BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of ORTEGA UTILITY COMPANY for rate increase in Duval County	DOCKET NO.	871262-WS
	ORDER NO.	21137
	ISSUED:	4-27-89

The following Commissioners participated in the disposition of this matter:

BETTY EASLEY
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On Behalf of Ortega Utility Company

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On behalf of the Commission Staff

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FINAL ORDER ESTABLISHING INCREASED WATER AND SEWER RATES AND REQUIRING REFUND OF UNAPPROVED METER INSTALLATION CHARGES

BY THE COMMISSION:

CASE BACKGROUND

On August 8, 1988, Ortega Utility Company (Ortega) filed an application for increased water and sewer rates in Duval County. The information satisfied the minimum filing requirements (MFRs) for a general rate increase and that date was established as the official filing date. The test year for this proceeding is the historical year ended December 31, 1987.

Ortega's water and sewer rates were last considered by this Commission in Docket No. 760489-WS (1976 rate case). Our decision in the 1976 rate case is reflected by Order No. 7671, issued March 8, 1977. Ortega filed a timely motion for reconsideration of Order No. 7671 and, by Order No. 7854, issued June 22, 1977, we granted its motion in part and denied it in part.

In this case, Ortega proposes a three-phase rate increase. For the first phase, Ortega proposes rates to be collected during the eight-month "file and suspend" period. These rates are designed to generate annual revenues of $315,721 for water and $375,807 for sewer, which exceed test year revenues by $137,098 (76.75 percent) and $116,995 (45.20 percent), respectively.

For the second phase, Ortega proposes to implement "intermediate" rates, which are approximately 90 percent of the proposed final rates. Ortega proposes that these rates go into effect at the end of the eight-month suspension period.

For the final phase, Ortega proposes rates based in part upon a number of pro forma plant additions, which rates would be implemented upon the substantial completion of the pro forma plant additions. These rates are designed to generate annual revenues of $393,732 for water and $489,884 for sewer, which exceed test year revenues by $215,109 (120 percent) and $231,072 (89 percent), respectively. If the pro forma plant additions have not been substantially completed within a 30 month period, Ortega proposes that the final rates not be implemented.

By Order No. 20131, issued October 7, 1988, we suspended Ortega's proposed rates and granted an interim rate increase designed to generate annual revenues of $279,327 for water and $322,709 for sewer, which exceed test year revenues by $98,060 (54.10 percent) and $59,808 (22.75 percent), respectively.

A formal hearing was held on February 13 and 14, 1989, at the Jacksonville Civic Auditiorium in Jacksonville, Florida.

FINDINGS OF FACT, LAW AND POLICY

Having heard the evidence presented at the formal hearing held in this case and having reviewed Ortega's brief and the recommendation of the Commission Staff (Staff), we hereby enter our findings and conclusions.

STIPULATIONS

Prior to and during the hearing in this case, Ortega and Staff agreed upon a number of stipulations. Having heard no evidence to convince us otherwise, we find that the stipulations below are reasonable. The following stipulations are, therefore, approved:

Rate Base

1. The appropriate balances of land, excluding pro forma land, to be used in determining rate base are $10,840 for water and $115,629 for sewer. (NOTE: There was a difference of $7 for water and $10 for sewer between Ortega's and Staff's calculations of the appropriate balances for land, which Ortega agreed was immaterial. In witness Ray Avery's summary, he used the higher amounts. We believe, however, that this was an oversight and that this issue is stipulated as stated.)

2. No contributions-in-aid-of-construction (CIAC) should be imputed on any margin reserve allowed.

3. The balances of CIAC are understated due to the utility's failure to make certain adjustments required under Order No. 7671. CIAC should be increased by $10,305 for water and by $22,185 for sewer.

4. Accumulated depreciation for water is understated due to Ortega having included a $10,700 well installed in 1978 in the cost of land. Accumulated depreciation should be increased by $2,541 for water.

5. Accumulated amortization of CIAC is understated due to Ortega's failure to make certain adjustments required under Order No. 7854. Accumulated amortization of CIAC should be increased by $1,062 for water and by $1,637 for sewer.

6. The balance of accumulated amortization of CIAC is understated for the years 1976 through 1987, based upon an adjustment made in Order No. 7671 to increase CIAC, and should be increased by $3,092 for water and $6,656 for sewer.

7. Accumulated amortization of CIAC and CIAC amortization expense should be increased by $202 for water and $71 for sewer in order to annualize test year additions.

Cost of Capital

8. The appropriate return on equity is 14.35 percent, based upon the current leverage formula adopted in Order No. 19718.

Net Operating Income (NOI)

9. Test year operation and maintenance (O & M) expenses should be increased by $729 for water and $1,086 for sewer to reflect a 1987 price index adjustment acknowledged in Order No. 18981.

10. Ortega should provide better documentation of cash purchases on a prospective basis. For cash purchases of materials and supplies, Ortega should note the type of item purchased and the job number or system designation on the receipt. For cash transportation purchases, such as gas or miscellaneous parts, Ortega should note the vehicle tag number on the receipt.

Rates

11. Ortega should change from a minimum charge rate structure to a base facility charge rate structure.

12. Ortega should charge all customers on a uniform basis, billing the base facility charge in advance and the gallonage charge in arrears.

QUALITY OF SERVICE

Our analysis of quality of service is based upon Ortega's compliance with the rules of the Department of Environmental Regulation (DER) and other regulatory agencies, its record of customer complaints and customer and utility testimony at the hearing.

Witness Alan Potter, Sr. testified that Ortega provides its customers with excellent water and sewer service. There was no testimony to the contrary. Indeed, customer witness Violet Roberson testified that "we have been very happy with the utility and we do understand their need for a rate increase but we just question the amount and why it should be this much at this time."

Witness Alan Potter, Jr. testified that the water provided by Ortega meets all primary and secondary drinking water standards as set forth in Chapter 17-22, Florida Administrative Code. He further testified that the wastewater facilities meet all applicable standards established under Chapter 17-6, Florida Administrative Code. Mr. Potter, Jr. agreed, however, that Ortega has been placed on notice that a second well is required at the Herlong Water Treatment Plant. Mr. Potter, Jr. further testified that Ortega has been in violation of this requirement since 1986 but has not and is not currently taking any corrective action.

Based upon the evidence in the record, we find that the quality of service provided by Ortega is satisfactory. However, we also find that Ortega should be in compliance with Chapter 17-22, Florida Administrative Code, which requires a back-up source of supply at the Herlong water treatment plant, within 30 months of the date of this Order.

TEST YEAR

Ortega's application was based upon a 1987 year-end test year. Ortega argues that a year-end test year is appropriate in this case due to the magnitude of year-end construction work in progress (CWIP) and pro forma plant improvements. Ortega contends that the pro forma plant improvements justify the use of a year-end test year because they are required by a regulatory agency in order to meet current regulations, will benefit only test year customers and because the costs of these improvements are subject to reasonably accurate estimation. Ortega argues that, if we do not include the pro forma plant improvements in rate base, it will have to make the improvements and file another rate case in order to recover sufficient operating costs and a fair return on its investment. We do not believe that these arguments justify the use of a year-end test year. These arguments appear to more appropriately concern the inclusion of the pro forma plant improvements in rate base.

It is this Commission's policy that an average test year is appropriate, unless a utility is experiencing extraordinary growth in customers or when it has experienced greatly increased investment costs without a corresponding increase in revenues. This issue has also been addressed by the Supreme Court of Florida on a number of different occasions. In <u>City of Miami v The Florida Public Service Commission</u>, 208 So. 2d 249 (Fla. 1968), the Court held that, in the absence of extraordinary or unusual growth, we should not utilize a year-end rate base, but should rest our decision on the application of an average rate base. In a more recent decision, the Court noted that this Commission should "predicate its decision regarding the use of a year-end rate base on considerations of extraordinary growth . . . It is apparent, however, that the average rate base approach can produce a distorted picture of future conditions when the company is experiencing extraordinary growth due to rapidly increasing demands for services, as in periods of great population influx or when other factors are forcing investments upward without a concomitant increase in revenues." Citizens of the State of Florida v Hawkins, 356 So. 2d 258 (Fla. 1978).

We do not believe that Ortega has justified our departure from an average test year. We have examined its annual reports filed with this Commission for the years 1983 through 1987. These reports indicate that, during the test year, Ortega experienced customer growth of 2.41 percent for water and a customer decrease of 3.67 percent for sewer, as compared to certain periods in which Ortega experienced customer growth ranging from between 10 and 50 percent.

As for an extraordinary increase in investment, a review of Ortega's application reveals that test year CWIP is 11.34 percent of the year-end balance of sewer plant in service, while in 1986, additions were 33.51 percent of this year-end plant balance and in 1985, additions were 17 percent of the year-end plant balance. Accordingly, we do not believe that the magnitude of test year CWIP is extraordinary enough to justify a year-end test year.

Based upon the discussion above, we find that the appropriate test year for this proceeding is the thirteen-month average year ended December 31, 1987.

RATE BASE

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

Used and Useful Adjustments

Ortega contends that all water and sewer facilities are 100 percent used and useful. Witness Avery testified that Ortega serves three separate and distinct areas of Duval County and that, due to the distances between these systems, there is no possibility of interconnecting them at any time in the near future. Therefore, separate used and useful percentages were determined for each system.

Margin Reserve - Pursuant to Section 367.111(1), Florida Statutes, a utility must provide service to the territory described in its certificate within a reasonable time. In order to so do, a utility must have a certain amount of plant in excess of that required to serve existing customers. Margin reserve is an adjustment by which we recognize a portion of the excess capacity.

Witness Potter, Jr. testified that all plant facilities are 100 percent used and useful without a margin reserve and that he included a 20 percent margin reserve for pro forma plant only. Mr. Potter, Jr. testified that he used a margin reserve of 20 percent because it is the maximum amount of margin reserve allowed by the Commission and because growth in the

Airport and Blanding service areas has been in excess of 8 to 10 percent. Further, Mr. Potter, Jr. stated that the only time that he would not use a margin reserve is when there is little or no expectation of growth.

As discussed further herein, we have found that all plant other than the Airport and Blanding sewage treatment plants is 100 percent used and useful without adding a margin reserve. Therefore, we only need to consider the appropriate margin reserve for these two systems.

In calculating a margin reserve, unless more accurate data is available, we generally use the growth pattern established over the most recent five-year period. Mr. Potter, Jr. testified that the average historical growth rate for the Airport sewage treatment plant, through the test year, was 23 equivalent residential connections (ERCs). He also testified that the last remaining building site that is serviceable without a further extension of lines is currently being developed for a 60 room motel. He stated that this motel is expected to consist of 34 ERCs. Since this is the actual anticipated growth rate, it is more accurate and reliable information than the historical growth rate. We, therefore, find that 34 ERCs is the appropriate figure to utilize in calculating a margin reserve for the Airport sewage plant. Mr. Potter, Jr. also testified that the average historical growth rate for the Blanding sewage treatment plant, through the test year, was 133 ERCs. He further testified that Ortega expects growth on this system to remain essentially the same. Accordingly, we find that 133 ERCs should be used as the growth rate in calculating the appropriate margin reserve for the Blanding wastewater plant.

Based upon the discussion above, we find that the appropriate margin reserves are 18,391 gallons (13.04 percent) for the Airport and 88,347 gallons (13.33 percent) for the Blanding sewage treatment plants.

