BEFORE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for a rate increase in Martin County by SAILFISH POINT UTILITY CORPORATION

DOCKET NO. 900816-WS
ORDER NO. 25092
ISSUED: 9/23/91

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON
BETTY EASLEY

APPEARANCES:

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On behalf of Sailfish Point Utility Corporation

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On behalf of Sailfish Point Owners Representatives and Charles R. Buckridge

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On behalf of the Citizens of the State of Florida

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On behalf of the Commission Staff

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

FINAL ORDER SETTING RATES AND CHARGES

BY THE COMMISSION:

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. (SPI), the developer of the service area. SPI is a wholly-owned subsidiary of Mobil Land Development (Florida), Inc. (MLDF) which is a wholly-owned subsidiary of Mobil Land Development Corporation (MLDC) and MLDC is a wholly-owned subsidiary of Mobil Corporation (Mobil). As of December 31, 1989, the utility had 171 water customers and 157 wastewater customers.

On December 18, 1989, Sailfish Point filed an application for increased rates (Docket No. 891114-WS). By order No. 22609, issued February 27, 1990, the Commission suspended the requested rates and granted an interim increase in water and wastewater rates. Because of late-filed revisions to the minimum filing requirements (MFRs) and the revenue request, as well as a notice rule violation, the case was dismissed and a refund of the interim increase was required by Order No. 23123, issued June 26, 1990.

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 rates is the projected twelve-month period ended June 30, 1992. The interim test period is the twelve-months ended June 30, 1990. This docket was set directly for hearing at the utility's request.

In its application, the utility requested final rates which would generate annual revenues of $572,814 for water service and $477,580 for wastewater service. Those requested revenues exceed projected test year revenues by $371,755 (184.89 percent) and $361,910 (312.88 percent) for water and wastewater, respectively. According to the application, the final rates requested would be sufficient to recover a 9.87 percent rate of return on rate base. The utility also requested interim rates which would generate annual revenues of $258,387 for water and $170,694 for wastewater. The requested interim revenues exceed projected test year revenues by $96,807 (59.91 percent) for water and $77,678 (83.53 percent) for wastewater. By Order No. 24202, issued March 5, 1991, the Commission suspended the proposed rates and granted an interim increase in water and wastewater rates, subject to refund, with interest.

The Commission acknowledged the intervention of the Office of Public Counsel (OPC) by Order No. 24263, issued March 20, 1991. On May 7, 1991, the Commission issued Order No. 24486 granting the intervention of the Sailfish Point Property Owners Representatives (SPOR) and Charles R. Buckridge.

A prehearing conference was held on June 6, 1991, in Tallahassee, Florida. A formal hearing was held in Hutchinson Island, Florida, on June 26 and 27, 1991.

FINDINGS OF FACT, LAW AND POLICY

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

STIPULATIONS

At the prehearing conference, the utility, OPC and SPOR agreed upon a number of stipulations. Upon consideration, we find that the stipulations are reasonable and they are, therefore, approved. The stipulations are as follows:

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 contributions-in-aid-construction (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 (SPOR took no position on this stipulation).

6. Current tax expenses should not be increased by the amortization of tax on CIAC (SPOR took no position on this stipulation).

MOTION TO STRIKE

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 on the grounds that SPOR failed to adequately identify portions of the record on which it relied in the brief and that it had cited in its brief material not properly included in the record. On August 9, 1991, OPC and SPOR filed responses in opposition to the utility's motion.

The utility's motion contains argument that has been addressed several times during the pendency of this proceeding. The primary argument of Sailfish Point is that the material relied on by SPOR is outside of the evidentiary record.

We find it appropriate to deny the utility's motion 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, we do not rely on such material, which has the effect of striking that material; and there is no prejudice to the utility where we do not rely on material outside the record. We also find it appropriate to deny the alternative request by Sailfish Point to file a reply brief as Sailfish Point has failed to show a compelling reason to do so.

Accordingly, the Motion to Strike Brief by SPOR or in the alternative, Motion to File Reply Brief, is denied.

QUALITY OF SERVICE

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

The water treatment plant (WTP) utilizes a reverse osmosis type of water treatment process and treated water is stored in ground storage tanks. Water is pumped into the distribution system by three high service pumps. The wastewater treatment facility consists of a conventional extended aeration treatment process and filtration using precast concrete tankage. Treated effluent is ultimately sprayed on the golf course. Although the plant has been allowed to operate under a construction permit, it has never received an operating permit. As a result of negotiations, DER will extend the construction permit, and the utility will implement the modifications necessary to meet DER requirements for an operating permit.

Mr. Francisco J. Perez, a witness from DER, testified that the water produced by the utility meets all state and federal requirements for primary and secondary water quality standards except for corrosivity, and that the utility had been issued a construction permit to install a calcite contactor in order for the utility to comply with corrosivity standards. Mr. Perez further testified that DER had no enforcement actions pending against the Sailfish Point water system.

Mr. William J. Thiel, an additional DER witness, testified concerning the utility's wastewater system. He testified that the utility has a current construction permit to expand the wastewater system and following the completion of permitted modifications, the facility will be in compliance with all DER requirements for the reuse rules for irrigation. Mr. Thiel also testified that no enforcement action is pending by DER against the Sailfish Point wastewater system.

Of the customers attending the hearing, approximately twenty testified. The majority of customers who testified opposed the large rate increase, and a number of them stated that they had been led to believe by the developer that the utility service was part of an amenities package like the roads, tennis courts, and beach.

Eight of the customers testified that the water tastes bad, and many of them said that they either had their own water purifying systems or purchased bottled water. One customer testified that the water was satisfactory. Pertaining to the water taste, utility witness Reese testified that the corrosive nature of the water was causing deterioration of metallic piping, thus causing water quality deterioration, and that a calcite contactor to introduce calcium into the water and reduce corrosive tendencies had been installed.

None of the customers who testified had any adverse comments about the utility's customer relations or the utility's wastewater plant. Two customers testified that the utility was very responsive to their complaints.

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

RATE BASE

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

Contingency Fees

In its filing, the utility added contingency fees of 20 percent to the projected costs of the wastewater treatment plant (WWTP) expansion. There was no testimony on this issue at hearing and there is no evidence in the record to show there was a double counting. Accordingly, we find it appropriate to make no adjustment to the contingency fees.

Water Distribution and Wastewater Collection Lines

SPOR contends that the cost of the water distribution and wastewater collection lines and mains located on the Sailfish Point Property outside of the Utility Parcel should not be included in rate base calculations.

Utility witness Seidman testified that rate base is net of Contributions-in-Aid-of-Construction (CIAC) and that CIAC had been adjusted to recognize previously unbooked meter installation fees. He further testified that even when SPI owned the utility assets, the annual reports filed with the 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 that the tax treatment was proper. Utility witness Olson also testified that the assets were treated as a depreciation expense and not as a cost of goods sold.

