



Public Service Commission

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COMMISSION CLERK

DATE: APRIL 11, 2002

TO: DIRECTOR, DIVISION OF THE COMMISSION CLERK &
ADMINISTRATIVE SERVICES (BAYÓ)

FROM: DIVISION OF ECONOMIC REGULATION (JOHNSON, MAILHOT, REDEMANN)
OFFICE OF THE GENERAL COUNSEL (BRUBAKER)

RE: DOCKET NO. 931111-SU - APPLICATION FOR CERTIFICATE TO OPERATE WASTEWATER UTILITY IN FRANKLIN COUNTY BY RESORT VILLAGE UTILITY, INC.
COUNTY: FRANKLIN

DOCKET NO. 991812-SU - APPLICATION FOR TRANSFER OF CERTIFICATE NO. 492-S IN FRANKLIN COUNTY FROM RESORT VILLAGE UTILITY, INC. TO SGI UTILITY, LLC.
COUNTY: FRANKLIN

AGENDA: APRIL 23, 2002 - REGULAR AGENDA - PROPOSED AGENCY ACTION FOR ISSUES 2, 3, 4, 5, 6, AND 7 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\991812.RCM

CASE BACKGROUND

On November 18, 1993, Resort Village Utility, Inc. (Resort Village), a Class C utility, filed an application for an original wastewater certificate for a proposed system in Franklin County (County). The proposed wastewater treatment system was planned to provide service to a community of multi-residential and general service units on St. George Island. Water service will be provided by Water Management Services, Inc. However, on January 4, 1994, the Franklin County Commission (County) denied the initial

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

development plans for Resort Village. The County required that any future applications filed by Resort Village were to address sewage disposal and provide assurance that the quality and productivity of Apalachicola Bay would be maintained. The County's decision was appealed to the Florida Land and Water Adjudicatory Commission (FLWAC) and was referred to the Division of Administrative Hearings (DOAH). The appeal was resolved against the developer, who subsequently submitted new development plans to the County in 1996.

In November 1993, the application for an original certificate by Resort Village was protested by five individuals. The objectors raised concerns about land use and zoning classifications, the location of the facilities and the utility's compatibility with the local comprehensive plans. In Order No. PSC-94-1132-FOF-SU, issued September 14, 1994, the Commission granted Resort Village's Motion to Dismiss the protests due to the protesters' lack of standing.

Although the revised development plan was not yet approved by the County, by Order No. PSC-94-1524-FOF-SU, issued December 12, 1994, in Docket No. 931111-SU, the Commission granted Resort Village an original wastewater certificate. The Order stated that the outstanding issue relating to the development plan and its consistency with the local comprehensive plan was not sufficient reason to deny the utility's application for a certificate. The Order required the utility to file a revised service availability policy with a provision for the collection of guaranteed revenues and guaranteed revenue agreements. The Order also deferred setting rates and charges for the utility until the development plans were finalized, and docket 931111-SU was left open.

The utility was also required to file status reports with the Commission every six months pursuant to Order No. PSC-94-1524-FOF-SU. The utility filed the status reports until the development plans were approved. The status reports provided updates on the appeal with the FLWAC, the Department of Environmental Protection (DEP) permitting process, and the construction of the facilities.

The DEP construction permit for an advance wastewater treatment (AWT) plant using surface absorption beds was issued on March 22, 1996. The AWT system is the only type of facility the DEP would allow to be built on the barrier island. The utility plans to build the 90,000 gpd AWT plant in three phases of 30,000 gpd each, serving 133 equivalent residential connections (ERCs) per

phase. The ultimate design capacity of the AWT plant will serve 399 ERCs at build out. The utility estimated that it will take about ten years to reach build out.

On February 8, 1999, the Florida Department of Health and Rehabilitative Services issued construction permits to Resort Village for an onsite aerobic sewage treatment and disposal system to serve portions of the Phase 1 development until sufficient flows were generated to properly operate the AWT facility. The total capacity of this system is less than 5,500 gallons per day (gpd). The County's restrictions require that the flows exceed 7,500 gpd before connections can be made to the AWT plant and that the AWT plant must be completed before the flows exceed 10,000 gpd.

On March 4, 1997, the County approved the Resort Village development plans for Phase I. The County reaffirmed its previous decision to deny the multi-family residential units and imposed additional development conditions and restrictions on the Resort Village property. As a result of the County's decision, the utility will only have general service customers in Phase I. In addition, the development order provides that, prior to development of future phases of the Resort Village property, the owners must obtain amendments to the development order.

In October 1998, the construction of a hotel in the utility's service area was completed. The hotel is the first customer of the utility. However, an aerobic system will be used until the hotel's flows exceed 7,500 gpd as required by the development order.

On December 3, 1999, SGI Utility, LLC (SGI or utility) and Resort Village jointly filed an application for approval of the transfer of Certificate No. 492-S currently held by Resort Village to SGI. A letter objecting to the proposed transfer was filed on December 21, 1999; however, by Order No. PSC-00-0757-PCO-SU, issued April 17, 2000, the Commission dismissed the objection due to a lack of standing.

Subsequent to the County's approval of the development plan for Phase I of the Resort Village and completion of negotiations for the proposed sale of the utility to SGI, the utility completed its estimates of the cost to construction and operate the wastewater system. This recommendation addresses Resort Village's application for transfer of Certificate No. 492-S to SGI, rate base at the time of transfer, whether an acquisition adjustment should

DOCKET NO. 991812-SU, 931111-SU
DATE: APRIL 11, 2002

be approved, and initial rates and charges. The Commission has jurisdiction pursuant to Sections 367.071(1) and 367.045, Florida Statutes.

DISCUSSION OF ISSUES

ISSUE 1: Should the transfer of the wastewater facilities and Certificate No. 492-S from Resort Village to SGI be approved?

RECOMMENDATION: Yes, the transfer of the wastewater facilities and Certificate No. 492-S from Resort Village to SGI is in the public interest and should be approved. SGI is responsible for remitting the 2002 regulatory assessment fees (RAFs) and annual report and all future RAFs and annual reports to the Commission. SGI should provide a copy of a recorded deed in the name of the utility for the land upon which the utility facilities are located or proof of continued use of the land by July 31, 2002. A description of the territory served by the utility is appended to this memorandum as Attachment A. (JOHNSON, REDEMANN, MAILHOT)

STAFF ANALYSIS: As stated in the case background, Resort Village and SGI jointly filed the application for the transfer of Resort Village's wastewater Certificate No. 492-S to SGI on December 3, 1999. The application is in compliance with the governing statute, Section 367.071, Florida Statutes, and other pertinent statutes and administrative rules concerning an application for transfer. The application contains a check in the amount of \$750, which is the correct filing fee pursuant to Rule 25-30.020, Florida Administrative Code.

Section 367.071, Florida Statutes, requires that no utility shall sell, assign, or transfer its certificate of authorization, facilities or any portion thereof, or majority organizational control without prior approval of the Commission unless such sale, assignment, or transfer is made contingent upon Commission approval. The contract includes language that the transfer is contingent upon the approval of the Commission and the closing will take place subsequent to the Commission approving the transfer.

