FLORIDA PUBLIC SERVICE COMMISSION

Fletcher Building
101 East Gaines Street
Tallahassee, Florida 32399-0850

M E M O R A N D U M

August 22, 1991

TO : DIRECTOR, DIVISION OF RECORDS AND REPORTING

FROM : DIVISION OF WATER AND SEWER ([illegible], GOLDEN, CROUCH)
DIVISION OF LEGAL SERVICES (BEDELL, DAVIS) CB
DIVISION OF AUDITING AND FINANCE ([illegible]) RSM ALM

RE : UTILITY: SAILFISH POINT UTILITY CORPORATION
[redacted]
COUNTY: MARTIN
CASE: APPLICATION FOR INCREASED RATES

AGENDA : 9/3/91 - SPECIAL AGENDA - CONTROVERSIAL PARTIES MAY NOT PARTICIPATE

CRITICAL DATES: EIGHT MONTH EXPIRATION DATE: 9/3/91

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CASE BACKGROUND

Sailfish Point Utility Corporation, (Sailfish Point or utility) is a Class C utility located in Stuart, Florida. The utility is a wholly-owned subsidiary of Sailfish Point, Inc., which is wholly owned by Mobil Land Development Corporation (Mobil). As of December 31, 1989, the utility had 171 water customers and 157 wastewater customers. Water treatment is provided by reverse osmosis. The water system had actual operating revenues of $161,581 and a net loss operating loss of $91,111 for the twelve months ended June 30, 1990. The wastewater system had actual operating revenues of $92,996 and a net operating loss of $73,378 for the same period.

The Commission has not previously considered this utility's rates within a full rate case; nor has a rate of return on equity been set. A 1983 price index adjustment was acknowledged, by Order No. 12963.

On December 18, 1989, Sailfish Point filed an application for increased rates (Docket No. 891114-WS). By order No. 22609, the Commission granted an interim increase and suspended the requested rates. Because of an amendment increasing its revenue request and a notice violation, the case was later dismissed by Order No. 23123 on June 26, 1990. A refund of the interim increase was required by Order No. 23123.

On December 28, 1990, the utility filed its application in this docket for a rate increase and that date was established as the official date of filing. The test year for final rate determination is the projected twelve-month period ended June 30, 1992. The interim test period is the twelve-months ended June 30, 1990. The utility requested that this case be scheduled for formal hearing and not processed pursuant to the proposed agency action process as provided for in Section 367.081 (8), Florida Statutes. The case was set for hearing.

The utility requested interim water rates designed to generate $258,387. These revenues exceeded test year revenues by $96,807 for an increase of 59.91%. The utility requested interim wastewater rates designed to generate annual revenues of $170,674. These requested revenues exceeded test year revenues by $77,678 for a 88.53% increase. The utility stated that this increase in revenue would only be sufficient to recover operating costs.

On March 5, 1991, the Commission issued Order No. 24202 which suspended the proposed rates and approved collection of interim rates designed to generate additional water revenues of $96,807 (59.91%) and wastewater revenues of $77,678 (85.53%).

The Commission acknowledged the intervention of the Office of Public Counsel by Order No. 24263 issued on March 20, 1991. On May 7, 1991, the Commission issued Order No. 24486 granting the intervention of the Sailfish Point Property Owners Association.

The prehearing conference was held on June 6, 1991, in Tallahassee, Florida. The hearing was held at the Sailfish Point Clubhouse in Hutchinson Island, Florida, on June 26-27, 1991, before Commissioners Easley and Deason. Briefs from all parties were filed with the Division of Records and Reporting on July 22, 1991.

The utility has requested final water rates designed to generate annual revenues of $572,814, which exceed test year revenues by $371,755, for a 184.9% increase. The utility has requested final wastewater rates designed to generate annual revenues of $477,580, which exceed test year revenues by $361,910 for a 312.88% increase. The utility states that the final rates requested would be sufficient to recover a 9.87% rate of return on rate base.

Docket No. 900816-WS
August 22, 1991

ACRONYMS

The following is a list of acronyms that are used throughout this recommendation.

COMPANY AND PARTY NAMES

Office of Public Counsel	OPC
Sailfish Point Property Owners Representatives	SPOR
Sailfish Point Utility Corporation	SPUC
Sailfish Point INC.	SPI
Property Owners Association	POA
Mobil Land Development Corporation	MLDC
Mobil Land Development Florida	MLDF

TECHNICAL TERMS

Construction Work in Progress	CWIP
Contributions in Aid of Construction	CIAC
Equivalent Residential Units	ERCs
Gallons Per Day	GPD
Gallons Per Minute	GPM
Investments Tax Credits	ITCs
Million Gallons Per Day	MGD
Minimum Filing Requirements	MFRs
Reverse Osmosis	RO
Water Treatment Plant	WTP
Wastewater Treatment Plant	WWTP

DISCUSSION OF ISSUES

PROPOSED STIPULATIONS

ISSUE A: Should the proposed stipulations as stated in the prehearing order and the staff analysis be approved: (This issue is not included in the Prehearing Order)

RECOMMENDATION: Yes. (MONIZ)

POSITION OF PARTIES:

SPUC: Agrees with all six stipulations.

OPC: Agrees with all six stipulations.

SPOR: Agrees with stipulations 1 through 4. Has no position on Stipulations 5 and 6.

STAFF ANALYSIS: The utility, OPC, SPOR, and Commission staff have reached the following agreements. Staff believes these proposed stipulations are reasonable and should be adopted.

1. The $58,000 for contingency costs should be removed from the $352,800 provision for water plant expansion.

2. Wastewater plant in service, account 360, should be reduced by $20,243 for amounts incorrectly capitalized.

3. Adjustments should be made to decrease retained earnings by $357, to increase CIAC by $295 and to increase test year amortization by $31, for meter fees collected but not recorded in a prior period.

4. Pro forma miscellaneous revenues should be reduced by $4,375 in accordance with Audit Exception No. 3.

5. The utility should change to guideline depreciation rates per Rule 25-30.140, Florida Administrative Code.

6. Current tax expenses should not be increased by the amortization of tax on CIAC.

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ISSUE B: Should the utility's Motion to Strike Reply Brief of SPOR or in the alternative, Motion to File Reply Brief, be denied?

RECOMMENDATION: Yes. (Bedell)

POSITION OF PARTIES

SPUC: No. The Reply Brief should be struck because SPOR has relied on material outside the record.

OPC: Yes.

SPOR: Yes.

STAFF ANALYSIS: On August 2, 1991, the utility filed its motion seeking to strike the brief of SPOR or, in the alternative, requesting leave to file a reply brief. The basis for the motion is that SPOR has failed to adequately identify portions of the record on which it relies in the brief and it has cited in its brief material not included in the index identifying the documents on which SPOR intended to rely. On August 9, 1991, OPC and SPOR filed responses in opposition to the utility's motion. SPUC's motion contains argument that has been addressed several times during the pendency of this proceeding. The fundamental argument of the utility is that the material relied on by SPOR is outside of the evidentiary record.

Staff believes that the motion should be denied for the following reasons: all briefs filed after a hearing have the potential for containing material outside the record; when material which is outside the record is referred to or relied on in the brief, the Commission simply does not rely on such material, which has the effect of striking that material; and there is no prejudice to the utility where the Commission does not rely on material outside the record. Staff also believes that it is appropriate to deny the alternative request by the utility to file a reply brief. The utility has not been prejudiced in any way by SPOR's reliance on material outside of the record, if in fact it is outside of the record. Further, SPUC has failed to show a compelling reason on which to base the granting of the alternative motion to file a reply brief. Therefore, staff recommends that the Motion to Strike Brief By SPOR or in the alternative, Motion to File Reply Brief, be denied.

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

RECOMMENDATION: Yes. Staff recommends that the Quality of Service provided by the Sailfish Point Utility Corporation is satisfactory. (LIVELY)

POSITION OF PARTIES

SPUC: Yes.

SPOR: N/A.

OPC: At the hearing there was considerable customer testimony complaining about the quality of the water. While the utility should be required to respond and correct any remaining problems the Citizens have not proposed an adjustment to the revenue requirement.

STAFF ANALYSIS: When evaluating quality of service, staff reviews the quality of the utility's product in terms of how well the drinking water and the wastewater effluent meet standards set forth by the state of Florida; operational conditions of the plant which relate to the plant operation and permits issued by the Department of Enviromental Regulation (DER); and, customer satisfaction. Staff review in this case is based upon the testimony in the record as detailed below.

Water Treatment Facility The water treatment plant is a reverse osmosis type of water treatment process which produces 250,000 GPD. This is accomplished with two completely separate plants rated at 125,000 GPD each. Expansion to 350,000 GPD is scheduled for completion in 1992. There are three water wells: the wells are approximately 1000 feet deep, one rated at 175 GPM and two at 700 GPM. One well does not produce sufficient flow to meet plant demands and is used only as a standby.

After the water is treated, it is stored in two ground storage tanks with capacity of 184,000 gal. and 281,104 gal; one 9,000 gal. clearwell and a system hydropneumatic tank with a capacity of 10,000 gal. Water is pumped into the distribution with three high service pumps rated at 210, 420 and 1,100 GPM. The maximum daily flow for the year which ended June 30, 1990 was 178,600 GPD (124 GPM), and the required fire flow is 1,500 GPM for 2 hours for Condo's. (EX. 2, Vol I, PG. 136) (TR. 576, 577)

Wastewater Treatment Facility The wastewater treatment facility consists of a conventional extended aeration treatment process and filtration using precast concrete tankage. Treated effluent is stored in a 1,250,000 gallon storage reservoir and ultimately sprayed on the golf course. The existing plant was built with a single 125,000 GPD aeration basin. Although the plant has been allowed to operate under a construction permit, it has never received an operating permit. DER will extend the construction permit for the plant as it stands; the utility will implement the modifications necessary to meet DER requirements; and as a result of these modifications, the plant will be rerated to 250,000 GPD. (TR. 483, 484)

DER Testimony: Mr. Francisco J. Perez with the Department of Environmental Regulation's West Palm Beach office (DER), prefiled testimony concerning the Sailfish Point Utility water system. He stated that the water produced by the company meets all state and federal requirements for primary and secondary water quality standards except for corrosivity. And that the company had been issued a construction permit to install a calcite contactor which will make the water less corrosive. (TR. 696) Recent chemical analysis of the drinking water suggested the need for additional treatment with calcium carbonate to control the corrosivity of the water. Mr. Perez stated in his testimony that permitting was in progress for the addition of calcium carbonate in order to comply with corrosivity standards. (TR. 697, 698) No enforcement action is currently pending by the DER against the Sailfish Point Utility system. (TR. 698) Mr. Reese the consulting engineer for Sailfish Point Utility, stated that the utility had recommended and installed a low operational cost passive system (calcite contactor) to introduce calcium carbonate into the water and reduce corrosive tendencies. (TR. 482)

Mr. Perez of DER also stated in his testimony that the plant is properly staffed and maintained by a sufficient number of certified operators as specified by the DER rules. (TR. 697) The utility serves residential units, marinas and a restaurant. The irrigation system is piped separately and is controlled by the homeowners association. Utility personnel inspect each service at the time of connection and require vacuum breakers in Marina hose bibs. (TR. 697)

Mr. William J. Thiel, also with the DER's West Palm Beach office prefiled testimony concerning the Sailfish Point Utility wastewater system. He stated that the utility has a current construction permit to construct a 0.125 MGD expansion with effluent disposal via public access spray irrigation of the golfcourse. (TR. 692) Following the completion of permitted modifications the facility will be in compliance with all DER requirements for the reuse rules for irrigation (Rule 17-610, 17-611, and 17-600.530, Florida Administrative Code). (TR. 693) Mr. Thiel also stated that the plant is sufficiently staffed. Maintenance of the treatment, collection and disposal facilities is satisfactory; and no enforcement action is pending by DER against the Sailfish Point utility system. (TR. 694)

<u>Customer Testimony</u> Of the customers attending the hearing, 20 customers testified regarding the Sailfish Point Utility. The majority of customers who testified opposed the large rate increase. (TR. 10, 11, 13, 15, 17, 18, 22, 36, 38, 43, 47, 60, 62) A number of them stated that they had been led to believe (by Mobil) that the utility service was part of an amenities package like the roads, tennis courts, and beach. (TR. 11, 22, 43, 60, 62) Eight of the customers who testified stated that the water tastes bad, and many of them said that they either had their own water purifying systems or purchased bottled water. (TR. 11, 15, 18, 30, 36, 41, 43, 59) As stated by utility witness Reese, the corrosive nature of the water was causing deterioration of any metallic piping and the water quality deteriorated from the corrosion byproducts. (TR. 482) A low operational cost passive system (calcite contactor) to introduce calcium into the water and reduce corrosive tendencies has been installed. (TR. 482) One of the customers stated that the water was satisfactory. (TR. 13) None of the customers who testified had any adverse comments about the utility's customer relations or the utility's wastewater plant. Two of the customers stated that the utility was very responsive to their complaints. (TR. 18, 35)

In view of the testimony and evidence, staff recommends the Commission should find that the quality of service provided by Sailfish Point Utility in treating and distributing of water is satisfactory, and that the quality of service provided in collecting, treating, and disposing of wastewater is satisfactory.

RATE BASE

ISSUE 2: Are contingency payments counted twice in the projected cost of the wastewater treatment plant?

RECOMMENDATION: No, an adjustment is not necessary. (MONIZ)

POSITION OF PARTIES:

SPUC: The accepted contractor bid price of $263,090 does not include engineering or contingency costs. The contingency cost is not counted twice in $315,600 projected cost of the wastewater treatment plant.

OPC: No adjustment is proposed.

SPOR: Same as staff.

STAFF ANALYSIS: In its filing the utility added contingency fees of 20% to the projected costs of the wastewater treatment plant expansion of $263,090. (EX. 2, Pg. 14) There was no testimony on this issue at hearing and no evidence was submitted to show there was a double counting.

In its brief the utility stated that contingency payments are not counted twice in the projected cost of the wastewater treatment plant. It also stated that the cost of $315,600 is the accepted contractor bid price of $263,090 plus a 20% contingency allowance to cover engineering and overheads. (BR. 9)

The Office of Public Counsel stated in its brief that no testimony was presented at hearing that would tend to support an adjustment to the revenue requirement. (BR. 3)

Therefore, staff recommends that no adjustment is necessary since this has become a non-issue.

ISSUE 3: Should the cost of the water distribution and wastewater collection lines and mains located on the Sailfish Point Property outside of the Utility Parcel be included in rate base calculations?

RECOMMENDATION: Yes. No adjustments are necessary. (MONIZ)

POSITION OF PARTIES:

SPUC: Yes. The water distribution and wastewater collection lines and mains are a part of the property owned by the utility and are necessary for the utility to provide service to its customers in accordance with its certificate

OPC: Adopts SPOR's position.

SPOR: No. Those improvements were contributed by the Developer to the overall improvement of the total development just as were the roads, storm water sewers and irrigation systems. They should be treated as CIAC and not included in the rate base.

STAFF ANALYSIS: Utility witness Seidman states in his direct testimony that rate base is net of CIAC (TR. 168) and CIAC was adjusted to recognize previously unbooked meter installation fees (TR. 171). He also stated that even when SPI owned the assets, the annual reports filed with the Public Service Commission showed that the assets were being depreciated. He elaborated that he was convinced from his review of the tax documents that the assets were depreciable assets and were depreciated properly and the tax treatment was proper. (TR. 223) Utility witness Olson also confirmed the testimony of Witness Seidman that the assets were treated as a depreciation expense and not as a cost of sale. (TR. 520). Please see Issue No. 5 (paragraph 3 of staff analysis) for further testimony of witness Olson.

Witness Seidman testified that SPI (developer) transferred the assets to SPUC (utility) in 1983, at net of book depreciation. He also stated that the depreciation reserve reflects an amount that would be equal to what the depreciation reserve was at that time. (TR. 190-291)

SPOR witness Rasmusen testified that one of the advantages pointed out to him by the sales representative, before he bought his property, was that Sailfish Point had its own water and wastewater treatment plants. He stated that he was led to believe that the utility facilities were to be provided by the developer for the use and benefit of all Sailfish Point property owners and the ratepayers would be required to absorb in the utility rates only the cost of operation and maintenance of those facilities. (TR. 642-643) He also stated in his testimony that the PUD Zoning Agreement required the developer to convey or lease the Utility Parcel to SPUC or "other operating entity". He further testified that he believes it is clear from the documents that SPUC has no ownership rights or maintenance responsibility for any of the wastewater collection or water distribution lines that are constructed upon the Sailfish Point Property outside of the Utility Parcel, and until the Developer conveys Common areas on which those lines are installed to the POA, the Developer owns and is responsible for the maintenance of those lines. (TR 653-654)

The majority of witness Rasmusen's testimony attests to the fact that the developer was to convey the utility assets to the Property Owners Association. Only if SPOR did not accept the system could the utility assets be transferred to Martin County or another governmental agency. (TR. 639-661) On cross-examination the utility established the fact that the developer could convey the utility assets to someone besides the Property Owners Association. (TR. 667)

The Prehearing Officer ruled at the prehearing that the Commission would not address the issue of ownership. The real issue here is whether the assets were written off to cost of goods sold. Staff believes that the record fully supports the fact that the utility plant assets were not written off to cost of goods sold, but depreciated. We also believe that a decision made by a company to depreciate assets or to write them off should be a decision made by the management of that company and is outside the jurisdiction of the Commission.

Staff also believes that there is no evidence in the record to indicate that the CIAC recorded on the books and adjusted for the test period is not the total CIAC for this utility, nor that the assets were written off in the cost of the lot sales. The record does indicate that the assets were transferred from the developer to the utility in 1983, but not that the utility has transferred any assets to the Property Owners Association. There has been no proof offered by the record that SPOR owns the lines and mains. Based on the above and staff's analysis in Issues 4 and 5, staff recommends that the cost of the water distribution and wastewater collection lines and mains should be included in rate base and no adjustment should be made.

ISSUE 4: Should the cost of the water treatment and wastewater collection treatment facilities located upon the Utility Parcel be included in the rate base calculations?

RECOMMENDATION: Yes. No adjustments are necessary. (MONIZ)

POSITION OF PARTIES:

SPUC: Yes.

OPC: Adopts SPOR's position.

SPOR: No. The cost of those facilities are a part of the overall investment made by the Developer in improving the real estate at Sailfish Point to be recovered from the sale of lots just as the cost of the roads, storm sewers, irrigation systems, and all other improvements required by the approved development plan. They were contributed as CIAC and should not be included in rate base.

STAFF ANALYSIS: Utility witness Seidman states in his testimony that the assets of the utility plant were sold from SPI to SPUC rather than contributed. (TR. 312) He goes on to say that the 1983 transfer was the only transfer that took place by sale or by any other means, and to this date there has been no transfer other than that. Further, the transfer was by purchase and sale agreement. (TR. 350-351)

SPOR witness Rasmusen testified that one of the advantages pointed out to him by the sales representative, before he bought his property, was that Sailfish Point had its own water and wastewater treatment plants. He stated that he was led to believe that the utility facilities were to be provided by the developer for the use and benefit of all Sailfish Point property owners and the ratepayers would be required to absorb in the utility rates only the cost of operation and maintenance of those facilities. (TR. 642-643) He also stated in his testimony that the PUD Zoning Agreement required the developer to convey or lease the Utility Parcel to SPUC or "other operating entity".

The majority of witness Rasmusen's testimony attests to the fact that the developer was to convey the utility assets to the Property Owners Association. Only if SPOR did not accept the system could the utility assets be transferred to Martin County or another governmental agency. (TR. 639-661) On cross-examination the utility estabished the fact that the developer could convey the utility assets to someone besides the Property Owners Association. (TR. 667)

Utility witness Olson testified that the utility assets were not treated as donated property. Therefore, they were not written off, but transferred from SPI to SPUC. (TR. 521-522)

Staff believes that there is no evidence in the record to indicate that the CIAC recorded on the books and adjusted for the test period is not the total CIAC for this utility, nor that the assets were written off to the cost of the lot sales. The record does indicate that the assets were transferred from the developer to the utility in 1983, but not that the utility has transferred any assets to the Property Owners Association. Based on the information above and the information provided in Issues 3 and 5 staff is not recommending any adjustments to exclude the utility plant assets from rate base.

