due to gaps in joints and cracks in pipes. Inflow, he explained, is the passing of surface water into the collection system through manhole lids, illegal connections, and stormwater connections into the collection system.

In order to determine whether the utility's various systems are experiencing excessive I&I into the wastewater collection systems, we examined company records for any indication that I&I was greater than 10%. In examining the MFRs, we were initially concerned with I&I at Jungle Den. However, utility witness Sweat described the work the utility performed to rectify the I&I problem at Jungle Den. Since the utility has cured the problem at Jungle Den, we have made no adjustments. No other systems appear to have a serious I&I problem.

Purchased Water Expense - Beacon Hills

OPC witness Dismukes testified that from August 27, 1987, to January 17, 1991, Jacksonville Suburban Utilities Corporation (Jax Suburban) underbilled SSU for purchased water due to improper meter readings. In December, 1991, the utility paid Jax Suburban $14,925 for the underbilling that took place during 1987, 1988, 1989, and 1990. Ms. Dismukes proposed removing $14,925 from test year expenses.

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Utility witness Kimball disagreed with the proposed adjustment. She stated SSU was required to make payment to Jax Suburban based on Jax Suburban's tariff and this Commission's rules regarding backbilling. Ms. Kimball proposed the alternative of amortizing the $14,925 over three years, the approximate time period during which the underbilling occurred. The unamortized portion of the expense, she asserted, should be included in rate base.

We acknowledge that SSU was required to pay Jax Suburban the underbilled amount. However, we find that the $14,925 payment should be removed from expenses as an out-of-period expense. We disagree with Ms. Kimball's suggestion to amortize the amount and include the unamortized portion in rate base. We believe that including an unamortized portion of this amount in rate base is inappropriate where, as here, the formula method for calculating working capital has been used. The formula method produces an approximation of the utility's working capital needs. The unamortized portion of the purchased water expense would be a deferred debit. The balance sheet method accounts for such deferred debits directly as part of the calculation. Thus, it would be theoretically inconsistent for us to use the formula method and yet allow in rate base a deferred debit related to this expense.

Reuse Feasibility Study - Leilani Heights

During the hearing, SSU and OPC agreed to amortize the expense for the reuse feasibility study for Leilani Heights over four years. There was some dispute over the actual amount of the test year expense. Our review of the MFRs indicates that the actual price paid by the utility was $10,150. Therefore, the $10,150 test year expense shall be amortized over four years.

Line Repairs - Jungle Den

In its MFRs, SSU included $14,327 in expenses for televising and repairing wastewater collection lines at Jungle Den. OPC witness Dismukes testified that this amount should be excluded from test year operating expenses because utility witness Kimball previously stated that those tasks would not be repeated. Ms. Kimball testified on rebuttal that Ms. Dismukes misinterpreted her deposition testimony. The work performed on the specific manholes and lift stations in 1991 will not be performed again, Ms. Kimball explained; however, this type of work is performed on some manholes and lift stations each year. In its brief, OPC argues that if the $14,326 is amortized, the amortization period should be 30 years

since the MFRs show that this type of work has been performed only once for all 30 sewer systems.

Without more supporting information in the record, we do not think it would be appropriate to amortize the repairs cost over 30 years. Utility witnesses Kimball and Lewis provided unrebutted testimony that if the costs are amortized, they should be amortized over three years and that the unamortized balance should be included in Jungle Den's rate base. As explained by Ms. Kimball and Mr. Lewis, these were prudent expenses, and similar repair work will be performed in the future as an ordinary and necessary cost of maintaining the Jungle Den system.

We agree that the three year amortization period is reasonable, but we shall not allow the unamortized balance to be included in rate base for the same reason enunciated above regarding the purchased water overbilling at Beacon Hills.

TAXES OTHER THAN INCOME TAXES

Property Taxes - Non-used and Useful Property

In its MFRs, the utility proposed recovering all property taxes through customer service rates. OPC witness Dismukes testified that current ratepayers should not be required to pay property taxes on plant which is considered non-used and useful. She recommended reducing test year property taxes by $283,653. Ms. Dismukes maintained that unless the utility could show that counties do not assess property taxes on non-used and useful plant, the utility should request recovery of taxes on non-used and useful property through the AFPI charge.

Utility witness Ludsen testified that used and useful adjustments to property taxes are not appropriate. He testified that Charlotte, Citrus, Collier, Hernando, Hillsborough, Lee, Marion, Sarasota, Volusia, and Washington Counties assess property taxes on non-used and useful plant. In addition, he explained that some counties tax non-used and useful plant at reduced rates. He also opined that economies of scale related to plant construction should be considered in any non-used and useful adjustment to property taxes.

Mr. Ludsen proposed reducing any adjustment to recognize a county's reduced tax rate, and he also proposed using a 50% discount to reflect economies of scale. Mr. Ludsen explained that a 50% factor for economies of scale because "there is less than a one to one relationship between the non-used and useful percentage

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and the valuation of utility plant for property tax purposes." Mr. Ludsen concluded that if a used and useful adjustment to property taxes is made, the adjustment should be limited to $89,517 for all systems.

Utility witness Lewis agreed that property taxes associated with non-used and useful plant could be recovered through AFPI charges. Mr. Ludsen maintained that the entire amount of property taxes should be included in the test year because the utility must pay all of its property taxes each year. There is no guarantee, through the AFPI charge or otherwise, that the utility will recover these prudently incurred operating expenses unless they are recovered through monthly service rates.

We agree with Ms. Dismukes that property taxes should not be charged to customers for plant that is not used and useful. However, we believe it would be erroneous to reduce property taxes by the non-used and useful plant ratio unless the utility is taxed at the same rate on all of its property. In addition, we have considered the evidence in the record and are not convinced that an economies of scale adjustment is appropriate. It is more appropriate to account for economies of scale in the used and useful calculation itself, particularly because non-used and useful property taxes can be recovered in the AFPI calculation.

Accordingly, we have removed property taxes on non-used and useful plant from test year expenses and included them in the calculation of AFPI charges. The individual adjustments to each system are reflected in the net operating income schedules attached to this Order.

On a different basis, OPC witness Dismukes proposed reducing test year property expense for the Marion Oaks system by $4,477 to remove taxes on property held for future use. She testified that property taxes should not be charged to customers if the plant was not considered used and useful. How Ms. Ms. Dismukes calculated the $4,477 amount was not explained at the hearing.

We believe that property taxes should be reduced in each system to the extent any portion of its land is held for future use. The record does not reveal what portion of the utility's property tax expense is due to real property taxes and what portion relates to personal property taxes. However, we think it reasonable to presume that the reported tax expense was attributable to each property class in proportion to its relative dollar value. Therefore, we have reduced property taxes for each system in proportion to the amount of plant held for future use.

Our adjustments for property taxes attributable to future use property appear on the net operating adjustment schedules attached to this Order.