Utility witness Seidman further testified that SPI transferred the assets to Sailfish Point in 1983, at net of book depreciation, and that the depreciation reserve reflects an amount equal to the amount of depreciation reserve at that time.

SPOR witness Rasmusen testified that when purchasing property at Sailfish Point, he had been 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 that the ratepayers would be required to pay only for the cost of operation and maintenance of those facilities. Mr. Rasmusen testified that the Planned Unit Development (PUD) Zoning Agreement required the developer to convey or lease the Utility Parcel to Sailfish Point or "other operating entity." He further testified that he believes it is clear from the documents that Sailfish Point 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 that until the developer conveys common areas on which those lines are installed to the Property Owners Association (POA), the developer owns and is responsible for the maintenance of those lines.

Witness Rasmusen testified that it was his understanding that the developer was to convey the utility assets to the POA, and only if the POA did not accept the system could the utility assets be transferred to Martin County or another governmental agency. On cross-examination the utility established the fact that the developer could convey the utility assets to an entity other than the POA.

At the prehearing conference, the Prehearing Officer ruled that the Commission would not address the issue of ownership of the utility. However, whether the assets were written-off to cost of goods sold is at issue. The record supports a finding that the utility plant assets were not written-off to cost of goods sold, but were depreciated. We also find that a decision made by a developer or a utility to depreciate assets or to write them off to cost of goods sold is a management decision.

We find no evidence in the record to support a finding that the CIAC recorded on the books, and as adjusted for the test period, is not the total CIAC for this utility. There is no record evidence that utility assets were written-off in the cost of the lot sales. The record supports a finding that the utility assets were transferred from the developer to the utility in 1983. We find no record evidence that the utility transferred any assets to the POA. SPOR has not offered sufficient evidence to prove that SPOR or the POA owns the lines and mains.

Accordingly, we find that the cost of the water distribution and wastewater collection lines and mains is appropriately included in rate base and that no adjustment is necessary.

Water Treatment and Wastewater Collection Treatment Facilities

It is SPOR's position that the cost of the water and wastewater treatment plant is part of the overall investment made by SPI to improve the real estate at Sailfish Point and is recovered in lot sales. Therefore, SPOR argues, that the cost of the facilities should not be included in rate base.

Utility witness Seidman states in his testimony that the assets of the utility plant were sold to Sailfish Point rather than contributed. Utility witness Olson testified that the utility assets were not treated as donated property and they were not written-off.

SPOR witness Rasmusen testified that one of the advantages pointed out to him by the sales representative of the developer, before he bought his property, was that Sailfish Point had its own water and wastewater treatment plants. He testified 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. He also testified that the PUD Zoning Agreement required the developer to convey or lease the Utility Parcel to Sailfish Point 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 POA and that only if SPOR did not accept the system could the utility assets be transferred to Martin County or another governmental agency. On cross-examination of Mr. Rasmusen, the utility established the fact that the developer could convey the utility assets to someone besides the POA.

We find 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 POA. Accordingly, we do not find it appropriate to make any adjustments to exclude the water treatment and wastewater collection treatment facilities from rate base.

Pre-1984 Construction Costs

It is OPC's position 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. Utility witness Seidman stated that he had not investigated whether initial lot purchasers were led to believe that the utility assets were to be donated to the POA or local government agency. As previously indicated, Mr. Seidman also testified that even when SPI owned the assets, the annual reports filed with the Commission showed that the assets were being depreciated. He also testified 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.

Utility witness Olson testified that he had not seen any item, classified as a utility asset on Mobil's tax depreciation schedules, being written-off to cost of goods sold and that no investment tax credits (ITCs) were recaptured on the sale from SPI to Sailfish Point. He testified that many alternatives were looked at in the early 1980's by Mobil as to the treatment of these assets. It was his opinion that the reason utility assets were depreciated instead of written-off was because Mobil wanted to maintain the flexibility of either donating them to the POA or selling them to a third party, and that the only way to do this was to set the utility up as a separate business unit. Witness Olson further testified that the utility property had been treated as a separate cost center from the other properties at the development and that the utility assets had not been treated as donated property.

Upon consideration of the foregoing, we find that the utility plant assets were not written-off to cost of goods sold. Therefore, we find that no adjustment for pre-1984 construction costs is necessary.

Margin Reserve

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

It is OPC's position that margin reserve should not be allowed in used and useful calculations, and that margin reserve was overstated because the utility relied on peak day usage, rather than yearly growth in its calculations. OPC Witness DeMeza opined that a margin reserve is not the responsibility of the current customer of the utility but rather the responsibility of the utility or developer. However, he conceded that water treatment and distribution systems as well as wastewater treatment and collection systems must be designed with a margin reserve, and that margin reserve is one mechanism for ensuring that the utility is compensated for the risk it takes to be ready to meet its obligation to serve future customers. Utility witness Reese testified 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.

Utility witness Seidman testified that due to poor record storage the utility was unable to calculate margin reserve based on the growth pattern established over the most recent five years. Instead, the utility's calculation of margin reserve contained in the MFRs is based on growth patterns which were based on recent customer-to-lot sales ratios. Utility witness Reese testified that one could conclude that the utility's use of peak day to calculate margin reserve 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.

Upon consideration, we find that the plant investment associated with margin reserve is a necessary component of used and useful plant. Therefore, we have included a margin reserve in the calculations of used and useful. We find that the utility's use of customer-to-lot sales ratios in determining growth percentages is appropriate in this instance, as it works to the advantage of the customers. Notwithstanding the above, we find that the utility has overstated margin reserve as discussed above. We find that it is more appropriate to calculate margin reserve by taking an average number of equivalent residential connections (ERCs) added per year.

Fire Flow

In its calculation of used and useful plant, the utility included an allowance for fire demand. It is OPC's position that the utility should not be given a fire flow allowance because in the 1991 and 1992 test year, the system will only be able to provide the maximum daily flow and the remaining capacity would be less than the required minimum fire flow. In reaching this conclusion OPC relied on peak flow, which was also relied on by the utility, rather than the five day peak average. As discussed in a later portion of this Order, the utility overstated its peak flow by not using the five day peak average.

We find that, using the appropriate five day peak average and growth percentage, the utility's five day average is 175,818 gallons per day (GPD). At hearing, OPC witness DeMeza testified that at this level, the utility should be given credit for fire flow. Accordingly, we find that the utility's fire flow allowance is appropriate and that no adjustment is necessary.

Unaccounted-for-water

According to the MFRs, the utility's unadjusted unaccounted-for-water is 20.51 percent. The utility's position is that this amount of unaccounted-for-water is reasonable when adjusted for necessary line flushing. The utility estimates that the average unaccounted-for-water level will continue at 15 percent.

