

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of SOUTH BROWARD)	DOCKET NO. 890360-WS
UTILITY, INC. for a rate increase in)	ORDER NO. 22844
Broward County)	ISSUED: 4-23-90
)	

The following Commissioners participated in the disposition of this matter:

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GERALD L. GUNTER

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PSC-RECORDS/REPORTING

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FINAL ORDER SETTING RATES AND CHARGES

BY THE COMMISSION:

BACKGROUND

South Broward Utility, Inc. (South Broward or utility) is a Class C water and wastewater utility. On June 5, 1989, the utility filed its application for a rate increase and its Minimum Filing Requirements (MFRs). There were deficiencies in the MFRs and on August 15, 1989, South Broward filed its amended MFRs which corrected the deficiencies. August 15, 1989, was established as the official filing date.

In its application, the utility requested final rates which would produce annual operating revenues of \$1,061,083 for water service and \$970,263 for wastewater service. Those requested revenues exceed projected 1990 test year revenues by \$743,348 (168.6 percent) and \$397,870 (69.5 percent) for water and wastewater, respectively. The utility requested an interim increase based on a fair rate of return, however, the utility limited the requested interim increase to annual revenues of \$203,004 for water and \$284,663 for wastewater. The requested interim increase exceeds 1988 annual revenues by \$32,325 (18.94 percent) for water and \$38,951 (15.85 percent) for wastewater. By Order No. 22047, issued October 13, 1989, the Commission suspended South Broward's proposed rates and granted an interim increase in water and wastewater rates and plant capacity charges, subject to refund, with interest.

The test year for this rate application is the projected twelve-month period ended December 31, 1990, based on a historical base year ended December 31, 1988.

On January 5, 1990, Public Counsel filed his notice of intervention and Order No. 22400 was issued on January 10, 1990 acknowledging the intervention. A prehearing conference was held in Tallahassee on January 12, 1990. A formal hearing was held on January 24 and 25, 1990, in Davie, Florida.

FINDINGS OF FACT, LAW AND POLICY

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

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MOTION TO DISMISS

At the conclusion of the morning session of customer testimony, Public Counsel stated he would make two oral motions. Based on customer testimony, Public Counsel moved to dismiss the company's case "because they did not evidently keep the MFRs where they were available to the customers as required by Commission rule and as stated in their notice." Public Counsel further stated that "This becomes more important because it appears from what we have seen so far that the notice to the customers came out in November, leaving the customers only two months to prepare for this hearing . . ." Public Counsel also stated that his second motion would be made later.

The utility did not respond, indicating that "it would be more appropriate to respond when we have those notices here and we can really talk about when they were published . . ."

Customer testimony shows that the utility employees could not find the MFRs at the Miami Lakes location and told the interested customers that the MFRs were at the Davie location. However, the company did not have them readily accessible for customer review. The utility president did call the interested customer back and inform him that the MFRs were in his office (the Davie location). While we do not believe that this is sufficient cause to dismiss the proceeding, we admonish the utility not to let such careless practice continue.

In the morning session of the second day of hearing, Public Counsel cross-examined the utility president regarding the notices. Witness Corbitt testified that four notices were sent: June 16, 1989, separate notices to customers in their monthly bills and "developer agreement customers" by certified mail; October 5, 1989, separate notices, in the regular bills, to customers and developer customers entitled "Notice of Amended Application by South Broward Utility, Inc. for Adjustment of Rates and Modification of Service Availability Charges"; November 21, 1989, notice of interim increase to developer customers by certified mail and to customers in their regular bills; notice of hearing delivered to all customers January 8, 9, 10, 1990, mailed to out of town customers and published in the newspaper on January 14, 1990. While some customers testified that they did not receive notices until November or January, the evidence is persuasive that notices

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were prepared and either mailed or hand delivered timely. Since Public Counsel did not make his second motion regarding notices, it would appear that he was satisfied that proper notice was given.

Accordingly, the Motion to Dismiss is denied.

STIPULATIONS

At the prehearing conference, the utility and Public Counsel agreed upon a number of stipulations, which are also supported by Staff. Having heard no evidence to convince us otherwise, we find that the stipulations are reasonable and they are, therefore, approved. The stipulations are as follows:

- 1) Franchise costs of \$75,460 should be reclassified from working capital to utility plant-in-service.
- 2) Postage and telephone expense should be reallocated so that \$933 is moved from water expenses to wastewater expenses.
- 3) Out-of-period transportation rental expenses of \$625 should be removed from both water and wastewater expenses.

QUALITY OF SERVICE

Our analysis of the overall quality of service provided by the utility is based upon evidence received regarding South Broward's compliance with the rules of the Department of Environmental Regulation (DER) and other regulatory agencies, the quality of the utility's product of water and wastewater, the operational conditions of the utility's plants and customer satisfaction. The customers were given two opportunities to present evidence regarding quality of service and other matters. A great many customers testified. Their concerns are addressed below.

South Broward's service area is bounded on the north by Griffin Road and on the south by Sheridan Street, in southwest Broward County. Treatment of raw water obtained from three wells within the area includes chlorination, lime softening and aeration, while the collected wastewater is treated by means of a secondary activated sludge process. Effluent is disposed through percolation ponds.

According to Broward County Health Department witness Olsson, South Broward is in compliance with all appropriate standards and meets the state and federal maximum contaminate

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levels for primary and secondary water quality standards. However, the utility needs to employ one more licensed operator to comply with the DER requirement contained in Chapter 17-16.360, Florida Administrative Code. Utility witness Corbitt agreed to the need to hire one more licensed operator and is currently working to meet that criterion.

Mr. Weigand, witness from the Environmental Quality Control Board, stated that the utility's wastewater plant is in compliance with all provisions of Title 17, Florida Administrative Code. He cited various past effluent failures of the Control Board's standards. Utility witness Corbitt testified that these violations have been resolved.

On the other hand, many customers complained that the water provided by South Broward had color and a strong odor. Witness Olsson testified that all water in South Florida has color. Furthermore, there is no requirement for opacity or odor control established by DER for water. As economic regulators, this Commission cannot enforce a standard that is greater than the standard set by DER, the agency charged with enforcing various environmental standards.

Pertaining to the water outages cited by several customers, witness Corbitt testified that the outages usually last from five minutes to possibly an hour, and the utility does notify the customers in advance when an outage is anticipated.

Customers also complained about a strong odor at one of the lift stations. Witness Weigand testified that his department had no odor complaints involving the lift station. Utility witness Corbitt testified that the utility has solved that problem by adding ODOPHOS, a masking agent, to the system upstream of the lift station and had not received any complaints about odor at the lift station for more than a year.

Finally, some customers complained that the billing system is unsatisfactory since the bills are left at the front doors of the customers' homes. Also, when trying to contact the utility, often the customers are only able to reach an answering machine. In response, witness Corbitt testified that notices in Sunshine Ranches are mailed, but the rest are hand-delivered as a cost saving measure and to ensure prompt delivery of the bill. Regarding the answering machine, witness

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Corbitt testified that if a complaint has already been made known to the utility, no one will return the calls to the customers concerning that particular problem. He also testified that the only complaints logged are the ones he had determined to be substantial.

Based on South Broward's response concerning this area of quality of service, we will require the utility to improve its billing delivery system by using the postal service. Also, South Broward must maintain a log of all customer complaints and their resolution, not just those deemed by the utility president to be "substantial."

Upon consideration of the evidence, we find that the quality of service provided by South Broward in treating and distributing water is satisfactory and that the quality of service provided in collecting, treating, and disposing of wastewater is satisfactory.

BOOKS AND RECORDS

Utility witness Dunn testified that his review of South Broward's books and records indicates that they are in substantial compliance with the Commission's rules and regulations. Utility witness Cassidy explained that during 1988 the books and records of South Broward were kept under the NARUC system of accounts, but some of the numbers may not have been as exact as they should have been. The utility has taken steps to make permanent the adjustments that were suggested by Staff.

Mr. Cassidy also testified that the utility was depreciating assets using accelerated rates published by the Internal Revenue Service (IRS) and was not amortizing contributions-in-aid-of-construction (CIAC). Further, the utility had not properly allocated some expenses, such as postage and telephone expense. Despite these instances of non-compliance, Mr. Cassidy anticipates that in 1990 South Broward will be in complete compliance. Because the majority of the utility's books and records were in compliance with Commission rules and because the utility will be in total compliance in 1990, we believe no further action is necessary.

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RATE BASE

Our calculations of the appropriate water and wastewater rate bases are attached as Schedules Nos. 1-A for water and 1-B for wastewater, with our adjustments attached as Schedule No. 1-C. Those adjustments which are self-explanatory or essentially mechanical in nature are set forth on those schedules without any further discussion in the body of this Order. The major adjustments are discussed below.

Projected Test Year

The utility's filing was based on the projected test year ending December 31, 1990. In his brief, Public Counsel argues that the utility has failed to demonstrate extraordinary growth. Upon review of the record, we believe that the utility has shown extraordinary growth. Utility witness Corbitt testified that South Broward had no single family residential water customers in 1986, 708 customers at the end of 1987 and 1,186 customers at the end of 1988. Further, the utility projects that it will have approximately 1,561 single family residential customers at the end of 1989 and 1,923 at the end of 1990. This growth reflects yearly additions of 478, 375, and 362 for the years 1988, 1989 and 1990, respectively. This results in a 1990 growth rate of 23 percent.

In addition, South Broward has completed a 1.0 million gallons per day (mgd) addition to the water treatment plant and is in the process of making a .5 mgd addition to the wastewater treatment plant. These additions will double the 1988 capacity of these plants.

Accordingly, we find that the growth in customers and plant capacity sufficiently demonstrate extraordinary growth and the appropriateness of the use of projected year-end rate bases.

Projected Plant Additions

The utility included projected plant additions in its plant-in-service account. The evidence shows that the water plant expansion is completed and the plant is in service. Accordingly, it is appropriate to include this plant in utility plant-in-service. The wastewater plant expansion should not be included in utility plant-in-service since the utility has

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provided no substantiation for it, such as an issued permit from DER or construction contracts.

As of the hearing date, witness Corbitt testified that South Broward did not have the issued permit in hand, but did have a Notice of Intent to Issue A Permit from DER. The Broward County Environmental Quality Control Board must review the request before DER will take final action. Only after this procedure, will the utility know what kind and size of plant additions it will be authorized to build. Receipt of the permit is needed, according to this witness, to be certain of what kind of plant the utility is going to build. Thus, the information submitted to date by the utility for the wastewater treatment plant could change depending upon actions taken by DER. Further, if the construction time is comparable to the construction shown for the original plant, the plant will not be serving the test year customers. In that case, witness Corbitt agreed during cross-examination that the plant should not be added until it is serving the customers. In response to the construction timetable shown in Exhibit 17, however, witness Corbitt testified that the construction time for the expansion of the wastewater plant will be shorter than the time designated for the original construction.

In light of the evidence that the utility does not have the DER permit and thus does not know the exact parameters the wastewater plant will have, nor does it have any construction contracts, we believe that inclusion of this plant in service would be too hypothetical. While the utility chose a projected test year because of the expected plant additions, it is our policy when using a projected test year to require that at least the contract for the plant must have been let, if the plant is not actually under construction. Furthermore, as we discuss below, the present wastewater plant is only 90 percent used and useful. Therefore, without the expansion, the present plant is adequate to serve the test year customers.

Reclassification of Land Costs

Utility witness Dunn stated that the Commission audit report identified certain costs that were capitalized to land. He also stated that, based on his familiarity with the NARUC Uniform System of Accounts, one could argue that these costs could be classified as land or plant-in-service. These costs consist of landscaping and overhead items in the amount of \$150,006 and \$417,524, respectively. Mr. Dunn further stated

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that the plant could not have been permitted without the landscaping and the overhead items related to engineering costs that are strictly identifiable with the plant.

We agree with Mr. Dunn's assessment that these items are related to the plant and could have a useful life equal to the plant. Therefore, we will reclassify \$150,006 in the water system and \$417,524 in the wastewater system from the land account to the utility plant-in-service account.

Design Capacity of Water Treatment Plant

According to its DER permit and a letter in evidence from the professional engineer hired by the utility to design the treatment plant, the design capacity is 2.0 mgd. In calculating the used and useful percentage for the water treatment plant, South Broward used a capacity of 1.5 mgd. The utility's reason for downgrading the water treatment plant is to fulfill the requirement of the Broward County Health Department that a limiting capacity be imposed on the plant so that it will meet the demand of peak-hour and peak-day flow.

Witness Olsson from the Broward County Health Department, stated that South Broward's operating permit is for 2.0 mgd. Also, utility witness Corbitt recognized that the design capacity is 2.0 mgd. When asked by Public Counsel whether the County Health Department imposes limits on water treatment plant capacity, witness Olsson testified there is no such requirement from his department.

The record also shows that the utility has 1.5 million gallons of storage. Mr. Olsson testified that a peak flow design is not necessary if there is adequate storage. Utility witness Brimberry also testified that storage capacity can be utilized to meet peak-hour demand and fire flow requirements. Upon consideration, we do not believe the design capacity should be downgraded. The peaking concept has already been taken into consideration in calculating the used and useful percentage by using a peak-day demand instead of an average-day demand, as will be discussed below. The correct design capacity of the water treatment plant is thus 2.0 mgd.

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Used and Useful Plant

The utility believes its water treatment plant is 100 percent used and useful, with or without the additional capacity. Public Counsel's position is that used and useful should be calculated without regard to a peaking factor, fire flow or margin reserve. Public Counsel provided no testimony relating to this position and the responses elicited during cross-examination were not persuasive to support this position.

A factor in the used and useful formula is peak-day demand. In calculating peak-day demand, the utility used a common engineering practice of multiplying the average-day flow by the peaking factor of 1.6, resulting in a peak-day demand of 1.359 mgd. Witness Corbitt recognized that a peak-day demand using a peaking factor should be close to a projected one based on historical data. In a projected test year filing, an historic base year is utilized and then projected forward for the test year period. Using the average of five-day maximum month demand flows, which are based on historical 1988 data and projected forward for the test year, the peak-day demand calculated to .967 mgd. Even though witness Corbitt acknowledged the large difference between the two figures, he could not offer any explanation to support the utility's methodology over the more conventional methodology. A simple calculation performed at hearing using projections based on the historical base year, showed a 1.1 peaking factor for this service area. As stated, the utility used a 1.6 peaking factor.

We are unpersuaded by South Broward's methodology. Generally, a projected flow based on historical data for the service area is more accurate than a flow based on a common design criteria that can be applied to any service area. Accordingly, we find the appropriate peak-day demand to be .967 mgd instead of 1.359 mgd.

Fire flow is another factor in the used and useful calculation. South Broward requested a fire flow of 3,500 gallons per minute (gpm) for three hours, which results in .63 mgd. This requested amount constitutes approximately 32 percent of the treatment plant. Utility witnesses Corbitt and Brimberry testified that the 3,500 gpm is taken from the ISO (Fire Suppression Rating Schedule published by the Insurance Services Office). The general guidelines contained in the ISO are as follows:

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	<u>Flows</u>	<u>Duration</u>
Residential units:	500 gpm - 1,500 gpm (.06 mgd - .18 mgd)	2 hours
Other Habitational Units	Up to 3,500 gpm <u>maximum</u> (.18 mgd - .63 mgd)	3 hours

The Broward County Land Development Code provides for lesser flows which result in a minimum of .27 mgd.

During cross-examination, witness Brimberry testified that the service area is predominantly residential. He further testified that South Broward's 1.5 million gallons of storage can be used for fire flow purposes.

We believe that isolating .63 mgd for the sole purpose of the fire flow requirement is excessive. The utility has not offered any persuasive reasons why a maximum range for non-residential units should be allowed for a service area that is predominantly residential. During cross-examination, witness Corbitt could not cite any requirements for isolating part of the treatment plant for the sole purpose of fire flow.

We recognize that a fire flow requirement is necessary. However, the flow of .27 mgd set forth in the Broward County Land Development Code appears appropriate to use as the fire flow requirement in the used and useful calculation. This figure also falls within the range of the non-residential units shown in the ISO.