Property Taxes - Land Appraisals

The only evidence in the record concerning the issue of property tax adjustments as a result of the write-down of DUI and UFU land was presented by utility witness Kimball, who testified that no adjustment was appropriate. She explained that the utility does not report its booked land values to the County Tax Assessors' Offices. Those entities perform their own appraisals on property values for assessment purposes, she stated, and the assessed values could be based on any number of methods. Thus, she noted, the assessed value could be greater or less than the value recorded on the utility's books.

We accept Ms. Kimball's explanation. Therefore, we have not made an adjustment to property taxes as a result of the DUI and UFU write-downs.

Property Taxes - Sugar Mill Woods

In the MFRs, the utility's 1991 property taxes for its Sugar Mill Woods system were $71,953 for water and $126,658 for wastewater. Utility witness Kimball agreed that those expenses should be reduced by $33,063 to exclude an out-of-period charge.

COVA witness Jones testified that the utility did not challenge a substantial property tax increase in Citrus County. Utility witness Kimball disagreed and explained why property taxes for Sugar Mill Woods increased by $36,546 (to a total of $172,910) in 1990. Ms. Kimball testified that SSU tries to reduce property taxes whenever possible. When SSU gets a tax bill, it monitors the increases and it attempts to tie those increases in the assessed values back to what was reported to distinguish the differences. She said that when differences occur which SSU does not understand, it contacts the tax office to find out what are the differences.

As to Sugar Mill Woods, Ms. Kimball stated that the utility filed its tax returns consistent with the previous owner's reporting with one exception: investments in used and useful distribution and collection lines were added. She explained that the utility thought that it would be taxed on used and useful transmission lines as in other counties. After Citrus County obtained copies of the utility's annual reports, it proposed additional property taxes on non-used and useful lines, which

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yielded a proposed tax bill of $228,125. Ms. Kimball testified that SSU challenged this bill, and, as a result, the assessment was reduced to $174,656 before discounts. She added that although Citrus County would not accept full exclusion of all non-used and useful plant, 40% was ultimately excluded. She also said that the utility requested an offset for CIAC, but was unsuccessful.

In its brief, OPC contends that funds should be set aside, subject to refund, until the question of the appropriate method and amount of property taxes is settled between Citrus County and the Sugar Mill Woods system. OPC suggested that a corporate undertaking would be the appropriate procedure for handling these funds while the issue is being resolved.

In consideration of the evidence on the record, we find that the utility has not acted imprudently in its handling of the tax situation with Citrus County. Moreover, we are not in a position to dictate what the County should and should not assess taxes on. Therefore, we consider it inappropriate to hold any disputed amount subject to refund.

We have reduced property taxes for the Sugar Mill Woods systems by the $33,063 out-of-period expense as discussed above. We allocated this amount on the basis of reported taxes: a $11,978 reduction to the water system and a $21,085 reduction to the wastewater system.

INCOME TAXES

Based on the MFRs and our decisions regarding the level of revenues and expenses in other portions of this Order, we calculated the test year income tax expense to be a negative $429,153 for water and a negative $697,977 for wastewater. Based on the final revenue requirements amounts, we find the appropriate final income tax amounts corresponding to those revenue amounts to be $766,495 and $518,361 for the water and wastewater divisions, respectively.

ITC AMORTIZATION

The utility has amortized investment tax credits (ITCs) above the line. As we discussed in an earlier portion of this Order, all ITCs have a blended, weighted cost rate. The effect of this blended, weighted cost rate is to treat the ITCs of DUI and UFU as though they had a cost rate of zero. Therefore, consistent with the requirements of Internal Revenue Code (IRC) section 46(f)(1), the amortization of those ITCs is recorded below the line. In

addition, consistent with the requirements of IRC section 46(f)(2), the amortization of ITCs which were assigned a cost rate in the calculation of the blended rate is recorded above the line. We have allocated the amortization to all of the systems on the basis of gross plant consistent with the allocation method used by the utility. Based on the foregoing, we find the appropriate amount of amortization of ITCs to be $10,793.

ITC INTEREST SYNCHRONIZATION

In an earlier portion of this Order, we determined it appropriate to include ITCs in the utility's capital structure at a net positive cost rate. Therefore, we find that it is appropriate to make a corresponding ITC interest synchronization adjustment of $4,123.

PARENT DEBT ADJUSTMENT

The utility included a parent debt adjustment in its MFRs. However, based on our other adjustments in this Order and consistent with the provisions of Rule 25-14.004, Florida Administrative Code, we find it appropriate to make corresponding adjustments to the amount of the parent debt adjustment requested. Accordingly, we find the appropriate amount of the parent debt adjustment to be $140,162 and $124,816 for water and wastewater, respectively, allocated to each system on the basis of gross plant.

TEST YEAR REVENUES

Below is our discussion on various issues regarding test year revenues.

Interest Income

SSU booked interest income earned on utility deposits below the line. Utility witness Vierima testified that if customers provided SSU a return on amounts SSU deposited with other utilities, then interest income should be included above the line. However, Mr. Vierima testified, SSU's customers are not paying a return on SSU's deposits with other utilities.

In its brief, OPC argues that the formula method for calculating working capital implicitly includes utility deposits as working capital and, therefore, the customers do pay a return on the deposits. Accordingly, OPC concludes, any interest earned on investor capital should be treated above the line.

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We disagree with OPC's argument. The formula method, as we have indicated previously, is a surrogate for calculating working capital and approximates the amount that would be derived under the balance sheet method. Under the balance sheet method, all interest earning accounts, such as the utility deposits here, are excluded. Were interest earning accounts not excluded, the utility would earn a return from its customers through working capital on an amount it is already earning a return from the utility holding the deposit. Therefore, we believe that it is incorrect to conclude that the formula includes something the balance sheet did not. Accordingly, we shall make no adjustment for interest income.

Weather Normalization

OPC witness Dismukes sponsored yearly precipitation information based on Florida Statistical Abstract in Exhibit No. 125. The exhibit shows that an abnormally high level of precipitation occurred during the test year compared with the previous ten years in the State of Florida and in various selected cities in the State of Florida.

Utility witness Loucks explained that when a historical test year is used, adjustments should be made for abnormal factors such as out-of-period items, but should not reflect adjustments for weather normalization. According to Ms. Loucks, if weather normalization is considered in this proceeding, great care must be taken to determine that the data used for comparative purposes is representative of SSU's service areas. She questioned whether the data in Exhibit No. 125 is indicative of SSU's service areas since SSU has not conducted its own study (for comparative purposes) and since OPC offered nothing which definitively showed that the data in Exhibit No. 125 is typical of the rainfall in SSU's service areas. Ms. Loucks then emphasized the geographic diversity of SSU's service areas. The wide range in territory, she said, could result in no significant net difference in water consumption; that is, reductions in consumption experienced in some service areas may be offset by increases in consumption experienced in other service areas.