In addition, the application contains proof of compliance with the noticing provisions set forth in Rule 25-30.030, Florida Administrative Code, including notice to the customers of the system to be transferred. A letter objecting to the proposed transfer was filed on December 21, 1999. On February 11, 2000, Resort Village filed a Motion to Dismiss the objection. By Order No. PSC-00-0757-PCO-SU, issued April 17, 2000, the Commission granted Resort Village's Motion and dismissed the objection, based

upon a lack of standing. No other protests have been received and the time for filing such has expired.

Rule 25-30.037(2)(q), Florida Administrative Code, requires a utility to provide proof of ownership of the land upon which its facilities are located. The application contained a copy of a warranty deed recorded in the name of the seller. Since the closing and the name change on the warranty deed are scheduled to take place after the Commission approves the transfer, SGI should be required to provide a copy of a recorded deed in the name of the utility for the land upon which the utility facilities are located or proof of continued use of the land by July 31, 2002.

In its application, SGI stated that it is relying on professional service firms for technical ability, since it owns no other wastewater utilities in Florida. The application included statements regarding the technical ability of the individuals and firms responsible for the design of the wastewater treatment and collection systems and the management and regulatory responsibilities of the utility. According to the application, SGI hired a professional engineer to continue in the development of the plant facilities. After the plant is on line, daily maintenance will be accomplished by a part time operator and other outside personnel. The DEP permit for the treatment plant requires a Class C or higher operator. The utility has contracted a Class A certified wastewater treatment plant operator who currently operates the Apalachicola treatment plant and two private plants on St. George Island. The extensive testing requirements of DEP will be handled by a testing company.

The application states that management and regulatory services are being provided by a local firm whose clients include regulatory commissions, regulated utilities, and other corporations and government agencies throughout the United States. The firm includes a staff of professionals with expertise in finance and management and extensive experience with regulated utilities.

In addition, SGI indicated in its application that it has the financial resources to ensure consistent compliance with environmental regulations. SGI and SGI Limited Partnership, the affiliated developer owning 100% of SGI, have a combined net worth in excess of \$10 million. The General Partnership of SGI Limited Partnership is Phipps Ventures, Inc. Therefore, staff believes

that the buyer has the financial and technical ability to provide service and investment capital to the utility.

Staff has contacted the DEP and learned that there are no outstanding notices of violation against the utility. The application states that SGI's representative has performed a reasonable investigation of the wastewater system. The first phase of the construction of the wastewater system was completed in March 2001. The AWT plant will not be placed into service until the wastewater flows exceed 7,500 gpd. The wastewater plant appears to be in satisfactory condition and in compliance with all applicable standards set by the DEP.

The application contains a copy of the Purchase Agreement which includes the purchase price, terms of payment, and a list of the assets purchased and the liabilities assumed. According to the agreement, the purchase price is \$510,000. The purchase of the utility will be a cash transaction. The transaction is scheduled to close after the Commission has approved the transfer. Based on the application, there are no developer agreements which the buyer is obligated to assume or fulfill. Also, there are no outstanding regulatory assessment fees, fines or refunds owed, and the utility is current with its annual reports. In addition, there are no customer deposits, guaranteed revenue contracts, customer advances, or leases.

According to our records, Resort Village is current with its RAFs through 2001 and has filed an annual report for 2001 and all prior years. SGI is responsible for remitting the 2002 RAFs and annual report and all future RAFs and annual reports to the Commission.

Based on the above information, staff recommends that the transfer of Resort Village Wastewater Certificate No. 492-S to SGI is in the public interest and should be approved. SGI is responsible for remitting the 2002 RAFs and annual report and all future RAFs and annual reports to the Commission. SGI should provide a copy of a recorded deed in the name of the utility for the land upon which the utility facilities are located or proof of continued use of the land by July 31, 2002. A description of the territory served by the utility is appended to this recommendation as Attachment A.

DATE: APRIL 11, 2002

ISSUE 2: What is the rate base of Resort Village at the time of transfer?

RECOMMENDATION: The rate base, which for transfer purposes reflects the net book value, is \$344,518 for the wastewater system as of December 31, 1999. (JOHNSON, REDEMANN)

STAFF ANALYSIS: According to the application, the utility's proposed rate base as of February 2000, for the wastewater system was expected to be \$496,673. The applicant based this estimate on the plant in service, without any acquisition or other adjustments, and assumed they would close on the transfer by February 2000. The utility provided invoices and supporting source documentation for land and organization costs incurred by the seller.

Staff has examined the invoices and supporting documentation. Since no capital costs were incurred by the seller in January or February 2000, staff recommends setting rate base as of December 31, 1999. The utility's proposed rate base and staff's recommended adjustments are described below.

UTILITY PLANT-IN-SERVICE (UPIS)

The utility proposed a plant-in-service balance of \$405,000 for the wastewater system, which included legal and engineering fees related to obtaining the permits to operate the utility. Based on staff's review of the invoices and supporting source documents for the start-up costs, it was determined that the utility included expenses that were incorrectly capitalized, costs that lacked supporting documentation, inappropriately capitalized interest, and costs that were incurred after February 2000, the originally proposed date of transfer.

The utility inappropriately capitalized bank charges, water bills, and various fees and taxes paid to state and county governmental agencies totaling \$11,706. These items are all recurring expenses that should not be capitalized. In addition, the utility included a \$300 campaign contribution that should not be included in rate base. Therefore, staff recommends that \$12,006 of recurring expenses and campaign contribution be removed from the utility's proposed UPIS.

The utility capitalized \$23,864 of interest on a loan obtained on January 10, 1995, to defray costs for the start up of the

DATE: APRIL 11, 2002

utility. According to Rule 25-30.116(5), Florida Administrative Code, no utility may charge or change its allowance for funds used during construction (AFUDC) rate without prior Commission approval. The new AFUDC rate will be effective the month following the end of the 12-month period used to establish that rate and may not be retroactively applied to a previous fiscal year unless authorized by the Commission. The utility does not currently have an approved AFUDC rate. Therefore, staff recommends that the capitalized interest of \$23,864 be removed from the UPIS balance. The appropriate AFUDC rate for the utility is discussed in Issue 7.

The utility paid for the professional services of an engineer (\$250) and a lawyer (\$140) subsequent to February 2000. Therefore, staff recommends that \$390 of organizational costs incurred after February 2000 be removed from UPIS.

The utility included \$3,278 in UPIS which was supported by a canceled check, but there was no indication of the service performed or description of the purchase. Without an invoice supporting the check, staff is not able to determine whether it is for utility or non-utility related costs. Staff recommends that the UPIS balance be decreased by \$3,278 due to the lack of supporting documentation.

In summary, staff recommends that adjustments be made to remove \$12,006 for recurring expenses and a campaign contribution, \$23,864 for inappropriately capitalized interest, \$390 of organizational costs incurred after the proposed transfer date, and \$3,278 of unsupported plant additions from UPIS. The utility's proposed UPIS balance and staff's recommended balance are shown on Schedule Nos. 1-A and 1-B.