ISSUE 5: Should the pre-1984 construction of the utility plant by SPI, while the utility was a division of SPI, be removed from rate base because the cost of this utility plant was included in the cost of developing the lots?

RECOMMENDATION: No. No adjustments are necessary. (MONIZ)

POSITION OF PARTIES:

SPUC: No. The cost of plant was treated as a depreciable asset for tax purposes by SPI and was not expensed as a cost of developing the lots.

OPC: Yes.

SPOR: Same as OPC.

STAFF ANALYSIS: In its brief OPC charges that the utility failed to provide adequate documentation to establish that SPI did not include the cost of constructing early utility plant in SPI's lot development costs for tax purposes. (BR. 7) Witness Seidman states that he had not ever investigated whether initial lot purchasers were led to believe that the utility assets were to be donated to the POA or local government agency. (TR. 297)

Utility witness Seidman testified even when SPI owned the assets, the annual reports filed with the Public Service Commission showed that the assets were being depreciated. He also stated that he was convinced from his review of the tax documents that the assets were depreciable assets and were depreciated properly and the tax treatment was proper. (TR. 223-223)

Utility witness Olson testified that he had not seen any item that was classified as a utility asset on Mobil's tax depreciation schedules being written off to cost of goods sold and there were not any ITCs recaptured on the sale from SPI to SPUC. (TR. 520) He goes on to say there were many alternatives looked at in the early 1980's by Mobil, as to the treatment of these assets. He further stated that he believes that the reason they were depreciated instead of written off was because Mobil wanted to maintain the flexibility of either donating them to the Property Owners Association or selling them to a third party or to the county, but he wasn't involved in the decision. And the only way to do this was to set the utility up as a separate business unit. Finally he stated that to his knowledge the utility property was also treated as a separate cost center from the other properties at the development and that the utility assets were not treated as donated property. (TR. 520-522)

Staff believes that the record fully supports that the utility plant assets were not written off to cost of goods sold, but depreciated. We also believe that a decision made by a company to depreciate assets or to write them off should be a decision made by the management of that company and is not under the jurisdiction of the Commission. Based on the evidence presented in the case, staff recommends that no adjustment should be made.

ISSUE 6: Should a margin of reserve be included in the calculations of used and useful plant?

RECOMMENDATION: Yes. A Margin Reserve is justified and should be included. (LIVELY)

POSITION OF PARTIES

SPUC: Yes.

OPC: No. The inclusion of a margin reserve introduces costs associated with growth for recovery from current ratepayers. Current ratepayers should not be forced to pay for plant which is not serving them.

SPOR: Adopts Citizens' position.

STAFF ANALYSIS: Margin Reserve is the concept whereby the Commission recognizes certain costs the utility incurs in providing extra capacity sufficient to meet short term growth without impairing the ability to provide safe and adequate service to existing customers. A margin reserve is an attempt to recognize that most often new treatment facilities are designed not only to serve customers that will be on line at start up but also to have capacity available to enable new customers to hook up. The Commission requires the utility to be able to serve all customers within its service territory in a reasonable time. (TR. 195) In addition, margin reserve is designed to recognize similar circumstances due to plant additions and expansions. Margin reserve attempts to provide a return to the utility for making that capacity available while also reducing the burden to the present ratepayers that would result if a return was immediately allowed on the entire investment. (TR. 195) Margin reserve attempts to provide incentive for investment in efficiently sized facilities. That typically means a larger capacity system. Larger systems are not only more efficient from an operational standpoint, on average, but also are more efficient from the standpoint of construction costs. That is, you get more capacity per construction dollar the larger the plant. Margin Reserve is designed to recover a portion of this investment. (TR. 586)

The company supports inclusion of a margin reserve allowance in its MFRs. (EX. 2, Vol I, Sch. F-8) Staff concurs. The calculation of margin reserve is further discussed in Issue 7.

OPC Witness DeMeza opinioned that a margin reserve is not the responsibility of the user of the utility but rather the responsibility of the utility company or developer. (TR. 571-72) Mr. DeMeza concedes that water treatment and distribution systems as well as wastewater treatment and collection systems must be designed with a margin reserve. He adds however, that it is a challenge for the engineer and utility company or developer to find the most cost effective systems that will accept additions when required by additional development. (TR. 572)

While OPC's opinion has some validity it does not address the fact that incremental additions or expansions are rarely sized to serve exactly the additional number of customers requiring service at a given time. In his direct testimony, OPC Witness DeMeza acknowledged that it is the utility's responsibility to maintain a margin reserve to meet this obligation. (TR. 571-72). On cross examination, Mr. DeMeza also acknowledged that margin reserve is one mechanism for ensuring that the utility company is compensated for the risk it takes to be ready to meet its obligation to serve future customers. (TR. 586) Witness Reese opined that Mr. DeMeza apparently believes that a utility is compensated for the risk of providing margin reserve by the return it makes on its investment. Witness Reese further states that if the utility's investment in margin reserve is not included in rate base, then it cannot earn a return on the money invested in margin reserve. (TR. 195) Therefore, staff recommends that the plant investment associated with margin reserve is a necessary component of used and useful plant and that a margin reserve should be included.

ISSUE 7: If the Commission allows a margin reserve should it adopt the utility's allowance?

RECOMMENDATION: No. The utility overstated its margin reserve. (LIVELY)

POSITION OF PARTIES

SPUC: Yes.

OPC: No. The utility has deviated from the five-year average method recommended by Staff. The utility's method overstates customer growth in Sailfish Point.

SPOR: Adopts Citizens' position.

STAFF ANALYSIS: As determined in Issue #6, Margin Reserve is appropriate and justified for this utility. However, the method used by the utility is not the five year average as recommended by Staff. (TR. 572; EX. 2, Vol I, PG. 144-45)
During the hearing, utility witness Seidman testified that the utility had poor record storage and could not provide staff with the information to do the five year average. (TR. 418) The utility based its growth projections on recent customer-to-lot sales ratios experienced at Sailfish Point. (EX. 2, Vol I, PG. 143)

On MFR Schedule F-8, the utility states that the use of sales ratios is considered a better indicator of growth than a five year average. (EX. 2, Vol I, PG. 139) The Utility stated that historic growth was not considered indicative of future growth in this case for several reasons and concluded the most recent two year customer-to-lot sales ratios is a good indicator of near term customer growth. (EX. 2, Vol I, PG. 139) In addition, Mr. Seidman testified that the information given in MFR Schedules F-9 & 10 was incomplete and would give a higher percentage growth than the method used by the utility. (TR. 417-18)
(EX. 2, Vol I, PG. 144-45)

Although the utility did not have the information available to do the five year average (TR. 418), the method used by the utility works to the advantage of the customer since it actually gives a lower growth percentage than those presented in MFR Schedules F-9 & 10. (TR. 417-18; EX. 2, Vol I, PG. 144-45) However, staff agrees with the opinion of OPC witness DeMeza that the utility had actually overstated its margin reserve by applying its percentages to peak day and not using yearly growth. (TR. 586-87) responsibility of the utility company or developer. (TR. 571-72) Mr. DeMeza concedes that water treatment and distribution systems as well as wastewater treatment and collection systems must be designed with a margin reserve. He adds however, that it is a challenge for the engineer and utility company or developer to find the most cost effective systems that will accept additions when required by additional development. (TR. 572)

While OPC's opinion has some validity it does not address the fact that incremental additions or expansions are rarely sized to serve exactly the additional number of customers requiring service at a given time. In his direct testimony, OPC Witness DeMeza acknowledged that it is the utility's responsibility to maintain a margin reserve to meet this obligation. (TR. 571-72). On cross examination, Mr. DeMeza also acknowledged that margin reserve is one mechanism for ensuring that the utility company is compensated for the risk it takes to be ready to meet its obligation to serve future customers. (TR. 586) Witness Reese opined that Mr. DeMeza apparently believes that a utility is compensated for the risk of providing margin reserve by the return it makes on its investment. Witness Reese further states that if the utility's investment in margin reserve is not included in rate base, then it cannot earn a return on the money invested in margin reserve. (TR. 195) Therefore, staff recommends that the plant investment associated with margin reserve is a necessary component of used and useful plant and that a margin reserve should be included.

ISSUE 7: If the Commission allows a margin reserve should it adopt the utility's allowance?

RECOMMENDATION: No. The utility overstated its margin reserve. (LIVELY)

POSITION OF PARTIES

SPUC: Yes.

OPC: No. The utility has deviated from the five-year average method recommended by Staff. The utility's method overstates customer growth in Sailfish Point.

SPOA: Adopts Citizens' position.

STAFF ANALYSIS: As determined in Issue #6, Margin Reserve is appropriate and justified for this utility. However, the method used by the utility is not the five year average as recommended by Staff. (TR. 572; EX. 2, Vol I, PG. 144-45)
During the hearing, utility witness Seidman testified that the utility had poor record storage and could not provide staff with the information to do the five year average. (TR. 418) The utility based its growth projections on recent customer-to-lot sales ratios experienced at Sailfish Point. (EX. 2, Vol I, PG. 143)

On MFR Schedule F-8, the utility states that the use of sales ratios is considered a better indicator of growth than a five year average. (EX. 2, Vol I, PG. 139) The Utility stated that historic growth was not considered indicative of future growth in this case for several reasons and concluded the most recent two year customer-to-lot sales ratios is a good indicator of near term customer growth. (EX. 2, Vol I, PG. 139) In addition, Mr. Seidman testified that the information given in MFR Schedules F-9 & 10 was incomplete and would give a higher percentage growth than the method used by the utility. (TR. 417-18)
(EX. 2, Vol I, PG. 144-45)

Although the utility did not have the information available to do the five year average (TR. 418), the method used by the utility works to the advantage of the customer since it actually gives a lower growth percentage than those presented in MFR Schedules F-9 & 10. (TR. 417-18; EX. 2, Vol I, PG. 144-45) However, staff agrees with the opinion of OPC witness DeMeza that the utility had actually overstated its margin reserve by applying its percentages to peak day and not using yearly growth. (TR. 586-87)

Further, utility witness Reese testified that one could conclude that the utility's use of peak day to calculate margin reserve had overstated margin reserve where it was shown that the peak day used in the utility's calculation occurred during a month of high unauthorized construction usage which was not representative of peak usage. (TR. 509)

Staff agrees with OPC that the utility has overstated its margin reserve. (TR. 586-87) However, given the lack of information to calculate the five year average (TR. 418), staff believes that the method used by the utility to obtain its growth percentages was actually to the advantage of the customer since it gave a lower growth percentages than those presented in MFR Schedules F-9 & 10. (TR. 417-18; EX. 2, Vol I, PG. 144-45) Therefore, staff recommends finding that the Utility applied the margin reserve percentages incorrectly, and should have used yearly growth to determine its margin reserve. (TR. 416-18, 586-87)

ISSUE 8: Is the utility's provision for fire flow correct?

RECOMMENDATION: Yes. (LIVELY)

POSITION OF PARTIES

SPUC: Yes.

OPC: No. The utility should not be given a fire flow allowance if it is unable to deliver the fire flow service required by local ordinance.

SPOR: Adopt Citizens' position.

STAFF ANALYSIS: Industry standards for designing water systems call for the system to have the capacity to meet maximum day plus fire flow with the largest pump out of service. (TR. 500, 574)

OPC's witness Mr. DeMeza states in his prefiled testimony that,

> "Fire flow requirements are set by local ordinance to protect the structures in the service area. The ability of the utility to provide this service depends on the ability of the water system to provide the required pumping and storage to meet the local ordinance requirements with the largest pump out of service. This system requires, in addition to the maximum daily flow (124 GPM), 1,500 GPM for a duration of 2 hours. This means that the system must be able to deliver at the hydrant located at the condo's a flow of 1,500 GPM at a minimum of 20 psi. The two (2) hour duration represents 180,000 gal. of storage. The storage is available; however, when the largest pump (1,100 GPM) is out of service, the system theoretically has 630 GPM. ... In the 1990 test year, the system theoretically could provide the maximum daily flow of 124 GPM and a minimum fire flow of 500 GPM. In the 1991 and 1992 test year, the system can only provide the maximum daily flow and the remaining pumping capacity is less than the required minimum fire flow. Therefore, in the U & U (used and useful) calculation for 1991 and 1992, fire flow is not included." (TR. 574-75)

The utility's witness Seidman states in his rebuttal prefiled testimony concerning Mr. DeMeza's testimony that,

> "This is an absurd ratemaking approach. It effectively says that when plant reaches the point where it is 100% used and additions are necessary, it suddenly becomes 100% useless. There certainly is no evidence that customers ever suffered from inadequate service as a result of this situation. ... Mr. DeMeza's observation is that further redundancy in pumping capacity is necessary. I do not disagree. The solution, however, is to require the investment in an additional pump; not to deny the usefulness of the investment already in place." (TR. 197-98)

During the hearing, utility witness Mr. Reese admitted that the utility would not be able to meet its fire flow obligations with the largest pump out of service, and that the utility needed to add another pump at the next expansion. (TR. 501) OPC witness DeMeza's 1990 maximum daily flow of 124 GPM was based on the 178,600 GPD peak flow found on MFR Schedule F-3. (EX. 2, Vol I, PG. 136) In Issue #11 staff recommended that the Utility had actually overstated its peak flows since they did not use the five day average which they calculated in MFR Schedule F-3. (EX. 2, Vol I, PG. 136) Therefore, using the appropriate five day peak average as calculated in MFR Schedule F-3, and the growth percentage of 10.84% from MFR Schedule F-8 the utility's five day average is 175,818 GPD for test year 1992. (EX. 2, Vol I, PG. 136, 143). This 175,818 GPD equals 122 GPM for the 1992 test year which is less than the 1990 test year amount which DeMeza allowed the utility for fire flow. Therefore, as a result Mr. DeMeza's argument does not apply in the test year 1992 since the new peak flow number is less than the 1990 number. (see Issue #11) (TR. 509, 586-87) In addition, Mr. DeMeza testified that the utility should be given credit for fire flow at this level. (TR. 587) Therefore, staff recommends that the utility's allowance for fire flow is correct.

ISSUE 9: Is the level of unaccounted for water reasonable?

RECOMMENDATION: No. The level of excess unaccounted for water is 5%. (LIVELY)

SPUC: Yes, the level of unaccounted for water is reasonable.

OPC: No. The customers should not be made to pay for unaccounted for water in excess of 10% of water produced.

SPOR: Adopts Citizens' position.

STAFF ANALYSIS: A review of MFR Schedule F-1 (EX. 2, Vol I, PG. 134) reveals that the utility's unadjusted unaccounted for water is 20.51%. On the same page under Note 2, the utility makes adjustments for other uses. The utility states that during the first half of the year, during the break in phase of the new calcite contactor, additional flushing was necessary to control corrosivity. With an R/O (reverse osmosis) treatment facility, such additional flushing may be necessary time to time. As a result, the average unaccounted for water level is estimated to continue at 15%. (EX. 2, Vol I, PG. 134)

The Commission has historically recognized the need for plant use, flushing of hydrants, water and sewer lines, some line breakages, and fire flow. Adjustments for these water amounts should be made in MFR Schedule F-1, column 4 labeled "Other Uses". (EX. 2, Vol I, PG. 134) However, Staff is in agreement with OPC that the utility is required to explain and justify unaccounted for water in excess of 10% as stated in MFR Schedule F-1, and OPC's engineering schedules. (EX. 2, Vol I, PG. 134, EX. 14) In response to Interrogatory 36, the utility submitted data showing "other uses" adjustment to its unaccounted for water, and justify its 15% estimation found at the bottom of MFR Schedule F-1. (EX. 6, PG. 18; EX. 2, Vol I, PG. 134)

Utility witness Seidman testified that after reevaluating the nonsold numbers and after adjusting for other uses the unaccounted for water would be 10% or less. (TR. 412-13) Mr. Seidman stated that treatment cost of unauthorized construction water use should not be borne by the utility customers. He also stated that two incidents of unauthorized construction use occurred during the test year, but there has been no recurrence of unauthorized use. (TR. 413-14) The data filed in response to Interrogatory 36, (EX. 6, PG. 18) indicates that the utility incorrectly made adjustments to its unaccounted for water for unauthorized construction because adjustments were made based upon unmetered estimations of in-house water use. The utility does not meter its in-house water. (TR. 415) In addition to the above, the utility also made adjustments to its unaccounted for water for line breaks but presented no repair logs to substantiate its claims. (EX. 6, PG. 17-18) Witness Seidman testified that the utility has poor record storage and that he had been unable to do a five year growth analysis. (TR. 418)

Based upon the evidence presented in the record, staff believes the utility has failed to properly justify unaccounted for water. (TR. 413) However, adjusting for the calcite contactor break-in phase as presented in MFR Schedule F-1, and Interrogatory 36 reduces unaccounted for water to 15%. (EX. 2, Vol I, PG. 134), (EX. 6, PG. 17-18) The Commission normally allows 10% unaccounted for, non-revenue producing water as reasonable. In Witness DeMeza's Schedule No. 7 attached to his direct testimony, he supports 10% as a reasonable amount of unaccounted for water. Staff concurs with Mr. DeMeza's position. Staff recommends an additional 5.51% be allowed for the calcite contactor break-in phase leaving 5% as excessive unaccounted for water. In the forthcoming years, unaccounted for water will be reduced to 10% or less (TR.413), obviating the need for further reductions.

ISSUE 10: Are the utility's calculations to determine the number of equivalent residential connections for Sailfish Point by year for the years ending June 1990, 1991, and 1992 correct?

RECOMMENDATION: No. Since the utility did not calculate equivalent residential connections for the water or sewer systems, their calculations of these quantities are incorrect. (LIVELY)

POSITION OF PARTIES

SPUC: Yes.

OPC: No.

SPOR: Adopts Citizens' position.

STAFF ANALYSIS: The definition of an equivalent residential connection (ERC) is found in the Florida Administrative Code, Section 25-30.515(8):

> Equivalent Residential Connection (ERC) means
>
> (a) 350 gallons per day;
> (b) The number of gallons a utility demonstrates is the average daily flow for a single residential unit; or
> (c) The number of gallons which has been approved by the Department of Environmental Regulation for a single residential unit.

According to this rule there are three methods which can be used in calculation of equivalent residential connections. The utility witness Seidman admits during his testimony that there is more than one method for calculating ERC's. (TR. 333) However, Mr. Seidman also states that he didn't use ERCs in the determination of the used and useful directly for the treatment plants, but used actual flows, and that he did not convert these flow numbers into ERCs. (TR. 333) Therefore, staff believes that since the utility did not calculate ERCs pursuant to Commission rule, its calculation of ERCs is incorrect.

ISSUE 11: Is the utility's calculation for projected peak day water demand correct?

RECOMMENDATION: No. The utility should base its calculation on the five day average calculated in MFR schedule F-3. (LIVELY)

POSITION OF PARTIES

SPUC: Yes, as corrected at the hearing.

OPC: No.

SPOR: Adopts Citizens' position.

STAFF ANALYSIS: In the Utility's analysis of Used and Useful (EX. 2, Vol I, PG. 138), it used the single maximum day instead of the average of the five days with the highest pumpage rate from any month during the test year. Both calculations are shown on MFR schedule F-3. (EX. 2, Vol I, PG. 136) The Utility's rationale for using the peak day instead of the peak five day average was that since the utility must be able to serve the peak day, it should be used in the used and useful calculation. (EX. 2, Vol I, PG. 138) However, during the hearing the validity of this rationale became questionable. (TR. 508-09)

Utility witness Reese testified concerning the utility's use of a peak day demand rather than the peak five day average calculated on MFR schedule F-3 to calculate the used and useful. (EX. 2, Vol 1, PG. 136) (TR. 508). He conceded that the high unauthorized construction usage during the month of the peak day could have caused the utility's peak day demand figure to be overstated. (TR. 509)

OPC posed several questions to witness Seidman concerning the calculation of projected flows for 1991 and 1992, based upon the test period. Witness Seidman stated he apparently made a mistake and picked up the wrong year's percentage growth (18% instead of 10.51%) for his projections. He said that corrections reflecting this change should be made. (TR. 334-37)

As a result of the statements by Mr. Seidman, the projected peak day calculation for the test year ending June, 1992, was calculated incorrectly to be 234,333 GPD. (EX. 2, Vol I, PG. 139) That calculation is based on applying the year-to-year percent change in volume sales to the previous year peak day flow. However, the percentage change was picked up from the wrong column and an error made in the calculation of peak day for 1991, and

1992. (TR. 337) **Therefore staff recommends that the appropriate five day peak average is 175,818 GPD in the test year 1992, based on the calculations in MFR Schedule F-3, and the growth percentage of 10.84% from MFR Schedule F-8. (EX. 2, Vol I, PG. 136, 143)** It should be noted that even thought this is lower than the utility's original calculation of 234,333 GPD, it does not change its used and useful plant percentage. (see Issue 12.)(EX 2, Vol I, PG. 139)

ISSUE 12: What are the appropriate percentages of used and useful plant?