We have historically recognized the need for plant use, flushing of hydrants, water and wastewater lines, some line breakages, and fire flow. However, a well-managed utility should not have unaccounted-for-water in excess of 10 percent.

Utility witness Seidman testified that two incidents of unauthorized construction use occurred during the test year. The record indicates that the utility made adjustments to its unaccounted-for-water based on unmetered estimates of in-house water use. In addition, the utility made adjustments to its unaccounted-for-water for line breaks but presented no repair logs to substantiate its claims. OPC's position is that unaccounted-for-water in excess of 10 percent is not reasonable.

Based upon the evidence presented in the record, we find that the utility has failed to properly justify all of its unaccounted-for-water. Thus, we will adjust the 20.51 percent unaccounted-for-water by 5.51 percent for the calcite contactor break-in phase. Thus, we find that unaccounted-for-water is 15 percent. Since the record indicates that a reasonable level of unaccounted-for-water is 10 percent, we also find that the utility has an excessive unaccounted-for-water amount of 5 percent.

Calculation of Equivalent Residential Connections

According to Chapter 25-30.515(8), Florida Administrative Code, there are methods which can be used in calculation of ERCs. Utility witness Seidman agreed that there is more than one method for calculating ERCs. However, he testified that he did not use

ERCs in the determination of the used and useful for the treatment plants, but used actual flows, and that he did not convert these flow numbers into ERCs. OPC witness DeMeza utilized the growth of customers and the number of gallons sold which was furnished by the utility in Schedule B-3 of the MFRs to calculate ERCs for both water and wastewater systems for the years ending June, 1991 and 1992. OPC witness DeMeza testified that this is a more appropriate method for calculating the number of ERCs for the water and wastewater systems for the historic and projected test years. We agree and find that OPC's method of calculation is consistent with our rules. Accordingly, we find that the utility did not calculate ERCs pursuant to Commission rule and its calculation of ERCs is incorrect.

Calculation of Peak Day Water Demand

In calculating used and useful, the utility 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. According to the MFRs, 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 utilized in the used and useful calculation.

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. On cross-examination, he conceded that the high unauthorized construction usage during the month of the peak day demand overstated peak day demand.

On cross-examination, witness Seidman stated he apparently made a mistake and used up the wrong year's percentage growth, 18 percent instead of 10.84 percent, for his projections. He further testified that corrections reflecting this change should be made.

We find that the correct customer growth to be applied is 10.84 percent. Therefore, based on the calculation in MFR Schedule F-3 and the appropriate customer growth rate, we find the appropriate 1992 test year five day peak average is 175,818 GPD.

Used and Useful Water and Wastewater Plant

The following table represents SPUC,s, SPOR's, and OPC's positions regarding the percentages of plant that are used and useful, and the percentages that we find appropriate for the purpose of this proceeding.

	SPUC	OPC/SPOR	COMMISSION APPROVED
WTP	100.00%	59.00%	100.00%
STORAGE	93.92%		93.92%
WATER DISTRIBUTION	75.17%	64.00%	75.17%
WWTP	93.90%	40.00%	85.37%
COLLECTION	75.17%	75.00%	75.17%

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, the five day peak average is 175,818 GPD in test year 1992. 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, and adjusting for excessive unaccounted-for-water of 5,087 GPD, we find that the water treatment plant is 100 percent used and useful.

Wastewater Treatment Plant

The wastewater treatment plant 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. According to DER testimony, DER has 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.

OPC witness DeMeza testified that the appropriate amount of used and useful wastewater plant is 250,000 GPD. In the MFRs, the utility indicated the correct amount should be 125,000 GPD. In the

MFRs, the utility based its calculations on wastewater treatment plant capacity of 125,000 GPD.

According to utility witness Reese, in order to meet the Environmental Protection Agency Class I reliability requirements of DER Rules (Chapter 17-610, F.A.C.), the utility was required to have redundant facilities. Redundancy requirements generally include a minimum of two aeration basins, redundant filtration, some type of screening facility, and other items. 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, which gives the plant the required redundancy, an operating permit, and a higher capacity rating. We find that this was a reasonable resolution to meet the DER requirements. However, we find that the appropriate amount of capacity to use in calculating used and useful for the water treatment plant is 250,000 GPD.

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, the average peak month daily flow is 100,145 GPD in test year 1992. Using 100,145 GPD for redundant average peak month daily flow, a margin reserve of 13,132 GPD based on yearly growth and plant capacity of 250,000, we find that the appropriate amount of used and useful wastewater treatment plant is 85.37 percent.

Distribution and Collection System

In calculating used and useful amounts for the distribution and collection system, OPC witness DeMeza based his calculations on the assumption that the capacities of the plants matched the systems, even though there are fewer wastewater customers than there are water customers. In determining the appropriate amount of used and useful for the distribution and collection system, we have relied upon the system maps, MFR Schedules F-7, F-8, the billing analysis, and the number of connections. Accordingly, we find that the distribution and collection system is 75.17 percent used and useful.

Based on the record and our adjustments to margin reserve, fire flow, and unaccounted-for-water as discussed in earlier portions of this Order, we find the appropriate percentages of used and useful water and wastewater plant as set forth in the table above. Further, we find that the appropriate non-used and useful plant amounts are $184,985 for water and $388,308 for wastewater. Accordingly, we have reduced wastewater plant-in-service by $89,340 net of accumulated depreciation, and reduced depreciation expense by $5,768. No adjustments were made to the water used and useful amounts.

IMPUTATION OF CIAC ON MARGIN RESERVE

The utility argues that CIAC should not be imputed to offset margin reserve. Utility witness Seidman testified that margin reserve represents an investment "in place" for which funds have been spent. He testified that there will always be a lag between the investment in margin reserve and the collection of associated CIAC, and for this reason, anticipated but uncollected CIAC should not be imputed against current margin reserve.

OPC argues that if margin reserve is included 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.

Upon consideration, we find it appropriate to impute CIAC on margin reserve. Since the utility does not have a main extension fee, the distribution mains and collection lines have not been included in the imputation. Additionally, the water treatment plant does not have a margin reserve, therefore, only the wastewater treatment plant has been considered in the imputation. Using the number of ERCs 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 ERCs x $1,500). However, the actual cost of the treatment plant included in the margin reserve is $54,987. Therefore, we find that the imputation of CIAC should be limited to the amount of plant included in margin reserve.

Accordingly, we find that it is appropriate to impute CIAC in the amount of $58,987 for the wastewater plant, with corresponding adjustments to accumulated amortization of CIAC of $2,161 and test year amortization of $2,161.