LAND

The utility proposed a land balance of \$91,673. As support for the land value the utility provided recorded warranty deeds and County tax assessment notices. According to information provided by the utility, \$825,000 was paid for 30.98 acres of land (\$26,630 per acre) on St. George Island in 1991 by a related development company in a foreclosure proceeding. In 1995, the related development company sold a .51 acre parcel of land to the utility for \$90,000. The utility relied on an appraisal to justify the value of \$90,000 (\$176,471 per acre) and included the cost of the document stamps (\$673) to record the deed. In addition, another

related company sold a .11 acre parcel, adjacent to the .51 acre parcel, to the utility for \$1000 (\$9,091 per acre).

Commission policy is to value land at the cost when first dedicated to public service. In this instance, although the land was purchased by the related developer in 1991, the utility did not obtain its certificate from the Commission until December 1994 and the development plans were not approved by the County until March 1997. Therefore, staff recommends that the utility property was first dedicated to public service in 1995 when the land was first deeded to the utility.

Although a transaction between related parties is not necessarily unreasonable, it is the utility's burden to prove that its costs are reasonable. The Commission has used a number of different methods to determine the value of land when it is sold to a utility in a purchase that is not an arms length transaction.

Appraisals

In several cases, the Commission has relied on appraisals to establish the value of land (See Order No. PSC-99-2114-PAA-SU issued 10/25/99, Docket No. 981221-SU; Order No. 22843 issued 4/23/90, in Docket No. 890277-WS). Although the utility indicated that it had relied on an appraisal to determine the value of the land, it could not locate the appraisal document and the appraisal company had destroyed its records of the appraisal.

The utility provided staff with a comparison of lot sales of property on the island from 1992 through early 1996, which it indicated was used in establishing the appraised value. The comparison included .0775 acre interior Gulf Beaches commercial lots near the center of the island where the East Point/St. George Island bridge is located. The sales prices ranged from \$103,226 (1994) to \$548,387 (1994) per acre for lots on the east side of the island and from \$109,667 (1992) to \$383,871 (1995) per acre for lots on the west side. These commercial lots are in the center of the islands, while the utility property is in a gated community at the south end of the island.

Staff contacted the County tax office to obtain information on lot sales adjacent to the utility property around the time the land was deeded to the utility. According to the tax office,

residential lots immediately adjacent to the utility property sold for \$25,000 to \$27,000 per acre in 1995.

The utility's proposed land value of \$90,000 (\$176,471 per acre) appears reasonable when compared with the Commercial Gulf Beaches lots' sales. However, based on lot sales for property adjacent to the utility site, that value appears to be high.

Tax Assessment Value

Another method to determine the value of land is to use the tax assessed value at the time of purchase when the land is dedicated to public service. (See Order No. PSC-98-1585-FOF-WU, issued 11/25/98, in Docket No. 980445-WU). The utility provided staff with a copy of the 1995 County tax assessments for the utility property. According to the tax assessments the .51 acres is valued at \$90,000 and the adjacent .11 acres is valued at \$1,000. These tax assessment valuations are based on the utility's purchase price as reflected by the document stamps on the recorded deeds. Staff believes that it would be inappropriate to use the tax assessed value, since it is based on the utility's purchase price, which was not an arm's length transaction.

Original Cost

The Commission has also determined the value of land by adjusting the original cost using the change in the Consumer Price Index (CPI) from the time of the original purchase to the date the land was deeded to the utility. (See Order No. 17532, issued 5/8/87, in Docket No. 850941-WS). The original cost paid by the related developer in 1991 was \$825,000 for 30.98 acres, or \$26,630 per acre. Using the change in CPI from 1991 to 1995 (14.7%), the .51 acre parcel would have a value of \$15,577. Although staff has no information on the original cost of the .11 acre parcel, staff believes that \$1,000 is a reasonable value. Therefore, using this methodology, the value of the two parcels when first dedicated to public service in 1995 would be \$16,577.

Staff recommends that using the original cost of the land when purchased in the foreclosure proceeding adjusted for the change in CPI results in a reasonable land value for the utility property which is consistent with the cost of other similarly located property in the area. Staff is persuaded that this is a reasonable methodology for determining the value of the land. Therefore,

DATE: APRIL 11, 2002

staff recommends that \$16,577 should be approved as the value of the land when first dedicated to public service.

ACCUMULATED DEPRECIATION

The utility did not included accumulated depreciation in its proposed rate base. The utility indicated that the depreciation should not begin until the construction for the first phase I. Based on the information provided by the utility, staff calculated an accumulated depreciation balance of \$37,522 from the date the costs were incurred through December 31, 1999.

CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION (CIAC) AND ACCUMULATED AMORTIZATION OF CIAC

The utility does not have approved service availability charges or customers, therefore, no CIAC or Accumulated Amortization of CIAC was included in rate base as of December 31, 1999.

RATE BASE

Staff's calculation of rate base is shown on Schedule No. 1-A. Adjustments to rate base are itemized on Schedule No. 1-B. Based on the adjustments set forth herein, staff recommends that rate base is \$344,518 for the wastewater system as of December 31, 1999. This rate base calculation is used only to establish the net book value of the property being transferred and does not include the normal rate making adjustments of working capital and used and useful.

ISSUE 3: Should an acquisition adjustment be included in the calculation of rate base?

RECOMMENDATION: No. SGI has not requested an acquisition adjustment, and there are no extraordinary circumstances in this case to warrant the inclusion of an acquisition adjustment. Staff recommends that no acquisition adjustment should be included in the calculation of rate base. (JOHNSON)

STAFF ANALYSIS: An acquisition adjustment results when the purchase price differs from the rate base for transfer purposes. The acquisition adjustment resulting from the transfer of Resort Village would be calculated as follows:

Purchase Price:	\$ 510,000
Staff Calculated Rate Base:	<u>344,518</u>
Positive Acquisition Adjustment:	<u>\$165,482</u>

The buyer stated in the application that it was not seeking an acquisition adjustment. Moreover, in the absence of extraordinary circumstances, it has been Commission practice that a subsequent purchase of a utility system at a premium or discount shall not affect the rate base calculation. Staff does not believe that there are any extraordinary circumstances regarding this purchase that would justify an acquisition adjustment to rate base. Staff recommends that a positive acquisition adjustment should not be included in the calculation of rate base. Staff's recommendation is consistent with previous Commissions decisions in this regard. See Order No. PSC-01-0425-PAA-WU, issued February 22, 2001, in Docket No. 001083-WU; Order No. PSC-01-1271-PAA-SU, issued June 6, 2001, in Docket No. 010382-SU; Order No. PSC-01-1655-PAA-WS, issued August 13, 2001, in Docket No. 000793-WS; and Order No. PSC-01-1917-PAA-WS, issued September 24, 2001, in Docket No. 001551-WS.

ISSUE 4: What initial wastewater rates and charges should be approved for SGI Utility, LLC.?