RECOMMENDATION: The appropriate amount of used and useful plant is shown below in the column labeled "STAFF 1992." (LIVELY)

POSITION OF PARTIES

	SPUC	OPC/ SPOR	STAFF
	1992	1992	1992
SAILFISH POINT			
WTP	100.00%	59.00%	100.00%
STORAGE	93.92%		93.92%
WATER DISTR	75.17%	64.00%	75.17%
WWTP	93.90%	40.00%	85.37%
COLLECTION	75.17%	75.00%	75.17%

SPUC: The water treatment plant should be considered 100% used and useful and the water storage system 93.92% used and useful. All of the wastewater treatment plant should be considered 93.90% used and useful. Both the water distribution and wastewater collection systems should be considered 75.17% used and useful.

OPC: All of the water treatment plant should be considered 59% used and useful and all of the wastewater treatment plant should be considered 40% used and useful. The water distribution system should be considered 64% used and useful and the wastewater collection system should be considered 75% used and useful.

SPOR: Adopts Citizens' position.

STAFF ANALYSIS: Based upon staff's recommendations in Issues 6, 7, 8, and 9, the water treatment plant should be considered 100% used and useful and the water storage system 93.92% used and useful.

All of the wastewater treatment plant should be considered 85.37% used and useful. Both the water distribution and wastewater collection systems should be considered 75.17% used and useful.

Water Treatment Plant

The water treatment plant is a reverse osmosis type of water treatment process which produces 250,000 GPD. Expansion to 350,000 GPD is scheduled for completion in 1992. Using the five day peak average calculated in MFR Schedule F-3, and the growth percentage of 10.84% from MFR Schedule F-8 gives the Utility a five day peak average of 175,818 GPD in test year 1992. (EX. 2, Vol I, PG. 136, 143) Adding in fire flow of 180,000 GPD found in MFR Schedule F-3, and margin reserve of 16,542 GPD based on yearly growth (TR. 586-87), (see Issue #7), and adjusting for excessive unaccounted for water of 5,087 GPD (EX. 2, Vol I, PG. 134) (see Issue #9) gives the utility 100% used and useful with plant capacity of 350,000 GPD. (EX. 2, Vol I, PG. 136, 143)

Wastewater Treatment Plant

The wastewater treatment facility consists of a conventional extended aeration treatment process and filtration using precast concrete tankage. The existing plant was built with a single 125,000 GPD aeration basin. The plant has been allowed to operate under a construction permit, but it has never received an operating permit. After extensive negotiations, DER agreed to extend the construction permit for the plant as it stands; the utility will implement the modifications to meet DER requirements; and as a result of these modifications, the plant will be rerated to 250,000 GPD, and will be in compliance with all DER rules. (TR. 483, 484, 693)

In response to Staff's Interrogatory #42 (EX. 6), the utility stated that there were two reasons why the plant capacity was expanded:

1. Modifications were required in order to obtain an operating permit for the plant. The plant could not obtain an operating permit without meeting the EPA Class I reliability requirements. These requirements were not applicable when the plant was designed and originally constructed. In order to meet the EPA Class I reliability requirements of DER Rules (Chapter 17-610, F.A.C.), you must have redundant facilities for the discharge flow sufficient to protect public health, safety and welfare this generally includes a minimum of two aeration basins, redundant filtration, some type of screening facility, and other items.

2. System demand, based on recorded flows, had reached a level at which DER required capacity to be planned and under construction. Construction should commence when average daily flow reaches 80% of design capacity, based on the average of the 3 highest consecutive months. The contractor's notice to proceed date was 2/22/91. The average daily flow for Dec '90, Jan and Feb '91 was 95,700 GPD or 77% design capacity. The average daily flow for Jan, Feb and Mar '91 was 112,000 GPD or 90% of design capacity.... In the case of SPUC, the most cost effective way to meet both redundancy and capacity requirements was to expand the capacity to 250,000 GPD. This gives the plant the required redundancy, an operating permit, and a higher capacity rating. (EX. 6, Interrogatory 42)

During the hearing, OPC witness DeMeza stated that enlarging the plant met the redundancy required by DER as well as increasing the plant capacity to meet customer growth. (TR. 596-97) However, he stated that he was not privileged to what he described as "a lot of correspondence" between DER and the Utility concerning plant redundancy (TR. 596), nor did he use DER Rules (Chapter 17-610, F.A.C.) in his used and useful analysis. (TR. 578-79, EX. 6, Interrogatory 42, 43)

Using the average peak month daily flow calculated in MFR Schedule F-4, and the growth percentage of 10.84% from MFR Schedule F-8 gives the Utility an average peak month daily flow of 100,145 GPD in test year 1992. (EX. 2, Vol I, PG. 137, 143) Adding in 100,145 GPD for redundant average peak month daily flow (DER Rules, Chapter 17-610, Florida Administrative Code), (EX. 6, Interrogatory 42, 43), and margin reserve of 13,132 GPD based on yearly growth (TR. 586-87), (see Issue #7) gives the utility 85.37% used and useful with plant capacity of 250,000 GPD. (EX. 2, Vol I, PG. 137, 143)

DISTRIBUTION AND COLLECTION SYSTEM

For the water distribution systems and sewage collection systems, staff relied upon the system maps (part of Exhibit 2), MFR Schedule F-7, F-8, and the billing analysis found in MFR Schedule B-3 O & M, PG. 2. (EX. 2, Vol I, PG. 59, 141-43) The number of connections is taken from the MFRs. (EX. 2, Vol I, PG. 141-43) Staff believes this analysis is more appropriate than that used by Witness DeMeza because he assumed the capacities of the plants matched the systems, even though there are fewer wastewater customers than there are water customers. (TR. 587-591)

Staff recommends that the appropriate used and useful plant amounts are those identified in the column, "Staff, 1992" in the table above.

ISSUE 13: What are the appropriate amounts of non-used and useful utility plant-in-service?

RECOMMENDATION: The appropriate amounts of non-used and useful Plant are $184,985 for water and $388,308 for wastewater. (MONIZ)

POSITION OF PARTIES:

SPUC: Water $184,985; wastewater $298,966

OPC: Water $677,445; wastewater 575,235

SPOR: Adopts OPC's position.

STAFF ANALYSIS: Based on the percentages stated in Issue No. 12, staff has reduced wastewater plant in service by $89,340 net of accumulated depreciation, and reduced depreciation expense by $5,768. No adjustments were necessary to the water used and useful amounts. Staff recommends that the non-used and useful plant amounts should be $184,985 for water and $388,308 for wastewater. This is a fall-out issue.

ISSUE 14: Should there be an imputation of Contributions-in-aid-of-construction (CIAC) to offset margin of reserve?

RECOMMENDATION: Yes, CIAC should be increased by $58,987 to reflect the imputation on the margin reserve for the wastewater plant. An adjustment is also necessary to increase accumulated amortization of CIAC and test year amortization by $2,161. (MONIZ)

POSITION OF PARTIES:

SPUC: No. Imputing CIAC mismatches potential, but uncollected contributions against invested plant.

OPC: The Commission should not grant a margin reserve. However, if a reserve to serve future customers is included in used and useful plant, then the CIAC associated with those future customers should also be imputed.

SPOR: Yes.

STAFF ANALYSIS: Utility witness Seidman stated in his testimony that the margin reserve represents an investment "in place" and that the funds have been spent and are a utility investment. He further stated that CIAC from potential new customers is not available until they hook-up and if and when they hook-up. He also stated that for the period between providing the plant and collecting the CIAC, margin reserve is an investment entitled to be earned upon. He further explains that at the time a new customer does hook up and pays CIAC, the CIAC will be recorded to offset the plant investment. However, the utility must simultaneously replace that portion of margin reserve so as to be ready to serve another customer. There will always be a lag between the investment in margin reserve and the collection of associated CIAC. For this reason, anticipated but uncollected CIAC should not be imputed against current margin reserve. (TR. 196-197)

OPC witness DeWard stated in his testimony that should the Commission adopt the Company's position, which includes a margin reserve as an element of the used and useful percentage, there should be an increase in the amount of CIAC to correspond with this margin reserve. (TR. 607) Upon cross-examination by staff, Mr Deward supported his statement above and also agreed that if there was an imputation of CIAC it should not exceed the amount of plant related to the margin reserve. (TR. 615)

Staff agrees with Mr. Deward that CIAC should be imputed on margin of reserve, based on Commission practice. Since the utility does not have a main extension fee, the distribution mains and collection lines would not be considered in the imputation. Additionally, the water plant does not have a margin reserve, therefore, only the wastewater treatment plant was considered in the imputation. Using the number of ERC's included in the margin reserve and the approved wastewater plant capacity charge of $1,500, the maximum amount of CIAC to impute is $70,000 (147 ERC's x $1,500). However, the actual cost of the treatment plant included in the margin reserve is $54,987. We, therefore, recommend that consistent with the evidence in the record the imputation should be limited to the amount of plant included in margin reserve as testified to by Mr. DeWard.

Based on the above, staff recommends that CIAC should be imputed on the margin reserve for the wastewater plant. CIAC should be increased by $58,987 for the wastewater plant, with the corresponding adjustments to accumulated of $2,161 and test year amortization of $2,161.

ISSUE 15: Should income taxes on contributions-in-aid-of-construction (CIAC) be capitalized in rate base?

RECOMMENDATION: No. Debit deferred taxes related to CIAC should offset credit deferred taxes in the capital structure. (BRAND)

POSITION OF PARTIES

COMPANY: Yes.

OPC: No. Deferred tax debits on CIAC should not be recognized in rate base or capital structure.

STAFF ANALYSIS: This issue is similar to Issue 22, but addresses only the treatment of debit deferred taxes related to CIAC.

In his prefiled direct testimony, Company witness Seidman stated that prepaid taxes related to CIAC should be included in rate base. (TR. 168) In the filing, Mr. Seidman included total debit deferred taxes in rate base and total credit deferred taxes in the capital structure, rather than netting them. (TR. 439) Under cross examination, he testified that Commission Order No. 23541 requires normalization of the tax effect of CIAC and requires that debit deferred taxes be offset against credit deferred taxes, with a net debit balance being included in rate base and a net credit balance being included in the capital structure. (TR. 439 - 440) The position stated in the Company's brief is that debit deferred taxes should be treated consistent with said Order. (Co. Brief, p. 52)

The position proffered in the OPC brief is that no debit deferred taxes related to CIAC should be recognized above the line, either in the capital structure or in rate base. (OPC Brief, p. 33) The debit deferred taxes are the result of SPUC not grossing up CIAC collections for taxes. (TR. 339) The brief of OPC states that recognizing debit deferred taxes above the line unfairly burdens the customers who paid CIAC prior to the 1986 tax law change. (OPC Brief, p. 33)

Staff agrees with the Company that Order No. 23541 should be followed. OPC did not present substantial, convincing argument in the record supporting their position. Staff recommends that debit deferred taxes associated with CIAC be offset against credit deferred taxes.

ISSUE 16: What is the appropriate amount of working capital to be included in rate base?

RECOMMENDATION: A working capital amount of $28,029 for water and $19,053 for wastewater is recommended. This is a reduction of $1,757 for water and $1,728 for wastewater. (MONIZ)

POSITION OF PARTIES:

SPUC: Water $29,786; wastewater $20,781 based on the formula method required by PSC Rules.

OPC: The utility has not properly documented its entitlement to a working capital allowance.

SPOR: Adopts OPC's position.

STAFF ANALYSIS: The utility's requested working capital amount is based upon the formula approach, or one-eighth of test year operation and maintenance expenses, as filed in the MFR's.

OPC witness Deward states in his testimony that he has removed the Company's requested working capital allowance from rate base because the Company has included an artificial allowance by multiplying 1/8 times operating and maintenance expenses. He also stated that this always produces a working capital allowance based on an improper calculation but does not properly calculate a working capital requirement. In his opinion, it is appropriate to remove this artificial balance from rate base. (TR. 608)

Utility witness Seidman states in his rebuttal testimony that the method of determining working capital has been established by the Minimum Filing Requirement (MFR) Rule 25.30.437, Florida Administrative Code. The instructions for the forms specify that the formula method (1/8 of O & M expenses) is to be used. He continues that the form instructions also specify that if a utility submits a working capital allowance based on the balance sheet method, the costs incurred for this calculation will not be considered in rate case expense. Since the formula method to determine working capital is set by Commission rule, Mr. Seidman testified that the methodology is not at issue. He recounts that Mr. Deward's position that the formula method is not a proper methodology is contrary to the rules of the Commission and cannot be at issue. (TR. 186-187)

Witness Seidman testified that on the utility's balance sheet current liabilities exceed current assets because of the advances from the parent company. He goes on to say that he ignores these advances because it his recommendation that the capital structure of the parent be used because it more truly reflects what capital is being put into the Company. Further, he testified that the cost-free advances that SPI made to SPUC were "just merely book advances". (TR. 453-454)

Staff agrees that the utility was required by the MFR rules to file its working capital allowance using the formula approach. We further believe the if any party wishes to challenge that methodology, the burden shifts to that party as to why any other method is more appropriate than that filed by rule with the Commission. We believe that there was testimony in the record that one could calculate a working capital allowance using the balance sheet method. We believe, however, that the working capital allowance generated would be higher than that allowed by the formula approach. There are several reasons for this.

The balance sheet presented reflects miscellaneous current and accrued liabilities of $1,833,587. (EX. 2 pp. 40-41) If this amount were included in the balance sheet method to calculate working capital, then the resulting balance would be negative, thus a zero balance would be recommended. This balance, however, has been included in the capital structure as a source of funds and appropriately would not be included in the working capital calculation.

No party took issue with the balance of $125,176 related to miscellaneous current and accrued assets, therefore, we believe that this amount should be included in the working capital calculation. Based on staff's calculations, we believe that the total working capital allowance using the balance sheet method would be $120,132, which is $73,050 higher than the formula method.

Staff believes, however, that the record supports using the formula method over the balance sheet method. Based on the above, staff recommends that the formula approach be employed for this case. Based on an adjusted balance of $224,230 for water and $152,424 for wastewater for the test year operating and maintenance expenses, the resulting balance of working capital should be $28,029 and $19,053, respectively. This results in a reduction to working capital of $1,757 for water and $1,728 wastewater.

ISSUE 17: What is the appropriate level of test year rate base?

RECOMMENDATION: The appropriate level of test year rate base should be $1,423,236 for water and $1,165,130 for wastewater. (MONIZ)

POSITION OF PARTIES:

SPUC: Water $1,609,063; wastewater $1,422,664.

OPC: Citizens agree with SPOR that the utility's investment should be zero. However, as an alternative, water rate base should be no more than $544,632 and wastewater rate base should be no more than $616,691.

SPOR: Adopts OPC's position.

STAFF ANALYSIS: Using a beginning and end of year average and staff's recommended adjustments, we recommended an average test year rate base for the water system of $1,423,236 and for the wastewater system of $1,165,130. 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

ISSUE 18: What is the appropriate capital structure for ratemaking purposes?

RECOMMENDATION: The Utility's actual capital structure is the appropriate capital structure for ratemaking purposes. (MAUREY)

POSITION OF PARTIES

SPUC: The parent, Mobil Corporation.

OPC: The Utility's capital structure is more appropriate than Mobil Corporation's capital structure because it represents the actual conditions that exist and have existed since the formation of Sailfish Point Utility Corporation.

SPOR: The accounting treatment given the Utility by the Developer reflects intracorporate transfers and interest free loans which are inconsistent with an equity investment by the parent.

STAFF ANALYSIS: Sailfish Point Utility Corporation (SPUC or Utility) is a wholly owned subsidiary of Sailfish Point, Inc. (SPI), the Developer of the service area known as Sailfish Point. SPI is a wholly owned subsidiary of Mobil Land Development (Florida), Inc. (MLDF). MLDF is a wholly owned subsidiary of Mobil Land Development Corporation (MLDC) which is a wholly owned subsidiary of Mobil Corporation (Mobil). Because all sources of funds ultimately flow from Mobil or one of its subsidiaries, the Utility argues that the Mobil capital structure is the appropriate capital structure to use for ratemaking purposes. (TR. 181)

Sailfish Point Property Owners Representatives (SPOR) disagree with the Utility's position. SPOR points out that Mobil is a multinational, multibillion dollar corporation. Although MLDC and its subsidiaries are engaged in the development of real estate, Mobil and MLDC have no utility subsidiaries other than SPUC. (TR. 548) Because the nature and relative size of Mobil's operations bear almost no resemblance to the nature of the operations of a water and wastewater utility, SPOR argues that the parent's capital structure is not representative of the conditions that exist at SPUC. For these reasons, SPOR argues that Mobil's capital structure is not appropriate for ratemaking purposes for the Utility. (TR. 641; EX. 18, Deposition pp. 5-7)

The Office of Public Counsel (OPC) also disagrees with the Utility's position. OPC argues that the Utility's actual capital structure is appropriate for ratemaking purposes because it represents the actual conditions that exist and have existed since the formation of SPUC. Furthermore, OPC states that the use of Mobil's capital structure would be inappropriate and would allow SPUC to earn a return on an artificial capital structure which is not representative of the conditions which exist at the Utility. (TR. 609)

Witness Seidman, testifying on behalf of SPUC, admits that the capital structure as reflected on the books of the Utility contains zero-cost advances. However, he argues that the Utility's capital structure is nothing more than an allocation of the capital received from the parent either directly or through Mobil's subsidiaries. In his opinion, since Mobil could have funded SPUC in any manner it chose, it should not matter if the capital is identified as equity, intercompany debt, or intercompany advances. The only thing that should matter in the determination of the appropriate capital structure is that SPUC is funded through the mix of capital sources raised at the parent level. (TR. 188-189, 428)

Witness DeWard, testifying on behalf of OPC, agrees with witness Seidman that the capital structure of SPUC contains zero-cost advances but he disagrees with the Utility witness' position that the parent's allocation of funds should not dictate the capital structure used for ratemaking purposes. Witness DeWard points out that the Utility financed the original transfer of utility plant with a mortgage payable to SPI in 1983. From that date forward, SPUC financed additional plant additions and operating losses through cash advances from its parent. These cash advances between SPUC and its parent were recorded on the books of the Utility as long-term or short-term advances from associated companies. Witness DeWard testified he could find no records to indicate that there was an intent to convert these cost-free, non-interest bearing advances to equity capital or to any debt arrangement. (TR. 608-610)

Witness Seidman accurately points out that the capital made available to SPUC is not cost-free. (TR. 189) Staff does not dispute this point. However, while there is a cost associated with funds used by SPUC, that cost is not being incurred by the Utility. Witness Seidman readily admits that SPUC does not pay or record any expense for the long-term and short-term advances received from associated companies. In addition, the witness verified that long-term advances are only repaid as CIAC is collected. (TR. 430-431)

Witness DeWard testified that since SPUC has never paid a return for use of the advances received from its parent, it would be reasonable to assume that the cost of the funds is being absorbed by SPI or one of the other subsidiaries of MDLC as a normal cost of developing and selling lots in the Sailfish Point service area. (TR. 610-611)

Since SPUC does not incur an expense on advances from its parent, witness DeWard argues that it would be inappropriate to use Mobil's capital structure for ratemaking purposes. He further states that in addition to granting a return on debt expense that is not actually incurred, the use of Mobil's capital structure for ratemaking purposes would allow SPUC to earn a return on an amount of equity capital that does not exist. For these reasons, OPC's witness maintains that the Utility's actual capital structure should be used for ratemaking purposes. (TR. 609-611, 621-624)

Staff agrees with witness Seidman that the capital used by SPUC is not cost-free. In addition, it was not clearly demonstrated at the hearing whether or not SPI or any other MLDC subsidiary does or does not recover the cost of financing the Utility through profits on the sale of lots in the Sailfish Point service area. However, it was clearly demonstrated during the hearing that SPUC does not pay interest expense on advances from associated companies and that there is no equity investment in SPUC. For these reasons, Staff agrees with OPC and SPOR that it would be inappropriate to allow SPUC to earn a return for a cost of capital that the Utility does not actually incur. Therefore, Staff recommends that the appropriate capital structure for ratemaking purposes is the Utility's capital structure that represents the actual conditions that exist and have existed since the formation of SPUC.