CAPITALIZATION OF INCOME TAXES ON CIAC

Utility witness Seidman testified that prepaid taxes related to CIAC should be included in rate base. In the MFRs, Mr. Seidman included total debit deferred taxes in rate base and total credit deferred taxes in the capital structure, rather than netting them.

Under cross-examination, he testified that Commission Order No. 23541, issued October 1, 1990, 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. The position of the utility in its brief is that debit deferred taxes should be treated consistent with said Order.

OPC's position is that no debit deferred taxes related to CIAC should be recognized above the line, either in the capital structure or in rate base, and that recognizing debit deferred taxes above the line unfairly burdens the customers who paid CIAC prior to the 1986 tax law change. OPC did not present persuasive evidence to support its position.

Accordingly, we find it appropriate to offset debit deferred taxes associated with CIAC against credit deferred taxes.

WORKING CAPITAL

The utility's requested working capital amount is based on the formula of one-eighth times test year operation and maintenance (O & M) expenses, as filed in the MFRs.

It is OPC's position that the utility did not properly document its entitlement to a working capital allowance. OPC witness DeWard testified that he removed the utility's requested working capital allowance from rate base because the utility has included an artificial allowance by multiplying one-eighth times O & M expenses. He also testified that this does not properly calculate a working capital requirement. In his opinion, it is appropriate to remove this artificial balance from rate base.

Utility witness Seidman testified that the method of determining working capital has been established by the minimum filing requirements (MFR), Rule 25.30.437, Florida Administrative Code. The instructions for the forms specify that the formula method is to be used. He testified 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.

Utility witness Seidman also testified that on the utility's balance sheet, current liabilities exceed current assets because of the advances from the parent company and because he had used the capital structure of the parent. Further, he testified that the cost-free advances that SPI made to Sailfish Point were "just merely book advances."

Cross-examination of witness Seidman provided evidence that working capital could be calculated using the balance sheet method. However, using the balance sheet method, the working capital allowance would be higher than it would be in using the formula approach. This result is attributable to the $1,833,587 of liabilities.

No party took issue with the balance of $125,176 related to miscellaneous current and accrued assets; therefore, we find that this amount should be included in the working capital calculation.

Upon consideration, we find that the record supports using the formula method over the balance sheet method. Accordingly, we find the appropriate working capital allowance to be $28,029 for the water system and $19,053 for the wastewater system.

Rate Base

Based on the decisions and adjustments discussed above, we find that the appropriate test year rate base for the water system is $1,423,236 and for the wastewater system is $1,165,130.

COST OF CAPITAL

Capital Structure

Utility witness Seidman testified that the Mobil capital structure should be used for ratemaking purposes because all funding originates from the parent. Utility witness Seidman acknowledged that the books of the utility contain zero-cost advances and that Sailfish Point does not pay or record any expense for long-term or short-term advances from Mobil or its subsidiaries. He testified that long-term advances are repaid as CIAC is collected. However, he argued that the utility's capital structure is nothing more than an allocation of the capital received from Mobil either directly or through Mobil's subsidiaries. In his opinion, since Mobil could have funded Sailfish Point 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 Sailfish Point is funded through the mix of capital sources raised at the parent level.

SPOR's position is that Mobil is a multinational, multibillion dollar corporation and has no utility subsidiaries other than Sailfish Point. 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, Mobil's capital structure is not representative of the conditions that exist at Sailfish Point. For these reasons, SPOR argues that Mobil's capital structure is not appropriate for ratemaking purposes for the utility. SPOR offered no evidence in support of its position.

OPC's position is that the utility's capital structure is more appropriate than Mobil's capital structure because it represents the actual conditions that exist and have existed since the formation of Sailfish Point. OPC Witness DeWard testified that the utility financed the original transfer of utility plant with a mortgage payable to SPI in 1983, and that from that date forward, Sailfish Point financed additional plant additions and operating losses through cash advances from its parent. These advances were recorded on the books of the utility as long-term or short-term advances from associated companies. Witness DeWard further 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. Witness DeWard further testified that since Sailfish Point 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 MLDC as a normal cost of developing and selling lots in the Sailfish Point service area. Witness DeWard testified that it would be inappropriate to use Mobil's capital structure for ratemaking purposes because Sailfish Point does not incur an expense on advances from its parent. He further testified 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 Sailfish Point to earn a return on an amount of equity capital that does not exist.

We find that the record does not clearly demonstrate 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, the record does clearly demonstrate that Sailfish Point does not pay interest expense on advances from associated companies and that there is no equity investment in Sailfish Point.

Upon consideration, we find that there is a cost attributable to the capital being advanced to the utility. However, we agree with OPC that it would be inappropriate to allow Sailfish Point to earn a return for a cost of capital that it does not actually incur. We also agree with OPC that the appropriate capital structure for ratemaking purposes is the utility's capital structure which represents the actual conditions that exist and have existed since its formation.

Cost of Common Equity Capital

Due to an accumulation of net operating losses, the utility's negative retained earnings balance more than offsets the equity investment in Sailfish Point. However, even though the utility does not have a positive equity balance, we find it appropriate to establish a cost of common equity capital for use in future proceedings. During the hearing, the parties agreed 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. Therefore, based on the capital structure of Sailfish Point and upon the minimum equity ratio recognized in the leverage formula established in Order No. 24246, effective April 9, 1991, we find that the cost of common equity capital for Sailfish Point is 13.11 percent.

Cost of Debt Capital

Sailfish Point financed the original transfer of utility plant in 1983 with a mortgage payable to SPI at an interest rate of 11.00 percent. From that date forward, Sailfish Point 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 Sailfish Point as long-term and short-term advances from associated companies with no interest expense assigned. It is undisputed 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.

Utility witness Olson testified that the capital made available to Sailfish Point is not treated as a gift. In the MFRs the utility based its cost of debt capital on Mobil's embedded cost of debt. However, we find that the record shows that a company other than the utility is incurring the cost of the advances from associated companies. We find that it would be inappropriate to allow the utility to recover a cost that it does not actually incur. Accordingly, we find that the appropriate cost of debt for Sailfish Point is 11.00 percent.

Deferred Income Taxes

In its MFRs, the utility reported credit deferred tax balances of $456,001 in the June 30, 1992, capital structure. Utility witness Seidman testified that these balances reflect a large credit inadvertently not booked by Mobil's tax department and increases based on estimated plant additions through the test year. At the hearing, witness Seidman testified that the credit deferred taxes in the MFRs are an accumulation of the depreciation timing differences since the purchase of the assets by Sailfish Point. During cross-examination, witness Seidman agreed 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). He further testified 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, with the exception that the 34 percent tax rate used for each year should be replaced by the appropriate Federal tax rates applicable to each year. This calculation results in an average balance of $709,698, as of June 30, 1992.

