

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for a rate) DOCKET NO. 951258-WS
increase in Brevard County by) ORDER NO. PSC-96-1147-FOF-WS
Florida Cities Water Company) ISSUED: SEPTEMBER 12, 1996
(Barefoot Bay Division).)
_____)

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON
JOE GARCIA
JULIA L. JOHNSON

APPEARANCES:

B. KENNETH GATLIN, Gatlin, Woods and Carlson, The Mahan Station, 1709-D Mahan Drive, Tallahassee, Florida 32308
On behalf of Florida Cities Water Company, Barefoot Bay Division.

JACK SHREVE, Public Counsel, and Harold McLean, Office of Public Counsel, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400,
On behalf of the Citizens of the State of Florida.

CLINTON W. DYER, 531 S. Dolphin Circle, Barefoot Bay, Florida 32976
On behalf of himself.

TIM VACCARO and RAJ AGARWAL, Florida Public Service Commission, Gerald L. Gunter Building, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399
On behalf of the Commission Staff.

FINAL ORDER ESTABLISHING INCREASED RATES
AND
NOTICE OF PROPOSED AGENCY ACTION
ORDER IMPUTING CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION
FOR GRANT FROM ST. JOHNS RIVER WATER MANAGEMENT DISTRICT

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein, regarding our imputation of contributions-in-aid-of-construction for the St. Johns River Water Management District grant to Florida Cities Water Company, Barefoot Bay Division, is preliminary in nature and will

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become final unless a person whose interests are substantially affected files a petition for a formal proceeding, within **fourteen days** of the date of this Order, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

Florida Cities Water Company, Barefoot Bay Division, (FCWC or utility) is a Class A utility providing water and wastewater service for a predominately residential area in Barefoot Bay, Florida. The utility's Barefoot Bay division was serving 4,458 water and 4,440 wastewater customers at year end December 31, 1994. For the twelve months ended December 31, 1994, the utility recorded operating revenues of \$671,582 for water service and \$823,463 for wastewater service. The utility recorded a net operating loss of \$73,769 for the water system and a net operating income of \$77,577 for the wastewater system. The Barefoot Bay system is in an area that has been designated by the St. Johns River Water Management District (SJRWMD) as a critical water supply use caution area.

On November 6, 1995, the utility filed its application for approval of interim and permanent rate increases pursuant to Sections 367.082 and 367.081, Florida Statutes, respectively. On November 6, 1995, the utility satisfied the minimum filing requirements (MFRs) for a rate increase, and this date was established as the official filing date, pursuant to Section 367.083, Florida Statutes. The utility requested that this case be scheduled for a formal hearing and not processed pursuant to the proposed agency action (PAA) process as provided for in Section 367.081(8), Florida Statutes.

The Prehearing Conference was held on March 18, 1996, in Tallahassee, Florida. At the conference, the Prehearing Officer granted a petition to intervene filed by Clinton Dyer. Additionally, the parties identified forty-three issues to be addressed at the formal hearing. Prehearing Order No. PSC-96-0425-PHO-WS, was issued on March 26, 1996. We held the technical hearing in Barefoot Bay, Florida, on April 1 and 2, 1996. Approximately 30 customers presented testimony regarding the utility's application for a rate increase.

The utility's last rate case for only the Barefoot Bay water system was, in Docket No. 940687-WU, finalized on October 11, 1994, by Order No. PSC-94-1237-FOF-WU. The utility's last rate case for both Barefoot Bay systems, in Docket No. 910976-WS, was finalized on June 24, 1992, by Order No. PSC-92-0563-FOF-WS. The utility has received a price index rate increase every year since 1993.

The utility's application for increased final rates is based on the test year ended June 30, 1996. FCWC requested final revenues of \$916,723 for water and \$2,110,481 for wastewater based on a projected test year ending June 30, 1996. This represents an increase of \$153,136 for water and \$1,273,024 for wastewater, or 20.05 percent and 152.01 percent, respectively.

Pursuant to Rule 25-22.056 (3)(a), Florida Administrative Code, each party was required to file a post-hearing statement and to include a summary of each position. Any issue or position not included in the post hearing-statement shall be waived. On May 3, 1996, FCWC and OPC filed post-hearing briefs. Mr. Dyer provided his post-hearing brief to legal staff on June 30, 1996. Mr. Dyer failed to properly file his brief with the Division of Records and Reporting on the date established by the Prehearing Order. Upon staff's discovery of this fact, it provided Mr. Dyer's brief to the Division of Records and Reporting, which provided copies to the parties. The other parties did not move to strike Mr. Dyer's brief, and we considered his brief in making our final decisions in this docket.

On May 29, 1996, FCWC filed a motion and notice, requesting that the Commission accept its notice of the transfer of the property formerly known as H&S Groves to FCWC.

FINDING OF FACT, LAW AND POLICY

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

OPC'S MOTION TO STRIKE

Subsequent to our final decision in this docket at the June 25, 1996 Agenda Conference, but before the Order in this docket was issued, our staff determined that it had miscalculated the percentage of used and useful for the portion of FCWC's wastewater treatment plant which existed prior to improvements for advanced wastewater treatment (AWT) of effluent. This miscalculation was part of staff's original recommendation on that issue. Staff filed a revised recommendation with the appropriate used and useful calculation, for our consideration at the August 13, 1996 Agenda Conference including revised wastewater rates, which resulted from the corrected used and useful calculation. Our decision on this corrected calculation is reflected in the body of this Order.

On August 6, 1996, FCWC filed a Motion to Correct Errors in Staff Recommendation. The alleged errors pertain to our final decision in this docket, but go beyond the scope of our revised decision.

On August 7, 1996, OPC filed a Motion to Strike FCWC's motion. In its motion, OPC alleges that Rule 25-22.0021(2), Florida Administrative Code, limits participation at agenda to the Commissioners and staff, when a recommendation is considered in a proceeding where a hearing has been held. OPC further states that FCWC has adequate opportunity to raise its concerns in a motion for reconsideration. On August 9, 1996, FCWC responded to OPC's motion, stating that the alleged errors should be corrected at the same time as the revised determination on used and useful.

Upon consideration, we agree with OPC's argument. We also note that our rules do not contemplate FCWC's motion. Rule 25-22.060(1)(a), Florida Administrative Code, provides that any party adversely affected by an Order of the Commission may file a motion for reconsideration of that order. To the extent that FCWC believes it is adversely affected by this Order, it may file a motion for reconsideration. Therefore, we find it appropriate to grant OPC's Motion to Strike.

FCWC'S MOTION TO ACCEPT TRANSFER OF PROPERTY
FORMERLY KNOWN AS H&S GROVES

As stated earlier, on May 29, 1996, FCWC filed a motion and notice, requesting that we accept the notice of the transfer of the property formerly known as H&S Groves to FCWC. The closing on the property occurred on May 22, 1996. We do not find that a decision is necessary since the ownership of the property is recognized by its inclusion in rate base, discussed later in this Order.

QUALITY OF SERVICE

In accordance with Rule 25-30.433(1), Florida Administrative Code, our evaluation of the quality of service provided by the utility is derived based upon three components of water and wastewater operations: the overall quality of FCWC's product; the operational conditions of FCWC's plant and facilities and the utility's efforts to address customer satisfaction.

Quality of FCWC's Product and Operational Conditions

Mr. Alvin Castro, P.E., program manager for Domestic Waste and Ms. Debra Laisure, Engineer I in the Field Compliance section of the Potable Water Program, are both employed by the Florida

Department of Environmental Protection (DEP). Witness Castro testified that the facility is currently operating in compliance with requirements of the DEP Second Amended Consent Order (SACO) requiring the upgrade to AWT of the effluent. Witness Laisure testified that the water plant and distribution system are in compliance with provisions of Chapter 62, Florida Administrative Code, and have not been the subject of any DEP enforcement action within the past two years.

Customer Satisfaction

A service hearing was held in the Barefoot Bay service area in Barefoot Bay, Florida, on April 1, 1996. Approximately 300 persons attended. Thirty-two customers testified, primarily about rates and the rate increase requested. Only one customer complained about the quality of the water provided. Mr. Robert Jackson complained about a high level of chlorine and sediment in the water.

Based upon the evidence, we find that the quality of service provided by FCWC to its customers is satisfactory.

RATE BASE

Our calculations of the appropriate rate base amounts for the purpose of this proceeding are depicted on Schedules Nos. 1-A and 1-B for water and wastewater, respectively. Our adjustments are itemized on Schedule No. 1-C. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Year-End Rate Base

The utility requested approval of a year-end rate base value in order to reflect the full weight of additions to plant-in-service. These test year plant additions are the result of capital costs incurred to upgrade the wastewater treatment plant to advanced treatment standards and disposal of wastewater effluent through reuse, at the direction of DEP. The utility argues that the magnitude of investment in the Barefoot Bay wastewater plant, which serves the public interest, is an extraordinary condition that justifies approval of an end-of-period rate base determination.

Although OPC did not object to the utility's proposed use of a year-end rate base for its wastewater operations, OPC witness Dismukes disagreed that the same treatment should be afforded the

water operations. In her testimony, Ms. Dismukes recommended use of a 13-month average rate base for the utility's water operations. In its brief, OPC argues that we should not approve a year-end rate base for the utility's water operations based on Rule 25-30.433, Florida Administrative Code. This rule directs the applicant in a rate case proceeding to use the 13-month average method to calculate rate base, unless the applicant can demonstrate that this will result in an unreasonable burden. Under cross-examination, Utility witness Coel acknowledged the existence of the rule, and conceded that there would be no unreasonable burden imposed on the utility by using the 13-month average for the water rate base. Further, Mr. Coel admitted that there were no unusual or extenuating circumstances associated with the water plant operations, nor were there any major plant additions during the test year.

Utility witness Coel testified that although he is aware of the 13-month average rule, the utility requested use of a year-end rate base for its water operations in order to be consistent with the wastewater operations. In addition, the utility requested year-end rate base treatment to establish the rate bases on a going-forward basis. It is the utility's position that use of year-end rate base is more appropriate, particularly if a final order is issued at the end of the test year and rates are set at the same time, since the rates and rate bases will be in full synchronization and not mismatched.

The Supreme Court of Florida found that, in the absence of the most extraordinary conditions or circumstances, the Commission should apply average investment during the test year in determining rate base. Further, the court found that an average rate base can produce a distorted picture of future conditions when factors are forcing investment costs upward without a concomitant increment in revenues. Citizens of Florida v. Hawkins, 356 So. 2d 254, 257 (Fla. 1978). None of the parties dispute that extraordinary circumstances exist for the wastewater operations.

We find merit in OPC's argument that absent extraordinary circumstances, an average rate base should be used. However, FCWC filed this rate proceeding for both water and wastewater operations. Although we acknowledge that there were no extenuating circumstances or major water plant additions during the test year, we find that there will be a mismatch in rates and rate bases if we approve year-end treatment for wastewater and a 13-month average for water. Moreover, since the utility uses the same capital structure for this division, use of year-end treatment for wastewater and 13-month average for water will result in a mismatch in the determination of the overall cost of capital. Consequently,

we find that extraordinary circumstances do exist for the Barefoot Bay division, and therefore, we find it appropriate to focus upon the total company.

Although intervenor witness Dyer did not address this issue in his testimony, he does argue in his brief that we should reject accelerating recovery of costs based on the premise that the investment serves the public interest and that the increased investment is not being matched by customer growth. Mr. Dyer further contends that even though the public receives the benefit, the customers of Barefoot Bay have to pay the cost. In spite of Mr. Dyer's trepidation, we are obligated to consider this investment with respect to Section 367.081(2)(a), Florida Statutes, which states:

The commission shall also consider the investment of the utility in land acquired or facilities constructed or to be constructed in the public interest within a reasonable time in the future, not to exceed, unless extended by the commission, 24 months from the end of the historical test period used to set final rates. (Emphasis added)

Based on the above, we find it appropriate to approve a year-end rate base determination for both water and wastewater. The wastewater plant upgrade to advanced wastewater treatment and public access reuse standards are substantial improvements that serve the public interest for the total division. Substantial completion was scheduled for November of 1995 with the addition to plant-in-service on the utility's books on December 31, 1995, which in-service date satisfies the two-year limitation prescribed by Section 367.081(2)(a), Florida Statutes. In this case, an average rate base determination will distort the revenue requirement picture, since factors which are increasing the investment in operating plant are not matched by a concomitant growth in customers. Further, we find the instant rate case consistent with Citizens v. Hawkins because the utility's circumstances are the result of the utility's endeavoring to cope with extraordinary circumstances due to DEP requirements, which the statute requires us to consider.

Utility Plant-In-Service (UPIS)

Preliminary Survey and Investigation (PS&I) Charges

In the 1996 projected test year, the utility capitalized \$5,886,260 into UPIS, to include costs to upgrade the Barefoot Bay

Wastewater Treatment Plant to meet AWT and public access reuse standards. Included in the capitalized amount are PS&I charges totaling \$191,880 associated with the deep injection well and \$828,042 associated with the Micco Tract sprayfield. The injection well and the Micco Tract were alternatives explored in order to comply with the DEP mandate to eliminate the continuous discharge of treated wastewater from the Barefoot Bay treatment plant to surface water bodies. Due to regulatory requirements and other factors beyond FCWC's control, the process ultimately led to upgrading the wastewater treatment plant to AWT standards and reuse as the only feasible solution under the complex circumstances. As discussed below, we have found that the PS&I costs incurred for the injection well and the Micco Tract were prudent and reasonable. Later in this Order, we address the appropriate ratemaking treatment for the related costs.

Prudence of PS&I Charges

Utility witness Gerald S. Allen testified that the utility signed a consent order with the DEP (then known as the Florida Department of Environmental Regulation) on October 18, 1988, under which FCWC was ordered, among other things, to construct a deep injection well for effluent disposal. Witness Allen further testified that, at that time, deep well injection was highly ranked by the DEP as a method of choice to eliminate surface water discharges of wastewater effluent, and that many deep wells had been constructed, or were under consideration, in Florida. Witness Allen testified that the utility hired engineers to do cost estimates, provide assistance to FCWC during the bidding and permitting process and provide certain services during construction, including shop drawing review. He further testified that concerns regarding the viability of injection wells in the area arose in March, 1989, with a newspaper article in the Florida Today newspaper. That article cited leaks in the injection well in the area owned by the City of Melbourne. The Melbourne well was eventually taken out of service. FCWC was concerned, but under terms of the Consent Order, had little choice but to continue planning for the injection well process. Alternative methods of disposal were investigated simultaneously. These alternatives involved the use of reclaimed water on nearby citrus groves. The utility soon learned that the only way it could utilize reuse water was on land owned, or controlled, by it. Subsequent meetings with DEP concerning the geology of the area and concerns regarding the viability of deep wells for injection of effluent, resulted in a modification of the Consent Order to include FCWC pursuing options to purchase land for use as land application of effluent. On October 9, 1990, SJRWMD issued an order deferring action on permit activity for seven months and directed FCWC:

to aggressively pursue, through its power of eminent domain, acquisition of portions of the Micco Grove northwest of Micco Rd., in Brevard County.

DEP was unwilling to allow FCWC to withdraw the deep well permit application at that time pending more certain outcome of the land proposal pertaining to the Micco tract. Witness Allen testified that the "principal directive" was for FCWC to effect the ultimate elimination of the surface water discharge of treated effluent.

OPC argues in its brief that FCWC's actions in pursuit of several options for disposal of wastewater were not prudent or reasonable. OPC witness Dismukes testified that the Commission should reduce plant-in-service by \$1,730,921 to adjust the cost of upgrading the utility's plant to advanced treatment, because the utility pursued two alternatives to its disposal problem prior to upgrading the plant and purchasing the orange grove. OPC offered no additional support for its position.

As stated earlier, witness Allen testified that the Consent Orders required certain action by the utility and that problems occurred in FCWC's dealings with SJRWMD regarding the viability of the proposed deep injection well. Utility witness Blizzard testified that FCWC was legally required to pursue the deep injection well option as well as the sprayfield option. She also testified that, at times, DEP even required that both alternatives be pursued concurrently. We find that in its attempt to comply with regulations, the utility pursued a legitimate course of action which met with regulatory approval and encouragement. When that course became clouded by problems concerning the viability of the injection well, FCWC was required to seek alternative methods of effluent disposal while being required to stay the course on the original solution. In view of the evidence, we find that FCWC acted prudently, and the actions taken were the only reasonable ones available to it at the time.