ISSUE 19: What is the cost of common equity capital?

RECOMMENDATION: The cost of common equity capital is 13.11% based upon the amount of equity capital in the capital structure recommended in Issue 18 and the current leverage formula from Order No. 24246. (MAUREY)

POSITION OF PARTIES

SPUC: 11.85% based on the parent's equity ratio at December, 1990, and the current leverage formula in Order No. 24246.

OPC: Since common equity is negative, the cost rate for rate of return purposes should be zero.

SPOR: Adopts Citizen's position.

STAFF ANALYSIS: During the hearing, it was stipulated that the cost of common equity capital would be established using the leverage formula in effect at the time of the final decision in this case. (TR. 151-152) Due to an accumulation of net operating losses, the resulting negative retained earnings balance more than offsets the equity investment in SPUC. However, even though the Utility does not have a positive equity balance, a cost of common equity capital should be established. Based upon the minimum equity ratio recognized in the leverage formula, the cost of common equity capital is 13.11%.

Staff recommends a cost of common equity of 13.11% based upon the capital structure recommended in Issue 18. However, if the Commission elects to use Mobil's capital structure for ratemaking purposes, Staff agrees that the cost of common equity capital would be 11.85% as recommended by SPUC.

ISSUE 20: What is the cost of debt capital?

RECOMMENDATION: The cost of debt capital is 11.00% on the mortgage from SPI. (MAUREY)

POSITION OF PARTIES

SPUC: The cost of debt capital is 9.57% in the test year, based on Mobil's 1990 embedded cost of debt.

OPC: The cost of debt capital is 11.00% per anum on the mortgage. All other debt components should be considered cost free.

SPOR: Adopt Citizen's position.

STAFF ANALYSIS: SPUC financed the original transfer of utility plant in 1983 with a mortgage payable to SPI. The mortgage carries an interest rate of 11.00%. From that date forward, SPUC financed additional plant additions and operating losses through cash advances from its parent. These cash advances between the Utility and its parent were recorded on the books of SPUC as long-term and short-term advances from associated companies with no interest expense assigned. OPC witness DeWard testified he could find no records to indicate that there was an intent to convert these cost-free, non-interest bearing advances to equity capital or to any debt arrangement. (TR. 609-610) In addition, SPUC witness Seidman admitted during the hearing that the Utility only incurs interest expense on the mortgage payable to SPI and does not pay or record interest expense on the advances from associated companies. (TR. 430)

Witness Seidman admitted that the capital structure on Schedule A-16 of the MFRs accurately reflects the actual manner in which SPUC is capitalized by its parent. He also agreed that the parent could have capitalized SPUC with the same relative capital structure that Mobil maintains on a consolidated basis. (TR. 428; EX. 2, MFRs Volume 1, Schedule A-16) This testimony supports witness DeWard's conclusion that the provision of cost-free advances to the Utility is just another cost of doing business that the developer willingly agreed to assume. (TR. 610-611)

In its legal brief, the Utility states that it is a common practice for Mobil and its subsidiaries to transfer funds intercompany without having a cost attached and that this practice does not constitute a gift or contribution. (TR. 522) This statement, however, does not discount the fact that the Utility does not pay a return for use of the advances from the parent.

Although Staff agrees with witness Seidman's statement that the capital made available to SPUC is not cost-free, the record clearly shows that a company other than the Utility is incurring the cost of the advances from associated companies. (TR. 428-430)

Florida Statutes require that the Commission set rates that allow a utility to recover its prudent costs and a reasonable rate of return on capital. However, as witness DeWard points out, if SPUC's position is adopted by the Commission, the Utility will be allowed to recover a cost of capital that it does not actually incur. Therefore, because the only cost of debt SPUC actually incurs is the 11.00% on the mortgage payable to SPI, Staff recommends that this is the Utility's cost of debt capital.

Staff recommends a cost of debt capital of 11.00% based on the capital structure recommended in Issue 18. However, if the Commission elects to use Mobil's capital structure for ratemaking purposes, Staff agrees that Mobil's embedded cost of debt is 9.57% as recommended by SPUC.

ISSUE 21: What specific adjustments should be made to accumulated deferred income taxes?

RECOMMENDATION: The credit deferred tax balance should be increased by $229,109 to $685,110, and the debit balance should be increased by $20,000 to $269,839. (BRAND)

POSITION OF PARTIES

SPUC: All adjustments are reflected in the MFR's. The accumulated deferred tax credits for the average test year ending June, 1992, is $709,698.

OPC: Based on evidence revealed during cross-examination of Company Witness Seidman, deferred taxes as stated in the capital structure of the Company's filing should be increased by $53,866.

SPOR: Adopt OPC's position.

STAFF ANALYSIS: MFR C-6 presents credit deferred tax balances of $456,001 in the June 30, 1992 capital structure. (EX. 2, Vol. 1) In his prefiled direct testimony, Company witness Seidman stated that these balances reflect a large credit inadvertently not booked by Mobil's tax department. (TR. 182) This tax balance reflects increases based on estimated plant additions through the test year. (TR. 181-182)

Mr. Seidman testified that the credit deferred taxes in the MFRs (EX. 2, Vol. 1) are an accumulation of the depreciation timing differences since the purchase of the assets by SPUC. (TR. 218) Mr. Seidman agreed under cross-examination that the deferred taxes accrued by SPI prior to the transfer should be recognized and normalized for ratemaking purposes according to the requirements of Internal Revenue Code (IRC) section 168(e). (TR. 556)

Under cross examination, Mr. Seidman stated that the amount from the compilation of tax timing differences, on page 1 of Composite Exhibit 3, should be substituted for the compilation in the MFRs, except that the 34% tax rate used for each year should be replaced by the appropriate Federal tax rates applicable to each year. (TR. 219) In Appendix F of their brief, the Company restated the deferred tax balance using the information in Exhibit 3, pages 1 and 2, and the detail on MFR C-6, and included the deferred taxes accrued prior to the transfer. (Brief, p. 60) This calculation resulted in an average balance of $709,698, as of June 30, 1992.

The Company's credit deferred tax balances and income tax expense were calculated using only the Federal tax rate, ignoring state income taxes. Mr. Seidman testified that this is a policy of Mobil Land Development Corp. for ease of calculation, since some of the subsidiaries are in states with a unitary tax assessment. (TR. 436 - 437) However, the combined federal and state rate was used in calculating debit deferred taxes associated with CIAC. (TR. 437) Mr. Seidman agreed under cross-examination that all income taxes of SPUC should be calculated using the combined federal and state tax rate. (TR. 436 - 438)

OPC recalculated the deferred taxes using the Company's information provided on Exhibit 3, but substituting the Federal tax rates that were in effect for each year, resulting in a total credit deferred tax balance of $258,799 as of December 31, 1987. (TR. 217) Company witness Seidman agreed with this adjusted balance at the hearing. (TR. 220) Based on this information, OPC calculated an increase of $53,866, for an average 1992 balance of $509,867. (OPC Brief, Schedule 7)

Staff has recalculated the credit deferred tax balance, using the appropriate federal and state tax rates for each year, and using the data in MFR Schedule C-6 and Composite Exhibit 3, pages 1 and 2. The method used for this calculation is discussed in the record (TR. 216-221), and is similar to that used in the Company's brief. This results in an increase of $238,072, to $694,073. This recalculated balance was then decreased by $8,822, related to the Used and Useful adjustment recommended in Issue No. 13, and by $141, related to the adjustment for improperly capitalized items discussed in Stipulation No. 2. The total average credit deferred tax balance recommended by Staff after all of these adjustments is $685,110.

The Company included accumulated debit deferred taxes of $249,839 in rate base. (EX. 2, p. 66) Staff increased this balance by $122, related to meter fees addressed in Stipulation No. 3, and by $19,878 associated with the imputation of CIAC to offset margin reserve for the wastewater treatment plant, as discussed in Issue No. 14. As discussed in Issue 22, Staff offset this debit balance against the credit balance, and included the net credit in the capital structure.

The adjustments recommended by Staff increase debit deferred taxes by $20,000, to a total of $269,839. Offsetting this debit balance against the credit balance of $685,110, results in a net credit of $415,271.

ISSUE 22: Should debit and credit deferred taxes be offset, with the net credit included in the capital structure at zero cost?

RECOMMENDATION: Yes, debit and credit deferred taxes should be offset, with the net credit balance of $415,271 included in the capital structure at zero cost. (BRAND)

POSITION OF PARTIES

SPUC: Debit and credit deferred taxes may be used to offset each other. A net credit would be included in the capital structure at zero cost. A net debit would be included in rate base at the allowed rate of return.

OPC: No. Deferred tax debits on CIAC should not be recognized in rate base or capital structure.

SPOR: No position.

STAFF ANALYSIS: In the MFRs, SPUC did not offset debit and credit balance deferred taxes, but included total debits in the rate base and total credits in the capital structure. (TR. 439) Company witness Seidman stated that deferred (prepaid) taxes on CIAC should be capitalized and included in rate base. (TR. 168) However, under cross-examination, he testified that debit and credit deferred taxes should be offset, to comply with Commission Order No. 23541, issued October 1, 1990. This order requires that debit and credit deferred taxes be offset, with a net credit receiving capital structure treatment and a net debit receiving rate base treatment. (TR. 439) The deferred tax debit balances in the MFRs were calculated based on a ratable life of 40 years and a 37.63% tax rate, and were included in rate base. (TR. 172)

It is the position of OPC that deferred tax debits related to CIAC should not be recognized in either rate base or in capital structure, because SPUC does not gross up its CIAC for taxes. (TR. 172) OPC's witness DeWard testified that the debit deferred taxes should be removed from rate base and included as an offset to deferred income taxes in the capital structure. He argued that the debit deferred taxes included in the capital structure are the result of SPUC not grossing up CIAC collections for tax purposes. (TR. 339) It is his position that no deferred tax debits related to CIAC should be recognized above the line because to do so would unfairly burden the customers who paid CIAC prior to the 1986 tax law change. (TR. 339)

As discussed in Issue 15, Staff recommends that the deferred tax balances should be treated in accordance with Order No. 23541. That is, debits and credits should be offset, with the resulting net credit of $415,271 being included in the capital structure at zero cost, and no deferred taxes remaining in rate base.

ISSUE 23: What is the appropriate amount and cost rate of investment tax credits to be included in the capital structure?

RECOMMENDATION: The appropriate ITC balance is $265,111, to be included in the capital structure at zero cost. (BRAND)

POSITION OF PARTIES

SPUC: The appropriate amount of ITC for the average test year ending June, 1992, is $268,507.

OPC: The unamortized balance of $279,962 of ITC's should be included in the capital structure at zero cost.

SPOR: Adopt OPC's position.

STAFF ANALYSIS: The statement is made on MFR C-7, page 3, that Mobil Corporation accounts for ITCs under the flow-through method, and SPUC therefore has no ITC balance. SPI generated ITC of approximately $270,000 in 1981, representing 10% of the utility assets placed in service in that year. (TR. 224) Those credits were used on the consolidated tax return in the same year. (TR. 538) Company witness Seidman agreed under cross-examination that the ITCs should have been normalized to satisfy the requirements of IRC section 46, and should have been carried over to SPUC with the transfer of the assets. (TR. 557)

In 1981, Utility assets were $2,741,154. The ITC rate at that time was 10%, resulting in ITC generated of approximately $270,000. (TR. 224) In 1983, $977,057 in CWIP and $39,000 in land were transferred to SPUC, generating additional ITCs of approximately $97,706. (TR. 225) There have been no other assets moved into Plant-In-Service since 1984, except for one truck in 1985, on which ITC was taken. There were no transitional assets after 1985.

Company witness Seidman agreed that utilities are required by IRC section 46(f) to defer ITCs and amortize the benefits over the lives of the underlying assets. (TR. 225) The Company calculated an average ITC balance of $279,962 as of June, 1991, based on an assumed 40-year life. OPC calculated an average ITC balance of $279,962, also using an assumed 40-year life. Since the depreciable lives of the underlying assets are available in the MFRs (EX. 2, pp. 97 - 99), these are the appropriate lives to be used in calculating ITC amortization in compliance with the normalization requirements of the IRC. The actual depreciation lives are shorter than 40 years, resulting in a faster amortization and a lower unamortized balance to be included in the capital structure.

There is no evidence in the record of this proceeding that any election was made under Section 46(f)(2) of the Internal Revenue Code (IRC). Absent evidence of such an election, a company must be treated as Option 1. The assumption that no Option 2 election was made by this Company is further supported by the fact that the ITCs were accounted for by Mobil Corporation under the flow-through method. (Exh 2, Vol 1, p. 102)

Using the asset lives in the MFRs and the information in the record concerning the amount of assets eligible for ITC, Staff calculated an average unamortized balance of $265,111 for 1992. These should be included in the capital structure at zero cost, as required by IRC 46(f)(1).

ISSUE 24: What is the weighted average cost of capital including the proper components, amounts, and cost rates associated with the appropriate capital structure?

RECOMMENDATION: The weighted average cost of capital for the projected test year ending June 30, 1992 is 1.56%. (MAUREY)

POSITION OF PARTIES

SPUC: 8.14% based on the parent's 1990 equity ratio and debt cost.

OPC: The Utility's capital structure should be used as discussed in Issue 18. The overall cost of capital after adjustments discussed in other issues are made should be 2.55% as shown on OPC Briefs-Schedule 3.

SPOR: No position.

STAFF ANALYSIS: Schedule 2 details Staff's recommendation. The company filing amounts represent the beginning and ending average balances taken from Schedule A-16 of the MFR filing. Schedule 2 reflects the capital structure recommended by Staff in Issue 18. (EX. 2, MFR Volume 1, Schedule A-16)

Staff from the Tax Section made a specific adjustment of $40,730 to the deferred income tax balance. This adjustment is further discussed in Issues 21 and 22. Staff from the Tax Section also made a specific adjustment of $265,111 to the investment tax credit (ITC) balance. This adjustment is further discussed in Issue 23. After all specific adjustments were made, Staff made a pro rata adjustment over the investor-supplied sources of capital to equate capital structure with used and useful rate base. The pro rata adjustment was not made over the adjusted deferred income tax or ITC balances because the Staff adjustments made in Issues 21 through 23 are specifically tied to the used and useful assets allowed in rate base.

While both Staff and OPC recommend using the actual capital structure that supports the Utility's operations, there are several minor differences that exist between the positions. Both Staff and OPC agree on the amount of long-term debt (the balance of the mortgage from SPI), however, the parties differ slightly on what amounts of long-term and short-term advances from associated companies should be reflected in the capital structure. Staff's amounts represent the beginning and ending average balances for the June 30, 1992 test year as reflected in the MFR filing. (EX. 2, MFR Volume 1, Schedule A-16) In contrast, OPC's amounts come from the Utility's general ledger as of March 31, 1991. Staff and OPC also differ on the amounts of deferred income taxes and ITCs that are included in the capital structure. The reasons for these differences are discussed in Issues 21 through 23. Finally, Staff and OPC differ on the amount of common equity that is reflected in the capital structure. OPC has included the negative equity balance at a zero cost rate in its recommendation while Staff used a zero equity balance at the cost rate recommended in Issue 19 of 13.11%. Staff has used this treatment because if a negative equity balance is applied to the appropriate cost rate, the resulting negative amount would produce a negative weighted average cost of capital. Precedent for this treatment can be found in Commission Order Nos. 18367 and 22226 (Hydratech Utilities, Inc., Docket Nos. 861201-WS and 880882-WS) and 18960 (Ferncrest Utilities, Inc., Docket No. 861338-WS).

Staff used the respective cost rates supplied by the Utility with two exceptions. As discussed in Issue 19, the Utility has a negative equity capital balance. Based on the minimum equity ratio recognized by the leverage formula, the cost of equity capital is 13.11%. The Utility recommends using an equity cost rate of 11.85% based on Mobil's level of equity capitalization and the current leverage formula. As discussed in Issue 20, the cost of debt capital for the Utility is the 11.00% on the mortgage payable to SPI. The Utility recommends using a debt cost rate of 9.57% which is the embedded cost of debt for Mobil as of December 31, 1990. Schedule 2-A shows the components, amounts, cost rates, and weighted average cost of capital of 1.56% associated with the projected test year capital structure. Schedule 2-B shows the adjustments recommended by Staff that produce the component amounts reflected on Schedule 2-A.

Staff recommends a weighted average cost of capital of 1.56% based on the capital structure recommended in Issue 18. However, if the Commission elects to use Mobil's capital structure for ratemaking purposes, the weighted average cost of capital is 8.14%. This amount reflects the capital structure as recommended by SPUC with the exception of the treatment of deferred income taxes and ITCs as discussed in Issues 21 through 23.

NET OPERATING INCOME

ISSUE 25: Are intercompany expense allocations appropriate?

RECOMMENDATION: Yes. No adjustments are necessary. (MONIZ)

POSITION OF PARTIES:

SPUC: Yes.

OPC: The Citizens do not recommend an adjustment to this expense at this time.

SPOR: Not addressed in this brief.

STAFF ANALYSIS: In the MFRs, the intercompany expenses were allocated down from Mobil Land Development Corporation. (EX 2. P. 67-74) (EX. 4) Mobil Land Development Corporation allocates charges to all of its subsidiaries, including SPUC. These services include an operations manager, accounting services, and legal services. (TR. 343-344) The amount allocated to SPUC per books for these services was $74,701 in 1989 and $122,084 in 1990. (EX. P. 4) However, in the MFRs the test year only included $64,722, therefore, the higher costs incurred due to the rate filing were removed. (TR. 342-343)

OPC states in its brief that the they did not solicit sufficient evidence at the hearing to recommend an adjustment to this expense.

Staff believes that the utility has sufficiently justified its intercompany expenses. Based on that and the lack of evidence in the record to prove otherwise, staff is recommending that no adjustment be made to the intercompany expense allocation.

ISSUE 26: Should the utility's purchased power and chemical expense be adjusted for unaccounted for water?

RECOMMENDATION: Yes. The utility has 5% excessive unaccounted for water. Staff recommends that an adjustment be made to chemical and purchased power expenses used to treat and process the 5% excessive unaccounted for water. (LIVELY, MONIZ)

POSITION OF PARTIES

SPUC: No.

OPC: Yes. The utility in the MFR's has adjusted purchased power and chemical expense downward by 5% to reflect nonrecurring water losses. The Commission should scrutinize the other 5.51% of produced but unsold water that exceed the 10% of unaccounted for water to determine if additional adjustments should be made.

SPOR: N/A.

STAFF ANALYSIS: In MFR Schedule F-1, the utility estimates that its unaccounted for water use will continue at 15%. (EX. 2, Vol I, PG. 134) This 15% unaccounted for water is substantiated by the utility's response to Staff's Interrogatory 36, concerning line flushing due to the break-in phase of the calcite contactor. (EX. 6, 17-18) However, staff did not agree with the adjustments made by the utility concerning unmetered in-house usage, construction water theft, and undocumented line breakage. In Issue #9, it was determined that the utility did not justify adjustments to unaccounted for water less than 15%. Staff agrees with OPC in that the utility did not justify unaccounted for water in excess of 10%. (EX. 2, Vol I, PG. 134; EX. 14)

Therefore, the utility has 5% excess unaccounted for water, and staff recommends that an adjustment be made to chemical and purchased power expenses used to treat and process the 5% excessive unaccounted for water. This adjustment has already been made by the utility in its Summary of Adjustments to Booked O & M, (EX. 2, Vol I, PG. 48) which shows $1347 adjustment to electric and $1194 adjustment to chemical expenses.

ISSUE 27: Is the replacement program for the new spiral wound membranes appropriate?

RECOMMENDATION: The utility's proposed three year replacement program should be considered appropriate. (LIVELY)

POSITION OF PARTIES

SPUC: Yes.

