

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of SOUTH SEAS)	DOCKET NO. 881518-SU
UTILITY CO. for a rate increase)	ORDER NO. 21754
in Lee County)	ISSUED: 8/21/89
)	

The following Commissioners participated in the disposition of this matter:

MICHAEL MCK. WILSON, Chairman
 THOMAS M. BEARD
 BETTY EASLEY
 GERALD L. GUNTER
 JOHN T. HERNDON

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING INCREASED WASTEWATER RATES AND
ESTABLISHING MISCELLANEOUS SERVICE CHARGES
AND SERVICE AVAILABILITY CHARGES

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for formal proceeding pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

On February 21, 1989, South Seas Utility Company (utility or South Seas), a wastewater-only utility, filed an application for increased rates for its wastewater system in Lee County, Florida. The application, as filed, met the minimum filing requirements (MFRs) and the official filing date was established as February 21, 1989.

The test year for this proceeding is the projected twelve month period ending March 31, 1990. The utility has requested final revenues which would produce an increase over historical test year revenues of \$183,051 or an increase of 61.6 percent. By Order No. 21099, issued April 24, 1989, we suspended those proposed rates. The utility requested authority to collect its proposed permanent rates on an interim basis, which we also denied in Order No. 21099. However, we granted the utility's request for interim service availability charges in that Order.

DOCUMENT NUMBER-DATE

08441 AUG 21 1989

FPSC-RECORDS/REPORTING

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The utility's rates were last considered in Docket No. 800075-S, culminating in the issuance of Order No. 9744 on January 8, 1981. The utility has recently expanded its sewer plant to a capacity of 450,000 gallons per day (gpd) from 300,000 gpd and has improved the quality of plant effluent pursuant to Department of Environmental Regulation (DER) requirements applicable to spray irrigation. The utility contends that continued collection of existing rates would result in an operating loss of \$11,175 for the projected test year. The utility intends to continue the practice of providing effluent for spray irrigation of a golf course in the service area.

In determining a utility's quality of service, we review its compliance with requirements of DER and other regulatory agencies, the operation and maintenance of the system, and the overall customer satisfaction with the service. DER informed us that there were no violations or enforcement actions pending, and that the only needed improvement was to complete the construction of the new plant addition and effluent storage tank. These items are discussed in a subsequent portion of this Order.

At the customer meeting held by Commission Staff (Staff) in Captiva on May 10, 1989, one customer attended and stated that the utility provided excellent service. His primary concern was to find a way to lower his wastewater bill when the water being consumed (from Island Water Association) was being used for irrigation and was not introduced into the wastewater system. Staff suggested that the customer investigate the installation of a separate irrigation meter at his residence. His is one of the twenty-two single family homes on this system. The balance of the customers are general service.

Upon consideration of the above, we find South Seas' quality of service to be satisfactory.

RATE BASE

Our calculation of the utility's rate base is attached to this Order as Schedule No. 1-A. Adjustments to the rate base are itemized on Schedule No. 1-B. Those adjustments that are essentially mechanical in nature are shown on the schedule without further explanation in the text of this Order. The

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major components of the utility's rate base and adjustments to them are discussed below.

Used and Useful

The utility's service area is on Captiva Island and is primarily a resort area. As previously stated, there are twenty-two single family homes, with the remainder of the connections being general service connections comprised of condominiums, restaurants, and a few miscellaneous individually metered general service accounts. The population is highly seasonal which results in substantial peak flow conditions at the wastewater treatment plant.

The service area is nearing build-out, and, as the utility estimates in its MFRs, an additional forty-eight units are all that remain to be developed. These units are expected to be added over the next few years. We believe it appropriate to impute the expected CIAC related to these units at this time, since capacity had been planned for them and this proceeding involves a projected test year. Imputation of the connection fees and recognition of the build-out condition of the service area obviates the need for a used and useful adjustment in this case.

The number of equivalent residential connections (ERCs) for the test year average 341. While these equivalents are adequate for rate structure needs, a more accurate depiction of demand placed on the system is the number of units served beyond the meter, compared to flows experienced by the wastewater treatment plant. According to the utility's records, at the end of 1988, 714 units were connected to the system. We have imputed CIAC, as discussed below, to include the forty-eight units yet to be constructed.

Analysis of the flows generated by the 714 units connected to the system shows that the average daily flows are somewhat higher than normal design flow. Due to the peak flow conditions that occurred in the past, the engineering design for the plant addition allowed for higher than normal design flow. Extra precautions have been included to ensure adequate treatment and compliance with the DER permit effluent limitations for spray irrigation on the golf course. This design included adequate capacity for peak flow conditions, a

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surge tank for smoothing out absolute peaks, and a new filtration system for the entire plant capacity. An effluent storage tank has also been constructed, coupled with an additional percolation pond to bring the utility into compliance with Rule 17-610.414(2)(c), Florida Administrative Code. This rule requires system storage volume at a minimum to be three times the average daily flow of the reuse capacity.

We believe that the treatment plant has been prudently designed to serve the build-out of the service area and to meet DER requirements. As discussed subsequently in this Order, imputation of the connection fees for forty-eight future customers creates a true-up of the CIAC to plant at build-out.

Based on the foregoing, we find that the wastewater plant and system are 100% used and useful.

Margin Reserve

Margin reserve represents capacity that the utility must have available, beyond that which is demanded by the test year customers, to enable new customers to connect during the next year to year and a half which is the normal expected construction time to build a new plant, without new plant expansion. Since the utility is required to provide service within its service area when a customer is ready for service, it would be burdensome and costly for a utility to constantly be in some phase of construction to provide small increments of capacity to connect new customers.