Upon consideration of the foregoing, and our decisions regarding margin reserve and unaccounted for water which are discussed below, we find the appropriate used and useful percentage for the water treatment plant to be 65 percent.

The utility believes its wastewater treatment plant is 43.39 percent used and useful, including the proposed expansion. Public Counsel's position is that margin reserve and the plant expansion should be excluded. Again, we are not persuaded that margin reserve should be excluded.

During the hearing, we ruled that witness Dunn was not competent to testify on used and useful, since he has no

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education, training, or experience in engineering matters. Since witness Corbitt, who adopted part of Mr. Dunn's testimony, did not adopt the portion regarding used and useful for the wastewater treatment plant, there is no evidence in the record to support the utility's calculation. However, Section 367.081, Florida Statutes, requires the Commission, when fixing rates, to set a "fair return on the investment of the utility in property used and useful in the public service." Thus, we must make some reasonable determination of the used and useful percentage of the wastewater plant. See Gulf Power Co. v. Florida Public Service Commission, 435 So.2d 799 (Fla.1984).

As previously discussed, we have excluded the proposed wastewater expansion. Using the conventional methodology, the used and useful percentage is the ratio of the average-day flow of the peak month plus a margin reserve, over the design capacity.

We calculate the average-day demand of the peak flow to be .358 mgd. This flow is based on 1988 historical data and projected forward for the test year period. The margin reserve is 20 percent, which is discussed later in this Order. As reflected in Exhibit 23, the design capacity of the wastewater treatment plant is .49 mgd. The calculated used and useful percentage is 87.8 percent, which we have rounded to 90 percent. We find 90 percent to be the appropriate used and useful percentage for the existing wastewater treatment plant.

Margin Reserve

Since Chapter 367, Florida Statutes, requires each utility to provide service in its territory within a reasonable time, we allow a margin reserve in the calculation of used and useful to recognize an appropriate and fair amount of "readiness to serve capacity". Generally, that amount should not exceed the plant required to serve 20 percent of the existing customers.

The utility's position is that a margin reserve should be included if its plant is not found to be 100 percent used and useful. Public Counsel does not support a margin reserve, but presented no evidence to show why a margin reserve should not be included.

We agree with the utility's calculation of margin reserve contained in its MFRs. The calculation of margin reserve is based on the growth pattern established over the most recent

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five years and construction time allowed for treatment plants of 1.5 years. The calculation shows the growth allowed for the margin reserve is 349 Equivalent Residential Connections (ERCs) for the water plant and 287 ERCs for the wastewater plant. Based on this growth, the appropriate margin reserve for water is 193,400 gpd and for wastewater is 71,600 gpd. This is the 20 percent margin reserve allowance which we have included in the used and useful plant percentages previously discussed.

Imputation of CIAC

Utility witness Dunn testified that CIAC should not be imputed on margin reserve. Public Counsel's position is, if we allow a margin reserve, we must also recognize the CIAC which the utility would collect from those future customers.

At hearing, we took notice of our Orders Nos. 20434, 21415 and 17532 which state that when margin reserve is allowed in rate base, the Commission imputes CIAC to reflect the expected contributions from customers during the margin reserve period. The First District Court of Appeals upheld this policy in Rolling Oaks Utilities, Inc. v. Florida Public Service Commission, 533 So.2d 770 (Fla. 1st DCA 1988). The Court stated that, although the Commission's margin reserve policy has not been promulgated as a rule, it is being properly developed through adjudication on a case-by-case basis, as circumstances warrant. The Court went on to say that the margin reserve policy is a reflection of the Commission's effort to recognize the cost to a utility of having future plant needs readily available. The utility's testimony does not indicate why this policy should not be used in this case. Therefore, we will impute CIAC on the number of ERCs included in the margin reserve.

The 20 percent margin reserve discussed above results in an additional 349 ERCs in the water system and 287 ERCs in the wastewater system. We will multiply the number of ERCs by the service availability charges we set in a subsequent portion of this Order (\$753 for the water system and \$602 for the wastewater system), to arrive at the amount of CIAC to be imputed. Witness Dunn's understanding was that CIAC would be imputed on 20 percent of capacity and he was therefore concerned that more would be taken out of rate base than was included in the margin reserve. This is not the way the imputation is done. The imputation is only for those ERCs

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added to the projected test year ERCs. Therefore, we find that rate base should be reduced by \$262,797 for the water system and \$172,774 for the wastewater system.

Schedule A-3 (Page 5 of 7) of the MFRs shows an imputation of CIAC for the expected ERCs in 1990. The utility multiplies the requested service availability charges by 362 ERCs. We were initially concerned that the 362 ERCs were incorrect since Schedule B-3 (Page 1 of 5) of the MFRs shows customer growth of 654. Utility witness Corbitt testified that the utility is connecting approximately 30 connections each month. He further stated that there is no way that there will be 600 connections during 1990. Upon consideration, we agree that, based on past growth, 362 connections is a reasonable projection and that there is nothing to support the 654 connections in 1990. Therefore, we find that the utility's imputation is correct.

Accumulated Depreciation

The utility has not maintained separate depreciation records for tax purposes and for Public Service Commission purposes. Therefore, the accumulated depreciation balance for the historic test year ending December 31, 1988 is a result of the depreciation taken for tax purposes. Assets acquired prior to January 1, 1987 were depreciated on a straight line method based on the U. S. Treasury regulations, wherein asset lives are shorter than the Commission's prescribed lives. Assets acquired after December 31, 1986 were depreciated by an accelerated method of depreciation. Accordingly, the accumulated depreciation set forth on the books and records as of December 31, 1988 was larger than it would have been if the depreciation method set forth in the Commission's rules had been used.

In the Utility's filing, the projected additions to the historic balance of accumulated depreciation were based on the historic balance of plant and the projected additions to plant. The accumulated depreciation additions related to the historic balance are calculated using the tax rates, because the utility simply used the prior year's tax depreciation expense. The accumulated depreciation additions related to plant additions were calculated using Commission rule rates for a Class C utility.

In its brief, the utility stated that accumulated depreciation should be recalculated using the depreciation rates prescribed by Rule 25-30.140, Florida Administrative

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Code, and using the service lives for assets as set forth therein for Class B utilities. Public Counsel had no objection to this treatment.

a. Historic Balance

Since the accumulated depreciation balance is overstated, we find it appropriate to recalculate the accumulated depreciation reserve at Commission-prescribed rates.

Utility witness Cassidy agreed that the purpose of depreciation is to return to the investors that amount of money it cost to construct a depreciable asset over some time period, usually the expected life of the asset. He further agreed that, as regulators, the Commission should make sure that an investor recovers all of his investment through depreciation, but also make sure that an investor does not collect more than his investment in depreciation. Therefore, the question revolves around how much of the assets have been recovered through depreciation as of December 31, 1988.

We believe that the amount recovered, for rate setting purposes, should be analyzed based on the depreciation included in the rates and not that used for tax purposes. The effect of the two practices is a timing difference. Under tax depreciation, the utility is able to recover the asset over a shorter period of time. And, if the utility rates are set to include a lower depreciation rate, it will take longer under regulatory bookkeeping to recover the entire investment. The record in this proceeding does not indicate what depreciation rate was included in the initial rates for this company.

Since the Commission set the original rates for this utility, it is unlikely that tax depreciation was allowed in the original water and wastewater rates. In many instances when we are unable to determine the depreciation expense included in the rates and charges, the accumulated depreciation is taken "as is" and the rate base is not adjusted. However, if we believe that past accounting practices have resulted in an obviously flawed accumulated depreciation reserve, we may choose to make an adjustment. The utility, using a tax basis, erroneously calculated the accumulated depreciation reserve. Therefore, we will adjust it to reflect Commission rule rates.

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Exhibit 25 includes two versions of the utility's depreciation schedule. One schedule shows the depreciation at the federal tax depreciation rates and the other schedule shows the depreciation at the Commission depreciation rates for a Class C water and wastewater utility. Utility witness Cassidy stated that the utility is considering the Class B rates and since the utility will soon reach Class B status in its revenue level, we believe that the Class B rates are appropriate. It would also save the utility time and effort to initiate these rates now instead of converting to them after the utility reaches the Class B status. Also, the depreciation rule is based on the level of expertise, plant maintenance schedules and operating level for the Class C vs. Class B utilities. Because South Broward is in the process of expanding, we believe that the Class B rates would be most representative of the expected useful lives of the assets and find that they should be used.

Thus, the December 31, 1988 accumulated depreciation reserve should be recalculated as if the appropriate rates had been used since the inception of the utility. By recalculating using the Class B rates, we find that the water reserve is overstated by \$222,825 and the wastewater reserve is overstated by \$185,860. The accumulated amortization of CIAC is also affected by this recalculation. The amortization reserve is overstated in water by \$190,980 and in wastewater by \$248,025. The net effect of adjusting the reserves would be a \$31,845 increase to water rate base and a \$62,165 decrease to wastewater rate base.

b. Projections

As stated previously, the projected additions to the accumulated depreciation reserve for 1989 and 1990 relating to the historic balance of plant are based on tax depreciation rates and the additions related to the plant additions are based on the Commission Class C rates. Utility witness Cassidy stated that the utility is structuring its 1989 schedule of depreciation to conform to the NARUC system of accounting and will follow the Commission rule for Class B utilities. Therefore, we believe that the projections also should be corrected to reflect the depreciation rates for Class B utilities, as prescribed by Commission rule. This reduces the projected reserves by \$271,343 in the water system and \$328,212 in the wastewater system.

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Accumulated Amortization

The utility's position is that in order to maintain consistency with the method and rates used to depreciate assets, accumulated amortization should be recalculated using the rates prescribed by Rule 25-30.140, Florida Administrative Code, and using the service lives for assets as set forth for Class B Utilities. Public Counsel has no objection to this approach.

Accordingly, we find the December 31, 1988 accumulated amortization reserve should be recalculated as if the appropriate rates had been used since the inception of the utility. In addition, the projections added to the December 31, 1988 balance should be adjusted to reflect the current Commission depreciation rates for a Class B water and wastewater utility. Using the information provided in Exhibit 25 and the MFRs, we find it appropriate to decrease the accumulated amortization at December 31, 1988 by \$190,980 in the water system and \$248,025 in the wastewater system. The projected additions to amortization should be calculated using the depreciation rates prescribed by Rule 25-30.140, Florida Administrative Code. This reduces the projected reserves by \$56,956 in the water system and \$140,787 in the wastewater system.

Working Capital

a. Prepaid Loan Costs

Schedule A-21 of the MFRs shows the utility's calculation of the working capital allowance. Line 5 shows "Other Current Assets" with a December 31, 1990 balance of \$128,034. The footnote explains that this includes Franchise Costs and Prepaid Loan Costs. All parties stipulated that the \$75,460 of franchise costs should be reclassified from working capital to utility plant-in-service. This leaves a remaining balance of \$52,574 as prepaid loan costs. Utility witness Dunn agrees that these costs could be used to reduce long-term debt. We believe that these costs are best reflected as a component of the capital structure rather than the rate base. Therefore, we will reduce the working capital allowance by the balance of \$52,574. Mr. Dunn stated that the appropriate balance to be included in long-term debt is \$57,959. We will address the offset to this adjustment in the Cost of Capital section of this Order.

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b. Projected Cash Balance

The utility believes that, except for a reduction in the amount of the accrued interest payable for 1990, the projected cash balance included in the working capital allowance is appropriate because the advance from the shareholder was converted to paid in capital as of January 1, 1990. Public Counsel's position is that only a prudent and reasonable amount of non-interest-bearing cash should be considered in the calculation of working capital.

Schedule A-21 of the MFRs shows the utility's calculation of the working capital allowance. Line 1 is the December 31, 1990 balance of \$578,483 for cash in the bank. We are concerned about the large amount of cash reflected in the working capital allowance. Exhibit 3 (#7) supports this concern, by showing that the December 31, 1989 balance is primarily in an interest-bearing account. The exhibit shows total cash of \$957,071 and non-interest bearing cash of \$33,930.

Utility witness Cassidy testified that the utility does not have a policy which dictates how much cash is kept in the non-interest bearing accounts, but that the balances shown in the exhibit are indicative of the utility's operating level of cash. However, the utility used Exhibit 9 (#6), a pro forma analysis of sources and uses of cash, to project the level of cash. Utility witness Dunn testified that this analysis would have to be adjusted for Commission adjustments to profit and loss, accrued interest, advances, and CIAC. Our review of his analysis finds that the projected cash balance is dramatically reduced if the adjustments included in Mr. Dunn's recommendation are incorporated in this analysis. Our review is shown in Schedule A to this order. Following is a summary of our analysis on a line-by-line basis.

Line 1 includes the imputation of cash to be received through service availability charges in 1990. Line 2 is the estimated net operating income (NOI) from the operating statements. This item is subject to change as various expenses are adjusted. Because the NOI does not include interest paid during the year, lines 3 and 4 reflect the interest paid on debt and the advances. This analysis only includes the accrued interest on the shareholder advance for 1989. Because NOI includes certain non-cash items, Mr. Dunn's exhibit adjusts the NOI for these items, line 5, so that the analysis only reflects

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the changes in cash. Therefore, depreciation expense is added back to NOI, as it is a non-cash item. We have updated the expense to reflect the adjusted expense. The next three lines, 6 - 8, (A/R-Customer, A/R-Other and A/P) and line 14 (prepaid costs) are left the same as Mr. Dunn's analysis. We adjusted line 13 to reflect only the amount of long-term debt that we have approved. This excludes the debt related to the wastewater plant additions, which we have disallowed. The same adjustment was made to line 15 for the plant expenditures. The last adjustment we made is to reflect the additional cash provided by the shareholder in 1989.

These adjustments result in a negative cash balance of \$120,350. While we believe that it is unlikely the utility will have a negative cash balance, we do not believe that there is enough evidence in the record to support a cash balance. Therefore, we will adjust the projected cash balance to zero.

c. Deferred Rate Case Expense

Utility witness Dunn testified that Commission policy is to include non-interest bearing deferred debits in the working capital allowance, and, as deferred rate case expense is non-interest bearing, it should be included in working capital. Mr. Dunn referenced Commission Orders Nos. 20066 and 20434 as support for this policy. While Public Counsel argues that deferred rate case expense should not be included in the working capital allowance, there is no evidence in the record to support this argument. Accordingly, not being shown any reason to the contrary, we will include deferred rate case expense in working capital.

Order No. 20334 states that Commission policy includes the average, unamortized balance of rate case expense. Schedule A-21 of the MFRs includes \$44,400 in the utility's calculation of working capital. Mr. Dunn testifies that one-third of the estimate was included as the utility has requested "step rates" over three years. While this might lend support for the utility's request for a three-year amortization period, it does not explain why the average unamortized balance is not appropriate. Based on the level of rate case expense that we found appropriate, which is discussed later in this Order, we find the appropriate average amount of rate case expense to be included in working capital to be \$58,879.

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d. Working Capital Allowance

The utility's position is that, except for a reduction in the cash balance resulting from a change in the amount of the accrued interest payable for 1990 because the advance from the shareholder was converted to paid-in capital as of January 1, 1990, the appropriate amount of the working capital allowance should be \$477,873. Public Counsel's position is that by adjusting the cash balance and removing deferred rate case expense, a negative working capital is produced. However, Public Counsel supports a zero working capital allowance.

Schedule A-21 of the MFRs is the utility's calculation of the working capital allowance using the projected 1990 balance sheet. We believe that several adjustments are appropriate.

First, we will adjust the assets and liabilities to reflect the average amount for 1990. The utility's explanation of Schedule A-21 states that the calculation is an average and there is no explanation on the schedule why year-end should be used. Schedule A-22 of the MFRs reflects the balance sheet at December 31, 1989 and December 31, 1990. Thus, we have used this schedule to calculate the average balances.

We have already discussed the cash adjustment we made. Receivables must be adjusted to reflect the average. Other current assets was adjusted pursuant to our decision removing prepaid loan costs. We have already discussed our adjustment for deferred rate case expense.

Accounts payable has been adjusted to reflect the average balance. Accrued taxes must be adjusted to correct what appears to be an error. The balance shown is the balance of customer deposits, which is the line above accrued taxes on the balance sheet (Schedule A-23, MFRs). The balance sheet shows \$75,058 in accrued taxes; therefore, we will substitute this amount for the \$53,158.