<u>Water Treatment Plants</u> - In its application, Ortega calculated used and useful percentages for each of the three water treatment plants by taking the peak flows in gallons per minute (gpm) multiplied by peaking factors of 4.5 for the Airport system and 3 for the Herlong and Blanding systems. It then added the required fire flows in gpm and divided these amounts by the respective plant capacities. In each case, this ratio exceeded 100 percent. Even without the peaking factor, the ratio between demand and capacity was greater than 100 percent for each of the systems. We find that this is a reasonable method to calculate used and useful. Accordingly, we find that each of Ortega's water treatment plants is 100 percent used and useful.

<u>Sewage Treatment Plants</u> - In its application, Ortega calculated used and useful percentages for each of the three sewage treatment plants by comparing the average daily flows of the peak month for each system, plus a 20 percent margin reserve, to the respective plant capacity. In each case, this ratio exceeded 100 percent. We agree with the basic methodology used, however, we have already found that a margin reserve of 20 percent is inappropriate and that the appropriate margin reserves are 13.04 percent for the Airport sewage

treatment plant and 13.33 percent for the Blanding sewage treatement plant.

At the hearing, witness Potter, Jr. testified that the Airport sewage treatment plant serves only motels and restaurants and that it is, therefore, subject to extremely large seasonal or event peak demands. He argued that, using these peak demands, the Airport sewage treatment plant is 100 percent used and useful. However, Mr. Potter, Jr. failed to provide any peak flow figures or any other evidence to justify a departure from Commission practice, which is to use the average of the daily flows during the peak month.

Based upon the discussion above, we find that the Herlong sewage treatment plant is 100 percent used and useful without the addition of a margin reserve. Further, after adding the appropriate margin reserves to the average daily flows for the peak month, we find that the Blanding sewage treatment plant is 100 percent and the Airport sewage treatment plant is 91.08 percent used and useful.

Water Distribution/Sewage Collection Systems - In its application, Ortega calculated the water transmission and distribution systems and the sewage collection systems to be 100 percent used and useful. Witness Potter, Jr. testified that, although there are still vacant lots on some of its systems, the sizes of the pipes and the densities of the systems must be considered when calculating used and useful percentages for distribution and collection systems. Mr. Potter, Jr. testified that a vacant lot next to a twelve-inch line should not be considered equivalent to a vacant lot next to a two-inch line. He further stated that, even though a facility might be able to serve more customers, if the lines are of the smallest size that could prudently provide the minimum required service, those lines should be considered 100 percent used and useful. We find Ortega's argument persuasive. Accordingly, we find that the water transmission and distribution systems and the wastewater collection systems are 100 percent used and useful.

Inclusion of Pro Forma Plant

In its application, Ortega included $306,800 in pro forma plant additions for water and $314,546 in pro forma plant additions for sewer in its calculations of rate base. Of the total for sewer, $161,251 was actually incurred during the test year as CWIP. CWIP is addressed further within this Order. Here, we address the remaining balances of pro forma plant, in the amounts of $306,800 for water and $153,295 for sewer.

Ortega argues that the pro forma plant additions should be included in rate base because they are required by a regulatory agency in order to meet current regulations, will benefit only test year customers and because the costs of these improvements are subject to reasonably accurate estimation. Ortega argues that, if we do not allow these pro forma plant improvements, Ortega will need to file another rate case after making the improvements, in order to recover sufficient operating costs and a fair return on its investment.

We have a number of concerns regarding these pro forma plant improvements. First and foremost, Ortega states that these plant additions will be completed within 30 months. This is more than two years from the filing date and more than three years from the end of the test year. Pursuant to Section 367.081(2), Florida Statutes, we only consider investment in property required by a duly authorized governmental agency which will be "constructed in the public interest within a reasonable time in the future, not to exceed 24 months." Ortega's estimated completion date is well beyond this statutory period. Even had Ortega filed under a projected test year, we would not consider construction for which the estimated date of completion is more than 24 months from the end of the historical reference year.

Second, Ortega does not even have contracts for six of the projects, which it estimates will cost $9,000 for water and $67,200 for sewer. In addition, there has been no construction on any of these projects. In the absence of contracts, we cannot verify the costs or assure ourselves that the estimates are at fair market value. Ortega does have contracts for the remaining projects, however, these are with an affiliated company, on a "cost plus" basis. Ortega has estimated the costs of these projects to be approximately $297,800 for water and $86,095 for sewer. Since these contracts are with an affiliate of Ortega's, on a cost plus basis, we also cannot be confident that these are at fair market value.

Third, we are concerned about Ortega's record of project completion. Several of the above-referenced contracts are already several years old, yet none of the projects have even been commenced. In addition, as mentioned above, Ortega has been under citation for the lack of a back-up water supply since 1986, but has yet to begin construction of a back-up well.

Fourth, and last, Ortega has indicated that several of the pro forma additions will add capacity. Therefore, these plant items would be considered revenue producing items, which we would normally not allow in an historical test year.

Based upon the foregoing discussion, we do not believe that it is appropriate to include the proposed pro forma plant additions in rate base at this time. While it concerns us that excluding these additions may result in Ortega having to file another rate case, we nonetheless conclude that Ortega was premature in its request to include these pro forma plant additions. Accordingly, we have removed $306,800 in pro forma plant additions for water and $153,295 in pro forma plant additions for sewer.

At the prehearing conference, Ortega raised as an issue whether there were any pending orders from any governmental agencies which would require additional expenditures for plant which was not included in its application. There is no support in the record for such orders or expenditures. In addition, any such expenditures are outside of the test year, outside of the record and not within the contemplation of this proceeding. We note, however, that Ortega no longer considers this to be an issue. We, therefore, find that no adjustment is necessary.

Pro Forma Land

In addition to pro forma plant additions, Ortega also included $20,000 in pro forma land costs, for an aeration basin, in its calculation of rate base. The land is currently owned by Ortega's owner, Mr. Potter, Sr. Ortega has neither purchased this land, nor does it have a contract for this land. Without an executed contract, we cannot assure ourselves that the land is being purchased at fair market value. Further, the land is not currently used in the provision of utility service to the public.

Based upon the evidence of record, we find that Ortega has no investment in this land and that it's request to include the land was, therefore, premature. We do not believe that it is appropriate to allow the land in rate base until it has been purchased and placed into utility service. We have, therefore, removed the $20,000 in pro forma land costs.

Plant Held For Future Use

Plant held for future use is an adjustment by which we apply the appropriate non-used and useful percentages to the final plant account balances. A problem arises, in that Ortega does not maintain separate records for each of its systems. It did, however, provide a late-filed exhibit detailing separate costs, by account, for several of its systems. Since we have already found that all plant other than the Airport sewage treatment plant is 100 percent used and useful, only this plant needs to be adjusted for plant held for future use. In addition, the only appropriate adjustment is to account 380.4, treatment and disposal equipment. The total amount of this account is $72,105.10. Applying the appropriate non-used and useful percentage to this total results in a reduction to account 380.4 of $6,432, however, we must adjust this amount for accumulated depreciation. Account 380.4 comprises 36.52 percent of the total Airport sewage treatment plant accounts. When this percentage is applied to the total accumulated depreciation balance for the Airport system, it results in an accumulated depreciation balance of $6,524 for account 380.4. Applying the appropriate non-used and useful percentage to this amount results in a decrease of $582 to accumulated depreciation.

Based upon the analysis above, we find that the appropriate net reduction for plant held for future use is $5,850.

CWIP

In its application, Ortega included in its calculation of rate base, $161,251 for the construction of a new clarifier at the Blanding sewage treatment plant. Ortega also included $10,321 in test year CWIP for improvements to a pump station. Ortega contends that these plant improvements are 100 percent used and useful in the provision of service to test year customers.

During the test year, the Blanding sewage treatment plant was unable to meet the existing demands. As a result, a significant portion of the sewage flows were treated by Kingsley Service Company (Kingsley), at a cost of $23,687.15.

Ortega argues that the new clarifier will enable it to meet current customer demands as well as DER rules and permit and zero-discharge requirements.

Generally, if CWIP will add capacity, we consider it to be revenue producing and exclude it from rate base. However, while the new clarifier will add capacity, the added capacity is to meet demands which are currently being handled by Kingsley. Further, we note that the improvements to the pump station will not increase capacity. Accordingly, we have included $171,572 in CWIP in our calculation of rate base.

We note that CWIP is generally included in rate base at its thirteen-month average balance if an average test year is used. However, including CWIP at its average balance and applying the appropriate non-used and useful percentage to the plant balances would actually result in a decrease to rate base. Since the clarifier is complete and necessary to handle current customer demands, we have, therefore, included CWIP at the full year-end cost. We also note that Ortega will experience a reduction in costs because it will no longer need to purchase sewage treatment service from Kingsley. However, it will also incur an increase of $1,770.25 in purchased power. Accordingly, we have reduced sewer expenses by a net total of $21,916.90.

Accumulated Depreciation/Amortization of CIAC

In its application, Ortega adjusted depreciation expense by $9,792 for water and $9,279 for sewer, to account for its proposed pro forma additions and to annualize depreciation on existing assets as of December 31, 1987. According to the MFRs, the portion that reflects its annualization adjustment is $2,122 for water and $1,415 for sewer. We find that Ortega's annualization adjustment is correct and have, therefore, increased depreciation expense and accumulated depreciation by these amounts.

The remaining balances of $7,670 for water and $7,864 for sewer pertain to depreciation on pro forma plant. Since we have already disallowed the utility's proposed pro forma plant additions, we find that it would be inappropriate to include depreciation on this pro forma plant. Utility witness Avery agreed that if the pro forma plant was excluded, this portion of the adjustment to depreciation expense and accumulated depreciation would be inappropriate. Accordingly, we hereby disallow the proposed adjustments of $7,670 for water and $7,864 for sewer.

Further within this Order, we have adjusted Ortega's depreciation rates to conform to Rule 25-30.140, Florida Administrative Code. When a pro forma adjustment to depreciation expense is made, a corresponding adjustment to the reserve balances of accumulated depreciation and amortization of CIAC must also be made to restate these balances as if the new depreciation rates were in effect at the beginning of the test year. Witness Avery agreed that accumulated depreciation is the logical other half of the entry if depreciation expense is increased due to a change in depreciation rates. Mr. Avery also agreed that if corresponding adjustments to the reserve accounts are not made, accumulated depreciation will be understated and rate base overstated.

Accordingly, we find it appropriate to increase accumulated depreciation by $15,566 for water and by $24,599 for sewer. We also find it appropriate to increase accumulated amortization of CIAC by $7,073 for water and $19,510 for sewer.

Working Capital Allowance

Method - Witness Avery testified that, using the balance sheet approach, no working capital investment is apparent. Mr. Avery indicated that this is due to Ortega's extreme financial loss during 1987. Ortega argues that it has substantial investment in working capital, whether apparent on the face of the balance sheet or not. Therefore, Ortega used the one-eighth of O & M method to calculate working capital.

Mr. Avery agreed that Commission policy is to utilize the balance sheet method to calculate working capital. We prefer the balance sheet method because it is more precise and results in a closer correlation between a utility's rate base and its capital structure. One problem with the formula approach is that it always results in a positive working capital allowance. Simply because the balance sheet approach may not produce a positive working capital allowance does not, in our opinion, justify a departure from the use of that approach. We, therefore, find that the appropriate method to calculate working capital for this proceeding is the balance sheet method.

Deferred Rate Case Expense - At the hearing, Mr. Avery agreed that if the balance sheet method of calculating working capital is used, an adjustment would need to be made to reflect deferred rate case expense. Mr. Avery also agreed that it is Commission policy to include only the average unamortized balance of deferred rate case expense in the working capital calculation. We, therefore, find that $46,315 is the appropriate amount of deferred rate case expense to include in the working capital calculation.