As previously stated, forty-eight new customers are expected at build-out of the service area. The capacity required to serve these customers has been included in the design of the plant addition. The contributions-in-aid-of-construction for these forty-eight customers have been imputed and included in the rate base calculation. Normally a separate calculation would be made for the increment of margin reserve capacity needed for these additional forty-eight customers, but due to the circumstances surrounding the plant addition described, we believe no separate calculation is needed.

Wastewater Plant Improvements

The utility's proposed plant balance for the projected test year includes \$1,097,300 to represent the estimated cost

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of additional treatment and disposal facilities. The improvements include expansion of the wastewater treatment plant from 300,000 to 450,000 gallons per day (gpd) at \$679,100, construction of a 440,000 gallon storage tank, including site work, at \$233,700, construction of a new effluent disposal line at \$101,400, and additional pumping and lift station equipment at \$93,100. Although the construction was not complete at the time of our audit, it appears that some of the plant components will be less and some more costly than originally anticipated, but that the overall cost will closely approximate the projected \$1,097,300 amount. Depreciation of this plant addition is considered in the accumulated depreciation account.

Expansion of the utility's wastewater plant from 300,000 gpd to 450,000 gpd was necessary to meet peak flow conditions and to provide some measure (about 14,400 gpd) of additional capacity for the customer growth as previously discussed. The effluent storage tank and disposal line are integral components of the utility's effluent system. The new pumping equipment is also part of the disposal system. Accordingly, we find it appropriate to include \$1,097,300 in the projected rate base balance.

Contributions-In-Aid-Of-Construction

The utility's reported investment in plant facilities does not include certain property contributions that were completed in 1984 and 1985. In 1984, Mariner Properties, Inc., an affiliated company, paid \$38,990 to construct lift station and force main facilities to serve a condominium project. In 1985, Mariner Properties, Inc. paid \$34,365 for lift station and force main facilities to serve a commercial shopping area. Although dedicated to utility service, these facilities were not recorded on the utility's books. Since these facilities were contributed to the utility system, the combined \$73,355 addition to the plant account is offset by an equal addition to the CIAC account. Likewise, the accumulated depreciation relative to the plant account, \$10,579, is offset by an equal provision for amortization of the CIAC amount. Pursuant to the prescribed accounting instructions for regulated utilities, all property contributions must be recorded on the utility's books. Accordingly, we believe it appropriate for the utility to have equal and offsetting additions to plant and CIAC in the amount of \$73,355, and equal and offsetting provisions for

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accumulated depreciation and amortization of these accounts in the amount of \$10,579.

Prior to this proceeding, the utility did not have an authorized service availability charge for customer connections. As discussed above, the utility received property contributions totalling \$73,355 in 1984 and 1985. The utility, however, had not requested prior Commission approval for receipt of cash contributions. This matter is discussed in the service availability charges portion of this Order.

The utility company and the development companies in the service area are related parties through common stock ownership or involvement of utility stockholders in partnership agreements. In 1986, related party developers planned construction of 250 equivalent residential units, and foreseeing a concomitant need to expand the wastewater treatment plant, those developers agreed to provide a \$270,000 advance to assist in the construction cost. According to the utility's application, the \$270,000 advance would equate to a unit price of \$1,500 for 180 units presently receiving service from South Seas. The \$1,500 unit price was treated as a cost of housing development for book and tax reporting purposes. With the full consent of the developers, the utility requests Commission approval to retain the \$270,000 advance as a permanent contribution-in-aid-of-construction. Such retention results in a correspondingly reduced investment by the utility in rate base property. The utility reports that this cash contribution would not be subject to income taxation since the underlying transaction occurred in 1986. We believe this request is reasonable and we will approve the proposed conversion of the \$270,000 advance for construction to CIAC.

The utility and affiliated developers also agree that payment of service availability charges would be appropriate for an additional twenty housing units that were constructed after the aforementioned 180 housing units. A \$1,500 per unit charge is proposed for each of the twenty units now receiving utility service, which payment further increases CIAC by \$30,000. Construction of an additional forty-eight residential housing units is expected within the next five years, which development will reportedly represent full build-out of the service area. The utility proposes a \$1,500 service availability charge for each unit, which collection will

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generate an additional \$72,000 CIAC amount. This charge will be addressed in a subsequent portion of this Order.

The utility's rate base calculation includes these CIAC amounts, net of expected income taxes, as funds to offset any excess plant capacity which might now exist due to construction of sufficient capacity to serve full build-out of the service community. The utility contends that any "excess" capacity would be offset by early recognition of the future CIAC.

Since current cash contributions are subject to income taxation, the utility proposes to reduce the \$1,500 service availability charge amount by the \$564 related tax payment to yield a \$936 per unit CIAC provision. As discussed in a subsequent portion of this Order, we believe that the \$1,500 service availability charge should be considered CIAC in its entirety, and that any corresponding income tax factor should, if needed, be collected as a separate gross-up provision subject to refund in the ordinary fashion. Review of the utility's tax return for the fiscal year ended June 30, 1988, shows a tax loss carryforward of \$26,680, which amount would be available to offset the initial \$30,000 CIAC amount, as would any tax losses for the fiscal year ended June 30, 1989. Thus, the utility's request to record service availability charges net of expected income taxes is denied.

The appropriate combined cash CIAC amount, which is reflected in our rate base calculation, is \$372,000.

Accumulated Depreciation

In the utility's last rate case (Docket No. 800075-S), its reported investment in plant facilities, excluding land, at June 30, 1979 was \$579,912. However, because supporting documentation was incomplete, an original cost study was performed and the allowed amount was reduced to \$498,513, or about 86 percent of the reported amount. The Commission also approved use of a 3 percent composite depreciation rate for plant facilities.