The utility'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 MLDC for ease of calculation, since some of the subsidiaries are in states with a unitary tax assessment. However, the combined federal and state rate was used in calculating debit deferred taxes associated with CIAC. Mr. Seidman agreed under cross-examination that all income taxes of Sailfish Point should be calculated using the combined federal and state tax rate.

Based on witness Seidman's testimony, OPC argues in its brief that the deferred taxes should be recalculated using the utility's information, 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. Based on this information, OPC calculated an increase of $53,866, for an average 1992 balance of $509,867.

We have calculated 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. Based on that calculation, we find the appropriate credit deferred tax balance is $694,073, an increase of $238,072. However, we find that it is necessary to decrease this balance by $8,822 to reflect the used and useful adjustment, and by $141 to reflect the adjustment for improperly capitalized items discussed in earlier portions of this Order. Therefore, based on the above calculations, we find that the appropriate total average credit deferred tax balance is $685,110.

The utility included accumulated debit deferred taxes of $249,839 in rate base. We have increased this balance by $122 to reflect meter fees collected but not recorded, and by $19,878 to reflect the imputation of CIAC to offset margin reserve for the wastewater treatment plant, as discussed in earlier portions of this Order. Therefore, we find that appropriate total debit deferred tax balance is $269,839.

Offsetting of Debit and Credit Deferred Taxes

In the MFRs, Sailfish Point did not offset debit and credit balance deferred taxes, but included total debits in the rate base and total credits in the capital structure. Utility witness Seidman testified that deferred (prepaid) taxes on CIAC should be capitalized and included in rate base. However, under cross-examination, he testified that debit and credit deferred taxes should be offset, in accordance with Commission Order No. 23541, issued October 1, 1990. The deferred tax debit balances in the MFRs were calculated based on a ratable life of 40 years and a 37.63 percent tax rate, and were included in rate base by the utility.

OPC 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 Sailfish Point not grossing-up CIAC collections for tax purposes. As previously stated, it is OPC's 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.

Upon consideration, we find that it is appropriate to offset the debit deferred tax balance against the credit deferred tax balance, to include the resulting net credit of $415,271 in the capital structure at zero cost, and to have no deferred taxes remaining in rate base.

Investment Tax Credits (ITCs)

According to the MFRs, Mobil accounts for ITCs under the flow-through method, and Sailfish Point therefore has no ITC balance. SPI generated ITCs of approximately $270,000 in 1981, representing 10 percent of the utility assets placed in service in that year. Those credits were used on the consolidated tax return in the same year. Utility witness Seidman testified during cross-examination that the ITCs should have been normalized to satisfy the requirements of IRC section 46, and should have been carried over to Sailfish Point with the transfer of the assets.

In 1981, utility assets were $2,741,154. The ITC rate at that time was 10 percent, resulting in ITCs generated of approximately $270,000. In 1983, $977,057 in construction-work-in-progress and $39,000 in land were transferred to Sailfish Point, generating additional ITCs of approximately $97,706. 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.

Utility witness Seidman testified that utilities are required by IRC section 46(f) to defer ITCs and amortize the benefits over the lives of the underlying assets. The utility 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 actual depreciable lives of the underlying assets are available in the MFRs, 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 IRC section 46(f)(2). Absent evidence of such an election, a utility must be treated as Option 1 under section 46(f)(1) of the IRC. The assumption that no Option 2 election was made by this utility is further supported by the fact that the ITCs were accounted for by Mobil Corporation under the flow-through method.

Using the asset lives in the MFRs and the information in the record concerning the amount of assets eligible for ITC, we find that the appropriate average unamortized balance of ITCs is $265,111, to included in the capital structure at zero cost pursuant to IRC section 46(f)(1).

Overall Cost of Capital

Based on the adjustments discussed above, we find that the appropriate overall cost of capital should be determined by using the utility's adjusted, projected capital structure and by reconciling each item on a pro rata basis, except for deferred income tax and ITC balance adjustments which are specifically tied to the used and useful assets allowed in rate base. Schedule No.

2-A shows the components, amounts, cost rates, and weighted average cost of capital of 1.56 percent associated with the adjusted, projected test year capital structure.

NET OPERATING INCOME (NOI)

Our calculations of the appropriate levels of NOI for this proceeding are attached as Schedule No. 3-A for water and 3-B for wastewater, with our adjustments on Schedule No. 3-C. Those adjustments which are self-explanatory, or which are essentially mechanical in nature, are depicted on those schedules without any further discussion in the body of this Order. The remaining adjustments are discussed below.

Intercompany Expense Allocations

In the MFRs, intercompany expenses of $64,722 were allocated down from MLDC. MLDC allocates charges to all of its subsidiaries, including Sailfish Point. These services include an operations manager, accounting services, and legal services. We find the intercompany expenses to be reasonable. Accordingly, we have made no adjustments to intercompany expense allocation.

Purchased Power and Chemical Expense

In an earlier portion of this Order, we found that the utility has 5 percent excess unaccounted-for-water. However, the utility made adjustments to purchased power and chemical expense in its MFRs. We find that these adjustments were appropriate to account for the 5 percent excess unaccounted-for-water. Therefore, no additional adjustments have been made for purchased power and chemical expense.

Spiral Wound Membrane Replacement Program

Previously, the utility used hollow fiber membranes for its reverse osmosis treatment system. These membranes have a useful life of about 10 years. The industry has shifted away from the use of hollow fiber membranes to the use of spiral wound membranes which have a useful life of 3 to 5 years.

The utility is proposing a change-out program which allows for a 3 year useful life when all 42 membranes are installed. Utility witness Reese testified that the spiral wound membranes have a 3 year warranty period from the manufacturer, and that 3 years is the industry standard for establishing projections on the performance of membranes. OPC witness DeMeza testified that in his opinion the change-out program for membranes should be extended from 3 years to 4 years based on the utility's excellent operation and the three to five year life expectancy of the new spiral wound membrane. Upon consideration, we find that a four year replacement program for the spiral wound membranes is reasonable and appropriate under the circumstances. Accordingly, O & M expenses have been adjusted by $6,300.

Prior Rate Case Expense

In its MFRs, the utility requested recovery of prior rate case costs of $68,374. Utility witness Seidman testified that Docket No. 891114-WS was dismissed and the rate case costs associated with it were never recovered. He further testified that a substantial portion of the work done for the prior rate case was used in preparing for this filing.

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. He further testified that ratepayers should not be required to pay for any of the costs of preparing a case which was later dismissed by the Commission.

In response to Mr. DeWard's testimony, Mr. Seidman testified 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.

However, on cross-examination, Mr. Seidman testified that he had been unable to use any of the schedules from the prior rate case because the MFR rules had changed and new schedules were required. Mr. Seidman was unable to quantify the number of hours spent preparing the original cost and CIAC collection information.