Since the advance from the shareholder has been converted to paid-in capital, there will no longer be interest accruing on the advance and accrued interest should be reduced to the interest on customer deposits. All other interest appears to be paid as accrued. These adjustments result in a working capital allowance of \$58,840. We will use the allocation methodology between water and wastewater used by the utility as

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it appears appropriate. Thus, we find the appropriate working capital allowance to be \$24,498 for the water system and \$34,342 for the wastewater system, for a total of \$58,840.

Rate Base

Based on the adjustments discussed above, we find that the appropriate test year rate base for the water system is \$1,737,323 and for the wastewater system is \$1,834,213. The schedules of water and wastewater rate base are attached as Schedule Nos. 1-A and 1-B. The schedule of adjustments to rate base is attached as Schedule No. 1-C.

COST OF CAPITAL

Hypothetical Capital Structure

MFR Schedule D-2 shows the base year historical capital structure and the adjustments to reach the requested capital structure. Column 2 is the base year capital structure and reflects over \$2 million in negative retained earnings. The debt portion of the capital structure consists of variable rate borrowings, including a mortgage and advances from the sole shareholder. When filing the rate case, the utility chose to use a hypothetical capital structure with an 11.49 percent overall cost of capital. The utility considered the fact that it was losing a significant amount of money and yet had an outstanding debt with its bank at 1/2 percent over prime. Utility witness Dunn testified that this was not a reasonable estimation of the utility's ability to borrow money as not many companies that lose over \$2.5 million dollars in 2 1/2 years are able to borrow at 1/2 percent over prime. Therefore, the utility believed that an adjustment should be made to reflect a realistic capital structure.

However, as Mr. Dunn introduced his testimony, he stated that he was changing his prefiled testimony. Mr. Dunn stated that the utility had converted the advances to paid-in capital in the form of stock and, therefore, it should be treated as equity in the cost of capital calculation. He further testified that utilizing the converted advances and the pro forma debt, the revised cost of capital the utility is requesting is 11.91 percent, or approximately 1/2 percent higher than originally requested.

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Upon consideration, we believe that the revised testimony, along with other references to the "revised" cost of capital, indicates that the utility no longer supports the use of the hypothetical capital structure, but has reverted to the actual capital structure as revised. We agree that the revised, historical numbers should be used. We do not believe that the evidence is persuasive to determine capital costs for capital which does not exist. The actual, projected numbers should be used.

While Public Counsel argues that only the debt and equity should be pro rata reduced to reconcile to rate base, there is no evidence in the record to support this position. In fact, the mechanics of reconciling the capital structure to rate base were not discussed at the hearing. Therefore, we have reconciled the entire capital structure to rate base as a reasonable manner of reconciliation.

Long-term Debt

Schedule D-1 of the MFRs shows a projected amount of long-term debt, reduced so that total debt is 60 percent. Based on our decision rejecting the hypothetical capital structure, we have used the base year debt, as adjusted for the pro forma debt, instead of the hypothetical amount.

In determining the amount of debt to use, we reviewed Schedule D-6 of the MFRs which shows the various issues of debt. Item 2 on this schedule is a mortgage dated January 17, 1984. The schedule shows that the debt is being paid in the amount of \$400,000 each year. This results in projected balances at December 31, 1989 and 1990 of \$2,400,000 and \$2,000,000. Item 3 on this schedule is the projected debt for the projected plant additions. Because we have excluded the projected wastewater plant addition from rate base, the related debt should also be excluded from the capital structure. Therefore, only \$1,129,800 of the projected debt should be included. Adding this amount to the average balance of the 1984 mortgage results in an average balance of debt of \$3,329,800.

This same schedule shows debt issue costs of \$37,625 at December 31, 1988. This is being amortized in the amount of \$5,375 each year. This results in a projected balance at December 31, 1989 and 1990 of \$32,250 and \$26,875, respectively, for an average balance of \$29,563. The utility

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also projected debt issue costs for the projected debt in an amount similar to the 1984 mortgage. Since we have excluded the debt related to the wastewater plant addition, we also will exclude the debt issue costs related to that debt. We have calculated the debt issue costs related to the water debt as \$15,182. Adding this to the 1984 debt issue costs results in an average balance of debt costs of \$44,745. Accordingly, the resulting net debt of \$3,285,055 should be included in the capital structure.

The utility calculates a debt cost of 10.42 percent on Schedule D-6 of its MFRs. This calculation includes the actual debt interest paid during the base year and the amortization of the debt issue costs. We find this methodology reasonable and we therefore accept the long-term debt cost of 10.42 percent.

Shareholder Advance

At December 31, 1988, the utility had \$3,591,630 in shareholder advances according to its MFRs. During 1989, the shareholder made an additional \$643,200 in advances. As previously discussed, the utility revised its testimony to state that the advances should be reclassified as equity as the utility converted the debt to paid-in capital in the form of stock. The conversion of the debt was made on January 2, 1990. Prior to that time, the utility accrued interest on the debt at the federal minimum rate allowed by the IRS. The accrued interest was paid through December 31, 1989.

Utility witness Cassidy testified that it is not unusual for the shareholder to make such a conversion. Twice each year, the shareholder reviews his position in the various corporations and where it does not make sense to leave the advance as debt, because it is not making money, the decision is made to capitalize the amount. He further testified that such a decision has been made previously and is done for tax purposes. Nothing was discussed regarding the Commission consequences and neither the utility's attorney nor utility witness Dunn were involved in the decision. Further, Mr. Cassidy submitted Exhibit 27 as proof that the advance was converted. Exhibit 27 is the unanimous written consent of the sole director to convert the balance to paid-in capital.

We believe that the utility has supported its revised position that the advances should no longer be considered debt. Therefore, the amount of advances to be included in the

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capital structure should be zero. Therefore, the historical 1988 balance of \$3,591,630 plus the additional advances made in 1989 of \$643,200 should be transferred to equity.

Customer Deposits

Schedule D-7 of the MFRs shows an average 1988 balance of customer deposits of \$42,871. The utility has shown extraordinary growth throughout its initial years of operation. However, the utility has not projected any change in the level of its customer deposits. A footnote to Schedule D-7 states that the average balance is assumed to remain constant through 1990. We do not believe this is accurate. The level should be increased to, at least, slightly more than the average balance for 1988.

The refund of deposits generally depends on the time a customer is connected to the system and the payment history of the customer. However, the record is devoid of such information. Since we do not know how many refunds the utility will be making in 1989 and 1990, we believe it logical to presume that the amount of refunds will increase as the customer base increases. Accordingly, we believe that the year-end amount of customer deposits may approximate the average future balance of deposits. However, because we are increasing the amount of the customer deposit, we will increase the level of customer deposits to reflect the higher deposit. This results in an increase in the year-end amount of \$10,860, for an adjusted balance of \$64,018. This adjustment is the \$60.00 increase in the deposit multiplied by the number of expected customers to connect at the higher amount.

The utility calculated a 3.23 percent effective interest rate for customer deposits in its MFRs. This is calculated on an average balance of deposits. One reason it is so low is that the utility is experiencing high turnover in its deposits. Utility witness Dunn testified that when a builder gets a builder's meter to build a house, he pays a deposit; 30 days later he gets his deposit back and then the ultimate customer pays the deposit. Witness Dunn recommended using the 8 percent interest rate for customer deposits. After considering the evidence that the utility is continuing to experience high growth, and will continue to have the same practice of builders' deposits "rolling over" into customer deposits, we believe that the 3.23 percent effective rate is

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most representative. Therefore, we find that the appropriate level of customer deposits is \$64,018, with an effective interest rate of 3.23 percent.

Return on Equity

Schedule D-1 of the MFRs includes a 14.35 percent return on equity. Utility witness Dunn testified that the 14.35 percent was based on the leverage graph used by the Commission at the time of filing the rate case. However, he was aware that a new leverage graph has been issued which supersedes the previous one. The new leverage graph was issued in Commission Order No. 21775 on August 23, 1989.

We believe it is appropriate to use the current leverage graph when calculating return on equity since rates are set on a prospective basis and the current leverage graph would be more representative of the time during which the new rates would be in effect. We have consistently applied a range of one percent on either side of the return as a range of reasonableness in which a utility can operate. Accordingly, we find the appropriate return on equity to be 13.95, with a range of 12.95 percent to 14.95 percent.

Public Counsel argues in his brief that a two percent penalty should be imposed on the return on equity for the "substandard quality of service" and the "last minute manipulation of the filing". There is no testimony in the record regarding a penalty on the return on equity. It has been Commission practice in past cases to penalize a utility's return on equity for poor quality of service. However, we have found the quality of service to be satisfactory. We believe it is more appropriate to review rate case expense to address any inadequacies in the filing. Therefore, we do not believe it appropriate to penalize the return on equity for these items.

Overall Cost of Capital

Based on the adjustments discussed above, we find that the appropriate overall cost of capital should be determined by using the utility's adjusted, projected capital structure and by reconciling each item on a pro rata basis. This results in an overall cost of capital of 11.62 percent, with a range of 11.25 percent to 11.98 percent, rather than the 11.91 percent sought by the utility after the advances from the shareholder

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were converted in paid-in capital. The schedule of capital structure is shown on Schedule No. 2-A, with the adjustments to the capital structure shown on Schedule No. 2-B.

NET OPERATING INCOME

Projected Test Year Revenues Before Any Increase

We establish the level of projected test year revenues as a starting point for the constructed income statement. This is necessary in order to accurately reflect the amount of any increase that is granted. It has no effect on the final revenue requirement nor final rates.

We made the appropriate adjustments to the 1988 historical base year billing analysis and used the minimum gallonage allowance and excess gallonage ratios developed to calculate the revenues for the 1990 projected test year. These are revenues that would be generated under the present rates before any increase has been granted.

During cross-examination, utility witness Dunn agreed that applying the present rates to the projected 1990 test year billing would be the correct methodology to develop the test year revenues before any increase is granted. He stated that was essentially what the utility did.

The utility's projected constructed income statement water revenue of \$398,771 is reasonably close to our calculation of \$395,022. The utility's projected constructed income statement shows wastewater revenue of \$559,176 while we have calculated the amount to be \$572,393. Our calculation is supported by Schedule E-2, page 9 of 24, of the utility's MFRs. This page reflects that during the 1988 base year, the utility rendered 10,023 bills and the revenue which would be generated was \$243,834. This equates to an average wastewater bill of \$24.33. When this average is multiplied by the 23,628 bills for the 1990 projected test year, the total is \$574,869, which is reasonably close to our calculation of \$572,393.

Accordingly, we find the appropriate projected 1990 test year revenues before any increase are \$395,022 for water and \$572,393 for wastewater.

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Expense Projections

The utility has projected expenses for 1990 based on the historical expenses in 1988. The base year expenses were broken into three categories: salaries, variable expenses and fixed expenses. Salaries were increased for a 5 percent per year cost of living increase and an additional operator at \$25,000. The variable expenses were increased using the percentage increase expected for customer growth. The fixed expenses remained constant except for the addition of rate case expense.

We believe that the projections used by the utility are correct. We have made several adjustments based on specific items in the base year that we believe are incorrect, but other than these specific adjustments, we believe the projections are correct. Public Counsel argues that the expense projections are overstated and unsupported. However, we believe the record shows otherwise. The utility's MFRs provide historical consumption and billing data as well as the utility's projections. We have reviewed the projected consumption data and it appears reasonable. Utility witness Corbitt testified that he compared the actual 1989 consumption data to the projected 1989 consumption data and was surprised at how close it actually was. Upon consideration, we believe that the MFRs fully support the projections and that no further adjustment is necessary.

Unaccounted-for-water

In its MFRs, the utility shows zero percent unaccounted-for-water and 25 percent for other uses; however, the utility could not support this with any records. Utility witness Corbitt gave a list of other uses without any quantification which includes:

- A. Hydrant flushing
- B. Sewer treatment operations
- C. Distribution line constructions
- D. Construction breaks by Southern Bell, Florida Power and Light and numerous subcontractors
- E. Theft by contractor's lawn companies and pool companies
- F. Maintenance of water plant
- G. Emergency Donations

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During cross-examination, Mr. Corbitt was asked if he could quantify any of the amounts used in each category. He was unable to. When asked how the utility came up with a figure for other uses, witness Corbitt testified that the figure of 25 percent is a residual that is left after quantification of other items. Since there is no way to measure the other uses, the utility cannot really account for 25 percent of its water.

Although we recognize that other uses such as hydrant flushing, sewer treatment operation, distribution line construction, and maintenance of water plant occur, any unmetered water is considered unaccounted-for-water. We believe a 10 percent level of unaccounted-for-water is a reasonable amount to be incurred by a well-run utility. Using 10 percent results in annual gallonage of 31 million gallons which should be ample to cover the four uses previously enumerated.

The emergency donation is metered, thus it is not unaccounted-for-water. However, it is too miniscule an amount to be considered (.00008 percent). As for the other uses listed, such as construction breaks and theft, we believe the responsibility should rest with the utility to closely monitor any breaks or thefts by its subcontractors. The record shows that South Broward cannot account adequately for its other uses. Since we will allow 10 percent as unaccounted-for-water, a level of 15 percent still remains, representing the level of excessive unaccounted-for-water.

While the utility believes it has no excessive water losses because of its constant construction due to the rapid development of its certificated area, we believe the record shows otherwise. Therefore, we will reduce operating and maintenance expenses for the associated costs of purchased power and chemicals by the 15 percent of excessive unaccounted-for-water. This results in a reduction to purchased power of \$9,182 and to chemicals of \$6,909. Further, we believe the utility should meter its water uses in the future.

Excessive Infiltration

Public Counsel raises the issue that no more than 10 percent excessive infiltration should be allowed and associated operating expenses over 10 percent should be removed. The utility takes the position that its wastewater system does not

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have excessive infiltration. There is no testimony on this issue. Upon consideration, it appears there is no excessive infiltration and, thus, no adjustments are necessary.

Non-Used and Useful Plant Costs

Schedules B-9 and B-10 of the MFRs show the utility's calculation of the non-used and useful depreciation expense. We believe that these schedules must be adjusted to reflect depreciation expense using Class B depreciation rates and the appropriate used and useful percentages, as previously discussed. Using these adjustments, depreciation expense should be reduced by \$42,125 in the water system and \$6,649 in the wastewater system.

Schedule B-11 of the MFRs details the adjustments to taxes other than income. This schedule includes an adjustment to property taxes for the projected plant additions. While we generally agree with the adjustment, some modifications are needed. In order to match future costs to future customers, we find it appropriate to reduce the property tax expense by that amount related to the non-used and useful plant. This results in a reduction of \$16,237 to the water system and \$885 to the wastewater system.

Non-utility Expense

Exhibit 3 (#12) provides a detail of a miscellaneous expense in the amount of \$869. This expense is included in both water and wastewater expenses. The exhibit shows that the expense includes a penalty to the IRS for a late deposit of payroll taxes and a fine to the Broward County Environmental Quality Control Board. Utility witness Cassidy testified that these are not recurring expenses and should not be incurred if a person is doing his or her job. He further testified that ratepayers should not pay for the utility's penalties. We agree. Accordingly, \$869 should be removed from both the water and wastewater expenses.

Settlement of Violation

Page 228 of Schedule O of the MFRs is a Notice of Settlement Agreement that relates to a fine in the amount of \$170 that the utility was charged with by the Broward County Environmental Quality Control Board. When asked if this was a recurring expense, utility witness Corbitt stated that it does

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not happen every month, but it has happened more than once. Consistent with our decision regarding the penalty payment, we believe that the ratepayers should not pay for the utility's fines. Therefore, \$170 should be removed from wastewater expenses.

Rate Case Expense

The MFRs include total estimated rate case expense of \$133,200. (Schedule B-6a) The schedule further breaks down the total as \$50,000 in rate/accounting consultant fees, \$5,000 in consulting expenses, \$75,000 in legal fees and \$3,200 in legal expenses. The utility's brief states that, based on Exhibits 10, 11 and 22, \$194,300 in rate case expense should be allowed. Our review of Exhibits 3, 10, 11 and 22 shows a total of \$186,246, and we are unable to reconcile the exhibits to the brief. Exhibit 22C shows a range of estimated hours for the law firm to complete the case, but does not include any dollar estimates. Thus, there is not enough detail in the record to include these hours in rate case expense.