Deferred Debits - Using the one-eighth O & M method of calculating working capital, Ortega did not include any other deferred debits. Further within this Order, we have found that a gain on the disposition of utility property and litigation costs associated with defending Ortega's service territory should be deferred and amortized over a five-year period. Accordingly, we find it appropriate to include the average unamortized balances in the working capital allowance calculation.

Working Capital Allowance - Using the balance sheet method of calculating working capital and including the adjustments discussed above, we find that the appropriate working capital allowances to be included in rate base are $8,046 for water and $0 for sewer.

Rate Base

Based upon Ortega's application and the adjustments discussed above, we find that Ortega's thirteen-month average rate bases are $819,709 for water and $545,195 for sewer.

COST OF CAPITAL

Our calculation of the appropriate overall rate of return is reflected on Schedule No. 2-A, with our adjustments itemized on Schedule No. 2-B.

Pro Forma Debt

In its application, Ortega included pro forma debt in its capital structure to finance the proposed pro forma plant additions. Witness Avery agreed that if the pro forma plant additions were excluded from rate base, pro forma debt for these additions should be excluded as well. Since we have already excluded the pro forma plant additions from rate base, we find it appropriate to exclude the associated pro forma debt from Ortega's capital structure.

Test Year Debt

According to Ortega's application, with a correction to notes payable made by witness Avery, the year-end debt total is $1,146,191, which excludes a reduction for debt discount. We find that the discount amortization is a cost of debt and should, therefore, be included in the capital structure and used to determine the test year debt total and effective cost rate. In addition, we have increased long term debt by a net amount of $95,241, in order to account for CWIP being included at its year-end amount. Based upon Ortega's application and the adjustments discussed herein, we find that the average test year balance of debt, excluding proforma debt, is $1,014,881.

Long Term Debt Cost - Only two of the debt instruments included in Ortega's MFRs are for long term debt. One of these instruments has a fixed rate of 10 percent. For the other, Ortega calculated a variable rate of 9.92 percent based upon a five-year average. Ortega used a five-year average because of the short-term fluctuations in interest rates. While we agree that fluctuations are reduced if a longer period than thirteen months is used to calculate the effective interest rate, the purpose of this case is to establish cost of service rates based upon a test period. Since all of the rate base components have been included at their thirteen-month average balances, with one exception, we find that the capital components should be calculated based upon a thirteen-month average. We note that the variable rate instrument has a floor of 8 percent. Based upon the utility's application and the adjustments discussed herein, we find that the appropriate thirteen month average cost of long term debt is 9.97 percent.

Short Term Debt Cost - Ortega calculated the cost of variable rate short term debt to be 9.60 percent, based upon a five year average. As discussed under our treatment of long term debt, above, we find it inappropriate to base the cost of debt upon a period which does not correspond to the other components of this case. Accordingly, we have recalculated the cost of variable rate short term debt based upon a thirteen month average. We note again that the American National Bank obligations have a minimum rate of 8 percent. Based upon the utility's application, we find that the thirteen month average cost of short term debt is 11.46 percent.

Deferred Tax Balance

In its application, Ortega calculated a deferred tax balance of $15,597, as of December 31, 1987. In that calculation, Ortega offset taxable income per books with net operating loss (NOL) carryforwards from the tax returns. Pursuant to Generally Accepted Accounting Principles (GAAP), Accounting Principles Board Opinion (APB) No. 11, book losses should be used to offset book taxable income, as tax losses offset taxable income per tax returns. Accordingly, we have recalculated the deferred tax balance to reflect the state and federal book tax expenses that we have found appropriate, further within this Order, in our discussion of NOI. We find that, on an average basis, the deferred tax balance is $5,900.

Investment Tax Credit (ITC) Balance

At the hearing, witness Avery stated that Ortega has been amortizing ITCs over forty years, beginning when the credit is used on the tax return. Under this method, ITCs will not be completely amortized by the time the underlying asset is fully depreciated. Mr. Avery agreed that ITCs should be amortized over the remaining lives of the underlying assets, beginning in the year in which the credit is used on the tax return. Accordingly, Ortega shall begin amortizing the remaining credits over the remaining lives of the underlying assets, on a prospective basis. Since the amounts involved are small, we will not require Ortega to recalculate the current unamortized balance.

Based upon Ortega's application and the discussion above, we find that the appropriate unamortized ITC balance is $17,851 as of December 31, 1987.

Overall Rate of Return

Based upon our discussion above, we find that the appropriate overall rate of return, for the purpose of this proceeding, is 11.52 percent, with a range of 11.28 percent to 11.76 percent.

NET OPERATING INCOME

Our calculations of NOI are reflected on Schedules Nos. 3-A for water and 3-B for sewer, with our adjustments detailed on Schedule No. 3-C. A breakdown of the water and sewer operation and maintenance expenses, by primary account, is shown on Schedules Nos. 4 for water and 5 for sewer.

Pro Forma Salary Adjustments

In its application, Ortega included a pro forma adjustment of $76,539 for three Class C operators. According to utility testimony, this adjustment was included in order to comply with Jacksonville Environmental Protection Board (EPB) Rule 3. This rule requires that each wastewater utility in Duval County either interconnect with a utility designated as a regional facility, or be in the process of obtaining regional facility status, by 1992. In order to be designated as a regional facility, a utility must operate as though it were at least a 1.0 million gallon per day (gpd) plant, regardless of its actual capacity, which will require a full-time operator at each of its sewer plants on a full 40-hour per week basis. Ortega allocated this cost 25 percent to water and 75 percent to sewer.

We have a number of concerns about this adjustment. Ortega testified that EPB Rule 3 requires each utility to operate its facilities as though it were at least a 1.0 MGD plant. It is not. Additionally, having a Class C operator is a requirement for a utility to be granted regional status. Of its three wastewater facilities, only the Blanding facility has been classified regional, however, Ortega has not hired a Class C operator for this facility. The Blanding system is, therefore, in violation of a requirement for attaining regional status, however, it is not in violation of any treatment or service requirements. In other words, by virtue of EPB Rule 3, Ortega must incur additional expenses, which it has not incurred to date, which expenses would not be required in the absence of the rule and which provide no apparent benefit to customers.

We believe that Ortega's request for the three pro forma Class C operators is premature. Ortega has already stated that, unless we include the pro forma plant improvements in rate base for this proceeding, it will most likely be back at this Commission seeking increased rates in about two years. We believe that the issue of these operators would be more appropriately addressed at that time. We, therefore, find it appropriate to remove the $76,539 pro forma adjustment for the three Class C operators

Salaries and Wages

Effective June 30, 1987, Ortega changed from paying a number of employees on a contract basis to a salaried basis. This change will be in effect when the rates will be implemented and we, therefore, find it appropriate to annualize these salaries as if they were paid during the entire test year. Witness Avery testified that our preliminary calculations of these amounts excluded certain salary related costs, including worker's compensation insurance, medical insurance, general liability insurance, Christmas bonuses and office rent overhead. While we do not believe that the office rent overhead is appropriate, the amount is immaterial and so we have made no adjustment. The other overhead factors are appropriate costs and appear reasonable. Based upon the utility's application and the adjustments addressed above, we find that the appropriate amount of salaries and wages, fully loaded, is $120,568.

Rate Case Expense

In its application, Ortega estimated rate case expense to be $91,200. In response to a Staff interrogatory, the utility was able to document rate case expense of $78,186. In addition, Ortega supplied a late filed exhibit detailing its estimated rate case expense through completion of the case. This exhibit lists a total rate case expense of $106,697. Our review of this exhibit reveals hourly rates which, in our opinion, are competitive and reasonable. However, we have a number of concerns regarding secretarial and clerical time. Witness Avery testified that Ortega filed its case under the new MFRs and that his consulting firm, Diversified Utilities Consultants, Inc. (Diversified) had to put all of the new schedules on its computer, which took quite some time. We believe that, once these schedules are on Diversified's computer, further modifications and data input time will be minimal. We believe that these start-up costs will benefit more than just Ortega and that they should, therefore, be spread among more of Diversified's clients. However, since this was a late filed exhibit, there is no evidence regarding how many of Diversified's clients will actually be benefitted. Nevertheless, we believe that at least one-fourth of these costs, or $14,067.24, should not be borne by Ortega's customers. We have, accordingly, reduced the amount of rate case expense by this amount.

Based upon the foregoing analysis, we find that the appropriate amount of allowable rate case expense for this proceeding is $92,629.32.

Amortization of Rate Case Expense

Ortega provided testimony that five years would be an appropriate period over which to amortize rate case expense if its pro forma adjustments were allowed but that, if not, a period of two years would be appropriate.

Commission practice is to amortize rate case expense over four years unless a utility's rate case history indicates a more appropriate amortization period. The four-year period is due, in part, to the availability of index and pass-through rate adjustments and limited proceedings. A review of the record does not indicate that Ortega has justified any period shorter than four years. Indeed, it has been twelve years since its last rate proceeding. We find, therefore, that rate case expense should be amortized over a four-year period.

Gain on Disposition of Property

During the test year, Ortega experienced a gain on the disposition of some stolen utility property. The utility proposes to exclude the entire gain from consideration in this docket due to the nonrecurring nature of such a disposition. While we agree that the gain is nonrecurring in nature, Ortega's customers did share in the cost of the equipment, through depreciation and a rate of return on the asset. Since the customers shared in the cost, we believe that they should also share in the benefit derived from the gain. Such treatment is consistent with past Commission practice regarding such matters. Based upon the discussion above, we find that the $5,637 gain should be deferred and amortized over a five-year period. Further, we find that the average unamortized balance should be included in the working capital allowance calculation.

Litigation Expenses

In its application, Ortega included $15,226.62 (20 percent of the total) for water and $8,821.50 (8 percent of the total) for sewer, in contractual services for litigation regarding its service area. Ortega seeks the inclusion of the entire amount in test year expenses, arguing that it will most likely incur such expenses in the future. At the hearing, witness Avery testified that actions taken by a utility to defend or expand its certificated area will benefit the customers for longer than one year. We believe that, if an expense benefits customers for a period greater than one year, the expense should be amortized over the period during which the customers will receive the benefit. While the period of time during which the customers will benefit from such actions is not fully known, we find that a five-year amortization period is appropriate. Accordingly, we find that the appropriate amounts to include in test year expenses are $3,045 for water and $1,764 for sewer. We further find it appropriate to include the remaining amounts as deferred debits in the working capital allowance.

Benchmark Analysis

Commission policy has been to perform a benchmark analysis and adjust expenses which have increased faster than customer growth and the consumer price index (CPI) unless a utility can justify the increase. Witness Avery testified that he had examined O & M expenses thoroughly and did not believe that any of the expenses were excessive or inappropriate. He further testified that O & M expenses reflected efficient, inexpensive operation of the utility, which benefits the customers. Accordingly, he argued that a benchmark analysis is not warranted in this case. In addition, Mr. Avery provided an analysis which shows that the cost per customer for the test year is less than the cost per customer of the expenses allowed in the prior rate case indexed for CPI and customer growth.

Pages 70 and 71 of the MFR's compare the growth in O & M expenses to customer growth and inflation. The accounts which appear most out of line are salaries, fuel for purchased power, contractual services, transportation, rental expense, insurance, chemicals, other regulatory commission expense and purchased sewage treatment. However, we note that, for all of these accounts, except for salaries and contractual services, no expense appears to have been allowed in the utility's last rate case. Therefore, these calculations are meaningless. In addition, we note that, since the NARUC accounts have changed twice since the utility's last rate case, the classifications may not match up.

As for salaries and wages and contractual services, as already noted, Ortega converted from a contractual basis to a salaried basis during the test year. In addition, a review of the salary and contractual services accounts in the prior rate case reveal minimal allowed levels.