Ms. Loucks pointed out that if adjustments are made to revenues based on weather normalization, only variable costs related to consumption should be adjusted, and OPC, she asserted, did not indicate which variable expenses should be adjusted. Ms. Loucks contended that any weather normalization adjustments should be made only for irrigation uses, not for domestic or commercial consumption. She also noted that other factors, such as conservation, should also be taken into consideration.

We find that there is insufficient evidence in the record to support an adjustment for weather normalization. OPC witness Dismukes presented evidence of the rainfall on certain cities in Florida from 1981 through 1991. However, the record does not reflect that the data is representative of SSU's service area, nor does it quantify, or explain how to quantify, the impact of precipitation on consumption. Therefore, we find that SSU shall not be required to adjust revenues for weather normalization.

Reuse Sales Revenues

Exhibit No. 127 contains SSU's response to an OPC interrogatory regarding effluent sales at Deltona Lakes. In its response, the utility stated that the Deltona Lakes Country Club golf course had an effluent charge of six cents per 1,000 gallons set by contract, which was equivalent to an annual charge of $9,308. Utility witness Sweat agreed that test year revenues should be increased by $9,308 even though the utility did not receive revenues for sales during the 1991 test year. According to Mr. Sweat, the six cents per 1,000 gallons charge represents avoided costs as well as a repayment of the $75,000 in capital improvements that SSU made to the Deltona Lakes Golf & Country Club property in exchange for the right to dispose the effluent. Accordingly, we have adjusted Deltona Lakes' test year revenues by $9,308.

In its brief, OPC also suggests that the Commission establish charges and impute revenues for all other SSU systems which sell effluent. In a later portion of this Order, we find that the utility's reuse agreements and rates are reasonable. Accordingly, we have not imputed any other additional revenues for effluent sales.

Imputing Revenues for Estimated Use

In its brief, OPC argues that revenues should be imputed for water estimated as attributable to stuck and slow meters. OPC contends that there would be a substantial mismatch of revenues and expenses if revenues associated with this water is not imputed.

Utility witness Sweat testified that SSU recently instituted a comprehensive meter testing program under which all meters will be tested and defective ones replaced within seven years. Mr. Sweat stated that according to the AWWA Manual, meters tend to run 3% slower after five or six years. Currently, the utility has a zero usage report which indicates how many meters in a given system registered zero for the month. He explained that the utility sends

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a service person out to physically check non-registering meters in order to determine whether the meter is stuck or turned off because the resident is away. Depending on the billing cycle, Mr. Sweat noted, stuck meters can be detected within two or three months. Utility witness Loucks testified that only a small percentage of residential meters are stuck and that customers with stuck meters are billed the base facility charge.

We believe all water utilities will have some portion of water lost because of stuck or slow meters. We disagree with OPC that there would be a substantial mismatch of revenues and expenses if revenues associated with the estimated water usage for the stuck or slow meters were not imputed. While there will may be some mismatch, we believe that this mismatch is not substantial. Moreover, we have treated estimated water losses which SSU attributes to stuck or slow meters as unaccounted-for water and have thereby mitigated the mismatch in cases where unaccounted-for water is excessive.

We are encouraged by the fact that the utility has taken positive steps, by implementing a testing program, to remedy any problems. The utility shall update its progress on this program by filing quarterly reports for the twelve months after the final order date.

TEST YEAR OPERATING INCOME

In consideration of the adjustments discussed above, we find that test year operating income, before increased revenues, is shown on the attached schedules: Schedules Nos. 3-A for the water systems and Schedules Nos. 3-B for the wastewater systems. Adjustments are itemized on Schedules Nos. 3-C. All of the foregoing schedules are grouped by system, in alphabetical order.

REVENUE REQUIREMENTS

In consideration of the adjustments discussed above, we find that the proper revenue requirements are shown on the attached schedules: Schedules Nos. 3-A for the water systems and Schedules Nos. 3-B for the wastewater systems. All of the foregoing schedules are grouped by system, in alphabetical order. The final revenue requirements requested by the utility were $17,998,776 for water and $10,872,112 for wastewater. The requested revenues represent increases of $5,064,353 (40.16%) for water and $3,601,165 (49.53%) for wastewater based on the test year ending December 31, 1991. We have determined the appropriate revenue requirements are $15,849,908 for water and $10,188,775 for wastewater on an annual

basis. These represent revenue increases of $3,347,195 (26.77%) for water and $3,332,838 (48.61%) for wastewater.

RATES AND CHARGES

Authority To Fix Statewide, Uniform Rates

In support of its position that this Commission should approve stand-alone rates, Citrus County argues that this Commission is authorized to set rates only on a system by system basis. We disagree.

Section 367.081, Florida Statutes, governs our authority to fix rates for a "utility." Nowhere in Section 367.081 is there a reference to fixing rates for specific systems. Section 367.021, Florida Statutes, defines both "utility" and "system." Pursuant to 367.021(11), "system" means facilities and land used and useful in providing service. Pursuant to 367.021(12), "utility" means a water or wastewater utility and except for certain exemptions, includes every person, lessee, trustee, or receiver owning, operating, managing, or controlling a system who is providing service to the public for compensation. In the rate application before us, we have been asked to fix rates for 127 systems of one utility, SSU. This Commission has previously approved uniform rates for multiple systems by county for SSU, Jacksonville Suburban Utilities Corporation, Utilities, Inc., and other water and wastewater utilities. Further, we routinely approve statewide rates in other industries such as telephone, gas and electric.

Based on the foregoing, we find that it is within this Commission's purview to fix uniform, statewide rates for the 127 systems included in this rate application, if we so choose.

Uniform, Statewide Rates

In its MFRs, the utility requested a rate structure designed with a capped or maximum bill for customers at a 10,000 gallon level of consumption. Revenue deficiencies caused by using this "cap" design were to be borne by water and wastewater systems which had lower revenue requirements based on a pure stand-alone rate calculation.

Utility witnesses Ludsen and Cresse testified that uniform rates would not be appropriate because they do not take into consideration the differences in costs related to treatment types and systems' locations, such as on the coast as opposed to inland. Utility witness Cresse testified that the utility's proposed rate

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structure would be in the best interest of the customers because it recognizes economies of scale and prevents rate shock. When questioned concerning his opinion on uniform, statewide rates, Mr. Cresse testified that uniform rates would provide longer rate stability and less erratic rate changes. He further testified that uniform rates would require less accounting expense and rate case expense in the long run. Witness Cresse also testified that this Commission has established uniform rates in other industries without regard to geographical area or type of treatment. Further, Mr. Cresse testified that there is no such thing as 100% parity for each class of customers receiving service from a utility for every service customers receive, and that these types of decisions are made regularly by this Commission with regard to all of the utilities we regulate. In addition, Mr. Cresse testified that uniform rates would be appropriate in the broadest sense, if the Commission were seeking uniformity and that the most appropriate aggregation of rates would be statewide, rather than other options.