OPC: No. The utility's replacement program for the new spiral wound membranes is not justified. A replacement program based on four years use rather than three years use would be more reasonable.

SPOR: No.

STAFF ANALYSIS: The original R/O (reverse osmosis) membrane system at the Sailfish Point Water Plant is of the hollow fiber configuration. The standard life of the new membranes is 3-5 years. The utility is proposing a change out program which allows for a three year life when all 42 membranes are installed. The change-out will be accomplished every two (2) years with the first change-out starting in 1994 replacing 14 membranes. (TR. 582)

Utility witness Reese testified that one of the reasons for not continuing to use the hollow fiber membranes is that "... the availability of the hollow fine fiber had all but disappeared. The industry has, for this type of brackish water treatment, almost universally gone to the spiral-wound membrane ...." (TR. 509-10) He also testified that, in addition to the 3-year warranty period from the manufacturer, three years is the industry standard for establishing projections on the performance of membranes. (TR. 510)

Witness Reese also testified that while it is true that the membranes being replaced lasted approximately ten years, the volume of water treated by those membranes was quite low in their early years and they were not being fully utilized during that time. (TR. 494) The membranes have a physical life that is related to flow as well as chronology. (TR. 498) Higher volume of flow will contribute to a much shorter calendar life for the membranes on a volume treated basis. (TR. 494)

Witness Reese recommends a three year change out program because he found it more prudent to schedule the change out period to match the manufacturer warranty period than to speculate as to whether the membranes may or may not last longer. (TR. 495) OPC's witness DeMeza has recommended that the change out program for membranes be extended from three years to four years based on the utility's excellent operation and the 3-5 year life expectancy of the new spiral-wound membrane. (TR. 581-83) In addition, Mr. DeMeza testified that he has no working knowledge of these type membranes. (TR. 593)

Therefore, since the Utility's proposed three year replacement period for the new spiral wound membranes is based on industry manufacturer's warranty standards and future flows, it appears reasonable and should be considered appropriate.

ISSUE 28: Should rate case costs for the prior docket be allowed in this case?

RECOMMENDATION: No, prior rate case costs of $68,374, should be disallowed. (MONIZ)

POSITION OF PARTIES:

SPUC: Yes. Allegations on which the dismissal was based were inaccurate and a substantial portion of work performed in preparing the 1989 case was required in preparing this case.

OPC: No, the utility should not be permitted to recover any of the rate case expense associated with the filing made by the company in 1989. Ratepayers should not be required to pay for any of the costs associated with a case that was dismissed.

SPOR: No.

STAFF ANALYSIS: In its MFRs the utility requested recovery of prior rate case costs of $68,374. (EX. 2, P. 77)

Utility witness Seidman provided direct and rebuttal testimony. In his direct testimony he states that Docket No. 891114-WS was dismissed and the rate case costs were never recovered. Further, this current case was to be the first time that the Commission will establish rate base and rate of return and a substantial portion of the work done to support original cost and CIAC collections was used in preparing for this filing. (TR. 177-178)

OPC witness Deward testified that the prior rate case was dismissed by the Commission and the utility should not be allowed to recover any of the expenses associated with preparing that case, including the legal expense incurred by the Company. He further contends that ratepayers should not be required to pay for any of the costs of preparing a case which was later dismissed by the Commission. (TR. 612)

In response to Mr. Deward's testimony, Mr. Seidman states that a considerable amount of the information supporting the plant in service, CIAC and meter installations from inception was used to develop this filing, to respond to staff auditors and staff inquiries and to respond to intervenor discovery. (TR. 190-191)

On cross-examination by staff, Mr. Seidman admitted that he was unable to use any of the schedules from the prior rate case because the MFR rules had changed and new schedules were designated. Further, he also admitted he could not quantify the number of hours spent to prepare the original cost and CIAC collection information. (TR. 433-434)

Based on the above information, staff believes that the utility would have been allowed some recovery of the prior rate case costs such as the time spent to support the original cost of plant and the CIAC collections, but the record is silent as to how much exact time was spent. Further, the company failed to file as an exhibit any supporting documentation for either prior or current rate case expense.

We do agree in part with OPC that all prior rate case expense should be removed except for the amount incurred to support rate base. But, due to lack of support for that amount related to compiling the rate base components, staff recommends that all prior rate case costs should be removed as unjustified and unsupported. Rate case expense of $68,374 for the prior rate case should be removed. Therefore, test year rate case expense should be reduced by $8,547 for water and $8,546 for wastewater.

ISSUE 29: What is the appropriate amount for current rate case expense?

RECOMMENDATION: The appropriate amount for current rate case expense is $50,000, amortized over four years. This results in a reduction of $41,800 to current rate case expense from the utility's request of $91,800. (MONIZ)

POSITION OF PARTIES:

SPUC: The estimate included in the MFRs is $91,800, plus the $68,374 expense incurred for the prior rate case filing as requested in the MFR.

OPC: Any legal costs incurred in this proceeding in opposing the intervention of the homeowners or their duly elected representatives should be disallowed. All other requests for rate case expense should be closely scrutinized and justified.

SPOR: All costs of filing motions directed against intervenor by the utility should not be recoverable from the ratepayers.

STAFF ANALYSIS: In its MFRs the utility requested recovery of rate case expense of $160,174. This was broken down by prior and current as follows (EX. 2 Pg.77):

	WATER	SEWER	TOTAL
Prior Unamortized RC Expense	$34,187	$34,187	$68,374
Total Projected RC Expense	$45,900	$45,900	$91,800
Total	$80,087	$80,087	$160,174
Annual Amortization	$20,022	$20,022	$40,043

OPC witness Deward stated in his direct testimony that any legal costs incurred in this proceeding in opposing the intervention of the homeowners association should be disallowed. He further stated that the ratepayers should not be required to pay for costs associated with arguing against their rights to be fairly represented in a proceeding in which the Company is seeking rate increases of nearly $750,000. (TR. 612-613)

Utility witness Seidman testified in his rebuttal testimony that the group in question is not a homeowners association, but an advisory committee to the owners association. Secondly, he stated that it should be clear that SPUC did not argue against their rights to be fairly represented, but for fairness in representation, and it was the merits of the allegations in the Petition for Leave to Intervene to which SPUC took exception. Further, he states that the language in the Commission Order No. 24486, granting SPOR's petition to intervene, bears out SPUC's concern. He quotes from the order:

> However, we also find that the utility has made valid arguments relating to the merits of some allegations made by SPOR. We find certain allegations made by SPOR of substantial injury are not of the type this rate proceeding is designed to protect and are remote, speculative, and irrelevant.

He then continued that the utility has an obligation to its stockholders and to its other ratepayers to take issue with intervention. (TR. 191-192)

The utility stated in its brief that 34% of the rate case costs were attributable directly to the intervention of SPOR and OPC. (BR. 74) Staff would like to reemphasize that the information presented below was addressed only in the brief and not evidenced in the record.

	Intervention	Other	Total
Regulatory	$13,547	$60,263	$73,810
Engineer	604	3,355	3,959
Attorney	28,375	18,308	46,683
Total	$42,526	$81,926	$124,452

(BR. 75)

The chart above depicts the total costs, presented in its brief, that the utility spent on this rate case. This is $33,000 more than the estimate included in the MFR's (EX. 2 p. 76), however, $42,256 of that cost relates to the intervention. (BR. 74) The utility's brief stated that the cost of the intervention by two parties has a major impact on the overall rate case expense, and without the extent of the work necessary to respond to the expanded intervention the estimate of $91,800 would have been reasonably accurate. (BR. 74)

OPC stated in its brief that given the small customer base of the utility it has a special duty to attempt to contain rate case cost. The systematic strategy to deny participation of the non-

Mobil customers and their representative group, and to attempt to muzzle them after their intervention was granted, was needless and costly. It continued that after failing to deny the non-Mobil lot owners' intervention the utility continued to pursue its strategy with numerous motions. (BR. 66-67) The brief also stated that while the utility is entitled to recover reasonable rate case expense it cannot expect the customers to pay for the campaign to deny or limit the customers participation in the proceeding. Finally, OPC's brief recommended a reduction of at least $5,000 in the utility's proposed current rate case expense. (BR. 69)

The record does not support OPC's argument to exclude the portion of the rate case expense that is related to the intervenors. But, on the other hand, the record also fails to support the rate case expense requested by the utility. The utility failed to enter into the record any supporting documents to justify its requested rate case expense.

In previous rate cases, staff has analyzed and scrutinized the supporting documents submitted by the utility to determine if the rate case expense requested is a justifiable expense for that rate case. The record of this rate case does not give staff the opportunity to do this. It only contains the amount that was requested in the MFR's. Staff does not believe that the utility has supported, thus justified, its rate case expense request.

Based on the fact that the record does not support the request or any specific adjustments, staff is making its recommendation based on Florida Power Corp. v. Cresse, 413 So.2d. 1191. The case holds that the burden of proof in a commission proceeding is always on a utility seeking a rate change and upon other parties seeking to change established rates. Staff believes the utility has not met its burden of proof because the lack of supporting evidence in the record. We believe that this case gives us the authority to recommend that the Commission disallow all rate case expense simply because the utility did not meet its burden.

On the opposite side of the coin, we do not believe that we can recommend disallowing the expense entirely. The record does indicate that a substantial amount of work was performed as evidenced by the MFRs, attendance at the formal proceedings, exhibits filed, and preparation of its brief. Based on the lack of any definitive amount found to be reasonable in the record, staff believes that a minimum amount to be recovered should be $50,000. This amount is no more than simply a judgement call by staff based on past experience with rate cases. Staff recommends the following adjustment:

	WATER	SEWER	TOTAL
Current Rate Expense Per MFR's	$45,900	$45,900	$91,800
Staff's adjustment to RC Exp	(20,900)	(20,900)	(41,800)
Total	$25,000	$25,000	$50,000
Annual Amortization	$6,250	$6,250	$12,500

ISSUE 30: Is the utility's proposed depreciation expense overstated?

RECOMMENDATION Yes, depreciation expense should be reduced by $1,320 for water and $750 for wastewater and accumulated depreciation should be reduced by $1,320 and $375, respectively. (MONIZ)

POSITION OF PARTIES:

SPUC: No.

OPC: Yes.

SPOR: Yes.

STAFF ANALYSIS: The utility states in its brief that its proposed depreciation expense is based on Commission Rule 25-30.140, adjusted for used and useful considerations. The amount of depreciation expense, net of amortization of CIAC, requested for the test year ending June, 1992, is $62,346 for the water system and $66,907 for the wastewater system. It also states that these numbers are fall-out numbers subject to adjustments due to the resolution of factual issues in this case. (BR. 76)

OPC states in its brief that as result of its adjustments to the utility's non-used and useful percentages, depreciation expense should be reduced by $29,881 for water and $37,446 for wastewater. (BR. 70)

The evidence in the record does not support or mention that any correcting adjustments to depreciation expense are necessary other than the stipulations (Issue A) and the change in used and useful percentages (Issues 12 and 13). Based on the above, the appropriate amount of test year depreciation should be $66,157 for water and $61,026 for wastewater, and accumulated depreciation should be $595,132 for water and $428,962, respectively. The depreciation expense amounts are shown on Schedule Nos. 3-A and 3-B. The adjustments are shown on Schedule No. 3-C.

ISSUE 31: Should the utility's requested provision for taxes other than income be approved?

RECOMMENDATION: Yes, no adjustment is necessary. (MONIZ)

POSITION OF PARTIES:

SPUC: Yes. The property taxes as reflected in the MFRs are adjusted for non-used and useful plant.

OPC: The utility's proposed property tax expense is overstated.

SPOR: No position.

STAFF ANALYSIS: Utility witness Siedman stated in his testimony that property taxes were adjusted to reflect actual taxes paid in the base year and the allocation of used and useful water and wastewater plant in that year. He further testified that the property taxes were then projected to change proportional to the increase in the estimated assessed value; they were not adjusted to reflect estimated changes in the tax rate. (TR. 179-180)

OPC witness Deward testified that he adjusted property tax expense to recognize the proper used and useful percentages. (TR. 613) In its brief, OPC stated that the utility's property tax expense as reflected in the MFR's should be adjusted to reflect the used and useful percentages calculated by OPC witness DeMeza.

Based on the used and useful percentages discussed in Issues 12 and 13, staff is not recommending any adjustments to property tax expense. Based on staff's used and useful percentages, the adjustment would only be $126, therefore, due to its immateriality, staff is not recommending an adjustment to the provision for taxes other than income.

<u>ISSUE 32:</u> Should a parent debt adjustment be made in this case?

<u>RECOMMENDATION:</u> No, a parent debt adjustment should not be made in this case. (BRAND)

<u>POSITION OF PARTIES</u>

<u>SPUC:</u> No, a parent debt adjustment is not appropriate in this case because the parent capital structure is being used.

<u>OPC:</u> A parent debt adjustment should be made.

<u>SPOR:</u> No position.

<u>STAFF ANALYSIS:</u> No parent debt adjustment is necessary, because no income tax expense is being recognized, as discussed in Issue 33.

If income tax expense were allowed in Issue 33, a parent debt adjustment would be required by Rule 25-14.004, F.A.C. The adjustment should be made for each parent level above the capital structure used in setting rates.

ISSUE 33: What is the appropriate income tax expense?

RECOMMENDATION: Income tax expense should be zero. (BRAND)

POSITION OF PARTIES

SPUC: At full authorized return; water $53,871; wastewater $47,427. (This is a fall-out number subject to adjustments to taxable income in this proceeding.)

OPC: The utility should not be granted any income tax expense.

SPOR: Adopt OPC's position.

STAFF ANALYSIS: The Company calculated income tax expense on a stand alone basis, using the Federal corporate rate of 34%. The current book tax liability included the ratable tax on CIAC in the current year if the utility had taxable income for that year, which Company witness Seidman admitted at the hearing was inappropriate. (TR. 181)

Mr. Seidman stated in his rebuttal testimony that the Company operated at a loss in previous years, but that those losses should not be considered in the calculation of tax expense in this case. (TR. 190) He stated that if income taxes are not recovered on earnings as they occur, previous losses carried forward reduce or eliminate future tax liability and effectively reduce the rates of future customers because past customers were never charged a compensatory rate. Mr. Seidman stated in his prefiled rebuttal testimony that there is a substantial income tax expense associated with the requested return on equity. (TR. 193)

It is the position of OPC that income tax expense would be inappropriate in this case because there is no equity in the capital structure. (TR. 613-614)

In his prefiled direct testimony, OPC witness DeWard states that, if tax expense were allowed, it should be offset by ITC amortization. (TR. 612) This treatment, however, would only be allowed for a company which had made an election under IRC 46(f)(2). As discussed in Issue 23, Staff has treated SPUC as an Option 1 company. IRC 46(f)(1) requires that ITC amortization be taken below the line, with no effect on income tax expense.

As discussed in Issue 18, Staff is recommending no equity component in the capital structure in this case. Staff, therefore, recommends no income tax expense.

If the Commission were to determine that the capital structure does contain an equity component, income tax expense would be appropriate. A parent debt adjustment should be made as discussed in Issue 32. The tax expense would not be reduced by ITC amortization, since the Company is being treated as an Option 1 Company, as discussed in Issue 23.

ISSUE 34: What is the appropriate level of test year operating income before revenue increase?

RECOMMENDATION: The appropriate level of test year operating income should be $(131,092) for water and $(143,165) for wastewater.
(MONIZ)

POSITION OF PARTIES:

SPUC: Water: negative $122,270; Wastewater: negative $137,715.

OPC: Water : negative $86,445; Wastewater: negative $101,463

SPOR: Adopts OPC's position.

STAFF ANALYSIS: Based on the previously recommended adjustments, staff recommends that the appropriate level of test year operating income should be $(131,092) for water and $(143,165) for wastewater. This is a fall-out issue. The operating statement is attached as Schedule Nos. 3-A and 3-B and the adjustments are shown on Schedule No. 3-C.

REVENUE REQUIREMENT

ISSUE 35: What is the total revenue requirement?

RECOMMENDATION: The following revenue requirement should be approved: (MONIZ)

	TOTAL	(DECREASE) INCREASE	PERCENT
WATER	$357,198	$160,513	81.61%
WASTEWATER	$284,610	$115,670	146.05%

POSITION OF PARTIES:

SPUC: At full authorized return; water $572,814; wastewater $477,580.

OPC: Citizens adopt SPOR's revenue requirement of $269,953 for water and $202,284 for wastewater.

SPOR: Fall-out number.

STAFF ANALYSIS: The revenue required as a result of staff's analysis is $357,198 for water and $284,610 for wastewater. This will allow the utility the opportunity to recover its expenses and an opportunity to earn a 1.91 % return on its investment in rate base.

ISSUE 36: Is an adjustment necessary to comply with Section 367.0815, Florida Statutes, regarding the limitation of rate case expense?

RECOMMENDATION: No. (MONIZ)

POSITION OF PARTIES:

SPUC: Yes, although the utility disagrees with the statutory provision.

OPC: Possibly. The Commission should faithfully enforce the requirements of Chapter 367.0815, Florida Statutes.

SPOR: Adopts staff's position.

STAFF ANALYSIS: Section 367.0815, Florida Statutes, states:

> [I]n the event that a rate increase is granted, but in an amount less than requested, the rate case expense, including costs and attorneys fees, shall be apportioned in such a way that the public utility shall pay a proportion of the rate case expenses which is equal to the percentage difference between the rate increase requested and the rate increase approved. However, no such apportionment shall be allowed if it will cause the utility's return on equity to drop below its authorized range.

As discussed in Issue No. 18, Staff is recommending that SPUC's capital structure be used. As such, SPUC has a zero equity balance. The entire net operating income recommended relates to the interest on the debt. If the Commission were to adjust rate case expense, based on the statute, the utility would fall below its authorized return. Staff believes that the implied return on equity range in this case is zero. If the Commission adjusts rate case expense as referenced in the statute, the return on equity would drop below zero. Therefore, staff recommends that no adjustment is necessary in this case.

RATES AND RATE STRUCTURE

ISSUE 37: What final rates should be authorized?

RECOMMENDATION: The recommended rates should be designed to produce revenues of $357,198 for water and $284,610 for wastewater using the base facility charge rate structure. The approved rates will be effective for meter readings on or after thirty days from the stamped approval date, subject to the utility's filing of and staff's approval of revised tariff sheets and a customer notice. (GOLDEN)

POSITION OF PARTIES:

SPUC: See Schedule E-1 of the MFRs.

OPC: No position.

SPOR: Adopt Staff's position.

STAFF ANALYSIS: The utility has taken the position that the rates shown on Schedule E-1 of the MFRs should be authorized. Witness Seidman stated in his direct testimony that the utility has not proposed any change in the rate structure. (TR. 183) Witness Seidman added that "The present rate structure includes a base facilities charge, a gallonage charge and a 10,000 gallon cap on residential wastewater charges as recommended by the Commission. The requested rates maintain that same rate structure." (TR. 183-184)

SPOR has adopted staff's position on this issue and OPC has not taken a position. In its brief, SPOR stated that "...this Commission should set a rate which excludes from the rate base all contributed property, is sufficient to cover operating expenses, and to provide a reserve for depreciation and replacement of the facilities in their normal course." OPC stated in its brief that "While the Citizens actively participate in the proceeding to help the Commission determine the proper revenue requirement we do not make recommendations concerning rate design." Neither SPOR nor OPC offered any testimony concerning the rate structure or final rates.

The permanent rates requested by the utility are designed to produce revenues of $572,814 and $477,580 for water and wastewater, respectively. (TR. 183) The requested revenues represent increases of $371,755 (184.89%) for water and $361,910 (312.88%) for wastewater.

Staff recommends that the final rates approved for the utility should be designed to produce revenues of $357,198 for water and $284,610 for wastewater as recommended in Issue 35, maintaining the base facility charge rate design. The rate structure recommended by staff agrees with the structure requested by the utility. It is Commission policy to use the base facility charge structure for setting rates because of its ability to track costs and to give the customers some control over their water and sewer bills. Each customer pays his pro rata share of the related costs necessary to provide service through the base facility charge and only the actual usage is paid for through the gallonage charge.

The recommended rates for water service are uniform for residential and general service customers. The recommended rates for wastewater service include a 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's current rates do not reflect this differential, however, the utility's requested final rates and staff's recommended final rates do incorporate the differential in the rate structure.