The utility listed numerous factors contributing to the excess of actual rate case expense compared to the initial estimates. South Broward points out that this is its first rate case and its first application for service availability charges. This rate case is also based on a projected test year and required the filing of numerous schedules for the historical and projected test year. Further, the rate increase also involves a change in the rate structure. The current rate structure includes a minimum gallon usage in the base charge and the requested rates are the base facility charge rate structure. The utility was aware of these factors at the time of the estimates, therefore, these factors do not necessarily explain the under-estimate for the expense. However, we agree that these factors contribute to rate case expense being higher than what might be expected.

South Broward further supports its rate case expense by arguing that while the utility is a Class C utility, several issues were recalculated at Staff request based on a Class B utility level. We believe such recalculations were appropriate since South Broward is not a small Class C utility. The utility has projected approximately 2,200 water customers for the end of 1990. The projected revenues for 1990, assuming no rate increase, are \$395,022 for water and \$572,393 for

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wastewater. These revenues place the utility solidly into a Class B level. Therefore, it is not unreasonable to expect this utility to provide information required of Class B utilities and incur rate case expense similar to other Class B utilities.

While we agree that the utility's arguments justify some rate case expense higher than average, we further believe that the evidence supports our decision that rate case expense should be less than what the utility actually spent. Our reasons for reducing rate case expense relate to the deficient MFRs, the expert testimony, the amount of attorney hours spent on the case, and miscellaneous items such as the filing fee.

a. Deficient Filing

Exhibit 4 is a letter from Staff dated June 19, 1989, which lists forty deficiencies in the MFRs of this utility. Review of this letter indicates deficiencies ranging from omission of account numbers for each adjustment to omission of Schedule J, chemical projections through 1990, and omission of the billing analyses. We believe that the time and work involved in correcting these deficiencies resulted in significant rate case expense. If the additional rate case expense is a prudent and reasonable expense which the utility was required to incur as part of the process to increase rates, we would agree with the utility that the total expense should be included in rates. However, we believe that the utility did not do all it could have done to keep rate case expense down.

Utility witness Corbitt stated that he always considers costs when he makes decisions and considers such factors as whether the consultants are competent and could represent South Broward well and get the job done. However, further questioning revealed several factors which the utility did not consider. The utility did not consider the number of recent rate cases the firms had been involved in before this Commission. The utility was not aware of this information, nor did the utility request this information from its consultants. Utility witness Dunn admitted that there is a learning process involved in filing rate cases. He further stated that the firm spent a fair amount of time trying to learn the process and traveled to Tallahassee to talk with Staff before submitting the MFRs. Further, it appears that the utility did not receive an engagement letter. Utility witness Dunn stated that there usually is an engagement letter or contract.

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We believe that any costs associated with the learning process are unreasonable for the ratepayers to absorb. These costs could have been avoided by the utility by choosing a firm familiar with the rate case process or by the utility refusing to pay for the firm to learn the process. Witness Dunn testified that the accounting consulting firm did not bill for all of the time dedicated to the rate case, nor does the firm intend to bill for all of the time. Exhibits 10 and 11 show total accounting fees through January 31, 1990 to be \$104,710. However, the exhibits also show \$30,981 of the total was not billed to South Broward. This represents roughly 300 hours of the 994 total hours. This appears to be a reasonable amount related to the learning process. However, we are still concerned with the cost to prepare the initial filing when Exhibit 4 shows the filing to be so deficient.

The initial filing was submitted on June 5, 1989 and the subsequent filing was submitted on August 15, 1989. It appears that it took approximately two months to correct the deficiencies. Utility witness Corbitt testified that he believed there were some honest differences of opinion regarding the filing requirements. Utility witness Dunn also testified that there was a misunderstanding in how to file separate schedules for the base year and projected year. However, the standard schedules, which the utility completed, include instructions to provide historic and projected schedules. Thus, we find that the portion of rate case expense attributable to correcting the deficiencies should not be borne by the ratepayers. Exhibit 9 shows that the accounting firm spent approximately 748 hours on the preparation of MFRs and response to Staff's request to supplement MFRs. Exhibit 10 shows that they worked 402 hours on the initial filing, roughly 220 of which were not billed. This leaves approximately 346 hours for the second filing. We believe this amount should be removed from rate case expense. As Exhibit 11 shows that roughly 80 hours after the initial filing were not billed, the adjustment should be for the remaining 226 hours at roughly \$109 per hour. This results in a reduction to rate case expense of \$28,994.

Unfortunately, the detail related to the attorney's fees cannot be specifically correlated to particular tasks. However, Exhibit 22 estimates the amount of time and costs attributable to certain tasks with a cut-off point of June 15, 1989. The breakdown is not sufficient to determine how much time was spent on the second filing. However, because the

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deficiencies were so substantial, we believe it appropriate for the legal costs related to the first filing to be substituted as an estimate of the cost for the second filing. Therefore, we will reduce rate case expense further by \$13,200 in attorney's fees. This is the amount shown on Exhibit 22A related to preparation of the MFRs.

b. Expert Testimony

In its brief, Public Counsel challenges the utility's decision to hire outside consultants for expert testimony on used and useful and tax issues. While the utility argued that Mr. Dunn is knowledgeable and experienced in rate cases and his experience is sufficient for his testimony regarding the used and useful calculations, the Commission ruled him incompetent to testify on used and useful and struck certain parts of his testimony. In our ruling, we noted that the president of the utility, who is an engineer by training and education, did not adopt a portion of the stricken calculations. We think that it is appropriate for an engineer to testify to used and useful issues. The utility also hired witness Brimberry, who is an engineer, but did not have him address the used and useful issues. Since the utility president is an engineer and prefiled testimony in this proceeding, it makes sense that he would have been the appropriate person to testify to these issues, not only because of his expertise, but because of the expense savings.

Public Counsel also argues that Mr. Dunn stated that he was not a tax expert and that he had nothing to do with taxes. Mr. Dunn argues that he understands how income taxes affect this rate case. While Mr. Dunn admitted that if a client came to his firm requesting tax planning, he would not be the person to see, but out of all of the firm's offices, if anyone had a question regarding water and wastewater rate cases, he would be the one to see. We might be persuaded by Mr. Dunn's argument if the utility did not have the in-house expertise of an individual who was employed by the IRS for thirty years. Mr. Cassidy is the chief accounting officer for Mode, Inc., a related company, and testified that he assisted the utility's CPA firm in the preparation of the federal and state income tax returns. We believe that Mr. Cassidy has more expertise in this area than Mr. Dunn and the utility would have saved a considerable expense if Mr. Cassidy had testified to the tax issues.

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There is not sufficient detail in the record to determine how much of the rate case expense is attributable to Mr. Dunn's testimony on these two areas. Therefore, we believe that it is reasonable to determine a percentage based on the number of pages in the MFRs sponsored by Mr. Dunn compared to the number of pages related to the tax issues and the used and useful calculation. Mr. Dunn sponsored 158 pages of testimony, with 11 being related to the tax and used and useful issues. This results in 6.962 percent. Applying this percentage to the adjusted accounting/rate consulting fees of \$46,735 (\$73,729 less \$28,994), results in an adjustment of \$3,254. We find it appropriate to remove this amount from rate case expense.

c. Attorneys' Hours

In our review of Exhibit 22, we have found several entries which appear to have an unusually high number of hours for the task involved. The first item is on page 1 of 8 in Exhibit 22B. One section of this item states that the attorneys reviewed the ordinances of several municipalities and tariffs and service availability policies of several utility companies. We do not understand what the purpose of this task might be. It is apparent from the testimony of the customers that the utility did not design its rates to be similar to those in the surrounding area. Therefore, we see no justification for this task. Considering the other tasks involved and the hours involved, we estimate that the six hours that the secondary attorney worked represents the hours for review of the ordinances. Therefore, we find it appropriate to reduce rate case expense by \$510.

The second item of concern is on page 5 of the same exhibit. This item, in part, states "preparation for and attendance at Prehearing Conference, including review of guaranteed revenue provisions contained in developer agreements and tariffs; and analysis of 48 issues raised by Commission staff and 20 issues raised by Public Counsel." As the prehearing officer stated at the hearing, when she arrived at the prehearing conference she was told that the parties needed time to go through the issues and finish positions and issues. There is no explanation of what was done in those 36 hours claimed by the utility when it did not appear to have read through the issues, much less completed its positions on those issues in time for the prehearing conference. We believe that a minimum of one-fourth of these hours should be removed. Page 1 of the schedule states that the rates range from \$85 to

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\$175. We will apply the high rate to the primary attorney's hours and the low rate to the secondary attorney's hours. This results in a reduction to rate case expense of \$1,148.

The third item of concern is on page six of the exhibit. The item, in part, states "preparation and filing of prehearing statement; including determination of outstanding issues." This item lists 17 hours. The utility's prehearing statement only had eight issues. We do not believe that a prehearing statement of that length should require 17 hours of work and we will reduce these hours by one-third. This results in a reduction of rate case expense of \$632.

The fourth item of concern is also on page 6 of the exhibit. The item states "preparation and filing of rebuttal testimony for Mr. Ronald E. Corbitt, Jr., rebutting positions of the testimony of Mr. Martin Weigand which was submitted on behalf of the staff." This item includes 7 hours. The testimony submitted is three pages long. We do not believe that it should have taken 7 hours to prepare the rebuttal testimony and we will reduce those hours by half. This results in a reduction to rate case expense of \$213.

These four items total a reduction in rate case expense, which we find to be appropriate, of \$2,503.

d. Miscellaneous Adjustments

Our review of the record indicates several miscellaneous adjustments that must be made: the filing fee, duplication of the attorneys' hours, and the overall difficulty in reviewing the rate case expense. First, the filing fee appears to be accounted for twice in the rate case expense total. Exhibit 22D lists the miscellaneous expense which the legal firm incurred on behalf of South Broward. The \$4,500 filing fee is listed in this schedule. Then, in Exhibit 3, the filing fee is also listed as a payment to the Florida Public Service Commission. We will correct this error by reducing rate case expense by \$4,500.

We are concerned that there were two attorneys involved in this case. We do not believe that it is appropriate for the ratepayers to absorb any costs related to the duplication of tasks. However, the exhibits do not provide sufficient detail to determine if there has been any duplication of work. This matter was pursued at the hearing and Mr. Corbitt was asked if

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the two attorneys attended each of the meetings with the utility. Mr. Corbitt stated that he did not believe that the secondary attorney had ever been to South Broward until he had come down for the hearing. This is reassuring to some extent; however, review of Exhibit 22 indicates numerous meetings in which it appears that both attorneys attended. While it is not unusual for one attorney to do research while the other attorney does most of the presentation, we do not believe it is necessary for both attorneys to have attended all preliminary meetings and the hearing. Exhibit 22 reflects the following meetings where both attorneys appear to have attended: audit exit conference, informal discovery (December 11), first preliminary prehearing conference (November 1), second preliminary prehearing conference (January 8), prehearing conference (January 12) and the two-day hearing. It appears that eight hours were estimated for attendance at each of these meetings. While the exhibit does not indicate any particular duplication of tasks, neither does it delineate why both attorneys had to attend. Without any justification in the record, we do not believe that it is reasonable to allow the expense of two attorneys at the five meetings and the hearing. The record does not show that both attorneys participated in the questioning of the witnesses, nor did we observe active consultation between the attorneys during the hearing. Therefore, we find it appropriate to reduce rate case expense by the cost of the eight hours for the five meetings, plus the estimated time at the hearing and the associated travel expenses. Exhibit 22 indicates that the hourly charge for the attorneys ranged from \$85 to \$175. We will apply the \$85 hourly rate to the calculated 56 hours. Exhibit 22 also shows miscellaneous expenses for these trips of \$852.71, and half of this amount (\$427) will be removed. Therefore, the total for this adjustment is \$6,037.

One last item that we will address is the difficulty in reviewing rate case expense. Our Staff served interrogatories on the utility requesting information showing detailed rate case expense. The following specific information was requested (Ex 3): date paid, check number, individual amount paid, payee firm or vendor, name of person performing the work, basis of charge, time period covered, specific work performed and miscellaneous expenses incurred. The responses did not contain sufficient detail to review the rates being charged and the hours spent on various tasks by the various consultants, which is an analysis performed in all rate cases. Our Staff informs us that the need for this information was also discussed at the

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preliminary meetings it held with the utility. Without this information, we are unable to make an accurate determination of the prudence of the rates, hours and tasks. In Meadowbrook Utility Systems, Inc. v. the Florida Public Service Commission 518 So.2d 326 (Fla. 1st DCA 1987), the Court stated that "an automatic award of rate case expense in every case without reference to the prudence of the costs incurred in the rate case proceedings, clearly would constitute an abuse of discretion . . ." We recognize that utility witness Corbitt testified that he did not have detailed information on the invoices and utility witness Dunn also testified that the accounting consultants charge all the work to one project code and are unable to break out the time spent on major functions. The record is clear that the rate case detail maintained in this case is insufficient. Upon consideration, we find it appropriate to reduce rate case expense by \$10,000 to reflect the overall insufficient detail of the accounting and legal fees imprudently accepted by the utility.

Our decisions result in a reduction of rate case expense from the \$194,300 shown in the utility's brief to \$117,758.

Rate Case Amortization Period

The utility has requested that rate case expense be amortized over a three-year period. Utility witness Dunn states that the new statute setting forth a four-year amortization period does not apply to this application as the statute became effective after the application was filed. He further testified that it is likely that at the end of the three year period, South Broward will need to file for another rate adjustment. However, utility witness Corbitt testified that the utility may not need to come in again in three years, but because they are asking for rates to be phased in over three years, it is appropriate to match the amortization of rate case expense to the three years.

We agree that the provisions of Section 367.0816, Florida Statutes, do not apply since this case was initiated prior to the effective date of the new section. However, we believe that rate case expense should be amortized over four years. At the hearing, we took notice of our Orders Nos. 13366 and 20063, which state that Commission policy is to amortize rate case expense over four years. Witness Corbitt also testified that he expects the utility to file for indexes and pass-throughs in the future. Using the utility's argument, if the utility had

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rates implemented all at once, the amortization period should be one year. The utility has not submitted persuasive evidence to deviate from Commission policy. Therefore, rate case expense will be amortized over four years.

Substantiation of Operating Expenses

Public Counsel argues that because the base year expenses are incorrect, the projected expenses cannot be correct. Utility witness Cassidy testified that certain expenses were not properly allocated and utility witness Dunn testified that certain closing adjustments had not been made. While Public Counsel believes that these errors result in materially flawed projected expenses, our review indicates that the errors are not so material that they undermine the integrity of the case. We believe that the adjustments we have made in this case correct the errors and result in reasonable, projected operating expenses. Schedule No. 4 lists the operating expenses by account number and shows the adjusted balances, by account. We thus find that the appropriate operation and maintenance expense for the water system is \$291,296 and for the wastewater system is \$300,230.

Depreciation Expense

Schedules B-1 and B-2 of the MFRs show a projected depreciation expense of \$243,831 and \$153,749 for water and wastewater, respectively. We believe that the appropriate depreciation expense should be \$82,227 and \$68,105 for water and wastewater, respectively. The difference between the utility's expense and ours is primarily due to the use of Class B depreciation rates and the used and useful adjustments previously decided.

Public Counsel supports the use of Class B rates. Schedules B-9 and B-10 of the MFRs show base year depreciation of the water plant at \$236,762 and of the wastewater plant at \$146,479. These are calculated using an accelerated tax rate of 6.6 percent. The utility should depreciate its assets using Class B depreciation rates prescribed in Rule 25-30.116, Florida Administrative Code. Utility witness Cassidy testified that the utility is considering Class B rates. Further, the utility's projected revenues for 1990 are in the Class B range. Assuming no rate increase, these revenues will be \$395,022 for water and \$572,393 for wastewater. (Schedules B-1 and B-2 of the MFRs). Thus, the depreciation expense should be adjusted to reflect Class B depreciation rates.