Ratemaking Treatment For Costs Related to PS&I Charges

Staff witness Clepper testified that the utility is in non-compliance with the NARUC Uniform System of Accounts (USOA) with respect to Account 183. Account 183 - Preliminary Survey and Investigation Charges, states:

This account shall be charged with all expenditures for preliminary survey, plans, investigations, etc., made for the purpose of

determining the feasibility of projects under contemplation. If construction results, this account shall be credited and the appropriate utility plant account charged. If the work is abandoned, the charge shall be to account 426 - Miscellaneous Nonutility Expenses, or to the appropriate operating expense account unless otherwise authorized by the Commission (See account 775 - Miscellaneous Expenses).

Since the PS&I charges relate to uncompleted projects, the staff audit opinion recommended that the costs associated with the injection well and the Micco Tract should be removed from rate base for non-compliance with the USOA.

Subsequently, on cross-examination, Mr. Clepper clarified that the audit opinion recommended that the PS&I charges be excluded from the rate base component as filed in UPIS, although not necessarily excluded from rate base altogether. In addition, Mr. Clepper agreed that he had no basis to dispute that the PS&I charges were all at the requirement of DEP. Furthermore, Mr. Clepper recognized that, as acknowledged in Account 183, this Commission has the authority to divert from the auditor's recommendation and implement some other type of accounting treatment.

Since the PS&I charges related to the injection well and the Micco Tract were incurred for two projects that were never completed, and therefore produced no used and useful assets, OPC witness Dismukes recommended that the associated costs should be removed from the cost of the plant upgrade. Ms. Dismukes asserts that these costs are totally unrelated to the costs incurred to upgrade the plant to AWT standards. She further argued that the utility should have written-off the PS&I costs at the time the projects were abandoned.

In response to Ms. Dismukes' assertion that the PS&I costs are totally unrelated to the AWT upgrade, Utility witness Blizzard testified that some of the information gathered during the permitting for the sprayfield aided in the implementation of the AWT plant, with respect to some similar engineering issues. However, Ms. Blizzard admitted that since she is not an expert in the engineering field, she could not testify to the extent of its usefulness. Similarly, Utility witness Allen testified that FCWC would have been precluded from going forward with each alternative without the study involved in the first alternative. However, on cross-examination, Utility witness Young admitted that from an engineering perspective, a deep injection well is not necessarily

a prerequisite for consideration of a sprayfield. Likewise, a sprayfield application is not a necessary requirement to explore advanced wastewater treatment as an alternative. Nevertheless, Mr. Young maintained the utility's position that each alternative does not stand alone, and that the utility had to follow this route to ultimately implement the AWT upgrade.

In response to Ms. Dismukes' assertion that the PS&I costs should have been written off when the projects were abandoned, FCWC argued that there was only one project, and that "FCWC's set task in this instance was to comply with regulatory mandates to eliminate the continuous discharge of treated wastewater to surface water bodies." Further, Mr. Allen argued that there was never an abandonment of the project. Ms. Blizzard and Utility witness Murphy also argue this point. Mr. Allen testified that FCWC never requested a revocation or withdrawal of the construction permits for the injection well or the Micco Tract sprayfield. As testified to by Staff witness Ferraro, during the process of complying with the DEP mandate, at times the various options were being pursued concurrently with other options. Mr. Allen and Ms. Blizzard testified to this point as well.

In its brief, the utility argued that the PS&I charges associated with the injection well and the sprayfield were a necessary component of the project to eliminate the continuous discharge of treated wastewater to surface water bodies. Consequently, the utility maintained that the PS&I costs should be charged to UPIS and included in rate base, together with the balance of FCWC's expenditures on the project to upgrade the wastewater treatment plant. Mr. Murphy testified that once construction began on the Barefoot Bay AWT plant, it was consistent with Account No. 183 to charge the PS&I costs to the appropriate utility plant account, and amortize the costs over the appropriate depreciable lives. Mr. Murphy stated that it is not unusual for utilities to incur PS&I costs on construction projects, and when construction begins on a project, the normal treatment is to capitalize those costs into UPIS.

The utility interprets Account No. 183 to state that if any construction results, then all costs incurred during the process of investigating different alternatives should be capitalized to the cost of construction, regardless of whether or not those costs directly relate to the ultimate construction project. Although we find that the PS&I costs incurred for the injection well and the Micco Tract were prudent and reasonable, we do not find sufficient evidence presented in the record to verify that the PS&I costs were directly related and useful to the construction of the AWT plant upgrade. In order to determine whether or not the PS&I costs

should be included in UPIS, we must look to NARUC USOA Account No. 101 - Utility Plant-in-Service. Account No. 101 states, "This account shall include the original cost of utility plant, ... owned and used by the utility in its utility operations ..." (Emphasis added.) As Mr. Murphy testified, the utility did not construct a deep injection well at Barefoot Bay. Further, Mr. Murphy and Mr. Allen testified that FCWC does not own the Micco Tract, and likewise, did not construct a sprayfield system on that land. Thus, the related PS&I costs produced no assets which are in use or of benefit to the Barefoot Bay customers. Consequently, we find it appropriate to remove these costs from UPIS.

In its brief, the utility stated that FCWC would not object to an alternative treatment for the PS&I costs, such as deferral and amortization. Mr. Clepper testified that the PS&I charges associated with the injection well and the Micco Tract could be considered as non-recurring expenses. Further, Mr. Clepper agreed that Rule 25-30.433(8), Florida Administrative Code, could apply to the treatment of these PS&I charges. This rule states, "non-recurring expenses shall be amortized over a five-year period unless a shorter or longer period of time can be justified." Upon cross-examination, Mr. Murphy agreed that it would be reasonable to defer and amortize the costs over a 15-year period, as long as FCWC could earn a reasonable return on the expenditures, as if they were included in UPIS. When asked if it would be appropriate to include the unamortized balance in the utility's working capital calculation, Mr. Murphy stated that he had no opinion. However, he did state that the costs should be included in rate base. On the other hand, Ms. Dismukes stated that she was not willing to commit to a 15-year amortization period. On this point, Ms. Dismukes testified that she was having difficulty balancing between the issue of customers being required to pay for costs incurred on projects which never reached fruition, and customers not receiving the benefits of gains associated with the sale of utility property in other ratemaking situations.

To summarize, in determining the appropriate ratemaking treatment, we must first determine whether or not the PS&I charges incurred for the injection well and the Micco Tract were prudent. The only way these charges can be disallowed is if we make a determination that the PS&I charges were imprudently incurred. However, as discussed earlier in this Order, we found that the PS&I charges were in fact prudent and reasonable. At this point, we have the option either to capitalize the costs to UPIS, or defer and amortize the PS&I charges as a deferred debit over a reasonable time period. As discussed earlier, we found it inappropriate to capitalize the PS&I charges as UPIS, because NARUC states that this account should only include assets owned and used by the utility in

utility operations. In this case, the PS&I charges did not result in assets which are used and useful in utility service. Thus, we find that the only remaining option is to record the charges as a deferred debit and amortize it over a reasonable time period.

As stated in Rule 25-30.433(8), Florida Administrative Code, non-recurring expenses are to be amortized over 5 years, unless a shorter or longer period can be justified. We find that a 15-year amortization period would be a reasonable time over which to amortize these costs since it reflects the long-term nature of these costs had they resulted in assets being placed in service. Further, we find it appropriate to include the unamortized balance of the PS&Is in the total utility working capital calculation. This treatment is consistent with the methodology employed by FCWC in its MFRs, which reflects an allocation of all working capital components to each of the utility's divisions.

Accordingly, we find it appropriate to reduce wastewater UPIS by \$1,019,922. We have made corresponding adjustments to reduce wastewater accumulated depreciation and depreciation expense by \$32,271. Furthermore, we have increased total FCWC working capital by \$985,925 to reflect a 13-month average unamortized balance, resulting in an allocated increase of \$44,367 and \$40,423 to Barefoot Bay water and wastewater, respectively. In addition, we have increased Miscellaneous Expenses - Account No. 775 by \$67,995 for wastewater to reflect the amortization of the PS&I charges over a 15-year period.

H&S Property

The H&S property is an old orange grove purchased by FCWC to be used for effluent disposal. OPC witness Dismukes testified that \$711,000 associated with the H&S property should be removed from rate base because the utility had not explained if the grove was productive or not. OPC reasons that if the grove produces a crop and a profit, ratepayers should not be required to provide another return on the investment.

Utility witness Bradtmiller testified that the land is an inactive citrus grove and is being purchased as a sprayfield for reclaimed water. He further testified that the orange trees present are in various stages of neglect; the grove has not been harvested for several years. Witness Bradtmiller stated that without this land, FCWC would not be able to comply with the DEP mandate to eliminate continuous discharges to surface waters.

Upon consideration, we find that FCWC presented sufficient evidence to justify the purchase of the H&S property. Therefore, we find it appropriate to include the H&S property in rate base.

Margin Reserve

OPC witness Dismukes testified that the inclusion of a margin reserve to account for future customers above and beyond the future test year level represents investment that will not be useful in serving current customers. Mr. Dyer agreed with witness Dismukes' testimony.

As discussed later in this Order, the record supports that FCWC's facilities, with the exception of the wastewater treatment plant prior to AWT upgrades, are 100 percent used and useful. Additionally, FCWC's service area is almost built out, and customer growth is extremely limited at this time. Based on the foregoing, we do not find it appropriate to grant FCWC a margin reserve.

Used and Useful Adjustments

Water Treatment Plant

Mr. Dyer had no position on this issue at prehearing and offered no testimony regarding the issue at the hearing. He stated in his post hearing brief that the used and useful percent should be 89.16 percent. Because he provided no supportive evidence, we are unable to verify the authenticity of his conclusion or his method of arriving at his position. OPC had no position on this issue.

In its MFRs, the utility reported 994,000 gallons as the maximum high daily flow. FCWC stated this was due to the filling of all storage tanks in a two day period to prepare for a planned service outage. Because this was an anomaly, we used the next highest daily flow in used and useful calculations. According to the MFRs, the next four high daily flows were all in the 680,000 gallon range. We find that this range is representative of actual usage. We calculated the plant to be 100 percent used and useful with the lower gallonage figure. See Attachment A to this Order. We found this plant to be 100 percent used and useful in the past two rate proceedings, by Orders No. PSC-92-0563-FOF-WS, issued June 24, 1992, and PSC-95-0039-FOF-WU, issued January 10, 1995, in Docket Nos. 910976-WS and 940687-WU, respectively. Accordingly, we find that the water treatment plant is 100 percent used and useful.

Wastewater Treatment Plant

The utility states in its brief that following AWT upgrades, the plant capacity will be 0.75 mgd. FCWC witnesses Young and Christopher testified that the maximum capacity would be 0.75 mgd. FCWC witness Young further testified that a capacity of 0.75 mgd is the nearest commonly used capacity that allows the use of standard equipment and meets the wastewater treatment needs of Barefoot Bay. Therefore, the utility argues that the water and wastewater treatment plant should be considered 100 percent used and useful.

However, as Utility witness Young testified, the wastewater treatment plant could be operated at 0.9 mgd, provided that FCWC makes an additional investment of only \$25,000 for installation of two equalization pumps and associated pipes and wiring. Therefore, we find that the evidence supports actual wastewater treatment plant capacity of 0.9 mgd.

We do not believe that the existing Barefoot Bay customers should be made responsible for this additional, non-used and useful capacity. We recognize, however, that FCWC was required by DEP to make AWT upgrades to plant at a substantial investment. To that extent, we find that FCWC should not be penalized for this investment by a decrease in the percentage of used and useful for its water and wastewater treatment plant.

Therefore, based on the evidence, we find that the value of wastewater plant-in-service prior to AWT upgrades equals 66 percent used and useful, while the value of wastewater plant-in-service for investment in AWT equals 100 percent used and useful.

Wastewater Collection System

In the last water and wastewater rate case for this utility, we found the wastewater collection system 100 percent used and useful. Nothing has occurred to change this calculation. Therefore, we find that the water distribution system is 100 percent used and useful in this proceeding.

Water Distribution System

In the last water and wastewater rate case for this utility, we found the water distribution system 100 percent used and useful. Nothing has occurred to change this calculation. Therefore, we find that the water distribution system is 100 percent used and useful in this proceeding.

Excessive Unaccounted for Water

The record indicates that this utility has a very small percentage of unaccounted for water, 1.07 percent, which is well under accepted industry standards. The utility's MFRs indicate that total unaccounted for water is 1.941 million gallons (mg) for the year, or 1.07 percent of the total treated water. Therefore, we find no adjustment for excessive unaccounted for water necessary for this utility.

Excessive Inflow and Infiltration (I&I)

Utility witness Young testified that the standard for determining excessive I&I for Barefoot Bay, which is contained in Water Pollution Control Federation Manual of Practice No. 9 (MOP 9), provides for up to 30,000 gallons per day (gpd) per mile for the total length of main sewers, laterals and house connections. OPC witness Dismukes calculated I&I for the peak month to be over 5 million gallons which averages 184,366 gpd.

Using witness Young's standards, our calculations indicate that FCWC's resultant permissible I&I would be over 1.1 mgd. Since the wastewater treatment plant is constructed and permitted at 0.75 mgd, we found this to be an unacceptable level of I&I.

Accepted industry standards permit 80 to 90 percent of the water sold to be returned to the wastewater plant. Our calculations assume 90 percent returned water. Using the utility's flow figures for water and wastewater, I&I standards from MOP 9, and allowing for 90 percent returned water, we found that actual flows to the wastewater plant would total 446,605 gpd. Our calculation of permissible level of I&I totals 130,974 gpd. Actual flows to the wastewater plant were reported to be 697,613 gpd, which exceeds sold water by 251,568 gpd. We then subtracted the calculated permissible level of I&I (130,974) from the extra 251,568 gpd being treated, and the result is 120,568 gpd of excessive I&I. We believe that, since these numbers represent actual flows experienced by the utility, they are more realistic of the true amount of I&I in the system.

We agree with witness Dyer that excess flows cause additional power to be consumed for pumping and additional chemicals to be used for treatment. Accordingly, we have reduced expense accounts Nos. 715 and 718 by \$18,380 and \$4,751 respectively, to account for excessive I&I.

Plant Capacity

Capacity and Flows for Calculating Wastewater Plant Used and Useful

This issue prompted considerable discussion at the service hearing. OPC witness Dismukes testified that the capacity is 1.26 mgd. In his brief, witness Dyer made several references to differing capacities. Utility witness Christopher, a registered professional engineer, testified that the plant is constructed to a design capacity of 0.75 mgd. He also testified that the plant capacity will be equal to or less than 0.075 mgd based on the average annual flow and the waste concentration associated with this flow. Witness Christopher also testified that effluent requirements set by DEP are normally set on an annual average basis, not a daily or weekly basis.

The DEP operating permit reflects 0.75 mgd or less. The utility may not routinely operate it at flows above that amount according to the DEP permit requirements. Because this plant was designed, constructed and permitted at 0.75 mgd capacity and the utility may not routinely operate it at flows above that amount according to the DEP permit requirements; we find that the average daily flow capacity is 0.75 mgd. Our used and useful percent calculations are shown on Attachment B.

Peak Month Wastewater Capacity

During cross-examination by OPC, witness Christopher agreed that the plant could withstand flows of up to 2.7 mgd for an hour. Witness Christopher also testified that a plant must be designed to allow for peak hour flows even though these excess flows may be sent to a temporary holding pond for later treatment. This is intended to keep the plant from overtopping the units. We find that wastewater treatment plants are designed to withstand far greater temporary flows than they are able to normally treat in a given period. Peak month is not a factor in the ratemaking process. Therefore, we do not find that peak month is an appropriate design parameter for a wastewater plant.

Average Daily Flow Capacity-Wastewater Plant

OPC witness Dismukes presented three alternative plant capacities in her testimony: 1.26 mgd; 0.90 mgd and 0.75 mgd. OPC offered no professional engineering expertise to verify the testimony of witness Dismukes.