The utility's application in this case includes a schedule to show the accumulation of depreciation since the last rate proceeding. Although that schedule correctly shows use of the approved depreciation rate, the initial reserve balance,

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\$28,653, mistakenly reflects the average amount rather than the year-end amount. Since the actual reserve at June of 1979 was \$38,313, but only 86 percent corresponds to the allowed plant amount, the proper reserve portion should be \$32,935. Accordingly, we will increase the reserve account by \$4,282 to correctly portray the June 30, 1979 balance for accumulated depreciation.

Working Capital

The utility's request of an \$11,000 provision for working capital is based upon an average of the beginning and year-end current asset and current liability account balances, with one exception: the \$19,968 provision for operating cash is measured at year-end only.

Except with regard to the cash balance, the current asset and liability accounts, in the aggregate, are not materially different when the simple average used by the utility is compared with a more detailed 13-month average. A trial balance prepared by our auditor shows an average cash balance of \$6,454, but that schedule shows that the utility's cash account was zero for all months prior to May of 1988. The trial balance shows numerous intercompany advance accounts, mostly payable to the utility, which further suggests that the utility has ample access to cash. We believe that a \$19,968 cash provision is a reasonable allowance, thus we will accept the utility's proposed \$11,000 working capital amount.

Rate Base

Based on all of our adjustments, the appropriate average rate base is \$1,165,041.

CAPITAL STRUCTURE

The utility's application includes a schedule to show the expected cost of capital for the projected test year ending March 31, 1990. In December of 1988, the utility borrowed \$1,000,000 to repay an outstanding loan and to partially fund construction of wastewater plant improvements. Additional funds to complete the construction program will be received from the company's stockholders as further equity

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contributions. In prior years, dividends paid to stockholders exceeded operating income, which caused a deficit condition in the retained earnings account. Thus, the new equity investment, \$400,000, is a smaller factor in the projected capital structure due to the earlier deficit condition. The expected equity and debt balances for the projected test year are \$294,252 and \$993,613, respectively. Stated in terms of relative percentages, the equity share is 22.85 percent and the debt share is 77.15 percent.

The utility has requested that the equity share be enlarged to reflect expected cash savings resulting from a tax loss carryforward of \$26,680. This amount represents the accumulated tax losses through the fiscal year ended June 30, 1988. Since this tax loss condition would reduce subsequent cash payments for income taxes, the utility assumed that equity income would be correspondingly larger. We do not believe it is appropriate to make this separate adjustment to the equity balance for the following reasons. First, the cash savings available from prior losses would only equal the consequent tax effect, or based upon the present 34 percent federal tax rate, savings of about \$9,000. Second, this Commission generally reduces the provision for prospective income taxes when a tax loss carryforward conditions exists, and thus additional equity earnings would not ensue. Moreover, in this case, it appears that this loss condition will be entirely eliminated upon the utility's receipt of a \$30,000 service availability charge for previously completed housing construction, which payment is subject to income taxation. Accordingly, we will remove the \$26,680 tax loss carryforward amount in the proposed capital structure.

The \$1,000,000 loan bears interest at 10.6 percent and matures in five years. The utility's cost of capital schedule includes a \$21,500 amount to represent expected financing costs of \$10,000, and closing costs of \$11,500. Amortized over the five year loan term, this results in an 11.03 percent effective cost of debt financing. The actual closing costs were \$8,795. As adjusted, the effective cost of debt financing is 10.98 percent. Therefore, we find the appropriate cost of debt to be 10.98 percent.

Pursuant to the leverage formula adopted by this Commission in Docket No. 880006-WS, as reported in Order No. 19718, the appropriate return on equity is 14.35 percent when

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the equity portion of the capital structure is less than 40 percent. The equity portion of the utility's capital structure is 22.85 percent and thus the appropriate return on equity is 14.35 percent. The appropriate range for the return on equity, consistent with Commission policy, is therefore 13.35 percent to 15.35 percent.

Based on these decisions, we find the appropriate overall rate of return to be 11.75 percent, with a range of 11.52 percent to 11.98 percent. Schedule No. 2-A reflects the derivation of the overall rate of return; Schedule No. 2-B reflects our adjustments to the capital structure.

OPERATING EXPENSES

Attached as Schedules Nos. 3-A and 3-B, respectively, are the schedules of wastewater operating income and our adjustments thereto. Those adjustments essentially mechanical in nature or which are self-explanatory are shown on these schedules without further explanation in the text of this Order.

Base Year Operating Expenses

The base year for this proceeding is the twelve-month period ended September 30, 1988. To estimate operating expenses for the test year ending March 31, 1990, the utility has proposed a \$10,122 adjustment to base year expenses to represent expected inflation or other growth considerations. This adjustment is based upon application of a 5 percent growth factor. This \$10,122 adjustment and a provision for recovery of rate case costs are the only pro forma adjustments included in the utility's projected operating statement.

Use of the 5 percent overall growth provision is very similar to an indexing adjustment pursuant to Section 367.081(4)(a), Florida Statutes, which allowance a utility may use on a yearly basis to recover certain increased operating expenses. Based upon 1988 calendar year operating expenses, and use of the 4.35 percent current index rate for a 1989 indexing application, a \$7,614 increase in operating expenses would be expected for a twelve-month period. The utility's requested adjustment exceeds this amount by \$2,508, but the requested adjustment is based on an eighteen month period. To assure this Commission that measures relating to inflation will

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not be recovered twice, the utility has advised that it will not employ the 1989 indexing adjustment.

The requested 5 percent growth factor is equivalent to a 3.33 percent annual increase for the eighteen months between the base year and the test year, which increase is reasonable. A provision for expected inflation is often requested in cases involving a projected test year. As a matter of Commission practice, an allowance for inflation is generally accepted unless the proposed provision appears excessive. The inflation rate used for indexing applications is commonly employed for estimating future expenses. Accordingly, we will approve the utility's requested \$10,122 adjustment for increased expenses.