Staff witness Williams testified that the utility's proposal was a good first step in a gradual move to some type of uniform rate structure. In his opinion, uniform, statewide rates should be a Commission goal for this utility. However, Mr. Williams testified, the utility should revise its service availability charges prior to implementation of statewide rates. He further testified that statewide rates would put SSU on par with telephone and electric utilities, would provide SSU with incentives to continue acquiring small systems, would provide economies of scale, would provide better access to capital, and would provide a larger customer base within which to spread costs. Witness Williams further testified that uniform rates are simply derived, easily understood and economically implemented. He also testified that statewide rates would mitigate rate shock related to high plant costs or operating expenses incurred as a result of plant upgrades, expansion, or regulatory requirements. In addition, Mr. Williams testified that this Commission has previously grouped water and wastewater systems by geographical area, such as county, and by company. For example, Marion Utilities, Sunshine Utilities, and Utilities, Inc. are utilities with some type of uniform rates.

OPC took no position on this issue. COVA and Citrus County support rates calculated on a stand-alone basis. Citrus County's main argument concerning our authority to set rates on a statewide basis is discussed separately in an earlier portion of this Order. COVA argues in its brief that approving a uniform rate structure would be the same as our levying a tax on all customers of systems paying rates in excess of the stand-alone rates. Technically, a tax is collected for the benefit of the government, not a private

utility and for this reason we reject COVA's argument that statewide rates would be the same as levying a tax. However, we find that in determining the fairness of rates being fixed for this utility, we must weigh the benefits of statewide rates to all customers against any inequities created by these rates.

In reaching our decision approving uniform, statewide rates, we have given consideration to many issues. We have considered the issues of service availability charges, conservation rates, rate structure, and surcharges for advanced treatment systems. Each of these issues and our specific decision concerning them are discussed in a later portion of this Order. Our calculation of the final rates is also discussed in a later portion of this Order.

We find that uniform, statewide rates provide the following advantages: 1) administrative efficiencies in accounting, operations and maintenance; 2) rate stability; 3) insulation of customers from rate shock from major capital improvements or increased operating costs; 4) recognition of economies of scale; 5) ease of implementation; and 6) lower rate case expense in the long run. In addition, we find that uniform statewide rates will not generate the cross-subsidization of revenue deficiencies from wastewater to water customers created by the utility's proposal. Any deficiencies that would result from a difference in the statewide rate to the stand-alone rate will be spread over the general body of ratepayers of the affected class of service. In reaching our decision herein, we also compared the stand-alone rates calculated on a system by system basis to the final uniform statewide rates. In comparing the uniform statewide rates to the stand-alone rates, we found that for locations with both water and wastewater systems, at consumption level of 6,000 gallons per month, approximately thirty locations (60 systems) would have paid uniform higher water and wastewater rates than the uniform rates; of those, approximately fourteen locations would have been paying $40 to $130 more than the uniform rates. Only seven locations would have had lower rates combined water and wastewater rates on a stand alone basis; of those, the difference between stand alone and uniform rates ranged from approximately $19 to $2.

Based on that comparison, we find that the wide disparity of rates calculated on a stand-alone basis, coupled with the above cited benefits of uniform, statewide rates, outweighs the benefits of the traditional approach of setting rates on a stand-alone basis. Based on the foregoing, we find it appropriate to calculate uniform, statewide rates for the 127 systems filed in this rate proceeding.

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SSU's Proposed "Cap" For Customers' Bills

In its application, the utility proposed that customers' bills be capped at $52 for water and $65 for wastewater for 10,000 gallons of water usage. This proposal was part of the utility's step toward uniform rates. Because we have chosen to approve statewide, uniform rates without going through a gradual process leading to uniform rates, we find that the utility's request for a "cap" is not appropriate. Accordingly, the rates approved were not calculated with a "cap" on customers' bills in the manner proposed by the utility.

Conservation Rates

In this Order, we have approved uniform, statewide rates designed using a base facility and gallonage charge (BFC) rate structure. In reaching that decision, we considered the issue of conservation rates.

Utility witness Ludsen testified that the BFC rate structure is a simplified conservation rate. Witness Ludsen also testified that before the utility proposed any other type of conservation rates, it would want to conduct studies on price elasticity and the effects of conservation on consumption. Otherwise, he testified, the rates would be based on speculation. Mr. Ludsen also testified that conservation can be promoted in other ways than rate structure, such as through consumer education. In addition, Mr. Ludsen testified that if conservation rates were designed by reallocating a portion of the revenue requirement from the base facility charge to the gallonage charge, then full-time residents would pay more than their fair share of the fixed costs in those areas where there are part-time residents.

Staff witness Williams testified that for most SSU systems, the BFC rate structure may be considered an adequate conservation rate structure. Witness Williams identified three systems in critical use areas which, in his opinion, should have a conservation rate structure with stronger incentives for conservation. Witness Williams proposed two conservation structures: one proposal would allocate revenue requirements so that more revenue is recovered in the gallonage charge; and the second proposal would raise the gallonage charge and apply excess earnings to revenue deficiencies created by the move to uniform rates.

Utility witness Lewis testified that for systems experiencing negative growth, a large increase in rates due to the

implementation of conservation rates could have a substantial detrimental effect on growth. According to Mr. Lewis' testimony, one such system which experiences negative growth is the Stone Mountain system, one of the three mentioned by Staff witness Williams. Mr. Lewis testified that the negative growth for this system offsets the high average use per customer.

Neither OPC, COVA, nor Citrus County took positions on this issue.

We have considered the BFC rate structure to be a conservation rate structure in previous decisions because it allocates fixed expenses into the base charge and variable expenses into the gallonage charge. Thus, customers are given the opportunity to understand the effect of, and to control, their usage. Rates set on any other conservation rate structure would not be supported by any evidence in the record.

Based on the foregoing, we find that the BFC rate structure is an appropriate conservation rate structure for all SSU systems in this rate case, at this time.

No Surcharge For Systems With Advanced Treatment

In our determination that uniform, statewide rates are appropriate for all of the 127 systems filed in this proceeding, we considered the issue of whether a surcharge for advanced treatment would be appropriate. The utility did not ask for uniform, statewide rates nor such a surcharge in its application. None of the other parties took a position on the surcharge issue.

Utility witness Cresse testified that while the utility was not seeking uniform rates, treatment type may be an appropriate method for grouping utility systems. However, utility witness Ludsen testified that the utility should avoid a surcharge for systems with advanced treatment systems because the of the difficulty with customers' understanding of these charges as well as the difficulties involved with billing. When asked about criteria to be considered for establishing rate bands, witness Ludsen testified that treatment type was not one of the major determinants of cost. In addition, Mr. Ludsen testified that because the additional cost associated with treatment type is relatively small in this case, a uniform, statewide rate for all systems would not reflect much distortion as a result of advanced treatment costs. Further, witness Ludsen testified that the utility had not done any analysis of the additional costs related to advanced treatments systems. However, he also testified that

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even standard treatment facilities can have wide ranges of costs.

Based on the foregoing, no provision for a surcharge for advanced treatment systems was included in our calculation of the final, uniform, statewide rates.