RECOMMENDATION: The rates and charges as detailed in the staff analysis should be approved. The utility should be required to file tariffs within 30 days of the consummating order reflecting the Commission approved rates and charges. SGI should be required to continue to charge these rates and charges until authorized to change by the Commission. Pursuant to Rule 25-30.475, Florida Administrative Code, the tariff should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets. A return on equity of 10% should be approved. (JOHNSON, REDEMANN)

STAFF ANALYSIS: Rules 25-30.033(1)(k), (t), (u), (v), (w), (2), and (3), Florida Administrative Code, require the applicant for an original certificate requesting initial rates and charges to file a proposed tariff and cost justification for the proposed rates and charges. By Order No. PSC-94-1524-FOF-SU, issued December 12, 1994, the Commission deferred setting initial rates for the utility until the development plans were finalized. Those plans were approved by the County in 1997.

In original certificate applications, Commission policy is to set initial rates which will allow the utility to earn a fair rate of return on its investment when the treatment plant reaches 80% of design capacity. According to the applicant, the utility's AWT plant will be built in three phases, each serving approximately 133 ERCs. The utility anticipates reaching 80% of capacity in 10 years. The utility has provided proposed tariffs and cost justification for initial rates and charges.

RATE BASE

The utility's projected rate base for wastewater at 80% of design capacity is \$638,170. In evaluating the utility's projected rate base, staff relied on the recommended rate base at December 31, 1999, as described in Issue 2 and included the projected cost of the AWT system and projected contributions in aid of construction at 80% of design capacity. The schedules of rate base are for information purposes to establish initial rates and are not intended to establish rate base.

Utility Plant In Service

The utility's projected UPIS at 80% design capacity includes \$1,735,756 in organizational costs, structures and improvements, collection lines, treatment and disposal equipment, plant sewers, outfall sewer lines, and other plant and miscellaneous equipment. The system is designed to serve approximately 399 ERCs at build out and 319 ERC at 80% of design capacity.

Staff has reviewed the utility's projected costs and supporting documentation. With the exception of the \$39,538 of adjustments discussed in Issue 2, the projections appear reasonable. The utility agrees with staff that the \$39,538 should not be included in the projected UPIS at 80% of design capacity. Therefore staff recommends \$1,735,756 be included in the projected UPIS at 80% of design capacity.

Land

As discussed in Issue 2, the utility proposed \$91,673 for land. The documentation provided by the utility supports a land value of \$16,577. Therefore, staff recommends that land be included in the projected rate base at a value of \$16,577.

Accumulated Depreciation

The utility projected an accumulated depreciation balance of \$305,745 at 80% of design capacity; however, as discussed in Issue 2, the utility's projected balance does not include depreciation from 1995 to 2000. Staff calculated accumulated depreciation for wastewater using the guideline average service lives from the date the costs were incurred. Therefore, staff recommends that accumulated depreciation of \$361,757 be included in the projected rate base at 80% of design capacity.

Contributions-in-aid-of-construction (CIAC)

The utility's projected CIAC balance of \$1,068,650 reflects the projected balance at 80% of design capacity based on proposed service availability charges of \$3,350 per ERC. Based on the utility's information the projected contribution level at design capacity is 74.43%. However, the utility's projection did not include depreciation for the years from 1995 to 2000. Based on Staff's recommended adjustments to correct UPIS and accumulated

DATE: APRIL 11, 2002

depreciation and using the utility's requested service availability charges of \$3,350, the projected contribution level is 81.81% at design capacity.

Staff has reviewed the utility's proposed charges and projected CIAC balance. As discussed in Issue 5, it appears that the utility's proposed charges would exceed the maximum CIAC level as prescribed by Rule 25-30.580(1), Florida Administrative Code. Therefore staff is recommending lower service availability charges of \$3,060 per ERC, which would result in a projected CIAC balance for wastewater of \$976,140 at 80% of design capacity. Therefore, staff recommends CIAC of \$976,140 be included in the projected rate base.

Accumulated Amortization of CIAC

The utility projected accumulated amortization of CIAC of \$167,280 at 80% of design capacity based on its proposed UPIS and service availability charges. Based on staff's recommended adjustments to the utility's proposed UPIS and service availability charges, staff projected accumulated amortization of CIAC of \$152,799 at 80% of design capacity using the guideline depreciation rates in Rule 25-30.140, Florida Administrative Code. Therefore, staff recommends the utility's proposed accumulated amortization of CIAC balance be decreased by \$14,481 to reflect a projected accumulated amortization of CIAC balance of \$152,799 at 80% of design capacity.

Working Capital

Pursuant to Rule 25-30.433(2), Florida Administrative Code, the utility proposed that a working capital allowance of \$17,856 should be included in the rate base calculation based on 1/8 of operating and maintenance expenses. Staff agrees with the utility's proposed working capital allowance and recommends that \$17,856 for working capital should be included in the projected rate base.

Therefore, in summary, staff recommends that rate base for the utility at 80% of design capacity should be established as \$585,091 for the wastewater plant. The utility's proposed and staff's recommended rate base are shown on Schedule No. 2. Projected rate base is being presented only as a tool to aid the Commission in establishing initial rates and is not intended to establish rate

base. This is consistent with Commission practice in original certificate applications.

COST OF CAPITAL

As required by Rule 25-30.033(1)(w), Florida Administrative Code, the utility must provide a schedule of its projected capital structure including the methods of financing the construction and operation of the utility. The utility submitted a capital structure schedule consisting of 100% equity and a return on common equity of 10.00%. The utility's return on common equity is consistent with staff's calculated return on common equity of 10.00% using the current Commission-approved leverage formula, authorized by Order No. PSC-01-2514-FOF-WS, issued December 24, 2001, in Docket No. 010006-WS. Staff recommends that the Commission establish a return on equity for the utility of 10.00%. Since the utility has no projected debt, the overall cost of capital for the utility is 10.00%. The projected capital structure appears on Schedule No. 3.

RETURN ON INVESTMENT

The utility proposed a return on its investment of \$63,814 based on an overall rate of return of 10.00% on its rate base of \$638,170. Based on staff's recommended projected rate base of \$585,091 and overall return on investment of 10.00%, the recommended return on investment for the system is \$58,910.

REVENUE REQUIREMENT

The utility's proposed revenue requirement of \$255,175 is shown on Schedule No. 4. The following analysis describes the utility's proposed and staff's recommended revenue requirement.

Operation and Maintenance Expense

The utility's projected operation and maintenance expense at 80% of design capacity for wastewater is \$142,849. The most significant expense included in the projection is the cost incurred for contractual services, which includes professional services, an operator, testing and lab fees, and monitoring the system. These costs are projected to total \$87,168 per year which is over 60% of the total projected operation and maintenance expense. Staff has reviewed the utility's projected costs for contractual services and

they appear to be consistent with the terms of the County and the DEP requirements for monitoring and testing. The utility will be required to measure the flow of the reuse water and monitor eleven parameters, such as carbonaceous biological oxygen demand, total suspended solids, ph, bacteria, chlorine, two forms of phosphate, and four forms of nitrogen compounds. The reuse water monitoring is done daily and monthly. The utility is also required to test quarterly each monitoring well for 16 parameters, and each surface water site for 19 parameters. In addition, the residuals (sludge) must be tested yearly for 15 parameters. Therefore, staff recommends that the utility's proposed operation and maintenance expense of \$142,849 is appropriate.