Although it may be appropriate to allow some recovery of the prior rate case costs, such as the time spent to support the original cost of plant and the CIAC collections, we find the utility did not provide record evidence sufficient to support any prior rate case expense. Accordingly, we find it appropriate to remove all prior rate case expense and to reduce test year rate case expense by $8,547 for water and $8,546 for wastewater.

Current Rate Case Expense

In its MFRs, the utility projected current rate case expense of $91,800. OPC witness DeWard testified that any legal costs incurred in this proceeding associated with opposing the intervention of the homeowners association should be disallowed. He further testified 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 utility is seeking rate increases of nearly $750,000. Utility witness Seidman testified that the group in question is not a homeowners association, but an advisory committee to the owners association. Further, he testified that it should be clear that Sailfish Point did not argue against the homeowners' 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 Sailfish Point took exception.

The utility argues that 34 percent of the rate case costs were attributable directly to the intervention of SPOR and OPC. In its brief, the utility states that this is $33,000 more than the estimate included in the MFR's. It is the utility's position that the cost of the intervention by two parties has a major impact on the overall rate case expense, and that without the extent of the work necessary to respond to the expanded intervention, the original estimate of $91,800 would have been reasonably accurate.

We find that the record does not support excluding the portion of the rate case expense that is related to the intervenors. However, because the utility failed to file any supporting documents to justify its requested rate case expense, we find that the record fails to support the rate case expense requested by the utility. The burden is on the utility to prove that it is entitled to rate case expense, and the utility has failed to meet that burden. In reviewing the record, we find that the record does show that a substantial amount of work was performed by the utility as evidenced by the MFRs, attendance at the formal proceedings, exhibits filed, and preparation of its brief. Based on this record evidence and on past experience in determining reasonable rate case expense, we find that a reasonable and appropriate amount of rate case expense is $50,000, and that the appropriate annual amortization is $12,500.

Depreciation Expense

Based on the adjustments to used and useful discussed in an earlier part of this Order and on Stipulation No. 5, also discussed previously, we find the appropriate amount of test year depreciation is $61,026 for water and $66,157 for wastewater, and the appropriate amount of accumulated depreciation is $595,132 for water and $428,962 for wastewater.

Taxes Other Than Income

Utility witness Siedman testified that the utility adjusted property taxes to reflect the actual taxes paid and the used and useful water and wastewater plant allocations in the base year. He further testified that the property taxes were projected to change proportional to the increase in the estimated assessed value, but that they were not adjusted to reflect estimated changes in the tax rate.

It is OPC's position that the utility's property tax expense as reflected in the MFRs should be adjusted to reflect the used and useful percentages calculated by OPC witness DeMeza.

Based on our previous finding of the used and useful percentages, we find that any adjustments to property tax expense would be immaterial. Accordingly, we have made no adjustment to the provision for taxes other than income.

Parent Debt Adjustment

We find that a parent debt adjustment is not appropriate in this case because, as discussed below, no income tax expense is being recognized.

Income Tax Expense

The utility calculated income tax expense on a stand alone basis, using the Federal corporate rate of 34 percent. 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 utility witness Seidman admitted at the hearing was inappropriate. In rebuttal, Mr. Seidman later testified that the utility operated at a loss in previous years, but that those losses should not be considered in the calculation of tax expense in this case. 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 further testified that there is a substantial income tax expense associated with the requested return on equity.

It is the position of OPC witness DeWard that income tax expense would be inappropriate in this case. However, if tax expense were allowed, it is Mr. DeWard's opinion that it should be offset by ITC amortization.

As previously discussed, in an earlier portion of this Order, IRC section 46(f)(1) requires that ITC amortization be taken below the line, with no effect on income tax expense. We determined in an earlier portion of this Order that the capital structure of the utility contains no equity component. Therefore, we find that no income tax expense is appropriate.

Test Year Operating Income

Based on the utility's filing and our decisions made herein, we find the appropriate test year operating income is \$(124,792) for water and \$(143,165) for wastewater.

REVENUE REQUIREMENT

Based on the utility's application and our adjustments and calculations discussed above, we find the appropriate annual revenue requirement to be \$350,601 for the water system and \$284,610 for the wastewater system. This represents a \$153,917 (78.26 percent) annual increase for the water system and a \$168,940 (146.05 percent) annual increase for the wastewater system, and will give the utility the opportunity to recover its expenses and to earn a 1.91 percent return on its investment in rate base.

APPORTIONMENT OF RATE CASE EXPENSE

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.

Previously, we found that the appropriate capital structure to be used is Sailfish Point's capital structure, which has a zero equity balance. The entire net operating income amount is related to the interest on debt. If we were to apportion rate case expense pursuant to the statute, the utility's return on equity would drop below its authorized return; in fact, the return on equity would drop below zero.

Accordingly, based on our calculations and the discussion above, we find that statutory reduction of rate case expense is not appropriate in this case and no adjustment has been made.

RATES AND RATE STRUCTURE

Rates

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

We have established the appropriate revenue requirements to be $350,601 and $284,610 for water and wastewater, respectively, on an annual basis. The rates, which we find to be fair, just and reasonable, are designed to achieve these revenue requirements continuing the use of the base facility charge rate structure. The base facility charge rate structure gives the utility the ability to track costs and gives the customers some control over their water and wastewater 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 approved rates for water service are uniform for residential and general service customers. The approved 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 wastewater 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 approved 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. Since the final rates are higher than interim rates, we find that no refund is necessary. Accordingly, the corporate undertaking required by Order 24202, issued March 5, 1991, may be released.

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

WATER

Monthly Rates

	Original	Commission Approved Interim	Utility Requested Final	Commission Approved 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	$ 10.12	$ 3.96

WASTEWATER

Monthly Rates

	Original	Commission Approved Interim	Utility Requested Final	Commission Approved 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

WASTEWATER

Monthly Rates

	Original	Commission Approved Interim	Utility Requested Final	Commission Approved Final
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

Rate Case Expense Apportionment

Section 367.0816, Florida Statutes, requires that rate case expense be apportioned for recovery over a period of four years. The statute further requires that the rates of the utility be reduced immediately by the amount of rate case expense previously included in the rates. This statute applies to all rate cases filed on or after October 1, 1989. Accordingly, we find that the water rates should be reduced by $6,545 and the wastewater rates should be reduced by $6,545. The revenue reductions reflect the annual rate case amounts amortized (expensed) plus the gross-up for regulatory assessment fees.