Misclassified Items

Our audit investigation included a review of the utility's operating expenses to determine whether cash expenditures or receipts were misclassified. Two bookkeeping errors were noted.

Two invoices for engineering services related to the wastewater plant project were incorrectly recorded as operating expenses. Correction of this error results in a \$1,268 reduction to test year operating expenses.

In June of 1988, the utility reduced its operating expenses by \$2,500 upon receipt of a \$2,500 refund relative to an earlier bond payment. However, this refund was incorrectly classified since the proper recipient was Sanibel Sewer Company, an affiliated company. Correction of this error increases test year operating expenses by the incorrectly coded \$2,500 entry.

Therefore, as a result of these bookkeeping errors, we will increase test year expenses by \$1,232.

Non-recurring and Out-of-Period Costs

During our audit investigation, we also determined that two out-of-period charges were incorrectly reported for the tax year.

First, the test year list of operating expenses includes thirteen payments for meter reading services, which information

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is used to render bills for wastewater service. Removal of the out-of-period payment reduces test year operating expenses by \$51.

The second correction concerns payments for purchased power, which expense also appears to relate to thirteen months of billing activity. Correction of this accrual error reduces test year expenses by \$582.

Our review of test year operating expenses also found certain non-recurring costs for purchased chemicals. \$2,147 was paid for purchase and delivery of a deodorizing agent (Odophos) that will no longer be needed upon completion of the wastewater plant expansion. Accordingly, we will remove this expense since it is not an on-going cost.

Depreciation Expense

The utility's reported depreciation expense of \$62,313 was derived using guideline depreciation rates pursuant to Rule 25-30.140, Florida Administrative Code, applied to plant accounts and a corresponding 4.58 percent composite amortization rate for its proposed average CIAC amount. The reported CIAC amount would correspond to \$270,000 received in 1986, \$30,000 (net of income taxes) for housing units connected by September, 1988, and \$22,500 (net of income taxes) to represent fifteen housing units to be added by March 1990 (reported on an average basis). Thus, although the rate base calculation includes CIAC available from forty-eight new housing units, the provision for depreciation only considers fifteen of those connections.

The utility has requested full rate base inclusion of its wastewater treatment plant including that portion relating to build-out of the service area. As a matching provision, it is likewise appropriate to consider the offsetting effect of all CIAC receipts when depreciation expense is determined. Since we have denied the utility's request to reduce CIAC by potential income tax payments, a revised allowance for depreciation expense is appropriate. Using the \$372,000 CIAC amount and a 4.58 percent amortization rate, the adjusted provision for depreciation expense is \$58,884, or a \$3,429 reduction to the requested amount.

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Property Taxes

The utility's operating statement for the projected test year includes \$16,140 for expected property taxes for existing plant facilities, expansion of the wastewater plant, effluent disposal facilities, and other plant improvements. This amount was determined by dividing the reported \$6,189 property tax expense for 1988 by the gross plant investment at December 31, 1988 (\$659,720), to yield a .94 percent tax rate, and multiplying the projected plant gross plant balance at March 31, 1990 by this factor.

This projected expense was reviewed during the audit investigation and the auditor recommended a \$8,370 reduction, based upon the following considerations. First, the assessed value of the utility's plant facilities for property tax purposes was \$412,620. Second, if the tax payment was made in November, when the greatest discount is available, the actual tax expense would have been \$5,985, or 1.4 percent of the assessed value. Next, the utility was asked to seek confirmation from the county as to its proposed method for taxation of the plant improvements. The utility was thus informed that the county would appraise the wastewater plant expansion based upon \$.85 per gallon. This new tax amount would be \$1,785 determined as follows: $150,000 \text{ gpd} \times \$.85 \times 1.4 \text{ percent}$. The corrected test year expense, therefore would be \$7,700 ($\$5,985 + \$1,785$), or a \$8,370 reduction to the utility's proposed amount. The utility did not file a written response to the audit report, but the Tallahassee Staff was informed by utility personnel that no objection to this adjustment would be forthcoming. We agree that this reduction of \$8,370 in the proposed property tax expense is appropriate.

Rate Case Expense

The utility's requested revenue amount includes a provision for recovery of projected rate case costs. An initial \$40,000 estimate of total rate case costs was reported when the application was filed, to be amortized over four years, for a \$10,000 addition to test year expenses. We were recently informed that the actual rate case cost will be about \$30,200. The revised amount includes \$25,200 for legal representation and for professional services provided by an engineer and an accountant, an \$1,800 filing fee, and \$3,200

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for additional costs incurred by the utility's parent company. Those amounts appear reasonable in relation to the cost of preparing the application, responding to Staff inquiries, reviewing Commission orders and Staff reports, and attending the various proceedings necessary to complete this case. However, since the actual cost will be less than the initial estimate, the utility's revenue requirement will also be smaller. Thus, we find it appropriate to reduce the provision for recovery of rate case costs by \$2,450, or the amount which reflects amortization of the \$9,800 overall reduction over four years.

Income Taxes

According to the utility's response to a Staff interrogatory, it is a member of a controlled filing group for federal income tax purposes, the controlled filing group is expected to have taxable income in excess of \$335,000, and thus no member within the controlled filing group will benefit from a lesser tax rate than 34 percent. For state income tax purposes, the initial \$5,000 of taxable income is not subject to taxation, which exemption has been assigned to the utility in our income tax calculation.

Thus, we find it appropriate to allow \$22,764 for state and federal income taxes. This is based upon the equity earnings provision in the overall rate of return amount and application of statutory state (5.5 percent) and federal (34 percent) income tax rates.