Billing Cycle

In an earlier portion of this Order, we approved Stipulation No. 26 which establishes a monthly billing cycle for all systems.

Base Facility Charge

Prior to hearing, the utility, COVA, and staff agreed that a BFC and gallonage charge structure should be implemented for all SSU systems. We approved this stipulation in a earlier portion of this Order. However, in its application the utility calculated the residential wastewater BFC using the AWWA ERC factors. In its brief the utility states that it does not oppose the elimination of the as long as the utility's revenue requirements can be met. It is COVA's position that the proposed BFC calculation is inappropriate for residential wastewater customers because most water used in larger meter sizes is used for irrigation and is not returned to the system. OPC took no position on this issue.

Generally, in the design of the BFC for wastewater, we have distinguished between the usage of residential and general service customers. Utility witness Loucks agreed that most residential customers use a 5/8" x 3/4" meter, and that if a customer is using a larger meter, it is for irrigation purposes. She further testified that irrigation water is not returned to the collection system and thus, does not increase treatment costs.

The BFC escalated for AWWA factors would be appropriate if the residential customer were placing an additional demand on the wastewater treatment system. However, as witness Loucks testified, the additional water received by the larger residential meter sizes is used mainly for irrigation. We find that escalating the BFC for the AWWA factors for residential wastewater customers would force customers with larger residential meter sizes to pay a disproportionate share of the utility's fixed costs related to treatment and collection. Accordingly, we have calculated the residential wastewater BFC based on one ERC for a 5/8"x 3/4" meter, and not on the AWWA ERC factors.

Gallonage Charge

In its application, SSU requested a uniform wastewater gallonage charge for both residential and general service customers. The previously authorized gallonage charge recognized that a higher percentage of water is returned to the wastewater system by the general service customer than by the residential customer.

Utility witness Loucks testified that she was aware that the gallonage charge set by the Commission generally was designed to recognize that 80% of the water sold to residential customers and 96% of the water sold to the general service customers was returned to the wastewater system. Further, she agreed that where the return flows of the residential and general service customers to the wastewater system are different and gallonage rates are equal, residential customers would be subsidizing general service customers. She also testified that she had not seen any study related to SSU's systems to verify whether or not this differential was true for SSU.

This Commission has previously approved this differential between residential and general service flows for this utility and many other utilities. We find no evidence to support a deviation from using the traditional differential in this instance. Therefore, we have calculated the gallonage charges recognizing that 80% of water sold to residential customers and 96% of water sold to general service customers is returned to the wastewater system.

Gallonage Cap

In its application, the utility proposed a residential wastewater gallonage cap of 10,000 gallons for all systems. Currently, the utility utilizes several gallonage caps ranging from 6,000 to 10,000 gallons. OPC took the position that the cap for Sugar Mill Woods should remain at 6,000 gallons. OPC took no position on this issue.

Utility witness Loucks testified that the 10,000 gallon proposed residential wastewater cap was based on a "judgement call," and was not based on an analysis of consolidated factors. In its brief, the utility states that it is not opposed to a wastewater gallonage cap lower than the requested 10,000 gallons.

The Commission's goal in setting a wastewater gallonage cap is to recognize the general usage level of a utility's customers in

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their daily use. Water used beyond that level is water probably used for irrigation, and would not be returned to the wastewater system. Consolidated factor analysis based on company data, as well as customer testimony, indicates that a 6,000 gallon residential wastewater cap would encompass the average usage of most of the utility's customers. Based on the foregoing, we find that the 6,000 gallon cap will meet the utility's revenue requirements and will mitigate rate shock by providing residential customers with a lower maximum wastewater bill. Accordingly, we find the appropriate residential wastewater gallonage cap to be 6,000 gallons for all systems.

Fire Protection

In an earlier portion of this Order we approved Stipulation No. 8 eliminating public fire protection rates. At hearing, we approved a stipulation which provided that the private fire protection rates were to be uniformly calculated at one third of the BFC for the applicable meter size.

The utility requested a private fire protection rate be approved for lines less than four inches in diameter. Utility witness Loucks testified that at Amelia Island the utility has two customers who receive sprinkler service through a two inch line. We find that lines less than two inches are not appropriate for the provision of adequate water pressure and flows for fire protection, unless those lines are serving a sprinkler system. Based on the foregoing, we approve the utility's request for private fire protection rates for lines less than four inches where the service provided is limited solely to sprinkler system service, not hydrant service. Any future requests for private fire protection through a line less than two inches must be approved by the Commission on a case by case basis.

Service Availability Charges

In determining that uniform rates are appropriate in this case, we considered the issues of whether service availability charges must be revised prior to establishing statewide rates, and when the utility should file an application for changing service availability charges.

Utility witness Ludsen testified that SSU chose not to file for revised service availability charges in this case because the utility needed a rate case as quickly as possible due to its financial situation, and that preparation of such a request at the same time as the rate case would have delayed the filing for rate

relief. Mr. Ludsen also testified that with the magnitude of the rate case filing, there may have been too much to prepare to also file the service availability case at the same time. In addition, witness Ludsen testified that the filing of a service availability case was not necessary based on the rate structure requested by the utility. He further testified that, even if the utility requested any changes in service availability charges, it would be eight to ten years before those changes would have any impact on the overall level of CIAC. Further, witness Ludsen testified that the utility intends to file a service availability case within the next two years.

Utility witness Cresse testified that the rate structure should be moved more toward uniformity before the service availability charges are changed. Utility witness Cresse also testified that he does not believe that SSU's service availability charges need to be changed prior to, or simultaneously with, a change in rate structure. According to Mr. Cresse, any changes made to service availability charges will not make the authorized rates wrong, nor will a change in the rate structure make the service availability charges unreasonable. Mr. Cresse also testified that if the Commission chooses a statewide rate based on a statewide revenue requirement, any required changes to service availability charges could be done prospectively.

Staff witness Williams testified that, if this Commission approves a uniform rate structure, we should also require the utility to file a service availability case as soon as possible. Witness Williams also testified that carefully designed service availability charges can move each system's average investment per customer closer together and cause the average investment per customer to be more uniform.

COVA argues that its members pay substantial service availability charges which result in the Sugar Mill system's having a very low rate base. According to COVA's arguments, if a statewide rate is approved, their members, who have invested and are still investing more than $2,000 each in their utility, would be penalized by having to pay disproportionately higher rates.

There is no evidence in the record showing that other utilities have been required to achieve a specific level of contributions prior to obtaining uniform rates, or identifying any specific level of CIAC for SSU to achieve prior to implementing uniform rates.

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Based on the foregoing, we find as follows: 1) that a review of service availability charges is not required prior to establishing the rates in this proceeding or prior to implementing uniform, statewide rates; 2) that a change in the service availability charges will not affect current revenue requirements; and 3) that it will be many years before any increase in service availability charges would affect rates. However, we also find that it is appropriate to require the utility to file an application for service availability charges within two years of the date of this Order.