The next largest increase occured in the category of other regulatory commission expense. This expense is a result of extensive litigation with the City of Jacksonville. As stated in its application, Ortega was hit with an onslaught of regulatory demands and was placed in a position of having to defend its certificated territory in 1986 and 1987. Such costs were neither common nor included in expenses in the 1976 rate case.

Based upon the foregoing discussion, we agree with Ortega that no benchmark analysis is appropriate in this case.

Depreciation Expense

In its MFRs, test year depreciation expense was based upon the depreciation rates established in the 1976 rate case. That rate was 2.5 percent. We believe that, for the purpose of establishing rates in this case, depreciation expense should be adjusted to reflect the current rates prescribed in Rule 25-30.140, Florida Administrative Code. Witness Avery testified that Ortega agrees to such an adjustment. Accordingly, we find it appropriate to adjust depreciation expense to the guideline rates. This results in increases of $8,493 to water expense and $5,089 to sewer expense.

Amortization Expense For Limited Term Assets

According to pages 60 and 61 of the MFR's, Ortega has requested amortization expenses, in the amounts of $17,120 for water and $20,720 for sewer, for "limited term assets." Of these totals, $9,120 for water and $9,120 for sewer represent amortization of rate case expense, which is discussed separately. Here, we only address the remaining balances of $8,000 for water and $11,600 for sewer.

Witness Avery testified that Ortega anticipates an immediate need to perform major repairs to its tanks, aerators and other components of its systems. In addition, Ortega has included, in this adjustment, amortization of the estimated costs to comply with the master plan requirement of EPB Rule 3. Ortega proposes to amortize the repairs over five years due to its experience that that tanks and aerators last no longer than five or six years.

We have a number of concerns with this proposed adjustment. For instance, the repairs have not been completed and Ortega does not have contracts for the work. Without contracts, we do not believe that the costs can be quantified or verified at this time. In addition, the work was not let out on bid. As a result, we cannot assure ourselves that the work has or will be done at a fair market price. Finally, Mr. Avery testified that the proposed work would extend the lives of the assets. Mr. Avery indicates that Ortega did not propose capitalizing the new asset and retiring the old because the account life of the particular assets are much longer than indicated by experience. Under the NARUC Uniform System of Accounts, capitalization and retirement is the preferred accounting method if a major repair will extend the life of an asset, even if the utility has had to repair or replace these assets over a shorter time period than indicated. We believe that the historical data would more appropriately justify a shorter depreciation period.

Turning to the master plan expense, we note a number of similar concerns. The work has neither been done nor contracted. In addition, it has not been let out on bid. As a result, we can neither verify the costs nor assure ourselves that Ortega will receive a fair market price for the work. More importantly, Witness Potter, Jr. testified that Ortega has applied for and expects to be granted an extension of time in which to prepare the master plan, however, he did not indicate when it would be completed.

Based upon the discussion above, we find that Ortega was premature in its request for these expenses. We have, therefore, removed $8,000 for water and $11,600 for sewer limited term asset amortization expenses.

Pro Forma Taxes

In its application, Ortega included in test year expenses $6,129 for water and $7,562 for sewer pro forma personal and real property taxes associated with the pro forma plant. Ortega testified that these expenses are directly related to the pro forma plant and agreed that, if the pro forma plant is not allowed in rate base, the associated taxes should not be allowed in cost of service. Since we have already excluded the pro forma plant, we find it appropriate to remove pro forma taxes of $6,129 for water and $7,562 for sewer.

Lost Early Payment Discount

Commission policy has been to reduce operating expenses for interest incurred due to late payment, on the grounds that the expense is avoidable and that we should not condone the incurrence of unnecessary expenses. Witness Avery testified that you cannot pay an expense if you do not have the money. He further testified that it is a management decision whether to defer the payment or borrow the money to pay it. We agree that this is a management decision, however, we do not believe that it is appropriate to require the customers to pay for an avoidable cost which management chose to incur. That is a cost which should be borne by the utility owners.

Ortega neither presented any testimony regarding the appropriateness of our policy nor why we should depart from our policy. We, therefore, find that taxes other than income taxes should be reduced by $310 for water and $768 for sewer to reflect the lost early payment discount.

Income Tax Expense

In its MFRs, Ortega shows a NOL carryforward, for tax purposes, as of December 31, 1987, of $215,723, which is available to offset taxable income in future years, and a corresponding book operating loss of $128,785. Ortega's MFRs also show an ITC carryforward, as of the same date, of $22,761 which, within the limitations of Section 49, Internal Revenue Code (IRC), may be used to reduce the tax liability after all NOL's have been consumed.

It appears that Ortega's NOL carryforwards are overstated because its calculation does not take into account federal and state loss carryover rules. Under the IRC, NOL's may be carried back three and forward fifteen years, whereas Florida tax law allows only a carryforward. Under GAAP, A.P.B. No. 11, book losses must offset book taxable income just as tax losses must offset taxable income on the tax returns. In other words, state and federal book tax expenses are calculated using the same rules, applied to book taxable income. We have, therefore, recalculated book income tax expense to reflect these differences. The recalculated NOL carryovers available as of December 31, 1987, are $103,272 for federal and $132,299 for state income tax purposes. These losses completely offset all test year federal and state income tax expense per books, based upon our adjustments to revenues and expenses. Since all current taxable income will be offset by the available tax NOL's, we find it appropriate to remove all income tax expense.

ITC Amortization

In its MFRs, Ortega incorrectly reduced income tax expense by ITC amortization. Ortega is an Option 1 company and under IRC Sec. 46(f), is required to amortize ITCs below the line. However, since we have disallowed any income tax expense, we find that no adjustment is required.

Net Operating Loss

Based upon Ortega's application and the adjustments discussed above, we find that the utility suffered a test year net operating loss of $21,141 on its water operations and $16,894 on its sewer operations.

REVENUE REQUIREMENTS

Based upon Ortega's application and the adjustments discussed herein, we find that the appropriate total annual revenue requirements are $297,162 for Ortega's water operations and $340,562 for its sewer operations. These revenue requirements represent increases of $118,539 (66.36 percent) for water and $81,750 (31.59 percent) for sewer.

RATES

Unmetered Duplexes

Ortega provides service to 45 duplexes, or 90 units, which are unmetered. These units are connected to the transmission main by two-inch distribution lines which run through the rear of the properties. The back yards of these units are all enclosed by chain-link fences. Ortega provided testimony that, if it was required to meter these units, the combination of the rear connections and fenced enclosures would render meter reading exceptionally difficult. Further, while the record does not directly address the cost of individually metering these duplexes, it does indicate that it would be cost prohibitive. Witness Potter, Jr. testified that Ortega could master meter three of the lines running to the duplexes, but that the remaining line could not be master metered because water is also provided to another metered service area through this line. Again, while the record does not directly address the cost of master metering, it does indicate that it would also be cost prohibitive.

Under Rule 25-30.255, Florida Administrative Code, "each utility shall measure water sold upon the basis of metered volume sales unless the Commission [has] approved flat rate service arrangements for that utility." Witness Potter, Jr. testified that Ortega has been charging these duplexes its one-inch general service minimum charge, which arrangement has not previously been approved by this Commission. This arrangement amounts to an allotment of 7,500 gallons per quarter or 83 gallons per day to each duplex unit.

We have already approved a stipulation that Ortega should use a base facility charge rate structure for all metered customers. However, it does not appear that such a rate structure would be appropriate for these unmetered customers. For these units, the utility proposed a flat rate structure based upon the average flows of similar, metered units. Witness Potter, Jr. testified that an appropriate range of average flows for such similar units is between 170 and 200 gallons per day. This testimony is supported by Ortega's MFRs, which indicate that there are 18 metered duplexes which are identical to the 45 unmetered duplexes. During the test year, these units used an average of 170 gallons per day.

Based upon the utility's application and testimony provided at the hearing, we find that it would be cost prohibitive to require Ortega to individually or master meter these duplexes. Additionally, we find that the unmetered units should be billed flat rates based upon an average usage of 170 gpd. However, we are uncomfortable with these units being charged non-metered rates. In addition, without at least master metering the units, we cannot determine what level of unaccounted for water, if any, exists in the area. We, therefore, direct Ortega to thoroughly look into the various options available for metering these units so that, in a future rate proceeding, we may have a more definitive measure of use.

<u>Rates Associated With Pro Forma Plant</u>

Ortega requested rates based, in part, upon pro forma plant additions and the associated expenses. Since we have already disallowed this pro forma plant, we find it inappropriate to allow rates based upon that plant.

<u>Commercial Rate Differential</u>

Ortega currently charges commercial water rates which are 1.25 times residential rates. Commercial sewer rates have no such differential built in. Ortega provided testimony that commercial users place more of an instantaneous demand upon a system and that it must, therefore, have water available to meet this demand. Accordingly, commercial users should pay a differential for having this capacity available. Additionally, Ortega testified that, if we approve increased rates and do away with the commercial water gallonage rate differential, residential customers would be impacted by the rate increase more heavily than general service customers. Although we are sympathetic to its arguments, we do not believe that the commercial water rate differential is appropriate. In fact, we believe that the differential is discriminatory in nature. Commercial customers use water over the same time period as residential customers and water costs no more to pump, treat and distribute for commercial than for residential customers.

<u>Rate Structure</u>

The water rates approved herein are based upon the base facility/gallonage charge rate structure and are uniform for residential and general service customers. The rates for sewer service are also uniform for residential and general service customers, except that, for residential service, there is a gallonage charge cap of 30,000 gallons per quarter. There is no such cap for general service. The 30,000 gallon cap is designed to recognize that a portion of the water used by residential customers is used for irrigation and is, therefore, not returned to the sewer system.

1989 Pass-Through Rate Adjustment

On March 3, 1989, Ortega notified this Commission of its intent to increase water and sewer rates, pursuant to an increase in ad valorem taxes, by application of the pass-through provisions of Section 367.081(4)(b), Florida Statutes. Ortega elected to waive the thirty-day implementation provisions of that section and has informed us that it intends to implement the pass-through increase concurrently with the final rates determined pursuant to this proceeding. By Order No. 20959, issued March 29, 1989, we acknowledged the pass-through rate increase.

Approved Rates

Below is a comparison of Ortega's original rates, those approved for interim purposes, its proposed final rates, the final rates approved pursuant to this proceeding and the final rates as adjusted by the 1989 ad valorem pass-through rate adjustment.