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Schedules B-9 and B-10 also include a column for calculating the amount of depreciation expense related to the non-used and useful plant. This column should be adjusted to reflect the used and useful percentages previously decided. These adjustments, combined with those to adopt Class B depreciation rates, result in an appropriate depreciation expense of \$82,277 for the water system and \$68,105 for the wastewater system.

Property Taxes

Schedule B-11 of the MFRs shows the total real estate and personal property taxes, projected through 1990, at \$89,417. The column titled "other" is for the State Intangible Tax and shows \$7,029 for this tax. Utility witness Dunn testified that the supporting workpaper for the intangible tax calculation contained some errors and the net effect of the errors is that the intangible tax amount for the test year is understated by \$781. The utility's calculation of the tax is \$1 per \$1,000 in tax basis. In reviewing the calculation, we could not reconstruct an adjustment equal to that of Mr. Dunn's. However, our review indicates that a reduction of \$2,558 is appropriate, which reflects our decisions regarding CIAC, shareholder advances, and deferred interest.

Schedule B-11a (page 3 of 5) of the MFRs shows a 1988 personal property tax of \$75,058. However, Exhibit 26 is the 1989 tax bill with a tax of \$70,174. Witness Cassidy testified that the prior bill had been paid in March which means that the utility did not avail itself of the discount available. Mr. Cassidy further testified that the utility tries to pay bills as early as possible. Witness Dunn agreed that the discount should be taken. Commission policy is to allow only the lowest amount in taxes and the utility witnesses agree that the utility should be paying the lower amount. Therefore, we have adjusted the expense to reflect the maximum discount.

Review of the property tax returns filed by the utility indicates that the utility split the personal property tax between water and wastewater on a 50/50 basis in the MFRs. The tax should be reallocated based on the plant included in the 1989 tax return. By so doing, \$21,925 should be moved from wastewater to water expenses.

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The utility projected an increase in personal property tax for the projected water plant expansion. We used the same methodology as shown in Schedule B-11a, however, we substituted the actual tax and tax basis values shown on the 1989 tax bill. This results in a projected increase of \$6,482.

We have previously adjusted property taxes for non-used and useful plant. Combined with the above adjustments, we find the appropriate test year level of property taxes to be \$51,431 for the water system and \$25,607 for the wastewater system.

Regulatory Assessment Fee

Utility witness Dunn testified that the rate request was calculated using a 2.5 percent regulatory assessment fee. He further stated that the assessment has increased to 4.5 percent and he believes the expenses should be increased to reflect this change. At the prehearing conference, Public Counsel expressed some concern over including the change in expenses if the rule incorporating the change was not final. However, the rule is now final and effective and applies the new rate to revenues collected as of July 1, 1990. Since this is a known and imminent change and will be in effect during the time the final rates will be in effect, we believe that the expense should be increased accordingly. Therefore, regulatory assessment fees should be calculated at the 4.5 percent rate.

Schedule B-11 of the MFRs (Ex 24) shows zero regulatory assessment fees in the base year. Utility witness Dunn also testified that the base year regulatory assessment fees were left out of the calculation. Therefore, that expense should be increased by \$7,613 for the water system and \$10,675 for the wastewater system. This adjustment, combined with the increase due to the 4.5 percent regulatory assessment fee, results in a test year expense of \$17,776 for the water system and \$25,758 for the wastewater system, which we find to be appropriate.

Income Tax Expense

In its filing, the utility requested that income tax expense of \$92,791 and \$121,942 be included in the determination of water and wastewater service rates, respectively. Public Counsel asserts that allowing income tax to South Broward, a Subchapter S corporation, would not conform to Commission policy.

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The utility has requested an effective income tax rate of 28 percent based on the maximum effective individual income tax rate because, as a Subchapter S corporation, South Broward is not a taxable entity. That is, if income taxes are paid, they will be paid by the individual who owns the utility.

Utility witness Dunn testified that, to date, South Broward has incurred operating losses in each operating period and substantial additional investments have been and will be made by the shareholder. Therefore, the utility has no retained earnings and all income earned in the foreseeable future will be required to be reinvested in the business. Additionally, once the utility starts earning an adequate return, retained earnings will flow back into the utility and benefit the ratepayers.

We believe that the utility also receives a benefit from having retained earnings. It was not disputed by witness Dunn that one of the purposes of regulation is to allow a utility to recover its expenses and earn a reasonable rate of return on its investment. Thus, if a utility's capital structure contained no equity, the utility would only be allowed to recover its prudent expenses and debt costs through rates. However, if a utility's capital structure contained equity, the utility would be allowed recovery of its prudent expenses and debt costs, along with a reasonable return on its equity.

Witness Dunn also testified that the owner of South Broward should not be penalized for electing to make the utility a Subchapter S corporation. He asserts that the owner pays taxes at a rate of 28 percent and in the event the owner made the election to have the utility become a Subchapter C corporation, then income taxes at 34 percent would be an allowable expense in determining water and wastewater rates.

We agree that if South Broward were a C corporation, it would be allowed recovery of income tax expense if taxes were paid. However, the utility is not a C corporation. South Broward is a Subchapter S corporation and our policy is not to grant income tax expense to S corporations since they are not tax paying entities. A tax rate of 28 percent versus 34 percent may be of some benefit to the ratepayers; however, an even greater benefit would be for the ratepayers to pay a zero percent tax rate.

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We do not believe that the utility is being penalized by our not allowing tax expense for an S corporation. There are benefits and costs associated with being an S corporation that are not shared by a C corporation, and vice versa.

One such benefit of electing S corporation status is that losses incurred in the business can be offset against the shareholder's personal income. Shareholders in a C corporation cannot offset losses against personal income. However, when an S corporation earns a profit, the income is taxable to the shareholders while shareholders in a C corporation are taxed only if dividends are distributed.

Public Counsel, in his brief, argues that the Commission's long-standing policy has been to disallow income tax expense to Subchapter S corporations. At the hearing, notice was taken of our Order No. 10465 in Docket No. 80061-W, Application of Keystone Water Company for an Increase in Water Rates, which states in pertinent part:

[The utility] is registered as a Subchapter S Corporation for Internal Revenue Service purposes. As such, the utility pays no income taxes. (TR 243) Although the earnings are flowed through to the stockholders for income tax purposes, Commission policy does not allow taxes paid by the shareholders to be passed on to the utility customers through rates.

The utility made the election to become a Subchapter S corporation. Thus, it should accept the benefits and costs of being such. In this case, the cost of being a non-taxable entity is that income tax expense is not recoverable through rates. The utility has not provided any persuasive evidence or argument to convince us to allow income tax expense for this S corporation. We agree with Public Counsel that no income tax expense should be allowed in this proceeding and so find.

Test Year Expenses and Operating Income

Based on the utility's filing and our decisions discussed herein, we find the appropriate test year expenses to be \$450,170 for the water system and \$426,966 for the wastewater system. The appropriate test year operating income is (\$55,148) for the water system and \$145,427 for the wastewater

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system. The operating statements are attached to this order as Schedules Nos. 3A and 3B, with the adjustments shown on Schedule No. 3C.

REVENUE REQUIREMENT

Based upon the utility's application and our adjustments and calculations discussed above, we find the appropriate annual revenue requirement to be \$664,088 for the water system and \$643,217 for the wastewater system. This represents a \$269,066 (68.1 percent) annual increase for the water system and a \$70,824 (12.4 percent) annual increase for the wastewater system, and will give the utility the opportunity to recover its expenses and earn a 11.62 percent return on its investment in rate base.

RATES AND RATE STRUCTURE

Billing Analysis

The record shows that the utility bills its customers rounded down to the 100 gallons. The person that did the billing analysis was erroneously instructed to round everything up to the next 1000 gallons, that is, if a bill showed the customer used 4,900 gallons, it was rounded up to 5,000 gallons. If a bill showed the customer used 4,100 gallons, it was rounded up to 5,000 gallons. The end result is that the gallonage reflected in the 1988 base year billing analysis is overstated. We believe that the way to correct this error would be to take the total number of bills and multiply them by 500 gallons per bill and deduct these gallons from the historical billing analysis.

At hearing, utility witness Dunn testified that the adjustment should be made in this manner. Thus, we have reduced the historical billing analysis gallonage by 5,780,000 gallons (11,559 bills times 500 gallons per bill).

We accept witness Dunn's testimony that this adjustment would not have any impact on the billing data for the projected 1990 test year, that the projection for 1990 was made independent of the historical billing analysis and that the projected 1990 billing data included projections for commercial customers as well as residential customers.

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Rates

The permanent rates requested by the utility are designed to produce annual revenues of \$1,061,083 and \$970,263 for water and wastewater, respectively. The requested revenues represent increases of \$740,348 (168.6 percent) for water and \$397,870 (69.5 percent) for wastewater.

We have established the appropriate revenue requirements as \$664,088 and \$643,217, for water and wastewater, respectively, on an annual basis. The rates, which we find to be fair, just and reasonable, are designed to achieve these revenue requirements and use the base facility charge rate structure. The base facility charge structure is our preferred structure because of its ability to track costs and give the customers some control over their water and wastewater bills. Each customer pays his or her pro rata share of the related costs necessary to provide service through the base facility charge and the actual usage is paid for through the gallonage charge.

The approved rates for water service are uniform for residential and general service customers. The approved rates for wastewater service include the same base charge for all residential customers regardless of meter size with a cap of 10,000 gallons of usage per month on which the gallonage charge may be billed. There is no cap on usage for general service sewer bills. The differential in the gallonage charge for residential and general service wastewater customers is designed to recognize that a portion of a residential customer's water usage will not be returned to the wastewater system.

The utility has requested that its new rates be implemented in three phases. Phase one would occur when the interim rates are approved; phase two would occur at the conclusion of the rate case when final rates would be set; phase three would occur one year later. Upon consideration, we believe the phasing-in of rates is reasonable in this proceeding. Accordingly, we hereby approve the following effective dates for the three phases for the water rates only.

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PHASE ONE: These are the interim rates and are already in effect. These rates generate \$469,309 in annual revenues based on the 1990 test year billing data. This represents an increase of \$74,287 or 18.8 percent over test year revenues. These rates will remain in effect until phase two rates become effective.

PHASE TWO: These rates will generate \$566,699 in annual revenues. This represents an increase of \$97,390 or 20.8 percent over phase one rates. These rates will become effective for meters read on or after 30 days from the stamped approval date on the revised tariff sheets.

FINAL PHASE: The final phase rates will generate \$664,088 in annual revenues. This represents an increase of \$97,389 or 17.2 percent over phase two rates. These rates will become effective for meter readings on or after one year from the date of this Commission's final order in this case.

The final wastewater revenue requirement increase is \$70,824, or 12.4 percent over test year revenues on an annual basis. The interim rates presently in effect will generate an increase of \$90,295, or \$19,471 more than the final wastewater revenue requirement. Therefore, a three phase implementation is not appropriate and will not occur for the wastewater rates. The final wastewater rates will become effective simultaneously with the phase two water rates, which will become effective for meters read on or after 30 days from the stamped approval date on the revised tariff sheets.

The revised tariff sheets will be approved upon the utility's filing thereof and Staff's verification that they accurately reflect our decisions and upon the approval of the proposed customer notice.

The utility's present rates, Commission approved interim rates, utility proposed rates and our approved final rates are set forth below for comparison.

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SCHEDULE OF RATES

WATER

RESIDENTIAL AND GENERAL SERVICE

<u>METER SIZE</u>	<u>MINIMUM GALLONAGE ALLOWANCE</u>	<u>UTILITY PRESENT RATES</u>	<u>COMMISSION APPROVED INTERIM (1ST STAGE) RATES</u>	<u>(1) UTILITY PROPOSED BFC FINAL RATES</u>	<u>(1) COMMISSION APPROVED BFC (2ND STAGE) RATES</u>	<u>(1) COMMISSION APPROVED BFC (FINAL STAGE) RATES</u>
5/8"	3,000	\$ 6.00	\$ 7.14	\$ 8.80	\$ 6.96	\$ 7.80
3/4"	---	---	---	---	10.44	11.70
1"	5,000	10.00	11.89	21.99	17.40	19.50
1 1/2"	10,000	20.00	23.79	43.98	34.80	39.00
2"	16,000	32.00	38.06	70.37	55.68	62.40
3"	30,000	60.00	71.36	140.74	111.36	124.80
4"	50,000	100.00	118.94	219.91	174.00	195.00
6"	---	---	---	---	348.00	390.00
8"	---	---	---	---	556.80	624.00
OVER MINIMUM BFC CHARGE		\$ 1.50	\$ 1.78	---	---	---
		---	---	\$ 3.52	\$ 1.61	\$ 1.93

(1) Utility proposed BFC rates and Commission Approved BFC rates DO NOT include a minimum gallonage allowance

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MULTI - RESIDENTIAL SERVICE

<u>METER SIZE</u>	<u>(1) MINIMUM GALLONAGE ALLOWANCE</u>	<u>UTILITY PRESENT RATES</u>	<u>COMMISSION APPROVED INTERIM (1ST STAGE) RATES</u>	<u>(2)</u>	<u>(3)</u>	<u>(3)</u>
				<u>UTILITY PROPOSED BFC FINAL RATES</u>	<u>COMMISSION APPROVED BFC (2ND STAGE) RATES</u>	<u>COMMISSION APPROVED BFC (FINAL STAGE) RATES</u>
Per Unit	3,000	\$ 4.00	\$ 4.76	\$ 5.86	Same as	Same as
OVER MINIMUM BFC CHARGE		\$ 1.50 ---	\$ 1.78 ---	--- \$ 3.52	General Service	General Service

- (1) Minimum gallonage allowance is determined by multiplying number of units times 3,000 gallons.
- (2) Utility proposed BFC final rates DO NOT include minimum gallonage allowance.
- (3) The present Commission policy is to bill master metered multi - residential customers under the general service rate schedule.

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SCHEDULE OF RATES

WASTEWATER

RESIDENTIAL

<u>METER SIZE</u>	<u>UTILITY PRESENT RATES</u>	<u>COMMISSION APPROVED INTERIM RATES</u>	<u>UTILITY PROPOSED BFC FINAL RATES</u>	<u>COMMISSION APPROVED BFC FINAL RATES</u>
All Sizes	\$13.00 or 195% of water bill, whichever is greater	\$15.06 or 190% of water bill, whichever is greater	---	---
5/8"	---	---	\$ 6.51	\$8.78
1"	---	---	16.27	8.78
1 1/2"	---	---	32.54	8.78
2"	---	---	52.06	8.78
3"	---	---	104.12	8.78
4"	---	---	162.69	8.78
Gallonage Charge	---	---	\$ 4.83	\$2.90
Sewer Cap.	12,000	12,000	12,000	10,000
Minimum Bill	\$13.00	\$15.06	\$ 6.51	\$ 8.78
Maximum Bill	\$38.03	\$44.00	\$ 64.47 (1)	\$37.78

(1) Based on 5/8" x 3/4" meter.

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GENERAL SERVICE

<u>METER SIZE</u>	<u>UTILITY PRESENT RATES</u>	<u>COMMISSION APPROVED INTERIM RATES</u>	<u>UTILITY PROPOSED FINAL RATES</u>	<u>COMMISSION APPROVED BFC FINAL RATES</u>
All Sizes	\$16.00 or 195% of water bill, whichever is greater	\$18.54 or 190% of water bill, whichever is greater	No General Service Rates Proposed	---
5/8"	---	---	---	\$ 8.78
3/4"	---	---	---	13.17
1"	---	---	---	21.95
1 1/2"	---	---	---	43.90
2"	---	---	---	70.24
3"	---	---	---	140.48
4"	---	---	---	219.50
6"	---	---	---	439.00
8"	---	---	---	702.40
Gallonage Charge (No Maximum)	---	---	---	\$ 3.48

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MULTI - RESIDENTIAL SERVICE

<u>METER SIZE</u>	<u>UTILITY PRESENT RATES</u>	<u>COMMISSION APPROVED INTERIM RATES</u>	<u>UTILITY PROPOSED FINAL RATES</u>	(1) <u>COMMISSION APPROVED FINAL RATES</u>
Per Unit	\$8.66 or 195% of water bill, whichever is greater	\$10.03 or 190% of water bill, whichever is greater	No Multi- Residential Final Rates Proposed	Same as General Service ---

(1) The present Commission policy is to bill master metered multi-residential customers under the general service rate.