Rates For Reuse of Reclaimed Water

According to data filed by SSU, five of its systems have agreements for effluent reuse, and two of those systems receive compensation for the use of effluent. The systems providing effluent reuse for no charge are Point O'Woods, Amelia Island and University Shores. The two systems with a nominal fee for providing effluent reuse are Deltona Lakes and University Shores.

Witness Sweat testified that for the Point O' Woods system, the reuse agreement for no compensation is mutually beneficial because it provides a disposal site for the utility and a source of irrigation water for the golf course. The Point O' Woods system is not in a critical use area.

According to witness Sweat, even though the Amelia Island system is now in a critical use area, the three golf courses which receive approximately 600,000 gallons a day of reuse at no cost have consumptive use permits which would provide alternative sources of water irrigation should the utility be required to charge for effluent reuse.

The third system which provides effluent reuse for no charge is University Shores. According to utility witness Sweat, at the time the reuse agreement was entered into twelve years ago, DER was not permitting effluent disposal in the Econ River. Mr. Sweat also testified that in order to have more land for disposal, the utility entered into an agreement with Chapel Hill Cemetery which provided the utility with approximately 95 acres for disposal. Utility witness Sweat opined that this agreement was the best possible agreement that the utility could have entered into at the time.

Utility witness Sweat testified that the Deltona Lakes system entered into a reuse agreement with Glen Abbey Golf and Country Club when the system was ordered by DER to cease discharging effluent into Lake Monroe. Mr. Sweat further testified that Glen

Abbey has its own wells and a consumptive use permit and therefore, the utility was unable to negotiate a rate for reuse.

Mr. Sweat also testified that the Deltona Lakes system was able to negotiate a nominal fee for reuse at another golf course in the area. The twenty-year agreement between Deltona Lakes and Deltona Golf and Country Club provides for a rate of 6 cents per 1,000 gallons for up to 500,000 gallons per day which is based on avoided electric costs and repayment for $75,000 of improvements.

According to Mr. Sweat's testimony, the Florida Central Commerce system is authorized by this Commission to charge a rate of 12 cents per sprinkler head for the provision of effluent to an industrial park. The 12 cents was authorized to recover the cost of the wastewater treatment plant.

OPC argues that a rate for effluent should be set at the full cost of providing the effluent reuse.

Based on the foregoing, we find that the utility has made a good faith effort to negotiate the best agreements for providing effluent reuse under the circumstances surrounding each of the individual systems. We agree with the utility that establishing rates for effluent reuse for the systems providing reuse could cause the loss of these outlets for effluent disposal. Accordingly, we find the current effluent reuse agreements and rates, where applicable, to be reasonable under the circumstances. In addition, we find it appropriate to require the utility to file tariff sheets for approval of the effluent rate established by the contract between the Deltona Lakes system and the Deltona Lakes Golf and Country Club.

No Adjustment To Test Year Consumption

OPC proposed that the test year consumption as shown on MFR Schedules Nos. E-2A should be adjusted to reflect a higher amount of consumption because the rainfall for the test year was higher than normal. In support of this position OPC offered an exhibit showing that the State of Florida had a greater rainfall during the test year than is typical. In an earlier portion of this Order, we determined that no adjustment would be appropriate for weather normalization. Consistent with that decision, we have made no adjustments to the test year consumption shown in the MFRs.

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Final Rates

The final rates requested by the utility are designed to produce annual revenues of $17,998,776 and $10,872,112 for water and wastewater, respectively. The requested revenues represent increases of $5,064,353 (40.16%) for water and $3,601,165 (49.53%) for wastewater based on the test year ending December 31, 1991.

We have determined the appropriate revenue requirement to be $15,849,908 and $10,188,775 for water and wastewater, respectively, on an annual basis. These represent an increase of revenues of $3,347,195 (26.77%) and $3,332,838 (48.61%) for water and wastewater, respectively. The final rates, which we find to be fair, just and reasonable, are designed to achieve these revenue requirements, using the BFC rate structure as discussed in an earlier portion of this Order. The final rates are a uniform, statewide water rate of $5.00 for the BFC with a $1.19 gallonage charge. For wastewater, the BFC is $12.01 with a $3.41 gallonage charge and a 6,000 gallon gallonage cap. The statewide rate calculated approved herein allows revenue deficiencies from water customers to be recovered from other water customers. Likewise, deficiencies from wastewater customers will be recovered from other wastewater customers.

The approved rates will be effective for service rendered on or after the stamped approval date of the revised tariff sheets to insure that the new rates are implemented for the same period of service for all customers. Prior to the implementation of the increased rates, the utility shall submit revised tariff sheets and a proposed customer notice explaining the increased rates and the reasons therefor. The revised tariff sheets will be approved upon staff's verification that they are consistent with this Commission's decision and that the proposed customer notice is adequate.

The utility's present rates, interim rates, requested rates and our final approved rates for each system are shown on Schedules Nos. 4, attached hereto.

Rate Case Expense Apportionment

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 the utility be reduced immediately by the amount of rate case expense previously included in the rates. Accordingly, we find that the water rates should be reduced by $253,287 (1.63%) and the wastewater rates

should be reduced by $87,601 (.86%) after four years. The revenue reductions reflect the amortized annual rate case amounts plus the gross-up for regulatory assessment fees. Our calculation of the rates after the reduction are shown on Schedules Nos. 7 and 8 for water and wastewater, respectively.

The utility shall file tariffs no later than one month prior to the actual date of the required rate reduction. In addition, the utility shall file a proposed customer letter setting forth the lower rates and the reason for the reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Refund Required

By Order No. PSC-92-0948-FOF-WS, issued September 8, 1992, we approved interim rate increases, subject to refund, of $3,853,414 (30.84%) and $3,442,905 (50.44%) for water and wastewater, respectively. These increases resulted in annual revenues of $16,347,596 for water and $10,270,606 for wastewater. Pursuant to Section 367.082, Florida Statutes, any refund should be calculated to reduce the rate of return of the utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates are in effect should be removed.

The approved interim rates for the interim test year ending December 31, 1991, did not include any pro forma provisions for increased operating expenses or increased plant. The interim increase was designed to allow recovery of actual interest costs, and the floor of the last authorized range for equity earnings.

Since the final test year for this case was an historical period, pro forma adjustments were made in the case. To establish the proper refund amount, we have calculated a revised interim revenue requirement using the same data used to establish final rates, but excluding the pro forma provisions for rate case expense and SFAS 106 costs. Those pro forma charges were excluded since they were not actual expenses during the interim collection period. The comparable revenue requirement was calculated using the cost of capital determined in an earlier portion of this Order. This overall cost of capital includes the return on equity that, by statute, is the prescribed return to be used to test for excessive earnings during the interim collection period.