REVENUE REQUIREMENT

Based upon our adjustments and decisions discussed above, and to give the utility the opportunity to earn an 11.75 percent rate of return, we find the appropriate revenue requirement to be \$456,300, resulting in an annual increase of \$159,009. Schedule No. 3-A shows the utility's projected operating income; Schedule No. 3-B shows our adjustment to the operating statement. As will be discussed in the Rate section of this Order, we are approving a new fee for use of effluent on the golf course. Since that charge is expected to generate annual revenues of \$63,011, the net increase in revenue requirement relative to wastewater collection service is correspondingly reduced to \$95,998.

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RATES AND RATE STRUCTURE

The utility's existing rates are designed using the base facility charge rate structure, which is consistent with Commission policy. Under the base facility charge structure, each customer pays his pro rata share of the related costs necessary to provide service through the base facility charge and only the actual usage is paid for through the gallonage charge.

The final rates, which we find to be fair, just, and reasonable, are designed to produce annual revenues of \$393,289, plus \$63,011 in annual effluent charge revenues.

The rates for wastewater service include a base charge for all residential customers regardless of meter size with a cap of 10,000 gallons of usage per month on which the gallonage charge may be billed. There is no wastewater gallonage cap for general service customer billing. The differential in the gallonage charge for residential and general service wastewater customers is designed to recognize that a portion of a residential customer's water usage will not be returned to the wastewater system. The utility's current, requested, and our approved final rates are shown below for comparison.

Wastewater Rate Schedule

Monthly Rates

	<u>Current</u>	<u>Utility Requested</u>	<u>Commission Approved</u>
<u>Residential</u>			
Base Facility Charge:			
Meter Size:			
All Meter Sizes	\$ 16.71	\$ 27.00	\$ 22.00
Gallonage Charge			
per 1,000 Gallons			
(Maximum 10,000 G.)	\$ 2.81	\$ 4.54	\$ 3.02

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General Service

Base Facility Charge:

Meter Size:

5/8" x 3/4"	\$ 16.71	\$ 27.00	\$ 22.00
1"	\$ 41.78	\$ 67.50	\$ 55.00
1-1/2"	\$ 83.55	\$ 135.00	\$ 110.00
2"	\$ 133.68	\$ 216.00	\$ 176.00
3"	\$ 267.36	\$ 432.00	\$ 385.00
4"	\$ 417.75	\$ 675.00	\$ 660.00
6"	\$ 835.50	\$1,350.00	\$1,375.00

Gallonage Charge per 1,000 Gallons	\$ 2.81	\$ 4.54	\$ 3.63
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The approved rates will be effective for meter readings on or after 30 days from the effective date of this Order if no protest is timely filed. The utility must file and have Staff's approval of revised tariff sheets and a proposed customer notice, pursuant to Rule 25-22.0406(9), Florida Administrative Code, prior to implementing the new rates.

Miscellaneous Service Charges

Currently, the utility does not have any miscellaneous service charges in its tariff. Rule 25-30.345, Florida Administrative Code, permits utilities to assess charges for miscellaneous services. The purpose of such is to provide a means by which the utility can recover its costs of providing miscellaneous services from those customers who require the services, rather than from the general body of ratepayers. Accordingly, we find it appropriate to require the utility to implement the following four types of miscellaneous service charges at the rates set forth below.

INITIAL CONNECTION - This charge would be levied for service initiation at a location where service did not previously exist.

NORMAL RECONNECTION - This charge would be levied for transfer of service to a new customer account at a previously served location, or reconnection of service subsequent to a customer requested disconnection.

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VIOLATION RECONNECTION - This charge would be levied prior to reconnection of an existing customer after disconnection of service for cause according to Rule 25-30.320(2), Florida Administrative Code, including a delinquency in bill payment.

PREMISES VISIT CHARGE (IN LIEU OF DISCONNECTION) - This charge would be levied when a service representative visits a premises for the purpose of discontinuing service for nonpayment of a due and collectible bill and does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill.

<u>Type of Service</u>	<u>Charge</u>
Initial Connection	\$ 15
Normal Reconnection	\$ 15
Violation Reconnection	Actual Cost
Premises Visit (in Lieu of Disconnection)	\$ 10

The new miscellaneous service charges are effective for service rendered on or after the effective date of this Order, provided that no timely objections are filed in this proceeding and the utility files and has Staff approval of tariff sheets.

Service Availability Charges

Prior to this proceeding, the utility did not have any type of service availability charge. As previously stated, by Order No. 21099, we approved interim service availability charges. In its filing, the utility requested approval of a service availability charge of \$1,500 per ERC or multi-family dwelling with an ERC established at 300 gallons per day. As previously discussed, the utility requested approval to book other amounts of CIAC, such as the \$270,000 advance for construction and a \$30,000 additional investment for twenty residences. Future collections at the rate of \$1,500 per ERC for forty-eight ERCs will provide an additional \$72,000 in CIAC. We have denied the utility's request to net the cash CIAC by the tax on the CIAC. Thus the \$1,500 cash payment will be treated as CIAC and any tax should be collected in addition to the CIAC or dealt with in the manner we approve when the

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CIAC is received or booked. The total amount of CIAC is \$372,000 and any tax would be an addition to that figure.

The cost per gallon for plant capacity was determined by analyzing the new plant costs and other plant costs, including what was utilized from existing plant, net of retirements. The utility expanded its capacity from 300,000 gallons to 450,000 gallons per day (GPD). The expansion included rebuilding and increasing the treatment plant's capacity and improving the quality of effluent to conform with DER spray irrigation specifications. These improvements cost the utility \$1,097,300 in capital investment. In addition, the investors provided \$105,200 for improvement of the retention ponds and associated system and hardware in an attempt to assist the utility in making improvements to the system. None of the \$105,200 is included in the utility's rate base.