As previously stated, Utility witness Christopher, a registered professional engineer, testified that the plant is constructed to a design capacity of 0.75 mgd. He also testified that the plant capacity will be equal to or less than 0.75 mgd based on the average annual flow and the waste concentration associated with this flow.

Witness Christopher testified that, in order to operate the treatment plant at 0.90 mgd, two equalization pumps and associated piping and wiring would need to be installed at a cost of \$25,000. Additionally, the plant would then need to be re-permitted by DEP. We find that the average daily flow capacity is 0.75 mgd as constructed by the utility and permitted by DEP.

Contributions-in-Aid-of-Construction (CIAC)

As discussed earlier, we have not authorized a margin reserve in this case. Therefore, no imputation of CIAC for margin reserve is needed. However, as discussed later in this Order, we have imputed \$81,258 of CIAC to account for a grant awarded by SJRWMD to FCWC for funding of the utility's transmission facilities.

Working Capital

Because FCWC's Barefoot Bay operating division is a Class A utility system, the utility used the balance sheet approach to calculate working capital, in accordance with Rule 25-30.433, Florida Administrative Code. Consistent with its request for approval of year-end rate base amounts, the utility proposed use of a year-end working capital allowance. The requested provisions are \$48,214 (4.5 percent) for the water system and \$43,929 (4.1 percent) for the wastewater system. These amounts are allocated portions of a common \$1,071,429 company-wide balance, based upon relative provisions for operation and maintenance charges.

We find that the record supports the use of the balance sheet approach to calculate working capital.

OPC witness Dismukes testified that while the utility included other deferred debits in its requested working capital allowance, however, it failed to include cost-free other deferred credits. Ms. Dismukes recommended an adjustment to include other deferred credits in the total utility working capital calculation, in the amount of \$522,545. This adjustment results in a reduction of \$44,940 allocated to the Barefoot Bay Division.

In response to Ms. Dismukes' inclusion of other deferred credits in the working capital calculation, Utility witness Coel

partially agreed with this adjustment. He testified that the deferred credits related to deferred metered sales and deferred pension cost should have been included in the calculation. Further, he testified that deferred gross receipts tax is directly related to carrying charges on capacity fees. As identified in the MFRs, these carrying charges were removed from the working capital calculation. Likewise, Mr. Coel stated that it is also appropriate to exclude the related gross receipts tax. According to witness Coel, the resulting amount of other deferred credits for the working capital calculation should be \$171,174.

The adjustments recommended to working capital by witness Dismukes are based on the 13-month average balances for both water and wastewater. Ms. Dismukes testified that the working capital requirement based on the 13-month average is more representative of the utility's working capital needs, as opposed to the year-end approach. Based on Ms. Dismukes' proposed adjustments, OPC recommends a working capital allowance of negative \$18,184 for water and negative \$16,568 for wastewater.

Witness Coel testified that since the utility supports year-end rate bases in this proceeding, in order to avoid a mismatch, the utility likewise proposes using a working capital allowance based on the year-end approach. However, after review of Ms. Dismukes' adjustment schedules, Mr. Coel identified an error in the utility's 13-month average balance for intercompany payables, as filed in the MFRs. The average balance of this account was not adjusted for a \$2,000,000 intercompany note as it was adjusted for the year-end balance. According to Mr. Coel, the corrected total company working capital allowance for the 13-month average, before any other adjustments, is \$1,041,535. This results in an allocation to Barefoot Bay of \$46,869 for water and \$42,703 for wastewater. We have adjusted the 13-month average working capital to reflect the correct amount for intercompany payables.

While we agree with the utility's position that year-end rate base determinations are appropriate in this proceeding, we find it appropriate to examine the working capital accounts on the basis of average values. The averaging process tends to eliminate ebb and flow conditions, particularly with regard to tax payments, which obligations become due and payable at irregular dates. Likewise, we find the 13-month average balance is more representative of the utility's working capital needs, as opposed to the year-end approach.

In its brief, the utility concedes that the working capital allowance should be adjusted to include other deferred credits associated with deferred metered sales and deferred pension costs.

However, we have not factored other deferred credits associated with deferred gross receipts tax into the working capital calculation. Since the related carrying charges have not been included in working capital, we have excluded the gross receipts tax as well. The Utility witness stated that working capital should be adjusted by \$171,174 to include other deferred credits. Based upon our calculation of the working capital allowance on the 13-month average basis, we find that the appropriate amount to include in working capital is \$156,951. This results in an allocation of \$7,063 and \$6,435 to Barefoot Bay water and wastewater, respectively.

Based upon our adjustments, and the inclusion of the unamortized balance of PS&I charges discussed earlier, we find the appropriate working capital allowance is \$84,173 for the water operations and \$76,691 for the wastewater operations. This represents an increase in working capital of \$35,958 and \$32,763 for water and wastewater, respectively.

Unfunded Post-Retirement Benefits

In this proceeding, the utility has requested recovery of operating expenses representing post retirement benefits, resulting from the implementation of SFAS 106. SFAS 106 refers to the accounting standard that describes the practice of recognizing post retirement benefits other than pensions (OPEBs).

FCWC does not currently fund its OPEB obligation. According to Rule 25-14.012(3), Florida Administrative Code:

Each utility's unfunded accumulated post retirement benefit obligation shall be treated as a reduction to rate base in rate proceedings. The amount that reduces rate base is limited to that portion of the liability associated with the cost methodology for post retirement benefits other than pensions.

OPC witness Dismukes testified that since the utility does not currently fund its OPEB liability, it is appropriate to include the unfunded liability account in the rate base determination. Based on the average balance of the unfunded liability from the utility's balance sheet, Ms. Dismukes recommended that rate base be reduced by \$67,690 and \$61,673 for water and wastewater, respectively.

Under cross-examination, Utility witness Schifano agreed that the unfunded liability associated with the post retirement benefits

should be treated as a reduction to rate base, in accordance with the rule. Mr. Schifano further testified that the appropriate amounts to be used in the rate base determination for this proceeding are \$79,560 for water and \$72,488 for wastewater. As indicated in the record, these amounts represent the unfunded liability balances as of year-end June 30, 1996, consistent with the utility's requested test year rate base.

We find that all parties are in agreement as to the appropriate rate base treatment for the unfunded liability. Therefore, the only remaining question is what amount should be used to reduce rate base. Although OPC did not provide a basis for using the 13-month average balances, it appears that this adjustment is consistent with its recommended treatment for working capital. Because we have included the unfunded OPEBs as a separate line item in rate base, and not as a component of working capital, we find it appropriate to make the adjustment consistent with our rate base treatment. Therefore, we have reduced rate base by \$79,560 for water and \$72,488 for wastewater to reflect the year-end balances associated with the unfunded liability.

Test Year Rate Base

The record indicates that FCWC applied for a grant from SJRWMD in the amount of \$325,032 in order to fund transmission facilities. Mr. Bradtmiller testified that if funding is granted, the amount granted shall be treated as CIAC, thereby reducing rate base. We believe that the customers should receive the benefit of any funding granted to FCWC and that this benefit should be reflected in the customers' rates for wastewater service. Therefore, we find it appropriate to impute \$81,258 CIAC to FCWC's rate base. This amount is equal to 25 percent of the utility's grant request.

We believe that this adjustment will demonstrate to the water management district that the benefits of their funding will go to the customers of the utility receiving the funding, not to the stockholders of the utility. Accordingly, we hope that the water management districts will be encouraged to provide additional funding to investor-owned utilities.

Although the record does not specify an actual award or award calculation to FCWC, we believe that our calculation is reasonable. However, given these unique circumstances, this adjustment is made as a proposed agency action and shall only become final if no timely protest is received from a substantially affected person, in the form of an appropriate petition as set forth in Rule 25-22.029, Florida Administrative Code.

This rule states that for good cause shown, the Commission may provide that the time for requesting a Section 120.57, Florida Statutes, hearing shall be **fourteen days** from issuance of the notice. If not for our adjustment, this Order would become final on its issue date. Therefore, we find it appropriate that substantially affected persons have **fourteen days** from the notice of proposed agency action in which to file a protest.

Additionally, the utility shall be granted 30 days from the date of this Order in which to provide us with the actual grant amount from SJRWMD. In the event that a material difference exists between the actual grant amount and our calculation, staff shall file a recommendation for the appropriate rate adjustment.

Based upon a year-end rate base determination and our adjustments, we find that the appropriate rate base amounts total \$1,104,920 for water and \$6,081,447 for wastewater.

COST OF CAPITAL

Our calculation of the appropriate cost of capital, including our adjustments, is depicted on Schedule No. 2. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on that schedule without further discussion in the body of this Order. The major adjustments are discussed below.

Equity Infusion

In December of 1995, the utility capitalized \$2,000,000 into equity, in order to improve its debt to equity ratio and interest coverage ratio. Utility witness Schifano stated that the utility's debt level has significantly increased due to the magnitude of its construction program over the last two years. In addition, he testified that the utility's equity has also been negatively affected by a non-recurring litigation expense.

Staff witness Clepper testified with respect to Staff's Audit Disclosure No. 2, which identified the details surrounding this equity infusion. The disclosure indicated that a series of transactions led to the reclassification of \$2,000,000 from an intercompany payable to additional paid-in capital. The conclusion provided in the disclosure was that the reclassification did not change the availability of the cash to the utility, however, it effectively increased the rate of return from nine percent to 11.88 percent. The resulting effect of this transaction increases the weighted average cost of capital and subsequently the revenue requirement. Under cross-examination, Mr. Clepper admitted that there was no evidence to suggest anything improper about the

transaction. On the other hand, Mr. Clepper further testified that since the cost of equity is higher than the cost of debt, during the weighting process used to calculate the overall cost of capital, the cost rates associated with the particular elements have an impact on the overall cost rate.

OPC witness Dismukes testified that since this equity transaction merely had the effect of increasing the cost rate associated with the \$2,000,000, the transaction should be reversed. Further, she stated that not only does the utility not receive a benefit from this transaction, but the ratepayers are also negatively affected. She recommended removing the \$2,000,000 from equity and placing it back into debt, thereby decreasing the equity component and the overall cost of capital.

Utility witness Murphy testified that Ms. Dismukes' implications that the equity infusion transaction was improper, are simply unfounded. For the past 30 years, forgiveness of a parent utility payable, which is subsequently converted into equity, has been a standard practice of Consolidated Water Company (CWC). Details of the transaction are as follow:

In 1994 CWC advanced directly to FCWC \$2,000,000 to meet cash flow demands caused by the construction of water and wastewater plants throughout the FCWC service areas. CWC is the parent company of [FCWC Holdings, Inc.] Holdings. In December 1995, FCWC issued \$18,000,000 in senior notes. As a part of the proceeds of that issue, FCWC repaid the CWC advance. To improve FCWC's equity position, as discussed above, in December, 1995, Holdings made an equity contribution of \$2,000,000. The funds for that investment came through CWC as an equity investment in Holdings by CWC. In summary, there was a pay down of debt and a subsequent equity infusion.

Similar transactions have occurred periodically over the past 20 years, due to significant capital improvements.

Witness Murphy testified that after two years of significant plant additions, as well as substantial legal fees incurred to defend a lawsuit by the Department of Justice, FCWC's equity ratio had declined from 35.5 percent in 1993 to 32 percent in 1995. FCWC's controlling debt agreements require a minimum 30 percent equity ratio, otherwise the utility will not be able to issue additional debt. On cross-examination, Mr. Clepper conceded that

these minimum equity requirements were not brought up as points in the staff audit disclosure. Concerned that its 32 percent equity ratio was too close to the minimum requirement, Mr. Murphy further testified that FCWC's parent utility made a \$2,000,000 equity contribution, in the ordinary course of business, to improve FCWC's equity ratio. This equity infusion increased its equity ratio to 34.2 percent, as well as FCWC's total equity to debt ratio to 48 percent, closer to the target rate of 50 percent. Mr. Murphy stated, "In the eyes of the capital markets that FCWC must enter when additional debt is required the higher the equity position the lower the cost of debt. A sound financial position ultimately benefits the customers by providing a lower overall cost of capital."

Upon cross-examination by OPC, witness Murphy was asked to refer to Exhibit 43, which indicated that cash dividends had been paid on preferred stock and common stock each year from 1992 through 1994. Mr. Murphy agreed that paying dividends would have a decreasing effect on the utility's equity ratio, however, he explained that the dividends paid on the preferred stock were not elective, but required by the terms of the stock. In addition, OPC posed a question as to whether the utility also made the election to issue preferred stock, as opposed to some other means to raise capital. Mr. Murphy responded by stating that, at the time of the preferred stock issue, the utility may have been limited in what mechanisms were available to raise capital. However, since the issuance occurred in 1991, prior to his employment at FCWC, Mr. Murphy declined to speculate on the matter.

Mr. Dyer also raised concerns in his testimony regarding FCWC's equity. He asserted that a nine percent preferred stock issue was used to pay off 16.25 percent Series G First Mortgage Bonds. Mr. Murphy contradicted this assertion, testifying that the preferred stock issue was completed on June 20, 1991. Subsequently, \$6,000,000 in 7.79 percent Series K First Mortgage Bonds were issued in October, 1992. Finally, \$1,635,000 of the proceeds from the Series K Bonds were used to extinguish the remaining 16.25 percent Series G Bonds.

In addition, Mr. Dyer testified that FCWC bought back 2,337 shares of common stock. Mr. Murphy explained that in June 1991, FCWC actually converted 2,337 shares of outstanding common stock into 9,000 shares of nine percent preferred stock, resulting in a lower rate of return, and thus a lower revenue requirement.

In his brief, Mr. Dyer mentioned the testimony of Keith Baldwin, a customer of Barefoot Bay. Mr. Baldwin's concerns were related to the principal and amortization payments on some of

FCWC's debt issues, the lack of sinking fund provisions for Series J and K bonds, and the utility's dividend payout ratio. In response, witness Murphy testified that debt amortization does not have a significant impact upon ratemaking. Further, Mr. Murphy stated that the revenue requirement calculation does not include a component for the amortization or sinking fund requirements of debt.

Although the ultimate effect of the equity infusion resulted in an increase to the overall rate of return, we find the record devoid of any evidence to suggest the transaction was improper. We do find that the record supports the utility's argument that a sound financial position ultimately benefits the customers by providing a lower overall cost of capital. According to the utility's controlling debt agreements, if its equity ratio falls below 30 percent, the utility will be precluded from issuing any additional debt, thereby forcing the utility to raise capital by other means. Accordingly, we find it pertinent for FCWC to be concerned with its equity ratio, as well as its total equity to debt ratio. Therefore, we do not find that an adjustment to the equity component is warranted.

Return on Equity

Based upon the evidence in the record and the components of adjusted capital structure, we find that the equity ratio for FCWC is 30.62 percent. Using the current leverage formula, the appropriate rate of return on equity is 11.88 percent. Therefore, we find that the appropriate range for the return on equity is 10.88 percent to 12.88 percent.

Deferred Income Tax Credits

As shown in the MFRs, the utility's reported cost for deferred investment tax credits (ITCs) is 9.61 percent. However, the utility's calculation includes a component for customer deposits.

Although we removed the customer deposit component from the cost rate for ITCs in FCWC's last rate case, the utility included this component in this proceeding, because there is an associated cost of six percent on customer deposits. Utility witness Coel stated that it is the utility's position that there is no effect on the overall cost of capital and rate of return if the customer deposits are removed from the calculation. However, on cross-examination Mr. Coel agreed that the calculation of the weighted cost of ITCs is a fallout from the ratios and costs of capital

components. Subsequently, the utility acknowledged in its brief that it was inappropriate to include the customer deposit component in the calculation of the cost rate for deferred ITCs.

Similarly, OPC witness Dismukes recommended a revision to the utility's cost of ITCs, consistent with Commission policy. She testified that the customer deposit component should be removed from the calculation, in order to reflect the cost of capital associated with investor supplied funds only. In conjunction with Ms. Dismukes' adjustment to the equity component, OPC argues that 9.57 percent is the appropriate cost of ITCs.