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Based on the foregoing, we have recalculated the interim revenue requirements to be $15,277,225 for the water and $9,990,709 for the wastewater. For water, the previously approved interim revenue exceeds the adjusted revenue amount by 6.55%. For wastewater, the previously approved amount exceeds the recalculated interim revenue requirement by 2.73%. Since the interim rates approved exceed the adjusted interim calculation, a refund is necessary.

The interim increase was calculated on an equal incremental increase for each system. Therefore, we find it appropriate to use the same proportionate methodology to refund interim rates. The interim water and wastewater base facility and gallonage charges shall be reduced to the extent that the appropriate refund amount will be accomplished. The refund revenues are to be split 40% to the base facility charge and 60% to the gallonage charge and calculated on a per ERC and gallonage basis. Wastewater systems with flat rates shall be decreased by the flat rate per ERC amount plus the average usage of metered customers multiplied by the gallonage charge decrease amount.

Prior to implementing the refund, the utility shall submit, and have approved, the water and wastewater refund rates along with supporting documentation of the calculation of those rates. The interim refund shall be made with interest and in conformity with Rule 25-30.360, Florida Administrative Code.

AFPI

We have made several adjustments to the utility's requested AFPI charges for non-used and useful plant. The first adjustment is to the utility's calculation of AFPI charges based on gross plant rather than net plant. Utility witness Lewis acknowledged that in calculating AFPI charges, the Commission generally uses net plant. However, witness Lewis testified, if original AFPI charges are not based on gross plant, the utility will never recover a portion of the accumulated depreciation attributable to that plant. Witness Lewis also testified that if a predecessor utility, such as Deltona was collecting AFPI on the non-used and useful plant, then it would be appropriate to calculate the AFPI for that plant based on net plant; otherwise, the utility would be recovering depreciation expense that the predecessor utility had recovered. Witness Lewis also testified that in order to make this determination, one would have to go back to the records of the predecessor utility to determine whether there were AFPI charges and on what plant those charges were calculated. However, we find that neither Mr. Lewis' testimony nor any other part of the record

identifies the plant for which AFPI was not previously charged and for which the gross plant calculation might possibly apply. Therefore, we find it appropriate to calculate AFPI charges based on net plant.

Also, we have reduced the AFPI charges for the Sugar Mill Woods and Burnt store systems to recognize prepaid CIAC which witness Lewis acknowledged had been improperly excluded. We have also adjusted AFPI charges to recognize our adjustments to used and useful plant and cost of capital, as discussed in earlier portions of this Order.

For several systems, the AFPI charges requested were blended charges covering both treatment and distribution and collection plant regardless of the capacities for the various components. Utility witness Lewis testified that it would not be unreasonable to calculate AFPI charges separately for different components. Therefore, we have calculated AFPI charges separately for system components with substantially different capacities.

In its calculation of AFPI charges the utility excluded property taxes. In an earlier portion of this Order we determined that it is appropriate to include property taxes on non-used and useful plant in the calculation of AFPI charges. We have adjusted the AFPI charges accordingly. In addition, we have only calculated AFPI charges for those systems for which the utility requested an AFPI charge. The AFPI charges are set forth in Schedules Nos. 6, attached hereto.

AFUDC

In its application, the utility requested an allowance for funds used during construction (AFUDC) using a discounted rate of 0.900899%. Utility witness Lewis testified that if the rate of return on equity or the interest rate on debt were lower, then the AFUDC rate would also change. Based on our determination of the cost of capital in an earlier portion of this Order, and consistent with Rule 25-30.116, Florida Administrative Code, we have calculated the appropriate annual AFUDC rate to be 10.63%, which represents a discounted monthly rate of 0.845109%. Further, consistent with the above-referenced rule, the effective date for this rate is January 1, 1992.

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LEGAL ISSUES

Application of SFAS 106

OPC raised the issue of whether the pronouncements of the Financial Accounting Standards Board (FASB) legally compel this Commission to use any specific accounting methodology for ratemaking procedures under Chapter 367, Florida Statutes. SSU, OPC and staff agree that the Commission is not legally compelled to use the pronouncements of FASB for ratemaking purposes. As OPC witness Montanaro testified, the Statement of Financial Accounting Standards (SFAS) 106 was designed for external financial statements. However, to the extent that the FASB pronouncements provide reasonable methodologies for recognizing expenses in a regulatory framework, we find it appropriate to use those pronouncements for ratemaking purposes if we so choose.

Use of SFAS 106 as Commission Standard

SSU and OPC agree that this Commission cannot substitute SFAS 106 as the standard by which it judges whether utility OPEB expenses are incurred and are reasonable. It is the utility's position that this issue has been resolved in Orders Nos. 24178, issued February 28, 1991, and PSC-92-0708-FOF-TL, issued July 24, 1992, in which we found that SFAS 106 is an appropriate standard by which to judge whether utility expenses are incurred and, if incurred, reasonably incurred. However, it is OPC's position that this Commission must examine all expenses to determine if they are reasonably incurred by the utility. OPC further states that the Commission cannot delegate its authority to FASB.

We agree that this Commission may not delegate its authority to FASB. However, we find that it is inherent in our obligation to regulate in the public interest that we may determine a methodology, such as SFAS 106, to be appropriate for ratemaking purposes. This does not constitute delegation of authority. We may employ the basic guidelines found in SFAS 106, and still make adjustments to the OPEB expense calculated under SFAS 106 by adjusting items such as the underlying assumptions, timing or benefits. Further, we find that the burden of proof remains with the utility no matter what methodology is used. Therefore, we find that, while a methodology under a SFAS may be generally acceptable, it remains the obligation of the utility to prove that an expense is a reasonable, prudent, and utility-related expense.

Recovery of the Transition Obligation Adjustment

In an earlier portion of this Order, we determined it appropriate to approve the utility's use of SFAS 106 for ratemaking purposes. We also determined that the amortization of the transition obligation is necessary for the transition from pay-as-you-go accounting to accrual accounting. OPC has raised the issue of whether the amortization of the transition obligation violates the prohibition against retroactive ratemaking. It is SSU's position that allowing SFAS 106 expense for ratemaking will not violate the prohibition against retroactive ratemaking because the rates set in this proceeding will be charged prospectively.

The Florida Supreme Court held in Gulf Power Co. v. Cresse, 410 So.2d 492 (Fla. 1982), and Citizens of the State of Florida v. Florida Public Service Commission, 448 So.2d 1024 (Fla. 1984), that retroactive ratemaking only occurs when new rates are applied to prior consumption. We find that in this case the recovery of the transition adjustment is not retroactive ratemaking because it is an accounting change that does not affect costs incurred by the utility before SFAS 106 is implemented and because the transition obligation represents the present value of benefits to be paid in the future. Based on the foregoing, we find that the amortization of the transition obligation is a necessary part of the utility's SFAS 106 expense and that including it in the allowance for SFAS 106 expense is appropriate and does not result in retroactive ratemaking.

CONCLUSIONS OF LAW

1. The Commission has jurisdiction to determine the water and wastewater rates and charges of Southern States Utilities, Inc., pursuant to Sections 367.081 and 367.101, Florida Statutes.