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

Service Availability Charges

The utility's current tariff contains provisions for service availability charges which we find are appropriate. As of the projected test year ended June 30, 1992, the utility's contribution level is expected to be 27.55 percent for water and 23.93 percent 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. Build-out is expected to occur approximately 5 to 7 years after the end of the projected test year. The contribution levels at build-out are estimated to be 75.02 percent for water and 58.66 percent for wastewater. The estimated contribution levels at build-out are within the guidelines of Rule 25-30.580, Florida Administrative Code. Therefore, we find the current service availability policy is in compliance with Rule 25-30.580, Florida Administrative Code, and have made no changes to the current service availability policy.

Miscellaneous Service Charges

Rule 25-30.345, Florida Administrative Code, permits utilities to assess charges for miscellaneous services. The 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. The utility's tariff currently contains only a violation reconnection charge. The charges proposed by the utility are reasonable with the exception of the proposed late payment charge. Pursuant to Rule 25-30.320 (2)(g), Florida Administrative Code, the utility has the authority to disconnect customers for nonpayment of bills, regardless of occupancy. The utility currently charges each customer a base facility charge each month regardless of occupancy. We also find that in the utility's tariffs the customers have the option of requesting that their service be disconnected during their absence. According to testimony by utility witness Seidman, the utility has not utilized the tool of customer deposits to help offset non-payment of bills, and the utility expressed reluctance in utilizing the tool of disconnecting non-paying customers.

Accordingly, the new miscellaneous service charges proposed by this utility are approved, except for the late payment charge. Inasmuch as the utility has not previously been authorized to charge these additional charges, we find it appropriate for the utility to utilize the miscellaneous service charges shown below to alleviate the late payment problem before gaining approval of a

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.

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 wastewater-only customer, the 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. The proposed customer notice shall 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 shall 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.

Gray Water Charges

The parties are in agreement that no charge should be made for gray water provided for golf course irrigation. We find that the utility is the primary beneficiary of the gray water service to the golf course because, without the availability of the golf course to receive effluent, the utility could incur substantial costs to develop alternative means of disposal. Therefore, we will not establish charges for gray water used by the golf course.

CONCLUSIONS OF LAW

1. The Commission has jurisdiction to determine the water and wastewater rates and charges of Sailfish Point Utility Corporation, pursuant to Section 367.081 and 367.101, Florida Statutes.

2. As the applicant in this case, Sailfish Point Utility Corporation has the burden of proof that its proposed rates and charges are justified.

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

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

Based on the foregoing, it is,

ORDERED by the Florida Public Service Commission that the application by Sailfish Point Utility Corporation for increased rates for water and wastewater service is hereby approved, to the extent set forth in the body of this Order. It is further

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

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

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

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

ORDERED that, prior to its implementation of the rates and charges approved herein, Sailfish Point Utility Corporation shall submit a proposed customer notice explaining the increased rates and charges and the reasons therefor. It is further

ORDERED that, prior to its implementation of the rates and charges approved herein, the utility shall submit and have approved revised tariff sheets. The revised tariff sheets will be approved upon Staff's verification that they accurately reflect this Commission's decision and upon Staff's approval of the proposed customer notice. It is further

ORDERED that Sailfish Point Utility Corporation shall 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. It is further

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

ORDERED that Sailfish point Utility Corporation's corporate undertaking may be released. It is further

ORDERED that the docket may be closed upon the utility's filing of revised tariff sheets and staff's approval of them.

By ORDER of the Florida Public Service Commission, this 23rd day of SEPTEMBER, 1991.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

CB

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

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

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

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

COMPONENT		TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	$	2,825,175 $	0 $	2,825,175 $	(29,000)$	2,796,175
2 LAND		19,500	0	19,500	0	19,500
3 NON-USED & USEFUL COMPONENTS		(184,985)	0	(184,985)	0	(184,985)
4 CONSTRUCTION WORK IN PROGRESS		0	0	0	0	0
5 ACCUMULATED DEPRECIATION		(596,452)	0	(596,452)	1,320	(595,132)
6 ACQUISITION ADJUSTMENT -NET		0	0	0	0	0
7 CIAC		(753,403)	0	(753,403)	(620)	(754,023)
8 AMORTIZATION OF CIAC		113,377	0	113,377	295	113,672
9 CIAC DEFERRED TAX DEBIT		156,066	0	156,066	(156,066)	0
10 WORKING CAPITAL ALLOWANCE		29,786	0	29,786	(1,757)	28,029
RATE BASE	$	1,609,064 $	0 $	1,609,064 $	(185,828)$	1,423,236

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

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

COMPONENT		TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	$	2,444,511 $	0 $	2,444,511 $	(20,243)$	2,424,268
2 LAND		19,500	0	19,500	0	19,500
3 NON-USED & USEFUL COMPONENTS		(298,966)	0	(298,966)	(89,340)	(388,306)
4 CONSTRUCTION WORK IN PROGRESS		0	0	0	0	0
5 ACCUMULATED DEPRECIATION		(429,337)	0	(429,337)	375	(428,962)
6 ACQUISITION ADJUSTMENT -NET		0	0	0	0	0
7 CIAC		(509,800)	0	(509,800)	(54,987)	(564,787)
8 AMORTIZATION OF CIAC		82,203	0	82,203	2,161	84,364
9 CIAC DEFERRED TAX DEBIT		93,773	0	93,773	(93,773)	0
10 WORKING CAPITAL ALLOWANCE		20,781	0	20,781	(1,728)	19,053
RATE BASE	$	1,422,665 $	0 $	1,422,665 $	(257,535)$	1,165,130

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

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

EXPLANATION	WATER	WASTEWATER
(1) UTILITY PLANT IN SERVICE		
A. To remove average balance of provision for contingency costs.	$ (29,000)	$ 0
B. To adjust for improperly capitalized items	0	(20,243)
NET ADJUSTMENT	$ (29,000)	$ (20,243)
(2) NON-USED AND USEFUL		
Used and useful adjustment engineer net of accumulated depreciation	$ 0	$ (89,340)
(3) ACCUMULATED DEPRECIATION		
A. To adjust for removal of contingency costs	$ 1,320	$ 0
B. To adjust for removal of improperly capitalized items.	0	375
NET ADJUSTMENT	$ 1,320	$ 375
(4) CIAC		
A. To adjust for meter fees not recorded	$ (620)	$ 0
B. Imputation of CIAC to offset Margin Reserve for wastewater treatment plant	0	(54,987)
NET ADJUSTMENT	$ (620)	$ (54,987)
(5) ACCUMULATED AMORTIZATION OF CIAC		
A. To adjust for meter fees not recorded	$ 295	$ 0
B. To reflect imputation of CIAC to offset Margin Reserve for wastewater treatment plant	0	2,161
NET ADJUSTMENT	$ 295	$ 2,161
(6) CIAC DEFERRED TAX DEBIT		
To reflect the Commission's approved balance	$ (156,066)	$ (93,773)
(7) WORKING CAPITAL		
To reflect adjustment to working capital	$ (1,757)	$ (1,726)