We believe a service availability charge and policy are appropriate for this utility to have. We hereby approve the utility's request for a service availability charge of \$1500 and thus make permanent the interim charge presently in place. A discussion of how the charge was developed follows.

	<u>Cost</u>	<u>Capacity</u>	<u>\$/M Gal.</u>	<u>\$/ERC @ 300 GPD</u>
New WWTP	\$ 664,100	150,000	\$ 4.43	
Existing Plant	185,773	-	-	
Other Plant	<u>940,502</u>	<u>450,000</u>	<u>2.09</u>	
Total	\$1,790,375 =====		\$ 6.52 =====	\$ 1,956 =====

The charge was developed utilizing the information from the MFRs and was adjusted to conform with our determination of total plant-in-service. The new wastewater treatment plant (WWTP) was isolated to determine its cost. Then the remaining plant was allocated to the full 450,000 gallon capacity. Existing plant of \$185,773 was considered non-capacity related and therefore not included in determination of cost per gallon. Approximately 75 percent of the cost per ERC of \$1,956 results in a charge per ERC of \$1,500 rounded up to the next

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highest even one hundred dollars. The total amount of CIAC which will be booked under this scenario is as follows:

	<u>Cash CIAC</u>
Adjustment for unrecorded CIAC	\$ 73,355
180 ERC (Prior to 12/31/86)	270,000
20 ERC (Prior to 3/31/90)	30,000
48 ERC (At build-out 1993)	<u>72,000</u>
Total Cash CIAC	\$ 445,355 =====

At build-out in 1993, the ratio of net CIAC to net plant in service will be as follows:

Plant in Service	\$ 1,790,375
Depreciation reserve	(<u>592,156</u>)
Net Plant in Service	\$ 1,198,219 =====
CIAC	\$ 445,355
Amortization of CIAC	(<u>84,500</u>)
Net CIAC	\$ 360,855 =====
Net CIAC to Net plant (%)	30% ==

The utility is essentially at build-out and collection of CIAC charges for the remaining ERCs to be connected during the next few years would have little material impact on the rate base. We believe that the collection of the \$1,500 per ERC and the booking of CIAC collected as an advance prior to the test year will at least mitigate, to some extent, the impact of the current plant improvement costs on the service rates.

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The permanent service availability charges will be effective for connections made after the effective date of this Order, subject to the filing of and our Staff's approval of revised tariff sheets. The utility shall file its service availability policy with this Commission for approval, within sixty days after the effective date of this Order. Since the permanent service availability charge is the same as the interim charge, no refund is applicable.

Effluent Charge

The utility has been providing effluent to the golf course, a related party through the investor organization, for a number of years. Disposal of effluent through spray irrigation was determined to be the most cost effective and beneficial to wastewater customers and the environment as well as the golf course. No charge has ever been levied for effluent sent to the golf course holding ponds for eventual use by the golf course, nor has a charge been requested by the utility in its application. We believe the utility should charge for the effluent since it provides a benefit to the golf course.

The golf course owns and operates all of the pumping and related equipment and pays for the cost of pumping and maintenance of all spray irrigation from the holding ponds to the eventual spraying of the golf course. None of the capital costs are included in the rate base to the wastewater customers.

The current effluent spray program is designed to utilize the effluent directly from the newly constructed holding tank. The tank is designed to hold 491,000 gallons, about one day's effluent when the plant is operating at its design capacity. The golf course owners and investors, South Seas Plantation, invested \$105,200 in upgrading and improving a retention pond and some of the piping involved with irrigation. The utility spent \$168,800 on the holding tank. We believe there are mutual benefits relative to the holding tank versus the improvements to the pond system. The utility will be able to effectively dispose of the effluent and the golf course will receive the nutrients from the effluent as well as avoid substantial costs if it had to purchase water from the Island Water Association at \$4.30 per 1,000 gallons. The golf course has the ability to pump water from the retention ponds but this method is essentially an emergency alternative and not one that would be ever used as a principal source of irrigation. If,

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and for how long, the golf course could obtain potable or an alternative source of irrigation is unknown. The service area is on an island and reverse osmosis is the only viable method of potable water production.

We find \$.60 per \$1,000 gallons of metered effluent to be a reasonable rate for the utility to charge. Schedule No. 4 provides the essential calculations involved in determining the charge that should be paid for by the golf course for effluent spray used for irrigation. The charge is based upon estimated total plant flows of 105,000,000 gallons annually. The cost of service includes return on investment net of CIAC and net of investment by the golf course of \$105,200, depreciation and amortization, property taxes, provision for income taxes and regulatory assessment fee on the revenue derived from the charge. The essential numbers originate from the MFRs, responses to interrogatories, and our rate base and operating expense decisions. As stated previously, the \$63,011 annual revenues anticipated to be derived from the sale of effluent to the golf course have been removed from the revenues to be supported by monthly service rates.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application of South Seas Utility Co. for a wastewater rate increase in Lee County is hereby approved to the extent set forth in the body of this Order. It is further

ORDERED that each of the specific findings herein is approved in every respect. It is further

ORDERED that all matters contained herein and/or attached hereto, whether in the form of discourse or schedules, are by this reference specifically made integral parts of this Order. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final unless an appropriate petition in the form provided by Rule 25-22.036, Florida Administrative Code, is received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on September 11, 1989. It is further

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ORDERED that the utility is hereby authorized to charge the new rates and charges as set forth in the body of this Order. It is further

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

ORDERED that the miscellaneous service charges and service availability charges shall be effective for service rendered or connections made, respectively, on or after the stamped approval date on the revised tariff sheets. It is further

ORDERED that the revised tariff sheets will be approved upon Staff's verification that the tariff sheets are consistent with our decisions herein and that the proposed customer notice is adequate. It is further

ORDERED that the utility shall notify each customer of the increases authorized herein and explain the reason for the increases. The form of the notice and explanation shall be submitted to the Commission for prior approval. It is further

ORDERED that the utility's request to record service availability charges net of expected income taxes is denied. It is further

ORDERED that, in the event no protest is timely received, and upon the utility's filing and Staff's approval of revised tariff sheets and customer notice, the utility shall be released from its corporate undertaking and the docket shall be closed.