We find that all parties are in agreement that the customer deposit component should be removed from the weighted cost of ITCs. We find that inclusion would be inappropriate since customer deposits should not be considered a source of investor funding for the purpose of this equation. Removal of that element necessitates a corresponding adjustment to the cost of deferred ITCs. Therefore, in accordance with the approved debt and equity components, and corresponding cost rates, we find that the appropriate cost for deferred investment tax credits is 9.65 percent, which reflects the removal of customer deposits.

Overall Cost of Capital

Based upon the approved adjustments discussed earlier, we find that an overall cost of capital of 8.75 percent, with a range of 8.44 percent to 9.05 percent, is appropriate.

NET OPERATING INCOME

Our calculations of net operating income are depicted on Schedules Nos. 3-A and 3-B for water and wastewater, respectively. Our adjustments are itemized on Schedule No. 3-C. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Test Year Revenues

FCWC has estimated a 10 percent decline in water consumption from the historic test year ending June 30, 1995, to the projected test year ending June 30, 1996, for both its water and wastewater customers. FCWC based this estimate on historical data and its apparent declining trend. OPC witness Dismukes has stated that FCWC has not adequately considered the degree to which rainfall may have affected consumption. She testified that consumption was down

somewhat because of an above average amount of rainfall during the historic test period. Therefore, she stated that the base year used by FCWC to project a further decline in consumption may already be understated due to an above average amount of rainfall.

While it is obvious there has been a substantial decrease in water consumption at the Barefoot Bay Division from January, 1991 through December, 1995, it is not clear as to the decrease in consumption from the historical test year ending June 30, 1995 to the projected test year ending June 30, 1996. The record shows actual water consumption data collected for 9 of the 12 months of the projected test year. Thus, the only missing months of the projected test year are April, May, and June of 1996. For the last three years the average consumption for the months of January, February, and March has been higher on average than the months of April, May, and June. Therefore, based on historical consumption, we find that the consumption for the missing months of April, May, and June is at least the same as the actual average for the months of January, February, and March of 1996. If this trend in consumption continues as it has for the last three years, we find that the projected test year consumption will be within one percent of the historic test year consumption ending June 30, 1995.

We agree with OPC witness Dismukes that there is a minimum amount of water that a customer must use. If historic consumption is projected with future growth, without including the utility's proposed 10 percent reduction, then water usage will be 96 gallons per day per household. This would equate to 48 gallons per day per person assuming a two person household. Obviously, this is very low usage per customer. We find that to further reduce this number without knowing what a customer must consume would be ambiguous. Also, the record indicates there were no price elasticity studies done to determine the effect price may have on consumption.

OPC witness Dismukes states, based on data collected from the Melbourne weather station, that 1994 and 1995 were above the 30 year average in annual precipitation. She also stated that rainfall has some impact on the customer's need to irrigate and that it would tend to reduce their water consumption. We find that rainfall is only one component that can reduce irrigation. There may be more significant components that determine the effects of rainfall on consumption. One component that might reduce the effects on consumption due to rainfall is whether or not the area is in an irrigation area. In other words, customers may not need to irrigate as much due to having smaller than average yards. FCWC witness Coel stated that Barefoot Bay is not in an average or above average irrigation area. Thus, if customers tend not to irrigate as much, rainfall will have a lesser effect on their water

consumption. Other components that may effect consumption more significantly than actual rainfall is the time of day it rains, temperature, and the frequency of the participation. Therefore, we find it difficult to determine the effects of rainfall on consumption by only analyzing rainfall data.

In summary, we find that projected consumption is based on the historic consumption amount of 162,222,000 gallons for water and 144,498,000 gallons for wastewater for the primary reason that the record suggests that projected consumption will be within one percent of historic consumption. These numbers are based on the historic test year ending June 30, 1995, and do not reflect the utility's proposal of a 10 percent reduction in consumption. We find it appropriate to base wastewater usage on the historic test year for the same reasons as water usage since wastewater consumption is derived from water usage.

Imputation of Revenue for Sale of Reuse

OPC's position in its brief is that it is appropriate for us to impute reuse revenue of \$30,660 for the sale of effluent on the H&S property. FCWC argues in its brief that it does not think any revenue should be imputed for the sale of effluent. Mr. Dyer argues that revenues should be imputed.

According to OPC's brief, if the utility is able to secure a lease for this property to a third party as it intends, then it would be reasonable to conclude that it would sell effluent to the third party at a rate of 21 cents per 1,000 gallons. The amount of \$30,660 is derived from the utility's estimate that the grove will take 146,000,000 gallons of reused water per year. In its brief, the utility argues that although Mr. Bradtmiller agreed in principle that any revenue received from the use of land should offset against the cost of operating the treatment system, based on FCWC's investigations including prospective leases with citrus growers and sod farmers, it is highly unlikely that the land will produce any operating revenues in the foreseeable future. According to Mr. Dyer's brief, potential sales exist, and the customers should not have to finance the utility while the utility waits for new customers. Mr. Dyer states that the Commissioners should provide the utility an incentive to find a market for wastewater.

Ms. Dismukes testified that if the orange grove were spun off to an affiliate of FCWC, then it would be appropriate to charge for the use of the reclaimed water. In his rebuttal testimony, Mr. Bradtmiller, made it clear that Ms. Dismukes' hypothetical sale would not be occurring. According to Mr. Bradtmiller's testimony,

FCWC would not consider selling the land, even to an affiliate because of its critical importance in compliance with the Second Amended Consent Order (SACO).

Ms. Dismukes also testified that the utility has not explained whether the orange grove it purchased is productive. If the orange grove produces a crop, and there is a profit associated with the crop, then ratepayers should not be required to provide another return on the investment. Accordingly, the income derived from the orange grove should be included in utility income, or, the land should be removed from rate base and treated as non-utility. Ms. Dismukes chose to treat the land as non-utility.

Mr. Bradtmiller rebutted this argument, testifying that if any revenue is received from the use of the land, or from the sale of the treated effluent for irrigation, FCWC agrees that this revenue should be offset against the cost of operating the Barefoot Bay wastewater treatment system. Based on FCWC's investigations including prospective leases, however, the utility states that it is highly unlikely that the land will produce any operating revenues in the foreseeable future. If FCWC could lease the land for a use that would complement the spraying operation, then it would seriously consider doing so. FCWC states that at the present time, however, this land will not generate any revenue.

According to Ms. Dismukes, the basis of her recommendation was that the utility sent a letter to the DEP indicating that it was their intent to use the property to irrigate groves, or to use it for other agricultural purposes. Under cross-examination, Mr. Bradtmiller admitted that was the intent at the time, and the utility is continuing to seek agricultural interests. However, until then, the utility plans to use the land for slow rate application.

Mr. Dyer has suggested in his brief that potential sales exist but presented no evidence to support the suggestion. However, Mr. Bradtmiller testified that FCWC does not have, nor does it contemplate, a lease arrangement which would provide for the lessee to pay for the reclaimed water. Therefore, the only firm source of revenue is the contract with the Barefoot Bay Golf Course. Mr. Dyer has also suggested that we should provide the utility an incentive to find a market for wastewater. However, he did not provide any testimony as to how this should be done.

Based on the foregoing, we do not find it appropriate to impute reuse revenue at this time. One of the reasons Ms. Dismukes believes that it is appropriate to impute revenue now is that if the utility were to negotiate a lease six months from now, it would

be unfair to the ratepayers for the utility to be allowed to include the land in rate base and receive some kind of benefit from that land. We find merit in witness Dismukes' argument. Therefore, the utility shall file status reports every six months indicating the progress of any negotiations for leases.

Rental Income

FCWC's witness Schifano testified that rental income received during the test year from a third party for an antenna should not be included "above the line" for ratemaking purposes. Mr. Schifano testified that income should be recorded "below the line" because the land on which the antenna sits is contributed property. Furthermore, he stated that because the land has no effect on rate base and that a prorated part of the property taxes is charged back to the lessee, reducing the below-the-line property tax expense for the land, the rental income should be recorded below the line.

OPC argues in its brief that the land is included in rate base and it is essentially utility property. OPC states that land is not depreciated, therefore it will always remain in rate base. Further, if this land was contributed and the amount was included in CIAC, then it would be amortized over time with the net CIAC balance declining. OPC states, assuming this land was contributed when the utility began operations -- some 30 years ago, it is likely that there is no CIAC offset to the amount of land included in rate base. We find no evidentiary support for OPC's arguments.

Based on the record, we find it appropriate to include this rental income in operating revenues for the Barefoot Bay wastewater division. The antenna is located on the wastewater treatment plant site in Barefoot Bay. FCWC has not demonstrated that the land is not included in rate base. Since land is not depreciated and will always remain in rate base, we find it appropriate that the rental income associated with this antenna benefit the customers. Therefore, we have increased test year wastewater income by \$19,900 for rental income associated with the antenna.

Operation and Maintenance (O&M) Expenses

Rate Case Expense

The projected provision for rate case expense per the MFRs was \$129,420, yielding an annual expense of \$13,428 for water and \$18,928 for wastewater. The utility allocated 50 percent of current rate case expense to water and 50 percent to wastewater, with the exception of \$22,000 for outside consulting services which is allocated only to wastewater. In his rebuttal testimony,

Utility witness Coel supplied an exhibit displaying current rate case expense, supporting documentation, and a revised estimate to complete the hearing process. The utility's current rate case expense and estimate to complete produced a revised rate case expense of \$152,356, which yields an annual expense of \$16,303 for water and \$21,786 for wastewater. The components of these provisions are as follows:

	<u>MFRs</u>	<u>EXH 45</u>
Mail, Printing, Supplies & Miscellaneous	\$3,500	\$3,420
FCWC (Rate Dept.)	25,800	18,191
Avatar Utility Services	13,120	18,632
Avatar Utilities	1,000	2,440
Legal	55,000	78,744
Outside Consulting (Wastewater Only)	22,000	21,930
Filing Fee	<u>9,000</u>	<u>9,000</u>
Total	<u>\$129,420</u>	<u>\$152,356</u>

OPC witness Dismukes has challenged the utility's requested rate case expense. She testified that \$24,000 in rate case expense from FCWC should be removed because the utility had not adequately demonstrated that these charges are not already included in its 1995 test year expenses. Since the utility uses in-house staff to prepare the MFRs and testimony, Ms. Dismukes asserted that these costs could be included in the test year operating expenses. If so, Ms. Dismukes testified that ratepayers would then be charged twice for this double counting of expenses.

In addition to the previous adjustment, witness Dismukes also recommended that an additional \$52,000 be removed from the requested rate case expenses. Ms. Dismukes testified that this adjustment is to account for the additional expenses incurred for setting this rate proceeding directly for hearing. This adjustment is discussed in greater detail later in this Order.

In response to Ms. Dismukes' adjustment to remove rate case expenses charged from FCWC, Utility witness Coel testified that these expenses specifically relate to FCWC's rate department charges for time spent on the rate case filing and are deferred and charged to deferred rate case expenses. Mr. Coel further stated that there is no double counting of this expense, and that any time spent on work unrelated to the rate case is recorded as labor expense. We find that the evidence supports that these expenses are not being double counted. As such, we find it would be inappropriate to make an adjustment based on this premise.

Additionally, in response to Ms. Dismukes' adjustment to remove from rate case expense those expenses associated with the additional costs related to the rate case hearing procedure, Utility witness Bradtmiller testified that by going directly to hearing, both the customers and FCWC are guaranteed a full and complete hearing before this Commission. In addition, Mr. Bradtmiller stated the principal reason the utility did not elect the PAA process was because the magnitude of its requested revenue increase was so great that FCWC believed the application would go to full hearing regardless of what action we might have proposed. As discussed in further detail later in this Order, we find that no adjustment shall be made based on the utility not opting to file this case as a PAA proceeding.

In its brief, OPC argued that a third adjustment should be made to reduce rate case expenses by \$22,000, in order to remove the professional fees estimated for Utility witness Blizzard. In support of its argument, OPC indicates that on cross-examination, Ms. Blizzard was unaware of what her fee was in this case, as well as the amount the utility had estimated in the MFRs. OPC further argues that the utility's support for its rate case expenses contains no billing from Ms. Blizzard, nor any documentation concerning how this estimate was derived. OPC also argued that there is no evidence giving assurance that these legal fees have not been recorded as an operating expense or capitalized to the wastewater treatment plant, and thus already recovered. We find that supporting invoices totalling \$12,930 were, in fact, included in the record. Additional costs for completion were estimated at \$9,000 for the consulting services of Ms. Blizzard, as well as Utility witness Christopher. This estimate covers the months of March and April, during which rebuttal testimony was filed and the technical hearing occurred.

Based on our review of the supporting documentation, and testimony, we find that the utility's requested rate case expense is prudent and reasonable. Therefore, we find that the appropriate provision for current rate case expense is \$152,356, resulting in annual expense of \$16,303 and \$21,786 for water and wastewater, respectively.

In its MFRs, the utility reported total projected test year expenses of \$25,091 and \$27,618 as the amortization of rate case expense for water and wastewater, respectively. This consisted of the amortization amounts for current rate case expense, as well as the amortization of two prior rate cases. The rate case expense

approved in Order No. PSC-92-0563-FOF-WS, Docket No. 910976-WS, issued June 24, 1992, was fully amortized by July of 1996. Accordingly, we find it appropriate to remove all unamortized rate case expense associated with this docket from test year O&M expenses for both water and wastewater. The annual rate case expense of \$10,251, approved in Order No. PSC-95-0039-FOF-WU, Docket No. 940687-WU, issued January 10, 1995, shall remain in test year water O&M expenses, since the amortization period has not yet ended. As such, we find that the appropriate amount of rate case expense amortization is \$26,554 and \$21,786 for water and wastewater, respectively. This results in an increase to water expenses of \$1,463 and a decrease to wastewater expenses of \$5,832.

Effect of PAA Process on Rate Case Expense

In its brief, FCWC lists a number of factors upon which it based its request that this case proceed directly to hearing. Those factors include: the magnitude of the requested rate increase; the complexity of the underlying issues; the level of expected controversy and the unrecoverable revenue losses associated with the potential regulatory lag accompanying any protested PAA order. Based upon these factors, FCWC argues that this case should not have been processed as a PAA.

Both OPC and intervenor Dyer maintain that by processing this case as a PAA, rate case expense would be lower, resulting in lower rates to the customer. In support of its position, OPC argues that if a PAA order had been entered, the customers could have decided to avoid the cost of hearing. As a result of FCWC avoiding the PAA process, OPC states that the customers were deprived of an opportunity to avoid a hearing.

OPC is correct that the customers could have opted to avoid a hearing following a PAA decision. However, we find that FCWC's concerns of a protest were valid, given the level of the requested rate increase of \$153,136 for water and \$1,273,024 for wastewater, and controversy stemming from customer interest in this matter.

Section 367.081 (8), Florida Statutes, grants a utility the option of requesting a PAA proceeding in a rate case. However, the PAA process is not mandatory. Therefore, given FCWC's concerns, we find that the utility's choice to go directly to hearing was reasonable and thus, we properly scheduled this docket to go directly to hearing.

We find that the real issue is not whether this case should have been processed as a PAA, but, rather, whether the rate case expense is reasonable. Section 367.081(7), Florida Statutes, provides that the Commission shall determine the reasonableness of rate case expenses and disallow all rate case expenses determined to be unreasonable. The statute also provides that no rate case expense determined to be unreasonable shall be paid by a consumer. As stated earlier, we find that FCWC's rate case expense request is reasonable.

Customer Growth and Commission Index

In the MFRs, the utility has requested recovery of projected O&M expenses based on customer growth and the Commission index. The projections for the utility's 1996 expenses include adjustments for customer growth factors of 1.16 percent and 1.07 percent for water and wastewater, respectively, and the 1995 index factor of 1.95 percent.

OPC witness Dismukes testified that it is unrealistic to assume that expenses will automatically increase in the test year equal to the increase in customers and inflation, regardless of the circumstances or the account. Based on a benchmark analysis and her evaluation of the utility's expenses, Ms. Dismukes identified some expense accounts that have actually declined. Based on this analysis, she then recommended to remove the proposed increased expenses where it was not evident that the expense would increase during the test year.