Depreciation and Amortization of CIAC

The utility's projected depreciation expense is \$59,613 and the projected amortization of CIAC expense is \$39,156 for a net balance of \$20,457. Staff recommends projected depreciation expense for the wastewater system of \$59,613 and projected amortization of CIAC expense of \$35,767, based on staff's recommended service availability charges as discussed in Issue 5, for a net balance of \$23,846.

Taxes Other than Income

The utility's projected balance for taxes other than income, is \$28,055, which includes projected regulatory assessment fees of \$11,482, property taxes of \$15,622, and other taxes and licenses of \$950. Staff's recommended revenue requirement is lower than the utility's proposal, therefore RAFs should be reduced to reflect 4.5% of the recommended revenue requirement. The utility's proposal for property taxes and other taxes other than income appears reasonable. Therefore, staff recommends that the appropriate balance for taxes other than income is \$27,965 for the system, including \$11,393 of RAFs, \$15,622 of property taxes, and \$950 of other taxes.

Income Taxes

The utility did not include a provision for income taxes, because it is a Sub S Corporation which is a non-taxable entity.

In summary, staff recommends that the utility's initial rates should be based on a revenue requirement of \$253,170, which

DATE: APRIL 11, 2002

includes operation and maintenance expense of \$142,849, net depreciation and amortization expense of 23,846, taxes other than income of 27,965, and a return on investment of \$58,910.

WASTEWATER RATES

Staff's recommended wastewater rates are calculated using the base facility charge rate structure and are based on a revenue requirement of \$253,170. It should be noted that the combination of advanced wastewater treatment and a small customer base results in relatively high rates. The utility's requested rates and staff's recommended rates are shown below.

MONTHLY WASTEWATER RATES

Residential

<u>Base Facility Charge</u>	<u>Utility Proposed</u>	<u>Staff Recommended</u>
All Meters	\$ 23.52	\$ 24.45
Per 1,000 gallons	5.25	5.08
Maximum of 8,000 gallons		

MONTHLY WASTEWATER RATES

General Service

<u>Base Facility Charge</u>	<u>Utility Proposed</u>	<u>Staff Recommended</u>
<u>Meter Size</u>		
5/8" x 3/4"	\$ 23.52	\$ 24.45
3/4"	35.28	36.68
1"	58.80	61.13
1-1/2"	117.60	122.25
2"	188.16	195.60
3"	376.32	391.20
4"	588.00	611.25
6"	1,176.00	1,222.50
8"	1,881.60	1,956.00
Per 1,000 gallons	6.30	6.09

DATE: APRIL 11, 2002

MISCELLANEOUS SERVICE CHARGES

The utility did not request miscellaneous service charges. However, these services may be necessary and because costs are incurred to provide these services, staff believes that approval of miscellaneous service charges is prudent and reasonable. The recommended miscellaneous service charges are consistent with Rule 25-30.460, Florida Administrative Code. Staff, therefore, recommends that the Commission approve the following miscellaneous charges:

<u>Type of Service</u>	<u>Wastewater</u>
Initial Connection	\$15.00
Normal Reconnection	\$15.00
Violation Reconnection	Actual Cost
Premises Visit	\$10.00

As mentioned earlier, the attached schedules are presented only as a tool to aid the Commission in establishing initial rates and are not intended to establish rate base. This is consistent with Commission practice in processing original certificate applications. If the Commission approves service availability charges other than those recommended by staff, the projected rate base, CIAC, revenue requirement, and rates will have to be adjusted to reflect that decision.

The utility should be required to file tariffs within 30 days of the consummating order reflecting the Commission approved rates and charges. Staff further recommends that SGI should be required to continue to charge these rates and charges until authorized to change by the Commission in a subsequent proceeding. The tariff should be effective for services rendered or connections made on or after the stamped approval date of the tariff sheets, pursuant to Rule 25-30.475, Florida Administrative Code. Staff further recommends that SGI's return on equity should be based on the leverage graph formula contained in Order No. PSC-01-2514-FOF-WS, issued December 24, 2001, in Docket No. 010006-WS. Using this leverage graph formula the appropriate return on equity for SGI is 10.00%.

ISSUE 5: What are the appropriate service availability charges for SGI?

RECOMMENDATION: The service availability charges and policy set forth within the staff analysis are appropriate and should be approved. The utility should be authorized to collect a main extension charge of \$800 and a plant capacity charge of \$2,260 per ERC. SGI should be required to file tariffs within 30 days of the consummating order reflecting the Commission approved rates and charges. The charges should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets. (JOHNSON, REDEMANN)

STAFF ANALYSIS: In its application, SGI requested approval of a service availability charges of \$3,350 per ERC. The proposed service availability charges represents the customer's contribution toward the cost of the plant and lines.

The application also contained the utility's proposed service availability policy for wastewater, which requires developers to pay a pro rata share of the cost of the utility's treatment plant based upon the estimated demand of the contributor's proposed installations and improvements.

Rule 25-30.580, Florida Administrative Code, states that the maximum amount of CIAC, net of amortization, should not exceed 75% of the total original cost, net of accumulated depreciation, of the utility's facilities and plant when the facilities and plant are at their designed capacity. The minimum amount of CIAC should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution and sewage collection systems.

The utility's proposed service availability charges of \$3,350 resulted in a contribution level of 74.43%, based on the utility's projected plant and depreciation balances. However, as discussed in Issues 2 and 3, staff has recommended adjustments to those balances. Using the staff recommended balances for UPIS and accumulated depreciation, the utility's proposed service availability charges would result in a contribution level of 81.81% at design capacity, which exceeds the maximum contribution level prescribed by the rule.

DOCKET NO. 991812-SU, 931111-SU
DATE: APRIL 11, 2002

Staff recommends that a plant capacity charge of \$2,260 per ERC and a main extension charge of \$800 per ERC will result in a contribution level of approximately 74.73% at design capacity, which is consistent with the guidelines of Rule 25-30.580, Florida Administrative Code. Staff recommends that the utility be authorized to collect a main extension charge of \$800 and a plant capacity charge of \$2,260 per ERC.

ISSUE 6: What are the appropriate guaranteed revenues charges for SGI?

RECOMMENDATION: The appropriate guaranteed revenues charges for SGI which are set forth in the staff analysis should be approved. SGI should be required to file tariffs within 30 days of the Consummating Order reflecting the Commission approved rates and charges. The charges should be effective for requests for service made on or after the stamped approval date on the tariff sheets. (JOHNSON, REDEMANN)

STAFF ANALYSIS: Commission Order No. PSC-94-1524-FOF-SU required the utility to file a revised service availability policy with a provision for the collection of guaranteed revenues.

The utility's proposed guaranteed revenue charges are the equivalent of its base facility charges. Rule 25-30.515(9), Florida Administrative Code, defines a guaranteed revenue charge as a charge designed to cover the utility's costs including, but not limited to the cost of operation, maintenance, depreciation, and any taxes, and to provide a reasonable return to the utility for facilities, a portion of which may not be used and useful to the utility or its existing customers. Guaranteed revenues are designed to help the utility recover a portion of its cost from the time capacity is reserved until a customer begins to pay monthly service rates. The utility's requested guaranteed revenues charges and staff's recommended charges are shown below.