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No Refund of Interim Rates

The final water revenue requirement is \$194,779 more than the interim revenues which the interim water rates will produce. Therefore, no refund of interim rates is required for the water operations.

The final wastewater revenue requirement is \$19,471 less than the interim revenues which the interim wastewater rates will produce. If a refund were required, it would amount to 2.94 percent of the wastewater revenues collected from the time the interim rates were implemented until such time as the refund would be accomplished. Based on the average bill of \$27.22, the average refund would be \$.80 per month per customer. The interim rates were effective for meters read on or after December 14, 1989. The final order in this proceeding will be issued by April 23, 1990, so the interim rates will have been in effect for approximately months when the rate case is concluded. Therefore, a customer, based on the average bill, would be entitled to a refund of approximately \$4.00. This equates to approximately \$5,000 in interim wastewater revenues that could be refunded.

We believe the administrative costs associated with the refund would not result in benefits to the ratepayers. Accordingly, in order to benefit all wastewater ratepayers, we believe the most appropriate course of action is to require the utility to book the approximately \$5,000 refund amount to CIAC, rather than incur the costs of refunds to individual customers.

Service Availability Charges

South Broward did not have an approved water or wastewater plant capacity charge at the time the application was filed. It requested approval of a plant capacity charge at \$753 per ERC for water and \$602 per ERC for wastewater. These charges were approved on an interim basis in Order No. 22047.

At the hearing, utility witness Dunn changed his prefiled testimony to request that a water service availability charge of \$992 per ERC for water and \$1,211 per ERC for wastewater be approved. However, no support for these higher charges was presented.

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The approved service availability policy on file requires the developer to install all water transmission and distribution lines and mains and all wastewater collection and transmission lines and mains necessary to provide service to his development. Additionally, the developer is required to pay the appropriate meter installation charge based on the size meter installed.

The CIAC levels as of December 31, 1988 were 47.35 percent for water and 50.73 percent for wastewater. Allowing the utility to implement the initially requested plant capacity charges of \$753 per ERC for water and \$602 per ERC for wastewater will increase CIAC levels to 62.80 percent for water and 68.17 percent for wastewater. We have used those facilities already in place, those facilities presently under construction and those facilities planned for immediate construction in our calculation of these CIAC levels. These percentage levels will increase slightly because developers are required to install the facilities necessary to provide water and/or wastewater service within the area being developed. The projected levels of CIAC fall within the guidelines of Rule 25-30.580, Florida Administrative Code, and thus we will approve these initially requested charges.

The plant capacity charges should become effective for all connections made on or after the stamped approval date on the revised tariff sheets. The revised tariff sheets will be approved upon Staff's verification that the tariffs are consistent with the Commission's decision and the proposed notice is adequate. The proposed notice should be mailed to those parties known by the utility who will be affected by the change in the utility's service availability policy, advising them that the plant capacity charges previously authorized on an interim basis have now been made permanent. The notice should also explain the related Allowance for Funds Prudently Invested (AFPI) charges and the guaranteed revenue charges which we will address below.

No change was requested in the existing meter installation charges. We see no reason to change them at this time.

The present, proposed and approved service availability charges are listed below.

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PLANT CAPACITY CHARGES
WATER

<u>DESCRIPTION</u>	<u>UTILITY PRESENT CHARGE</u>	<u>COMMISSION APPROVED INTERIM CHARGE</u>	<u>UTILITY PROPOSED CHARGE (APPLICATION)</u>	<u>UTILITY PROPOSED CHARGE (HEARING)</u>	<u>COMMISSION APPROVED FINAL CHARGE</u>
Residential (Per ERC)	--0--	\$753.00	\$753.00	\$ 992.00	\$753.00
All Others (Per GPD)	--0--	\$ 2.15	--0--	--0--	\$ 2.15

* Water ERC = 350 GPD

WASTEWATER

<u>DESCRIPTION</u>	<u>UTILITY PRESENT CHARGE</u>	<u>COMMISSION APPROVED INTERIM CHARGE</u>	<u>UTILITY PROPOSED CHARGE (APPLICATION)</u>	<u>UTILITY PROPOSED CHARGE (HEARING)</u>	<u>COMMISSION APPROVED FINAL CHARGE</u>
Residential (Per ERC)	--0--	\$602.00	\$602.00	\$1,211.00	\$602.00
All Others (Per GPD)	--0--	\$ 2.15	--0--	--0--	\$ 2.15

* Wastewater ERC = 280 GPD

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The utility requested authority to collect the income tax gross-up on service availability charges in its MFRs. South Broward's rationale for this request is the same as its rationale for requesting an allowance for the shareholder's personal income tax liability.

We have denied the request for income tax expense since the utility is an S corporation. At hearing, we took notice of our Order No. 18266 in Docket No. 870274-WS, Investigation Into Treatment of CIAC Collected by Utilities Organized as Subchapter S Corporations, Partnerships and Sole Proprietorships, and Treatment of Monies Termed Connection Fees, in which we stated, in pertinent part:

Further, even if it could be argued that Section 118(b) does apply to S corporations, we conclude that the S corporations are not the tax paying entities and should not be allowed to gross-up their CIAC charges for income tax purposes.

The utility has not provided persuasive evidence to convince us that service availability charges should be grossed-up for an S corporation. Therefore, we deny the utility's request.

Customer Deposits

The utility's tariffs currently provide for customer deposits of \$20.00 for water service and \$20.00 for wastewater service.

Utility witness Corbitt testified that if a customer terminates his service without paying the last month's bill and leaves the area, it is economically impractical and sometimes impossible for the utility to collect the unpaid balance of the bill. He further testified that he believes this problem will increase as the number of customers increase. Therefore, the utility requests an increase to \$50.00 for residential customers with a 5/8 inch x 3/4 inch water meter and residential wastewater customers. All other classes of customers would be increased proportionately.

The utility's request falls within the guidelines of Rule 25-30.311, Florida Administrative Code. We estimate the average monthly bills for residential customers to be \$24.29 and \$27.22 for water and wastewater, respectively. Twice these amounts would approximate the \$50.00 deposits requested by the

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utility. We believe these requested deposit levels are reasonable and they are therefore approved.

The approved deposits will be effective on the date the revised tariff sheets are approved and are applicable to future customers only, not those presently on-line. South Broward shall also meet all the requirements of Rule 25-30.311, Florida Administrative Code.

AFPI Charges

The utility requested an AFPI charge for the non-used and useful portion of the wastewater plant. An AFPI charge is designed to allow the utility to recover a fair rate of return on the portion of the plant facilities which were prudently constructed, but exceed the amount necessary to serve current customers. The AFPI charges requested by the utility begin at \$11.68 in January, 1990 and accumulate to \$1,599.54 after eight years.

We believe that AFPI charges for both the water and wastewater systems are necessary. The utility only requested wastewater charges, but it also had projected that the water plant would be 100% used and useful. We found the water plant to be 65 percent used and useful and the wastewater plant to be 90 percent used and useful.

The cost of the qualifying asset is the net plant cost removed from rate base. The utility originally used the gross amount of the plant. However, utility witness Dunn testified that the number should be net of accumulated depreciation. The capacity of the qualifying asset is that portion left over after considering test year consumption, fire flow, and margin reserve. The number of future customers is calculated based on the remaining capacity and the average usage of the current customers.

The utility's schedule calculates an accrued charge for eight years. There was no testimony regarding a cut-off for this accrual. This Commission usually caps the accrual after five years as being a reasonable time period. South Broward is projecting yearly growth of 362 ERCs. With this growth, the AFPI charges should be fully collected after four years for water and one year for wastewater. Therefore, we believe it is reasonable in this case to cap these charges after a five-year period. Upon consideration, we find the appropriate AFPI

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charges to be those shown on Schedule No. 5, attached to this Order. This results in the utility collecting charges beginning at \$12.63 and accruing to a maximum of \$879.59. After South Broward collects these charges from 1,258 water ERCs, the charge should be discontinued. The wastewater AFPI charge begins at \$9.34 and accrues to a maximum of \$648.76. After South Broward collects these charges from 242 wastewater ERCs, the charge should be discontinued.

Refund of Unauthorized Guaranteed Revenue Charges

South Broward began making the guaranteed revenue charges to developers at or about the same time it began its operations. The record shows that the first developer agreement is dated October 17, 1985 and it is between Ivanhoe Land Investments, Inc., an affiliated company, and South Broward. The utility's guaranteed revenue charges are the same as the minimum charge for water and wastewater, that is, \$6.00 for water and \$13.00 for wastewater for a total of \$19.00 per ERC per month. The record shows that these charges were not authorized by the Commission.

In response to a question asking the witness to identify where in the utility's tariff it is authorized to charge a guaranteed revenue amount, Utility witness Corbitt stated:

Well, if you're talking about the quantification of a number, there is not a number in this paragraph. But there is language in here that talks about the philosophy of coming up with a charge; and I will tell you that, in Broward County, the payment of guaranteed revenues to a utility company is an accepted and in-practice principle.

In my development associations, in some work that we've done in several cities in Broward County, all those cities require payment of guaranteed revenues. The builders are -- pay guaranteed revenues to those cities. It is the utility's position that we should be charging guaranteed revenues, and we felt like the proper charge to fulfill that obligation was the minimum water and the minimum sewer for each connection.

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Witness Corbitt further testified that all developer agreements had been submitted to the Commission but admitted upon cross-examination that the developer agreements had not been submitted to the Commission until after the rate case had been filed.

If the utility had complied with Rule 25-30.550(1), Florida Administrative Code, which states in pertinent part: "A copy of each developer's agreement shall be filed with the Commission within 30 days of execution", our Staff would have advised the Utility, as early as 1985, that it did not have an approved guaranteed revenue charge, and if it desired to collect one, it would be necessary to get approval from the Commission.

The utility apparently did not intentionally violate this rule. Utility witness Corbitt testified that he had learned prior to the hearing that the developer agreements were supposed to be filed with the Commission.

The evidence shows that South Broward has been charging developers guaranteed revenue charges for water and wastewater when no guaranteed revenue charges have been authorized by this Commission. Therefore, we find that these unauthorized charges must be refunded, with interest, and in accordance with Rule 25-30.360, Florida Administrative Code.

Implementation of a Guaranteed Revenue Charge

The utility requested that the guaranteed revenue charges be continued. In his brief, Public Counsel stated that the utility should be authorized to collect a guaranteed revenue charge. We agree that it is reasonable for the utility to be authorized guaranteed revenue charges, but on a prospective basis.

The guaranteed revenue charge we herein approve will be collected after a customer has paid a service availability charge and an AFPI charge, but before the customer begins paying monthly rates. Since the AFPI charge recovers the utility's carrying costs before a service availability charge is collected, the guaranteed revenue charge should only recover the monthly carrying costs on the utility's investment in that individual's portion of plant. However, after the utility has collected the service availability charge from each customer, the remaining investment in that portion of plant is minimal.

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Therefore, we find the appropriate guaranteed revenue charges to be \$1.77 for water and \$.60 for wastewater.

CONCLUSIONS OF LAW

1. The Commission has jurisdiction to determine the water and wastewater rates and charges of South Broward Utility, Inc., pursuant to Sections 367.081 and 367.101, Florida Statutes.

2. As the applicant in this case, South Broward 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 South Broward Utility, Inc. for increased water and wastewater rates is hereby approved to the extent set forth in the body of this Order. It is further

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

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

ORDERED that the utility shall change its billing delivery procedure and maintain better records of customer complaints as set forth in the body of this Order. It is further

ORDERED that the utility shall utilize Class B depreciation rates. It is further

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ORDERED that the utility is authorized to charge the new rates, charges and deposit levels set forth in the body of this Order. It is further

ORDERED that the phase two water rates and the final wastewater rates shall be effective for meters read 30 days on or after the stamped approved date on the revised tariff sheets. Phase three water rates shall become effective for meter readings one year from the date of this Order. It is further

ORDERED that the service availability charges shall be effective for connections on or after the stamped approval date on the revised tariff sheets. It is further

ORDERED that the guaranteed revenue, AFPI and deposit charges shall be effective on the date the revised tariff sheets are approved. It is further

ORDERED that the approximately \$5,000 difference between the interim wastewater rate and the final wastewater rate shall be booked to CIAC-wastewater. It is further

ORDERED that the utility's request to gross-up its service availability charges is denied. It is further

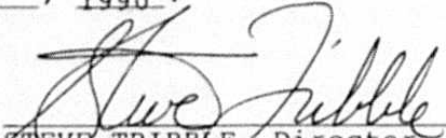
ORDERED that the utility shall refund the unauthorized guaranteed revenue charges, with interest, as set forth in the body of this Order. It is further

ORDERED that the revised tariff sheets will be approved upon the utility's filing thereof and Staff's verification that the tariff revisions are consistent with our decisions herein and the proposed customer notices are adequate. The customer notices shall explain the increased rates and charges and the reasons therefore. It is further.

ORDERED that the docket may be closed and the utility's letter of credit returned upon the utility's completion of the refund of guaranteed revenue charges and Staff's verification of its accuracy and upon its filing of revised tariff sheets and customer notices and Staff's approval of them.

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By ORDER of the Florida Public Service Commission
this 23rd day of APRIL, 1990.



STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

NSD

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

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

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SOUTH BROWARD UTILITY, INC.
 SOURCES AND USES OF CASH

SCHEDULE A

	COMMISSION		UTILITY	
	1989	1990	1989	1990
1 Cash received from CIAC	0	490,510	0	490,494
2 P&L	75,658	75,658	(227,280)	(197,144)
3 Interest on Debt	(270,920)	(346,965)	0	0
4 Interest to Shareholder	(306,725)	0	0	0
5 Depreciation	163,695	163,695	323,879	383,239
6 A/R - Customer	(5,165)	(6,913)	(5,165)	(6,913)
7 A/R - Other	(15,312)	(20,495)	(15,312)	(20,495)
8 A/P	6,220	7,906	6,220	7,906
9 Accrued Interest Payable	0	0	306,725	306,725
10				
11 Cash from Operations	(352,549)	363,396	389,067	963,812
12				
13 Long-Term Debt	729,800	(400,000)	1,725,031	(400,000)
14 Prepaid Cost	(23,180)	8,231	(23,180)	8,231
15 Plant, Property, Equipment	(1,129,800)	0	(1,129,800)	(995,231)
16 Advances from Shareholder	643,200	0	0	0
17				
18 Net Cash Change	(132,529)	(28,373)	961,118	(423,188)
19				
20 Beging Cash	40,552	(91,977)	40,552	1,001,670
21				
22 Ending Cash	(91,977)	(120,350)	1,001,670	578,482
23				

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SOUTH BROWARD UTILITY, INC.
SCHEDULE OF WATER RATE BASE
TEST YEAR ENDED DECEMBER 31, 1990

SCHEDULE NO. 1-A
DOCKET NO. 890360-WS

COMPONENT	(A) AVERAGE TEST YEAR PER UTILITY	(B) ADJUSTMENTS TO THE TEST YEAR	(C) ADJUSTED TEST YEAR	(D) PRO FORMA ADJUSTMENTS	(E) PRO FORMA TEST YEAR
1					
2					
3 UTILITY PLANT IN SERVICE	\$ 3,460,217	\$	\$ 3,460,217	\$ 3,180,119	\$ 6,640,336
4 LAND	260,006		260,006	(150,006)	110,000
5 C.W.I.P.	616,083		616,083	(616,083)	0
6 NON-USED AND USEFUL COMPONENTS	0		0	(1,005,875)	(1,005,875)
7 C.I.A.C.	(1,761,573)		(1,761,573)	(1,781,883)	(3,543,456)
8 ACCUMULATED DEPRECIATION	(567,301)		(567,301)	(135,522)	(702,823)
9 AMORTIZATION OF C.I.A.C.	282,937		282,937	(68,294)	214,643
10 ADVANCES FOR CONSTRUCTION	0		0		0
11 WORKING CAPITAL ALLOWANCE	0		0	24,498	24,498
12					
13 RATE BASE	\$ 2,290,369	\$ 0	\$ 2,290,369	\$ (553,046)	\$ 1,737,323
14					
15					