Ms. Dismukes' proposed adjustments to the test year water O&M expenses total \$10,551, of which \$6,306 are related to the growth and index adjustments. The remainder of this expense adjustment relates to the utility's projected increase in postage costs, and is addressed in detail later. Due to decreases in certain expense accounts from June 30, 1994 to June 30, 1995, Ms. Dismukes removed the utility's proposed adjustments to increase fuel expenses, contract-other, and miscellaneous expenses. Ms. Dismukes also recommended an adjustment to purchased power, which the utility has increased for customer growth. Ms. Dismukes stated that this account is more sensitive to consumption than growth. In conjunction with her recommendation that test year consumption will not increase, Ms. Dismukes stated there would be no increase in purchased power costs. Accordingly, she recommended removal of the proposed increase of \$353.

Witness Dismukes also recommended adjustments to wastewater O&M expenses, which result in a total reduction of \$7,237, of which \$2,992 are related to the index and growth adjustments. As discussed in relation to the water expenses, the remainder of this adjustment relates to increased postage costs discussed later. Ms. Dismukes testified that although they affect different accounts, and the benchmark analysis is based on different test years, the proposed adjustments and the reasons provided are the same as for the water expense adjustments.

In response to Ms. Dismukes' proposed adjustments, Utility witness Coel testified that it is reasonable to utilize some growth and inflation factors and to make other reasonable adjustments, when a projected test year is employed. Mr. Coel stated that FCWC's utilization of the price index factor to account for anticipated inflation in the projected test year is in lieu of filing a price index application following the resolution of this rate proceeding. Further, Mr. Coel maintains that it is more prudent to incorporate this anticipated increase in expenses within this rate proceeding. In response to witness Dismukes' statement regarding her belief that it is unrealistic to assume that expenses will automatically increase, Mr. Coel stated that it is also unrealistic to assume that expenses will remain constant, or decrease.

OPC argues in its brief that if we accepted the utility's projected level of test year expenses, the utility will be placed in a position where increasing expenses are condoned. Moreover, OPC argues that FCWC should aspire to reduce its expense levels. However, FCWC argues that the requested expense adjustments are a reasonable attempt to factor in growth and inflation.

Although we agree that increasing expenses should not be encouraged, given a projected test year, we find it reasonable to assume that there will be some increase in certain expenses. Therefore, we find that the utility acted appropriately in utilizing the growth and index factors in its O&M expense projections. In addition, since Section 367.081(4)(a), Florida Statutes, gives utility companies the authority to file for an index application, we find it would be inappropriate to disallow FCWC's projected expense increases. However, because the utility has included these adjustments in its projected test year, FCWC shall be precluded from filing an index application in 1996. Therefore, we find that an adjustment is not warranted.

Postage Costs

The utility has requested projected expenses related to increased postage costs of \$4,245 for both water and wastewater operations. Utility witness Sansbury testified about the implementation of a new type of billing method. The utility believes that the new laser-printed stuffed bill with return envelope enhances customer service by the improved readability of the full-sized bill. Previously, the utility used 5 X 7 inch post cards to bill its customers. Mr. Sansbury testified that these "cards were frequently misplaced by the postal service or mixed with other fourth class mail and accidentally discarded." Some benefits of the new type of bill are identified by Mr. Sansbury: (1) the utility can more efficiently provide customers with service information as well as water industry communications, such as conservation and water quality; (2) without the need for separate mailings, the utility can send customers messages regarding changes in rates, service, and similar matters and (3) the enclosed return envelope provides a convenient way for the customers to make their monthly payments.

OPC witness Dismukes testified that the utility did not explain why this new billing method would necessitate an increase in postage and billing charges. Although she recognized that some increased costs would be expected, she stated that some of the benefits identified by witness Sansbury would offset the increase in costs. Ms. Dismukes stated that by eliminating the problems caused by the 5 X 7 inch post cards being misplaced or discarded, this should increase the utility's cash flow and reduce the working capital requirements. Also, Ms. Dismukes asserted that postage costs should be reduced by the fact that the utility will now be able to send messages to the customers without sending separate mailings. OPC argues that the utility's estimate for increased postage costs is overstated, since the proposed cost increase is merely the difference between the cost of sending a post card versus an envelope. Because the utility did not reflect the reduction in costs that Ms. Dismukes testified would result from the benefits identified above, OPC recommended the removal of the utility's increased costs of \$4,245 from test year expenses for both water and wastewater.

Utility witness Coel rebutted Ms. Dismukes' testimony stating that the costs associated with the stuffed bill, which include the extra paper cost for the larger bill, an envelope, and a return envelope, are significantly higher than the post card bill. In

addition, since the last rate proceeding, there has been an increase in postage rates. Moreover, the new stuffed bill is mailed at a higher postage rate. Mr. Coel stated that, with pre-postal increase, the stuffed bill results in a \$.144 per piece increase over the post card bill.

In response to witness Dismukes' statement that there should be a reduction of cost due to increased cash flow, witness Coel testified that Ms. Dismukes provided no evidence to support her position. Although theoretically there may be some beneficial effect on the utility's cash flow and working capital requirements, we find no evidence to suggest that a cost reduction will actually occur. Therefore, we find that the record does not support an adjustment based on this premise.

Likewise, in response to Ms. Dismukes' testimony that postage costs should decrease due to the elimination of the need to have separate mailings, Mr. Coel stated that there were no separate mailings in the past. Until FCWC changed to the stuffed bill, there were no cost effective means to communicate with its customers. Further, we find that due to the utility's billing cycles, the elimination of the need for separate mailings associated with customer notice requirements may only happen on occasion, thus diluting any benefits received.

Based on the foregoing benefits, we find that the utility acted prudently in changing the method of billing its customers. The utility has provided sufficient evidence to demonstrate that the new stuffed bill will cost more than the 5 X 7 inch post cards previously used. In addition, we note that postage rates have in fact increased since the previous test year. We find that the increase in costs associated with the implementation of the new billing method outweigh any theoretical cost savings which may be derived. Therefore, we do not find that an adjustment to the utility's proposed test year postage expense is warranted.

Affiliated Expenses

OPC witness Dismukes testified that due to the affiliation between FCWC and the companies that contribute expenses to the utility's cost of service, whether direct or indirect, we should closely scrutinize the affiliate allocation methods and techniques. In support of OPC's position, Ms. Dismukes expressed some concerns related to the utility's affiliated charges. Those concerns include lack of support concerning reasonableness and necessity of

affiliated charges; possible duplication of services among affiliates; lack of support for the allocation method regarding the equitable cost distribution among affiliates; allocation method employed by parent under-allocates costs to non-regulated business; appearance of a discrepancy between the allocation method described in the MFRs compared to how the allocations actually occur and lack of supporting documentation verifying allocations of administrative and general and customer expenses from FCWC to its various divisions. With respect to the last point, Ms. Dismukes stated that it was not possible to verify the allocation methodology described, nor to determine if the application was correct, since the supporting documentation was not provided as part of the MFRs. This matter is discussed in greater detail later in this Order.

Based on the foregoing arguments, OPC argues that 10 percent of the utility's administrative and general and customer accounting expense should be disallowed. This results in a decrease in test year expenses of \$33,164 and \$35,212 for water and wastewater, respectively.

Mr. Dyer testified that FCWC's method of allocation has little reality to the services performed, and that reliability of the allocated costs are further diluted by expenses that are charged directly to FCWC. Mr. Dyer testified that the only solution is to require labor and material costs charged directly to the division in which the costs are incurred. Further, Mr. Dyer argues in his brief that the Commission should review and revise the utility's allocation methods in order for expenses to more closely match the operations at Barefoot Bay.

In support of the reasonableness of the utility's allocations between and among its affiliates, Utility witness Coel presented the FPSC Staff Audit Report regarding FCWC's affiliated transactions. The opinion provided in the audit report described the utility's affiliate transactions as reasonable and appropriately allocated. However, OPC asserts that the audit report did not address most of the concerns raised by Ms. Dismukes. Further, on cross-examination, Staff witness Clepper was unable to verify that the allocated charges from Avatar Holdings, Inc. were devoid of any disallowable expenses, such as lobbying, dues, or donations. Likewise, Mr. Clepper could not verify if any legal expenses were included in the charges from Avatar Holdings, Inc., or the nature of any such charges if included. Similarly, he was

unable to substantiate the method used by the utility's administrative staff to estimate the time spent on the various affiliates of the utility.

As additional support for its position, FCWC cites in its brief, Order No. PSC-93-1288-FOF-SU, in Docket No. 920808-SU. In that order, we determined that "it is inappropriate to make a reduction when the record does not support an argument that any specific charge is unreasonable. Therefore, we find that no adjustment shall be made to the allocation of transactions with affiliated companies." The utility further argues that the requested divisional allocated expenses, as documented in the MFRs are consistent with FCWC's allocation methodology, as previously accepted by us. In addition, Ms. Dismukes' proposed adjustment to arbitrarily disallow 10 percent of affiliate expenses opposes the Supreme Court's holding in GTE Florida Incorporated v. Deason, 642 So.2d 545 (1994), as follows:

The mere fact that a utility is doing business with an affiliate does not mean that unfair or excess profits are being generated, without more . . . We believe the standard must be whether the transactions exceed the going market rate or are otherwise inherently unfair. (at 547-548)

Although Ms. Dismukes provided no documentation in support of her proposed disallowance of certain affiliate expenses, we find that it is the burden of the utility to prove that these charges are reasonable and necessary. We find that the documentation supplied by the utility in this case supports that the expenses are being incurred and paid. Additionally, the utility provided a portion of the Staff Audit Report, which states that FCWC's affiliated transactions are reasonable and appropriately allocated. Furthermore, we find that the record does not show that the amount of affiliated charges to this division are excessive. Therefore, we find that FCWC's affiliated transactions are reasonable and warrant no adjustment.

Salary Increases

Test year water and wastewater O&M expenses include annualizing adjustments to reflect a five percent wage increase for 1995. These annualized salary increases became effective January 1, 1995.

Intervenor witness Dyer testified that there is a discrepancy between salaries actually paid to employees and salary increases reflected in the utility's requested revenue requirement. Mr. Dyer cited a portion of the utility's MFRs, which includes a copy of the audit report from Ernst and Young, and the audited financial statements, dated December 31, 1994. Within this audit report, it is indicated that the utility paid salary increases of five percent in 1994 and six percent in 1993 and 1992. Further, Mr. Dyer stated that the MFRs indicate that the utility is annualizing salary increases of five percent for the projected test year June 30, 1996. According to Mr. Dyer, this conflicts with information on salary increases reported in a letter dated February 2, 1996, to Senator Patsy Ann Kurth by Paul H. Bradtmiller, Executive Vice President and Chief Operating Officer of FCWC. Mr. Dyer quoted from Mr. Bradtmiller's letter, that "the average wage increases, including cost of living and merit increases, for the year 1992 to 1996 have been 3.25 percent, 4.5 percent, 4.5 percent, 4.5 percent and 3.5 percent, respectively." The concern that Mr. Dyer expressed is that if we approve FCWC's requested salary increases, but some lesser amount is actually paid to the employees, the customers will be charged for an expense that the utility will never incur.

Regarding Mr. Dyer's testimony on the historical salary increases, Utility witness Mr. Coel stated that the source in the MFRs, referred to by Mr. Dyer, is a footnote to the 1994 financial statements regarding the utility's pension plan. The salary increases reported as five percent in 1994 and six percent in 1993 and 1992, were actuarial assumptions for salary and promotion increases, used to determine the annual pension expense. The percentage increases were used only for the actuarial study, as opposed to being the actual paid salary increases, as Mr. Dyer testified.

Witness Coel testified that a critical part of the Bradtmiller letter omitted from Mr. Dyer's testimony stated, "Any other increases are related to promotion, or in the case of plant operators, to higher grades based upon advancements in operator certifications." Mr. Coel testified that a five percent increase in salaries was determined to be a reasonable estimate for purposes of preparing the MFRs. Further, Mr. Coel stated that since the time of filing, the utility has determined the actual average wage increase for 1996 to be 3.5 percent; however, promotions and advancements are not included in this percentage.

Although not distinctly identified in this issue, Mr. Dyer addressed an additional concern that labor costs for FCWC had risen 70.5 percent, as opposed to an increase of 18.77 percent in the cost of living allowance (COLA) during the same time period. Mr. Dyer stated that since the service area is essentially built-out, it would seem this division's costs should have stabilized. Lastly, Mr. Dyer testified that it is unclear what benefit accrues to the customers of FCWC from the additional layer of staffing caused by the dissolution of Consolidated Water Services, Inc. (CWS). Mr. Dyer argues that the costs associated with these additional employees and officers should be disallowed until the utility can explain and demonstrate what benefits, if any, accrue from this action.

In response, Utility witness Murphy testified that he was unaware of how Mr. Dyer arrived at the 70.5 percent figure. However, Mr. Murphy offered some explanation of the two primary reasons that wastewater labor costs have increased. First, the upgrade of the wastewater plant to AWT standards required two additional employees, included in the MFRs at average annual wages of \$25,000 each. Second, within the past two years, two consolidations have occurred at FCWC resulting in the reclassification of labor costs from contract services to salaries. As a result of the consolidation of CWS, labor costs associated with finance, accounting, and rate staff, previously recorded as contractual services other in the last wastewater rate proceeding are now recorded in salaries expense. Additionally, the labor costs associated with some executive and administrative positions of Avatar Utilities, Inc., previously recorded as contractual services management fees, have also been shifted to FCWC salaries.

After reviewing Mr. Dyer's testimony, as well as arguments provided in his brief, it appears that the 70.50 percent increase in labor costs was calculated as the increase from the test year in Docket No. 910976-WS to the test year in the current rate proceeding. It also appears that Mr. Dyer's comparison reflects the combined balances for both water and wastewater for the employee salary accounts, associated payroll accounts, and the contractual services accounts for engineering, accounting, legal, management fees, and other. In his brief, Mr. Dyer uses this percentage as a comparison to the COLA index to demonstrate that labor costs have increased excessively since the last rate proceeding. We find this comparison is inappropriate in that by including all of these accounts and adding together water and wastewater, the percentage calculated is distorted when comparing

to a cost of living index. Additionally, in support of the argument in his brief, Mr. Dyer cited information which was not presented as evidence in the record, and thus we will not rely on it.

Although its position on this issue is that we should not accept the utility's requested salary increase, OPC did not provide any evidence at the hearing, nor address this issue in its brief. Based on the foregoing, we find that FCWC met its burden of proof that a five percent salary increase is reasonable.

Test Year Operating Income

Based on the adjustments discussed herein, we find the appropriate test year operating income before any provision for increased revenues is \$26,309 for water and negative \$76,808 for wastewater.

REVENUE REQUIREMENT

Based upon our consideration of rate base, cost of capital, operating income and our adjustments discussed herein, we find that the appropriate annual revenue requirements for FCWC are \$912,061 and \$1,915,176 for water and wastewater, respectively.

Allocation of Wastewater Revenue Requirement

FCWC witness Allen testified that one of the most important fundamentals of rate making is that the costs of providing service are recovered from the cost causer. Recognizing that reuse is a source of water as well as a method of effluent disposal, we believe that this method of allocating the revenues is changing. Accordingly, we must determine whether it is appropriate to allocate any portion of the wastewater revenue requirement to the water customers. FCWC argues that no portion of the wastewater revenue requirement should be allocated to the water customers. OPC did not address this issue. In his brief, Mr. Dyer argues that revenue should be related to true cost, and mixing revenues will dilute the real costs without providing any savings. We will discuss these arguments further, however, we find that, first, a brief discussion regarding Section 367.0817, Florida Statutes, is warranted.

Background

In 1994, the Legislature enacted Section 367.0817, Florida Statutes. This section of Chapter 367 authorizes the Commission to allocate the costs of providing reuse among any combination of the utility's customer base. Specifically, Section 367.0817(3), Florida Statutes, states:

All prudent costs of a reuse project shall be recovered in rates. The Legislature finds that reuse benefits water, wastewater and reuse customers. The commission shall allow a utility to recover the costs of a reuse project from the utility's water, wastewater, or reuse customers or any combination thereof as deemed appropriate by the commission.