By ORDER of the Florida Public Service Commission
this 21st day of AUGUST, 1989.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

NSD

by: Kay Flynn
Chief, Bureau of Records

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on September 11, 1989. In the absence of such a petition, this order shall become effective September 12, 1989, as provided by Rule 25-22.029(6), Florida Administrative Code, and as reflected in a subsequent order.

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

If this order becomes final and effective on September 12, 1989, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or 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 of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

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SOUTH SEAS UTILITY COMPANY
 SCHEDULE OF SEWER RATE BASE
 TEST YEAR ENDED 3/31/90

SCHEDULE NO. 1-A
 DOCKET NO. 881518-SU

COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$ 1,657,020	\$ 0	\$ 1,657,020	\$ 73,355	\$ 1,730,375
2					
3 LAND	60,000	0	60,000	0	60,000
4					
5 NON-USED & USEFUL COMPONENTS	0	0	0	0	0
6					
7 C.W.I.P.	0	0	0	0	0
8					
9 C.I.A.C.	(297,144)	(44,928)	(342,072)	(103,283)	(445,355)
10					
11 ACCUMULATED DEPRECIATION	(193,567)	0	(193,567)	(14,861)	(208,428)
12					
13 AMORTIZATION OF C.I.A.C.	6,765	0	6,765	10,684	17,449
14					
15 ADVANCES FOR CONSTRUCTION	0	0	0	0	0
16					
17 WORKING CAPITAL ALLOWANCE	11,000	0	11,000	0	11,000
18					
19 RATE BASE	\$ 1,244,074	\$ (44,928)	\$ 1,199,146	\$ (34,105)	\$ 1,165,041
20					

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SOUTH SEAS UTILITY COMPANY
 ADJUSTMENTS TO RATE BASE
 TEST YEAR ENDED 3/31/90

SCHEDULE NO. 1-B
 PAGE 1 OF 1
 DOCKET NO. 881518-SU

EXPLANATION	ADJUSTMENTS
-----	-----
1 UTILITY PLANT IN SERVICE	
2 -----	
3 Adjustment to reflect unrecorded property contributions	73,355
4	
5	
6 CIAC	
7 -----	
8 1. Adjustment to reflect unrecorded property contributions	(73,355)
9 2. Adjustment to reflect all projected CIAC receipts	(29,928)
10 at \$1,500 per connection	-----
11	(103,283)
12	=====
13 ACCUMULATED DEPRECIATION	
14 -----	
15 1. Adjustment to reflect accumulated depreciation of unrecorded	(10,579)
16 property contributions	
17 2. Adjustment to restate accumulated depreciation at June 30, 1979	-4282
18	-----
19	(14,861)
20	=====
21 ACCUMULATED AMORTIZATION (CIAC)	
22 -----	
23 1. Adjustment to reflect accumulated amortization of unrecorded	10,579
24 property contributions	
25 2. Adjustment to average balance to agree with revised CIAC amount	105
26	-----
27	10,684
	=====

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SOUTH SEAS UTILITY COMPANY
 CAPITAL STRUCTURE
 TEST YEAR ENDED 3/31/90

SCHEDULE NO. 2-A
 DOCKET NO. 881518-SU

DESCRIPTION	ADJUSTED TEST YEAR PER UTILITY	WEIGHT	COST	WEIGHTED COST	COMMISSION ADJUSTMENTS TO UTILITY EXHIBIT	BALANCE PER COMMISSION	WEIGHT	COST	WEIGHTED COST
LONG TERM DEBT	\$ 993,613	75.59%	11.03%	8.34%	\$ (94,759)	\$ 898,854	77.15%	10.98%	8.47%
SHORT TERM DEBT	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
CUSTOMER DEPOSITS	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
PREFERRED STOCK	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
COMMON EQUITY	320,932	24.41%	14.35%	3.50%	(54,745)	266,187	22.85%	14.35%	3.28%
INVESTMENT TAX CREDITS	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
DEFERRED INCOME TAXES	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
OTHER CAPITAL	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
TOTAL CAPITAL	\$ 1,314,545	100.00%		11.84%	\$ (149,504)	\$ 1,165,041	100.00%		11.75%

RANGE OF REASONABLENESS

LOW HIGH

EQUITY

13.35% 15.35%

OVERALL RATE OF RETURN

11.52% 11.98%

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SOUTH SEAS UTILITY COMPANY
ADJUSTMENTS TO CAPITAL STRUCTURE
TEST YEAR ENDED 3/31/90

SCHEDULE NO. 2-B
DOCKET NO. 881518-SU

DESCRIPTION	ADJUST FOR ERROR	PRO RATA RECONCILE	NET ADJUSTMENT
-----	-----	-----	-----
1 LONG TERM DEBT	\$ 0	\$ (94,759)	\$ (94,759)
2			
3 SHORT TERM DEBT	0	0	0
4			
5 CUSTOMER DEPOSITS	0	0	0
6			
7 PREFERRED STOCK	0	0	0
8			
9 COMMON EQUITY	(26,680)	(28,065)	(54,745)
10			
11 INVESTMENT TAX CREDITS	0	0	0
12			
13 DEFERRED INCOME TAXES	0	0	0
14			
15 OTHER CAPITAL	0	0	0
16			
17 TOTAL CAPITAL	\$ (26,680)	\$ (122,824)	\$ (149,504)
18	=====	=====	=====
19			