QUARTERLY WATER RATES

RESIDENTIAL SERVICE

		Minimum Charge		Base Facility Charge		
Meter Size	Min. Gal.*	Orig. Min. Charge	Interim Rates	Ortega-Req'd	Comm.-App'd	With Pass Through
5/8" x 3/4"	9	$8.26	$ 12.73	$ 27.02	$ 15.03	$ 15.70
1"	-	-	-	67.55	37.58	39.24
1 - 1/2"	-	-	-	135.10	75.15	78.48
2"	-	-	-	216.16	120.24	125.57
Excess Charge, Per 1,000 gal.		.51	.79	-	-	-
Gallonage Charge, Per 1,000 gal.		-	-	.97	.86	.90
Unmetered Duplexes Flat Rate Per Duplex		17.39	26.80	67.55	56.38	58.88

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QUARTERLY WATER RATES

GENERAL SERVICE

Meter Size	Min. Gal.*	Orig. Min. Charge	Interim Rates	Ortega-Req'd	Comm.-App'd	With Pass-Through
	Minimum Charge			Base Facility Charge		
	* In 1,000 gallons					
5/8" x 3/4"	9	$ 8.26	$ 12.73	$ 27.02	$15.03	$15.70
1"	15	17.39	26.80	67.55	37.58	39.24
1-1/2"	30	34.77	53.58	135.10	75.15	78.48
2"	48	55.65	85.76	216.16	120.24	125.57
3"	90	104.32	160.76	472.85	240.48	251.13
4"	150	173.87	267.93	810.60	375.75	392.40
6"	-	-	-	1,351.00	751.50	784.79
Excess Charge, Per 1,000 gal.						
5/8" x 3/4"		.51	.79	-	-	-
1" & over		.64	.99			
Gallonage Charge, Per 1,000 gal.		-	-	.97	.86	.90

QUARTERLY SEWER RATES

RESIDENTIAL SERVICE

	Original Rate	Interim Rate	Ortega Requested	Commission Approved	With Pass-Through
	Flat Rate		Base Facility Charge		
All Meter Sizes	$ 22.17	$ 27.21	$ 42.08	$ 17.09	$ 17.61
Gallonage Charge, per 1,000 gallons (30,000 gal. maximum)	-	-	.98	.95	1.00
Unmetered Duplexes Flat Rate Per Duplex	27.52	33.78	105.20	63.98	65.68

QUARTERLY SEWER RATES

GENERAL SERVICE

	Flat Rate		Base Facility Charge		
Meter Size	(1) Original Rate	(2) Interim Rate	Ortega Requested	Commission Approved	With Pass-Through
5/8" x 3/4"	$ 22.17	$ 27.21	$ 42.08	$ 17.09	$ 17.61
1"	27.52	33.78	105.20	42.73	44.02
1 - 1/2"	55.03	67.55	210.40	85.45	88.03
2"	88.06	108.09	336.64	136.72	140.85
3"	165.09	202.65	736.40	273.44	281.70
4"	275.16	337.76	1,262.40	427.25	440.15
6"	-	-	2,104.00	854.50	880.31
Gallonage Charge, per 1,000 gal.	-	-	1.16	1.14	1.19

(1) 158.25 percent of water bill or minimum charge as listed by meter size, whichever is greater.

(2) 125.59 percent of water bill or minimum charge as listed by meter size, whichever is greater.

The rates approved herein are designed to allow Ortega the opportunity to earn the revenue requirements approved above. Prior to its implementation of these rates, Ortega shall submit revised tariff pages and a proposed notice to its customers of the increased rates and the reasons therefor. The revised tariff pages will be approved upon Staff's verification that they accurately reflect this Commission's decision and upon its approval of the proposed customer notice. The final approved rates, adjusted for the pass-through rate increase, will be effective for service rendered on or after the stamped approval date on the revised tariff sheets.

SERVICE AVAILABILITY CHARGES

System Capacity and Main Extension Charges

Ortega's service availability policy has been to collect system capacity charges of $140 per lot for water and $210 per lot for sewer. Ortega has also been collecting a main extension charge of $100 per lot. Ortega has also required developers to install and donate all lines necessary to connect to Ortega's systems.

Meter Installation Fees

Since 1965, Ortega has required developers to pay for meter installations at actual cost. In Ortega's 1976 rate case, we approved meter installation fees designed to recover the cost of installing the meter, including labor and materials. By Order No. 7671, we approved a $75 installation fee for a 5/8 inch by 3/4 inch meter. Ortega has been charging $125 for the installation of such a meter, which is $50 in excess of its approved charge. Although costs may have escalated, Ortega must charge its approved tariff charges until such time as we approve an increased charge. We find that Ortega has been charging an unapproved meter installation charge, in violation of Section 367.081(1), Florida Statutes, and that it must, therefore, refund the overcollections in accordance with Rule 25-30.360, Florida Administrative Code. Ortega shall refund the overcollected amounts within a reasonable time, but in any event, prior to its filing its service availability case, and provide this Commission with a breakdown of the excess amounts collected and its disposition of the overcollected amounts pursuant to the provisions of this Order.

Service Availability Charges

Ortega is currently 41 percent contributed for its water systems and 68 percent contributed for its sewer systems. It is somewhat difficult to project what the utility's level of contribution will be when it reaches design capacity, due to questions surrounding new construction to comply with the environmental requirements. Among other uncertainties, Ortega is presently contesting DER's proposed zero discharge order. Ortega has indicated its willingness to file a service availability case upon completion of the litigation with DER. We believe that this is reasonable, due to the fact that the cost of the proposed requirements cannot be determined until this litigation has been completed. Ortega expects that this litigation with DER will be completed by late August, 1989. We, therefore, find it appropriate to require Ortega to file a service availability case within a reasonable time thereafter.

COMPLIANCE WITH NARUC SYSTEM OF ACCOUNTS

Under Rule 25-30.115, Florida Administrative Code, all water and sewer utilities are required to maintain their accounts and records in conformance with the 1984 NARUC Uniform System of Accounts. General Accounting Instruction No. 3 details the account numbering scheme to be used. Section D states that each utility may adopt such scheme of account numbers as it deems appropriate, provided that it keep readily available, a list of the account numbers and subdivisions of accounts which it uses and a reconciliation of such numbers and subdivisions with the account numbers and titles provided in the NARUC Chart of Accounts.

General Accounting Instruction No. 4 requires each utility to keep its books on a monthly basis so that, for each accounting period, all transactions applicable thereto, as nearly as may be ascertained, shall be entered in the books of the utility. Each utility shall close its books at the end of each calendar year unless otherwise authorized by the Commission.

Witness Avery testified that Ortega does not perform a monthly close-out of its records and does not have adequate funds to perform monthly close-outs. He estimated that an additional $12,000 per year would be necessary in order to accomplish this. Rule 25-30.115, Florida Administrative Code, does not require monthly close-outs, but rather that a utility record or accrue expenses and revenue payables and receivables at the end of each month. A full close-out is more involved and costly and would result in a complete set of financial statements every month. Mr. Avery testified that he reconciles and adjusts everything to the proper NARUC accounts at year-end. This could potentially result in great expense if Ortega sought rate relief and was granted a test year ending at any other time than December. With monthly accruals, the processes of obtaining non year-end test year data would be facilitated. Accordingly, we find it appropriate to require Ortega to comply with the requirements of Rule 25-30.115, Florida Administrative Code, regarding maintaining its books on a monthly basis and converting its chart of accounts to the NARUC Chart of Accounts, within six months of the date of this Order.

As for Ortega's claim that it would cost an additional $12,000 per year to accomplish monthly accruals, the record is unclear whether this amount is based upon a salary for an additional employee or computer supplies. However, Ortega's records are computerized and an annual cost of $12,000, therefore, seems unreasonably excessive for its computer to generate monthly statements. Accordingly, we do not find that Ortega has supported or justified an additional $12,000 expense.

CONCLUSIONS OF LAW

1. This Commission has jurisdiction to establish Ortega's rates pursuant to Section 367.081, Florida Statutes.

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

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

4. Pursuant to Rule 25-30.115, Florida Administrative Code, Ortega is required to maintain its books and records in conformance with the 1984 NARUC Uniform System of Accounts. Ortega is not in compliance with this requirement.

5. Pursuant to Section 367.081(1), Florida Statutes, Ortega may not change the rates and charges collected without approval of this Commission. Ortega has been collecting unapproved meter installation fees.

Upon consideration of the foregoing, it is

ORDERED By the Florida Public Service Commission that the application by Ortega Utility Company for increased water and sewer rates is hereby approved, to the extent set forth in the body of this Order. It is futher

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

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

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

ORDERED that the water and sewer rates approved herein shall be effective for service rendered on or after the stamped approval date on the revised tariff pages. It is further

ORDERED that the utility shall submit a proposed customer notice explaining the increased rates and the reasons therefor. It is further

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

ORDERED that Ortega Utility Company shall file a service availability case upon completion of its litigation with the Department of Environmental Regulation. It is further

ORDERED that Ortega Utility Company shall refund the unapproved portion of meter installation fees collected and provide a report to this Commission of the amounts overcollected and the disposition thereof within a reasonable time, but in no event later than its filing of its service availability case. It is further

ORDERED that Ortega Utility Company shall bring its books and records into compliance with Rule 25-30.115, Florida Administrative Code, within six months of the date of thi Order. It is further

ORDERED that Docket No. 871262-WS be and is hereby closed.

By ORDER of the Florida Public Service Commission, this ________ day of ____________________, __________.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

RJP

by: Kay Flynn
Chief, Bureau of Records

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

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

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ORTEGA UTILITY COMPANY
SCHEDULE OF WATER RATE BASE
TEST YEAR ENDED 12/31/87

SCHEDULE NO. 1-A
DOCKET NO. 871262-WS

	COMPONENT	(A) TEST YEAR PER UTILITY	(B) ADJUSTMENTS TO THE TEST YEAR	(C) ADJUSTED TEST YEAR	(D) PRO FORMA ADJUSTMENTS	(E) PRO FORMA TEST YEAR
1	UTILITY					
2	-------					
3	UTILITY PLANT IN SERVICE	$ 1,599,520	$ 10,700	$ 1,610,220	$ 306,800	$ 1,917,020
4	LAND	23,797	(12,957)	10,840	0	10,840
5	NON-USED AND USEFUL COMPONENTS	0	0	0	0	0
6	C.I.A.C.	(654,181)	(705)	(654,886)	0	(654,886)
7	ACCUMULATED DEPRECIATION	(226,864)	(2,541)	(229,405)	(9,792)	(239,197)
8	AMORTIZATION OF C.I.A.C.	137,003	4,154	141,157	202	141,359
9	ADVANCES FOR CONSTRUCTION	(6,420)	(9,600)	(16,020)	0	(16,020)
10	WORKING CAPITAL ALLOWANCE	0	19,913	19,913	0	19,913
11		-----------	-----------	-----------	-----------	-----------
12						
13	RATE BASE	$ 872,855	$ 8,964	$ 881,819	$ 297,210	$ 1,179,029
14		===========	===========	===========	===========	===========
15	COMMISSION					
16	-----					
17	UTILITY PLANT IN SERVICE	$ 1,599,520	$ (62,462)	$ 1,537,058	$ 0	$ 1,537,058
18	LAND	23,797	(12,957)	10,840	0	10,840
19	NON-USED AND USEFUL COMPONENTS	0	0	0	0	0
20	C.I.A.C.	(654,181)	19,832	(634,349)	0	(634,349)
21	ACCUMULATED DEPRECIATION	(226,864)	18,368	(208,496)	(17,688)	(226,184)
22	AMORTIZATION OF C.I.A.C.	137,003	(3,960)	133,043	7,275	140,318
23	ADVANCES FOR CONSTRUCTION	(6,420)	(9,600)	(16,020)	0	(16,020)
24	WORKING CAPITAL ALLOWANCE	0	8,046	8,046	0	8,046
25		-----------	-----------	-----------	-----------	-----------
26						
27	RATE BASE	$ 872,855	$ (42,733)	$ 830,122	$ (10,413)	$ 819,709
28		===========	===========	===========	===========	===========