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

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

DESCRIPTION		ADJUSTED TEST YEAR PER UTILITY	WEIGHT	COST	UTILITY WEIGHTED COST		COMMISSION RECONC. ADJ. TO UTILITY EXHIBIT	BALANCE PER COMMISSION	WEIGHT	COST	WEIGHTED COST PER COMMISSION
1 LONG TERM DEBT	$	746,056	24.61%	10.86%	2.67%	$	(379,052)$	367,004	14.18%	11.00%	1.56%
2 LT COMPANY ADVANCES		0	0.00%	0.00%	0.00%		608,080	608,080	23.49%	0.00%	0.00%
3 PREFERRED STOCK		85,729	2.83%	7.72%	0.22%		(85,729)	0	0.00%	0.0[illegible]%	0.00%
4 ST COMPANY ADVANCES		0	0.00%	0.00%	0.00%		932,900	932,900	36.04%	0.00%	0.00%
5 COMMON EQUITY		1,743,941	57.52%	12.14%	6.98%		(1,743,941)	0	0.00%	13.11%	0.00%
6 INVESTMENT TAX CREDITS		0	0.00%	0.00%	0.00%		265,111	265,111	10.24%	0.00%	0.00%
7 DEFERRED TAXES		456,001	15.04%	0.00%	0.00%		(40,730)	415,271	16.04%	0.00%	0.00%
8 TOTAL CAPITAL	$	3,031,727	100.00%		9.87%	$	(443,361)$	2,588,366	100.00%		1.56%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	13.11%	15.11%
OVERALL RATE OF RETURN	1.56%	1.56%

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 $	835,938 $	(468,934) $	(379,052)
2	LT COMPANY ADVANCES	1,385,043		1,385,043	(776,963)	608,080
3	PREFERRED STOCK	(85,729)		0	0	(85,729)
4	ST COMPANY ADVANCES	2,124,897		2,124,897	(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 UTILITY CORPORATION
STATEMENT OF WATER OPERATIONS
TEST YEAR ENDED JUNE 30, 1992

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

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	$ 201,060	$ 371,755	$ 572,815	$ (376,130)	$ 196,685	$ 153,916	$ [redacted]
OPERATING EXPENSES						78.26%	
2 OPERATION AND MAINTENANCE	$ 218,265	$ 20,022	$ 238,287	$ (20,358)	$ 217,929	$	$ 217,929
3 DEPRECIATION	62,346	0	62,346	(1,320)	61,026		61,026
4 AMORTIZATION	0	0	0	0	0		0
5 TAXES OTHER THAN INCOME	42,719	16,729	59,448	(16,926)	42,522	6,926	49,448
6 INCOME TAXES	0	53,871	53,871	(53,871)	0	0	0
7 TOTAL OPERATING EXPENSES	$ 323,330	$ 90,622	$ 413,952	$ (92,475)	$ 321,477	$ 6,926	$ 328,403
8 OPERATING INCOME	$ (122,270)	$ 281,133	$ 158,863	$ (283,655)	$ (124,792)	$ 146,990	$ 22,198
9 RATE BASE	$ 1,609,064		$ 1,609,064		$ 1,423,236		$ 1,423,236
RATE OF RETURN	-7.60%		9.87%		-8.77%		1.56%

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

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

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	$ 115,670	$ 361,910	$ 477,580	$ (361,910)	$ 115,670	$ 168,940	$ [redacted]
OPERATING EXPENSES						146.05%	
2 OPERATION AND MAINTENANCE	$ 146,223	$ 20,022	$ 166,245	$ (13,821)	$ 152,424		$ 152,424
3 DEPRECIATION	66,907	0	66,907	(750)	66,157		66,157
4 AMORTIZATION	0	0	0	0	0		0
5 TAXES OTHER THAN INCOME	40,254	16,286	56,540	(16,286)	40,254	7,602	47,856
6 INCOME TAXES	0	47,427	47,427	(47,427)	0	0	0
7 TOTAL OPERATING EXPENSES	$ 253,384	$ 83,735	$ 337,119	$ (78,284)	$ 258,835	$ 7,602	$ 266,437
8 OPERATING INCOME	$ (137,714)	$ 278,175	$ 140,461	$ (283,626)	$ (143,165)	$ 161,338	$ 18,173
9 RATE BASE	$ 1,422,665		$ 1,422,665		$ 1,165,130		$ 1,165,130
RATE OF RETURN	-9.68%		9.87%		-12.29%		1.56%

SAILFISH POINT UTILITY CORPORATION
ADJUSTMENTS TO OPERATING STATEMENTS
DOCKET NO. 900816-WS

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

EXPLANATION		WATER	WASTEWATER
(1) OPERATING REVENUES			
A. To remove the utility's test year revenue request.	$	(371,755) $	(361,910)
B. To adjust for overstatement of miscellaneous revenues		(4,375)	
NET ADJUSTMENT	$	(376,130) $	(361,910)
(2) OPERATION AND MAINTENANCE EXPENSE			
A. To adjust rate case expense.	$	(14,058) $	(13,821)
B. To adjust for replacement of spiral wound membranes		(6,300)	0
NET ADJUSTMENT	$	(20,358) $	(13,821)
(3) DEPRECIATION			
A. To adjust for removal of contingency costs	$	(1,320) $	0
B. To adjust for removal of improperly capitalized items.		0	(750)
C. To reflect increased non used and useful plant		0	(5,768)
D. To adjust amortization for CIAC imputation		0	(2,161)
E. To increase test year amortization for meter fees not recorded		(31)	0
NET ADJUSTMENT	$	(1,320) $	(750)
(4) TAXES OTHER THAN INCOME			
To remove RAF's associated with revenue adjustment above	$	(16,926) $	(16,286)
(5) PROVISION FOR INCOME TAXES			
To remove income tax expense.	$	(53,871) $	(47,427)
(6) OPERATING REVENUES			
To reflect approved increase in revenues	$	153,916 $	168,940
(7) TAXES OTHER THAN INCOME			
To reflect regulatory assessment fees	$	6,926 $	7,602

M E M O R A N D U M

September 23, 1991

TO : DIVISION OF RECORDS AND REPORTING

FROM : DIVISION OF LEGAL SERVICES (BEDELL) *[illegible] for CB*

RE : DOCKET NO. 900816-WS - PETITION FOR RATE INCREASE IN MARTIN COUNTY BY SAILFISH POINT UTILITY CORPORATION

25092

Attached is a Final Order Setting Rates and Charges to be issued in the above-referenced docket. (Consisting of - 44 - pages.)

CB/slc
cc: Division of Water and Wastewater

DOCUMENT NUMBER-DATE
09427 SEP 23 1991
FPSC-RECORDS/REPORTING