<u>Residential</u>		
<u>Base Facility Charge</u>	<u>Utility</u>	<u>Staff</u>
<u>Meter Size</u>	<u>Proposed</u>	<u>Recommended</u>
All meters	\$ 23.52	\$ 24.45

General Service

<u>Base Facility Charge</u> <u>Meter Size</u>	<u>Utility</u> <u>Proposed</u>	<u>Staff</u> <u>Recommended</u>
5/8" x 3/4"	\$ 23.52	\$ 24.45
3/4"	35.28	36.68
1"	58.80	61.13
1-1/2"	117.60	122.25
2"	188.16	195.60
3"	376.32	391.20
4"	588.00	611.25
6"	1,176.00	1,222.50
8"	1,881.60	1,956.00

The guaranteed revenue charge will be paid by any developer or customer, on or after any request for capacity reservation has been made and accepted in accordance with the rules of the utility's service availability policy. The charge is a recurring charge which is billed monthly until there is an actual physical connection to the utility system.

Staff recommends that a guaranteed revenue charge equal to the utility's approved base facility charge should be approved. This is consistent with how guaranteed revenues have been established in prior Commission cases. The utility should be required to file a tariff within 30 days of the Consummating Order reflecting the Commission approved guaranteed revenue charge. The charge should be effective for requests for service made on or after the stamped approval date on the tariff sheets.

ISSUE 7: What is the appropriate AFUDC rate for SGI?

RECOMMENDATION: An AFUDC rate of 10.00% should be approved for SGI and a discounted monthly rate of .832952% should be applied to qualified construction projects beginning on the issued date of the certificates of authorization. (JOHNSON)

STAFF ANALYSIS: Rule 25-30.033(4), Florida Administrative Code, allows utilities obtaining initial certificates pursuant to this rule authorization to accrue AFUDC for projects found eligible pursuant to Rule 25-30.116(1), Florida Administrative Code. Rule 25-30.033(4), Florida Administrative Code, states:

(a) the applicable AFUDC rate shall be determined as the utility's projected weighted cost of capital as demonstrated in its application for original certificates and initial rates and charges.

(b) a discounted monthly AFUDC rate calculated in accordance with Rule 25-30.116(3), Florida Administrative Code, shall be used to insure that the annual AFUDC charged does not exceed authorized levels.

(c) the date the utility shall begin to charge the AFUDC rate shall be the date the certificate of authorization is issued to the utility so that such rate can apply to the initial construction of the utility facilities.

Based upon the above information, staff calculated the cost of equity capital as 10.00% as derived from the current leverage formula found in Order No. PSC-01-2514-FOF-WS, issued December 24, 2001, in Docket No. 010006-WS. Staff has determined an AFUDC rate of 10.00%, with a discounted monthly rate of .832952% which is in compliance with all pertinent rules and statutes. Therefore, staff recommends an AFUDC rate of 10.00% should be approved and a discounted monthly rate of .832952% should be applied to the qualified construction projects beginning on the date the certificate of authorization is issued.

DOCKET NO. 991812-SU, 931111-SU
DATE: APRIL 11, 2002

ISSUE 8: Should these dockets be closed?

RECOMMENDATION: No. If no timely protest is received to the proposed agency action issues, upon the expiration of the protest period a Consummating Order should be issued and Docket No. 931111-SU should be closed. Docket 991812-SU should remain open pending receipt of proof that SGI owns the land upon which the utility's facilities are located or that the utility has continued use of the land. Upon receipt and verification of such proof, Docket No. 991812-SU should be administratively closed. (BRUBAKER)

STAFF ANALYSIS: If no timely protest is received to the proposed agency action issues, upon the expiration of the protest period a Consummating Order should be issued and Docket No. 931111-SU should be closed. Docket 991812-SU should remain open pending receipt of proof that SGI owns the land upon which the utility's facilities are located or that the utility has continued use of the land. Upon receipt and verification of such proof, Docket No. 991812-SU should be administratively closed.

ATTACHMENT A

RESORT VILLAGE UTILITY, INC.

TERRITORY DESCRIPTION

The following described lands located in a portion of Section 35, Township 9 South, Range 7 West, and Section 2, Township 10 South, Range 7 West, Franklin County Florida; being more particularly described as follows: Commence at the POINT OF REFERENCE which is the Northeast corner of Section 29, Township 9 South, Range 6 West, Franklin County Florida. Thence from the POINT OF REFERENCE proceed South 8,366.47 feet, more or less; thence West 14,980.22 feet more or less, to the POINT OF BEGINNING which is a concrete marker number 2658 marking the Northwest corner of Sea Palm Village, a subdivision recorded in the public records of Franklin County, Florida, plat book 4, page 27. Thence from the POINT OF BEGINNING proceed South 31 degrees 34 minutes 12 seconds East 475.07 feet; thence South 07 degrees 39 minutes 32 seconds West 334.40 feet; thence South 31 degrees 34 minutes 07 seconds East 891.06 feet to a point of intersection with the mean high water line of the Gulf of Mexico; thence proceed along said mean high water line South 54 degrees 47 minutes 20 seconds West 512.99 feet; thence south 61 degrees 06 minutes 08 seconds West 452.25 feet to the Southeast corner of the Bluffs, Phase 2, a subdivision recorded in the public records of Franklin County, Florida, plat book 5, page 46; thence leaving said mean high water line, proceed North 31 degrees 16 minutes 36 seconds West along the Easterly boundary of said subdivision 414.45 feet; thence proceed North 31 degrees 15 minutes 49 seconds West 100.42 feet thence proceed northeasterly along the arc of a curve (radius of 732.00 feet, chord of 130.12 feet, chord bearing of North 48 degrees 30 minutes 29 seconds East) 128.26 feet; thence proceed North 44 degrees 16 minutes 54 seconds west 4360.46 feet to the mean highwater line of Apalachicola Bay; thence proceed along said mean highwater line, North 74 degrees 49 minutes 04 seconds East 96.58 feet; thence North 51 degrees 35 minutes 31 seconds East 182.48 feet; thence North 32 degrees 50 minutes 33 seconds East 78.72 feet; thence North 67 degrees 07 minutes 24 seconds East 72.63 feet; thence North 77 degrees 15 minutes 17 seconds East 28.75 feet; thence South 87 degrees 35 minutes 46 seconds East 67.75 feet; thence