467-B

ORTEGA UTILITY COMPANY
SCHEDULE OF SEWER RATE BASE
TEST YEAR ENDED 12/31/87

SCHEDULE NO. 1-B
DOCKET NO. 871262-WS

	COMPONENT	(A) TEST YEAR PER UTILITY	(B) ADJUSTMENTS TO THE TEST YEAR	(C) ADJUSTED TEST YEAR	(D) PRO FORMA ADJUSTMENTS	(E) PRO FORMA TEST YEAR
1	UTILITY					
2	-------					
3	UTILITY PLANT IN SERVICE	$ 1,400,234	$ 0	$ 1,400,234	$ 287,546	$ 1,687,780
4	LAND	113,389	2,240	115,629	20,000	135,629
5	NON-USED AND USEFUL COMPONENTS	0	0	0	0	0
6	C.I.A.C.	(993,199)	(9,915)	(1,003,114)	0	(1,003,114)
7	ACCUMULATED DEPRECIATION	(263,133)	0	(263,133)	(9,279)	(272,412)
8	AMORTIZATION OF C.I.A.C.	188,473	8,293	196,766	71	196,837
9	ADVANCES FOR CONSTRUCTION	0	(12,270)	(12,270)	0	(12,270)
10	WORKING CAPITAL ALLOWANCE	0	29,870	29,870	0	29,870
11	C.W.I.P.	171,572	(161,251)	10,321	0	10,321
12		-----------	-----------	-----------	-----------	-----------
13						
14	RATE BASE	$ 617,336	$ (143,033)	$ 474,303	$ 298,338	$ 772,641
15		==========	==========	==========	==========	==========
16	COMMISSION					
17	-----					
18	UTILITY PLANT IN SERVICE	$ 1,400,234	$ (67,354)	$ 1,332,880	$ 0	$ 1,332,880
19	LAND	113,389	2,240	115,629	0	115,629
20	NON-USED AND USEFUL COMPONENTS	0	(5,850)	(5,850)	0	(5,850)
21	C.I.A.C.	(993,199)	8,117	(985,082)	0	(985,082)
22	ACCUMULATED DEPRECIATION	(263,133)	13,226	(249,907)	(26,014)	(275,921)
23	AMORTIZATION OF C.I.A.C.	188,473	(3,817)	184,656	19,581	204,237
24	ADVANCES FOR CONSTRUCTION	0	(12,270)	(12,270)	0	(12,270)
25	WORKING CAPITAL ALLOWANCE	0	0	0	0	0
26	C.W.I.P.	171,572	0	171,572	0	171,572
27		-----------	-----------	-----------	-----------	-----------
28						
29	RATE BASE	$ 617,336	$ (65,708)	$ 551,628	$ (6,433)	$ 545,195
30		==========	==========	==========	==========	==========

467-C

ORTEGA UTILITY COMPANY
EXPLANATION OF THE ADJUSTMENTS TO
WATER RATE BASE SCHEDULE NO. 1-A

DOCKET NO. 871262-WS
SCHEDULE 1-C
PAGE 1 OF 6

ADJUSTMENT		(A) UTILITY	(B) COMMISSION	
UTILITY PLANT IN SERVICE				
CORRECTIVE ADJUSTMENTS				
1. Reflect well cost classified as land		$ 10,700	$ 10,700	STIPULATED
2. Adjust to average balances		0	(73,162)	
TOTAL CORRECTIVE ADJUSTMENTS		$ 10,700	$ (62,462)	
PRO FORMA ADJUSTMENTS				
3. New water treatment facilities:				
A 12 x 8 well and turbine	35,000			
A High service pump	8,000			
A Ground storage res	58,000			
B High serv. pump # 5	9,000			
H Add grd storage res	15,000			
H 12 x 8 well and turbine	35,000			
H Stdby pwr and trans panel	36,500			
H Fire main to nor. apt	60,300			
H 2 - High service pump	50,000			
TOTAL PRO FORMA ADJUSTMENTS	---------	$ 306,800	$ 0	
LAND				
CORRECTIVE ADJUSTMENTS				
1. Reclassify land to sewer.		$ (2,250)	$ (2,250)	STIPULATED
2. Reclassify well cost to plant.		(10,700)	(10,700)	STIPULATED
3. Adjust to average balances.		(7)	(7)	STIPULATED
TOTAL CORRECTIVE ADJUSTMENTS		$ (12,957)	$ (12,957)	

ORTEGA UTILITY COMPANY
EXPLANATION OF THE ADJUSTMENTS TO
WATER RATE BASE SCHEDULE NO. 1-A

DOCKET NO. 871262-WS
SCHEDULE 1-C
PAGE 2 OF 6

ADJUSTMENT	(A) UTILITY	(B) COMMISSION	
C.I.A.C.			
CORRECTIVE ADJUSTMENTS			
1. Reclassify refundable advances.	$ 9,600	$ 9,600	
2. Reflect adjustment per Order No. 7671 not made by utility.	(10,305)	(10,305)	STIPULATED
3. Adjust to average balances.	0	20,537	
TOTAL CORRECTIVE ADJUSTMENTS	$ (705)	$ 19,832	
ACCUMULATED DEPRECIATION			
CORRECTIVE ADJUSTMENTS			
1. Reflect depr on well included in land cost.	$ (2,541)	$ (2,541)	STIPULATED
2. Adjust to average balances.	0	20,909	
TOTAL CORRECTIVE ADJUSTMENTS	$ (2,541)	$ 18,368	
PRO FORMA ADJUSTMENTS			
3. Pro forma depreciation on new water treatment facilities to be constructed.	$ (9,792)	$ 0	
4. Annualize depreciation of year.	0	(2,122)	
5. Adjust to guideline depr rates.	0	(15,566)	
TOTAL PRO FORMA ADJUSTMENTS	$ (9,792)	$ (17,688)	
ACCUMULATED AMORTIZATION - CIAC			
CORRECTIVE ADJUSTMENTS			
1. Reflect adjustment per Order No. 7671 not made by utility.	$ 1,062	$ 1,062	STIPULATED
2. Reflect amortization of CIAC imputed by Order 7854 from 1976 through 1987.	3,092	3,092	STIPULATED

467-E

ORTEGA UTILITY COMPANY
EXPLANATION OF THE ADJUSTMENTS TO
WATER RATE BASE SCHEDULE NO. 1-A

DOCKET NO. 871262-WS
SCHEDULE 1-C
PAGE 3 OF 6

ADJUSTMENT		(A) UTILITY	(B) COMMISSION	
3. Adjust to average balances.		0	(8,114)	
TOTAL CORRECTIVE ADJUSTMENTS		$ 4,154	$ (3,960)	
PRO FORMA ADJUSTMENTS				
4. Adjust to guideline depr rates.		$ 0	$ 7,073	
5. Annualize amortization for year.		202	202	STIPULATION
TOTAL PRO FORMA ADJUSTMENTS		$ 202	$ 7,275	
ADVANCES FOR CONSTRUCTION				
CORRECTIVE ADJUSTMENTS				
1. Reclassify refundable advances.		$ (9,600)	$ (9,600)	
WORKING CAPITAL ALLOWANCE				
1. Reflect allowance based on 40% of 1/8 O&M		$ 19,913	$ 0	
Total Adjusted Water and Sewer Operation & Maintenance	$ 398,264			
2. Reflect test year per books average working capital allowance based on the balance sheet per MFR page 53, 38% water	(59,766)	0	(22,711)	
3. Reflect average unamortized deferred rate case expense.		0	23,157	
4. Reflect average unamortized deferred litigation costs.		0	7,600	
TOTAL ADJUSTMENTS		$ 19,913	$ 8,046	

467-F

ORTEGA UTILITY COMPANY
EXPLANATION OF THE ADJUSTMENTS TO
SEWER RATE BASE SCHEDULE NO. 1-B

DOCKET NO. 871262-WS
SCHEDULE 1-C
PAGE 4 OF 6

ADJUSTMENT		(A) UTILITY	(B) COMMISSION	
UTILITY PLANT IN SERVICE				
CORRECTIVE ADJUSTMENTS				
1. Adjust to average balances.		$ 0	$ (67,354)	
PRO FORMA ADJUSTMENTS				
2. New sewer facilities to construct.				
B Kensington lift station	30,000			
B Clarifier at STP	147,798			
B STP surge tank	22,548			
A Final Bar Screen	5,000			
B Lab extension to Pump	20,000			
H Clarifier at Herlong	42,000			
H Reaeration Basin	7,000			
H Bar screen	6,000			
H Post aeration equip	7,200			
		$ 287,546	$ 0	
LAND				
CORRECTIVE ADJUSTMENTS				
1. Reclassify land from water.		$ 2,250	$ 2,250	STIPULATED
2. Adjust to average balances.		(10)	(10)	STIPULATED
TOTAL CORRECTIVE ADJUSTMENTS		$ 2,240	$ 2,240	
PRO FORMA ADJUSTMENTS				
1. Reflect estimated proforma land costs.		$ 20,000	$ 0	
NON-USED AND USEFUL COMPONENTS				
1. To show plant held for future use.		$ 0	$ (6,432)	
2. To show accum depr held for future		0	582	
TOTAL ADJUSTMENT FOR NON-USED AND USEFUL COMPONENTS.		$ 0	$ (5,850)	

467-C

ORTEGA UTILITY COMPANY
EXPLANATION OF THE ADJUSTMENTS TO
SEWER RATE BASE SCHEDULE NO. 1-B

DOCKET NO. 871262-WS
SCHEDULE 1-C
PAGE 5 OF 6

ADJUSTMENT	(A) UTILITY	(B) COMMISSION	
C.I.A.C.			
CORRECTIVE ADJUSTMENTS			
1. Reclassify refundable advances.	$ 12,270	$ 12,270	
2. Reflect adjustment per Order No. 7671 not made by utility.	(22,185)	(22,185)	STIPULATED
3. Adjust to average balances.	0	18,032	
TOTAL CORRECTIVE ADJUSTMENTS	$ (9,915)	$ 8,117	
ACCUMULATED DEPRECIATION			
CORRECTIVE ADJUSTMENTS			
1. Adjust to average balances.	$ 0	$ 13,226	
PRO FORMA ADJUSTMENTS			
2. Pro forma depreciation on new sewer treatment facilities to be constructed.	$ (9,279)	$ 0	
3. Annualize depreciation for year.	0	(1,415)	
4. Adjust to guideline depr rates.	0	(24,599)	
TOTAL PRO FORMA ADJUSTMENTS	$ (9,279)	$ (26,014)	
ACCUMULATED AMORTIZATION - CIAC			
CORRECTIVE ADJUSTMENTS			
1. Reflect adjustment per Order No. 7671 not made by utility.	$ 1,637	$ 1,637	STIPULATED
2. Reflect amortization of CIAC imputed by Order 7854 from 1976 through 1987.	6,656	6,656	STIPULATED
3. Adjust to average balances.	0	(12,110)	
TOTAL CORRECTIVE ADJUSTMENTS	$ 8,293	$ (3,817)	
PRO FORMA ADJUSTMENTS			
4. Adjust to guideline depr rates.	$ 0	$ 19,510	

4c. 7-H

ORTEGA UTILITY COMPANY
EXPLANATION OF THE ADJUSTMENTS TO
SEWER RATE BASE SCHEDULE NO. 1-B

DOCKET NO. 871262-WS
SCHEDULE 1-C
PAGE 6 OF 6

ADJUSTMENT		(A) UTILITY	(B) COMMISSION	
5. Annualize amortization for year.		71	71	STIPULATION
TOTAL PRO FORMA ADJUSTMENTS		$ 71	$ 19,581	
ADVANCES FOR CONSTRUCTION				
CORRECTIVE ADJUSTMENTS				
1. Reclassify refundable advances.		$ (12,270)	$ (12,270)	
WORKING CAPITAL ALLOWANCE				
1. Reflect allowance based on 60% of 1/8 O&M		$ 29,870	$ 0	
Total Adjusted Water and Sewer Operation & Maintenance	$ 398,264			
2. Reflect test year per books average working capital allowance based on the balance sheet per MFR page 53, 62% sewer	(59,766)	0	(37,055)	
3. Reflect average unamortized deferred rate case expense.		0	23,158	
4. Reflect average unamortized balance of gain on disposition.		0	2,820	
5. Reflect average unamortized deferred litigation costs.		0	4,411	
6. Reflect working capital at zero		0	6,666	
TOTAL ADJUSTMENTS		$ 29,870	$ 0	
C.W.I.P.				
PRO FORMA ADJUSTMENTS				
1. Transfer CWIP to plant as proforma.		$ (161,251)	$ 0	
TOTAL PRO FORMA ADJUSTMENTS		$ (161,251)	$ 0	