SOUTH BROWARD UTILITY, INC.
SCHEDULE OF SEWER RATE BASE
TEST YEAR ENDED DECEMBER 31, 1990

SCHEDULE NO. 1-B
DOCKET NO. 890360-WS

COMPONENT	(A) AVERAGE TEST YEAR PER UTILITY	(B) ADJUSTMENTS TO THE TEST YEAR	(C) ADJUSTED TEST YEAR	(D) PRO FORMA ADJUSTMENTS	(E) PRO FORMA TEST YEAR
1					
2					
3 UTILITY PLANT IN SERVICE	\$ 3,150,692	\$	\$ 3,150,692	\$ 2,317,838	\$ 5,468,530
4 LAND	1,017,524		1,017,524	(417,524)	600,000
5 C.W.I.P.	616,084		616,084	(616,084)	0
6 NON-USED AND USEFUL COMPONENTS	0		0	(150,462)	(150,462)
7 C.I.A.C.	(2,114,359)		(2,114,359)	(1,637,198)	(3,751,557)
8 ACCUMULATED DEPRECIATION	(495,909)		(495,909)	(103,813)	(599,722)
9 AMORTIZATION OF C.I.A.C.	370,564		370,564	(137,482)	233,082
10 ADVANCES FOR CONSTRUCTION	0		0		0
11 WORKING CAPITAL ALLOWANCE	0		0	34,342	34,342
12					
13 RATE BASE	\$ 2,544,596	\$ 0	\$ 2,544,596	\$ (710,383)	\$ 1,834,213
14					
15					

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SOUTH BROWARD UTILITY, INC.
EXPLANATION OF THE ADJUSTMENTS TO
WATER RATE BASE SCHEDULE NO. 1-A

DOCKET NO. 890360-WS
SCHEDULE 1-C
PAGE 1 OF 6

ADJUSTMENT -----	DOLLAR ADJUSTMENT -----
1 UTILITY PLANT IN SERVICE	
2 -----	
3 1. To reclassify CWIP (Hawks Bluff Subdivision).	\$ 616,083
4	
5 2. To reflect 1989 donated property (Falcon Lea,	
6 Hawks Bluff, Sunshine Ranchers.	509,000
7	
8 3. To include 1989 Projected Plant Additions.	1,129,800
9	
10 4. To reflect 1990 donated property (Waverly,	
11 Regency, Hawks Bluff, Sterling Lakes).	737,500
12	
13 5. To reclassify Franchise Costs	
14 previously included in working capital.	37,730
15	
16 6. To reclassify overhead charged to Land.	150,006
17	-----
18 TOTAL ADJUSTMENTS TO UTILITY PLANT	\$ 3,180,119
19	=====
20	
21 LAND	
22 ----	
23 1. To reclassify overhead improperly	
24 charged to Land.	\$ (150,006)
25	=====
26	
27 CWIP	
28 ----	
29 1. To reclassify as plant additions in 1989.	\$ (616,083)
30	=====
31	
32 NON-USED AND USEFUL COMPONENTS	
33 -----	
34 1. To reflect plant held for future use.	\$ (1,178,074)
35	
36 2. To reflect accumulated depreciation related	
37 to plant held for future use.	172,199
38	-----
39 TOTAL ADJUSTMENTS TO NON-USED AND USEFUL PLANT	\$ (1,005,875)
40	=====

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SOUTH BROWARD UTILITY, INC.
 EXPLANATION OF THE ADJUSTMENTS TO
 WATER RATE BASE SCHEDULE NO. 1-A

DOCKET NO. 890360-WS
 SCHEDULE 1-C
 PAGE 2 OF 6

ADJUSTMENT -----	DOLLAR ADJUSTMENT -----
1 CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION	
2 -----	
3 1. To reflect 1989 Contributed Assets.	\$ (509,000)
4	
5 2. To reflect 1990 plant connection fees.	
6 (362 ERCs x \$753)	(272,586)
7	
8 3. To reflect 1990 Contributed Assets.	(737,500)
9	
10 4. To include CIAC imputed on margin reserve.	
11 (349 ERCs x \$753)	(262,797)
12	-----
13 TOTAL ADJUSTMENTS TO CIAC	\$ (1,781,883)
14	=====
15	
16 ACCUMULATED DEPRECIATION	
17 -----	
18 1. To reflect 1989 Depreciation on 12/31/88 UPIS.	\$ (126,840)
19	
20 2. To reflect 1989 Depreciation on 1989 Additions.	(30,200)
21	
22 3. To reflect 1990 Depreciation on 12/31/88 UPIS.	(126,840)
23	
24 4. To reflect 1990 Depreciation on 1989 Additions.	(60,402)
25	
26 5. To reflect 1990 Depreciation on 1990 Additions.	(8,576)
27	
28 6. To recalculate 12/31/88 Balance using	
29 Commission rates.	222,825
30	
31 7. To reflect depreciation on Franchise	
32 costs that were reclassified.	(943)
33	
34 8. To reflect depreciation on Land	
35 overhead that was reclassified.	(4,546)
36	-----
37 TOTAL ADJUSTMENTS TO ACCUMULATED DEPRECIATION	\$ (135,522)
38	=====

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SOUTH BROWARD UTILITY, INC.
EXPLANATION OF THE ADJUSTMENTS TO
WATER RATE BASE SCHEDULE NO. 1-A

DOCKET NO. 890360-WS
SCHEDULE 1-C
PAGE 3 OF 6

ADJUSTMENT -----	DOLLAR ADJUSTMENT -----
1 AMORTIZATION OF C.I.A.C. 2 -----	
3 1. To reflect 1989 amortization on 1988 CIAC	\$ 44,446
4	
5 2. To reflect 1989 amortization on 1989 Additions.	5,919
6	
7 3. To reflect 1990 amortization on 1988 CIAC.	44,446
8	
9 4. To reflect 1990 amortization on 1989 Additions.	11,837
10	
11 5. To reflect 1990 amortization on 1990 Additions.	16,038
12	
13 6. To recalculate 12/31/88 Balance using	
14 Commission rates.	(190,980)
15	-----
16 TOTAL ADJUSTMENTS TO AMORTIZATION OF CIAC	\$ (68,294)
17	=====
18	
19 WORKING CAPITAL ALLOWANCE	
20 -----	
21 1. To record the working capital allowance.	\$ 24,498
22	=====

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SOUTH BROWARD UTILITY, INC.
EXPLANATION OF THE ADJUSTMENTS TO
SEWER RATE BASE SCHEDULE NO. 1-B

DOCKET NO. 890360-WS
SCHEDULE 1-C
PAGE 4 OF 6

ADJUSTMENT -----	DOLLAR ADJUSTMENT -----
1 UTILITY PLANT IN SERVICE	
2 -----	
3 1. To reclassify CWIP (Hawks Bluff Subdivision).	\$ 616,084
4	
5 2. To reflect 1989 donated property (Falcon Lea,	
6 Hawks Bluff, Sunshine Ranchers.	509,000
7	
8 3. To include 1990 Projected Plant Additions.	0
9	
10 4. To reflect 1990 donated property (Waverly,	
11 Regency, Hawks Bluff, Sterling Lakes).	737,500
12	
13 5. To reclassify Franchise Costs	
14 previously included in working capital.	37,730
15	
16 6. To reclassify overhead charged to Land.	417,524
17	-----
18 TOTAL ADJUSTMENTS TO UTILITY PLANT	\$ 2,317,838
19	=====
20	
21 LAND	
22 ----	
23 1. To reclassify overhead improperly	
24 charged to Land.	\$ (417,524)
25	=====
26	
27 CWIP	
28 ----	
29 1. To reclassify as plant additions in 1989.	\$ (616,084)
30	=====
31	
32 NON-USED AND USEFUL COMPONENTS	
33 -----	
34 1. To reflect plant held for future use.	\$ (184,798)
35	
36 2. To reflect accumulated depreciation related	
37 to plant held for future use.	34,336
38	-----
39 TOTAL ADJUSTMENTS TO NON-USED AND USEFUL PLANT	\$ (150,462)
40	=====

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SOUTH BROWARD UTILITY, INC.
EXPLANATION OF THE ADJUSTMENTS TO
SEWER RATE BASE SCHEDULE NO. 1-B

DOCKET NO. 890360-WS
SCHEDULE 1-C
PAGE 5 OF 6

ADJUSTMENT -----	DOLLAR ADJUSTMENT -----
1 CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION	
2 -----	
3 1. To reflect 1989 Contributed Assets.	\$ (509,000)
4	
5 2. To reflect 1990 plant connection fees.	
6 (362 ERCs x \$602)	(217,924)
7	
8 3. To reflect 1990 Contributed Assets.	(737,500)
9	
10 4. To include CIAC imputed on margin reserve.	
11 (287 ERCs x \$602)	(172,774)
12	-----
13 TOTAL ADJUSTMENTS TO CIAC	\$ (1,637,198)
14	-----
15	
16 ACCUMULATED DEPRECIATION	
17 -----	
18 1. To reflect 1989 Depreciation on 12/31/88 UPIS.	\$ (114,992)
19	
20 2. To reflect 1989 Depreciation on 1989 Additions.	(12,501)
21	
22 3. To reflect 1990 Depreciation on 12/31/88 UPIS.	(114,992)
23	
24 4. To reflect 1990 Depreciation on 1989 Additions.	(25,002)
25	
26 5. To reflect 1990 Depreciation on 1990 Additions.	(8,195)
27	
28 6. To recalculate 12/31/88 Balance using	
29 Commission rates.	185,860
30	
31 7. To reflect depreciation on Franchise	
32 costs that were reclassified.	(943)
33	
34 8. To reflect depreciation on Land	
35 overhead that was reclassified.	(13,048)
36	-----
37 TOTAL ADJUSTMENTS TO ACCUMULATED DEPRECIATION	(103,813)
38	-----

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RETURN TO THE PREVIOUS MENU
 EXPLANATION OF THE ADJUSTMENTS TO
 SEWER RATE BASE SCHEDULE NO. 1-B

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 SCHEDULE 1-C
 PAGE 6 OF 6

ADJUSTMENT -----	DOLLAR ADJUSTMENT -----
1 AMORTIZATION OF C.I.A.C.	
2 -----	
3 1. To reflect 1989 amortization on 1988 CIAC	\$ 40,023
4	
5 2. To reflect 1989 amortization on 1989 Additions.	5,656
6	
7 3. To reflect 1990 amortization on 1988 CIAC.	40,023
8	
9 4. To reflect 1990 amortization on 1989 Additions.	11,312
10	
11 5. To reflect 1990 amortization on 1990 Additions.	13,529
12	
13 6. To recalculate 12/31/88 Balance using	
14 Commission rates.	(248,025)
15	-----
16 TOTAL ADJUSTMENTS TO AMORTIZATION OF CIAC	\$ (137,482)
17	=====
18	
19 WORKING CAPITAL ALLOWANCE	
20 -----	
21 1. To record the working capital allowance.	\$ 34,342
22	=====
23	

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SOUTH BROWARD UTILITY, INC.
 SCHEDULE OF CAPITAL STRUCTURE
 TEST YEAR ENDED DECEMBER 31, 1990

SCHEDULE NO. 2-A
 DOCKET NO. 890360-WS

COMPONENT	BALANCE PER MFR	TEST YEAR ADJUSTMENTS	ADJUSTED TEST YEAR	PRO RATA ADJUSTMENTS	ADJUSTED BALANCE	WEIGHT	COST	WEIGHTED COST
1								
2								
3 LONG-TERM DEBT	2,800,000	485,055	3,285,055	(1,055,669)	2,229,386	62.42%	10.42%	6.50%
4 SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%
5 CUSTOMER DEPOSITS	53,158	10,860	64,018	(20,572)	43,446	1.22%	3.23%	0.04%
6 COMMON EQUITY	(2,321,158)	4,234,830	1,913,672	(614,968)	1,298,704	36.36%	13.95%	5.07%
7 ITC'S	0	0	0	0	0	0.00%	0.00%	0.00%
8 DEFERRED INCOME TAXES	0	0	0	0	0	0.00%	0.00%	0.00%
9 OTHER CAPITAL	3,591,630	(3,591,630)	0	0	0	0.00%	8.54%	0.00%
10								
11								
12 TOTAL	4,123,630	1,139,115	5,262,745	(1,691,209)	3,571,536	100.00%		11.62%
13	*****	*****	*****	*****	*****	*****		*****
14								
15								
16								
17								
18								
19								
20								
21								

	RANGE OF REASONABLENESS:		HIGH	LOW
	EQUITY		14.95%	12.95%
	OVERALL RATE OF RETURN		11.98%	11.25%

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SOUTH BROWARD UTILITY, INC.
 EXPLANATION OF THE ADJUSTMENTS TO
 CAPITAL STRUCTURE SCHEDULE NO. 2-A

DOCKET NO. 890360-WS
 SCHEDULE 2-B
 PAGE 1 OF 1

ADJUSTMENT -----	DOLLAR ADJUSTMENT -----
1 LONG TERM DEBT	
2 -----	
3 1. To reflect a hypothetical capital structure.	\$ 0
4	
5 2. To reflect the debt payments on the	
6 outstanding debt at 12/31/88.	(600,000)
7	
8 3. To reflect the projected additions to debt.	1,129,800
9	
10 4. To reflect the prepaid loan costs as an offset	
11 to the principal amount.	(44,745)
12	-----
13 TOTAL ADJUSTMENTS TO LONG TERM DEBT	\$ 485,055
14	=====
15 COMMON STOCK	
16 -----	
17 1. To reflect a hypothetical capital structure.	\$ 0
18	
19 2. To reflect the conversion of advances to	
20 additional paid in capital.	4,234,830
21	-----
22 TOTAL ADJUSTMENTS TO COMMON EQUITY	\$ 4,234,830
23	=====
24	
25 CUSTOMER DEPOSITS	
26 -----	
27 1. To reflect a hypothetical capital structure.	\$ 0
28	
29 2. To reflect the	
30 stock for the test year at zero.	10,860
31	-----
32 TOTAL ADJUSTMENTS TO CUSTOMER DEPOSITS	\$ 10,860
33	=====
34	
35 ADVANCES FROM SHAREHOLDER	
36 -----	
37 1. To reflect a hypothetical capital structure.	\$ 0
38	
39 2. To reflect the additional advances	
40 made by the shareholder during 1989.	643,200
41	
42 3. To reflect the conversion of advances to	
43 additional paid in capital.	(4,234,830)
44	-----
45 TOTAL ADJUSTMENTS TO ADVANCES FROM SHAREHOLDER	\$ (3,591,630)
46	=====
47	

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SOUTH BROWARD UTILITY, INC.
STATEMENT OF WATER OPERATIONS
TEST YEAR ENDED DECEMBER 31, 1990

SCHEDULE NO. 3-A
DOCKET NO. 890360-WS

DESCRIPTION	(A) AVERAGE TEST YEAR PER UTILITY	(B) ADJUSTMENTS TO THE TEST YEAR	(C) ADJUSTED TEST YEAR	(D) CONSTRUCTED ADJUSTMENTS	(E) CONSTRUCTED TEST YEAR
1					
2					
3 OPERATING REVENUES	\$ 169,170	\$ 225,852	\$ 395,022	\$ 269,066	\$ 664,088
4 OPERATING EXPENSES:					
5 OPERATION & MAINTENANCE	\$ 206,123	\$ 85,173	\$ 291,296	\$	\$ 291,296
6 DEPRECIATION	172,340	(90,113)	82,227		82,227
7 AMORTIZATION	0		0		0
8 TAXES OTHER THAN INCOME	48,659	27,988	76,647	12,108	88,755
9 INCOME TAXES	0	0	0	0	0
10					
11 TOTAL OPERATING EXPENSES	\$ 427,122	\$ 23,048	\$ 450,170	\$ 12,108	\$ 462,278
12					
13 OPERATING INCOME	\$ (257,952)	\$ 202,804	\$ (55,148)	\$ 256,958	\$ 201,810
14					
15 RATE OF RETURN	-11.26%		-2.41%		11.62%
16					
17					