South 68 degrees 53 minutes 34 seconds East 93.67 feet; thence
South 89 degrees 05 minutes 16 seconds East 60.81 feet; thence
North 75 degrees 48 minutes 57 seconds East 74.89 feet; thence
North 59 degrees 44 minutes 47 seconds East 40.94 feet; thence
North 70 degrees 10 minutes 07 seconds East 72.80 feet; thence
North 55 degrees 37 minutes 06 seconds East 55.54 feet; thence
South 89 degrees 26 minutes 42 seconds East 33.99 feet; thence
South 82 degrees 58 minutes 35 seconds East 39.61 feet; thence
South 80 degrees 59 minutes 22 seconds East 61.13 feet; thence
South 08 degrees 08 minutes 24 seconds East 11.29 feet; thence
South 84 degrees 12 minutes 49 seconds East 34.11 feet; thence
North 76 degrees 59 minutes 54 seconds East 50.29 feet; thence
South 41 degrees 05 minutes 38 seconds East 23.20 feet; thence
South 51 degrees 30 minutes 26 seconds East 39.51 feet; thence
South 16 degrees 20 minutes 48 seconds East 21.44 feet; thence
North 60 degrees 20 minutes 15 seconds West 12.32 feet; thence
North 53 degrees 20 minutes 29 seconds West 13.28 feet; thence
South 67 degrees 27 minutes 17 seconds West 9.23 feet; thence
North 20 degrees 03 minutes 19 seconds West 7.98 feet; thence
North 56 degrees 48 minutes 04 seconds West 12.87 feet; thence
North 18 degrees 19 minutes 30 seconds West 19.42 feet; thence
South 75 degrees 29 minutes 36 seconds West 26.46 feet; thence
North 89 degrees 58 minutes 09 seconds West 46.32 feet; thence
North 68 degrees 44 minutes 25 seconds West 21.36 feet; thence
North 72 degrees 53 minutes 24 seconds West 47.70 feet; thence
North 88 degrees 45 minutes 57 seconds West 18.71 feet; thence
North 69 degrees 33 minutes 38 seconds West 38.07 feet; thence
South 74 degrees 53 minutes 18 seconds West 31.11 feet; thence
South 52 degrees 35 minutes 45 seconds West 56.67 feet; thence
South 22 degrees 15 minutes 03 seconds West 14.20 feet; thence
North 86 degrees 33 minutes 18 seconds West 8.90 feet; thence
South 70 degrees 43 minutes 44 seconds West 11.86 feet; thence
North 88 degrees 20 minutes 28 seconds West 22.70 feet; thence
South 43 degrees 21 minutes 15 seconds West 10.72 feet; thence
South 18 degrees 02 minutes 20 seconds West 10.73 feet; thence
South 34 degrees 23 minutes 19 seconds West 8.82 feet; thence
South 49 degrees 10 minutes 19 seconds East 19.97 feet; thence
North 89 degrees 01 minutes 31 seconds West 33.89 feet; thence
North 55 degrees 23 minutes 18 seconds West 18.62 feet; thence
South 71 degrees 17 minutes 20 seconds West 49.24 feet; thence
South 83 degrees 19 minutes 41 seconds West 19.47 feet; thence
North 81 degrees 29 minutes 01 seconds West 18.14 feet; thence
South 86 degrees 13 minutes 37 seconds West 37.92 feet; thence
North 84 degrees 43 minutes 26 seconds West 41.86 feet; thence

DATE: APRIL 11, 2002

North	46	degrees	16	minutes	06	seconds	West	20.07	feet;	thence
North	67	degrees	41	minutes	14	seconds	West	24.46	feet;	thence
North	85	degrees	18	minutes	41	seconds	West	28.33	feet;	thence
North	78	degrees	39	minutes	11	seconds	West	19.92	feet;	thence
North	63	degrees	03	minutes	43	seconds	West	14.57	feet;	thence
South	63	degrees	20	minutes	25	seconds	West	14.60	feet;	thence
North	88	degrees	17	minutes	24	seconds	West	19.53	feet;	thence
North	87	degrees	57	minutes	22	seconds	West	24.54	feet;	thence
South	70	degrees	38	minutes	18	seconds	West	25.15	feet;	thence
South	55	degrees	30	minutes	42	seconds	West	39.06	feet;	thence
South	83	degrees	43	minutes	24	seconds	West	8.57	feet;	thence
South	34	degrees	59	minutes	06	seconds	West	13.52	feet;	thence
South	12	degrees	14	minutes	41	seconds	West	8.03	feet;	thence
South	04	degrees	10	minutes	33	seconds	West	12.05	feet;	thence
South	33	degrees	45	minutes	38	seconds	West	16.25	feet;	thence
South	63	degrees	20	minutes	30	seconds	West	14.89	feet;	thence
South	30	degrees	14	minutes	38	seconds	East	501.80	feet;	thence
South	53	degrees	20	minutes	17	seconds	East	282.63	feet;	thence
South	35	degrees	39	minutes	11	seconds	East	242.45	feet;	thence
South	49	degrees	45	minutes	47	seconds	East	148.83	feet;	thence
South	19	degrees	21	minutes	49	seconds	West	115.07	feet;	thence
South	40	degrees	06	minutes	51	seconds	East	707.81	feet;	thence
South	35	degrees	26	minutes	02	seconds	East	67.25	feet;	thence
South	44	degrees	19	minutes	59	seconds	East	179.81	feet;	thence
South	63	degrees	32	minutes	34	seconds	East	51.74	feet;	thence
South	32	degrees	11	minutes	59	seconds	East	80.00	feet;	thence
South	44	degrees	19	minutes	59	seconds	East	54.51	feet;	thence
North	84	degrees	39	minutes	15	seconds	East	151.38	feet;	thence
North	41	degrees	43	minutes	02	seconds	West	193.26	feet;	thence
North	20	degrees	34	minutes	44	seconds	West	270.50	feet;	thence
North	15	degrees	43	minutes	04	seconds	West	167.08	feet;	thence
North	51	degrees	35	minutes	49	seconds	East	89.49	feet;	thence
South	41	degrees	10	minutes	08	seconds	East	227.54	feet;	thence
South	52	degrees	05	minutes	25	seconds	East	123.65	feet;	thence
South	10	degrees	27	minutes	31	seconds	East	57.08	feet;	thence
South	61	degrees	55	minutes	09	seconds	East	122.94	feet;	thence
South	42	degrees	03	minutes	19	seconds	East	104.71	feet;	thence
South	21	degrees	07	minutes	10	seconds	East	233.80	feet;	thence
South	02	degrees	59	minutes	41	seconds	West	79.58	feet;	thence
South	29	degrees	36	minutes	39	seconds	West	66.57	feet;	thence
North	64	degrees	29	minutes	11	seconds	West	96.76	feet;	thence
South	64	degrees	50	minutes	40	seconds	West	53.82	feet;	thence
South	31	degrees	13	minutes	49	seconds	East	231.69	feet;	thence
North	21	degrees	34	minutes	54	seconds	East	46.94	feet;	thence