As discussed above, this section authorizes a new method of allocating a utility's revenue requirement among its customers. Although we have addressed this issue in other proceedings, we have never applied this section of the statute.

Determining how much of the wastewater revenue requirement should be allocated to the water customers is difficult given the discretionary nature of Section 367.0817, Florida Statutes. Although the Legislature acknowledges that reuse benefits water, wastewater and reuse customers, there is no guidance in the statute as to how to measure these benefits. In addition, the Legislature does not state when it is appropriate to undertake such an allocation or how much should be allocated. These decisions are left solely to our discretion.

Mr. Dyer testified that keeping the operations separate is vital to identifying the true costs. We agree that the traditional method of allocating a revenue requirement is that the costs of providing service are recovered from the cost causer. However, as stated above, reuse is changing this method of revenue recovery and this has been recognized by the Legislature.

FCWC is strongly opposed to allocating any of the wastewater revenue requirement to the water customers. In its brief, FCWC argues that the proposal outlined by witness Chase should not be adopted in this proceeding, because there has been no demonstration that reuse benefits the water customers of Barefoot Bay. The utility states that revenue should be allocated from the wastewater

customers to the water customers only when reuse provides a specific benefit to the water customers. The utility admits that there may be some theoretical benefit to the water customers as a result of reuse, however, in this case, reuse has been shown as the only feasible and prudent means of disposal of treated wastewater effluent. Therefore, according to the utility, the reclaimed water produced is merely a byproduct of the wastewater treatment process, and any revenue derived from the disposal of this byproduct should accrue to the wastewater customers' benefit.

In its brief, the utility also argues that Section 367.0817, Florida Statutes, does not provide us with unlimited authority to allocate reuse costs among water, wastewater and reuse customers, absent a legitimate showing of a benefit to the affected customer class. We agree that there needs to be a benefit in order for the statute to be implemented. However, the Legislature has stated in Section 367.0817, Florida Statutes, that reuse benefits water customers. The benefits to Barefoot Bay's customers are described below.

Staff witness Chase testified to the implications of allocating a portion of the revenue requirement associated with reuse to the water customers. Since this is a new issue, the method of quantifying the benefits to the water customers is evolving, but it is possible to quantify the benefits. A good starting point in quantifying the benefits is determining whether there are any perceived benefits. If there are, witness Chase testified that one should attempt to quantify these benefits as accurately as possible. For instance, in cases where additional costs are incurred to implement reuse over some other environmentally acceptable means of effluent disposal, the water customers should be responsible for these additional costs. In this case, we have recognized the benefits to the water customers by allocating a portion of the revenue requirement associated with the AWT to the water customers, since there was an environmentally acceptable alternative. We will discuss this methodology later in this Order.

Benefits to Water Customers

Reuse was first implemented at Barefoot Bay in 1989. The current reuse plan consists of three reuse sites: the Barefoot Bay Golf Course; a sprayfield; and the H&S groves. The Barefoot Bay Golf Course will receive treated effluent pursuant to an agreement

dated May 25, 1994. The sprayfield is owned by FCWC. As of the hearing in this docket, closing had not occurred on the purchase of the H&S groves.

The utility's argument against shifting reuse revenue is based on the fact there has not been a demonstration that reuse benefits the water customers at Barefoot Bay. However, even though these benefits might not be observable or measurable, we find there is evidence that they exist. We find there are perceived benefits. First, as testified by Staff witness Chase, reuse provides a greater benefit to water users in areas where water quality of supply concerns have been identified. The Barefoot Bay Division is located in SJRWMD. The entire area of the district has been designated as a water conservation area in order to provide for greater availability of reclaimed water district wide and to conserve available water resources. Accordingly, the water in this area requires careful management.

As stated by Staff witness Burklew, a hydrologist employed by SJRWMD, benefits of reuse inure to the water customers of Barefoot Bay through the conservation and protection of the water resources. Resource conservation and protection are goals of SJRWMD. Reuse at FCWC meets these goals by decreasing local groundwater use, reducing fresh water flows to the Indian River Lagoon and eliminating nitrate and phosphorous loading to the Lagoon. We find that reuse also poses less of a threat to the underground sources than an injection well. In fact, Utility witness Allen testified that a leaking injection well was probably the greatest threat to underground sources of drinking water. Witness Allen acknowledged that reducing the agricultural demand on the aquifer could potentially be a benefit to the water customers, albeit a perceived benefit.

As stated earlier, in 1988, FCWC was required to pursue options which would result in the elimination of discharges to surface water bodies. The only options available were an injection well and reuse. FCWC originally chose the injection well because it was found to be the most economical method of effluent disposal and this was the method decided on in the Consent Order. Public access reuse was eventually chosen as the method of effluent disposal.

In its brief, the utility argues that the record is clear that the injection well was ultimately found not to be a viable option and this is the reason why no revenue should be shifted from the

wastewater customers to the water customers. We agree that there is evidence which shows that the injection well was not environmentally acceptable. Although the DEP approved the permit for the injection well, it expressed concerns regarding injection wells in Brevard County. The SJRWMD opposed injection wells as a method of effluent disposal because of the risks of groundwater pollution and the loss of reusable water. Accordingly, a permit was not approved by SJRWMD. Instead, the decision regarding the permit was deferred so that the utility could pursue the reuse option on the Micco Tract. FCWC's plan was to purchase the Micco Tract for use as a land application site. When the Consent Order was amended, FCWC was directed by DEP to construct and operate a land application effluent disposal site on the Micco Tract. The purchase of the site never occurred, however, because of permit challenges.

We find that disposal of treated effluent on the Micco Tract remained an environmentally acceptable alternative for the purposes of revenue allocation pursuant to Section 367.0817, Florida Statutes. Unlike the injection well alternative, SJRWMD strongly endorsed the sprayfield alternative. The administrative process prevented FCWC from implementing this option. The record is clear that the reason that the Micco Tract option did not come to fruition was because of the permit challenges. Despite these challenges, however, the permit was issued by the DEP and has not yet expired. The record shows that if the appeal of the permits by the Brevard Groves and the H&S groves had not occurred, FCWC would have continued with the acquisition of the Micco Tract. This fact was acknowledged under cross-examination of Ms. Blizzard. The appeals occurred, however, and FCWC began exploring new options for reuse while continuing the appeals process. These investigations and the concerns regarding the length of the appeal process resulted in the SACO.

The SACO was issued after the decision in the appeal. Under the terms of the SACO, FCWC was required to complete elimination of discharge to the canal and to obtain a permit to upgrade the wastewater treatment plan to advanced waste treatment. Although the decision in the appeal granted FCWC the permit to construct an effluent disposal system on the Micco Tract, the utility opted to go forward with the plant upgrades required by the SACO. What prevented FCWC from going forward with the Micco Tract option was that it would not have met the schedule set out by the Amended Consent Order.

Revenue Allocation

We find that there are benefits of reuse to the water customers of Barefoot Bay and these benefits must be recognized in the water rates. Witness Chase testified that the level of the water rates, the magnitude of the wastewater revenue increase, the average usage of the customer and the need to send a stronger price signal to achieve water conservation should be considered when determining whether and how much of the reuse costs to allocate to the customers. We agree. In this case, the wastewater revenue increase is significantly higher than the water increase. Shifting a high percentage of the wastewater revenues to the water customers will have a great impact on the water rates. In addition, the average usage of the customer is 2,909 gallons. Therefore, a conservation signal is not needed in this case.

For these reasons, we find it appropriate to allocate \$16,130 of the wastewater revenue requirement to the water customers of Barefoot Bay. Therefore, we find it appropriate to allocate five percent of the difference between the wastewater revenue requirement associated with the AWT and the estimated wastewater revenue requirement associated with the Micco Tract to the water customers. This equates to approximately .8 percent of the wastewater revenue requirement. We believe this is an appropriate amount because as we have noted, usage in this area is not significant and a conservation signal is not needed. To allocate more would result in an unnecessarily high water gallonage rate that would penalize customers already conserving.

We find it appropriate to collect the portion of the revenue requirement allocated to the water customers through the water gallonage charge at a rate of \$.10 per 1,000 gallons. For annual reporting purposes, the revenue collected as a result of the shift shall be recorded as a separate line item under Miscellaneous Revenue. This will allow the utility to remove the revenue from water revenue before calculating the achieved rate of return for overearnings purposes. In addition, the utility will have the ability to add the revenue to the wastewater revenue before calculating the achieved rate of return on the wastewater system. This will aid the utility in maintaining a proper balance between plant costs and revenues.

We note that the utility has suggested that an investigation into the appropriate criteria for an allocation be initiated. Although we do not believe that a docket for such an investigation

needs to be established, we do find that an informal investigation as to the method of allocation may be warranted. Until we are able to establish firm criteria, we find that it more appropriate for this issue to be handled on a case by case basis.

RATES AND RATE STRUCTURE

Revenue Allocation Between Base Facility and Gallonage Charges

Under the current rate structure, approximately 56 percent of FCWC's water revenue is collected through the base facility charge while the remaining 44 percent is collected through the gallonage charge. For wastewater, approximately 48 percent is collected from the base facility charge leaving 52 percent to be collected from the gallonage charge. The utility is proposing to collect 64 percent of the water revenue through the base facility charge and 36 percent through the gallonage charge. For wastewater, the utility is requesting to collect 78 percent of the wastewater revenue through the base facility charge and 22 percent through the gallonage charge. FCWC's witness Coel stated that the proposed shift to allocate more expenses to the base facility charge is for revenue stability. OPC's witness Dismukes stated that this shift in revenue, where more of the revenue requirement is collected through the base facility charge, places a greater risk of revenue collection on customers.

We have traditionally allocated fixed costs to the base facility charge and variable costs to the gallonage charge. We find this method most appropriate in determining the proper rate structure. Furthermore, when establishing the rate structure, we must also consider the effects on conservation and the previous allocation from prior rate cases to assure continuity in rates.

In recent years, the effects of conservation have shifted more revenue collection through the gallonage charge to allow the customer a greater incentive for conservation. This type of conservation shift in the revenue allocation allows customers more control over their water and wastewater bill. However, whenever more revenue is collected through the gallonage charge, it creates more uncertainty for the utility in collecting its revenue requirement. In other words, when more revenue is collected through the gallonage charge, everything that affects consumption will also affect the utility's amount of revenue collected. When the shift in revenue allocation goes more towards the base facility charge, which promotes revenue stability for the utility, we become

concerned that it will promote water usage. As discussed earlier, it appears that residents of Barefoot Bay have conserved a great deal over the past years. To jeopardize conservation by this type of allocation would be unfair.

In this case, the utility is proposing to allocate 100 percent of its return on rate base through the base facility charge for both water and wastewater. In theory, this would guarantee the utility a return on its rate base. We find a 50 percent split for the return on rate base between the base facility charge and gallonage charge for both the water and wastewater operations more appropriate. This will allow the utility an opportunity to earn a return on its rate base while offering an incentive to its customers to conserve water.

Based on this adjustment and the effects it could have on conservation, we find it appropriate to allocate 58 percent of the revenue to the base facility charge and 42 percent to the gallonage charge for water. This will essentially maintain the current revenue allocation for water. For wastewater, we find that allocation of 62 percent of the revenue to the base facility charge and 38 percent to the gallonage charge is appropriate.

Reuse Rate

The Barefoot Bay Golf Course is the only source of reuse revenue for Barefoot Bay. The utility believes that the appropriate rate for reuse is \$.13/1,000 gallons. OPC believes that the appropriate rate is \$.21/1,000 gallons. For the reasons stated below, we find that a rate of \$.13/1,000 gallons is appropriate. We have not attempted to calculate a cost of service based rate because it does not appear to be reasonable in this case.

FCWC argues in its brief that the rate should be \$.13/1,000 gallons, because the agreement between the golf course and the utility establishes that rate. In addition, the agreement provides a buyout clause. Further, the utility argues that there is little promise in marketing reclaimed water for FCWC. This is because SJRWMD is unwilling to withhold the renewal of groundwater withdrawal permits for agricultural irrigation unless certain conditions are met.

According to OPC's brief, FCWC's reuse feasibility study indicates that a rate of \$.13/1,000 gallons was consistent with the

charge of another FCWC system. Since FCWC based the rate to the golf course on the rate charged by other systems, and we recently approved the rate of \$.21/1,000 gallons for other systems, OPC argues that it is appropriate to use a higher rate.

There are three elements which we find must be considered in determining the appropriate reuse rate. The first element is that the golf course has the ability to buyout of the contract and, if it should do this, it has other options for securing its source of water.

The second element is whether FCWC could secure another customer should the golf course elect to buy out of the contract. We do not find that FCWC could secure another customer. The golf course and neighboring citrus farmers are the only potential users at present. FCWC attempted to encourage the citrus farmers to use the reclaimed water. However, it was unsuccessful.

The third element is the negotiated contract. Even though the contract clearly states that the rate is subject to the approval of this Commission, it does indicate that the golf course agreed on a rate of \$.13/1,000 gallons.

As stated earlier, we find that reuse provides a beneficial source of water. Because the golf course has another source of water for irrigation, setting the rate for reuse higher than what was agreed upon could discourage the sale of reclaimed water to the golf course. Because the golf course is located within a water conservation area, we find that this would be sending an improper signal. Therefore, based on the foregoing, we find that a reuse rate of \$.13/1,000 gallons is appropriate.

Rate Summary

The permanent rates requested by the utility are designed to produce annual revenues of \$916,723 for the water service and \$2,110,481 for the wastewater service. The requested revenues represent an increase of \$153,136, or 20.05 percent, for water service and \$1,273,024, or 156.21 percent, for wastewater service.

The final rates approved for the utility are designed to produce revenues of \$924,076 for the water service, which is an increase of \$134,188, or 16.99 percent, and \$1,889,047 for the wastewater service, which is an increase of \$999,827, or 112.43

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percent. These approved rates exclude miscellaneous service revenues and are designed using the base facility charge rate structure.

Consistent with the utility's request, we find that a 20 percent differential between the residential and general service wastewater gallonage charges is appropriate. The purpose of the 20 percent differential is to recognize that approximately 20 percent of the water used by residential customers is used for purposes such as irrigation and is not collected by the wastewater systems.

The utility has also requested to charge \$10.00 for a premise visit after business hours. This charge would be levied when a service representative visits a premises for the purpose of discontinuing service after hours 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. Currently, the utility collects \$10.00 for a premise visit during business hours but does not have a charge for a premise visit after business hours. We find it appropriate that the utility collect this charge.

A comparison of the utility's original rates, interim rates, requested rates and our final approved rates are set forth on Schedules Nos. 4-A and 4-B for water and wastewater, respectively.

EFFECTIVE DATE

The utility shall file revised tariff sheets and a proposed customer notice to reflect the appropriate rates pursuant to Rule 25-22.0407(10), Florida Administrative Code. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The rates shall not be implemented until proper notice has been received by the customers. The utility shall provide proof of the date notice was given within 10 days after the date of the notice.

STATUTORY FOUR-YEAR RATE REDUCTION

Section 367.0816, Florida Statutes, requires that the rates be reduced immediately following the expiration of the four year period by the amount of rate case expense previously authorized in the rates. The reduction will reflect the removal of revenues

associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is \$17,071 for water and \$22,813 for wastewater. The removal of rate case expense will result in the reduction of rates as reflected on Schedules Nos. 5-A and 5-B for water and wastewater, respectively.

The utility shall file revised tariffs no later than one month prior to the actual date of the required rate reduction. The utility also shall file proposed customer notices setting forth the lower rates and reason for the reductions.

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 for the reduction in the rates due to the removal of amortized rate case expense.

REFUND OF INTERIM REVENUES

By Order No. PSC-96-0119-FOF-WS, issued on January 23, 1996, we suspended the utility's proposed rates and approved interim water and wastewater rates subject to refund, pursuant to Sections 367.082, Florida Statutes. According to Section 367.082, Florida Statutes, any refund should be calculated to reduce the rate of return of the utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates are in effect should be removed. Examples of these adjustments would be an attrition allowance or rate case expense, which are recovered only after final rates are established.

In this proceeding, the test period for establishment of interim rates was the historical twelve months ended June 30, 1995. The approved interim rates did not include any provisions for proforma consideration of increased operating expenses or increased plant. The interim increase was designed to allow recovery of actual interest costs, and the floor of the last authorized range for equity earnings.