2. As the applicant in this case, Southern States Utilities, Inc., has the burden of proof that its proposed rates and charges are justified.

3. The rates and charges 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.

4. Pursuant to Chapter 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.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application by Southern States Utilities, Inc. for increased rates and charges for water and wastewater service is hereby approved. It is further

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

ORDERED that all matters contained herein, whether in the form of discourse in the body of this Order or schedules attached hereto are, by reference, expressly incorporated herein. It is further

ORDERED that the increased rates approved herein shall be effective for service rendered on or after the stamped approval date of the revised tariffs sheets. It is further

ORDERED that, prior to the implementation of the rates and charges approved herein, Southern States Utilities, Inc., shall submit a proposed customer notice explaining the increased rates and charges and the reasons therefor. It is further

ORDERED that, prior to the implementation of the rates and charges approved herein, Southern States Utilities, Inc., shall submit, and have approved, revised tariff sheets. The revised tariff sheets will be approved upon staff's verification that they are consistent with this Commission's decision and that the proposed customer notice is adequate. It is further

ORDERED that, simultaneous with the filing of revised tariff sheets, Southern States Utilities, Inc., shall file tariff sheets for approval of the effluent rate established by the contract between the Deltona Lakes system and Deltona Lakes Golf and Country Club. It is further

ORDERED that, prior to the implementation of the refund, Southern States Utilities, Inc., shall submit, and have approved, the water and wastewater refund rates along with supporting documentation of the calculation of those rates. It is further

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ORDERED that the refund and the refund report shall be completed in accordance with Rule 25-30.360, Florida Administrative Code. It is further

ORDERED that the rates approved herein shall be reduced at the end of the four-year rate case expense amortization period. Southern States Utilities, Inc., shall file revised tariff sheets no later than one month prior to the actual date of the reduction and shall also file a customer notice. It is further

ORDERED that Southern States Utilities, Inc., shall file all required reports within the time periods prescribed in the body of this Order. It is further

ORDERED that Southern States Utilities, Inc., shall file an application for change of service availability charges within two years of the date of this Order. It is further

ORDERED that this docket shall be closed upon the approval of revised tariff sheets, and verification of the required refund.

By ORDER of the Florida Public Service Commission, this 22nd day of March, 1993.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

CB

BY: Kay Flynn
Kay Flynn, Chief, Bureau of Records

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.

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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 Civil Procedure. The notice of appeal must be in the form specified in Rule 9.900 (a), Florida Rules of Appellate Procedure.

State of Florida

Commissioners:
J. TERRY DEASON, CHAIRMAN
SUSAN F. CLARK
LUIS J. LAUREDO
JULIA L. JOHNSON

DIVISION OF WATER & WASTEWATER
CHARLES HILL
DIRECTOR
(904) 488-8482

Public Service Commission

September 15, 1993

Mr. Kenneth A. Hoffman, Esquire
Messer, Vickers, Caparello, Madsen,
Lewis, Goldman & Metz
P. O. Box 1876
Tallahassee, FL 32302-1876

WS File Number: WS-92-0128

Dear Mr. Hoffman:

Subject: Docket No. 920199-WS - Approval of Southern States Utilities, Inc. Final Uniformed Rate Schedule Tariff Sheets.

The following tariff sheets have been approved effective September 15, 1993:

Water Tariff	Wastewater Tariff
Volume I, Section V:	Volume II, Section V:
Original Sheet Nos. 1.0 - 1.2	Original Sheet Nos. 1.0 - 1.1
Original Sheet Nos. 2.0 - 2.7	Original Sheet Nos. 2.0 - 2.2
Original Sheet Nos. 3.0 - 3.1	Original Sheet Nos. 2.21 - 2.27
Original Sheet Nos. 4.0 - 4.1	Original Sheet No. 3.0 - 3.7
Original Sheet Nos. 5.0 - 5.3	Original Sheet Nos. 5.0 - 5.1
Original Sheet Nos. 7.0 - 7.1	

Please incorporate these tariff sheets into the approved tariff on file at the Utility's office.

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If you have any questions concerning this filing, please contact Billie Messer or Charlotte Hand at (904) 488-8482.

Sincerely,

Charles H. Hill

Charles H. Hill
Director

CHH/CMH/db
Enclosures

cc: Division of Water and Wastewater (Willis, Messer, Hand, WS-92-0128)
Division of Legal Services (Bedell)

State of Florida

Commissioners:
J. TERRY DEASON, CHAIRMAN
SUSAN F. CLARK
LUIS J. LAUREDO
JULIA L. JOHNSON

DIVISION OF WATER &
WASTEWATER
CHARLES HILL
DIRECTOR
(904) 488-8482

Public Service Commission

September 24, 1993

Mr. Kenneth A. Hoffman
Messer, Vickers, Caparello, Madsen
Lewis, Goldman & Metz
Suite 701
215 South Monroe Street
Tallahassee, FL 32302-1876

WS Number WS-93-0220

Subject: Docket No. 920199-WS, Correction of Tariff Filing for Residential Wastewater Only Tariff Sheets and Correction of Tariff Sheets for Geneva Lake Estates, Keystone Club Estates, Lehigh and Tropical Isles.

Dear Mr. Hoffman:

The following Residential Wastewater Only (RWO) tariff sheets have been administratively approved with a tariff approval date of September 24, 1993:

Wastewater Tariff

Wastewater Volume II, Section V
Original Sheets No. 2.3 - 2.20

The effective date of the RWO rates remains September 15, 1993 which is consistent with the effective date of the uniformed rate tariff sheets transmitted to you on September 15, 1993 by authority number WS-92-0128. As you are aware, the RWO tariff sheets were inadvertently omitted.

In addition, the following corrected tariff sheets for Geneva Lake Estates, Keystone Club Estates, Lehigh and Tropical Isles have been administratively approved with a tariff approval date of September 24, 1993:

Water Tariff

Water Volume I, Section V
First Revised Sheet Nos. 3.0 - 3.1 Cancels Original Sheet Nos. 3.0 - 3.1
First Revised Sheet Nos. 4.0 - 4.1 Cancels Original Sheet Nos. 4.0 - 4.1
First Revised Sheet Nos. 5.0 - 5.3 Cancels Original Sheet Nos. 5.0 - 5.3

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Wastewater Tariff

Wastewater Volume II, Section V
First Revised Sheet Nos. 3.0 - 3.7 Cancels Original Sheet Nos. 3.0 - 3.7
First Revised Sheet Nos. 5.0 - 5.1 Cancels Original Sheet Nos. 5.0 - 5.1

The rates were not affected however, the effective date of the rates has been corrected.

Please have these tariff sheets incorporated into the approved tariff on file at the Utility's office. If you have any questions, contact Michele Franklin at our office.

Sincerely,

Charles H. Hill

Charles H. Hill
Director

CHH/MLF/mlf (hoffman.mlf)
Enclosures