The approved rates will be effective for meter readings on or after thirty days from the stamped approval date of 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 that the proposed customer notice is adequate.

The comparison of the utility's original rates, interim rates, requested rates, and staff's recommended rates is shown on Schedule Nos. 4 and 5. The Data Summary forms are attached as Schedule Nos. 6 and 7.

ISSUE 38: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense?

RECOMMENDATION: As reflected in Schedule Nos. 8 and 9, the water rates should be reduced by $6,545 and the wastewater rates should be reduced by $6,545 at the expiration of the four year period, in compliance with Section 367.0816, Florida Statutes. (GOLDEN)

POSITION OF PARTIES:

SPUC: Fall-out number.

OPC: Fall-out number.

SPOR: Fall-out number.

STAFF ANALYSIS: The utility, SPOR, and OPC each adopted the position that this issue is a fall-out number. None of the parties offered testimony concerning this issue. Staff agrees with the parties that this is a fall-out number. Section 367.0816, Florida Statutes, requires that rate case expense be apportioned for recovery over a period of four years. The statute further requires that the rates of the utility be reduced immediately by the amount of rate case expense previously included in the rates. This statute applies to all rate cases filed on or after October 1, 1989.

The water rates should be reduced by $6,545 and the wastewater rates should be reduced by $6,545 as shown in Schedule Nos. 8 and 9. The revenue reductions reflect the annual rate case amounts amortized (expensed) plus the gross-up for regulatory assessment fees.

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

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

ISSUE 39: Is the utility's existing service availability policy in compliance with Rule 25-30.580, Florida Administrative Code?

RECOMMENDATION: Yes. (GOLDEN)

POSITION OF PARTIES:

SPUC: Yes.

OPC: No position.

SPOR: No.

STAFF ANALYSIS: The utility has taken the position that the existing service availability policy is in compliance with Rule 25-30.580, Florida Administrative Code. Witness Seidman stated in his direct testimony that the utility is not requesting any changes to the service availability charges at this time. (TR. 184) At the hearing, Witness Seidman was asked if he is familiar with Rule 25-30.580, Florida Administrative Code, which establishes the guidelines for minimum and maximum levels of CIAC. He responded "Yes, I am familiar with it." (TR. 441) Witness Seidman testified that the current service availability charges would not be sufficient to bring the utility to the 75% contribution level at build-out, but that he does not "read the rule as requiring to come up to 75, it's a maximum of 75." (TR. 441)

SPOR has taken the position that the utility is not in compliance with Rule 25-30.580, Florida Administrative Code, and OPC has not taken a position on this issue. SPOR did not address the service availability policy in its brief. OPC stated in its brief that "The Citizens have historically not made recommendations concerning the adequacy of service availability fees collected by utilities." Neither SPOR nor OPC offered testimony on this issue.

The utility's existing service availability policy was approved in Docket No. 810277-WS by Order No. 11673 issued on March 4, 1983 when the utility was granted its certificate. New customers are required to donate all on-site transmission, distribution, and other water and wastewater facilities to the utility, to pay water and wastewater plant capacity charges, and to pay meter installation charges based on meter size. Order No. 11673 established the plant capacity charges at $1,000 each for water and wastewater. Order No. 13721, issued on September 28, 1984 in Docket No. 830427-WS, increased the plant capacity charges to $2,500 for water and $1,500 for wastewater. The existing charges are as follows:

Water Plant Capacity Charge	$2,500.00 per ERC
Wastewater Plant Capacity Charge	$1,500.00 per ERC

Meter Size	Meter Installation Charge
5/8" x 3/4"	$ 84.00
1"	$ 175.00
Over 1"	At cost

As of the projected test year ended June 30, 1992, the utility's contribution level is expected to be 27.55% for water and 23.93% for wastewater. The water contribution level is within the guidelines of Rule 25-30.580, Florida Administrative Code, however, the wastewater contribution level is below the minimum specified by the Rule. Build-out is expected to occur approximately five to seven years after the end of the projected test year. The contribution levels at build-out are estimated to be 75.02% for water and 58.66% for wastewater. The estimated contribution levels at build-out are within the guidelines of Rule 25-30.580, Florida Administrative Code. Therefore, staff agrees with the utility that the current service availability policy is in compliance with Rule 25-30.580, Florida Administrative Code, and recommends that the existing policy not be changed.

ISSUE 40: What are the appropriate miscellaneous service charges?

RECOMMENDATION: Staff recommends that the miscellaneous service charges as detailed in Second Revised Staff Advisory Bulletin No. 13 be approved for both the water and wastewater systems and that the tariff contain a provision that when both water and wastewater services are provided, only a single charge is assessed unless circumstances beyond the control of the utility require multiple actions. The new miscellaneous service charges are effective for service provided on or after the stamped approval date of the revised tariff sheets. The tariff sheets will be approved upon staff's verification that the tariffs are consistent with the Commission's decision. (GOLDEN)

POSITION OF PARTIES:

SPUC: The charges set forth in SAB No. 13 and a late charge alternative as contained in the proposed tariff.

OPC: No position.

SPOR: No position.

STAFF ANALYSIS: The utility has taken the position that the charges set forth in Staff Advisory Bulletin (SAB) No. 13 and a late charge alternative as contained in the proposed tariff should be approved as the appropriate miscellaneous service charges. Witness Seidman testified that the utility is requesting a $10.00 late payment charge and that the charge would be assessed after an initial 25 day billing period. (TR. 441-442) He further testified that when the late payment is on a water and wastewater bill only a $10.00 charge would be assessed to the total bill, rather than $10.00 for water and an additional $10.00 for wastewater. (TR. 442-443) When asked if it is true that the utility charges customers a base facility charge for water and wastewater for the months they spend away from the service area, Witness Seidman answered "Yes. The base facility charge is charged regardless of whether the occupants are in residence or not." (TR. 444) When asked if he believes that charging a $10.00 late fee is something that would be fair to the customers, Witness Seidman responded "It's probably too low. I don't know what you mean by fair. The option that we presented was that in lieu of turning people's water off because they had not paid, especially when many of them are not in residence all during the year, it would be better to put a penalty on the payment for late pay rather than to go ahead and do these turn-offs." In response to a question regarding whether or not the utility collects customer deposits, Witness Seidman answered "No.

They don't collect customer deposits. There is not a high degree in this area of nonpay." (TR. 444) Staff has estimated that there are 12 to 15 customers who pay late each month. This equates to approximately 6% of the total customers.

SPOR and OPC have taken no position on this issue. SPOR did not address miscellaneous service charges in its brief. OPC stated in its brief that "The Citizens have historically not made recommendations concerning the appropriateness of miscellaneous service charges." Neither SPOR nor OPC offered testimony concerning miscellaneous service charges.

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

> INITIAL CONNECTION - This charge would be levied for service initiation at a location where service did not exist previously.
>
> NORMAL RECONNECTION - This charge would be levied for transfer of service to a new customer account at a previously served location, or reconnection of service subsequent to a customer requested disconnection.
>
> VIOLATION RECONNECTION - This charge would be levied prior to reconnection of an existing customer after disconnection of service for cause according to Rule 25-30.320(2), Florida Administrative Code, including a delinquency in bill payment.
>
> PREMISES VISIT CHARGE (IN LIEU OF DISCONNECTION) - This charge would be levied when a service representative visits a premises for the purpose of discontinuing service for nonpayment of a due and collectible bill and does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill.

The charges proposed by this utility are consistent with Second Revised SAB No. 13 with the exception of the proposed late payment charge. Staff understands the problem faced by the utility in disconnecting seasonal customers. However, Rule 25-30.320 (2) states that "As applicable, the utility may refuse or discontinue service under the following conditions...." Subsection (g) specifies that customers can be disconnected "For nonpayment of bills or noncompliance with utility's rules and regulations..." Therefore, the utility has the authority to disconnect customers for nonpayment, regardless of occupancy. As presented in Witness Seidman's testimony, the utility does charge a base facility charge each month regardless of occupancy. (TR. 444) Staff believes the customers are aware of this and should make the necessary arrangements to pay their monthly bills in a timely manner. Also, customers have the option of requesting that their service be disconnected during their absence. More importantly, as presented in Witness Seidman's testimony, the utility has not utilized the tool of customer deposits to help offset non-payment of bills, and the utility expressed their reluctance in utilizing the tool of disconnecting non-paying customers. (TR. 444)

Staff recommends that the charges set forth in Second Revised Staff Advisory Bulletin No. 13 should be approved as the appropriate miscellaneous service charges. The utility's tariff currently contains only the violation reconnection charge. Approval of the SAB No. 13 charges will increase the violation reconnection charge from $10.00 to $15.00, and will provide the utility with more flexibility in assessing customers for these costs incurred in providing service. Inasmuch as the utility has not previously been authorized to charge these additional charges, staff believes that it is more appropriate for the utility to begin with the charges shown in SAB No. 13. Staff believes the utility should be required to utilize the miscellaneous service charges shown below to alleviate the late payment problem before gaining approval of the late payment charge. If these charges do not prove to be adequate, the utility should consider implementation of customer deposits, and then as a last resort seek approval of the late payment charge.

The proposed customer notice should contain a description of the new miscellaneous service charges along with a statement to remind customers that their service may be disconnected for late payment of bills. The utility should also add a statement to the monthly bills to notify customers that their service will be disconnected after five working days' written notice if the bill is not paid by the due date. The following table provides the present, company proposed and staff recommended service charges.

WATER

	Present	Utility Requested	Staff Recommended
Initial Connection	N/A	$15.00	$15.00
Normal Reconnection	N/A	$15.00	$15.00
Violation Reconnection	$10.00	$15.00	$15.00
Premises Visit	N/A	$10.00	$10.00
Late Payment Charge	N/A	$10.00	N/A

WASTEWATER

	Present	Utility Requested	Staff Recommended
Initial Connection	N/A	$15.00	$15.00
Normal Reconnection	N/A	$15.00	$15.00
Violation Reconnection	Actual Cost	Actual Cost	Actual Cost
Premises Visit	N/A	$10.00	$10.00
Late Payment Charge	N/A	$10.00	N/A

When both water and wastewater services are provided, only a single charge is appropriate unless circumstances beyond the control of the utility require multiple actions. If a utility must disconnect service to a sewer-only customer, actual costs incurred may be recovered from the customer before service is restored. The new miscellaneous service charges are effective for service provided on or after the stamped approval date of the revised tariff sheets. The tariff sheets will be approved upon staff's verification that the tariffs are consistent with the Commission's decision.

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RATES AND RATE STURUCTURE

ISSUE 37: What final rates should be authorized?

RECOMMENDATION: The recommended rates should be designed to produce revenues of $357,198 for water and $284,610 for wastewater using the base facility charge rate structure. The approved rates will be effective for meter readings on or after thirty days from the stamped approval date, subject to the utility's filing of and staff's approval of revised tariff sheets and a customer notice. (GOLDEN)

POSITION OF PARTIES:

SPUC: See Schedule E-1 of the MFRs.

OPC: No position.

SPOR: Adopt Staff's position.

STAFF ANALYSIS: The utility has taken the position that the rates shown on Schedule E-1 of the MFRs should be authorized. Witness Seidman stated in his direct testimony that the utility has not proposed any change in the rate structure. (TR. 183) Witness Seidman added that "The present rate structure includes a base facilities charge, a gallonage charge and a 10,000 gallon cap on residential wastewater charges as recommended by the Commission. The requested rates maintain that same rate structure." (TR. 183-184)

SPOR has adopted staff's position on this issue and OPC has not taken a position. In its brief, SPOR stated that "...this Commission should set a rate which excludes from the rate base all contributed property, is sufficient to cover operating expenses, and to provide a reserve for depreciation and replacement of the facilities in their normal course." OPC stated in its brief that "While the Citizens actively participate in the proceeding to help the Commission determine the proper revenue requirement we do not make recommendations concerning rate design." Neither SPOR nor OPC offered any testimony concerning the rate structure or final rates.

The permanent rates requested by the utility are designed to produce revenues of $572,814 and $477,580 for water and wastewater, respectively. (TR. 183) The requested revenues represent increases of $371,755 (184.89%) for water and $361,910 (312.88%) for wastewater.

Staff recommends that the final rates approved for the utility should be designed to produce revenues of $357,198 for water and $284,610 for wastewater as recommended in Issue 35, maintaining the base facility charge rate design. The rate structure recommended by staff agrees with the structure requested by the utility. It is Commission policy to use the base facility charge structure for setting rates because of its ability to track costs and to give the customers some control over their water and sewer bills. Each customer pays his pro rata share of the related costs necessary to provide service through the base facility charge and only the actual usage is paid for through the gallonage charge.

The recommended rates for water service are uniform for residential and general service customers. The recommended rates for wastewater service include a 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's current rates do not reflect this differential, however, the utility's requested final rates and staff's recommended final rates do incorporate the differential in the rate structure.

The approved rates will be effective for meter readings on or after thirty days from the stamped approval date of 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 that the proposed customer notice is adequate.

The comparison of the utility's original rates, interim rates, requested rates, and staff's recommended rates is shown on Schedule Nos. 4 and 5. The Data Summary forms are attached as Schedule Nos. 6 and 7.

ISSUE 38: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense?

RECOMMENDATION: As reflected in Schedule Nos. 8 and 9, the water rates should be reduced by $6,545 and the wastewater rates should be reduced by $6,545 at the expiration of the four year period, in compliance with Section 367.0816, Florida Statutes. (GOLDEN)

POSITION OF PARTIES:

SPUC: Fall-out number.

OPC: Fall-out number.

SPOR: Fall-out number.

STAFF ANALYSIS: The utility, SPOR, and OPC each adopted the position that this issue is a fall-out number. None of the parties offered testimony concerning this issue. Staff agrees with the parties that this is a fall-out number. Section 367.0816, Florida Statutes, requires that rate case expense be apportioned for recovery over a period of four years. The statute further requires that the rates of the utility be reduced immediately by the amount of rate case expense previously included in the rates. This statute applies to all rate cases filed on or after October 1, 1989.

The water rates should be reduced by $6,545 and the wastewater rates should be reduced by $6,545 as shown in Schedule Nos. 8 and 9. The revenue reductions reflect the annual rate case amounts amortized (expensed) plus the gross-up for regulatory assessment fees.

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

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

Docket No. 900816-WS
August 22, 1991

ISSUE 39: Is the utility's existing service availability policy in compliance with Rule 25-30.580, Florida Administrative Code?

RECOMMENDATION: Yes. (GOLDEN)

POSITION OF PARTIES:

SPUC: Yes.

OPC: No position.

SPOR: No.

STAFF ANALYSIS: The utility has taken the position that the existing service availability policy is in compliance with Rule 25-30.580, Florida Administrative Code. Witness Seidman stated in his direct testimony that the utility is not requesting any changes to the service availability charges at this time. (TR. 184) At the hearing, Witness Seidman was asked if he is familiar with Rule 25-30.580, Florida Administrative Code, which establishes the guidelines for minimum and maximum levels of CIAC. He responded "Yes, I am familiar with it." (TR. 441) Witness Seidman testified that the current service availability charges would not be sufficient to bring the utility to the 75% contribution level at build-out, but that he does not "read the rule as requiring to come up to 75, it's a maximum of 75." (TR. 441)

SPOR has taken the position that the utility is not in compliance with Rule 25-30.580, Florida Administrative Code, and OPC has not taken a position on this issue. SPOR did not address the service availability policy in its brief. OPC stated in its brief that "The Citizens have historically not made recommendations concerning the adequacy of service availability fees collected by utilities." Neither SPOR nor OPC offered testimony on this issue.

The utility's existing service availability policy was approved in Docket No. 810277-WS by Order No. 11673 issued on March 4, 1983 when the utility was granted its certificate. New customers are required to donate all on-site transmission, distribution, and other water and wastewater facilities to the utility, to pay water and wastewater plant capacity charges, and to pay meter installation charges based on meter size. Order No. 11673 established the plant capacity charges at $1,000 each for water and wastewater. Order No. 13721, issued on September 28, 1984 in Docket No. 830427-WS, increased the plant capacity charges to $2,500 for water and $1,500 for wastewater. The existing charges are as follows:

Water Plant Capacity Charge	$2,500.00 per ERC
Wastewater Plant Capacity Charge	$1,500.00 per ERC

Meter Size	Meter Installation Charge
5/8" x 3/4"	$ 84.00
1"	$ 175.00
Over 1"	At cost

As of the projected test year ended June 30, 1992, the utility's contribution level is expected to be 27.55% for water and 23.93% for wastewater. The water contribution level is within the guidelines of Rule 25-30.580, Florida Administrative Code, however, the wastewater contribution level is below the minimum specified by the Rule. Build-out is expected to occur approximately five to seven years after the end of the projected test year. The contribution levels at build-out are estimated to be 75.02% for water and 58.66% for wastewater. The estimated contribution levels at build-out are within the guidelines of Rule 25-30.580, Florida Administrative Code. Therefore, staff agrees with the utility that the current service availability policy is in compliance with Rule 25-30.580, Florida Administrative Code, and recommends that the existing policy not be changed.

ISSUE 40: **What are the appropriate miscellaneous service charges?**

RECOMMENDATION: **Staff recommends that the miscellaneous service charges as detailed in Second Revised Staff Advisory Bulletin No. 13 be approved for both the water and wastewater systems and that the tariff contain a provision that when both water and wastewater services are provided, only a single charge is assessed unless circumstances beyond the control of the utility require multiple actions. The new miscellaneous service charges are effective for service provided on or after the stamped approval date of the revised tariff sheets. The tariff sheets will be approved upon staff's verification that the tariffs are consistent with the Commission's decision. (GOLDEN)**

POSITION OF PARTIES:

SPUC: **The charges set forth in SAB No. 13 and a late charge alternative as contained in the proposed tariff.**

OPC: **No position.**

SPOR: **No position.**

STAFF ANALYSIS: The utility has taken the position that the charges set forth in Staff Advisory Bulletin (SAB) No. 13 and a late charge alternative as contained in the proposed tariff should be approved as the appropriate miscellaneous service charges. Witness Seidman testified that the utility is requesting a $10.00 late payment charge and that the charge would be assessed after an initial 25 day billing period. (TR. 441-442) He further testified that when the late payment is on a water and wastewater bill only a $10.00 charge would be assessed to the total bill, rather than $10.00 for water and an additional $10.00 for wastewater. (TR. 442-443) When asked if it is true that the utility charges customers a base facility charge for water and wastewater for the months they spend away from the service area, Witness Seidman answered "Yes. The base facility charge is charged regardless of whether the occupants are in residence or not." (TR. 444) When asked if he believes that charging a $10.00 late fee is something that would be fair to the customers, Witness Seidman responded "It's probably too low. I don't know what you mean by fair. The option that we presented was that in lieu of turning people's water off because they had not paid, especially when many of them are not in residence all during the year, it would be better to put a penalty on the payment for late pay rather than to go ahead and do these turn-offs." In response to a question regarding whether or not the utility collects customer deposits, Witness Seidman answered "No.

They don't collect customer deposits. There is not a high degree in this area of nonpay." (TR. 444) Staff has estimated that there are 12 to 15 customers who pay late each month. This equates to approximately 6% of the total customers.

SPOR and OPC have taken no position on this issue. SPOR did not address miscellaneous service charges in its brief. OPC stated in its brief that "The Citizens have historically not made recommendations concerning the appropriateness of miscellaneous service charges." Neither SPOR nor OPC offered testimony concerning miscellaneous service charges.

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

> <u>INITIAL CONNECTION</u> - This charge would be levied for service initiation at a location where service did not exist previously.
>
> <u>NORMAL RECONNECTION</u> - This charge would be levied for transfer of service to a new customer account at a previously served location, or reconnection of service subsequent to a customer requested disconnection.
>
> <u>VIOLATION RECONNECTION</u> - This charge would be levied prior to reconnection of an existing customer after disconnection of service for cause according to Rule 25-30.320(2), Florida Administrative Code, including a delinquency in bill payment.
>
> <u>PREMISES VISIT CHARGE (IN LIEU OF DISCONNECTION)</u> - This charge would be levied when a service representative visits a premises for the purpose of discontinuing service for nonpayment of a due and collectible bill and does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill.