To establish the proper refund amount, we have calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate case expense was excluded because it was not an actual expense during the interim collection period.

Using the principles discussed above, we have calculated the revenue requirement for the interim collection period to be \$896,469 for water and \$1,927,962 for wastewater. These revenue levels exceed the interim revenues which were granted in Order No. PSC-96-0119-FOF-WS. Therefore, no refund of interim revenues is required.

REFUND OF WASTEWATER REVENUES

As discussed earlier, subsequent to our final decision in this docket, but before the Order had been issued, our staff submitted a revised recommendation to correct a miscalculation regarding the used and useful percentage of FCWC's wastewater treatment plant prior to AWT. The recommendation included revised wastewater rates resulting from the corrected used and useful calculation. We considered this recommendation at the August 13, 1996 Agenda Conference, and our decision is reflected in the body of this Order.

On August 6, 1996, pursuant to Section 367.081(6), Florida Statutes, the utility implemented, subject to refund, the rates we originally approved prior to the corrected used and useful percentage. The implemented wastewater rates are higher than the wastewater rates approved herein. Therefore, the utility shall refund with interest, calculated pursuant to Rule 25-30.360(4), Florida Administrative Code, the additional wastewater revenues collected from these rates until the approved rates are implemented. FCWC shall make the refund to the customers of record as of the date of this Order, pursuant to Rule 25-30.360(3), Florida Administrative Code. FCWC shall submit the proper refund reports pursuant to Rule 25-30.360(7), Florida Statutes. FCWC shall treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), Florida Statutes. The utility's corporate undertaking shall be released upon staff's verification that the refund has been completed.

The utility shall file revised tariff sheets and a proposed customer notice reflecting the appropriate rates and the reason for the reduction. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The rates may not be implemented until proper notice has been received by the customers. The utility shall provide proof of the date notice was given within 10 days after the date of the notice.

PRIOR STATUTORY FOUR-YEAR RATE REDUCTION

Section 367.0816, Florida Statutes, requires that the rates be reduced immediately following the expiration of the four year period by the amount of rate case expense previously authorized in the rates. The rate reduction required by Order No. PSC-92-0563-FOF-WS was scheduled for July 26, 1996, and would reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees from Docket No. 910976-WS. The total amount of this reduction on an annual basis is \$6,618 for both the water and wastewater rates.

FCWC's witness Coel testified that it would be efficient and cost effective and would reduce customer confusion if the scheduled rate reduction could be netted against the pending rate case. This would result in one set of tariff changes, one customer notice and mailing. We find that netting the rate reduction with the pending rate case creates a cost savings. Therefore, the rate reduction required by Order No. PSC-92-0563-FOF-WS, is reflected in the approved rates in this docket.

MINIMUM FILING REQUIREMENTS

FCWC is an affiliate in a group of related companies, some of which charge or allocate costs to the utility for the provision of management and administrative services. FCWC allocates administrative and general expenses and customer billing and customer accounting expenses to each of its operating divisions. Avatar Utility Services, Inc. charges for data processing services directly to the utility. Avatar Utilities, Inc. provides management services to the utility. Avatar Holdings, Inc. charges Avatar Utilities, Inc. for certain management fees, which subsequently get allocated down to the utility.

OPC witness Dismukes testified that FCWC has failed to follow Rule 25-30.436(h), Florida Administrative Code, in that the utility did not provide in the MFRs, workpapers supporting some of its allocations described above. The rule states that the following should be provided as part of a utility's application when it files for a rate increase:

- (h) Any system that has costs allocated or charged to it from a parent, affiliate or related party, in addition to those costs

reported on Schedule B-12 ... shall file three copies of additional schedules that show the following information:

1. The total costs being allocated or charged prior to any allocation or charging as well as the name of the entity from which the costs are being allocated or charged and its relationship to the utility.

2. For costs allocated or charged to the utility in excess of one percent of test year revenues:

a. A detailed description and itemization;

b. the amount of each itemized cost.

3. The allocation or direct charging method used and the bases for using that method.

4. The workpapers used to develop the allocation method, including but not limited to the numerator and denominator of each allocation factor.

5. The workpapers used to develop, where applicable, the basis for the direct charging method.

6. An organizational chart of the relationship between the utility and its parent and affiliated companies and the relationship of any related parties.

7. A copy of any contracts or agreements between the utility and its parent or affiliated companies for services rendered between or among them.

Ms. Dismukes testified that the utility provided all the required information with respect to Avatar Utilities, Inc., as well as the information required in parts 6 and 7 for all other affiliates. However, Ms. Dismukes testified that the utility did not provide any of the information required in parts 1, 3, 4, or 5, with respect to the costs allocated from Avatar Holdings, Inc. Likewise, the utility did not provide the information required in parts 1, 2, 3, 5, and a portion of part 4, with respect to the allocations from FCWC. Ms. Dismukes also stated that in the MFRs, regarding the allocations from FCWC, the utility stated: "Due to the voluminous number of allocations made, schedules showing the

computation of allocation percentages for all expenses allocated are available for inspection at the utility's office in Sarasota Florida." In its brief, OPC argues that if the information was available for inspection, it could not have been part of the MFRs.

In response to Ms. Dismukes contentions, Utility witness Coel testified as follows:

Included on page 63 of the MFRs, FCWC provided the basis for its divisional allocations. This schedule has been included in all recent FCWC rate cases and has been subject to review at FCWC's General Office in Sarasota. This allocation method has been accepted by the PSC, since the PSC has not made any adjustments in its recent FCWC rate orders to counter this methodology.

Mr. Coel further testified that the PSC confirmed that the MFRs were complete as filed, as of the filing date, November 6, 1995. On cross-examination by OPC, Mr. Coel maintained that the utility complied with the rule with respect to the utility's allocations.

In its brief, FCWC professed that since the MFRs were filed, OPC made no effort to obtain additional information on this issue. We find that Ms. Dismukes is correct in that the utility did not comply with the rule regarding affiliate allocations. The utility's argument that the MFRs have been compiled similarly in all recent FCWC rate cases does not lend any greater weight to whether the information was complete or not. Regardless of whether OPC requested the information, the burden of proof rests on the utility to demonstrate the reasonableness of its affiliate charges. Since the utility did not request a waiver of the rule, FCWC was obligated to provide the information as part of its rate case application. Strict compliance with the rule requires that the utility actually file the requisite information, as opposed to declaring that it is available at the utility's office for inspection. Therefore, the utility shall be required to comply with the rule in all future rate case proceedings.

COMMISSION DISCRETION IN SETTING HEARING

Rule 25-22.036(9)(a), Florida Administrative Code, states:

Where an application, petition, or complaint has been filed, and Commission action has not yet been proposed, the Commission may: 1) Deny the petition if it does not adequately state a substantial interest in the Commission determination or if it is untimely. 2) Issue notice of proposed agency action where a rule or statute does not mandate a hearing as a matter of course, and after the time for responsive pleadings has passed; 3) Set the matter for hearing before the Commission, or member thereof, or request that a hearing officer from the Division of Administrative Hearings be assigned to conduct the hearing. The assignment of a matter for hearing shall be pursuant to Rule 25-22.0355. 4) Dispose of the matter as provided in §120.57(2).

Section 367.081(8), Florida Statutes, provides that a utility may specifically request the Commission to process its petition for rate relief using the Commission's PAA procedure.

We find that when read together, the rule and statute provide that the utility may request a PAA proceeding, and, in the absence of such a request, the discretion to opt between the PAA or hearing procedures resides with the Commission. FCWC did not request that this case be processed as a PAA. Therefore, it was within our discretion to opt for either PAA or proceed directly to hearing.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the Office of Public Counsel's Motion to Strike is hereby granted. It is further

ORDERED that Florida Cities Water Company, Barefoot Bay Division's application for increased water and wastewater rates is approved to the extent set forth in the body of this Order. It is further

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

ORDERED that all matters contained in the schedules attached hereto are by reference incorporated herein. It is further

ORDERED that Florida Cities Water Company, Barefoot Bay Division, shall be granted thirty days from the date of this Order to file the amount of the grant from the St. Johns River Water Management District. It is further

ORDERED that the rates approved herein shall be effective for service rendered on or after the stamped approval date on the revised tariff sheets, pursuant to Rule 25-30.475, Florida Administrative Code, provided the customers have received notice. It is further

ORDERED that prior to its implementation of the rates approved herein, Florida Cities Water Company, Barefoot Bay Division shall submit and have approved a proposed customer notice to its customers of the increased rates and reasons therefore. The notice will be approved upon staff's verification that it is consistent with our decision herein. It is further

ORDERED that Florida Cities Water Company, Barefoot Bay Division shall provide proof that the customers have received notice within 10 days of the date of notice. It is further

ORDERED that prior to its implementation of the rates approved herein, Florida Cities Water Company, Barefoot Bay Division shall submit and have approved revised tariff pages. The revised tariff pages will be approved upon staff's verification that the pages are consistent with our decision herein and that the proposed customer notice is adequate. It is further

ORDERED that for annual reporting purposes, Florida Cities Water Company, Barefoot Bay Division, shall record the revenue collected as a result of the allocation of reuse revenue to water customer, as a separate line item under Miscellaneous Revenue. It is further

ORDERED that Florida Cities Water Company, Barefoot Bay Division, shall refund with interest, calculated pursuant to Rule 25-30.360(4), Florida Administrative Code, the additional

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wastewater revenues collected subject to refund as set forth in the body of this Order. It is further

ORDERED that Florida Cities Water Company, Barefoot Bay Division, shall make the refund to customers of record as of the date of this Order pursuant to Rule 25-30.360(3), Florida Administrative Code. Florida Cities Water Company, Barefoot Bay Division, shall submit the proper refund report reports pursuant to Rule 25-30.360(7), Florida Administrative Code. It is further

ORDERED that Florida Cities Water Company, Barefoot Bay Division, shall treat any unclaimed refunds as contributions-in-aid-of-construction pursuant to Rule 25-30.360(8), Florida Administrative Code. It is further

ORDERED that the rates shall be reduced at the end of the four-year rate case expense amortization period, consistent with our decision herein. Florida Cities Water Company, Barefoot Bay Division shall file revised tariff sheets no later than one month prior to the actual date of the reduction and shall file a customer notice. It is further

ORDERED that Florida Cities Water Company, Barefoot Bay Division, shall comply with the filing requirements of Rule 25-30.436, Florida Administrative Code, in all future rate case proceedings. It is further

ORDERED that the provisions of this Order relating to the imputation of contributions-in-aid-of-construction for the St. Johns River Water Management District grant to Florida Cities Water Company, Barefoot Bay Division, is issued as proposed agency action, shall become final and effective unless an appropriate petition, in the form provided by Rule 25-22.036, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

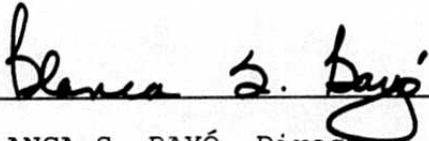
ORDERED that this docket shall be closed if no timely protest is received from a substantially affected person, upon staff's verification the Florida Cities Water Company, Barefoot Bay Division has made the required refunds as set forth in this Order

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and upon Florida Cities Water Company, Barefoot Bay Division's filing and staff's approval of revised tariff sheets and a customer notice. It is further

ORDERED that Florida Cities Water Company, Barefoot Bay Division's corporate undertaking shall be released upon staff's verification that the refund has been completed.

By ORDER of the Florida Public Service Commission, this 12th day of September, 1996.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

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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.

As identified in the body of this Order, our action regarding the imputation of contributions-in-aid-of-construction for the St. Johns River Water Management District Grant to Florida Cities Water Company, Barefoot Bay Division, is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code.

Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on September 26, 1996 such a petition, this order shall become effective on the date subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If the relevant portion of this order becomes final and effective on the date described above, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater 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 of the effective date 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.

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 wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

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FLORIDA CITIES WATER CO.-FAREFOOT BAY DIVISION			SCHEDULE NO. 1-A			
SCHEDULE OF WATER RATE BASE			DOCKET NO. 951258-WS			
TEST YEAR ENDED 06/30/96						
COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR 6/30/96	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR 6/30/96	
1 UTILITY PLANT IN SERVICE	\$ 4,475,071	46,235 \$	4,521,306	0	4,521,306	
2 LAND	1,056	0	1,056	0	1,056	
3 NON-USED & USEFUL COMPONENTS	0	0	0	0	0	
4 CONSTRUCTION WORK IN PROGRESS	18,308	(18,308)	0	0	0	
5 ACCUMULATED DEPRECIATION	(1,295,605)	(151,767)	(1,447,372)	0	(1,447,372)	
6 CIAC	(2,973,936)	(12,375)	(2,986,311)	0	(2,986,311)	
7 AMORTIZATION OF CIAC	952,794	113,543	1,066,337	0	1,066,337	
8 ADVANCES FOR CONSTRUCTION	(79,465)	2,990	(76,475)	0	(76,475)	
9 WORKING CAPITAL ALLOWANCE	64,715	(16,500)	48,215	35,958	84,173	
10 OTHER: ALLOC. OF GENERAL OFFICE	0	21,766	21,766	0	21,766	
11 UNFUNDED SFAS 106 OBLIGATION	0	0	0	(79,560)	(79,560)	
RATE BASE	\$ 1,162,938	(14,417)\$	1,148,521	(43,602)	1,104,920	

FLORIDA CITIES WATER : O-BAREFOOT BAY DIVISION				SCHEDULE NO. 1-B	
SCHEDULE OF WASTEWATER RATE BASE				DOCKET NO. 951258-WS	
TEST YEAR ENDED 06/30/96					
COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR 6/30/96	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR 6/30/96
1 UTILITY PLANT IN SERVICE	\$ 4,720,099	4,935,862 \$	9,655,961	(690,476)	8,965,485
2 LAND	363,923	1,040,446	1,404,369	(329,446)	1,074,923
3 NON-USED & USEFUL COMPONENTS	0	0	0	(332,955)	(332,955)
4 CONSTRUCTION WORK IN PROGRESS	1,421,517	(1,421,517)	0	0	0
5 ACCUMULATED DEPRECIATION	(1,399,695)	(393,232)	(1,792,927)	32,271	(1,760,656)
6 CIAC	(2,595,460)	(43,000)	(2,638,460)	(81,258)	(2,719,718)
7 AMORTIZATION OF CIAC	857,338	102,847	960,185	3,193	963,378
8 ADVANCES FOR CONSTRUCTION	(138,200)	5,200	(133,000)	0	(133,000)
9 WORKING CAPITAL ALLOWANCE	58,962	(15,034)	43,928	32,763	76,691
10 OTHER: ALLOC. OF GENERAL OFFICE	0	19,787	19,787	0	19,787
11 UNFUNDED SFAS 106 OBLIGATION	0	0	0	(72,488)	(72,488)
RATE BASE	\$ 3,288,484	4,231,359 \$	7,519,843	(1,438,396)	6,081,447
	=====	=====	=====	=====	=====

FLORIDA CITIES WATER CO. - BAREFOOT BAY DIVISION
 ADJUSTMENTS TO RATE BASE
 TEST YEAR ENDED 06/30/96

SCHEDULE NO. 1-C
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EXPLANATION	WATER	WASTEWATER
(1) UTILITY PLANT IN SERVICE To remove plant additions associated with PS&Is		\$ <u>(690,476)</u>
(2) LAND To remove additions to land associated with PS&Is		\$ <u>(329,446)</u>
(3) NON-USED & USEFUL a) To remove non-used & useful wastewater treatment plant balance @ 12/31/95	\$ (400,534)	67,579
b) To remove accumulated depreciation on non-used and useful plant @ 12/31/95		\$ <u>(332,955)</u>
(4) ACCUMULATED DEPRECIATION To remove depreciation associated with PS&Is		\$ <u>32,271</u>
(5) CIAC To include grant funding from SJRWMD for reclaimed water facilities		\$ <u>(81,258)</u>
(6) ACCUMULATED AMORTIZATION OF CIAC To include amortization of grant funding from SJRWMD		\$ <u>3,193</u>
(7) WORKING CAPITAL a) To include PS&Is as Other Deferred Debits in working capital	\$ 44,367	\$ 40,423
b) To include Other Deferred Credits in the working capital allowance	(7,063)	(6,435)
c) To adjust working capital to the 13-month average balance	<u>(1,346)</u>	<u>(1,225)</u>
	\$ <u>35,958</u>	\$ <u>32,763</u>
(8) UNFUNDED SFAS 106 OBLIGATION To allocate the unfunded liability associated with other postretirement benefits	\$ <u>(79,560)</u>	\$ <u>(72,488)</u>