North 20 degrees 36 minutes 37 seconds East 39.24 feet; thence
North 14 degrees 20 minutes 13 seconds East 78.45 feet; thence
South 17 degrees 06 minutes 20 seconds East 80.09 feet; thence
North 58 degrees 03 minutes 38 seconds East 28.16 feet; thence
South 06 degrees 14 minutes 21 seconds East 54.85 feet; thence
South 59 degrees 37 minutes 51 seconds East 75.39 feet; thence
North 11 degrees 04 minutes 29 seconds West 225.64 feet; thence
North 07 degrees 09 minutes 31 seconds East 59.45 feet; thence
North 23 degrees 09 minutes 19 seconds East 45.95 feet; thence
North 18 degrees 42 minutes 44 seconds East 40.54 feet; thence
North 65 degrees 37 minutes 42 seconds East 110.74 feet; thence
North 54 degrees 25 minutes 40 seconds East 50.41 feet; thence
South 74 degrees 03 minutes 16 seconds East 45.84 feet; thence
South 80 degrees 13 minutes 07 seconds East 42.31 feet; thence
South 49 degrees 50 minutes 58 seconds East 96.47 feet; thence
South 67 degrees 04 minutes 01 seconds East 32.93 feet; thence
North 34 degrees 06 minutes 31 seconds East 59.73 feet; thence
North 62 degrees 33 minutes 23 seconds East 42.71 feet; thence
South 76 degrees 53 minutes 52 seconds East 59.26 feet; thence
North 52 degrees 08 minutes 40 seconds East 96.34 feet to a re-rod
on the Southerly boundary of Pelican Point, a subdivision as per
map or plat thereof recorded in Public Records of Franklin County,
Florida; thence leaving said mean highwater line run North 87
degrees 41 minutes 17 seconds East along the Southerly boundary of
said subdivision 289.91 feet to a concrete monument; thence proceed
southerly along the arc of a curve (radius of 258.71 feet, chord of
123.00 feet, chord bearing North 22 degrees 50 minutes 43 seconds
East); thence proceed South 09 degrees 05 minutes 36 seconds West
83.75 feet; thence proceed northeasterly along the arc of a curve
(radius of 3710.00 feet, chord of 327.02 feet, chord bearing North
52 degrees 12 minutes 54 seconds East) to the POINT OF BEGINNING,
containing 58 acres, more or less.

SCHEDULE NO. 1-A

SGI UTILITY, LLC.
SCHEDULE OF WASTEWATER RATE BASE
As of December 31, 1999

<u>DESCRIPTION</u>	<u>BALANCE PER UTILITY</u>	<u>STAFF ADJUSTMENTS</u>	<u>BALANCE PER STAFF</u>
Utility Plant in Service	\$405,000	(\$39,538)	\$365,463
Land	91,673	(\$75,096)	16,577
Accumulated Depreciation	\$ 0	(\$37,522)	(\$ 37,522)
CIAC	0	0	0
Amortization of CIAC	0	0	0
TOTAL	\$496,673 =====	(\$152,156) =====	\$344,518 =====

DOCKET NO. 991812-SU, 931111-SU
DATE: APRIL 11, 2002

SCHEDULE NO. 1-B

SGI UTILITY, LLC.
SCHEDULE OF ADJUSTMENTS TO RATE BASE
As of December 31, 1999

<u>EXPLANATION</u>	<u>ADJUSTMENT</u>
Utility Plant in Service	
A. To remove capitalized recurring expenses	(\$ 12,006)
B. To remove capitalized interest	(\$ 23,864)
C. To remove costs incurred after 12/99	(\$ 390)
C. To remove unsupported plant	(\$ 3,278)
TOTAL	<u>(\$ 39,538)</u>
Land	
A. To reflect the cost of land	<u>(\$ 75,096)</u>
Accumulated Depreciation	
A. To reflect accumulated depreciation	<u>(\$ 37,522)</u>

SGI Utility, LLC
 Schedule of Wastewater Rate Base
 At 80% of Design Capacity

DOCKET NOS. 991812-SU, 931111-S
 Schedule No. 2-A

Description	Balance Per Filing	Staff Adjust.	Balance Per Staff
Utility Plant in Service	1,735,756	0	1,735,756
Land	91,673	(75,096)	16,577
Accumulated Depreciation	(305,745)	(56,012)	(361,757)
Contributions-in-aid-of-Construction	(1,068,650)	92,510	(976,140)
Accumulated Amortization of C.I.A.C.	167,280	(14,481)	152,799
Working Capital Allowance	17,856	0	17,856
TOTAL	638,170	(53,080)	585,091

<u>Description</u>	<u>Adjustments</u>
LAND	
To reflect original cost of land	(75,096)
ACCUMULATED DEPRECIATION	
To reflect prior years depreciation exp.	(56,012)
CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION	
To reflect staff's recommended service availability charge	92,510
ACCUMULATED AMORTIZATION OF C.I.A.C.	
To reduce amortization of CIAC	(14,481)

Schedule of Capital Structure

Schedule No. 3

At 100% of Design Capacity

Description	Balance		Balance		Recon. Adjust.	Recon. Balance	Weight	Cost Rate	Weighted Cost
	Per Filing	Staff Adjust.	Per Staff	Recon. Adjust.					
Common Equity	510,000	0	510,000	75,091	585,091	100.00%	10.00%	10.00%	
Long and Short-Term Debt	0	0	0	0	0	0.00%	0.00%	0.00%	
Customer Deposits	0	0	0	0	0	0.00%	8.00%	0.00%	
Advances from Associated Companies	0	0	0	0	0	0.00%	0.00%	0.00%	
Other	0	0	0	0	0	0.00%	0.00%	0.00%	
	<u>510,000</u>	<u>0</u>	<u>510,000</u>	<u>75,091</u>	<u>585,091</u>	<u>100.00%</u>		<u>10.00%</u>	

1
3
5
1

Range of Reasonableness:

	High	Low
Common Equity	11.00%	9.00%
Overall Rate of Return	11.00%	9.00%

SGI Utility, LLC
 Schedule of Wastewater Operations
 At 80% of Design Capacity

DOCKET NOS. 991812-SU, 931111-S
 Schedule No. 4-A

Description	Balance Per Utility	Staff Adjust.	Balance Per Staff
Operating Revenues	255,175	(2,006)	253,169
Operating and Maintenance	142,849	0	142,849
Depreciation Expense	20,457	3,389	23,846
Taxes Other Than Income	28,055	(90)	27,965
Income Taxes	0	0	0
 Total Operating Expenses	 <u>191,361</u>	 <u>3,299</u>	 <u>194,660</u>
 Net Operating Income	 <u>63,814</u>	 <u>(5,305)</u>	 <u>58,509</u>
 Rate Base	 <u>638,170</u>		 <u>585,091</u>
 Rate of Return	 <u>10.00%</u>		 <u>10.00%</u>

<u>Description</u>	<u>Adjustments</u>
DEPRECIATION EXPENSE	
To reflect depreciation exp. on organization costs	3,389
TAXES OTHER THAN INCOME	
To reflect RAFs according to operating revenue.	(90)
NET OPERATING INCOME	
To reflect income based on rate base and rate of return	(5,304)

SGI Utility, LLC

Schedule No. 5

Schedule of Net Plant to Net C.I.A.C.

At 100% of Design Capacity

DOCKET NOS. 991812-SU, 931111-SU

Account Number	Account Description	Wastewater
101	Utility Plant in Service	1,815,333
104	Accumulated Depreciation	<u>(500,755)</u>
	Net Plant	<u>1,314,578</u>
271	C.I.A.C.	1,220,940
272	Accum. Amortization of C.I.A.C.	<u>(238,543)</u>
	Net C.I.A.C.	<u>982,397</u>
	Net C.I.A.C. / Net Plant	<u>74.73%</u>
	Gross to Gross Minimum Contribution Level	<u>17.35%</u>
	Staff Recommended Charge	<u>3,060</u>