SOUTH BROWARD UTILITY, INC.
STATEMENT OF SEWER OPERATIONS
TEST YEAR ENDED DECEMBER 31, 1990

SCHEDULE NO. 3-B
DOCKET NO. 890360-WS

DESCRIPTION	(A) AVERAGE TEST YEAR PER UTILITY	(B) ADJUSTMENTS TO THE TEST YEAR	(C) ADJUSTED TEST YEAR	(D) CONSTRUCTED ADJUSTMENTS	(E) CONSTRUCTED TEST YEAR
1					
2					
3 OPERATING REVENUES	\$ 237,219	\$ 335,174	\$ 572,393	\$ 70,824	\$ 643,217
4 OPERATING EXPENSES:					
5 OPERATION & MAINTENANCE	\$ 210,385	\$ 89,845	\$ 300,230	\$	\$ 300,230
6 DEPRECIATION	107,281	(39,176)	68,105		68,105
7 AMORTIZATION	0	0	0		0
8 TAXES OTHER THAN INCOME	56,590	2,041	58,631	3,187	61,818
9 INCOME TAXES	0	0	0	0	0
10					
11 TOTAL OPERATING EXPENSES	\$ 374,256	\$ 52,710	\$ 426,966	\$ 3,187	\$ 430,153
12					
13 OPERATING INCOME	\$ (137,037)	\$ 282,464	\$ 145,427	\$ 67,637	\$ 213,065
14					
15 RATE OF RETURN	-5.39%		5.72%		11.62%
16					

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SOUTH BROWARD UTILITY, INC.
EXPLANATION OF THE ADJUSTMENTS TO
WATER OPERATING STATEMENT NO. 3-A

DOCKET NO. 890360-WS
SCHEDULE 3-C
PAGE 1 OF 6

ADJUSTMENT -----	DOLLAR ADJUSTMENT -----
1 OPERATING REVENUES	
2 -----	
3 1. To project 1989 Revenues.	\$ 114,800
4	
5 2. To project 1990 Revenues.	114,800
6	
7 3. To adjust revenues to annualized amount.	(3,748)
8	-----
9 TOTAL ADJUSTMENT TO OPERATING REVENUES	\$ 225,852
10	=====
11 OPERATION AND MAINTENANCE	
12 -----	
13 1. To include a 5% escalation factor for 1989.	\$ 3,516
14	
15 2. To include a 5% escalation factor for 1990.	3,692
16	
17 3. To include 50% of an additional	
18 employee in 1990.	12,500
19	
20 4. To include a 1989 growth factor for	
21 variable expenses.	27,319
22	
23 5. To include a 1990 growth factor for	
24 variable expenses.	41,944
25	
26 6. To include rate case expense.	14,720
27	
28 7. To reallocate postage and telephone expense.	(933)
29	
30 8. To remove the non-utility expense.	(869)
31	
32 9. To remove an out-of-period car rental expense.	(625)
33	
34 10. To adjust purchased power and chemicals	
35 for unaccounted for water.	(16,091)
36	-----
37 TOTAL ADJUSTMENTS TO OPERATION	
38 AND MAINTENANCE	\$ 85,173
39	=====
40	
41 DEPRECIATION	
42 -----	
43 1. To reflect Depreciation Expense	
44 on 1989 UPIS Additions.	\$ 60,402
45	
46 2. To reflect Amortization	
47 of 1989 CIAC Additions.	(11,838)
48	
49 3. To remove non-used and useful depreciation expense.	(42,125)

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SOUTH BROWARD UTILITY, INC.
EXPLANATION OF THE ADJUSTMENTS TO
WATER OPERATING STATEMENT NOS. 3-A

DOCKET NO. 890360-WS
SCHEDULE 3-C
PAGE 2 OF 6

ADJUSTMENT -----	DOLLAR ADJUSTMENT -----
1 DEPRECIATION (CONT'D)	
2 -----	
3 4. To reflect Depreciation Expense	
4 on 1990 UPIS Additions.	8,576
5	
6 5. To reflect Amortization	
7 of 1990 CIAC Additions.	(12,707)
8	
9 6. To reflect the depreciation related	
10 to the Franchise costs reclassified.	943
11	
12 7. To reflect the depreciation related	
13 to the Land overhead reclassified.	4,546
14	
15 8. To recalculate the test year depreciation	
16 to reflect the PSC rates (net of CIAC).	(89,946)
17	
18 9. To reflect amortization related to margin reserve.	(7,964)
19	-----
20 TOTAL ADJUSTMENTS TO DEPRECIATION	\$ (90,113)
21	=====
22	
23 TAXES OTHER THAN INCOME	
24 -----	
25 1. To reflect reg. assess. fees on 1989 Revenues.	\$ 5,166
26	
27 2. To adjust 1989 State Intangible Tax.	(217)
28	
29 3. To adjust 1989 Payroll Taxes.	264
30	
31 4. To reflect reg. assess., fees on 1990 Revenues.	4,997
32	
33 5. To adjust 1990 property Tax for projected additions.	6,482
34	
35 6. To adjust 1990 State Intangible Tax.	(1,062)
36	
37 7. To adjust 1990 Payroll Taxes.	1,261
38	
39 8. To include regulatory assessment fees for the	
40 test year.	7,613
41	
42 9. To reduce property taxes to take advantage of the	
43 discount and to reallocate based on plant.	19,721
44	
45 10. To remove the non-used and useful property taxes.	(16,237)
46	-----
47 TOTAL ADJUSTMENT TO TAXES OTHER THAN INCOME	\$ 27,988
48	=====

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SOUTH BROWARD UTILITY, INC.
 EXPLANATION OF THE ADJUSTMENTS TO
 WATER OPERATING STATEMENT NOS. 3-A

DOCKET NO. 890360-WS
 SCHEDULE 3-C
 PAGE 3 OF 6

ADJUSTMENT -----	DOLLAR ADJUSTMENT -----
1 INCOME TAXES	
2 -----	
3 To adjust test year income taxes.	\$ 0
4	=====
5	
6 OPERATING REVENUES	
7 -----	
8 To reflect recommended increase (decrease)	
9 to allow a fair rate of return.	\$ 269,066
10	=====
11	
12 TAXES OTHER THAN INCOME	
13 -----	
14 To reflect regulatory assessment	
15 fees on revenue change.	\$ 12,108
16	=====
17	
18 INCOME TAXES	
19 -----	
20 To reflect income taxes on revenue	
21 change.	\$ 0
22	=====

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SOUTH BROWARD UTILITY, INC.
EXPLANATION OF THE ADJUSTMENTS TO
SEWER OPERATING STATEMENT NO. 3-B

DOCKET NO. 890360-WS
SCHEDULE 3-C
PAGE 4 OF 6

ADJUSTMENT -----	DOLLAR ADJUSTMENT -----
1 OPERATING REVENUES	
2 -----	
3 1. To project 1989 Revenues.	\$ 160,979
4	
5 2. To project 1990 Revenues.	160,979
6	
7 3. To adjust revenues to annualized amount.	13,216
8	-----
9 TOTAL ADJUSTMENT TO OPERATING REVENUES	\$ 335,174
10	=====
11 OPERATION AND MAINTENANCE	
12 -----	
13 1. To include a 5% escalation factor for 1989.	\$ 3,516
14	
15 2. To include a 5% escalation factor for 1990.	3,692
16	
17 3. To include 50% of an additional	
18 employee in 1990.	12,500
19	
20 4. To include a 1989 growth factor for	
21 variable expenses.	22,146
22	
23 5. To include a 1990 growth factor for	
24 variable expenses.	34,002
25	
26 6. To include rate case expense.	14,720
27	
28 7. To reallocate postage and telephone expense.	933
29	
30 8. To remove the non-utility expense.	(869)
31	
32 9. To remove an out-of-period car rental expense.	(625)
33	
34 10. To remove a violation penalty.	(170)
35	-----
36 TOTAL ADJUSTMENTS TO OPERATION	
37 AND MAINTENANCE	\$ 89,845
38	=====
39	
40 DEPRECIATION	
41 -----	
42 1. To reflect Depreciation Expense	
43 on 1989 UPIS Additions.	\$ 25,002
44	
45 2. To reflect Amortization	
46 of 1989 CIAC Additions.	(11,312)
47	
48 3. To remove non-used and useful depreciation expense.	(6,649)
49	

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SOUTH BROWARD UTILITY, INC.
EXPLANATION OF THE ADJUSTMENTS TO
SEWER OPERATING STATEMENT NOS. 3-B

DOCKET NO. 890360-WS
SCHEDULE 3-C
PAGE 5 OF 6

ADJUSTMENT -----	DOLLAR ADJUSTMENT -----
1 DEPRECIATION CONT'D	
2 -----	
3 4. To reflect Depreciation Expense	
4 on 1990 UPIS Additions.	8,195
5	
6 5. To reflect Amortization	
7 of 1990 CIAC Additions.	(11,600)
8	
9 6. To reflect the depreciation related	
10 to the Franchise costs reclassified.	943
11	
12 7. To reflect the depreciation related	
13 to the Land overhead reclassified.	4,546
14	
15 8. To recalculate the test year depreciation	
16 to reflect the PSC rates (net of CIAC).	(42,902)
17	
18 9. To reflect amortization related to margin reserve.	(5,399)
19	-----
20 TOTAL ADJUSTMENTS TO DEPRECIATION	\$ (39,176)
21	-----
22	
23 TAXES OTHER THAN INCOME	
24 -----	
25 1. To reflect reg. assess. fees on 1989 Revenues.	\$ 7,244
26	
27 2. To adjust 1989 State Intangible Tax.	(217)
28	
29 3. To adjust 1989 Payroll Taxes.	264
30	
31 4. To reflect reg. assess. fees on 1990 Revenues.	7,839
32	
33 5. To reduce property taxes to take advantage of the	
34 discount and to reallocate based on plant.	(23,078)
35	
36 6. To adjust 1990 State Intangible Tax.	(1,062)
37	
38 7. To adjust 1990 Payroll Taxes.	1,261
39	
40 8. To include regulatory assessment fees for the	
41 test year.	10,675
42	
43 9. To remove the non-used and useful property taxes.	(885)
44	-----
45 TOTAL ADJUSTMENT TO TAXES OTHER THAN INCOME	\$ 2,041
46	-----

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SOUTH BROWARD UTILITY, INC.
 EXPLANATION OF THE ADJUSTMENTS TO
 SEWER OPERATING STATEMENT NOS. 3-B

DOCKET NO. 890360-WS
 SCHEDULE 3-C
 PAGE 6 OF 6

ADJUSTMENT -----	DOLLAR ADJUSTMENT -----
1 INCOME TAXES	
2 -----	
3 To adjust test year income taxes.	\$ 0
4	-----
5	
6 OPERATING REVENUES	
7 -----	
8 To reflect recommended increase (decrease)	
9 to allow a fair rate of return.	\$ 70,824
10	-----
11	
12 TAXES OTHER THAN INCOME	
13 -----	
14 To reflect regulatory assessment	
15 fees on revenue change.	\$ 3,187
16	-----
17	
18 INCOME TAXES	
19 -----	
20 To reflect income taxes on revenue	
21 change.	0
22	-----
23	
24	
25	

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SOUTH BROWARD UTILITY, INC.
WATER OPERATION & MAINTENANCE EXPENSES
TEST YEAR ENDED DECEMBER 31, 1990

SCHEDULE NO. 4
DOCKET NO. 890360-WS

ACCT NO.	ACCOUNT TITLE	(A) UTILITY BALANCE PER BOOKS	(B) ADJUSTMENTS TO THE TEST YEAR	(C) ADJUSTED TEST YEAR	(D) PRO FORMA ADJUSTMENTS	(E) PRO FORMA TEST YEAR
1	601 SALARIES AND WAGES - EMPLOYEES	\$ 70,315	\$ 19,708	\$ 90,023	\$ 0	\$ 90,023
2	615 PURCHASED POWER	25,968	35,244	61,212	0	61,212
3	618 CHEMICALS	19,540	26,520	46,060	0	46,060
4	620 MATERIALS AND SUPPLIES	5,525	(1,683)	3,842	0	3,842
5	630 CONTRACTUAL SERVICES	32,857	(6,909)	25,948	0	25,948
6	650 TRANSPORTATION EXPENSES	5057	(625)	4,432	0	4,432
7	655 INSURANCE	9,454	0	9,454	0	9,454
8	665 RATE CASE EXPENSE	0	14,720	14,720	0	14,720
8	675 MISCELLANEOUS EXPENSES	37,407	(1,802)	35,605	0	35,605
9						
10	TOTAL	\$ 206,123	\$ 85,173	\$ 291,296	\$ 0	\$ 291,296
11						
12						
13						
14						
15						
16						
17	SEWER OPERATION & MAINTENANCE EXPENSES					
18						
19						
20						
21						
22	ACCT	(A)	(B)	(C)	(D)	(E)
23	NO.	UTILITY	ADJUSTMENTS	ADJUSTED	PRO FORMA	PRO FORMA
24		BALANCE	TO THE	TEST YEAR	ADJUSTMENTS	TEST YEAR
24		PER BOOKS	TEST YEAR	TEST YEAR		
25	701 SALARIES AND WAGES - EMPLOYEES	\$ 70,315	\$ 19,708	\$ 90,023	\$ 0	\$ 90,023
26	710 PURCHASED SEWAGE TREATMENT	1,330	1,805	3,135	0	3,135
27	711 SLUDGE REMOVAL EXPENSE	2,335	3,169	5,504	0	5,504
28	715 PURCHASED POWER	15,085	20,474	35,559	0	35,559
29	718 CHEMICALS	21,219	28,799	50,018	0	50,018
30	720 MATERIALS AND SUPPLIES	1,401	1,901	3,302	0	3,302
31	730 CONTRACTUAL SERVICES	62,953	0	62,953	0	62,953
32	750 TRANSPORTATION EXPENSES	4,251	(625)	3,626	0	3,626
33	755 INSURANCE	9,454	0	9,454	0	9,454
34	765 RATE CASE EXPENSE	0	14,720	14,720	0	14,720
35	775 MISCELLANEOUS EXPENSES	22,042	(106)	21,936	0	21,936
36						
37	TOTAL OPERATION AND MAINTENANCE	\$ 210,385	\$ 89,845	\$ 300,230	\$ 0	\$ 300,230
38						

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SCHEDULE NO. 5
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SOUTH BROWARD UTILITY, INC.
 DOCKET NUMBER 890360-WS

Allowance for Funds Prudently Invested-Water
 Schedule of Charges:

	1990	1991	1992	1993	1994
	----	----	----	----	----
January	12.63	164.74	324.68	499.14	689.78
February	25.25	177.97	339.11	514.90	707.04
March	37.88	191.20	353.54	530.66	724.30
April	50.50	204.43	367.96	546.42	741.55
May	63.13	217.66	382.39	562.19	758.81
June	75.76	230.88	396.81	577.95	776.06
July	88.38	244.11	411.24	593.71	793.32
August	101.01	257.34	425.67	609.48	810.57
September	113.63	270.57	440.09	625.24	827.83
October	126.26	283.80	454.52	641.00	845.08
November	138.89	297.03	468.95	656.77	862.34
December	151.51	310.26	483.37	672.53	879.59

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SCHEDULE NO. 5
PAGE 2 of 2

SOUTH BROWARD UTILITY, INC.
DOCKET NUMBER 890360-WS

Allowance for Funds Prudently Invested-Sewer
Schedule of Charges:

	1990	1991	1992	1993	1994
	----	----	----	----	----
January	9.34	121.83	240.17	368.93	509.30
February	18.67	131.62	250.82	380.54	521.98
March	28.01	141.41	261.47	392.14	534.66
April	37.35	151.20	272.12	403.75	547.33
May	46.68	160.99	282.77	415.36	560.01
June	56.02	170.78	293.42	426.97	572.69
July	65.36	180.57	304.07	438.58	585.37
August	74.69	190.36	314.72	450.19	598.05
September	84.03	200.15	325.37	461.79	610.73
October	93.37	209.94	336.02	473.40	623.41
November	102.70	219.73	346.67	485.01	636.09
December	112.04	229.52	357.32	496.62	648.76