FLORIDA CITIES WATER CO.-BAREFOOT BAY DIVISION
CAPITAL STRUCTURE - WASTEWATER
TEST YEAR ENDED 06/30/96

SCHEDULE NO. 2
DOCKET NO. 951258-WS

DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
PER UTILITY							
1 LONG TERM DEBT	36,616,667	0	(32,626,837)\$	3,989,830	46.03%	8.33%	3.83%
2 SHORT-TERM DEBT	0	0	0	0	0.00%	9.00%	0.00%
3 PREFERRED STOCK	9,000,000	0	(8,019,341)	980,659	11.31%	9.00%	1.02%
4 COMMON EQUITY	24,360,915	0	(21,706,498)	2,654,417	30.62%	11.88%	3.64%
5 CUSTOMER DEPOSITS	759,458	0	(676,706)	82,752	0.95%	6.00%	0.06%
6 DEFERRED ITC'S-ZERO COST	0	0	0	0	0.00%	0.00%	0.00%
7 DEFERRED ITC'S-WTD COST	1,637,481	0	(1,459,058)	178,423	2.06%	9.61%	0.20%
8 DEFERRED INCOME TAXES	7,179,404	0	(6,397,121)	782,283	9.02%	0.00%	0.00%
9 TOTAL CAPITAL	<u>79,553,925</u>	0	<u>(70,885,561)\$</u>	<u>8,668,364</u>	<u>100.00%</u>		<u>8.75%</u>
PER COMMISSION							
10 LONG TERM DEBT	36,616,667	0	(33,308,963)\$	3,307,704	46.03%	8.33%	3.83%
11 SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
12 PREFERRED STOCK	9,000,000	0	(8,187,001)	812,999	11.31%	9.00%	1.02%
13 COMMON EQUITY	24,360,915	0	(22,160,314)	2,200,601	30.62%	11.88%	3.64%
14 CUSTOMER DEPOSITS	759,458	0	(690,854)	68,604	0.95%	6.00%	0.06%
15 DEFERRED ITC'S-ZERO COST	0	0	0	0	0.00%	0.00%	0.00%
15 DEFERRED ITC'S-WTD COST	1,637,481	0	(1,489,562)	147,919	2.06%	9.65%	0.20%
16 DEFERRED INCOME TAXES	7,179,404	0	(6,530,865)	648,539	9.02%	0.00%	0.00%
17 TOTAL CAPITAL	<u>79,553,925</u>	0	<u>(72,367,558)\$</u>	<u>7,186,367</u>	<u>100.00%</u>		<u>8.75%</u>
RANGE OF REASONABLENESS					LOW	HIGH	
AUTHORIZED RETURN ON EQUITY					<u>10.88%</u>	<u>12.88%</u>	
OVERALL RATE OF RETURN					<u>8.44%</u>	<u>9.05%</u>	

FLORIDA CITIES WATER CO.-BAREFOOT BAY DIVISION			SCHEDULE NO. 3-A				
STATEMENT OF WATER OPERATIONS			DOCKET NO. 951258-WS				
TEST YEAR ENDED 06/30/96							
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR 6/30/96	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR 6/30/96	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	720,256	196,467	916,723	(122,720)	794,003	118,058	912,061
OPERATING EXPENSES:						14.87%	
2 OPERATION AND MAINTENANCE	630,205	32,926	663,132	1,463	664,595 \$		664,595
3 DEPRECIATION	55,091	3,851	58,942	0	58,942		58,942
4 AMORTIZATION	1,322	0	1,322	0	1,322		1,322
5 TAXES OTHER THAN INCOME	70,312	10,731	81,043	(5,522)	75,521	5,313	80,833
6 INCOME TAXES	11,587	203	11,789	(44,475)	(32,686)	42,426	9,741
7 TOTAL OPERATING EXPENSES	768,517	47,711	816,228	(48,534)	767,694	47,739	815,433
8 OPERATING INCOME	(48,261)	148,756	100,496	(74,186)	26,309	70,320	96,629
9 RATE BASE	1,162,938		1,148,521		1,104,920		1,104,920
RATE OF RETURN	-4.15%		8.75%		2.38%		8.75%

FLORIDA CITIES WATER CO.-BAREFOOT BAY DIVISION			SCHEDULE NO. 3-B				
STATEMENT OF WASTEWATER OPERATIONS			DOCKET NO. 951258-WS				
TEST YEAR ENDED 06/30/96							
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR 6/30/96	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR 6/30/96	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	823,724	1,286,757	2,110,481	(1,217,158)	893,323	1,021,853	1,915,176
OPERATING EXPENSES						114.39%	
2 OPERATION AND MAINTENANCE	581,627	206,405	788,032	39,032	827,064 \$		827,064
3 DEPRECIATION	121,189	174,831	296,021	(50,675)	245,346		245,346
4 AMORTIZATION	1,300	0	1,300	0	1,300		1,300
5 TAXES OTHER THAN INCOME	79,324	94,283	173,608	(54,772)	118,836	45,983	164,819
6 INCOME TAXES	(1,057)	194,591	193,535	(415,950)	(222,415)	367,220	144,805
7 TOTAL OPERATING EXPENSES	782,384	670,110	1,452,495	(482,365)	970,131	413,203	1,383,334
8 OPERATING INCOME	41,340	616,647	657,986	(734,793)	(76,808)	608,650	531,842
9 RATE BASE	3,288,484		7,519,843		6,081,447		6,081,447
RATE OF RETURN	1.26%		8.75%		-1.26%		8.75%

FLORIDA CITIES WATER CO BAREFOOT BAY DIVISION
 ADJUSTMENTS TO OPERATING STATEMENTS
 TEST YEAR ENDED 06/30/96

SCHEDULE NO. 3-C
 DOCKET NO. 951258-WS
 PAGE 1 OF 1

EXPLANATION	WATER	WASTEWATER
(1) OPERATING REVENUES		
a) Reverse utility's proposed revenue increase	\$ (153,136)	\$ (1,273,024)
b) To reflect test year growth with no decline in consumption (Issue 24)	30,416	35,966
c) To reflect rental income associated with an antenna (Issue 31)		19,900
	<u>\$ (122,720)</u>	<u>\$ (1,217,158)</u>
(2) OPERATION AND MAINTENANCE EXPENSES		
a) To adjust Account 715-purchased power for treating excessive infiltration and inflow		\$ (18,380)
b) To adjust Account 718-chemicals for treating excessive infiltration and inflow		(4,751)
c) To adjust Account 775-miscellaneous expenses to include amortization of PS&Is		67,995
d) To adjust rate case expense for updated current and remove prior expenses	\$ 1,463	(5,832)
	<u>\$ 1,463</u>	<u>\$ 39,032</u>
(3) DEPRECIATION EXPENSE		
a) To remove depreciation associated with PS&Is		\$ (32,271)
b) To include amortization expense associated with grant funding from SJRWMD		(3,193)
c) To remove depreciation expense associated with non-used & useful plant		(15,211)
		<u>\$ (50,675)</u>
(4) TAXES OTHER THAN INCOME TAXES		
To adjust regulatory assessment fees related to revenue adjustment	\$ (5,522)	\$ (54,772)
(5) INCOME TAXES		
To reflect income taxes associated with adjusted test year income	\$ (44,475)	\$ (415,950)
(6) OPERATING REVENUES		
Adjustment to reflect approved revenue requirement	\$ 118,058	\$ 1,021,853
(7) TAXES OTHER THAN INCOME TAXES		
Regulatory assessment taxes on additional revenues	\$ 5,313	\$ 45,983
(8) INCOME TAXES		
Income taxes related to approved income amount	\$ 42,426	\$ 367,220

ORDER NO. PSC-96-1147-FOF-WS
 DOCKET NO. 951258-WS
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UTILITY: FLORIDA CITIES WATER CO. - BAREFOOT BAY DIVISION
 COUNTY: BREVARD
 DOCKET NO. 951258-WS
 TEST YEAR ENDED: June 30, 1996

Schedule 4A

RATE SCHEDULE

WATER

Monthly Rates

	Rates prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final
Residential, Multi-Family, and General Service				
Base Facility Charge:				
Meter Size:				
5/8"x3/4"	\$7.58	\$8.79	\$10.48	\$9.66
3/4"	\$11.37	\$13.19	\$15.72	\$14.49
1"	\$18.95	\$21.98	\$26.20	\$24.15
1-1/2"	\$37.90	\$43.95	\$52.40	\$48.30
2"	\$60.63	\$70.31	\$83.84	\$77.27
3"	\$121.27	\$140.64	\$167.68	\$154.55
4"	\$189.49	\$219.75	\$262.00	\$241.49
6"	\$378.97	\$439.49	\$524.00	\$482.96
8"	--	--	\$1,048.000	\$966.00
Gallonge Charge, per 1,000 Gallons	\$2.12	\$2.46	\$2.25	\$2.39
Typical Residential Bills				
<u>5/8" x 3/4" meter</u>				
3,000 Gallons	\$13.94	\$16.17	\$17.23	\$16.83
5,000 Gallons	\$18.18	\$21.09	\$21.73	\$21.61
10,000 Gallons	\$28.78	\$33.39	\$29.98	\$33.56

UTILITY: FLORIDA CITIES WATER CO. - BAREFOOT BAY DIVISION
 COUNTY: BREVARD
 DOCKET NO. 951258-WS
 TEST YEAR ENDED: June 30, 1996

Schedule 4B

RATE SCHEDULE

WASTEWATER

Monthly Rates

	<u>Rates prior to Filing</u>	<u>Commission Approved Interim</u>	<u>Utility Requested Final</u>	<u>Commission Approved Final</u>
Residential and Multi-Family				
Base Facility Charge: 5/8" x 3/4"	\$7.68	\$9.12	\$30.78	\$21.33
Gallonage Charge, per 1,000 Gallons (Sewer Cap - 6,000 Gallons)	\$2.82	\$3.35	\$3.10	\$4.93
General Service				
Base Facility Charge: Meter Size:				
5/8" x 3/4"	\$7.68	\$9.12	\$30.78	\$21.33
3/4"	\$11.54	\$13.71	\$46.17	\$32.00
1"	\$19.23	\$22.85	\$76.95	\$53.33
1-1/2"	\$38.46	\$45.69	\$153.90	\$106.65
2"	\$61.54	\$73.12	\$246.24	\$170.64
3"	\$123.07	\$146.22	\$482.48	\$341.28
4"	\$192.31	\$228.48	\$769.50	\$533.25
6"	\$384.62	\$456.97	\$1,539.00	\$1,066.50
8"	--	--	\$3,078.00	\$2,133.00
Gallonage Charge, per 1,000 Gallons	\$3.39	\$4.03	\$3.73	\$5.92

Typical Residential Bills

5/8" x 3/4" meter

3,000 Gallons	\$16.14	\$19.17	\$40.08	\$36.12
5,000 Gallons	\$21.78	\$25.87	\$46.28	\$45.98
10,000 Gallons (Sewer Cap - 6,000 Gallons)	\$24.60	\$29.22	\$49.38	\$50.91

ORDER NO. PSC-96-1147-FOF-WS
DOCKET NO. 951258-WS
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Utility: Florida Cities Water Co. - Barefoot Bay Division
County: Brevard
Docket No. 951258-WS
Test Year Ended: June 30, 1996

Schedule No. 5-A

RATE SCHEDULE

Schedule of Rate Decrease After Expiration of
Amortization Period for Rate Case Expense

Water

Monthly Rates

	Commission Approved Rates	Rate Decrease
Residential and General Service		
Base Facility Charge:		
Meter Size:		
5/8"x3/4"	\$9.66	\$0.18
3/4"	\$14.49	\$0.27
1"	\$24.15	\$0.45
1-1/2"	\$48.30	\$0.89
2"	\$77.27	\$1.43
3"	\$154.55	\$2.86
4"	\$241.49	\$4.46
6"	\$482.96	\$8.92
8"	\$966.00	\$17.85
Gallonge Charge, per 1,000 gallons	\$2.39	\$0.04

ORDER NO. PSC-96-1147-FOF-WS
 DOCKET NO. 951258-WS
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Utility: Florida Cities Water Co. - Barefoot Bay Division
 County: Brevard
 Docket No. 951258-WS
 Test Year Ended: June 30, 1996

Schedule No. 5B

RATE SCHEDULE

Schedule of Rate Decrease After Expiration of
 Amortization Period for Rate Case Expense

Wastewater

Monthly Rates

<u>Residential Service</u>	<u>Commission Approved Rates</u>	<u>Rate Decrease</u>
Base Facility Charge: 5/8" x 3/4"	\$21.33	\$0.26
Gallorage Charge per 1,000 Gallons (Sewer Cap - 6,000 gallon cap)	\$4.93	\$0.06
 <u>General Service</u>		
Base Facility Charge: Meter Size:		
5/8"x3/4"	\$21.33	\$0.26
3/4"	\$32.00	\$0.39
1"	\$53.33	\$0.64
1-1/2"	\$106.65	\$1.29
2"	\$170.64	\$2.06
3"	\$341.28	\$4.12
4"	\$533.25	\$6.44
6"	\$1,066.50	\$12.88
8"	\$2,133.00	\$25.76
Gallorage Charge, per 1,000 gallons	\$5.92	\$0.07

DOCKET NO. 951258-WS
 DATE : JUNE 30, 1996

UTILITY NAME: FLORIDA CITIES WATER AND SEWER COMPANY-BAREFOOT BAY
 TEST YEAR : 6-30-96

WATER TREATMENT PLANT USED AND USEFUL CALCULATION

FLORIDA CITIES-BAREFOOT BAY

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

(1) Capacity of plant _____	1,000,000 GP
(2) Maximum Daily Flow _____	688,000 GP
(3) Average Daily Flow _____	495,605 GP
(4) Fire flow capacity required _____	360,000 GP
Fire flow available _____	360,000 GP

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

(a) Average number of unit connections	4,582
(b) Average yearly customer growth in unit connections for most recent 5 years	46
(c) Construction time for additional capacity (in months)	36

$$\text{Margin Reserve} = 5b \times \left(\frac{5c}{12 \text{ mths}} \right) \times \left(\frac{2}{5a} \right) = \text{0 GP}$$

(6) Excessive Unaccounted for water _____ 0 GP

(a) Total amount	5,929 GPD	1.20 % of Avg. Daily Flow
(b) Reasonable amount	49,561 GPD	10.00 % of Avg. Daily Flow

DOCKET NO. 951258-WS
 DATE : JUNE 30, 1996

ATTACHMENT B
 (revised)

UTILITY NAME: FLORIDA CITIES WATER AND SEWER COMPANY-BAREFOOT BAY
 TEST YEAR : 6-30-96

WASTEWATER TREATMENT PLANT USED AND USEFUL CALCULATION

$\% \text{ USED AND USEFUL} = \frac{(2 + 3 - 4)}{1}$		66.22 % =====
(1) Capacity of plant -----		900,000 GP =====
(2) Average Daily Flow -----		697,600 GP =====
(3) Margin Reserve (not to exceed 20% of present ERC's):		
(a) Average number of customers in ERCs	4,523 =====	
(b) Average yearly customer growth in ERC's for most recent 5 years	41 =====	
(c) Construction time for additional capacity (in months)	36 =====	
Margin Reserve =	$3b \times \left(\frac{3c}{36 \text{ mths}} \right) \times \left(\frac{2}{3a} \right) =$	18,971 GP =====
(4) Excessive Infiltration- -----		120,594 GP =====
(a) Total amount	251,568 GPD =====	% of Avg. Daily Flow =====
(b) Reasonable amount	130,974 GPD =====	% of Avg. Daily Flow =====