The charges proposed by this utility are consistent with Second Revised SAB No. 13 with the exception of the proposed late payment charge. Staff understands the problem faced by the utility in disconnecting seasonal customers. However, Rule 25-30.320 (2) states that "As applicable, the utility may refuse or discontinue service under the following conditions...." Subsection (g) specifies that customers can be disconnected "For nonpayment of bills or noncompliance with utility's rules and regulations..." Therefore, the utility has the authority to disconnect customers for nonpayment, regardless of occupancy. As presented in Witness Seidman's testimony, the utility does charge a base facility charge each month regardless of occupancy. (TR. 444) Staff believes the customers are aware of this and should make the necessary arrangements to pay their monthly bills in a timely manner. Also, customers have the option of requesting that their service be disconnected during their absence. More importantly, as presented in Witness Seidman's testimony, the utility has not utilized the tool of customer deposits to help offset non-payment of bills, and the utility expressed their reluctance in utilizing the tool of disconnecting non-paying customers. (TR. 444)

Staff recommends that the charges set forth in Second Revised Staff Advisory Bulletin No. 13 should be approved as the appropriate miscellaneous service charges. The utility's tariff currently contains only the violation reconnection charge. Approval of the SAB No. 13 charges will increase the violation reconnection charge from $10.00 to $15.00, and will provide the utility with more flexibility in assessing customers for these costs incurred in providing service. Inasmuch as the utility has not previously been authorized to charge these additional charges, staff believes that it is more appropriate for the utility to begin with the charges shown in SAB No. 13. Staff believes the utility should be required to utilize the miscellaneous service charges shown below to alleviate the late payment problem before gaining approval of the late payment charge. If these charges do not prove to be adequate, the utility should consider implementation of customer deposits, and then as a last resort seek approval of the late payment charge.

The proposed customer notice should contain a description of the new miscellaneous service charges along with a statement to remind customers that their service may be disconnected for late payment of bills. The utility should also add a statement to the monthly bills to notify customers that their service will be disconnected after five working days' written notice if the bill is not paid by the due date. The following table provides the present, company proposed and staff recommended service charges.

WATER

	Present	Utility Requested	Staff Recommended
Initial Connection	N/A	$15.00	$15.00
Normal Reconnection	N/A	$15.00	$15.00
Violation Reconnection	$10.00	$15.00	$15.00
Premises Visit	N/A	$10.00	$10.00
Late Payment Charge	N/A	$10.00	N/A

WASTEWATER

	Present	Utility Requested	Staff Recommended
Initial Connection	N/A	$15.00	$15.00
Normal Reconnection	N/A	$15.00	$15.00
Violation Reconnection	Actual Cost	Actual Cost	Actual Cost
Premises Visit	N/A	$10.00	$10.00
Late Payment Charge	N/A	$10.00	N/A

When both water and wastewater services are provided, only a single charge is appropriate unless circumstances beyond the control of the utility require multiple actions. If a utility must disconnect service to a sewer-only customer, actual costs incurred may be recovered from the customer before service is restored. The new miscellaneous service charges are effective for service provided on or after the stamped approval date of the revised tariff sheets. The tariff sheets will be approved upon staff's verification that the tariffs are consistent with the Commission's decision.

ISSUE 41: Should a charge be established for gray water used by the golf course? Is so, what is the appropriate charge?

RECOMMENDATION: No. The primary benefit is to the utility and no charge should be established for gray water used by the golf course. (LIVELY)

POSITION OF PARTIES

SPUC: No.

OPC: No.

SPOR: No, without that method the utility could not discharge its wastewater. Interconnection of ownership interests and method of disposal evidences developer's construction of the utility as an integral part of developer.

STAFF ANALYSIS: The parties are in agreement that no charge should be made for gray water provided for golf course irrigation. No evidence has been presented in this proceeding regarding whether a gray water charge is appropriate and, if so, on what that charge should be based. The Utility believes such a charge is not appropriate in this case because the Utility, and not the golf course receiving effluent, is the primary beneficiary of the arrangement. Without the availability of the golf course to receive effluent, the Utility could incur substantial costs to develop an alternative means of disposal. (TR. 424) Therefore, staff recommends that no charges should be established for grey water used by the golf course.

ISSUE 42: Should this docket be closed?
(This issue is not included in the prehearing order)

RECOMMENDATION: Yes, this docket should be closed subsequent to the utility's submittal and staff's approval of the revised tariff sheets. The utility's corporate undertaking may be released. (MONIZ)

POSITION OF PARTIES

SPUC: No stated position.

OPC: No stated position.

SPOR: No stated position.

STAFF ANALYSIS: The docket may be closed upon the utility's filing of revised tariff sheets and staff's approval of them. The utility's corporate undertaking may be released.

(I:\psc\was\wp\sailfish.ama)

SAILFISH POINT UTILITIES CORPORATION
SCHEDULE OF WATER RATE BASE
TEST YEAR ENDED JUNE 30, 1992

SCHEDULE NO. 1-A
DOCKET NO. 900816-WS

	COMPONENT		(A) AVERAGE TEST YEAR PER BOOKS		(B) ADJUSTMENTS TO THE TEST YEAR		(C) ADJUSTED TEST YEAR PER MFR'S		(D) PROPOSED ADJUSTMENTS		(E) PROPOSED ADJUSTED TEST YEAR
	SPUC										
1	UTILITY PLANT IN SERVICE	$	2,825,175	$	0	$	2,825,175	$	0	$	2,825,175
2	LAND		19,500		0		19,500		0		19,500
3	NON-USED AND USEFUL COMPONENTS		(184,985)		0		(184,985)		0		(184,985)
4	ACCUMULATED DEPRECIATION		(506,452)		0		(506,452)		0		(506,452)
5	CIAC		(753,403)		0		(753,403)		0		(753,403)
6	AMORTIZATION OF C.I.A.C.		113,377		0		113,377		0		113,377
7	CIAC DEFERRED TAX DEBIT		156,066		0		156,066		0		156,066
8	WORKING CAPITAL ALLOWANCE		29,786		0		29,786		0		29,786
9	RATE BASE	$	1,609,064	$	0	$	1,609,064	$	0	$	1,609,064
	STAFF										
10	UTILITY PLANT IN SERVICE	$	2,825,175	$	0	$	2,825,175	$	(29,000)	$	2,796,175
11	LAND		19,500		0		19,500		0		19,500
12	NON-USED AND USEFUL COMPONENTS		(184,985)		0		(184,985)		0		(184,985)
13	ACCUMULATED DEPRECIATION		(506,452)		0		(506,452)		1,320		(505,132)
14	CIAC		(753,403)		0		(753,403)		(620)		(754,023)
15	AMORTIZATION OF C.I.A.C.		113,377		0		113,377		295		113,672
16	CIAC DEFERRED TAX DEBIT		156,066		0		156,066		(156,066)		0
17	WORKING CAPITAL ALLOWANCE		29,786		0		29,786		(1,757)		28,029
18	RATE BASE	$	1,609,064	$	0	$	1,609,064	$	(185,828)	$	1,423,236
	OPC										
19	UTILITY PLANT IN SERVICE	$	2,825,175	$	0	$	2,825,175	$	(39,122)	$	2,786,053
20	LAND		19,500		0		19,500		0		19,500
21	NON-USED AND USEFUL COMPONENTS		(184,985)		0		(184,985)		(666,096)		(851,081)
22	ACCUMULATED DEPRECIATION		(506,452)		0		(506,452)		(173,362)		(769,814)
23	CIAC		(753,403)		0		(753,403)		0		(753,403)
24	AMORTIZATION OF C.I.A.C.		113,377		0		113,377		0		113,377
25	CIAC DEFERRED TAX DEBIT		156,066		0		156,066		(156,066)		0
26	WORKING CAPITAL ALLOWANCE		29,786		0		29,786		(29,786)		0
27	RATE BASE	$	1,609,064	$	0	$	1,609,064	$	(1,064,432)	$	544,632

SAILFISH POINT UTILITIES CORPORATION
SCHEDULE OF WASTEWATER RATE BASE
TEST YEAR ENDED JUNE 30, 1992

SCHEDULE NO. 1-B
DOCKET NO. 900816-WS

	COMPONENT	(A) AVERAGE TEST YEAR PER BOOKS	(B) ADJUSTMENTS TO THE TEST YEAR	(C) ADJUSTED TEST YEAR PER MFR'S	(D) PROPOSED ADJUSTMENTS	(E) PROPOSED ADJUSTED TEST YEAR
	SPUC					
1	UTILITY PLANT IN SERVICE	$ 2,444,511	$ 0	$ 2,444,511	$ 0	$ 2,444,511
2	LAND	19,500	0	19,500	0	19,500
3	NON-USED AND USEFUL COMPONENTS	(298,966)	0	(298,966)	0	(298,966)
4	ACCUMULATED DEPRECIATION	(429,337)	0	(429,337)	0	(429,337)
5	CIAC	(509,800)	0	(509,800)	0	(509,800)
6	AMORTIZATION OF C.I.A.C.	82,203	0	82,203	0	82,203
7	CIAC DEFERRED TAX DEBIT	93,773	0	93,773	0	93,773
8	WORKING CAPITAL ALLOWANCE	20,781	0	20,781	0	20,781
9	RATE BASE	$ 1,422,665	$ 0	$ 1,422,665	$ 0	$ 1,422,665
	STAFF					
10	UTILITY PLANT IN SERVICE	$ 2,444,511	$ 0	$ 2,444,511	$ (20,243)	$ 2,424,268
11	LAND	19,500	0	19,500	0	19,500
12	NON-USED AND USEFUL COMPONENTS	(298,966)	0	(298,966)	(89,340)	(388,306)
13	ACCUMULATED DEPRECIATION	(429,337)	0	(429,337)	375	(428,962)
14	CIAC	(509,800)	0	(509,800)	(54,987)	(564,787)
15	AMORTIZATION OF C.I.A.C.	82,203	0	82,203	2,161	84,364
16	CIAC DEFERRED TAX DEBIT	93,773	0	93,773	(93,773)	0
17	WORKING CAPITAL ALLOWANCE	20,781	0	20,781	(1,728)	19,053
18	RATE BASE	$ 1,422,665	$ 0	$ 1,422,665	$ (257,535)	$ 1,165,130
	OPC					
19	UTILITY PLANT IN SERVICE	$ 2,444,511	$ 0	$ 2,444,511	$ (10,122)	$ 2,434,389
20	LAND	19,500	0	19,500	0	19,500
21	NON-USED AND USEFUL COMPONENTS	(298,966)	0	(298,966)	(574,235)	(873,201)
22	ACCUMULATED DEPRECIATION	(429,337)	0	(429,337)	(107,063)	(536,400)
23	CIAC	(509,800)	0	(509,800)	0	(509,800)
24	AMORTIZATION OF C.I.A.C.	82,203	0	82,203	0	82,203
25	CIAC DEFERRED TAX DEBIT	93,773	0	93,773	(93,773)	0
26	WORKING CAPITAL ALLOWANCE	20,781	0	20,781	(20,781)	0
27	RATE BASE	$ 1,422,665	$ 0	$ 1,422,665	$ (805,974)	$ 616,691

SAILFISH POINT UTILITY CORPORATION
ADJUSTMENTS TO RATE BASE
TEST YEAR ENDED JUNE 30, 1992

SCHEDULE NO. 1-C

DOCKET NO. 900816

EXPLANATION	WATER			WASTEWATER		
	SPUC	STAFF	OPC	SPUC	STAFF	OPC
(1) UTILITY PLANT IN SERVICE						
A. To remove average balance of provision for contingency costs.	$ 0	$ (29,000)	$ (29,000)	$ 0	$ 0	$ 0
B. To adjust for improperly capitalized items	0	0	(10,122)	0	(20,243)	(10,122)
NET ADJUSTMENT	$ 0	$ (29,000)	$ (39,122)	$ 0	$ (20,243)	$ (10,122)
(2) NON-USED AND USEFUL						
To adjust for correction to used and useful net of accumulated depreciation	$ 0	$ 0	$ (606,006)	$ 0	$ (80,340)	$ (574,235)
(3) ACCUMULATED DEPRECIATION						
A. To adjust for removal of contingency costs	$ 0	$ 1,320	$ 1,320	$ 0	$ 0	$ 0
B. To adjust for removal of improperly capitalized items.	0	0	0	0	375	0
C. To recognize benefit of Tax Depr (1981-82)			(174,362)			(107,083)
NET ADJUSTMENT	$ 0	$ 1,320	$ (173,042)	$ 0	$ 375	$ (107,083)
(4) CIAC						
A. To adjust for meter fees not recorded	$ 0	$ (620)	$ 0	$ 0	$ 0	$ 0
B. Imputation of CIAC to offset Margin Reserve for wastewater treatment plant	0	0	0	0	(54,907)	0
NET ADJUSTMENT	$ 0	$ (620)	$ 0	$ 0	$ (54,907)	$ 0

SAILFISH POINT UTILITY CORPORATION
ADJUSTMENTS TO RATE BASE
TEST YEAR ENDED JUNE 30, 1992

SCHEDULE NO. 1-C
PAGE 2 OF 2
DOCKET NO. 900816-WS

EXPLANATION	WATER SPUC	WATER STAFF	WATER OPC	WASTEWATER SPUC	WASTEWATER STAFF	WASTEWATER OPC
(5) ACCUMULATED AMORTIZATION OF CIAC						
A. To adjust for meter fees not recorded	$ 0	$ 295	$ 0	$ 0	$ 0	$ 0
B. To reflect imputation of CIAC to offset Margin Reserve for wastewater treatment plant	0	0	0	0	2,161	0
NET ADJUSTMENT	$ 0	$ 295	0	$ 0	$ 2,161	$ 0
(6) CIAC DEFERRED TAX DEBIT						
To remove to reflect the recommended balance	$ 0	$ (156,086)	$ (156,086)	$ 0	$ (93,773)	$ (93,773)
(7) WORKING CAPITAL						
To reflect adjustment to working capital	$ 0	$ (1,757)	$ (29,786)	$ 0	$ (1,728)	$ (20,781)

SAILFISH POINT UTILITIES CORPORATION
SCHEDULE OF CAPITAL STRUCTURE
TEST YEAR ENDED JUNE 30, 1992

SCHEDULE NO. 2-A
DOCKET NO. 900816-WS

COMPONENT	BALANCE PER MFR	NET ADJUSTMENT	ADJUSTED BALANCE	WEIGHT	COST	WEIGHTED COST
UTILITY						
1 LONG-TERM DEBT	746,056	0	746,056	24.61%	10.[illegible]%	2.67%
2 LT COMPANY ADVANCES	0	0	0	0.00%	0.00%	0.00%
3 PEFERRED STOCK	85,729	0	85,729	2.83%	7.72%	0.22%
4 ST COMPANY ADVANCES	0	0	0	0.00%	0.00%	0.00%
5 COMMON EQUITY	1,743,941	0	1,743,941	57.52%	12.14%	[illegible]
6 ITC'S	0	0	0	0.00%	0.00%	0.00%
7 DEFERRED TAXES	456,001	0	456,001	15.04%	0.00%	0.00%
8 TOTAL	3,031,727	0	3,031,727	100.00%		9.87%
STAFF						
9 LONG-TERM DEBT	746,056	(379,052)	367,004	14.1[illegible]%	11.00%	1.[illegible]%
10 LT COMPANY ADVANCES	0	[illegible]	[illegible]	23.4[illegible]%	[illegible]	[illegible]
11 PEFERRED STOCK	85,729	(85,729)	0	0.00%	[illegible]	[illegible]
12 ST COMPANY ADVANCES	0	[illegible]	[illegible]	36.04%	[illegible]	[illegible]
13 COMMON EQUITY	1,743,941	(1,743,941)	0	0.00%	13.11%	[illegible]
14 ITC'S	456,001	265,111	721,112	10.24%	[illegible]	[illegible]
15 DEFERRED TAXES	0	(40,730)	(40,730)	16.05%	0.00%	0.00%
16 TOTAL	3,031,727	(443,361)	2,5[illegible]	100.00%		1.[illegible]%

	HIGH	LOW
RANGE OF REASONABLENESS:		
EQUITY	14.11%	12.11%
OVERALL RATE OF RETURN	1.[illegible]%	1.[illegible]%

COMPONENT	BALANCE PER MFR	NET ADJUSTMENT	ADJUSTED BALANCE	WEIGHT	COST	WEIGHTED COST
OPC						
17 LONG-TERM DEBT	746,056	89,882	835,938	23.21%	11.00%	2.[illegible]%
18 SHORT-TERM DEBT	0	1,300,035	1,300,035	36.10%	0.00%	0.00%
19 CUSTOMER DEPOSITS	85,729	(85,729)	0	0.00%	0.00%	0.00%
20 COMMON EQUITY	0	2,117,793	2,117,793	58.81%	0.00%	0.00%
21 ITC'S	1,743,941	(3,186,164)	(1,442,223)	-40.05%	0.00%	0.00%
22 DEFERRED INCOME TAXES	456,001	(176,039)	279,962	7.77%	0.00%	0.00%
23 OTHER CAPITAL	0	509,867	509,867	14.16%	0.00%	0.00%
24 TOTAL	3,031,727	569,645	3,601,372	100.00%		2.55%

SAILFISH POINT UTILITY CORPORATION
ADJUSTMENTS TO CAPITAL STRUCTURE
TEST YEAR ENDED JUNE 30, 1992

SCHEDULE NO. 2-B
DOCKET NO. 900816-WS

	DESCRIPTION	SPECIFIC ADJUSTMENT (1)	SPECIFIC ADJUSTMENT (2)	TOTAL ADJUSTED*	PRO RATA RECONCILE	NET ADJUSTMENT
1	LONG TERM DEBT	$ 89,882	$ 0	$ 835,936	(468,934)$	(379,052)
2	LT COMPANY ADVANCES	1,385,043		1,385,043	(776,963)	608,080
3	PEFERRED STOCK	(85,729)		0	0	(85,729)
4	ST COMPANY ADVANCES	2,124,807		2,124,807	(1,191,997)	932,900
5	COMMON EQUITY	(1,743,941)	0	0	0	(1,743,941)
6	INVESTMENT TAX CREDITS	0	265,111	265,111	0	265,111
7	DEFERRED INCOME TAXES	0	(40,730)	415,271	0	(40,730)
8	TOTAL CAPITAL	$ 1,770,152	$ 224,381	$ 5,026,260	(2,437,894)$	(443,361)

(1) To adjust for change to Sailfish Point's Capital Structure.
(2) To reflect imputed tax adjustments.