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SOUTH SEAS UTILITY COMPANY
 STATEMENT OF SEWER OPERATIONS
 TEST YEAR ENDED 3/31/90

SCHEDULE NO. 3-A
 DOCKET NO. 881518-SU

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE OR (DECREASE)	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 297,291	\$ 183,051	\$ 480,342	\$(183,051)	\$ 297,291	\$ 159,009	\$ 456,300
2							
3 OPERATING EXPENSES							
4							
5 OPERATION AND MAINTENANCE	\$ 202,445	\$ 20,122	\$ 222,567	\$(3,998)	\$ 218,569		\$ 218,569
6							
7 DEPRECIATION	62,313	0	62,313	(3,429)	58,884		58,884
8							
9 AMORTIZATION	0	0	0	0	0		0
10							
11 TAXES OTHER THAN INCOME	14,937	13,225	28,162	(12,946)	15,216	3,975	19,191
12							
13 INCOME TAXES	0	25,222	25,222	(25,222)	0	22,764	22,764
14-							
15							
16 TOTAL OPERATING EXPENSES	\$ 279,695	\$ 58,569	\$ 338,264	\$(45,595)	\$ 292,669	\$ 26,739	\$ 319,408
17							
18							
19 OPERATING INCOME	\$ 17,596	\$ 124,482	\$ 142,078	\$(137,456)	\$ 4,622	\$ 132,270	\$ 136,892
20							
21							
22 RATE BASE	\$ 1,244,074		\$ 1,199,146		\$ 1,165,041		\$ 1,165,041
23							
24							
25 RATE OF RETURN	1.41%		11.85%		0.40%		11.75%
26							

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SOUTH SEAS UTILITY COMPANY
ADJUSTMENTS TO OPERATING STATEMENT
TEST YEAR ENDED 3/31/90

SCHEDULE NO. 3-8
PAGE 1 OF 1
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EXPLANATION	ADJUSTMENTS
-----	-----
1 OPERATING REVENUES	
2 -----	
3 Adjustment to remove requested rate increase	\$ (183,051)
4	=====
5	
6 OPERATION AND MAINTENANCE EXPENSES	
7 -----	
8 1. Adjustment to remove misclassified refund amount	2,500
9 2. Adjustment to remove misclassified engineering costs	(1,268)
10 3. Adjustment to remove nonrecurring chemical charges	(2,147)
11 4. Adjustment to remove out-of-period charges	(633)
12 5. Adjustment due to reduced rate cost cost	(2,450)
13	\$ -----
14	(3,998)
15 DEPRECIATION EXPENSE	=====
16 -----	
17 1. Adjustment to reflect revised test year CIAC balance	(131)
18 2. Adjustment to offset test year depreciation by projected CIAC	(3,298)
19 (\$72,000 * 4.58%)	-----
20	\$ (3,429)
21	=====
22 TAXES OTHER THAN INCOME TAXES	
23 -----	
24 1. Remove gross receipts tax relating to requested rate increase	(4,576)
25 2. Reduction to pro forma provision for increased property taxes	(8,370)
26	-----
27	\$ (12,946)
28	=====
29 INCOME TAXES	
30 -----	
31 Remove requested provision for income taxes	\$ (25,222)
32	=====
33	
34 OPERATING REVENUES	
35 -----	
36 Recommended increase to achieve revenue requirement	\$ 159,009
37	=====
38	
39 TAXES OTHER THAN INCOME TAXES	
40 -----	
41 Gross receipts related to recommended revenue increase	\$ 3,975
42	=====
43	
44 INCOME TAXES	
45 -----	
46 Income taxes related to recommended revenue requirement	\$ 22,764
47	=====

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Schedule No. 4

<u>Effluent Charge</u>	
Gross CIAC to gross plant in service ratio (Note 1)	\$445,355 ----- \$1,790,375 = 0.24875 =====
Utility investment in filtering and disposal	
Effluent disposal	\$366,700
Utility property (@ 25%)	169,000
(Note 2)	-----
Total cost	\$535,700 =====
Investment net of CIAC and golf course investment	
\$535,700 - \$105,200 - [(\$535,700 - \$105,200) x 0.24875]	= \$323,413 =====
Cost of service for effluent	
Rate of return on investment	= 11.75%
Composite depreciation/amortization rate	= 4.58%
Property tax rate/\$ (\$7,770/\$1,790,375)	= 0.0043
Income tax rate/\$ROI (\$22,764/\$136,892)	= 0.1663
(Note 3)	
Return	\$323,413 x 0.1175 = \$38,001
Depreciation	\$535,700 x 0.0458 = \$24,535
Amortization	(\$535,700 - \$323,413) x 0.0458 = \$(9,723)
Prop. Taxes	\$535,700 x 0.0043 = \$ 2,304
Provision for income taxes	\$38,001 x 0.1663 = \$ 6,319

Subtotal Cost	\$61,436 =====
Regulatory Assessment Fee Gross Up	0.975 -----
Annual cost of service	\$63,011 =====
Cost per 1,000 gallons = \$63,011/105,000 = \$0.60 per 1,000 gal.	-----

Notes to schedule

-
- Note 1 - Based upon schedule no. 1-B.
Note 2 - Based upon MFR p. 48 and interrogatory no. 18.
The utility estimated that 25% of the investment in plant listed as utility property should be considered in the basis for determination of an effluent charge to the golf course.
Note 3 - Based upon schedule no. 3-B.