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ORDER NO. 21137
DOCKET NO. 871262-WS
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ORTEGA UTILITY COMPANY
SCHEDULE OF CAPITAL STRUCTURE
TEST YEAR ENDED 12/31/87

SCHEDULE NO. 2
DOCKET NO. 871262-WS

COMPONENT	BALANCE PER MFR	TEST YEAR ADJUSTMENTS	ADJUSTED TEST YEAR	PRO RATA ADJUSTMENTS	ADJUSTED BALANCE	WEIGHT	COST	WEIGHTED COST
UTILITY								
LONG-TERM DEBT	304,988	878,507	1,183,495	(54,162)	1,129,333	57.86%	12.32%	7.13%
SHORT-TERM DEBT	610,088	(108,032)	502,056	(22,976)	479,080	24.55%	11.86%	2.91%
CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	0.00%	0.00%
COMMON EQUITY	326,272	0	326,272	(14,932)	311,340	15.95%	14.35%	2.29%
ITC'S	17,851	0	17,851	(817)	17,034	0.87%	0.00%	0.00%
DEFERRED INCOME TAXES	15,597	0	15,597	(714)	14,883	0.76%	0.00%	0.00%
OTHER CAPITAL	0	0	0	0	0	0.00%	0.00%	0.00%
TOTAL	1,274,796	770,475	2,045,271	(93,601)	1,951,670	100.00%		12.33%
COMMISSION								
LONG-TERM DEBT	304,988	88,970	393,958	0	393,958	28.86%	9.97%	2.88%
SHORT-TERM DEBT	610,088	10,835	620,923	0	620,923	45.49%	11.46%	5.21%
CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	0.00%	0.00%
COMMON EQUITY	326,272	0	326,272	0	326,272	23.90%	14.35%	3.43%
ITC'S	17,851	0	17,851	0	17,851	1.31%	0.00%	0.00%
DEFERRED INCOME TAXES	15,597	(9,697)	5,900	0	5,900	0.43%	0.00%	0.00%
OTHER CAPITAL	0	0	0	0	0	0.00%	0.00%	0.00%
TOTAL	1,274,796	90,108	1,364,904	0	1,364,904	100.00%		11.52%

RANGE OF REASONABLENESS:	HIGH	LOW
EQUITY	15.35%	13.35%
OVERALL RATE OF RETURN	11.76%	11.28%

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ORTEGA UTILITY COMPANY
EXPLANATION OF THE ADJUSTMENTS TO
CAPITAL STRUCTURE SCHEDULE NO. 2-A

DOCKET NO. 871262-WS
SCHEDULE 2-B
PAGE 1 OF 2

ADJUSTMENT	(A) UTILITY	(B) COMMISSION
LONG TERM DEBT		
CORRECTIVE ADJUSTMENTS		
1. Correct to year end balance	$ 0	$ 332,890
2. Adjust to average balances	0	(336,032)
3. Reflect avg unamortized debt discount	0	(3,129)
4. Adjust to debt for CWIP shown at year end	0	95,241
PRO FORMA ADJUSTMENTS		
5. Reflect proforma long term debt for const	621,346	0
6. Reclassify short term debt to long term	339,148	0
7. Adjustment to reconcil to rate base	(81,987)	0
TOTAL ADJUSTMENT TO LONG TERM DEBT	$ 878,507	$ 88,970
SHORT TERM DEBT		
CORRECTIVE ADJUSTMENTS		
1. Correct to year end balance	$ 0	$ (108,033)
2. Adjust to average balances	0	118,868
PRO FORMA ADJUSTMENTS		
3. Reclassify short term debt to long term	(108,032)	0
4. Adjustment to reconcil to rate base	0	0
TOTAL ADJUSTMENT TO SHORT TERM DEBT	$ (108,032)	$ 10,835
COMMON EQUITY		
1. Adjustment to reconcil to rate base	$ 0	$ 0

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ORTEGA UTILITY COMPANY
EXPLANATION OF THE ADJUSTMENTS TO
CAPITAL STRUCTURE SCHEDULE NO. 2-A

DOCKET NO. 871262-WS
SCHEDULE 2-B
PAGE 2 OF 2

ADJUSTMENT	(A) UTILITY	(B) COMMISSION
TAX CREDITS - ZERO COST		
1. Adjustment to reconcil to rate base	$ 0	$ 0
ACCUM. DEFERRED INCOME TAX		
CORRECTIVE ADJUSTMENTS		
1. Correct to test year balance	$ 0	$ (9,697)
PRO FORMA ADJUSTMENTS		
2. Adjustment to reconcil to rate base	0	0
TOTAL ADJUSTMENT TO ACCUM. DEF. INCOME TAX	$ 0	$ (9,697)

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ORTEGA UTILITY COMPANY
STATEMENT OF WATER OPERATIONS
TEST YEAR ENDED 12/31/87

SCHEDULE NO. 3-A
DOCKET NO. 871262-WS

DESCRIPTION	(A) TEST YEAR PER UTILITY	(B) ADJUSTMENTS TO THE TEST YEAR	(C) ADJUSTED TEST YEAR	(D) CONSTRUCTED ADJUSTMENTS	(E) CONSTRUCTED TEST YEAR
UTILITY					
OPERATING REVENUES	$ 178,623	$	$ 178,623	$ 215,109	$ 393,732
OPERATING EXPENSES:					
OPERATION & MAINTENANCE	$ 149,651	$ 17,757	$ 167,408	$	$ 167,408
DEPRECIATION	22,114	9,590	31,704		31,704
AMORTIZATION	0	16,927	16,927		16,927
TAXES OTHER THAN INCOME	10,884	7,507	18,391	5,382	23,773
INCOME TAXES	0	0	0	6,958	6,958
TOTAL OPERATING EXPENSES	$ 182,649	$ 51,781	$ 234,430	$ 12,340	$ 246,770
OPERATING INCOME	$ (4,026)	$ (51,781)	$ (55,807)	$ 202,769	$ 146,962
RATE OF RETURN	-0.46%		-6.33%		12.46%
COMMISSION					
OPERATING REVENUES	$ 178,623	$	$ 178,623	$ 118,539	$ 297,162
OPERATING EXPENSES:					
OPERATION & MAINTENANCE	$ 149,651	$ 4,942	$ 154,593	$	$ 154,593
DEPRECIATION	22,114	10,681	32,795		32,795
AMORTIZATION	0	0	0		0
TAXES OTHER THAN INCOME	10,884	1,492	12,376	2,963	15,339
INCOME TAXES	0	0	0	0	0
TOTAL OPERATING EXPENSES	$ 182,649	$ 17,115	$ 199,764	$ 2,963	$ 202,727
OPERATING INCOME	$ (4,026)	$ (17,115)	$ (21,141)	$ 115,576	$ 94,435
RATE OF RETURN	-0.46%		-2.55%		11.52%

467-M

ORTEGA UTILITY COMPANY
STATEMENT OF SEWER OPERATIONS
TEST YEAR ENDED 12/31/87

SCHEDULE NO. 3-B
DOCKET NO. 871262-WS

	DESCRIPTION	(A) TEST YEAR PER UTILITY	(B) ADJUSTMENTS TO THE TEST YEAR	(C) ADJUSTED TEST YEAR	(D) CONSTRUCTED ADJUSTMENTS	(E) CONSTRUCTED TEST YEAR
1	UTILITY					
2						
3	OPERATING REVENUES	$ 258,812	$	$ 258,812	$ 231,072	$ 489,884
4	OPERATING EXPENSES:					
5	OPERATION & MAINTENANCE	$ 248,613	$ 53,271	$ 301,884	$	$ 301,884
6	DEPRECIATION	9,140	9,208	18,348		18,348
7	AMORTIZATION	0	20,430	20,430		20,430
8	TAXES OTHER THAN INCOME	20,490	11,695	32,185	6,369	38,554
9	INCOME TAXES	0	0	0	5,039	5,039
10						
11	TOTAL OPERATING EXPENSES	$ 278,243	$ 94,604	$ 372,847	$ 11,408	$ 384,255
12						
13	GAIN FROM DISP UTIL ASSET	5,637	(5,637)	0		0
14						
15	OPERATING INCOME	$ (13,794)	$ (100,241)	$ (114,035)	$ 219,664	$ 105,629
16						
17	RATE OF RETURN	-2.23%		-24.04%		13.67%
18						
19						
20	COMMISSION					
21						
22	OPERATING REVENUES	$ 258,812	$	$ 258,812	$ 81,750	$ 340,562
23	OPERATING EXPENSES:					
24	OPERATION & MAINTENANCE	$ 248,613	$ (9,420)	$ 239,193	$	$ 239,193
25	DEPRECIATION	9,140	6,075	15,215		15,215
26	AMORTIZATION	0	0	0		0
27	TAXES OTHER THAN INCOME	20,490	1,935	22,425	2,044	24,469
28	INCOME TAXES	0	0	0	0	0
29						
30	TOTAL OPERATING EXPENSES	$ 278,243	$ (1,410)	$ 276,833	$ 2,044	$ 278,877
31						
32	GAIN FROM DISP UTIL ASSET	5,637	(4,510)	1,127		1,127
33						
34	OPERATING INCOME	$ (13,794)	$ (3,100)	$ (16,894)	$ 79,706	$ 62,812
35						
36	RATE OF RETURN	-2.23%		-3.06%		11.52%
37						

LPG 7-N

ORTEGA UTILITY COMPANY
EXPLANATION OF THE ADJUSTMENTS TO
WATER OPERATING STATEMENT NO. 3-A

DOCKET NO. 871262-WS
SCHEDULE 3-C
PAGE 1 OF 6

ADJUSTMENT	(A) UTILITY	(B) COMMISSION	
OPERATION AND MAINTENANCE			
CORRECTIVE ADJUSTMENTS			
1. To reflect additional expenses for first quarter of 1987 due to implementation of 1987 price index increase.	$ 0	$ 729	STIPULATED
2. Reflect certificate litigation costs being amortized over five years.	0	(12,181)	
PRO FORMA ADJUSTMENTS			
3. Reflect proforma cost of three new Class C operators.	17,757	0	
4. Annualize salaries and wages for those employees who went from contract to wage	0	4,816	
5. Reflect test year rate case amortization.	0	11,578	
TOTAL ADJUSTMENTS TO OPERATION AND MAINTENANCE.	$ 17,757	$ 4,942	
DEPRECIATION			
CORRECTIVE ADJUSTMENTS			
1. To show depreciation expense based on year end proforma plant at current utility rates.	$ 9,792	$ 0	
2. To show the effect of the corrections to utility plant in service.	0	268	
3. Annualize test year depreciation.	0	2,122	
4. Annualize test year CIAC amortization.	(202)	(202)	STIPULATION
PRO FORMA ADJUSTMENTS			
5. To show adjusted depreciation expense at the guideline rates shown in Rule 25-10.32, F.A.C. based on average plant	0	8,493	
TOTAL ADJUSTMENTS TO DEPRECIATION.	$ 9,590	$ 10,681	