SAILFISH POINT UTILITIES CORPORATION
STATEMENT OF WATER OPERATIONS
TEST YEAR ENDED JUNE 30, 1992

SCHEDULE NO. 3-A
DOCKET NO. 900816-WS

DESCRIPTION	(A) AVERAGE TEST YEAR PER BOOKS	(B) ADJUSTMENTS TO THE TEST YEAR	(C) ADJUSTED TEST YEAR	(D) PROPOSED ADJUSTMENTS	(E) PROPOSED ADJUSTED TEST YEAR	(F) REVENUE ADJUSTMENT	(G) REVENUE REQUIREMENT
SPUC							
1 OPERATING REVENUES	$ 201,060	$ 371,755	$ 572,815	$ (371,755)	$ 201,060	$ 371,755	$ 572,815
OPERATING EXPENSES:							
2 OPERATION & MAINTENANCE	$ 218,265	$ 20,022	$ 238,287	$ (20,022)	$ 218,265	$ 20,022	$ 238,287
3 DEPRECIATION/AMORTIZATION	62,346	0	62,346	0	62,346	0	62,346
4 TAXES OTHER THAN INCOME	42,719	16,729	59,448	(16,729)	42,719	16,729	59,448
5 INCOME TAXES	0	53,871	53,871	(53,871)	0	53,871	53,871
6 TOTAL OPERATING EXPENSES	$ 323,330	$ 90,622	$ 413,952	$ (90,622)	$ 323,330	$ 90,622	$ 413,952
7 OPERATING INCOME	$ (122,270)	$ 281,133	$ 158,863	$ (281,133)	$ (122,270)	$ 281,133	$ 158,863
8 RATE OF RETURN	-7.60%		9.87%		-7.60%		9.87%
STAFF							
9 OPERATING REVENUES	$ 201,060	$ 371,755	$ 572,815	$ (376,130)	$ 196,685	$ 160,513	$ 357,198
OPERATING EXPENSES:							
10 OPERATION & MAINTENANCE	$ 218,265	$ 20,022	$ 238,287	$ (14,058)	$ 224,229	$	$ 224,229
11 DEPRECIATION/AMORTIZATION	62,346	0	62,346	(1,320)	61,026		61,026
12 TAXES OTHER THAN INCOME	42,719	16,729	59,448	(16,926)	42,522	7,223	49,745
13 INCOME TAXES	0	53,871	53,871	(53,871)	0		0
14 TOTAL OPERATING EXPENSES	$ 323,330	$ 90,622	$ 413,952	$ (86,175)	$ 327,777	$ 7,223	$ 335,000
15 OPERATING INCOME	$ (122,270)	$ 281,133	$ 158,863	$ (289,955)	$ (131,092)	$ 153,290	$ 22,198
16 RATE OF RETURN	-7.60%		9.87%		-9.21%		1.56%
OPC							
17 OPERATING REVENUES	$ 201,060	$ 371,755	$ 572,815	$ (371,755)	$ 201,060	$ 105,080	$ 306,140
OPERATING EXPENSES:							
18 OPERATION & MAINTENANCE	$ 218,265	$ 20,022	$ 238,287	$ (15,472)	$ 222,815	$	$ 222,815
19 DEPRECIATION/AMORTIZATION	62,346	0	62,346	(31,201)	31,145		31,145
20 TAXES OTHER THAN INCOME	42,719	16,729	59,448	(25,904)	33,544	4,729	38,273
21 INCOME TAXES	0	53,871	53,871	(53,871)	0		0
TOTAL OPERATING EXPENSES	$ 323,330	$ 90,622	$ 413,952	$ (126,448)	$ 287,504	$ 4,729	$ 292,233
22 OPERATING INCOME	$ (122,270)	$ 281,133	$ 158,863	$ (245,307)	$ (86,444)	$ 100,351	$ 13,907
23 RATE OF RETURN	-7.60%		9.87%		-15.87%		2.55%

SAILFISH POINT UTILITIES CORPORATION
STATEMENT OF WASTEWATER OPERATIONS
TEST YEAR ENDED JUNE 30, 1992

SCHEDULE NO. 3-B
DOCKET NO. 900816-WS

DESCRIPTION	(A) AVERAGE TEST YEAR PER BOOKS	(B) ADJUSTMENTS TO THE TEST YEAR	(C) ADJUSTED TEST YEAR PER MFR'S	(D) PROPOSED ADJUSTMENTS	(E) PROPOSED ADJUSTED TEST YEAR	(F) REVENUE ADJUSTMENT	(G) REVENUE REQUIREMENT
SPUC							
OPERATING REVENUES	$ 115,670	$ 361,910	$ 477,580	$ (361,910)	$ 115,670	$ 361,910	$ 477,580
OPERATING EXPENSES:							
OPERATION & MAINTENANCE	$ 146,223	$ 20,022	$ 166,245	$ (20,022)	$ 146,223	$ 20,022	$ 166,245
DEPRECIATION	66,907	0	66,907	0	66,907	0	66,907
AMORTIZATION	0	0	0	0	0	0	0
TAXES OTHER THAN INCOME	40,254	16,286	56,540	(16,286)	40,254	16,286	56,540
INCOME TAXES	0	47,427	47,427	(47,427)	0	47,427	47,427
TOTAL OPERATING EXPENSES	$ 253,384	$ 83,735	$ 337,119	$ (83,735)	$ 253,384	$ 83,735	$ 337,119
OPERATING INCOME	$ (137,714)	$ 278,175	$ 140,461	$ (278,175)	$ (137,714)	$ 278,175	$ 140,461
RATE OF RETURN	-9.68%		9.87%		-9.68%		9.87%
STAFF							
OPERATING REVENUES	$ 115,670	$ 361,910	$ 477,580	$ (361,910)	$ 115,670	$ 168,940	$ 284,610
OPERATING EXPENSES:							
OPERATION & MAINTENANCE	$ 146,223	$ 20,022	$ 166,245	$ (13,821)	$ 152,424	$	$ 152,424
DEPRECIATION	66,907	0	66,907	(750)	66,157		66,157
AMORTIZATION	0	0	0		0		0
TAXES OTHER THAN INCOME	40,254	16,286	56,540	(16,286)	40,254	7,602	47,856
INCOME TAXES	0	47,427	47,427	(47,427)	0	0	0
TOTAL OPERATING EXPENSES	$ 253,384	$ 83,735	$ 337,119	$ (78,284)	$ 258,835	$ 7,602	$ 266,437
OPERATING INCOME	$ (137,714)	$ 278,175	$ 140,461	$ (283,626)	$ (143,165)	$ 161,338	$ 18,173
RATE OF RETURN	-9.68%		9.87%		-12.29%		1.58%
OPC							
OPERATING REVENUES	$ 115,670	$ 361,910	$ 477,580	$ (361,910)	$ 115,670	$ 122,732	$ 238,402
OPERATING EXPENSES:							
OPERATION & MAINTENANCE	$ 146,223	$ 20,022	$ 166,245	$ (9,172)	$ 157,073	$	$ 157,073
DEPRECIATION	66,907	0	66,907	(37,446)	29,461		29,461
AMORTIZATION	0	0	0	0	0		0
TAXES OTHER THAN INCOME	40,254	16,286	56,540	(25,941)	30,599	5,523	36,122
INCOME TAXES	0	47,427	47,427	(47,427)	0	0	0
TOTAL OPERATING EXPENSES	$ 253,384	$ 83,735	$ 337,119	$ (119,986)	$ 217,133	$ 5,523	$ 222,656
OPERATING INCOME	$ (137,714)	$ 278,175	$ 140,461	$ (241,924)	$ (101,463)	$ 117,209	$ 15,746
RATE OF RETURN	-9.68%		9.87%		-16.45%		2.55%

SAILFISH POINT UTILITY CORPORATION
ADJUSTMENTS TO OPERATING STATEMENTS
TEST YEAR ENDED JUNE 30, 1992

SCHEDULE NO. 3-C
DOCKET NO. 900816-WS

EXPLANATION	WATER SPUC	WATER STAFF	WATER OPC	WASTEWATER SPUC	WASTEWATER STAFF	WASTEWATER OPC
(1) OPERATING REVENUES						
A. To remove the utility's test year revenue request.	$ (371,755)	$ (371,755)	$ (371,755)	$ (361,910)	$ (361,910)	$ (361,910)
B. To adjust for overstatement of miscellaneous revenues	0	(4,375)	0	0		
NET ADJUSTMENT	$ (371,755)	$ (376,130)	$ (371,755)	$ (361,910)	$ (361,910)	$ (361,910)
(2) OPERATION AND MAINTENACE EXPENSE						
A. To adjust rate case expense.	$ (20,022)	$ (14,058)	$ (9,172)	$ (20,022)	$ (13,821)	$ (9,172)
B. To adjust cost of membrane replacement (OPC)	0	0	(6,300)	0	0	0
NET ADJUSTMENT	$ (20,022)	$ (14,058)	$ (15,472)	$ (20,022)	$ (13,821)	$ (9,172)
(3) DEPRECIATION						
A. To adjust for removal of contingency costs	$ 0	$ (1,320)	$ (1,320)	$ 0	$ 0	$ 0
B. To adjust for removal of improperly capitalized items.	0	0	0	0	(750)	0
C. To reflect increased non used and useful plant	0	0	(29,881)	0	(5,788)	(37,446)
D. To adjust amortization for CIAC imputation	0	0	0	0	(2,161)	0
E. To increase test year amortization for meter fees not recorded	0	(31)	0	0	0	0
	$ 0	$ (1,320)	$ (1,320)	$ 0	$ (750)	$ 0
(4) TAXES OTHER THAN INCOME						
To remove RAF's associated with revenue adjustment above	$ (16,729)	$ (16,926)	$ (16,729)	$ (16,286)	$ (16,286)	$ (16,286)
(5) PROVISION FOR INCOME TAXES						
To remove income tax expense.	$ (53,871)	$ (53,871)	$ (53,871)	$ (47,427)	$ (47,427)	$ (47,427)
(6) OPERATING REVENUES						
To reflect recommended increase in revenues	$ 371,755	$ 160,513	$ 105,080	$ 391,910	$ 168,940	$ 122,732
(7) TAXES OTHER THAN INCOME						
To reflect regulatory assessment fees related to adjustment to revenues	$ 16,729	$ 7,223	$ 4,729	$ 20,022	$ 7,602	$ 5,523
(8) INCOME TAXES						
To reflect income taxes related to adjustment to revenues	$ 53,871	$ 0	$ 0	$ 47,427	$ 0	$ 0

RATE SCHEDULE

WATER

UTILITY: Sailfish Point Utility Corporation
TEST YEAR ENDED: June 30, 1992

Monthly Rates

	Original	Commission Approved Interim	Utility Requested Final	Staff Recommended Final
Residential, General Service, and Multi-Residential Service				
Base Facility Charge:				
Meter Size:				
5/8"x3/4"	$12.46	$20.37	$21.33	$22.90
1"	$31.21	$51.01	$53.33	$57.25
1-1/2"	$62.34	$101.89	$106.66	$114.50
2"	$99.75	$163.04	$170.66	$183.20
3"	$199.50	$326.07	$341.32	$366.40
4"	$311.71	$509.47	$533.32	$572.50
6"	$623.43	$1,018.96	$1,067.37	$1,145.00
Gallonage Charge per 1,000 G.	$2.22	$3.63	$10.19	$4.14

RATE SCHEDULE

WASTEWATER

UTILITY: Sailfish Point Utility Corporation
TEST YEAR ENDED: June 30, 1992

	Monthly Rates			
	Original	Commission Approved Interim	Utility Requested Final	Staff Recommended Final
Residential Service				
Base Facility Charge:				
Meter Size:				
All Meter Sizes	$15.24	$27.97	$40.08	$29.50
Gallonage Charge per 1,000 G. (Maximum 10,000 G.)	$1.65	$3.03	$9.18	$4.72
General Service and Multi-Residential Service				
Base Facility Charge:				
Meter Size:				
5/8"x3/4"	$15.24	$27.97	$40.08	$29.50
1"	$38.10	$69.92	$100.19	$73.75
1-1/2"	$76.21	$139.87	$200.38	$147.50
2"	$121.92	$223.76	$320.60	$236.00
3"	$243.86	$447.55	$641.21	$472.00
4"	$381.03	$699.30	$1,001.89	$737.50
6"	$762.07	$1,398.61	$2,003.96	$1,475.00
Gallonage Charge per 1,000 G.	$1.65	$3.03	$11.01	$5.66

Utility Name: Sailfish Point Utility Corporation

RATE CASE DATA SUMMARY

County: Martin Water: X Sewer:
General Service Area: N/A
Proposed: X OR as Directed in Order No.: N/A Staff Assisted: N/A
Regular: X

Dates: Case filed: 12/28/90 Last Hearing: N/A 8 Month Deadline: 9/3/91 (company was granted extension of 8 month deadline) Commission Agenda: 9/3/91
Prior Case Rate Increase: N/A

	Utility Requested	Staff Recommended
Rate Base	$1,609,064	$1,423,236
Operating Income	$158,883	$22,198
Rate of Return	9.87%	1.56%

	Test Year Revenue	Commission Approved Interim	Utility Requested Final	Staff Recommended Final	Percent Increase (1)
Gross Annual Revenue	$196,685	$316,822	$572,815	$357,198	81.61%
Increased Revenues		$120,137	$376,130	$160,513	
Average Monthly Bill:					
--Residential	$48.68	$79.57	$134.87	$89.84	84.56%
--General Service	$310.96	$508.35	$1,009.22	$575.77	85.16%

Typical Residential Bills

1" meter (2)					
2 M	$37.87	$61.90	$83.90	$69.67	83.97%
5 M	$42.31	$69.16	$104.28	$77.95	84.24%
10 M	$53.41	$87.31	$155.23	$98.65	84.70%

Rate Structure-Residential

BFC					
5/8"x3/4"	$12.46	$20.37	$21.33	$22.90	(See Staff Recomm.
1"	$31.21	$51.01	$53.33	$57.25	for Full Rate Details).
Gal. Charge per MG.	$2.22	$3.63	$10.19	$4.14	

Avg. No. Customers Residential 192 General Service 21

Utility Name: Sailfish Point Utility Corporation

Remarks:

(1) The aberration in percentages is due to the exclusion of $7,413 in miscellaneous revenues from the average monthly bill and typical residential bill calculations.

(2) All houses at Sailfish Point are equipped with 1" meters, therefore, the typical residential bills were calculated using the 1" meter base facility charge rather than the customary 5/8"x3/4" rate. The 5/8"x3/4" meters are only used on the boat docks.

Utility Name: Sailfish Point Utility Corporation

RATE CASE DATA SUMMARY

County: Martin   Water: Sewer: X
General Service Area: N/A
Proposed: X   OR as Directed in Order No.: N/A   Staff Assisted: N/A
Regular: X

Dates: Case filed: 12/28/90 Last Hearing: N/A 8 Month Deadline: 9/3/91 (company was granted extension of 8 month deadline) Commission Agenda: 9/3/91
Prior Case Rate Increase: N/A

	Utility Requested	Staff Recommended
Rate Base	$1,422,665	$1,165,130
Operating Income	$140,461	$18,173
Rate of Return	9.87%	1.56%

	Test Year Revenue	Commission Approved Interim	Utility Requested Final	Staff Recommended Final	Percent Increase (1)
Gross Annual Revenue	$115,670	$212,340	$477,580	$284,610	146.05%
Increased Revenues		$96,670	$361,910	$168,940	
Average Monthly Bill:					
--Residential	$24.59	$45.14	$82.09	$56.24	128.74%
--General Service	$392.50	$720.54	$1,757.90	$1,028.03	161.92%

Typical Residential Bills

All meter sizes					
3 M	$20.19	$37.06	$67.62	$43.66	116.25%
5 M	$23.49	$43.12	$85.98	$53.10	126.05%
10 M	$31.74	$58.27	$131.88	$76.70	141.65%

Rate Structure-Residential

BFC - All meter sizes	$15.24	$27.97	$40.08	$29.50	(See Staff Recomm. for Full Rate Details).
Gal. Charge per MG.	$1.65	$3.03	$9.18	$4.72	

Avg. No. Customers   Residential   187   General Service   13

Utility Name: Sailfish Point Utility Corporation

Remarks:

(1) The aberration in percentages is due to the inclusion of the 80%-96% differential between the residential and general service gallonage charges in staff's recommended final rates. The utility's current gallonage charge is equal for residential and general service customers.

UTILITY: Sailfish Point Utility Corporation

RATE SCHEDULE

SCHEDULE OF RATES
AND RATE DECREASE
IN FOUR YEARS

WATER

	Monthly Rates	
	Rates	Rate Decrease
Residential, General Service, and Multi-Residential Service		
Base Facility Charge:		
Meter Size:		
5/8"x3/4"	$22.90	$0.42
1"	$57.25	$1.05
1-1/2"	$114.50	$2.10
2"	$183.20	$3.36
3"	$366.40	$6.71
4"	$572.50	$10.49
	$1,145.00	$20.98
Gallonage Charge per 1,000 G.	$4.14	$0.08

DOCKET NO. 900816-WS
AUGUST 22, 1991

UTILITY: Sailfish Point Utility Corporation

RATE SCHEDULE

SCHEDULE OF STAFF RECOMMENDED RATES AND RATE DECREASE IN FOUR YEARS

WASTEWATER

	Monthly Rates	
	Staff Recommended Rates	Rate Decrease
Residential		
Base Facility Charge:		
Meter Size:		
All Meter Sizes	$29.50	$0.68
Gallonage Charge per 1,000 G. (Maximum 10,000 G.)	$4.72	$0.11
General and Multi-Residential Service		
Base Facility Charge:		
Meter Size:		
5/8"x3/4"	$29.50	$0.68
1"	$73.75	$1.70
1-1/2"	$147.50	$3.39
2"	$236.00	$5.43
3"	$472.00	$10.85
4"	$737.50	$16.96
6"	$1,475.00	$33.92
Gallonage Charge per 1,000 G.	$5.66	$0.13

DOCKET NO. : 900816-WS DATE: 07/[illegible]/91

UTILITY NAME: SAILFISH POINT UTILITY

WATER TREATMENT PLANT USED AND USEFUL CALCULATION

TEST YEAR : 1992

$$\text{\% USED AND USEFUL} = \frac{(2 + 4 + 5 - 6)}{1} = 100.00\ \%$$

(1) Capacity of plant -- 350,000 GPD

(2) Maximum Daily Flow -- 175,818 GPD

(3) Average Daily Flow -- 101,736 GPD

(4) Fire flow capacity required ------------------------------ 180,000 GPD

Fire flow available -- 174,182 GPD

(5) Margin Reserve (not to exceed 20% of present ERC's):

(a) Average Daily Flows 101,736 GPD

(b) Average yearly percentage growth 10.84 %

(c) Construction time for additional capacity (in months) 18

$$\text{(d) Margin Reserve} = \left(\frac{5b}{100}\right) \times \left(\frac{5c}{12\ \text{mths}}\right) \times 5a = 16{,}542\ \text{GPD}$$

Margin Reserve (ERC) = 47 ERC

(6) Excessive Unaccounted for water -------------------------- 5,087 GPD

(a) Total amount	15,260 GPD	15.00 % of Avg. Daily Flow
(b) Reasonable amount	10,173 GPD	10.00 % of Avg. Daily Flow

_____________________ Engineer assigned

signature

DOCKET NO. : 900816-WS DATE: 07/22/91

UTILITY NAME: SAILFISH POINT UTILITY

WATER DISTRIBUTION PLANT USED AND USEFUL CALCULATION

$$\% \text{ USED AND USEFUL} = \frac{(2 + 3)}{1} = 75.17\ \%$$

(1) Capacity of present distribution system ------------------ 580 CONNECTIONS

(2) Average number of connections to the system for the year - 408 CONNECTIONS

(3) Margin Reserve (not to exceed 20% of present CONNECTIONS):

(a) Average yearly customer growth in Connections 30 CONNECTIONS

(b) Construction time for additional capacity (in months) 12

Margin Reserve (ERC) = 32 ERC

____________________ Engineer assigned
signature

DOCKET NO. : 900816-WS DATE: 07/22/91

UTILITY NAME: SAILFISH POINT UTILITY

Test Year: 1992

WASTEWATER TREATMENT PLANT USED AND USEFUL CALCULATION

$$\% \text{ USED AND USEFUL} = \frac{(2 + 3 + 5 - 6)}{1} = 85.37\ \%$$

(1) Capacity of plant	250,000 GPD
(2) Average Peak Month Daily Flow	100,145 GPD
(3) Redundancy Requirement (DER Rules 17-610, F.A.C.)	100,145 GPD
(4) Average Daily Flow	80,764 GPD

(5) Margin Reserve (not to exceed 20% of present ERC's):

(a) Average Daily flows:	80,764 GPD
(b) Average yearly percentage growth	10.84 %
(c) Construction time for additional capacity (in months)	18

$$\text{(d) Margin Reserve} = \left(\frac{5b}{100}\right) \times \left(\frac{5c}{12 \text{ mths}}\right) \times 5a = 13,132 \text{ GPD}$$

Margin Reserve (ERC) = 47 ERC

(6) Excessive Infiltration - - - - - - - - - - - - - - - - - - 0 GPD

(a) Total amount	0 GPD	0.00 % of Avg. Daily Flow
(b) Reasonable amount	0 GPD	0.00 % of Avg. Daily Flow

_______________________ Engineer assigned
signature

DOCKET NO. : 900816-WS DATE: 07/22/91

UTILITY NAME: SAILFISH POINT UTILITY

TEST YEAR: 1992

WASTEWATER COLLECTION SYSTEM USED AND USEFUL CALCULATION

$$\text{\% USED AND USEFUL} = \frac{(2 + 3)}{1} = 75.17\ \%$$

(1) Capacity of present collection system -------------------- 580 CONNECTIONS

(2) Average number of connections to the system for the year - 406 CONNECTIONS

(3) Margin Reserve (not to exceed 20% of present CONNECTIONS):

(a) Average yearly customer growth in Connections: 30 CONNECTIONS

(b) Construction time for additional capacity (in months): 12

Margin Reserve (ERC) = 32 ERC

____________________ Engineer assigned
signature