467-0

ORTEGA UTILITY COMPANY
EXPLANATION OF THE ADJUSTMENTS TO
WATER OPERATING STATEMENT NOS. 3-A

DOCKET NO. 871262-WS
SCHEDULE 3-C
PAGE 2 OF 6

ADJUSTMENT	(A) UTILITY	(B) COMMISSION
AMORTIZATION		
1. Reflect amortization of limited term assets (rate case and grd storage res)	$ 17,120	$ 0
2. Reflect amort. of deferred invest. tax credits for 1987.	(193)	0
TOTAL ADJUSTMENTS TO AMORTIZATION.	$ 16,927	$ 0
TAXES OTHER THAN INCOME		
CORRECTIVE ADJUSTMENTS		
1. To reflect loss of early payment discount due to delayed payment of taxes.	0	(310)
PRO FORMA ADJUSTMENTS		
2. To show proforma payroll taxes on proforma/annualized labor costs.	1,378	1,802
3. To show property tax on pro forma plant.	6,129	0
TOTAL ADJUSTMENT TO TAXES OTHER THAN INCOME	$ 7,507	$ 1,492

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ORTEGA UTILITY COMPANY
EXPLANATION OF THE ADJUSTMENTS TO
WATER OPERATING STATEMENT NOS. 3-A

DOCKET NO. 871262-WS
SCHEDULE 3-C
PAGE 3 OF 6

ADJUSTMENT	(A) UTILITY	(B) COMMISSION
INCOME TAXES		
1. To adjust test year income taxes.	$ 0	$ 0
OPERATING REVENUES		
1. To reflect recommended increase (decrease) to allowed rate of return.	$ 215,109	$ 118,539
TAXES OTHER THAN INCOME		
1. To reflect regulatory assessment fees on revenue change.	$ 5,382	$ 2,963
INCOME TAXES		
1. To reflect income taxes on revenue change.	$ 6,958	$ 0

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ORTEGA UTILITY COMPANY
EXPLANATION OF THE ADJUSTMENTS TO
SEWER OPERATING STATEMENT NO. 3-B

DOCKET NO. 871262-WS
SCHEDULE 3-C
PAGE 4 OF 6

ADJUSTMENT		(A) UTILITY		(B) COMMISSION	
OPERATION AND MAINTENANCE					
CORRECTIVE ADJUSTMENTS					
1. To reflect additional expenses for first quarter of 1987 due to implementation of 1987 price index increase.	$	0	$	1,086	STIPULATED
2. Reflect certificate litigation costs being amortized over five years.		0		(7,057)	
PRO FORMA ADJUSTMENTS					
3. Reflect proforma cost of three new Class C operators.		53,271		0	
4. Annualize salaries and wages for those employees who went from contract to wage		0		6,889	
5. Reflect test year rate case amortization.		0		11,579	
6. Net adjust for sewage treated by Kingsley		0		(21,917)	
TOTAL ADJUSTMENT TO OPERATION AND MAINTENANCE.	$	53,271	$	(9,420)	
DEPRECIATION					
CORRECTIVE ADJUSTMENTS					
1. To show depreciation expense based on year end proforma plant at current utility rates.	$	9,279	$	0	
2. Annualize test year depreciation.		0		1,415	
3. Annualize test year CIAC amortization.		(71)		(71)	STIPULATION
PRO FORMA ADJUSTMENTS					
4. To show adjusted depreciation expense at the guideline rates shown in Rule 25-10.32, F.A.C. based on average plant		0		5,089	
5. To remove non-used and useful depreciation.		0		(358)	
TOTAL ADJUSTMENTS TO DEPRECIATION.	$	9,208	$	6,075	

ORTEGA UTILITY COMPANY
EXPLANATION OF THE ADJUSTMENTS TO
SEWER OPERATING STATEMENT NOS. 3-B

DOCKET NO. 871262-WS
SCHEDULE 3-C
PAGE 5 OF 6

ADJUSTMENT	(A) UTILITY	(B) COMMISSION
AMORTIZATION		
1. Reflect amortization of limited term assets (rate case and grd storage res)	$ 20,720	$ 0
2. Reflect amort. of deferred invest. tax credits for 1987.	(290)	0
TOTAL ADJUSTMENTS TO AMORTIZATION.	$ 20,430	$ 0
TAXES OTHER THAN INCOME		
CORRECTIVE ADJUSTMENTS		
1. To reflect loss of early payment discount due to delayed payment of taxes	$ 0	$ (768)
PRO FORMA ADJUSTMENTS		
2. To show proforma payroll taxes on proforma/annualized labor costs.	4,133	2,703
3. To show property tax on pro forma plant.	7,562	0
TOTAL ADJUSTMENT TO TAXES OTHER THAN INCOME	$ 11,695	$ 1,935
GAIN ON DISPOSITION OF UTILITY PROPERTY		
1. Amortize gain over five years.	$ (5,637)	$ (4,510)

ORTEGA UTILITY COMPANY
EXPLANATION OF THE ADJUSTMENTS TO
SEWER OPERATING STATEMENT NOS. 3-B

DOCKET NO. 871262-WS
SCHEDULE 3-C
PAGE 6 OF 6

ADJUSTMENT	(A) UTILITY	(B) COMMISSION
INCOME TAXES		
1. To adjust test year income taxes.	$ 0	$ 0
OPERATING REVENUES		
1. To reflect recommended increase (decrease) to allowed rate of return.	$ 231,072	$ 81,750
TAXES OTHER THAN INCOME		
1. To reflect regulatory assessment fees on revenue change.	$ 6,369	$ 2,044
INCOME TAXES		
1. To reflect income taxes on revenue change.	$ 5,039	$ 0

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ORDER NO. 21137
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ORTEGA UTILITY COMPANY
WATER OPERATION & MAINTENANCE EXPENSES
TEST YEAR ENDED 12/31/87

SCHEDULE NO. 4
DOCKET NO. 871262-WS

ACCT NO.	ACCOUNT TITLE	(A) ADJUSTED UTILITY BALANCE	(B) ADJUSTMENTS TO THE TEST YEAR	(C) ADJUSTED TEST YEAR	(D) PRO FORMA ADJUSTMENTS	(E) PRO FORMA TEST YEAR
601	SALARIES AND WAGES - EMPLOYEES	$ 23,515	$ 3,181	$ 26,696	$ 1,566	$ 28,262
603	SALARIES AND WAGES - OFFICERS, DIRECTORS, ETC.	5,959	7,579	13,538	(300)	13,238
604	EMPLOYEE PENSIONS AND BENEFITS	0	0	0	3,550	3,550
610	PURCHASED WATER	0	0	0	0	0
615	PURCHASED POWER	24,113	0	24,113	0	24,113
616	FUEL FOR POWER PRODUCTION	1,199	7	1,206	0	1,206
618	CHEMICALS	3,572	21	3,593	0	3,593
620	MATERIALS AND SUPPLIES	19,570	(158)	19,412	0	19,412
631	CONTRACTUAL SERVICES - ENGINEERING	292	2	294	0	294
632	CONTRACTUAL SERVICES - ACCOUNTING	13,380	(12,402)	978	0	978
633	CONTRACTUAL SERVICES - LEGAL	15,350	(11,727)	3,623	0	3,623
634	CONTRACTUAL SERVICES - MGT FEES	7,500	(7,500)	0	0	0
635	CONTRACTUAL SERVICES - OTHER	36,820	(7,191)	29,629	0	29,629
641	RENTAL OF BUILDING/REAL PROPERTY	832	5	837	0	837
642	RENTAL OF EQUIPMENT	0	0	0	0	0
650	TRANSPORTATION EXPENSES	1,403	8	1,411	0	1,411
656	INSURANCE - VEHICLE	3,926	23	3,949	0	3,949
657	INSURANCE - GENERAL LIABILITY	3,134	18	3,152	0	3,152
658	INSURANCE - WORKMAN'S COMPENSATION	657	(657)	0	0	0
659	INSURANCE - OTHER	1,500	(444)	1,056	0	,056
660	ADVERTISING EXPENSE	0	0	0	0	0
666	REGULATORY COMMISSION EXPENSES - AMORTIZATION OF RATE CASE EXPENSE	0	0	0	11,578	11,578
667	REGULATORY COMMISSION EXPENSES - OTHER	1,304	8	1,312	0	1,312
670	BAD DEBT EXPENSE	0	0	0	0	0
675	MISCELLANEOUS EXPENSES	3,382	18	3,400	0	3,400
	TOTAL	$ 167,408	$ (29,209)	$ 138,199	$ 16,394	$ 154,593

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ORTEGA UTILITY COMPANY
SEWER OPERATION & MAINTENANCE EXPENSES
TEST YEAR ENDED 12/31/87

SCHEDULE NO. 5
DOCKET NO. 871262-WS

	ACCT NO.	ACCOUNT TITLE	(A) UTILITY BALANCE PER BOOKS	(B) ADJUSTMENTS TO THE TEST YEAR	(C) ADJUSTED TEST YEAR	(D) PRO FORMA ADJUSTMENTS	(E) PRO FORMA TEST YEAR
1	701	SALARIES AND WAGES - EMPLOYEES	$ 59,721	$ (19,797)	$ 39,924	$ 2,230	$ 42,154
2	703	SALARIES AND WAGES -					
3		OFFICERS, DIRECTORS, ETC.	9,059	7,599	16,658	(329)	16,329
4	704	EMPLOYEE PENSIONS AND BENEFITS	0	0	0	4,988	4,988
5	710	PURCHASED SEWAGE TREATMENT	23,687	0	23,687	(23,687)	0
6	711	SLUDGE REMOVAL EXPENSE	0	0	0	0	0
7	715	PURCHASED POWER	43,410	0	43,410	1,770	45,180
8	716	FUEL FOR POWER PRODUCTION	1,799	11	1,810	0	1,810
9	718	CHEMICALS	5,359	32	5,391	0	5,391
10	720	MATERIALS AND SUPPLIES	32,198	(622)	31,576	0	31,576
11	731	CONTRACTUAL SERVICES - ENGINEERING	438	3	441	0	441
12	732	CONTRACTUAL SERVICES - ACCOUNTING	20,070	(18,600)	1,470	0	1,470
13	733	CONTRACTUAL SERVICES - LEGAL	9,535	(7,000)	2,535	0	2,535
14	734	CONTRACTUAL SERVICES - MGT FEES	7,500	(7,500)	0	0	0
15	735	CONTRACTUAL SERVICES - OTHER	64,041	(10,177)	53,864	0	53,864
16	741	RENTAL OF BUILDING/REAL PROPERTY	1,247	7	1,254	0	1,254
17	742	RENTAL OF EQUIPMENT	495	3	498	0	498
18	750	TRANSPORTATION EXPENSES	1,621	10	1,631	0	1,631
19	756	INSURANCE - VEHICLE	5,890	35	5,925	0	5,925
20	757	INSURANCE - GENERAL LIABILITY	4,816	29	4,845	0	4,845
21	758	INSURANCE - WORKMAN'S COMPENSATION	1,971	(1,971)	0	0	0
22	759	INSURANCE - OTHER	2,785	(1,341)	1,444	0	1,444
23	760	ADVERTISING EXPENSE	0	0	0	0	0
24	766	REGULATORY COMMISSION EXPENSES -					
25		AMORTIZATION OF RATE CASE EXPENSE	0	0	0	11,579	11,579
26	767	REGULATORY COMMISSION EXPENSES - OTHER	1,506	9	1,515	0	1,515
27	770	BAD DEBT EXPENSE	0	0	0	0	0
28	775	MISCELLANEOUS EXPENSES	4,736	28	4,764	0	4,764
29			---------	----------	---------	----------	----------
30		TOTAL OPERATION AND MAINTENANCE	$ 301,884	$ (59,242)	$ 242,642	$ (3,449)	$ 239,193
31			=========	==========	=========	==========	==========